



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  
NORTHERN CAPE PROVINCIAL DEPARTMENTS,  
PUBLIC ENTITIES AND OTHER ENTITIES  
for the financial year 2007-08

PUBLISHED BY AUTHORITY

PR 306/2008

ISBN 978-0-621-38365-2



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Cover design by the Auditor-General

Layout and repro by Business Design & Repro Centre

Printed and bound by BusinessPrint Centre, Pretoria



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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 Northern Cape Provincial Government departments, public entities and other 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, public entities and other entities. The main body of this report covers provincial departments, public entities and other entities reflected under sections covering financial reporting results, performance reporting results, results of information systems audit, drivers leading to unqualified audit reports, SCOPA resolutions not implemented, tabling of annual reports and results of other audits.

Considerable attention needs to be dedicated 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 the 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 related to basic internal control issues, such as an ineffective internal audit unit and audit committee, capacity constraints, lack of coordinated action plans, all these issues require effective monitoring and supervision by the leadership so that they could be addressed immediately. The analysis further provides specific reference to the areas where these internal control shortcomings were identified, including their level of prevalence in each sphere of government.

The Northern Cape public sector, excluding local government, comprised 13 departments, two public entities and four other entities. One department, the provincial treasury and two other entities (Northern Cape Arts and Cultural Council and Northern Cape Premier Education Trust Fund) were not included as part of this general report due to:

- the provincial treasury retracting their financial statements on 16 July 2008 and resubmitting them on 5 September 2008, and the audit not being complete
- the Northern Cape Arts and Cultural Council submitting financial statements on 29 August 2008
- the Northern Cape Premier Education Trust Fund financial year-end being 31 December 2008.





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### **Of the 12 provincial departments analysed:**

- none of the departments received an adverse audit opinion
- two (17%) departments received a disclaimer of audit opinion (disclaimer): Health and Education
- four (33%) departments were financially qualified (qualified): Provincial Legislature, Transport Roads and Public Works, Agriculture and Land Reform and Office of the Premier
- six (50%) departments were financially unqualified but had concerns in areas of internal control, governance and legislative non-compliance, namely: Economic Affairs; Housing and Local Government; Safety and Liaison; Social Services and Population Development; Sport, Arts and Culture and Tourism, Environment and Conservation.

### **Of the two provincial public entities analysed:**

- the Northern Cape Youth Commission and the Northern Cape Tourism Authority received a financially unqualified opinion.

### **Of the two other entities:**

- the McGregor museum and the Road Capital Account both received qualified opinions.

The findings leading to the financial qualifications and other matters were generally common to the Northern Cape departments. The majority of audit findings on provincial departments that were qualified/disclaimed resulted from issues on asset management (affecting five (83%) departments) and issues on presentation and disclosure and irregular expenditure (affecting four (67%) departments).

In addition to the financial qualifications, the majority of the departments had shortcomings in:

- non-compliance with applicable legislation (92%), relating mainly to non-compliance with the Public Finance Management Act
- internal controls relating to the areas of material adjustments to financial statements (100%) during the audit that were initially not detected by the departments' own internal controls
- SCOPA resolutions not substantially implemented (50%).

Similarly, in addition to the financial qualifications, the majority of the public entities had shortcomings in:

- internal controls relating to the areas of material adjustments to the financial statements (50%) during the audit that were initially not detected by the entities' own internal controls.

With regard to performance information for both departments and public entities in general there has been improvement in this area of auditing due to actions taken as a result of prior year audit findings.



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As a result of inadequate capacity the provincial treasury could not assist departments in improving the outcomes from 2006-07. Plans are in place to rectify this for the 2008-09 outcomes.

In conclusion, I wish to thank the AG's staff in the Northern Cape for their diligent efforts towards the fulfilment of our constitutional mandate. I would like to express my appreciation to the legislative members, as well as the executive, for their cooperation and input during the AG's visits to present the audit outcomes of the Northern Cape Province. Together we will continue to make every effort to collaborate in order to contribute towards strengthening our country's democracy.

A handwritten signature in dark blue ink, which appears to read 'Auditor-General', is positioned above the typed name. The signature is fluid and cursive, with the first letters of the first and last words being capitalized and prominent.

