



on the provincial audit outcomes of the

# **GENERAL REPORT NORTHERN CAPE**

**2008-09**



AUDITOR - GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*



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

*Auditing to build public confidence*

# **General report**

**on the provincial audit outcomes  
of the Northern Cape, 2008-09**

**PR 287/2009  
ISBN 978-0-621-39044-5**



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

*Auditing to build public confidence*

## **Our reputation promise/mission**

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



AUDITOR - GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*

## TABLE OF CONTENTS

<b>SECTION 1: FOREWORD</b>	<b>1</b>
<b>SECTION 2: EXECUTIVE SUMMARY</b>	<b>2</b>
<b>SECTION 3: AUDIT OUTCOMES FOR 2008-09</b>	<b>8</b>
3.1 Status of completion of audits	8
3.2 Audit outcome: provincial legislature	8
3.3 Audit outcomes: provincial departments	9
3.4 Audit outcomes: provincial public entities	10
3.5 Audit outcomes: provincial other entities	11
3.6 Five-year review of audit outcomes	12
3.7 Entities not reported on	13
<b>SECTION 4: KEY SYSTEMIC ISSUES</b>	<b>14</b>
4.1 Initiatives to improve audit outcomes	14
4.2 Impact of initiatives of other role players	15
4.3 Accounting reforms	17
<b>SECTION 5: ANALYSIS OF AUDIT QUALIFICATION AREAS AND ROOT CAUSES</b>	<b>18</b>
5.1 Provincial departments	18
5.2 Provincial public entities	22
5.3 Provincial other entities	23
<b>SECTION 6: WARNING SIGNALS REQUIRING ATTENTION</b>	<b>26</b>
6.1 Provincial Legislature	26
6.2 Provincial departments	29
6.3 Provincial public entities	33
6.4 Provincial other entities	35
<b>SECTION 7: RESULTS OF AUDITS OF INFORMATION SYSTEMS</b>	<b>37</b>
<b>SECTION 8: SIGNIFICANT FINDINGS FROM AUDITS OF HUMAN RESOURCE MANAGEMENT AND COMPENSATION OF EMPLOYEES</b>	<b>39</b>
<b>SECTION 9: AUDIT OF PERFORMANCE INFORMATION</b>	<b>46</b>
<b>SECTION 10: CONSOLIDATED FINANCIAL STATEMENTS</b>	<b>49</b>
<b>SECTION 11: STATUS OF TABLING OF ANNUAL REPORTS</b>	<b>50</b>
<b>SECTION 12: STATUS REPORT ON PERFORMANCE AUDITS, INVESTIGATIONS AND SPECIAL AUDITS</b>	<b>52</b>
<b>ANNEXURES TO GENERAL REPORT</b>	<b>54</b>



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

*Auditing to build public confidence*

**Index to tables**

Table 1	Status of completion of the 2008-09 audits	8
Table 2(a)	Audit opinions on the provincial legislature for current and previous financial years	8
Table 2(b)	Audit opinions on provincial departments for current and previous financial years	9
Table 2(c)	Audit opinions on provincial public entities for current and previous financial years	10
Table 2(d)	Audit opinions on provincial other entities for current and previous financial years	11
Table 2(e)	Comparison of audit outcomes for 2008-09 and 2004-05 financial years	12
Table 3	Key audit findings arising from the auditing of performance information	47
Table 4	Status of preparation of consolidated financial statements as at 30 September 2009	49
Table 5	Status of tabling annual reports by executive authorities	50
Table 6	Performance audits conducted and expected/actual dates of tabling of reports	52
Table 7	Investigations conducted and expected/actual dates of tabling of reports	53

**Index to figures**

Figure 1(a)	Areas qualified in the statement of financial position: provincial departments	18
Figure 1(b)	Areas qualified in the statement of financial performance: provincial departments	20
Figure 2(a)	Areas qualified in the statement of financial position: provincial other entities	23
Figure 2(b)	Areas qualified in the statement of financial performance: provincial other entities	24
Figure 3(a)	Emphasis of matters – provincial legislature	27
Figure 3(b)	Other matters – provincial legislature	28
Figure 4(a)	Emphasis of matters – provincial departments	29
Figure 4(b)	Other matters – provincial departments	32
Figure 5(a)	Emphasis of matters – provincial public entities	33
Figure 5(b)	Other matters – provincial public entities	34
Figure 6(a)	Emphasis of matters – provincial other entities	35
Figure 6(b)	Other matters – provincial other entities	36

**Index to annexures**

Annexure 1:	2008-09 audit outcomes
Annexure 2:	Listing of departments and entities that registered improved or deteriorated audit outcomes
Annexure 3:	Summaries of audit reports
Annexure 4:	Audit outcomes: five-year review of audit outcomes

## SECTION 1: FOREWORD

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

This report highlights the encouraging trend of timely submission and auditing of the provincial legislature, all departments, and 80% of entities for the year 2008-09. The report also reflects a marginal improvement in unqualified audit opinions for departments (including the Provincial Legislature) in 2008-09 to 62% (2007-08 – 54%). In contrast, the unqualified opinions for entities have remained static at 33% when compared to the previous financial year. In essence there has been a slight deterioration in the audit outcomes for the five years since 2004-05. This is largely attributable to the leadership not timeously implementing action plans to address capital asset reforms as set by the National Treasury.

It is, however, encouraging that the current provincial leadership, championed by the Premier, is paying urgent attention to the Departments of Health and Education that both received disclaimers of opinion and have a combined budget that constitutes a large proportion (68%) of the budget allocated to the Northern Cape Provincial Government.

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

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

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

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

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

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

*Auditor-General*

Auditor-General  
Pretoria  
November 2009



## SECTION 2: EXECUTIVE SUMMARY

The executive summary that follows contains key issues and conclusions reached on each of the main sections of this report. The reader is encouraged to refer to the main body of this report for the details.

### 2.1 Audit outcomes

The audits of the Provincial Legislature, all the provincial departments and provincial public and other entities, with the exception of the Northern Cape Housing Fund, were completed within the legislated deadlines. The auditors and management of the Provincial Legislature, provincial departments and public entities are commended for achieving this milestone. The delay in submitting financial statements of the Northern Cape Housing Fund from 2005-06 onwards is due to the failure of the Department of Housing and Local Government to prepare separate financial statements for the fund pending its dissolution, as required by the Housing Act. The fund's expenditure has been included as part of the department's from 2005-06 onwards.

#### *Provincial Legislature*

The audit opinion on the Provincial Legislature improved from qualified in 2007-08 to financially unqualified (with other matters). Potential qualifications were, however, avoided by processing audit adjustments to the financial statements that were submitted for auditing. The improvement can be ascribed to improved leadership oversight and monitoring which resulted in an improvement in the quality of the management information supporting the financial statements.

#### *Provincial departments*

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

Eight had no change in their audit outcomes. Economic Affairs; Education; Health; Provincial Treasury; Safety and Liaison; Social Services and Population Development; Tourism, Environment and Conservation; and Transport, Roads and Public Works maintained the audit opinion of the previous year.

Three departments (Provincial Legislature; Agriculture and Land Reform; and Office of the Premier) improved from qualified to financially unqualified (with other matters) opinions.

Two departments (Housing and Local Government; and Sport, Arts and Culture) regressed from financially unqualified (with other matters) to qualified opinions.

#### *Unqualified opinions:*

Seven (2008: seven) (Agriculture and Land Reform; Economic Affairs; Office of the Premier; Social Services and Population Development; Tourism, Environment and Conservation; Safety and Liaison; and the Provincial Treasury) received financially unqualified (with other matters) opinions.

#### *Qualified opinions:*

Three (2008: three) (Transport, Roads and Public Works; Sport, Arts and Culture; and Housing and Local Government) received qualified opinions. Housing and Local Government; and Sport, Arts and Culture regressed from financially unqualified (with other matters) to qualified opinions. Transport, Roads and Public Works retained its qualified status from the previous year.

#### Disclaimers:

Two (2008: two) (Education and Health) received disclaimers of opinion as in the previous year.

The budgets of the Departments of Education and Health together totalled R3 816 million or 68% of the provincial budget. It is thus imperative that the leadership of the province, including the executive, oversight committees, management and the Provincial Treasury, work together to improve the financial management and accountability in these departments.

Another transversal matter requiring collective effort within the province is the quality and accuracy of the financial statements that are submitted for auditing. Even though all departmental financial statements were submitted within the legislative deadlines, 11 of the 12 sets of financial statements required material adjustments. These adjustments can and should be avoided by ensuring that all accounting reforms are well communicated and implemented, specific reviews are performed of financial statements prior to submission, proper working paper files are submitted and the financial management system is aligned with the accrual basis of accounting.

The Provincial Legislature and those departments that achieved improved audit outcomes, as well as those that maintained their unqualified status, can ascribe the favourable audit outcomes to improved asset management and monitoring by the leadership.

Those departments that regressed or failed to register improved outcomes can ascribe their performance to a lack of monitoring by leadership to ensure that internal controls that ensure compliance with supply chain management and systems to record irregular expenditure are implemented and operating effectively.

#### *Provincial public entities*

Both public entities remained unchanged from 2008 (Northern Cape Tourism Authority and the Northern Cape Youth Commission) and received financially unqualified (with other matters) opinions.

#### *Provincial other entities*

Of the four (2008: four) provincial other entities analysed:

One entity, the Premier's Education Trust Fund, improved from a disclaimer in the prior year to a qualified opinion in 2008-09.

The remaining three entities remained unchanged from 2008: disclaimer (Northern Cape Arts and Culture Council) and qualified (McGregor Museum and the Roads Capital Account).

#### *Five-year review*

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

#### Departmental highlights:

- Tourism, Environment and Conservation was created in 2006-07 as a result of reclassification of budget votes.





- One department (Provincial Treasury) improved from a disclaimer of opinion to financially unqualified (with other matters).
- The Provincial Legislature received the same opinion (financially unqualified (with other matters)) as in 2004-05.
- Seven departments received the same opinion as they received in 2004-05. All except Education (disclaimer) and Transport, Roads and Public Works (qualified) retained financially unqualified (with other matters) opinions.

#### Public entity highlights:

- The Northern Cape Youth Commission, a new entity, was created in 2007-08.
- Two entities (the Roads Capital Account and the Northern Cape Premier's Education Trust Fund) improved from disclaimers in 2004-05 to qualified opinions.
- Two entities (the Northern Cape Arts and Culture Council and the McGregor Museum) remained unchanged from 2004-05 with a disclaimer and qualified opinion respectively.
- The Northern Cape Tourism Authority regressed from financially unqualified (with no other matters) to financially unqualified (with other matters).

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

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

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

## 2.2 Key systemic issues

### *Commitments by the executive*

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

- Implementation of action plans by the leadership
- Coordination between portfolio committees and standing committees
- Ongoing monitoring and evaluation of internal controls by the audit committees and internal audit
- Strengthening the capacity of the Provincial Treasury
- Evaluation of Human Resource Strategic Frameworks

In addition, there was participation by the executive during the audit process. Refer to section 4 for further details.

The above actions contributed to the improved audit outcomes over the previous two years. Refer to sections 3.2 to 3.6 for details.

The Premier and MECs committed to following a stringent action plan to address all root causes contained in the 2008-09 audit reports. A committee consisting of the Office of the Premier and the Provincial

Treasury will be formed in conjunction with the new Department of Cooperative Governance and Planning to perform monitoring and evaluation with the objective of attaining clean audit reports. The AGSA will be invited to meetings to provide inputs.

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

- To improve the capacity of the executive and leadership to perform oversight, monitoring and control functions through appropriate training interventions.
- To address the lack of discipline within departments where evident, as well as the issue regarding the unavailability of senior officials.
- To reconsider the structure of the shared internal audit units and audit committees to effectively service the two largest departments, namely Health and Education.
- Chief financial officers (CFOs) are to prepare regular financial statements.
- To address the weaknesses identified during the audit of performance information.

#### *Provincial Treasury initiatives to improve audit outcomes*

The Provincial Treasury has identified the following key focus areas for attention during the next year to improve the provincial government audit outcomes further:

- CFO forums were held and will continue to be held monthly to share best practices amongst departments.
- Interventions through secondment of staff to Education and Health in an attempt to stabilise the departments, as well as assist with financial management.
- Logis was rolled out to departments that were ready to implement it for better inventory and asset management, as well as management of logistics.
- Monthly reports of departments were and will continue to be closely monitored to identify problematic areas and an approach was recommended to address the issues.
- The financial maturity capability model (FMCM) was rolled out in March 2009 to identify gaps in departments and determine how the Provincial Treasury can assist in future.

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

The annual financial statement areas relating to capital assets (2009: 100%; 2008: 83%), irregular expenditure (2009: 80%; 2008: 67%), payables (2009: 60%; 2008: 50%) and presentation and disclosure (2009: 60%; 2008: 67%) were the only areas where the number of qualifications exceeded 50% of the departmental qualifications. Refer to sections 5.1.1 and 5.1.2 for details on qualification areas for departments.

Both provincial public entities received financially unqualified (with other matters) audit opinions. The provincial other entities' annual financial statement qualification areas in excess of 50% were capital assets (2009: 75%; 2008: 75%), presentation and disclosure (2009: 75%; 2008: 0%) and irregular expenditure (2009: 75%; 2008: 75%). Refer to sections 5.3.1 and 5.3.2 for details on qualification areas for provincial other entities.

The above qualifications can be attributed to deficiencies in the control environment, the design and implementation of control activities, communication and information on internal controls, monitoring by the leadership, audit committees and internal audit and development and implementation of risk management strategies. Refer to sections 5.1.3 and 5.3.3 for root causes at departments and provincial other entities, respectively.



## **2.4 Warning signals**

Each of the warning signals discussed below can individually or collectively result in a regression of audit opinion in coming financial years if not specifically addressed. The root causes and recommendations for improvements are further detailed in section 6 of this report.

### *Human resources*

Human resource management at departments was a specific focus area of the AGSA during the year under review. Human resource findings were reported at 85% of departments and included the absence of human resource plans, high vacancy rates at senior manager and highly skilled levels, lack of background checks, prolonged acting in higher positions and budget overspend. The root causes of these findings included weak and protracted recruitment and appointment processes, insufficient focus by the leadership on the resources required to deliver on its mandate and a lack of understanding of human resource practices and prescripts. The high vacancy rates in particular manifested in the lack of capacity in the finance units.

### *Information systems audit*

Findings in all seven access control areas tested were reported at the Provincial Legislature and at 36% of provincial departments. These findings are recurring, partly due to the expectation that a new system (IFMS) will be implemented and the lack of priority afforded by governance arrangements to information system issues.

### *Non-compliance with legislation*

Non-compliance with legislation that did not have an impact on the financial statements was reported at 100% of departments (2008: 92%), the Provincial Legislature, 100% of public entities (2008: 100%) and 100% of provincial other entities (2008: 100%). Non-compliance with the supply chain management prescripts occurred at 46% of the departments and 50% of the entities. Other non-compliance with the PFMA and Treasury Regulations was reported at 100% of the departments and 100% of the entities.

Although the non-compliance reported relates to various specific matters per department and entity, the general trend was that departments and entities all had an incidence of payments that were not effected within 30 days as contemplated by the Treasury Regulations.

Non-compliance with the Division of Revenue Act was reported at the Departments of Health and Housing. Inadequate supervision and monitoring by the leadership (accounting officers, chief financial officers and senior managers) contributed to the negative findings in this area. The right leadership tone, together with the support of internal audit, is necessary to establish a strong control environment and ensure compliance.

### *Material misstatements*

The quality of the financial statements received was poor and as a result, material misstatements in the annual financial statements submitted for auditing were corrected at 92% of the departments (2008: 92%), the Provincial Legislature, 100% of public entities (2008: 100%) and all provincial other entities (2008: 100%). This was a result of lack of supervision and review over the preparation of the financial statements and lack of a system to generate the accruals-based disclosures. The material corrections were effected to avoid further qualifications. At departments 40% of the misstatements corrected related

to financial statement items and 60% to disclosure in the financial statements, while at entities 85% of the misstatements corrected related to financial statement items and 15% related to disclosures in the financial statements.

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

## **2.5 Audit of performance information**

The audit of performance information (AoPI) presented by the departments, the Provincial Legislature and provincial public entities revealed a number of deficiencies, the most significant being the following:

- Fifty per cent of departments, the Provincial Legislature, 50% of public entities and 75% of provincial other entities did not comply with certain legislative requirements relating to performance information. None of the provincial public and other entities reported performance information.
- Findings relating to the usefulness of reported performance information were reported at 50% of departments and the Provincial Legislature.
- Findings relating to the reliability of performance information were reported at 50% of departments.

Three departments, namely Agriculture and Land Reform, Economic Affairs and Social Services and Population Development, and one provincial public entity, the Northern Cape Tourism Authority, were the only departments and entity that were exemplary in the management of service delivery processes, and as such had no shortcomings in any of the above categories.

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

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

## SECTION 3: AUDIT OUTCOMES FOR 2008-09

### 3.1 Status of completion of audits

The Northern Cape Provincial Government comprises the Provincial Legislature, 12 departments, two provincial public entities and four provincial other entities. This report presents the 2008-09 audit outcomes of the Provincial Legislature, 12 departments, two provincial public entities and four provincial other entities.

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

Entity	Total	Audits completed	Audits outstanding	% of completion
Provincial legislature	1	1	0	100%
Provincial departments	12	12	0	100%
Provincial public entities	2	2	0	100%
Provincial other entities	5	4	1	80%
<b>Total</b>	<b>20</b>	<b>19</b>	<b>1</b>	<b>95%</b>

The financial statements of the Northern Cape Housing Fund have been outstanding since 2005-06 due to the Department of Housing and Local Government's failure to prepare separate financial statements for the fund pending its dissolution. The fund's expenditure has, however, been included as part of the department's from 2005-06 onwards.

Tables 2(a) – 2(d) below present the 2008-09 audit outcomes of the Northern Cape Province. Details of balance sheet (statement of financial position) and income statement (statement of financial performance) qualification areas are provided in section 5 of this report.

### 3.2 Audit outcomes: provincial legislature

**Table 2(a): Audit opinions on the 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%	1	100%
Financially unqualified (with other matters)	1	100%	0	0%
Financially unqualified (with no other matters)	0	0%	0	0%
<b>Total reported on</b>	<b>1</b>	<b>100%</b>	<b>1</b>	<b>100%</b>
<b>Total not reported on</b>	<b>0</b>	<b>0%</b>	<b>0</b>	<b>0%</b>
<b>Total entities</b>	<b>1</b>	<b>100%</b>	<b>1</b>	<b>100%</b>



The provincial legislature improved from a qualified audit opinion in 2007-08 to financially unqualified (with other matters). The other matters reported in its audit report included material audit adjustments, non-compliance with legislation and governance matters.

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

Governance matters reported included an audit committee and internal audit function not being in place for the 2008-09 financial year.

### 3.3 Audit outcomes: provincial departments

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

Type of audit opinion	2008-09		2007-08	
	Number	%	Number	%
Disclaimer	2	17%	2	17%
Adverse	0	0%	0	0%
Qualified	3	25%	3	25%
Financially unqualified (with other matters)	7	58%	7	58%
Financially unqualified (with no other matters)	0	0%	0	0%
<b>Total reported on</b>	<b>12</b>	<b>100%</b>	<b>12</b>	<b>100%</b>
<b>Total not reported on</b>	<b>0</b>	<b>0%</b>	<b>0</b>	<b>0%</b>
<b>Total entities</b>	<b>12</b>	<b>100%</b>	<b>12</b>	<b>100%</b>

All 12 departments are reported on, of which two registered improved audit outcomes, two regressed and eight registered the same audit outcomes as for the year ended March 2008. Details are as follows:

- **Improvements:** Two departments as listed below improved from qualified in 2008 to financially unqualified (with other matters) (Agriculture and Land Reform and Office of the Premier). The improvements were due to improved asset management and monitoring by senior staff.
- **Regressions:** Two departments regressed from financially unqualified (with other matters) in 2008 to qualified (Sport, Arts and Culture and Housing and Local Government). The regression related mainly to findings on the completeness and existence of assets and the completeness of irregular expenditure disclosed as a result of failure of management to implement action plans to address prior year audit findings.

