



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



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence



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**PR 288/2009
ISBN 978-0-621-39045-2**



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



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SECTION 1: FOREWORD

It gives me great pleasure to present my 2008-09 general report to the provincial legislature, summarising the results of the audit outcomes of the Western 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 the timely submission and auditing of all departments, entities and the provincial legislature for the year 2008-09. The report also reflects that the unqualified audit opinions for departments remained constant in 2008-09 at 92%, compared with the previous four years. Unqualified opinions have improved significantly to 78% (2007-08: 56%) for public entities and 75% (2007-08: 50%) for other entities.

The commitment by the provincial cabinet to continuously monitor the implementation of the financial management improvement plan spearheaded by the Provincial Treasury, through the Premier's periodic dashboard reports, is a crucial initiative in the province's goal to ultimately achieve clean audit reports.

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

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

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

Through my continued commitment to simpler, clearer and relevant reporting, as well as the visibility of my audit teams, I will support and guide the executive and legislature through the various portfolio committees, including the Standing Committee on Public Accounts (SCOPA), 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 Western 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
Pretoria
November 2009



SECTION 2: EXECUTIVE SUMMARY

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

Audit outcomes for 2008-09 for the provincial legislature, provincial departments, provincial public entities and provincial other entities

During the 2008-09 Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA) cycle, only 10 (38%) of the 26 audit reports in the Western Cape Province were finalised by the legislative deadline of 31 July 2009 or within two months from receipt of financial statements. The remaining 16 audits were completed by 21 August 2009.

The delayed completion of the PFMA cycle is mainly attributable to the late finalisation of audits, due to not enforcing internal deadlines and the timelines for management responses to requests for information and audit findings, the delayed finalisation of the pre-issuance quality assurance review findings, and – in certain instances – the late resolution of audit findings to avoid negative audit outcomes.

Provincial legislature

The audit outcome of the provincial legislature remained unchanged compared to the financial year ended 31 March 2008, with a financially unqualified opinion (with other matters). Potential qualifications were, however, avoided by making audit adjustments to the annual financial statements that were submitted for auditing. The fact that the provincial legislature did not register an improved audit outcome can be ascribed to not having prepared quality annual financial statements, resulting in material adjustments to the annual financial statements due to lapses in leadership, supervision and monitoring.

Provincial departments

Out of 12 (2008: 12) provincial departments analysed:

- Ten had no change in audit outcomes. Of the 10 departments, nine remained unchanged with financially unqualified opinions (with other matters), namely the Departments of the Premier; Community Safety; Provincial Treasury; Education; Health; Local Government and Housing; Environmental Affairs and Development Planning; Agriculture; and Cultural Affairs and Sport, while one other department, namely Transport and Public Works, remained unchanged with a qualified opinion.
- Two departments (Economic Development and Tourism; and Social Development) moved from financially unqualified (with no other matters) to financially unqualified (with other matters).

Unqualified opinions

Eleven (2007-08: nine) departments, namely the Premier; Agriculture; Community Safety; Cultural Affairs and Sport; Economic Development and Tourism; Education; Health; Local Government and Housing; Environmental Affairs and Development Planning; Provincial Treasury; and Social Development obtained financially unqualified (with other matters) opinions.

No departments obtained financially unqualified (with no other matters) opinions for the year under review, compared with two in the previous year.



Qualified opinion

One (2008: one) department, namely Transport and Public Works, retained its qualified status from the previous year.

Provincial public entities

Out of nine (2007-08: nine) public entities analysed:

- All nine public entities are reported on, of which three registered improved audit outcomes, one regressed and five registered the same audit outcomes as for the year ended March 2008. None of the public entities registered 'clean' audit opinions, i.e. financially unqualified (with no other matters).
- Three public entities improved their audit outcomes. The Western Cape Cultural Commission improved from an adverse opinion to being financially unqualified (with other matters), while Western Cape Nature Conservation and the Western Cape Language Committee improved from a qualified opinion to being financially unqualified (with other matters).
- One public entity, namely the Western Cape Provincial Youth Commission, regressed from financially unqualified (with other matters) to a qualified opinion.
- The audit outcomes of five public entities remained unchanged compared to the financial year ended 31 March 2008. Of the five, four public entities remained unchanged with financially unqualified (with other matters) opinions. They were the Western Cape Provincial Development Council, Western Cape Gambling and Racing Board, Destination Marketing Organisation, and Western Cape Investment and Trade Promotion Agency; while one other public entity, namely the Western Cape Liquor Board, remained qualified.

Unqualified opinions

Seven (2007-08: five) public entities, namely the Destination Marketing Organisation, Western Cape Cultural Commission, Western Cape Gambling and Racing Board, Western Cape Investment and Trade Promotion Agency, Western Cape Language Committee, Western Cape Nature Conservation Board and Western Cape Provincial Development Council, obtained financially unqualified (with other matters) opinions.

No public entity obtained a financially unqualified (with no other matters) opinion for the year under review.

Qualified opinions

Two (2007-08: three) public entities (Western Cape Liquor Board and Western Cape Provincial Youth Commission) received qualified opinions.

Adverse

No (2007-08: one) public entities received an adverse audit opinion.



Provincial other entities

All four other entities are being reported on, of which none registered improved audit outcomes, two regressed and two registered the same audit outcomes as for the year ended March 2008. None of the other entities registered 'clean' audit opinions, i.e. financially unqualified (with no other matters).

Two other entities regressed. The Western Cape Housing Development Fund regressed from a qualified opinion to a disclaimer of opinion and Heritage Western Cape moved from a financially unqualified (with no other matters) opinion to a financially unqualified (with other matters) opinion.

The audit outcomes of two trading entities, the Cape Medical Depot and Government Motor Transport, remained unchanged compared to the year ended March 2008, namely financially unqualified (with other matters).

Unqualified opinions

Three (2007-08: two) other entities (Cape Medical Depot, Government Motor Transport, and Heritage Western Cape) obtained financially unqualified (with other matters) opinions.

No (2007-08: one) other entity obtained a financially unqualified (with no other matters) opinion for the year under review.

Qualified opinions

No (2007-08: one) other entity obtained a qualified opinion for the year under review.

Disclaimer of opinion

One (2007-08: nil) other entity (Western Cape Housing Development Fund) received a disclaimer of audit opinion.

Five-year review

A review of the audit outcomes for the Western Cape Province over the five-year period between 2004-05 and 2008-09 indicates that the number of unqualified (with other matters), qualified and disclaimer of opinions for the province has remained largely unchanged; this in the context of increasingly complex accounting requirements. This situation is mainly attributable to the inadequacy of leadership supervision and monitoring, as well as deficiencies in the internal audit function to monitor and evaluate the implementation of action plans to address the audit findings of the Auditor-General of South Africa (AGSA).

Departmental highlights include the following:

- The provincial legislature regressed from financially unqualified (with no other matters) to financially unqualified (with other matters).
- Prior to 2005-06, the Department of Local Government and Housing consisted of two separate departments, namely the Department of Local Government and the Department of Housing.
- One department (Education) improved from a qualified opinion to financially unqualified (with other matters).

- One department (Transport and Public Works) regressed from a financially unqualified (with other matters) opinion in 2004-05 to a qualified opinion.
- Ten departments received the same opinion as they had received in 2004-05. All retained financially unqualified (with other matters) opinions.

Public entity highlights include the following:

- The Western Cape Provincial Youth Commission and the Western Cape Liquor Board were created in 2005-06.
- Two entities (Western Cape Nature Conservation and Western Cape Cultural Commission) improved from qualified opinions to financially unqualified (with other matters) opinions.
- Two entities (Western Cape Provincial Development Council as well as Western Cape Gambling and Racing Board) regressed from financially unqualified (with no other matters) opinions in 2004-05 to financially unqualified (with other matters) opinions.
- Three entities received the same opinion as they had received in 2004-05. All retained financially unqualified (with other matters) opinions.

Other entity highlights include the following:

- All four entities received the same opinion as they had received in 2004-05. All, except the Western Cape Housing Development Fund (disclaimer), retained financially unqualified (with other matters) opinions.

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 on the matters raised above.

Key systemic issues

Commitments by the executive

Audit outcomes can be – and are – influenced by a number of role players in addition to the management of individual entities. The provincial cabinet requested the Provincial Treasury to implement steps to improve financial management in the province based on the audit outcomes for 2007-08 and to update the provincial cabinet on a quarterly basis. These plans were carried forward in the form of a financial management improvement plan (FMIP) to address the 2007-08 audit outcomes.

The FMIP has largely yielded positive results in addressing previous audit findings. At the same time, however, the results of the 2008-09 audits reflect the need for intensified efforts to ensure that audit findings are addressed on a sustainable basis. The Provincial Treasury is driving the present FMIP and together with the provincial legislature, departments and entities, they should continue with the FMIP implementation with a view to improving adherence to good practices, such as producing quality financial statements and establishing sound risk management and governance arrangements.



The provincial cabinet should also continue to monitor the implementation of the FMIP to facilitate the province's goal of progressing to a level 3+ financial management capability maturity. To this end, the AGSA engaged the Premier, the provincial minister of finance and the director-general of the province on 5 October 2009 to establish their commitment to address the audit findings and recommendations with the ultimate outcome of clean audit reports. The FMIP will be updated to include the 2008-09 findings, the implementation and achievement of which will be monitored and evaluated through the Premier's periodic dashboard reports.

It is particularly pleasing to note that at the meeting of the legislature on 13 October 2009, the political and administrative leadership made specific commitments that will enable the province to achieve clean audit outcomes in the near future. The commitments include the following:

- Monitoring the implementation of action plans of all entities to address the other matter findings (material misstatements in the annual financial statements, non-compliance with laws and regulations, key governance matters, as well as performance information findings) through the follow-up of resolutions of SCOPA.
- Improved coordination between SCOPA and the provincial portfolio committees to ensure a holistic oversight of financial management and performance information.

Provincial Treasury initiatives to improve audit outcomes

The following initiatives were continued from the previous year to assist departments with the ongoing transition to accrual-based accounting:

- A checklist was again provided to departments to assist in the preparation of financial statements in accordance with the National Treasury's guide for the preparation of annual reports and checking the financial statements before submission for auditing by the AGSA.
- Provincial Treasury instructions and practice notes were developed and implemented to address areas of concern in supply chain management, asset management and human resource management.
- Training with regard to Logis, the main asset management system, was further intensified.
- Regular meetings were held with departments through the chief financial officers' forum where issues relating to accounting matters were addressed by various units within the Provincial Treasury in collaboration with the respective departments.

Audit qualification areas and root causes

The annual financial statement area relating to receivables (2008-09: 100%; 2007-08: 100%) was the only area on which the only qualified department, namely Transport and Public Works, was qualified. This largely related to the deficiencies in the department's management of property debtor files. It should be noted that the department was exempted from accounting for immovable assets and, therefore, there was no qualification in this area. Refer to sections 5.1.1 and 5.1.2 for details on the qualification area for the department.

The provincial public entities received qualified opinions in the financial statement areas relating to receivables (2008-09: 50%; 2007-08: 25%), revenue (2008-09: 50%; 2007-08: 50%) and expenditure (2008-09: 50%; 2007-08: 50%), which were the only areas where the number of qualifications was at least 50%. Refer to sections 5.2.1 and 5.2.2 for details on qualification areas for provincial public entities.

The provincial other entities' annual financial statement qualification area in excess of 50% was capital assets (2008-09: 100%; 2007-08: 100%). Refer to section 5.3.1 for details on the qualification area for provincial other entities.

The lack of leadership in exercising oversight to ensure quality financial reporting and internal control, which impacted negatively on risk management practices and the implementation of the previous year's audit recommendations, was identified as the main root cause of the qualified opinion at the Department of Transport and Public Works. It resulted in a misstatement in departmental revenue: receivables.

Similar deficiencies as described above also contributed to a qualified opinion in the area of expenditure in the case of the Western Cape Provincial Youth Commission.

The qualified opinion of the Western Cape Liquor Board in the area of revenue and receivables was attributable to deficiencies in leadership, supervision and monitoring to ensure that accurate and complete information in respect of liquor licence income collected by the South African Revenue Service (SARS) was available to facilitate the production of quality financial statements.

Inadequate leadership, supervision and monitoring, which resulted in lapses in risk management practices and the production of quality financial statements, were the main drivers for the disclaimer of opinion at the Western Cape Housing Development Fund in the area of capital assets.

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

The regularity audits of departments included an assessment of departments' compliance with the PFMA, Treasury Regulations, Public Service Act, 1994, Public Service Regulations, 2001 and directives/determinations issued by the minister of Public Service and Administration that support effective human resource management and controls over compensation of employees. In general, there was a satisfactory level of compliance with these pieces of legislation in areas such as human resource planning, the management of vacancies, and leave administration. Departments are encouraged to continue with their endeavours to implement internal control measures to ensure higher compliance with the applicable legislation and directives.

Information system audits

During the current financial year, the information system controls relating to the management of user accounts within the Basic Accounting System and the Personnel and Salary System were evaluated at 12 departments, excluding the provincial legislature. User account management is the systematic process of managing the access of users to the network and applications and includes the establishment, review, disabling and removal of user accounts. Common key findings in respect of 92% of departments included the following: incomplete user account management procedures, access request forms not consistently completed, users' access not periodically reviewed to ensure that it remained commensurate with their job responsibilities, system administrators'/controllers' activities not reviewed by an independent person, and inactive/unused user identifications not timeously removed from the system/deactivated.

Non-compliance with legislation

Non-compliance with legislation that did not have an impact on the financial statements was reported at 25% of departments (2008: 58%), the provincial legislature, 56% of public entities (2007-08: 33%) and 50% of provincial other entities (2007-08: 25%). Non-compliance with the supply chain management prescripts occurred at 11% (one) of the public entities. Other non-compliance with the PFMA and Treasury Regulations was reported at 56% of the departments, 44% of the public entities and 50% of the other entities.

Although the non-compliance reported related to various specific matters per department and entity, the general trend was that departments and entities had incidences where payments to creditors were not effected within 30 days, as contemplated by the Treasury Regulations.

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

It is commendable that all entities (the provincial legislature, departments, public entities and other entities) had submitted their annual financial statements for auditing by the legislated deadline of 31 May 2009. However, material adjustments had to be made to the annual financial statements of the provincial legislature, 75% of the departments and 100% of the entities, as the quality of these financial statements was poor.

In some public entities and other entities, consultants were appointed to supplement these entities' finance units by rendering accounting-related services and to prepare the annual financial statements for audit purposes. In the case of the Cape Medical Depot and Government Motor Transport, the consultants delivered on their mandate. The financial statements of the Western Cape Nature Conservation Board were, however, subject to material corrections identified during the audit, even though the consultants were responsible for the full accounting function and the preparation of the financial statements.

At departments, 40% of the misstatements corrected related to financial statement items and 60% to disclosure in the financial statements; while at entities, 60% of the misstatements corrected related to financial statement items and 40% related to disclosures in the financial statements.

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

Audit of performance information

The audit of performance information 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, 22% of public entities and 25% of provincial other entities did not comply with certain legislative requirements relating to performance information.

- Findings relating to the usefulness of reported performance information were reported at 33% of departments, 11% of public entities and 25% of other entities.
- Findings relating to the reliability of performance information were reported at 58% of departments and 11% of public entities.

The provincial legislature; two departments, namely Economic Development and Tourism as well as Social Development; and nine entities, namely Destination Marketing Organisation, Western Cape Cultural Commission, Western Cape Gambling and Racing Board, Western Cape Language Committee, Western Cape Liquor Board, Western Cape Nature Conservation Board, Cape Medical Depot, Heritage Western Cape, and Western Cape Housing Development Fund, were the only departments and entities that were exemplary in the management of service delivery processes, and as such had no shortcomings in any of the above categories.

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

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

SECTION 3: AUDIT OUTCOMES FOR 2008-09

3.1 Status of completion of audits

The Western Cape Provincial Government comprises one provincial legislature, 12 departments, nine provincial public entities and four provincial other entities. This report presents the 2008-09 audit outcomes of one provincial legislature, 12 departments, nine provincial public entities and four provincial other entities, the completion status of which is reflected in the table below.

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	9	9	0	100%
Provincial other entities	4	4	0	100%
Total	26	26	0	100%

It is commendable that all the entities in table 1 above had submitted their financial statements for auditing by the legislated deadline of 31 May.

During the 2008-09 PFMA cycle, only 10 (38%) of the 26 audit reports in the Western Cape Province were finalised by the legislated deadline of 31 July 2009 or within two months from receipt of the financial statements. The remaining 16 audits were completed by 21 August 2009. The delayed completion of the PFMA cycle is mainly attributable to the late finalisation of audits by not enforcing internal deadlines and the timelines for management responses to requests for information and audit findings, the delayed finalisation of the pre-issuance quality assurance review findings, and – in certain instances – the late resolution of audit findings to avoid negative audit outcomes.

The audit outcome of the legislature is presented in section 3.2 below. Tables 2(a) to (c) below reflect the 2008-09 audit outcomes of the Western Cape Province's departments and entities. Details of balance sheet (statement of financial position) and income statement (statement of financial performance) areas that led to qualified opinions are provided under section 5 of this report.

3.2 Audit outcome: provincial legislature

The audit outcome of the provincial legislature remained unchanged compared to the financial year ended 31 March 2008 with a financially unqualified opinion (with other matters).

The fact that the provincial legislature did not register an improved audit outcome can be ascribed to not having prepared quality annual financial statements, resulting in material adjustments to the annual financial statements due to lapses in leadership, supervision and monitoring.

Over the past five years, the audit outcomes of the provincial legislature have regressed from a financially unqualified (with no other matters) opinion to a financially unqualified (with other matters) opinion. This regression was due to the lack of implementation of an action plan to address the AGSA's findings.



3.3 Audit outcomes: provincial departments

Table 2(a): Audit opinions on provincial departments for 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	1	8%	1	8%
Financially unqualified (with other matters)	11	92%	9	75%
Financially unqualified (with no other matters)	0	0%	2	17%
Total of departments reported on	12	100%	12	100%

All 12 departments are reported on, of which none registered improved audit outcomes, two regressed and 10 registered the same audit outcomes as for the year ended March 2008. It should be noted that none of the departments registered 'clean' audit opinions, i.e. financially unqualified (with no other matters). Details are as follows:

- *Regressions (two)*: The audit outcomes of two departments, namely Economic Development and Tourism as well as Social Development, moved from financially unqualified (with no other matters) to financially unqualified (with other matters).
- *Unchanged (10)*: The audit outcomes of 10 departments remained unchanged compared to the financial year ended 31 March 2008. Of the 10, nine departments remained unchanged with financially unqualified opinions (with other matters), namely the Departments of the Premier; Community Safety; Provincial Treasury; Education; Health; Local Government and Housing; Environmental Affairs and Development Planning; Agriculture; and Cultural Affairs and Sport, while one other department, namely Transport and Public Works, remained unchanged with a qualified opinion.
- Departments with regressed audit outcomes or those that did not register improved audit outcomes can be ascribed to inadequate leadership, supervision and monitoring, resulting in a lack of the implementation of action plans to address prior year audit findings and a lack of quality annual financial statements. For the one department whose annual financial statements were qualified, the root causes are analysed under section 5 of this report.

