



**GENERAL REPORT**  
on the provincial audit outcomes of **GAUTENG**  
**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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## AUDITOR - GENERAL SOUTH AFRICA

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## SECTION 1: FOREWORD

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

This report highlights the encouraging trend of timely submission and auditing of the provincial legislature, all departments and entities for the year 2008-09. For departments the report reflects a regression in unqualified opinions in 2008-09 to 69% (2007-08: 85%) and for entities there was also a regression in unqualified opinions to 55% (2007-08: 60%). It is disappointing that the audit outcome for the Department of Health deteriorated to a disclaimer and that the three public entities responsible for the economic flagship projects in Gauteng remained disclaimed.

The attainment of clean audit reports by all government departments and entities is a milestone I encourage and support the province to concentrate on, while at the same time dealing with the bigger challenges in the Departments of Health, Education, Housing and Economic Development as well as the Blue IQ group. I am confident that it is possible to obtain clean audit reports if (1) chief financial officers observe the basics of financial reporting and related internal control systems, (2) 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 I highlighted in my 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, and material misstatements that are 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 and internal auditors as well as the leadership as described above, remain relevant as a solution to the elimination of these signals that could result in a regression of audit outcomes if not adequately addressed.

This report further highlights areas where the service delivery information included in the annual reports of most departments and public entities was not in terms of regulatory requirements and not reliable.

Through my continued commitment to simpler, clearer and relevant reporting as well as the visibility of my audit teams, I 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.

I welcome the commitment made by the political and administrative leadership to ensure that there is effective monitoring, oversight and control functions relating to financial and performance matters in the province.

In conclusion, I wish to thank the audit teams from my office and the audit firms that assisted in Gauteng for their diligent efforts towards fulfilling my 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  
Pretoria  
October 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. The Gauteng Provincial Government comprises the provincial legislature, 13 provincial departments, 11 provincial public entities and 13 provincial other entities and this report presents their audit outcomes for the 2008-09 financial year.

### **Analysis of audit outcome of the provincial legislature**

The analysis of the audit outcome of the provincial legislature is financially unqualified with other matters and has been unchanged over the last five years. The other matters reported were non-compliance with rules and regulations, and material adjustments to financial statements after submission for auditing.

### **Analysis of audit outcomes of the 13 provincial departments**

Analysis of the audit outcomes of the provincial departments is as follows:

- Disclaimer: One (Department of Health)
- Qualified: Three (Departments of Economic Development; Education; and Housing)
- Financially unqualified with other matters: Nine (Departments of Agriculture, Conservation and Environment; Community Safety; Gauteng Provincial Treasury; Gauteng Shared Services Centre; Local Government; Office of the Premier; Public Transport, Roads and Works; Social Development; and Sports, Arts, Culture and Recreation)

Four departments' audit outcomes regressed from the year ended 31 March 2008. The Department of Health regressed from financially qualified to a disclaimer. Two provincial departments, namely the Department of Economic Development and the Department of Housing, regressed from financially unqualified (with other matters) to financially qualified. The Department of Agriculture, Conservation and Environment regressed from financially unqualified (with no other matters) to financially unqualified (with other matters).

The audit outcomes of the other nine provincial departments remained financially unqualified (with other matters) from the year ended 31 March 2008. The nine departments were the Office of the Premier; the Gauteng Provincial Treasury; the Gauteng Shared Services Centre; the Department of Community Safety; the Department of Local Government; the Department of Public Transport, Roads and Works; the Department of Social Development; and the Department of Sports, Arts, Culture and Recreation; while the Department of Education remained financially qualified.

#### *Audit qualification areas and root causes*

The departments were qualified on capital assets, i.e. immovable, tangible and intangible assets, payables and borrowings, presentation and disclosure, expenditure including compensation of employees and irregular expenditure not disclosed. These qualifications were as a result of the following control weaknesses:

- Ineffective oversight by management on financial reporting and internal controls.
- Lack of written policies and poor record keeping.
- Manual controls not designed to ensure that transactions were accurately recorded.
- Action not taken to respond to the risk of inaccurate financial reporting.
- Monthly reconciliations not performed.
- Inadequate or no communication, including clearly defined roles and responsibilities between the

departments and implementing agents of capital projects, the Department of Public Transport, Roads and Works and also with the Gauteng Shared Services Centre with respect to certain human resource matters.

- The departments relied on consultants to assist with the turnaround strategy.

The following shortcomings in governance practices contributed to the negative findings:

- The departments did not implement adequate controls to address the audit findings raised in the previous year.
- Quality of the financial statements was poor as material corrections were made to the financial statements submitted for auditing.
- Significant difficulties were experienced during the audit due to delays/unavailability of expected information and agreed time frames for providing requested information were not always adhered to.
- Lack of a clear trail of supporting documentation.
- The internal audit plan approved by audit committees was insufficient to address control weaknesses arising from the compliance matters and financial statement preparation processes.
- The risk management unit's role and scope were not clearly defined to address the risk of financial management and control, including the financial statement process.

#### *Warning signals that require attention*

An analysis of warning signals that require attention, with the root causes and recommendations for improvements, is given in section 6 of this report. The key warning signals, amongst others, were the following:

- Unauthorised, irregular, and fruitless and wasteful expenditure

The level of unauthorised, fruitless and wasteful as well as irregular expenditure increased as compared to the prior year. This was mainly due to poor budgetary controls, poor planning as well as failure to comply with the procurement regulations. The provincial departments incurred unauthorised, irregular as well as fruitless and wasteful expenditure amounting to R1,4 billion, R233 million and R86 million, respectively. The high level of unauthorised expenditure contributed to the cash-flow problems experienced by the province during the financial year. As a result, at year-end a material number of creditors had been outstanding for a period longer than 30 days.

- Non-compliance with legislation

Eleven (85%) provincial departments did not comply with the requirements of the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA) and Treasury Regulations as issued by the National Treasury. The most common PFMA non-compliance issue reported at the departments related to the delays in the payment of creditors beyond the 30-day period. Furthermore, the Department of Housing did not comply with the Division of Revenue Act, 2008 (Act No. 2 of 2008) (DoRA).

- Material misstatements

The quality of financial statements received was poor and as a result material misstatements in the financial statements submitted for auditing were corrected at all departments. This was due to a lack of discipline in accounting for balances and transactions on an ongoing basis. Disclosure notes were not system generated and calculated at year-end and there was no adequate manual system. As a result the risk of inaccurate information presented in financial statements was very high. The



processes building up to the preparation of financial statements were not adequately reviewed. Furthermore, there was an expectation that the AGSA would advise what had to be corrected.

#### *Information system audit*

An information system audit was performed at all departments focusing on information technology general control reviews and user account management reviews. An enterprise resource planning system review audit was performed at two departments and at one department a network security review was performed. The non-compliance matters are detailed in section 7 of the report.

#### *Human resource management*

Human resource management was an audit focus area at the departments during the 2008-09 financial year and is detailed in section 8 of the report. Human resource 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 overspending. The root causes of these findings included weak and protracted recruitment and appointment processes, insufficient focus by leadership on the resources required to deliver on its mandate, and a lack of understanding human resource practices and prescripts. The total number of consultants appointed using appropriated funds was approximately 650 at a total contract value of approximately R3 billion.

#### *Audit of performance information*

The audit of performance information revealed that in 10 provincial departments (77%) the regulatory framework was not adhered to and the reported performance information was not useful and reliable as certain targets could not be measured and the output on certain key objectives could not be verified.

### **Analysis of audit outcomes of the 11 provincial public entities**

The analysis of the audit outcomes of the provincial public entities is as follows:

- Disclaimer: Three (Blue IQ Investment Holdings (Pty) Ltd, Constitutional Hill Development Company (Pty) Ltd and Greater Newtown Development Company (Pty) Ltd)
- Qualified: Two (Gauteng Enterprise Propeller and Xhasa Accounting and Technical Centre)
- Financially unqualified with other matters: Three (Blue Catalyst Investment (Pty) Ltd, Gauteng Motorsport Company (Pty) Ltd and Gauteng Tourism Authority)
- Financially unqualified with no other matters: Three (Gauteng Economic Development Agency, Gauteng Gambling Board and Gauteng Partnership Fund)

Three provincial public entities' audit outcomes improved from the year ended 31 March 2008. Blue Catalyst Investment (Pty) Ltd improved from financially qualified to financially unqualified (with other matters) while the Gauteng Economic Development Agency and the Gauteng Partnership Fund improved from financially unqualified (with other matters) to financially unqualified (with no other matters).

Two provincial public entities' audit outcomes regressed from the year ended 31 March 2008. Gauteng Enterprise Propeller and the Xhasa Accounting and Technical Centre regressed from financially unqualified (with other matters) to financially qualified.

The audit outcomes of the remaining five provincial public entities remained unchanged from the year ended 31 March 2008. The Gauteng Gambling Board maintained a clean audit outcome of financially unqualified (with no other matters) and the Gauteng Tourism Authority remained financially unqualified

(with other matters). Three provincial public entities, namely Blue IQ Investment Holdings (Pty) Ltd, the Constitutional Hill Development Company and the Greater Newtown Development Company, again received a disclaimer.

The audit outcome of the Gauteng Motorsport Company (Pty) Ltd was financially unqualified (with other matters).

#### *Audit qualification areas and root causes*

The provincial public entities were qualified on capital assets, payables and borrowings, and revenue. These qualifications were as a result of the following control weaknesses:

- Ineffective oversight by management of financial reporting and internal controls.
- The organisational structure did not address areas of responsibility and establish lines of reporting in order to support effective internal control.
- Action not taken to respond to the risk of inaccurate financial reporting.
- Monthly reconciliations not performed.
- Leadership not addressing the prior year's audit findings.

The following shortcomings in governance practices contributed to the negative findings:

- Poor governance structures as internal audit and audit committees did not function throughout the year.
- Failure to implement strategies to mitigate risk of incorrect financial reporting.
- Inadequate document management system.
- The internal audit plan approved by the audit committee had shortcomings in respect of addressing compliance matters and the financial statement preparation process.

#### *Warning signals that require attention*

An analysis of warning signals that require attention, with the root causes and recommendations for improvements, is detailed in section 6 of this report. The key early warning signals, amongst others, were the following:

- Financial sustainability

The financial sustainability of four provincial public entities that recorded accumulated losses totalling R285 million at 31 March 2009 was highlighted to management as an area that requires urgent attention.

- Irregular as well as fruitless and wasteful expenditure

The entities incurred irregular as well as fruitless and wasteful expenditure of R39 million and R3 million, respectively.

- Non-compliance with legislation

Seven provincial public entities did not comply with certain requirements of the PFMA and Treasury Regulations issued by the National Treasury and five (63%) did not comply with the Income Tax Act and Value-added Tax Act.

- **Material misstatements**

Eight provincial public entities required material corrections to be made to their financial statements. Material corrections were made to expenditure/liabilities and disclosure notes. This was due to a lack of discipline in accounting for these balances on an ongoing basis in management accounts and an expectation that the AGSA would advise what needed to be corrected.

*Audit of performance information*

The audit of performance information revealed that the regulatory framework for reporting on performance information was not complied with in nine provincial public entities. In certain provincial public entities the reported performance information was not useful and reliable as certain targets could not be measured and the output on certain key objectives could not be verified.

**Analysis of audit outcomes of the 13 provincial other entities**

The analysis of the audit outcomes of the provincial other entities is as follows:

- **Qualified:** Six (Emoyeni Trading Entity, Gauteng Fund Project Office, Gauteng Housing Fund, Gauteng Liquor Board, Cradle of Humankind – World Heritage Site and Dinokeng Trading Entity)
- **Financially unqualified with other matters:** Six (Gauteng Kopanong Precinct, Gauteng Medical Supplies Depot, G-Fleet Management, Cost Recovery Trading Entity, Impophoma Infrastructure Support Entity and Urban Transport Fund)
- **Financially unqualified with no other matters:** One (Gauteng Film Commission)

Two provincial other entities' audit outcomes improved from the year ended 31 March 2008. The Gauteng Kopanong Precinct and the Gauteng Liquor Board improved from a disclaimer to financially unqualified (with other matters) and financially qualified, respectively. The Gauteng Film Commission improved from financially unqualified (with other matters) to financially unqualified (with no other matters). One provincial other entity (Impophoma Infrastructure Support Entity) improved from financially qualified to financially unqualified (with other matters).

Four provincial other entities' audit outcomes regressed from the year ended 31 March 2008. The Emoyeni Trading Entity regressed from financially unqualified (with other matters) to financially qualified, while the Cradle of Humankind – World Heritage Site Trading Entity and the Dinokeng Trading Entity regressed from financially unqualified (with no other matters) to financially qualified and the Gauteng Medical Supplies Depot regressed from financially unqualified (with no other matters) to financially unqualified (with other matters).

The audit outcomes of the other five provincial other entities remained unchanged from the year ended 31 March 2008. Two provincial other entities, namely the Gauteng Fund Project Office and the Gauteng Housing Fund, remained financially qualified due to poor management decisions and management failing to implement audit recommendations. Three provincial other entities, namely g-Fleet Management, the Cost Recovery Trading Entity and the Urban Transport Fund, remained financially unqualified (with other matters).

*Audit qualification areas and root causes*

The qualifications of the six provincial other entities were due to capital assets, unauthorised expenditure, and fruitless and wasteful expenditure. The audit qualifications were as a result of the following control weaknesses:

- Ineffective oversight by management of financial reporting and internal controls.
- Manual controls not designed to ensure that transactions were accurately recorded.
- Action not taken to respond to the risk of inaccurate financial reporting.
- Monthly reconciliations not performed.

The following shortcomings in governance practices contributed to the negative findings:

- Inadequate governance structures, such as audit committee and internal audit.
- Lack of clear audit trail due to poor document management systems.

#### *Warning signals that require attention*

The following other matters that are warning signals that require urgent attention are reported in detail under section 6 of the report:

- Fruitless and wasteful expenditure

The Impophoma Infrastructure Support Entity, a provincial other entity, incurred fruitless and wasteful expenditure of R13,6 million for 2008-09, as the lease payments for the lease contracts entered into during the year were higher than the fair value of the leased assets. The total amount of the fruitless and wasteful expenditure over the period of the lease (five years) would be R168 million. Two (17%) provincial other entities incurred irregular expenditure totalling R407,5 million mainly due to procurement regulations not having been followed.

- Non-compliance with legislation

Four (33%) provincial other entities did not comply with certain requirements of the PFMA and Treasury Regulations as issued by the National Treasury.

- Material misstatements

Financial statements approved by the audit committee were materially misstated in 11 provincial other entities (except for the Cost Recovery Trading Entity). This was due to a lack of discipline in accounting for these balances on an ongoing basis and financial statements prepared once a year. The risk of inaccurate information presented in the financial statements was not identified as a key risk and as a result processes building up to the preparation of the financial statements were not reviewed. There was also an expectation that the AGSA would advise what had to be corrected.

#### *Audit of performance information*

There was non-compliance with regulatory requirements in the audit of performance information at all provincial other entities and the performance information reported was not useful and reliable as the targets were not measurable and certain objectives could not be verified.

### **Five-year overview**

#### *Provincial departments*

In 2006-07 the former Department of Finance and Economic Affairs was split into two departments, namely the Gauteng Provincial Treasury and the Department of Economic Development. There has generally been an improvement in the audit opinions of the provincial departments due to the

improvement of the process at the Gauteng Shared Services Centre in servicing departments as compared to the 2004-05 financial year.

#### *Provincial public entities and other entities*

The number of entities has grown from 15 to 24 in Gauteng. The entities created from the 2004-05 financial year to 2008-09 were Blue Catalyst Investment (Pty) Ltd, Gauteng Enterprise Propeller, Gauteng Kopanong Precinct, Emoyeni Trading Entity, Urban Transport Fund, Gauteng Fund Project Office, and Gauteng Motorsport Company. The Constitutional Hill Development Company and the Greater Newtown Development Company were Public Audit Act, section 4(3) entities; the audits of which were taken back by the AGSA.

The audit outcomes have deteriorated from the 2004-05 financial year with two additional entities obtaining a disclaimer of opinion, six additional entities being qualified, and the number of financially unqualified (with other matters) audit opinions decreasing by 25% while four entities have now achieved financially unqualified (with no other matters) audit opinions. 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.

To address the shortcomings indicated above, I believe that management, with the support of the Gauteng Provincial Treasury, should implement adequate systems to enable accurate reporting of accrual balances in order to comply with the modified cash accounting framework. Given the complex accounting reporting framework, it is important for the departments and entities to work towards preparing quarterly financial statements. This will instil the discipline required in order to produce quality financial statements and also enable the departments and entities to identify challenges that could compromise reliable and accurate reporting at an early stage. Detailed action plans to address the qualification findings as well as the findings on governance issues and non-compliance with rules and regulations should be developed. These action plans should have clear milestones and must be monitored on an ongoing basis by management, the audit committees and the executive. Internal audit should conduct follow-up audits and give management the assurance that the actions implemented are adequate to address the negative findings. In addition, given the increased levels of irregular expenditure, it is recommended that the Gauteng Provincial Treasury roll out a training programme on supply chain regulations to ensure that officials are aware of the requirements and, most importantly, that the requirements to deviate from procurement regulations are understood.

I believe that with sound financial management capacity, good governance, i.e. audit committees and internal audit, as well as oversight by the executive, the vision of clean audits in the province is achievable. The Premier and members of the executive council have committed to clarify the role of the political and administrative leadership to ensure effective monitoring, leadership oversight and control function regarding financial management and performance matters, to set an annual target for achieving clean audit reports. This will be used as a benchmark in working towards achieving clean audit reports by 2014, to meet quarterly with the chairpersons of the audit committees to get an independent assessment of the

strength of the control environment in the departments and public entities, and to capacitate the Gauteng Audit Service to strengthen the effectiveness of internal audit in the province with specific focus on the two biggest departments, i.e. Education and Health. The executive also committed to implement performance information systems that are sound, consistent and reliable and to prepare regular in-year financial statements.

I will follow up quarterly on the actions developed in this regard to achieve clean reports and report on the related progress in the next general report.

## SECTION 3: AUDIT OUTCOMES FOR 2008-09

### 3.1 Status of completion of audits for the year ended 31 March 2009

The Gauteng Provincial Government comprises the Gauteng Provincial Legislature, 13 provincial departments, 11 provincial public entities and 13 provincial other entities, and this report presents their 2008-09 audit outcomes. The table below presents the status of completion of the 2008-09 audits.

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

Entity name	Total	Audits completed	Audits outstanding	% of completion
Provincial legislature	1	1	0	100%
Provincial departments	13	13	0	100%
Provincial public entities	11	11	0	100%
Provincial other entities	13	13	0	100%
<b>Total</b>	<b>38</b>	<b>38</b>	<b>0</b>	<b>100%</b>

Tables 2(a) to 2(d) below present the 2008-09 audit outcomes for the Gauteng Province per category of the audit, i.e. provincial legislature, provincial departments, provincial public entities and provincial other entities. Details of the statement of financial position and statement of financial performance qualification areas are provided under section 5 of this report.

### 3.2 Audit outcome of the provincial legislature

**Table 2(a): Audit opinion on the Gauteng Provincial Legislature for the current and previous financial years**

Type of audit opinion	2008-09		2007-08	
	Number	%	Number	%
Disclaimer	0	0%	0	0%
Adverse	0	0%	0	0%
Qualified	0	0%	0	0%
Financially unqualified (with other matters)	1	100%	1	100%
Financially unqualified (with no other matters)	0	0%	0	0%
<b>Total reported on</b>	<b>1</b>	<b>100%</b>	<b>1</b>	<b>100%</b>
<b>Total not reported on</b>	<b>0</b>	<b>0%</b>	<b>0</b>	<b>0%</b>
<b>Total entities</b>	<b>1</b>	<b>100%</b>	<b>1</b>	<b>100%</b>

The report includes the audit outcome of the Gauteng Provincial Legislature. The audit outcome for 2008-09 remained the same as in 2007-08 due to the process of implementing and monitoring action plans by leadership. The provincial legislature retained its financially unqualified (with other matters) audit outcome received in the previous year and can ascribe its sustained audit outcome to its adherence to good practices; however, 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 Gauteng Provincial Legislature's audit outcome should improve with the enhancement of the current good practices and improved supervision and monitoring.

### 3.3 Audit outcomes of provincial departments

**Table 2(b): Audit opinions on Gauteng provincial departments for the current and previous financial years**

Type of audit opinion	2008-09		2007-08	
	Number	%	Number	%
Disclaimer	1	8%	0	0%
Adverse	0	0%	0	0%
Qualified	3	23%	2	15%
Financially unqualified (with other matters)	9	69%	10	77%
Financially unqualified (with no other matters)	0	0%	1	8%
<b>Total reported on</b>	<b>13</b>	<b>100%</b>	<b>13</b>	<b>100%</b>
<b>Total not reported on</b>	<b>0</b>	<b>0%</b>	<b>0</b>	<b>0%</b>
<b>Total entities</b>	<b>13</b>	<b>100%</b>	<b>13</b>	<b>100%</b>

The report covers all 13 provincial departments audited. The Gautrain Management Agency obtained approval in terms of section 79 of the PFMA from the National Treasury not to prepare financial statements for the period 1 January 2009 to 31 March 2009 and to include the financial information for the financial year 2008-09 in the financial statements of the Department of Public Transport, Roads and Public Works in terms of section 55(4) of the PFMA. The comparison between the audit outcomes for 2008-09 and 2007-08 indicates that four provincial departments regressed and nine provincial departments' audit outcomes were similar to those of the year ended 31 March 2008. Details are as follows:

- **Regressions (4):** The Department of Health regressed from financially qualified to a disclaimer. Two provincial departments, namely the Department of Economic Development and the Department of Housing, regressed from financially unqualified (with other matters) to financially qualified. The Department of Agriculture, Conservation and Environment regressed from financially unqualified (with no other matters) to financially unqualified (with other matters). The regression in the four departments was generally due to inadequate leadership involvement, ineffective execution of action



plans to address prior year audit findings, lack of readiness in addressing conditions of previous exemptions on fixed assets, and lack of systems for identifying and accounting for accrual balances.

- **Unchanged (9):** The audit outcomes of the other nine provincial departments remained financially unqualified (with other matters) from the year ended 31 March 2008. The nine departments were the Office of the Premier, the Gauteng Provincial Treasury, the Gauteng Shared Services Centre, the Department of Community Safety, the Department of Local Government, the Department of Public Transport, Roads and Works, the Department of Social Development and the Department of Sports, Arts, Culture and Recreation, while the Department of Education remained financially qualified. The nine departments that registered unchanged audit opinions did not move to the clean audit category as efforts to address governance and other matters were not adequate. The departments are in the process of implementing and monitoring action plans with increased involvement by the leadership, including executive authorities.

Provincial departments could sustain satisfactory audit outcomes if they adhere to good practices. 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.

Provincial departments with regressed audit outcomes or which failed to improve their audit outcomes can ascribe such failure to not having implemented good practices and/or not having addressed the root causes of internal control deficiencies. These root causes are analysed under section 5 of this report for all departments and entities with qualified audit opinions.

### 3.4 Audit outcomes of provincial public entities

**Table 2(c): Audit opinions on Gauteng provincial public entities for the current and previous financial years**

Type of audit opinion	2008-09		2007-08	
	Number	%	Number	%
Disclaimer	3	27%	3	30%
Adverse	0	0%	0	0%
Qualified	2	18%	1	10%
Financially unqualified (with other matters)	3	27%	5	50%
Financially unqualified (with no other matters)	3	27%	1	10%
<b>Total reported on</b>	<b>11</b>	<b>100%</b>	<b>10</b>	<b>100%</b>
<b>Total not reported on</b>	<b>0</b>	<b>0%</b>	<b>0</b>	<b>0%</b>
<b>Total entities</b>	<b>11</b>	<b>100%</b>	<b>10</b>	<b>100%</b>

A new, unlisted provincial public entity was established in the 2008-09 financial year, namely the Gauteng Motorsport Company (Pty) Ltd, which commenced trading on 1 December 2008. Xhasa Accounting and

Technical Centre (ATC) was placed under liquidation during the 2008-09 financial year. The remaining 10 provincial public entities' audit outcomes are comparable to the 2007-08 audit outcomes. There were three provincial public entities that improved their audit outcomes, two regressed and five had the same audit outcomes as for the year ended 31 March 2008. Details are as follows:

- Improvements (3): Blue Catalyst Investment (Pty) Ltd improved from financially qualified to financially unqualified (with other matters) while the Gauteng Economic Development Agency and the Gauteng Partnership Fund improved from financially unqualified (with other matters) to financially unqualified (with no other matters). The improvement in audit outcomes at Blue Catalyst Investment (Pty) Ltd resulted from the full and proper disclosure of irregular expenditure, while the improvement at the Gauteng Partnership Fund and the Gauteng Economic Development Agency was a result of improved processes and systems for preparing reliable and adequate financial statements.
- Regressions (2): Gauteng Enterprise Propeller and Xhasa ATC regressed from financially unqualified (with other matters) to financially qualified. The regression in audit outcome at Gauteng Enterprise Propeller was due to the leadership's inability to comply with the accounting standards. Xhasa ATC was in the process of being liquidated, resulting in officials not being readily available.
- Unchanged (5): The audit outcomes of the other five provincial public entities remained unchanged from the year ended 31 March 2008. The Gauteng Gambling Board maintained a clean audit outcome of financially unqualified (with no other matters) and the Gauteng Tourism Authority remained financially unqualified (with other matters). The unchanged audit outcome for these two provincial public entities was due to the continuous involvement of leadership in matters of governance. Three provincial public entities, namely IQ Investment Holdings (Pty) Ltd, the Constitutional Hill Development Company and the Greater Newtown Development Company, again received a disclaimer. These three provincial public entities' unchanged audit outcomes were due to the inability to respond timeously to prior year findings and failure to adhere to the accounting standards.
- New (1): The Gauteng Motorsport Company (Pty) Ltd's audit outcome was financially unqualified (with other matters).

The provincial public entities could improve or sustain satisfactory audit outcomes if they adhere to good practices.

The provincial public entities with regressed audit outcomes or which failed to improve their audit outcomes can ascribe such failure to not having implemented good practices and/or not having addressed the root causes of internal control deficiencies. These root causes are analysed under section 5 of this report for all entities whose annual financial statements were qualified.

