



GENERAL REPORT
on the provincial audit outcomes of **KWAZULU-NATAL**
2008-09



AUDITOR - GENERAL
SOUTH AFRICA



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Auditing to build public confidence

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of KwaZulu-Natal 2008-09**

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Auditing to build public confidence

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



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SECTION 1: FOREWORD

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

This report highlights the encouraging trend of timely submission and auditing of all departments, the provincial legislature and most entities for the year ended 2008-09. It was pleasing to note that the report again reflects that no departments received a disclaimer or adverse audit opinion in this financial year. The province has generally maintained its position year on year through the commitment of the leadership.

It is further encouraging that the current provincial leadership, championed by the Premier, is building on these successes and paying attention to the minor issues remaining in asset management in the Departments of Health, Public Works, Social Development and the Royal Household. With respect to the remaining challenges at the Royal Household, the Premier has already identified solutions.

The attainment of clean audit reports by all government departments and entities is a milestone we encourage and support the province to concentrate on, while at the same time dealing with the bigger challenges in the entities. I am confident that it is possible to obtain clean audit reports if (1) the chief financial officers observe the basics of financial reporting and related internal control systems, (2) audit committees and internal audit units enhance the identification of key risks and key controls, as well as monitor their management, and (3) on the basis of monthly financial reports and risk management reports, the leadership is empowered to exercise effective monitoring of results and set the correct tone for the performance of the province.

The warning signals that we highlighted in our 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 get rectified at the time of the audit. In this regard, it is important to stress that the role of the chief financial officers, audit committees and internal auditors as well as the leadership as described above, remains relevant as a solution to the elimination of these signals that could result in a regression of audit outcomes if not adequately addressed.

With the exception of certain entities, this report further highlights the encouraging result that the legislature and most departments are complying with the reporting requirements on service delivery in that information included in the annual reports is useful, reliable, and complies with regulatory requirements. This is the only province where the majority of departments have achieved this outcome.

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

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

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

Auditor-General

Auditor-General
Pretoria
November 2009



SECTION 2: EXECUTIVE SUMMARY

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

- **Audit outcomes**

The regularity audits of the provincial legislature, all the provincial departments, provincial public entities and provincial other entities that had submitted their financial statements within the legislative deadline by the end of May 2009 were again completed within the legislated reporting timeline at the end of July 2009. The leadership and management of those departments and entities and the auditors are commended for achieving this milestone. In brief, the audit opinions are as follows:

Provincial legislature

The financial statements of the provincial legislature were submitted timeously. The provincial legislature obtained a financially unqualified (with other matters) opinion which was unchanged from the previous year.

Provincial departments

The financial statements of all the provincial departments were submitted timeously. Of the 15 (2008:15) departments:

- one (2008: one) (Department of Sport and Recreation) obtained a financially unqualified (with no other matters) opinion
- ten (2008:12) (Departments of Arts and Culture, Community Safety and Liaison, Economic Development, Education, Housing, Local Government and Traditional Affairs, Office of the Premier, Provincial Treasury, Agriculture and Environmental Affairs, and Transport) obtained a financially unqualified (with other matters) opinion
- four (2008: three) (Departments of Social Development, Health, Royal Household and Public Works) obtained a qualified opinion.

For the year under review, the movement in the audit outcomes can be summarised as follows:

- Two improvements were achieved. The Department of Agriculture and Environmental Affairs moved from a qualified to financially unqualified (with other matters) opinion and the Department of Sport and Recreation moved from a financially unqualified (with other matters) to financially unqualified (with no other matters) opinion.
- Three regressions occurred. The Department of Health and the Royal Household regressed from a financially unqualified (with other matters) to a qualified opinion and the Department of Housing from a financially unqualified (with no other matters) to financially unqualified (with other matters) opinion.
- The remaining 10 departments had the same audit outcomes as in the previous year. Eight of these (Departments of Arts and Culture, Community Safety and Liaison, Economic Development, Education,



Local Government and Traditional Affairs, Office of the Premier, Provincial Treasury and Transport) again obtained a financially unqualified (with other matters) opinion, while the opinion on the Department of Social Development and Public Works remained qualified.

Provincial public entities

The financial statements of 13 of the 14 provincial public entities were submitted by the end of May as per the legislative deadline. The outstanding financial statements of the KwaZulu-Natal Taxi Council for the past two financial years had not been received for auditing by 23 October 2009. Of the 13 (2008: 12) provincial public entities audited:

- seven (2008: six) (KwaZulu-Natal Agricultural Development Trust, KwaZulu-Natal Gambling Board, KwaZulu-Natal Growth Fund Managers (Pty) Ltd, KwaZulu-Natal Sharks Board, KwaZulu-Natal Tourism Authority, KZN Planning and Development Commission and Mjindi Farming (Pty) Ltd) obtained financially unqualified (with other matters) opinions
- six (2008: six) (Amafa Akwazulu Natali, Ithala Development Finance Cooperation Ltd, Ithala Limited, KwaZulu-Natal Political Parties Fund, KwaZulu-Natal Conservation Board and uMsekeli Municipal Support Services) obtained qualified opinions.

In all, three entities registered an improvement in their audit outcome. The KwaZulu-Natal Nature Conservation Board improved from an adverse to a qualified opinion and both the KwaZulu-Natal Agricultural Development Trust and the KwaZulu-Natal Sharks Board moved from qualified to financially unqualified (with other matters).

Two of the entities regressed, namely Ithala Limited from a financially unqualified (with other matters) to a qualified opinion and the KwaZulu-Natal Growth Fund Managers (Pty) Ltd from financially unqualified (with no other matters) to financially unqualified (with other matters).

Excluding the KwaZulu-Natal Political Parties Fund that was audited for the first time in the current year, the remaining seven provincial public entities retained their positions. Amafa Akwazulu Natali, Ithala Development Finance Cooperation Ltd and uMsekeli Municipal Support Services obtained financially qualified opinions and KwaZulu-Natal Gambling Board, KwaZulu-Natal Tourism Authority, KZN Planning and Development Commission and Mjindi Farming (Pty) Ltd received financially unqualified (with other matters) audit opinions.

Provincial other entities

The financial statements of five of the nine provincial other entities were received by the legislative deadline at the end of May 2009.

The KZN Business Rehabilitation Trust Fund submitted their financial statements for three years (2008-09, 2007-08 and 2006-07) on 14 June 2009 and the audit reports were signed on 14 August 2009 with qualified audit opinions.

The Natal Joint Municipal Pension Fund (Provident), Natal Joint Municipal Pension Fund (Retirement) and Natal Joint Municipal Pension Fund (Superannuation) submitted their financial statements on 14 August 2009 and the audit reports were signed off on 14 October 2009 with qualified audit opinions.

Of the five (2008: eight) provincial other entities reported on:



- one (2008: three) (KZN Provincial Pharmaceutical Supply Depot) obtained a financially unqualified (with no other matters) opinion
- two (2008: three) (Dube Tradeport and Trade and Investment KZN) received financially unqualified (with other matters) opinions
- one (2008: one) (KZN Housing Fund) received a qualified opinion
- one (2008: one) (Traditional Levies and Trust Account) received an adverse opinion.

In all, of the five entities audited and included in this general report, the KZN Provincial Pharmaceutical Supply Depot registered an improvement in its audit opinion, with the rest remaining unchanged from the previous year.

In our overall observation, it can be concluded that improvements are generally due to the implementation and monitoring of action plans by the leadership, continued improvements in the implementation of good practices as well as addressing the root causes of the identified internal control deficiencies. However, the inverse is equally observed for those departments and entities that regressed or failed to improve on their positions. It is thus imperative that the leadership of the province, including the executive, oversight committees, management and the Provincial Treasury, continue to work together to improve the financial management and accountability in these departments and entities and continuously monitor all actions that are implemented.

- **Key systemic issues**

Initiatives to improve audit outcomes

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. This initiative included the increased visibility of the AGSA's senior leadership and continuous interaction to highlight possible challenges, audit findings and transversal risks. This relationship, together with the receptive tone of leadership within the province, resulted in an improvement in the understanding of the audit findings and their root causes.

Commitments and actions by the executive

The collective leadership under the direction of the provincial cabinet in conjunction with the Provincial Treasury again committed to the initiatives of monitoring action plans drawn up by departments, providing technical support, compiling manuals on financial functions and providing training, as well as regular reporting to the MEC: Finance on financial management in departments.

Certain MECs participated in the public hearings of the Provincial Public Accounts Committee for their respective departments during which they pledged support to resolving negative audit findings. The MECs also undertook to follow up on the commitments made by their managements to remove qualified opinions and the other matters raised in the audit reports.

At the Auditor-General briefing on audit outcomes to the provincial legislature on 5 November 2009, the Premier, on behalf of the executive, commented that they are serious about reducing qualified audit

opinions for the province. He stated that the KwaZulu-Natal Government offered its full cooperation to the Auditor-General in support of sustainable clean audit reports. The Premier noted the comments by the Auditor-General regarding the audit of performance information and its current challenges in terms of the systems of control and reporting; budgets aligned with service delivery requirements; measuring the spending on services in terms of the approved budget; and ongoing oversight over the entire process. The Premier expressed his appreciation that more time has been afforded to the departments and entities to ensure their audit readiness regarding performance information. The Premier also noted the comments of the Auditor-General regarding the need to use consultants in areas where expertise is required or specialist skills are to be transferred and not using consultants as a substitution for existing capacity. To this end, the Premier agreed to review the needs, relevance and appointment of consultants.

The MECs who attended the briefing accepted responsibility for their respective audit opinions and committed to:

- improving any negative audit opinions
- facilitating discussions with the respective departments on repetitive audit findings
- monitoring the implementation of action plans to eliminate qualified audit opinions
- overseeing the process of filling key vacant positions with suitably skilled persons
- soliciting full support in addressing the challenges faced by the Royal Household, including a review of the structures within which it functions
- establishing teams to address qualifying matters regarding capital assets at the Departments of Public Works, Health and Social Development.

The executive has, in conjunction with the Provincial Treasury, undertaken initiatives to improve the overall audit outcomes within the province, as outlined below.

Initiatives by the Provincial Treasury in improving financial management practices

- Performing a support function in the Department of the Royal Household.
- Developing and implementing a financial management improvement programme of support for all departments to help with preparations, prerule and timely submission of the annual financial statements to the AGSA.
- Conducting readiness audits of performance information at departments.
- Approving a deviation from the National Treasury guidance on immovable assets and minor assets. In this regard, Provincial Circular 1 of 2009 was issued to guide departments on the appropriate accounting treatment and disclosure requirements for the province.
- Issuing guidance to allow departments to deviate from the National Treasury's instruction to capitalise assets at invoice value from 1 April 2002. As a result, provincial departments capitalised assets at invoice value from 1 April 2004 only.
- Issuing a standardised audit working paper file to enhance the quality of audit evidence submitted to the AGSA and facilitate a more effective and efficient consolidation process.
- Monitoring the implementation of action plans drawn up by departments based on the audit reports and management reports.
- Monthly monitoring of key performance indicators for financial management and determining fixed targets that should be reached.
- Reporting to the MEC: Finance on financial management of departments.
- Compiling manuals on financial functions and the use of the financial systems and providing the necessary training.

Accounting reforms

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

• Audit qualification areas and root causes

In the area of capital assets, the number of qualifications exceeded 50% of all the areas that led to the qualification of audit opinions on the provincial departments (100%) and the provincial public entities (83%).

Although capital assets were also an area that led to the qualification of audit opinions on the provincial other entities, this sector was also qualified on receivables (50%), grants and capital reserves (50%), revenue (50%), and presentation and disclosure (50%), where the number of qualifications exceeded 50%.

An analysis of the root causes indicated deficiencies in the control environment, the design and implementation of control activities, and monitoring by leadership as the three main contributors for the audit qualifications. The collective leadership needs to ensure that:

- an effective movable asset management system is implemented for all departments
- corrective actions are taken to account accurately for immovable assets through the implementation of the Government Immovable Assets Management Act
- adequate financial skills and capacity are in place to support compliance with the required accounting framework
- areas of responsibility and lines of reporting to support effective control over financial reporting are addressed
- the necessary governance structures are in place and capacitated with the levels of expertise required to monitor the risk of inadequate financial reporting.

• Warning signals requiring attention

Unauthorised expenditure

The total unauthorised expenditure as disclosed in the financial statements of the provincial departments as at 31 March 2009 amounted to R5 311 266 113 for the year (2008: R2 417 839 113).

Four provincial departments that received qualified audit opinions, namely Health, Social Development, the Royal Household and Public Works, as well as six financially unqualified departments, namely Agriculture and Environmental Affairs, Education, Housing, Office of the Premier, Provincial Treasury and



Transport, reflected total unauthorised expenditure of R4 789 083 000 for the year (2008: R1 895 656 000) in their respective audit reports.

Apart from the financial pressures, this position can be attributed to inadequate budget monitoring systems within the affected departments.

Fruitless and wasteful expenditure

Instances of fruitless and wasteful expenditure amounting to R620 000 (2008: R191 000) were revealed for the Department of Education. Furthermore, fruitless and wasteful expenditure amounting to R1 104 980 (2008: R515 000) was incurred by provincial public entities, namely Ithala Development Finance Corporation Ltd, Ithala Ltd and KwaZulu-Natal Nature Conservation Board.

Whereas fruitless and wasteful expenditure by its nature is expenditure which was made in vain and would have been avoided had reasonable care been exercised, its elimination must receive appropriate attention by the provincial legislature through its oversight committees, political leadership in its accountability to the public, and management in ensuring value for money through public spending.

Irregular expenditure

For the year under review, the provincial legislature and the following six provincial departments with financially unqualified audit opinions incurred irregular expenditure of R26 800 000 (2008: R nil) and R854 619 000 (2008: R60 771 000), respectively:

- Agriculture and Environmental Affairs
- Arts, Culture and Tourism
- Education
- Local Government and Traditional Affairs
- Provincial Treasury
- Transport

The following two provincial departments that received qualified audit opinions incurred irregular expenditure of R1 190 680 000:

- Health
- Social Development

Furthermore, irregular expenditure amounting to R3 200 000 was incurred by uMsekeli Municipal Support Services.

The total irregular expenditure incurred by the provincial departments and entities for the year under review was R2 075 299 000 (2008: R60 771 000), mainly as a result of non-compliance with Treasury Regulations concerning compensation of employees and the prescripts for supply chain management.

Material underspending

Although the Departments of Agriculture and Environmental Affairs as well as Arts, Culture and Tourism received financially unqualified audit opinions for the year under review, they materially underspent their budget by R126,71 million and R9,75 million, respectively. This undesirable position has to be viewed in the light of missed opportunities for service delivery that could have a negative impact on government's constitutional responsibilities.



Non-compliance with applicable legislation

Non-compliance with legislation, although it does not have a direct impact on the financial statements, was reported in 71% of the provincial departments' and 23% of provincial public entities' reports. The non-compliance related to the requirements of the PFMA and Treasury Regulations, regulations relating to supply chain management, Occupational Health and Safety Act, National Environmental Management Act, KwaZulu-Natal Funding of Represented Political Parties Act and KwaZulu-Natal Nature Conservation Management Act.

Inadequate supervision and monitoring are main contributors to these negative findings. As a turn-around strategy, the right leadership tone, supported by effective internal monitoring, is necessary to establish a strong compliance culture.

Misstatements in financial statements

The provincial legislature, 12 provincial departments, 11 provincial public entities and four provincial other entities with other matters included in their audit reports submitted a set of financial statements that required material corrections as a result of the audit, which identified errors, omissions and inconsistencies. Fifty-one per cent of misstatements at departments and public entities related to misclassification of data and 49% to inadequate or incorrect disclosure of line items in the financial statements. These misstatements were not prevented or detected by the implemented systems of internal control.

Corrective actions are required to ensure quality financial statements, as material adjustments were made to nearly all the financial statements of departments and entities. This should avoid other matters being raised in audit reports.

• Significant results of audits of information systems

The user account management processes of the provincial legislature and 11 provincial departments were subjected to information systems audits. The departments excluded were the Departments of Health, Public Works, Provincial Treasury and the Royal Household. Significant deficiencies noted for the provincial legislature and 11 provincial departments are depicted in the table below:

Table 1: Significant deficiencies arising from user account management review

Findings	Number of departments (including provincial legislature) audited	Percentage of audited departments (including provincial legislature) with finding
Lack of or incomplete user account management procedures	12	100%
Access request forms not completed or inconsistently completed	12	83%
Users' access not periodically reviewed to ensure that this remained commensurate with their job responsibilities	12	100%
Activities of the system administrators/controllers were not reviewed by an independent person	12	100%
Inactive or unused user IDs were not timeously removed from the system or deactivated	12	100%
Lack of segregation of duties between system controller and user functions	12	25%
Excessive access rights assigned to either some or a high number of users	12	17%



The above deficiencies raise the possibility of fraudulent transactions.

• **Significant results of audits of human resource management and compensation of employees**

For the year under review the audits of provincial departments (excluding the provincial legislatures) included an assessment of compliance with applicable laws and regulations that support effective human resource management and controls over compensation of employees across the following areas:

- Human resource planning (Planning)
- Management of vacancies (Vacancies)
- Appointment processes (Appointments)
- Prolonged acting by officials in higher posts (Acting)
- Use of consultants (Consultants)
- Suspensions (Suspensions)
- Leave administration (Leave)
- Budgetary control (Budget)
- Management of overtime (Overtime)
- Payroll certification (Payroll)
- Service terminations (Terminations)

Apart from the Department of Arts, Culture and Tourism (financially unqualified with other matters) with no reported findings, 93% of the departments exhibited human resource warning signals as per the table below, which indicates per department those areas where discrepancies were identified:

Table 2: Human resource warning signals identified at departments

Department	Planning	Vacancies	Appointments	Acting	Consultants	Suspensions	Leave	Budget	Overtime	Payroll	Terminations
Agriculture and Environmental Affairs											
Community Safety and Liaison											
Economic Development											
Education											
Health											
Housing											
Local Government and Traditional Affairs											
Office of the Premier											
Provincial Treasury											
Public Works											
Social Development											
Sport and Recreation											
The Royal Household											
Transport											

Although none of the findings above resulted in any qualification of an audit opinion, room remains for improving the control environment of human resource management to prevent, detect and correct potential errors and instances of non-compliance.

The findings and results of an analysis of the statistics and information published in the annual reports of the departments are discussed in more detail in section 8 of this report.

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

The audit of performance information reflected that 15 out of a total of 34 reports analysed registered no significant audit findings on performance information. Key findings resulting from the audit of performance information in respect of the remaining 19 (six provincial departments, 10 provincial public entities and three provincial other entities) are detailed in section 9 of this report.

The leadership of the province has to review the adequacy of implemented processes and systems across all departments and entities to ensure reliable annual performance information results, as this is directly related to service delivery as measured against the achievements of predetermined objectives that are funded through the voted funds of departments and the budgets of entities.

Most importantly, it should be noted that the final year of the five-year phasing-in process of the audit of performance information has been completed. While all audit work will focus on the expression of an opinion on the performance information of the provincial legislature, departments, public entities and other 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. In other words, an opinion will be prepared but not expressed publicly beyond being annexed to the management report as part of the readiness strategy. The Auditor-General again confirmed that an opinion on performance information will definitely be contained at audit report level in the 2011-12 audit cycle.

- **Financial statements of the Provincial Revenue Fund and consolidations**

The financial statements of the Provincial Revenue Fund and the consolidated financial statements of the provincial departments and public entities for the 2008-09 financial year had not been submitted to the AGSA by the legislated deadline at the end of June 2009.

This was mainly due to a severe staff shortage experienced in the Provincial Treasury during the last two years, which resulted in a current backlog to prepare and submit the province's consolidated financial statements dating back to the 2005-06 financial year. This position has since improved, and an action plan as agreed upon with the Provincial Treasury was implemented to clear the backlog by the end of March 2010. At the time of drafting this report the consolidated financial statements for the 2005-06 financial year had been audited and the audit of the 2006-07 financial year was in progress.

- **Status of tabling of annual reports**

The annual reports for the year ended 31 March 2008 of the provincial legislature, all the provincial departments and public entities were tabled as required, except for KwaZulu-Natal Taxi Council and KZN Business Rehabilitation Trust Fund.

- **Status of performance audits, investigations and special audits**

Performance audits relating to conflict of interest are being conducted at the provincial legislature and all the departments in KwaZulu-Natal. Furthermore, performance audits of the infrastructure delivery process at Education, Social Development and Health were conducted during the year. These reports are expected to be tabled by 31 October 2009.

SECTION 3: AUDIT OUTCOMES FOR 2008-09

3.1 Status of completion of audits

The KwaZulu-Natal Provincial Government comprises the provincial legislature, 15 provincial departments, 14 provincial public entities, and nine provincial other entities. This report presents the 2008-09 audit outcomes of the provincial legislature, 15 provincial departments, 13 provincial public entities, and five provincial other entities as at 31 July 2009. The reasons for the non-inclusion of some entities are provided in paragraph 3.6 of this report.

Table 3: Status of completion of the 2008-09 audits

Entity	Total	Audits completed	Audits outstanding	% of completion
Provincial legislature	1	1	0	100%
Provincial departments	15	15	0	100%
Provincial public entities	14	13	1	93%
Provincial other entities	9	5	4	56%
Total	39	34	5	87%

Tables 4(a) to 4(d) below present the 2008-09 audit outcomes of the KwaZulu-Natal Province. Details of balance sheet and income statement qualification areas are provided in section 5 of this report.

3.2 Audit outcome of the provincial legislature

Table 4(a): Audit opinions on the KwaZulu-Natal 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%
Total reported on	1	100%	1	100%
Total not reported on	0	0%	0	0%
Total entities	1	100%	1	100%



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.

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.

3.3 Audit outcomes of provincial departments

Table 4(b): Audit opinions on KwaZulu-Natal provincial departments for the current and previous financial years

Type of audit opinion	2008-09		2007-08	
	Number	%	Number	%
Disclaimer	0	0%	0	0%
Adverse	0	0%	0	0%
Qualified	4	27%	3	20%
Financially unqualified (with other matters)	10	67%	11	73%
Financially unqualified (with no other matters)	1	7%	1	7%
Total reported on	15	100%	15	100%
Total not reported on	0	0%	0	0%
Total entities	15	100%	15	100%

All 15 provincial departments are being reported on, two of which registered improvements, three regressed and 10 registered the same audit outcomes as for the year ended March 2008. Details are as follows:

- Improvements (two): The Department of Agriculture and Environmental Affairs improved from a qualified audit opinion to financially unqualified (with other matters) while the Department of Sports and Recreation improved from financially unqualified (with other matters) to financially unqualified (with no other matters). The improvement in the audit opinions of the provincial departments were mainly due to leadership oversight and monitoring as well as the following initiatives:
 - Filling of key positions
 - Monitoring by senior management of action plans to address audit findings
- Regressions (three): Two provincial departments (the Department of Health and the Royal Household) regressed from financially unqualified (with other matters) to a qualified audit opinion. The Department of Housing regressed from financially unqualified (with no other matters) to financially unqualified (with other matters). The regression can be attributed to the inability of the leadership concerned to communicate all the audit requirements and as a result of implementing an ineffective record management system.



- **Unchanged (10):** The audit outcomes of 10 provincial departments remained unchanged from the year ended March 2008, namely eight (the Departments of Arts and Culture, Community Safety and Liaison, Economic Development, Education, Local Government and Traditional Affairs, Office of the Premier, Provincial Treasury and Transport) (financially unqualified with other matters) and two (the Departments of Social Development and Works) (qualified).

The provincial departments can ascribe their sustained audit outcomes to their adherence to good practices.

Provincial departments that regressed in their audit outcomes or failed to register improved audit outcomes can ascribe that failure to not having implemented good practices and not having addressed the root causes of internal control deficiencies. These root causes are analysed in section 5 of this report for all departments whose annual financial statements received a qualified audit opinion.