3.4 Audit outcomes: provincial public entities

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

Type of audit opinion	2008-09		2007-08	
	Number	%	Number	%
Disclaimer	0	0%	0	0%
Adverse	0	0%	1	11%
Qualified	2	22%	3	33%
Financially unqualified (with other matters)	7	78%	5	56%
Financially unqualified (with no other matters)	0	0%	0	0%
Total number of provincial public entities reported on	9	100%	9	100%

All nine public entities are reported on, of which three registered improved audit outcomes, one regressed and five registered the same audit outcomes as for the year ended March 2008. It should be noted that none of the public entities registered 'clean' audit opinions, i.e. financially unqualified (with no other matters). Details are as follows:

- Improvements (three): The Western Cape Cultural Commission improved from an adverse opinion to being financially unqualified (with other matters), while Western Cape Nature Conservation and the Western Cape Language Committee improved from a qualified opinion to being financially unqualified (with other matters).
- Regressions (one): One public entity, namely the Western Cape Provincial Youth Commission, regressed from financially unqualified (with other matters) to a qualified opinion.
- Unchanged (five): The audit outcomes of five public entities remained unchanged compared to the financial year ended 31 March 2008. Of the five, four public entities remained unchanged with financially unqualified (with other matters) opinions, namely the Western Cape Provincial Development Council, Western Cape Gambling and Racing Board, Destination Marketing Organisation and Western Cape Investment and Trade Promotion Agency, while one other public entity, namely the Western Cape Liquor Board, remained qualified.
- Public entities can ascribe the improved audit outcomes to the close involvement of the leadership of the relevant public entities to address prior year audit findings, as well as the utilisation of consultants to assist in the compilation of the financial statements in the case of the Western Cape Nature Conservation.
- Public entities with regressed audit outcomes or those that did not register improved audit outcomes can be ascribed to inadequate leadership, supervision and monitoring, resulting in a lack of the implementation of action plans to address prior year audit findings and a lack of quality annual



financial statements. For the two public entities whose annual financial statements were qualified, the root causes are analysed under section 5 of this report.

3.5 Audit outcomes: provincial other entities

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

Type of audit opinion	2008-09		2007-08	
	Number	%	Number	%
Disclaimer	1	25%	0	0%
Adverse	0	0%	0	0%
Qualified	0	0%	1	25%
Financially unqualified (with other matters)	3	75%	2	50%
Financially unqualified (with no other matters)	0	0%	1	25%
Total number of provincial public entities reported on	4	100%	4	100%

All four other entities are reported on, of which none registered improved audit outcomes, two regressed and two registered the same audit outcomes as for the year ended March 2008. It should be noted that none of the other entities registered 'clean' audit opinions, i.e. financially unqualified (with no other matters). Details are as follows:

- Regressions (two): The Western Cape Housing Development Fund regressed from a qualified opinion to a disclaimer of opinion and the Heritage Western Cape regressed from a financially unqualified (with no other matters) opinion to a financially unqualified (with other matters) opinion.
- Unchanged (two): The audit outcomes of the Cape Medical Depot and Government Motor Transport trading entities remained unchanged compared to the year ended March 2008, namely financially unqualified (with other matters).
- Other entities with regressed audit outcomes or those that did not register improved audit outcomes can be ascribed to inadequate leadership, supervision and monitoring, resulting in the lack of implementation of action plans to address prior year audit findings and a lack of quality annual financial statements. For the two other entities whose annual financial statements were disclaimed and qualified, the root causes are analysed under section 5 of this report.

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

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

Type of audit opinion	Departments		Provincial legislature		Entities	
	2008-09	2004-05	2008-09	2004-05	2008-09	2004-05
Disclaimer	0	0	0	0	1	1
Adverse	0	0	0	0	0	0
Qualified	1	1	0	0	2	2
Financially unqualified (with other matters)	11	12	1	1	10	6
Financially unqualified (with no other matters)	0	0	0	0	0	2
Total reported on	12	13	1	1	13	11
Total not reported on	0	0	0	0	0	0
Total entities	12	13	1	1	13	11

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

Departments

- The provincial legislature regressed from financially unqualified (with no other matters) to financially unqualified (with other matters).
- Prior to 2005-06, the Department of Local Government and Housing consisted of two separate departments, namely the Department of Local Government and the Department of Housing.
- One department (Education) improved from a qualified opinion to financially unqualified (with other matters).
- One department (Transport and Public Works) regressed from a financially unqualified (with other matters) opinion in 2004-05 to a qualified opinion.
- Ten departments received the same opinion as they had received in 2004-05. All retained financially unqualified (with other matters) opinions.

Public entities

- The Western Cape Provincial Youth Commission and the Western Cape Liquor Board were created in 2005-06.
- Two entities (Western Cape Nature Conservation and Western Cape Cultural Commission) improved from qualified opinions to financially unqualified (with other matters) opinions.
- Two entities (Western Cape Provincial Development Council and Western Cape Gambling and Racing Board) regressed from financially unqualified (with no other matters) opinions in 2004-05 to financially unqualified (with other matters) opinions.
- Three entities received the same opinion as they had received in 2004-05. All retained financially unqualified (with other matters) opinions.



Other entities

- All four entities received the same opinion as they had received in 2004-05. All, except the Western Cape Housing Development Fund (disclaimer), retained financially unqualified (with other matters) opinions.

The improvement in these audit outcomes is in jeopardy if the departments and entities do not put action plans in place to address the audit findings that resulted in audit adjustments and non-compliance with legislation 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, in particular the internal audit functions, within most departments require ongoing improvement.

SECTION 4: KEY SYSTEMIC ISSUES

4.1 Impact of the commitments and initiatives of the executive

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 to influence the process towards obtaining financially unqualified audit opinions. The main initiative was to strengthen the relationship with the political and the administrative leadership to deepen the understanding of the AGSA and the mechanisms relating to performance management, and ultimately accountability, thereby paving the road towards improving public confidence. A chain for addressing challenges within the audit process was developed and followed. This chain included numerous interactions within all levels of provincial government leadership, including the Premier and the executive. In addition, regular meetings were held with the Premier and her executive to update them on the audit progress and to sensitise them to possible qualifications within their portfolios.

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

Commitments by the executive

The provincial cabinet requested the Provincial Treasury to implement steps to improve financial management in the province based on the audit outcomes for 2007-08 and to update the provincial cabinet on a quarterly basis. These plans were carried forward in the form of a financial management improvement plan (FMIP) to address the 2007-08 audit outcomes.

In developing the FMIP, the Provincial Treasury noted the fact that despite the decline in the number of qualified opinions, there had been an increase in the number of other matter findings. The concern was raised that some of those other matters were of such a nature that if they were not adequately addressed they might lead to more qualified opinions in the next financial year. Inadequate ongoing monitoring of the FMIP by the leadership of the provincial legislature, departments, public entities, other entities and the Provincial Treasury, as well as governance structures (internal audit and audit committees) not exerting their authority sufficiently, have resulted in an overall regression in audit outcomes for the year under review. This is evidenced by the extensive material corrections to annual financial statements as well as recurring audit findings. The Provincial Treasury acknowledged that a significant effort was required to ensure that all entities received clean audit reports, i.e. unqualified opinions (with no other matters).

The FMIP included a two-way approach. The identified audit findings were approached on a transversal and a department/entity-specific basis. Provincial Treasury units were tasked with developing action plans to assist the departments and entities in addressing the identified audit findings, while the departments and entities had to develop their own action plans. Meetings were held on a quarterly basis, where an update on the progress of these interventions was given.

The implementation of the remedial steps to address previous audit findings was monitored by business insight folder (BIF) teams, which consist of staff members from all disciplines in the Provincial Treasury. It was reported that the BIF teams would foster closer working relationships with departments and entities and provide progress reports on a regular basis to the Provincial Treasury's in-year monitoring meetings, and through the annual financial governance review and outlook process.

Following the establishment of a chief financial officer forum for departments in previous years and to further intensify the effort to address the 2007-08 audit findings for the public and trading entities, the Provincial Treasury established a chief financial officer forum for public and trading entities. Site visits were conducted by Provincial Treasury officials in an effort to understand the nature of the issues highlighted in the audit reports.

To further consolidate the achievements and give impetus to the various interventions and measures, the Provincial Treasury undertook to implement the corporate governance framework in some departments on a pilot basis. The objective was to integrate all existing processes into one framework that could contribute to improved governance.

In its report to the provincial cabinet dated 12 November 2008 and in a progress document furnished to the AGSA in June 2009, the Provincial Treasury highlighted the progress made by departments and entities in addressing the AGSA's audit findings. The implementation of the FMIP was also followed up as part of the 2008-09 audit process. The follow-up indicated that steps taken by individual departments and public entities, aided by the interventions of the Provincial Treasury, have largely yielded positive results in addressing previous audit findings. However, the results of the 2008-09 audits suggest that efforts needed to be intensified further to ensure that audit findings are addressed on a sustainable basis. Furthermore, a review of the June 2009 progress report on the implementation of the FMIP indicated that ongoing monitoring by the Provincial Treasury needed to be stepped up.

The 2007-08 FMIP is being refined further and is focused on achieving a level 3+ financial management capability maturity. The FMIP includes various streams, which correlate with the qualification findings and the early warning signals, and should address those findings effectively. Improved monitoring and evaluation of the FMIP implementation are needed by the heads of department or chief executive officers and management, with the support of internal audit, to ensure its success.

The Provincial Treasury is driving the present FMIP. The AGSA engaged the Premier, the provincial minister of finance and the director-general of the province on 5 October 2009 to establish their commitment to address the audit findings and recommendations with the ultimate objective of achieving clean audit reports. The FMIP will be updated to include the 2008-09 findings; the implementation and achievement of which will be monitored and evaluated through the Premier's periodic dashboard reports. To this end, the Provincial Treasury should continue to drive the FMIP to also achieve the following:

- Preparation of monthly financial statements: I welcome the initiative by the Provincial Treasury to drive the preparation of six-monthly financial statements. This initiative should quickly move towards the preparation of financial statements on a monthly basis, which should culminate in a final set of financial statements for audit purposes that complies with the stringent accounting standards. The stability and capability of information systems to generate reliable information for financial reporting purposes should also receive attention.
- Strengthening governance structures: The internal audit functions and audit committee functions should be further strengthened to assist management in establishing sound internal control as well as conducting ongoing monitoring and evaluation of the entities' compliance with predefined controls and their progress in implementing the action plans. Internal audit should play a central role in the

review of periodic financial statements and performance information to improve the quality thereof, supported by the audit committee's oversight to ensure that residual risks are addressed.

- Strengthening oversight: Oversight at various levels within entities is required to ensure that better quality financial statements and performance information are prepared, underpinned by the relevant documentary evidence.

It is particularly pleasing to note that at the meeting of the legislature on 13 October 2009, the political and administrative leadership made specific commitments that will enable the province to achieve clean audit outcomes in the near future. The commitments include the following:

- Monitoring the implementation of action plans of all entities to address the other matter findings (material misstatements in the annual financial statements, non-compliance with laws and regulations, key governance matters, as well as performance information findings) through the follow-up of resolutions of SCOPA.
- Improved coordination between SCOPA and the provincial portfolio committees to ensure a holistic oversight of financial management and performance information.

4.2 Impact of initiatives of other role players

The following initiatives were continued from the previous year to assist departments with the ongoing transition to accrual-based accounting:

- A checklist was again provided to departments to assist in the preparation of financial statements in accordance with the National Treasury's guide for the preparation of annual reports and checking the financial statements before submission for auditing by the AGSA.
- Provincial Treasury instructions and practice notes were developed and implemented to address areas of concern in supply chain management, asset management and human resource management.
- Training with regard to LOGIS, the main asset management system, was further intensified.
- Regular meetings were held with departments through the chief financial officer forum, where issues relating to accounting matters were addressed by various units within the Provincial Treasury in collaboration with the respective departments.

The impact of these initiatives has been that the audit outcomes in the Western Cape Province have largely been sustained in line with the previous year, except for the regressions in the audit outcomes as mentioned elsewhere. While the number of auditees with material corrections grew from the previous year, I have seen a reduction in the number of findings in this regard. Ongoing attention from the leadership of these entities and the Provincial Treasury, with the support of internal audit and audit committees, is required to further improve the quality of financial statements.

I urge the Provincial Treasury to continue with these initiatives and monitor the impact thereof as part of the transversal actions included in the FMIP, which should be monitored and evaluated through the Premier's periodic dashboard reports.

4.3 Accounting reforms

As indicated in section 4.2 above, the Provincial Treasury continued to assist provincial departments with the ongoing transition to accrual-based accounting. There is an ongoing need for the Provincial Treasury to strengthen its oversight function to enable improved effective accounting, technical support and evaluation of the readiness of provincial departments to cope with the migration from cash to accrual accounting.

The provincial departments should continue to work closely with the Provincial Treasury to improve financial management and controls in order to produce quality financial statements that comply with the relevant standards.

SECTION 5: ANALYSIS OF AUDIT QUALIFICATION AREAS AND ROOT CAUSES

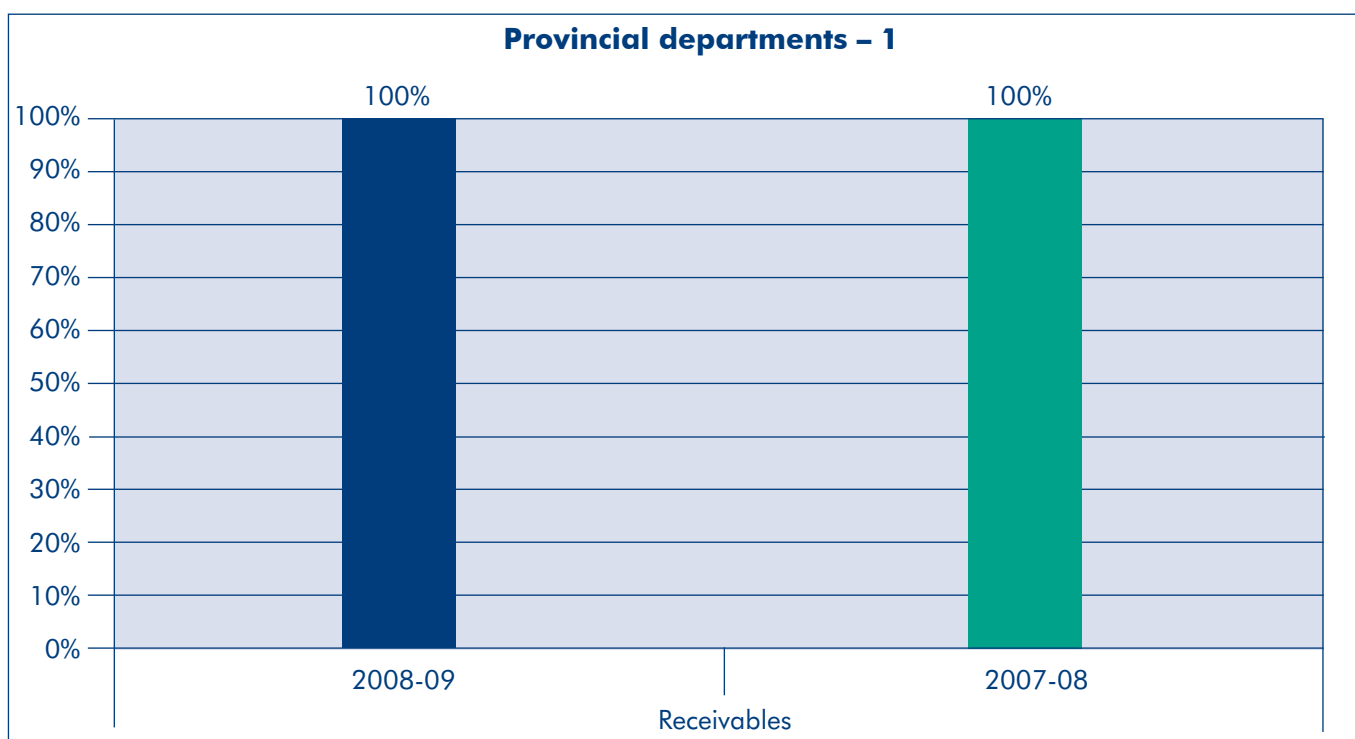
This section of the report provides details on specific areas of the income statement (statement of financial performance) and/or balance sheet (statement of financial position) of entities that attracted qualified opinions. Details are provided under separate headings for provincial departments, provincial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

5.1 Provincial department

5.1.1 Balance sheet qualification area: provincial department

Figure 1(a) below provides a breakdown of the statement of financial position finding that gave rise to the qualified opinion of the one department affected. The graph depicts the one (100%) department that had a qualified opinion in a key area of its statement of financial position.

Figure 1(a): Area qualified in the statement of financial position: provincial department



Analysis of area qualified

Receivables

The Department of Transport and Public Works was qualified in respect of the completeness of receivables for departmental revenue, due to deficiencies in the management of property debtor files. The department was also qualified in this area during the 2007-08 financial year.

Serious challenges remain in the management of immovable assets, i.e. the properties controlled and leased by the department. It should be noted that the department was exempted from accounting for immovable assets and, therefore, there was no qualification in this area for 2008-09. The completeness of the property debtor rentals emanating from these immovable assets could not be supported with sufficient and appropriate audit evidence, which was further compounded by inadequate debtor information such as lease agreements.

Although the department has made some progress in the management of property debtor files, it should intensify its efforts to address the property rental debtor findings by renewing its endeavours to implement plans to achieve the key milestones that relate to the accuracy, valuation, ownership and completeness of immovable assets for the 2009-10 financial year. Furthermore, the department should ensure that valid lease agreements exist for all the relevant properties and that the MDA system is updated on a continuous basis to ensure that reliable information is produced for management and audit purposes. The lack of control over the immovable assets and the property debtors is of concern, as this represents fraud risk indicators and the potential for loss of revenue.

5.1.2 Analysis of root causes of qualification: provincial department

The root causes of the qualification highlighted in figure 1(a) above can be analysed as follows:

Department of Transport and Public Works (qualified)

A deficiency in the control environment was identified as being the main root cause of the qualified opinion of the department, which caused the misstatement in the financial statement area of receivables for departmental revenue. More specifically, there was a lack of adequate oversight and monitoring by the leadership of the department and internal audit. This also resulted in lapses in risk assessment and the implementation of a fraud prevention plan as well as the implementation of the previous year's audit recommendations.