### 3.5 Audit outcomes of provincial other entities

**Table 2(d): Audit opinions on Gauteng provincial other entities for the current and previous financial years**

Type of audit opinion	2008-09		2007-08	
	Number	%	Number	%
Disclaimer	0	0%	2	15%
Adverse	0	0%	0	0%
Qualified	6	46%	3	23%
Financially unqualified (with other matters)	6	46%	5	38%
Financially unqualified (with no other matters)	1	8%	3	23%
<b>Total reported on</b>	<b>13</b>	<b>100%</b>	<b>13</b>	<b>100%</b>
<b>Total not reported on</b>	<b>0</b>	<b>0%</b>	<b>0</b>	<b>0%</b>
<b>Total entities</b>	<b>13</b>	<b>100%</b>	<b>13</b>	<b>100%</b>

The report covers 13 provincial other entities audited. The 2008-09 audit outcomes were compared to the 2007-08 audit outcomes. Four provincial other entities registered improved audit outcomes, four regressed and five had the same audit outcomes as for the year ended 31 March 2008. Details are as follows:

- **Improvements (4):** Two provincial other entities, the Gauteng Kopanong Precinct and the Gauteng Liquor Board, improved from a disclaimer to financially unqualified (with other matters) and financially qualified, respectively. The Gauteng Film Commission improved from financially unqualified (with other matters) to financially unqualified (with no other matters). One provincial other entity, Impophoma Infrastructure Support Entity, improved from financially qualified to financially unqualified (with other matters). The improvement in audit outcomes at the three provincial public entities was mainly attributable to leadership involvement in addressing prior year findings while Impophoma Infrastructure Support Entity's audit outcome improved due to full and proper disclosure of irregular expenditure.
- **Regressions (4):** The Emoyeni Trading Entity regressed from financially unqualified (with other matters) to financially qualified, while the Cradle of Humankind – World Heritage Site Trading Entity and the Dinokeng Trading Entity regressed from financially unqualified (with no other matters) to financially qualified and the Gauteng Medical Supplies Depot regressed from financially unqualified (with no other matters) to financially unqualified (with other matters). The regression in audit outcomes at the four provincial other entities was due to failure by the leadership to address control deficiencies and implement accounting standards.
- **Unchanged (5):** The audit outcomes of the other five provincial other entities remained unchanged from the year ended 31 March 2008. Two provincial other entities, namely the Gauteng Fund Project

Office and the Gauteng Housing Fund, remained financially qualified due to poor management decisions and management failing to implement audit recommendations. Three provincial other entities, namely, g-Fleet Management, the Cost Recovery Trading Entity and the Urban Transport Fund, remained financially unqualified (with other matters). This was due to leadership not implementing measures to address compliance requirements.

The provincial other entities could improve or sustain satisfactory audit outcomes if they adhere to good practices.

The provincial other entities that achieved regressed audit outcomes or failed to improve their audit outcomes could ascribe such failure to not having implemented good practices and/or not having addressed the root causes of internal control deficiencies. These root causes are analysed under section 5 of this report for all entities whose annual financial statements were qualified.

### 3.6 Five-year review of audit outcomes

Listed in the table below is a comparison of the audit outcomes over the past five years.

**Table 3: Five-year review of the audit outcomes of the provincial legislature, departments and entities**

Type of audit opinion	Legislature		Departments		Entities	
	2008-09	2004-05	2008-09	2004-05	2008-09	2004-05
Disclaimer	0	0	1	0	3	1
Adverse	0	0	0	0	0	0
Qualified	0	0	3	7	8	2
Financially unqualified (with other matters)	1	1	9	5	9	9
Financially unqualified (with no other matters)	0	0	0	0	4	2
<b>Total reported on</b>	<b>1</b>	<b>1</b>	<b>13</b>	<b>12</b>	<b>24</b>	<b>14</b>
<b>Total not reported on</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1</b>
<b>Total entities</b>	<b>1</b>	<b>1</b>	<b>13</b>	<b>12</b>	<b>24</b>	<b>15</b>

#### Provincial legislature

The audit opinion has remained unchanged from the 2004-05 financial year as financially unqualified (with other matters).

#### Provincial departments

In 2006-07 the former Department of Finance and Economic Affairs was split into two departments, namely the Gauteng Provincial Treasury and the Department of Economic Development. There

has generally been an improvement in the audit opinions of the provincial departments due to the improvement of the process at the Gauteng Shared Services Centre in servicing departments, as compared to the 2004-05 financial year. Leadership oversight and monitoring need to be improved over controlling expenditure, preparation of quality financial statements as well as proper document management.

#### *Provincial public entities and other entities*

The number of entities has grown from 15 to 24 in Gauteng. The entities created from the 2004-05 financial year to 2008-09 were Blue Catalyst Investment (Pty) Ltd, Gauteng Enterprise Propeller, Gauteng Kopanong Precinct, Emoyeni Trading Entity, Urban Transport Fund, Gauteng Fund Project Office and Gauteng Motorsport Company. The Constitutional Hill Development Company and the Greater Newtown Development Company were Public Audit Act, section 4(3) entities; the audits of which were taken back by the AGSA.

The audit outcomes have deteriorated from the 2004-05 financial year with two additional entities obtaining a disclaimer of opinion, six additional entities being qualified, and the number of financially unqualified (with other matters) audit opinions decreasing by 25%, whereas four entities have now achieved financially unqualified (with no other matters) audit opinions. 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.

The detailed analysis of the five-year review of audit outcomes of the legislature, provincial departments and provincial entities appears in annexure 8.

## SECTION 4: KEY SYSTEMIC ISSUES

### 4.1 Initiatives to improve audit outcomes

Audit outcomes can be influenced by a number of role players in addition to the management of individual departments and entities. This section of the report gives an overview of the commitments 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 to influence the process towards obtaining financially unqualified audit opinions. The main initiative was to strengthen the relationship with the political and the administrative leadership to deepen the understanding of the AGSA and the mechanisms relating to performance management, and ultimately accountability, thereby paving the road towards improving public confidence. A chain for addressing challenges within the audit process was developed and followed. This chain included numerous interactions within 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. Furthermore, there was 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 number 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 Premier and the MECs committed to monitor action plans to address the audit findings and to also assess and monitor the effectiveness of strategies to manage the risk of unreliable financial reporting and lack of service delivery. A committee consisting of the Provincial Treasury, the Department of Local Government and Housing as well as the Auditor-General of South Africa will be formed to share best practices around the three key focus areas, i.e. leadership oversight, governance and financial management capacity, which are necessary to achieve clean audit reports. These best practices will then be used to determine a framework which will guide all departments and provincial entities to achieve clean reports.

During the Auditor-General's roadshow on 22 October 2009, the executive further committed to the following:

- To clarify the role of the political and administrative leadership to ensure effective monitoring, oversight and control function regarding financial and performance matters.
- To set an annual target for achieving clean audit reports which will be used as a benchmark in working towards achieving clean audit reports by 2014.
- To meet quarterly with the chairpersons of the audit committees to get an independent assessment of the strength of the control environment in the departments and public entities.
- To capacitate the Gauteng Audit Service in order to strengthen the effectiveness of internal audit in the province with specific focus on the two big departments, i.e. Education and Health.
- To implement performance information systems that are sound, consistent and reliable.
- To prepare regular financial statements.

I will follow up on an ongoing basis the actions developed in this regard and report on the related progress in the next general report.



## **4.2 Impact of initiatives of other role players**

### *Interactions with the Accounting Standards Board*

The Accounting Standards Board (ASB) was constituted to set standards of GRAP for the public sector and to recommend to the minister of Finance effective dates for implementation of these standards for different categories of entities.

Interaction with the ASB takes place in a number of different forums. The AGSA is represented on the board of the ASB and there are quarterly trilateral meetings with the ASB and the National Treasury, and discussions and meetings also take place between technical staff of the ASB, the National Treasury and the AGSA on a formal and informal basis.

I had previously raised concerns regarding whether GRAP fully addressed specific South African nuances on certain accounting requirements and whether the entities impacted would be able to implement the GRAP requirements. The ASB has addressed these concerns by initiating certain projects to revise certain of the standards of GRAP and has also published frequently asked questions to deal with matters that are raised from time to time. These matters are discussed with my technical staff in meetings that include the AGSA.

### *South African Institute of Chartered Accountants*

The South African Institute of Chartered Accountants (SAICA) has initiated a technical discussion forum under its chairmanship to discuss technical matters relating to public sector accounting that are raised by entities and its members. The meetings take place on a monthly basis and include participation from the public audit firms, the National Treasury, the ASB, consultants in the public sector, other professional bodies and the AGSA. The purpose of the forum is to discuss issues and arrive at consensus on the appropriate accounting and auditing response that will be applied consistently by all role players. One of the main benefits was creating an understanding of public sector specific issues within the profession. SAICA is commended on this valuable initiative.

The AGSA also has other regular interactions with SAICA on the public sector committee which deals with general matters pertaining to the public sector and also on matters of training pertaining to the trainee auditors within the AGSA.

### *Independent Regulatory Board of Auditors*

The AGSA is represented on the CFAS, the Independent Regulatory Board of Auditors' (IRBA) committee for auditing standards. This enables participation in the process of developing and discussing the public sector implementation of the ISAs used by the AGSA in its regularity and performance information audits. IRBA is also engaged by the AGSA as part of the quality control process on its audits as discussed elsewhere in this report.

IRBA has recently constituted a new committee to specifically address matters pertaining to the public sector and to provide guidance on how they should be dealt with by its members.

### *General*

The Gauteng Provincial Government has a shared audit committee system coordinated by the Gauteng Provincial Treasury. The audit committees are structured into clusters composing sector departments.



Each cluster has a chairperson and two external members. During the period under review the amended audit committee charter and audit committee remuneration structure were approved by the MEC: Finance. Furthermore, in responding to the concern about the poor attendance of audit committee meetings by the heads of department, the Gauteng Provincial Treasury tabled a proposal at the heads of department's forum for the accounting officers to endorse the attendance of the audit committee meetings. This resulted in improved attendance during the year under review.

The Gauteng Provincial Treasury rolled out a financial capability model project, in consultation with the National Treasury, to assess the maturity levels of departments on financial management and governance issues. Their plan is to use the results of this exercise, together with the Auditor-General reports, to implement measures to address identified inefficiencies.

The departments were assisted with the valuation of immovable assets; however, challenges were still experienced at the Department of Health. The Gauteng Provincial Treasury is planning to implement a turnaround project to address these challenges. In addition, the Gauteng Provincial Treasury intends to work closely with the newly formed Gauteng Department of Infrastructure and Development to ensure that all immovable assets are accounted for as required in the GIAMA process.

### **4.3 Accounting reforms**

#### *Initiatives of the Gauteng Provincial Treasury*

The audit outcomes for 2008-09 indicated that certain departments failed to ensure that processes or systems were implemented to account for accrual balances. The Gauteng Provincial Treasury will engage the departments to prepare a holistic plan to ensure that correct processes and systems are implemented to ensure GRAP compliance. The Gauteng Provincial Treasury offered financial management support to the departments in the following areas:

- Coordinated various forums that include the financial statement preparation forum, asset management forum and chief financial officers' forum. These forums are used to share best practices and communicate new accounting reforms as prescribed by the National Treasury.
- Assisted the departments with technical accounting queries during the audit and also participated in the audit steering committees to promptly deal with technical accounting queries.

#### *Relationship and interaction with the National Treasury*

An effective relationship with the National Treasury and, more specifically, the Office of the Accountant-General (OAG) is critical to the responsibilities of the AG as auditor of government. Interaction with the OAG takes place on a number of different levels, both formally and informally.

The first level is quarterly trilateral meetings which include the ASB where strategic matters concerning the audit and accounting within government are discussed. The second is at a technical level to discuss matters raised by the auditors and the auditees during the PFMA and MFMA audit cycles. These meetings take place on a weekly basis and have proved invaluable in ensuring that problems are resolved and that, where applicable, additional guidance is provided to the parties concerned. This technical discussion group includes representation from the ASB who assists with the interpretation and resolution of accounting matters. In order to improve this consultation process, the timelines of responses to queries by the OAG should be improved to minimise delays on the audits.



In addition to these two interactions, combined sessions are held each year before the PFMA and MFMA audit cycles. The purpose of these sessions is to have a debriefing on matters encountered during the preceding cycle that require action by both parties and to identify risks and matters that could impact on the coming cycle. The provincial accountants-general and the AGSA's audit business executives and corporate executives attend these sessions. Heads of department and chief financial officers from auditees are also invited to the sessions as appropriate.

#### *Guidance published by the OAG*

This year the OAG published weekly updates on frequently asked questions during the PFMA cycle, which assisted in ensuring consistent application of certain accounting issues. While this has had a positive impact there are many matters in the *Guide for the preparation of annual reports* published by the OAG, which contains the form and content of the financial statements for departments, that require clarification and improvement to avoid confusion and inconsistent application.

While the number of exemptions from the *Guide for the preparation of annual reports* granted to departments by the OAG decreased in the current year, I am still concerned that these remain necessary and also that, in certain instances, the wording of these exemptions caused additional confusion and inconsistencies in reporting.

A further matter that requires attention is the inconsistent guidance given by the provincial treasuries and also where this contradicts guidance given by the National Treasury. This was especially of concern regarding the accounting for immovable capital assets.

The key issues that are to be addressed in the guidance and related matters pertain mainly to the following:

- The most critical of these is the accounting for capital assets and, more specifically, immovable assets. The completeness of the asset registers; the valuation of the assets; the recognition of immovable assets by individual departments versus the DPW; the names on the title deeds; and the issue of assets constructed on tribal land, remain extremely problematic. It was agreed last year that a full-day workshop would be facilitated by the OAG to address this matter in detail. This workshop did not eventuate and most of the qualifications in the auditor's reports on departments are related to this matter.
- Review of the accounting policies and related guidance and disclosures applicable to departments to ensure that they are adequate and informative to the users of the financial statements and that they can be followed and applied consistently by the preparers of the financial statements.
- The development of guidance on documentation to be supplied by the auditees to the auditors upon submission of the financial statements for auditing, including the necessity for auditees to improve their document management systems to avoid time delays on audits.
- A review of the issuing process and the legal status of communiqués issued by the OAG and other role players, which include practice notes, memoranda, circulars, guidelines, frameworks and handbooks, within the perspective of reporting by the auditors on compliance by the auditees with these publications.
- Formalising the status of certain functions performed by departments as to whether they are separate entities and thus required to be audited separately or whether they are an integral part of that

department. The departments affected by this are mainly Labour, Justice, Foreign Affairs and Home Affairs.

- Additional guidance on the format and timing of the submission of performance information and other information to be included in the annual report.
- The availability of reliable systems to produce information required for the preparation of the financial statements in respect of capital assets, accounts receivable for departmental revenue, contingent liabilities, capital commitments, accruals and related parties.
- The recognition of irregular expenditure in respect of finance lease instalments and non-compliance with laws and regulations, especially regarding procurement practices, are more areas of great concern. The OAG had agreed to revisit the current practice note on these finance leases, but it did not happen. The practice note on irregular expenditure also requires expansion and clarification.

A detailed list of matters to be addressed in the *Guide for the preparation of annual reports* has been submitted to the OAG for consideration in the guidance to be published for the 2009-10 cycle.

#### *Training on Generally Recognised Accounting Practice (GRAP)*

The minister of Finance issued *General Notice 516 of 2008*, in *Government Gazette No. 31021 of 9 May 2008*, which sets effective dates for the implementation of 17 more standards of GRAP, in addition to GRAP 1, 2 and 3 implemented in 2006 in terms of *General Notice 991 of 2006*, issued in *Government Gazette No. 28095 of 7 December 2005*.

These additional GRAP standards are applicable to high- and medium-capacity municipalities for the financial year ended 30 June 2009. The AGSA has published guidance on the implementation of these GRAP standards; however, it is of concern that training on these GRAP standards was only presented after the date on which the affected financial statements were submitted for auditing. The impact of this will be discussed in my general report on local government to be published early in 2010.

#### *Financial reporting frameworks*

The *Guide for the preparation of annual reports*, which contains the form and the content of the financial statements of departments, has previously been recognised by me as a comprehensive basis of accounting in terms of the International Standards of Auditing (ISA). With the adoption of the updated and clarified ISAs it is now required of me to revisit this decision and to address the requirements of the ISAs regarding the acceptability of the guide as a financial reporting framework and whether it would be classified as a "fair presentation" or "compliance framework". I will communicate my requirements in this regard in an AGSA directive to be published in the *Government Gazette*, as well as to the OAG, in due course.

## SECTION 5: ANALYSIS OF AUDIT QUALIFICATION AREAS AND ROOT CAUSES

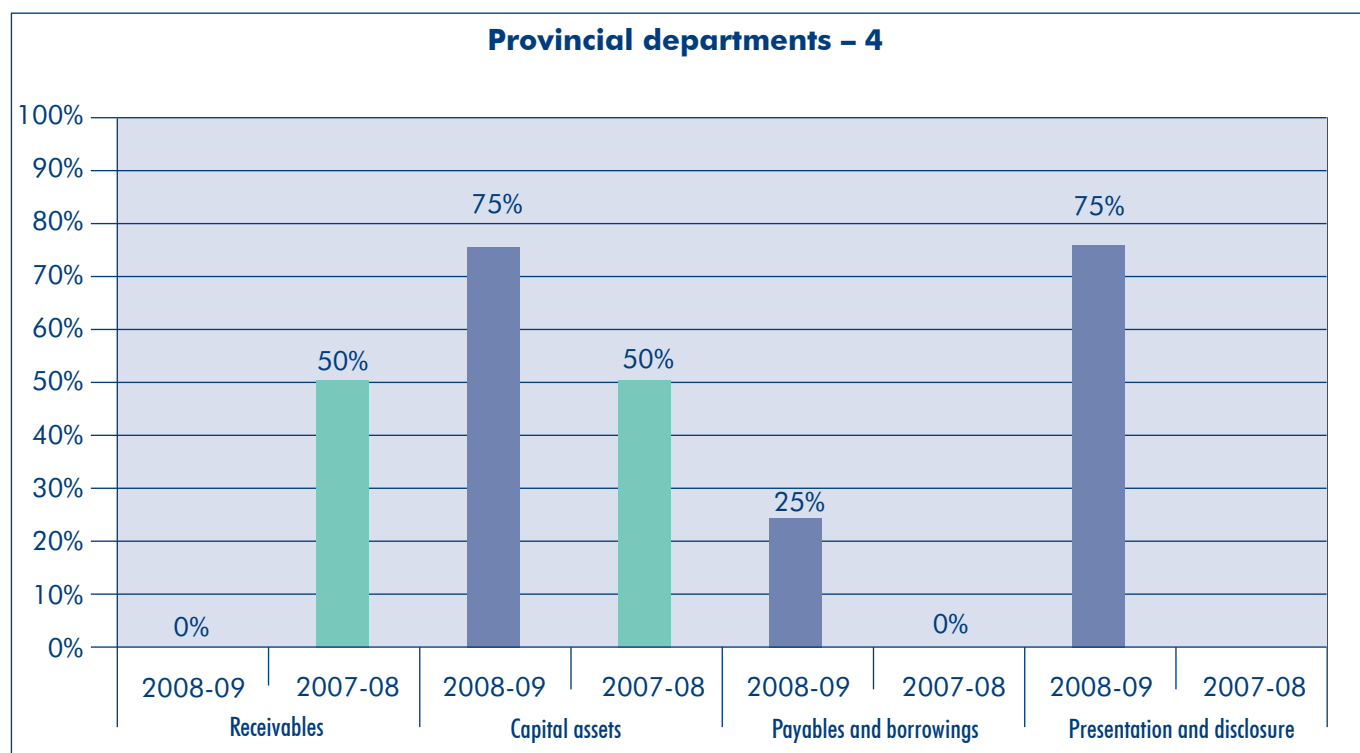
This section of the report provides details on specific areas of the statement of financial position and statement of financial performance for provincial departments, public entities and other entities that attracted qualified audit opinions. Details are provided under separate headings for provincial departments, provincial public entities and provincial other entities. An analysis of the root causes of the qualification findings is also provided.

### 5.1 Provincial departments

#### 5.1.1 Statement of financial position areas qualified

Figure 1(a) below provides a breakdown of the statement of financial position findings which gave rise to qualified audit opinions. The graph depicts the percentage of provincial departments that received qualified audit opinions as a result of findings arising from the statement of financial position (balance sheet). Details of the nature of qualifications are provided for the qualification areas where the percentages exceed 50%.

**Figure 1(a): Areas qualified in the statement of financial position (four provincial departments qualified)**



#### Capital assets

The Department of Education's immovable assets of R18,5 billion and capital work in progress of R478 million were not supported by documentation. The qualification remained due to the leadership not effectively implementing action plans to address recurring audit findings, lack of effective document

management and inadequate supervision and capacity within the finance unit. Furthermore, on capital projects undertaken the level of interaction with, and monitoring of, the implementing agent and the Department of Public Transport, Roads and Works was inadequate.

At the Department of Health movable assets of R93 million could not be physically verified and the revaluation of movable assets of R52,8 million could not be supported by documentation. The allocation and valuation of minor and major assets of R180 905 and R23,6 million, respectively, were incorrect. Computer software was not recognised as intangible assets. This was due to the department's dependency on a consultant who was appointed to assist with the turnaround strategy. This consultant's service was terminated subsequent to the financial year-end.

The Department of Housing did not identify and account for temporary relocation accommodation used for hostel residents of R39,3 million. Therefore the movable asset balances reflected in the financial statements and the fixed asset register were understated. This was due to the inability of the accounting division to ensure compliance with accounting for the assets.

#### Presentation and disclosure

No supporting documentation was provided by the Department of Health for leave entitlement and housing guarantees of R304 million and R61 million, respectively. At the Department of Education the leave entitlement balance of R166,8 million was misstated, as a significant number of leave forms were not captured at year-end. This was due to the roles and responsibilities of the departments and the Gauteng Shared Services Centre not being clearly defined as well as a lack of accountability in cases where parties failed to perform in terms of the service level agreement.

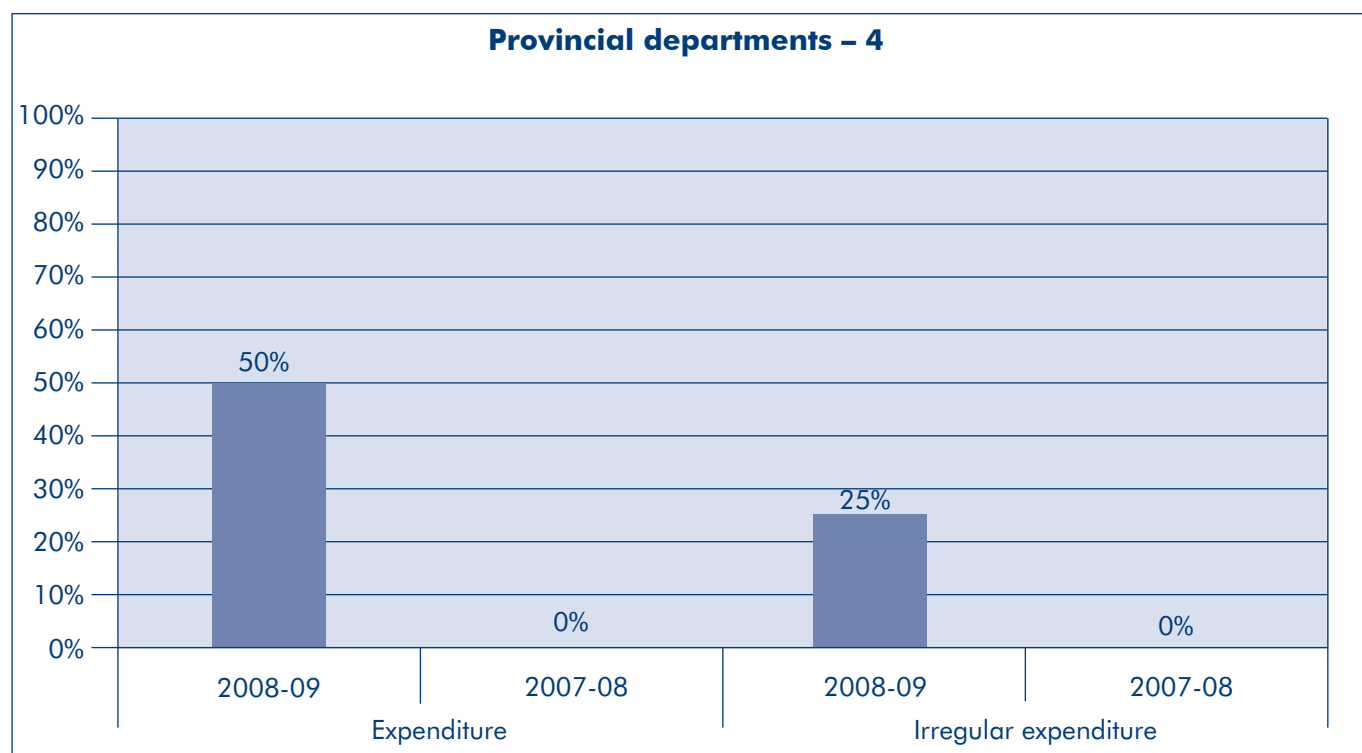
There were no proper manual or automated system and supporting documentation at the Department of Health for commitments of R17,6 million and accruals of R636,5 million and at the Department of Economic Development for commitments and accruals amounting to R472,6 million and R21,2 million, respectively. In addition, the Department of Economic Development had no supporting documents for commitments of R8,7 million at year-end.

There is a need for these departments to prepare action plans with milestones to address the audit findings. The executives of the respective departments should monitor and follow up on the progress made in addressing these findings. The leadership of the departments must ensure that effective document management processes are implemented and suitably skilled finance staff are employed.

### **5.1.2 Statement of financial performance areas qualified**

Figure 1(b) below provides a breakdown of the income statement findings which gave rise to qualified audit opinions. It provides an indication of the percentage of the provincial departments that were qualified as a result of findings in the statement of financial performance.

**Figure 1(b): Areas qualified in the statement of financial performance (four provincial departments qualified)**



NOTE: There were no areas qualified in the statement of financial performance for the 2007-08 financial year.

#### Expenditure

At the Department of Health there was no documentation to support expenditure of R971 million reflected in the financial statements.

At the Department of Education there was no documentation to support compensation of employees and other allowances paid.

The AGSA noticed that there is a need for these departments to prepare action plans with milestones to address the audit findings. The executives of the respective departments should monitor and follow up on the progress made in addressing these findings. The leadership of the departments must ensure that effective document management processes are implemented and suitably skilled finance staff are employed.

### **5.1.3 Analysis of root causes of qualifications**

Financial statements that obtain financially qualified audit opinions are a result of deficiencies in the system of internal control and non-adherence to good practice indicators (as discussed in section 4). These deficiencies are termed 'root causes'.

The three departments (75%) qualified on capital assets were the Departments of Education, Health and Housing. This was due to:

- leadership not effectively implementing action plans to address recurring audit findings
- lack of effective document management
- inadequate supervision, monitoring and capacity within the finance unit
- high dependency on the services of consultants.

The Department of Economic Development was qualified on liabilities due to the non-existence of documents to support the refundable deposits of R4 million.

The three departments qualified on presentation and disclosures were the Departments of Economic Development, Education and Health. This was due to the non-existence of manual or automated systems and documents.