Auditor-General

Pretoria

November 2008



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## SECTION 1: FOLLOW-UP ON PRIOR YEAR ACTION PLANS

### 1. IMPLEMENTATION OF ACTION PLANS BY LEADERSHIP

Action plans implemented per department culminated in good audit outcomes for six departments. Action plans implemented at the Departments of Health and Education culminated in some successes, but did not result in an improvement of the overall audit outcome. Furthermore, at the Department of Health the provincial cabinet instituted interventions in the financial management of the department which were still ongoing, as well as a forensic audit of the concern surrounding the financial management of the department that was in progress.

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

There were two internal audit units during the 2007-08 financial year that served the economic cluster and the social cluster. For all 13 departments there was one audit committee, but each cluster had its own chair. The Institute of Internal Auditors performed an external quality assurance review of the internal audit units during March 2008 and at the time of this report their report had not been finalised.

### 3. COORDINATION BETWEEN PORTFOLIO COMMITTEE AND STANDING COMMITTEE

The coordination and communication between the portfolio committee (PC) and SCOPA were good during the period under review. The communication of resolutions was clear. This was supported by combined sessions where all members of SCOPA were also members of the PC. Detail on the implementation of SCOPA resolutions is provided in section 5.

### 4. TREASURY'S MONITORING TOOL/CHECKLIST

In the 2006-07 general report we recommended that a monitoring tool or checklist should be developed by the National Treasury, in conjunction with the provincial treasury, to enable the legislature and the executive to monitor progress made with the implementation of the relevant action plans and to assist with their respective oversight responsibilities on a periodic basis. Due to capacity constraints within the provincial treasury this was not implemented.

### 5. STRENGTHENING CAPACITY OF THE PROVINCIAL TREASURY

Due to a lack of capacity no action plans were initiated and the recommended monitoring tool or checklist was therefore not implemented by the provincial treasury to improve on the audit outcomes of 2006-07. Departments that improved from 2006-07 to 2007-08 improved as a result of action plans implemented by management which focused on appropriately addressing SCOPA resolutions from 2006-07, as well as implementing prior year audit recommendations.



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## **6. EVALUATION OF HUMAN RESOURCE STRATEGIC FRAMEWORK**

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



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### SECTION 2: PROVINCIAL DEPARTMENTS

#### 1. FINANCIAL REPORTING RESULTS

##### 1.1 Introduction

The Northern Cape Provincial Government comprises 13 departments.

Consolidated financial statements for 2003-04, 2004-05, 2005-06 and 2006-07 for provincial departments and public entities were submitted for audit purposes during 2008. The audit reports were issued on 6 October 2008.

The reasons for the delay in submission of the consolidated financial statements for auditing included the following:

- The lack of staff and staff complement allocated to this responsibility at the provincial treasury severely hampered this process.
- Adjustments made to the financial statements subsequent to original submission caused further delays in the audit process.
- Difficulties experienced in reconciling many of the balances between the departments' annual financial statements and the Provincial Revenue Fund.

Consolidated financial statements for 2007-08 for provincial departments and public entities were submitted for auditing on 30 June 2008 and a revised set of consolidated financial statements was submitted on 14 October 2008.

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

- Table 1 below provides details of the actual audit outcomes for the Northern Cape provincial departments.

**Table 1: Audit opinions on provincial departments**

Type of audit opinion	2007-08		2006-07	
	Number	%	Number	%
Adverse	0	0%	0	0%
Disclaimer	2	17%	2	17%
Qualified	4	33%	5	42%
Financially unqualified (with other matters)	6	50%	5	41%
Financially unqualified (with no other matters)	0	0%	0	0%
<b>Total analysed</b>	<b>12</b>	<b>100%</b>	<b>12</b>	<b>100%</b>



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There has been a slight improvement in the Northern Cape Province as far as the financial qualifications are concerned, with only four (33%) in 2007-08 being qualified against five (42%) in 2006-07. It should be noted that the audit report for the provincial treasury has not been finalised and is therefore not included as part of this analysis due to the retraction of the annual financial statements. Last year the audit opinion was a qualification.