The department, with the support of the Provincial Treasury, should:

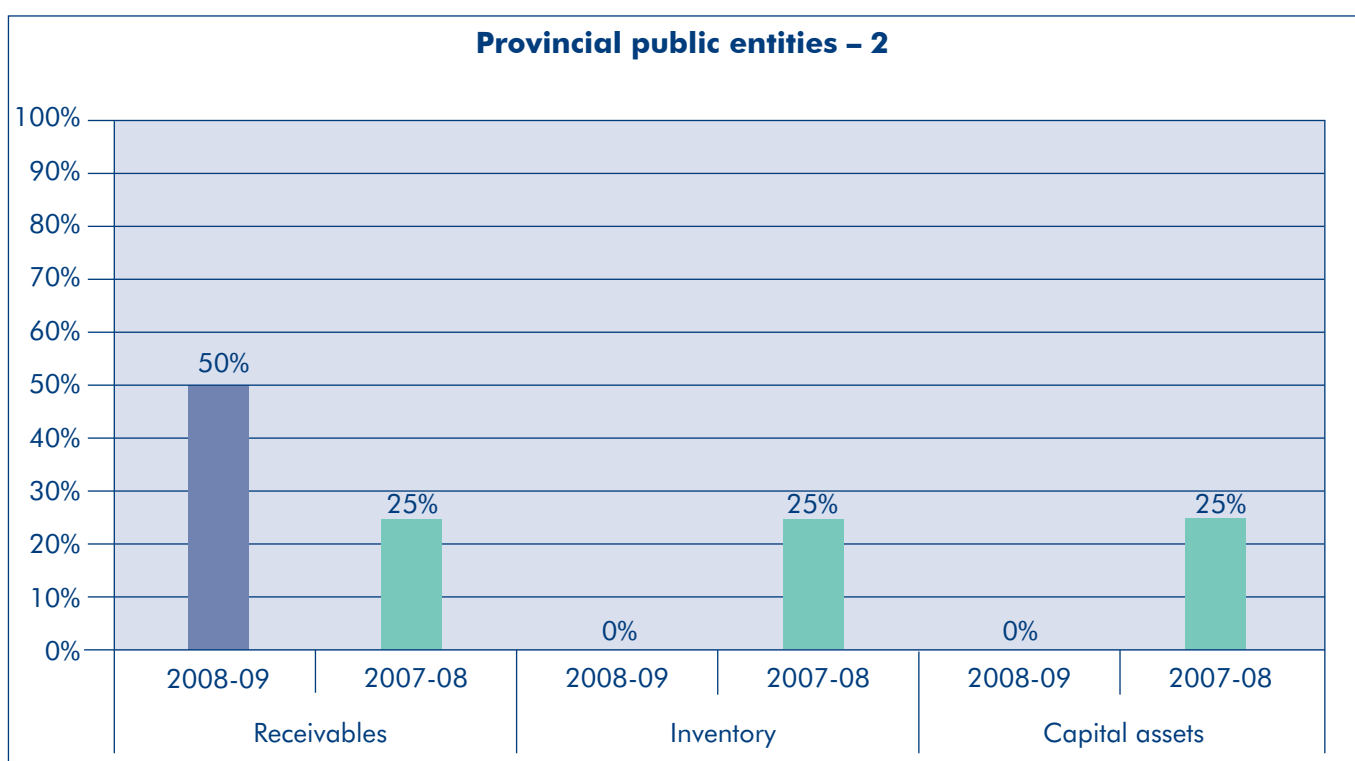
- implement action plans to ensure the accuracy, valuation, ownership and completeness of immovable assets for the 2009-10 financial year and the property debtors management system
- drive the implementation of the Government-wide Immovable Asset Management Act, 2007 (GIAMA) with a clear action plan and quarterly reporting on progress to the executive authority.

5.2 Provincial public entities

5.2.1 Balance sheet qualification areas: provincial public entities

Figure 2(a) below provides a breakdown of those statement of financial position findings that gave rise to a qualified opinion. The graph depicts one (50%) of the two public entities that had qualified opinions in a key area of its statement of financial position. Details of the nature of the qualified opinion are provided in the areas where the percentage exceeds 50%.

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



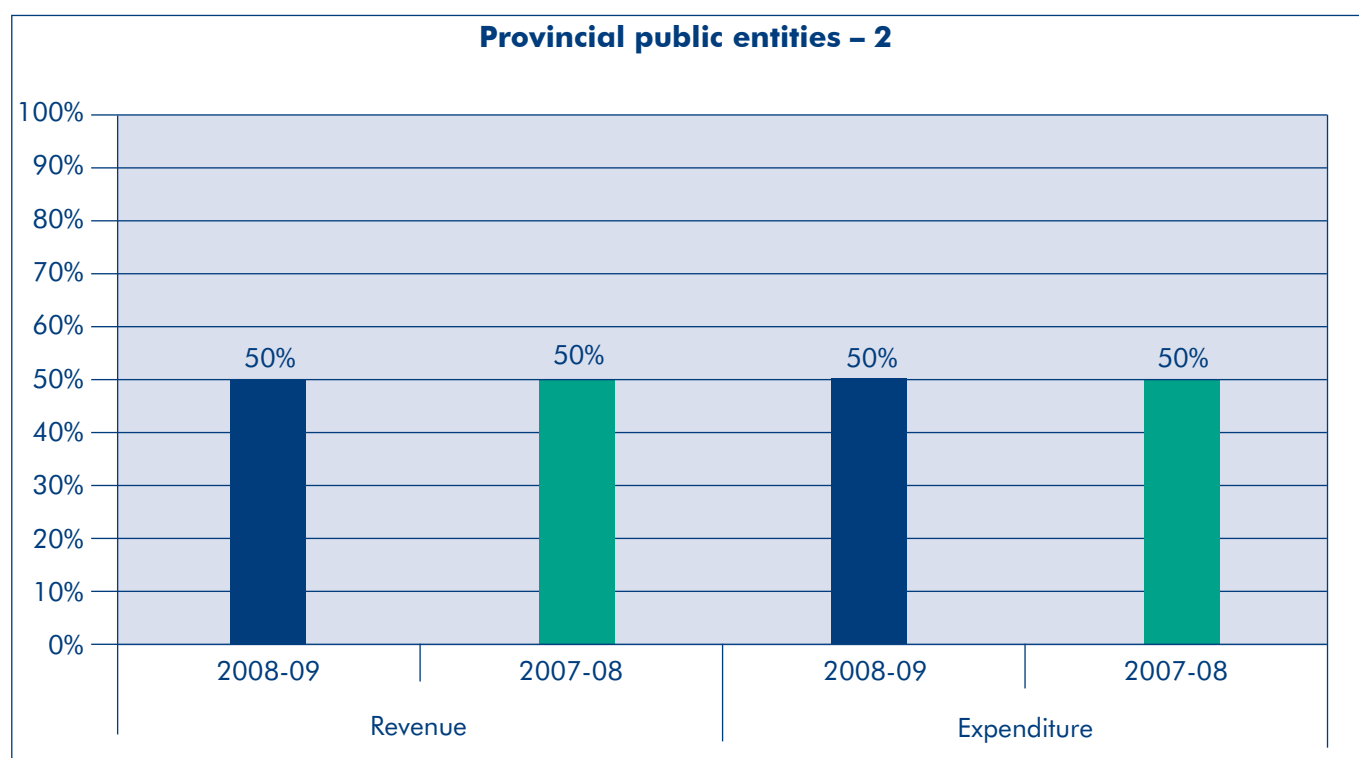
Analysis of area qualified

Receivables

As reported in 2007-08, the Liquor Board remained unable to accurately and completely account for the receivables and the related revenue raised in respect of liquor licences. This is due to the fact that SARS, who collects the liquor licence income on behalf of the board, pays the money over to the board in a lump sum without a complete and detailed breakdown of the income collected. The board could therefore not determine which debtors had settled their debts in respect of liquor licences at year-end. The legislation to address the collection of liquor licence income had not been finalised at the time of this report. Nothing came to my attention during the audit that might relate to a misstatement in the annual financial statements arising from fraudulent activities at the Liquor Board.

5.2.2 Income statement qualification areas: provincial public entities

Figure 2(b) below provides a breakdown of those statement of financial performance findings that gave rise to qualified opinions. It provides an indication of the percentage of the public entities that were qualified per statement of financial performance area.

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

Analysis of areas qualified

Revenue

As indicated under the analysis of receivables above, the Liquor Board remained unable to accurately and completely account for the related revenue raised in respect of liquor licences. This is due to the fact that SARS collects the liquor licence income on behalf of the board and pays the money over to the board in a lump sum without a complete and detailed breakdown of the income collected. The legislation to address the collection of liquor licence income had not been finalised at the time of this report. Nothing came to my attention during the audit that might relate to a misstatement in the annual financial statements arising from fraudulent activities at the Liquor Board.

Expenditure

The annual financial statements of one (50%) public entity (Youth Commission) were qualified on the basis of expenditure. Sufficient and appropriate audit evidence to confirm expenditure as disclosed in the annual financial statements could not be provided, as adequate document management had not been implemented by the public entity. The lack of oversight of senior management and inadequate document management with regard to expenditure are indicators of potential fraud risks.

5.2.3 Analysis of root causes of qualifications: provincial public entities

Western Cape Provincial Youth Commission (qualified)

A deficiency in the control environment was identified as the main root cause of the qualified opinion of the Western Cape Provincial Youth Commission, which caused a misstatement in the financial statement area of expenditure. More specifically, there was a lack of leadership supervision and ongoing monitoring, which led to a significant breakdown in the controls. The situation was further exacerbated by the suspension of three senior managers and the impending closure of the commission, which ceased to operate with effect from 31 May 2009. This also prevented the Youth Commission from implementing the previous year's audit recommendations.

With the commission having ceased to operate, it is critical that measures are implemented to safeguard the assets of the organisation and to further investigate the lapses. The investigation launched by the Department of the Premier into the validity and occurrence of expenditure should also be finalised as soon as possible.

Western Cape Liquor Board (qualified)

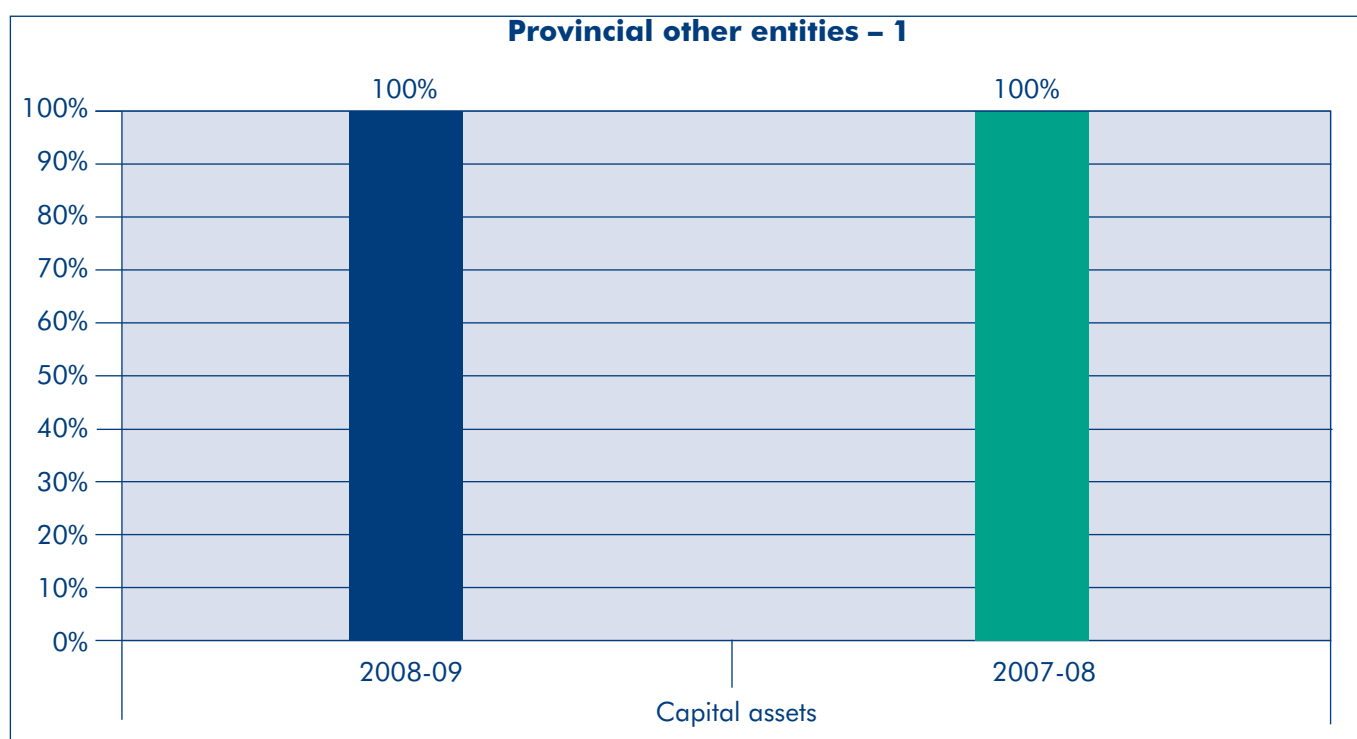
The misstatement in the financial statement areas of receivables and revenue resulted from inadequate leadership, supervision and monitoring to ensure that information in respect of liquor licence income collected by SARS was available to facilitate accurate financial reporting.

To avoid a qualification on the above-mentioned area in future, the leadership of the Liquor Board should renew their endeavours to rectify the situation around information to account for the revenue and receivables in respect of liquor licences.

5.3 Provincial other entities

5.3.1 Balance sheet qualification area: provincial other entities

Figures 3(a) below provides a breakdown of the statement of financial position finding that gave rise to the disclaimer of opinion of one (100%) provincial other entity. The graph depicts the one (100%) other entity that had a qualified opinion in a key area of its statement of financial position. Details of the nature of the disclaimer of opinion are provided below.

Figure 3(a): Area qualified in the statement of financial position: provincial other entity**Analysis of area qualified****Capital assets**

In the case of the one (100%) provincial other entity (Western Cape Housing Development Fund), the fund's rights and ownership to all the properties as listed in the property register could not be confirmed. The main driver for the disclaimer of opinion was a lack of appropriate accounting records for the initial transactions, which transferred various properties to the present owners as stated in the title deeds. Furthermore, in respect of properties for which rights and ownership had been established, the latest municipal valuations had not been updated as at 31 March 2009 in the annual financial statements. The lack of leadership oversight and inadequate document management with regard to properties are fraud risk indicators.

5.3.2 Analysis of root causes of qualification: provincial other entities*Western Cape Housing Development Fund (disclaimer)*

Deficiencies in control activities were identified as the main root cause of the disclaimer finding, which caused misstatements in the financial statement area of capital assets. More specifically, the main driver for the disclaimer was inadequate leadership, supervision and monitoring to develop policies and procedures to ensure accurate financial reporting and adequate risk assessment.

The leadership of the fund should ensure that the fund's property registers are urgently updated to include the properties owned by the fund and agree the values thereof to the latest municipal valuations. In addition, the fund should also update the debtors system with the latest identity numbers of all debtors, as reported previously.

SECTION 6: WARNING SIGNALS REQUIRING ATTENTION

Emphasis of matters

Regularity audits emphasised matters that do not directly impact on the audit opinion, but that are nevertheless important for the reader of the financial statements to take note of. These matters are presented in this report firstly for the provincial legislature (6.1.1); then for provincial departments (6.1.2); followed by provincial public entities (6.1.3) and provincial other entities (6.1.4), under the following headings, where applicable:

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

Other matters

Regularity audits further disclosed 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 provincial departments (6.2.2); followed by provincial public entities (6.3.2) and provincial other entities (6.4.2), under the following headings, where applicable:

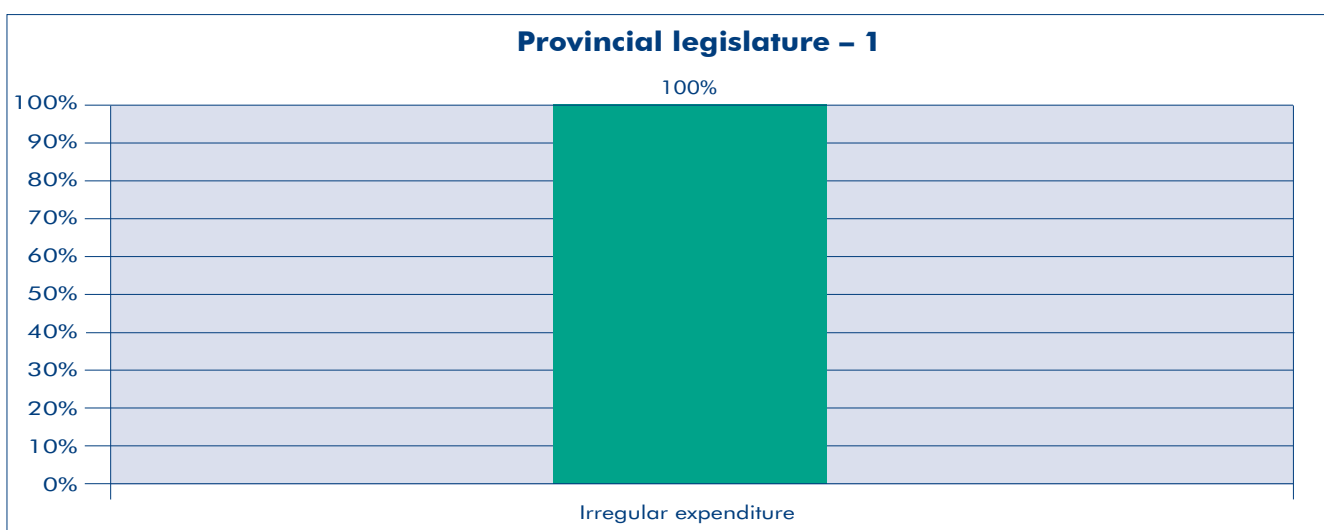
- Non-compliance with applicable legislation
- Misstatements in annual financial statements corrected as a result of the audit

6.1 Provincial legislature

6.1.1 Emphasis of matters: provincial legislature

The incidence of some of the financial matters revealed by the regularity audit is depicted in figure 4(a) below. Details of this are provided in the paragraph that follows.

