



A U D I T O R - G E N E R A L



Provincial general report of the Auditor-General

ON THE AUDIT OUTCOMES OF THE
EASTERN CAPE PROVINCIAL DEPARTMENTS,
PUBLIC ENTITIES AND OTHER ENTITIES
for the financial year 2007-08

PUBLISHED BY AUTHORITY

PR 304/2008

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FOREWORD

It gives me great pleasure to present my 2007-08 general report to the provincial legislature, summarising the results of the audit outcomes of the Eastern Cape provincial government departments and public entities for the financial year ended 31 March 2008.

The purpose of this general report is to provide an overview of the audit outcomes at provincial departments and public entities. The main body of this report covers both provincial departments and public entities reflected under sections covering financial reporting results, performance reporting results, results of information systems audit, issues driving unqualified audit reports, PAC resolutions not implemented, tabling of annual reports and results of other audits.

Considerable attention needs to be given to the issues of accountability and governance in the public sector. In this regard, the attainment of unqualified audit reports by all government entities is a vision we fully subscribe to in our efforts to strengthen South Africa's democracy, thereby building public confidence. The critical message we want to highlight to the legislatures and the executive is that it is possible to obtain an unqualified audit report if the following basic principles are observed and internal control systems are in place and constantly monitored by leadership:

- Close leadership involvement is required to address challenges such as human resource competency and capacity issues, among others, and to monitor the implementation of action plans appropriately designed to address the various audit issues.
- Monthly in-year monitoring should include financial statements.

We trust that the analyses contained in this general report will help guide the executive and the legislatures through the various portfolio committees and the standing committees on public accounts to work towards achieving unqualified audit opinions. Most of the problems that we identified in our audits relate to basic internal control issues that require effective monitoring by the leadership so that they can be addressed immediately. The analysis further makes specific reference to the areas where these internal control shortcomings were identified, including their level of prevalence in each sphere of government.

The Eastern Cape public sector, excluding local government, comprised 13 departments and nine public entities.

Of the 13 provincial departments analysed:

- Two (16%) departments had adverse audit opinions, namely Education and Health.
- Five (38%) departments were financially qualified, namely Agriculture; Economic Development, Environmental Affairs; Housing, Local Government and Traditional Affairs; Roads and Transport and Social Development.



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- Six (46%) departments were unqualified financially but had concerns in areas of internal control, governance and legislative non-compliance, namely Public Works; Safety and Liaison; Sport, Recreation, Arts and Culture; Office of the Premier; Provincial Legislature and Provincial Treasury.

Of the nine provincial public entities analysed:

- The audit opinion of one (10%) public entity, namely the Eastern Cape Appropriate Technology Unit, was a disclaimer, which is one of the worst audit opinions.
- Four (45%) public entities, namely the Eastern Cape Liquor Board, the Eastern Cape Parks Board, the Eastern Cape Provincial Arts and Culture Council and the Mayibuye Transport Corporation, received qualified audit opinions.
- The reports of four (45%) public entities that received unqualified financial opinions contained other matters. These were the Eastern Cape Development Corporation, the Eastern Cape Gambling and Betting Board, the Eastern Cape Tourism Board and the Eastern Cape Youth Commission.

The findings leading to the financial qualifications and other matters are common to the Eastern Cape departments and public entities. The majority of audit findings in respect of provincial departments and public entities that were qualified resulted from issues on asset management. This affected seven (100%) departments and four (80%) public entities.

In addition to the financial qualifications, a number of departments had the following shortcomings:

- Non-compliance with relevant legislation (46%), mainly the Public Finance Management Act.
- Internal controls relating to the areas of material adjustments to financial statements (92%) during the audit were initially not detected by the departments' own internal controls.

The root causes of the shortcomings identified in the audit reports are primarily as follows:

- Inadequate governance arrangements
- Insufficient leadership supervision and monitoring
- Lack of capacity.

With regard to performance information for both departments and public entities, there has generally been an improvement thanks to the provincial treasury's involvement in readiness audits at the departments. The *Framework for Managing Programme Performance Information* issued by National Treasury in May 2007, various training initiatives and guidance from national and provincial treasury contributed to the improved results on the audit of performance information.

In conclusion, I wish to thank my staff in the Eastern Cape for their diligent efforts towards the fulfilment of our constitutional mandate. I would like to express my appreciation to members of the legislature as well as



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the executive for their cooperation and input during my visits to present the audit outcomes of the Eastern Cape 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 2008



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SECTION 1: FOLLOW-UP ON PRIOR YEAR GENERAL REPORT

1. IMPLEMENTATION OF ACTION PLANS BY LEADERSHIP

The improved audit outcomes in the Eastern Cape can be attributed to, inter alia, the following actions within the province:

- The provincial treasury embarked on a programme of support for all departments to help with the preparations for and the pre-review and timely submission of annual financial statements to the AG.
- Ongoing interaction between the departments and the AG on audit progress and possible outcomes to identify transversal issues.
- The provincial treasury, together with National Treasury, presented an annual PFMA preparation session to the departments, after which an action plan was drafted. The provincial treasury implemented a comprehensive action plan with continuous feedback to National Treasury to address issues emanating from the session.
- A provincial audit steering committee was appointed consisting of the provincial treasury, the Director General of the province and key heads of departments. This committee then compiled action plans to address all transversal issues and high-risk areas.
- The provincial treasury also conducted readiness audits at departments on performance information.

2. ONGOING MONITORING AND EVALUATION OF INTERNAL CONTROLS BY AUDIT COMMITTEE AND INTERNAL AUDIT

The Eastern Cape Provincial Administration has a shared internal audit service (SIAS) and audit committee which resided in the provincial treasury for the year under review and provides internal audit services to all departments except the Departments of Education, Public Works, Social Development and Health. Based on reviews, the work performed by the SIAS was not effective due to lack of capacity, skills shortages and staff turnover at senior level within the unit. The challenges remained the same for Health and Education.

Social Development and Public Works had an effective audit committee and internal audit unit. This yielded positive results for Public Works as they received an unqualified audit opinion with other matters.

3. COORDINATION BETWEEN PORTFOLIO COMMITTEES AND STANDING COMMITTEE

There is a very clear distinction between the powers and functions of the public accounts committee (PAC) and those of any other committee. Currently, some of the chairpersons of other portfolio committees are also members of the PAC. In cases where the chairperson of a portfolio committee is not a member of the PAC, that chairperson is invited to the hearings for entities over which he/she has oversight.

4. TREASURY'S MONITORING TOOL/CHECKLIST

Strengthening of the capacity of the provincial treasury to enable an improvement in financial management practices at provincial departments and public entities was a key recommendation emanating from the 2006-07 general report. National Treasury and the provincial treasury have embarked on the following:



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- o National Treasury provided a practical guideline for the preparation of annual financial statements.
- o National Treasury presented workshops and training sessions to clear any uncertainties experienced with the compilation of annual financial statements.
- o National Treasury dealt with exemptions requested by provincial departments.

5. STRENGTHENING CAPACITY OF PROVINCIAL TREASURY

In the 2006-07 general report, we recommended that a monitoring tool or checklist be developed by the National Treasury, in conjunction with the provincial treasury, to enable the legislature and the executive to monitor progress made with implementation of the relevant action plans and to assist with their respective oversight responsibilities on a periodic basis. The provincial Accountant-General made an effort in ensuring effective financial management in the Eastern Cape province by providing proactive guidance to provincial departments, public and other entities and by monitoring the implementation of their policies and guidance. Where requested, the provincial treasury provided support to departments experiencing a lack of financial and skills capacity.

6. EVALUATION OF HUMAN RESOURCE STRATEGIC FRAMEWORK

Human resource management plans were implemented in some of the provincial departments. Certain departments, however, are still experiencing staff shortages in excess of the 5% norm, which contributed to a lack of proper implementation of monitoring and supervision controls.



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SECTION 2: PROVINCIAL DEPARTMENTS

1. FINANCIAL REPORTING RESULTS

1.1 Introduction

The Eastern Cape provincial government comprises 13 departments, all of which have been included in our analysis.

We are in the process of finalising audit reports in respect of consolidated financial statements for provincial departments and public entities for the 2006-07 financial year. The financial information was received on 14 August 2008. We have not received the consolidated financial statements for the 2007-08 financial year.

The reasons for the delay in submission include difficulties experienced in reconciling many of the balances to the departmental annual financial statements and the provincial revenue fund.

1.2 Overview of audit opinions on provincial departments for 2007-08

- Table 1 below provides details as to the actual audit outcomes for the Eastern Cape provincial departments.

Table 1: Audit opinions on provincial departments

Type of audit opinion	2007-08		2006-07	
	Number	%	Number	%
Adverse	2	16%	3	23%
Disclaimer	0	0%	1	8%
Qualified	5	38%	7	53%
Financially unqualified (with other matters)	6	46%	2	16%
Financially unqualified (with no other matters)	0	0%	0	0%
Total analysed	13	100%	13	100%

There has been a noticeable improvement in the Eastern Cape province insofar as the financial qualifications are concerned, with only seven departments (53%) receiving adverse and qualified opinions in 2007-08 versus 11 (85%) in 2006-07. After receiving a disclaimer in the previous year, the Department of Public Works has now moved to a financially unqualified audit opinion (with other matters), which is indicative of the guidance and support provided by the provincial treasury.

Education and Health are the provincial departments that received an adverse opinion. Roads and Transport, Economic Development and Environmental Affairs, Agriculture, Housing, Local Government and Traditional



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Affairs and Social Development received financial qualifications. The six departments which were unqualified financially but had concerns raised on other matters are Public Works, Provincial Treasury, Sports, Recreation, Arts and Culture, Office of the Premier, Safety and Liaison and the Provincial Legislature.

- Table 2 below provides details as to the actual audit outcomes for the Eastern Cape provincial departments for the previous five years.