- Unchanged: The audit outcomes of eight departments remained unchanged from the year ended March 2008 as set out below:

Five retained a financially unqualified (with other matters) opinion

- Economic Affairs
- Provincial Treasury
- Safety and Liaison
- Social Services and Population Development
- Tourism, Environment and Conservation

Two retained a disclaimer of opinion, namely:

- Education
- Health

Transport, Roads and Public Works remained qualified.

- Departments can ascribe improved (or sustained satisfactory) audit outcomes to improved asset management and monitoring by senior staff and the leadership.
- Departments of which the audit outcomes deteriorated or which failed to register improved audit outcomes can ascribe such failure to lack of leadership supervision. These root causes are analysed in section 5 of this report for all entities whose annual financial statements received a qualified audit opinion.

The audit opinions of the Departments of Education and Health, which constitute 68% of the total provincial budget, remained disclaimers. This is a result of frequent turnover in administrative leadership over the past year together with the breakdown in internal controls, particularly within the supply chain divisions. It is thus imperative that the leadership of the province, including the executive, oversight committees, management and the Provincial Treasury, should set the right tone and work together to improve financial management and accountability in these departments.

### 3.4 Audit outcomes: provincial public entities

**Table 2(c): Audit opinions on 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%	0	0%
Qualified <sup>1</sup>	0	0%	0	0%
Financially unqualified (with other matters)	2	100%	2	100%
Financially unqualified (with no other matters)	0	0%	0	0%
<b>Total reported on</b>	<b>2</b>	<b>100%</b>	<b>2</b>	<b>100%</b>
<b>Total not reported on</b>	<b>0</b>	<b>0%</b>	<b>0</b>	<b>0%</b>
<b>Total entities</b>	<b>2</b>	<b>100%</b>	<b>2</b>	<b>100%</b>



Both provincial public entities reported on, namely the Northern Cape Tourism Authority and the Northern Cape Youth Commission, maintained their financially unqualified (with other matters) opinion from the prior year. These entities can ascribe their sustained satisfactory audit outcomes to good leadership oversight and continued monitoring.

### 3.5 Audit outcomes: provincial other entities

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

Type of audit opinion	2008-09		2007-08	
	Number	%	Number	%
Disclaimer	1	25%	2	50%
Adverse	0	0%	0	0%
Qualified	3	75%	2	50%
Financially unqualified (with other matters)	0	0%	0	0%
Financially unqualified (with no other matters)	0	0%	0	0%
<b>Total reported on</b>	<b>4</b>	<b>80%</b>	<b>4</b>	<b>80%</b>
<b>Total not reported on (as percentage of total entities)</b>	<b>1</b>	<b>20%</b>	<b>1</b>	<b>20%</b>
<b>Total entities</b>	<b>5</b>	<b>100%</b>	<b>5</b>	<b>100%</b>

The Premier's Education Trust Fund improved their opinion from a disclaimer in the prior year to a qualified audit opinion in the current year. This improvement came about as a result of improved management oversight and supervision, which resulted in the amendment of their accounting policies and related disclosures to ensure compliance with the accounting standards.

The audit opinions of three of the four provincial other entities remained unchanged from the year ended March 2008. The audit opinions on the McGregor Museum and the Roads Capital Account remained qualified and the audit opinion on the Northern Cape Arts and Culture Council remained a disclaimer. These entities failed to register improved audit outcomes and can ascribe such failure to inadequate leadership oversight and management supervision, which resulted in financial statements and related management information of a poor quality.



### 3.6 Five-year review of audit outcomes

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

Type of audit opinion	Departments		Entities		Provincial Legislature	
	2008-09	2004-05	2008-09	2004-05	2008-09	2004-05
Disclaimer	2	2	1	3	0	0
Adverse	0	0	0	0	0	0
Qualified	3	1	3	1	0	0
Financially unqualified (with other matters)	7	8	2	1	1	1
<b>Financially unqualified (with no other matters)</b>	0	0	0	0	0	0
<b>Total reported on</b>	12	11*	6	5#	1	1

\* Number of departments increased after reclassification of budget votes in 2006-07

# Northern Cape Youth Commission established 2007-08

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

Departmental highlights include the following:

- Tourism, Environment and Conservation was created in 2006-07 as a result of reclassification of budget votes.
- One department (Provincial Treasury) improved from a disclaimer of opinion to financially unqualified (with other matters).
- The Provincial Legislature received the same opinion (financially unqualified (with other matters)) as in 2004-05.
- Seven departments received the same opinion as in 2004-05. All except Education (disclaimer) and Transport, Roads and Public Works (qualified) retained financially unqualified (with other matters) opinions.

Public entity highlights include the following:

- The Northern Cape Youth Commission, a new entity, was created in 2007-08.
- Two entities (the Roads Capital Account and the Northern Cape Premier's Education Trust Fund) improved from disclaimers of opinion in 2004-05 to qualified opinions.
- Two entities (the Northern Cape Arts and Culture Council and the McGregor Museum) remained unchanged from 2004-05 with a disclaimer and qualified audit opinion respectively.
- The Northern Cape Tourism Authority regressed from financially unqualified (with no other matters) to financially unqualified (with other matters).

The audit outcomes of provincial departments and entities have deteriorated over the past five years, with an increase in qualifications (including adverse and disclaimer) from seven to nine. The deterioration is largely due to accounting reforms on capital assets subsequent to 2004-05. It has been a challenge for



departments and entities to implement the asset reforms, mainly because the leadership did not timeously implement action plans to adhere to the National Treasury guidelines.

The audit outcomes might not improve in future years if the departments and entities do not put action plans in place to address the audit findings that resulted in audit adjustments in the current financial year. The following matters require urgent attention in order to sustain and further improve the current outcomes:

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

### **3.7 Entities not reported on**

The Northern Cape Housing Development Fund is not included in the analysis in this report, as the financial statements for the financial years 2005-06 to 2008-09 have not been submitted for audit. The delay in submitting financial statements is due to the Department of Housing and Local Government's failure to prepare separate financial statements for the fund from 2005-06 onwards pending its dissolution, as required by the Housing Act. The fund's expenditure has been included as part of the department's from 2005-06 onwards.

## SECTION 4: KEY SYSTEMIC ISSUES

### 4.1 Initiatives to improve audit outcomes

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

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

#### *Commitments by the executive*

As reported in the 2007-08 general report: "Action plans implemented per department culminated in good audit outcomes for six departments. Action plans implemented at the Departments of Health and Education culminated in some successes, but did not result in an improvement of the overall audit outcome. Furthermore, at the Department of Health the provincial cabinet instituted interventions in the financial management of the department which were still ongoing, as well as a forensic audit of the concern surrounding the financial management of the department that was in progress." Refer to section 12.2 for details on the tabling of the forensic audit report.

Subsequent to the 2007-08 general report, the 2009 elections took place, which resulted in the establishment of a new executive taking up office during May 2009. One of the key initiatives of the new executive is to appoint appropriately skilled individuals in all positions, especially the positions of CFO and Head of Department (HoD), as well as the redeployment of skills where they are most needed. The initiatives of the new executive will address critical issues as highlighted in the following paragraphs.

The situation at the Departments of Health and Education has not improved from the prior year.

The Department of Health did not have a CFO throughout the 2008-09 financial year. The position of Director of Finance also became vacant during the financial year. During June 2009, after year-end, the CFO of Social Services and Population Development (which has a track record of financially unqualified (with other matters) for five consecutive years) was transferred to the Department of Health in the CFO position. The HoD was suspended during July 2009 and his service was subsequently terminated.



After year-end, staff were seconded from the Provincial Treasury to assist the department with supply chain management, asset management and in the finance section. The department continued with the implementation of a turnaround strategy.

The Department of Education had a CFO in place for the year under review. He was, however, redeployed during March 2009. The post of CFO has already been advertised and needs to be filled by an appropriately skilled individual if any progress is to be made in turning the department around. In the interim an employee of the Provincial Treasury is acting in the CFO position and driving the turnaround strategy, which is also specific in terms of time frames and allocated responsibilities. As at 28 October 2009 the CFO position was not yet filled. The HoD left during March 2009 and was replaced with an acting HoD.

The Premier and MECs further committed to following a stringent action plan to address all root causes contained in the 2008-09 audit reports. A committee consisting of the Office of the Premier and Provincial Treasury will be formed in conjunction with the new Department of Cooperative Governance and Traditional Affairs to perform monitoring and evaluation with the objective of attaining clean audit reports. The AGSA will be invited to meetings to provide inputs.

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

- To improve the capacity of the executive and leadership to perform oversight, monitoring and control functions through appropriate training interventions.
- To address the lack of discipline within departments where evident, as well as the issue regarding the unavailability of senior officials.
- To reconsider the structure of the shared internal audit units and audit committees to effectively service the two largest departments, namely Health and Education.
- CFOs are to prepare regular financial statements.
- To address the weaknesses identified during the audit of performance information.

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

### **Provincial Treasury**

The Treasury's monitoring tool/checklist

Listed below are the activities of the Provincial Treasury during the period under review:

- CFO forums were held monthly to share best practices among departments.
- Interventions through secondment of staff to Education and Health in an attempt to stabilise the departments, as well as assist with financial management.
- Logis was rolled out to departments that were ready to implement it for better inventory and asset management, as well as management of logistics.
- Monthly reports of departments were closely monitored to identify problematic areas and an approach was recommended to address the issues.



- The financial maturity capability model (FMCM) was rolled out in March 2009 to identify gaps in terms of financial maturity of departments measured against the model, in departments and to determine how the Provincial Treasury can assist.

### **Audit committee and internal audit**

Extract from the 2007-08 general report:

*Ongoing monitoring and evaluation of internal control by the audit committee and internal audit*  
*There were two internal audit units during the 2007-08 financial year that served the economic cluster and the social cluster. For all 12 departments there was one audit committee, but each cluster had its own chair. The Institute of Internal Auditors performed an external quality assurance review of the internal audit units during March 2008 and at the date of this report their report had not been finalised.*

The Institute of Internal Auditors (IIA) categorised their external review quality ratings into the following:

“Generally Conforms” (GC) means that the Shared Internal Audit Unit has a charter and policies, procedures and processes that are judged to be in accordance with the Standards. However, some opportunities for improvement may exist.

“Partially Conforms” (PC) means the evaluator has concluded that the unit is making efforts in good faith to comply with the requirements of the individual Standards as indicated in the evaluation, but that some significant opportunities for improvement exist.

“Does Not Conform” (DNC) means deficiencies in practice are judged to be so significant as to seriously impair or preclude the Shared Internal Audit Unit from performing adequately in all or some significant areas of its responsibilities.

The unit received the following ratings:

Code of ethics: Generally Conforms (GC)  
Attribute standards: Partially Conforms (PC)  
Performance standards: Partially Conforms (PC)  
Overall: Partially Conforms (PC)

The internal audit unit is in the process of implementing recommendations received.

The audit committees and internal audit functions of both clusters have not substantially fulfilled their responsibilities for the year, as required by the PFMA and Treasury Regulations.

### **Standing Committee on Public Accounts (SCOPA)/Portfolio Committee**

Extract from the 2007-08 general report:

*Coordination between the Portfolio and Standing Committee*  
*The coordination and communication between the Portfolio Committee (PC) and SCOPA was good during the period under review. The communication of resolutions was clear. This was supported by combined sessions where all members of SCOPA were also members of the PC. Detail on the implementation of SCOPA resolutions is provided in section 6.*



With the new executive came a new SCOPA and Portfolio Committee. Feedback will be provided in the next general report regarding interaction.

### **The Department of Public Service and Administration**

Extract from the 2007-08 general report:

#### *Evaluation of human resource strategic framework*

*The Department of Public Service and Administration advised that all human resource plans for the public sector must be uniform. A roadshow to introduce and explain the human resource plan template was held during February 2008. Due to the roadshow only being held in February 2008 none of the departments had formally approved human resource plans in place for the year under review.*

A formal human resource (HR) plan approved by the executive authority was not in place in two departments during the year, namely Education and Health. For further details regarding HR plans refer to section 8.1.

### **4.3 Accounting reforms**

All provincial departments prepared their financial statements in accordance with the modified cash basis of accounting determined by the National Treasury.

Whilst several applications for deviation from the modified cash basis of accounting were made to the Provincial Treasury, the National Treasury approved no deviation from the modified cash basis of accounting.

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

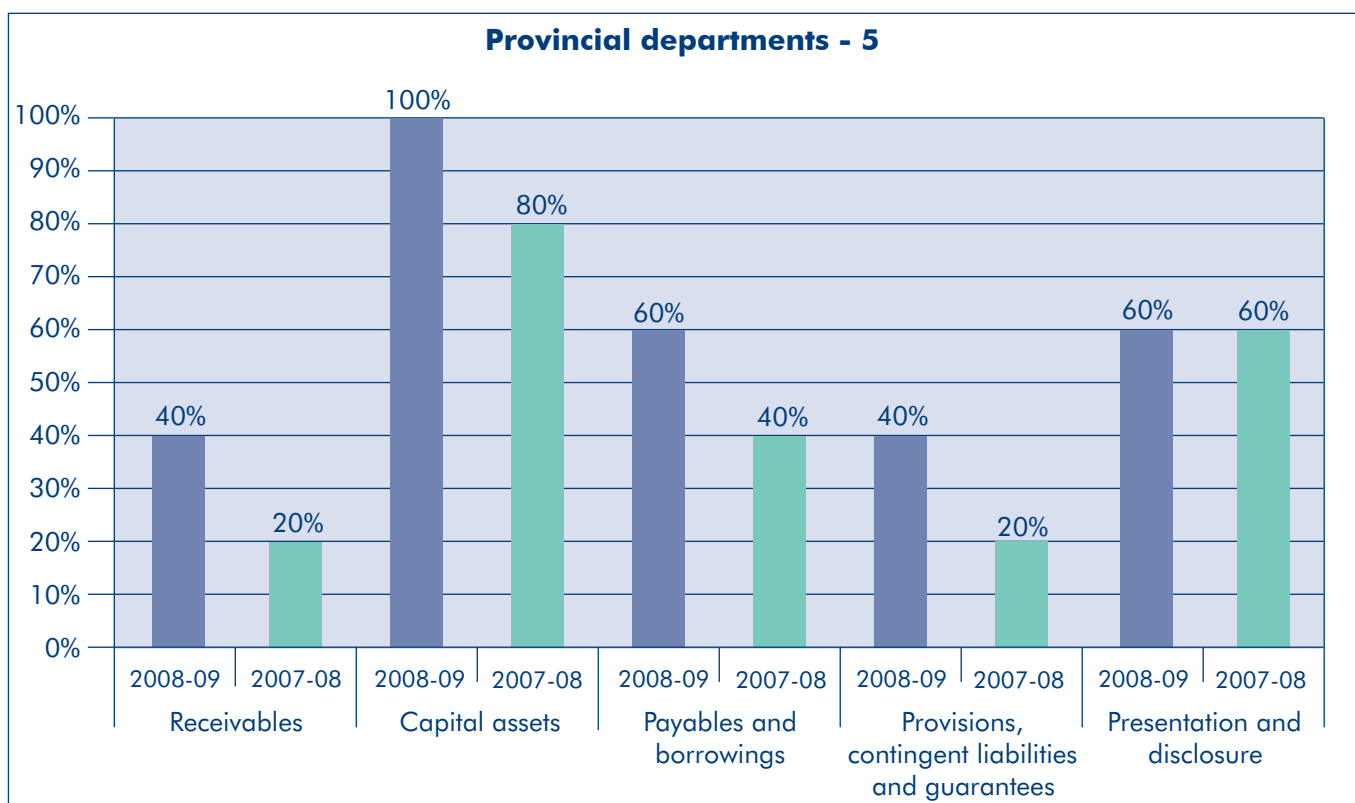
This section of the report provides details on specific areas of the income statement and/or balance sheet of entities that received qualified audit opinions. Details are provided under separate headings for provincial departments, provincial public entities and provincial other entities. An analysis is provided of root causes of qualifications. The Provincial Legislature obtained a financially unqualified (with other matters) audit opinion in 2008-09. Therefore there is no section on the analysis of qualification areas for the Provincial Legislature.

### 5.1 Provincial departments

#### 5.1.1 Provincial departments: balance sheet qualification areas

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

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



Note: The 2007-08 percentages are based on five departments qualified in the prior year

Analysis of areas qualified – per graph, exceeding 50%

### **Capital assets**

The highest occurrence of audit qualifications for departments related to capital assets (100%). The Department of Health did not submit an asset register for audit purposes, resulting in a limitation of scope. Findings relating to the asset register containing insufficient detail to enable the physical verification of the assets, as well as the physical assets not having unique numbers to enable tracing affected assets to the asset register, were applicable at Housing, Education and Sport. Discrepancies were noted between the value of assets per the asset register and the value of assets as disclosed for Transport, Roads and Public Works and Sport, Arts and Culture. The qualifications related only to movable assets, with the exception of Health and Transport, Roads and Public Works, where the qualifications related to both movable and immovable assets. The 2007-08 exemption on assets for the Department of Transport, Roads and Public Works was not applicable in 2008-09 and a qualification could not be avoided. Overall, the root cause was non-implementation of asset management policies and procedures and a lack of monitoring controls. The lack of control over assets is of concern as it creates opportunities for the misappropriation of assets.

To avoid future qualifications on assets, departments should develop and implement asset management policies, including the implementation of ongoing monitoring with regular counts and reconciliation of physical assets to the asset register and the disclosure note to the financial statements.

### **Payables and borrowings**

The findings at three departments related to sufficient appropriate audit evidence not provided for payables (Health and Education) and accruals as disclosed (Health), and the completeness of accruals that could not be confirmed in the absence of a proper system to compile the disclosure note (Health and Transport, Roads and Public Works). Records management issues which were linked to inadequate leadership oversight, an ineffective internal audit function, as well as a lack of monitoring controls resulted in supporting documentation not being provided for audit.

### **Presentation and disclosure**

The Department of Health had qualifications on contingent liabilities, contingent assets, employee benefits, commitments and lease commitments. The Department of Transport, Roads and Public Works was qualified on commitments whilst Education was qualified on commitments and employee benefits. The overall root causes were record management issues and the lack of a proper system to record items completely, which were linked to inadequate leadership oversight, an ineffective internal audit function, as well as a lack of monitoring controls. The majority of material corrections made to financial statements related to disclosure notes (refer to section 6.2.2.2 for further details). The majority of the findings were related to poor quality of financial statements and related management information as a result of regular financial statements not being prepared and a lack of monitoring controls.

To avoid future qualifications on payables and presentation and disclosure, departments need to implement appropriate systems to regularly record the disclosure note information, while the role of the CFO in preparing regular financial statements, including disclosure notes, needs to be emphasised. The above qualifications require appropriate action plans with assigned responsibilities and timelines and the executive and leadership should monitor progress on a continuous basis. The internal audit function should play an integral role in tracking the implementation of action plans and report accordingly to governance structures.