Figure 4(a): Emphasis of matters: provincial legislature



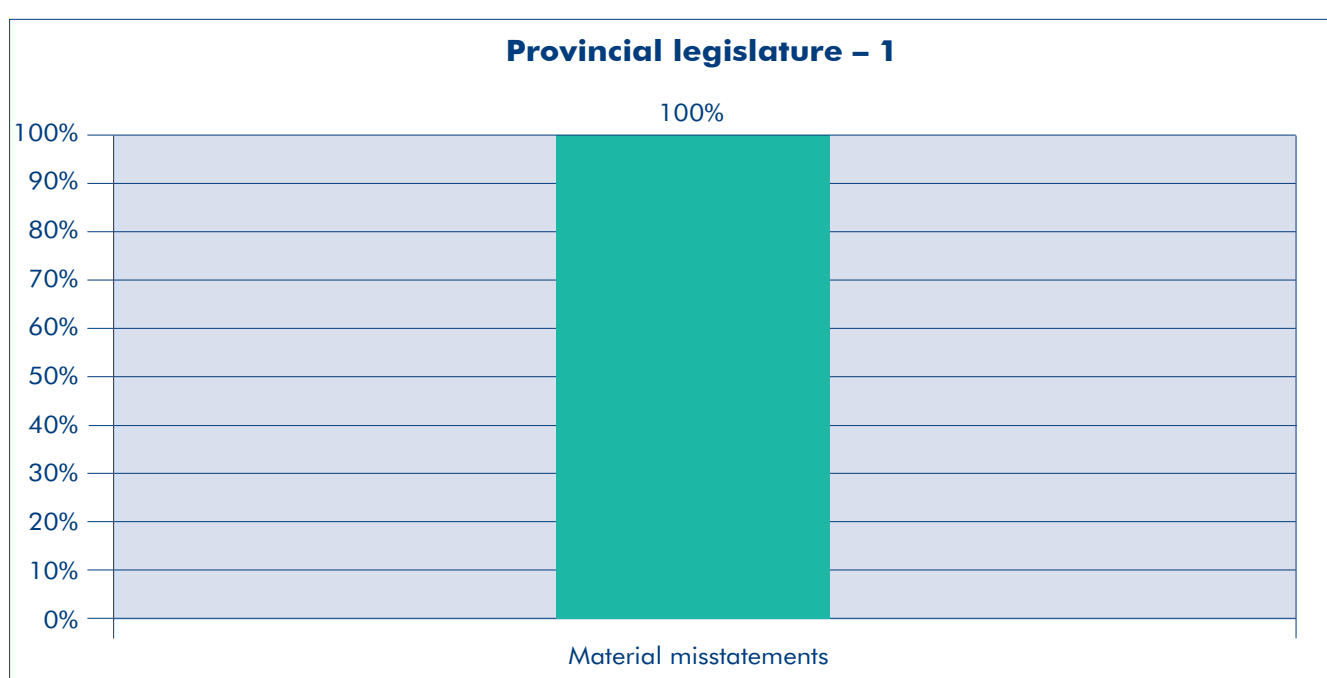
6.1.1.1 Irregular expenditure incurred

The provincial legislature incurred irregular expenditure of R317 000, as a result of non-compliance with supply chain management regulations (procurement of services without prior approval). The total amount was condoned during the year under review.

6.1.2 Other matters: provincial legislature

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 legislature



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

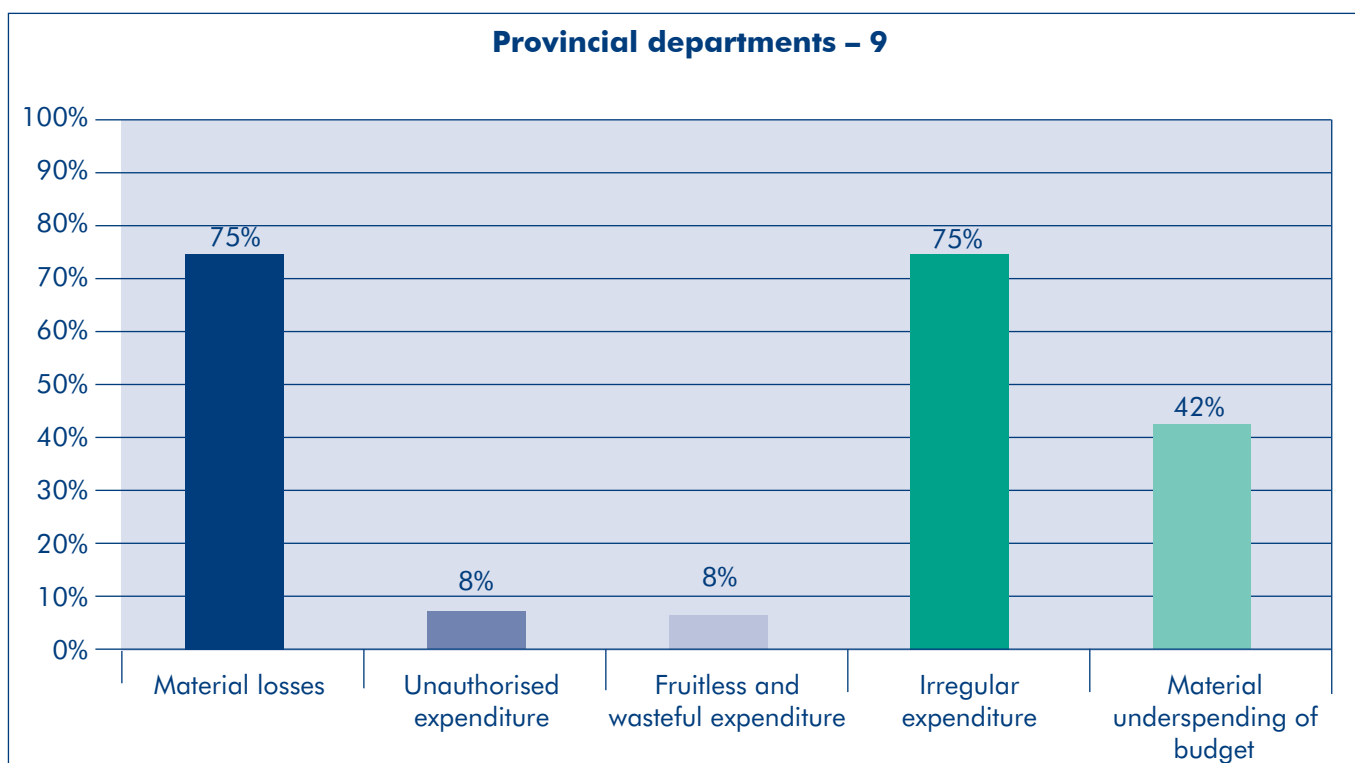
The provincial legislature again experienced significant difficulties in producing annual financial statements for audit purposes that were free from material errors and omissions. The material corrections occurred in two areas relating to disclosure and presentation, as a result of a lack of regular preparation of financial statements due to inadequate leadership, supervision and ongoing monitoring of the financial reporting process. The annual financial statements should be subjected to a quality review process before they are submitted for audit purposes. Furthermore, there should be a discipline to produce monthly financial statements and management information for review by management.

6.2 Provincial departments

6.2.1 Emphasis of matters: provincial departments

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

Figure 5(a): Emphasis of matters: provincial departments



6.2.1.1 Material losses incurred

According to the disclosures made in their annual financial statements, 75% of departments incurred material losses during the current financial year totalling about R4,4 million. The main contributors to the material losses were as follows:

- The Department of Environmental Affairs and Development Planning had material losses amounting to R1,1 million due to a break-in at the stores, while certain assets were found to be damaged or could not be accounted for during the verification process.
- The Department of Health recorded material losses amounting to R2,2 million mainly due to government vehicle losses and debts written off.
- A further R1,1 million in material losses was incurred by eight other departments mainly due to damage to government vehicles and debts written off. The material losses ranged from R37 000 to R330 000.

- The only three departments that did not incur any material losses were Social Development; Education; and Economic Development and Tourism.

6.2.1.2 Unauthorised expenditure incurred

Eight per cent or one department, namely Health, incurred unauthorised expenditure totalling R89,1 million on programmes 2 and 3, as a result of increased patient activity, the use of agency staff, a decision to provide anti-retroviral treatment to patients with HIV/Aids and the appointment of additional emergency practitioners at emergency medical services to assist in the FIFA Soccer World Cup tournament.

6.2.1.3 Irregular expenditure incurred

According to the disclosures made in their annual financial statements, 75% of departments incurred irregular expenditure during the current financial year totalling about R22,2 million. The main contributors to the irregular expenditure were as follows:

- Health incurred irregular expenditure of R4,3 million for the current year, as a result of non-compliance with the financial delegations issued by the accounting officer in terms of the PFMA, as well as failure to follow proper procurement processes. The total amount was condoned during the year under review.
- Transport and Public Works incurred irregular expenditure of R14,4 million for the year under review relating to procurement irregularities, which were being investigated at the time of finalising this report. No amount was condoned during the year.
- Premier recorded irregular expenditure of R1,1 million due to finance leases not permitted by the Treasury Regulations and non-compliance with the supply chain management policy. An amount of R442 000 in respect of finance leases was condoned during the year.

6.2.1.4 Material underspending of the budget

About 42% of the departments materially underspent their budgets by a total amount of R584 million, which had an impact on service delivery in certain instances, as mentioned below:

- Agriculture – R20,9 million: The underspending related to disaster fund schemes that were earmarked for anticipated natural disasters in the current financial year, which did not materialise and which did not have a negative effect on the service delivery of the department.
- Health – R214,9 million: Underspending occurred in programme 2: district health as well as programme 8: health facilities. Delivery on the department's hospital revitalisation programme and infrastructure grant to provinces was curtailed by the late commencement of the construction of new hospitals, as the planning took much longer than expected, particularly in respect of the time to obtain approval for the initial project implementation. Furthermore, delays in construction and slower than anticipated progress affected many projects at certain hospitals in the Western Cape.
- Transport and Public Works – R313,9 million: The underspending related to the national transport disaster management grant of R273,6 million, with the balance relating to roads infrastructure as well as public works programmes. The department indicated that its ability to deliver on disaster management and roads infrastructure was limited due to the late receipt of the grant allocation and

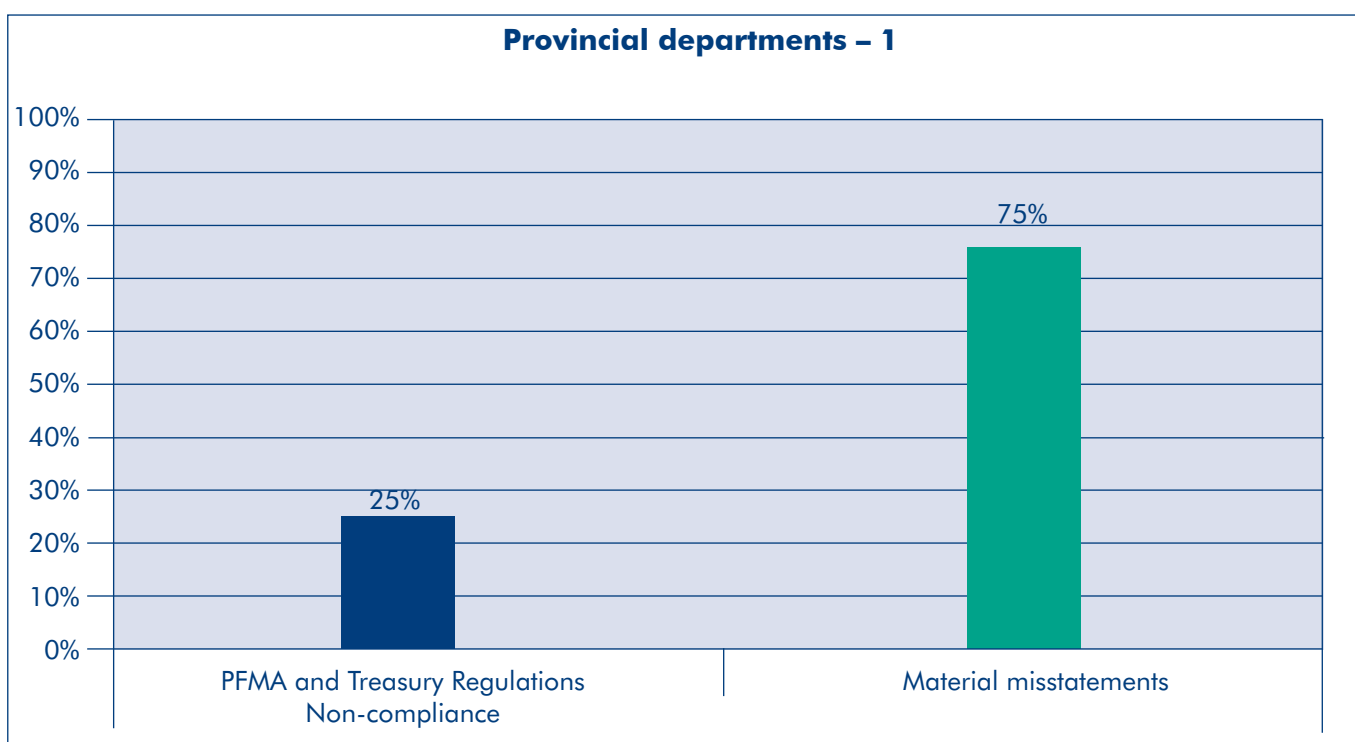
the length of time it took to plan construction projects and procure related goods and services. There was less flooding than expected, which contributed to the underspending.

- Premier – R17,4 million: As a result of underspending on programme 3, the department did not meet its objective of upgrading the Philippi Stadium.
- Social Development – R16,8 million: Programme 2 reflected an underspending due to the delay in the payment of the occupation-specific dispensation for social work related posts, as well as the retention of fees from contractors for the building of a drug abuse centre.

6.2.2 Other matters: provincial departments

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 departments



6.2.2.1 Non-compliance with applicable legislation

PFMA and Treasury Regulations

Most instances of material non-compliance with applicable legislation not affecting the annual financial statements related to non-compliance with the PFMA and Treasury Regulations in the case of three (25%) of the departments. The non-compliance related mainly to creditors not being paid within 30 days. While this is an improvement compared with seven (58%) in 2007-08, lapses in supervision and monitoring by the leadership (accounting officers, chief financial officers and relevant managers) in part contributed to the negative audit findings in this area. Leadership supervision and monitoring, with the support of

internal audit, are necessary to establish a strong control environment and ensure compliance with laws and regulations.

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

More departments (nine or 75% compared to the previous year's eight or 67%) experienced significant difficulties in producing annual financial statements for audit purposes that were free from material errors and omissions. Approximately 60% of the material corrections related to disclosure and presentation issues (assets, investments, commitments, aid assistance and contingent liabilities) and approximately 40% to actual misstatements/misallocations (expenditure, cash and bank, receivables and payables). The material misstatements were identified by the auditors during the audit and not the internal control of the departments. This situation could have led to increased qualified opinions had the annual financial statements not been adjusted during the audit based on the findings of the auditors. The three departments that managed to produce annual financial statements that were free of material errors or omissions were Community Safety; Education; and Cultural Affairs and Sport.

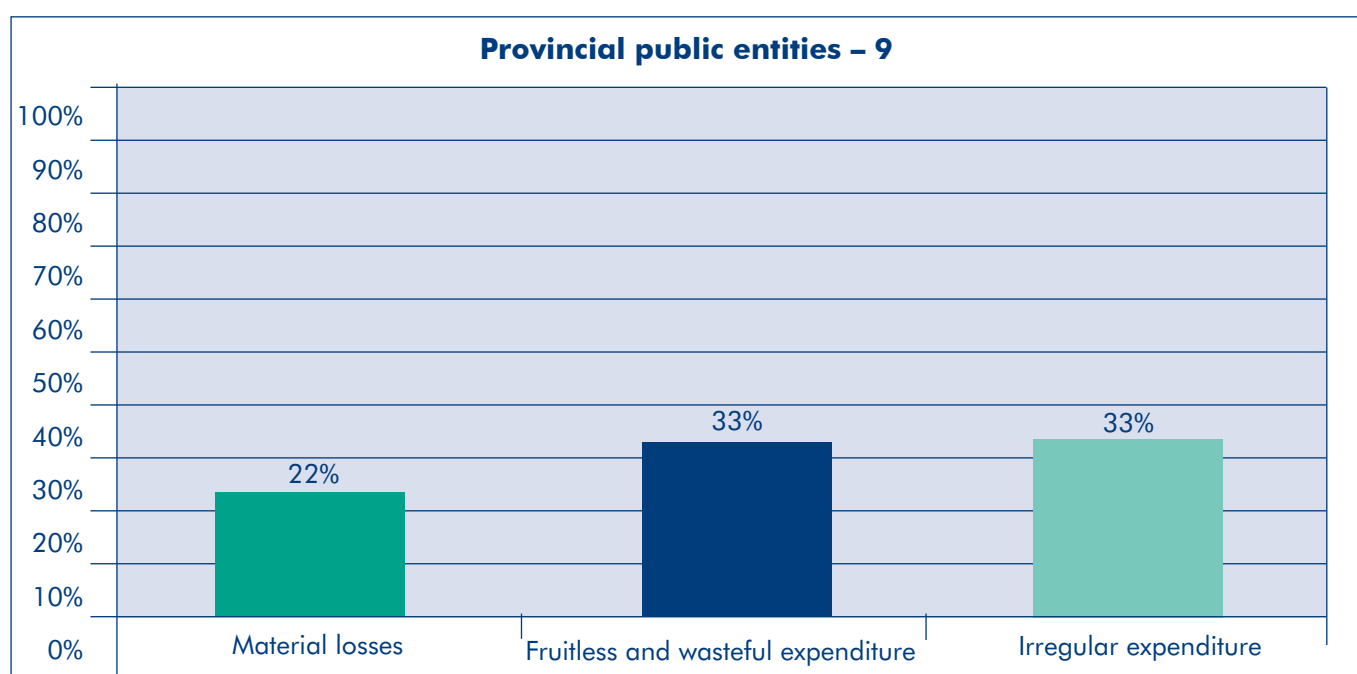
These material corrections could have been detected by the entities had there been better supervision, monitoring and review of the annual financial statements. The annual financial statements should be subjected to a quality review process before they are submitted for audit purposes. Furthermore, there should be a discipline to produce monthly financial statements and management information for review by management.

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

Figure 6(a): Emphasis of matters: provincial public entities



6.3.1.1 Fruitless and wasteful expenditure incurred

Fruitless and wasteful expenditure was incurred by 33% (three) of the public entities, amounting to R263 247 for the year under review. An amount of R251 554 was incurred by the Western Cape Provincial Youth Commission, as the entity's policies regarding limits on the usage of cellphones and telephones were not complied with and the approved class of hired motor vehicles was disregarded.

6.3.1.2 Irregular expenditure incurred

According to the disclosures made in their annual financial statements, 33% (three) of the public entities incurred irregular expenditure during the current financial year totalling about R4,9 million. The major part thereof (R4,2 million) was incurred at the Western Cape Provincial Youth Commission, as the entity had deviated from Treasury Regulations and supply chain management principles. None of the irregular expenditure was condoned in the current financial year.

6.3.1.3 Financial sustainability of entities

There were no significant findings in respect of the financial sustainability of the operations of the public entities, except in the case of the Western Cape Provincial Youth Commission. The Western Cape Provincial Youth Commission Act, 2004 (Act No. 5 of 2004) was repealed via Repeal Bill B5 of 2009 issued in *Government Gazette No. 6619 of 7 April 2009*. As a result, the commission ceased to operate with effect from 31 May 2009.

6.3.1.4 Material losses incurred

According to the disclosures made in their annual financial statements, 22% (two) of the public entities, as mentioned below, incurred material losses during the current financial year totalling about R3,6 million. The main reasons for the material losses were the following:

- A comprehensive exercise was undertaken by the Western Cape Nature Conservation Board to update its asset register. This resulted in assets with an original cost of R2,6 million being written off as untraceable or obsolete.
- The Destination Marketing Organisation incurred significant losses as a result of accounts receivable being impaired by R1 million as at 31 March 2009. This was mainly due to an amount of R0,8 million relating to THETA for which no written confirmation could be obtained to indicate the settlement of the debt.