The two departments (50%) qualified on expenditure were the Departments of Education and Health, and this was due to:

- delays/unavailability of expected information and agreed time frames for providing requested information for audit purposes not being adhered to
- lack of a clear trail of supporting documentation which supported the figures in the financial statements.

The Department of Health was qualified on irregular expenditure, as service providers were appointed without following the supply chain management process.

The AGSA recommends the following:

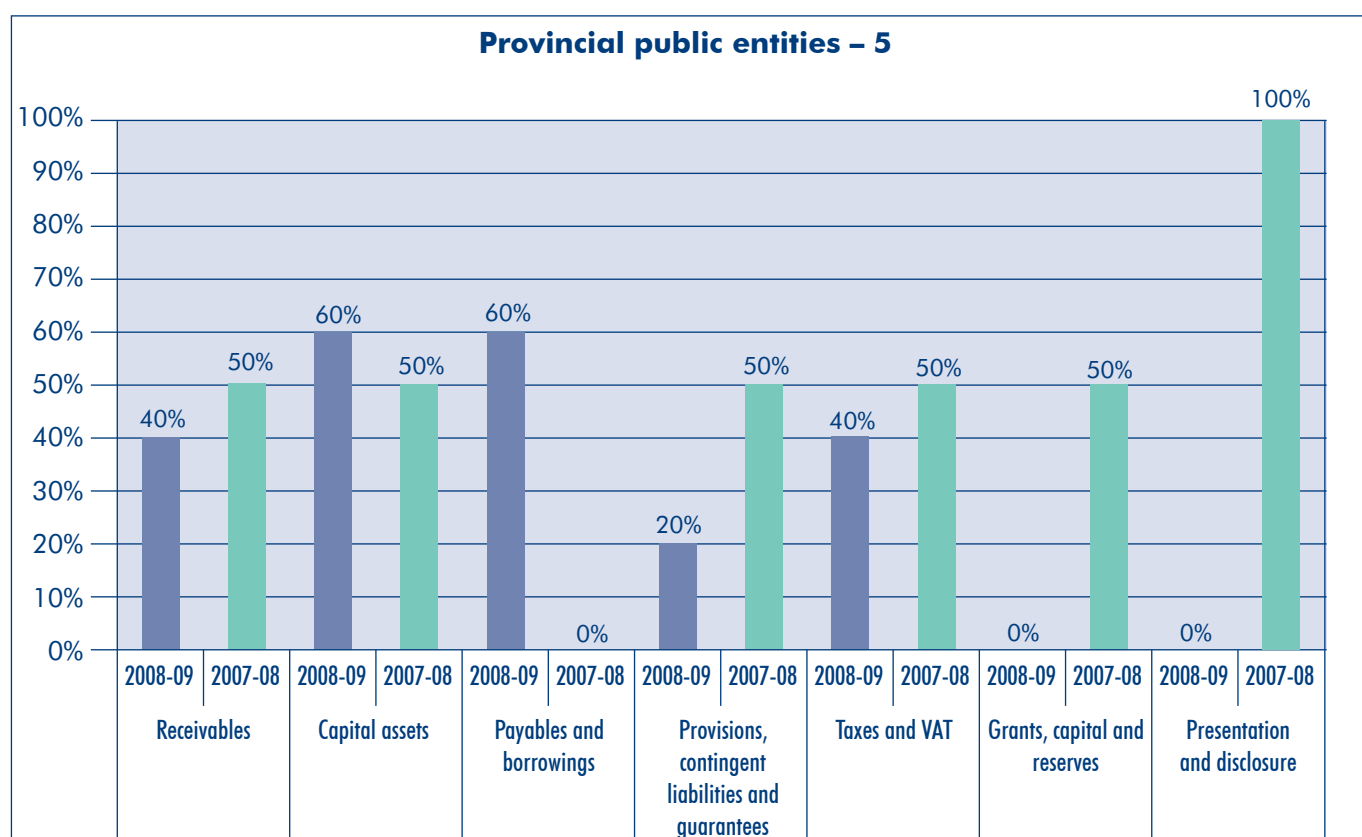
- Leadership and governance structures should prepare action plans with milestones to address the audit findings.
- The executive of the department must monitor the implementation of the action plans regularly and provide feedback to the AGSA.
- The leadership must ensure that effective document management processes are in place.
- The committed timelines of the leadership of the department should be adhered to.
- The audit evidence file that supports the financial statements needs to be accurate and complete.
- The departments should document the process of preparing monthly financial reports, resulting in quarterly and annual financial statements that incorporate ongoing review and supervision.
- Management of the department should take accountability in the preparation of the financial statements.
- The internal audit unit of the departments should incorporate the financial statement process within the plan.

## 5.2 Provincial public entities

### 5.2.1 Statement of financial position areas qualified

Figure 2(a) below provides a breakdown of the statement of financial position findings which gave rise to qualified audit opinions. The graph depicts the number of provincial public entities that had qualified audit opinions in the statement of financial position. Details of the nature of qualifications are provided for the qualification areas where the percentages exceed 50%.

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



#### Capital assets

Blue IQ Investments Holdings (Pty) Ltd was unable to provide documents to substantiate that investment property amounting to R47,5 million and the prior period adjustment of R53,4 million for the two subsidiary companies, the Constitution Hill Development Company (Pty) Ltd and the Greater Newtown Development Company (Pty) Ltd, were complete and valued correctly. Furthermore, the improvements to investment property of R7,3 million were incorrectly classified as property, plant and equipment and management could not provide documentation to confirm their assumptions in considering the related impairment as required by IAS 40 *Investment Property*. This was due to Blue IQ Investment Holdings (Pty) Ltd's leadership not ensuring that the consolidated financial statements were complete and met the required accounting standards. The Constitutional Hill Development Company (Pty) Ltd's leadership had not addressed deficiencies in internal control and document management. The Greater Newtown Development Company (Pty) Ltd leadership did not ensure that the required accounting standard was adhered to and that documentation was maintained.

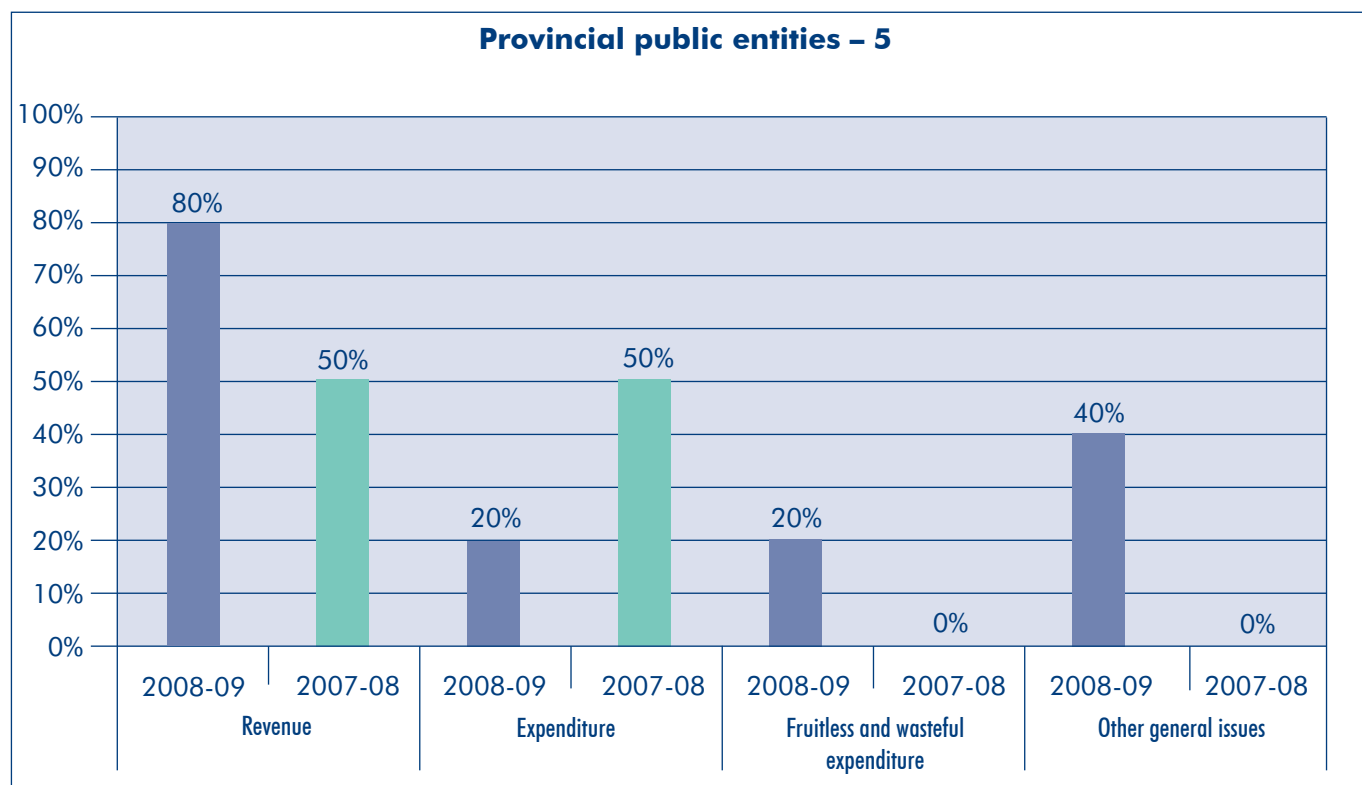
Payables and borrowings

Blue IQ Investments Holdings (Pty) Ltd did not provide documentation to support the validity of project funding liabilities and work in progress of R76 million and R59 million, respectively, relating to the subsidiary companies, the Constitution Hill Development Company (Pty) Ltd and the Greater Newtown Development Company (Pty) Ltd.

**5.2.2 Statement of financial performance areas qualified**

Figure 2(b) below provides a breakdown of the statement of financial performance findings which gave rise to qualified audit opinions. It provides an indication of the percentage of the provincial public entities that were qualified per statement of financial performance areas. Details of the nature of qualifications are provided for the qualification areas where percentages exceed 50%.

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

Revenue

Blue IQ Investments Holdings (Pty) Ltd had no system of control over the recording and collection of revenue for the subsidiary companies, the Constitution Hill Development Company and the Greater Newtown Development Company (Pty) Ltd. Furthermore, there was no sufficient and appropriate audit evidence to confirm that revenue of R9 million was completely recorded.

In the financial statements of Xhasa ATC revenue of R592 024 and its related expenditure were understated as deferred income was not released to the statement of financial performance. This was due to Xhasa ATC being in the process of liquidation and certain officials having been transferred to the Department of Housing.



### 5.2.3 Analysis of root causes of qualifications

Financially qualified financial statements result from deficiencies in the system of internal control. These deficiencies are termed 'root causes'.

The audit outcome for Blue IQ Investment Holdings was a disclaimer on property, plant and equipment, investment properties, liabilities and revenue. This was due to leadership not ensuring that the consolidated financial statements were complete and met the required accounting standards. Furthermore, during the course of the financial year the chief executive officer's service was terminated.

The audit outcome for the Constitutional Hill Development Company was a disclaimer of opinion on investment property, liabilities and revenue. This was due to the leadership not addressing the deficiencies in internal control, processes over the collection and recording of revenue, effective document management and implementing prior year audit findings.

The Gauteng Enterprise Propeller audit outcome was a qualification on receivables. This was due to the inability of the leadership to comply with the accounting standards on impairments and to implement processes supported by documents.

The audit outcome for the Greater Newtown Development Company was a disclaimer of opinion on property, plant and equipment, investment property and revenue. This was due to the leadership not complying with accounting standards regarding impairments and not maintaining a document management system, which resulted in the leadership not being able to substantiate historic transactions. Furthermore, the leadership had not implemented processes to address prior year audit findings.

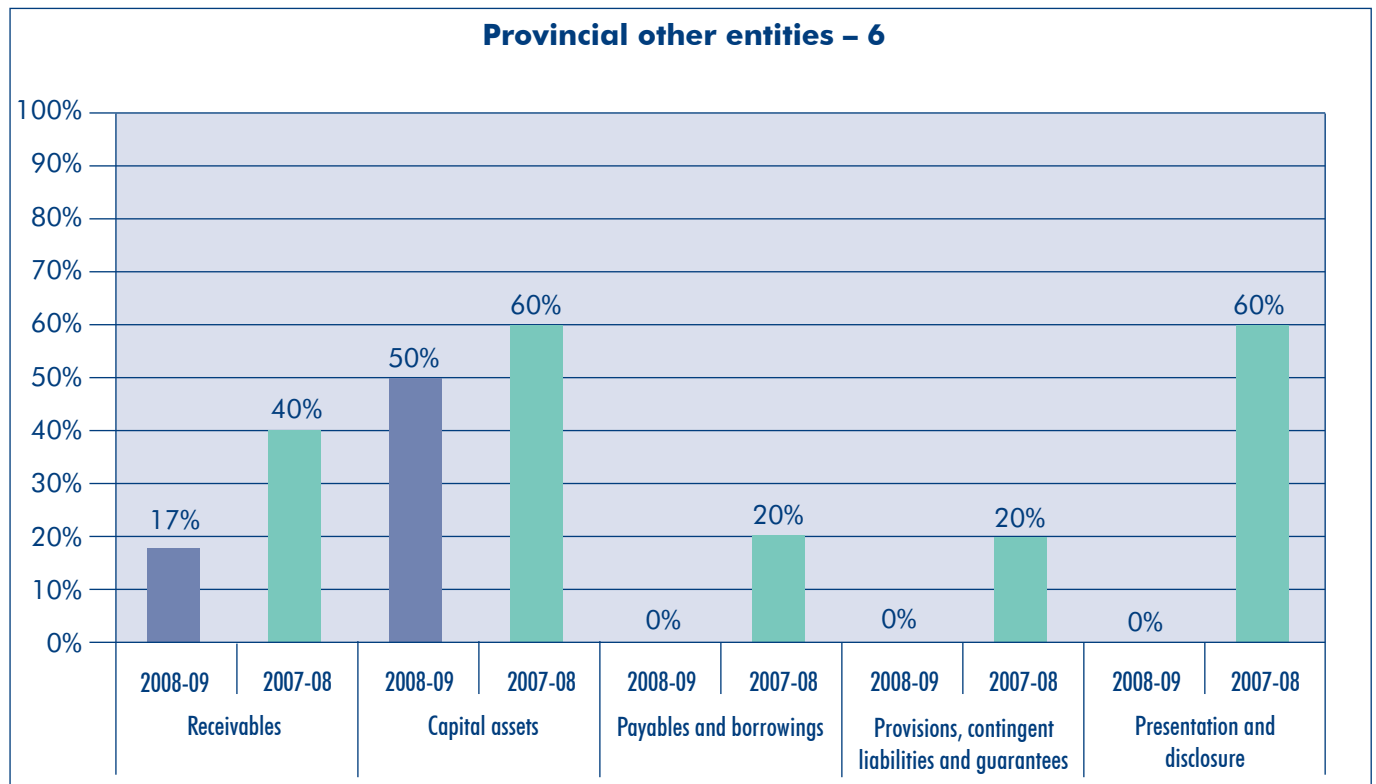
The audit outcome for the Xhasa Accounting and Technical Centre was a qualification on receivables, liabilities, revenue and expenditure. This was due to the Xhasa ATC being in the process of liquidation, which resulted in certain officials in the finance department having been transferred to the Department of Housing.

The leadership and governance structures of these entities should ensure compliance with the accounting framework and standards and maintain proper record keeping of documents giving rise to financial transactions.

## 5.3 Provincial other entities

### 5.3.1 Statement of financial position areas qualified

Figure 3(a) below provides a breakdown of the statement of financial position findings which gave rise to qualified audit opinions. The graph depicts the number of provincial other entities that had qualified audit opinions as a result of findings in the statement of financial position (balance sheet). Details of the nature of qualifications are provided for the qualification areas where these percentages exceed 50%.

**Figure 3(a): Areas qualified in the statement of financial position (six provincial other entities qualified)****Capital assets:**

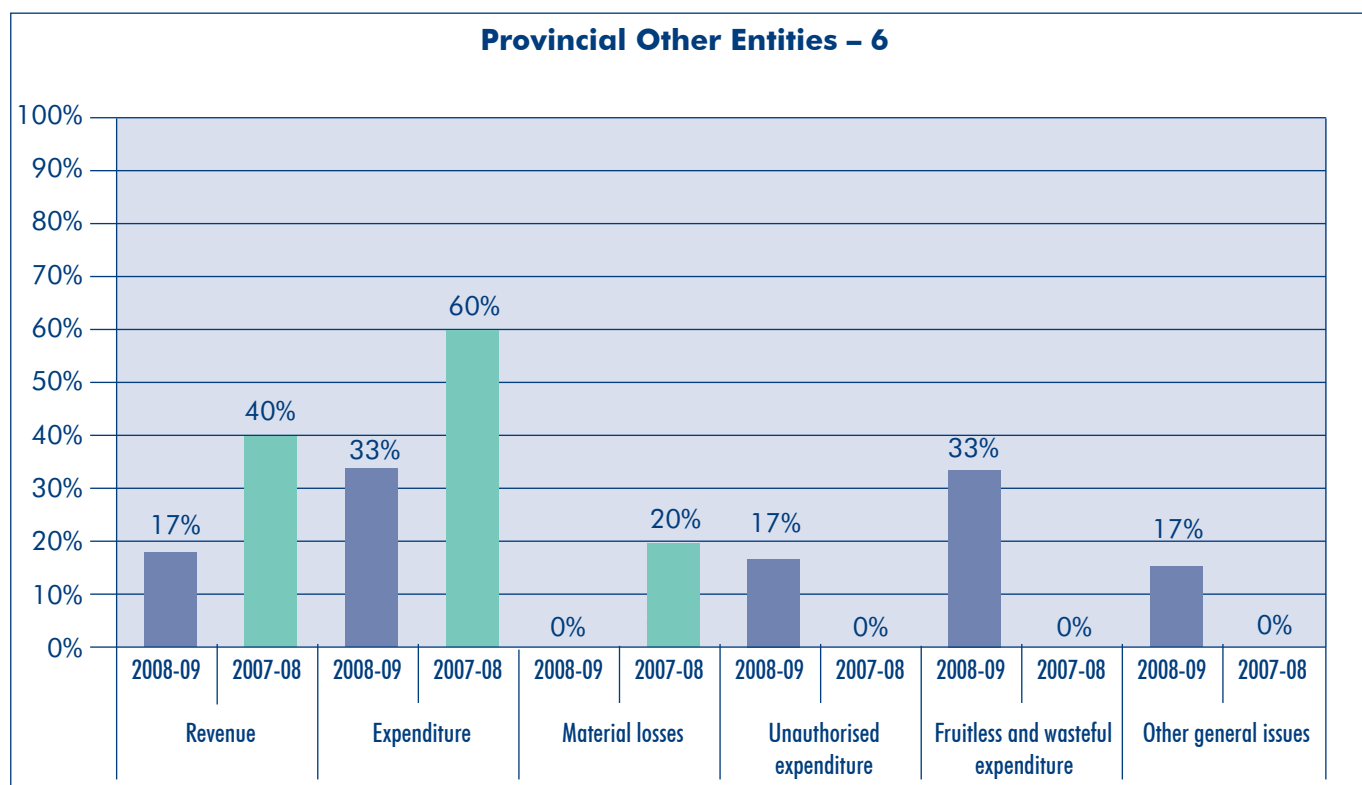
The Emoyeni Trading Entity had inadequate controls over property, plant and equipment due to a lack of action by management to address the control deficiencies.

The Gauteng Housing Fund did not have documentation to support the value, existence and classification of investment properties of R24 million. This was due to management failing to completely implement audit recommendations to adequately address historic qualification issues.

The Gauteng Liquor Board was unable to provide documentation to confirm that property, plant and equipment of R4,9 million existed, were complete and were valued correctly. Furthermore, no reliable fixed asset register was maintained. This was due to management not implementing action plans to address control deficiencies.

**5.3.2 Statement of financial performance areas qualified**

Figure 3(b) below provides a breakdown of the statement of financial performance findings which gave rise to qualified audit opinions. It provides an indication of the percentage of the provincial other entities that were qualified per income statement areas. Details of the nature of qualifications are provided below.

**Figure 3(b): Areas qualified in the statement of financial performance (six provincial other entities qualified)****Going concern**

The Gauteng Fund Project Office was mandated to establish the Gauteng Fund with the main objective of financing infrastructure projects. The Gauteng Provincial Government was required to contribute R500 million and, amongst others, promulgate enabling legislation for the fund. As this legislation was not promulgated and the Gauteng Provincial Government did not transfer its contribution, there was material uncertainty about this trading entity's ability to continue as a going concern.

**5.3.3 Analysis of root causes of qualifications**

Financially qualified financial statements result from deficiencies in the system of internal control. These deficiencies are termed 'root causes'.

The Emoyeni Trading Entity's audit outcome was a qualification on property, plant and equipment. This was due to a lack of actions implemented by management to address the control deficiencies relating to property, plant and equipment.

The Gauteng Fund Project Office's audit outcome was a qualification on expenditure. This was due to the leadership's poor decision-making, resulting in a going concern issue and fruitless and wasteful expenditure on unused office accommodation. In addition, due to a lack of accountability by the leadership, systems to prevent irregular expenditure were not implemented.

The Gauteng Housing Fund's audit outcome was a qualification on investment property. This was due to management's failure to speedily implement measures arising from prior year audit recommendations to

address historic qualification issues. It should be noted that some progress was made with implementing measures.

The Gauteng Liquor Board's audit outcome was a qualification on property, plant and equipment as well as revenue. This was due to management not implementing action plans to address the control deficiencies in the revenue and receivables collection system and to ensure that a reliable asset register was in place.

The Cradle of Humankind's audit outcome was a qualification on receivables and expenditure. This was due to the poor quality of the financial statements submitted for audit purposes.

The Dinokeng Trading Entity's audit outcome was a qualification on expenditure. This was due to the poor quality of the financial statements submitted for audit purposes.

The leadership and governance structures of the above entities need to ensure that there are adequate skills and capacity to ensure proper record keeping of documents giving rise to financial transactions.

## SECTION 6: WARNING SIGNALS REQUIRING ATTENTION

### Emphasis of matters

Regularity audits emphasise matters that do not directly impact on the audit opinion, but that 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 (6.1), followed by provincial departments (6.2); provincial public entities (6.3) and provincial other entities (6.4) under the following headings where applicable:

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

### Other matters

Regularity audits further disclose other matters that do not directly impact on the audit opinion. These matters are presented in this report firstly for the provincial legislature, followed by provincial departments, provincial public entities and provincial other entities under the following headings where applicable:

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

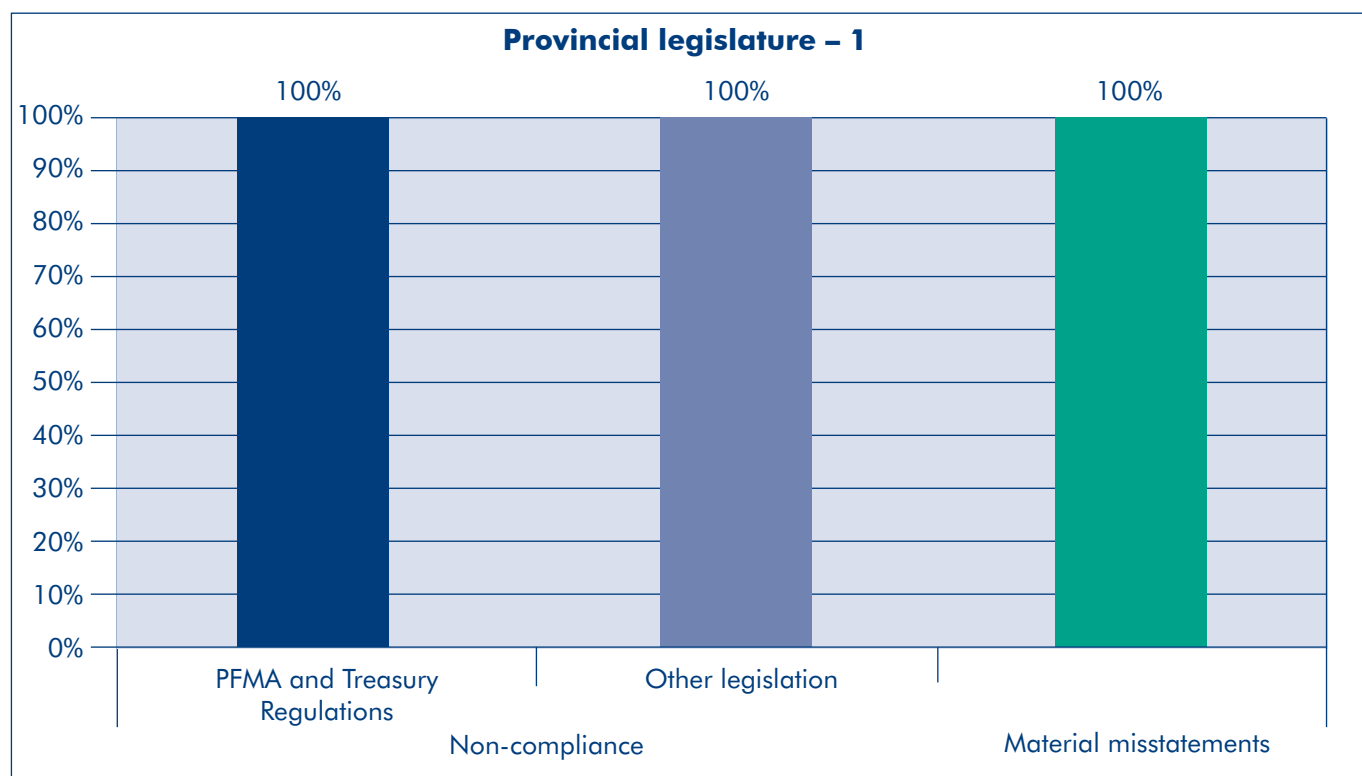
### 6.1 Provincial legislature

#### 6.1.1 Emphasis of matters: provincial legislature

There were no emphasis of matter audit findings at the Gauteng Provincial Legislature.

#### 6.1.2 Other matters: provincial legislature

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

**Figure 4(a): Incidence of other matters: provincial legislature**

#### 6.1.2.1 Non-compliance with applicable legislation

The provincial legislature did not make payments to suppliers within 30 days from receipt of the invoice as required by section 38(1)(f) of the PFMA, read with Treasury Regulation 8.2.3. An amount of R8 419 000 disclosed as accruals had been outstanding for a period of more than 30 days, which exceeded the payment terms of 30 days as set out in the Treasury Regulations. This amount, in turn, exceeded the net surplus as per the appropriation statement for the year by R7 653 000. Had the provincial legislature paid the amounts due as required, an equivalent amount of unauthorised expenditure would have been incurred. This was due to financial constraints in the province.

Members of the provincial legislature did not declare their business interests within 60 days of adoption of the code of conduct and ethics, as required in paragraph 16(2) of the code of conduct and ethics for members of the Gauteng Provincial Legislature.