Table 2: Audit opinions on provincial departments for the previous five years

Department	2007-08	2006-07	2005-06	2004-05	2003-04
Agriculture	Qualified	Financially unqualified (with other matters)	Qualified	Financially unqualified (with other matters)	Financially unqualified (with other matters)
Economic Affairs, Environment and Tourism	Qualified	Qualified	Disclaimer	Qualified	Qualified
Education	Adverse	Adverse	Disclaimer	Disclaimer	Disclaimer
Health	Adverse	Adverse	Disclaimer	Disclaimer	Disclaimer
Housing, Local Government and Tradition Affairs	Qualified	Qualified	Disclaimer	Disclaimer	Disclaimer
Public Works	Financially unqualified (with other matters)	Disclaimer	Qualified	Qualified	Qualified
Roads and Transport	Qualified	Qualified	Qualified	Financially unqualified (with other matters)	Financially unqualified (with other matters)
Safety and Liaison	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)
Social Development	Qualified	Adverse	Disclaimer	Financially unqualified (with other matters)	Financially unqualified (with other matters)
Sport, Recreation, Arts and Culture	Financially unqualified (with other matters)	Qualified	Qualified	Qualified	Qualified
Office of the Premier	Financially unqualified (with other matters)	Qualified	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)
Provincial Legislature	Financially unqualified (with other matters)	Qualified	Financially unqualified (with other matters)	Qualified	Qualified
Provincial Treasury	Financially unqualified (with other matters)	Qualified	Qualified	Qualified	Financially unqualified (with other matters)



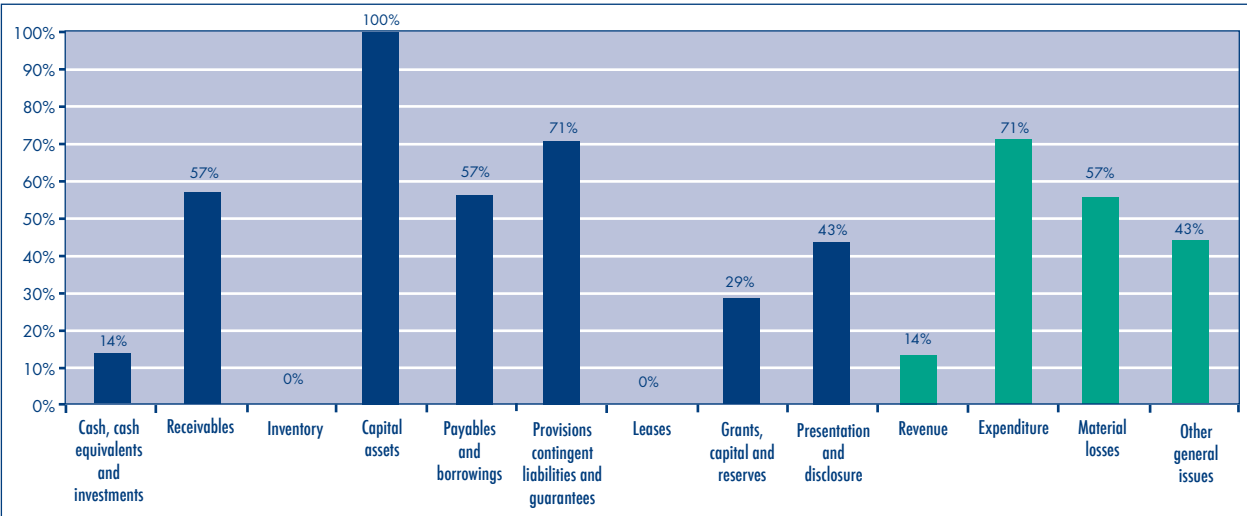
AUDITOR - GENERAL

There has been an improvement in some of the audit opinions issued for the departments. However, there were still two adverse and five qualified opinions for the 2007-08 financial year compared to the one disclaimer, three adverse and seven qualified opinions in the previous year. Health and Education had retained an adverse opinion as a result of inadequate reconciliations, insufficient controls and the monitoring thereof, together with the lack of supporting documentation in respect of matters relating to the balance sheet (statement of financial position) and disclosure notes. A very weak internal control environment, non-compliance with laws and regulations and the lack of supporting documentation in respect of revenue and expenditure led to qualifications relating to income statement (statement of performance) items.

1.3 Qualification details

Figure 1 below provides a breakdown of all the audit findings which gave rise to the qualified audit opinions. It also provides an indication of the percentage of provincial departments that were qualified per audit finding. The audit findings are split between items on the balance sheet (statement of financial position) and disclosure notes highlighted in blue bars, and the income statement (statement of financial performance) highlighted in green bars. The associated root causes are discussed in section 3 of this report.

Figure 1: Provincial departments (seven) that were qualified per audit finding



* Losses through unauthorised expenditure, fruitless and wasteful, and irregular expenditure

Overall conclusion

The above graph depicts the most common issues on which the relevant departments were qualified, based on the following:

- Economic Affairs, Environment and Tourism were qualified on assets, accruals, commitments, revenue and contingent liabilities. The weak internal control environment (development and compliance with internal policies) led to the qualification matters in the department. Lack of a clear audit trail, late and non-submission of documents, and non-availability of key personnel during the audit contributed to the qualification of the department.



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- Roads and Transport was qualified on assets, expenditure, leave entitlement and commitments. The root causes related mainly to non-compliance with policies, laws and regulations. Best practices such as a clear audit trail, timely submission of documents and availability of key personnel during the audit were not adhered to.
- Housing, Local Government and Traditional Affairs was qualified on transfers to households, prepayments and advances and assets. The root causes of the qualification related mainly to non-compliance with laws and regulations and inadequate monitoring and supervision within the department.
- Social Development was qualified on assets, payables, transfers and subsidies and irregular expenditure as a result of an inadequate audit trail and lack of supporting documentation. However, this department has improved from an adverse opinion in the previous year to a qualified opinion in the year under review. This improvement was due to the right leadership tone, with the support of internal audit and audit committee.
- The situation at Agriculture worsened in that it had been unqualified (with other matters) for the 2006-07 financial year, but was qualified this year on payables, commitments, contingent liabilities, and biological assets. This was due to inadequate monitoring and supervision within the department.
- Health and Education were qualified on all items mentioned in the above table. The root causes were a weak internal control environment, inadequate monitoring and supervision by the leadership, a lack of governance arrangements, and non-compliance with laws, rules and regulations. In addition, a clear audit trail, timely submission of documents and availability of key personnel were challenges during the audit. It is clear that the absence of best practices contribute to these adverse opinions.

The provincial departments are facing the following challenges due to inadequate capacity and skills, and as a result a lack of adequate supervision and monitoring:

- A lack of a proper asset management system which resulted in the completeness, existence and valuation of movable assets being unconfirmed.
- Irregular expenditure which had not been disclosed or the recovery of which is uncertain.
- Material amounts paid which could not be verified.
- Lack of documentation to support the amounts disclosed in respect of provisions, contingent liabilities and guarantees.
- Inability to obtain sufficient documentation for the additions to capital assets.
- Failure to comply with procurement processes and to disclose the resultant irregular expenditure.
- Inability to obtain sufficient evidence to verify the commitments disclosed in the financial statements.

1.4 Audit findings in respect of other matters

The audit findings reported under “other matters” draw attention to the matters that are ancillary to the AG’s responsibilities in the audit of the financial statements.



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Material non-compliance

Most instances of material non-compliance with relevant legislation not affecting the financial statements related to non-compliance with the PFMA and Treasury Regulations and were reported in six (46%) provincial departments. Inadequate supervision and monitoring by the leadership (accounting officers, chief financial officers and relevant managers) had in part contributed to the negative audit findings in this area. The right leadership tone, with the support of internal audit, is necessary to establish a strong control environment and ensure compliance.

Matters of governance

The Eastern Cape Provincial Administration has a shared internal audit service (SIAS) and audit Committee which resided in the Department of Provincial Treasury for the year under review and provides internal audit services to all departments other than Education, Public Works, Social Development and Health. Based on reviews, the work performed by SIAS was not effective due to capacity and skills problems within the unit and staff turnover at senior level within the unit.

The existence of good risk management and internal control practices, which include audit committees as well as internal audit functions, contributed greatly to the achievement of an unqualified audit opinions for Public Works. Internal audit and audit committees are essential elements in the management review process as they contribute to the design and maintenance of sound internal controls.

Although audit committees were in operation throughout the year at all departments other than the Department of Health, only three of the departments (23%) fulfilled their responsibilities, namely Education, Social Development and Public Works.

All departments had an internal audit unit in operation throughout the financial year, however only two departments (15%) substantially fulfilled their responsibilities, namely Social Development and Public Works.

The prior year's external audit recommendations were substantially implemented at only nine (69%) of the departments.

Significant difficulties were experienced during the audit concerning delays in providing or unavailability of expected information and/or the unavailability of senior management at four of the 13 departments.

Material misstatements

Only one department's financial statements (Office of the Premier) were such that they were not subject to material amendments as a result of the audit. Material adjustments had to be made to the financial statements of all the other departments.

While the departments had faced a serious challenge in terms of the quality of financial statements, the next few years will pose even greater challenges given the ongoing transition to accrual accounting. In order to deal with the prevalence of material misstatements in financial statements that had to be corrected during the audit period, departments need to:



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- re-emphasise the role of chief financial officers in the preparation of regular management accounts, particularly relating to issues of disclosure associated with the ongoing transition to accrual accounting
- subject the financial statements to a quality review before they are submitted for auditing in order to resolve contentious accounting issues at the earliest opportunity, while internal audit and audit committees can play a crucial role in the review process of the financial statements
- work closely with the National Treasury and the provincial treasury to improve financial management and controls in order to produce quality financial statements that comply with the relevant standards.

2. PERFORMANCE REPORTING RESULTS

2.1 Introduction

The AG continued to report on the auditing of performance information in line with the relevant phasing-in approach. For 2006-07, the review was extended to the controls and systems used in generating and reporting on performance information.

2.2 Results of the audit of performance information

During the financial year under review, the National Treasury introduced the *Framework for Managing Programme Performance Information* supported by various training initiatives and further guidance from provincial treasury to improve the process of managing and reporting on performance information.

There has been improvement in the management of and reporting on performance information in that the number of departments without findings had increased. A remaining challenge is the alignment of measurable objectives between the annual report and the annual performance plan and the budget.

As the future reporting responsibilities in this area increase, the solid compliance base demonstrated by many departments should be used as a stepping stone to further improve the management of and reporting on performance information, while at the same time maximising the impact of key service delivery priorities.

3. INFORMATION SYSTEMS AUDIT

3.1 Introduction

Information systems (IS) controls are significant in determining the effectiveness of internal controls. Weak IS controls severely diminish the reliability of other internal controls associated with an application. Without effective IS controls, other controls may be rendered ineffective by override, circumvention or modification.

3.2 Results of the information systems audits

During the year under review the IS controls relating to the management of user accounts were evaluated. 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.



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The user account management process of certain transversal systems was audited at 12 provincial departments and the following key findings were identified:

Audit finding	% Departments with finding
User account management standards and procedures	
Incomplete user account management procedures	100%
Access request authorisation	
Access request forms not consistently completed	85%
Application security	
Lack of segregation of duties	85%
Inactive accounts not timeously deactivated	85%
User access levels not periodically reviewed	100%

4. ISSUES DRIVING AUDIT RESULTS

4.1 Introduction

The following benchmark information can be considered as the basic good practice indicators which are relevant for achieving financially unqualified audit opinions as well as for reporting performance results:

- Clear trail of supporting documentation
- Quality of financial statements and management information
- Timeliness of financial statements and management information
- Availability of key officials during audits
- Development of and compliance with risk management and good internal control practices
- Supervision and monitoring (leadership effectiveness).

4.2 Achievement against good practice indicators

Table 3 below presents the results of the Eastern Cape departments achieving the above-mentioned good practice indicators



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Table 3: Results of good practice indicators for the Eastern Cape provincial departments for 2007-08

No.	Good practices	Percentage of total departments achieving good practice indicator ¹
1	Clear trail of supporting documentation that is easily available and provided timeously	77%
2	Quality of financial statements and management information	8%
3	Timeliness of financial statements and management information	100%
4	Availability of key officials during audits	92%
5	Development of and compliance with risk management and good internal control and governance practices	15%
6	Supervision / monitoring	54%

- **Clear trail of supporting documentation**

While the majority (77%) of departments' supporting documentation was easily accessible, a few (23%) have to do more to ensure that sufficient appropriate audit evidence is available to support the transactions and balances in the financial statements. Significant difficulties were experienced during the audits of the Departments of Health; Public Works and Roads and Building concerning delays in providing or the unavailability of expected information. The management of documentation requires improvement to ensure that it is readily available and furnished in a more timely manner for audit purposes.