6.3.2 Other matters: provincial public entities

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

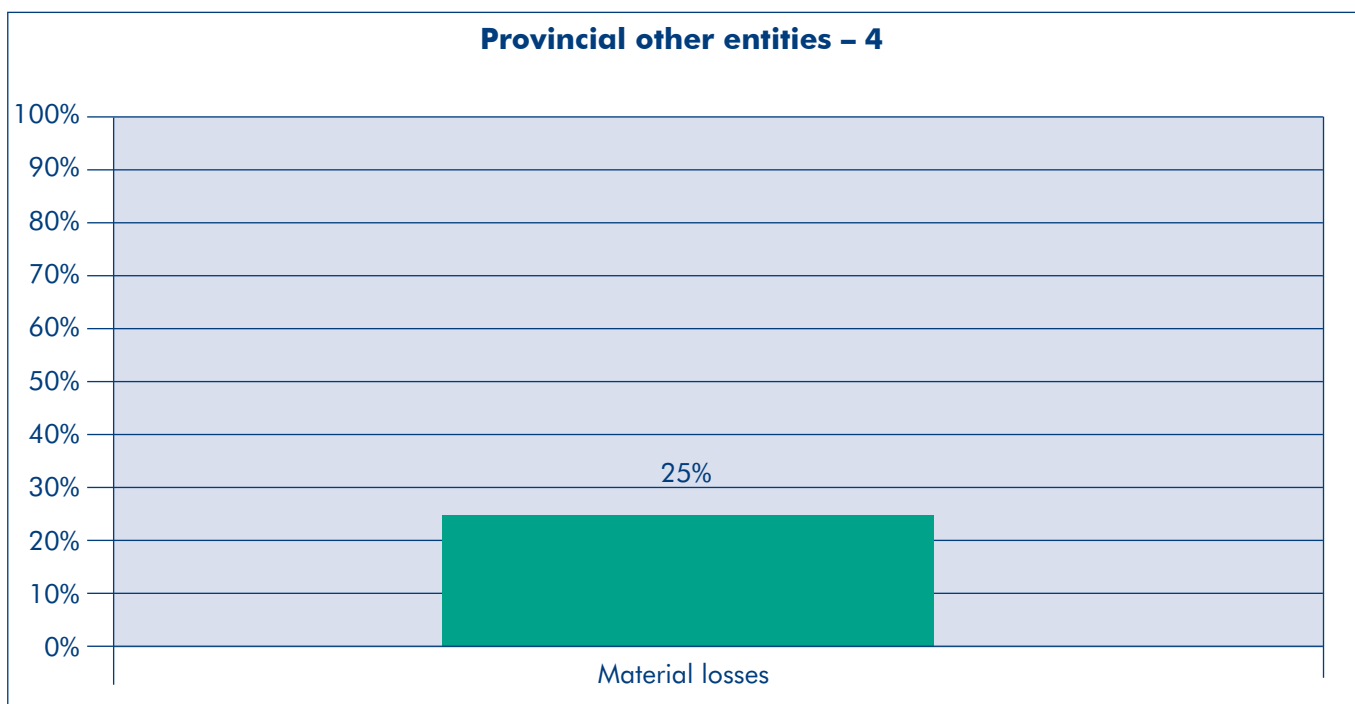
a monthly basis for review by management, as part of a discipline to improve the quality of the annual financial statements.

6.4 Provincial other entities

6.4.1 Emphasis of matters: provincial other entities

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

Figure 7(a): Emphasis of matters: provincial other entities

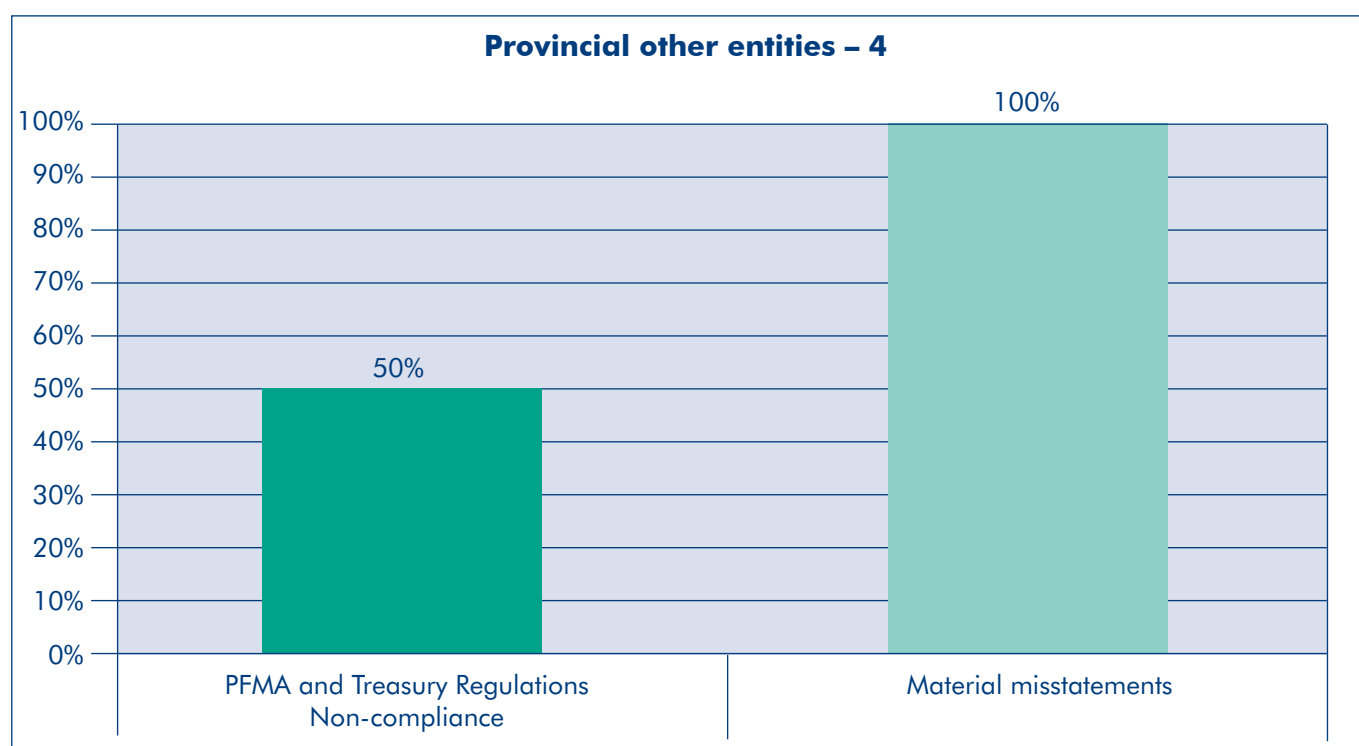


6.4.1.1 Material losses incurred

The Western Cape Housing Development Fund recorded material losses amounting to R23,8 million relating to the writing off of bad debts for the year under review.

6.4.2 Other matters: provincial other entities

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

Figure 7(b): Other matters: provincial other entities

6.4.2.1 Non-compliance with applicable legislation

PFMA and Treasury Regulations

The material non-compliance with relevant legislation not affecting the annual financial statements related to non-compliance with the PFMA (50%) and Treasury Regulations (50%) in the case of two (50%) other entities, namely the Cape Medical Depot and Heritage Western Cape. The findings related to creditors not being paid in 30 days and not implementing a materiality and significance framework. This represents a slight deterioration compared to the previous financial year.

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

All four entities (100%), one of which received a disclaimer of opinion, required material corrections to their annual financial statements. This was due to errors, omissions and inconsistencies that were identified by the auditors. This reflects the increasingly complex accounting environment in which the other entities operate. The material misstatements could have been avoided by the entities had there been better supervision, monitoring and review of the annual financial statements. Furthermore, there should be a discipline to produce monthly financial statements and management information for review by management.

SECTION 7: RESULTS OF AUDITS OF INFORMATION SYSTEMS

7.1 Information systems

Information systems have become an integral part of organisations. Information systems enable organisations to perform financial management processes, automate business processes, improve efficiencies and deliver services. Information systems are therefore regarded as a strategic asset in the achievement of the organisation's 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, excluding the provincial legislature (scheduled to be performed during 2009-10), in the province:

- Information technology (IT) general control 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 the 12 provincial departments. The following table indicates the common key findings identified throughout those audits performed.

Table 3: Common key findings arising from user account management reviews

Findings	Number of departments audited	Number of departments with findings	Provincial Legislature	Percentage of audited departments with findings	Provincial Legislature
Incomplete user account management procedures	12	12	-	100%	-
Access request forms not consistently completed	12	10	-	83%	-
Users' access not periodically reviewed to ensure that it remained commensurate with their job responsibilities	12	10	-	83%	-
System administrators'/ controllers' activities not reviewed by an independent person	12	12	-	100%	-
Inactive/Unused user IDs not timeously removed from the system/deactivated	12	11	-	92%	-
Total number of findings	12	55	-	92%	-
Departments with findings in all seven areas audited	12	8	-	67%	-

Significant weaknesses that could have an impact on the integrity of the computerised information systems of the departments were identified during the audits. The deficiencies identified on the Personnel and Salary System (Persal) could be attributed to a lack of awareness of the documented procedures and a lack of monitoring of adherence to procedures in other cases, while the shortcomings on the Basic Accounting System (BAS) resulted from a lack of documented procedures.

The findings have a high-risk rating, which suggests that the identified shortcomings in the user account management process could seriously compromise the system of internal control and data integrity and should therefore be addressed as a matter of urgency.

Findings in all five access control areas tested were reported at 67% of provincial departments. As mentioned elsewhere, the review of user management accounts at the provincial legislature is scheduled to be performed during 2009-10; and no findings are therefore reported in this regard. The findings at provincial departments are recurring, partly due to the expectation that a new financial management 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, Public Service Act, 1994 (PSA), Public Service Regulations, 2001 (PSR) and directives/determinations issued by the Minister of Public Service and Administration (MPSA) that support effective human resource management and controls over compensation of employees.

In addition to the findings from the audits, I also analysed the statistics and information published in the annual report of the departments, as required in terms of chapter 1, part III, J3 of the PSR. The analysis relates to the findings of 11 departments as well as the provincial legislature, but excludes the results of the Department of the Premier, as its annual report had not been finalised at the time of this report.

The findings are presented under the following headings:

- 8.1 Human resource planning
- 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 Management of overtime
- 8.9 Payroll certification
- 8.10 Service terminations
- 8.11 Overall conclusion

8.1 Human resource planning (25% or three of 12 departments, including the provincial legislature)

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

- Education
- Transport and Public Works

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

- Education
- Environmental Affairs and Development Planning
- Health

8.2 Management of vacancies (50% or six of 12 departments, including the provincial legislature)

Based on the annual reports, the average vacancy rate across all departments was 13% at year-end.



Approximately 18,67% of the positions for senior managers and highly skilled staff were vacant. The department with the lowest vacancy rate was Education at 3% and the highest was Environmental Affairs and Development Planning at 27%. The provincial legislature also had a vacancy rate of 27%.

In general, the vacancy rates had improved compared to the previous financial year with no deteriorations noted at any of the departments.

8.3 Appointment processes (17% or two of 12 departments, including the provincial legislature)

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

A directive was issued by the MPSA with effect from 1 January 2008 which determined a process whereby all new appointments' criminal and financial/asset records can be checked and their citizenship, financial state and qualifications verified.

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

- Agriculture
- Health

8.4 Prolonged acting by officials in higher posts (8% or one of 12 departments, including the provincial legislature)

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

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

- Health

8.5 Use of consultants (92% or 11 of 12 departments, including the provincial legislature)

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, as per chapter 5.1.5 of the supply chain management guide for accounting officers/authorities. Based on the available information in the annual reports, consultants were employed at 10 (91%) of the 11 departments. The total number of consultants appointed using appropriated funds was 898 at a total contract value of R707,7 million. Of interest is that these figures include one department, namely Transport and Public Works, that employed 189 of the 898 consultants at a cost of R610,7 million or 86% of the total contract value of R707,7 million.

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

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

8.6 Suspensions (58% or seven of 12 departments, including the provincial legislature)

Based on the annual reports, 82 employees had been suspended across seven (58%) of the 12 departments (including the provincial legislature). The average number of days on suspension was 15, with 79% of the employees being suspended for more than 30 days. The total cost of the suspensions was estimated at R4 307 000.

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

8.7 Leave administration

Annual leave

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

- Education

The risk of such overstatement is that employees might be granted leave or might receive leave payouts they are not entitled to. According to the annual report of the mentioned department (Education), leave payouts amounting to R11,5 million were made for the current financial year. The cause of the inadequate leave administration was 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 determination on leave, the leave should then have been deducted from the subsequent leave cycle. After a period of up to eight years, the following departments had not done so:

- Education – the monetary value as disclosed in the annual financial statements was R2 570 358.
- Health – the monetary value as disclosed in the annual financial statements was R453 382.

Leave payouts

Leave is paid out to employees in special circumstances and at termination of their service. The calculation



is performed manually based on the formulas determined by the DPSA. At the following departments, instances were found where the calculations were performed incorrectly, which could be an indication that officials could not apply the formulas correctly or were not appropriately supervised and reviewed:

- Environmental Affairs and Development Planning
- Health

8.8 Management of overtime

The PSR, chapter 1, part V, D2 determines the circumstances under which employees may be compensated for overtime worked. Several findings, which resulted from deficiencies in the control environment where human resource policies and practices had not been designed or implemented to facilitate effective recruitment, orientation, training, evaluation, compensation, disciplining and supervising of personnel, were made in respect of overtime.

Authorisation of overtime

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

- Education

Limit on overtime

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

- Education

Overtime payments

At the following departments, instances were found where the calculations for overtime payments were performed incorrectly, which could be an indication that officials could not apply the formulas correctly or were not appropriately supervised and reviewed:

- Agriculture
- Cultural Affairs and Sport
- Health

8.9 Payroll certification (25% or three of 12 departments, including the provincial legislature)

The certification of the payroll on a monthly basis is required by Treasury Regulations 8.3.4 and 8.3.5 as a control to ensure that there are no ghost employees on the payroll, that employees are entitled to the payment made and that employees are allocated to the correct pay point. Instances were found at the following departments indicating that the prescribed control was not fully implemented:

Department	Monthly payroll reports not certified	Certified payrolls not returned within 10 days to finance department	Completeness of certified payroll reports not checked	Corrective action not taken timeously where discrepancies were noted
Education	X	X	X	-
Health	X	X	X	X
Transport and Public Works	X	-	X	-

Employees were not assigned appropriate levels of authority and responsibility relating to the certification of the payrolls, due to a lack of leadership supervision and monitoring.

8.10 Service terminations (17% or two of 12 departments, including the provincial legislature)

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

- Health
- Transport and Public Works

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

- Health

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

8.11 Overall conclusion

Departments are encouraged to renew their endeavours to implement internal control measures to ensure compliance with the PFMA, Treasury Regulations, the PSA, the PSR and directives/determinations issued by the MPSA that support effective human resource management and controls over compensation of employees.

SECTION 9: AUDIT OF PERFORMANCE INFORMATION

9.1 Introduction

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

- The AGSA's statutory responsibilities relating to the audit of performance information
- Key findings arising from the audit of performance information
- Causes of deficiencies in the reporting of performance information
- Interactions on the audit of performance information over the last 12 months
- Auditee actions to gear up for the audit of performance information

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

9.2.1 In terms of section 13 of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA) and based on the results of a readiness assessment of audited entities during November 2008, the Auditor-General (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

9.2.2 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*.

9.2.3 This approach will also be followed for the 2009-10 audit cycle, 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.

9.2.4 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 predetermined criteria.

9.2.5 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

9.2.6 In terms of section 13 of the PAA, the AG has adopted a phasing-in approach for adherence with sections 20 and 28 of the PAA, until such time as the environment shows a state of readiness to provide reasonable assurance in the form of an audit opinion or conclusion at municipalities and municipal entities other than those listed in paragraph 9.2.1 above.

9.2.7 The phasing-in approach to the auditing of performance information for the municipalities and municipal entities, referred to in paragraph 9.2.6, will constitute a review of the policies, systems, processes and procedures for the managing of, and reporting on, performance against predetermined objectives.

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

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

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

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

Table 4: Key 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	0%	50%	22%	25%	35%
2	Usefulness of reported performance information	0%	33%	11%	25%	23%
3	Reported performance information not reliable	0%	58%	11%	0%	31%
4	Performance information was not received in time for audit purposes	0%	0%	0%	0%	0%



9.4 Causes of deficiencies in the reporting of performance information

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

Non-compliance with regulatory requirements

Processes for the development of objectives, targets and performance measures were not adequate. This occurred at 50% of departments, 22% of public entities and 25% of other entities. Findings relating to the inadequate drafting of objectives, outcomes, indicators and targets included in the strategic plan; the lack of reporting on all predetermined objectives, indicators and targets in the annual report; and the lack of efficient, effective and transparent systems of control over performance information have been grouped together in this finding.

Usefulness of performance information

The quality of performance indicators and targets was inadequate in 23% of the annual reports subjected to review for departments, public entities and other entities. This is due to a lack of understanding the requirements of performance reporting and a lack of appropriate capacity and skills.

Reported performance information not reliable

The lack of sufficient appropriate audit evidence in relation to the reported performance information and the lack of effective, efficient and transparent systems and internal controls over performance information reporting were identified at 31% of departments, public entities and other entities, as the collection, collation and reporting on performance information were not integrated into their operations and information systems.

The provincial legislature; two departments, namely Economic Development and Tourism as well as Social Development; and nine entities, namely Destination Marketing Organisation, Western Cape Cultural Commission, Western Cape Gambling and Racing Board, Western Cape Language Committee, Western Cape Liquor Board, Western Cape Nature Conservation Board, Cape Medical Depot, Heritage Western Cape and Western Cape Housing Development Fund, 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, the National Treasury and all departments and entities should be a focus area in order to adequately address the shortcomings, in preparation for a future opinion on performance information.
- Internal audit should focus on the requirements of the audit of performance information and provide the necessary assurance to departments and entities.
- Capacity building, including the training of relevant officials.
- Integration of performance information into the operations of departments, public entities and other entities, including the development and implementation of appropriate information systems.
- Regular reporting on, and monitoring of, performance information by the accounting officers, audit committees supported by internal audit, legislative committees and the executive.

9.5 Interactions on the audit of performance information over the last 12 months

The importance and principles of performance information were discussed and explained by the AGSA leadership to all stakeholders, such as the auditees, at audit steering committee meetings, the Provincial Treasury, the chief financial officers, the heads of departments forum, audit committees, internal audit, members of the executive committee, the Speaker of the provincial legislature and the Premier.

9.6 Auditee actions to gear up for the audit of performance information

Various key stakeholders (the Premier, the Speaker of the provincial legislature, members of the executive committee, heads of departments, chief financial officers and internal audit) have already been engaged on the strategic importance of performance information and there was commitment to rate performance information as one of the top five risks. This will inform the audit plans of internal audit to focus on the three key areas mentioned above. Focused training and support are required to ensure that staff members at all levels are conversant with the requirements and application of the framework to manage performance information.

SECTION 10: CONSOLIDATED FINANCIAL STATEMENTS

In terms of sections 8 and 19 of the PFMA, the National Treasury 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 AG issues separate audit reports for consolidated departments and entities. Agreed-upon procedures are performed on the provincial consolidated financial statements and the consolidated national entities. An audit opinion is expressed on the consolidated national departments.

The status of the preparation of consolidated financial statements as at 31 October 2009 is reflected in table 5 below.