3.4 Audit outcomes of provincial public entities

Table 4(c): Audit opinions on KwaZulu-Natal provincial public entities 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%	1	8%
Qualified ¹	6	46%	5	42%
Financially unqualified (with other matters)	7	54%	5	42%
Financially unqualified (with no other matters)	0	0%	1	8%
Total reported on	13	100%	12	100%
Total not reported on	1	7%	1	8%
Total entities	14	100%	13	100%

Thirteen of the 14 provincial public entities are being reported on, one of which is a new audit (KwaZulu-Natal Political Parties Fund). Three improved, two regressed and seven registered the same audit outcomes as for the year ended March 2008. Details are as follows:

- **Improvements** (three): KwaZulu-Natal Nature Conservation Board improved from an adverse to a qualified audit opinion, while KwaZulu-Natal Agricultural Development Trust and KwaZulu-Natal Sharks Board improved from qualified to financially unqualified (with other matters). The improvements can be attributed to the following:
 - § A clear audit trail for accounting transactions
 - § The availability of supporting documentation when requested for auditing purposes

¹ Including the KwaZulu-Natal Political Parties Fund as a new entity and therefore no comparison



- § The quality of financial statements submitted for auditing
- § Compliance with the prescribed accounting framework

- **Regressions** (two): Ithala Limited regressed from a financially unqualified (with other matters) to a qualified audit opinion due to a lack of management oversight over financial reporting and internal control. The KwaZulu-Natal Growth Fund Managers (Pty) Ltd regressed from financially unqualified (with no other matters) to financially unqualified (with other matters) due to material adjustments to the financial statements as a result of the audit.
- **Unchanged** (seven): The audit outcomes of seven provincial public entities remained unchanged from the year ended March 2008. Amafa Akwazulu Natali, Ithala Development Finance Cooperation Ltd and uMsekeli Municipal Support Services were unchanged with financially qualified audit opinions, while KwaZulu-Natal Gambling Board, KwaZulu-Natal Tourism Authority, KZN Planning and Development Commission and Mjindi Farming (Pty) Ltd were unchanged with financially unqualified (with other matters) opinions.
- **New** (one): The audit outcome of the KwaZulu-Natal Political Parties Fund was a financially qualified audit opinion.

The provincial public entities can ascribe the improvement in their audit outcomes to their adherence to good practices.

Provincial public entities that regressed in their audit outcomes or failed to register improved audit outcomes can ascribe such failure to not having implemented good practices and not having addressed the root causes of internal control deficiencies. These root causes are analysed in more detail in section 5 of this report for all entities whose annual financial statements received a qualified audit opinion.

3.5 Audit outcomes of provincial other entities

Table 4(d): Audit opinions on KwaZulu-Natal provincial other entities for the current and previous financial years

Type of audit opinion	2008-09		2007-08	
	Number	%	Number	%
Disclaimer	0	0%	0	0%
Adverse	1	20%	1	13%
Qualified	1	20%	1	13%
Financially unqualified (with other matters)	2	40%	3	38%
Financially unqualified (with no other matters)	1	20%	3	38%
Total reported on	5	100%	8	100%
Total not reported on	4	44%	1	11%
Total entities	9	100%	9	100%

Five of the nine provincial other entities are being reported on, one of which improved, none regressed and four registered the same audit outcomes as for the year ended March 2008. Details are as follows:

- **Improvements** (one): KZN Provincial Pharmaceutical Supply Depot improved from a financially unqualified (with other matters) audit opinion to financially unqualified (with no other matters) as a result of the continuous monitoring of financial reporting systems by those charged with governance, as well as the fact that financial statements submitted for auditing fully complied with the applicable accounting framework.
- **Regressions** (nil): There were no regressions by provincial other entities.
- **Unchanged** (four): The audit outcomes of four provincial other entities remained unchanged from the prior year, namely Traditional Levies and Trust Account – KZN with an adverse opinion, KZN Housing Fund with a qualified opinion, and Dube Tradeport as well as Trade and Investment KZN with financially unqualified (with other matters) opinions.

The improved audit outcome of the KZN Provincial Pharmaceutical Supply Depot can be ascribed to its adherence to good practices. The three provincial other entities reported on in 2007-08 but not in 2008-09 are the Natal Joint Municipal Pension Fund (Provident), Natal Joint Pension Fund (Retirement) and Natal Joint Municipal Pension Fund (Superannuation). The three provincial other entities were financially unqualified (with no other matters) in 2007-08.

3.6 Entities not reported on

Listed below are the names of the provincial public entity and the provincial other entities whose 2008-09 audit outcomes have not been included in this report and the reasons for such non-inclusion. Their prior year audit outcomes are indicated in brackets.

Table 5: Provincial entities not being reported on

No.	Name of entity	Reason / causes for non-inclusion in 2008-09 general report	Expected date of completion
1	KwaZulu-Natal Taxi Council [2009-08: audit opinions outstanding] [2007: qualified]	The annual financial statements for 2008-09 and 2007-08 had not been submitted as per the legislated deadlines. These financial statements were still outstanding at the date of this report.	31 October 2009
2	KZN Business Rehabilitation Trust Fund [2009/2008/2007: audit opinions outstanding] [2006: qualified]	The annual financial statements for 2008-09, 2007-08 and 2006-07 were submitted after the legislated deadline on 15 June 2009.	15 August 2009

No.	Name of entity	Reason / causes for non-inclusion in 2008-09 general report	Expected date of completion
3	Natal Joint Municipal Pension Fund (Provident) [2008: unqualified with no other matters]	The annual financial statements for 2008-09 were submitted after the legislated deadline on 14 August 2009.	14 October 2009
4	Natal Joint Municipal Pension Fund (Retirement) [2008: unqualified with no other matters]	The annual financial statements for 2008-09 were submitted after the legislated deadline on 14 August 2009.	14 October 2009
5	Natal Joint Municipal Pension Fund (Superannuation) [2008: unqualified with no other matters]	The annual financial statements for 2008-09 were submitted after the legislated deadline on 14 August 2009.	14 October 2009

3.7 Five-year review of audit outcomes

Listed in the table below is a comparison of the audit outcomes over the past five years. During this period the number of entities has grown from 17 to 23. Dube Tradeport, Trade and Investment KZN, KZN Political Parties Fund and KwaZulu-Natal Growth Fund Managers were created, while Ithala Ltd and Ithala Development Finance Corporation Ltd were taken back for auditing by the AGSA in terms of section 4(3) of the Public Audit Act, 2004 (Act No. 25 of 2004). All the applicable audit opinions for the past five years are listed in annexure 4 to this report.

Table 6: 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	0	2	0	0
Adverse	0	0	0	0	1	0
Qualified	0	0	4	9	7	8
Financially unqualified (with other matters)	1	1	10	4	9	9
Financially unqualified (with no other matters)	0	0	1	0	1	0
Total reported on	1	1	15	15	18	17
Total not reported on	0	0	0	0	5	0
Total entities	1	1	15	15	23	17

Provincial legislature

The audit opinion on the provincial legislature has remained unchanged from the 2004-05 financial year.



Provincial departments

There has been a significant improvement in the audit opinions on provincial departments due to increased leadership oversight and monitoring as well as the following initiatives:

- Filling of key positions
- Senior management monitoring of action plans to address audit findings

Public entities

The number of entities has grown from 17 to 23. The following four entities have been created: Dube Tradeport, Trade and Investment KZN, KZN Political Parties Fund, and KwaZulu-Natal Growth Fund Managers.

Ithala Ltd and Ithala Development Finance Corporation Ltd were Public Audit Act section 4(3) entities, the audit of which was taken back by the AGSA.

Generally, there was no significant regression or improvement in the audit outcomes of entities in the province since 2004-05.

SECTION 4: KEY SYSTEMIC ISSUES

4.1 Initiatives to improve audit outcomes

Audit outcomes can be and are largely influenced by a number of key role players in addition to the direct influence and strategic direction of management. This section of the report is 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 his executive. All challenges posed by the departments that could not be addressed or resolved were escalated to the responsible audit committee, MEC and ultimately the Premier. This promoted the effectiveness of accountability. In addition, regular meetings were held with the Premier and his executive to update them on the audit progress and to sensitise them to possible qualifications within their portfolios.

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

Commitments by the executive

The executive has, in conjunction with the Provincial Treasury, undertaken the initiatives as outlined below to assist departments in improving their financial management practices and audit outcomes in the province in the past year:

- As a result of the previously reported initiatives by the Provincial Treasury, relating to financial management interventions at the Department of Agriculture and Environmental Affairs, the department has moved from an adverse audit opinion in 2006-07 to qualified in 2007-08 and to financially unqualified (with other matters) in the current year.
- Performing a support function in the Department of the Royal Household.
- Developing and implementing a financial management improvement programme of support for all departments to help with preparations, prereview and timely submission of the annual financial statements to the AGSA.
- Conducting readiness audits of performance information at the provincial departments.
- Approving a deviation from the National Treasury guidance on immovable assets and minor assets. In this regard Provincial Circular 1 of 2008 was issued to guide departments on the appropriate accounting treatment and disclosure requirements for the province.
- Issuing guidance to allow the provincial departments to deviate from the National Treasury's instruction to capitalise assets at invoice value from 1 April 2002. As a result, KwaZulu-Natal departments only capitalised assets at invoice value from 1 April 2004.
- Issuing a standardised audit working paper file. This helped to enhance the quality of audit evidence submitted to the AGSA as well as facilitate a more effective and efficient consolidation process.



- Monitoring the implementation of action plans drawn up by the provincial departments based on the audit reports and management reports.
- Monthly monitoring of key performance indicators of financial management and determining fixed targets that should be reached.
- Reporting to the MEC: Finance on financial management at the provincial departments.
- Compiling manuals for financial functions and the use of the financial systems and providing the necessary training.

The collective leadership under the direction of the provincial cabinet in conjunction with the Provincial Treasury again committed to the initiatives of monitoring action plans drawn up by departments, providing technical support, compiling manuals on financial functions and providing training, as well as regular reporting to the MEC: Finance on financial management in departments.

Certain MECs participated in the public hearings of the Provincial Public Accounts Committee for their respective departments during which they pledged support to resolving negative audit findings. The MECs also undertook to follow up on the commitments made by their managements to remove qualified opinions and the other matters raised in the audit reports.

At the Auditor-General briefing on audit outcomes to the provincial legislature, the Premier, on behalf of the executive, commented that they are serious about reducing qualified audit opinions for the province. He stated that the KwaZulu-Natal Government offered its full cooperation to the Auditor-General in support of sustainable clean audit reports.

4.2 Impact of initiatives of other role players

Interaction with the Accounting Standards Board (ASB)

The ASB was constituted to set standards of GRAP for the public sector and to recommend to the Minister of Finance effective dates for the 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, 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 on whether GRAP fully addressed specific South African nuances in 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 GRAPs 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 Office of the Accountant-General (OAG).

Interaction with professional bodies

South African Institute of Chartered Accountants (SAICA)

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 by 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 a 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.

International Regulatory Board for Auditors (IRBA)

The AGSA is represented on the CFAS, IRBA's 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 provide guidance on how they should be dealt with by its members.

Interaction with the Provincial Treasury

The provincial legislature and departments were guided by KZN Circular 1 of 2009, which gave them guidance on the disclosure and treatment of immovable assets for the year under review. This circular contained an interpretation by the Provincial Treasury of how the provincial departments should treat and disclose immovable assets, based on guidance provided by the National Treasury.

The circular in essence stated that all the provincial departments, with the exception of the Department of Public Works, should not disclose immovable assets in their financial statements or their asset registers. Where uncertainty existed regarding ownership of assets, a note indicating this fact, together with reference to the GIAMA process, needed to be included under the tangible asset disclosure note to the financial statements of the provincial departments. A separate unaudited schedule needed to be attached to the financial statements indicating the assets where uncertainty regarding ownership was noted. Furthermore, the departments were to submit a declaration to the Provincial Treasury of the list of these assets that were included in the annexure.

Further exemption was granted by the Provincial Treasury on the date by which departments recognised assets at R1. Practice Note FM 30 – Asset Management, was issued by the Provincial Treasury in this regard.

Accounting reforms in the form of an assessment of the readiness of provincial departments to disclose inventory from 2009-10 was undertaken for the year. In addition, schedules 3A and 3C public entities and constitutional institutions had to indicate their readiness for GRAP, in terms of the minister of Finance's General Notice 516 of 2008, issued in Government Gazette No. 31021 of 9 May 2008, which sets effective dates for 17 further standards of GRAP, in addition to GRAP 1, 2 and 3, effective for periods beginning on or after 1 April 2009.

4.3 Accounting reforms

Interaction with the National Treasury

An effective relationship with the National Treasury and, more specifically, the OAG, is critical to the responsibilities of the Auditor-General 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 meetings 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 representatives from the ASB who assist 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 AGSA audit business executives and corporate executives attend these sessions. Heads of departments 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 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, which 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 declined in the current year, I am still concerned that these remain necessary and that, in certain instances, the wording of these exemptions caused additional confusion and inconsistencies in reporting.

A further matter that requires attention is the guidance given by the provincial treasuries, which is sometimes inconsistent or 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 issue 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 Department of Public Works, 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 with the AGSA 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 on submission of the financial statements for auditing, including the necessity for auditees to improve their document management systems to avoid delays on audits.

- A review of the process to issue and the legal status of communiqués issued by the OAG and other role players, including practice notes, memoranda, circulars, guidelines, frameworks, handbooks, etc. within the perspective of reporting by the auditors on compliance with these publications by the auditees.
- Formalising the status of certain functions conducted by departments as to whether they are separate entities and thus require 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 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. Non-compliance with laws and regulations, especially regarding procurement practices, is another area of great concern. The OAG had agreed to revisit the current practice note on these finance leases but this did not eventuate. 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 by departments has been submitted to the OAG for their consideration in the guidance to be published for the 2009-10 cycle.

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 address the requirements of the ISAs regarding the acceptability of this guide as a financial reporting framework and further whether it would be classified as a “fair presentation of compliance framework”. I will communicate my requirements in this regard in an AG directive to be published in the Government Gazette, to the OAG, in due course.

SECTION 5: ANALYSIS OF AUDIT QUALIFICATION AREAS AND ROOT CAUSES

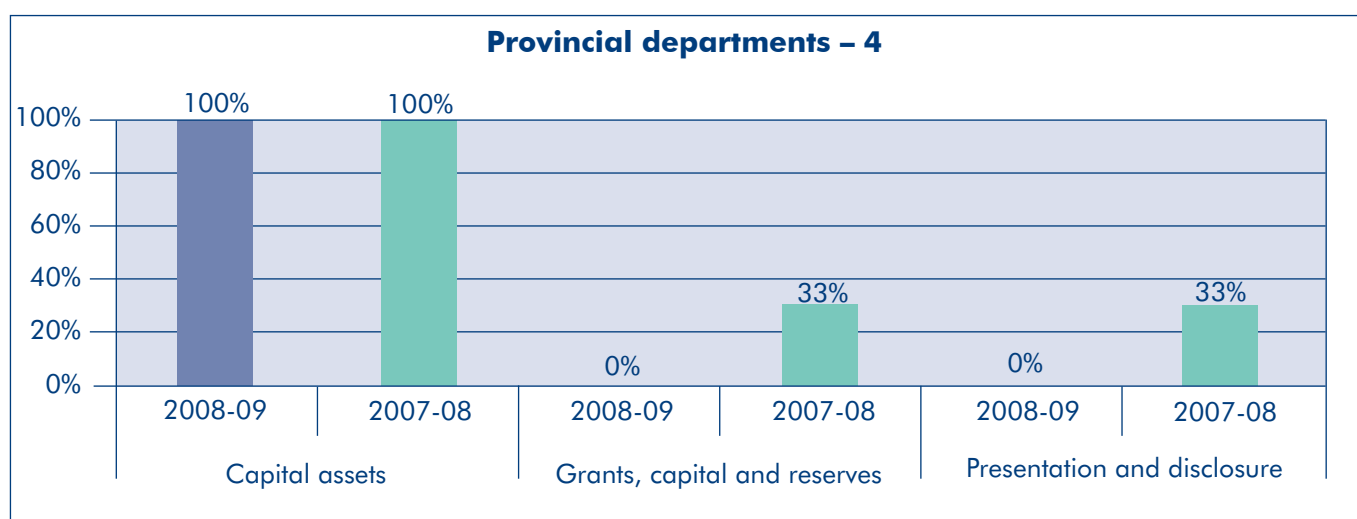
This section of the report provides details on specific areas of the income statement and/or balance sheet of entities that attracted qualified audit opinions. Details are provided under separate headings for provincial departments, provincial public entities and provincial other entities. An analysis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

5.1 Provincial departments

5.1.1 Statement of financial position areas qualified

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

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



Statement of financial position items

Assets – capital assets

The only occurrence of audit qualifications for departments related to immovable capital assets at the Departments of Social Development, the Royal Household and Public Works and movable capital assets at the Department of Health and the Royal Household. The main drivers of this qualification were the lack of information to verify the existence and valuation of the assets, incomplete asset registers, untraceable assets and the absence of title deeds for immovable assets. The root causes for the asset qualifications are summarised as follows:

- Conditions attached to previous exemptions to assets were not fully addressed.
- The pace of immovable asset reforms driven by Public Works needed to be accelerated.
- Notable low levels of skills and expertise in certain asset management units.



- Inadequate record keeping of assets was identified as a fraud risk at some departments and a risk impacting on maintenance and service delivery.
- A general lack of financial expertise to properly account for assets at year-end.
- Notwithstanding the National Treasury affecting Circular 1 of 2009 as guidance on the accounting treatment and disclosure of immovable assets, the departments were still unable to identify owned assets and account for them correctly.

The risk of incidences of fraud in those departments receiving qualifications on movable assets is substantially increased due to the inherent nature of these assets being small and valuable, easily transferable from one location to another and easily disposable for monetary gain.

However, it should be noted that there has been an improvement from the previous year from 33% to no findings in the area around grants, capital and reserves, as well as matters relating to presentation and disclosure for provincial departments.

With a view to removing the qualification on immovable assets for the Department of Public Works going forward, it is recommended that the focus should be on accelerating the implementation of the GIAMA under the leadership of the MEC concerned who can report quarterly in relation to a clear plan with defined milestones. For the other departments with a qualification on movable assets it is recommended that the respective leaderships take ownership of dealing expeditiously with the challenges and report to the executive authority regularly.

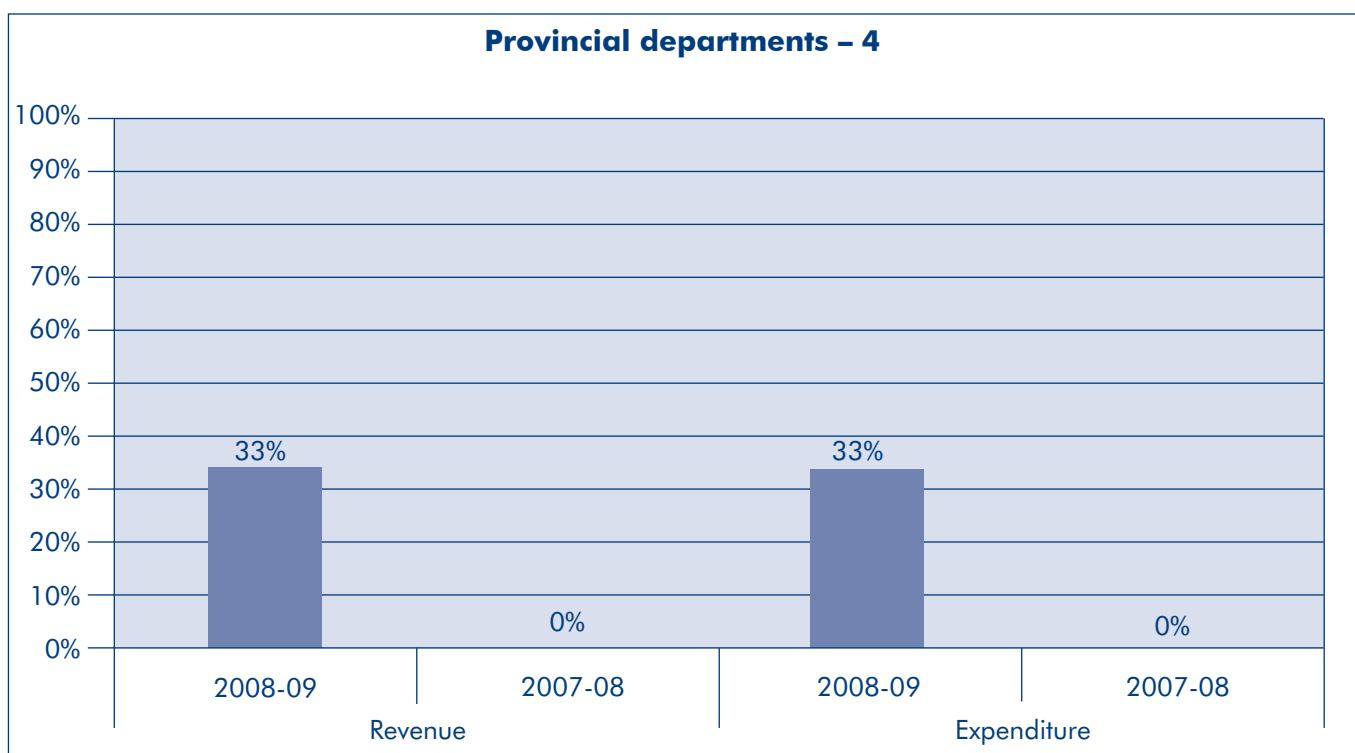
It is further recommended that:

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

5.1.2 Statement of financial performance areas qualified

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

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



An analysis of the graph above indicates that none of the departments were qualified in respect of income statement items. Improvements were noted in the areas of expenditure and material losses.

5.1.3 Analysis of root causes of qualifications

Department of the Royal Household (area of concern: capital assets)

- Leadership not monitoring compliance with Treasury Regulations relating to asset management.
- Limitation of scope resulting in the auditors being denied access to the palaces, despite prior arrangements and all protocols having been observed.

Department of Health (area of concern: capital assets)

- Leadership failing to safeguard and keep complete records of assets.
- Inadequate review of financial statements by those charged with governance of the department, resulting in assets prior to 2004 being excluded from the fixed asset register.
- Ineffective record management system in operation in the department.

Department of Social Development (area of concern: capital assets)

- Lack of oversight responsibility over financial reporting and internal control.

Department of Public Works (area of concern: capital assets)

- Appropriate systems were not in place for identifying and communicating pertinent information to

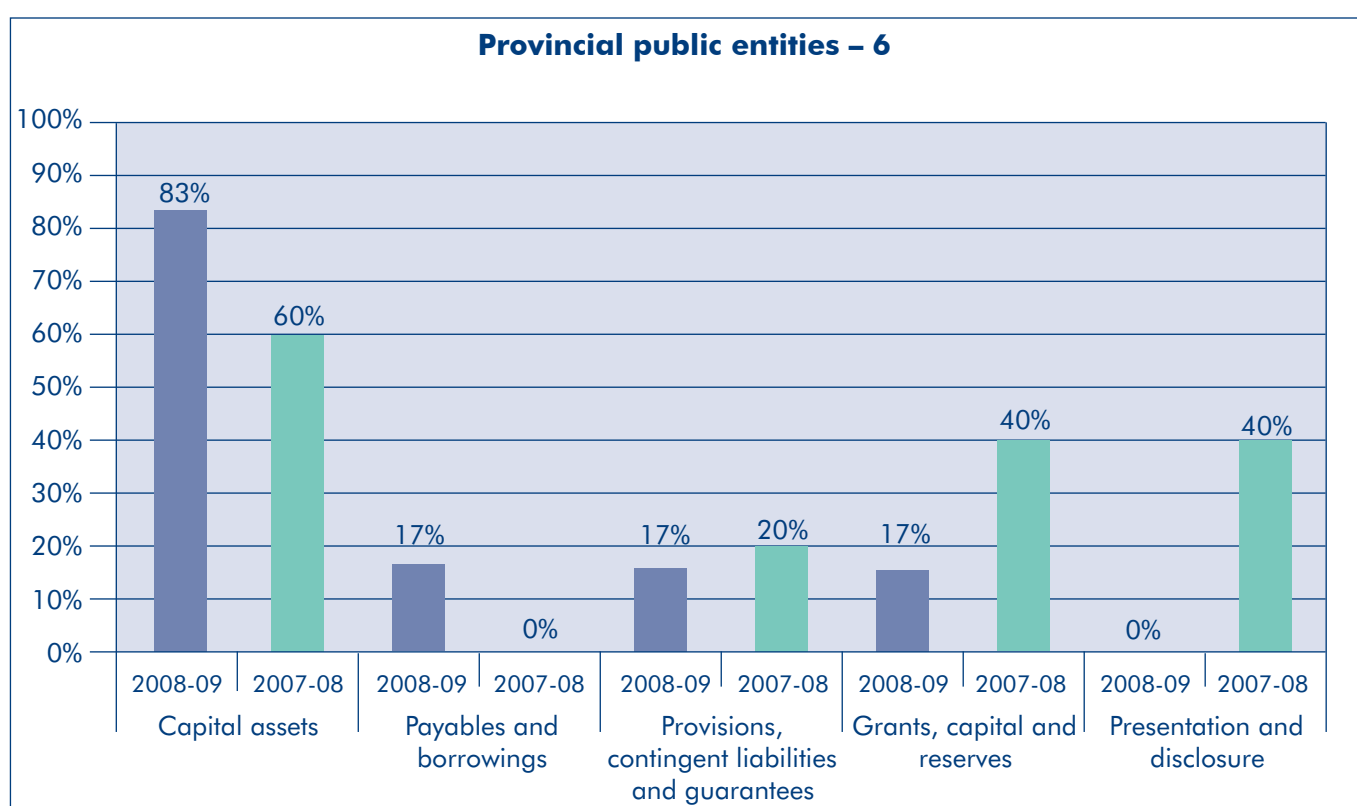
update the consolidated property register with additions and registration of properties to support financial reporting.