- **Quality of annual financial statements**

While departments have continued to make progress in response to challenges to submit quality financial statements, challenges still remain for all departments, except the Office of the Premier. Material corrections to the financial statements mainly relate to issues of disclosure associated with the ongoing transition to accrual accounting. The quality of the financial information in this case is a reflection of inadequate monitoring and capacity within the departments. Processes need to be further refined in order to accurately collate information for the preparation and presentation of the financial statements as mentioned in section 1.4 above.

¹ This would serve as a baseline to monitor future improvement



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- **Timeliness of annual financial statements**

While the quality of financial statements is important, as mentioned before, the timely submission of financial statements for auditing is equally important. Good planning for the financial statement preparation process has ensured that all departments (100%) had submitted their financial statements for auditing by the legislated deadline of 31 May.

- **Availability of key officials**

There has been a notable improvement in the availability of senior management, with the exception of the Department of Social Development, during the audit to deal with audit-related matters and to clear these in a timely manner. This went a long way towards avoiding qualifications, because officials received earlier notice of audit findings and could take corrective action before the final conclusions that lead to an audit opinion.

- **Governance**

The development of and compliance with risk management and good internal control and governance practices proved problematic except for two departments, namely Social Development and Public Works.

- **Leadership, supervision and monitoring**

Leadership sets a proper "tone at the top" to create a sound control environment. The leadership must ensure that competent and skilled staff are employed, particularly in the finance and accounting division. Effective leadership and oversight are needed to monitor the performance of management, especially in relation to financial management. A lack of monitoring is the root cause of an ineffective system of internal control which gave rise to audit qualifications.

The practice of supervision and monitoring, especially in relation to financial management, was evident in 54% of the provincial departments. Challenges are still faced by the Departments of Health; Education; Local Government and Traditional Affairs; Agriculture; Roads and Transport and Economic Development and Environmental Affairs.

5. PAC RESOLUTIONS

5.1 Introduction

As part of the International Standards on Auditing, ISA 720, *Other information contained in documents containing audited financial statements*, we are expected to include the review of the standing committee on public accounts (PAC) resolutions included in the accounting officer's report. The table below indicates, where applicable, the status of the implementation of such resolutions.



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5.2 PAC resolutions not yet implemented

The PAC plays a vital role as far as oversight is concerned. They rely on our quality and timely audit reports to be able carry out their mandate. As can be seen from the table below, a number of resolutions have not been tabled due to challenges in their programme.

No.	Department	No. of resolutions	Resolutions not yet implemented
1	Agriculture	7	6
2	Safety and Liaison	6	6
3	Economic Affairs, Environment and Tourism	2	1
4	Education	1	1
5	Health	2	1
6	Housing, Local Government and Traditional Affairs	10	9
7	Legislature	7	7
8	Office of the Premier	8	8
9	Provincial Treasury	7	6
10	Social Development	2	1
11	Sport, Recreation, Arts and Culture	5	5
12	Roads and Transport	5	5
13	Public Works	1	0

The provincial legislature promulgated the Finance Act during the year to approve unauthorised expenditure that was incurred by the provincial departments for the financial years 1999-00 to 2005-06. This was the only resolution implemented during the year under review as all other resolutions were only tabled on 8 September 2008.

6. TABLING OF ANNUAL REPORTS

6.1 Introduction

In accordance with section 65 of the PFMA, the executive authority responsible for the department must table in the provincial legislature the annual report and financial statements, as well as the audit report, within one month after receipt of the audit report.



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6.2 Annual reports tabled

No.	Department	Tabled (Y/N)
1	Agriculture	Y
2	Safety and Liaison	Y
3	Economic Affairs, Environment and Tourism	Y
4	Education	Y
5	Health	Y
6	Housing, Local Government and Traditional Affairs	Y
7	Legislature	Y
8	Office of the Premier	Y
9	Provincial Treasury	Y
10	Social Development	Y
11	Sport, Recreation, Arts and Culture	Y
12	Roads and Transport	Y
13	Public Works	Y

7. SUMMARY OF OTHER AUDITS

7.1 Performance auditing

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:

- 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;
- auditing of the **efficiency** of utilisation of human, financial and other resources and the optimal relationship between the output of goods, services or other results and the resources used to produce them; and
- auditing of the **effectiveness** of performance in relation to achievement of the policy objectives, operational goals and other intended effects of the audited entity.



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7.2 Results of performance auditing

The following performance audits had been completed at the date of this report or were work-in-progress as at 31 July 2008:

Department	Description	Expected date of tabling
Department of Health	Investment in infrastructure	September 2009
Department of Education	Investment in infrastructure	September 2009
Eastern Cape entities	Entities that are connected with government employees and doing business with the department	November 2008

7.3 Investigations

"Investigation" as contemplated in section 5(1)(d) of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA) is defined as an independent and objective process where procedures are performed in accordance with guidelines issued by the AG to facilitate the investigation of financial misconduct, maladministration and impropriety, and ensure probity in the accounts, financial statements and financial management of an institution referred to in section 4(1) and section 4(3) of the PAA. An investigation may be performed where the AG –

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

7.4 Results of investigations

Department	Description	Expected date of tabling
Eastern Cape Provincial Legislature		15 August 2007



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SECTION 3: PROVINCIAL ENTITIES**1. FINANCIAL REPORTING RESULTS****1.1 Introduction**

This section details the audit findings arising from an analysis of the audits of nine provincial public entities in the Eastern Cape.

1.2 Overview of audit opinions on provincial public entities for 2007-08

- Table 1 below provides details as to the actual audit outcomes for the Eastern Cape provincial public entities.

Table 1: Audit opinions on provincial public entities

Type of audit opinion	2007-08		2006-07	
	Number	%	Number	%
Adverse	0	0%	1	11%
Disclaimer	1	10%	1	11%
Qualified	4	45%	2	22%
Financially unqualified (with other matters)	4	45%	5	56%
Financially unqualified (with no other matters)	0	0%	0	0%
Total analysed	9	100%	9	100%

While an improvement has been shown in that there were no adverse opinions as compared to one last year, the increase in qualified opinions this year (four) compared to last year (two) indicates that there remains room for improvement.

The Eastern Cape Appropriate Technology Unit received a disclaimer opinion as opposed to an adverse opinion in the prior year due to a limitation of scope and an inadequate audit trail. Eastern Cape Liquor Board improved from a disclaimer in the previous year to a qualified audit opinion in the current year. The timely availability of information and key personnel during the audit contributed to the improved audit opinion. Two public entities, namely, Eastern Cape Provincial Arts and Culture Council and Mayibuye Transport Corporation, maintained their qualified audit opinions. Four of the five public entities that were unqualified (with other matters) maintained their opinions, while the Eastern Cape Parks Board received a qualified audit opinion due to inadequate internal controls over revenue and assets.



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Table 2 below provides details as to the actual audit outcomes for the Eastern Cape provincial public entities for the previous two years.

Table 2: Audit opinions on provincial public entities for the previous two years

Provincial entity	2007-08	2006-07	2005-06
Eastern Cape Appropriate Technology Unit	Disclaimer	Adverse	Disclaimer
Eastern Cape Development Corporation	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Qualified
Eastern Cape Gambling and Betting Board	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Other matters
Eastern Cape Liquor Board	Qualified	Disclaimer	Disclaimer
Eastern Cape Parks Board	Qualified	Financially unqualified (with other matters)	Disclaimer
Eastern Cape Provincial Arts and Culture Council	Qualified	Qualified	Disclaimer
Eastern Cape Tourism Board	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Qualified
Eastern Cape Youth Commission	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Other matters
Mayibuye Transport Corporation	Qualified	Qualified	Qualified

Four of the nine public entities received an unqualified report and one had improved from the prior year disclaimer. Two entities maintained the qualification of the prior period, while one changed from an adverse to a disclaimer and one regressed from an unqualified report to a qualified report.

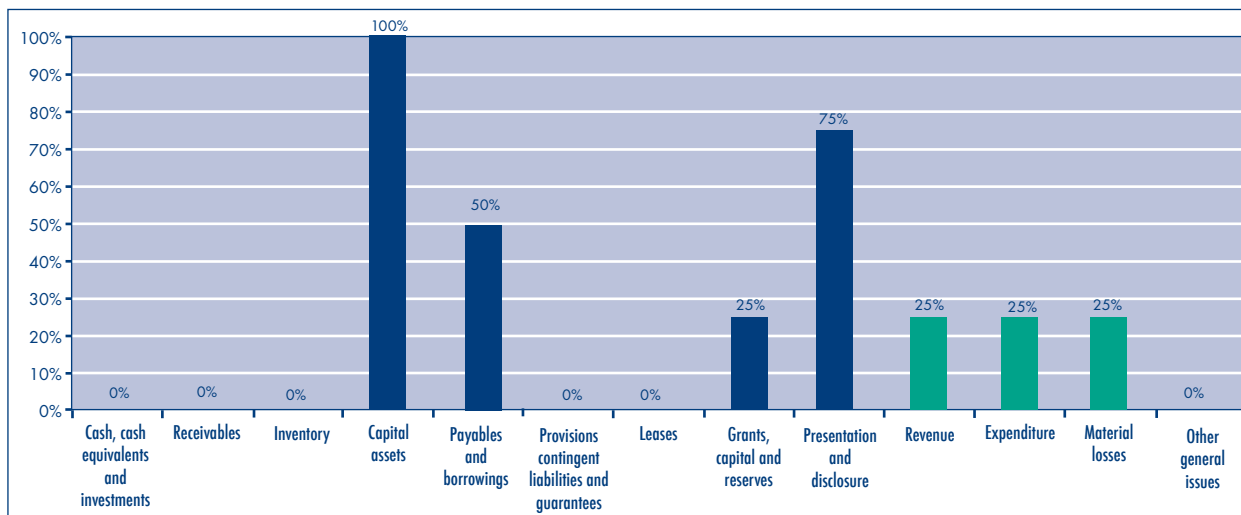
1.3 Qualification details

Figure 1 below provides a breakdown of all the audit findings that gave rise to the qualified audit opinions. It also provides an indication of the percentage of provincial public entities that were qualified per audit finding. The audit findings are split between items on the balance sheet (statement of financial position) highlighted in blue bars and the income statement (statement of financial performance) highlighted in green bars. The associated root causes are discussed in section 3 of this report.



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Figure 1: Provincial public entities that were qualified (5) per audit finding



Overall conclusion

The main reason for the public entities being qualified was a lack of or ineffective control activities over leases, assets, revenue, receivables, inventory, expenditure and cash and cash equivalents.

- Eastern Cape Appropriate Technology Unit received a disclaimer of audit opinion because amounts disclosed in the financial statements were not supported by sufficient documentation. A clear audit trail, timely submission of documents and non-availability of key personnel during the audit posed a challenge. Inadequate governance arrangements contributed to the disclaimer of audit opinion.
- Eastern Cape Liquor Board received a qualified opinion as operating leases were incorrectly recognised and disclosed in the financial statements. A clear audit trail, timely submission of documents and non-availability of key personnel during the audit posed a challenge. Inadequate governance arrangements contributed to the disclaimer of audit opinion.
- Eastern Cape Parks Board was qualified due to incorrect recognition of assets and incompleteness of hunting revenue. The lack of a clear audit trail led to the qualification.
- Eastern Cape Provincial Arts and Culture Council was qualified as a result of inadequate controls over revenue, account receivables, inventory and cash and cash equivalents. The root cause related to inadequate governance arrangements.
- Mayibuye Transport Corporation was qualified only on completeness of revenue. The qualification was due to lack of a clear audit trail to confirm the completeness of revenue received.