Table 5: Status of preparation of consolidated financial statements as at 31 October 2009

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

The 2008-09 revenue fund audit is anticipated to be completed in early November 2009 and the consolidated financial information audit by 30 November 2009. The delay in finalising the audit of consolidated information is related to the late finalisation of audit reports, as reported elsewhere in this report.

An annual report was compiled and tabled for the 2007-08 consolidated financial information, but not for the revenue fund. The revenue fund received no significant findings.

SECTION 11: STATUS OF TABLING OF ANNUAL REPORTS

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

Table 6: Status of tabling annual reports by executive authorities

No.	Name of department/ constitutional institution/ entity	Tabled (Y/N)	Date submitted to legislature	Date tabled in House	Reasons for annual report not tabled
1	Agriculture	Y	30 Sep 09	30 Sep 09	
2	Community Safety	Y	30 Sep 09	30 Sep 09	
3	Cultural Affairs and Sport	Y	30 Sep 09	30 Sep 09	
4	Economic Development and Tourism	Y	30 Sep 09	30 Sep 09	
5	Education	Y	30 Sep 09	30 Sep 09	
6	Environmental Affairs and Development Planning	Y	30 Sep 09	30 Sep 09	
7	Health	Y	30 Sep 09	30 Sep 09	
8	Local Government and Housing	Y	30 Sep 09	30 Sep 09	
9	Provincial Premier	Y	30 Sep 09	30 Sep 09	
10	Provincial Treasury	Y	30 Sep 09	30 Sep 09	
11	Social Development	Y	30 Sep 09	30 Sep 09	
12	Transport and Public Works	Y	30 Sep 09	30 Sep 09	
13	Provincial Legislature	Y	30 Sep 09	30 Sep 09	
14	Destination Marketing Organisation	Y	30 Sep 09	30 Sep 09	
15	Western Cape Cultural Commission	Y	30 Sep 09	30 Sep 09	
16	Western Cape Gambling and Racing Board	Y	30 Sep 09	30 Sep 09	
17	Western Cape Investment and Trade Promotion Agency	Y	30 Sep 09	30 Sep 09	
18	Western Cape Language Committee	Y	30 Sep 09	30 Sep 09	
19	Western Cape Nature Conservation Board	Y	30 Sep 09	30 Sep 09	
20	Western Cape Provincial Development Council	Y	30 Sep 09	30 Sep 09	
21	Western Cape Liquor Board	Y	30 Sep 09	30 Sep 09	

No.	Name of department/ constittional institution/ entity	Tabled (Y/N)	Date submitted to legislature	Date tabled in House	Reasons for annual report not tabled
22	Western Cape Provincial Youth Commission	Y	30 Sep 09	30 Sep 09	
23	Western Cape Housing Development Fund	Y	30 Sep 09	30 Sep 09	
24	Cape Medical Depot	Y	30 Sep 09	30 Sep 09	
25	Government Motor Transport	Y	30 Sep 09	30 Sep 09	
26	Heritage Western Cape	Y	30 Sep 09	30 Sep 09	

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

12.1 Performance audits conducted

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

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

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

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

Table 7: Performance audits conducted and the actual dates of tabling of reports

No.	Entity	Report description	Actual date of tabling
1	Education	Investment in infrastructure	September 2009
2	Health	Investment in infrastructure	September 2009
3	Local Government and Housing	Allocation of housing subsidies to municipal employees and the administration of low-cost housing projects by the department	May 2008
4	Transversal	Entities that are connected with government employees doing business with the departments in the Western Cape Government Administration	May 2009

12.2 Investigations conducted

‘Investigation’ as contemplated in section 5(1)(d) of the PAA is defined as an independent and objective process where procedures are performed in accordance with guidelines issued by the AGSA to facilitate the investigation of financial misconduct, maladministration and impropriety, which may result in legal proceedings for adjudication and ensure probity in the accounts, financial statements and financial management of an institution referred to in sections 4(1) and 4(3) of the PAA. An investigation may be performed where the AGSA:



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

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

No investigations were undertaken by the AGSA for the year under review. Investigations performed by parties other than the AGSA are reflected in the respective audit reports, where it has come to my attention.

12.3 Special audits conducted

No special audits were performed by the AGSA for the year under review.

ANNEXURES TO THE GENERAL REPORT

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

Annexure 1: 2008-09 audit outcomes

1a Listing of entities' audit opinions and qualification findings

1b Listing of entities with emphasis of matters and other matters findings

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

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

Annexure 4: Audit reports summaries

Annexure 5: Audit outcomes: five-year review of audit outcomes

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

No.	Classification	Type of other entity	Department / Institution / Entity	Audit opinion: 2008-09	Audit opinion: 2007-08	Cash, cash equivalents and investments	Receivables	Inventory	Capital assets	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	Department	Agriculture	Financially unqualified (with other matters)	Financially unqualified (with other matters)																
2	POE	Trading entity	Cape Medical Depot	Financially unqualified (with other matters)	Financially unqualified (with other matters)																
3	PD	Department	Community Safety	Financially unqualified (with other matters)	Financially unqualified (with other matters)																
4	PD	Department	Cultural Affairs and Sport	Financially unqualified (with other matters)	Financially unqualified (with other matters)																
5	PPE	Public entity	Destination Marketing Org (TA Cape Town Routes Unlimited)	Financially unqualified (with other matters)	Financially unqualified (with other matters)																
6	PD	Department	Economic Development and Tourism	Financially unqualified (with other matters)	Financially unqualified (with no other matters)																
7	PD	Department	Education	Financially unqualified (with other matters)	Financially unqualified (with other matters)																
8	PD	Department	Environmental Affairs and Development Planning	Financially unqualified (with other matters)	Financially unqualified (with other matters)																

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

No.	Classification	Type of other entity	Department / Institution / Entity	Audit opinion: 2008-09	Audit opinion: 2007-08	Cash, cash equivalents and investments	Receivables	Inventory	Capital assets	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
9	POE	Trading entity	Government Motor Transport	Financially unqualified (with other matters)	Financially unqualified (with other matters)																
10	PD	Department	Health	Financially unqualified (with other matters)	Financially unqualified (with other matters)																
11	PD	Department	Local Government and Housing	Financially unqualified (with other matters)	Financially unqualified (with other matters)																
12	PL	Department	Provincial Legislature	Financially unqualified (with other matters)	Financially unqualified (with other matters)																
13	PD	Department	Provincial Premier	Financially unqualified (with other matters)	Financially unqualified (with other matters)																
14	PD	Department	Provincial Treasury	Financially unqualified (with other matters)	Financially unqualified (with other matters)																
15	PD	Department	Social Development	Financially unqualified (with other matters)	Financially unqualified (with no other matters)																
16	POE	Unlisted public entity	Heritage Western Cape	Financially unqualified (with other matters)	Financially unqualified (with no other matters)																

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

No.	Classification	Type of other entity	Department / Institution / Entity	Audit opinion: 2008-09	Audit opinion: 2007-08	Cash, cash equivalents and investments	Receivables	Inventory	Capital assets	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
17	PD	Department	Transport and Public Works	Qualified	Qualified																
18	PPE	Public entity	Western Cape Cultural Commission	Financially unqualified (with other matters)	Adverse																
19	PPE	Public entity	Western Cape Gambling and Racing Board	Financially unqualified (with other matters)	Financially unqualified (with other matters)																
20	POE	Unlisted public entity	Western Cape Housing Development Fund	Disclaimer	Qualified																
21	PPE	Public entity	Western Cape Investment and Trade Promotion Agency	Financially unqualified (with other matters)	Financially unqualified (with other matters)																
22	PPE	Public entity	Western Cape Language Committee	Financially unqualified (with other matters)	Qualified																
23	PPE	Public entity	Western Cape Liquor Board	Qualified	Qualified																
24	PPE	Public entity	Western Cape Nature Conservation Board	Financially unqualified (with other matters)	Qualified																

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

No.	Classification	Type of other entity	Department / Institution / Entity	Audit opinion: 2008-09	Audit opinion: 2007-08	Cash, cash equivalents and investments	Receivables	Inventory	Capital assets	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
25	PPE	Public entity	Western Cape Provincial Development Council	Financially unqualified (with other matters)	Financially unqualified (with other matters)																
26	PPE	Public entity	Western Cape Provincial Youth Commission	Qualified	Financially unqualified (with other matters)																

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

No.	Classification	Department / Institution / Entity	Audit opinion: 2008-09	Audit opinion: 2007-08	Material losses / Impairments	Unauthorised expenditure	Fruitless and wasteful expenditure	Irregular expenditure	Material underspending of the budget	PFMA / Treasury Regulations	Supply chain management	Material misstatements corrected
1	PD	Agriculture	Financially unqualified (with other matters)	Financially unqualified (with other matters)								
2	POE	Cape Medical Depot	Financially unqualified (with other matters)	Financially unqualified (with other matters)								
3	PD	Community Safety	Financially unqualified (with other matters)	Financially unqualified (with other matters)								
4	PD	Cultural Affairs and Sport	Financially unqualified (with other matters)	Financially unqualified (with other matters)								
5	PPE	Destination Marketing Org (TA Cape Town Routes Unlimited)	Financially unqualified (with other matters)	Financially unqualified (with other matters)								
6	PD	Economic Development and Tourism	Financially unqualified (with other matters)	Financially unqualified (with no other matters)								
7	PD	Education	Financially unqualified (with other matters)	Financially unqualified (with other matters)								
8	PD	Environmental Affairs and Development Planning	Financially unqualified (with other matters)	Financially unqualified (with other matters)								
9	POE	Government Motor Transport	Financially unqualified (with other matters)	Financially unqualified (with other matters)								
10	PD	Health	Financially unqualified (with other matters)	Financially unqualified (with other matters)								

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

No.	Classification	Department / Institution / Entity	Audit opinion: 2008-09	Audit opinion: 2007-08	Material losses / Impairments	Unauthorized expenditure	Fruitless and wasteful expenditure	Irregular expenditure	Material underspending of the budget	PFMA / Treasury Regulations	Supply chain management	Material misstatements corrected
11	PD	Local Government and Housing	Financially unqualified (with other matters)	Financially unqualified (with other matters)								
12	PL	Provincial Legislature	Financially unqualified (with other matters)	Financially unqualified (with other matters)								
13	PD	Provincial Premier	Financially unqualified (with other matters)	Financially unqualified (with other matters)								
14	PD	Provincial Treasury	Financially unqualified (with other matters)	Financially unqualified (with other matters)								
15	PD	Social Development	Financially unqualified (with other matters)	Financially unqualified (with no other matters)								
16	POE	Heritage Western Cape	Financially unqualified (with other matters)	Financially unqualified (with no other matters)								
17	PD	Transport and Public Works	Qualified	Qualified								
18	PPE	Western Cape Cultural Commission	Financially unqualified (with other matters)	Adverse								
19	PPE	Western Cape Gambling and Racing Board	Financially unqualified (with other matters)	Financially unqualified (with other matters)								
20	POE	Western Cape Housing Development Fund	Disclaimer	Qualified								

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

No.	Classification	Department / Institution / Entity	Audit opinion: 2008-09	Audit opinion: 2007-08	Material losses / Impairments	Unauthorized expenditure	Fruitless and wasteful expenditure	Irregular expenditure	Material underspending of the budget	PFMA / Treasury Regulations	Supply chain management	Material misstatements corrected
21	PPE	Western Cape Investment and Trade Promotion Agency	Financially unqualified (with other matters)	Financially unqualified (with other matters)								
22	PPE	Western Cape Language Committee	Financially unqualified (with other matters)	Qualified								
23	PPE	Western Cape Liquor Board	Qualified	Qualified								
24	PPE	Western Cape Nature Conservation Board	Financially unqualified (with other matters)	Qualified								
25	PPE	Western Cape Provincial Development Council	Financially unqualified (with other matters)	Financially unqualified (with other matters)								
26	PPE	Western Cape Provincial Youth Commission	Qualified	Financially unqualified (with other matters)								

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

Entities registering improved audit outcomes

No.	Entity	Audit opinion: 2008-09	Audit opinion: 2007-08
1	Western Cape Cultural Commission	Financially unqualified (with other matters)	Adverse
2	Western Cape Language Committee	Financially unqualified (with other matters)	Qualified
3	Western Cape Nature Conservation Board	Financially unqualified (with other matters)	Qualified

Entities registering deteriorated audit outcomes

No.	Department / Entity	Audit opinion: 2008-09	Audit opinion: 2007-08
1	Economic Development and Tourism	Financially unqualified (with other matters)	Financially unqualified (with no other matters)
2	Social Development	Financially unqualified (with other matters)	Financially unqualified (with no other matters)
3	Heritage Western Cape	Financially unqualified (with other matters)	Financially unqualified (with no other matters)
4	Western Cape Housing Development Fund	Disclaimer	Qualified
5	Western Cape Provincial Youth Commission	Qualified	Financially unqualified (with other matters)

ANNEXURE 3: listing of special purpose entities, linked to auditees, not consolidated and/or not audited by the agsa

No.	Name of entity	Portfolio	Reason / Causes for non-inclusion in 2008-09 general report	Date of completion	Audit opinion: 2008-09	Audit opinion: 2007-08
1	CASIDRA (Pty) Ltd	WC Agriculture	The AG opted not to audit CASIDRA in terms of section 4(3) (a) of the PAA	31 Jul 09	Financially unqualified (with no other matters)	Financially unqualified (with no other matters)

ANNEXURE 4: AUDIT REPORT SUMMARIES

SUMMARY OF AUDIT REPORTS: PROVINCIAL DEPARTMENTS AND THE PROVINCIAL LEGISLATURE

1. Provincial legislature

A. AUDIT OPINION

- **Financially unqualified with other matters**

B. EMPHASIS OF MATTERS

- **Irregular expenditure**
 - Irregular expenditure to the amount of R317 000 was incurred, as services were procured without prior approval by a delegated authority.

C. OTHER MATTERS

- **Key governance responsibilities**
 - The financial statements were subjected to material amendments resulting from the audit.
 - A risk assessment was not conducted on a regular basis and a risk management strategy, which included a fraud prevention plan, was not documented and used as set out in the Treasury Regulations.

2. Department of the Premier

A. AUDIT OPINION

- **Financially unqualified with other matters**

B. EMPHASIS OF MATTERS

- **Irregular expenditure**
 - Irregular expenditure to the amount of R1 090 000 was incurred as a result of various transactions that had been entered into without the required authority.
- **Material underspending of the budget**
 - The department materially underspent the budget on programme 3 to an amount of R17 439 000. As a consequence, the department did not meet its objectives in connection with the upgrading of the Philippi Stadium.

C. OTHER MATTERS

- **Non-compliance with applicable legislation**

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

- Accruals amounting to R11 255 656 were outstanding for periods of more than 30 days, which exceeded the payment terms of 30 days.
 - The Western Cape Youth Commission did not demonstrate the use of effective, efficient and transparent financial management and internal control systems, yet the department continued to transfer funds without applying sanctions in terms of the PFMA.

- **Key governance responsibilities**

- Significant difficulties were experienced during the audit concerning delays or the availability of requested information.
 - The financial statements were subjected to material amendments resulting from the audit.
 - There were significant deficiencies in the design and implementation of internal control in respect of financial and risk management.
 - The prior year audit findings had not been substantially addressed.
 - Adequate control processes and procedures were not designed and implemented to ensure the accuracy and completeness of reported performance information.

- **Investigations**

- Assets with a cost of R163 700 could not be accounted for during the physical verification process of assets. These assets were under investigation in terms of the department's theft and losses processes.
 - Three fraud investigations took place during the year under review. One resulted in money to be recovered from an official and a particular supplier being blacklisted. The other two did not uncover any fraudulent activity.

- **Late finalisation of audit report**

- In terms of section 40(2) of the PFMA, I am required to submit my report to the accounting officer within two months of the receipt of the financial statements. Due to internal processes as well as significant difficulties experienced during the audit process, particularly in the area of assets, I delayed the finalisation of my report, although the financial statements were received by 31 May 2009.

D. REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

- **Report on performance information**

Non-compliance with regulatory requirements

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

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



3. Provincial Treasury

A. AUDIT OPINION

- **Financially unqualified with other matters**

B. EMPHASIS OF MATTERS

- **Restatement of corresponding figures**
 - As disclosed in the financial statements, the corresponding figures for 31 March 2008 were restated as a result of an error discovered during the 2008-09 financial year in the financial statements of the Western Cape Provincial Treasury at, and for the year ended, 31 March 2008.

C. OTHER MATTERS

- **Key governance responsibilities**
 - The financial statements submitted for auditing were subjected to material amendments resulting from the audit.

D. REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

- **Report on performance information**

Reported performance information not relevant

- The indicators for subprogrammes 3.2.2 and 3.3.3 under asset and liabilities management and the first objective under immovable asset management were not measurable in identifying the required performance. Targets were set as percentages without clarifying or quantifying which step and/or phase of the indicators would result in compliance with the specific target.

Reported performance information not reliable

- Sufficient appropriate evidence in relation to the reported performance information of the third quarter's review session and the minutes of the first session of the annual performance plan held in October 2008 could not be obtained, as the relevant source documentation could not be provided for audit purposes.

4. Community Safety

A. AUDIT OPINION

- **Financially unqualified with other matters**

B. EMPHASIS OF MATTERS

- **Irregular expenditure**

- Irregular expenditure to the amount of R431 000 was incurred, as a proper tender process had not been followed.

C. OTHER MATTERS

Non-compliance with applicable legislation

Treasury Regulations

- Accruals amounting to R731 277 were outstanding for periods that exceeded the payment terms of 30 days, as set out in the Treasury Regulations. This amount, in turn, exceeded the voted funds to be surrendered for the year by R251 277. Had the department paid the amounts due as required, an equivalent amount of unauthorised expenditure would have been incurred.

Key governance responsibilities

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

• Late finalisation of the audit report

- § In terms of section 40(2) of the PFMA, I am required to submit my report to the accounting officer within two months of the receipt of the financial statements. In the interest of improving accountability and finalising internal processes to ensure that high-quality standards of reporting were maintained, I delayed the finalisation of my report, although the financial statements were received by 31 May 2009.

D. REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Report on performance information

- Inadequate management process
 - The internal policies and procedures of the department did not adequately address the process of collection, collation, recording, processing and reporting on performance information at a programme level.

Non-compliance with regulatory requirements

– Content of strategic plan

- The strategic plan of the department did not include targets of the entity's programmes, as required.

– Inconsistently reported performance information

- The department did not report on its performance with regard to its objectives as per the

approved annual performance plan. For example, 18 predetermined objectives and 33 predetermined indicators for certain programmes in the five-year strategic plan were materially inconsistent with the predetermined objectives as per the annual performance plan.

- **Reported performance information not relevant**

- Six (4%) targets with regard to programmes 2 and 4 were neither specific nor clearly identified the nature and the required level of performance.

- **Reported performance information not reliable**

- § **Lack of source documents**

- Sufficient appropriate evidence in relation to the reported performance information of programmes 2 and 4 could not be obtained for 11 (7%) of the objectives reported on.

- § **Source information not accurate and complete**

- The source information or evidence provided to support the reported performance information with regard to programmes 2 and 4 was inaccurate in 21 (15%) instances.