#### 6.1.2.2 Misstatements in financial statements corrected as a result of the audit

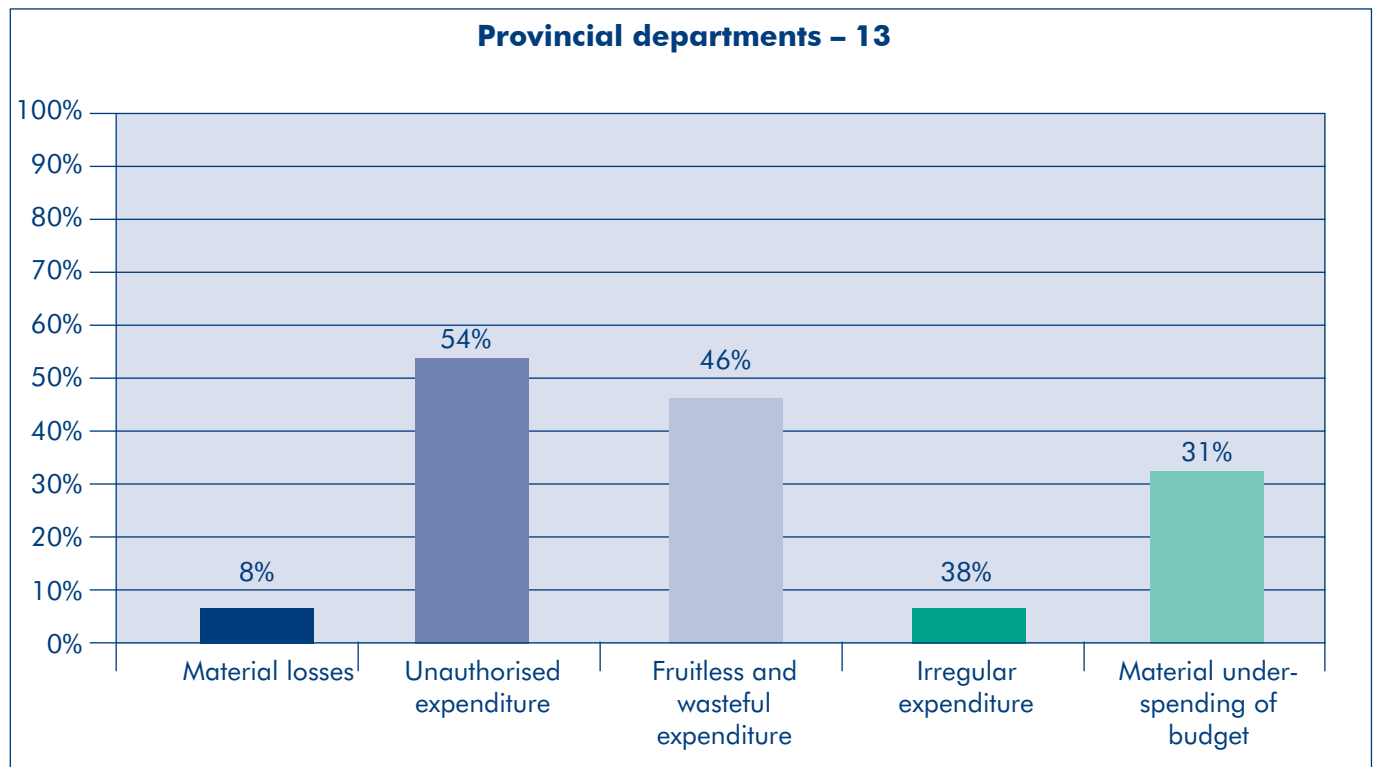
The provincial legislature's financial statements required material corrections to be made after approval by the audit committee. The areas materially corrected were in assets and disclosure notes on accruals and commitments. This was due to a lack of accounting for these balances on an ongoing basis. Disclosure notes were only produced once a year. The Gauteng Provincial Legislature should prepare financial reports that include disclosure notes on a monthly basis. Furthermore, the provincial legislature should document the process of preparing monthly financial reports culminating in quarterly and annual financial statements.

## 6.2 Provincial departments

### 6.2.1 Emphasis of matters: provincial departments

The incidence of some of the financial matters disclosed by regularity audits is depicted in figure 5(a) below. Details of these and other matters are provided in the paragraphs that follow.

**Figure 5(a): Incidence of emphasis of matters: provincial departments**



#### 6.2.1.1 Material losses/impairments incurred by provincial departments

The Department of Public Transport, Roads and Works suffered a revenue loss of R22 895 000 as market-related rentals were not charged to tenants as required in terms of Treasury Regulation 16A7.4.

#### 6.2.1.2 Unauthorised expenditure incurred

The financial statements of seven (54%) provincial departments reflected unauthorised expenditure of R1 490 528 000 due to overexpenditure on voted funds or programmes. The details are as follows:

Name of department	Programme name of department	Amount R
Department of Community Safety	Promotion, safety and traffic management programmes	1 150 000
Department of Economic Development	Administration programme	59 976 000
Department of Education	Compensation of employees	330 961 000
Department of Health	Health administration, district health services, provincial hospital services, central hospital services and health facility management programmes	1 070 655 000
Department of Local Government	Local governance and development and planning programmes	9 676 000
Office of the Premier	Goods and services	10 619 000
Department of Social Development	Administration and social welfare services programmes	7 491 000
<b>TOTAL</b>		<b>1 490 528 000</b>

### 6.2.1.3 Fruitless and wasteful expenditure incurred

Audits revealed instances of fruitless and wasteful expenditure at six (46%) departments totalling R85,8 million during the 2008-09 financial year, namely the Departments of Agriculture, Conservation and Environment (R5 416 000); Economic Development (R55 000 000); Education (R7 156 246); Health (R2 199 489); Public Transport, Roads and Public Works (R13 758 000); and Social Development (R2 318 012). This expenditure was incurred due to the following:

- Double payments of R5 416 000 that were not recovered.
- Payments of R426 372 to a consultant, although the position was filled in the department.
- Payment of R55 000 000 to settle a short-term loan on behalf of a private company which was guaranteed by the department in favour of the private bank. The department acquired preference shares in exchange for this payment; however, at 31 March 2009 the company was not financially sustainable and the shares were impaired.
- Payments of R4 517 501 for defective work by contractors for infrastructure projects managed by the Department of Public Transport, Roads and Works.
- Payment of R7 156 346 for lease premiums on an unoccupied building.

### 6.2.1.4 Irregular expenditure incurred

Irregular expenditure at five departments (38%) totalling R233 150 988 was incurred during the 2008-09 financial year, namely the Departments of Economic Development (R1 930 372); Health (R1 950 359); Housing (R31 772 928); Public Transport, Roads and Public Works (R197 230 000); and Sports, Art, Culture and Recreation (R267 329), mainly due to procurement regulations not having been followed.

### 6.2.1.5 Material underspending of budget

Four (31%) provincial departments, namely the Departments of Education; the Gauteng Shared Services Centre; Health; and Sports, Arts, Culture and Recreation, materially underspent their budgets for the financial year ended 31 March 2009 by R630 943 000. No satisfactory explanation for



the underspending was provided. Furthermore, the Department of Health materially underspent on government grants for HIV and AIDS and hospital revitalisation by R103 727 000.

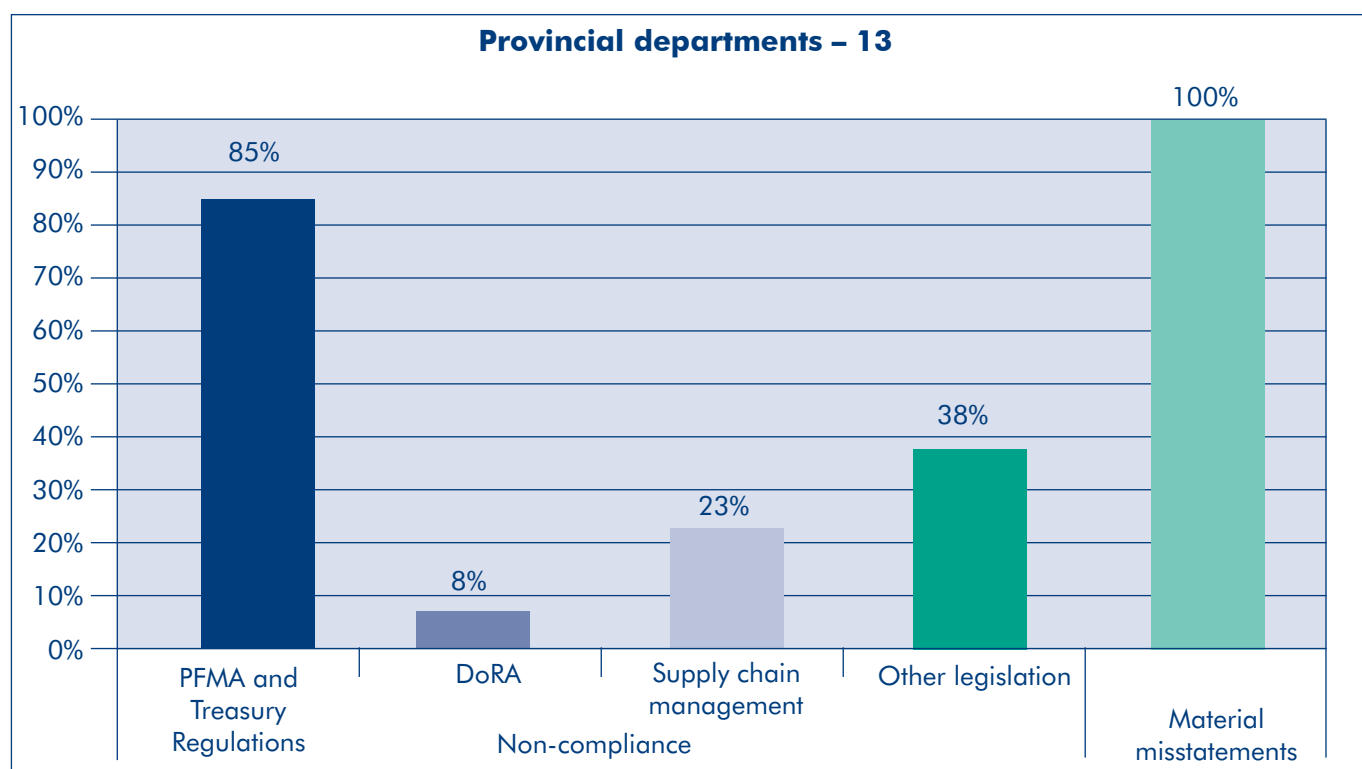
The impact of this underspending was as follows:

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

### 6.2.2 Other matters: provincial departments

The incidence of some of the other matters disclosed by regularity audits is depicted in figure 5(b) below. Details of these and other matters are provided in the paragraphs that follow.

**Figure 5(b): Incidence of other matters: provincial departments**



#### 6.2.2.1 Non-compliance with applicable legislation

Except for the Department of Local Government and the Office of the Premier, there were 11 (85%) provincial departments that did not comply with certain requirements of the PFMA and Treasury Regulations, one (8%) department (Department of Housing) that did not comply with the Division of Revenue Act (DoRA) and three (23%) departments (Departments of Agriculture, Conservation and Environment; Health; and Public Transport, Roads and Works) that did not comply with supply chain management processes. Furthermore, five (38%) departments did not comply with other enabling legislation, i.e. the Departments of Social Development; Public Transport, Roads and Works; Local and Economic Development; and Agriculture, Conservation and Environment. The non-compliance with the

legislation and regulations was due to the role and scope of the risk officer not being clearly defined and internal audit not providing assurance that strategies to mitigate the risk of non-compliance were adequate. The non-compliance with applicable legislation included the following at certain departments:

- Eighty-five per cent did not comply with section 38(1)(f) of the PFMA read with Treasury Regulation 8.2.3 which requires that payments to suppliers should be settled within 30 days from receipt of the invoice.
- Eight per cent did not comply with section 38(1)(g) of the PFMA as particulars of unauthorised expenditure were not reported in writing to the relevant treasury.
- Eight per cent did not comply with section 40(1)(d) of the PFMA which requires the accounting officer of a provincial department to submit the annual report to the relevant treasury within five months of the financial year-end.
- Eight per cent did not comply with section 67 of the PFMA as a provincial department had foreign currency liabilities of R334 796 478.
- Twenty-three per cent did not comply with section 76 of the PFMA read with National Treasury Practice Note 6 of 2007-08 which requires a provincial department to report within 10 working days to the relevant treasury and Auditor-General all cases where goods and services above R1 million were procured.
- Eight per cent did not comply with Treasury Regulation 8.3.4 that requires pay-point certificates to be certified.
- Eight per cent did not comply with Treasury Regulation 16A6.3(e) that requires SITA approval for new IT systems.
- Fifteen per cent did not comply with Treasury Regulation 17.2 that requires the accounting officer of the provincial department to retain financial information in its original form for a minimum period of five years.
- Eight per cent did not comply with section 12(6) of DoRA which requires that an evaluation of programmes or functions funded by the allocation must be submitted to the national department within two months after year-end. This was not done at the Department of Housing.

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

At all 13 (100%) of the provincial departments financial statements required material corrections to be made after approval by the audit committee. Material corrections were made in the areas of assets, expenditure/liabilities and disclosure notes. The material corrections in disclosure notes related to key management, employee benefits, accruals, commitments, lease commitments, assets, related party, irregular expenditure, and fruitless and wasteful expenditure. This was due to the following:

- A lack of discipline in accounting for these balances on an ongoing basis in management accounts.
- Disclosure notes were not system generated and calculated at year-end and there was no adequate manual system.
- The risk of inaccurate information presented in financial statements was not identified as a key risk and as a result the processes building up to the preparation of financial statements were not adequately reviewed. Furthermore, there was an expectation that the AGSA would advise what had to be corrected.

The National Treasury and the provincial treasury should provide ongoing training. Departments should prepare at least monthly financial statements that include disclosure items. Furthermore, the departments should document the process of preparing monthly financial reports culminating in quarterly and annual financial statements. The process should include the ongoing review and supervision by management. Also, management of the departments should take accountability for the preparation of the financial statements.

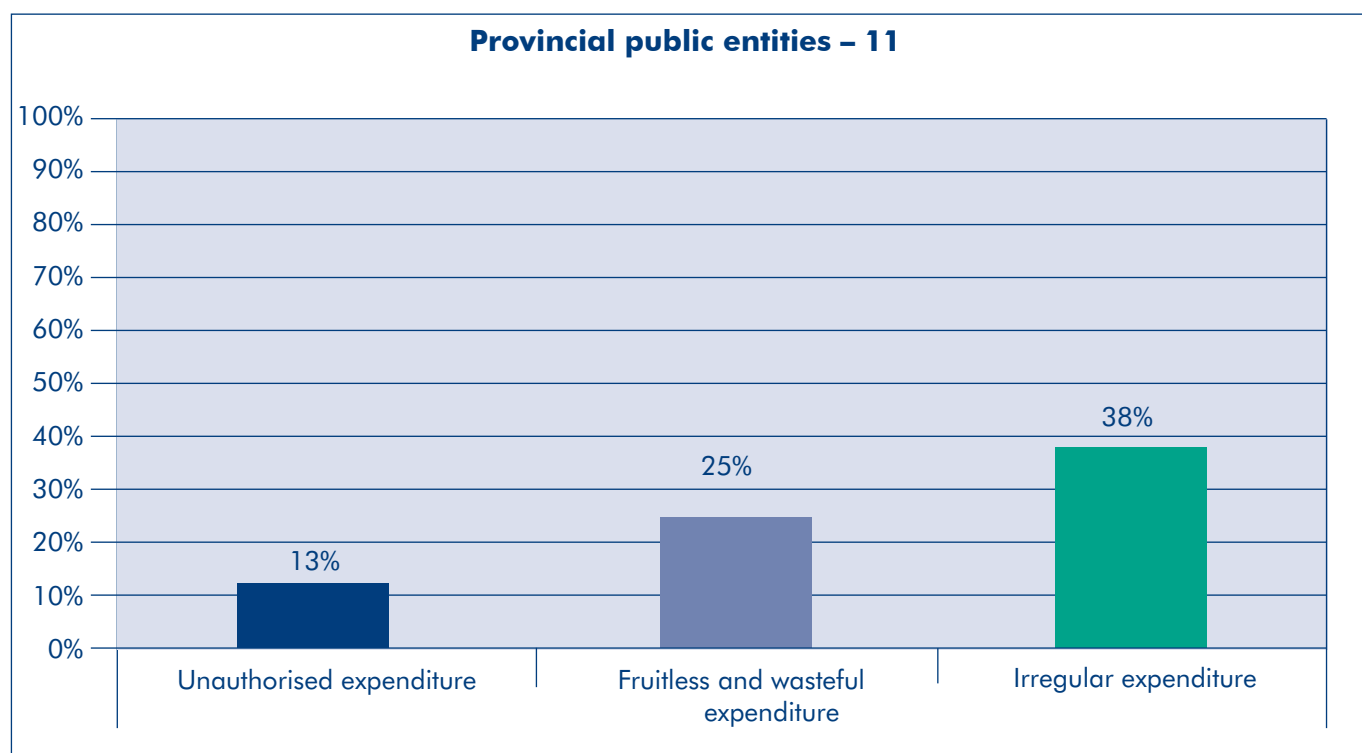


## 6.3 Provincial public entities

### 6.3.1 Emphasis of matters: provincial public entities

The incidence of some of the financial matters disclosed by regularity audits is depicted in figure 6(a) below. Details of these and other matters are provided in the paragraphs that follow.

**Figure 6(a): Incidence of emphasis of matters provincial public entities**



#### 6.3.1.1 Financial sustainability of entities/programmes

Concerns were raised regarding the financial sustainability of provincial public entities, namely the subsidiaries of Blue IQ Investment Holdings (Pty) Ltd, i.e. the Blue Catalyst Investment (Pty) Ltd, the Constitutional Hill Development Company (Pty) Ltd, the Greater Newtown Development Company (Pty) Ltd and the Gauteng Enterprise Propeller, which recorded accumulated losses totalling R285 million as at 31 March 2009 and would require continued support from their respective departments to continue as going concerns. The accounting authority of Blue Catalyst Investment (Pty) Ltd resolved to wind up the provincial public entity subject to the final approval of the MEC. Xhasa ATC is in the process of being liquidated. The Gauteng Motorsport Company (Pty) Ltd's future operations are dependent on the Department of Economic Development ceding the motorsport agreements to the entity and also providing funding for these contracts.

#### 6.3.1.2 Unauthorised expenditure incurred

The financial statements of one (13%) provincial public entity, Blue Catalyst Investment (Pty) Ltd, reflected unauthorised expenditure of R384 265 due to overexpenditure on the approved budget.

### 6.3.1.3 Fruitless and wasteful expenditure incurred

Audits revealed instances of fruitless and wasteful expenditure totalling R3 587 328 incurred for the year at Blue IQ Investment Holdings (R3 565 000) and the Gauteng Economic Propeller (R22 328), as a result of interest and penalties on late payments.

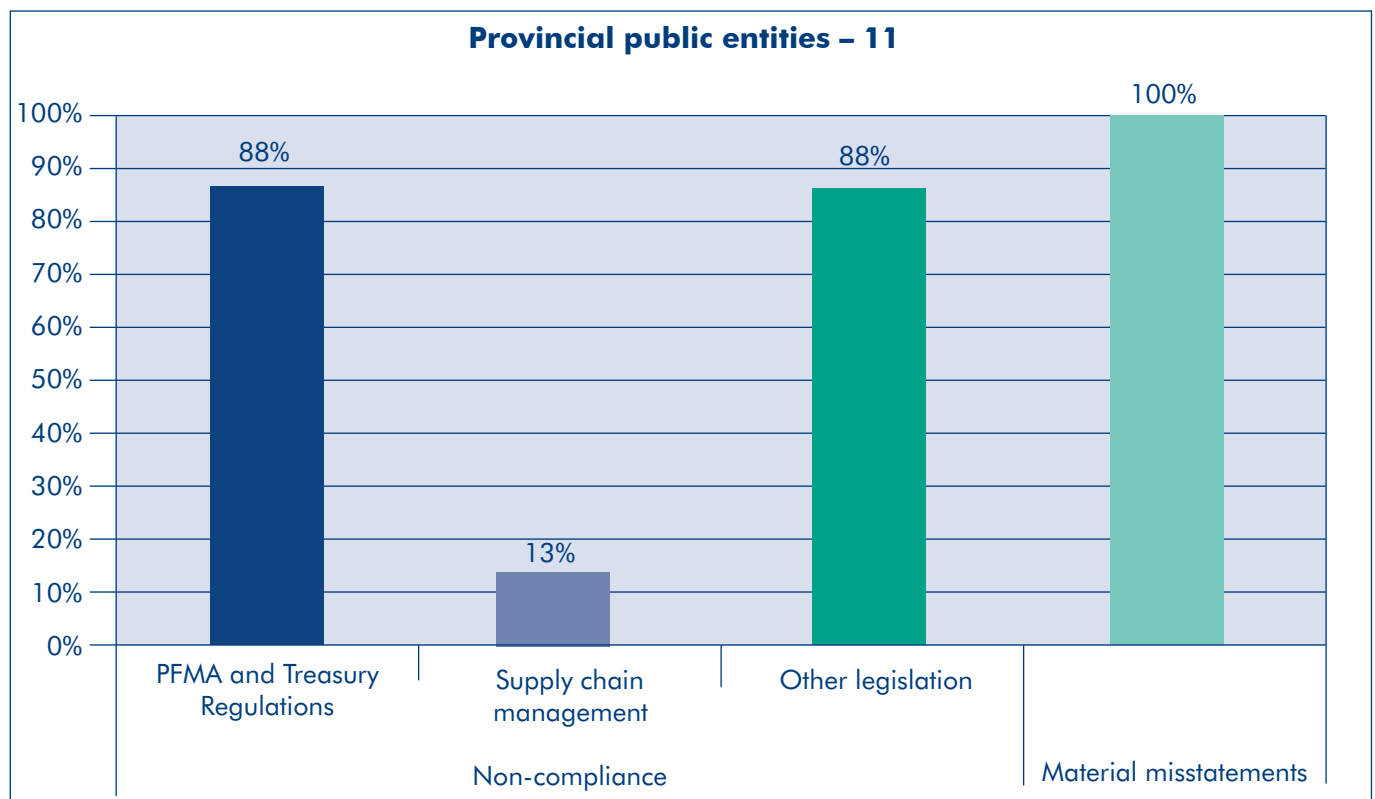
### 6.3.1.4 Irregular expenditure incurred

Audits revealed irregular expenditure totalling R39 378 330 at three provincial public entities (38%), being Blue IQ Investment Holdings (Pty) Ltd (R36 518 000), the Gauteng Enterprise Propeller (R2 772 330) and the Gauteng Motorsport Company (Pty) Ltd (R88 000), mainly due to procurement procedures not having been followed.

## 6.3.2 Other matters: provincial public entities

The incidence of some of the other matters disclosed by regularity audits is depicted in figure 6(b) below. Details of these and other matters are provided in the paragraphs that follow.

**Figure 6(b): Incidence of other matters: provincial public entities**



### 6.3.2.1 Non-compliance with applicable legislation

There were seven (88%) provincial public entities, except for the Gauteng Tourism Authority, that had not complied with certain requirements of the PFMA and Treasury Regulations and one, the Greater Newtown Development Company (Pty) Ltd, that had not complied with supply chain management processes. Seven (88%) provincial public entities had also not complied with other legislation. Internal audit should assist

in providing assurance that strategies to mitigate the risk of non-compliance are adequate. The non-compliance included the following:

- Thirty-eight per cent did not comply with section 51(1)(g) of the PFMA as an entity was created without informing the National Treasury.
- Thirteen per cent did not comply with section 66(3) of the PFMA as guarantees were issued.
- Twenty-five per cent did not comply with section 67 of the PFMA as a public entity had foreign future commitments.
- Thirteen per cent did not comply with Treasury Regulation 29.3.1 as no procedures were established for quarterly reporting to the executive authority.
- Thirteen per cent did not comply with Treasury Regulation 31.1.3 as the investment policy was not approved.

There were five provincial public entities, namely the Gauteng Motorsport Company (Pty) Ltd, Blue Catalyst Investment (Pty) Ltd, Blue IQ Investments Holdings (Pty) Ltd, the Constitution Hill Development Company (Pty) Ltd and the Greater Newtown Development Company (Pty) Ltd, that did not comply with certain of the following:

- No VAT returns were submitted to SARS.
- PAYE and SITE were not accurately deducted and paid over to SARS.
- No income tax return as required by the Income Tax Act was submitted to SARS.

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

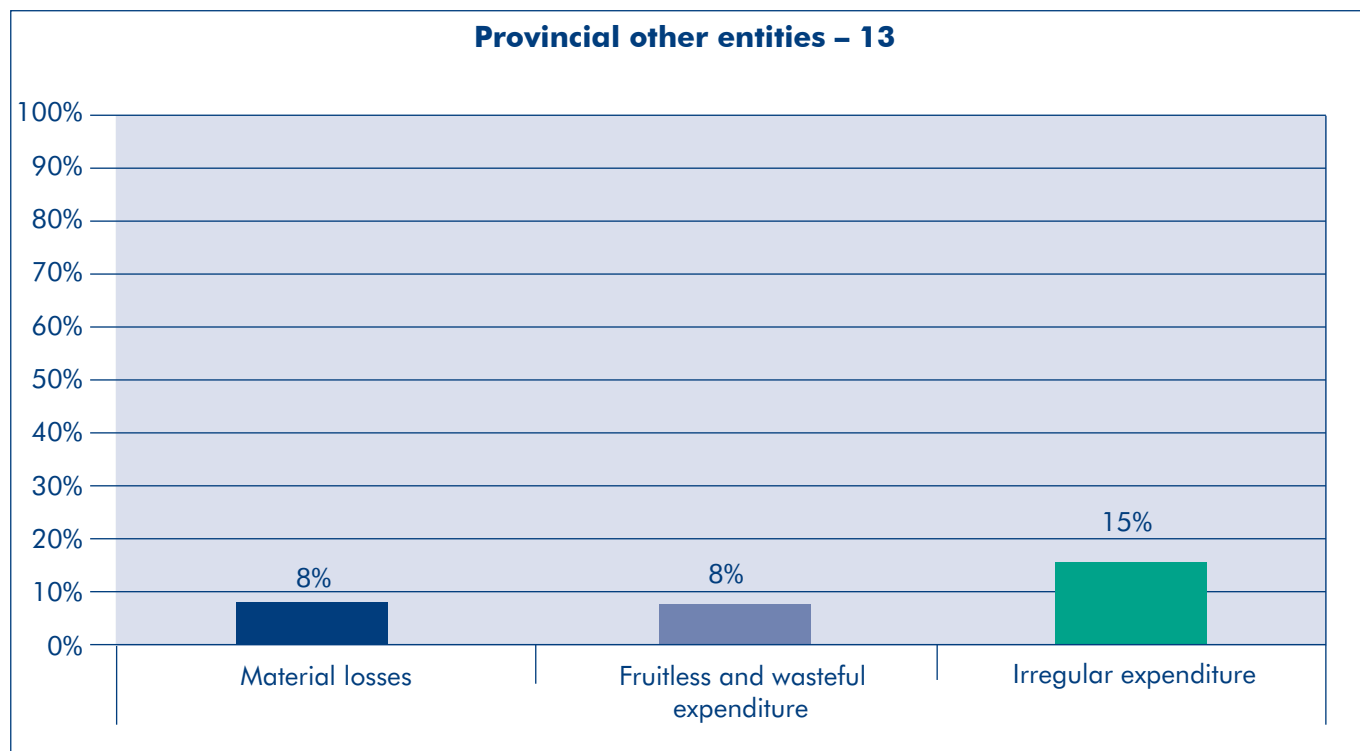
Eight (100%) provincial public entities, namely Blue Catalyst Investment Company (Pty) Ltd, Blue IQ Investment Holdings (Pty) Ltd, the Constitutional Hill Development Company (Pty) Ltd, the Gauteng Enterprise Propeller, the Gauteng Motorsport Company (Pty) Ltd, the Gauteng Tourism Authority, the Greater Newtown Development Company (Pty) Ltd and Xhasa ATC, required material corrections to be made to their financial statements. Material corrections were made in expenditure/liabilities and disclosure notes. The disclosure notes materially corrected were in respect of irregular expenditure, fruitless and wasteful expenditure, intangible assets and commitments. This was due to a lack of discipline in accounting for these balances on an ongoing basis in management accounts. The risk of inaccurate information presented in financial statements was not identified as a key risk and as a result the processes building up to the preparation of financial statements were not adequately reviewed. There is an expectation that the AGSA would advise what needed to be corrected.