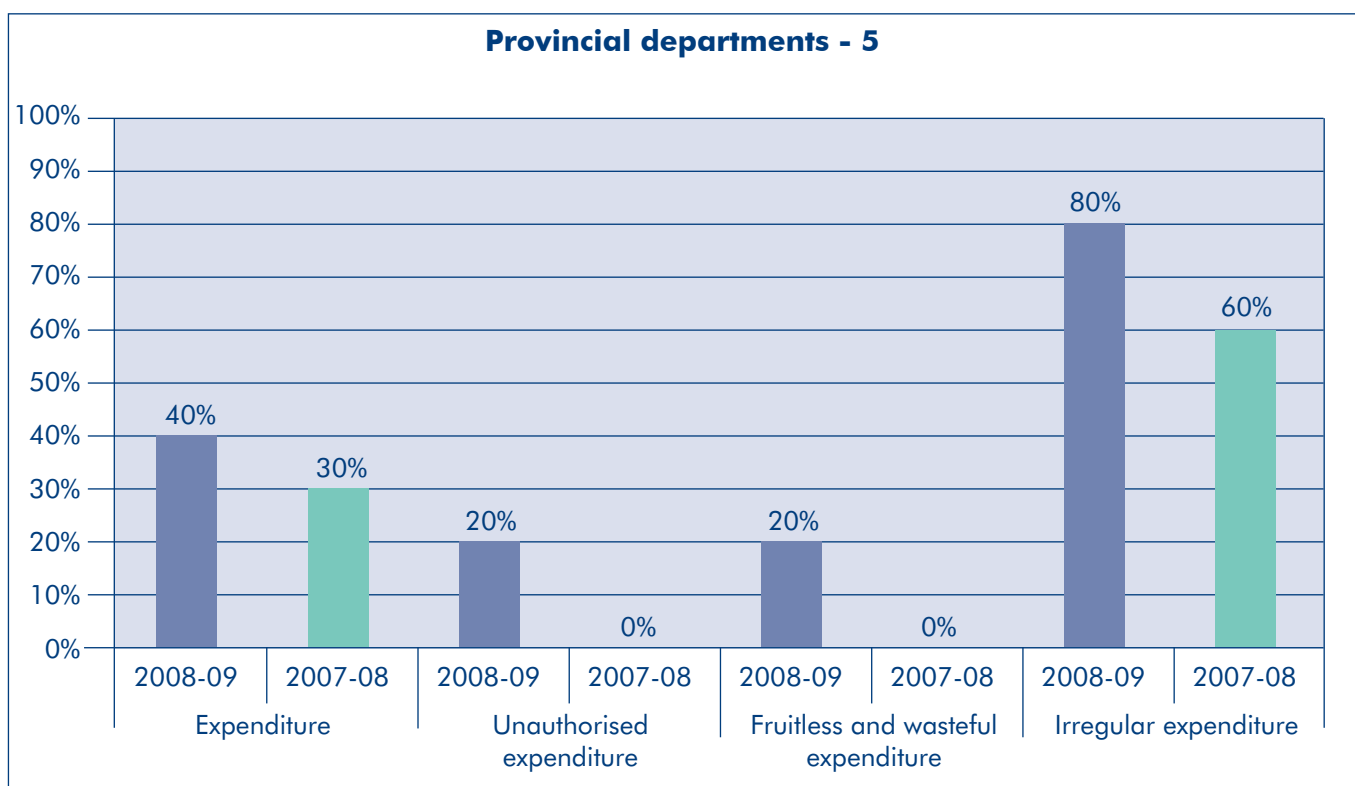




### 5.1.2 Provincial departments: income statement qualification areas

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

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



Note: The 2007-08 percentages are based on five departments qualified in the prior year

Analysis of areas qualified – per graph, exceeding 50%:

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

The financial statements of the following departments were qualified on the basis of unauthorised, fruitless and wasteful and irregular expenditure having been incurred and not properly disclosed:

##### Unauthorised expenditure

The unauthorised expenditure at Health amounting to R11 400 000 related to overexpenditure on current payments in programme 7. The programme's aim is to enable the department to plan, manage, modernise, rationalise and transform infrastructure and health technology and to transform hospital management and improve quality of care in line with national policies. It should be noted that the completeness of the unauthorised expenditure could not be confirmed. The unauthorised expenditure resulted from inadequate management oversight and lack of budgetary control.



## **Fruitless and wasteful expenditure**

Fruitless and wasteful expenditure identified at Education amounted to R92 197 and related to interest charged on late payments, which occurred as a result of inadequate management oversight and monitoring.

## **Irregular expenditure**

Irregular expenditure totalling R253 066 050 was incurred and not properly disclosed as required at the following departments:

- Health: A total of R153 600 000 was incurred, of which R147 400 000 related to instances of contravention of the Supply Chain Management Regulations and R6 200 000 related to expenditure incurred in contravention of the delegations of authority, as envisaged by section 44 of the PFMA.
- Transport, Roads and Public Works: R79 445 427 related to instances of contravention of the Supply Chain Management Regulations.
- Education: R15 702 362 related to instances of contravention of the Supply Chain Management Regulations.
- Sport, Arts and Culture: R4 318 261 related to instances of contravention of the Supply Chain Management Regulations.

The irregular expenditure occurred as a result of inadequate management oversight and monitoring. The contravention of Supply Chain Management Regulations is also of concern from the perspective of fraud risk, as the regulations were instituted to ensure that procurement processes are fair, equitable, transparent, competitive and cost-effective.

To avoid qualifications on the above matters in future, appropriate systems will have to be implemented for the prevention, detection and recording of unauthorised, fruitless and wasteful and irregular expenditure. An appropriate action plan with assigned responsibilities and timelines should be prepared and the executive and leadership should monitor the progress made on a continuous basis.

Unauthorised expenditure, fruitless and wasteful, and irregular expenditure as disclosed in the financial statements which did not lead to qualifications are detailed in sections 6.1.1.1, 6.1.1.2, 6.1.1.3, 6.2.1.1, 6.2.1.2, 6.2.1.3, 6.3.1.1, 6.3.1.2 and 6.4.1.1, respectively.

### **5.1.3 Provincial departments: analysis of root causes of qualifications**

Qualified audit opinions on annual financial statements result from deficiencies in the system of internal control. These deficiencies are termed "root causes". The following root causes were evident for the five departments that were qualified:

#### *Worst opinions*

#### **Health (disclaimer)**

The areas of concern are current assets, capital assets, liabilities and expenditure. Health did not have a CFO in place throughout the 2008-09 financial year. The position of Director of Finance also became vacant during the financial year. Inadequate leadership oversight and monitoring and an ineffective internal audit function resulted in unsatisfactory quality of reporting (assets, unauthorised expenditure,

irregular expenditure, receivables, payables) and related management information (supporting documents and asset register not provided for audit).

### **Education (disclaimer)**

The areas of concern are current assets, capital assets, liabilities and expenditure. The Department of Education had a CFO in place for the year under review. He was, however, redeployed during March 2009. Inadequate leadership oversight and monitoring and an ineffective internal audit function resulted in unsatisfactory quality of reporting (assets, expenditure, irregular expenditure) and related management information (supporting documents not provided and an asset register that contained insufficient detail to support the financial statement disclosure).

#### *Qualified opinions*

### **Housing and Local Government (qualified)**

The area of concern is capital assets. Inadequate monitoring by leadership, an ineffective internal audit function and non-implementation of an asset management policy resulted in unsatisfactory quality of reporting (disclosure note on assets) and related management information (asset register).

### **Sport, Arts and Culture (qualified)**

The areas of concern are capital assets and expenditure. Inadequate monitoring by leadership, an ineffective internal audit function and non-implementation of an asset management policy resulted in unsatisfactory quality of reporting (disclosure note on assets and irregular expenditure) and related management information (asset register and schedule supporting irregular expenditure).

### **Transport, Roads and Public Works (qualified)**

The areas of concern are capital assets (both movable and immovable), liabilities and expenditure. Inadequate monitoring by leadership, an ineffective internal audit function and non-implementation of an asset management policy resulted in unsatisfactory quality of reporting (disclosure note on assets and irregular expenditure) and related management information (asset register and schedule supporting irregular expenditure).

For all departments the shared audit committees (social and economic cluster) did not substantially fulfil their responsibilities.

## **5.2 Provincial public entities**

### **5.2.1 Provincial public entities: balance sheet and income statement areas qualified**

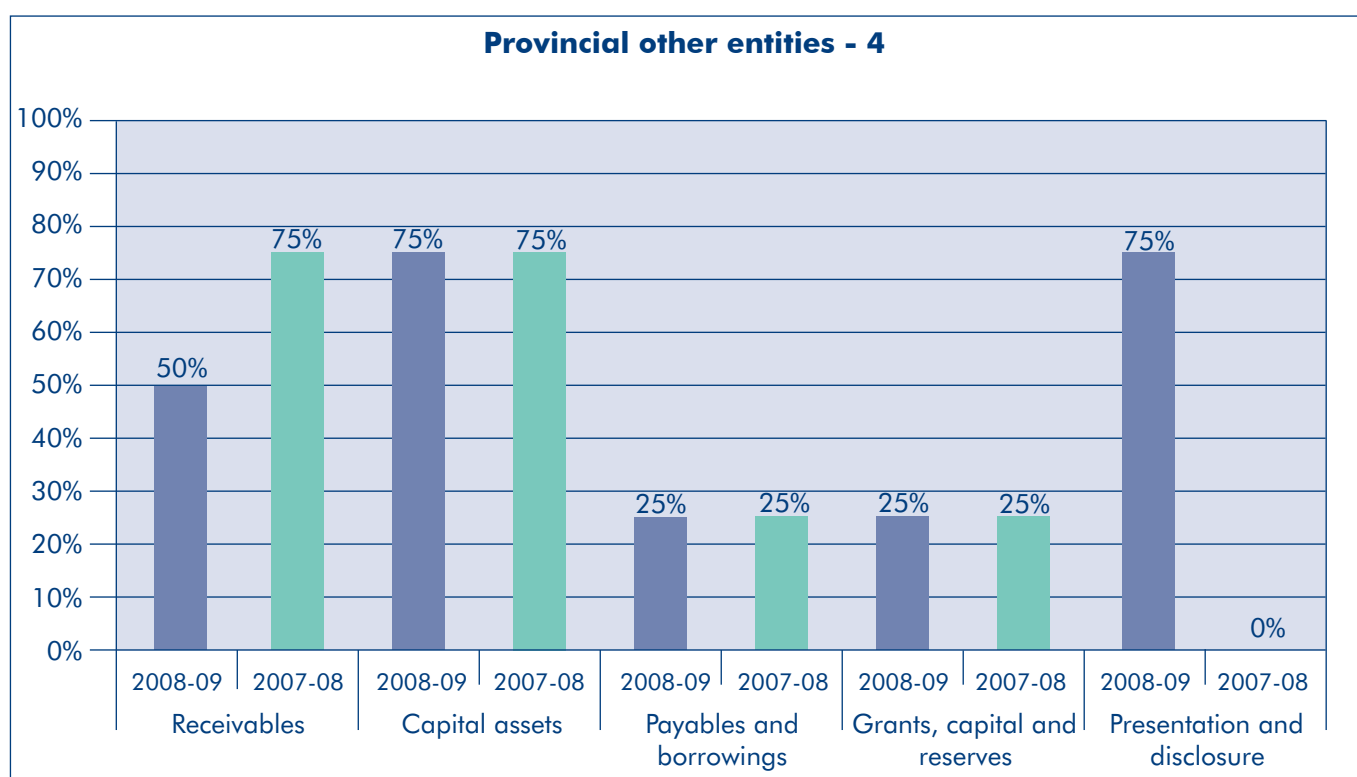
Both the provincial public entities, namely the Northern Cape Tourism Authority and the Northern Cape Youth Commission, received financially unqualified (with other matters) audit opinions. There are therefore no qualification areas to report on.

### 5.3 Provincial other entities

#### 5.3.1 Provincial other entities: balance sheet qualification areas

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

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



Analysis of areas qualified – per graph, exceeding 50%

#### Capital assets

Neither the McGregor Museum nor the Northern Cape Arts and Culture Council submitted an asset register for audit purposes. At the Premier's Education Trust Fund the asset register did not contain sufficient detail to enable the physical verification of the assets and the physical assets did not have unique numbers to enable the tracing of affected assets to the asset register. A lack of leadership oversight and monitoring controls contributed to the qualifications. The Board of the Northern Cape Arts and Culture Council was suspended for nine months in the financial year, which resulted in a lack of oversight.

To avoid qualifications in future, entities should develop and implement asset management policies, including the implementation of ongoing monitoring with regular counts and reconciliation of physical assets to the asset register and financial records.

## Presentation and disclosure

Related-party transactions amounting to R1 468 000 were not disclosed in accordance with the Statements of Generally Accepted Accounting Practice (GAAP) at the Northern Cape Arts and Culture Council. The Roads Capital Account and the McGregor Museum did not adhere to the disclosure requirements of the International Accounting Standards, IAS 1 *Presentation of Financial Statements* and the National Treasury Regulations. The reasons for the deterioration were as follows:

The Board of the Northern Cape Arts and Culture Council was suspended in February 2008, after which Sport, Arts and Culture managed the entity. In November 2008 the suspension was lifted and the oversight function performed by a joint body consisting of board members and representatives from the Department of Sport, Arts and Culture. The fact that Sport and the Northern Cape Arts and Culture Council shared an accounting authority and the fact that Sport had significant control, made them related parties. The council did not adjust their systems and controls to account for the change in circumstances. At the Roads Capital Account and the McGregor Museum the deterioration related to a lack of monitoring controls in respect of to GAAP accounting.

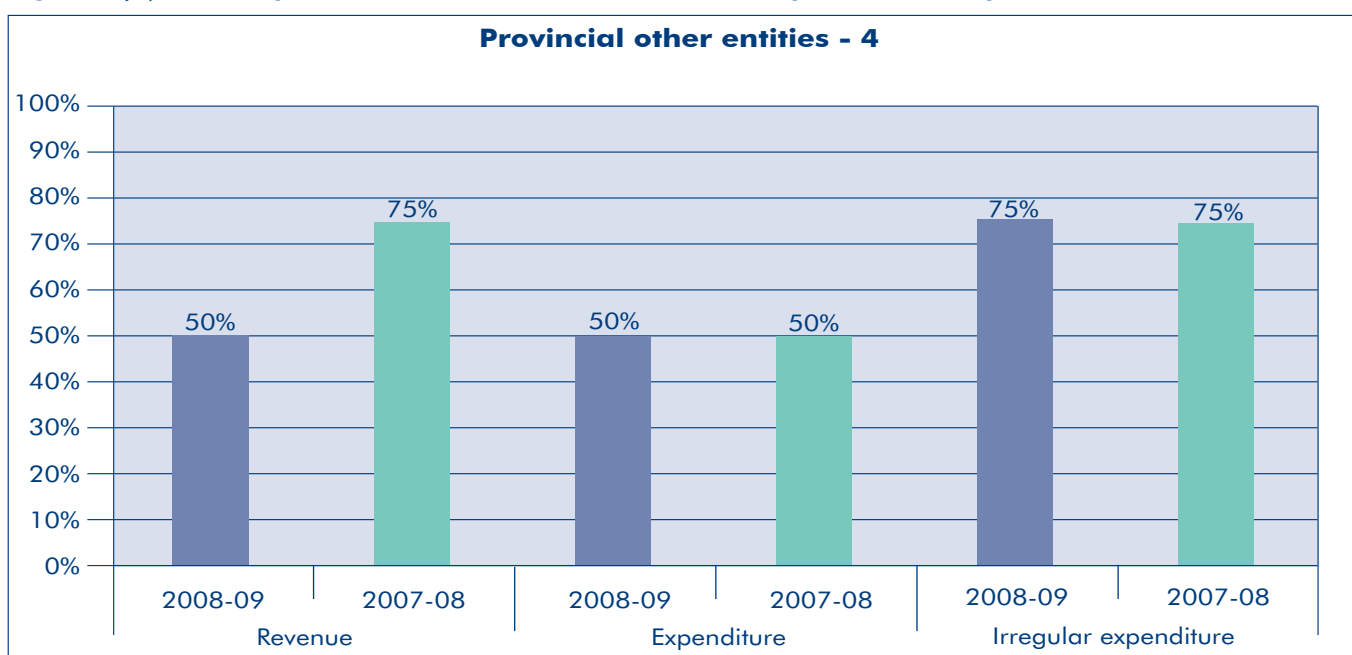
To avoid qualifications in future, the entities need to implement policies and procedures for the identification and recording of related-party transactions.

To address all the qualifications above, appropriate action plans with assigned responsibilities and timelines should be prepared and the leadership should monitor progress on a continuous basis.

### 5.3.2 Provincial other entities: income statement qualification areas

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

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



Analysis of areas qualified – per graph, exceeding 50%

## **Irregular expenditure**

The qualifications of both the Northern Cape Arts and Culture Council (R198 864) and the McGregor Museum (R956 359) related to non-compliance with the Supply Chain Management Regulations without disclosing the resultant irregular expenditure as required. The Premier's Education Trust Fund made a payment amounting to R1 871 292 in respect of bursaries in contravention of the trust deed. The irregular expenditure occurred as a result of inadequate management oversight and monitoring. The contravention of the Supply Chain Management Regulations is also of concern from the perspective of fraud risk, as the regulations were instituted to ensure that procurement processes are fair, equitable, transparent, competitive and cost-effective.

To avoid such qualifications in future, appropriate systems will have to be implemented for the prevention, detection and recording of irregular expenditure. An appropriate action plan with assigned responsibilities and timelines should be prepared and the leadership should monitor progress with its implementation on a continuous basis.

### **5.3.3 Provincial other entities: analysis of root causes of qualifications**

#### *Worst opinion*

#### **Northern Cape Arts and Culture Council (disclaimer)**

The areas of concern are capital assets, current assets, revenue and expenditure. The audit opinion on the Northern Cape Arts and Culture Council remained a disclaimer as in 2007-08. The board was suspended for the greater part of the year under review, which resulted in a lack of leadership oversight. There was no internal audit function and a lack of management supervision and monitoring controls, which resulted in record management issues (lack of supporting documentation).

#### *Qualified opinions*

#### **Northern Cape Premier's Education Trust Fund (qualified)**

The areas of concern are capital assets, current assets and expenditure. The audit opinion on the Northern Cape Premier's Education Trust Fund improved from a disclaimer in 2007-08 to qualified in 2008-09. Leadership oversight and monitoring have improved, resulting in the improved audit outcome through better quality financial statements and related management information.

#### **Roads Capital Account (qualified)**

The areas of concern are liabilities and disclosure. The audit opinion on the Roads Capital Account remained qualified as in 2007-08 due to inadequate monitoring and supervision by the leadership.

#### **McGregor Museum (qualified)**

The areas of concern are capital assets, revenue and expenditure. The McGregor Museum retained a qualified opinion from 2007-08. The lack of improvement can be attributed to a lack of leadership oversight and monitoring controls.

## SECTION 6: WARNING SIGNALS REQUIRING ATTENTION

### Emphasis of matters

Regulatory audits emphasise matters that do not directly impact on the audit opinion, but are nevertheless important for the reader of the financial statements to take note of. These matters are presented in this report firstly for the Provincial Legislature (6.1.1), then for the provincial departments (6.2.1), then for provincial public entities (6.3.1), followed by provincial other entities (6.4.1) under the following headings (where applicable):

- Unauthorised expenditure
- Fruitless and wasteful expenditure
- Irregular expenditure
- Material underspending of the budget
- Financial sustainability
- Material losses/impairment.

### Other matters

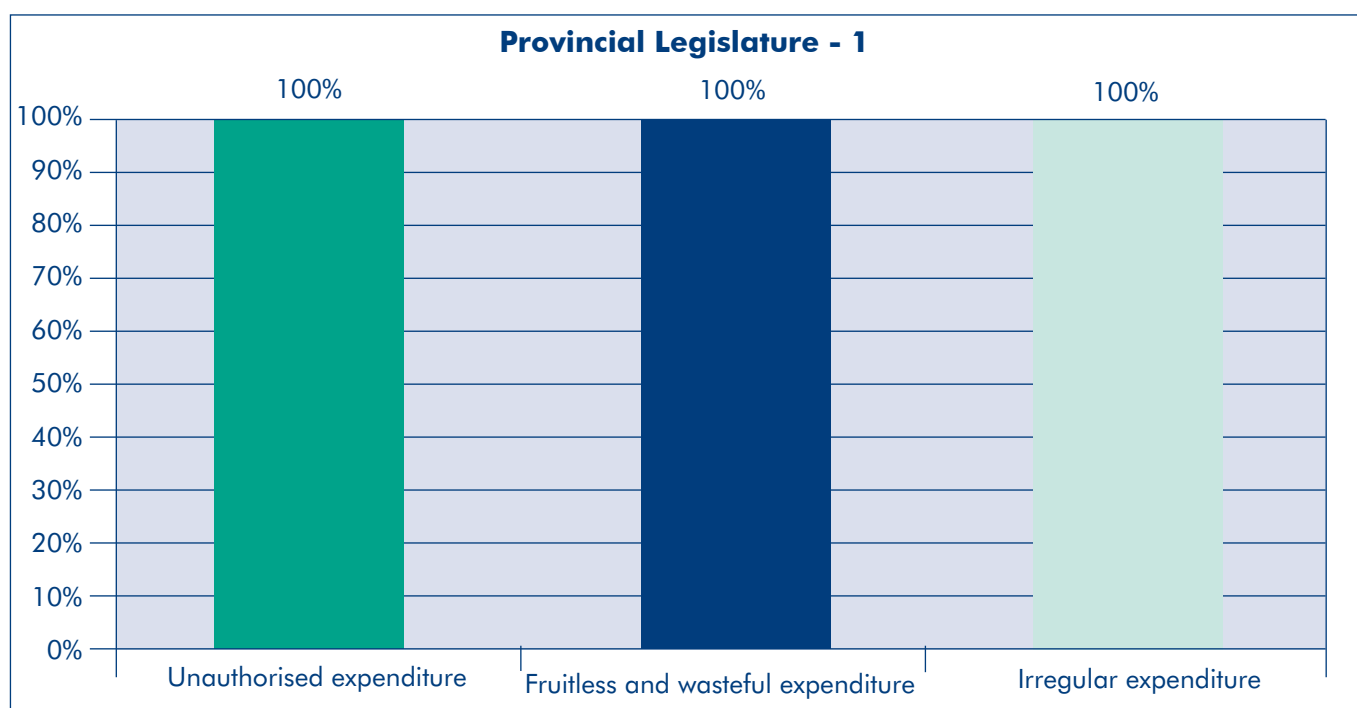
Regulatory audits further disclose other matters that do not directly impact on the audit opinion. These matters are presented in this report firstly for the Provincial Legislature (6.1.2), then for the provincial departments (6.2.2), then for provincial public entities (6.3.2), followed by provincial other entities (6.4.2) under the following headings (where applicable):

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

## 6.1 Provincial Legislature

### 6.1.1 Emphasis of matters: Provincial Legislature

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

**Figure 3(a): Emphasis of matters – Provincial Legislature****6.1.1.1 Unauthorised expenditure**

The financial statements of the Provincial Legislature reflected unauthorised expenditure amounting to R4 441 000 (2008: R1 331 000).