5. Education

A. AUDIT OPINION

- **Financially unqualified with other matters**

B. EMPHASIS OF MATTERS

- **Infrastructure projects**

- The department may have to account for write-offs in terms of alleged fruitless and wasteful expenditure relating to infrastructure projects. The ultimate outcome of the matter cannot currently be determined, and no provision for any fruitless and wasteful expenditure that may result had been made in the financial statements.

C. OTHER MATTERS

- **Key governance responsibilities**

- Significant difficulties were experienced during the audit concerning delays or the availability of requested information.
- The financial statements were subjected to material amendments resulting from the audit.
- SCOPA resolutions had not been substantially implemented.

- **Late finalisation of the audit report**

- In terms of section 40(2) of the PFMA, I am required to submit my report to the accounting officer within two months of the receipt of the financial statements. In the interest of improving

accountability and finalising internal processes to ensure that high-quality standards of reporting were maintained, the finalisation of the audit report was delayed.

D. REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

• Report on performance information

Reported performance information not reliable

- Lack of source documentation

§ Sufficient appropriate evidence could not be provided in relation to PM206 'Expenditure on maintenance as a percentage of the value of school infrastructure' for the valuation of R15 052 800 000 (R15 billion) for the replacement value of all immovable school infrastructure made by the quantity surveyors.

E. OTHER REPORTS

• Performance audits

- At the time of the audit, a performance audit of the department's infrastructure delivery process was in progress. The performance audit focused on the following key elements of the infrastructure delivery process: (i) demand management, (ii) acquisition management, (iii) project management and information, and (iv) commissioning and utilisation. It is anticipated that the report will be tabled by 30 November 2009.
- A performance audit was conducted at the department of entities that are connected with government employees and doing business with this and other departments of the Western Cape Provincial Government. This report was issued in August 2008 and tabled in June 2009.

6. Health

A. AUDIT OPINION

• Financially unqualified with other matters

B. EMPHASIS OF MATTERS

• Infrastructure projects

- The department may have to account for write-offs in terms of alleged fruitless and wasteful expenditure relating to infrastructure projects. The ultimate outcome of the matter cannot be determined at present, and no provision for any fruitless and wasteful expenditure that may result had been made in the financial statements.

• Unauthorised expenditure

- Unauthorised expenditure totalling R89 179 000 was incurred on programmes 2 and 3 as a result of increased patient activity, the use of agency staff, a decision to provide anti-retroviral treatment to patients with HIV/Aids and the appointment of additional emergency practitioners at emergency medical services to assist during the FIFA Soccer World Cup tournament.



- **Irregular expenditure**

- Irregular expenditure totalling R4 293 000 was incurred as a result of non-compliance with the financial delegations issued by the accounting officer, as well as not following proper procurement processes.

- **Material underspending of the budget**

- The department materially underspent the budget on programmes 2 and 8 to the amount of R214 960 000.

C. OTHER MATTERS

- **Non-compliance with applicable legislation**

Treasury Regulations

- The department's fraud prevention plan, the first one since 2005-06, was approved by the accounting officer on 23 March 2009, but it was not implemented during the year under review.

- **Key governance responsibilities**

- The financial statements were subjected to material amendments resulting from the audit.
- There were significant deficiencies in the design and implementation of internal control in respect of financial and risk management.
- A risk assessment was not conducted on a regular basis and a risk management strategy, which included a fraud prevention plan, was not used as set out in the Treasury Regulations.
- The prior year audit findings had not been substantially addressed.
- The information systems were not appropriate to facilitate the preparation of a performance report that was accurate and complete.
- Adequate control processes and procedures were not designed and implemented to ensure the accuracy and completeness of reported performance information.

- **Late finalisation of the audit report**

- In terms of section 40(2) of the PFMA, I am required to submit my report to the accounting officer within two months of the receipt of the financial statements. In the interest of improving accountability and finalising internal processes to ensure that high-quality standards of reporting were maintained, the finalisation of the audit report was delayed.

D. REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

- **Report on performance information**

- **Incomplete reporting on actual achievements in the annual report**

- The actual progress on one indicator relating to programme 2, which was prescribed by the national Department of Health, was not reported on in the annual report, as data and

- evidence in relation to this indicator were not collected by the department during the year.
- Four indicators evaluated for programme 2 were listed in the annual performance plan, but targets were not specified.
- **Usefulness and reliability of reported performance information**
 - Inconsistently reported performance information
 - § The data element/indicator definition provided by the national Department of Health was not applied for eight indicators.
 - § The indicators for 43 provincial and national indicators and seven provincial indicators were not defined to allow for data to be collected consistently.
 - Reported performance information not relevant
 - § The targets set for 11 performance indicators under programme 2 and six performance indicators under programme 4 did not appear to be relevant in relation to the department's actual performance over the past two to three financial years.
 - § Explanations for variances of more than 10% between the planned and actual performance in the annual report, as specified by the department's internal guidelines, were not provided for 37 indicators under programme 2 and 12 indicators under programme 4.
- **Reported performance information not reliable**
 - Sufficient appropriate evidence could not be obtained in all cases as the relevant source documentation could not be provided for audit purposes, for example:
 - § The number of facilities managed by the department and reported on in the annual report differed from the number of facilities quoted in the annual performance plan in respect of seven performance measures/indicators.
 - § Formal data sources were not identified for 10 indicators under programme 2.
 - § The information entered on the provincial information management database was not always consistent when compared to the monthly summaries. Furthermore, information entered on the database for two forms was inconsistent compared to the data on the hospital throughput form.
 - § For certain indicators the actual achievement reported in the annual report differed from that reported in the monitoring and evaluation report and the quarterly performance report.

E. OTHER REPORTS

• Performance audits

- A performance audit of the department's infrastructure delivery process is in progress. The



performance audit is focusing on the following key elements of the infrastructure delivery process: (i) demand management, (ii) acquisition management, (iii) project management and information, and (iv) commissioning and utilisation. It is anticipated that the report will be tabled by 30 November 2009.

- A performance audit was also conducted at the department on entities that are connected with government employees and doing business with this and other departments of the Western Cape Provincial Government. This report was issued in August 2008 and tabled in June 2009.

7. Social Development

A. AUDIT OPINION

- **Financially unqualified with other matters**

B. EMPHASIS OF MATTERS

- **Material underspending of the budget**
 - The department materially underspent the budget on programme 2: social welfare services to the amount of R16,8 million. As indicated in note 4.1 to the appropriation statement, this was mainly due to the delay in the payment of the occupation-specific dispensation for social workrelated posts, which was still being considered in the bargaining chambers, as well as the retention of fees from the contractors for the building of a drug abuse centre.

C. OTHER MATTERS

- **Key governance responsibilities**
 - The financial statements were subjected to material amendments resulting from the audit.
- **Investigations**
 - Eight of the 15 cases referred to the provincial forensic investigative unit during the year were still being investigated at the end of the financial year. Three cases related to alleged financial mismanagement; one to alleged irregularities; one to alleged unfair labour practices; two to alleged procurement corruption; and one to alleged non-compliance with transfer funding.
- **Late finalisation of audit report**
 - In terms of section 40(2) of the PFMA, I am required to submit my report to the accounting officer within two months of the receipt of the financial statements. Due to internal processes to ensure that quality standards were maintained as well as the resolution of audit findings, particularly in the area of incomplete asset registers and late adjustments made to the financial statements, I delayed the finalisation of my report, although the financial statements were received by 31 May 2009.

D. REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

- **Report on performance information**

- There were no significant findings.

E. OTHER REPORTS

- **Performance audit**

- A transversal performance audit was undertaken and finalised during the year under review regarding entities that are connected with government employees and doing business with departments of the Western Cape Provincial Administration. A separate audit report was tabled in this regard [PR 249/2008].

8. Local Government and Housing

A. AUDIT OPINION

- **Financially unqualified with other matters**

B. EMPHASIS OF MATTERS

- **Blocked housing projects**

- The department will investigate whether any fruitless and wasteful expenditure was incurred in the payments to complete the previously blocked housing projects.

C. OTHER MATTERS

- **Key governance responsibilities**

- The financial statements submitted for auditing were subjected to material amendments resulting from the audit.
- Adequate control processes and procedures were not designed and implemented to ensure the accuracy and completeness of reported performance information.

- **Investigations**

- Forensic investigations are being performed by the provincial forensic investigative unit to probe irregularities in respect of two cases of alleged procurement fraud.
- At the date of this report, the special investigating unit was still investigating various cases of alleged irregularities. Additional detail is disclosed in the accounting officer's report.

- **Late finalisation of audit report**

- In terms of section 40(2) of the PFMA, I am required to submit my report to the accounting officer within two months of the receipt of the financial statements. Due to internal processes to ensure that quality standards were maintained as well as the late resolution of audit findings and final adjustments that had to be made to the financial statements, I have delayed the

finalisation of my report, although the financial statements were received by 31 May 2009.

D. REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

- **Report on performance information**

Reliability of reported performance information

- The evidence provided to support the performance information as reported in the draft annual report was in a number of instances materially inconsistent with the reported performance information. This was subsequently adjusted in the annual report.

E. OTHER REPORTS

- **Performance audits**

- A transversal performance audit was undertaken and finalised during the year under review relating to entities that are connected with government employees doing business with departments of the Western Cape Provincial Administration [PR 249/2008].
- A transversal performance audit is currently being conducted concerning the use of consultants by the department. A separate report will be issued in this regard by 30 November 2009.

9. Environmental Affairs and Dev

A. AUDIT OPINION

- **Financially unqualified with other matters**

B. OTHER MATTERS

- **Key governance responsibilities**

- Significant difficulties were experienced during the audit concerning delays or the availability of requested information.
- The financial statements submitted for auditing were subjected to material amendments resulting from the audit.
- Adequate control processes and procedures were not designed and implemented to ensure the accuracy and completeness of reported performance information.

- **Investigations**

- Due to a break-in at the store of the department, assets with a cost of R631 284 were damaged. The total value of the damages could not be reliably estimated. The incident was reported to the South African Police Service.
- Assets with a cost of R494 381 could not be accounted for during the physical verification process of assets. The whereabouts of these assets were under investigation in terms of the department's theft and losses processes.
- Two investigations are being conducted by the forensic investigative unit regarding alleged irregularities in the procurement of folders/files and in the payment of air travel accounts without the necessary authorisation. The investigations were still in progress at the reporting date.



C. REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

• Report on performance information

Non-compliance with regulatory requirements

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

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

Usefulness and reliability of reported performance information

- Reported performance information not relevant

With regard to the compliance and enforcement as well as the impact management subprogrammes, the following targets were not specific in clearly identifying the nature and required level of performance: (i) respond to and investigate all complaints, (ii) four sector-based enforcement operations, and (iii) monitor the quality of applications and accept 90% of all applications on first submission.

With regard to the impact management as well as the pollution and waste management subprogrammes, the following targets were not time bound in specifying the time period or deadline for delivery: (i) continue the development of the Western Cape Land Management Law, and (ii) further roll out of the waste management in education programme.

10. Transport and Public Work

A. AUDIT OPINION

• Qualified

B. BASIS FOR QUALIFIED OPINION

• Receivables for departmental revenue

- Significant weaknesses were identified in the management of debtor files. As a consequence, the information on the debtors management system could not be relied on. Alternative procedures were performed on the immovable asset register to determine the extent of properties being leased by the department; however, sufficient appropriate audit evidence in respect of the completeness of the information on the debtors management system could not be obtained. As a result, I was unable to satisfy myself as to the completeness of the property debtors disclosed in note 22: receivables for departmental revenue.

C. EMPHASIS OF MATTERS

• Basis of accounting

- On 31 March 2009, the National Treasury granted the department exemption from including in the annual financial statements those immovable assets where there is uncertainty regarding its ownership. Consequently, the financial statements did not assert the completeness of immovable assets.

• Roads capital account

- I did not express an opinion on the roads capital account, because an approved accounting framework did not exist for the capital account. The accounting treatment of the capital account was therefore not certain. Details on the income and current assets relating to the capital account were disclosed in the accounting officer's report, while the compensation of employees and payments for goods and services relating to the capital account were incorporated in the voted fund's expenditure of the department.

• Chapman's Peak

- The financial impact of a concession agreement concluded for the design, construction, financing, operation and maintenance of Chapman's Peak Drive as a toll road, resulted in the department incurring expenditure of R28 182 000 (2007-08: R12 745 000). At the time of signing this report, a report on the joint investigation by the Provincial Treasury, the National Treasury and the department into its sustainability, financial viability and possible impropriety was outstanding.

• Exceeding contract values

- Alleged fruitless and wasteful expenditure incurred on infrastructure projects, including the Western Cape Nurses College, Valkenberg High Care Nurses Admission Unit and various schools, was identified. The process of determining whether the expenditure should be recovered from the guarantor or written off as irrecoverable fruitless and wasteful expenditure was still in progress at the time of finalising this report.
- The contract value for the construction of the Table View Primary, Samora Machel and Kuyasa Schools was exceeded. The excess may be considered fruitless and wasteful expenditure. At the time of finalising this report, the determination had not been concluded.

• Irregular expenditure

- According to the accounting officer's report and disclosure notes to the financial statements, the department was investigating the regularity of expenditure incurred amounting to R14 171 221.

• Material underspending of the budget

- The department materially underspent its budget by R313 933 000. This was primarily due to underspending the national transport disaster management grant amounting to R273 650 777, which affected the roads infrastructure as well as the public works programmes.

D. OTHER MATTERS

• Key governance responsibilities

- Significant difficulties were experienced during the audit concerning delays or the availability of requested information.
- The financial statements were subjected to material amendments resulting from the audit.
- Key officials were not always available throughout the audit process.
- There were significant deficiencies in the design and implementation of internal control in respect of compliance with applicable laws and regulations.
- The information systems were not appropriate to facilitate the preparation of the financial statements.
- A risk assessment was not conducted on a regular basis and a risk management strategy, which included a fraud prevention plan, was not documented and used as set out in the Treasury Regulations.
- The prior year audit findings were not substantially addressed.
- SCOPA resolutions were not substantially implemented.
- Adequate control processes and procedures were not designed and implemented to ensure the accuracy and completeness of reported performance information.

• Investigations

- The forensic investigative unit within the Department of the Premier was investigating 23 cases of alleged irregular expenditure amounting to R22 463 770 and alleged fruitless and wasteful expenditure amounting to R478 167.
- The department was investigating 25 cases of alleged irregular expenditure amounting to R37 984 524 and alleged fruitless and wasteful expenditure amounting to R229 565.

Certain of the reports on these cases were brought to the attention of the accounting officer in the 2005-06 financial year and to date the actions to finalise these reports are at various stages of completion.

• Delay in the finalisation of the audit

- In terms of section 40(2) of the PFMA, I am required to submit my report to the accounting officer within two months of the receipt of the financial statements. Due to internal processes to ensure that quality standards were maintained as well as the late resolution of audit findings, particularly in the area of capital assets, I delayed the finalisation of my report, although the financial statements were received on 31 May 2009.

E. REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

• Report on performance information

Reported performance information not reliable

- Sufficient appropriate audit evidence in relation to the reported performance information of programme 4 (public transport) and programme 5 (traffic management) could not be obtained, as the relevant source documentation could not be provided for audit purposes.

F. OTHER REPORTS

- **Performance audit**

- A performance audit is currently being conducted concerning the department's utilisation of consultants. A separate report will be issued in this regard.

11. Agriculture

A. AUDIT OPINION

- **Financially unqualified with other matters**

B. EMPHASIS OF MATTERS

- **Material underspending of the budget**

- The department materially underspent the budget by R20 945 000. The underspending related to disaster fund schemes that were not finalised for the year under review and which did not have a negative effect on the service delivery of the department.

C. OTHER MATTERS

- **Key governance responsibilities**

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

- **Investigations**

- An investigation was conducted by an independent consulting firm on request of the department. The investigation was initiated based on an allegation of a possible conflict of interest by an employee. The investigation resulted in criminal proceedings being instituted against an employee and dismissal.

D. REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

- **Report on performance information**

Non-compliance with regulatory requirements

- The accounting officer did not ensure that the department had and maintained an effective, efficient and transparent system and internal controls regarding performance management, as required in terms of the PFMA.

12. Economic Development and Tourism

A. AUDIT OPINION

- **Financially unqualified with other matters**

B. EMPHASIS OF MATTERS

- **Departmental revenue and receivables**
 - Tax revenue amounting to R4 844 000 was included in departmental revenue. This related to income from the Liquor Board.

C. OTHER MATTERS

- **Key governance responsibilities**
 - The financial statements submitted for auditing were subjected to material amendments resulting from the audit.
- **Delay in the finalisation of the audit**
 - In terms of section 40(2) of the PFMA, I am required to submit my report to the accounting officer within two months of the receipt of the financial statements. Due to internal processes to ensure that quality standards were maintained, I delayed the finalisation of my report, although the financial statements were received on 31 May 2009.

13. Cultural Affairs and Sport

A. AUDIT OPINION

- **Financially unqualified with other matters**

B. OTHER MATTERS

- **Non-compliance with applicable legislation**
 - Total accruals included an amount of R1 146 000 that had been outstanding for periods in excess of the payment term of 30 days.
- **Key governance responsibilities**
 - Significant difficulties were experienced during the audit concerning delays or the availability of requested information.
 - The prior year audit findings were not substantially addressed.
 - The information systems were not appropriate to facilitate the preparation of a performance report that was accurate and complete.
 - Adequate control processes and procedures were not designed and implemented to ensure the accuracy and completeness of reported performance information.

C. REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

- **Report on performance information**

Non-compliance with regulatory requirements

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

SUMMARY OF AUDIT REPORTS – PROVINCIAL PUBLIC ENTITIES

1. Destination Marketing Organisation

A. AUDIT OPINION

- **Financially unqualified with other matters**

B. EMPHASIS OF MATTERS

- **Claim against the Destination Marketing Organisation**
 - The entity received a claim amounting to R2,7 million on 5 June 2009.

C. OTHER MATTERS

- **Key governance responsibilities**
 - The financial statements were subjected to material amendments resulting from the audit.
- **Late finalisation of audit report**
 - In terms of section 55(1)(d)(iii) of the PFMA, I am required to submit my report to the accounting authority within two months of the receipt of the financial statements. In the interest of improving accountability and finalising internal processes to ensure that high-quality standards of reporting were maintained as well as the late resolution of audit findings and final adjustments that had to be made to the financial statements, I delayed the finalisation of my report, although the financial statements were received by 31 May 2009.

2. Western Cape Cultural Commission

A. AUDIT OPINION

- **Financially unqualified with other matters**

B. OTHER MATTERS

- **Non-compliance with applicable legislation**

Public Finance Management Act

- The accounting authority did not develop and agree a framework of acceptable levels of materiality and significance with the executive authority, in contravention of the Treasury Regulations read in conjunction with the PFMA.
- **Key governance responsibilities**
 - The financial statements were subjected to material amendments resulting from the audit.

3. Western Cape Gambling and Racing Board

A. AUDIT OPINION

- **Financially unqualified with other matters**

B. OTHER MATTERS

- **Key governance responsibilities**
 - The financial statements were subjected to material amendments resulting from the audit.
 - The annual report was not submitted for consideration prior to the tabling of the auditor's report.