5.2 Provincial public entities

5.2.1 Statement of financial position areas qualified

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

Figure 2(a): Areas qualified in the balance sheet (six provincial public entities qualified)



Balance sheet item

Assets – capital assets

The highest occurrence of audit qualifications for provincial public entities related to property, plant and equipment at uMsekeli Municipal Support Services, KwaZulu-Natal Nature Conservation Board, Ithala Limited (equipment), Ithala Development Finance Cooperation (Pty) Ltd and Amafa Akwazulu Natali. The main drivers of audit qualifications were the non-compliance with the requirements of International Accounting Statement 16 relating to the determination of useful lives, assessing residual values and the impact of impairments on assets; lack of information to verify the existence and valuation of property, plant and equipment; incomplete asset registers; and untraceable assets. A lack of skill to correctly apply the applicable accounting framework, a lack of financial expertise to account for assets correctly as well as a lack of monitoring of controls around the safeguarding and maintenance of assets were identified as the root causes of the qualification.

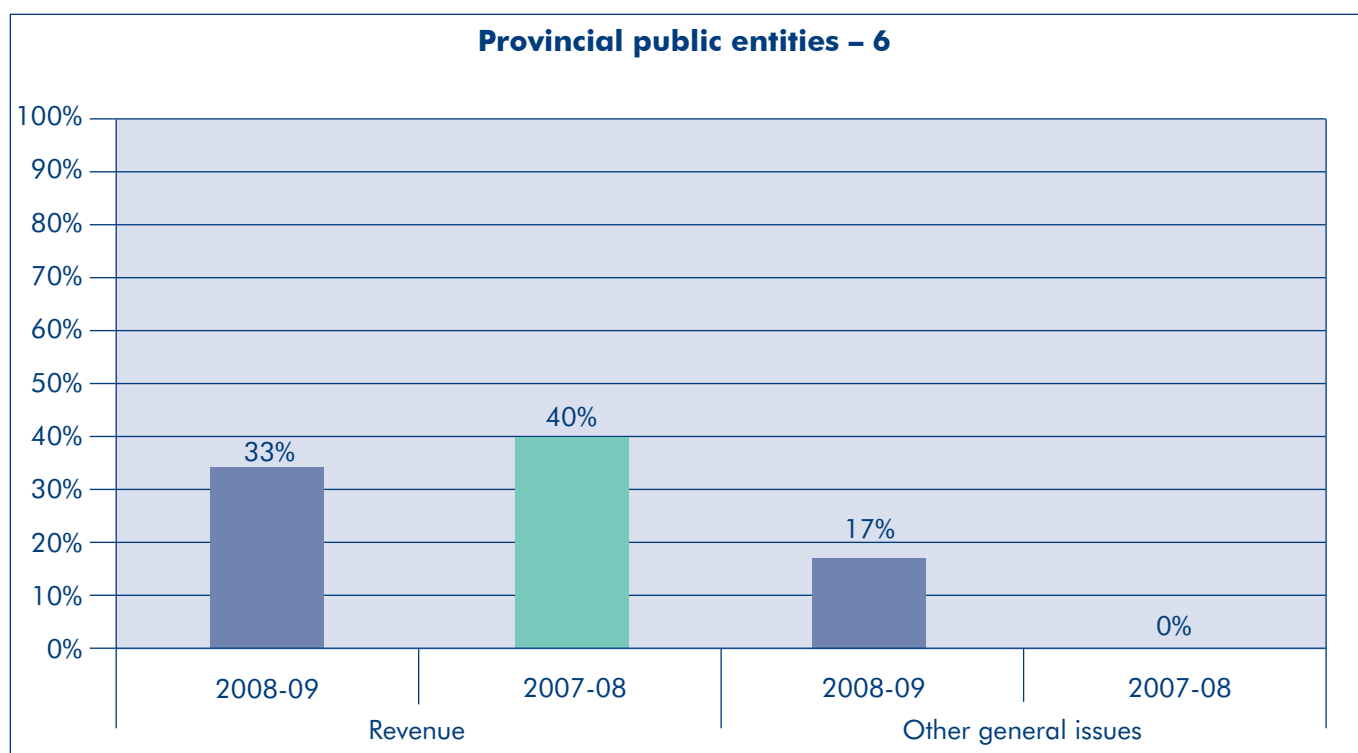
There has been a regression in findings regarding capital assets and payments and borrowings. However, there has been an improvement in the treatment of provisions, contingent liabilities, grants and capital reserves, and presentation and disclosure.

It is imperative that management should consider corrective action in dealing with the challenges to ensure the accurate accounting treatment for assets and that an effective asset management system is implemented which is part of an internal audit focus.

5.2.2 Statement of financial performance areas qualified

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

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



An analysis of the above graph reveals that the majority of the qualifications affecting public entities related to revenue (33%), mainly due to inadequate systems to account for all revenue received by the entities.

There has been an improvement in the treatment of revenue, but a regression in the treatment of other general matters.

5.2.3 Analysis of root causes of qualifications

Amafa Akwazulu-Natali (areas of concern: capital assets and revenue)

- The leadership not ensuring that adequate financial skills are available to comply with the accounting standards and the concerns about the quality of financial statements submitted for auditing.

Ithala Development Finance Corporation Ltd and Ithala Limited (area of concern: capital assets)

- The leadership of the entities not taking proper ownership of ensuring that the fixed asset register is complete and thorough asset verifications are performed regularly.

KwaZulu-Natal Nature Conservation Board (areas of concern: capital assets, liabilities and revenue)

- The leadership of the entity not addressing the lack of a proper asset management system in order to expedite the transfer of certain revenue-generating assets to iSimangaliso Wetland Park Authority in terms of an agreement between the entities.

KwaZulu-Natal Political Parties Fund (area of concern: receivables and transfers)

- Management not ensuring that processes are in place to ensure that all political parties submit audited financial statements to confirm that funds spent were for the purposes intended by the fund's enabling legislation.

uMsekeli Municipal Support Services (areas of concern: capital assets and liabilities)

- Leadership failing to ensure that governance structures are in place, internal audit reviews the financial statements and adequate skills are available to prepare quality financial statements.

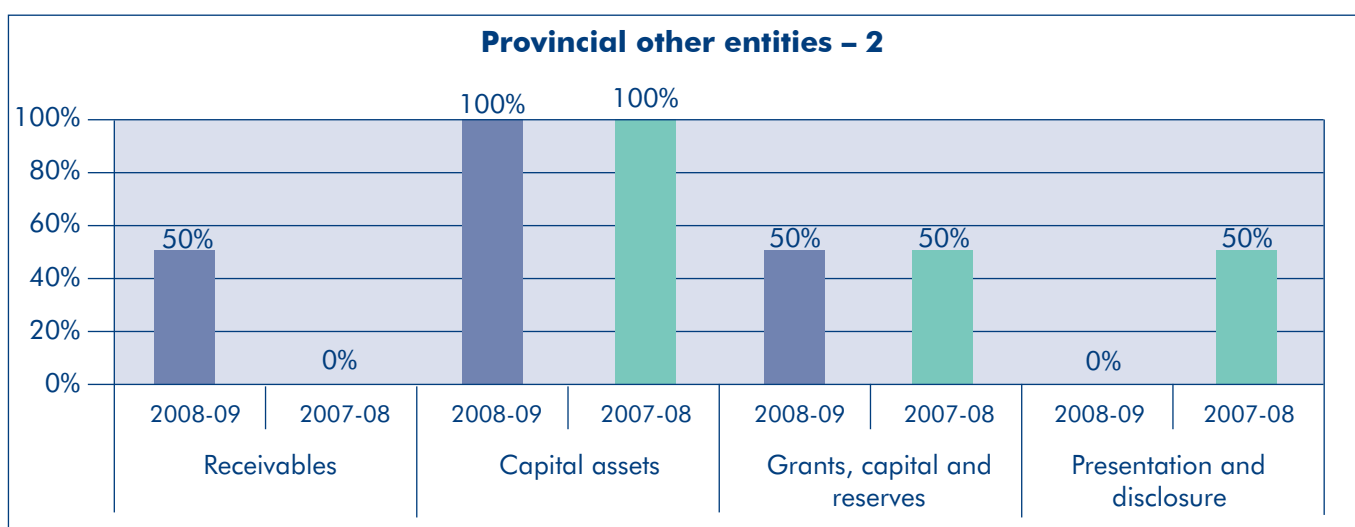
To address the root causes it is recommended that the collective leadership of entities should ensure adequate financial skills, organisational structures and capacity to ensure compliance with the required accounting framework and address areas of responsibility and lines of reporting to support effective control over financial reporting. The necessary governance structures should be in place and capacitated with the levels of expertise to monitor the risk of inadequate financial reporting.

The internal audit units need to ensure that aspects relating to the assets, audit findings and review of financial statements are covered in the internal audit plans.

5.3 Provincial other entities

5.3.1 Statement of financial position areas qualified

Figure 3(a) below provides a breakdown of those findings on balance sheet items which gave rise to qualified audit opinions. The graph depicts the number of provincial public other entities that had qualified audit opinions in key areas of their statements of financial position (balance sheets). Details of the nature of qualifications are provided in those qualification areas where these percentages exceeded 50%.

Figure 3(a): Areas qualified in the statement of financial position (two provincial other entities qualified)

Balance sheet items

Assets – capital assets

The highest occurrence (100%) of audit qualifications for provincial other entities related to property, plant and equipment in the KZN Housing Fund and Traditional Levies and Trust Account. The main drivers of audit qualifications were the non-compliance with the requirements of IAS 16 relating to the determination of useful lives and assessing residual values. Furthermore, the lack of information to verify the existence and valuation of property, plant and equipment, incomplete asset registers and the absence of documentation to justify ownership of assets were also evident. This was a recurring issue from the prior year.

A lack of skill to correctly apply the applicable accounting framework, a lack of financial expertise to account for assets correctly and a lack of monitoring of controls around the safeguarding and maintenance of assets were identified as the root causes of the qualification.

Receivables

The receivables qualification for the Traditional Levies and Trust Account was the result of the incompleteness and inaccuracy of other receivables recorded. This was a regression from the prior year.

The root cause for this qualification can be attributed to information not being available in a format to permit accurate and complete financial reporting. This is further exacerbated by the fact that an inadequate policy framework existed that relating to the accounting framework.

Government grants and assistance

The expenditure and property, plant and equipment funded were not accounted for in terms of IAS 20 for the Traditional Levies and Trust Account, resulting in a qualification.

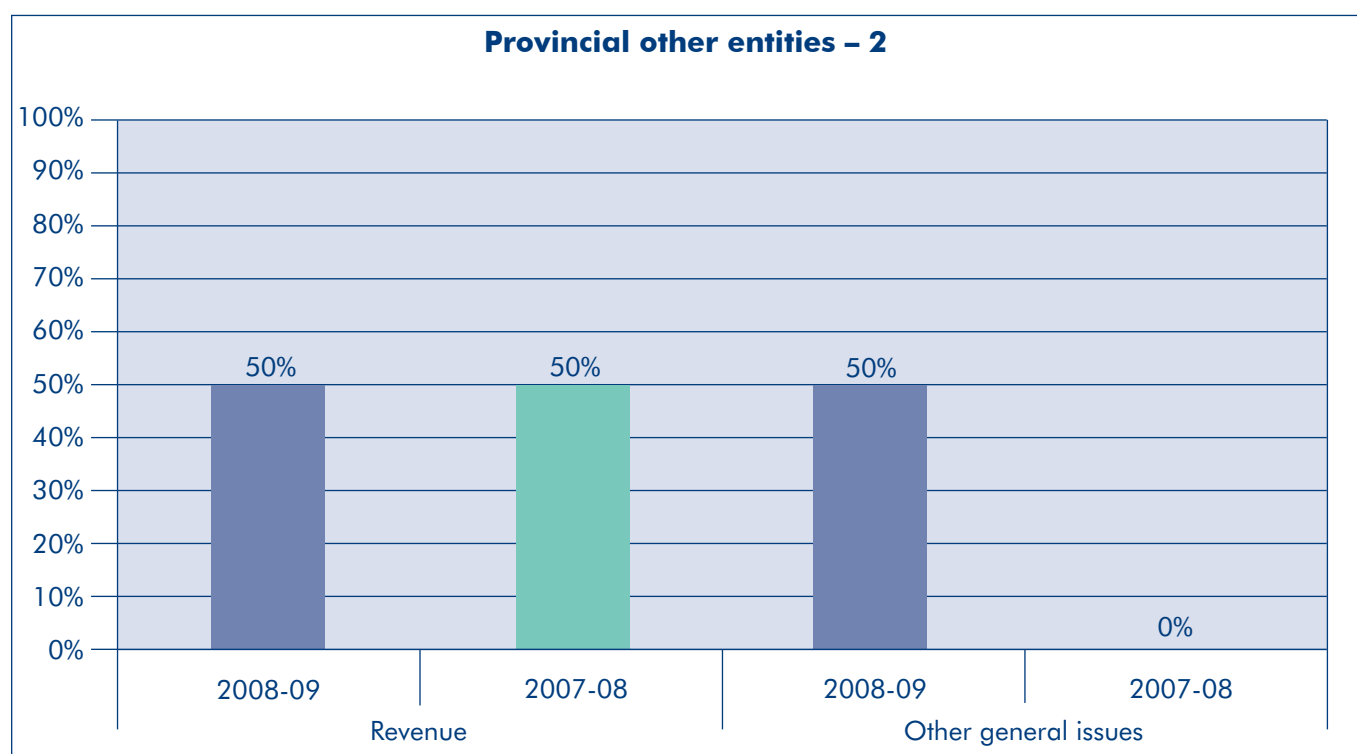
Management not specifying financial reporting objectives to enable the identification of risks to reliable financial reporting was identified as a root cause for this qualification.

Although it has to be noted that there was an improvement in presentation and disclosure from the prior year, corrective action is recommended in dealing with the challenge to ensure accurate accounting treatment for assets. Management, together with the intervention of the treasury and the Premier, will have to seek a solution around the accounting framework adopted by the entity.

5.3.2 Statement of financial performance areas qualified

Figure 3(b) below provides a breakdown of those findings on income statement items 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 on the nature of qualifications are provided in those qualification areas where percentages exceeded 50%.

Figure 3(b): Areas qualified in the statement of financial performance (two provincial other entities qualified)



Income statement item

Revenue

The financial statements of the Traditional Levies and Trust Account were qualified on the basis of reported revenue. There was no system of control over traditional income and thus there were no satisfactory audit procedures that could be performed to obtain reasonable assurance that all traditional income had been properly recorded prior to initial entry in the accounting records.

Disclosure, presentation and other matters

The audit opinion on the financial statements of the Traditional Levies and Trust Account was qualified for not properly disclosing related-party transaction amounts and balances for the financial year in terms of IAS 24.

5.3.3 Analysis of root causes of qualifications

Traditional Levies and Trust Account – KZN (areas of concern: current assets, capital assets, liabilities and revenue)

- The leadership has attempted to address the prior year findings, however, the nature and structure of this entity make it difficult to comply with the accounting framework. Because of the absence of a policy framework that relates to the accounting framework and the lack of a proper asset management system, the asset register was inadequate. This matter was elevated to the Premier and taken up by the head of the department with the treasury due to the urgent need to change the accounting framework.

KZN Housing Fund (area of concern: capital assets)

- Leadership risk monitoring and governance structures not noting that the asset register did not agree with the general ledger and financial statements.

SECTION 6: WARNING SIGNALS REQUIRING ATTENTION

Emphasis of matter

Regularity audits emphasise matters that do not directly impact on the financial 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

The incidence of some of the matters emphasised by regulatory audits is depicted in figures 4(a) and 5(a) below. Details of these and other matters are provided in the paragraphs that follow.

Other matters

Regularity audits further disclosed other matters that do not directly impact on the financial audit opinion. These matters are presented in this report in sequence of the provincial legislature, 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

The incidence of some of the other matters disclosed by regulatory audits is depicted in figures 4(b), 5(b) and 6(a) below. Details of these and other matters are provided in the paragraphs that follow.

6.1 Provincial legislature

6.1.1 Emphasis of matter: provincial legislature

The incident of irregular expenditure is included below:

Irregular expenditure

As a result of supply chain management procedures not being followed, the provincial legislature incurred irregular expenditure for the 2008-09 year amounting to R26 800 000 (2008: R nil). This expenditure has not been condoned yet.

6.1.2 Other matters audit findings: provincial legislature

The incidence of misstatements in the financial statements disclosed by the regulatory audit is included in the paragraph below:



Misstatements in financial statements corrected as a result of the audit

The provincial legislature's financial statements required material corrections to be made to the financial statements that were submitted for auditing. The areas materially corrected were disclosure of lease commitments and irregular expenditure. This was due to the following shortcomings and challenges:

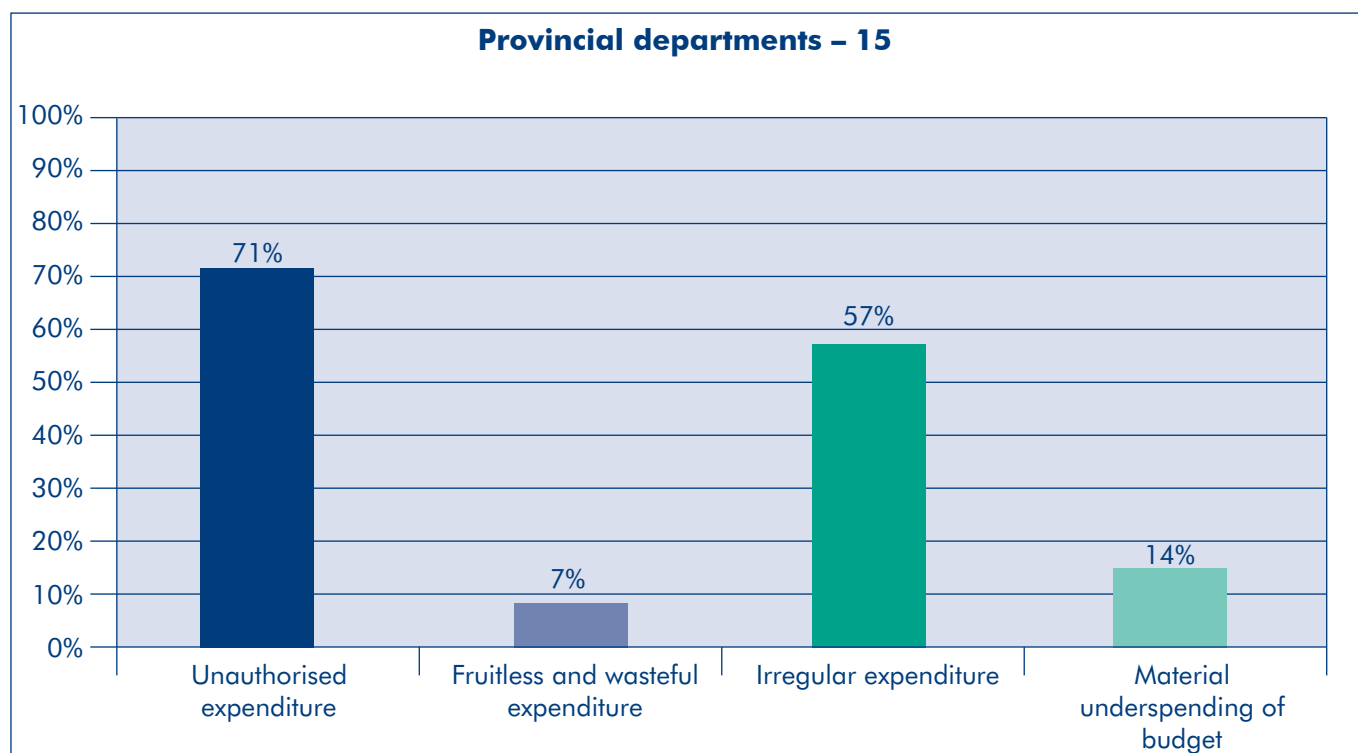
- Time frames are an issue as auditees tend to react to requirements late in the financial process.
- Financial statements are not prepared throughout the year, there is minimum review of accounts throughout the year and this results in errors not being detected and corrected early enough by management.
- Inability of certain key accounting staff to interpret and prepare annual financial statements in terms of the reporting framework, coupled with a lack of ongoing monitoring and supervision by management.
- Information and communication not captured in the form and time frame to support financial reporting and disclosure notes not system generated and only produced once a year.

6.2 Provincial departments

6.2.1 Emphasis of matter: provincial departments

The incidence of some financial matters revealed by the regulatory 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 Emphasis of matters: provincial departments



Financial sustainability

Three provincial departments (Departments of Arts, Culture and Tourism, Health and Social Development) reported significant uncertainties for the 2008-09 financial year.

The Department of Health reported a contingent asset to the value of R20 million, reflecting overpayments made during the implementation of the occupation-specific dispensation for nurses.

The Department of Arts, Culture and Tourism had instituted legal proceedings against a service provider for the non-delivery of a movable asset and for the recovery of R1,4 million already paid. The outcome of these legal proceedings was unknown at the date of this report. No provision for any losses that might result had been made in the financial statements.

The Department of Social Development reported uncertainty regarding the recoverability of an unconfirmed balance of R100,6 million, being monies expended by the department on behalf of SASSA.

Unauthorised expenditure

The total unauthorised expenditure incurred as at 31 March 2009 amounted to R5 311 266 113 (2008: R2 417 839 113) as disclosed in the financial statements of all the provincial departments.

Seventy-one per cent of departments incurred unauthorised expenditure for the 2008-09 financial year. The financial statements of four provincial departments that were qualified (Departments of Health, Social Development, the Royal Household and Public Works) and six provincial departments that were unqualified (Departments of Agriculture and Environmental Affairs, Education, Housing, Office of the Premier, Provincial Treasury and Transport) reflected total unauthorised expenditure of R4 789 083 000 for the year (2008: R1 895 656 000) in their audit reports.

Unauthorised expenditure was incurred in the following broad expenditure categories:

- Overspending on compensation of employees
- Higher operational costs as a result of price increases, affecting in particular the Department of Housing

If certain expenditure had been paid in a timely manner (within 30 days of receipt of invoices) and not accrued for, the following departments would possibly have incurred further unauthorised expenditure of R1 220 000 000, because such expenditure would have exceeded their voted funds to be surrendered to the provincial revenue fund:

- Education
- Health
- Housing
- Premier
- Royal Household
- Transport
- Public Works

Fruitless and wasteful expenditure

Audits revealed instances of fruitless and wasteful expenditure having been incurred, amounting to R620 000 for the current year (2008: R191 000). This pertained to the Department of Education where fruitless and wasteful expenditure of R620 000 was incurred as a result of catering for events where the number catered for exceeded the number of attendees at that event. For the 2008-09 year, R72 000 was subsequently condoned.

Irregular expenditure

Fifty-seven per cent of provincial departments incurred irregular expenditure for the 2008-09 year. Irregular expenditure was incurred by six of the departments with unqualified opinions (Departments of Agriculture, Arts, Culture and Tourism, Education, Local Government and Traditional Affairs, Provincial Treasury and Transport) and the two departments with qualified opinions (Health and Social Development) amounting to some R2 048 499 000 for the year (2008: R60,771 million). Identified instances resulting in irregular expenditure being incurred included the following:

- Supply chain management and tender processes not being followed
- Overexpenditure on compensation of employees without treasury approval
- Overexpenditure on transfers and subsidies without approval from the treasury
- Expenditure incurred under the Health Professional Training and Development Grant in the absence of an approved business plan

Irregular expenditure totalling R23 639 000 has been subsequently condoned for the 2008-09 year.