Unauthorised expenditure was incurred in the following broad expenditure categories: compensation of employees and goods and services. Both the 2007-08 and 2008-09 amounts were still awaiting authorisation at the date of this report.

**6.1.1.2 Fruitless and wasteful expenditure**

Instances of fruitless and wasteful expenditure amounting to R38 000 (2008: R13 000) were disclosed. These included interest on late payments and no-show fees for venues and facilities.

**6.1.1.3 Irregular expenditure**

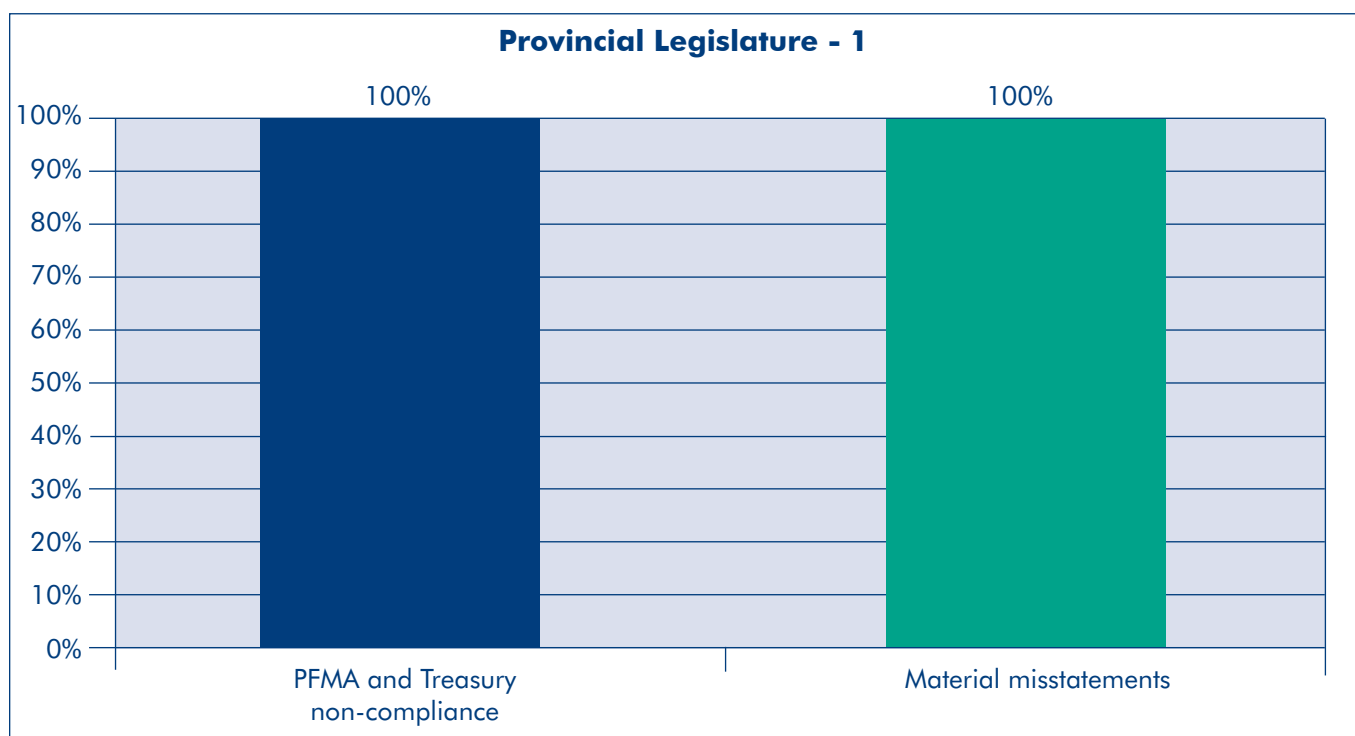
Irregular expenditure amounting to R678 000 (2008: R11 822 000) relating to finance leases was disclosed in the Provincial Legislature's financial statements. As at the date of this report no steps had been taken regarding an amount of R10 588 000 relating to prior year irregular expenditure which was still awaiting condonation.

**6.1.2 Other matters: Provincial Legislature**

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



**Figure 3(b): Other matters – Provincial Legislature**



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

Non-compliance with the PFMA and Treasury Regulations was reported for all departments. It should, however, be noted that the majority of sections of the PFMA are not applicable to the Provincial Legislature. The Code for the Financial Administration of the Provincial Legislature and the related Financial Procedures Manual form the basis of non-compliance reporting as they were approved by the Speaker in terms of section 76 of the PFMA and are therefore an extension of the PFMA. The accounting officer did not report unauthorised and fruitless and wasteful expenditure to the Speaker and the Auditor-General, as required by the Code for the Financial Administration of the Provincial Legislature. Not all payments due to creditors were settled within 30 days from date of invoice or claim, as required by paragraph 5.6 of the Financial Procedures Manual. Lapses in supervision and monitoring by the leadership (accounting officers, CFOs and relevant managers) partially contributed to the negative audit findings in this area.

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

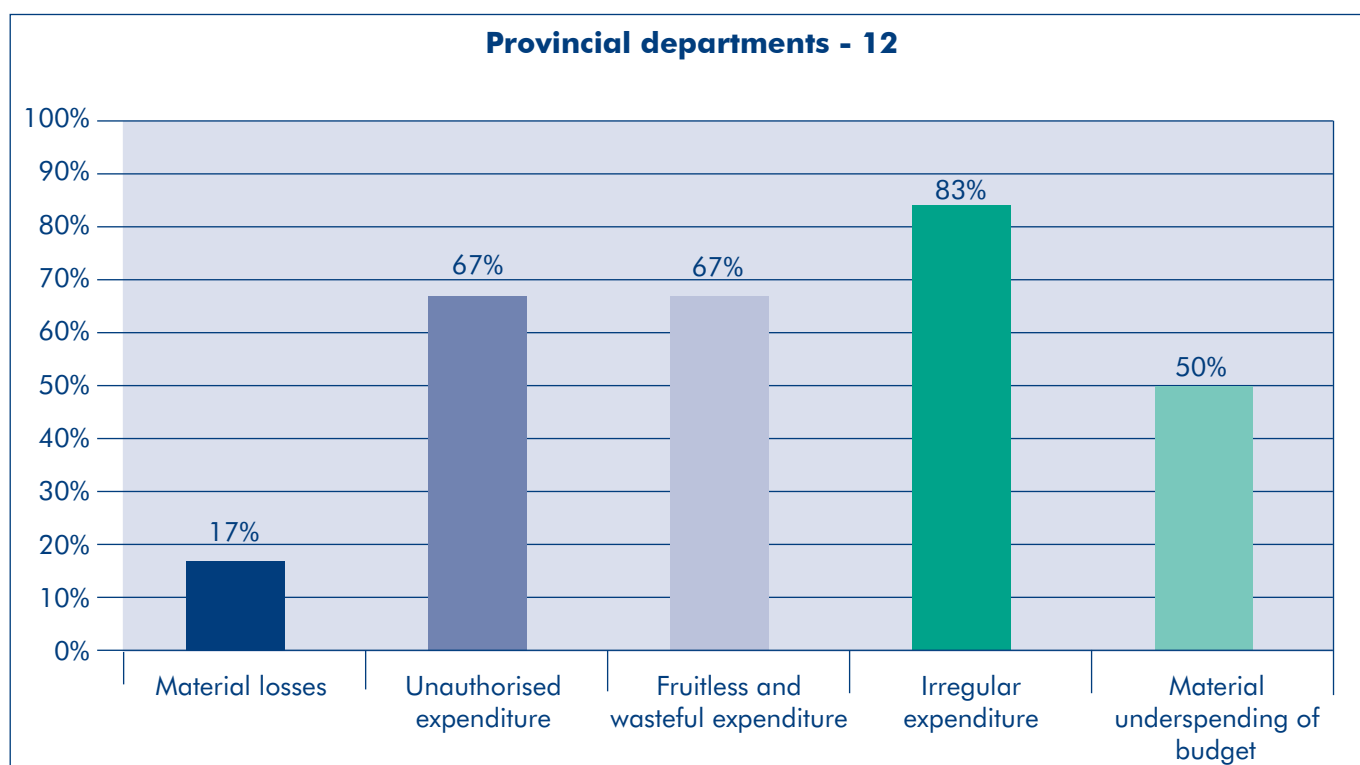
The Provincial Legislature required material corrections to be made to their financial statements. This was due to errors, omissions and inconsistencies that were identified by the auditors, relating to assets, receivables, payables, leases, accruals and irregular expenditure. Approximately 30% of the misstatements corrected related to financial statement items and 70% to disclosure in the financial statements. Certain of these material corrections could have been detected by the entity if there was a process of monthly preparation and review of the financial statements, including a review by the audit committee. The adequacy of the financial reporting system could also have prevented some of the misstatements.

## 6.2 Provincial departments

### 6.2.1 Emphasis of matters: provincial departments

The incidence of some of the emphasis of matters disclosed by 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): Emphasis of matters – provincial departments**



#### 6.2.1.1 Unauthorised expenditure

The financial statements of eight of the 12 departments (67%) in the province (including both qualified and unqualified opinions) reflected unauthorised expenditure (2008: 58%). Total unauthorised expenditure for the year amounted to R242 759 000 (2008: R134 236 000) as reflected below:

Department	Unauthorised (R) 2008-09	Unauthorised (R) 2007-08
Education	215 694 000	23 556 000
Agriculture and Land Reform	16 645 000	16 172 000
Transport, Roads and Public Works	5 219 000	0
Housing and Local Government	3 461 000	1 093 000
Office of the Premier	983 000	903 000
Provincial Treasury	524 000	0
Sport, Arts and Culture	220 000	0

Department	Unauthorised (R) 2008-09	Unauthorised (R) 2007-08
Safety and Liaison	13 000	425 000
Health	0	92 073 000
Tourism, Environment and Conservation	0	14 000
<b>Total</b>	<b>242 759 000</b>	<b>134 236 000</b>

Unauthorised expenditure was incurred in the following broad expenditure categories: compensation of employees, transfer payments, goods and services, and capital assets.

Various factors at the Department of Education led to the unauthorised expenditure; amongst others, unbudgeted payments to the Youth Commission, an overspending on employee cost as a result of incorrect budgeting for learning area managers, incorrect budgeting of OSD money, payments to ABET employees not budgeted for, overspending on transfer payments as a result of overspending on the food nutrition projects, and new contracts that were not budgeted for. At the Department of Agriculture and Land Reform the unauthorised expenditure related to project implementation due to commitments made. At the Department of Transport, Roads and Public Works the overexpenditure related to road projects because there was an unexpected increase in the costs of building roads based on the sharp price increases during the year. At the Department of Housing and Local Government irregular appointments in contravention of the Public Service Regulations led to the overexpenditure.

The 2008-09 amounts were still awaiting authorisation at the date of this report.

Unauthorised expenditure authorised during the 2008-09 financial year amounted to R296 289 000 (with funding) and R216 000 (without funding).

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

Instances of fruitless and wasteful expenditure were disclosed in eight departments' financial statements, amounting to R133 000 for the year (2008: R1 649 000). These include:

- interest on late payments amounting to R75 000
- no-show fees for venues and training amounting to R23 000.

#### **6.2.1.3 Irregular expenditure**

Instances of irregular expenditure were disclosed in 10 departments' financial statements, amounting to R24 243 000 (2008: R66 792 000). Identified instances of irregular expenditure include the following:

- Non-compliance with various Treasury Regulations amounting to R8 512 000 (Agriculture and Land Reform, Education, Housing and Local Government)
- Non-compliance with Supply Chain Management Regulations amounting to R12 090 000 (Education, Economic Affairs, Premier, Provincial Treasury, Sport, Arts and Culture and Transport, Roads and Public Works)
- Appointments in contravention of the Public Service Regulations amounting to R3 024 000 (Housing and Local Government, Premier and Transport, Roads and Public Works).



#### **6.2.1.4 Material underspending of budget**

The Department of Agriculture and Land Reform materially underspent its budget. At the date of this report, the underspending amounted to R28 030 000 (34% of budgeted amount) and no satisfactory explanation was provided. The impact of this underspending was that departmental objectives were not fully achieved and projects were not completed as per business plan.

The Department of Education materially underspent its budget relating to transfer payments by R26 836 016. As a consequence, the department did not achieve its objectives of funding the non-profit institutions in the province for the financial year under review.

The Department of Health materially underspent the budget on programme 2 to the amount of R25 600 000, on programme 7 to the amount of R72 800 000 and on the hospital revitalisation grant to the amount of R64 500 000. As a consequence, the department did not achieve its objective of district health services and health facilities management.

The Department of Sport, Arts and Culture materially underspent its budget on programme 3 – Library and Archival Services by R13 741 000. The budget was for the payment of capital assets.

The Department of Transport, Roads and Public Works materially underspent the budget on Public Works and Public Transport to the amounts of R9 905 000 and R1 308 000 respectively. The underspending was linked to capital projects not completed as a result of non-adherence to service level agreements and slow progress by a contractor.

The Department of Social Services and Population Development materially underspent the budget on social welfare services and development and research to the amounts of R15 199 000 and R1 000 000 respectively. As a consequence, the department did not achieve its objectives of implementing the occupation-specific dispensation and completing the building of the secure centres.

#### **6.2.1.5 Material losses/impairments**

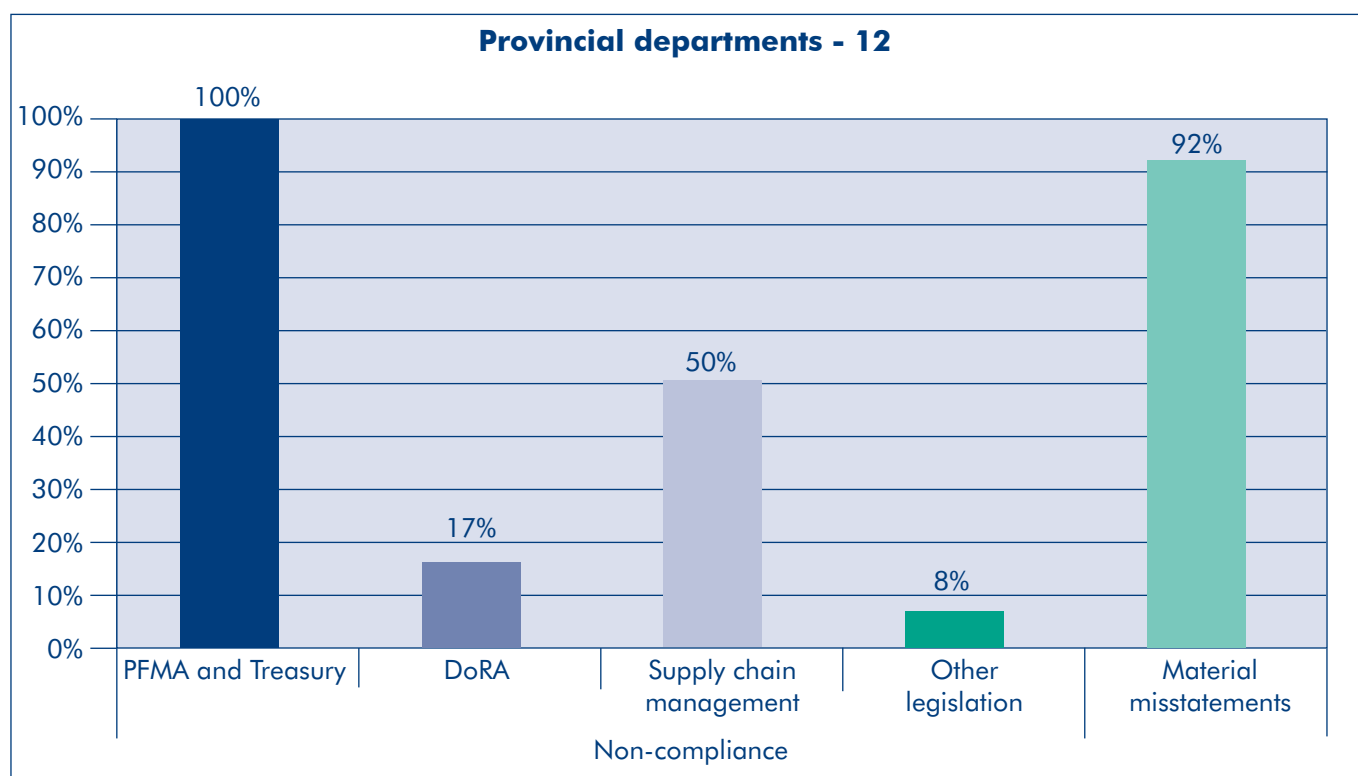
The Department of Health stands to suffer a significant loss due to receivables for departmental revenue (patient debt) that were not collected. In various instances private patient debt was also not collected. Medical services rendered were not charged to a substantial number of patients. According to the financial statements, debtors increased from R72 million to R92 million (these amounts could not be confirmed as accurate and complete).

The Department of Economic Affairs made provision for irrecoverable debt of R250 000 and the impairment of an investment of R3 800 000 in a private company. The irrecoverable debt consisted of amounts that would not be recovered. The department did follow due process but could still not recover the amounts from the debtors involved. The investment in the private company was impaired, as the entity was not economically active and would not be active in the foreseeable future.

#### **6.2.2 Other matters: 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): Other matters – provincial departments**



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

Non-compliance with the PFMA and Treasury Regulations was reported for all (100%) departments (2008: 92%). Findings related mostly to creditors not paid within 30 days as required. Non-compliance with the Division of Revenue Act was reported for the Departments of Health and Housing and Local Government. Non-compliance with Supply Chain Management Regulations was reported for six departments (for three departments this related to tenders not advertised as required). Non-compliance with the Housing Act and National Housing Code was reported for the Department of Housing and Local Government. Lapses in supervision and monitoring by the leadership (accounting officers, chief financial officers and relevant managers) partially contributed to the negative audit findings in this area.