The National Treasury, the provincial treasury and management of the public entities should provide ongoing training. Public entities should at least prepare complete monthly financial statements. Furthermore, the process of preparing monthly financial statements should be documented and should include ongoing supervision and review. Management should take accountability for the preparation of the financial statements.

### **6.4 Provincial other entities**

#### **6.4.1 Emphasis of matters: provincial other entities**

The incidence of some of the financial matters revealed by regularity audits is depicted in figure 7(a) below. Details of these and other matters are provided in the paragraphs that follow.

**Figure 7(a): Incidence of emphasis of matters: provincial other entities**

#### **6.4.1.1 Financial sustainability of entities/programmes**

There were concerns regarding the financial sustainability of one provincial other entity. The Gauteng Fund Project Office had a mandate to establish the Gauteng Fund with the objective of financing infrastructure projects; however, the model required a contribution of at least R500 million from the Gauteng Provincial Government, which had not yet been appropriated, and the promulgation of the enabling legislation, which still had to be done.

#### **6.4.1.2 Material losses/impairments incurred by entities**

Material losses of R9 138 151 as disclosed by the Medical Supplies Depot were incurred due to stock losses.

#### **6.4.1.3 Fruitless and wasteful expenditure incurred**

Audits revealed instances of fruitless and wasteful expenditure incurred by the Impophoma Infrastructure Support Entity, amounting to R13 643 000 for the year. This was due to lease contracts entered into where the lease payments exceeded the fair value of the assets leased. Furthermore, the entity was unable to meet the financial obligations and requested payment to be deferred. As a result, the fruitless and wasteful expenditure over the five-year lease period amounting to R168 845 000 may be recognised.

#### **6.4.1.4 Irregular expenditure incurred**

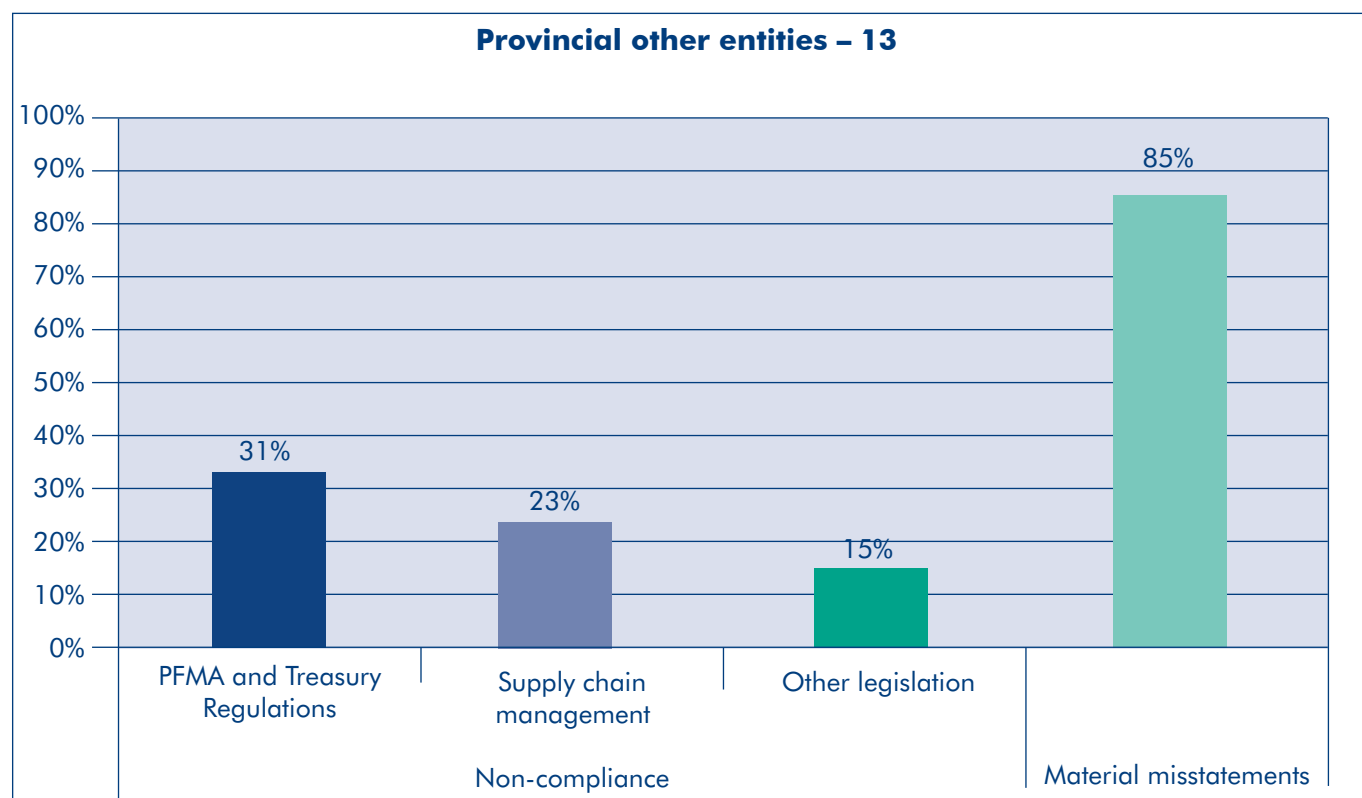
Audits revealed irregular expenditure incurred amounting to some R407 567 518 for the year, mainly due to failure to comply with the procurement regulations by two (17%) provincial public entities, being the

Gauteng Fund Project Office (R45 184 518) and the Impophoma Infrastructure Support Entity (R362 383 000).

#### 6.4.2 Other matters: provincial other entities

The incidence of some of the other matters disclosed by regularity audits is depicted in figure 7(b) below. Details of these and other matters are provided in the paragraphs that follow.

**Figure 7(b): Incidence of other matters: provincial other entities**



##### 6.4.2.1 Non-compliance with applicable legislation

There were four (33%) provincial other entities, namely the Gauteng Fund Project Office, the Gauteng Liquor Board, g-Fleet Management and the Impophoma Infrastructure Support Entity, that did not comply with certain PFMA and Treasury Regulations. Three (25%) provincial other entities, the Gauteng Fund Project Office, g-Fleet Management and the Impophoma Infrastructure Support Entity, did not comply with supply chain management processes and two (17%) provincial other entities, the Gauteng Fund Project Office and the Gauteng Kopanong Precinct, did not comply with other enabling legislation. The non-compliance with legislation included the following:

- Seventeen per cent did not comply with section 38(1)(f) of the PFMA read with Treasury Regulation 8.2.3 that requires payments to suppliers to be settled within 30 days from receipt of the invoice.
- Eight per cent did not comply with section 36(5) of the PFMA as the accounting officer of the trading entity did not have a signed performance contract.
- Eight per cent did not comply with section 67 of the PFMA as the provincial other entity had foreign future commitments.
- Seventeen per cent did not comply with section 76 of the PFMA read with National Treasury Practice

Note 6 of 2007-08 that requires the entities to report within 10 working days to the relevant treasury and the Auditor-General all cases where goods and services above R1 million were procured.

#### **6.4.2.2 Misstatements in financial statements corrected as a result of the audit**

Financial statements approved by the audit committee were materially misstated at 11 (92%) provincial entities (except for the Cost Recovery Trading Entity). This was due to a lack of discipline in accounting for these balances on an ongoing basis and financial statements being prepared once a year. The risk of inaccurate information presented in the financial statements was not identified as a key risk and as a result processes building up to the preparation of the financial statements were not reviewed. There was also an expectation that the AGSA would advise what had to be corrected.

The National Treasury, the provincial treasury and management should ensure adequate training and prepare monthly financial statements. Furthermore, provincial other entities should document the process of preparing monthly financial reports culminating in quarterly and annual financial statements, with ongoing review and supervision by management.



## SECTION 7: RESULTS OF AUDITS OF INFORMATION SYSTEMS

### 7.1 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 organisational goals and objectives.

### 7.2 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.

### 7.3 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, the following types of information system audits were performed throughout the province:

- IT general control reviews
- User account management reviews
- Enterprise Resource Planning System review
- Network security review

### 7.4 IT general controls

IT general controls are those controls relating to the information technology infrastructure and are imbedded in information system management processes. In the year under review, IT general control reviews were performed at the provincial legislature, 13 provincial departments and two provincial entities. The following table indicates the common focus area findings identified throughout those audits performed.

**Table 4: Common focus area findings arising from IT general control reviews**

Focus area findings	Number of audited departments and entities	Percentage of audited departments and entities with finding
IT governance	16	6%
Business continuity	16	100%
Service level agreements	16	38%
Change control	16	75%
Operating system and logical security	16	75%
Physical and environmental controls	16	38%
Segregation of duties	16	44%

## 7.5 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. During the year under review, user account management reviews were conducted at the provincial legislature and provincial departments. The following table indicates the common key findings identified throughout those audits performed.

**Table 5: Common key findings arising from user account management reviews**

Findings	Number of audited departments	Percentage of audited departments with finding
Lack of or incomplete user account management procedures	14	43%
Access request forms not completed or inconsistently completed	14	7%
Users' access not periodically reviewed to ensure that it remained commensurate with their job responsibilities	14	14%
Activities of the system administrators/controllers not reviewed by an independent person	14	7%
Excessive access rights assigned to either some or a high number of users	14	26%

## 7.6 Systems, Applications and Products System

A review of the Systems, Applications and Products System (SAP System), basis controls and authorisations forms an integral part of a general control audit within an enterprise resource planning (ERP) environment. SAP basis controls support the effectiveness of user controls, while their operation is often essential for the effectiveness of the SAP programmed and configuration controls. During the year under review, two audits were conducted of the controls surrounding the SAP basis and authorisations. The following key findings were identified during the audit:

- Inappropriate access to sensitive functions
- Ineffective segregation of duties
- Logical security weaknesses
- Change control weaknesses
- Inadequate policies, procedures and standards, physical access and environmental controls, backup procedures, and operating system and logical security in Windows domain controller

## 7.7 Network security controls

Network security consists of the provisions made in an underlying computer network infrastructure, policies adopted by the network administrator to protect the network and the network-accessible resources from unauthorised access, and the effectiveness (or lack thereof) of these measures combined. Advanced and dedicated appliances and software (firewalls and anti-virus programs, etc.) as well as up-to-date patches are required to prevent malicious attacks to gain unauthorised access to the entity's computer systems and data. During the year under review, a network security review was conducted at one of the provincial departments to evaluate the network security controls and the following key findings were identified:



- Security management and administration were inadequate to ensure the security of the network environment.
- Unnecessary services that, coupled with the lack of critical patches, provided multiple entry points into the network environment.

## **7.8 Glossary of terms**

### **7.8.1 IT governance**

IT governance is the organisational capacity exercised by the board or executive management. It is an integral part of enterprise governance and consists of leadership and organisational structures and processes that ensure that the enterprise's IT unit sustains and extends the enterprise's strategies and objectives. The key elements of IT governance are strategic alignment, risk management (value preservation), value delivery (value creation), resource management and performance management.

### **7.8.2 Business continuity**

Ensuring the business continuity of information systems ensures that the entity is able to restore information system services in the event of major disruptions and disasters.

### **7.8.3 Service level agreements**

Service level agreements ensure the delivery and quality of information systems by information system service providers.

### **7.8.4 Change control**

Change control ensures that any proposed changes to the existing information system environment are coordinated, scheduled, authorised and tested to prevent unnecessary disruptions, erroneous changes, and unauthorised and inappropriate access.

### **7.8.5 Operating system and logical security**

The operating systems and logical security within a computerised information system environment enable personnel to access and utilise information system resources and information.

### **7.8.6 Physical and environmental controls**

The physical and environment controls relating to the information systems ensure the security, integrity, condition, performance and accessibility of the systems and the system information.

### **7.8.7 Segregation of duties**

The segregation of duties in a computerised information system environment ensures the integrity of the information systems, its functionality and its information, and also ensures the authorisation of business activities.

## 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, 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 audits, I also analysed the statistics and information published in the annual report of the departments as required in terms of chapter 1, part III, J3 of the PSR.

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

### 8.1 Human resource planning and work organisation

Human resource planning is required by the PSR, chapter 1, part III, D1 to ensure that a provincial department obtains the quantity and quality of staff required to meet its strategic objectives. It is of concern that the following departments did not have a human resource plan in place that was approved by their MEC/Premier:

- Community Safety
- Economic Development
- Premier
- Public Transport, Roads and Works
- Sports, Arts, Culture and Recreation

The human resource plan of the Gauteng Shared Services Centre did not include an analysis of the future human resource demand and the current supply to identify gaps.

The human resource plans of the Departments of Health and Local Government were not aligned with the overall strategic plan and medium-term expenditure framework.

The PSR, chapter 1, part III, B2 requires provincial departments to determine an organisational structure based on the strategic plan of the department, but the Department of Economic Development's organisational structure was not approved by the executive.

Job descriptions should be established in accordance with the PSR, chapter 1, part III, I1 to indicate the objectives and inherent requirements of the job. At the Department of Agriculture, Conservation and

Environment such job descriptions were not in place for all the posts or groups of posts.

The job descriptions of the Gauteng Provincial Treasury did not indicate the requirements for promotion or progression to the next salary ranges in accordance with a relevant career path.

## **8.2 Management of vacancies**

Based on the annual reports, the vacancy rate across all provincial departments was 21% at year-end, and 25% of the positions for senior managers and highly skilled staff were vacant. The lowest vacancy rate was at the Department of Education at 6% and the highest at the Department of Public Transport, Roads and Works at 52%.

The PSR, chapter 1, part VII, C.1A came into effect in February 2008 to regulate the time frames for filling funded vacant positions. The Department of Economic Development did not comply with the following regulations:

- All funded posts vacant on 30 June 2007 must be advertised and filled not later than 30 June 2008.
- Funded vacant posts must be advertised within six months after becoming vacant and must be filled 12 months after becoming vacant.

## **8.3 Appointment processes**

The recruitment and selection processes ensure that candidates with the appropriate qualifications and experience required for specific posts 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 the following provincial departments (54%):

- Agriculture, Conservation and Environment
- Community Safety
- Economic Development
- Provincial Treasury
- Housing
- Public Transport, Roads and Works
- Sports, Arts, Culture and Recreation

Although required by the PSR, chapter 1, part VII, B1(a) the following provincial departments (23%) 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:

- Education
- Public Transport, Roads and Works
- Social Development

The following provincial departments' (23%) new appointments did not have the qualifications as stated in the job advertisements:

- Economic Development
- Premier
- Public Transport, Roads and Works

## 8.4 Prolonged acting by officials in higher posts

Provincial 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. However, the PSR, chapter 1, part VII, B5.4 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 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 Education where employees received acting allowances for more than 12 months. Instances were also found at the Department of Economic Development 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. The total number of consultants appointed using appropriated funds was approximately 650 at a total contract value of approximately R3 billion.

Provincial 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 provincial 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, 29 employees had been suspended across four departments (31%), namely Departments of Community Safety, Economic Development, Health and Housing. The average number of days on suspension was 462,5 with 26 employees being suspended for more than 30 days. The average cost of the suspensions was estimated to be R372 913.

Provincial 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

The PSR, chapter 1, part V, F(b) requires heads of department to record all leave taken by an employee accurately and in full. The following provincial departments (46%) did not consistently comply with this regulation, resulting in the employees' leave credits being overstated:

- Economic Development
- Education



- Gauteng Shared Service Centre
- Health
- Public Transport, Roads and Works
- Social Development

The risks of such overstatement are that employees might be granted leave or receive leave payouts they are not entitled to. According to the annual reports of the mentioned departments, leave payouts to the amount of R1,1 billion were made during the period. The cause for this inadequate leave administration was inadequate manual controls to ensure that all leave taken was recorded and the payroll system was 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 provincial departments (46%) had not done so, generally being reluctant to address such a controversial matter with affected employees:

- Economic Development
- Education
- Gauteng Shared Services Centre
- Health
- Public Transport, Roads and Works
- Social Development

#### 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 the following provincial departments (38%), which can be an indication of inadequate control over the granting of this privilege:

- Economic Development
- Education
- Gauteng Shared Services Centre
- Health
- Public Transport, Roads and Works

#### 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 the following provincial departments (31%), instances were found where the calculations were done incorrectly, which can be an indication that officials cannot apply the formulas correctly and are not appropriately supervised and reviewed:

- Education
- Housing
- Premier
- Public Transport, Roads and Works

## 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 provincial departments (54%) overspent on their compensation budgets:

- Economic Development – R4 940 000
- Health – R537 585 000
- Education – R498 358 000
- Housing – R25 183 000
- Local Government – R535 000
- Public Transport, Roads and Works – R9 731 000
- Community Safety – R1 588 000

The Gauteng Treasury granted approval for the overspending on the compensation of employees totalling R1,078 billion for the 2008-09 financial year.

## 8.9 Management of overtime

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

### Overtime policy

The Departments of Economic Development and Social Development did not have a written policy on overtime.

### Authorisation of overtime

At the Departments of Economic Development and Education written authorisation was not consistently provided in advance for the overtime worked.

### Limit on overtime

At the Department of Economic Development the monthly compensation for overtime was not limited to less than 30% of the employee's monthly salary and no exceptional circumstances existed.

### Overtime payments

At the Departments of Economic Development and Education instances were found where the calculations for overtime payments were done incorrectly, which can be an indication that officials cannot apply the formulas correctly and are not appropriately supervised and reviewed.

## 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 the 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
Education	x	x	x	
Health		x	x	x
Housing	x	x	x	
Public Transport, Roads and Works	x			

### 8.11 Service terminations

Employees whose services were terminated were not timeously removed from the payroll at the Departments of Education and Social Development, resulting in overpayments.

Furthermore, at the following departments overpayments were not always correctly calculated and/or recovered or reclassified as debt by year-end:

- Economic Development
- Education
- Health

### 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 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 national departments, constitutional entities, national public entities and national other entities under the following headings:

- The AGSA's statutory responsibilities relating to the audit of performance information
- Key findings arising from the audit of performance information
- Internal control deficiencies
- AoPI interactions

### 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 conducted during November 2008, the AG 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 public 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 with 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 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 at the provincial legislature, provincial departments and entities**

Broad areas examined 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 was accurate and complete in relation to the source data, evidence or documentation.

The Department of Education, the Department of Public Transport, Roads and Works, the Gauteng Gambling Board, the Gauteng Partnership Fund and the Gauteng Liquor Board had no findings in any of the above areas examined.

The incidences of key findings resulting from the audit of performance information (AoPI) are presented in the table below.

*Deficiencies in internal control that caused these findings are analysed in the following subsection.*

**Table 6: Key audit findings arising from the audit of performance information**

No.	Main findings	Percentage of institutions with findings				
		Provincial departments	Provincial public entities	Provincial other entities	Provincial legislatures	Total
1	Non-compliance with regulatory requirements	77%	82%	38%	0%	65%
2	Usefulness of reported performance information	38%	27%	54%	100%	41%
3	Reported performance information not reliable	54%	27%	23%	0%	35%
4	Performance information not received in time for audit purposes	0%	0%	0%	0%	0%

#### 9.4 Internal control deficiencies

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

- **Non-compliance with regulatory requirements can be attributed to:**
  - § inadequate management processes
  - § non-compliance with internal policies and procedures
  - § deficiencies in key controls, e.g. no or inadequate quarterly reporting or no review by internal audit of performance management processes or no roles and responsibilities allocated for performance management.
- **Usefulness of performance information can be attributed to:**
  - § changes in reported performance information not disclosed
  - § reasons for variances in planned and actual performance not included in annual reports
  - § inadequate presentation of reported performance information
  - § quality of performance indicators/targets inadequate.
- **Reported performance information not reliable can be attributed to:**
  - § lack of effective, efficient and transparent systems and internal controls over performance information reporting.

#### 9.5 AoPI interactions

During the past 12 months a training session on AoPI was arranged for all auditees in the Gauteng portfolio. This was followed up by a more interactive session with chief financial officers of the Gauteng provincial departments, public entities and other entities at the chief financial officers' forum focusing on audit expectations around the preparations for the AoPI process. The performance information audit

is an agenda item at the audit steering committee meetings. Over and above this, additional training was offered to the board members of the Gauteng Gambling Board, the Gauteng Film Commission and the Gauteng Tourism Authority at their request. An AoPI training session was arranged for the Gauteng departments and entities on 28 October 2009, focusing on the audit coverage and approach for the 2009-10 financial year.

At this stage the Gauteng Province does not have a coordinated project to address this particular area. Departments and entities are implementing entity-specific processes to manage performance information. Therefore there is a need for the treasury to drive and coordinate this project to ensure that systems implemented comply with the reporting framework and controls are adequate.

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:

- 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.
- Capacity building, including the training of relevant officials.
- Integration of performance information into the operations of departments and public entities, including the development and implementation of appropriate information systems.
- Regular reporting and monitoring of performance information by the accounting officers, audit committees supported by internal audit, legislative committees and the executive.

## SECTION 10: CONSOLIDATED FINANCIAL STATEMENTS

In terms of sections 8 and 19 of the PFMA, the provincial treasuries 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 factual finding reports for consolidated departments and entities. Agreed-upon procedures are performed on the provincial consolidated financial statements.

The status of the preparation of consolidated financial statements as at 31 July 2009 is reflected in table 7 below.

**Table 7: 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
Gauteng	No	No	No	Yes	No	Yes	Yes	Yes	Yes

The 2007-08 audit of the consolidated financial statements for the Gauteng Province has not been finalised.

## 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. Table 8 below indicates the status of the tabling of annual reports.

**Table 8: Status of tabling of 2008-09 annual reports by executive authorities of departments**

No.	Name (department/constitutional institution/entity)	Tabled (Y/N)	Date tabled in legislature	The reason for annual report not tabled
1	Agriculture, Conservation and Environment	Y	01-Sep-09	
2	Community Safety	Y	31-Aug-09	
3	Economic Development	Y	01-Sep-09	
4	Education	Y	01-Sep-09	
5	Gauteng Provincial Treasury	Y	11-Sep-09	
6	Gauteng Shared Service Centre	Y	01-Sep-09	
7	Health	Y	01-Sep-09	
8	Housing	Y	07-Sep-09	
9	Local Government	Y	14-Sep-09	
10	Office of the Premier	Y	31-Aug-09	
11	Provincial Legislature	Y	31-Aug-09	
12	Public Transport, Roads and Works	Y	31-Aug-09	
13	Social Development	Y	01-Sep-09	
14	Sports, Arts, Culture and Recreation	Y	31-Aug-09	
15	Blue Catalyst Investment	N		Will be tabled as part of the public entity consolidation
16	Blue IQ Investment Holdings (Pty) Ltd	Y	01-Sep-09	
17	Constitutional Hill Development Company	N		Will be tabled as part of the public entity consolidation

No.	Name (department/constitutional institution/entity)	Tabled (Y/N)	Date tabled in legislature	The reason for annual report not tabled
18	Gauteng Economic Development Agency	Y	01-Sep-09	
19	Gauteng Enterprise Propeller	Y	01-Sep-09	
20	Gauteng Gambling Board	Y	01-Sep-09	
21	Gauteng Motorsport Company (Pty) Ltd	N		No reason furnished to date; to be followed up
22	Gauteng Partnership Fund (GPF)	Y	01-Sep-09	
23	Gauteng Tourism Authority	Y	01-Sep-09	
24	Greater Newtown Development Company	N		Will be tabled as part of the public entity consolidation
25	XHASA Accounting and Technical Centre	Y	07-Sep-09	
26	Emoyeni Trading Entity	Y	31-Aug-09	
27	Gauteng Film Commission	Y	01-Sep-09	
28	Gauteng Fund Project Office	Y	19-Oct-09	
29	Gauteng Housing Fund	Y	07-Sep-09	
30	Gauteng Kopanong Precinct	Y	31-Aug-09	
31	Gauteng Liquor Board	N		None provided; the MEC has been informed accordingly
32	Gauteng Medical Supplies Depot	Y	01-Sep-09	
33	g-Fleet Management	Y	31-Aug-09	
34	The Cost Recovery Trading Entity	Y	16-Sep-09	
35	Cradle of Humankind – World Heritage Site Trading Entity	Y	01-Sep-09	
36	Dinokeng Trading Entity	Y	01-Sep-09	
37	Impophoma Infrastructure Support Entity	Y	31-Aug-09	
38	Urban Transport Fund	Y	31-Aug-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 the 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 the 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 9: Performance audits conducted and expected dates of tabling of reports**

No.	Name of entity	Report description	Expected date of tabling
1	Transversal	Entities that are connected with government employees doing business with departments	May 2009
2	Department of Education	Investment in infrastructure	September 2009
3	Department of Health	Investment in infrastructure	September 2009
4	Department of Social Development	Performance audit on the management of transfer payments to non-profit organisations	October 2009

### 12.2 Investigations conducted

"Investigation" as contemplated in section 5(1)(d) of the PAA is defined as an independent and objective process where procedures are performed in accordance with guidelines issued by the AGSA to facilitate the investigation of financial misconduct, maladministration and impropriety, which may result in legal proceedings for adjudication and ensure probity in the accounts, financial statements and financial

management of an institution referred to in section 4(1) and 4(3) of the PAA. An investigation may be performed where the AGSA:

- (a) considers it to be in the public interest,
- (b) receives a complaint relating to such institution or its affairs, or
- (c) receives a request relating to such institution or its affairs, and
- (d) deems it appropriate.