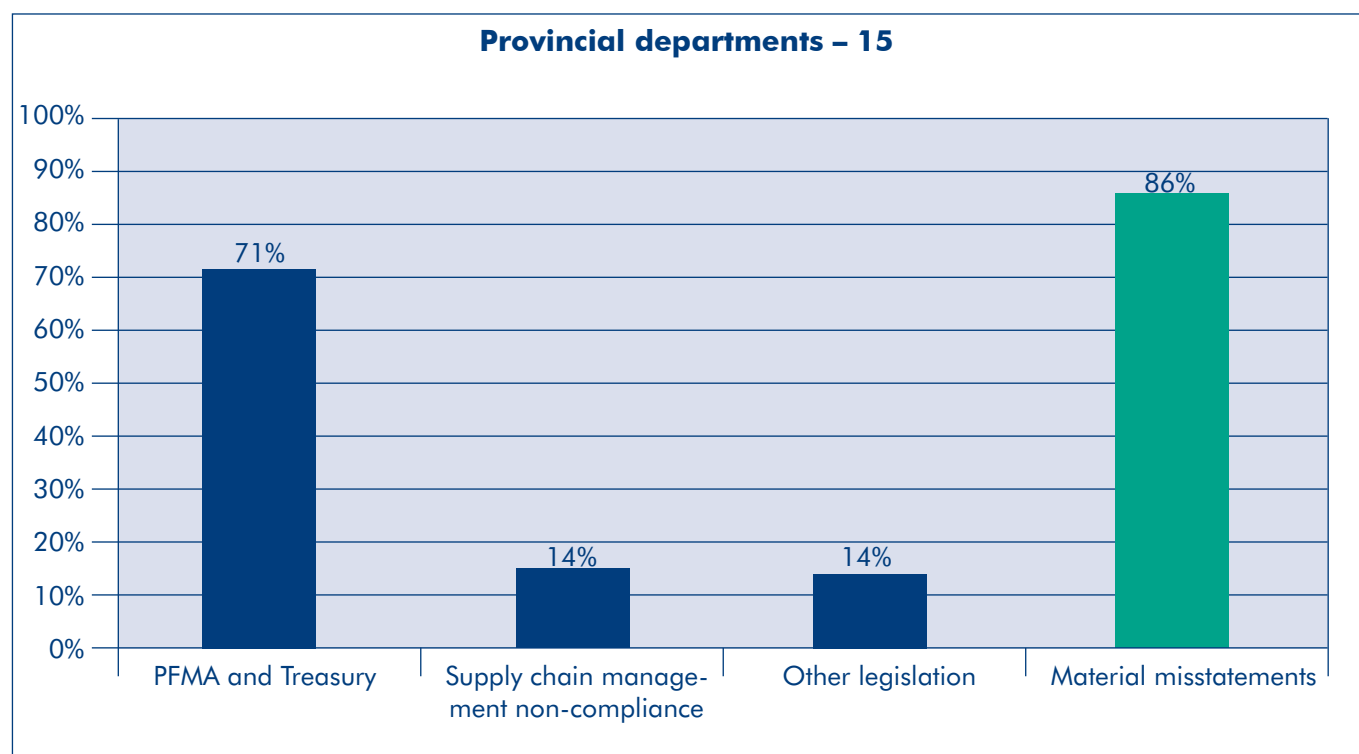
Material underspending

The Departments of Agriculture and Environmental Affairs as well as Arts, Culture and Tourism with unqualified audit opinions materially underspent their budgets. For the year under review the underspending for the Department of Agriculture and Environmental Affairs amounted to R126,71 million, the majority of which related to programme 2 – agricultural development services. The underspending for the Department of Arts, Culture and Tourism amounted to R9,745 million, the majority of which related to programme 2 – cultural affairs, the impact of which was that the department had not achieved its objective of constructing libraries and art centres for certain municipalities.

There were no instances of material underspending for those departments that received qualified opinions.

6.2.2 Other matters audit findings: provincial departments

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

Figure 4(b): Incidence of other matters: provincial departments

Non-compliance with applicable legislation

An analysis based on figure 4(b) indicates that a total of 71% of departments had reported areas in non-compliance. Four qualified departments (Health, Social Development, the Royal Household and Works) and six unqualified departments (Agriculture, Office of the Premier, Community Safety and Liaison, Education, Transport and Provincial Treasury) displayed instances of non-compliance with the PFMA and Treasury Regulations. Such instances included the following:

- Non-compliance with the PFMA and Treasury Regulations was reported at 71 % of departments.
- Non-compliance with the supply chain management process was reported at 14 % of provincial departments.
- Non-compliance with other enabling legislation was reported at 14% of provincial departments.
- Findings relating to creditors not settled within 30 days of receipt of the invoice were applicable to five (33%) departments.
- Three departments (20%) had findings relating to no disaster recovery plans.
- Two departments (14%) had findings relating to suspense accounts not being cleared timeously.
- Two departments (14%) had findings relating to other enabling legislation, namely the Occupational Health and Safety Act and the National Environmental Management Act.

Reasons for non-compliance included the following:

- Lack of monitoring and supervision of day-to-day activities by all levels throughout the period
- Disregard of legislation by officials with insufficient monitoring by the leadership
- Ineffective/inadequate internal audit coverage of compliance
- Leadership not setting right tone at the top

It is recommended that the role and scope of the risk officers should be defined and internal audit should assist with providing assurance that the strategies to mitigate the risk of non-compliance are adequate.

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

Eighty-six per cent of provincial departments with other matters in their audit reports submitted a set of financial statements that required material corrections. Three qualified departments (Health, Social Development and Public Works) and nine unqualified departments (Agriculture, Economic Development, Community Safety and Liaison, Education, Transport, Arts, Culture and Tourism, Housing, Local Government and Traditional Affairs, and Provincial Treasury) required material corrections to be made to their financial statements. This was due to errors, omissions and inconsistencies that were identified during the audit. These misstatements were not prevented or detected by the departments' systems of internal control.

In 83% (10 out of 12) of the departments with findings the misstatements related to disclosure and 25% (three out of the 12) related to misclassification (one department had both findings).

An analysis of the root causes for misstatements indicated the following:

- Time frames are an issue as auditees tend to react to requirements late in the financial process. Accounting is a process that should begin at the commencement of the financial year and management accounts should be produced on a monthly basis. Processes need to be in place early in order to prevent and detect problems. Furthermore, the application of the standards needs to be done on the basis of each line item in the financial statements being recognised as an element of the financial statements.
- Auditees tend to recognise items with the hope that the auditor will detect and correct errors, resulting in the correct classification of the amount as per the standard.
- Financial statements are not prepared throughout the year and there is minimum review of accounts throughout the year, resulting in errors not being detected and corrected early enough by management.
- Lack of skills to interpret and prepare annual financial statements in terms of the required framework coupled with a lack of ongoing monitoring and supervision.
- Had the audit committee adequately reviewed the financial statements, a significant number of errors would have been detected prior to the financial statements being submitted to the AGSA.

It is recommended that the following be implemented:

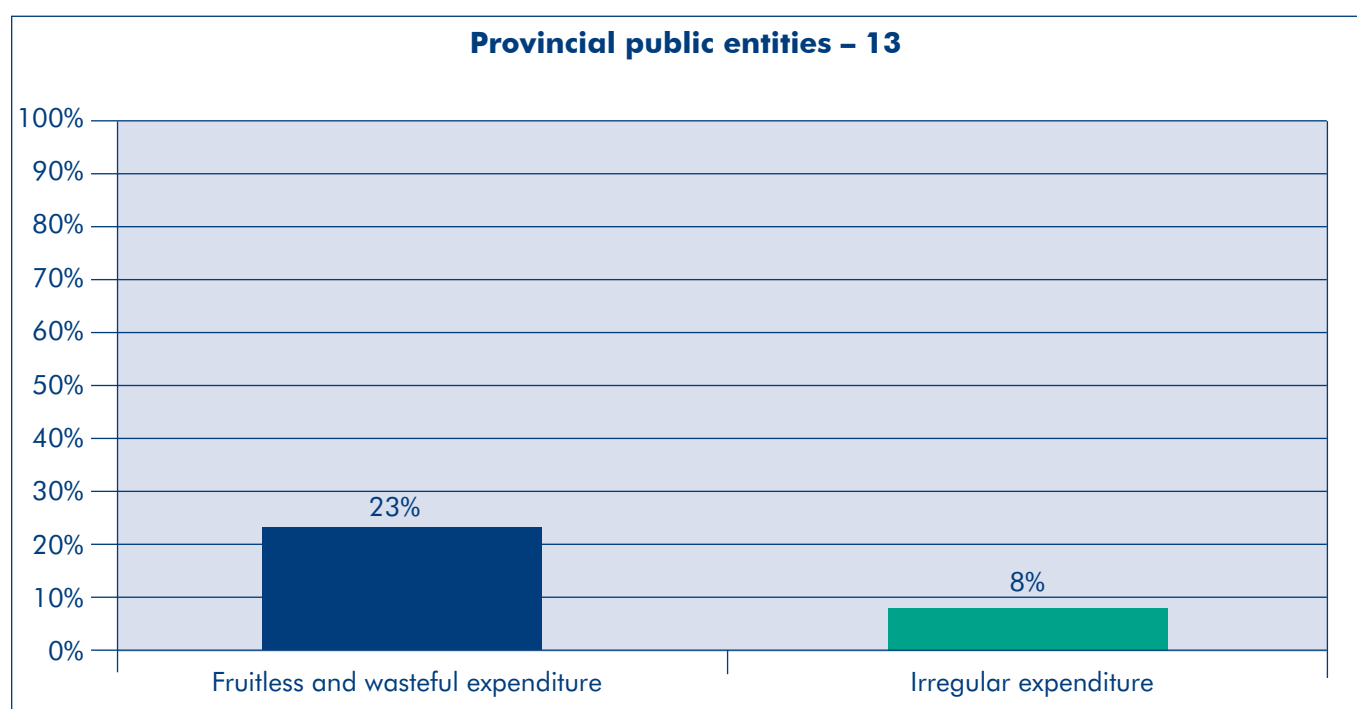
- Training and recruitment of skilled permanent staff to manage the financial process and prepare the financial statements. The interview process for these accountants needs to be attended by those charged with governance to ensure that persons of the right calibre are employed to deal with the challenges of accounting frameworks and related change.
- Intervention by those charged with governance and the Provincial Treasury to ensure adequate support and that capacity is made available to undertake the roles and responsibilities in financial reporting.

6.3 Provincial public entities

6.3.1 Emphasis of matter: provincial public entities

The incidence of some of the financial matters revealed by the regulatory 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 matter: provincial public entities



Financial sustainability

The audit reports of two provincial public entities (KwaZulu-Natal Agricultural Development Trust (financially unqualified with other matters) and uMsekeli Municipal Support Services (qualified)) contained going concern paragraphs. uMsekeli Municipal Support Services closed down on 31 March 2007 and is in the process of transferring its assets to the Department of Local Government and Traditional Affairs. The KwaZulu-Natal Agricultural Development Trust has been dormant for the past three years and has not fulfilled its objectives in accordance with the deed of trust, raising questions regarding its future operations.

Fruitless and wasteful expenditure

Incidents of fruitless and wasteful expenditure occurred, amounting to R1,105 million for the current year (2008: R551 000). This pertained to Ithala Development Finance Corporation Limited (qualified) and Ithala Limited (qualified) where fruitless and wasteful expenditure of R20 490 each was incurred as a result of interest on late payments for telephone, rates and electricity bills. The KwaZulu-Natal Nature Conservation Board (qualified) incurred an amount of R1,064 million (2008: R551 000) as a result of non-compliance with policies and procedures by employees of the entity. No amounts have been condoned subsequently.

Irregular expenditure

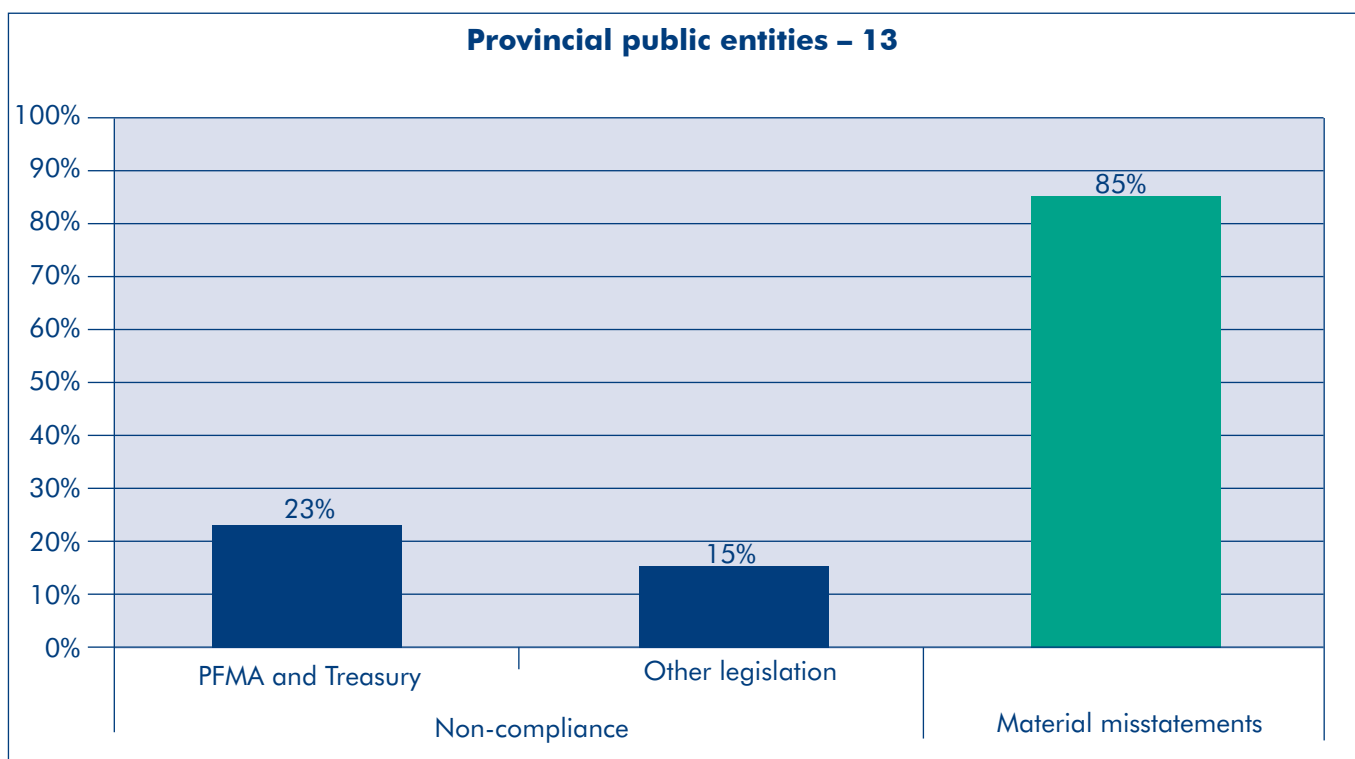
Irregular expenditure was incurred by one public entity with a qualified audit opinion (uMsekeli Municipal Support Services) amounting to some R3,2 million for the year (2008: R nil), as a proper tender process had not been followed.

Irregular expenditure has not been condoned subsequently.

6.3.2 Other matters audit findings: provincial public entities

The incidence of some of the other matters disclosed by regulatory 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 public entities



Non-compliance with applicable legislation

An analysis based on figure 5(b) indicates that 23% of provincial public entities had instances of non-compliance with the PFMA and 15% had instances of non-compliance with other enabling legislation. Two qualified provincial public entities (KwaZulu-Natal Political Parties Fund and KwaZulu-Natal Nature Conservation Board) and two unqualified provincial entities (KwaZulu-Natal Tourism Authority and Mjindi Farming (Pty) Ltd) displayed instances of non-compliance with the PFMA and/or other enabling legislation for the following reasons:

- A lack of monitoring and supervision of day-to-day activities by all supervisory levels and throughout the period
- Disregard of legislation by officials with insufficient monitoring by the leadership

- Ineffective/inadequate internal audit coverage of compliance
- Leadership not setting right tone at the top

It is recommended that internal audit should assist with providing assurance that the strategies to mitigate the risk of non-compliance are adequate.

Misstatements in annual financial statements

Eighty-five per cent of provincial public entities with other matters in their audit reports submitted a set of financial statements that required material corrections as a result of the audit. Six qualified provincial public entities (Amafa Akwazulu-Natali, Ithala Development Finance Corporation Ltd, Ithala Limited, KwaZulu-Natal Nature Conservation Board, KwaZulu-Natal Political Parties Fund and uMsekeli Municipal Support Services) and seven unqualified provincial public entities (KwaZulu-Natal Agricultural Development Trust, KwaZulu-Natal Gambling Board, KwaZulu-Natal Growth Fund Managers, KwaZulu-Natal Sharks Board, KwaZulu-Natal Tourism Authority, KZN Planning and Development Commission and Mjindi Farming (Pty) Ltd) required material corrections to be made to their financial statements. This was due to errors, omissions and inconsistencies that were identified during the audit. These misstatements were not prevented or detected by the entities' systems of internal control.

In 40% (four out of 10) of provincial public entities with findings the misstatements related to disclosure and in 100% (all 10) the misstatements related to misclassification (four entities had both findings) as a result of the following:

- Time frames are an issue as auditees tend to react to requirements late in the financial process. Accounting is a process that should begin at the commencement of the financial year and management accounts should be produced on a monthly basis. Processes need to be in place early, in order to prevent and detect problems. Furthermore, the application of the standards needs to be done on the basis of each line item in the financial statements being recognised as an element of the financial statements. Auditees tend to recognise items with the hope that the auditor will correctly classify the amount as per the standard.
- Annual financial statements are often submitted just to comply with the legislated deadline.
- Skills challenges at certain entities to interpret and prepare annual financial statements in terms of the required framework, coupled with a lack of ongoing monitoring and supervision.
- Challenges in the capacity and experience of staff in the financial departments, resulting in the use of consultants to prepare the annual financial statements.
- Information and communication not captured in the form and time frame to support financial reporting and disclosure notes not system generated and only produced once a year.
- Poor guidance from management on financial reporting objectives to enable identification of risks to reliable financial reporting. Lack of regular financial reports and inadequate review of annual financial statements by audit committees.

Material corrections could have been detected by the entities' financial management systems had adequate reviews been undertaken of the financial statements prior to submission to the AGSA. Furthermore, had the audit committee adequately reviewed the financial statements, a significant number of errors would have been detected prior to the financial statements being submitted to the AGSA. It is recommended that the following measures be considered:

- Training and recruitment of skilled permanent staff to manage the financial process and prepare the financial statements. The interview process for these accountants needs to be attended by those

charged with governance to ensure that persons of the right calibre are employed to deal with the challenges of accounting frameworks and related change.

- Intervention by those charged with governance and the Provincial Treasury to ensure adequate support and that capacity is made available to undertake the roles and responsibilities in financial reporting.

6.4 Provincial other entities

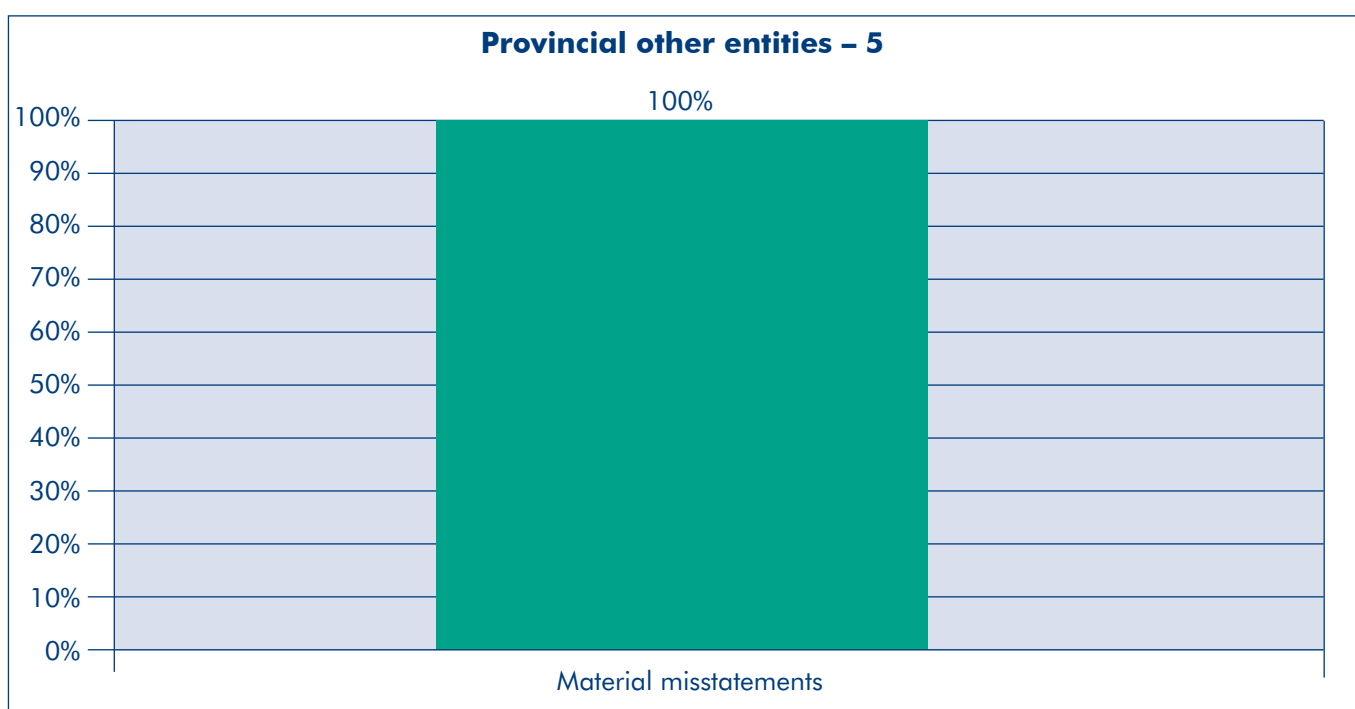
6.4.1 Emphasis of matter: provincial other entities

No concerns regarding financial matters were revealed by the regulatory audits at provincial other entities.

6.4.2 Other matters audit findings: provincial other entities

The incidence of some of the other matters disclosed by regulatory 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 other matters: provincial other entities



Misstatements in annual financial statements

All of the provincial other entities (with other matters in their audit reports) submitted a set of financial statements that required material corrections due to errors, omissions and inconsistencies that were identified during the audit.

In 50% (two out of four) of the provincial other entities with findings the misstatements related to disclosure and in all four it related to misclassification (two entities had both findings) due to the following:

- Time frames are an issue as auditees tend to react to requirements late in the financial process. Accounting is a process that should begin at the commencement of the financial year and management accounts should be produced on a monthly basis. Processes need to be in place early in order to prevent and detect problems. Furthermore, the application of the standards needs to be done on the basis of each line item in the financial statements being recognised as an element of the financial statements. Auditees tend to recognise items with the hope that the auditor will correctly classify the amount as per the standard.
- Financial statements are not prepared throughout the year, there is minimum review of accounts throughout the year and this results in errors not being detected and corrected early enough by management.
- Lack of skills to interpret and prepare annual financial statements in terms of the required framework coupled with a lack of ongoing monitoring and supervision.
- Information and communication not captured in the form and time frame to support financial reporting and disclosure notes not system generated and only produced once a year.
- Poor guidance from management on financial reporting objectives to enable identification of risks to reliable financial reporting. Lack of regular financial reports and inadequate review of annual financial statements by audit committees.

These material corrections could have been detected by the entities had management adequately reviewed the financial statements. Furthermore, had the audit committee adequately reviewed the financial statements, a significant number of errors would have been detected prior to the financial statements being submitted to the AGSA.

SECTION 7: RESULTS OF AUDITS OF INFORMATION SYSTEMS

• Information systems

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

• Information system controls

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

• Information system audits

The objective of information system audits is to evaluate the effectiveness of the information system controls of an organisation. During the year under review the following types of information system audits were performed throughout the province:

- IT general control reviews
- User account management reviews
- Enterprise resource planning systems review

• 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 two provincial entities and one provincial department. The following table indicates the common focus area findings identified throughout those audits performed.

Table 7: Common focus area findings arising from IT general control reviews

Focus area findings	Number of departments and entities audited	Percentage of audited departments and entities with finding
IT governance	3	67%
Business continuity	3	100%
Service level agreements	3	33%
Change control	3	67%
Operating system and logical security	3	100%
Physical and environmental controls	3	33%
Segregation of duties	3	33%



• 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 KZN Provincial Legislature and 11 provincial departments. The provincial departments excluded were the Departments of Health, Public Works, Provincial Treasury and the Royal Household. The following table indicates the common key findings identified throughout those audits performed.

Table 8: Common key Findings arising from user account management reviews

Findings	Number of departments (including the provincial legislature) audited	Percentage of audited departments (including the provincial legislature) with finding
Lack of or incomplete user account management procedures	12	100%
Access request forms not completed or inconsistently completed	12	83%
Users' access not periodically reviewed to ensure that they remained commensurate with their job responsibilities	12	100%
Activities of the system administrators/controllers were not reviewed by an independent person	12	100%
Inactive or unused user IDs were not timeously removed from the system or deactivated	12	100%
Lack of segregation of duties between system controller and user functions	12	25%
Excessive access rights assigned to either some or a high number of users	12	17%

• Systems, applications and products systems

A review of the systems, applications and products system (SAP) 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 to the effectiveness of the SAP-programmed and configuration controls. During the year under review, an audit was conducted of the controls surrounding the SAP basis and authorisations. The following key findings were identified during the audit:

- Inappropriate access to sensitive functions
- Change control weaknesses

Glossary of terms

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.

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.

Service level agreements

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

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.

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.