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

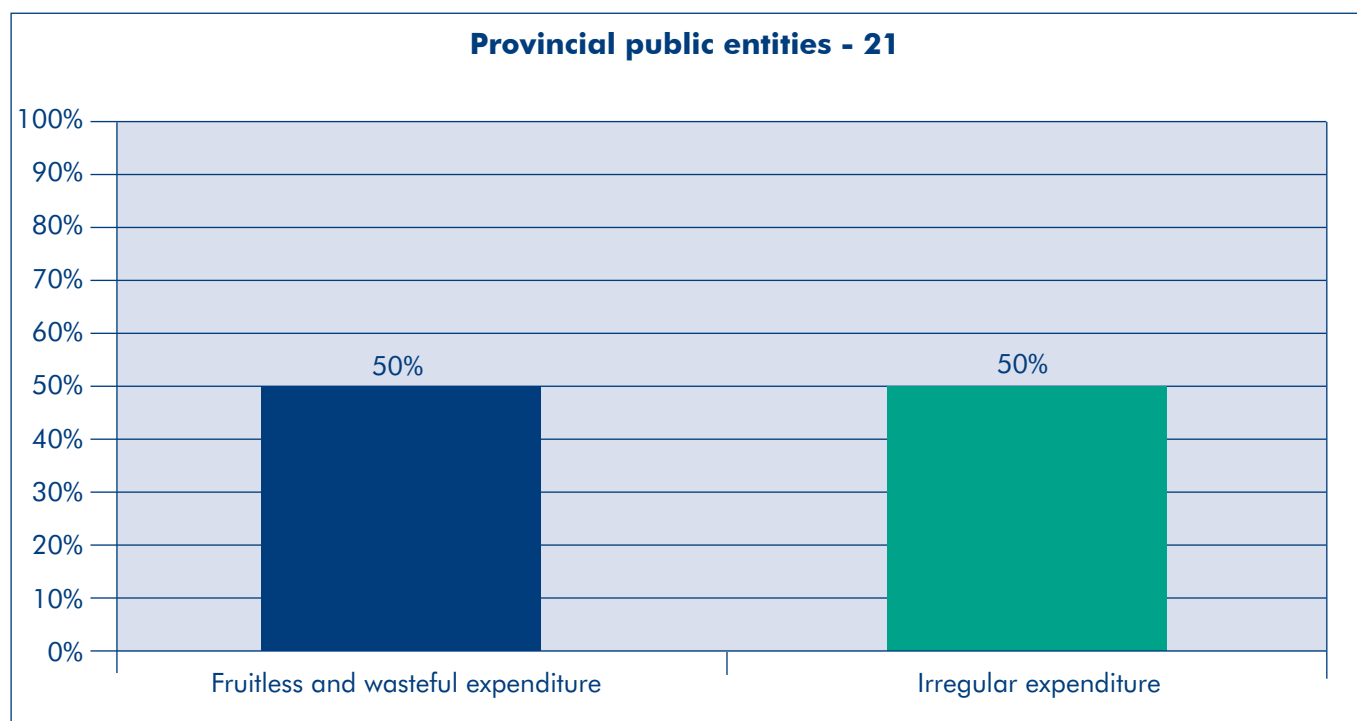
Eleven departments (92%, 2008: 100%) required material corrections to be made to their financial statements. The Department of Safety and Liaison is the only department that submitted financial statements which did not require material corrections. The corrections were due to errors, omissions and inconsistencies that were identified by the auditors and related to assets, commitments, accruals, contingent liabilities, expenditure, cash and bank, receivables and payables. Approximately 40% of the misstatements corrected related to financial statement items and 60% to disclosure in the financial statements. Certain of these material corrections could have been detected by the entities if there was a process for the review of the financial statements, including a review by the audit committees. The adequacy of the financial reporting system could also have prevented some of the misstatements. A lack of regular preparation of financial statements by the finance management units contributed to material misstatements that needed to be corrected.

## 6.3 Provincial public entities

### 6.3.1 Emphasis of matters: provincial public entities

The incidence of some of the emphasis of matters disclosed by 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): Emphasis of matters – provincial public entities**



#### 6.3.1.1 Fruitless and wasteful expenditure

Instances of fruitless and wasteful expenditure relating to interest payable to the South African Revenue Service (SARS) were disclosed in the financial statements of the Northern Cape Tourism Authority, amounting to R94 102 for the year (2008: R0).

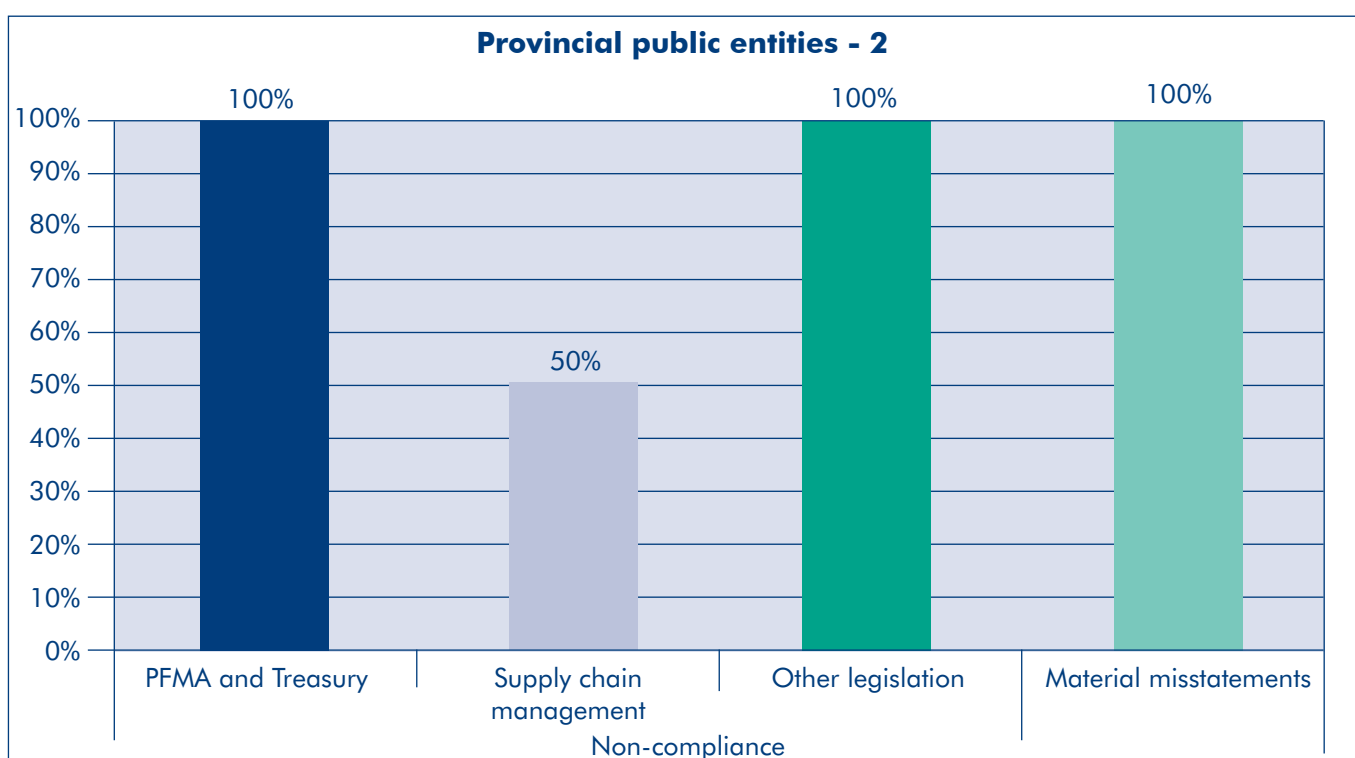
#### 6.3.1.2 Irregular expenditure

Instances of irregular expenditure relating to expenditure incurred without following required tender processes were disclosed in the financial statements of the Northern Cape Youth Commission, amounting to R15 000 000 (2008: R0).

### 6.3.2 Other matters: 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): Other matters – provincial public entities**



### 6.3.2.1 Non-compliance with applicable legislation

Non-compliance with the Treasury Regulations was reported for both provincial public entities. The supply chain management system of the Northern Cape Youth Commission did not provide for disposal management, risk management and regular assessment of supply chain performance as required by the Treasury Regulations. The commission only had one member during the financial year under review in contravention of the Northern Cape Youth Commission Act. The Northern Cape Tourism Authority did not maintain a register of directors' interests in contracts with the entity as required by the Companies Act. The authority did not develop and implement a supply chain management system for acquisition of goods and services as required by the Treasury Regulations. The director of the authority was appointed for a period exceeding three years in contravention of the Northern Cape Tourism Act. Lapses in supervision and monitoring by the leadership (accounting officers and relevant managers) had contributed in part to the negative audit findings in this area.

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

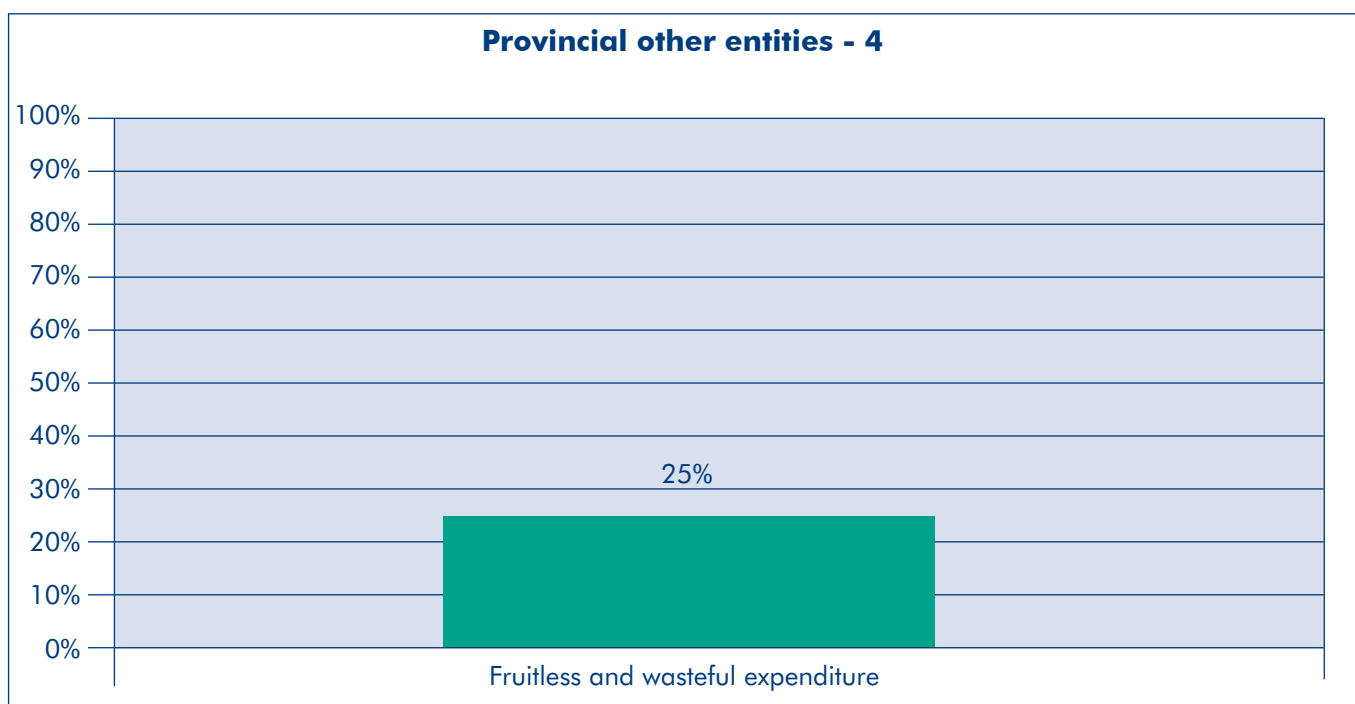
Both the provincial public entities (2008: 100%) required material corrections to be made to their financial statements. This was due to errors, omissions and inconsistencies that were identified by the auditors. Approximately 85% of the misstatements corrected related to financial statement items and 15% to disclosures in the financial statements. Certain of these material corrections could have been detected by the entities if there was a process for the review of the financial statements.

## 6.4 Provincial other entities

### 6.1.4 Emphasis of matters: provincial other entities

The incidence of some of the emphasis of matters disclosed by regulatory audits is depicted in figure 6(a) below. Details of these and other matters are provided in the paragraph that follows.

**Figure 6(a): Emphasis of matters – provincial other entities**



#### 6.4.1.1 Fruitless and wasteful expenditure

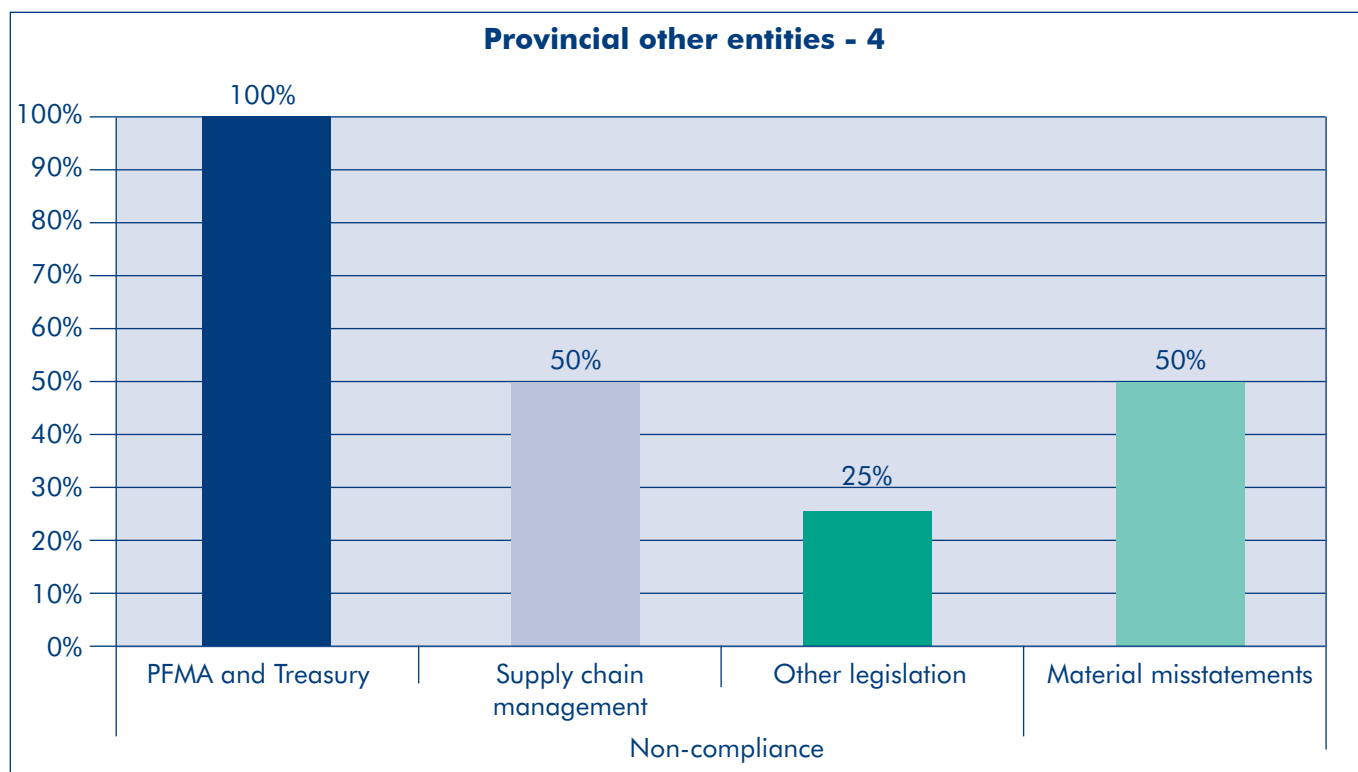
Instances of fruitless and wasteful expenditure relating to interest payable to SARS were disclosed in the financial statements of the Northern Cape Arts and Culture Council amounting to R500 for the year (2008: R11 800).

#### 6.4.2 Other matters: provincial other entities

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



**Figure 6(b): Other matters – provincial other entities**



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

The Premier's Education Trust Fund, McGregor Museum and Northern Cape Arts and Culture Council are public entities, but the National Treasury has not been informed in writing that the public entities are not listed, as required by the PFMA. The Council's budget for the 2008-09 financial year was not approved six months prior to year-end, as required by the PFMA. Payments by the Roads Capital Account to the value of R876 569 were made in excess of 30 days of receipt of invoices in contravention of the Treasury Regulations. Lapses in supervision and monitoring by the leadership (accounting officers and relevant managers) had in part contributed to the negative audit findings in this area.

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

No material corrections were made to the financial statements of the Northern Cape Arts and Culture Council and the McGregor Museum (2008: both had corrections). It should, however, be noted that they received a disclaimer of opinion and qualified audit opinion, respectively. The Premier's Education Trust Fund made material corrections to the submitted financial statements in an effort to ensure proper disclosure of the valuation of receivables and made adjustments to their accounting policy that resulted in further changes to the financial statements. The Roads Capital Account had a material correction relating to assets stemming from the fact that the asset register was not updated on a timely basis, resulting in errors.

## SECTION 7: RESULTS OF AUDITS OF INFORMATION SYSTEMS

### 7.1 Information systems

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

### 7.2 Information system controls

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

### 7.3 Information system audits

The objective of information system audits is to evaluate the effectiveness of the information system controls of an organisation. During the year under review, the following types of information system audits were performed at all provincial departments in the province, excluding the Provincial Treasury (scheduled to be performed during 2009-10):

- IT general controls reviews
- User account management reviews.

### 7.4 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 11 provincial departments and the Provincial Legislature. The following table indicates the common key findings raised throughout those audits:

Findings	Number of departments audited	Number of departments with findings	Provincial Legislature	Percentage of audited departments with findings	Provincial Legislature
Lack of, incomplete, or non-adherence to, user account management procedures	12	11	1	100%	100%
Access request forms not completed or inconsistently completed	12	8	1	73%	100%

<b>Findings</b>	<b>Number of departments audited</b>	<b>Number of departments with findings</b>	<b>Provincial Legislature</b>	<b>Percentage of audited departments with findings</b>	<b>Provincial Legislature</b>
Users' access not periodically reviewed to ensure that such access remained commensurate with their job responsibilities	12	11	1	100%	100%
Activities of the system administrators / controllers were not reviewed by an independent person	12	11	1	100%	100%
Inactive or unused user IDs were not timeously removed from the system or deactivated	12	11	1	100%	100%
Password reset forms not completed / not consistently completed	12	4	1	36%	100%
Lack of, incomplete, or non-adherence to, user account management procedures	12	11	1	100%	100%
Total number of findings	12	67	7	100%	100%
Departments with findings in all seven areas audited	12	4	1	36%	100%

Findings in all seven access control areas tested were reported at the Provincial Legislature and at 36% of provincial departments. These findings are recurring, partly due to the expectation that a new system (IFMS) will be implemented and the lack of priority afforded by governance arrangements to information system issues.

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

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

In addition to the findings from the audits, 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 Provincial Legislature did not form part of the focused HR audit.

The findings are presented under the following headings:

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

### **8.1 Human resource planning and work organisation**

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

- Education
- Health

### **8.2 Management of vacancies**

Based on the annual reports the vacancy rate across all departments was 24% at year-end. Twenty-seven per cent of the positions for senior managers and highly skilled staff were vacant. The average vacancy rate at the departments was 32%, the lowest rate being in the Department of Transport, Roads and Public Works at 14% and the highest in the Department of Social Services and Population Development at 47%. In general, the vacancy rates improved from the previous year with deteriorations being noted at the following departments:

- Agriculture and Land Reform
- Social Services and Population Development
- Sport, Arts and Culture
- Health



Departments experienced difficulty in attracting suitably qualified individuals to areas where they were required.

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

It is of concern that this process was not effectively implemented at the following departments:

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

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

- Transport, Roads and Public Works, resulting in irregular expenditure of R607 685
- Housing and Local Government, resulting in irregular expenditure of R1 953 000
- Premier, resulting in irregular expenditure of R1 036 000

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

- Health
- Tourism, Environment and Conservation
- Transport, Roads and Public Works

### **8.4 Prolonged acting by officials in higher posts**

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

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

- Social Services and Population Development



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

- Premier

## **8.5 Use of consultants**

Consultants may be engaged if the necessary skills and/or resources to perform a specific project are not available and the department cannot be reasonably expected either to train or to recruit people in the time available. Based on the annual reports, consultants were employed at 42% of the departments. The total number of consultants appointed using appropriated funds was 87 at a total contract value of R42 530 195.

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 was engaged to perform. If the function is provided for on the establishment of the department, consultants should not be used either as a result of a lack of productivity or capacity of existing staff or as a result of ineffective processes to appoint or recruit suitable permanent staff.

The use of consultants by government departments was identified as a transversal performance audit area for the 2009-10 financial year. The Department of Health did not disclose statistics relating to consultants in its annual report and was therefore excluded from the analysis above.