1.4 Audit findings in respect of other matters

The audit findings reported under “other matters” draw attention to the matters that are ancillary to the AG’s responsibilities in the audit of the financial statements.



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Material non-compliance with relevant legislation

Material non-compliance with relevant legislation not affecting the financial statements related to non-compliance with the PFMA and Treasury Regulations and was reported on at two public entities (22%), namely the Arts and Culture Council and Parks Board. Inadequate supervision and monitoring by the leadership (accounting authorities, chief financial officers and relevant managers) had in part contributed to the negative audit findings in this area.

Matters of governance

Five (56%) public entities, namely the Eastern Cape Provincial Arts and Culture Council; Liquor Board; Parks Board; Eastern Cape Appropriate Technology Unit and Gambling Board, had concerns raised on matters of governance, which included findings on audit committees, the timely availability of supporting documentation and implementation of external audit recommendations.

The audit committees and internal audit functions were in operation for all the public entities throughout the financial year. All internal audit units functioned in terms of an approved internal audit plan. Audit committees and internal audit functions substantially fulfilled their responsibilities during the year in 78% and 67% of the instances, respectively.

Difficulties were experienced at two of the public entities (22%), namely the Arts Council and Gambling Board, concerning delays in providing or the unavailability of expected information and/or the unavailability of senior management.

The majority of the prior year's external audit recommendations have been substantially implemented, with the exception of the Eastern Cape Appropriate Technology Unit, Arts Council and Eastern Cape Parks Board.

• Material misstatements

The financial statements submitted for audit were subject to material amendments as a result of the audit. The details of these adjustments are included in the management reports.

All public entities (100%) had to effect material corrections to their financial statements after the auditors had identified errors, omissions and inconsistencies. This reflects the increasingly complex accounting environment in which public entities operate, which requires the chief financial officers of the public entities to work more closely with the provincial treasury in order to produce quality financial statements that comply with the established accounting framework.

The details of the material corrections to the financial statements have been included in the management reports of the relevant public entities.



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2. PERFORMANCE REPORTING RESULTS

2.1 Introduction

The AG continued to report on the auditing of performance information in line with the relevant phasing-in approach. For 2006-07, the review was extended to the controls and systems used in generating and reporting on performance information.

2.2 Results of the audit of performance information

The *Framework for Managing Programme Performance Information* introduced by National Treasury, supported by various training initiatives during the financial year under review, has led to public entities improving the process of managing and reporting on performance information, with a higher number of public entities without audit findings.

As in the case of departments, the solid compliance base demonstrated by many public entities should be used as a stepping stone for the management of and reporting on performance information, while at the same time maximising the impact of key service delivery priorities.

3. ISSUES DRIVING AUDIT RESULTS

3.1 Introduction

The following benchmark information can be considered as the basic good practice indicators which are relevant for achieving financially unqualified audit opinions, as well as for reporting performance results:

- Clear trail of supporting documentation
- Quality of financial statements and management information
- Timeliness of financial statements and management information
- Availability of key officials during audits
- Development of and compliance with risk management and good internal control practices
- Supervision and monitoring (leadership effectiveness).

3.2 Achievement against good practice indicators

Table 3 below presents the results of the Eastern Cape public entities achieving the above-mentioned good practice indicators.



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Table 3: Results of good practice indicators for Eastern Cape provincial public entities (2007-08)

No.	Good practices	Percentage of total public entities achieving good practice indicator ²
1	Clear trail of supporting documentation that is easily available and provided timeously	67%
2	Quality of financial statements and management information	0%
3	Timeliness of financial statements and management information	100%
4	Availability of key officials during audits	78%
5	Development of and compliance with risk management and good internal control and governance practices	78%
6	Supervision / monitoring	67%

Root causes for the purposes of unqualified audit reports (4) in the Eastern Cape

- **Clear trail of supporting documentation**

Some (six of nine) of the public entities demonstrated this good practice. It was not evident at the Arts Council; Eastern Cape Appropriate Technology Unit and Parks Board due to inadequate leadership and a lack of capacity. This aspect needs to be improved upon because the availability of supporting documentation contributes significantly to the efficiency of the audit and public entities are encouraged to further improve in this regard.

- **Quality annual financial statements**

While public entities have continued to make progress in response to challenges to submit quality financial statements, challenges still remain in all public entities. Material corrections to the financial statements mainly relate to issues of disclosure associated with the ongoing transition to accrual accounting and the continuing development of accounting practices. In this regard, processes need to be further refined in order to accurately collate information for the preparation and presentation of the financial statements.

² This would serve as a baseline to monitor future improvement



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- **Timeliness of annual financial statements**

As in the case of departments, good planning for the financial statement preparation process has ensured that all public entities (100%) had submitted their financial statements for auditing by the legislated deadline of 31 May.

- **Availability of key officials**

Seven (78%) of the public entities' key officials were available during the audit, which went a long way towards clearing audit findings in a timely manner.

- **Development of and compliance with risk management and good internal control and governance practices**

Effective risk management and internal control practices continue to pose a challenge for two public entities. Contrary to legislative requirements, fraud prevention plans and risk management strategies either did not exist or were not regularly updated and monitored at these public entities. Management failed to afford the necessary priority to risk management during the year. At six (67%) of the entities, internal audit had substantially fulfilled their responsibilities for the year.

- **Leadership, supervision and monitoring**

Supervision and monitoring were adequate at only 67% (six of nine) of public entities. The lack of supervision and monitoring by the leadership (accounting authorities, chief financial officers and relevant managers) has in part contributed to the negative audit findings, which could have been avoided. The right leadership tone is necessary to establish a strong control environment and ensure compliance. In addition, oversight by the parent departments needs to be enhanced. Lack of monitoring is the root cause of an ineffective system of internal control which gave rise to audit qualifications.

4. PAC RESOLUTIONS

4.1 Introduction

As part of the International Standards on Auditing, ISA 720, *Other information contained in documents containing audited financial statements*, we are expected to include the review of the standing committee of public accounts (PAC) resolutions included in the accounting authority's report. The PAC plays a vital role as far as oversight is concerned. The table below illustrates that resolutions had not been tabled for two of the nine public entities.



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4.2 PAC resolutions not yet implemented

Public entity	No. of resolutions	Resolutions not yet implemented
Eastern Cape Appropriate Technology Unit	3	3
Eastern Cape Development Corporation	0	0
Eastern Cape Gambling and Betting Board	4	4
Eastern Cape Liquor Board	2	2
Eastern Cape Parks Board	2	2
Eastern Cape Provincial Arts and Culture Council	No resolutions tabled	n/a
Eastern Cape Tourism Board	1	1
Eastern Cape Youth Commission	No resolutions tabled	n/a
Mayibuye Transport Corporation	2	2

None of the above resolutions were implemented during the year under review as they were only tabled on 8 September 2008.

5. TABLING OF ANNUAL REPORTS

5.1 Introduction

In accordance with section 65 of the PFMA, the executive authority responsible for the public entity must table in the provincial legislature the annual report and financial statements, as well as the audit report, within one month after receipt of the audit report.

5.2 Annual reports tabled

No.	Public entity	Tabled (Y/N)
1	Eastern Cape Appropriate Technology Unit	Y
2	Eastern Cape Development Corporation	Y
3	Eastern Cape Gambling and Betting Board	Y
4	Eastern Cape Liquor Board	Y
5	Eastern Cape Parks Board	Y
6	Eastern Cape Provincial Arts and Culture Council	Y
7	Eastern Cape Tourism Board	Y
8	Eastern Cape Youth Commission	Y
9	Mayibuye Transport Corporation	Y



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6. SUMMARY OF OTHER AUDITS

6.1 Results of performance auditing

Public entities were not subject to a performance audit during the year under review.

6.2 Investigations

No public entities were subject to an investigation during the year under review.



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SECTION 4: CONCLUSION

The Eastern Cape province faces a number of challenges, as highlighted in this report, which will require a coordinated effort by the leadership of the province, with the support of the national and provincial treasuries, to turn the situation around.

Provincial departments had shown improvement in that two fewer departments received a qualified audit opinion. This is as a result of good practices within the departments, which need to be maintained and improved on. Departments should focus on addressing shortcomings around capital assets, receivables and provisions, contingent liabilities and guarantees as well as critical skill challenges. Senior management should ensure efficient monitoring and supervision to address areas of non-compliance with legislation. Since internal audit functions are crucial in assisting management to establish a sound internal control environment and to perform ongoing evaluation and monitoring with regard to compliance with pre-defined controls and progress in implementing action plans, the internal audit functions should be strengthened. The availability of key officials is critical during the audit process and should receive greater attention.

Public entities need to take drastic steps in improving their financial administration to avoid disclaimers and qualified opinions. Public entities should focus on addressing shortcomings around capital assets, receivables, grants, capital and reserves, expenditure as well as critical skill challenges. Non-compliance with legislation and quality standards for financial statements remains a challenge for public entities. Senior management should become more involved to ensure efficient monitoring and supervision to address these areas. Again, emphasis should be placed on capacitating the internal audit function, while the availability of key officials during the audit process is critical in driving a different audit outcome.

A definite improvement was noted in the financial status of other entities. This is the result of good practices within the departments, which needs to be maintained and improved on. Other entities should focus on shortcomings around capital assets and the availability of supporting documentation.

The critical message we are leaving with the legislators and the executive in this report is that it is possible to obtain an unqualified audit report if the good practice indicators are in place and constantly monitored by the leadership.

We are confident that the challenges are not insurmountable and remain committed to working with the legislature and executive to assist in the process of identifying and disseminating good practices to improve governance and accountability, so as to build public confidence in government's ability to account for public resources in a transparent manner.