Physical and environmental controls

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

Segregation of duties

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

SECTION 8: SIGNIFICANT FINDINGS FROM AUDITS OF HUMAN RESOURCE MANAGEMENT AND COMPENSATION OF EMPLOYEES

For the year under review the regularity audits of provincial departments across the province (excluding the provincial legislature) included an assessment of their compliance with the PFMA, Treasury Regulations (TR), Public Service Act, 1994 (PSA), Public Service Regulations, 2001 (PSR) and directives/determinations issued by the minister of Public Service and Administration (MPSA) that support effective human resource management and controls over compensation of employees.

In addition to the audit findings raised, we also analysed the statistics and information published in the annual reports of the departments as required in terms of chapter 1, part III, J3 of the PSR. The results are discussed below.

8.1 Human resource planning

Human resource (HR) planning is required in terms of the PSR, chapter 1, part III, D1 to ensure that a department obtains the quantity and quality of staff required to meet its strategic objectives. The following departments did not have an HR plan that was approved by their MEC:

- Social Development – qualified
- Transport – financially unqualified (with other matters)

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

- Royal Household – qualified
- Education – financially unqualified (with other matters)
- Provincial Treasury – financially unqualified (with other matters)

8.2 Management of vacancies

Based on information contained in the annual reports the average vacancy rate on all levels and across all departments was 25,1% at year-end. However, on average the vacant positions for senior managers and highly skilled staff were measured at 27,5% (senior managers: 24% and highly skilled staff: 30,2%). The Department of Arts, Culture and Tourism (10%) measured the lowest, and the Department of Local Government and Traditional Affairs (50%) the highest, average vacancy rate for senior managers and highly skilled staff.

Although the overall vacancy level in the provincial departments had improved from the previous year, deteriorations were noted at the following departments:

- Education – financially unqualified (with other matters)
- Premier – financially unqualified (with other matters)
- Provincial Treasury – financially unqualified (with other matters)

In the Department of Education, posts were being filled by contract educators while recruitment of permanent staff was underway to fill the vacant positions. In the Provincial Treasury some senior positions were kept vacant because of secondments of staff to other institutions and the fact that the accounting

officer (provincial treasurer) had resigned. The Office of the Premier had commenced a process to realign its functions and as a result its organisational structure was being redefined.

8.3 Appointment processes

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

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

The following eight departments out of 15 assessed had not effectively implemented this process:

- Health – qualified
- Royal Household – qualified
- Public Works – qualified
- Agriculture and Environmental Affairs – financially unqualified (with other matters)
- Education – financially unqualified (with other matters)
- Local Government and Traditional Affairs – financially unqualified (with other matters)
- Premier – financially unqualified (with other matters)
- Provincial Treasury – financially unqualified (with other matters)

Although required by the PSR, chapter 1, part VII, B1(a) the following provincial departments did not ensure that upon appointment each employee was provided with a written contract of employment which included the terms and conditions of his/her service:

- Royal Household – qualified
- Education – unqualified (with other matters)

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

Prolonged acting periods can be an indication of ineffective processes to appoint or recruit suitable permanent staff. Instances were found at the following provincial departments where employees received acting allowances for more than 12 months:

- Social Development – qualified
- Agriculture and Environmental Affairs – financially unqualified (with other matters)
- Housing – financially unqualified (with other matters)
- Premier – financially unqualified (with other matters)

Instances were found at the following department where SMS members received acting allowances for more than six months without the necessary prior approval by the MEC:



- Premier – financially unqualified (with other matters)

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 reasonably be expected either to train or recruit people in the time available. Based on the reported information in the annual reports, consultants were employed at 33% of the provincial departments. The total number of consultants appointed using appropriated funds was 829 at a contract value of R6 230 000 000.

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. In cases where a specific function is included on the establishment, consultants should not be used because 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 the provincial departments was identified as a transversal performance audit area for the 2009-10 financial year.

8.6 Suspensions

A review of the annual reports highlighted 65 employees that had been suspended across eight provincial departments. The average number of days on suspension was measured at 101,7 with 70,7% of the employees being suspended for more than 30 days. The total cost of the suspensions was estimated at R7 313 856.

Provincial departments should ensure that disciplinary processes are properly managed and concluded timeously, as prolonged suspension periods impact on service delivery and have direct cost implications bordering on fruitless and wasteful expenditure.

8.7 Leave administration

Annual leave

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

- Social Development – qualified
- Community, Safety and Liaison – financially unqualified (with other matters)
- Economic Development – financially unqualified (with other matters)
- Education – financially unqualified (with other matters)

The risk of such overstatement is that employees might be granted leave or receive leave payouts to which they are not entitled. According to the annual reports of the said provincial departments leave payouts were made to the amount of R48 199 000 in the period under review. The general lack of manual controls to ensure that all leave taken is recorded and the payroll system timeously updated was identified as the main root cause of the inadequate leave administration.

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 Department of Social Development (qualified), which can be an indication of inadequate control over the granting of such leave.

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. An assessment of the root cause indicated incorrect interpretation/application of the formulas and a lack of appropriate supervision and review of information. At the following provincial departments instances were found where the calculations were done incorrectly:

- Public Works – qualified
- Economic Development – financially unqualified (with other matters)
- Local Government and Traditional Affairs – financially unqualified (with other matters)

8.8 Budgetary control

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

The following provincial departments overspent on their compensation budgets, resulting in irregular expenditure amounting to the amounts indicated:

- Health – qualified – R960 000 000
- Education – financially unqualified (with other matters) – R648 037 000
- Transport – financially unqualified (with other matters) – R48 000 000

The overspending on compensation included expenditure in respect of occupation-specific dispensations, vacancies filled, salary increases for doctors and nurses, and payments of salaries in respect of a recovery plan resulting from strike action in 2007-08. For the Department of Transport the overspending was due to the appointment of additional staff, comprising mainly traffic officers, as well as salary increments and related overtime costs.

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 following provincial departments did not have a written policy on overtime:

- Royal Household – qualified
- Economic Development – financially unqualified (with other matters)



- Sport and Recreation – financially unqualified (with other matters)
- Transport – financially unqualified (with other matters)

Overtime policies were not adopted and approved by management for all the above provincial departments.

Authorisation of overtime

At the following provincial departments written authorisations were not consistently provided in advance for the overtime worked:

- Public Works – qualified
- Local Government and Traditional Affairs – financially unqualified (with other matters)

Internal control deficiencies were not identified in a timely manner to allow corrective actions to be taken.

Limit on overtime

At the following provincial departments the monthly compensation for overtime was not limited to less than 30% of the employee's monthly salary and no exceptional circumstances existed to support the deviation:

- Social Development – qualified
- Agriculture and Environmental Affairs – financially unqualified (with other matters)
- Education – financially unqualified (with other matters)
- Premier – financially unqualified (with other matters)
- Sport and Recreation – financially unqualified (with other matters)

In most of the identified cases the overarching root cause was assessed as inadequate policies, defining exceptional circumstances for which overtime payments above the set limit are allowed.

Overtime payments

At the following departments instances were found where the calculations for overtime payments were done incorrectly, which can be an indication that officials cannot apply the formulas correctly:

- Social Development – qualified
- Education – financially unqualified (with other matters)
- Local Government and Traditional Affairs – financially unqualified (with other matters)

A lack of supervision and ongoing monitoring of information to enable management to follow up payments made, was assessed as the main root cause for this audit finding.

8.10 Payroll certification

The certification of the payroll on a monthly basis is required by TR 8.3.4 and 5 as a control measure 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 provincial departments indicating that the prescribed control was not fully implemented:

Department	Monthly payroll reports not certified	Certified payrolls not returned within 10 days to finance department	Completeness of certified payroll reports not checked	Corrective action not taken timeously where discrepancies were noted
Department of Community Safety and Liaison (financially unqualified with other matters)	X	X	X	
Department of the Royal Household (qualified)	X	X	X	X

8.11 Service terminations

Employees whose services were terminated were not timeously removed from the payroll at the following provincial departments, resulting in overpayments:

- Social Development – qualified
- Royal Household – qualified
- Agriculture and Environmental Affairs – financially unqualified (with other matters)
- Sport and Recreation – financially unqualified (with other matters)

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

- Social Development – qualified
- Royal Household – qualified

For the Department of the Royal Household, policies on human resource management had not been designed and implemented to facilitate effective recruitment, terminations, training, valuation, compensation and supervising of personnel.

8.12 Overall conclusion

Overall, although none of the findings detailed above resulted in a qualified audit opinion on any department, general concern over the control environment surrounding human resource management remains. Some departments should make an effort to finalise and approve their policies regarding human resource management. All provincial departments are required to maintain and implement adequate control over payroll, leave administration, terminations of employment, overtime and appointment processes. Provincial departments should endeavour to fill vacant positions with permanent officials rather than using temporary employees and consultants. Ongoing supervision and monitoring are required to



prevent, detect and correct potential errors and non-compliance with regulations.

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

This section of the 2008-09 general report provides details of the results of the AGSA's audits of performance information at the provincial legislature, provincial departments, provincial public entities and provincial 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 of the provincial legislature, provincial departments and entities
- Causes of deficiencies in performance information reporting
- Interactions over the past 12 months
- Departments/entities without findings

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

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

- National and provincial departments, constitutional institutions and trading entities
- National and provincial 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 on 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 AGSA has adopted a phasing-in approach to adherence to sections 20 and 28 of the PAA, until such time as the environment shows a state of readiness to provide reasonable assurance in the form of an audit opinion or conclusion, at municipalities and municipal entities other than those listed above.

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

9.2 Key findings arising from the audit of performance information of the provincial legislature, provincial departments and entities

Key findings resulting from the audit of performance information are presented in the table below. The following broad areas were examined:

- Compliance with regulatory requirements – the scope of audit work and audit findings related to compliance with the PFMA and Treasury Regulations pertaining to the planning, management, monitoring, review and reporting of performance information.
- Usefulness of reported information – audit work focused on the consistency, relevance and measurability of planned and reported performance information.
- Reliability of reported performance information – audit work focused on whether the reported performance information could be traced back to the source data or documentation and whether the reported information is accurate and complete in relation to the source data, evidence or documentation.
- Submission of performance information for auditing – generally the performance information in KwaZulu-Natal has been of a reasonable standard with the exception of non-compliance by entities.

The percentages reflect only those departments and entities which had findings and are calculated as a percentage of the total audited.

Deficiencies in internal control that caused these findings are analysed in the paragraph that follows.

Table 9: Key audit findings arising from the auditing of performance information

No.	Main findings	Percentage of institutions with findings				
		Provincial departments	Provincial public entities	Provincial other entities	Provincial legislature	Total
1	Non-compliance with regulatory requirements	33%	69%	40%	0%	47%
2	Usefulness of reported performance information	13%	23%	20%	0%	18%
3	Reported performance information not reliable	20%	0%	0%	0%	9%
4	Performance information was not received in time for audit purposes	0%	8%	0%	0%	3%

9.3 Causes of deficiencies in performance information reporting

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

Non-compliance with regulatory requirements

- Non-compliance with internal policies and procedures.
- Deficiencies in key controls, e.g. no or inadequate quarterly reporting or no reporting.

Usefulness of performance information

- Performance measures were not clearly linked to their predetermined objectives and mandate and not specific in identifying the nature and required level of performance.

Reported performance information not reliable

- Lack of effective, efficient and transparent systems and internal controls over performance information reporting.

9.4 Interactions over the past 12 months

The auditing of performance information has been on the agenda of audit steering committee meetings where management has been encouraged to comply with the legislated requirements. It was also discussed at a briefing session with external stakeholders. The results indicate that the legislature, departments and entities are gearing up well to fully report on performance. A total of 44% of auditees had no findings with regard to AoPI. The results also indicate that there is room for improvement particularly with regard to effective, efficient and transparent systems and internal controls regarding performance information.

9.5 Departments/entities without findings

Of the 34 reports that have been analysed for KwaZulu-Natal the following 15 had no findings in any of the reported categories:

Provincial legislature

Departments of Arts, Culture and Tourism; Community Safety and Liaison; Economic Development; Health; Housing; Local Government and Traditional Affairs; Office of the Premier; Sport and Recreation; and Transport

Entities: Provincial Pharmaceutical Supply Depot, Planning and Development Commission, KZN Growth Fund Managers (Pty) Ltd, Ithala Ltd, and KZN Housing Fund

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 the 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 National Treasury and the provincial treasuries, respectively, are required to prepare consolidated financial statements in accordance with generally recognised accounting practice for each financial year in respect of departments and/or constitutional entities, public entities and other entities. The Auditor-General issues separate audit reports on consolidated departments and entities. Agreed-upon procedures are performed on the provincial consolidated financial statements and the consolidated national entities.

The status of the preparation of consolidated financial statements as at 31 July 2009 is reflected in table 10 below.

Table 10: 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
KwaZulu-Natal	No	No	No	No	No	Provincial Treasury (consolidation of provincial department) outstanding	Consolidation of provincial public entities and revenue fund in progress	Yes

The following are the main reasons for the delay in submission of the consolidated financial statements:

- Difficulties experienced in reconciling many of the balances to the departments' annual financial statements and the Provincial Revenue Fund.
- Staff turnover and lack of staff allocated for this task at the Provincial Treasury severely hampered this process, causing a significant backlog to be cleared by the end of March 2010 per the agreed plan.



SECTION 11: STATUS OF TABLING OF ANNUAL REPORTS

In accordance with section 65 of the PFMA, the executive authority responsible for a department must table in the provincial legislature the annual report and financial statements as well as the audit report on those statements, within one month of receipt of the audit report. All the departments and entities in KwaZulu-Natal which provided their annual financial statements for auditing on time, tabled their reports, with the exception of those reflected below.

Table 11: Status of tabling 2008-09 annual reports by executive authorities of departments

No.	Name (department / constitutional institution / entity)	Tabled (Y/N)	Date submitted to legislature	Date tabled in legislature	The reasons for annual report not tabled
1	Agriculture and Environmental Affairs	Y	31 Aug 09	03 Sep 09	
2	Amafa Akwazulu-Natali	Y	31 Aug 09	03 Sept 09	
3	Arts, Culture and Tourism	Y	01 Sep 09	15 Oct 09	
4	Community Safety and Liaison	Y	01 Sep 09	03 Sep 09	
5	Dube Tradeport	Y	02 Oct 09	15 Oct 09	
6	Economic Development	Y	01 Sep 09	15 Oct 09	
7	Education	Y	01 Sep 09	15 Oct 09	
8	Health	Y	31 Aug 09	03 Sep 09	
9	Housing	Y	16 Sep 09	15 Oct 09	
10	Ithala Development Finance Corporation Ltd	Y	02 Oct 09	15 Oct 09	
11	Ithala Limited	Y	02 Oct 09	15 Oct 09	
12	KwaZulu-Natal Agricultural Development Trust	N	–	–	Dormant – no annual report produced
13	KwaZulu-Natal Gambling Board	Y	31 Aug 09	03 Sep 09	
14	KwaZulu-Natal Growth Fund Managers	Y	02 Oct 09	15 Oct 09	
15	KwaZulu-Natal Nature Conservation Board	Y	21 Sep 09	15 Oct 09	
16	KwaZulu-Natal Sharks Board	Y	01 Sep 09	15 Oct 09	
17	KwaZulu-Natal Taxi Council	N	–	–	Financial statements only received for 2007-08 and 2008-09 on 4 November 2009
18	KwaZulu-Natal Tourism Authority	Y	01 Sep 09	03 Sep 09	

No.	Name (department / constitutional institution / entity)	Tabled (Y/N)	Date submitted to legislature	Date tabled in legislature	The reasons for annual report not tabled
19	KZN Business Rehabilitation Trust Fund	N	–	–	Financial statements received late for auditing
20	KZN Housing Fund	Y	16 Sep 09	15 Oct 09	
21	KZN Planning and Development Commission	N	–	–	Annual report not submitted for tabling
22	KZN Provincial Pharmaceutical Supply Depot	Y	31 Aug 09	03 Sep 09	
23	Local Government and Traditional Affairs	Y	19 Oct 09	22 Oct 09	
24	Mjindi Farming (Pty) Ltd	Y	31 Aug 09	03 Sep 09	
25	Natal Joint Municipal Pension Fund (Provident)	N	–	–	Pension fund – not to be tabled in legislature
26	Natal Joint Municipal Pension Fund (Retirement)	N	–	–	Pension fund – not to be tabled in legislature
27	Natal Joint Municipal Pension Fund (Superannuation)	N	–	–	Pension fund – not to be tabled in legislature
28	Office of the Premier	Y	31 Aug 09	03 Sep 09	
29	Political Parties Fund	N	–	–	Annual report not submitted for tabling
30	Provincial Legislature	Y	15 Sep 09	15 Oct 09	
31	Provincial Treasury	Y	31 Aug 09	03 Sep 09	
32	Social Development	Y	31 Aug 09	03 Oct 09	
33	Sport and Recreation	Y	01 Sep 09	15 Oct 09	
34	The Royal Household	Y	31 Aug 09	03 Sep 09	
35	Trade and Investment KZN	Y	01 Sep 09	15 Oct 09	
36	Traditional Levies and Trust Account – KZN	Y	19 Oct 09	22 Oct 09	
37	Transport	Y	31 Aug 09	03 Sep 09	
38	uMsekeli Municipal Support Services	Y	12 Nov 09	19 Nov 09	
39	Public Works	Y	16 Sep 09	15 Oct 09	

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

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

12.1 Performance audits

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

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

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

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

Table 12: Performance audits conducted and expected dates of tabling of reports

No.	Name of entity	Report description	Expected date of tabling
1	Department of Education	Conflict of interest	31 Oct 09
2	Department of Health	Conflict of interest	31 Oct 09
3	Department of Transport	Conflict of interest	31 Oct 09
4	Department of Local Government and Traditional Affairs	Conflict of interest	31 Oct 09
5	Department of Agriculture	Conflict of interest	31 Oct 09
6	Department of Economic Development	Conflict of interest	31 Oct 09
7	Provincial legislature	Conflict of interest	31 Oct 09
8	Department of Treasury	Conflict of interest	31 Oct 09
9	Department of Works	Conflict of interest	31 Oct 09
10	Department of Housing	Conflict of interest	31 Oct 09
11	Department of Arts and Culture	Conflict of interest	31 Oct 09
12	Department of Community Safety and Liaison	Conflict of interest	31 Oct 09
13	Department of Social Development	Conflict of interest Investment in infrastructure	31 Oct 09

No.	Name of entity	Report description	Expected date of tabling
14	Office of the Premier	Conflict of interest	31 Oct 09
15	Department of Sports and Recreation	Conflict of interest	31 Oct 09
16	Department of Education	Infrastructure delivery process	31 Oct 09
17	Department of Health	Infrastructure delivery process	31 Oct 09

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).

No investigations were conducted for the 2008-09 year.

12.3 Special audits conducted

The table below lists the expected dates of submission of special audit reports relating to departments and entities in the province, covering the period 1 April 2008 to date.

Table 13: Special audits conducted and expected dates of tabling of reports

No.	Name of entity	Report description	Expected date of tabling
1	Department of Health	Performance audit of the public-private partnership agreement at the Inkosi Albert Luthuli Hospital	30 Nov 09



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 departments'/entities' qualifications
- 1b – Listing of departments/entities with emphasis and other matters

Annexure 2: Listing of departments and entities registering improved/deteriorated audit outcomes

Annexure 3: Summaries of audit reports

- 3.1 Provincial legislature
- 3.2 Provincial departments
- 3.3 Provincial public entities
- 3.4 Provincial other entities

Annexure 4: Audit opinions for the past five years in alphabetical order

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

No.	Classification	Department / Entity	Audit opinion: 2008-09	Audit opinion: 2007-08	Audit opinion: 2006-07	Cash, cash equivalents and investments	Receivables	Inventory	Capital assets	Payable and borrowings	Provisions, contingent liabilities and guarantees	Taxes and VAT	Grants, capital and reserves	Presentation and disclosure	Revenue	Expenditure	Material losses / impairments	Unauthorised expenditure	Fruitless and wasteful expenditure	Irregular expenditure	Other general issues
1	PD	Agriculture and Environmental Affairs	Financially unqualified (with other matters)	Qualified	Disclaimer																
2	PPE	Amafa Akwazulu-Natali	Qualified	Qualified	Qualified																
3	PD	Arts, Culture and Tourism	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)																
4	PD	Community Safety and Liaison	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)																
5	POE	Dube Tradeport	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)																
6	PD	Economic Development	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)																
7	PD	Education	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Qualified																

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

No.	Classification	Department / Entity	Audit opinion: 2008-09	Audit opinion: 2007-08	Audit opinion: 2006-07	Cash, cash equivalents and investments	Receivables	Inventory	Capital assets	Payable and borrowings	Provisions, contingent liabilities and guarantees	Taxes and VAT	Grants, capital and reserves	Presentation and disclosure	Revenue	Expenditure	Material losses / impairments	Unauthorised expenditure	Fruitless and wasteful expenditure	Irregular expenditure	Other general issues
8	PD	Health	Qualified	Financially unqualified (with other matters)	Financially unqualified (with other matters)																
9	PD	Housing	Financially unqualified (with other matters)	Financially unqualified (with no other matters)	Financially unqualified (with other matters)																
10	PPE	Ithala Development Finance Corporation Ltd	Qualified	Qualified	Qualified																
11	PPE	Ithala Limited	Qualified	Financially unqualified (with other matters)	Financially unqualified (with other matters)																
12	PPE	KwaZulu-Natal Agricultural Development Trust	Financially unqualified (with other matters)	Qualified	Financially unqualified (with other matters)																
13	PPE	KwaZulu-Natal Gambling Board	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)																

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

No.	Classification	Department / Entity	Audit opinion: 2008-09	Audit opinion: 2007-08	Audit opinion: 2006-07	Cash, cash equivalents and investments	Receivables	Inventory	Capital assets	Payable and borrowings	Provisions, contingent liabilities and guarantees	Taxes and VAT	Grants, capital and reserves	Presentation and disclosure	Revenue	Expenditure	Material losses / impairments	Unauthorised expenditure	Fruitless and wasteful expenditure	Irregular expenditure	Other general issues
14	PPE	KwaZulu-Natal Growth Fund Managers	Financially unqualified (with other matters)	Financially unqualified (with no other matters)	Financially unqualified (with other matters)																
15	PPE	KwaZulu-Natal Nature Conservation Board	Qualified	Adverse	Adverse																
16	PPE	KwaZulu-Natal Sharks Board	Financially unqualified (with other matters)	Qualified	Qualified																
17	PPE	KwaZulu-Natal Taxi Council	Audit outstanding	Audit outstanding	Qualified																
18	PPE	KwaZulu-Natal Tourism Authority	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)																
19	POE	KZN Business Rehabilitation Trust Fund	Audit outstanding	Audit outstanding	Audit outstanding																
20	POE	KZN Housing Fund	Qualified	Qualified	Qualified																
21	PPE	KZN Planning & Development Commission	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)																

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

No.	Classification	Department / Entity	Audit opinion: 2008-09	Audit opinion: 2007-08	Audit opinion: 2006-07	Cash, cash equivalents and investments	Receivables	Inventory	Capital assets	Payable and borrowings	Provisions, contingent liabilities and guarantees	Taxes and VAT	Grants, capital and reserves	Presentation and disclosure	Revenue	Expenditure	Material losses / impairments	Unauthorised expenditure	Fruitless and wasteful expenditure	Irregular expenditure	Other general issues
22	POE	KZN Provincial Pharmaceutical Supply Depot	Financially unqualified (with no other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)																
23	PD	Local Government and Traditional Affairs	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Qualified																
24	PPE	Mjindi Farming (Pty) Ltd	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Qualified																
25	POE	Natal Joint Municipal Pension Fund (Provident)	Audit outstanding	Financially unqualified (with no other matters)	Financially unqualified (with no other matters)																
26	POE	Natal Joint Municipal Pension Fund (Retirement)	Audit outstanding	Financially unqualified (with no other matters)	Financially unqualified (with no other matters)																
27	POE	Natal Joint Municipal Pension Fund (Superannuation)	Audit outstanding	Financially unqualified (with no other matters)	Financially unqualified (with no other matters)																

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

No.	Classification	Department / Entity	Audit opinion: 2008-09	Audit opinion: 2007-08	Audit opinion: 2006-07	Cash, cash equivalents and investments	Receivables	Inventory	Capital assets	Payable and borrowings	Provisions, contingent liabilities and guarantees	Taxes and VAT	Grants, capital and reserves	Presentation and disclosure	Revenue	Expenditure	Material losses / impairments	Unauthorised expenditure	Fruitless and wasteful expenditure	Irregular expenditure	Other general issues
28	PD	Office of the Premier	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)																
29	PPE	KwaZulu-Natal Political Parties Fund	Qualified	New audit	New audit																
30	PL	Provincial Legislature	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Qualified																
31	PD	Provincial Treasury	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)																
32	PD	Social Development	Qualified	Qualified	Financially unqualified (with other matters)																
33	PD	Sport and Recreation	Financially unqualified (with no other matters)	Financially unqualified (with other matters)	Financially unqualified (with no other matters)																