## **8.6 Suspensions**

Based on the annual reports, nine employees had been suspended across seven departments. The average number of days on suspension was 125 with 88% of the employees being suspended for more than 30 days. The total cost of the suspensions was estimated to be R916 000.

Departments should ensure that disciplinary processes are concluded timeously, as prolonged suspension periods impact on service delivery and have cost implications. The Department of Health did not disclose statistics relating to suspensions in its annual report and was therefore excluded from the analysis above.

## **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 departments did not consistently comply with this regulation, resulting in the employees' leave credits being overstated:

- Health
- Safety and Liaison

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 departments, leave payouts were made to the amount of R972 206 in the period. This inadequate leave administration was caused by inadequate manual controls to ensure that all leave taken was recorded and the payroll system timeously updated.



## **Capped leave**

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

- Health – the monetary value as disclosed in the financial statements was R214 710.
- Education – the monetary value as disclosed in the financial statements was R964 374.

## **Family responsibility leave**

Employees are granted family responsibility leave of up to five days in an annual leave cycle unless special circumstances warrant further leave at the discretion of the head of the department. Instances of more than five days' family responsibility leave being granted without the necessary approval were found at the following departments, which could be an indication of inadequate control over the granting of this privilege:

- Health
- Safety and Liaison

## **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 formulae determined by the DPSA. At the following departments instances were found where the calculations were incorrect:

- Education
- Premier

## **8.8 Budgetary control**

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

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

- Education – R197 700 000 unauthorised expenditure
- Agriculture and Land Reform – R2 161 000 unauthorised expenditure
- Housing and Local Government – R1 953 340 irregular expenditure

The overspending on employee cost in general was the result of incorrect budgeting. At Education this related to learning area managers, OSD money and payments made to ABET employees not budgeted for.



## 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 departments did not have a written policy on overtime:

- Agriculture and Land Reform
- Health
- Premier
- Provincial Treasury

Policies related to reliable financial reporting were not established and communicated throughout the entity, and did not have corresponding procedures that resulted in management directives being carried out.

### Authorisation of overtime

At the following departments written authorisation was not consistently provided in advance for the overtime worked:

- Agriculture and Land Reform
- Health
- Education
- Social Services and Population Development
- Tourism, Environment and Conservation

The reasons for the non-compliance were that management did not implement controls to prevent payment of overtime that was not pre-approved and supporting documentation relating to pre-approvals not being unavailable due to an inadequate filing system.

### Limit on overtime

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

- Health
- Premier

The reason for non-compliance was that policies related to reliable financial reporting were not established and communicated throughout the entity, and did not have corresponding procedures that resulted in management directives being carried out.

### Overtime payments

At the following departments instances were found where overtime payments were calculated incorrectly, which could be an indication that officials cannot apply the formulae correctly and are not appropriately supervised and reviewed:





- Health
- Premier

### 8.10 Payroll certification

The certification of the payroll on a monthly basis is required by TR 8.3.4&5 as a control to ensure that there are no ghost employees on the payroll, that employees were entitled to the payment and that the employees are allocated to the correct pay point.

Instances were found at the following departments that indicated 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 Health	X	X	X	X
Department of Education		X		
Department of Sport, Arts and Culture	X			
Department of Tourism, Environment and Conservation	X	X	X	

Due to the decentralisation of the pay points across the province, the monthly payroll certificates could not be submitted to the various pay points for certification, and therefore the payroll certificates could not be sent back to the department to ensure the completeness of all the payroll certificates within the department.

### 8.11 Service terminations

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

- Education (non-submission of required documentation to perform audit procedure)
- Health
- Premier
- Transport, Roads and Public Works



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

- Education (non-submission of required documentation to perform audit procedure)
- Health

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

### **8.12 Overall conclusion**

The findings above are of concern, especially relating to the Department of Education where employee-related cost was qualified, considering the total amount spent was R2 226 903 000.

## SECTION 9: AUDIT OF PERFORMANCE INFORMATION

### 9.1 Introduction

This section of the 2008-09 general report provides details of the results of the AGSA's audits of performance information at 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 provincial departments, provincial public entities and provincial other entities
- Internal control deficiencies that require attention to ensure compliance with legislative requirements and/or criteria for published performance information.

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

1. In terms of section 13 of the PAA and based on the results of a readiness assessment of audited entities during November 2008, the AG decided to provide reasonable assurance in the form of an audit conclusion on the reporting of performance against predetermined objectives at the following categories of audited entities:
  - National and provincial departments, constitutional institutions and trading entities
  - National and provincial public entities
  - Municipal metropolitan councils and the related municipal entities.
2. For the above-mentioned 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.
3. 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.
4. The objective of an audit of performance information is to enable the auditor to conclude whether the reported performance against predetermined objectives is reliable, accurate and complete, in all material respects, based on pre-determined criteria.
5. 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.
6. In terms of section 13 of the PAA, the AG has adopted a phasing-in approach to adherence to sections 20 and 28 of the PAA, until such time as the environment shows a state of readiness to provide reasonable assurance in the form of an audit opinion or conclusion, at municipalities and municipal entities other than those listed in paragraph 1 above.
  7. The phasing-in approach to the audit of performance information for the municipalities and municipal entities, referred to in paragraph 5, will constitute a review of the policies, systems, processes and procedures for managing of and reporting on performance against predetermined objectives.

### 9.3 Key findings arising from the 2008-09 audit of performance information of the Provincial Legislature, provincial departments, provincial public entities and provincial other entities

Broad areas examined were as follows:

- **Compliance with regulatory requirements** – the scope of audit work and audit findings relate to compliance with the PFMA and Treasury Regulations pertaining to the planning, management, monitoring, review and reporting of performance information.
- **Usefulness of reported information** – audit work focused on the consistency, relevance and measurability of planned and reported performance information.
- **Reliability of reported performance information** – audit work focused on whether the reported performance information could be traced back to the source data or documentation and whether the reported information is accurate and complete in relation to the source data, evidence or documentation.

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

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

No.	Main findings	Percentage of institutions with findings				
		Provincial Legislature	Provincial departments	Provincial public entities	Provincial other entities	Total
1	Non-compliance with regulatory requirements	100%	50%	50%	75%	58%
2	Usefulness of reported performance information	100%	50%	0%	0%	37%
3	Reported performance information not reliable	0%	50%	0%	0%	32%
4	Performance information was not received in time for audit purposes	0%	0%	0%	0%	0%



## **Causes of deficiencies in the performance information reporting**

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

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

Processes for the development of objectives, targets and performance measures were not adequate. This occurred at 50% of departments, 50% of provincial public entities and 75% of provincial other entities. Findings relating to the non-reporting of performance information, the inadequate crafting of measurable objectives and targets included in the strategic plan, the non-approval of the strategic plans, inconsistent reporting on objectives contained in the strategic plan and the lack of efficient, effective and transparent systems of control over performance information have been grouped together in this finding.

### **2. Usefulness of performance information**

The quality of performance indicators/targets was inadequate in 37% of the annual reports subjected to review. This was due to a lack of understanding of the requirements of performance reporting and a lack of appropriate capacity and skills.

### **3. Reported performance information not reliable**

Lack of effective, efficient and transparent systems and internal controls over performance information reporting was identified at 50% of departments, as the collection, collation and reporting on performance were not integrated into the operations and information systems of departments.

Three departments, namely Agriculture and Land Reform, Economic Affairs and Social Services and Population Development, and one provincial public entity, the Northern Cape Tourism Authority, had no significant findings reported on performance information.

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

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



## SECTION 10: CONSOLIDATED FINANCIAL STATEMENTS

In terms of sections 8 and 19 of the PFMA, the National and 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 for consolidated departments and entities. Agreed-upon procedures are performed on the provincial consolidated financial statements consisting of the Provincial Legislature, provincial departments and provincial entities.

The status of preparation of the provincial consolidated financial statements as at 30 September 2009 is reflected in table 12 below.

**Table 4: Status of preparation of consolidated financial statements as at 30 September 2009**

Province	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
Northern Cape	Yes	Yes	No	Yes	Yes	Yes	Yes	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 department's 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

### 11.1 Introduction

In accordance with section 65 of the PFMA, the executive authority responsible for a department must table in the provincial legislature the annual report and financial statements as well as the audit report on those statements, within one month of receipt of the audit report. All departments tabled their annual reports for the year ended 31 March 2009. Forty-three per cent of entities submitted their annual reports to the Provincial Legislature and 86% of entities' annual reports still have to be tabled in the House.

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

No.	Entity	Tabled (Y/N)	Date submitted to legislature	Date tabled in House	Reasons for annual report not tabled
1	Agriculture and Land Reform	Y	29/09/2009	12/11/2009	
2	Economic Affairs	Y	31/08/2009	17/11/2009	
3	Education	Y	29/09/2009	05/11/2009	
4	Health	Y	23/09/2009	13/11/2009	
5	Housing and Local Government	Y	01/10/2009	12/11/2009	
6	Office of the Premier	Y	31/08/2009	18/11/2009	
7	Provincial Legislature	Y	30/09/2009	18/11/2009	
8	Provincial Treasury	Y	30/09/2009	18/11/2009	
9	Safety and Liaison	Y	01/09/2009	10/11/2009	
10	Social Services and Population Development	Y	30/09/2009	10/11/2009	
11	Sport, Arts and Culture	Y	31/08/2009	17/11/2009	
12	Tourism, Environment and Conservation	Y	11/09/2009	05/11/2009	
13	Transport, Roads and Public Works	Y	30/09/2009	13/11/2009	
14	McGregor Museum	N	Not tabled yet	Not tabled yet	Annual report not compiled by management
15	Northern Cape Arts and Culture Council	N	Not tabled yet	Not tabled yet	Annual report not compiled by management
16	Northern Cape Housing Fund	N	Not tabled yet	Not tabled yet	Financial statements not submitted for audit
17	Northern Cape Premier Education Trust Fund	N	Not tabled yet	Not tabled yet	Annual report not compiled by management



No.	Entity	Tabled (Y/N)	Date submitted to legislature	Date tabled in House	Reasons for annual report not tabled
18	Northern Cape Tourism Authority	N	20/10/2009	Not tabled yet	House schedule
19	Northern Cape Youth Commission	N	30/09/2009	Not tabled yet	House schedule
20	Road Capital Account	Y	30/09/2009	13/11/2009	



## 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 actual dates of submission of performance audit reports are provided in the table below.

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

No.	Entity	Report description	Actual date of tabling
1	Department of Housing and Local Government	Administration of low-cost housing projects by the department	July 2008
2	Transversal	Entities that are connected with government employees and doing business with departments	May 2009

### 12.2 Investigations conducted

"Investigation" as contemplated in section 5(1)(d) of the Public Audit Act of 2004 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 (3) of the PAA. An investigation may be performed where the AGSA:

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



(d) deems it appropriate.

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

The table below lists the actual dates of tabling of investigation reports.

**Table 7: Investigations conducted and expected / actual dates of tabling of reports**

<b>N0.</b>	<b>Name of entity</b>	<b>Report description</b>	<b>Expected / actual date of tabling</b>
1	Department of Health	Investigation into procurement	July 2008
2	National Treasury	Investigation into the appointment of service providers and transfers to the Northern Cape Youth Commission	May 2009
3	Department of Health	Investigation into financial management	January 2010

### 12.3 Special audits conducted

No special audit reports have been issued since the last general report.

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

**Annexure 2:** Listing of departments and entities that registered improved or 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 outcomes: five-year review of audit outcomes

## ANNEXURE 1a: Listing of departments / entities qualification findings

No.	Classification	Type of other entity	Department / Institution / Entity	Portfolio	Audit opinion: 2008-09	Audit opinion: 2007-08	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 Land Reform	NC	Financially unqualified (with other matters)	Qualified																
2	PD		Economic Affairs	NC	Financially unqualified (with other matters)	Financially unqualified (with other matters)																
3	PD		Education	NC	Disclaimer	Disclaimer																
4	PD		Health	NC	Disclaimer	Disclaimer																
5	PD		Housing and Local Government	NC	Qualified	Financially unqualified (with other matters)																
6	POE	Unlisted	McGregor Museum	NC	Qualified	Qualified																
7	POE	Unlisted	Northern Cape Arts and Culture Council	NC	Disclaimer	Disclaimer																
8	POE	Trust	Northern Cape Premier Education Trust Fund	NC	Qualified	Disclaimer																
9	PPE		Northern Cape Tourism Authority	NC	Financially unqualified (with other matters)	Financially unqualified (with other matters)																
10	PPE		Northern Cape Youth Commission	NC	Financially unqualified (with other matters)	Financially unqualified (with other matters)																

**ANNEXURE 1a: Listing of departments / entities qualification findings (continued)**

No.	Classification	Type of other entity	Department / Institution / Entity	Portfolio	Audit opinion: 2008-09	Audit opinion: 2007-08	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
11	PD		Office of the Premier	NC	Financially unqualified (with other matters)	Qualified																
12	PL		Provincial Legislature	NC	Financially unqualified (with other matters)	Qualified																
13	PD		Provincial Treasury	NC	Financially unqualified (with other matters)	Financially unqualified (with other matters)																
14	POE	Trading entity	Road Capital Account	NC	Qualified	Qualified																
15	PD		Safety and Liaison	NC	Financially unqualified (with other matters)	Financially unqualified (with other matters)																
16	PD		Social Services and Population Development	NC	Financially unqualified (with other matters)	Financially unqualified (with other matters)																
17	PD		Sport, Arts and Culture	NC	Qualified	Financially unqualified (with other matters)																
18	PD		Tourism, Environment and Conservation	NC	Financially unqualified (with other matters)	Financially unqualified (with other matters)																
19	PD		Transport, Roads and Public Works	NC	Qualified	Qualified																

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

No.	Classification	Department / Institution / Entity	Portfolio	Audit opinion: 2008-09	Audit opinion: 2007-08	Financial sustainability	Material losses/ impairments	Unauthorised expenditure	Fruitless and wasteful expenditure	Irregular expenditure	Material underspending of the budget	PFMA Treasury	DORA	Supply chain management	Other enabling legislation	Material misstatements corrected
1	PD	Agriculture and Land Reform	NC	Financially unqualified (with other matters)	Qualified											
2	PD	Economic Affairs	NC	Financially unqualified (with other matters)	Financially unqualified (with other matters)											
3	PD	Education	NC	Disclaimer	Disclaimer											
4	PD	Health	NC	Disclaimer	Disclaimer											
5	PD	Housing and Local Government	NC	Qualified	Financially unqualified (with other matters)											
6	POE	McGregor Museum	NC	Qualified	Qualified											
7	POE	Northern Cape Arts and Culture Council	NC	Disclaimer	Disclaimer											
8	POE	Northern Cape Premier Education Trust Fund	NC	Qualified	Disclaimer											
9	PPE	Northern Cape Tourism Authority	NC	Financially unqualified (with other matters)	Financially unqualified (with other matters)											
10	PPE	Northern Cape Youth Commission	NC	Financially unqualified (with other matters)	Financially unqualified (with other matters)											
11	PD	Office of the Premier	NC	Financially unqualified (with other matters)	Qualified											
12	PL	Provincial Legislature	NC	Financially unqualified (with other matters)	Qualified											
13	PD	Provincial Treasury	NC	Financially unqualified (with other matters)	Financially unqualified (with other matters)											

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

No.	Classification	Department / Institution / Entity	Portfolio	Audit opinion: 2008-09	Audit opinion: 2007-08	Financial sustainability	Material losses/ impairments	Unauthorised expenditure	Fruitless and wasteful expenditure	Irregular expenditure	Material underspending of the budget	PFMA Treasury	DoRA	Supply chain management	Other enabling legislation	Material misstatements corrected
14	POE	Road Capital Account	NC	Qualified	Qualified		Qualified									
15	PD	Safety and Liaison	NC	Financially unqualified (with other matters)	Financially unqualified (with other matters)		Financially unqualified (with other matters)									
16	PD	Social Services and Population Development	NC	Financially unqualified (with other matters)	Financially unqualified (with other matters)		Financially unqualified (with other matters)									
17	PD	Sport, Arts and Culture	NC	Qualified	Financially unqualified (with other matters)		Financially unqualified (with other matters)									
18	PD	Tourism, Environment and Conservation	NC	Financially unqualified (with other matters)	Financially unqualified (with other matters)		Financially unqualified (with other matters)									
19	PD	Transport, Roads and Public Works	NC	Qualified	Qualified		Qualified									

## 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 Land Reform	Financially unqualified (with other matters)	Qualified
2	Provincial Legislature	Financially unqualified (with other matters)	Qualified
3	Office of the Premier	Financially unqualified (with other matters)	Qualified
4	Premier's Education Trust Fund	Qualified	Disclaimer



## 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	Housing and Local Government	Qualified	Financially unqualified (with other matters)
2	Sport, Arts and Culture	Qualified	Financially unqualified (with other matters)

## **ANNEXURE 3: SUMMARIES OF AUDIT REPORTS**

### **3.1 Summary of audit report for Provincial Legislature**

#### **1. Provincial Legislature**

##### **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 R4 441 000 was incurred as a result of overspending on voted funds.

##### **Significant uncertainty**

An amount of R226 000 was disclosed as a receivable from SARS at year-end. Subsequent confirmations with SARS, however, indicated that the amount owed to SARS is in fact R322 000, which is made up predominantly of penalties and interest due to the non-submission of EMP 201 returns and late or inaccurate payments. The Northern Cape Provincial Legislature is working in coordination with SARS to resolve this matter.

##### **Other matters**

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

##### **Code of Financial Administration of the Provincial Legislature**

Paragraph 21(2) of the Code of Financial Administration of the Provincial Legislature states that the accounting officer, on discovery of any unauthorised, irregular or fruitless and wasteful expenditure, must immediately report in writing particulars of the expenditure to the Speaker and the Auditor-General. Unauthorised expenditure of R4 441 000 was, however, not reported to the Auditor-General.

##### **Financial Procedure Manual**

- Paragraph 5.6 requires that all payments due to creditors must be settled within 30 days from the date that the invoice or claim was received and in the case of civil claims, from the date of settlement or court judgment. A sample of payments to a value of R1 834 000 was not paid within 30 days.
- Paragraph 10 of the Financial Procedure Manual states that it is the responsibility of officials entrusted with the collection of debt to take all possible steps to recover debt. An amount of R776 000 has been outstanding for three years or longer.

## Other reporting responsibilities

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

The accounting officer did not ensure that the Northern Cape Provincial Legislature 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.

- **Inadequate quarterly reporting on performance information**

No quarterly reports on the progress in achieving measurable objectives and targets were provided by the Northern Cape Provincial Legislature to facilitate effective performance monitoring, evaluation and corrective action as required.

Usefulness and reliability of reported performance information

Strategic objectives were not consistent between the strategic plan and the annual performance plan, report and budget. This occurred consistently throughout all the programmes.

The measurable objectives as set out in the strategic plan and the annual performance plan and report were not measurable, verifiable and specific. This occurred consistently throughout all the programmes.

## 3.2 Summaries of audit reports for provincial departments

### 1. Department of Agriculture and Land Reform

#### Financially unqualified with other matters

##### Emphasis of matters

##### Unauthorised expenditure

The department incurred unauthorised expenditure amounting to R16 645 000. This was properly disclosed in note 9 to the annual financial statements.

##### Underspending of grants

As disclosed in the appropriation statement, the department materially underspent the budget on conditional grants received to the amount of R28 030 000. As a consequence, the department did not achieve its objective of project implementation.

##### Irregular expenditure

As disclosed in note 26 to the financial statements, irregular expenditure to the amount of R2 165 000 was incurred, as treasury approval was not obtained for the increase in compensation of employees to the amount of R2 161 000 and the increase in transfers and subsidies to the amount of R4 000.



#### Restatement of corresponding figures

As disclosed in notes 20 and 26.1 to the financial statements, the corresponding figures for 2007-08 have been restated as a result of errors discovered during 2008-09 in the financial statements.

#### **Other matters**

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

##### **Treasury Regulations**

In contravention of TR 15.10.2.1 the accounting officer did not submit a cash flow forecast before the end of the last working day of February preceding the financial year to which it relates.

Delays in processing invoices and paying suppliers resulted in invoices not being paid within 30 days as required by TR 8.2.