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ANNEXURE 1: EASTERN CAPE AUDIT OUTCOMES

Classification	Department	Portfolio	Audit opinion 2007-08	Audit opinion 2006-07	Cash, cash equivalent and investments	Receivables	Inventory	Capital assets	Payables and borrowings	Provisions, contingencies and guarantees	Taxes and VAT	Grants, capital and reserves	Presentation and disclosure	Revenue	Expenditure	Material losses	Other general issues	Non-compliance	Governance findings	Material misstatements	Clear trail of supporting documentation that is easily available and provided in time	Quality of financial statements and management information	Timeliness of financial statements and management information	Availability of key officials during audits	Development of, and compliance with, risk management and good internal control and governance practices	Leadership / supervision / monitoring
PD	Education	EC	Adverse	Adverse	1	1	1	1	1	1			1		1					1			1	1		
PD	Health	EC	Adverse	Adverse	1	1	1	1	1	1		1		1	1	1	1	1	1	1	1	1	1	1		
PD	Agriculture	EC	Qualification	Financially unqualified (with other matters)				1	1	1					1						1					
PD	Economic Affairs, Environment and Tourism	EC	Qualification	Qualification				1	1	1		1					1					1				
PD	Housing, Local Government and Traditional Affairs	EC	Qualification	Qualification		1	1	1							1					1						
PD	Roads and Transport	EC	Qualification	Qualification				1	1	1			1		1					1						
PD	Social Development	EC	Qualification	Adverse	1	1	1	1	1	1					1										1	
PD	Office of the Premier	EC	Financially unqualified (with other matters)	Qualification																	1				1	
PD	Provincial Legislature	EC	Financially unqualified (with other matters)	Qualification																1					1	
PD	Provincial Treasury	EC	Financially unqualified (with other matters)	Qualification																1					1	
PD	Public Works	EC	Financially unqualified (with other matters)	Disclaimer														1		1					1	
PD	Safety and Liaison	EC	Financially unqualified (with other matters)	Financially unqualified (with other matters)														1	1	1	1				1	
PD	Sport, Recreation, Arts and Culture	EC	Financially unqualified (with other matters)	Qualification															1	1	1	1				
PE	Eastern Cape Appropriate Technology Unit	EC	Disclaimer	Adverse	1	1	1	1					1	1	1					1					1	
PE	Eastern Cape Liquor Board	EC	Qualification	Disclaimer									1							1						
PE	Eastern Cape Parks Board	EC	Qualification	Financially unqualified (with other matters)			1													1					1	
PE	Eastern Cape Provincial Arts and Culture Council	EC	Qualification	Qualification	1	1	1								1					1					1	
PE	Mayibuye Transport Corporation	EC	Qualification	Qualification										1						1					1	
PE	Eastern Cape Development Corporation	EC	Financially unqualified (with other matters)	Financially unqualified (with other matters)																1					1	



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ANNEXURE 1: EASTERN CAPE AUDIT OUTCOMES (continued)

Classification	Department	Portfolio	Audit opinion 2007/08	Audit opinion 2006/07	Cash, cash equivalent and investments	Receivables	Inventory	Capital assets	Payables and borrowings	Provisions, contingent liabilities and guarantees	Taxes and VAT	Grants, capital and reserves	Presentation and disclosure	Revenue	Expenditure	Material losses	Other general issues	Non-compliance	Governance findings	Material misstatements	Clear trail of supporting documentation that is easily available and provided in time	Quality of financial statements and management information	Timeliness of financial statements and management information	Availability of key officials during audits	Development of, and compliance with, risk management and good internal control and governance practices	Leadership / supervision / monitoring
PE	Eastern Cape Gambling and Betting Board	EC	Financially unqualified (with other matters)	Financially unqualified (with other matters)															1	1	1	1	1	1	1	1
PE	Eastern Cape Tourism Board	EC	Financially unqualified (with other matters)	Financially unqualified (with other matters)																1	1	1	1	1	1	1
PE	Eastern Cape Youth Commission	EC	Financially unqualified (with other matters)	Financially unqualified (with other matters)																1	1	1	1	1	1	1

ABBREVIATIONS

PD - Provincial department
PE - Provincial public entity

SUMMARY

Totals

Departments analysed	13
Departments qualified	7

Public entities analysed	9
Public entities qualified	5

Departments	1	4	0	7	4	5	0	2	3	1	5	4	3	6	12	12	10	1	13	12	2	7
Public entities	1	4	0	7	4	5	0	2	3	1	5	4	3	6	12	12	10	1	13	12	2	7

AUDIT FINDINGS IN RESPECT OF QUALIFICATIONS

Departments	14%	57%	0%	100%	57%	71%	0%	29%	43%	14%	71%	57%	43%
Public entities	20%	40%	20%	40%	20%	0%	0%	0%	40%	80%	40%	0%	0%

AUDIT FINDINGS IN RESPECT OF AUDIT FINDINGS

Departments	46%	92%	92%
Public entities	33%	56%	100%

GOOD PRACTICES

Departments	77%	8%	100%	92%	15%	54%
Public entities	67%	0%	100%	78%	78%	67%



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ANNEXURE 2: SUMMARY OF AUDIT REPORTS ON THE EASTERN CAPE PROVINCIAL DEPARTMENTS

1. Department of Education

Adverse

Capital assets

- **Capital assets**
 - Insufficient and/or incomplete documentation was received and thus the occurrence and accuracy of R454,7 million disclosed as payment for capital assets could not be verified.
 - Journals totalling R13,3 million (debit) and R13,5 million (credit) had not been authorised by a delegated official.
 - Unable to verify whether Treasury Regulation 10.1.1 had been adhered to.

Presentation and disclosure

- **Employee benefits liability**
 - The liability was understated by R4,4 million.
- **Capped leave**
 - No documentation was provided to support the amount of R2,2 billion.

Payables and borrowings

- **Accruals**
 - Accruals were understated by R56,8 million.
 - Accruals for R31 million did not have adequate supporting documentation.
- **Payables**
 - Sufficient appropriate evidence was not provided to support an amount of R33,4 million in respect of accounts payables.

Material losses

- **Irregular expenditure**
 - Irregular expenditure of R131 million had not been disclosed in the annual financial statements.



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- **Unauthorised expenditure**

- Could not confirm completeness of R32,7 million as disclosed.

- **Fruitless and wasteful expenditure**

- Fruitless and wasteful expenditure was understated by R18,1 million.

Receivables

- **Debt account**

- An amount of R117,5 million had not been included in the debt account. This represents employees who were paid while on the public servants strike.

Provisions, contingent liabilities and guarantees

- **Leave entitlement**

- The amount of R86,9 million disclosed in the annual financial statements was not complete.
- An additional amount of R505 594 was not included in the disclosure note.

- **Contingent liabilities**

- Sufficient appropriate evidence was not provided to support housing guarantees of R147,8 million.

Cash, cash equivalents and investments

- **Bank overdraft**

Unable to conclude on the occurrence and valuation of bank overdraft of R80,7 million as:

- journals lack supporting documentation [R3,3 billion (debit) and R396,4 million (credit)].
- supporting documentation of R14,2 million for the relevant clearing accounts was not provided.
- journals were not authorised by delegated officials [R401,7 million (debit) and R402,3 million (credit)].
- clearing accounts were not cleared correctly.

Grants, capital and reserves

- **Prepayments and advances**

- An amount of R62,4 million was included that did not represent a prepayment or advance.



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Expenditure

- **Key management personnel**

- The disclosure of key management personnel was understated by R4.1 million.

- **Compensation of employees**

- Could not conclude on the occurrence and accuracy of the amount of R11,7 billion disclosed as compensation of employees as supporting documentation was not provided.

- **Goods and services**

- Could not conclude on the occurrence and accuracy of the amount of R1,8 billion as sufficient appropriate audit evidence was not provided.
- Transfers and subsidies of R32,2 million were incorrectly allocated to goods and services.
- Journals of R27 million (debit) and R1,5 million (credit) were not appropriately authorised.

- **Transfers and subsidies**

Could not determine the occurrence and accuracy of the amount of R501,5 million as the following was not submitted:

- Details relating to schools and their bank accounts were not provided, therefore unable to confirm that payments of R22,9 million had reached the intended recipient.
- Payment vouchers for R4,8 million.
- Journals of R4,4 million (debit) and R4,4 million (credit).
- Journals of R530 712 (debit) and R25,3 million (credit) were not appropriately authorised.

Emphasis of matter

- **Highlighting critically important matters presented or disclosed in the financial statements**

- Certain immovable assets were not recognised due to approval from National Treasury of a deviation of the applicable basis of accounting.
- Unauthorised expenditure of R32,7 million was disclosed in the annual financial statements.
- The budget for transfers and subsidies and payments for capital assets was materially underspent by R62,4 million and R99,5 million respectively.
- The recoverability of R58,6 million of debtors was not certain.



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Other matters

- **Non-compliance with applicable legislation**

- Public Finance Management Act
 - Non-compliance with responsibilities of the accounting officer.
- Other enabling legislations

Treasury Regulations

- Pay point managers did not certify the payroll reports on the date of payment as required by paragraph 8.3.4 of the Treasury Regulations 2005.
- The department did not submit the request for rollover to the relevant treasury by 30 April as required by paragraph 6.4.2. Furthermore, the department did not state the reasons why the funds were not spent.

Accountant General Practice Notes

- No approval was received from the Provincial Treasury for the overdraft incurred by the department. This was a result of the department not having sufficient controls in place to ensure compliance with laws and regulations

- **Matters of governance**

- Internal audit
 - Internal audit did not fulfil all of its responsibilities for the year, as set out in Treasury Regulation 3.2.
 - Head of internal audit was also head of supply chain management during the year.
- Other matters of governance
 - Significant difficulties were experienced during the audit.
 - The prior year's external audit recommendations have not been substantially implemented.

- **Material misstatement**

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

- **Delay in finalisation of the audit**

- Due to a request from the Premier of the Eastern Cape, the Auditor-General granted the department additional time to submit outstanding information and responses to the audit findings. Therefore the finalisation of the audit was delayed until 8 August 2008.



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2. Department of Health

Adverse

Material losses

- **Irregular expenditure**

- No disciplinary measures were taken against officials of the department as required by the PFMA for irregular expenditure of R11 million.
- Additional irregular expenditure of R676,5 million was revealed during audit. R436,8 million was as a result of procurement processes that were not fair and error free and R202,8 million was as a result of officials approving payments that exceeded their delegations.
- Compensation of employees budget was exceeded by R36,9 million, resulting in irregular expenditure.

Capital assets

- **Expenditure for capital assets**

- Advance payments totalling R188,3 million to Coega Development Corporation (CDC) for infrastructure projects. Expenditure for capital assets is overstated by R32,4 million and voted funds to be surrendered are understated due to unspent departmental funds on hand at CDC. Interest of R4,2 million has not been accounted for.
- CDC paid R1,4 million to a supplier for rental which was included under expenditure for capital assets by the department.
- Asset registers were found to be incomplete and inaccurate, with no proper audit trail. All assets were not included on the asset register.
- Asset register for machinery and equipment reflected additions of R583,7 million whereas expenditure in the statement of financial performance amounted to R107,1 million.
- It could not be established whether assets transferred from South African Police Services to the department were included in the asset register.
- The existence and completeness of buildings and other fixed structures amounting to R2,1 billion could not be verified as the amount in the asset register differs from the amount reflected in the notes to the annual financial statements by R1,5 billion.
- Journals of R34,7 million processed against purchases for capital assets did not have adequate supporting documentation or did not agree to the supporting documentation.

Expenditure

- **Goods and services**

Unable to verify the completeness, accuracy and occurrence of transactions for goods and services amounting to R2,2 billion due to the following:



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- Duplicate payments of R584 432 had been made to suppliers during the year. Original supplier documentation was not provided for payments totalling R182,2 million. Payment vouchers totalling R13,4 million were not submitted for audit purposes. Supporting documentation for credits to goods and services amounting to R24,7 million could not be provided.
- Expenditure totalling R6,9 million for unrequited payments was allocated to goods and services instead of transfer payments. Expenditure for capital assets of R800 000 was incorrectly allocated to goods and services.
- Journals of R294,3 million processed to goods and services did not agree to the supporting documentation or did not have adequate supporting documentation. Journals of R54,8 million were authorised by officials who did not have the delegated authority to do so. Descriptions of journals totalling R235,5 million were not sufficiently clear.
- The department was unable to provide any calculation or explanation for a journal passed against the MEDSAS: Sales account transferring the surplus of R17 million to the MEDSAS: Claims payable account.
- The BAS/MEDSAS reconciliation included a reconciling item of R12,7 million for which no supporting documentation could be provided. Purchases of R13,4 million which had been interfaced were not reflected on the reconciliation.