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

No.	Classification	Department / Entity	Audit opinion: 2008-09	Audit opinion: 2007-08	Audit opinion: 2006-07	Cash, cash equivalents and investments	Receivables	Inventory	Capital assets	Payable and borrowings	Provisions, contingent liabilities and guarantees	Taxes and VAT	Grants, capital and reserves	Presentation and disclosure	Revenue	Expenditure	Material losses / impairments	Unauthorised expenditure	Fruitless and wasteful expenditure	Irregular expenditure	Other general issues
34	PD	The Royal Household	Qualified	Financially unqualified (with other matters)	Qualified																
35	POE	Trade and Investment KZN	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Qualified																
36	POE	Traditional Levies and Trust Account – KZN	Adverse	Adverse	Adverse																
37	PD	Transport	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)																
38	PPE	uMsekeleli Municipal Support Services	Qualified	Qualified	Disclaimer																
39	PD	Public Works	Qualified	Qualified	Qualified																

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	Qualified	Financially unqualified (with other matters)											
3	PD	Public Works	Qualified	Qualified											
4	PD	Social Development	Qualified	Qualified											
5	PD	The Royal Household	Qualified	Financially unqualified (with other matters)											
6	PD	Agriculture and Environmental Affairs	Financially unqualified (with other matters)	Qualified											
7	PD	Arts, Culture and Tourism	Financially unqualified (with other matters)	Financially unqualified (with other matters)											
8	PD	Community Safety and Liaison	Financially unqualified (with other matters)	Financially unqualified (with other matters)											
9	PD	Economic Development	Financially unqualified (with other matters)	Financially unqualified (with other matters)											

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

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			
10	PD	Education	Financially unqualified (with other matters)	Financially unqualified (with other matters)														
11	PD	Housing	Financially unqualified (with other matters)	Financially unqualified (with no other matters)														
12	PD	Local Government and Traditional Affairs	Financially unqualified (with other matters)	Financially unqualified (with other matters)														
13	PD	Office of the Premier	Financially unqualified (with other matters)	Financially unqualified (with other matters)														
14	PD	Provincial Treasury	Financially unqualified (with other matters)	Financially unqualified (with other matters)														
15	PD	Transport	Financially unqualified (with other matters)	Financially unqualified (with other matters)														
16	PD	Sport and Recreation	Financially unqualified (with no other matters)	Financially unqualified (with other matters)														
17	PPE	Amafa Akwazulu-Natali	Qualified	Qualified														

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

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
18	PPE	Ithala Development Finance Corporation Ltd	Qualified	Qualified											
19	PPE	Ithala Limited	Qualified	Financially unqualified (with other matters)											
20	PPE	KwaZulu-Natal Nature Conservation Board	Qualified	Adverse											
21	PPE	Political Parties Fund	Qualified	New audit											
22	PPE	uMsekeli Municipal Support Services	Qualified	Qualified											
23	PPE	KwaZulu-Natal Agricultural Development Trust	Financially unqualified (with other matters)	Qualified											
24	PPE	KwaZulu-Natal Gambling Board	Financially unqualified (with other matters)	Financially unqualified (with other matters)											

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

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
25	PPE	KwaZulu-Natal Growth Fund Managers	Financially unqualified (with other matters)	Financially unqualified (with no other matters)										Material misstatements corrected
26	PPE	KwaZulu-Natal Sharks Board	Financially unqualified (with other matters)	Qualified										
27	PPE	KwaZulu-Natal Tourism Authority	Financially unqualified (with other matters)	Financially unqualified (with other matters)										
28	PPE	KZN Planning & Development Commission	Financially unqualified (with other matters)	Financially unqualified (with other matters)										
29	PPE	Mjindi Farming (Pty) Ltd	Financially unqualified (with other matters)	Financially unqualified (with other matters)										
30	PPE	KwaZulu-Natal Taxi Council	Audit outstanding	Audit outstanding										
31	POE	Traditional Levies and Trust Account – KZN	Adverse	Adverse										
32	POE	KZN Housing Fund	Qualified	Qualified										

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

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
33	POE	Dube Tradeport	Financially unqualified (with other matters)	Financially unqualified (with other matters)										Material misstatements corrected
34	POE	Trade and Investment KZN	Financially unqualified (with other matters)	Financially unqualified (with other matters)										
35	POE	KZN Provincial Pharmaceutical Supply Depot	Financially unqualified (with no other matters)	Financially unqualified (with other matters)										
36	POE	KZN Business Rehabilitation Trust Fund	Audit outstanding	Audit outstanding										
37	POE	Natal Joint Municipal Pension Fund (Provident)	Audit outstanding	Financially unqualified (with no other matters)										
38	POE	Natal Joint Municipal Pension Fund (Retirement)	Audit outstanding	Financially unqualified (with no other matters)										
39	POE	Natal Joint Municipal Pension Fund (Superannuation)	Audit outstanding	Financially unqualified (with no other matters)										

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

Entities registering improved audit outcomes

No.	Department/Public Entity	Audit opinion: 2008-09	Audit opinion: 2007-08
1	Agriculture and Environmental Affairs	Financially unqualified (with other matters)	Qualified
2	KwaZulu-Natal Agricultural Development Trust	Financially unqualified (with other matters)	Qualified
3	KwaZulu-Natal Nature Conservation Board	Qualified	Adverse
4	KwaZulu-Natal Sharks Board	Financially unqualified (with other matters)	Qualified
5	KZN Provincial Pharmaceutical Supply Depot	Financially unqualified (with no other matters)	Financially unqualified (with other matters)
6	Sport and Recreation	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 (continued)

Entities registering deteriorated audit outcomes

No.	Department/Public Entity	Audit opinion: 2008-09	Audit opinion: 2007-08
1	Health	Qualified	Financially unqualified (with other matters)
2	Housing	Financially unqualified (with other matters)	Financially unqualified (with no other matters)
3	Ithala Limited	Qualified	Financially unqualified (with other matters)
4	KwaZulu-Natal Growth Fund Managers	Financially unqualified (with other matters)	Financially unqualified (with no other matters)
5	The Royal Household	Qualified	Financially unqualified (with other matters)

AUDIT REPORT SUMMARIES

ANNEXURE 3.1: KWAZULU-NATAL – SUMMARY OF PROVINCIAL LEGISLATURE AUDIT REPORT

VOTE 2: PROVINCIAL LEGISLATURE

Financially unqualified (with other matters)

Emphasis of matters

- **Irregular expenditure**

As disclosed in note 34 to the financial statements, irregular expenditure to the amount of R26,8 million was incurred, as proper supply chain management procedures had not been followed.

Other matters

- **Key governance responsibilities**

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

- **Investigations**

An investigation into procurement had been finalised in April 2008 and presented to the provincial legislature. Actions were currently in progress to address the findings of the investigation.

Other reports

- **Performance audit**

A performance audit was conducted during the year under review concerning possible conflicts of interest within the provincial legislature. At the date of this report the audit was still in progress.

ANNEXURE 3.2: KWAZULU-NATAL – SUMMARY OF PROVINCIAL DEPARTMENT AUDIT REPORTS

VOTE 1: OFFICE OF THE PREMIER

Financially unqualified (with other matters)

Emphasis of matters

- **Unauthorised expenditure**

Unauthorised expenditure of R3,71 million was incurred for the 2008-09 financial year. This was the result of overspending of the amount voted, mainly due to a function which had to be reconvened owing to damage caused by a natural disaster on the day of the event.

As disclosed in note 9.1 to the financial statements, unauthorised expenditure of R4,33 million was incurred in the 2007-08 financial year. The amount had not been authorised by the KwaZulu-Natal Provincial Legislature at the date of the audit.

Other matters

- **Non-compliance with applicable legislation**

Public Finance Management Act

- Invoices were not paid within 30 days of receipt thereof as required by section 38(1)(f) of the PFMA and Treasury Regulation 8.2.3.

- **Investigations**

An investigation into fraudulent payments made to a supplier during the prior year was still in progress.

Other reports

- **Performance audit**

A performance audit was conducted during the year under review concerning possible conflicts of interest within departments. At the date of this report the audit was still in progress.

- **Special audit**

An audit was in progress to examine contracts awarded during the current as well as the prior financial years.

VOTE 3: DEPARTMENT OF AGRICULTURE AND ENVIRONMENTAL AFFAIRS

Financially unqualified (with other matters)

Emphasis of matters

- **Unauthorised expenditure**

Unauthorised expenditure amounting to R110,61 million in respect of prior years' overspending had not yet been authorised by the KwaZulu-Natal Provincial Legislature.

- **Irregular expenditure**

Irregular expenditure of R24,97 million relating to the contravention of supply chain management regulations and expenditure incurred on expired contracts for the current and prior years were still under investigation.

- **Material underspending of the budget**

The department had underspent its budget by R126,71 million, representing 6,7% of the annual appropriation. The majority of the underspending of R111,37 million related to programme 2: agricultural development services, which represented 10% of its budget allocation.

Other matters

- **Non-compliance with applicable legislation**

Public Finance Management Act and Treasury Regulations

- Revenue tariffs were not revised and approved during the 2008-09 financial year as required by Treasury Regulation 7.3.1.
- The department did not have an approved disaster recovery plan in place as part of risk management, contrary to section 38(1)(a)(i) of the PFMA.

- **Key governance responsibilities**

- The financial statements were subject to material amendments resulting from the audit.
- A risk assessment was not conducted on a regular basis and a risk management strategy, which includes a fraud prevention plan, was not documented and used as set out in Treasury Regulation 3.2.
- SCOPA resolutions had not been substantially implemented.
- The information systems were not appropriate to facilitate the preparation of a performance report that was accurate and complete.
- Adequate control processes and procedures were not designed and implemented to ensure the accuracy and completeness of reported performance information.
- There was no functioning performance management system and performance bonuses were paid without proper assessment and approval by those charged with governance.

Findings on performance information

- **Non-compliance with regulatory requirements**

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

Other reports

- **Performance audits**

- The Provincial Treasury is currently conducting a value-for-money audit on the supply chain management process within the department.
- A performance audit was conducted during the year under review concerning possible conflicts of interest. At the date of this report the audit was still in progress.

VOTE 4: DEPARTMENT OF ECONOMIC DEVELOPMENT

Financially qualified (with other matters)

Other matters

- **Key governance responsibilities**

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

Other reports

- **Investigations**

- An investigation was being conducted into the mismanagement of finances at a poultry co-operative. The investigation was in progress.
- An investigation had been conducted into the embezzlement of funds at a BEE foundation. This investigation was completed in May 2008 and dealt with the receiving of commission, tender processes that were not followed and the utilisation of funds contrary to the provisions of the agreement with the foundation.
- An investigation was being conducted into fraud and corruption in the KwaZulu-Natal Business Rehabilitation Trust Fund. The second phase of the investigation was in progress and had been requested by the department. The investigation involved the use of guarantees obtained from the trust to purchase trading stock which was not paid for and the guarantees not repaid.

- **Performance audit**

- A performance audit was conducted during the year under review concerning possible conflicts of interest within departments. At the date of this report the audit was still in progress.

VOTE 5: DEPARTMENT OF EDUCATION

Financially unqualified (with other matters)

Emphasis of matters

- **Unauthorised expenditure**

- As disclosed in note 10 to the financial statements, unauthorised expenditure of R654,998 million was incurred by the department during the financial year as a result of overspending on the budget.

- **Irregular expenditure**

- As disclosed in note 28 to the financial statements, irregular expenditure amounting to R751,935 million was incurred. Included in this amount was R11,054 million which related to proper supply chain management processes not having been followed; R649,037 million being overexpenditure on the compensation of employees; and R91,844 million being overexpenditure on transfers and subsidies.

- **Fruitless and wasteful expenditure**

- § As disclosed in note 29, fruitless and wasteful expenditure of R620 000 was incurred, mainly due to events that were held where the number catered for was greater than the number of attendees.

Other matters

- **Non-compliance with applicable legislation**

Public Finance Management Act and Treasury Regulations

- The department did not clear suspense accounts related to employee costs during the year in terms of section 40(1)(a) of the PFMA and Treasury Regulation 17.1.2.
- The department did not adhere to Treasury Regulation 8.2.3 by making payments to creditors within 30 days of receipt of the invoice.

- **Key governance responsibilities**

- The financial statements were subject to material amendments resulting from the audit.
- There were significant deficiencies in the design and implementation of internal control in respect of compliance with applicable laws and regulations.
- The information systems were not appropriate to facilitate the preparation of a performance report that was accurate and complete.



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

- **Investigations**

- Seven investigations were in progress at the department relating to appointments, payments to suppliers, salaries, qualifications and a bank account.

Findings on performance information

- **Non-compliance with regulatory requirements**

- The accounting officer did not ensure that the department had and maintained an effective, efficient and transparent system and internal controls regarding performance management that described and represented how the department's process of performance planning, monitoring, measurement, reviewing and reporting would be conducted, organised and managed as required in terms of section 38(1)(a)(i) and (b) of the PFMA.

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

- Reported performance information was not reliable.
- Sufficient appropriate audit evidence for the accuracy of certain performance measures could not be obtained.

Other reports

- **Performance audit**

- A performance audit was conducted during the year under review concerning possible conflicts of interest within departments. At the date of this report the audit was still in progress.

VOTE 6: PROVINCIAL TREASURY

Financially unqualified (with other matters)

Emphasis of matters

- **Irregular expenditure**

- As disclosed in note 34 to the financial statements, irregular expenditure to the amount of R7,78 million (2008: R4,98 million) was incurred, as a proper tender process had not been followed for transactions entered into with related parties as disclosed in note 36 to the financial statements. The corresponding figures for 2007-08 were restated with transactions incurred in the prior year.

- **Related party**

- As disclosed in note 36 to the financial statements the department had incurred significant related-party transactions amounting to R7,78 million (2008: R4,98 million) with entities connected to a senior official appointed at the Provincial Treasury for the period 6 November



2006 to 31 August 2008. The corresponding figures for 2007-08 were restated with transactions incurred in the prior year.

- **Unauthorised expenditure**

- As disclosed in note 12 to the financial statements the department had incurred unauthorised expenditure amounting to R138,38 million relating to interest paid on the bank overdraft for the province. This interest was due to the overexpenditure incurred in current and prior years by some provincial departments.

Other matters

- **Non-compliance with applicable legislation**

Public Finance Management Act and Treasury Regulations

- As disclosed in note 36 to the financial statements, the department entered into a related-party joint venture agreement for the provision of office automation for the province, during the period June 2007 to June 2008, when this agreement was terminated. The tender process as required by Treasury Regulation 16A: Supply Chain Management was not followed.

- **Key governance responsibilities**

- The financial statements were subject to material amendments resulting from the audit.
- A risk assessment was not conducted on a regular basis.

- **Investigations**

- An investigation was being conducted to probe the manner in which the awarding of contracts was undertaken by the department. The investigation aimed to establish whether proper tender processes were followed in the awarding of contracts. The investigation was still ongoing at the reporting date.
- As disclosed in paragraph 13 of the accounting officer's report, an internal investigation was to be undertaken into all related-party transactions entered into with entities connected to a senior official appointed at the Provincial Treasury for the period 6 November 2006 to 31 August 2008.

Findings on performance information

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

- The performance measures for sub-programmes 1.1 and 1.2 were not clearly linked to the predetermined objectives and mandate. These performance measures were not specific in clearly identifying the nature and the required level of performance and were not measurable in identifying the required performance.

Other reports

- **Performance audit**

A performance audit was conducted during the year under review concerning possible conflicts of interest. At the date of this report the audit was still in progress.

VOTE 7: DEPARTMENT OF HEALTH

Qualified

- **Property, plant and equipment**

Disclosure notes 32 and 33 to the financial statements reflected closing balances of R2 208 000 000 and R45,517 million for major and minor property, plant and equipment, respectively. These closing balances did not include assets prior to 2004, which management estimated at R100 million. The department's records for these assets were incomplete in respect of locations, purchase dates, bar codes, the number of items and values. Moreover, management's estimates were not supported by records to permit the application of alternative procedures. Consequently, I was unable to obtain sufficient and appropriate audit evidence to satisfy myself as to the valuation, existence and completeness of property, plant and equipment as well as the effect of any disclosure adjustments to the amounts in note 32 and note 33 to the financial statements.

Emphasis of matters

- **Irregular expenditure**

Irregular expenditure to the amount of R1 182 000 000 was incurred. This amount comprised R968 million arising from overspending of the budget allocation on compensation of employees, R113 million in respect of expenditure incurred under the Health Professionals Training and Development Grant in the absence of an approved amended business plan, as well as R101 million regarding deficiencies in tender processes.

- **Unauthorised expenditure**

As disclosed in note 9 to the financial statements, the department exceeded the appropriated budget by R3 175 000 000. This amount was made up of current and prior year balances of R1 402 000 000 and R1 773 000 000, respectively.

- **Significant uncertainty**

With reference to note 25 to the financial statements, a contingent asset to the value of R20 million 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 and Treasury Regulations

- Movable assets were not adequately safeguarded against misuse, theft, wastage and losses, as required by section 38(1)(d) of the PFMA and Treasury Regulation 10.1.
- Legislative procedures embodied in Treasury Regulation 16A6 governing supply chain management procedures were not adhered to in respect of the awarding of tenders. Consequently, the department was likely to incur further irregular expenditure to the amount of R84 million, which was disclosed as commitments in note 20 to the financial statements.
- Suppliers were not paid within 30 days of receipt of invoice, as required by section 38(1)(f) of the PFMA and Treasury Regulation 8.2.3.

Occupational Health and Safety Act

- Section 4.7 of the Occupational Health and Safety Act, 1993 (Act No. 85 of 1993) (OHSA) was not adhered to, as the department did not have a safety hazard policy.
- My audits at certain hospitals revealed serious health risks regarding the handling, storage and disposal of medical waste. Access to medical waste was not always restricted and instances were noted where medical and municipal waste had been mixed. This is in contravention of section 24 of the Constitution and section 9 of the OHSA. In addition to the health hazard posed, the department could be held liable for claims against it.

- **Key governance responsibilities**

- The financial statements were subject to material amendments resulting from the audit.
- There were significant deficiencies in the design and implementation of internal control in respect of financial and risk management.
- There were significant deficiencies in the design and implementation of internal control in respect of compliance with applicable laws and regulations.
- SCOPA resolutions had not been substantially implemented.

- **Investigations**

The department had completed two investigations, while another five were ongoing at the reporting date. These investigations predominantly related to irregularities in the procurement process.

Other reports

- **Performance audit**

A performance audit was conducted during the year under review concerning possible conflicts of interest within departments. At the date of this report, the audit was still in progress.

VOTE 8: DEPARTMENT OF HOUSING

Financially unqualified (with other matters)

Emphasis of matters

- **Unauthorised expenditure**

As disclosed in the notes to the financial statements, unauthorised expenditure to the amount of R29,986 million was incurred.

Other matters

- **Key governance responsibilities**

- The financial statements were subject to material amendments resulting from the audit.
- There were significant deficiencies in the design and implementation of internal control in respect of financial and risk management.

- **Investigations**

An investigation was conducted on repairs to houses damaged through violence. At the date of this report the investigation was not finalised.

Other reports

- **Performance audit**

A performance audit was conducted during the year under review concerning possible conflicts of interest within departments. At the date of this report the audit was still in progress.

VOTE 9: DEPARTMENT OF COMMUNITY SAFETY AND LIAISON

Financially unqualified (with other matters)

Other matters

- **Non-compliance with applicable legislation**

Public Finance Management Act

- The department did not have an approved disaster recovery plan in place as part of risk management, contrary to section 38(1)(a)(i) of the PFMA.
- The department did not settle certain payments due to creditors within 30 days from receipt of invoices, as required by section 38(1)(f) of the PFMA and Treasury Regulation 8.2.3.

- **Key governance responsibilities**

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

Other reports

- **Performance audit**

A performance audit was conducted during the year under review concerning possible conflicts of interest within departments. At the date of this report, the audit was still in progress.

VOTE 10: THE ROYAL HOUSEHOLD

Qualified

- **Movable tangible capital assets**

After prior arrangements had been made for verification of movable tangible capital assets at the palaces and all protocols had been observed, the auditor was denied access upon arrival. Furniture and office equipment and other machinery and equipment could not be physically verified due to the above limitation. The department's records did not permit the application of adequate alternative audit procedures regarding these assets. It was also identified that the department did not carry out an asset count for four of the seven palaces and therefore the fixed asset register was incomplete. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the existence, valuation, completeness and ownership of furniture and office equipment and other machinery and equipment totalling R2,194 million.

Emphasis of matters

- **Unauthorised expenditure**

Unauthorised expenditure – current year

- As disclosed in note 12.2 to the financial statements, unauthorised expenditure of R8,497 million was incurred for the 2008-09 financial year. This was the result of overspending of the amount voted mainly due to the unforeseen increase in the number of ceremonies and major events attended and hosted by the Royal Household.

Unauthorised expenditure – prior years

- As disclosed in note 12.1 to the financial statements, the department incurred unauthorised expenditure totalling R7,140 million in the prior financial years. This amount had not been authorised by the KwaZulu-Natal Provincial Legislature to date.

Other matters

- **Non-compliance with applicable legislation**

Public Finance Management Act

- Invoices were not paid within 30 days of receipt thereof as required by section 38(1)(f) of the PFMA and Treasury Regulation 8.2.3.



- **Key governance responsibilities**

- Significant difficulties were experienced during the audit concerning delays or the availability of requested information.
- Key officials were not available throughout the audit process.
- There were significant deficiencies in the design and implementation of internal control in respect of financial and risk management.
- A risk assessment was not conducted on a regular basis and a risk management strategy, which included a fraud prevention plan, was not documented and used as set out in Treasury Regulation 3.2.
- SCOPA/Oversight resolutions had not been substantially implemented.
- The information systems were not appropriate to facilitate the preparation of a performance report that was accurate and complete.
- Adequate control processes and procedures were not designed and implemented to ensure the accuracy and completeness of reported performance information.
- A strategic plan (annual performance plan) had not been prepared and approved for the financial year under review for purposes of monitoring the performance in relation to the budget and delivery by the department against its mandate, predetermined objectives, outputs, indicators and targets per Treasury Regulations 5.1, 5.2 and 6.1.

- **Investigations**

An investigation was being conducted into the administration and financial management controls of the department with specific reference to the prior years' audit reports.

Findings on performance information

- **Non-compliance with regulatory requirements**

- The entity had not reported performance against predetermined objectives, as required by section 40(3)(a) of the PFMA. The performance report did not include "targets" on which to measure the predetermined objectives. The report also did not include the "actual" performance figures.
- There was no evidence that the strategic plan had been approved by the executive authority as required by Treasury Regulation 5.1.1.
- It was also noted that there were inconsistencies between the strategic plan and the annual performance plan. These changes were not approved by the executive authority.
- The accounting officer did not ensure that the department had and maintained an effective, efficient and transparent system and internal controls regarding performance management, which described and represented how the institution's processes of performance planning, monitoring, measurement, review and reporting would be conducted, organised and managed, as required in terms of section 38(1)(a)(i) and (b) of the PFMA.
- There was no evidence that the quarterly reports for the first two quarters of the year were approved/reviewed by the executive authority as required by Treasury Regulation 5.3.1.

VOTE 11: DEPARTMENT OF LOCAL GOVERNMENT AND TRADITIONAL AFFAIRS

Financially unqualified (with other matters)

Emphasis of matters

- **Irregular expenditure**

As disclosed in note 24 to the financial statements, irregular expenditure to the amount of R9,4 million was incurred as a proper tender process had not been followed. Further irregular expenditure to the amount of R21 million was incurred as a result of a transfer to the Department of Housing without the necessary approval in terms of Treasury Regulation 6.3.1.

Other matters

- **Key governance responsibilities**

- Significant difficulties were experienced during the audit concerning delays or the availability of requested information.
- The financial statements were subject to material amendments resulting from the audit.
- There were significant deficiencies in the design and implementation of internal control in respect of financial and risk management.
- There were significant deficiencies in the design and implementation of internal control in respect of compliance with applicable laws and regulations.
- The prior year audit findings had not been substantially addressed.

Other reports

- **Performance audit**

A performance audit was conducted during the year under review concerning possible conflicts of interest within departments. At the date of this report the audit was still in progress.

VOTE 12: DEPARTMENT OF TRANSPORT

Financially unqualified (with other matters)

Emphasis of matters

- **Unauthorised expenditure**

As disclosed in note 10 to the financial statements, unauthorised expenditure to the amount of R626,6 million was incurred by the department as a result of escalated project costs during the year under review.

- **Irregular expenditure**

As disclosed in note 26 to the financial statements, irregular expenditure of R48 million was incurred by the department as a result of overspending on compensation of employees.