This will result in a report (as contemplated in section 20 of the PAA) or a special report (as contemplated in section 29 of the PAA).

The expected dates of completion of investigations conducted by the AGSA are given in the table below.

**Table 10: Investigations conducted and expected dates of tabling of reports**

No.	Name of entity	Report description	Expected date of tabling
1	Gauteng Department of Health	Supply chain management process	November 2009

## ANNEXURES TO THE 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 entities' audit opinions and qualification findings

1b – Listing of entities with emphasis and other matters

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

**Annexure 3:** Listing of special purpose entities, linked to auditees, not consolidated and/or not audited by the AGSA

**Annexure 4:** Summaries of audit reports

4A – Provincial legislature

4B – Provincial departments

4C – Provincial public entities

4D – Provincial other entities

**Annexure 5:** Audit opinions for the past five years in alphabetical order

## ANNEXURE 1a: Listing of entities' audit opinions and qualification findings

No.	Classification	Department / Institution / Entity	Portfolio	Audit opinion: 2008-09	Audit opinion: 2007-08	Cash, cash equivalents and investments	Receivables	Inventory	Capital assets	Payables and borrowings	Provisions, contingencies 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
1	PD	Agriculture, Conservation and Environment	GP	Financially unqualified (with other matters)	Financially unqualified (with other matters)																
2	PPE	Blue Catalyst Investment	GP	Financially unqualified (with other matters)	Qualified																
3	PPE	Blue IQ Investment Holdings (Pty) Ltd	GP	Disclaimer	Disclaimer																
4	PD	Community Safety	GP	Financially unqualified (with other matters)	Financially unqualified (with other matters)																
5	PPE	Constitutional Hill Development Company	GP	Disclaimer	Disclaimer																
6	PD	Economic Development	GP	Qualified	Financially unqualified (with other matters)																
7	PD	Education	GP	Qualified	Qualified																
8	POE	Emoyeni Trading Entity	GP	Qualified	Financially unqualified (with other matters)																
9	PPE	Gauteng Economic Development Agency	GP	Financially unqualified (with no other matters)	Financially unqualified (with other matters)																
10	PPE	Gauteng Enterprise Propeller	GP	Qualified	Financially unqualified (with other matters)																
11	POE	Gauteng Film Commission	GP	Financially unqualified (with no other matters)	Financially unqualified (with other matters)																
12	POE	Gauteng Fund Project Office	GP	Qualified	Qualified																
13	PPE	Gauteng Gambling Board	GP	Financially unqualified (with no other matters)	Financially unqualified (with no other matters)																
14	POE	Gauteng Housing Fund	GP	Qualified	Qualified																
15	POE	Gauteng Kopanong Precinct	GP	Financially unqualified (with other matters)	Disclaimer																

## ANNEXURE 1a: Listing of entities' audit opinions and qualification findings (continued)

No.	Classification	Department / Institution / Entity	Portfolio	Audit opinion: 2008-09	Audit opinion: 2007-08	Cash, cash equivalents and investments	Receivables	Inventory	Capital assets	Payables and borrowings	Provisions, contingencies 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
16	POE	Gauteng Liquor Board	GP	Qualified	Qualified																
17	POE	Gauteng Medical Supplies Depot	GP	Financially unqualified (with other matters)	Financially unqualified (with no other matters)																
18	PPE	Gauteng Motorsport Company (Pty) Ltd	GP	Financially unqualified (with other matters)	New audit																
19	PPE	Gauteng Partnership Fund (GPF)	GP	Financially unqualified (with no other matters)	Financially unqualified (with other matters)																
20	PD	Gauteng Provincial Treasury	GP	Financially unqualified (with other matters)	Financially unqualified (with other matters)																
21	PD	Gauteng Shared Service Centre	GP	Financially unqualified (with other matters)	Financially unqualified (with other matters)																
22	PPE	Gauteng Tourism Authority	GP	Financially unqualified (with other matters)	Financially unqualified (with other matters)																
23	POE	g-Fleet Management	GP	Financially unqualified (with other matters)	Financially unqualified (with other matters)																
24	PPE	Greater Newtown Development Company	GP	Disclaimer	Disclaimer																
25	PD	Health	GP	Disclaimer	Qualified																
26	PD	Housing	GP	Qualified	Financially unqualified (with other matters)																
27	PD	Local Government	GP	Financially unqualified (with other matters)	Financially unqualified (with other matters)																
28	PD	Office of the Premier	GP	Financially unqualified (with other matters)	Financially unqualified (with other matters)																
29	PL	Provincial Legislature	GP	Financially unqualified (with other matters)	Financially unqualified (with other matters)																
30	PD	Public Transport, Roads and Works	GP	Financially unqualified (with other matters)	Financially unqualified (with other matters)																

## ANNEXURE 1a: Listing of entities' audit opinions and qualification findings (continued)

No.	Classification	Department / Institution / Entity	Portfolio	Audit opinion: 2008-09	Audit opinion: 2007-08	Cash, cash equivalents and investments	Receivables	Inventory	Capital assets	Payables and borrowings	Provisions, contingencies 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
31	PD	Social Development	GP	Financially unqualified (with other matters)	Financially unqualified (with other matters)																
32	PD	Sports, Arts, Culture and Recreation	GP	Financially unqualified (with other matters)	Financially unqualified (with other matters)																
33	POE	The Great Recovery Trading Entity	GP	Financially unqualified (with other matters)	Financially unqualified (with other matters)																
34	POE	The Cradle of Humankind - World Heritage Site Trading Entity	GP	Qualified	Financially unqualified (with no other matters)																
35	POE	The Dinokeng Trading Entity	GP	Qualified	Financially unqualified (with no other matters)																
36	POE	The Impophoma Infrastructure Support Entity	GP	Financially unqualified (with other matters)	Qualified																
37	POE	Urban Transport Fund	GP	Financially unqualified (with other matters)	Financially unqualified (with other matters)																
38	PPE	XHASA Accounting and Technical Centre	GP	Qualified	Financially unqualified (with other matters)																

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

No.	Classification	Department / Entity	Audit opinion: 2008-09	Audit opinion: 2007-08	Emphasis						Other matters					
					Financial sustainability	Material losses / impairments	Unauthorised expenditure	Fruitless and wasteful expenditure	Irregular expenditure	Material underspending of the budget	PFMA / Treasury	DORA	Supply chain management	Other enabling legislation	Material misstatements corrected	
1	PL	Provincial Legislature	Financially unqualified (with other matters)	Financially unqualified (with other matters)												
2	PD	Health	Disclaimer	Qualified												
3	PD	Economic Development	Qualified	Financially unqualified (with other matters)												
4	PD	Education	Qualified	Qualified												
5	PD	Housing	Qualified	Financially unqualified (with other matters)												
6	PD	Agriculture, Conservation and Environment	Financially unqualified (with other matters)	Financially unqualified (with no other matters)												
7	PD	Community Safety	Financially unqualified (with other matters)	Financially unqualified (with other matters)												
8	PD	Gauteng Provincial Treasury	Financially unqualified (with other matters)	Financially unqualified (with other matters)												
9	PD	Gauteng Shared Service Centre	Financially unqualified (with other matters)	Financially unqualified (with other matters)												
10	PD	Local Government	Financially unqualified (with other matters)	Financially unqualified (with other matters)												
11	PD	Office of the Premier	Financially unqualified (with other matters)	Financially unqualified (with other matters)												
12	PD	Public Transport, Roads and Works	Financially unqualified (with other matters)	Financially unqualified (with other matters)												
13	PD	Social Development	Financially unqualified (with other matters)	Financially unqualified (with other matters)												

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

Emphasis					Other matters										
No.	Classification	Department / Entity	Audit opinion: 2008-09	Audit opinion: 2007-08	Financial sustainability	Material losses / impairments	Unauthorised expenditure	Fruitless and wasteful expenditure	Irregular expenditure	Material underspending of the budget	PFMA / Treasury	DORA	Supply chain management	Other enabling legislation	Material misstatements corrected
14	PD	Sports, Arts, Culture and Recreation	Financially unqualified (with other matters)	Financially unqualified (with other matters)											
15	PPE	Blue IQ Investment Holdings (Pty) Ltd	Disclaimer	Qualified											
16	PPE	Constitutional Hill Development Company	Disclaimer	Disclaimer											
17	PPE	Greater Newtown Development Company	Disclaimer	Disclaimer											
18	PPE	Gauteng Enterprise Propeller	Qualified	Financially unqualified (with other matters)											
19	PPE	XHASA Accounting and Technical Centre	Qualified	Financially unqualified (with other matters)											
20	PPE	Blue Catalyst Investment	Financially unqualified (with other matters)	Qualified											
21	PPE	Gauteng Motorsport Company (Pty) Ltd	Financially unqualified (with other matters)	New audit											
22	PPE	Gauteng Tourism Authority	Financially unqualified (with other matters)	Financially unqualified (with other matters)											
23	PPE	Gauteng Economic Development Agency	Financially unqualified (with no other matters)	Financially unqualified (with other matters)											
24	PPE	Gauteng Gambling Board	Financially unqualified (with no other matters)	Financially unqualified (with no other matters)											
25	PPE	Gauteng Partnership Fund (GPF)	Financially unqualified (with no other matters)	Financially unqualified (with other matters)											



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

		Emphasis					Other matters								
No.	Classification	Department / Entity	Audit opinion: 2008-09	Audit opinion: 2007-08	Financial sustainability	Material losses / impairments	Unauthorised expenditure	Fruitless and wasteful expenditure	Irregular expenditure	Material underspending of the budget	PFMA / Treasury	DORA	Supply chain management	Other enabling legislation	Material misstatements corrected
26	POE	Emoyeni Trading Entity	Qualified	Financially unqualified (with other matters)											
27	POE	Gauteng Fund Project Office	Qualified	Qualified											
28	POE	Gauteng Housing Fund	Disclaimer	Qualified											
29	POE	Gauteng Liquor Board	Qualified	Disclaimer											
30	POE	The Cradle of Humankind - World Heritage Site Trading Entity	Qualified	Financially unqualified (with other matters)											
31	POE	The Dinokeng Trading Entity	Qualified	Financially unqualified (with other matters)											
32	POE	Gauteng Kopanong Precinct	Financially unqualified (with other matters)	Disclaimer											
33	POE	Gauteng Medical Supplies Depot	Financially unqualified (with other matters)	Financially unqualified (with other matters)											
34	POE	g-Fleet Management	Financially unqualified (with other matters)	Financially unqualified (with other matters)											
35	POE	The Cost Recovery Trading Entity	Financially unqualified (with no other matters)	Financially unqualified (with other matters)											
36	POE	The Impophoma Infrastructure Support Entity	Financially unqualified (with other matters)	Qualified											
37	POE	Urban Transport Fund	Financially unqualified (with no other matters)	Financially unqualified (with other matters)											
38	POE	Gauteng Film Commission	Financially unqualified (with no other matters)	Financially unqualified (with other matters)											

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

### Entities registering improved audit outcomes

No.	Department / Institution / Entity	Audit opinion: 2008-09	Audit opinion: 2007-08
1	Blue Catalyst Investment	Financially unqualified (with other matters)	Financially unqualified (with other matters)
2	Gauteng Economic Development Agency	Financially unqualified (with other matters)	Financially unqualified (with other matters)
3	Gauteng Partnership Fund (GPF)	Financially unqualified (with other matters)	Financially unqualified (with other matters)
4	Gauteng Film Commission	Financially unqualified (with other matters)	Financially unqualified (with other matters)
5	Gauteng Kopanong Precinct	Financially unqualified (with other matters)	Disclaimer
6	Gauteng Liquor Board	Financially unqualified (with other matters)	Disclaimer
7	The Impophoma Infrastructure Support Entity	Financially unqualified (with other matters)	Qualified

### Entities registering deteriorated audit outcomes

No.	Department / Institution / Entity	Audit opinion: 2008-09	Audit opinion: 2007-08
1	Agriculture, Conservation and Environment	Financially unqualified (with other matters)	Financially unqualified (with no other matters)
2	Economic Development	Qualified	Financially unqualified (with other matters)
3	Health	Disclaimer	Qualified
4	Housing	Qualified	Financially unqualified (with other matters)
5	Gauteng Enterprise Propeller	Qualified	Financially unqualified (with other matters)
6	XHASA Accounting and Technical Centre	Qualified	Financially unqualified (with other matters)
7	Emoyeni Trading Entity	Qualified	Financially unqualified (with other matters)
8	The Cradle of Humankind - World Heritage Site Trading Entity	Qualified	Financially unqualified (with no other matters)
9	The Dinokeng Trading Entity	Qualified	Financially unqualified (with no other matters)
10	Gauteng Medical Supplies Depot	Financially unqualified (with other matters)	Financially unqualified (with no other matters)

### **ANNEXURE 3:**

**Listing of special purpose entities, linked to auditees, not consolidated and/or not audited by the AGSA but that will be audited by the AGSA from the 2009-10 financial year**

<b>Department</b>	<b>Public entity linked to department</b>	<b>Subsidiary of public entity not audited</b>
		Innovation Hub (Pty) Ltd
Economic Development	Blue IQ Investment	Automotive Supplier Park Development Company (Pty) Ltd
		Automotive Industry Development Company (Pty) Ltd

## **ANNEXURE 4: AUDIT REPORT SUMMARIES**

### **ANNEXURE 4A – PROVINCIAL LEGISLATURE**

#### **GAUTENG PROVINCIAL LEGISLATURE**

##### **Financially unqualified (with other matters)**

##### **Other matters**

##### **Non-compliance with applicable legislation**

The accounting officer did not comply with section 38(1)(f) of the PFMA, read with Treasury Regulation 8.2.3, as payments due to creditors were not always settled within 30 days of receipt of invoices.

##### **Findings on performance information**

##### **Inconsistently reported performance information**

Certain programmes in the approved annual performance plan were not reported on.

##### **Reported performance information not relevant**

The target for a programme was not time bound in specifying the time period or deadline for delivery.

## **ANNEXURE 4B – PROVINCIAL DEPARTMENTS**

### **1. DEPARTMENT OF AGRICULTURE, CONSERVATION AND ENVIRONMENT**

#### **Financially unqualified (with other matters)**

##### **Other matters**

##### **Non-compliance with applicable legislation**

The accounting officer did not comply with section 38(1)(f) of the PFMA, read with Treasury Regulation 8.2.3, as payments due to the creditors were not always settled within 30 days of receipt of invoices.

##### **Findings on performance information**

##### **Lack of reporting on all predetermined objectives in the annual report**

The department did not report on all predetermined objectives as required by section 40(3)(a) of the PFMA.

##### **Inconsistently reported performance information**

The department did not report on its performance with regard to its objectives as per the approved strategic plan due to changes to the objectives from the approved strategic plan.

### **2. DEPARTMENT OF COMMUNITY SAFETY**

#### **Financially unqualified (with other matters)**

##### **Other matters**

##### **Unauthorised expenditure**

Unauthorised expenditure to the amount of R1 150 000 was incurred as the department overspent on voted funds in programme 2.

##### **Non-compliance with applicable legislation**

- Accruals that exceeded the payment terms of 30 days as required by Treasury Regulation 8.2.3 amounted to R1 735 000. This amount, in turn, exceeded the voted funds to be surrendered of R643 000 as per the statement of financial performance by R1 092 000, which would constitute unauthorised expenditure had the invoices been paid on time.
- Reporting in writing to the relevant treasury of discovered unauthorised expenditure was not done in accordance with section 38(1)(g) of the PFMA.

##### **Findings 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 has and maintains 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 not reliable**

Sufficient appropriate audit evidence in relation to the reported performance information of programme 4 could not be obtained, as the relevant source documentation could not be provided for audit purposes.

## **3. DEPARTMENT OF ECONOMIC DEVELOPMENT**

### **Basis for qualified opinion**

#### **Refundable deposits**

Sufficient appropriate audit evidence was not available for refundable deposits amounting to R4 477 000 due to the lack of proper record keeping.

#### **Commitments**

Sufficient appropriate audit evidence for the completeness of commitments of R472 625 000 was not available due to an ineffective contract management system. Furthermore, I was unable to confirm the existence of commitments of R8 760 739 due to a lack of supporting contracts.

#### **Accruals**

I was unable to obtain sufficient appropriate audit evidence for accruals of R21 228 000 due to an ineffective system for accruals.

### **Emphasis of matters**

#### **Unauthorised expenditure, irregular expenditure, and fruitless and wasteful expenditure**

- The guarantee of R55 000 000 provided by the department to a private company was settled in exchange for the department acquiring cumulative preference shares. Due to the company's financial position the investment by the department was impaired, resulting in fruitless and wasteful expenditure. The settlement of the guarantee was funded from the administration programme, which resulted in unauthorised expenditure as the expenditure was not in accordance with the purpose of the main division.
- The department appointed a consultant to provide services of the supply chain director in the financial management unit even though the position had already been filled. The expenditure of R426 372 was thus fruitless and wasteful.
- The department incurred irregular expenditure of R1 504 000 as a tender process was not followed.
- The department incurred unauthorised expenditure of R4 976 000 due to overspending on the approved capital and current expenditure budget.

## **Other matters**

### **Non-compliance with applicable legislation**

#### **Public Finance Management Act and Treasury Regulations**

- The department did not comply with section 67 of the PFMA as there were foreign currency liabilities to the value of R334 796 478.
- The accounting officer did not comply with section 38 of the PFMA read with Treasury Regulation 8.2.3 as payments due were not always paid within 30 days of receipt of invoice.

#### **Public Service Regulations, 2001**

No verification checks were performed before new appointments were finalised as required by the Public Service Regulations, chapter 1: general provisions, part vii, D.8.

#### **Exchange Control Regulations**

The department did not apply for approval from the South African Reserve Bank before entering into the contracts with a foreign supplier as required by section A.3(C)(ix) of the Exchange Control Regulations.

### **Findings on performance information**

#### **Non-compliance with regulatory requirements**

The accounting officer of the department did not prepare a strategic plan that was consistent with the period covered by the medium-term expenditure framework for approval by the relevant executive authority, as required by Treasury Regulation 5.1.1.

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

The accounting officer did not ensure that the department has and maintains 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.

## **4. DEPARTMENT OF EDUCATION**

### **Basis for qualified opinion**

#### **Immovable assets**

I was unable to obtain sufficient appropriate audit evidence for immovable assets of R18 584 429 000 due to the lack of proper record keeping.

The opening and closing balances in the financial statements did not agree with the fixed asset register due to monthly reconciliations between the fixed asset register and BAS not being performed.

I did not obtain sufficient audit evidence to establish the completeness and valuation of capital work-in-progress amounting to R478 246 000.

### **Employee benefits**

The department did not capture all leave forms, the calculation of the leave balances used to determine the leave entitlement was incorrect and the institution-based public servant leave days were carried over in excess of the required limit of five days according to the department's leave pay policy. Based on this, I did not obtain sufficient audit evidence to establish the completeness of leave transactions and valuations of leave entitlement amounting to R166 834 000.

### **Other allowances**

I did not obtain sufficient appropriate audit evidence and information to establish the accuracy of compensation and other allowances. Therefore I was also unable to verify supporting documents for compensation of employees. The department's records did not allow for alternative audit procedures.

### **Emphasis of matters**

#### **Unauthorised as well as fruitless and wasteful expenditure**

- Unauthorised expenditure to the amount of R330 961 000 was incurred on compensation of employees.
- Fruitless and wasteful expenditure to the amount of R7 156 346 was incurred due to lease premiums paid for unoccupied premises.

#### **Material underspending of the budget**

The department materially underspent the budget by R313 449 000 on programme 4, programme 5, programme 6, programme 7 and programme 8, resulting in performance objectives not being achieved.

### **Other matters**

#### **Non-compliance with applicable legislation**

#### **Public Finance Management Act and Treasury Regulations**

- The accounting officer did not comply with the following legislative requirements regarding the disciplinary hearing against an official:
  - § All reports, returns, notices and other information were not submitted to the relevant treasury and the Auditor-General, as required by section 40(1)(f) of the PFMA.
  - § Contrary to section 85(1)(a) and (e) of the PFMA, read with Treasury Regulation 4.3.4, a report was not submitted to the relevant treasury and the Auditor-General on the outcome of the disciplinary hearing.
- Contrary to section 38(1)(f) of the PFMA, read with Treasury Regulation 8.2.3, not all payments due to creditors were settled within 30 days of receipt of invoices. As at year-end, the total invoices not settled within the 30-day period amounted to R253 101 000.



- In terms of section 40(2) of the PFMA, the Auditor-General is required to submit an audit report on the financial statements to the accounting officer, within two months of receipt of the statements. Due to material adjustments to the financial statements and late submission of audit evidence, the reporting phase of the audit of the Department of Education was delayed.

## **5. GAUTENG PROVINCIAL TREASURY**

### **Financially unqualified (with other matters)**

#### **Other matters**

#### **Non-compliance with applicable legislation**

The accounting officer did not comply with section 38(1)(f) of the PFMA, read with Treasury Regulation 8.2.3, as payments due to creditors were not always settled within 30 days of receipt of invoices.

#### **Findings on performance information**

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

The accounting officer did not ensure that the Gauteng Treasury has and maintains 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) of the PFMA.

## **6. GAUTENG SHARED SERVICES CENTRE**

### **Financially unqualified (with other matters)**

#### **Emphasis of matters**

#### **Material underspending of the budget**

The budget of programmes 1 and 6 totalling R28 403 000 was materially underspent.

#### **Other matters**

#### **Non-compliance with applicable legislation**

The accounting officer did not comply with section 38(1)(f) of the PFMA, read with Treasury Regulation 8.2.3, as payments due to creditors were not always settled within 30 days of receipt of invoices.

#### **Findings on performance information**

#### **Inconsistently reported performance information**

Certain performance objectives as approved in the strategic plan were not reported on.

## **7. DEPARTMENT OF HEALTH**

### **Basis for disclaimer of opinion**

#### **Tangible assets**

- The tangible assets of R93 412 219 could not be physically verified. Furthermore, certain tangible assets were not recorded in the department's fixed asset register.
- The tangible assets in the department's fixed asset register reflected with a useful life and carrying value of either R1 or R0, were revalued. However, 2 170 tangible assets were still disclosed in the department's fixed asset register reflecting a carrying value of either R1 or R0. Furthermore, I was unable to support the revaluation of certain tangible assets amounting to R52 825 926.
- Minor and major assets were classified incorrectly and as a result I was unable to satisfy myself as to the allocation and valuation of minor and major assets valued at R180 905 and R23 640 236, respectively.

#### **Intangible assets**

The department did not recognise its computer software in the financial statements as required.

#### **Employee benefits**

- Leave entitlement amounting to R304 368 153 was not supported by appropriate audit evidence. Furthermore, there was no proper system to control that all leave records were valid, accurate and complete.
- Due to a lack of record keeping, I was unable to obtain sufficient appropriate audit evidence for housing loan guarantees of R60 985 000 issued on behalf of the department's employees.

#### **Irregular expenditure**

The department did not disclose irregular expenditure of R11 385 721 in the financial statements. The expenditure was irregular as competitive bids were not invited for goods and services that were not urgent or an emergency.

#### **Expenditure**

Due to a lack of record keeping, I was unable to obtain sufficient appropriate audit evidence to confirm the completeness, validity and accuracy of expenditure of R525 384 189 and if expenditure of R445 488 469 complied with section 38(1)(iii) of the PFMA.

#### **Commitments, lease commitments and accruals**

There was insufficient appropriate audit evidence for commitments of R7 130 843 000, lease commitments of R17 623 000 and accruals of R636 508 000 due to inadequate record keeping.

#### **Compensation of employees**

There was insufficient appropriate audit evidence for compensation of employees of R7 170 036 000 due to inadequate record keeping.

## **Emphasis of matters**

### **Unauthorised expenditure**

Unauthorised expenditure to the amount of R1 070 655 000 was incurred.

### **Irregular expenditure**

Irregular expenditure to the value of R1 950 359 was incurred as the procurement process was not followed appropriately for work performed by a contractor appointed by the Department of Public Transport, Roads and Works.

### **Fruitless and wasteful expenditure**

Fruitless and wasteful expenditure to the value of R2 199 489 was incurred for defective work performed on the construction of facilities by the Department of Public Transport, Roads and Works.

### **Material underspending of the budget**

The department materially underspent the budget on programme 3 and programme 8 of R49 654 000 and R220 965 000, respectively. Furthermore, the HIV and Aids conditional grant and the hospital revitalisation grants amounting to R68 175 000 and R35 552 000, respectively, were also underspent.

### **Occupation-specific dispensation**

- A contingent liability to the value of R1 000 000 was disclosed reflecting underpayments of amounts due to employees as a result of the implementation of the occupation-specific dispensation for nurses.
- A contingent asset to the value of R7 953 000 was disclosed reflecting overpayments made during the implementation of the occupation-specific dispensation for nurses.

### **Other matters**

### **Non-compliance with applicable legislation**

#### **Public Finance Management Act**

- The accounting officer did not report to the relevant treasury and the Auditor-General within 10 days on cases where goods and services above R1 million were procured in terms of Treasury Regulation 16A6.4 and National Treasury Practice Note 6 of 2007-08. Thirteen contracts with a total value of R38 865 750 were awarded without following the competitive bidding process and were not reported to the provincial treasury and the Auditor-General.
- Contrary to the requirements of section 38(1)(f) of the PFMA and Treasury Regulation 8.2.3, payments amounting to R636 508 000 were not effected within 30 days from the receipt of invoices. This amount, in turn, exceeded the voted funds to be surrendered/net surplus for the year by R407 424 000. Had the department paid the amounts due as required, an equivalent amount of unauthorised expenditure would have been incurred.
- In terms of Treasury Regulation 17.2, accounting officers of institutions must, subject to the provisions of the relevant national or provincial legislation, retain all financial information in its original form for a minimum period of five years. The department did not adequately maintain source documentation.

- The accounting officer of the department did not submit the 2007-08 annual report within five months of the end of the financial year to the relevant treasury and the executive authority responsible for that department or trading entity as required by section 40(1)(d) of the PFMA.
- Treasury Regulation 15.8.1 was not complied with as the surplus on voted funds for the prior year was only surrendered in March 2009.
- Treasury Regulation 16A6.3(e) was not complied with as SITA approval was not obtained for the new Health Information System (HIS).

## **Findings on performance information**

### **Usefulness and reliability of reported performance information**

#### **Reported performance information not reliable**

The strategic plan did not include aspects as required by Treasury Regulation 5.2.3.