• Transfers and subsidies

Unable to confirm completeness and accuracy of transfer payments due to the following:

- R14 million transfer payments made did not satisfy the definition of a transfer payment, resulting in transfer payments being overstated by R14,4 million and goods and services understated by this amount.
- Journals for transfers and subsidies of R38,3 million were authorised by officials who did not have the delegated authority to do so. Descriptions on journals were also not sufficiently detailed and complete.
- Calculations and supporting documentation not always available for leave gratuity transactions.
- Unable to confirm that transfer payments were used by recipients for intended purposes due to ineffective monitoring and review over compliance.

• Compensation of employees

- Overpayment of salaries totalling R17,1 million due to officials not immediately deactivated on the Persal system when leaving the service of the department. Not all overpayments were recovered.
- Journals totalling R17,3 million were authorised by officials who did not have the delegated authority to do so. Journals of R17,1 million processed against compensation of employees without adequate supporting documentation, and descriptions on journals totalling R14,4 million were not sufficiently detailed and complete.
- Persal system not updated to reflect staff movements and physical location as the pay point managers did not always certify payrolls.
- The department was unable to provide a listing of employees who had participated in the industrial action.
- Limitation of scope due to personnel files, attendance registers, leave forms and other documentation not being provided for audit purposes, while a significant number of officials had not presented themselves for physical verification.



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- Non-programmatical overtime payments were not always calculated correctly. The department was unable to provide proper authorisation for commuted overtime paid to officials at the department's head office. Therefore it was not possible to confirm accuracy, completeness and occurrence of overtime.

Presentation and disclosure

- **Employee benefits**

- Unable to confirm the accuracy of leave due to the significant backlogs of information that have not been captured on Persal, as well as the data errors within this system. Leave records have not been regularly updated or did not always exist. Therefore it was not possible to confirm the accuracy and completeness of leave entitlement and leave commitments.
- Unable to confirm the accuracy and completeness of the provision for performance awards of R21,9 million disclosed in the financial statements due to supporting documentation not being provided for audit purposes.

- **Related-party transactions**

- Unable to determine the completeness and accuracy of related-party transactions as the department was unable to provide a register of directors' interests in companies. Audit procedures detected related-party transactions amounting to R3,3 million which were not included in the amount disclosed in the financial statements.

Revenue

- **Departmental revenue**

The completeness and accuracy of departmental revenue could not be verified due to the following:

- Unable to determine whether all revenue was charged, received and recorded due to lack of an audit trail from the admission to the discharge of a patient, as well as a lack of integration between the department's billing modules and its ledger system.
- A significant number of patient files were not provided for audit purposes.
- Journals for departmental revenue of R226,9 million were processed to the departmental revenue account without adequate supporting documentation or the amounts did not agree to the supporting documentation. Descriptions on journals of R188,4 million were not detailed and complete.
- Reconciliations and reviews of rentals received from employees amounting to R10,2 million were not performed at all institutions. In many cases, employees were not being charged rental or were being charged less than the prescribed rental, the full extent of which is unknown.



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Receivables

- **Receivables**

- The age analysis differed from the receivables amount reflected in the financial statements by R13,2 million. Staff debtors were also not included in receivables. Supporting documents to validate the debt take-on forms for these debtors could not be provided for a significant number of these debts.
- Receivables of R37,1 million were older than three years and had not been handed over to the state attorney for collection. The department was unable to provide a policy for the disclosure of potential irrecoverable debts and it was therefore not possible to confirm that the disclosure of potential irrecoverable debts was complete or accurate or that receivables are recoverable.

- **Receivables for departmental revenue**

- Supporting documentation for individual debtors that were written off was not provided for audit purposes, therefore it was not possible to confirm that the write-offs had occurred or that they were accurately recorded.
- Included in the reconciliation were receipts of R5 million which have not been allocated to individual debtors accounts.

Payables and borrowings

- **Accruals**

- Unable to confirm the existence, completeness and accuracy of accruals as the reconciliations and supporting schedules differed from the amount disclosed in the annual financial statements by R10,1 million.
- Interest of R13,3 million was also not included.
- Supporting documentation for accruals could not be provided for audit purposes.

- **Payables**

- Reconciliations provided for payables of R29,5 million did not include details on the composition of the account balances. Reconciliations were merely a listing of BAS transactions and the final position of the individual balances owing had not been analysed.
- Reconciliations for payables of R3,1 million were not provided and the amounts per MEDSAS: claims receivable account differed from the general ledger by R3,1 million.
- Journals in respect of payables of R157,1 million were authorised by officials who did not have the delegated authority to do so and journals of R43,1 million did not have adequate supporting documentation or did not agree to the existing supporting documentation.



A U D I T O R - G E N E R A L

Provisions, contingent liabilities and guarantees

- **Contingent liabilities**

- Completeness and accuracy of contingent liabilities could not be confirmed as supporting documentation was not provided.

- **Commitments**

- Not possible to confirm the existence, completeness and accuracy of commitments due to lack of supporting documentation provided in support of approved but not yet contracted commitments to the value of R253 million.
- Commitments are understated by R605 million due to a commitment to Coega Development Corporation being reflected at R88 million.

Grants, capital and reserves

- **Conditional grants**

- Not possible to confirm that conditional grants were used by the department for their intended purpose due to ineffective monitoring and review of compliance with the conditions of the grant and non-submission of service level agreements and other supporting documentation for audit purposes.

Other general issues

- **Gifts, donations and sponsorships received**

- Gifts and donations totalling R61,4 million were not disclosed in annexure 1 M: gifts, donations and sponsorships.

Emphasis of matter

- **Highlighting critically important matters presented or disclosed in the financial statements**

- Certain immovable assets were not recognised due to approval from National Treasury of a deviation of the applicable basis of accounting.
- An adjustment of R87,6 million in respect of unauthorised expenditure and voted funds to be surrendered processed by the department relates to the recognition of unauthorised expenditure for the 2006-07 financial year which was not raised in the prior year.
- Fruitless and wasteful expenditure is incomplete due to additional fruitless and wasteful expenditure of R3 million being detected during the audit.

- **Revision of the previously issued financial statements**

- The financial statements submitted on 31 May 2008 were adjusted to reflect the following changes:



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- Local and foreign aid assistance of R21 million was recognised
- Unauthorised expenditure was adjusted by R10,6 million
- Contingent liabilities of R41,7 million were removed from disclosure note 20: Contingent liabilities
- Annexure 1B: Statement of unconditional grants paid to municipalities was adjusted to reflect the correct appropriation
- Annexure 1E: Statement of transfers to universities and technikons was added to the financial statements.

Other matters

- **Non-compliance with applicable legislation**

- Other enabling legislation
 - The department did not comply with section 8 of the Occupational Health and Safety Act, 1993 (Act No. 85 of 1993) in that medical waste was not always disposed of in the prescribed manner. Medical waste was burnt in open pits, disposed of with the municipal waste, not highlighted as hazardous or not kept in a secure area.

- **Matters of governance**

- Audit committee
 - The audit committee was not in operation throughout the financial year.
 - The audit committee did not operate in accordance with approved, written terms of reference.
 - The audit committee did not substantially fulfil its responsibilities for the year, as set out in section 77 of the PFMA and Treasury Regulation 3.1.10.
- Internal audit
 - The internal audit function did not substantially fulfil its responsibilities for the year, as set out in Treasury Regulation 3.2/27.2.
- Other matters of governance
 - Significant difficulties were experienced during the audit concerning delays in providing or unavailability of expected information and/or the unavailability of senior management.
 - The prior year's external audit recommendations have not been substantially implemented.

- **Material misstatement**

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



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3. Agriculture

Qualification

Payables and borrowings

- **Payables**

- R4,1 million included in a balance of inter-governmental payables of R9 million relates to expenditure incurred on behalf of the department.
- Sufficient evidence could not be provided to confirm the validity of the payables.

Provisions, contingent liabilities and guarantees

- **Commitments**

- Sufficient evidence for accruals amounting to R23,3 million could not be obtained.
- Decommited orders of R987 948 were included in the disclosure of commitments.

- **Contingent liabilities**

- Sufficient evidence for housing loan guarantees to the value of R7 million could not be obtained.
- Sufficient evidence for claims against the department to the value of R219 million could not be obtained and little reliance was placed on third party confirmations.

Capital assets

- **Biological assets**

- Insufficient controls over the maintenance of the biological asset register, thus preventing the identification of assets.
- Sufficient evidence could not be obtained to indicate that biological assets disclosed at R3 million were fairly valued.

Emphasis of matter

- **Highlighting critically important matters presented or disclosed in the financial statements**

- Unauthorised expenditure amounting to R4,6 million was incurred as a result of spending on programmes 1 and 4.
- Irregular expenditure was incurred when R9,5 million was overspent on the compensation of employees.
- Irregular expenditure of R183 620 and R157 202 was incurred, relating to non-compliance with supply chain management and errors in the calculation of performance bonuses, respectively.
- An amount of R1,6 million relating to non-compliance with supply chain management was



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condoned during the year and a further R2 million was incurred in contravention of supply chain management policy.

- As disclosed in the appropriation statement, the department has materially underspent its budget to the amount of R7,1 million for the financial year under review.

Other matters

• **Matters of governance**

- Audit committee
 - The audit committee did not substantially fulfil its responsibilities for the year, as set out in section 77 of the PFMA and Treasury Regulation 3.1.10.
- Internal audit
 - The internal audit function did not substantially fulfil its responsibilities for the year, as set out in Treasury Regulation 3.2.

• **Material misstatement**

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

Other matters

• **Non-compliance with applicable legislation**

- Other enabling legislation
 - Treasury Regulations
 - Payments were not made within 30 days as required by Treasury Regulation 8.2.3.

• **Matters of governance**

- Audit committee
 - The audit committee did not fulfil all of its responsibilities for the year, as set out in section 77 of the PFMA and Treasury Regulation 3.1.10.
- Internal audit
 - Internal audit did not fulfil all of its responsibilities for the year, as set out in Treasury Regulation 3.2.



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- **Material misstatement**

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

4. Economic Development and Environmental Affairs

Qualification

Capital assets

- **Capital assets**

- The accuracy, existence, completeness and valuation of assets could not be confirmed due to the following:
 - The fixed asset register differed from the notes to the annual financial statements by an amount of R16,8 million.
 - Tangible assets were understated by R1,5 million in respect of machinery and equipment purchased and received prior to year-end but not paid for.

Payables and borrowings

- **Accruals**

- Sufficient evidence for accruals amounting to R445 678 could not be obtained.
- Accruals have been overstated by R1,04 million due to expenditure paid for during the year and invoices for which goods and services had not yet been received at year-end.
- Accruals have been understated by an amount of R452 952 due to goods and services received during the year but not paid for at year-end.

Provisions, contingent liabilities and guarantees

- **Commitments**

- Sufficient evidence for commitments to the value of R417 290 could not be obtained.
- An amount of R558 050 is included in accruals and should have been disclosed as commitments.