Other matters

- **Non-compliance with applicable legislation**

Public Finance Management Act and Treasury Regulations

- Suspense accounts were not cleared at year-end, as required by section 38(1)(a) of the PFMA and Treasury Regulation 17.1.2.

- **Key governance responsibilities**

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

- **Investigations**

An investigation to probe tender irregularities concerning two officials who were no longer in the employ of the department, had been completed. The recommendations were being implemented.

Other reports

- **Performance audit**

A performance audit was conducted during the year under review concerning possible conflicts of interest within departments. At the date of this report, the audit was still in progress.

VOTE 13: DEPARTMENT OF SOCIAL DEVELOPMENT

Qualified

- **Movable tangible capital assets**

As disclosed in note 39 to the financial statements, adjustments to the prior year balances totalling R31,783 million had been made during the current year without an adequate supporting audit trail, due to the matter raised in the preceding year which resulted in a qualified audit opinion. The department's records did not permit the application of alternative audit procedures. Consequently, I was unable to obtain sufficient and appropriate audit evidence to satisfy myself as to the completeness and valuation of the total assets of R152,915 million as at 31 March 2009.

Emphasis of matters

- **Significant uncertainty – receivables**

The recoverability of an unconfirmed balance of R100,616 million, being monies expended by the department on behalf of SASSA, as included in the disclosure of claims recoverable in note 17 to the financial statements, was uncertain. According to annexure 4 to the financial statements, this amount consisted of R43,222 million in respect of litigation claims and R57,394 million for shared services.



- **Irregular expenditure**

As disclosed in note 33 to the financial statements, irregular expenditure to the amount of R8,680 million was incurred for payments in respect of the investigation of supply chain management, as a proper tender process had not been followed.

- **Unauthorised expenditure**

As disclosed in note 12 to the financial statements, unauthorised expenditure to the amount of R25,356 million was incurred as a result of overspending on the budget due to spending pressures on goods and services.

Other matters

- **Non-compliance with applicable legislation**

PFMA and Treasury Regulations

- The accounting officer did not implement sufficient controls to ensure compliance with the requirements of section 38(1)(j) of the PFMA and Treasury Regulation 8.4.1 relating to transfers and subsidies.

- **Key governance responsibilities**

- The financial statements were subject to material amendments resulting from the audit.
- There were significant deficiencies in the design and implementation of internal control in respect of financial and risk management.
- There were significant deficiencies in the design and implementation of internal control in respect of compliance with applicable laws and regulations.
- The prior year audit findings had not been substantially addressed.
- The information systems were not appropriate to facilitate the preparation of a performance report that was accurate and complete.
- Adequate control processes and procedures were not designed and implemented to ensure the accuracy and completeness of reported performance information.
- There was no functioning performance management system and performance bonuses were paid without proper assessment and approval by those charged with governance.

- **Investigations**

The following investigations were still in progress at the reporting date:

- Forensic investigation into allegations of fraud, corruption, financial mismanagement, theft and other irregularities on the sustainable livelihood programme for all four regions.
- A value-for-money audit in respect of the procurement of computers and goods and services.
- An investigation into alleged fraudulent BAS payments amounting to approximately R1 million.
- A forensic investigation report relating to alleged irregularities on social relief of distress vouchers covering the period 1 April 2007 to 30 June 2008 was received by this office on 28 July 2009.

Findings on performance information

- **Non-compliance with regulatory requirements**

Documented policies and procedures were not designed and implemented by the department for 2008-09 for collection and recording of performance information as required by Treasury Regulation 5.3.1. Furthermore, although the department had a draft strategy for non-financial data, it had not been implemented at year-end.

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

Sufficient appropriate audit evidence in relation to the reported performance information of programme 2 – social welfare services could not be obtained, as the relevant source documentation could not be provided for audit purposes.

Other reports

- **Performance audit**

A performance audit was conducted during the year under review concerning possible conflict of interest within departments. At the date of this report the audit was still in progress.

VOTE 14: DEPARTMENT OF PUBLIC WORKS

Qualified

- **Immovable assets**

- As disclosed in note 43 to the financial statements immovable assets were reflected as R4 900 000 000. The audit of this disclosure note revealed the following:
- The process of verifying and matching the data received from the national Department of Land Affairs against the provincial database for properties vested provincially had not been finalised. As a result the disclosure note on vested properties was incomplete.
- In terms of schedule 6, section 28(1) of the Constitution of the Republic of South Africa, 1996, immovable properties owned by the state must be registered in the name of the provincial government. Certain immovable assets acquired after April 1994 had been incorrectly recorded in the name of Republic of South Africa instead of the Provincial Government of the Province of KwaZulu-Natal. As a result I could not establish whether all immovable assets had been accounted for where the department had legal title.
- The department maintained a provincial consolidated asset register; however, additions to immovable assets by other implementing departments had not been included. As a result the completeness of the asset register could not be ascertained.
- I did not obtain sufficient and appropriate audit evidence to satisfy myself as to the rights and completeness of immovable assets.

Emphasis of matters

• **Unauthorised expenditure**

Unauthorised expenditure of R3,9 million, incurred as a result of increased operational expenses and retirement benefits paid during the 2008-09 financial year and R576 000 in respect of the prior year overspending, which had not yet been authorised by the KwaZulu-Natal Provincial Legislature, was disclosed in note 12 to the financial statements.

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:
 - Reporting to the relevant treasury and the Auditor-General on the outcome of the disciplinary hearings as required in terms of section 85(1)(a) and (e) of the PFMA, read with Treasury Regulation 4.3.4.
 - Applying the preference points system during the evaluation of bids in terms of section 38(1)(a)(iii) of the PFMA, read with Treasury Regulation 16A 3.2(b).
 - Paying suppliers within 30 days of receipt of invoice as required in terms of section 38(1)(f) of the PFMA, read with Treasury Regulation 8.2.3.
 - Submitting a separate schedule detailing the nature and/or amount of assets not recognised by the department, as required in terms of the National Treasury's letter to the provincial accountants-general dated 3 April 2009.

National Environmental Management Act

- A departmental environmental implementation plan had not been developed in terms of section 11(1) of the National Environmental Management Act, 1998 (Act No. 107 of 1998).

• **Key governance responsibilities**

- Significant difficulties were experienced during the audit concerning delays or the availability of requested information.
- The financial statements were subject to material amendments resulting from the audit.
- There were significant deficiencies in the design and implementation of internal control in respect of financial and risk management.
- There were significant deficiencies in the design and implementation of internal control in respect of compliance with applicable laws and regulations.
- The prior year audit findings had not been substantially addressed.
- The information systems were not appropriate to facilitate the preparation of a performance report that was accurate and complete.
- Adequate control processes and procedures were not designed and implemented to ensure the accuracy and completeness of reported performance information.
- The department had not discharged their key governance responsibility as delays were encountered in management responding to audit communications.

- **Investigation**

An investigation was initiated on allegations of possible contravention of supply chain management and human resource policies and procedures by employees. This resulted in criminal proceedings being instituted against 22 employees.

Findings on performance information

- **Non-compliance with regulatory requirements**

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

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

The performance objective relating to the target for the optimal utilisation of state properties, with regard to the real estate/property management programme, was not specific in clearly identifying the required measurable.

Other reports

- **Performance audit**

A performance audit was conducted during the year under review concerning possible conflicts of interest within departments. At the date of this report the audit was still in progress.

VOTE 15: DEPARTMENT OF ARTS, CULTURE AND TOURISM

Financially unqualified (with other matters)

Emphasis of matters

- **Irregular expenditure**

As disclosed in the financial statements, irregular expenditure to the amount of R831 000 was incurred as a proper tender process had not been followed.

- **Material underspending of the budget**

As disclosed in the appropriation statement, the department had underspent its budget by R9,745 million. The majority of the underspending related to programme 2: cultural affairs. As a consequence, the department did not achieve its objective of constructing libraries and art centres for certain municipalities.



Other matters

- **Key governance responsibilities**

- The financial statements were subject to material amendments resulting from the audit.
- There were significant deficiencies in the design and implementation of internal control in respect of financial and risk management.
- There were significant deficiencies in the design and implementation of internal control in respect of compliance with applicable laws and regulations.

VOTE 16: DEPARTMENT OF SPORT AND RECREATION

Financially unqualified (with no other matters)

Other reports

- **Performance audit**

A performance audit was conducted during the year under review concerning possible conflicts of interest within departments. At the date of this report the audit was still in progress.

ANNEXURE 3.3: KWAZULU-NATAL – SUMMARY OF PROVINCIAL PUBLIC ENTITY AUDIT REPORTS

1. AMAFA AKWAZULU-NATALI

Qualified

Property, plant and equipment

In accordance with the South African Statement of Generally Accepted Accounting Practice, IAS 16 (AC 123), *Property, Plant and Equipment*, the impairment, changes in expected useful life and residual value of assets should be reviewed at least at each financial year-end. As disclosed in accounting policy note 1.1, property, plant and equipment, excluding buildings, had been fully depreciated in the current and the prior year financial statements. Moreover, buildings were stated at cost and no depreciation had been provided thereon in the financial statements. In addition, no residual values, impairment and changes in expected useful life had been determined at 31 March 2009. Furthermore, assets which were fully depreciated, were still in use and were recorded at nil values. The adjustment to property, plant and equipment, surplus and accumulated surpluses which would have resulted from the application of IAS 16 could not be determined. Consequently, property, plant and equipment at year-end, accumulated surpluses and depreciation had been misstated by an unknown amount.

Heritage assets

As described in note 1.1 to the financial statements, heritage assets, excluding heritage land and buildings, were fully written off during the year under review. This accounting treatment was not in accordance with IAS 16, which states that the carrying amount of heritage assets can only be derecognised on disposal or where no future economic benefits are expected from its use and disposal. Consequently, property, plant and equipment, and the net surplus for the year were both understated by R580 326.

As disclosed in note 1.1 to the financial statements, the entity did not determine a value for heritage assets that had been donated and/or inherited during the year, as it was deemed not cost-effective to do so. This constituted a departure from IAS 16, which states that heritage assets must be measured at cost on initial recognition. Consequently, I was unable to satisfy myself as to the value of heritage assets excluding heritage land and buildings.

Revenue

In common with similar organisations, it was not feasible for the entity to institute accounting controls over cash collections from gate takings prior to initial entry of the collections in the accounting records. Accordingly, it was impracticable for me to extend my examination beyond the receipts actually recorded.

Trade and other payables

Included in trade and other payables were amounts totalling R354 074 that related to services rendered to the entity after year-end. This accounting treatment is not in accordance with IAS 37 as the entity had no present obligation at year-end to pay these suppliers. Consequently, the surplus for the year was understated by R354 074 and trade and other payables were overstated by the same amount.



Emphasis of matters

Restatement of corresponding figures

As disclosed in note 16 to the financial statements, the corresponding figures for 31 March 2008 had been restated as a result of an error discovered during 2009 in the financial statements of the entity at, and for the year ended, 31 March 2008.

Other matters

Internal control deficiencies

Management did not have processes in place to ensure that misstatements were corrected, as management deemed this not to be cost-effective. Consequently, misstatements were not rectified, which is indicative of significant internal control deficiencies of the entity.

Key governance responsibilities

- The financial statements were subject to material amendments resulting from the audit.
- The prior year audit findings had not been substantially addressed.
- SCOPA resolutions had not been substantially implemented.

Findings on performance information

Non-compliance with regulatory requirements

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 Treasury Regulation 5.3.1.

2. KWAZULU-NATAL AGRICULTURAL DEVELOPMENT TRUST

Financially unqualified (with other matters)

Emphasis of matters

Going concern

The trust had been dormant for the past three years and had not fulfilled its objectives in accordance with the deed of trust. A decision had not been taken by the trustees regarding the future of the trust.

Other matters

Key governance responsibilities

- The annual report was not submitted for consideration prior to the tabling of the auditor's report.
- The trust had no audit committee in operation throughout the financial year.
- The audit committee did not operate in accordance with approved, written terms of reference.

- The audit committee did not substantially fulfil its responsibilities for the year, as set out in section 77 of the PFMA and Treasury Regulation 27.1.8.
- The trust had no internal audit function in operation throughout the financial year.
- The internal audit function did not operate in terms of an approved internal audit plan.
- The internal audit function did not substantially fulfil its responsibilities for the year, as set out in Treasury Regulation 27.2.
- There were significant deficiencies in the design and implementation of internal control in respect of financial and risk management.
- There were significant deficiencies in the design and implementation of internal control in respect of compliance with applicable laws and regulations.
- The information systems were not appropriate to facilitate the preparation of the financial statements.
- A risk assessment was not conducted on a regular basis and a risk management strategy, which includes a fraud prevention plan, was not documented and used as set out in Treasury Regulation 27.2.
- Powers and duties had not been assigned, as set out in section 56 of the PFMA.
- The information systems were not appropriate to facilitate the preparation of a performance report that was accurate and complete.
- Adequate control processes and procedures were not designed and implemented to ensure the accuracy and completeness of reported performance information.
- A strategic plan was not prepared and approved for the financial year under review for purposes of monitoring the performance in relation to the budget and delivery by the trust against its mandate, predetermined objectives, outputs, indicators and targets (Treasury Regulation 30.1).
- There was no functioning performance management system and performance bonuses were paid without proper assessment and approval by those charged with governance.

Findings on performance information

- **Non-compliance with regulatory requirements**

- Due to the trust being dormant, the entity had not reported performance against predetermined objectives, as required by section 55(2)(a) of the PFMA.
- Furthermore, the accounting authority did not finalise and submit a strategic plan for approval to the relevant executive authority as required by Treasury Regulation 30.1.1 and 30.1.2.

3. KWAZULU-NATAL GAMBLING BOARD

Financially unqualified (with other matters)

Emphasis of matters

Restatement of corresponding figures

As disclosed in note 16 to the financial statements, the corresponding figures for the financial year ended 31 March 2008 had been restated as a result of an error subsequently discovered.



Other matters

Key governance responsibilities

- Significant difficulties were experienced during the audit concerning delays or the availability of requested information.
- The financial statements were subject to material amendments resulting from the audit.
- Key officials were not available throughout the audit process.
- A strategic plan was not prepared and approved for the financial year under review for purposes of monitoring the performance in relation to the budget and delivery by the board against its mandate, predetermined objectives, outputs, indicators and targets (Treasury Regulations 29.1 and 30.1).

Findings on performance information

Non-compliance with regulatory requirements

The strategic plan of the board was not aligned with the budget in terms of the measurable objectives, expected outcomes, programme outputs, indicators (measures) and targets of the board's programmes, as required by Treasury Regulation 30.1.3.

Usefulness and reliability of reported performance information

Inconsistently reported performance information: measurable objectives, indicators and targets of all sub-programmes could not be linked to the budget with the result that the resourcing of the indicators and targets was not clear.

4. KZN GROWTH FUND MANAGERS (PTY) LTD

Financially unqualified (with other matters)

Emphasis of matters

Restatement of corresponding figures

As disclosed in note 21 to the financial statements, the corresponding figures for the financial year ended 31 March 2008 had been restated as a result of a change in accounting policy in respect of government grants and errors discovered during 2009 in the financial statements of the KZN Growth Fund Managers (Pty) Ltd at, and for the year ended, 31 March 2008.

Other matters

Governance framework

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

Investigations

An investigation was being conducted into allegations of possible fraud and misrepresentation by an employee of one of the projects funded by the entity.



5. KWAZULU-NATAL NATURE CONSERVATION BOARD

Qualified

Property, plant and equipment

- Due to the lack of a proper asset management system, the following material deficiencies relating to vehicles, furniture, tools, computer equipment and machinery were identified in the management of the board's assets:
 - Physical assets could not be traced to the asset register.
 - Assets recorded in the asset register could not be physically located.
- In accordance with the South African Statement of Generally Accepted Accounting Practice, IAS 16 (AC 123), *Property, Plant and Equipment*, the impairment, changes in expected useful life and residual value of assets should be reviewed at least at each financial year-end. However, in the absence of a policy framework and given the lack of a proper asset management system, residual values and useful lives of assets were not reviewed at year-end. Furthermore, each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item should be depreciated separately. In this regard, aircraft and boats with separately identifiable components were not depreciated separately and assets which were fully depreciated but were still in use, were recorded at nil value.
- In terms of the World Heritage Convention Act, 1999 (Act No. 49 of 1999) and the management agreement entered into between the iSimangaliso Wetlands Park Authority (authority) and the board to effect transfer of the overall responsibility for the eco-tourism facilities and other revenue-generating operations within the iSimangaliso Wetlands Park from the board to the authority, the movable assets relating to eco-tourism facilities and other income-generating operations should have been transferred from the board. To date there had been no transfer of movable assets as the process of transferring the revenue operations had not commenced.
- The board's records did not permit the application of alternative audit procedures regarding these assets. Consequently, I was unable to obtain sufficient appropriate audit evidence to confirm the existence, completeness and valuation of, and rights and obligations relating to, assets of R121,05 million (2008: R115,25 million).

Government grants and deferred income

Conditional grants of R125,16 million (2008: R125,16 million) utilised to fund assets in the prior years were not accounted for in accordance with South African Statement of Generally Accepted Accounting Practice, IAS 20, *Accounting for Government Grant and Disclosure of Government Assistance*. The conditional grants were disclosed as deferred income; however, the grant income had not been recognised as income over the useful life of the asset. Until the board follows a process of reconciling its assets and determining the assets funded by these grants, the effect of income, accumulated surplus and deferred income on the current and comparative balances cannot be determined.

Revenue

- Four per cent of the board's revenue comprised admission revenue. An adequate system of control over such income was not in place for me to place reliance on. There were also no satisfactory



audit procedures that I could perform to obtain reasonable assurance that all income relating to admissions had been recorded. Consequently, I was unable to confirm the completeness of admission revenue of R22,26 million (2008: R21,70 million).

- In terms of the World Heritage Convention Act, 1999, and the management agreement entered into between the authority and the board, the assets and revenue relating to the eco-tourism and other revenue-generating operations should be transferred from the board. Although the board had disposed of the immovable assets, it continued to gain economic benefits from these assets. Until formal transfer of operations had taken place and the related costs of the operations were absorbed, the effect on revenue and expenditure could not be determined.

Emphasis of matters

Basis of accounting

The board's policy is to prepare financial statements on the basis of accounting determined by the National Treasury, as set out in accounting policy note 1.

Significant uncertainty

As disclosed in note 3 to the annual financial statements, land claims affecting 91 096 hectares of the board's protected areas were settled by the Department of Land Affairs. The ultimate outcome of the matter could not be determined until finalisation of the land settlement agreements and the co-management agreements and as a result no provision had been made in the financial statements.

Fruitless and wasteful expenditure

As disclosed in note 23 to the financial statements, fruitless and wasteful expenditure to the amount of R1,06 million was incurred.

Restatement of corresponding figures

As disclosed in note 22 to the financial statements, the corresponding figures had been restated as a result of errors corrected during 2008-09 in the financial statements of the board at, and for the year ended, 31 March 2008.

Other matters

Non-compliance with applicable legislation

KwaZulu-Natal Nature Conservation Management Act

- At the date of this report the board of the KwaZulu-Natal Nature Conservation Board consisted of four members, which is contrary to chapter 3, paragraph 6 of the KwaZulu-Natal Nature Conservation Management Act, 1997 (Act No. 9 of 1997) which requires that the board should consist of no fewer than nine members.

Internal control deficiencies

The board had established a system of internal controls; however, deficiencies relating to asset management, completeness of revenue and accounting for government grants were not timeously addressed. The weaknesses should be addressed to ensure proper management of the board's operations.

Key governance responsibilities

- The financial statements were subject to material amendments resulting from the audit.
 - There were significant deficiencies in the design and implementation of internal control in respect of financial and risk management.
 - A risk assessment was not conducted on a regular basis and a risk management strategy, which includes a fraud prevention plan, was not documented and used as set out in Treasury Regulation 27.2.
 - The prior year audit findings had not been substantially addressed.
- SCOPA/Oversight resolutions had not been substantially implemented.
- The information systems were not appropriate to facilitate the preparation of a performance report that was accurate and complete.
 - Adequate control processes and procedures were not designed and implemented to ensure the accuracy and completeness of reported performance information.
 - There was no functioning performance management system and performance bonuses were not paid after proper assessment and approval by those charged with governance.

Investigations

A forensic investigation was conducted in the prior year by an independent consulting firm at the request of the Department of Agriculture and Environmental Affairs. The investigation resulted in disciplinary hearings being instituted in respect of certain employees and the board being suspended. The board was reinstated by order of the court in July 2009.

Report on performance information

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

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

Inconsistently reported performance information

The board reported on objectives, indicators and targets in addition to those as per the approved strategic and corporate plan. Furthermore, these additional objectives, indicators and targets were not included in the approved or adjusted budgets or were not approved subsequent to the strategic planning process.

Other reports

Special audits

As requested by the board, agreed-upon procedures audits were conducted during the year under review on the income and expenditure of the community levy and alien plant control special projects undertaken by the board. The report covered the period 1 April 2008 to 31 March 2009 and was issued on 31 July 2009.

6. KWAZULU-NATAL PLANNING AND DEVELOPMENT COMMISSION

Financially unqualified (with other matters)

Emphasis of matters

Restatement of corresponding figures

As disclosed in accounting policy note 14 to the financial statements, the corresponding figures for 31 March 2008 had been restated as a result of an error discovered during 2009 in the financial statements at, and for the year ended, 31 March 2008.

Other matters

Key governance responsibilities

- The financial statements were subject to material amendments resulting from the audit.
- The audit committee did not operate in accordance with approved, written terms of reference.
- The audit committee did not substantially fulfil its responsibilities for the year, as set out in section 77 of the PFMA and Treasury Regulation 27.1.8.
- The public entity did not have an internal audit function in operation throughout the financial year.
- The internal audit function did not operate in terms of an approved internal audit plan.
- The internal audit function did not substantially fulfil its responsibilities for the year, as set out in Treasury Regulation 27.2.
- There were significant deficiencies in the design and implementation of internal control in respect of financial and risk management.
- A risk assessment was not conducted on a regular basis and a risk management strategy, which included a fraud prevention plan, was not documented and used as set out in Treasury Regulation 27.2.

7. KWAZULU-NATAL POLITICAL PARTIES FUND

Qualified

Transfers and subsidies

In terms of section 8(7) of the KwaZulu-Natal Funding of Represented Political Parties Fund Act (KFRPPA) the accounting officer of a political party is required to submit to the secretary, within three months after the end of the financial year, the audited accounts, statements and report of the auditor appointed by



the political party. Section 8(6) of the act states that an auditor who performs an audit on the books and records of account of the political party and the statements must, in the auditor's report, express an opinion as to whether the allocated money was spent for purposes not authorised by the act. Included in the allocation to parties was an amount of R771 429 transferred to a political party for which no audited financial statements were presented. I was unable to verify that the amount allocated to this political party was spent for purposes authorised by the KFRPPA. Consequently, transfers and subsidies were overstated and accounts receivable understated by R771 429.

Other matters

Non-compliance with legislation

Public Finance Management Act

The secretary did not ensure that the entity had and maintained effective, efficient and transparent systems of financial and risk management and internal control, as required by section 51(1)(a) of the PFMA.

KwaZulu-Natal Funding of Represented Political Parties Fund Act

The secretary did not publish a notice in the Government Gazette setting out the allocations made from the fund in the period under review, as required by section 7(1) of the KFRPPA.

Key governance responsibilities

- Significant difficulties were experienced during the audit concerning delays or the availability of requested information.
- The entity did not have an audit committee in operation throughout the financial year.
- The audit committee did not operate in accordance with approved, written terms of reference.
- The audit committee did not substantially fulfil its responsibilities for the year, as set out in section 77 of the PFMA and Treasury Regulations 3.1.10 and 27.1.8, and section 13(3) of the KwaZulu-Natal Funding of Represented Political Parties Act.
- The entity did not have an internal audit function in operation throughout the financial year.
- The internal audit function did not operate in terms of an approved internal audit plan.
- The internal audit function did not substantially fulfil its responsibilities for the year, as set out in Treasury Regulations 3.2 and 27.2, and section 13(3) of the KwaZulu-Natal Funding of Represented Political Parties Fund Act.
- There were significant deficiencies in the design and implementation of internal control in respect of financial and risk management.
- There were significant deficiencies in the design and implementation of internal control in respect of compliance with applicable laws and regulations.
- The information systems were not appropriate to facilitate the preparation of the financial statements.
- A risk assessment was not conducted on a regular basis.
- The information systems were not appropriate to facilitate the preparation of a performance report that was accurate and complete.
- Adequate control processes and procedures were not designed and implemented to ensure the accuracy and completeness of reported performance information.
- A strategic plan was not prepared and approved for the financial year under review for purposes of monitoring the performance in relation to the budget and delivery by the KwaZulu-Natal Funding of Represented Political Parties Fund against its mandate, predetermined objectives, outputs, indicators



- and targets (Treasury Regulations 29.1 and 30.1).
- The fund was established in December 2008 and as a result most governance responsibilities could not be fully implemented.