#### **Other reporting responsibilities**

No matters

### **2. Department of Economic Affairs**

#### **Financially unqualified with other matters**

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

No matters

##### **Other matters**

Non-compliance with applicable legislation

#### **Other reporting responsibilities**

No matters

### **3. Department of Education**

#### **Disclaimer**

##### **Assets**

I was unable to satisfy myself concerning the completeness, existence and valuation of the closing balance of capital assets of R107 343 000 (2008: R87 777 000), as the department did not provide sufficient appropriate audit evidence to substantiate these balances and assets could not always be traced to and from the asset register.

## **Irregular expenditure**

The completeness of irregular expenditure disclosed as R47 464 000 could not be confirmed, as I could not rely on the system in place for the detection and complete disclosure of irregular expenditure.

## **Expenditure**

The occurrence and classification of goods and services disclosed as R285 891 000 could not be determined, as R32 253 867 of the amount could not be supported by sufficient appropriate audit evidence. This also resulted in a limitation of scope on the classification of the appropriation account.

## **Employee cost**

The department was unable to provide sufficient and appropriate audit evidence supporting a significant number of employee cost transactions. I was therefore unable to satisfy myself as to the accuracy and occurrence of compensation of employees disclosed as R2 226 903 000 (2008: R1 795 910 000).

## **Employee benefits**

I could not rely on the controls in place to identify and record leave transactions. Leave days to the value of R464 097 could not be supported. I could therefore not satisfy myself as to the existence of the leave entitlement balance disclosed as R32 374 000 (2008: R30 908 000).

## **Payables**

The existence and completeness of and obligations relating to payables amounting to R6 045 000 (2008: R7 639 000) could not be determined, as reconciliations were not performed and support could not be provided for balances amounting to R3 795 480.

## **Receivables**

The existence and completeness of and rights relating to receivables amounting to R26 222 000 (2008: R21 663 000) could not be determined, as support could not be provided for balances amounting to R2 320 599. It was also noted that payments received from debtors were not always set off against the correct accounts.

## **Provisions**

I was unable to satisfy myself as to the valuation of the provision for irrecoverable debt for receivables disclosed as R9 881 000, as I was unable to obtain sufficient appropriate audit evidence regarding the completeness and existence of and rights relating to receivables.

## **Commitments**

The completeness of commitments disclosed as R157 733 000 (2008: R30 742 000) could not be confirmed as the department did not have a complete list of commitments in respect of contracts procured by the Department of Transport, Roads and Public Works.

## **Fruitless and wasteful expenditure**

The completeness of fruitless and wasteful expenditure disclosed as R75 000 could not be determined, as I could not rely on the system in place to detect all fruitless expenditure.

## **Emphasis of matters**

No matters

## **Other matters**

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

Public Finance Management Act

Payments due to creditors were not always settled within 30 days from receipt of the invoice as required by section 38(1)(f) of the PFMA.

## **Treasury Regulations**

The accounting officer did not submit to the National Treasury and the Auditor-General a schedule of the details of disciplinary proceedings as required by Treasury Regulation 4.3.4.

## **Investigations**

A forensic audit was conducted during the year under review concerning payments amounting to R22 586 728 (2008: R3 676 711) made to the Northern Cape Youth Commission (NCYC). The payments made by the Department of Education to the NCYC were not budgeted for. These payments were disclosed as irregular expenditure as they were in contradiction of section 38(2) of the PFMA.

## **Other reporting responsibilities**

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

- The department did not report on all the predetermined objectives, as required by section 40(3)(a) of the PFMA.
- The department did not maintain an effective, efficient and transparent system and internal controls regarding performance management, as required in terms of section 38(1)(a)(i) and (b) of the PFMA.

## **Reported performance information not reliable**

- Reported performance information for some of the programmes could not be verified, as the relevant source documentation could not be provided.
- Source information provided to support the reported performance information did not always support the accuracy and completeness of the facts.

## **4. Department of Health**

### **Qualification**

#### **Expenditure**

- I could not obtain sufficient appropriate audit evidence regarding payments made amounting to R80,2 million (31 March 2008: R6,1 million). I was unable to perform satisfactory audit procedures to obtain reasonable assurance on the accuracy, occurrence and classification of the expenditure.
- I could not obtain debit journals of R95,2 million and credit journals of R5,8 million passed against expenditure items. I was unable to perform satisfactory audit procedures to obtain reasonable assurance on the accuracy, occurrence and classification of the expenditure.
- Note 5 on goods and services indicated that lease payments of R68,1 million were made for the year. Of this amount, R31,3 million should have been disclosed as capital expenditure instead of current expenditure as per circular 4 of 2008-09 issued by the National Treasury, as it related to finance leases.

#### **Assets (movable tangible capital assets, intangible capital assets and immovable tangible capital assets)**

The completeness, existence, valuation and allocation of, and rights and obligations relating to, assets disclosed as R1 053,5 million could not be confirmed, as the department did not provide an asset register for these assets.

#### **Unauthorised expenditure**

Unauthorised expenditure, disclosed as R367,1 million in note 9, was understated by R11,4 million in respect of overexpenditure on programme 7. The completeness of unauthorised expenditure could not be confirmed due to limitation of scope.

#### **Contingent assets**

Sufficient appropriate audit evidence for the overpayments with the implementation of the occupation-specific dispensation for nurses could not be obtained. I was unable to perform satisfactory audit procedures to obtain reasonable assurance on the completeness, existence, valuation and allocation of, and rights and obligations relating to, the contingent asset.

#### **Contingent liabilities**

- Sufficient appropriate audit evidence for the underpayments with the implementation of the occupation-specific dispensation for nurses could not be obtained. I was unable to perform satisfactory audit procedures to obtain reasonable assurance on the completeness, existence, valuation and allocation of, and rights and obligations relating to, the contingent liability.
- I could not obtain supporting documentation for the approval of housing loan guarantees issued amounting to R1,3 million and the redemption of R0,5 million. Bank confirmations could not be obtained.

## **Commitments**

- I could not obtain sufficient appropriate audit evidence for commitments amounting to R128,4 million. The department was unable to submit various contracts.
- Commitments disclosed in disclosure note 20 to the financial statements were understated by R13,5 million in respect of confirmations obtained from suppliers on their contracts with the department.

## **Accruals**

- I could not obtain sufficient appropriate audit evidence for accruals amounting to R20,4 million. The department did not maintain a system to account for accruals.
- Accruals disclosed in disclosure note 21 were understated by R9,9 million, relating to unpaid goods and services not disclosed.

## **Employee benefits**

The leave entitlement reports that were used by the department were drawn after year-end, resulting in inaccurate leave days used to calculate the leave entitlement. Furthermore, the calculation was not performed in line with the formula prescribed by the Department of Public Service and Administration. The amount by which employee benefits were understated could not be determined.

## **Lease commitments**

- I could not obtain lease contracts amounting to R44,7 million. The department did not have a lease commitment register or system to account for lease commitments. Consequently, I was unable to perform satisfactory audit procedures to obtain reasonable assurance on the completeness, existence, valuation and allocation of, and rights and obligations relating to, lease commitments.
- Lease commitments disclosed in disclosure note 23 were understated by R6,1 million in respect of the finance lease agreement on the air ambulance service that was not disclosed. Furthermore, finance leases relating to photocopy machines amounting to R1,6 million were incorrectly categorised as operating leases.

## **Receivables for departmental revenue**

I could not obtain sufficient appropriate audit evidence for patient debts as a result of the lack of a properly maintained debtor management system. Consequently, I was unable to perform satisfactory audit procedures to obtain reasonable assurance on the completeness, existence, valuation and allocation of, and rights and obligations relating to, receivables for departmental revenue.

## **Provisions**

I was unable to obtain sufficient appropriate audit evidence regarding the completeness, existence and valuation of receivables for departmental revenue on which the provision calculation was performed (76% of receivables). Consequently, I was unable to satisfy myself as to the valuation and allocation of the provision.

## **Irregular expenditure**

The department omitted disclosure of irregular expenditure incurred during the financial year, as required





by 40(3)(b) of the PFMA, due to the absence of a system to account for irregular expenditure. Irregular expenditure disclosed in disclosure note 25 was understated by R153,6 million.

### **Payables**

I could not obtain sufficient appropriate audit evidence for payables amounting to R0,8 million. Furthermore, the ageing of payables was not disclosed in note 16 to the financial statements. Consequently, I was unable to perform satisfactory audit procedures to obtain reasonable assurance on the completeness, existence, valuation and allocation of and rights and obligations relating to payables.

### **Prepayments and advances**

I could not obtain sufficient appropriate audit evidence for travel and subsistence balances amounting to R0,9 million. Consequently, I was unable to perform satisfactory audit procedures to obtain reasonable assurance on the existence, valuation and allocation of and rights and obligations relating to prepayments and advances.

### **Receivables**

I could not obtain sufficient appropriate audit evidence for receivables amounting to R1,4 million. Consequently, I was unable to perform satisfactory audit procedures to obtain reasonable assurance on the completeness, existence, valuation and allocation of and rights and obligations relating to receivables.

### **Appropriation statement**

I could not obtain debit journals of R55,9 million and credit journals of R50,5 million that were passed to reclassify expenditure within different funds, responsibilities and objectives. Consequently, I was unable to perform satisfactory audit procedures to obtain reasonable assurance on the accuracy, occurrence and classification of expenditure relating to the appropriation statement.

### **Statement of conditional grants received – annexure 1A**

The classification, accuracy and occurrence of the conditional grants below disclosed in annexure 1A could not be confirmed, as the department did not provide payment batches and journals passed against these conditional grants. Furthermore, I could not determine the effect of the above on unauthorised expenditure.

Grant	Total payments	Payments not obtained	Debit journals not obtained	Credit journals not obtained
Comprehensive HIV/Aids	R91,3 million	R4,2 million	R1 million	R0,1 million
Health Professional Training and Development	R37,6 million	R1,6 million		
National Tertiary Service Grant	R51,9 million	R0,5 million	R24,5 million	
Hospital Revitalisation Grant	R181,8 million	R20,6 million	R78,5 million	R48,3 million
Provincial Infrastructure Grant	R30,7 million	R1,3 million		

### Emphasis of matters

No matters

### Other matters

### Non-compliance with applicable legislation

#### Public Finance Management Act

- The department had a bank account in addition to that used for its normal operations. The transactions and balances of this account were not recorded on the accounting system or in the financial statements. The existence of this bank account was in contravention of section 7(2).
- The accounting officer did not take effective and appropriate steps to collect all money due to the department as required by section 38(1)(c)(i).
- The responsibility to institute and maintain a system of internal control is defined in section 38(1)(a). Adequate policies and procedures were not developed and implemented as required.

#### Treasury Regulations

- The accounting officer did not ensure that internal procedures and internal control measures were in place for payment approval and processing as required by section 8.1.1.
- Various payments were not made within 30 days from receipt of the invoice. This constituted non-compliance with section 8.2.3.
- The accounting officer did not ensure that clearing accounts were cleared and correctly allocated to the relevant cost centres on a monthly basis as required by section 17.1.2(b).

#### Division of Revenue Act

The accounting officer did submit quarterly performance reports for each quarter during the financial year ended 31 March 2009, as required by section 11(3)(b). However, the actual expenditure differed from the expenditure stated on these reports.



## **Investigations**

- An investigation was conducted by the Auditor-General at the request of the National Treasury. The investigation was initiated based on the concern surrounding the financial management of the department. The report was issued on 24 April 2009.
- An investigation was conducted by the Auditor-General at the request of the Minister of Finance. The investigation focused on compliance with the Supply Chain Management Regulations. The report was issued on 29 June 2009.

## **Other reporting responsibilities**

Non-compliance with regulatory requirements

## **No strategic plan**

The accounting officer did not prepare a strategic plan that was consistent with the period covered by the medium-term expenditure framework.

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

The accounting officer did not ensure that the department had and maintained an effective, efficient and transparent system and internal controls regarding performance management.

## **Inconsistently reported performance information**

The department had not reported throughout on its performance with regard to its indicators and targets as per the approved annual performance plan, due to changes to the indicators and targets in the approved annual performance plan.

## **Reported performance information not reliable**

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

Sufficient appropriate evidence with regard to the reported performance information of the district health services could not be obtained.

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

The source information or evidence provided to support the reported performance information with regard to the indicators of the district health services programme did not adequately support the accuracy and completeness of the outputs.

## **Other reports**

## **Performance audits**

The Auditor-General conducted a performance audit of the infrastructure delivery process covering the 2005-06 and 2006-07 years. The report was issued in September 2008.



The Auditor-General conducted a performance audit of conflicts of interest covering those officials employed by the department who also transacted with the department as suppliers. The report was issued in August 2008.

## **5. Department of Housing and Local Government**

### **Qualification**

#### **Tangible and intangible assets**

- The asset register did not contain unique asset numbers for 534 assets to the value of R443 439 in order for me to confirm the existence, valuation and completeness of and rights and obligations relating to tangible and intangible assets.
- Assets to the value of R739 248 recorded in the asset register could not be physically verified.
- The completeness of the asset register could not be verified, as several assets were selected from their physical locations but could not be traced to the asset register.
- Assets were overstated as a result of obsolete equipment and furniture being included in the asset register. These assets were not individually marked and could therefore not be traced to the asset register in order to determine their values.

#### **Emphasis of matters**

##### **Unauthorised expenditure**

The department incurred unauthorised expenditure amounting to R3 461 000 during the financial year, due to overspending on current expenditure.

##### **Irregular expenditure**

Employee cost amounting to R1 953 340 was incurred in contravention of chapter 1, part VII, C2 and D of the PSR. Contract positions were filled during the financial year without following a recruitment process as required by chapter 1, part VII, C2 and D of the PSR.

##### **Other payables**

Suspense accounts of Housing Development Funds of R2 646 000 (prior year: R2 660 000) arose from the historic changeover from the FMS to the BAS. The National Housing Fund is in the process of reconciling and eliminating these suspense accounts.

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

The corresponding figures for the commitments and operating leases for 2007-08 were restated as a result of an error discovered during 2008-09 in the financial statements of the department for the year ended 31 March 2008.

## **Other matters**

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

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

The department did not comply with section 38(1)(a)(i) of the PFMA, as certain policies and procedures were found to be lacking or not approved and a business continuity plan was not developed, documented and approved.

#### **Treasury Regulations**

Late submissions and delays in processing resulted in invoices amounting to R42 666 954 not being paid within 30 days as required by TR 8.2.3.

#### **Housing Act, 1997 (Act No. 107 of 1997)**

A panel advising the MEC on matters relating to housing development was not established as required by section 5 of the Housing Act.

Financial statements for the housing fund were not compiled for the 2005-06, 2006-07 and 2007-08 financial years as required by section 11 of the Housing Act. The financial statements for the 2008-09 year were due on 31 July 2009. The last financial statements submitted for audit purposes were for the year ended 31 March 2005.

#### **National Housing Code**

During the inspection of houses completed during the year, 1 233 houses were verified and 220 houses were inspected on 11 projects. Although 60% of the beneficiaries had no complaints regarding the houses, the following deficiencies were noted in the rest of the houses: leaking roofs, plumbing problems, cracks in floors and walls, and problems with doors and windows.

#### **Division of Revenue Act**

The indicators as required by section (10)(1) of DoRA were not contained in the conditional grant business plans.

### **Other reporting responsibilities**

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

The department reported on objectives, indicators and targets in addition to those as per the approved annual performance 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. The targets in the annual report and the annual operation plan also differed.

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

The targets with regard to the subprogramme: housing planning and research were not specific in clearly



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

### **Lack of source documentation for performance information**

Sufficient appropriate audit evidence could not be obtained in relation to the reported performance information for 15 objectives of the subprogrammes: monitoring and support, municipal compliance, disaster management, land use management and government information system, as the relevant source documentation could not be provided for audit purposes.

### **Other reports**

#### **Special investigations in progress or completed**

Various housing projects are being investigated by the Special Investigating Unit and the South African Police Service. As a result, there is a potential that some of the losses incurred by the department could be recovered from the defaulting contractors. The final value of the amounts owed to the department was not known due to the fact that the legal process was still in progress as at 31 March 2009.

### **Office of the Premier**

#### **Financially unqualified with other matters**

#### **Emphasis of matters**

#### **Unauthorised expenditure**

As disclosed in note 9 to the financial statements, the department incurred unauthorised expenditure amounting to R983 000 for the financial year. This amount relates to overexpenditure on two programmes within the department's budget.

#### **Irregular expenditure**

As disclosed in note 24 to the financial statements, irregular expenditure to the amount of R3 022 000 was incurred due to non-compliance with the Supply Chain Management Regulations and non-compliance with the Treasury Regulations relating to legal fees.

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

As disclosed in note 23 to the financial statements, the corresponding figures for 31 March 2008 have been restated as a result of an error discovered during the current financial year. This restatement was necessary as some lease commitments were omitted from the prior year financial statements.

### **Other matters**

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

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

- Policies were not developed and implemented for all components as required by section 38(1)(a).



- The department's 2007-08 annual report was submitted to the Provincial Treasury on 30 September 2008. This was in contravention of section 40(d) which requires submission by 31 August.

### **Treasury Regulations**

In terms of TR 8.4.1 the accounting officer is responsible for maintaining appropriate measures to ensure that transfers and subsidies to entities are applied for their intended purposes. Proof could not be obtained that the necessary steps were taken to maintain control over transfer payments made by the department.

### **Investigations**

An investigation was conducted concerning transfer payments between this department and the Northern Cape Youth Commission.

### **Other reporting responsibilities**

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

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

The following discrepancies were noted in relation to performance targets reported in the annual report:

- Reported performance was not always specific in clearly identifying the nature and required level of performance.
- Not measurable in identifying the required performance.
- Variances between actual and targeted performance were not explained in all cases.
- Targets were not included for some objectives reported in the annual performance report and as a result of this no targets were included for these items in the annual report.

## **7. Department of Safety and Liaison**

### **Financially unqualified with other matters**

#### **Emphasis of matters**

As disclosed in note 7 to the annual financial statements the department incurred unauthorised expenditure amounting to R13 000 for the financial year.

#### **Other matters**

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

#### **Treasury Regulations**

Delays in processing payments on invoices resulted in invoices not being paid within 30 days as required by TR 8.2.3.



## **Other reporting responsibilities**

### **Inconsistently reported performance information**

The Department of Safety and Liaison did not report throughout on its performance with regard to its objectives/targets as per the approved annual performance plan.

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

The following targets with regard to Traffic Law Enforcement, Traffic Law Administration and Licensing, and Crime Prevention were not:

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

as some of the performance indicators were not well defined and specific and the measurable objectives were not verifiable.

## **8. Department of Social Services and Population Development**

### **Financially unqualified with other matters**

#### **Emphasis of matters**

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

As disclosed in the appropriation statement, the department materially underspent the budget to the amount of R16 199 000. As a consequence, the department did not achieve its objectives of implementing the occupation-specific dispensation and completing the building of the secure centres.

#### **Other matters**

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

#### **Treasury Regulations**

The department did not implement a fraud prevention plan as required by TR.3.2.1.

#### **Other reporting responsibilities**

No matters



## **9. Department of Sport, Arts and Culture**

### **Qualified**

#### **Assets**

The completeness and existence of assets amounting to R5 589 000 could not be verified due to the lack of an adequate asset count, as well as the following weaknesses:

- The completeness of assets could not be confirmed as several assets could not be traced to the asset register and assets which were disposed of were still reflected in the asset register.
- The existence of certain assets could not be confirmed due to the absence of information on the identification and location of the assets in the asset register. Owing to the lack of required information, no alternative procedures could be performed.

The total assets as per the asset register (R4 051 385) could not be reconciled with the financial statements (R5 589 000), resulting in a difference of R1 537 615.

#### **Irregular expenditure**

The completeness of irregular expenditure disclosed as R14 352 000 in note 24 to the financial statements could not be confirmed, as I could not rely on the system in place for the detection and complete disclosure of irregular expenditure. Payments amounting to R4 318 261 were made in contravention of the supply chain management policy.

#### **Emphasis of matters**

No matters

#### **Other matters**

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

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

Documented policies and procedures were not developed, approved and implemented for various accounting cycles at the department. This is in contravention of section 38(1)(a)(i) of the PFMA, which requires the department to have effective, efficient, and transparent systems of internal control.