- **Contingent liabilities**

- Sufficient evidence relating to the housing loan guarantees to the value of R553 870 could not be obtained.
- Alternative procedures performed failed to confirm the accuracy, validity and classification of contingent liabilities.



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Payables and borrowings

- **Departmental revenue to be surrendered to the revenue fund**
 - Sufficient evidence for departmental revenue to be surrendered to the revenue fund disclosed at R5,4 million could not be obtained.
 - Alternative procedures resulted in a conclusion that the amount of R5,4 million was understated by R5,5 million.

Emphasis of matter

- **Highlighting critically important matters presented or disclosed in the financial statements**
 - As disclosed in the notes to the annual financial statements, irregular expenditure of R6,5 million was incurred by the department during the year ended 31 March 2008.
 - As disclosed in the notes to the annual financial statements, fruitless and wasteful expenditure of R149 000 was incurred during the year ended 31 March 2008.
 - As disclosed in the appropriation statement, the department has materially underspent its budget to the amount of R21,4 million.
- **Revision of the previously issued financial statements**
 - Disclosure note 10 and annexure 3A to the annual financial statements indicates that the previously issued financial statements were restated due to the department attempting to rectify the disclosure of housing guarantees.

Other matters

- **Matters of governance**
 - Audit committee
 - The audit committee did not substantially fulfil its responsibilities for the year, as set out in section 77 of the PFMA and Treasury Regulation 3.1.10.
 - Internal audit
 - The internal audit function did not substantially fulfil its responsibilities for the year, as set out in Treasury Regulation 3.2.
 - Other matters of governance
 - The prior year's external audit recommendations have not been substantially implemented.



AUDITOR - GENERAL

- **Material misstatement**

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

5. Housing, Local Government and Traditional Affairs

Qualification

Expenditure

- **Transfers to households**

- A transfer to municipalities amounting to R20 million was made from the incorrect grant account, which is in contravention of section 24(1) of DoRA and considered as irregular expenditure.
- An amount of R34,9 million in terms of a rectification contract between the department and NHBRC was not procured using a fair and error-free procurement process.
- No value had been created for R33,8 million of total funds advanced to Thubelisha Homes for the year under review.

Grants, capital and reserves

- **Prepayments and advances**

- Prepayment to Servcon Housing Solutions (Pty) Ltd amounting to R59,8 million was in contravention of section 38(1)(c)(iii) of the PFMA.
- No obligation would exist for the above payment if the proper procurement process had been complied with.

Capital assets

- **Tangible capital assets**

- Adjustments amounting to R5 million were made to the opening balance with no sufficient appropriate audit evidence for these adjustments.

Emphasis of matter

- **Highlighting critically important matters presented or disclosed in the financial statements**

- Material underspending of the budget
 - Programme 1: Administration R4,8 million
 - Programme 2: Housing Development R220,7 million
 - Programme 4: Traditional Affairs R3,5 million



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- Irregular expenditure amounting to R125,8 million was incurred and disclosed in the financial statements.
- Fruitless and wasteful expenditure of R7,6 million disclosed in the financial statements was not adequately analysed.

Other matters

• Non-compliance with applicable legislation

- Public Finance Management Act
 - Files for project applications which had been concluded within the last five years did not contain all the required documentation. Payments amounting to R6,3 million were made in respect of these projects.
- Division of Revenue Act
 - It was not possible to confirm that transfers to provinces and municipalities totalling R117,2 million had been used for their intended purpose.

• Matters of governance

- Audit committee
 - The audit committee did not substantially fulfil its responsibilities for the year, as set out in section 77 of the PFMA and Treasury Regulation 3.1.10.
- Internal audit
 - The internal audit function did not substantially fulfil its responsibilities for the year, as set out in Treasury Regulation 3.2.
- Other matters of governance
 - Significant difficulties were experienced during the audit concerning delays in providing or the unavailability of expected information and/or the unavailability of senior management.
 - The prior year's external audit recommendations have not been substantially implemented.

• Material misstatement

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



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6. Department of Roads and Transport

Qualification

Capital assets

- **Tangible capital assets**

- Asset register contained numerous inaccuracies.
- Difference of R10 million between the fixed asset register and the amount disclosed in the annual financial statements.

Expenditure

- **Expenditure**

- The correct allocation of journals to specific programmes and the possible impact of unauthorised expenditure could not be determined due to a lack of adequate supporting documentation.

Presentation and disclosure

- **Leave entitlement**

- The leave entitlement of R22,8 million and leave gratuities paid out amounting to R8,1 million were based on inaccurate leave records.
- Due to the nature of the available leave records, it was not possible to determine the valuation of the leave accrual as disclosed in the annual financial statements.

Provisions, contingent liabilities and guarantees

- **Commitments**

- The value of commitments was overstated by R34 million.

7. Department of Social Development

Qualification

Capital assets

- **Tangible capital assets**

- Tangible capital assets purchased before the 2007-08 financial year were not recorded at cost or fair value as required by the Treasury Regulations and an adjustment amounting to
- R70 million on the opening balance was not supported by supporting documentation.



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- Furthermore, the tangible capital assets were not complete as the district office assets had not been recorded on the asset register that was kept at head office.

Payables and borrowings

- **Payables**

- Journals from the Financial Management System (FMS) amounting to R32 million were not supported by appropriate supporting documents.

Presentation and disclosure

- **Other financial assets**

- Suspense accounts from FMS amounting to R24 million were not supported by appropriate supporting documents.

Expenditure

- **Transfers and subsidies**

- Sufficient appropriate audit evidence was not provided for transfer payments amounting to R70 million. Furthermore, transfer payments made to non-profit organisations and community based projects were not monitored during the current financial year.

Material losses

- **Irregular expenditure**

- Service level agreements for transfer payments amounting to R7 million, which are included in note 8 to the annual financial statements, were not approved by the head of the department which is in contravention of the department's internal control system and letters of approval and thus considered irregular expenditure.

Other matters

- **Matters of governance**

- Other matters of governance
 - Significant difficulties were experienced during the audit concerning delays in providing or the unavailability of expected information and/or the unavailability of senior management.



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- **Material misstatement**

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

8. Office of the Premier

Financially unqualified (with other matters)

Emphasis of matter

- **Highlighting critically important matters presented or disclosed in the financial statements**

- None

Other matters

- Matters of governance
 - Audit committee
 - The audit committee did not substantially fulfil its responsibilities for the year, as set out in section 77 of the PFMA and Treasury Regulation 3.1.10.
 - Internal audit
 - The internal audit function did not substantially fulfil its responsibilities for the year, as set out in Treasury Regulation 3.2.

9. Eastern Cape Provincial Legislature

Financially unqualified (with other matters)

Emphasis of matter

- **Highlighting critically important matters presented or disclosed in the financial statements**

- None

Other matters

- **Matters of governance**

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



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- Internal audit
 - The internal audit function did not substantially fulfil its responsibilities for the year, as set out in Treasury Regulation 3.2.

- **Material misstatement**

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

10. Provincial Treasury

Financially unqualified (with other matters)

Emphasis of matter

- **Highlighting critically important matters presented or disclosed in the financial statements**
 - As disclosed in the appropriation statement, the department has materially underspent its budget to the amount of R26,5 million for the financial year under review.

Other matters

- **Matters of governance**

- Audit committee
 - The audit committee did not substantially fulfil its responsibilities for the year, as set out in section 77 of the PFMA and Treasury Regulation 3.1.10.
- Internal audit
 - The internal audit function did not substantially fulfil its responsibilities for the year, as set out in Treasury Regulation 3.2.

- **Material misstatement**

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



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11. Department of Public Works

Financially unqualified (with other matters)

Emphasis of matter

- **Highlighting critically important matters presented or disclosed in the financial statements**
 - The National Treasury had approved a deviation from the basis of accounting applicable to departments which granted the department exemption from the disclosure of certain immovable assets and the use of fair value to value assets where the cost cannot be determined accurately.
 - Irregular expenditure to the amount of R18,5 million was incurred, as payments were made on invalid lease agreements and a proper tender process had not been followed.
 - The department has capital assets that are included in the asset register at a value of R1 each because they had been acquired prior to 1 April 2002, and given the application of a threshold of R5 000 for the recognition of assets, they have thus been excluded from the value of major assets disclosed.
 - The commitment balance includes an amount of R14,1 million relating to contracts awarded to consultants which were not in accordance with the department's supply chain management policy. Unless condoned, payment of these amounts in the 2008-09 financial year may result in irregular expenditure.
 - Corresponding figures for 31 March 2007 have been restated as result of an error discovered during the audit of the financial year ended 31 March 2008 in the financial statements of the Department of Public Works for the year ended 31 March 2007.
 - The closing balance of R1,2 million (2007: R3,5 million) for local and foreign aid has been reclassified as payables per note 16 to the annual financial statements.

Other matters

- **Non-compliance with applicable legislation**
 - Written approval of the bank overdraft of R62,9 million (2007: R172,3 million) as at 31 March 2008 was not obtained as required by section 3 of the Borrowing Powers of Provincial Government Act, 1966 (Act No. 48 of 1996).
- **Material misstatement**
 - The annual financial statements submitted for audit were subject to material amendments resulting from the audit.



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12. Safety and Liaison

Financially unqualified (with other matters)

Emphasis of matter

- **Highlighting critically important matters presented or disclosed in the financial statements**
 - As disclosed in note 8 to the annual financial statements, fruitless and wasteful expenditure to the amount of R358 000 was incurred for the year ended 31 March 2008.

Other matters

- **Non-compliance with applicable legislation**
 - Public Finance Management Act
 - The department did not comply with section 38(1)(a)(i) of the PFMA, as management had not updated the approved fraud prevention plan since 2001.
- **Matters of governance**
 - Audit committee
 - The audit committee did not substantially fulfil its responsibilities for the year, as set out in section 77 of the PFMA and Treasury Regulation 3.1.10.
 - Internal audit
 - The internal audit function did not substantially fulfil its responsibilities for the year, as set out in Treasury Regulation 3.2.
- **Material misstatement**
 - The annual financial statements submitted for audit were subject to material amendments resulting from the audit.



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13. Department of Sport, Recreation, Arts and Culture

Financially unqualified (with other matters)

Emphasis of matter

- **Highlighting critically important matters presented or disclosed in the financial statements**
 - As disclosed in the appropriation statement, the department has materially underspent the budget on programme 3: libraries and information services to the amount of R12,3 million.
 - As disclosed in notes 12 (unauthorised expenditure), 21 (housing loan guarantees) and 24 (leave entitlement) to the financial statements, the corresponding figures for the 2006-07 financial statements have been restated as a result of errors discovered during the 2007-08 audit of the financial statements of the department.

Other matters

- **Matters of governance**
 - Audit committee
 - The audit committee did not substantially fulfil its responsibilities for the year, as set out in section 77 of the PFMA and Treasury Regulation 3.1.10.
 - Internal audit
 - The internal audit function did not substantially fulfil its responsibilities for the year, as set out in Treasury Regulation 3.2.
- **Material misstatement**
 - The annual financial statements submitted for audit were subject to material amendments resulting from the audit.