Findings on performance information

Performance information not received

The performance information could not be reviewed as it had not been received at the date of the audit report.

8. KWAZULU-NATAL SHARKS BOARD

Financially unqualified (with other matters)

Other matters

Key governance responsibilities

- The financial statements were subject to material amendments resulting from the audit.
- The internal audit function did not substantially fulfil its responsibilities for the year, as set out in Treasury Regulation 27.2.
- Adequate control processes and procedures were not designed and implemented to ensure the accuracy and completeness of reported performance information.

Investigations

A forensic investigation into allegations of irregular payments made by the KwaZulu-Natal Sharks Board was still in progress at the reporting date.

Findings on performance information

Non-compliance with regulatory requirements

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

Content of strategic plan

The strategic plan of the entity did not include key performance measures and indicators for assessing the entity's performance in delivering the desired outcomes and objectives of the research programme, as required by Treasury Regulation 30.1.3.

Reported performance information not relevant

- The targets per the strategic plan for certain programmes were not measurable in identifying the required performance.
- All targets in the strategic plan were not time bound in specifying the time, period or deadline for delivery and the targets in the research programme were incorrectly based on a calendar year and not on a financial year in line with the entity's approved budget and strategic plan.

9. ITHALA DEVELOPMENT FINANCE CORPORATION LIMITED

Qualified

Investment property

The entity's investment properties are carried in the consolidated balance sheet at R673 million. As noted in the directors' report, management had not stated the investment property at the lower of carrying value and its value in use, but had disclosed it solely at carrying value, which constituted a departure from the South African Statements of Generally Accepted Accounting Practice, IAS 36 (AC 128), *Impairment of Assets*. Accordingly, investment property and retained earnings had been overstated by R28,3 million.

Property, plant and equipment

- Property, plant and equipment disclosed in note 3 to the group financial statements, included equipment of R46,5 million, excluding capital work in progress, pertaining to Ithala Limited (a wholly owned subsidiary). Equipment identified on the premises of certain branches had not been recorded in the fixed asset register and equipment recorded in the fixed asset register could not be located.
- The entity's records did not permit the application of adequate alternative audit procedures regarding equipment. Consequently, I could not obtain all the information and explanations I considered necessary to satisfy myself as to the physical existence and completeness of this equipment at the balance sheet date.

Emphasis of matters

Fruitless and wasteful expenditure

As disclosed in note 30 to the group financial statements, fruitless and wasteful expenditure to the amount of R20 490 was incurred by Ithala Limited as a result of interest.

Restatement of corresponding figures

As disclosed in notes 28 and 29 to the group financial statements, the corresponding figures for 31 March 2008 had been restated as a result of a change in accounting policy for government grants and errors discovered during the current year.

Other matters

Key governance responsibilities

- Significant difficulties were experienced during the audit concerning delays or the availability of requested information.
- The financial statements were subject to material amendments resulting from the audit.
- There were significant deficiencies in the design and implementation of internal control in respect of financial and risk management.
- There were significant deficiencies in the design and implementation of internal control in respect of compliance with applicable laws and regulations.
- A strategic plan was not prepared and approved for the financial year under review for purposes of monitoring the performance in relation to the budget and delivery by the Ithala Development Finance Corporation against its mandate, predetermined objectives, outputs, indicators and targets as set out by Treasury Regulation 30.1.

Investigations

There were 35 investigations in progress at the date of the audit report.

Findings on performance information

No corporate plan

The accounting authority of the Ithala Development Finance Corporation Limited did not submit to the accounting officer of a department designated by the executive authority responsible for the entity and to the National Treasury, at least one month – or another period 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.

10. ITHALA LIMITED

Qualified

Equipment

- In terms of section 51(1)(c) of the PFMA, the accounting authority of a public entity is responsible for the management, including the safeguarding of the assets of the entity. At 31 March 2009, equipment as noted in note 10 to the financial statements was recorded at a net book value of R46,5 million, excluding capital work in progress. At year-end the fixed asset register was incomplete and consequently did not facilitate an effective physical verification process for audit purposes.
- Equipment identified on the premises of certain branches had not been recorded in the fixed asset register and equipment recorded in the fixed asset register could not be located. The company's records did not permit the application of adequate alternative audit procedures regarding equipment. Consequently, I could not obtain all the information and explanations I considered necessary to satisfy myself as to the physical existence and completeness of equipment at the balance sheet date.



Emphasis of matters

Financial sustainability

The profit for the year included a R4,9 million (2008: R5,9 million) release to the income statement in respect of dormant deposit accounts, as disclosed in note 20 to the financial statements.

Fruitless and wasteful expenditure

As disclosed in note 27 to the financial statements, fruitless and wasteful expenditure to the amount of R20 490 was incurred in respect of interest.

Restatement of corresponding figures

As disclosed in note 28 to the financial statements, the corresponding figures for 31 March 2008 had been restated as a result of errors discovered during 2009 in the financial statements.

Other matters

Key governance responsibilities

- Significant difficulties were experienced during the audit concerning delays or the availability of requested information.
- The financial statements were subject to material amendments resulting from the audit.
- Key officials were not available throughout the audit process.
- There were significant deficiencies in the design and implementation of internal control in respect of financial and risk management.
- There were significant deficiencies in the design and implementation of internal control in respect of compliance with applicable laws and regulations.
- The information systems were not appropriate to facilitate the preparation of the financial statements.
- The prior year audit findings had not been substantially addressed.

Investigations

The following investigations were conducted:

- There were 103 fraud cases under investigation during the year, 41 had been completed and reported on and 62 cases were still in progress.
- A total of 23 disputed withdrawal and deposit cases were investigated. Clients were advised to report the matter to the police if it related to criminal investigation and various sanctions were imposed on the staff involved, including dismissal and final written warnings.
- There were 23 cases of bank accounts being opened fraudulently that were reported to internal audit during the year. Appropriate action was taken against the parties involved and preventative measures were recommended to management by internal audit.
- One case of money laundering was reported to internal audit at the Port Shepstone branch. A temporary staff member and a permanent staff member involved were dismissed.

11. MJINDI FARMING (PTY) LTD

Financially unqualified (with other matters)

Emphasis of matters

Going concern

The lease agreements between Mjindi Farming (Pty) Ltd and the farmers for land leased to the farmers expired in November 2008. The rental of the land is fundamental to the existence and operations of Mjindi Farming (Pty) Ltd. At the date of the audit report, the lease agreements with the farmers had not been finalised by the Department of Agriculture.

Significant uncertainties

- As disclosed in note 30 to the financial statements, the land managed by Mjindi Farming (Pty) Ltd is subject to land claims. At year-end the outcomes of the claims were uncertain and the effect on the operations of Mjindi Farming could not be determined until the claims were settled.
- As disclosed in note 30 to the financial statements, an amount of R7,4 million owing to the Department of Water Affairs and Forestry was under dispute. The ultimate outcome of the matter could not be determined and no provision for any liability that might result had been made in the financial statements.

Other matters

Non-compliance with applicable legislation

Public Finance Management Act and Treasury Regulations

- The entity had not established an effective, efficient and transparent system of financial and risk management and internal control as required by section 51(1)(a)(i) of the PFMA.
- The entity had not established an appropriate procurement and provisioning system as required by section 51(1)(a)(iii) of the PFMA.
- The entity had not taken effective and appropriate steps to collect all revenue due to the entity as required by section 51(1)(b)(i) of the PFMA. Consequently, at year-end the debtors outstanding amounted to R20,45 million and the provision against this outstanding debt amounted to R18,33 million.
- The accounting authority had not reported the inability to comply with section 51 of the PFMA to the executive authority and the treasury as required by section 51(2) of the PFMA.
- The annual report was not submitted for consideration prior to the tabling of the auditor's report.
- The entity did not have an audit committee in operation throughout the financial year.
- The audit committee did not operate in accordance with approved, written terms of reference.
- The audit committee did not substantially fulfil its responsibilities for the year, as set out in section 77 of the PFMA and Treasury Regulation 27.1.8.
- The entity did not have an internal audit function in operation throughout the financial year.
- The internal audit function did not operate in terms of an approved internal audit plan.
- The internal audit function did not substantially fulfil its responsibilities for the year, as set out in Treasury Regulation 27.2.

Key governance responsibilities

- There were significant deficiencies in the design and implementation of internal control in respect of financial and risk management.
- There were significant deficiencies in the design and implementation of internal control in respect of compliance with applicable laws and regulations.
- A risk assessment was not conducted on a regular basis and a risk management strategy, which included a fraud prevention plan, was not documented and used as set out in Treasury Regulation 27.2.
- The prior year audit findings had not been substantially addressed.
- The information systems were not appropriate to facilitate the preparation of a performance report that was accurate and complete.
- Adequate control processes and procedures were not designed and implemented to ensure the accuracy and completeness of reported performance information.
- A strategic plan was not prepared and approved for the financial year under review for purposes of monitoring the performance in relation to the budget and delivery by the entity against its mandate, predetermined objectives, outputs, indicators and targets (Treasury Regulations 29.1 and 30.1).
- There was no functioning performance management system.

Findings on performance information

Non-compliance with regulatory requirements

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

12. KWAZULU-NATAL TOURISM AUTHORITY

Financially unqualified (with other matters)

Other matters

Non-compliance with applicable legislation

Public Finance Management Act and Treasury Regulations

- During the evaluation of the internal control environment it was noted that there were no documented policies and procedures for skills retention and risk management in accordance with section 51(1)(a)(i) of the PFMA.

Key governance responsibilities

- The financial statements were subject to material amendments resulting from the audit.
- A risk assessment was not conducted on a regular basis and a risk management strategy, which included a fraud prevention plan, was not documented and used as set out in Treasury Regulation 3.2.
- Adequate control processes and procedures were not designed and implemented to ensure the accuracy and completeness of reported performance information.

Findings on performance information

Non-compliance with regulatory requirements

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

Special audit

As requested by the entity, an assurance engagement was conducted during the year under review concerning a project on signage. The report covered the period March 2008 to March 2009.

13. UMSEKELI MUNICIPAL SUPPORT SERVICES

Qualified

Contingent liabilities

As described in note 23 to the financial statements, uMsekeli Municipal Support Services disclosed a contingent liability as at 31 March 2009 for rates and municipal services costs on its properties situated in 38 locations. The accounting treatment was not in accordance with the South African Statement of Generally Accepted Accounting Practice, IAS 37 (AC 130), *Provisions, Contingent Liabilities and Contingent Assets*, as there was a present obligation as at 31 March 2009 and a reliable estimate could have been made had adequate steps been taken to reliably estimate the amount to be provided for in the financial statements. If a liability had been provided for, provisions and accumulated deficit would have increased by an unknown amount.

Property, plant and equipment

The entity had properties situated in 38 locations that were excluded from property, plant and equipment in the accompanying statement of financial position. These properties should have been capitalised in order to conform to the South African Statement of Generally Accepted Accounting Practice, IAS 16 (AC 123), *Property, Plant and Equipment*. If these properties had been capitalised, property, plant and equipment would have increased and the accumulated deficit would have decreased by an unknown amount as at 31 March 2009.

Emphasis of matters

Going concern

Paragraph 3 of the accounting authority's report stated that the entity closed down on 31 March 2007. Pending the approval of relevant legislation, all assets and liabilities of uMsekeli Municipal Support Services would be transferred to the Department of Local Government and Traditional Affairs.



Irregular expenditure

As disclosed in note 25 to the financial statements, irregular expenditure to the amount of R3,2 million was incurred as a proper tender process had not been followed.

Restatement of corresponding figures

As disclosed in note 24 to the financial statements, the corresponding figures for 31 March 2008 had been restated as a result of an error discovered during 2009 in the financial statements of uMsekeli Municipal Support Services at, and for the year ended, 31 March 2008.

Other matters

Key governance responsibilities

- The financial statements were subject to material amendments resulting from the audit.
- The public entity had no audit committee in operation throughout the financial year.
- The audit committee did not operate in accordance with approved, written terms of reference.
- The audit committee did not substantially fulfil its responsibilities for the year, as set out in section 77 of the PFMA and Treasury Regulation 27.1.8.
- The public entity had no internal audit function in operation throughout the financial year.
- The internal audit function did not operate in terms of an approved internal audit plan.
- The internal audit function did not substantially fulfil its responsibilities for the year, as set out in Treasury Regulation 27.2.
- There were significant deficiencies in the design and implementation of internal control in respect of financial and risk management.
- There were significant deficiencies in the design and implementation of internal control in respect of compliance with applicable laws and regulations.
- The information systems were not appropriate to facilitate the preparation of the financial statements.
- A risk assessment was not conducted on a regular basis and a risk management strategy, which included a fraud prevention plan, was not documented and used as set out in Treasury Regulation 27.2.
- The information systems were not appropriate to facilitate the preparation of a performance report that was accurate and complete.
- Adequate control processes and procedures were not designed and implemented to ensure the accuracy and completeness of reported performance information.
- A strategic plan was not prepared and approved for the financial year under review for purposes of monitoring the performance in relation to the budget and delivery by the public entity against its mandate, predetermined objectives, outputs, indicators and targets as set out in Treasury Regulation 30.1.

Findings on performance information

Non-compliance with regulatory requirements

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

No strategic performance plan

The accounting authority of uMsekeli Municipal Support Services did not finalise and submit a strategic plan for approval to the relevant executive authority before or on 1 April 2008, as required by Treasury Regulations 30.1.1 and 30.1.2.

No quarterly reporting on performance information

No quarterly reports on the progress in achieving measurable objective and targets were prepared by uMsekeli Municipal Support Services to facilitate effective performance monitoring, evaluation and corrective action, as required by Treasury Regulation 30.2.1.

ANNEXURE 3.4: KWAZULU-NATAL – SUMMARY OF PROVINCIAL OTHER ENTITY AUDIT REPORTS

1. DUBE TRADEPORT

Financially unqualified (with other matters)

Emphasis of matters

Significant uncertainty

With reference to note 20.1 to the financial statements, the company is the defendant in a claim by an unsuccessful bidder. The company was opposing the claim, as it believed the claim to be illegitimate. The ultimate outcome of the matter could not be determined and no provision for any liability that might result had been made in the financial statements.

Restatement of corresponding figures

As disclosed in note 13.2 to the financial statements, the corresponding figures for 31 March 2008 had been restated as a result of errors discovered in accounts payable and accounts receivable.

Other matters

Key governance responsibilities

- The financial statements were subject to material amendments resulting from the audit.
- The information systems were not appropriate to facilitate the preparation of a performance report that was accurate and complete.
- Adequate control processes and procedures were not designed and implemented to ensure the accuracy and completeness of reported performance information.

Findings on performance information

Inconsistently reported performance information

- Various targets were not included in the annual performance plan but were included in the draft annual report.
- In addition, a sub-programme included in the annual report was not included in the annual performance plan.

Reported performance information not relevant

Targets 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 period or deadline for delivery.

2. KWAZULU-NATAL HOUSING FUND

Qualified

Property, plant and equipment

Included in note 6 to the financial statements were land and buildings to the value of R170,459 million. The qualification raised in the prior year's audit had not been resolved as at the date of compiling the audit report. The basis for qualification was a result of the following:

- The asset register did not agree with the general ledger and financial statements.
- Included in the asset register were properties of which the right of ownership could not be confirmed as a result of inadequate supporting documentation.
- At least 900 immovable assets were recorded in the asset register at a zero value.

The opening balance for the current financial year was consequently misstated by an unquantifiable amount, which would impact on the fair value of the assets, had they been determined. Consequently, I was not able to verify the existence, valuation and right of ownership of the land and buildings of R170,459 million, as disclosed in the financial statements.

Emphasis of matters

Significant uncertainty

A national decision was made to de-establish the housing funds in the provinces. However, the legislative changes to the National Housing Act, 1997 (Act No. 107 of 1997) had not yet been enacted to allow for the de-establishment of the fund and to transfer all its assets and liabilities to the KwaZulu-Natal Department of Housing.

Other matters

Key governance responsibilities

- The financial statements were subject to material amendments resulting from the audit.
- The audit committee did not substantially fulfil its responsibilities for the year, as set out in section 77 of the PFMA and Treasury Regulation 3.1.10.
- There were significant deficiencies in the design and implementation of internal control in respect of financial and risk management.
- The prior year audit findings had not been substantially addressed.
- SCOPA resolutions had not been substantially implemented.

3. PHARMACEUTICAL SUPPLY DEPOT TRADING ENTITY

Financially unqualified (with no other matters)



4. TRADE AND INVESTMENT KWAZULU-NATAL

Financially unqualified (with other matters)

Other matters

Key governance responsibilities

- The financial statements were subject to material amendments resulting from the audit.
- The information systems were not appropriate to facilitate the preparation of a performance report that was accurate and complete.
- Adequate control processes and procedures were not designed and implemented to ensure the accuracy and completeness of reported performance information.

Findings on performance information

Non-compliance with regulatory requirements

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

5. TRADITIONAL LEVIES AND TRUST ACCOUNT

Adverse

Property, plant and equipment

- Property, plant and equipment amounting to R1,4 million as per note 12 to the financial statements did not agree with the amount of R1 reflected as property, plant and equipment in the statement of financial position.
- In accordance with the South African Statement of Generally Accepted Accounting Practice, IAS 16 (AC 123), *Property, Plant and Equipment*, the impairment, changes in expected useful life and residual value of assets should be reviewed at least at each financial year-end. However, in the absence of a policy framework and the lack of a proper asset management system, residual values and useful lives of assets were not reviewed at year-end. This resulted in assets being fully depreciated while still in use.
- The asset register submitted for auditing was incomplete, as additional assets were reflected on a separate listing of assets provided for audit purposes. This listing did not, however, reflect values of the assets. As a result, I was unable to satisfy myself as to the valuation and completeness of the R1,4 million disclosed in note 12 to the financial statements. The entity's records did not permit the application of alternative audit procedures regarding these assets. Consequently, I was unable to obtain sufficient appropriate audit evidence to confirm the completeness and valuation of assets of R1,4 million (2008: R2,2 million).



Other receivables

- The amount disclosed as other receivables due from the Ingonyama Trust Board (ITB) was R33,6 million (prior year: R33,6 million). The financial statements of the ITB, however, disclosed an amount of R84,3 million (prior year: R55,4 million), resulting in a difference of R50,7 million (prior year: R21,8 million).
- In addition, the statement of financial performance did not disclose the revenue receivable from the ITB for the current financial year of R28,9 million (prior year: R21,8 million) per the financial statements of the ITB, resulting in both other receivables and accumulated surplus being understated.

Related-party transactions

In terms of paragraph 17 of IAS 24 (AC 126), *Related Party Disclosures*, if there are any transactions between related parties, an entity shall disclose the nature of the related-party relationship as well as information about the transactions and outstanding balances necessary for an understanding of the potential effect of the relationship on the financial statements. Although disclosure of such transactions was made in the financial statements, neither amounts nor outstanding balances were disclosed.

Government grants and assistance

In terms of paragraphs 3 and 12 of IAS 20 (AC 134), *Accounting for Government Grants and Disclosure of Government Assistance*, government grants shall be recognised as income over the periods necessary to match them with the related costs which they are intended to compensate, on a systematic basis. The expenditure and property, plant and equipment funded by the Department of Local Government and Traditional Affairs as indicated in note 16 to the financial statements were not accounted for in terms of IAS 20. This resulted in the balances of revenue, expenditure, deferred income and property, plant and equipment being materially affected by an unquantifiable amount.

Completeness of revenue

There was no system of control over traditional income on which I could rely for the purpose of my audit. There were also no satisfactory audit procedures that I could perform to obtain reasonable assurance that all income relating to traditional income had been properly recorded prior to initial entry in the accounting records. Consequently, I was unable to confirm the completeness of traditional income of R6,2 million (2008: R5,9 million).

Emphasis of matters

Significant uncertainty (former Eastern Cape traditional councils)

Note 17.3 to the financial statements indicated that the traditional councils in the UmZimkhulu area had not been consolidated into the financial statements of Traditional Levies and Trust Account. They were to be incorporated once a fact-finding mission had been completed and conclusions to that effect were reached.

Key governance responsibilities

- The financial statements were subject to material amendments resulting from the audit.
- The prior year audit findings had not been substantially addressed.



- The information systems were not appropriate to facilitate the preparation of a performance report that was accurate and complete.
- Adequate control processes and procedures were not designed and implemented to ensure the accuracy and completeness of reported performance information.
- There was no functioning performance management system and performance bonuses were not paid after proper assessment and approval by those charged with governance.

Findings on performance information

Non-compliance with regulatory requirements

The entity had not developed a system to measure performance against predetermined objectives and therefore had not reported on these, as required by paragraph 16 of Auditor-General Audit Circular 1 of 2007.

ANNEXURE 4: AUDIT OPINIONS FOR THE PAST FIVE YEARS IN ALPHABETICAL ORDER

Institution	Audit opinion				
	2008-09	2007-08	2006-07	2005-06	2004-05
Agriculture and Environmental Affairs	Financially unqualified (with other matters)	Qualified	Disclaimer	Disclaimer	Disclaimer
Amafa Akwazulu-Natali	Qualified	Qualified	Qualified	Qualified	Qualified
Arts, Culture and Tourism	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Qualified	Qualified
Community Safety and Liaison	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)
Dube Tradeport	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)	New audit
Economic Development	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)
Education	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Qualified	Qualified	Qualified
Health	Qualified	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)
Housing	Financially unqualified (with other matters)	Financially unqualified (with no other matters)	Financially unqualified (with other matters)	Qualified	Qualified
Ithala Development Finance Corporation Ltd	Qualified	Qualified	Qualified	Qualified	Not audited by AGSA
Ithala Limited	Qualified	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Not audited by AGSA

Institution	Audit opinion				
	2008-09	2007-08	2006-07	2005-06	2004-05
KwaZulu-Natal Gambling Board	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Qualified
KwaZulu-Natal Growth Fund Managers	Financially unqualified (with other matters)	Financially unqualified (with no other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)	New audit
KwaZulu-Natal Nature Conservation Board	Qualified	Adverse	Adverse	Qualified	Qualified
KwaZulu-Natal Sharks Board	Financially unqualified (with other matters)	Qualified	Qualified	Financially unqualified (with other matters)	Financially unqualified (with other matters)
KwaZulu-Natal Taxi Council	Audit outstanding	Audit outstanding	Qualified	Financially unqualified (with other matters)	Financially unqualified (with no other matters)
KwaZulu-Natal 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 other matters)
KZN Business Rehabilitation Trust Fund	Audit outstanding	Audit outstanding	Audit outstanding	Qualified	Qualified
KZN Housing Fund	Qualified	Qualified	Qualified	Qualified	Qualified
KZN Planning & Development Commission	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)
KZN Provincial Pharmaceutical Supply Depot	Financially unqualified (with no other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Qualified
Local Government and Traditional Affairs	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Qualified	Financially unqualified (with other matters)	Qualified
Mjindi Farming (Pty) Ltd	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Qualified	Qualified	Qualified



Institution	Audit opinion				
	2008-09	2007-08	2006-07	2005-06	2004-05
Natal Joint Municipal Pension Fund (Retirement)	Audit outstanding	Financially unqualified (with no other matters)	Financially unqualified (with no other matters)	Financially unqualified (with no other matters)	Financially unqualified (with no other matters)
Natal Joint Municipal Pension Fund (Superannuation)	Audit outstanding	Financially unqualified (with no other matters)	Financially unqualified (with no other matters)	Financially unqualified (with no other matters)	Financially unqualified (with no other matters)
Office of the Premier	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Qualified	Qualified
Political Parties Fund	Qualified	New audit	New audit	New audit	New audit
Provincial Legislature	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Qualified	Qualified	Financially unqualified (with other matters)
Provincial Treasury	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Qualified	Financially unqualified (with other matters)
Social Development	Qualified	Qualified	Financially unqualified (with other matters)	Qualified	Disclaimer
Sport and Recreation	Financially unqualified (with no other matters)	Financially unqualified (with other matters)	Financially unqualified (with no other matters)	Qualified	Qualified
The Royal Household	Qualified	Financially unqualified (with other matters)	Qualified	Financially unqualified (with other matters)	Qualified
Trade and Investment KZN	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Qualified	Financially unqualified (with other matters)	New audit
Traditional Levies and Trust Account - KZN	Adverse	Adverse	Adverse	Qualified	Qualified
Transport	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Qualified

Institution	Audit opinion				
	2008-09	2007-08	2006-07	2005-06	2004-05
uMsekeli Municipal Support Services	Qualified	Qualified	Disclaimer	Adverse	Financially unqualified (with other matters)
Public Works	Qualified	Qualified	Qualified	Financially unqualified (with other matters)	Qualified

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