##### **Treasury Regulations**

The department did not make several payments within 30 days of the date of receipt of invoice, as required by TR 8.2.3.

#### **Other reporting responsibilities**

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

The department did not maintain an effective, efficient and transparent system and internal controls



regarding performance management, as required in terms of section 38(1)(a)(i) and (b) of the PFMA.

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

- Reported performance information for some of the programmes could not be verified, as the relevant source documentation could not be provided.
- Source information provided to support the reported performance information did not always support the accuracy and completeness of the facts.

## **10. Department of Tourism, Environment and Conservation**

### **Financially unqualified with other matters**

#### **Emphasis of matters**

No matters

#### **Other matters**

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

#### **Treasury Regulations**

- Treasury Regulation 8.2.3 states that unless determined otherwise in a contract or other agreement, all payments due to creditors must be settled within 30 days from receipt of an invoice. However, payments were not made within the prescribed 30 days as required.
- Treasury Regulation 15.10.1.2(j) states that bank reconciliations should be performed on a daily basis. However, bank reconciliations were not performed as required.
- Treasury Regulation 8.3.4 states that the person in charge at the respective pay points must certify on the date of payment that all persons listed on the payroll report are entitled to payment. Employees paid by cheque must sign the payroll report when collecting their cheques. Treasury Regulation 8.3.5 states that within 10 days of being certified, the payroll report must be returned to the CFO. The accounting officer must ensure that all pay-point certificates are received on a monthly basis. The payrolls were not certified, nor did the accounting officer ensure that all certificates were received on a monthly basis.
- Treasury Regulation 4.3.4 states that the accounting officer must, on an annual basis, submit to the Provincial Treasury, the National Treasury and the Auditor-General a schedule of the outcome of any disciplinary proceedings and/or criminal charges, the names and ranks of officials involved, and the sanctions and any further actions taken against these officials. Treasury Regulation 4.3.5 states that the schedule mentioned in paragraph 4.3.4 must be accompanied by a report, which refers to any changes made to the institution's systems of financial and risk management as a result of any investigation. The department failed to comply with the above Treasury Regulations.
- Treasury Regulation 26.1.1 states that the designated accounting officer must ensure that within 30 days of the end of each quarter, the public entity submits information on its actual revenue and expenditure up to the end of that quarter as well as a projection of expected revenue and expenditure for the remainder of the current financial year. The information on actual revenue and expenditure shall be determined after taking accruals in account. It was noted, however, that the Northern Cape Tourism Authority did not submit its actual revenue and expenditure at the end of every quarter to the department, which is contrary to the above regulation.

## **Other reporting responsibilities**

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

The performance indicators and measurable objectives with regard to promotion of compliance with environmental legislation by all stakeholders; development and implementation of effective environmental impact management decision support tools; assessment of EIAs and EMPRs for development applications; effective management of air pollution within the parameters of the Air Quality Act; effective management of hazardous waste; implementation of an effective landfill management function; and effective and coordinated processes and guidelines for pollution management on the coastal areas sub- programmes were not:

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

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

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

Sufficient appropriate audit evidence in relation to the reported performance information on the monitoring of illegal developments for compliance; receiving and reviewing EMPR & EIA applications; undertaking site visits to contaminated areas to determine cause of contamination at abattoirs, oxidation dams and accidental contamination; monitoring and evaluating the collection, packaging and storage of healthcare waste; implementation of a provincial integration waste management plan through identified interventions; and assisting municipalities in developing, implementing and reviewing their integrated waste management plans regarding the predetermined objectives per subprogrammes could not be obtained, as the relevant source documentation could not be provided for audit purposes.

## **11. Department of Transport, Roads and Public Works**

### **Qualification**

#### **Assets**

I was unable to satisfy myself with regard to the completeness, existence and valuation of and rights relating to capital assets of R9 388 899 000, as discrepancies were noted in the asset register and differences were noted between the value on the asset registers and the value disclosed in the financial statements.

#### **Commitments**

- Sufficient appropriate audit evidence could not be provided for commitments to the value of R8 319 235 and consequently I was unable to satisfy myself as to the existence, accuracy and completeness of commitments disclosed as R363 356 000 in disclosure note 19 to the financial statements.
- Commitments were understated by R7 452 392 as a result of commitments which were not disclosed in the financial statements.

## **Irregular expenditure**

The completeness of irregular expenditure disclosed as R1 649 000 in note 24 to the financial statements could not be confirmed, as payments to the value of R79 445 427 which were incurred during the financial year, were found to be irregular.

## **Accruals**

The completeness of accruals disclosed as R44 896 000 in note 20 to the financial statements could not be confirmed, as I could not rely on the system in place for the identification and recording of accruals. Payments amounting to R8 280 554 were not recorded at year-end.

## **Emphasis of matters**

No matters

## **Other matters**

## **Public Finance Management Act**

Documented policies and procedures were not developed, approved and implemented for various accounting cycles at the department as required by section 38(1)(a)(i) of the PFMA.

## **Treasury Regulations**

- Payments to the value of R58 223 441 were not made within 30 days of receipt of invoices as required by TR8.2.3.
- No delegation for the authorisation of journals existed at the department as required by TR 15.12.1.

## **Investigations**

- With reference to note 24 to the financial statements dealing with prior year irregular expenditure and paragraph 15 of this audit report, an investigation is being conducted by an independent firm at the request of the department. The investigation was initiated based on audit findings related to improper procurement processes followed for the leasing of photocopiers. Other matters forming part of the investigation include alleged irregularities during the awarding of a contract for work performed on a project, as well as alleged improper procurement procedures during the planning phase for the construction of a state house. The investigation was still ongoing at the reporting date.
- As requested by the Minister of Finance, a forensic audit was conducted during the year under review concerning payments amounting to R3 000 000 to the Northern Cape Youth Commission (NCYC). The forensic audit report was not finalised at the signing date of the regularity audit report.

## **Other reporting responsibilities**

## **Content of strategic plan**

The strategic plan of the department did not include the measurable objectives, expected outcomes, programme outputs, indicators and targets of the department as required by TR 5.2.3(d).



### **Lack of inadequate quarterly reporting on performance information**

The quarterly reports on the department did not track progress against outputs, indicators and targets as per the approved strategic performance plan and therefore did not facilitate effective monitoring and evaluation, as required by TR 5.3.1.

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

The accounting officer did not ensure that the department has and maintains an effective, efficient and transparent system and internal controls regarding performance management, as required in terms of section 38(1)(a)(i) and (b) of the PFMA.

## **12. Provincial Treasury**

### **Financially unqualified with other matters**

#### **Emphasis of matters**

- As disclosed in note 12 to the financial statements, unauthorised expenditure to the amount of R524 000 was incurred, due to overspending of the budget of programme 1.
- As disclosed in note 34 to the financial statements, irregular expenditure to the amount of R3 131 000 was incurred, as supply chain management procedures were not followed.

#### **Other matters**

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

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

- The 2007-08 annual report of the department was tabled on 6 March 2009, which was later than 31 August 2008 as required by section 40.
- Evidence could not be obtained that a performance contract existed for the accounting officer as required by section 36(5).

#### **Treasury Regulations**

- Payments amounting to R1 574 720 were identified that were not made within 30 days of receipt of the invoice as required by TR 8.2.3.
- The department had not compiled a risk management strategy as required by TR 3.2.1.

### **Other reporting responsibilities**

Report on performance information

### **Strategic plan not updated and revised**

Treasury Regulation 30.1.3(f) requires that the strategic plan must be updated annually on a rolling basis. Evidence could not be obtained that the 2007-08 to 2009-10 strategic plans had been updated and revised.



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

- Targets were not time bound.
- The evidence provided to support the reported performance information did not adequately support the accuracy and completeness of the facts.
- The reported actual achievement of some programmes could not be substantiated by adequate evidence.

## **3.3 SUMMARIES OF AUDIT REPORTS FOR PROVINCIAL PUBLIC ENTITIES**

### **1. Northern Cape Tourism Authority**

#### **Financially unqualified with other matters**

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

##### **Contingent liability**

As disclosed in note 21 to the financial statements, the authority did not obtain written approval from the National Treasury to accumulate surpluses, as required by section 53(3) of the PFMA. The financial effect of this matter could not be disclosed, as it could not be measured with sufficient reliability.

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

As disclosed in note 14 to the financial statements, fruitless and wasteful expenditure amounting to R94 102 was incurred due to late payments to SARS.

##### **Other matters**

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

##### **Companies Act, 1973 (Act No. 61 of 1973)**

A register of directors' interests in contracts with the entity was not maintained, as required by section 240 of the Companies Act, 1973.

##### **Treasury Regulations**

- The Northern Cape Tourism Authority did not have a materiality and significance framework in place.
- The authority did not develop and implement a supply chain management system for acquisition of goods and services as required by TR 16A3.1.

##### **Northern Cape Tourism Act, 1998 (Act No. 5 of 1998)**

Section 8 of the act states that a person contemplated in section 2(3) of the act shall be appointed as director of the authority for a period not exceeding three years. During the audit I found that the entity's current directors had been in office since the entity's inception in 1998.

## **Other reporting responsibilities**

None

## **2. Northern Cape Youth Commission**

### **Financially unqualified with other matters**

#### **Emphasis of matters**

#### **Going concern**

The statement of responsibility and approval of the annual financial statements indicates that the Northern Cape Youth Commission Act Repeal Act, 2009 (Act No. 6 of 2009) was gazetted on 14 July 2009 and comes into effect on a date to be proclaimed by the Premier (not yet proclaimed at the date of this report). In terms of this act, the Northern Cape Youth Commission Act, 2005 (Act No. 1 of 2005) will be repealed and the commission disestablished. The cut-off date for all operations of the commission will be 31 July 2009. This indicates the existence of a material uncertainty that may cast significant doubt on the entity's ability to continue as a going concern when the Northern Cape Youth Commission Act Repeal Act of 2009 is proclaimed.

#### **Contingent liability**

As disclosed in note 19 to the financial statements, the commission did not obtain written approval from the National Treasury to accumulate surpluses as required by section 53(3) of the PFMA. The financial effect of this matter could not be disclosed, as it could not be measured with sufficient reliability.

#### **Irregular expenditure**

As disclosed in note 20 to the financial statements, irregular expenditure amounting to R15 000 000 was incurred as a proper tender process had not been followed.

#### **Other matters**

### **Material inconsistencies in information included in the annual report**

I have not obtained the other information included in the annual report and have not been able to identify any material inconsistencies with the financial statements.

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

#### **Northern Cape Youth Commission Act, 2005 (Act No. 1 of 2005)**

- The commission did not comply with section 3(4) because it had no deputy chairperson.
- Section 3(1) determines that the members of the commission shall be appointed by the Northern Cape Office of the Premier and shall consist of full-time and part-time members not exceeding nine persons. The composition should be as follows:
  - o The minimum composition of five members should be represented by three full-time members and two part-time members.

- o The maximum composition of nine members should be represented by four full-time members and five part-time members.

Contrary to section 3(1), the commission only had one member during the financial year under review.

- Section 7(2) determines that the commission should meet at least quarterly. Contrary to this, the commission only held three meetings during the financial year.

### **Treasury Regulations**

Treasury Regulation 16A 3.2(d) determines that a supply chain management system must provide for disposal management, risk management and regular assessment of supply chain performance. The supply chain management system of the commission did not, however, provide for these elements.

### **Investigations**

An investigation was conducted concerning transfer payments between this commission and the Office of the Premier, Department of Education and the Department of Transport, Roads and Public Works.

### **Other reporting responsibilities**

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

Contrary to the requirements of section 55(2)(a) of the PFMA, the entity did not submit its report relating to performance information for evaluation as part of the audit process.

## **3.4 SUMMARIES OF AUDIT REPORTS FOR PROVINCIAL OTHER ENTITIES**

### **1. McGregor Museum**

#### **Qualified**

##### **Property, plant and equipment**

The existence, completeness and valuation of fixed assets could not be verified, as no fixed asset register was maintained by the entity. Contrary to IAS 16, the entity's accounting policy states that expenses relating to the acquisition of movable assets are written off in full against income in the year in which they are incurred. The effect of this matter on the accumulated surplus could not be determined.

##### **Trust income**

The completeness of trust income amounting to R199 515 could not be confirmed.

##### **Special funds**

The completeness and existence of special grants could not be verified, as the conditions relating to the receipt of the grants could not be submitted. It could therefore not be determined if the grants were utilised for the intended purposes.





### **Irregular expenditure**

The completeness of irregular expenditure could not be determined, as I could not rely on the system in place for the detection and complete disclosure of irregular expenditure.

### **Annual financial statements**

The entity did not present the financial statements for the year ended 31 March 2009, as required by IAS1.

### **Emphasis of matters**

No matters

### **Other matters**

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

- The museum is a public entity, but has not been listed as required by section 47(2) of the PFMA.
- The museum did not have sufficient financial and risk management systems in place as required by section 51(1) of the PFMA.

### **Other reporting responsibilities**

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

- The accounting authority did not ensure that an effective, efficient and transparent system and internal controls regarding performance management were maintained as required in terms of section 51(1)(a)(i) of the PFMA.
- The accounting authority did not prepare a strategic plan that is consistent with the period covered by the medium expenditure framework as required by TR 5.1.1.
- The entity did not report performance against predetermined objectives, as required by section 55(2)(a) of the PFMA.

## **2. Northern Cape Arts and Culture Council**

### **Disclaimer**

### **Revenue**

The completeness, accuracy and occurrence of income amounting to R421 852 in the statement of financial performance could not be confirmed, as R66 314 of the amount could not be supported by sufficient appropriate audit evidence.

Income was overstated by an amount of R30 940 as a result of transactions which should have been recorded in the prior year but were incorrectly recorded in the current year.

### **Receivables**

Receivables were understated by R469 881 as a result of transactions which were not recorded, resulting in receivables and revenue being understated by the said amount.

The valuation and existence of debtors disclosed in note 1 to the financial statements could not be confirmed as a result of staff debtors amounting to R10 275 (2008: R10 365) which were long outstanding. A policy for the provision of bad debts was also not in place.

### **Irregular expenditure**

The council omitted disclosure of irregular expenditure of R198 864 (2008: R1 435 998), which was incurred during the financial year. This is contrary to 55(2)(b) of the PFMA, which requires disclosure of irregular expenditure in the annual financial statements.

### **Expenditure**

The occurrence, accuracy and classification of expenditure disclosed as R769 225 in the financial statements was not determined, as R162 875 (2008: R115 485) of the amount was not supported by sufficient appropriate audit evidence. No transactions were processed after year-end, resulting in a further limitation of scope.

Expenditure and payables were understated by R134 624 as a result of expenses relating to the 2008-09 financial year that were not recorded.

The cost of depreciation was understated by R14 970 due to the incorrect depreciable period used for assets purchased during the year.

### **Employee cost**

The occurrence and accuracy of staff costs as disclosed in note 11 to the financial statements could not be determined due to the lack of employee contracts, thus I was unable to confirm or verify the employee cost by alternative measures.

Staff costs were overstated by R10 752 as a result of wages relating to the previous financial year which were included as part of the current year costs.

### **Assets**

The existence, completeness and valuation of and rights relating to assets disclosed in note 6 to the financial statements amounting to R1 178 432 could not be verified, as an asset register which reconciled to the financial statements was not provided for audit purposes.

### **Related parties**

Related-party transactions amounting to R1 468 000 were not disclosed in accordance with the South African Statements of Generally Accepted Accounting Practice (SA GAAP) for the year ended 31 March 2009.

### **Emphasis of matters**

No matters



## **Other matters**

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

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

- The council is a public entity but the National Treasury had not been informed in writing that the public entity was not listed, as required by section 47(2).
- The council's budget for 2008-09 financial year was not approved six months prior to year-end, as required by section 53 of the PFMA.
- Documented policies and procedures were not developed, approved and implemented for various accounting cycles at the council, as required by section 51(1) of the PFMA.

### **Other reporting responsibilities**

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

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

#### **No strategic plan**

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

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

The accounting officer did not ensure that the council 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.

## **3. Northern Cape Premier's Education Trust**

### **Qualification**

#### **Long-term loans**

Audit assurance as to the existence and valuation of study loans amounting to R164 743 in the current year and R99 551 in the previous year could not be obtained, as neither completed loan application forms nor contracts could be presented for audit purposes. The accounting system of the trust fund did not permit me to perform any alternative procedures.

#### **Irregular expenditure**

Audit Circular 1 of 2007 states that irregular expenditure means expenditure, other than unauthorised expenditure, incurred in contravention of, or not in accordance with, a requirement of any applicable



legislation, and that any irregular expenditure must be disclosed in the financial statements. As also reported in the previous year, a payment amounting to R1 855 098 was identified which was made in contravention of the stipulations of the trust deed. Furthermore, payments amounting to R16 194 were identified in the current year which did not comply with the requirements of the trust fund's procurement policy. This irregular expenditure was not disclosed in the financial statements as required by Audit Circular 1 of 2007.

### **Employee costs**

Rates of pay, bonuses and changes in remuneration during the previous period under review could not be substantiated with sufficient appropriate audit evidence. In addition, management did not always review the monthly payroll data before salary payments were made. The trust fund's accounting system did not permit me to perform any alternative procedures. I was therefore unable to obtain assurance regarding the occurrence and accuracy of employee-related expenses for the previous year amounting to R541 115.

### **Property, plant and equipment**

As reported in the previous year, the asset register was incomplete and did not contain information to clearly identify assets owned by the trust fund and assets were not clearly marked as being the property of the trust fund. In addition, property, plant and equipment held were not reconciled to the asset register on a periodic basis. Audit assurance as to the existence and valuation of property, plant and equipment amounting to R21 996 in the current year and R32 791 in the previous year could not be obtained. The trust fund's accounting system did not permit me to perform any alternative procedures.

As reported in the previous year, the useful lives and residual values of assets classified as property, plant and equipment were not reviewed by the trust fund at financial year-end in accordance with the accounting policy. The adjustments to property, plant and equipment, which could have resulted from this assessment, had not been calculated and the effect on the financial statements could not be determined. Various assets with a zero book value were also included in the asset register, with the result that I was unable to obtain assurance regarding the valuation of plant and equipment amounting to R21 996 in the current year and R32 791 in the previous year.

### **Emphasis of matters**

Highlighting critically important information included in the annual report

### **Taxation**

Receipts by or accruals to the trust fund are considered to be exempt from income tax in terms of section 10(1)(fA) of the Income Tax Act, 1993 (Act No. 113 of 1993). The trust fund did apply for taxation exemption under the new legislation and was awaiting the final decision of SARS in this regard

### **Other matters**

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

### **Public Finance Management Act**

The trustees did not notify the National Treasury in writing that the trust fund was not listed as required by section 47(2) of the PFMA.



### **The amended trust deed**

The Premier of the Northern Cape (the patron) did not sign the amended trust deed and therefore the validity of the deed is questionable.

### **Other reporting responsibilities**

No reporting of performance information

The trust fund did not report performance against predetermined objectives, as required by Auditor-General Audit Circular 1 of 2007.

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

The trustees did not ensure that the Northern Cape Premier's Education Trust Fund had and maintained effective, efficient and transparent systems and internal controls regarding performance management, which described and represented how the trust fund's processes of performance planning, monitoring, measurement, review and reporting would be conducted, organised and managed, as required in terms of Auditor-General Audit Circular 1 of 2007.

## **4. Roads Capital Account**

### **Qualified**

#### **Trade and other payables**

Due to the lack of adequate systems to accurately account for creditors and unrecorded creditors of R161 881 noted, I was unable to determine the completeness of creditors of R1 483 000 as disclosed in note 6 to the financial statements.

### **Annual financial statements**

The entity did not comply with the disclosure requirements as per the International Accounting Standards (IAS) and TR 18.2.

### **Emphasis of matters**

No matters

### **Other matters**

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

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

Documented policies and procedures were not developed, approved and implemented for various accounting cycles at the entity as required by section 51 of the PFMA.



### **Treasury Regulations**

- Payments to the value of R876 569 were not made within 30 days of receipt of invoices as required by TR 8.2.3.
- No delegation for the authorisation of journals existed at the trading entity as required by section 15.12.1.

### **Other reporting responsibilities**

No matters

**PR 287/2009**  
**ISBN 978-0-621-39044-5**



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