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ANNEXURE 3: SUMMARY OF AUDIT REPORTS ON THE EASTERN CAPE PROVINCIAL PUBLIC ENTITIES

1. Eastern Cape Appropriate Technology Unit (ECATU)

Disclaimer

Revenue

- **Revenue**

- Grants and related interest from government departments received by the entity in contravention of the treatment prescribed by GRAP1 and IAS 20 (AC134), were not recognised as revenue by the entity but recorded as a liability. Significant uncertainty exists with regard to the completeness and accuracy of the revenue amounting to R12,2 million.
- Trust Funds disclosed do not constitute trust funds in the sense of registered trust funds, but are trust funds only by definition of the entity.

Receivables

- **Receivables**

- Sufficient and appropriate supporting information or documents for journals relating to project debtors account were not provided to the auditors.
- The entity recognises expenditure relating to specific projects as debtors. Supporting documentation or authentic audit evidence regarding the existence and valuation of debtors amounting to R 506 151 could not be obtained.

Capital assets

- **Infrastructure plant and equipment**

- The opening balance of accumulated depreciation on assets was not calculated in line with the disclosed estimates of useful life of the asset classes as disclosed in the accounting policy.
- The fixed asset register is not mathematically accurate and material variances were identified between the trial balance, the financial statements and the fixed asset register.
- The fixed asset register does not contain sufficient information to enable the entity to comply with South African General Accepted Accounting Standards (SA GAAP) and it is not regularly maintained and updated properly.
- Residual value and the useful life of assets were not reviewed annually as required by SA GAAP.
- The accounting policy of the entity does not reflect the treatment of land and buildings in the annual financial statements.



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Other general issues

- **Comparative information**

- The disclosure of restatements of prior year balances relating to payables, accumulated deficit and Infrastructure, plant and equipment does not meet the GRAP standards. In addition, the actual effect of the restatements on the financial statements could not be verified.

Expenditure

- **Expenditure**

- Authentic supporting documentation for expenditure payments amounting to R75 003 was not provided for audit purposes.

Payables and borrowings

- **Current liabilities**

- Sufficient audit evidence regarding the completeness and accuracy of the leave accruals amounting to R172 965 could not be obtained.
- Leave accruals of R172 965 were disclosed as a provision while they are in fact accruals and should be disclosed as such in the annual financial statements.

Other matters

- **Matters of governance**

- Audit committee
 - The audit committee did not substantially fulfil its responsibilities for the year, as set out in section 77 of the PFMA and Treasury Regulation 3.1.10.
- Internal audit
 - The internal audit function did not substantially fulfil its responsibilities for the year, as set out in Treasury Regulation 3.2.
- Other matters of governance
 - The prior year's external audit recommendations have not been substantially implemented.

- **Material misstatement**

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



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2. Eastern Cape Liquor Board

Qualification

Presentation and disclosure

- **Leases**

- In contravention of IAS 17 (AC105): Leases, the entity has incorrectly classified certain office equipment leases as operating leases as per accounting policy note 1.5. These contracts were found to meet the finance lease criteria and should therefore have been recognised and disclosed as finance leases in accordance with IAS 17. This departure is estimated to have resulted in the following understatements:
 - Lease liabilities amounting to R1,018 million (31 March 2007: R1,219 million)
 - Assets amounting to R998 242 (31 March 2007: R1,195 million)
 - Interest paid amounting to R151 064 (31 March 2007: R118 870)
 - Accumulated deficit by R20 358 (overstatement 31 March 2007: R3 906).

Emphasis of matter

- **Highlighting critically important matters presented or disclosed in the financial statements**
 - As disclosed in note 23.1 to the financial statements, fruitless and wasteful expenditure to the amount of R22 667 (31 March 2007: R4 232) was incurred as a result of interest, penalties and traffic fines incurred by the entity during the financial year.
 - As disclosed in note 23.2 to the financial statements, irregular expenditure to the amount of R264 096 (31 March 2007: R1,221 million) was incurred as a result of non-compliance with the entity's supply chain management policy while a proper bidding and tender process was not followed.
 - As disclosed in note 2 to the financial statements, the corresponding figures for 31 March 2007 have been restated as a result of an error discovered during the year ended 31 March 2008.

Other matters

- **Non-compliance with applicable legislation**

- Other enabling legislation

Treasury Regulations

- The entity did not comply with Treasury Regulation 27 as a risk assessment was not performed for the year ended 31 March 2008.



AUDITOR - GENERAL

- **Material misstatement**

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

3. Eastern Cape Parks Board

Qualification

Capital assets

- **Property, plant and equipment**

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

Revenue

- **Revenue**

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

Emphasis of matter

- The corresponding amounts for 31 March 2008 have been restated as a result of a change in estimate, correction of prior year errors and a change in accounting policy.

Other matters

- **Non-compliance with applicable legislation**

- Public Finance Management Act
 - Due to a temporary shortage of funds, management transferred R2 million of the project funds to the entity's operating account for the payment of salaries. Although the entity transferred



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the R2 million back to the Poverty Relief Fund within a week, the use of these funds is still considered to be a contravention of section 66 of the PFMA.

- **Matters of governance**

- Other matters of governance
 - The prior year's external audit recommendations have not been substantially implemented.

- **Material misstatement**

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

4. Eastern Cape Provincial Arts and Culture Council

Qualification

Revenue and receivables

- **Revenue and accounts receivable**

- No satisfactory system of control over sales for the Mthatha Craft Hub, the results of which were incorporated in the financial results of the Arts and Culture Council, therefore it was not possible to obtain reasonable assurance that all sales had been properly recorded.
- Unable to determine the completeness and accuracy of the accounting records relating to sales and accounts receivable.

Inventory

- **Inventory**

- Unable to confirm accuracy and completeness of inventory due to an improper inventory system or lack of accounting records for inventory, and the fact no inventory count had been performed at year-end.

Cash, cash equivalents and investments

- **Cash and cash equivalents**

- Stale cheques to the value of R90 199 have been included in cash and cash equivalents and have not been reversed against the originating expense.



AUDITOR - GENERAL

Expenditure

- **Operating expenses**

- An amount of R39 099 relating to the 2006-07 financial year has been included in the current year expenditure. The amount was not raised as an accrual in the prior year.

Emphasis of matter

- **Highlighting critically important matters presented or disclosed in the financial statements**

- The annual financial statements did not comply with the following accounting statements:
 - Generally Recognised Accounting Practice: Cash flow statements (GRAP2)
 - International Accounting Standard: Property, Plant and Equipment (IAS 16) (AC 123)
 - International Accounting Standard: Impairment of Assets (IAS 36) (AC 128)
 - International Accounting Standard: Leases (IAS 17) (AC 105)
 - International Accounting Standard: Revenue (IAS 18) (AC 111)
 - International Accounting Standard: Accounting for Government Grants and Disclosure of Government Assistance (IAS 20) (AC 134)
 - International Accounting Standard: Accounting for Inventory (IAS 2) (AC 108)
 - International Accounting Standard: Presentation of financial statements (IAS1) (AC101)
 - International Accounting Standard: Employee benefits (IAS19) (AC116)

Other matters

- **Non-compliance with applicable legislation**

- Public Finance Management Act
 - The entity has not complied with the PFMA as the required number of quotations were not obtained for all purchases.

- Other enabling legislations

Treasury Regulations

- Remuneration is not disclosed in the annual financial statements as per the requirements of Treasury Regulation 28.
- The entity has not fully complied with the requirements of Treasury Regulation 16A on Supply Chain Management as management has not advertised for prospective suppliers per commodity and type of service to register with the entity. Management has also not prepared a Code of Conduct for its Supply Chain Management officials as required by National Treasury Practice Note 4 of 2003.



A U D I T O R - G E N E R A L

- **Matters of governance**

- Internal audit
 - The internal audit function did not substantially fulfil its responsibilities for the year, as set out in Treasury Regulation 3.2
- Other matters of governance
 - The prior year's external audit recommendations have not been substantially implemented.
 - Significant difficulties were experienced during the audit concerning delays in providing or the unavailability of expected information and/or the unavailability of senior management.

- **Material misstatement**

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

5. Mayibuye Transport Corporation

Qualification

Revenue

- **Revenue**

- It was not possible to confirm the completeness of casual passenger revenue amounting to R13,6 million (2007: R11 million) recognised in the annual financial statements.

Emphasis of matter

- **Highlighting critically important matters presented or disclosed in the financial statements**

- Capital improvements to the Zwelitsha Depot have been recognised as leasehold land and buildings with a carrying value of R1,1 million in the annual financial statements. A process for acquisition of the title deed has been initiated with the Land Claims Commission. Although the entity's right to occupy the land has not been reduced to writing, it derives benefits from its use and carries the risks that are incidental to ownership.

Other matters

- **Material misstatement**

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



A U D I T O R - G E N E R A L

6. Eastern Cape Development Corporation

Financially unqualified (with other matters)

Emphasis of matter

The majority of the investment properties held by ECDC are owned by government, tribal authorities and municipalities (total investment properties are valued at R96,4m of which titles to properties valued at R83,3m have not been transferred to ECDC).

Other matters

- **Material misstatement**
 - The annual financial statements submitted for audit were subject to material amendments resulting from the audit.

7. Eastern Cape Gambling and Betting Board

Financially unqualified (with other matters)

Emphasis of matter

- **Highlighting critically important matters presented or disclosed in the financial statements**
 - As disclosed in note 2 to the financial statements, the corresponding figures for 31 March 2007 have been restated as a result of an error identified in the financial statements of the Eastern Cape Gambling and Betting Board for the year ended 31 March 2007, during the year ended 31 March 2008.

Other matters

- **Matters of governance**
 - Other matters of governance
 - Significant difficulties were experienced during the audit concerning delays in providing or the unavailability of expected information and/or the unavailability of senior management
- **Material misstatement**
 - The annual financial statements submitted for audit were subject to material amendments resulting from the audit.



A U D I T O R - G E N E R A L

8. Eastern Cape Tourism Board

Financially unqualified (with other matters)

Emphasis of matter

- **Highlighting critically important matters presented or disclosed in the financial statements**
 - Investment property amounting to R3,7 million is disclosed in note 5 to the financial statements. The property is accounted for and owned by the ECTB but is not registered in the name of the entity. It is registered in the name of the National Conservation and Tourism Board, which no longer exists.
 - As disclosed in note 29 to the financial statements, fruitless and wasteful expenditure to the amount of R46 335 was incurred during the financial year ended 30 March 2008.
 - As disclosed in note 29 to the financial statements, irregular expenditure to the amount of R274 024 was incurred during the financial year ended 30 March 2008.
 - As disclosed in note 23 to the financial statements, the corresponding amounts for 31 March 2007 have been restated as result of an error discovered during the year ended 31 March 2008.

Other matters

- **Material misstatement**
 - The annual financial statements submitted for audit were subject to material amendments resulting from the audit.

9. Eastern Cape Youth Commission (ECYC)

Financially unqualified (with other matters)

Emphasis of matter

- **Highlighting critically important matters presented or disclosed in the financial statements**
 - The statement of financial position indicates that the Eastern Cape Youth Commission incurred a deficit of R2 million. In addition, note 16 to the financial statements indicate that the future of the Commission as a going concern would depend on the ongoing support of the Office of the Premier.

Other matters

- **Material misstatement**
 - The annual financial statements submitted for audit were subject to material amendments resulting from the audit.



Accountability

Integrity

Independence

Impartiality