## **OTHER REPORTS**

### **Performance audits**

A performance audit was conducted on the investment in infrastructure at the department and is ongoing.

### **Special audits**

As requested by SCOPA a special audit was conducted during the year under review concerning supply chain management deviations and ex post facto approvals. The report covered the period 1 April 2008 to 31 March 2009 and was ongoing at the date of this report.

## **8. DEPARTMENT OF HOUSING**

### **Basis for qualified opinion**

#### **Movable tangible capital assets**

Temporary relocation accommodation used for hostel residents of R39 319 473 was not accounted for and included in the fixed asset register.

### **Emphasis of matters**

#### **Unauthorised, irregular or fruitless and wasteful expenditure**

- The department overspent on compensation of employee costs by R25 157 000 contrary to Treasury Regulation 6.3.1, which resulted in irregular expenditure.
- Irregular expenditure of R6 615 928 was incurred as a proper tender process was not followed.

## **Other matters**

### **Non-compliance with applicable legislation**

- The accounting officer did not comply with section 38(1)(f) of the PFMA, read with Treasury Regulation 8.2.3, as payments due to creditors were not always settled within 30 days of receipt of invoices.
- Accruals that exceeded the payment terms of 30 days as detailed in Treasury Regulation 8.2.3 amounted to R254 019 000. This amount, in turn, exceeded the voted funds to be surrendered of R38 160 000 as per the statement of financial performance by R215 931 000, which would then constitute unauthorised expenditure should the invoices have been paid on time.
- The accounting officer did not report to the relevant treasury and the Auditor-General within 10 days on cases where goods and services above R1 million were procured in terms of Treasury Regulation 16A6.4 and National Treasury Practice Note 6 of 2007-08.
- The accounting officer did not comply with section 12(6) of DoRA as an evaluation of programmes or functions funded or partially funded by the allocation (grant) was not submitted to the national Department of Housing within two months after year-end.
- The funding for priority projects was exceeded by R89 million contrary to condition 3 of DoRA, which requires that only the lesser of 3% of the total grant allocation to the maximum of R50 million may be utilised.

### **Findings 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 has and maintains 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 by section 38(1)(a)(i) and (b) of the PFMA.

#### **Lack of reporting on all predetermined objectives in annual report**

The department did not report on all the predetermined objectives, as required by section 40(3)(a) of the PFMA and Treasury Regulations 5.2.4 and 18.3.1.

#### **No or inadequate quarterly reporting on performance information**

No quarterly reports on the progress in achieving measurable objectives and targets were 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**

- There were differences between the annual performance plan and the Gauteng Provincial Government Budget Statement of 2008-09.
- The department reported on objectives, indicators and targets in addition to those on the approved annual performance plan.

## **Reported performance information not reliable**

### **Incomplete reporting on all predetermined objectives, indicators and targets**

- The actual achievement of certain indicators and targets specified in the 2008-09 annual performance plan was not reported.
- The objectives reported in the annual performance report could not be linked to the annual performance plan.

### **Lack of source documentation**

The reported actual achievement of certain measures could not be substantiated by adequate audit evidence and source documentation.

### **Source information not accurate and complete**

The source information provided to support the reported performance information of certain programmes did not adequately support the accuracy and completeness as reported.

## **9. DEPARTMENT OF LOCAL GOVERNMENT**

### **Financially unqualified (with other matters)**

#### **Emphasis of matters**

#### **Unauthorised expenditure**

Unauthorised expenditure of R9 676 000 was incurred due to, amongst others, the xenophobic attacks on foreign nationals and unplanned support services to the Emfuleni Local Municipality.

#### **Other matters**

### **Non-compliance with applicable legislation**

#### **Gauteng Land Administration Act**

As reported in the previous financial years, the department did not fulfil its mandate assigned by the Premier of Gauteng in terms of the Gauteng Land Administration Act, 1996 (Act No. 11 of 1996) to maintain the land register on behalf of the Gauteng Provincial Government.

### **Findings on performance information**

#### **Reported performance information not relevant**

Certain targets of programmes were not:

- specific in clearly identifying the nature and the required level of performance
- measurable in identifying the required performance
- time bound in specifying the time period or deadline for delivery.

## **Reported performance information not reliable**

Sufficient appropriate audit evidence in relation to the reported performance information of certain programmes could not be obtained, as the relevant source documentation could not be provided for audit purposes.

### **10. OFFICE OF THE PREMIER**

#### **Financially unqualified (with other matters)**

##### **Emphasis of matters**

##### **Unauthorised expenditure**

Unauthorised expenditure of R10 619 000 was incurred due to the overspending on payment of goods and services for the Gauteng Youth Commission, which was transferred to the Office of the Premier, and the inauguration of the new Premier of Gauteng.

##### **Findings on performance information**

##### **Inconsistently reported performance information**

Certain programmes in the approved annual performance plan were not reported on.

##### **Reported performance information not relevant**

The target for a programme was not measurable in identifying the required performance.

### **11. DEPARTMENT OF PUBLIC TRANSPORT, ROADS AND WORKS**

#### **Financially unqualified (with other matters)**

##### **Emphasis of matters**

##### **Loss of revenue**

Loss of revenue to the amount of R22 895 000 was incurred due to the fact that market-related rental was not charged to the tenants as required by Treasury Regulation 16A7.4.

##### **Irregular expenditure**

The following irregular expenditure was incurred by the department:

- An amount of R190 455 000 was incurred, as a proper tender process was not followed for procurement of capital expenditure and consultancy services.
- An amount of R6 775 000 was incurred, as the employee costs paid exceeded the budgeted funds.

## **Fruitless and wasteful expenditure**

The following fruitless and wasteful expenditure was incurred by the department:

- An amount of R4 361 000 was incurred due to interest charged to the department for utilising the funds allocated to bus operators to cover their own expenses.
- An amount of R21 000 was incurred by the GMA, due to VAT paid on an exempt supply.
- An amount of R9 376 000 was incurred on a project that was managed on behalf of the Department of Health. As at the date of this report the Department of Health had not yet paid the claim and therefore the amount receivable from the Department of Health was provided for as potentially irrecoverable.

## **Other matters**

### **Non-compliance with applicable legislation**

#### **Public Finance Management Act**

- Treasury Regulation 8.2.3 requires that, unless determined otherwise in a contract or other agreement, all payments due to creditors must be settled within 30 days from receipt of an invoice. Invoices were not always settled within 30 days. In addition, the department had accruals amounting to R2 204 006 000 that had been outstanding for longer than 30 days which would have contributed to the increase in unauthorised expenditure had they been settled within 30 days.
- The accounting officer did not report to the relevant treasury and the Auditor-General within 10 days on cases where goods and services above R1 million were procured in terms of Treasury Regulation 16A6.4 and National Treasury Practice Note 6 of 2007-08. Procurement amounted to R827 794 000.
- Section 66(4) stipulates that a provincial public entity may not borrow money. The GMA obtained an advance to the amount of R150 000 in January 2009 from a consultant contracted by the GMA. The money was used to pay for GMA expenses.
- The department did not certify the pay point certificates. This is in contravention of Treasury Regulation 8.3.4.

#### **Public Service Regulations**

Contrary to the PSR, chapter I, part VIII/F, the department spent more than 1,5% of their annual remuneration budget on financial performance incentive schemes. The approved limit was exceeded by R2 453 000.

## **12. DEPARTMENT OF SOCIAL DEVELOPMENT**

### **Financially unqualified (with other matters)**

#### **Emphasis of matters**

#### **Unauthorised expenditure**

Unauthorised expenditure totalling R7 491 000 was incurred in programmes 1 and 2.





## **Receivables**

A provision for social grant receivables of R47 299 000 (2007-08: R68 122 000) was raised as the department commenced with a process of evaluating debtors with the intention to write off where recovery was not possible. As at the financial year-end, the process had not been completed and an estimated number of 18 792 debtor files were still to be reviewed.

## **Fruitless and wasteful expenditure**

Fruitless and wasteful expenditure to the value of R2 318 012 was incurred for defective work performed on the construction of facilities by the Department of Public Transport, Roads and Works.

## **Other matters**

### **Non-compliance with applicable legislation**

#### **Public Finance Management Act and Treasury Regulations**

Treasury Regulation 8.2.3 provides that unless determined otherwise in a contract or other agreement, all payments due to creditors must be settled within 30 days from receipt of an invoice. The department did not always settle creditors within 30 days as required.

#### **Public Service Regulations, 2001**

- There was no approved overtime policy as required by chapter 1, part V, D5 of the PSR.
- There was no approved special leave policy as required by the Department of Public Service and Administration (DPSA) Circular 17/6/P, dated 8 July 2008, special leave, paragraph 23.1.
- The department did not comply with chapter 1, part VII B.1 (g) of the PSR which states that an executing authority shall ensure that each employee upon appointment, is provided with a written contract of employment, including the terms and conditions of his or her service. Employees on levels 1 to 12 did not have employment contracts.

## **Findings on performance information**

### **Non-compliance with regulatory requirements**

The accounting officer did not ensure that the department has and maintains 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 by section 38(1)(a)(i) and (b) of the PFMA. During the financial year, the department did not have internal policies and procedures that related to the system for the collation, verification and review of actual outputs relating to performance information.

### **Inconsistently reported performance information and lack of appropriate source documentation**

The supporting documentation for the measurable objectives in programme 2 (social welfare services) could not be agreed to the total reported actual outputs in the annual report.

## **Other reports**

### **Performance audit**

The performance audit on the management of transfer payments to non-profit organisations related to the financial years 2006-07 and 2007-08 was ongoing.

### **13. DEPARTMENT OF SPORT, ARTS, CULTURE AND RECREATION**

#### **Financially unqualified (with other matters)**

##### **Emphasis of matters**

##### **Material underspending of the budget**

The department materially underspent the budget on programme 1, programme 2, programme 3 and programme 4 by R18 422 000. As a consequence, the department did not achieve certain of its objectives.

##### **Irregular expenditure**

Irregular expenditure to the amount of R267 329 was incurred as Treasury Regulation 16A6.4 had not been followed.

##### **Other matters**

##### **Non-compliance with applicable legislation**

##### **Public Finance Management Act**

The accounting officer did not comply with section 38(1)(f) of the PFMA and Treasury Regulation 8.2.3 since payments due to creditors were not always settled within 30 days from the receipt of invoices.

##### **Findings on performance information**

##### **Non-compliance with regulatory requirements**

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

The accounting officer did not ensure that the department has and maintains 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.

##### **Inconsistently reported performance information**

The department did not report on its performance with regard to its objectives as per the approved strategic plan.

##### **Reported performance information not reliable**

##### **Lack of source documentation**

The reported actual achievement of indicators could not be substantiated by adequate evidence and source documentation.

## **ANNEXURE 4C – PROVINCIAL PUBLIC ENTITIES**

### **1. BLUE CATALYST INVESTMENT (PTY) LTD**

#### **Financially unqualified (with other matters)**

##### **Emphasis of matters**

##### **Going concern**

The entity incurred a net deficit of R2 622 000 during the year ended 31 March 2009. The accounting authority took a decision on 8 April 2009 to wind down Blue Catalyst subject to the final approval of the MEC.

##### **Unauthorised, irregular as well as fruitless and wasteful expenditure**

- Unauthorised expenditure of R384 265 was incurred as a result of the expenditure of the entity exceeding the approved budget.
- Irregular expenditure of R36 518 000 was incurred, as a proper tender process was not followed. Of this amount R22 627 000 was incurred after the board resolved not to continue with certain projects. An amount of R5 668 000 was incurred as a result of a guarantee that was called by the bank that was issued without the approval of the MEC for Finance and not authorised by a notice in the national Government Gazette. This guarantee expired in June 2008 and was subsequently renewed without the necessary approval.
- Fruitless and wasteful expenditure amounting to R647 000 was incurred, representing mainly interest and penalties from late payments.

##### **Other matters**

##### **Non-compliance with applicable legislation**

##### **PFMA and Treasury Regulations**

- The National Treasury was not informed on the formation of the Blue Cat Matching Fund Trust, as required by section 54(2) of the PFMA. This matter was reported in the previous year; however, at the date of this report, application for approval to depart from the PFMA requirements had not yet been submitted to the National Treasury.
- The subsidiary's entity, Blue Catalyst, did not establish procedures for quarterly reporting to the executive authority in order to facilitate effective performance evaluation action where necessary for its subsidiary Genesis Fitness, as required by Treasury Regulation 29.3.1.
- Blue Catalyst operated for the biggest part of the financial year without an approved investment policy as required by Treasury Regulation 31.3. The investment policy was only approved in February 2009.

##### **Value-Added Tax Act**

No VAT returns as required by the VAT Act were submitted to the South African Revenue Service.

## **Financial Advisory and Intermediary Act**

Blue Catalyst did not submit its financial statements for 2007-08 to the Financial Services Board within six months after year-end as required by section 19 of the FAIS Act.

## **Companies Act and King Code of Corporate Governance**

- Minutes of meetings were not signed as evidence of approval by the chairman of the meeting as required by section 24(2) of the Companies Act.
- The chief executive officer of Blue Catalyst approved the formation of Adlevo Private Equity Fund of SA in which he had a personal interest contrary to section 92 of the Companies Act.

## **Findings on performance information**

### **Non-compliance with regulatory requirements**

#### **Submission of strategic performance plan**

The accounting authority did not submit the proposed strategic plan at least six months before the start of the financial year to the designated department, or another period as agreed to between the executive authority and the public entity, as required by Treasury Regulation 30.1.1.

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

The accounting authority did not ensure that the entities of the group have and maintain an effective, efficient and transparent system and internal controls regarding performance management, which describe and represent how the entities' 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.

#### **Inadequate quarterly reporting on performance information**

Quarterly reports did not track progress against outputs, indicators and targets as per the approved strategic performance plan and therefore did not facilitate effective performance monitoring and evaluation, as required by Treasury Regulation 30.2.1.

#### **Lack of appropriate information systems generating performance information**

The information system used for generating performance information was not appropriate to facilitate the preparation of accurate and complete actual performance information.

## **2. BLUE IQ INVESTMENT HOLDINGS (PTY) LTD**

### **Basis for disclaimer of opinion**

#### **Consolidation**

The consolidated financial statements of the Blue IQ Investment Holdings (Pty) Ltd group included the audited financial statements of the subsidiary Blue Catalyst Investments (Pty) Ltd but excluded its three

subsidiaries, i.e. Blue Catalyst Matching Trust, Genesis Fitness (Pty) Ltd and Vinberry Investments (Pty) Ltd, due to the subsidiaries' financial statements not being submitted for audit purposes and consolidated into the group financial statements as required by IAS 27 (AC 132).

## **Revenue**

There was no system of control over collecting and recording revenue of R9 259 323 as well as supporting documentation.

## **Other income**

- Management was unable to provide evidence that the recognised income of R17 263 078 complied with the revenue recognition criteria as stated in the South African Statement of Generally Accepted Accounting Practice, IAS 18 *Revenue* and IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* arising from the write-off of project funds liabilities.
- Management recognised an amount of R1,8 million as revenue due from the shareholders with respect to their contribution towards operating costs. There was no shareholder agreement stipulating the terms and conditions of this recovery.
- At the date of this report, management was in the process of performing additional procedures to determine the validity of the transactions that could not be substantiated and started consultations with the provincial treasury to seek guidance in terms of section 76(2)(h) of the PFMA.

## **Project funds**

There was no appropriate audit evidence to support the project funding liabilities and project funding work in progress amounting to R75 963 285 and R58 707 617, respectively.

## **Investment property**

There was no sufficient appropriate audit evidence for investment property of R47 584 473 included in the financial statements. Furthermore, an adjustment of R53 473 265 was made in the 2008-09 financial year relating to the 2007-08 financial year that was not supported by appropriate and sufficient audit evidence.

## **Property, plant and equipment**

The improvements to investment property of R7 322 079 were incorrectly classified as property, plant and equipment. The South African Statement of Generally Accepted Accounting Practice, IAS 40 (AC 135) *Investment Property* requires the improvements to be classified with the related investment property as they were used to earn rentals, resulting in an overstatement of property, plant and equipment and an understatement of investment property. Furthermore, no management assumptions were provided in determining the method of impairment of property, plant and equipment of R7 322 079.

## **Value-added tax**

I was unable to verify the VAT payable which was disclosed in the financial statements as a VAT receivable of R10 707 911, which was written off in the previous financial year without following the write-off policy and documentation to support the write-off.

## **Going concern**

There was an accumulated loss of R123 800 483 for the year ended 31 March 2009 and, as of that date, the entity's total liabilities, including equity loans, exceeded its total assets by R123 800 383. These conditions indicated the existence of a material uncertainty that may cast significant doubt on the entity's ability to continue as a going concern.

## **Emphasis of matters**

### **Significant uncertainty**

An amount of R2 608 000 was paid to a senior official as a settlement for the termination of service. Subsequent to year-end, a case was brought against Blue IQ regarding this matter and the outcome was unknown at the date of this report.

### **Irregular as well as fruitless and wasteful expenditure**

- Irregular expenditure of R36 518 000 was incurred as a proper tender process was not followed. Of this amount R22 627 000 was incurred after the board resolved not to continue with certain projects. An amount of R5 668 000 was incurred as a result of a guarantee that was called by the bank and that was issued without the approval of the MEC for Finance and not authorised by a notice in the national Government Gazette. This guarantee expired in June 2008 and was subsequently renewed without the necessary approval.
- Fruitless and wasteful expenditure amounting to R3 565 000, representing mainly interest and penalties from late payments of VAT and income tax to the South African Revenue Service, was incurred.

## **Other matters**

### **Non-compliance with applicable legislation**

#### **Public Finance Management Act and Treasury Regulations**

- The accounting authority did not comply with the requirements of section 51(1)(g) of the PFMA as it did not promptly inform the National Treasury of its intention to establish the Gauteng Motorsport Company (Pty) Ltd and did not allow the National Treasury reasonable time to submit its decision prior to the formal establishment. The MEC only informed the National Treasury of this fact after the entity had resumed its trading operations.
- The National Treasury was not informed of the formation of the Blue Cat Matching Fund Trust, as required by section 54(2) of the PFMA. This matter was reported in the previous year; however, at the date of this report, application for approval to depart from the PFMA requirements had not yet been submitted to the National Treasury.
- Four of the subsidiary entities did not perform the risk assessment evaluation for the year under review as required by section 51(a)(ii) of the PFMA.
- Two of the subsidiary entities did not prepare reconciliations of accounts as required by section 51(a)(i) of the PFMA.
- Two of the subsidiary entities submitted VAT returns to the South African Revenue Service that were not accurate, resulting in non-compliance with section 51(1)(d) of the PFMA.
- The subsidiary entity, Blue Catalyst, did not establish procedures for quarterly reporting to the

executive authority in order to facilitate effective performance evaluation action where necessary for its subsidiary Genesis Fitness, as required by Treasury Regulation 29.3.1.

- Blue Catalyst operated for the biggest part of the financial year without an approved investment policy as required by Treasury Regulation 31.3. The investment policy was only approved in February.

### **Value-Added Tax Act**

Two of the subsidiary entities were registered as VAT vendors in terms of the VAT Act. However, no VAT returns as required by the VAT Act were submitted to the South African Revenue Service.

### **Income Tax Act**

- The Income Tax Act requires that all qualifying employers be registered for standard income tax on employees (SITE) and pay as you earn (PAYE). The holding company did not deduct an accurate amount for PAYE and SITE from certain of its employees. One of the subsidiary entities did not register for PAYE and SITE, although deducting from employees' salary. The amount was not paid to the South African Revenue Service.
- Two of the subsidiary entities were registered for income tax, but they did not submit returns for 2006-07 and 2007-08 as required by the Income Tax Act.

## **Findings on performance information**

### **Non-compliance with regulatory requirements**

#### **Submission of strategic performance plan**

Five of the entities in the group did not submit the proposed strategic plan at least six months before the beginning of the financial year to the designated department, or another period as agreed to between the executive authority and the public entity, as required by Treasury Regulation 30.1.1.

#### **Lack of reporting on all predetermined objectives in the annual report**

The holding company did not report on all the predetermined objectives, as required by section 55(2)(a) of the PFMA, e.g. improve secretariat services to subsidiary companies.

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

The accounting authority did not ensure that the entities of the group have and maintain an effective, efficient and transparent system and internal controls regarding performance management, which describe and represent how the entities' 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.

#### **No/Inadequate quarterly reporting on performance information**

No quarterly reports were prepared for three entities in the group and the quarterly reports of one entity did not track progress against outputs, indicators and targets as per the approved strategic performance plan and therefore did not facilitate effective performance monitoring and evaluation, as required by Treasury Regulation 30.2.1.

## **Lack of appropriate information systems generating performance information**

The information system used for generating performance information was not appropriate to facilitate the preparation of accurate and complete actual performance information.

### **3. CONSTITUTION HILL DEVELOPMENT COMPANY (PROPRIETARY) LIMITED**

#### **Basis for disclaimer of opinion**

##### **Revenue**

There was no system of control over the collection and recording of revenue of R1 450 271 as well as supporting documentation on which I could rely for the purpose of my audit.

##### **Other income**

- I was unable to satisfy myself as to the completeness and accuracy of revenue of R10 373 328 included in other income as presented in the statement of financial performance, which resulted from the write-off of deferred government grants which management could not substantiate due to a lack of supporting documents. Furthermore, management was unable to provide evidence that the income recognised complied with the revenue recognition criteria as stated in the South African Statement of Generally Accepted Accounting Practice, IAS 18 Revenue and IAS 20 Accounting for Government Grants and Disclosure of Government Assistance.
- An amount of R2 459 858, which was derived from writing off project funding liabilities of R48 676 250 against project funding work in progress of R46 216 392, was recognised in the income statement. Due to a lack of supporting documentation, management was not able to substantiate the validity of these transactions.
- Management recognised an amount of R1 800 000 as revenue due from the shareholder for the shareholder's contribution towards operating costs. The accuracy and completeness of this revenue could not be confirmed due to a lack of a shareholder agreement stipulating the terms and conditions of this recovery.
- At the date of this report, management was in the process of performing additional procedures to determine the validity of these transactions that could not be substantiated and already started consultations with the provincial treasury to seek guidance in terms of section 76(2)(h) of the PFMA.

##### **Project funds**

As reported in the previous financial year, due to a lack of supporting documents, management was unable to support the project funding liabilities and project funding work in progress amounting to R59 049 578 and R46 216 392, respectively.

##### **Investment property**

- An adjustment leading to a decrease in investment property of R53 473 265 made in the 2007-08 financial year was discovered for which there were no supporting documents. Consequently, I was unable to obtain sufficient appropriate audit evidence as to the valuation and completeness of investment property of R315 912 763.
- As reported in the previous year, I was unable to confirm the valuation of investment property. Although management initiated a process to source the necessary documents in order to accurately



determine the valuation of investment property, an amount of R1 007 783 could still not be supported.

### **Value-added tax**

I was unable to verify the completeness, rights and valuation of the VAT payable, which was disclosed in note 9 to the financial statements:

- As reported in the prior year, a VAT receivable of R10 707 911 was written off without following the write-off policy as required by the Treasury Regulations. In addition, no supporting documentation could be provided to substantiate the write-off, therefore the valuation and completeness of the VAT balance could not be confirmed.
- Variances were noted between the amounts per the general ledger and the amounts as per the VAT returns (VAT 201) amounting to R374 365 for output tax.

### **Emphasis of matters**

#### **Going concern**

The entity had an accumulated loss of R105 867 851 for the year ended 31 March 2009 and, as of that date, the entity's total liabilities, including equity loans, exceeded its total assets by R105 867 851.

#### **Fruitless and wasteful expenditure**

Fruitless and wasteful expenditure amounting to R5 358 was incurred, representing interest and penalties on the late payment of VAT.

#### **Irregular expenditure**

Irregular expenditure of R1 662 239 was incurred, as a proper tender process had not been followed.

### **Non-compliance with applicable legislation**

#### **Public Finance Management Act and Treasury Regulations**

- The entity did not perform the risk assessment process for the year under review as required by section 51(a)(ii) of the PFMA.
- The entity did not prepare reconciliations of accounts as required by section 51(a)(i) of the PFMA.
- The entity submitted VAT returns to the South African Revenue Service that were not accurate, resulting in non-compliance with section 51(1)(d) of the PFMA which requires that the entity must comply with any tax, levy, duty, pension and audit commitments as required by legislation.
- There was no assessment by the audit committee of internal controls and internal audit as required by Treasury Regulation 27.1.8(a) and (b).
- Not all quarterly reports for the financial year were prepared as required by Treasury Regulation 26.1.1.
- Bank reconciliations were not prepared on a weekly basis as required by Treasury Regulation 31.1.2 (j).
- The entity did not report on cash management performance, at least on a monthly basis, as required by Treasury Regulation 31.1.3.

- The entity did not comply with Treasury Regulation 30.1.1 as its business plan was submitted late for approval by the executive authority.
- The entity did not have materiality and significance framework documentation for a significant part of the year as required by Treasury Regulation 28.3.1 and sections 55(2) and 54(2) of the PFMA.

### **Income Tax Act**

The company was registered for income tax, but did not submit returns for the 2006-07 and 2007-08 tax years.

### **Findings on performance information**

#### **Non-compliance with regulatory requirements**

##### **No reporting of performance information**

The entity did not report performance against predetermined objectives, as required by section 55(2)(a) of the PFMA.

##### **No annual performance plan**

The accounting authority did not submit to the accounting officer of a department designated by the executive authority responsible for the public entity and to the National Treasury, at least one month as agreed with the National Treasury – before the start of the financial year, a corporate plan in the prescribed format, as required by section 52 of the PFMA.

##### **Submission of business plan**

The accounting authority did not submit the proposed strategic plan at least six months before the start of the financial year, or another period as agreed to between the executive authority and the public entity, as required by Treasury Regulation 30.1.1.

##### **Lack of reporting on all predetermined objectives in annual report**

The entity did not report on the predetermined objectives, as required by Treasury Regulation 28.2.2.

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

The accounting authority did not ensure that the entity has and maintains 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.

##### **No quarterly reporting on performance information**

No quarterly reports on the progress in achieving measurable objectives and targets were prepared by the entity to facilitate effective performance monitoring, evaluation and corrective action, as required by section 55(2)(a) of the PFMA.

#### **4. GAUTENG ECONOMIC DEVELOPMENT AGENCY**

##### **Financially unqualified (with no other matters)**

##### **Findings on performance information**

##### **Non-compliance with regulatory requirements**

##### **No strategic plan**

The accounting authority did not submit the proposed strategic plan at least six months before the start of the financial year to the designated department, or another period as agreed to between the executive authority and the public entity, as required by Treasury Regulation 30.1.

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

The accounting officer did not ensure that the entity has and maintains 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 55(2)(a) of the PFMA.

##### **Inconsistently reported performance information**

There were no explanations for variances between the planned and reported objectives.