4. Western Cape Investment and Trade Promotion Agency

A. AUDIT OPINION

- **Financially unqualified with other matters**

B. OTHER MATTERS

- **Key governance responsibilities**
 - Significant difficulties were experienced during the audit concerning delays or the availability of requested information.
 - The financial statements were subjected to material amendments resulting from the audit.
 - The prior year audit findings were not substantially addressed.
 - The information systems were not appropriate to facilitate the preparation of a performance report that was accurate and complete.
- **Delay in finalisation of the audit**
 - In terms of section 55(1)(d)(iii) of the PFMA, I am required to submit my report to the accounting officer within two months of the receipt of the financial statements. Due to internal processes to ensure that quality standards were maintained as well as the late finalisation of audit queries, particularly around the valuation of the available-for-sale investment, I delayed the finalisation of my report, although the financial statements were received on 31 May 2009.

D. REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

- **Report on performance information**

Reported performance information not reliable

- Sufficient appropriate evidence with regard to the reported performance information of the trade and investment promotion programmes could not be obtained, as the information system used for generating performance information was not appropriate to facilitate the preparation of accurate and complete actual performance information.

E. OTHER REPORTS

- **Special audit**

- An independent review, requested by the City of Cape Town, is being conducted to evaluate WESGRO on governance, alignment, performance and stakeholder satisfaction for the 2007-08 financial year.

5. Western Cape Language Committee

A. AUDIT OPINION

- **Financially unqualified with other matters**

B. OTHER MATTERS

- **Non-compliance with applicable legislation**

- The accounting authority did not develop and agree a framework of acceptable levels of materiality and significance with the executive authority, in contravention of the Treasury Regulations read in conjunction with the PFMA.

- **Key governance responsibilities**

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

6. Western Cape Liquor Board

A. AUDIT OPINION

- **Qualified**

B. BASIS FOR QUALIFIED OPINION

- **Other income and receivables**

- The Liquor Board remained unable to accurately and completely account for the revenue and receivables raised in respect of liquor licences due to the fact that liquor licence income was collected by SARS in an agency relationship, and SARS paid the money over in a lump sum. SARS did not supply the Liquor Board with a complete and detailed breakdown of the income collected. The board could therefore not determine which debtors had settled their debts in respect of liquor licences at year-end. The above-mentioned situation was as a result of the legislation pertaining to this matter not having been finalised.

C. OTHER MATTERS

- **Key governance responsibilities**

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



- The information systems were not appropriate to facilitate the preparation of a performance report that was accurate and complete.
- The prior year audit findings were not substantially addressed.

- **Delay in finalisation of the audit**

- In terms of section 55(1)(d)(iii) of the PFMA, I am required to submit my report to the accounting officer within two months of the receipt of the financial statements. Due to internal processes to ensure that quality standards were maintained as well as the late finalisation of audit queries, I delayed the finalisation of my report, although the financial statements were received on 31 May 2009.

7. Western Cape Nature Conservation Board

A. AUDIT OPINION

- **Financially unqualified with other matters**

B. EMPHASIS OF MATTERS

- **Contingent liabilities**

- The public entity is the respondent in five cases brought against it for fire damage, flood damage or personal injury, of which the outcomes are uncertain.

C. OTHER MATTERS

- **Non-compliance with applicable legislation**

- The entity did not, in all cases, pay their suppliers within 30 days of receipt of invoices.

- **Key governance responsibilities**

- Significant difficulties were experienced during the audit concerning delays or the availability of requested information.
- The financial statements were subjected to material amendments resulting from the audit.
- The internal audit function did not operate in terms of an approved internal audit plan.

- **Investigations**

- An investigation was conducted after year-end into the alleged fraudulent activities of a member of staff who has since vacated his position. The matter was reported to the South African Police Service.

- **Late finalisation of audit report**

- In terms of section 55(1)(d)(iii) of the PFMA, I am required to submit my report to the accounting authority within two months of the receipt of the financial statements. Due to internal processes to ensure that quality standards were maintained, as well as the late

submission of the adjusted financial statements during the audit, I delayed the finalisation of my report, although the financial statements were received by 31 May 2009.

D. REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

- **Report on performance information**

- § Non-compliance with regulatory requirements

- The internal audit plans of the entity did not include reference to the auditing of performance information.

8. Western Cape Provincial Development Council

A. AUDIT OPINION

- **Financially unqualified with other matters**

B. EMPHASIS OF MATTERS

- Irregular expenditure
 - Irregular expenditure to the amount of R119 000 was incurred during the financial year under review, as a proper supply chain management process had not been followed.

C. OTHER MATTERS

- **Non-compliance with applicable legislation**

- Public Finance Management Act**

- The public entity did not have a formal PFMA implementation plan and also did not appoint an official responsible to oversee compliance with the PFMA.

- Treasury Regulations**

- Various aspects of Treasury Regulation 16A were contravened due to a lack of a formal supply chain management policy.

- **Key governance responsibilities**

- The financial statements were subjected to material amendments resulting from the audit.
 - The entity did not have an audit committee or an internal audit function in operation throughout the financial year.
 - There were significant deficiencies in the design and implementation of internal control in respect of financial and risk management.
 - There were significant deficiencies in the design and implementation of internal control in respect of compliance with applicable laws and regulations.
 - Powers and duties had not been assigned, as set out in the PFMA.
 - The prior year audit findings were not substantially addressed.

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

- **Delay in finalisation**

- Due to internal processes to ensure that quality standards were maintained, the audit report of the Western Cape Provincial Development Council was not finalised by the legislative deadline.

D. REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

- **Report on performance information**

Non-compliance with regulatory requirements

- The accounting authority did not ensure that the public entity had and maintained an effective, efficient and transparent system and internal controls regarding performance management.

A. AUDIT OPINION

- **Qualified**

B. BASIS FOR QUALIFIED OPINION

- **Subsistence and travel**

- Included in subsistence and travel were claims totalling R205 493 that had been paid to officials of the Youth Commission for which valid supporting documentation could not be provided.

- **Other operating expenditure**

- Included in other operating expenditure were amounts totalling R126 996. It could not be determined whether these transactions had been conducted in the normal course of business.

C. EMPHASIS OF MATTERS

- **Going concern**

- The Western Cape Provincial Youth Commission Act, 2004 (Act No. 5 of 2004) was repealed via the Repeal Bill B5 of 2009 issued in *Government Gazette No. 6619 of 7 April 2009*. The commission ceased to operate with effect from 31 May 2009.

- **Irregular expenditure**

- Irregular expenditure to the amount of R4 271 299 was incurred, as the entity had deviated from Treasury Regulations and supply chain management principles.

- **Fruitless and wasteful expenditure**

- Fruitless and wasteful expenditure to the amount of R251 554 was incurred, as the entity's policies regarding limits on the usage of cellphones and telephones were not complied with and the approved classes of hired motor vehicles were disregarded.

D. OTHER MATTERS

- **Non-compliance with applicable legislation**

Public Finance Management Act and Treasury Regulations

- Members of the accounting authority did not declare their business interests.
- The entity did not have a formal fraud prevention plan or risk management policy.
- The accounting authority did not take effective and appropriate steps to prevent fruitless and wasteful expenditure.
- The Treasury Regulations require 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 or, in the case of civil claims, from the date of settlement or court judgement. However, accruals to the amount of R269 648 had been outstanding for longer than 30 days.
- The entity did not follow proper procurement procedures.
- The entity's strategic plan did not comply with essential elements.
- The entity effected a significant number of cash cheque payments, all in excess of R2 000, and did not obtain the relevant treasury approval.

- **Key governance responsibilities**

- Significant difficulties were experienced during the audit concerning delays or the availability of requested information.
- The financial statements were subjected to material amendments resulting from the audit.
- Key officials were not available throughout the audit process.
- There were significant deficiencies in the design and implementation of internal control in respect of financial and risk management.
- There were significant deficiencies in the design and implementation of internal control in respect of compliance with applicable laws and regulations.
- A risk assessment was not conducted on a regular basis and a risk management strategy, which included a fraud prevention plan, was not documented and used.
- The prior year audit findings were not substantially addressed.
- SCOPA resolutions were not substantially implemented.
- The information systems were not appropriate to facilitate the preparation of a performance report that was accurate and complete.
- Adequate control processes and procedures were not designed and implemented to ensure the accuracy and completeness of reported performance information.
- A strategic plan was not prepared and approved for the financial year under review for

purposes of monitoring the performance in relation to the budget and delivery against its mandate, predetermined objectives, outputs, indicators and targets.

- **Investigations**

- An investigation was concluded by the forensic audit division of the Western Cape Provincial Government into alleged procurement irregularities. The investigation resulted in expenditure being classified as irregular and the process of recovering the money from an ex-official has been instituted by the Department of the Premier.
- An investigation was concluded by the forensic audit division of the Western Cape Provincial Government into alleged travel and subsistence and procurement corruption. The investigation resulted in the suspension of three employees of the entity and recovery of monies.

E. REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

- **Report on performance information**

Non-compliance with regulatory requirements

- Lack of effective, efficient and transparent systems and internal controls regarding performance management
- The accounting authority did not ensure that the Western Cape Provincial Youth Commission had and maintained an effective, efficient and transparent system and internal controls regarding performance management.

Usefulness and reliability of reported performance information

- Reported performance information not relevant

With regard to the programme and events programme, none of the targets were well defined or specific in clearly identifying the nature and required level of performance, for example: (i) advocating for a number of national youth service programmes, (ii) work related training of staff, and (iii) reports.

Twenty of the 37 targets selected for review were not measurable in identifying the required performance, for example: (i) the volunteer recruitment for the 2010 FIFA Soccer World Cup tournament, and (ii) awareness campaign.

None of the targets selected for review were time bound in specifying the time period or deadline for delivery, as timelines were neither established nor documented in the annual performance plan.

SUMMARY OF AUDIT REPORTS – PROVINCIAL OTHER ENTITIES

1. Cape Medical Depot

A. AUDIT OPINION

- **Financially unqualified with other matters**

B. EMPHASIS OF MATTERS

- **Irregular as well as fruitless and wasteful expenditure**
 - Irregular expenditure to the amount of R109 440 and R242 344 were incurred during the 2006-07 and 2007-08 financial years, respectively, in respect of equipment that was not purchased in accordance with supply chain management rules and a payment that was inappropriately authorised. The expenditure in both cases has to date not been condoned or recovered.
 - Fruitless and wasteful expenditure amounting of R10 742 was incurred during the 2005-06 financial year for rental payments in respect of equipment that had not been in use since the 2002-03 financial year. The expenditure has not been condoned or recovered to date.

C. OTHER MATTERS

- **Non-compliance with Treasury Regulations**
 - The entity did not comply with the requirements of the Treasury Regulations, as payments amounting to R2 442 410 due to creditors were not settled within 30 days of receipt of an invoice.
- **Key governance responsibilities**
 - Significant difficulties were experienced during the audit concerning delays or the availability of requested information.
 - The financial statements were subjected to material amendments resulting from the audit.
 - Key officials were not available throughout the audit process.
 - There were significant deficiencies in the design and implementation of internal control in respect of financial and risk management.
 - The information systems were not appropriate to facilitate the preparation of financial statements.
 - The prior year audit findings were not substantially addressed.
- **Late finalisation of the audit report**
 - In terms of section 40(2) of the PFMA, I am required to submit my report to the accounting officer within two months of the receipt of the financial statements. Due to internal processes to ensure that quality standards were maintained, as well as the late submission of the adjusted financial statements during the audit, I delayed the finalisation of my report, although the financial statements were received by 31 May 2009.

2. Government Motor Transport

A. AUDIT OPINION

- **Financially unqualified with other matters**

B. EMPHASIS OF MATTERS

- **Contingent liability**
 - The financial statements indicated that the trading entity is a party to claims instituted against it by third parties, relating to accidents involving state vehicles. The outcome of these claims cannot presently be determined. Consequently, no provision had been made for any liability that might result.

C. OTHER MATTERS

- **Key governance responsibilities**
 - Significant difficulties were experienced during the audit concerning delays or the availability of requested information.
 - The financial statements were subjected to material amendments resulting from the audit.
 - There were significant deficiencies in the design and implementation of internal control in respect of financial and risk management.
 - The information systems were not appropriate to facilitate the preparation of financial statements.
 - The prior year audit findings were not substantially addressed.
 - Adequate control processes and procedures were not designed and implemented to ensure the accuracy and completeness of reported performance information.
- **Delay in the finalisation of the audit**
 - In terms of section 40(2) of the PFMA, I am required to submit my report to the accounting officer within two months of the receipt of the financial statements. Due to internal processes to ensure that quality standards were maintained as well as the late resolution of audit findings, I delayed the finalisation of my report, although the financial statements were received on 31 May 2009.

D. REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

- **Report on performance information**

Non-compliance with regulatory requirements

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

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

Usefulness and reliability of reported performance information

- Reported performance information not relevant

The targets for all of the objectives were not specific in clearly identifying the nature and the required level of performance and were not measurable in identifying the required performance.

3. Heritage Western Cape

A. AUDIT OPINION

- **Financially unqualified with other matters**

B. OTHER MATTERS

- **Non-compliance with applicable legislation**
 - The accounting authority did not develop and agree a framework of acceptable levels of materiality and significance with the executive authority.
- **Key governance responsibilities**
 - The financial statements were subjected to material amendments resulting from the audit.

4. Western Cape Housing Development Fund

A. AUDIT OPINION

- **Disclaimer of opinion**

B. BASIS FOR DISCLAIMER OF OPINION

- **Property**
 - There was a lack of appropriate accounting records of the initial transactions that transferred various properties to the present owners as stated in the title deeds. Consequently, I could not satisfy myself that the fund had rights and ownership to all the properties as listed in the property register. Alternative audit procedures could not be performed in this regard.
 - Furthermore, in respect of properties for which rights and ownership had been established, the latest municipal valuations had not been updated at 31 March 2009 in the financial statements.

C. EMPHASIS OF MATTERS

- **Basis of accounting**
 - The entity's policy is to prepare financial statements on the entity-specific basis of accounting, as set out in note 1 to the financial statements.



D. OTHER MATTERS

- **Key governance responsibilities**

- The financial statements were subjected to material amendments resulting from the audit.
- There were significant deficiencies in the design and implementation of internal control in respect of financial and risk management.
- The information systems were not appropriate to facilitate the preparation of financial statements.
- The prior year audit findings were not substantially addressed.
- SCOPA resolutions were not substantially implemented.

- **Late finalisation of audit report**

- I am required to submit my report to the accounting officer within two months of the receipt of the financial statements. Due to internal processes to ensure that quality standards were maintained as well as the late resolution of audit findings and adjustments that had to be made to the financial statements, I delayed the finalisation of my report, although the financial statements were received by 31 May 2009.

E. REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

- **Report on performance information**

- The entity did not report performance against predetermined objectives, as it is currently dormant and all objectives are reported in the annual report of the Western Cape Department of Local Government and Housing.



ANNEXURE 5: AUDIT OUTCOMES: FIVE-YEAR REVIEW OF AUDIT OUTCOMES

Audit outcomes of the provincial legislature for the previous five years

Department	2008-09	2007-08	2006-07	2005-06	2004-05
Provincial Parliament	FU (with other matters)	FU (with other matters)	FU	FU	FU

Audit outcomes of provincial departments for the previous five years

Department	2008-09	2007-08	2006-07	2005-06	2004-05
Agriculture	FU (with other matters)	FU (with other matters)	FU (with other matters)	FU (with other matters)	FU (with other matters)
Community Safety	FU (with other matters)	FU (with other matters)	Q	Q	FU (with other matters)
Cultural Affairs and Sport	FU (with other matters)	FU (with other matters)	FU	FU (with other matters)	FU (with other matters)
Economic Development and Tourism	FU (with other matters)	FU	FU (with other matters)	FU (with other matters)	FU (with other matters)
Education	FU (with other matters)	FU (with other matters)	Q	D	Q
Environmental Affairs and Development Planning	FU (with other matters)	FU (with other matters)	FU (with other matters)	FU	FU (with other matters)
Health	FU (with other matters)	FU (with other matters)	FU (with other matters)	FU (with other matters)	FU (with other matters)
Housing	FU (with other matters)	N/A	N/A	N/A	FU (with other matters)
Local Government	FU (with other matters)	N/A	N/A	N/A	FU (with other matters)

Audit outcomes of provincial departments for the previous five years (continued)

Department	2008-09	2007-08	2006-07	2005-06	2004-05
Local Government and Housing ¹	FU (with other matters)	FU (with other matters)	FU (with other matters)	FU (with other matters)	N/A
Premier	FU (with other matters)	FU (with other matters)	Q	FU (with other matters)	FU (with other matters)
Provincial Treasury	FU (with other matters)	FU (with other matters)	FU	FU	FU (with other matters)
Social Development	FU (with other matters)	FU	FU (with other matters)	FU (with other matters)	FU (with other matters)
Transport and Public Works	Q	Q	Q	FU (with other matters)	FU (with other matters)

Audit outcomes of provincial public entities for the previous five years

Public entity	2008-09	2007-08	2006-07	2005-06	2004-05
Western Cape Provincial Youth Commission	Q	FU (with other matters)	FU (with other matters)	Adverse	N/A
Western Cape Nature Conservation	FU (with other matters)	Q	FU (with other matters)	FU (with other matters)	Q
Western Cape Provincial Development Council	FU (with other matters)	FU (with other matters)	FU (with other matters)	FU (with other matters)	FU
Western Cape Gambling and Racing Board	FU (with other matters)	FU (with other matters)	FU	FU	FU
Western Cape Cultural Commission	FU (with other matters)	A	FU	FU	Q

¹ Prior to 2005-06, the Department of Local Government and Housing consisted of two separate departments, namely the Department of Local Government and the Department of Housing, as indicated in table 2 above.

Audit outcomes of provincial public entities for the previous five years (continued)

Public entity	2008-09	2007-08	2006-07	2005-06	2004-05
Western Cape Language Committee	FU (with other matters)	Q	FU	FU	FU (with other matters)
Destination Marketing Organisation	FU (with other matters)	FU (with other matters)	FU (with other matters)	FU	FU (with other matters)
Western Cape Investment and Trade Promotion Agency	FU (with other matters)	FU (with other matters)	FU (with other matters)	FU	FU (with other matters)
Western Cape Liquor Board	Q	Q	Q	Q	N/A

Audit outcomes of provincial other entities for the previous five years

Public entity	2008-09	2007-08	2006-07	2005-06	2004-05
Western Cape Housing Development Fund	D	Q	D	D	D
Cape Medical Depot	FU (with other matters)	FU (with other matters)	FU (with other matters)	FU (with other matters)	FU (with other matters)
Government Motor Transport	FU (with other matters)	FU (with other matters)	FU (with other matters)	FU (with other matters)	FU (with other matters)
Heritage Western Cape	FU (with other matters)	FU	FU	FU	FU (with other matters)

Key

A = Adverse	D = Disclaimer	Q = Qualified	FU (with other matters) = Financially unqualified (with other matters)	FU = Financially unqualified (with no other matters)
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PR 288/2009
ISBN 978-0-621-39045-2



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