#### **5. GAUTENG ENTERPRISE PROPELLER**

##### **Basis for qualified opinion**

##### **Accounts receivable**

There was no sufficient and appropriate audit evidence for the provision for bad debts as the entity did not recognise provisions in accordance with the SA Statements of GAAP, IAS 39, due to a lack of information on the process followed to identify impairments of the individually significant trade and support loan debtors.

##### **Emphasis of matters**

##### **Irregular or fruitless and wasteful expenditure**

- Irregular expenditure to the amount of R2 772 330 was incurred as a tender process was not followed.
- Fruitless and wasteful expenditure to the amount of R22 328 was incurred as a result of interest and penalties incurred for a subsequently cancelled trip.

## **Findings on performance information**

### **Non-compliance with regulatory requirements**

#### **Submission of strategic performance plan**

The accounting authority of the entity did not submit the proposed strategic plan at least six months before the start of the financial year to the designated department, or another period as agreed to between the executive authority and the public entity, as required by Treasury Regulation 30.1.1.

#### **Lack of reporting on all predetermined objectives in annual report**

The Gauteng Enterprise Propeller did not report on all the predetermined objectives, as required by section 55(2)(a) of the PFMA.

#### **Inconsistently reported performance information**

Objectives, indicators and targets reported in the annual performance report were materially different from predetermined objectives, indicators and targets as per the strategic plan.

## **6. GAUTENG GAMBLING BOARD**

### **Financially unqualified (with no other matters)**

## **7. GAUTENG MOTORSPORT COMPANY (PROPRIETARY) LIMITED**

### **Financially unqualified (with other matters)**

#### **Emphasis of matters**

#### **Going concern**

The entity's future operations were dependent on the signing of the cession agreement with the Gauteng Department of Economic Development. These conditions, along with other matters as set forth in the directors' report, indicated the existence of a material uncertainty that may cast significant doubt on the entity's ability to continue as a going concern.

#### **Irregular expenditure incurred**

Irregular expenditure to the amount of R88 000 was incurred, as the appropriate procurement processes were not followed.

#### **Other matters**

### **Non-compliance with applicable legislation**

#### **Public Finance Management Act**

- The accounting authority did not comply with the requirements of section 51(1)(g) as it did not promptly inform the National Treasury of its intention to establish the entity and did not allow the

National Treasury reasonable time to submit its decision prior to the formal establishment. The MEC only informed the National Treasury of this fact after the entity had resumed its trading operations.

- The accounting authority did not comply with section 67 of the PFMA as at year-end it had a foreign future commitment of 27 750 without having received permission from the National Treasury.

### **Companies Act**

- The directors' register was not updated and lodged with the Registrar of Companies regarding the appointment and resignation of directors of the Gauteng Motorsport Company.
- The year-end of the company was recorded as 28 February, instead of 31 March.
- A register of directors' and officers' interests in contracts with the entity was not maintained, as required by section 240 of the Companies Act.

### **Value-Added Tax Act**

The entity was registered as a VAT vendor in terms of the VAT Act but did not submit VAT returns as required.

### **Income Tax Act**

The Income Tax Act requires that all qualifying employers should be registered for SITE and PAYE. The entity did not register for PAYE and SITE, but deducted taxes from its employees without paying it over to the South African Revenue Service.

### **Findings on performance information**

#### **Non-compliance with regulatory requirements**

##### **No reporting of performance information**

The entity did not report performance against predetermined objectives, as required by section 52 of the PFMA or, where reported, there were shortcomings.

##### **No corporate performance plan**

The accounting authority did not submit to the accounting officer of a department designated by the executive authority responsible for the public entity and to the provincial treasury, at least one month – or another period agreed with the provincial treasury – before the start of the financial year, a corporate plan in the prescribed format, as required by section 52 of the PFMA.

## **8. GAUTENG PARTNERSHIP FUND**

### **Financially unqualified (with no other matters)**

## **9. GAUTENG TOURISM AUTHORITY**

### **Financially unqualified (with other matters)**

#### **Other matters**

#### **Non-compliance with applicable legislation**

##### **Gauteng Tourism Act**

As per section 1(2) of the Gauteng Tourism Act, 2001, the authority must spend at least 33% of the funds allocated in terms of section 15. This also represented non-compliance with section 14 of the act, as only 25% of the total subsidy received was spent.

#### **Findings on performance information**

#### **Non-compliance with applicable legislation**

##### **Public Finance Management Act**

The accounting authority did not ensure that the Gauteng Tourism Authority has and maintains 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, review and reporting will be conducted, organised and managed, as required in terms of section 51(1)(a)(i) of the PFMA.

#### **Reported performance information not reliable**

##### **Lack of source documentation**

The source information or evidence provided to support the reported performance information with regard to the international arrivals and bed nights as well as domestic overnight trips and bed nights, which was received from SA Tourism and Statistics South Africa, did not always adequately support the accuracy and completeness of the facts.

## **10. GREATER NEWTOWN DEVELOPMENT COMPANY (PROPRIETARY) LIMITED**

### **Basis for disclaimer of opinion**

#### **Revenue**

There was no system of control over the collection and recording of revenue of R7 809 052 as well as supporting documentation.

#### **Other income**

I was unable to satisfy myself by alternative procedures regarding the completeness and accuracy of other income of R4 429 892 as presented in the statement of financial position.

## **Project funds**

As reported in the previous financial year, due to a lack of supporting documents, management was unable to support the project funding work in progress and project funding liabilities amounting to R12 491 225 and R16 913 707, respectively.

## **Investment property**

I was unable to verify the completeness and the valuation of investment property of R46 576 690 as management could not provide supporting evidence to verify investment properties.

## **Property, plant and equipment**

- Improvements to investment property to the value of R7 322 079 were incorrectly classified as property, plant and equipment. The South African Statement of Generally Accepted Accounting Practice, IAS 40 (AC 135) *Investment Property* requires such property to be classified as investment property as it was used to earn rentals.
- The occurrence of the impairment of property, plant and equipment amounting to R7 322 079 could not be verified as I was unable to confirm management's assumptions considered in determining the impairment. Furthermore, the properties impaired were still generating revenue.

## **Going concern**

The entity had an accumulated loss of R123 800 483 in the year ended 31 March 2009 and, as of that date, the entity's total liabilities, including equity loans, exceeded its total assets by R123 800 383. These conditions indicated the existence of a material uncertainty that may cast significant doubt on the entity's ability to continue as a going concern.

## **Emphasis of matters**

### **Fruitless and wasteful expenditure**

As detailed in the financial statements, fruitless and wasteful expenditure amounting to R30 695 was incurred, being interest and penalties on the late payment of VAT.

## **Other matters**

### **Non-compliance with applicable legislation**

#### **Public Finance Management Act and Treasury Regulations**

- The entity did not perform the risk assessment evaluation for the year under review as required by section 51(a)(ii) of the PFMA.
- The entity did not prepare reconciliations of accounts as required by section 51(a)(i) of the PFMA.
- The entity submitted VAT returns to the South African Revenue Service that were not accurate, resulting in non-compliance with section 51(1)(d) of the PFMA which requires that the entity must comply with any tax, levy, duty, pension and audit commitments as required by legislation.
- There was no assessment by the audit committee of internal controls and internal audit as required by Treasury Regulation 27.1.8(a) and (b).

- Not all quarterly reports for the financial year were prepared as required by Treasury Regulation 26.1.1.
- Bank reconciliations were not prepared on a weekly basis as required by Treasury Regulation 31.1.2 (j).
- The entity did not report on cash management performance, at least on a monthly basis, as required by Treasury Regulation 31.1.3.
- The entity did not comply with Treasury Regulation 30.1.1 as its business plan was submitted late for approval by the executive authority.
- The entity did not have materiality and significance framework documentation for a significant part of the year as required by Treasury Regulation 28.3.1 and sections 55(2) and 54(2) of the PFMA.

### **Income Tax Act**

Although the company was registered for income tax, no returns for the 2007 and 2008 tax years were submitted.

## **11. XHASA ATC**

### **Basis for qualified opinion**

#### **Contingent liabilities**

There was no disclosure of material contingent liabilities amounting to R3 313 043 in the financial statements.

#### **Provisions and trade and other receivables**

Included in provisions was an amount of R1 329 289 relating to the impairment of a debtor.

#### **Revenue and operating expenditure**

The disclosure of expenditure re-charged to the Gauteng Department of Housing of R909 506 was omitted in the financial statements. Furthermore, revenue and operating expenses were understated by R592 024, as deferred income was not transferred to the statement of financial performance.

#### **Fruitless and wasteful expenditure**

The entity did not disclose fruitless and wasteful expenditure incurred as a result of the late payment of income tax amounting R778 916 in the financial statements.

### **Directors' report**

The annual financial statements did not contain a report of the directors as required by the Companies Act of South Africa.



## **Emphasis of matters**

### **Going concern**

The entity is in the process of a creditors liquidation in terms of section 349 of the Companies Act of South Africa and was placed under liquidation on 24 February 2009. During the financial year the company transferred its operations to the Gauteng Department of Housing at net book value, providing dedicated strategic and administrative support to other housing initiatives.

### **Other matters**

### **Non-compliance with applicable legislation**

#### **Companies Act**

- The company did not maintain signed minutes and resolutions of the proceedings at meetings as required by sections 242 and 245 of the Companies Act.
- The company register was not available for auditing and the latest required company forms on file as required by the registrar were outdated and thus not in compliance with section 215 of the Companies Act.
- The special resolution to liquidate the company in terms of section 351 was not lodged with the registrar in accordance with section 200 of the Companies Act.

#### **Public Finance Management Act**

The accounting authority did not monitor the compliance of the company with the governance, risk and controls requirements of the PFMA and the related Treasury Regulations.

### **Findings on performance information**

#### **Non-compliance with regulatory requirements**

#### **No reporting on performance information**

The entity did not report performance against predetermined objectives, as required by section 55(2)(a) of the PFMA.

## ANNEXURE 4D – PROVINCIAL OTHER ENTITIES

### 1. EMOYENI TRADING ENTITY

#### Basis for qualified opinion

#### Property, plant and equipment

There were numerous control deficiencies in property, plant and equipment and certain assets could not be verified.

#### Findings on performance information

#### Inconsistently reported performance information

The entity reported on objectives that were not included in the approved strategic plan, approved budget or adjusted budget.

#### Reported performance information not relevant

The actual performance information reported did not clearly relate to the relevant predetermined objectives, key performance indicators and targets of the entity's mandate.

The targets with regard to the objectives were not:

- specific in clearly identifying the nature and the required level of performance
- measurable in identifying the required performance
- time bound in specifying the time period or deadline for delivery.

### 2. GAUTENG FILM COMMISSION

#### Financially unqualified (with no other matters)

#### Findings on performance information

#### Non-compliance with regulatory requirements

#### Content of annual performance plan

The annual performance plan of the public entity did not always include objectives and outcomes as identified by the executive authority as well as key performance measures and indicators for assessing the public entity's performance in delivering the desired outcomes and objectives, as required by Treasury Regulation 30.1.3.

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

The accounting authority did not ensure that the entity has and maintains 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, review and reporting will be conducted, organised and managed, as required in terms of section 51(1)(a)(i) of the PFMA.



## **Reported performance information not reliable**

### **Lack of source documentation**

Sufficient appropriate audit evidence in relation to the reported performance information of the tested objectives could not be obtained, as the relevant source documentation could not always be provided for review purposes.

## **3. GAUTENG FUND PROJECT OFFICE**

### **Basis for qualified opinion**

#### **Going concern**

The trading entity's mandate was to establish the Gauteng Fund, with the main objective of financing infrastructure projects in the Gauteng Province. In terms of the business model the Gauteng Provincial Government was required to contribute an amount of R500 million and endeavour to promulgate enabling legislation in relation to the Gauteng Fund. Due to non-compliance with pre-establishment legislative requirements set out in section 38(1)(m) of the PFMA, as well as the fact that the R500 million contribution had not yet been appropriated in the medium-term expenditure framework and that the enabling legislation had not yet been promulgated, a material uncertainty existed that may cast doubt on the ability of the trading entity to continue as a going concern. The financial statements were, however, prepared on the going concern basis.

#### **Fruitless and wasteful expenditure**

The trading entity entered into a lease agreement for additional office space in anticipation of growth in structure as a result of the establishment of the Gauteng Fund. Due to the going concern uncertainty reported, the office space remained unoccupied and unused with rental of R1 032 041 incurred for the current year. The total lease commitment for the lease period amounted to approximately R8 819 019.

#### **Emphasis of matters**

##### **Irregular expenditure**

Irregular expenditure to the amount of R45 184 518 was incurred. Of this amount R30 518 978 related to contracts awarded in a manner that deviated from normal tendering processes. The balance related to contracts reported in the previous year as irregular expenditure that has not yet been condoned.

##### **Other matters**

#### **Non-compliance with applicable legislation**

##### **Public Finance Management Act and Treasury Regulations**

- The accounting officer did not promptly consult and seek prior written consent of the National Treasury for the establishment of the Gauteng Fund (a trust registered in accordance with the Trust Property Control Act) during the current year as required by section 38(1)(m) of the PFMA.
- Section 67 of the PFMA prohibits the trading entity from entering into a transaction that binds itself to

any future financial commitment, denominated in a foreign currency. The trading entity had accruals of 71 997 US dollars at balance sheet date.

- The accounting officer had no performance contract as required by section 36(5) of the PFMA.
- The accounting officer did not comply with National Treasury Practice Note No. 6 of 2007-08 by reporting to the relevant treasury and the Auditor-General within 10 days, all cases where goods and services above the value of R1 million were procured in terms of Treasury Regulation 16A6.4 (cases of emergency and where goods and services are available from sole service providers).

### **Public Service Regulations, 2001**

The trading entity did not implement a system to disclose interests by designated employees in accordance with the requirements of chapter 3 of the Public Service Regulations. A senior official did not disclose directorship in a private company controlled by the company appointed as the fund manager and the main advisor on the establishment of the Gauteng Fund.

### **Findings on performance information**

#### **Non-compliance with regulatory requirements**

##### **No reporting of performance information**

The entity did not report performance against predetermined objectives, as required by section 40(3)(a) of the PFMA.

##### **No strategic plan**

The accounting officer did not prepare a strategic plan that is consistent with the period covered by the medium-term expenditure framework for approval by the relevant executive authority, as required by Treasury Regulation 5.1.1.

## **4. GAUTENG HOUSING FUND**

### **Basis for qualified opinion**

#### **Investment property**

Included in investment properties was an amount of R24 053 390 relating to properties classified as suspense properties, i.e. properties that were in the process of verification for possible status change or deletion. There were 3 843 properties remaining in suspense status that were under investigation to determine their correct status and/or classification.

## **5. GAUTENG KOPANONG PRECINCT**

### **Financially unqualified (with other matters)**

#### **Restatement of corresponding figures**

The corresponding figures for 31 March 2008 were restated. The trading entity was established during the 2006-07 financial year under the supervision and control of the Department of Economic Development. The accounting officer of the Department of Economic Development did not prepare the financial

statements for 2006-07 as required by section 40(1)(b) of the PFMA. Therefore the entity did not account for the opening balances in those financial statements. During the current year the opening balances were adjusted to account for these opening balances.

## **Findings on performance information**

### **Non-compliance with regulatory requirements**

#### **No strategic plan**

The accounting officer did not prepare a strategic plan that was consistent with the period covered by the medium-term expenditure framework for approval by the relevant executive authority, as required by Treasury Regulation 5.1.1.

#### **Inadequate quarterly reporting on performance information**

The quarterly reports did not track progress against outputs, indicators and targets as per the annual performance plan and therefore did not facilitate effective performance monitoring and evaluation, as required by Treasury Regulation 5.3.1.

#### **Inconsistently reported performance information**

The entity reported on its performance information with regard to its objectives, outputs, indicators and targets. However, differences were noted between the information presented in the performance report, quarterly reports and annual performance plan.

## **6. GAUTENG LIQUOR BOARD**

### **Basis for qualified opinion**

#### **Revenue and receivables**

The completeness of revenue and receivables could not be determined as the system for the collection and recording of revenue as well as controls over revenue was insufficient.

Included in revenue were amounts resulting from licence fees received in advance. The South African Statement of Generally Accepted Accounting Practice, IAS 18 (AC 111) *Revenue* requires that revenue must be recognised in the period for which it was earned. As a result revenue of R16 351 000 was overstated and accounts payable as per note 6 to the annual financial statements were understated.

#### **Fixed assets**

The entity did not have a reliable fixed asset register for the year. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy the existence, completeness and valuation of property, plant and equipment of R4 991 000. In addition, IAS 16 (AC 123) *Property, Plant and Equipment* requires that the residual value and the useful life of an asset be reviewed at least at each financial year-end. The residual values and useful lives were not assessed at 31 March 2009 and the effect of non-compliance with the accounting framework could not be quantified.

### **Fruitless and wasteful expenditure**

The entity omitted disclosure of fruitless and wasteful expenditure of R27 013, which was incurred during the financial year and is contrary to section 40(3)(b) of the PFMA.

### **Non-compliance with applicable legislation**

#### **Treasury Regulations**

- Treasury Regulation 19.5 requires the head of the trading entity to recover the full cost of providing goods and services, the head must review rates for user charges at least annually before the budget, and any tariff increases are subject to approval by the relevant treasury. The liquor licence rates had not been reviewed since 1 June 1992.
- Contrary to Treasury Regulation 8.2.3, invoices were not paid within 30 days of receipt of the invoice.

## **7. GAUTENG MEDICAL SUPPLIES DEPOT**

### **Financially unqualified (with other matters)**

#### **Emphasis of matters**

#### **Material losses**

A stock loss to the amount of R9 138 151 was incurred as a result of stock shortages.

## **8. G-FLEET MANAGEMENT**

### **Financially unqualified (with other matters)**

### **Non-compliance with applicable legislation**

#### **Public Finance Management Act**

The entity did not comply with Practice Note No. 6 of 2007-08 which requires the entity to report within 10 working days to the relevant treasury and the Auditor-General, all cases where goods and services above the value of R1 million (VAT included) were procured in terms of Treasury Regulation 16A.6.4. Five contracts with a total value of R20 631 645 were awarded without following the competitive bidding process.

## **9. THE COST RECOVERY TRADING ENTITY**

### **Financially unqualified (with no other matters)**

## 10. THE CRADLE OF HUMANKIND WORLD HERITAGE SITE TRADING ENTITY

### Basis for qualified opinion

#### Payables and expenditure

The accuracy and completeness of payables and expenditure were not confirmed as material payments made subsequent to year-end could not be traced to supporting documentation and the general ledger.

Payables were understated by R459 270 due to payments made after year-end that were not accounted for; therefore expenditure and payables were also understated by this amount.

#### Debtors

The difference of R585 000 between the debtors per the trial balance and debtors presented in the financial statements was not reconciled by management.

#### Employee costs

The difference of R888 948 between the employee costs per the payroll and employee costs presented in the financial statements was not reconciled by management.

### Findings on performance information

#### Reported performance information not relevant

The entity's objectives and performance indicators were not:

- specific in clearly identifying the nature and the required level of performance
- measurable in identifying the required performance
- time bound in specifying the time period or deadline for delivery.

## 11. THE DINOKENG TRADING ENTITY

### Basis for qualified opinion

#### Unauthorised expenditure

The entity made a deficit of R9,9 million, which resulted in unauthorised expenditure and no disclosure of this expenditure was made in the financial statements.

#### Employee costs

The difference of R478 355 between the employee costs per the payroll and employee costs presented in the financial statements was not reconciled by management.

### Findings on performance information

#### Reported performance information not relevant

The entity's objectives and performance indicators were not:

- specific in clearly identifying the nature and the required level of performance

- measurable in identifying the required performance
- time bound in specifying the time period or deadline for delivery.

## **12. IMPOPHOMA INFRASTRUCTURE SUPPORT ENTITY**

### **Financially unqualified (with other matters)**

#### **Emphasis of matters**

##### **Irregular as well as fruitless and wasteful expenditure**

- Irregular expenditure to the amount of R247 142 000 was incurred, as a formal tender process was not followed to approve the suppliers used via the entity's call centre.
- Irregular expenditure to the amount of R72 512 000 was incurred, as a tender process was not followed for the awarding of the lease contracts entered into by the entity. The total value of these lease contracts amounted to R445 162 000 over a five-year period, which shall be deemed to be irregular.
- Irregular expenditure to the amount of R42 729 000 was incurred, as the deviations used for the procurement of goods and services were not in line with the procedures indicated in Treasury Regulations 16A and Practice Note No. 8 of 2007-08.
- Fruitless expenditure to the amount of R13 487 000 was incurred during the period under review for the lease contracts entered into by the entity, as the present value of the minimum lease payments was higher than the fair value of the assets leased.
- Fruitless expenditure to the amount of R1 556 000 was incurred, as a payment holiday was requested by the entity. The total fruitless and wasteful expenditure that will be incurred as a result of the revised lease agreement over a period of five years amounted to R7 003 000.

#### **Other matters**

##### **Non-compliance with applicable legislation**

##### **Public Finance Management Act and Treasury Regulations**

- The entity did not maintain an effective, efficient and transparent system of financial and risk management and internal control as required by section 38(1)(a)(i) of the PFMA.
- Full and proper records were not kept of the financial affairs of the entity in accordance with any prescribed norms and standards, due to payroll exception reports not being generated by the entity to identify errors as required by section 40(1)(a) of the PFMA.
- Payments amounting to R38 263 000 were not made within 30 days of receipt of invoices as required by Treasury Regulation 8.2.3.
- Actual personnel expenditure exceeded the budgeted amount by R37 634 000, contrary to Treasury Regulation 8.3.2.

##### **Findings on performance information**

##### **Non-compliance with regulatory requirements**

##### **No reporting framework**

The accounting officer did not formulate a policy and reporting framework for the head of the trading entity, as required by Treasury Regulation 19.3.1.





### **Lack of reporting on all predetermined objectives in annual report**

The accounting officer did not report on all the predetermined objectives, as required by section 40(3)(a) of the PFMA.

### **Inconsistently reported performance information**

The accounting officer did not report on its performance with regard to its objectives/indicators/targets as per the approved strategic plan.

## **13. URBAN TRANSPORT FUND**

### **Financially unqualified (with no other matters)**

#### **Findings on performance information**

#### **Non-compliance with regulatory requirements**

#### **Inadequate quarterly reporting on performance information**

The 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.

#### **Lack of reporting on objectives**

The accounting officer did not report on all objectives as required by section 40(3)(a) of the PFMA.

#### **Reported performance information not relevant**

The targets with regard to the objectives were not:

- specific in clearly identifying the nature and the required level of performance
- measurable in identifying the required performance.

#### **Lack of appropriate information systems generating performance information**

Sufficient appropriate audit evidence with regard to the reported performance information of the objective to develop systems, processes and measures to support service delivery, could not be obtained as the information system used for generating performance information was not appropriate to facilitate the preparation of accurate and complete actual performance information.

## ANNEXURE 5: AUDIT OPINIONS FOR THE PAST FIVE YEARS IN ALPHABETICAL ORDER

Institution	Audit opinion: 2008-09	Audit opinion: 2007-08	Audit opinion: 2006-07	Audit opinion: 2005-06	Audit opinion: 2004-05
Agriculture, Conservation and Environment	Financially unqualified (with other matters)	Financially unqualified (with no other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Qualified
Blue Catalyst Investment	Financially unqualified (with other matters)	Qualified	Qualified	Disclaimer	Not applicable - new department
Blue IQ Investment Holdings (Pty) Ltd	Disclaimer	Disclaimer	Qualified	Qualified	Audit outstanding
Community Safety	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Qualified
Constitutional Hill Development Company	Disclaimer	Disclaimer	Disclaimer	None	None
Economic Development	Qualified	Financially unqualified (with other matters)	Qualified	Financially unqualified (with other matters)	Financially unqualified (with other matters)
Education	Qualified	Qualified	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)
Emoyeni Trading Entity	Qualified	Financially unqualified (with other matters)	None	None	None
Gauteng Economic Development Agency	Financially unqualified (with no other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)
Gauteng Enterprise Propeller	Qualified	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Not applicable - new department

<b>Institution</b>	<b>Audit opinion: 2008-09</b>	<b>Audit opinion: 2007-08</b>	<b>Audit opinion: 2006-07</b>	<b>Audit opinion: 2005-06</b>	<b>Audit opinion: 2004-05</b>
Gauteng Film Commission	Financially unqualified (with no other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)
Gauteng Fund Project Office	Qualified	Qualified	None	None	None
Gauteng Gambling Board	Financially unqualified (with no other matters)	Financially unqualified (with no other matters)	Financially unqualified (with no other matters)	Financially unqualified (with no other matters)	Financially unqualified (with no other matters)
Gauteng Housing Fund	Qualified	Qualified	Qualified	None	Financially unqualified (with other matters)
Gauteng Kopanong Precinct	Financially unqualified (with other matters)	Disclaimer	None	None	None
Gauteng Liquor Board	Qualified	Disclaimer	Disclaimer	Disclaimer	Qualified
Gauteng Medical Supplies Depot	Financially unqualified (with other matters)	Financially unqualified (with no other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)
Gauteng Motorsport Company (Pty) Ltd	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
Gauteng Partnership Fund (GPF)	Financially unqualified (with no other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)
Gauteng Provincial Treasury	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)	None	None
Gauteng Shared Service Centre	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Qualified

<b>Institution</b>	<b>Audit opinion: 2008-09</b>	<b>Audit opinion: 2007-08</b>	<b>Audit opinion: 2006-07</b>	<b>Audit opinion: 2005-06</b>	<b>Audit opinion: 2004-05</b>
Gauteng Tourism Authority	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with no other matters)
g-Fleet Management	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Qualified	Qualified	Disclaimer
Greater Newtown Development Company	Disclaimer	Disclaimer	Disclaimer	None	None
Health	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Qualified	Qualified	Disclaimer
Housing	Qualified	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Qualified	Qualified
Local Government	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)
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)
Provincial Legislature	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with no other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)
Public Transport, Roads and Works	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Disclaimer	Qualified
Social Development	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Qualified
Sports, Arts, Culture and Recreation	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)

<b>Institution</b>	<b>Audit opinion: 2008-09</b>	<b>Audit opinion: 2007-08</b>	<b>Audit opinion: 2006-07</b>	<b>Audit opinion: 2005-06</b>	<b>Audit opinion: 2004-05</b>
The Cost Recovery Trading Entity	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)	None	Financially unqualified (with other matters)
The Cradle of Humankind - World Heritage Site Trading Entity	Qualified	Financially unqualified (with no other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)
The Dinokeng Trading Entity	Qualified	Financially unqualified (with no other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)
The Impophoma Infrastructure Support Entity	Financially unqualified (with other matters)	Qualified	Financially unqualified (with other matters)	Qualified	Qualified
Urban Transport Fund	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)	None	None
XHASA Accounting and Technical Centre	Qualified	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)

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