The Departments of Economic Affairs; Safety and Liaison; and Sports, Arts and Culture improved from a qualification to financially unqualified (with other matters). Three departments, namely Housing and Local Government; Social Services and Population Development; and Tourism, Environment and Conservation maintained their opinions from the prior year of financially unqualified (with other matters).

The overall improvement in the province was hampered by the fact that two departments (Agriculture and Land Reform and Provincial Legislature) moved from financially unqualified in 2006-07 to qualified in the year under review. The Departments of Health and Education maintained their disclaimer of opinion from the previous year while the Office of the Premier and the Department of Transport, Roads, and Public Works maintained their qualifications.

- Table 2 below provides details of the actual audit outcomes for the Northern Cape provincial departments for the past 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 and Land Reform	Qualified	Financially unqualified (with other matters)	Qualified	Financially unqualified (with other matters)	Financially unqualified (with other matters)
Economic Affairs	Financially unqualified (with other matters)	Qualified	Disclaimer	Financially unqualified (with other matters)	Qualified
Education	Disclaimer	Disclaimer	Qualified	Financially unqualified (with other matters)	Qualified
Health	Disclaimer	Disclaimer	Disclaimer	Disclaimer	Disclaimer
Housing and Local Government	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Qualified
Office of the Premier	Qualified	Qualified	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)
Provincial Legislature	Qualified	Financially unqualified (with other matters)	Qualified	Financially unqualified (with other matters)	Qualified
Provincial Treasury	Outstanding	Qualified	Disclaimer	Disclaimer	Qualified



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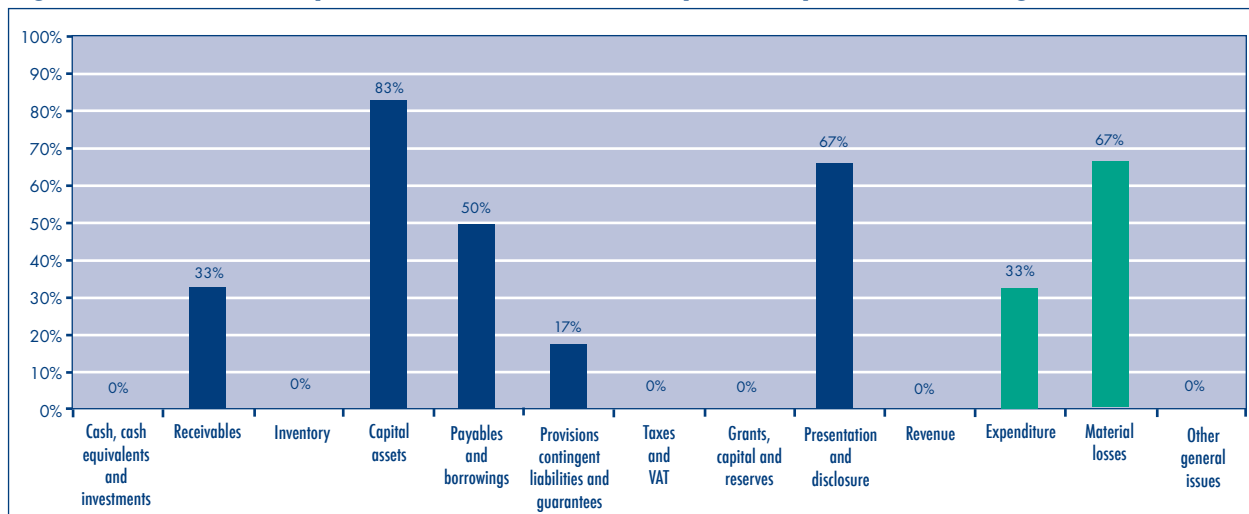
**Table 2: Audit opinions on provincial departments for the previous five years (continued)**

Department	2007-08	2006-07	2005-06	2004-05	2003-04
Safety and Liaison	Financially unqualified (with other matters)	Qualified	Qualified	Financially unqualified (with other matters)	Financially unqualified (with other matters)
Social Services and Population Development	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Qualified
Sport, Arts and Culture	Financially unqualified (with other matters)	Qualified	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)
Tourism, Environment and Conservation	Financially unqualified (with other matters)	Financially unqualified (with other matters)	No comparative	Financially unqualified (with other matters)	No comparative
Transport, Roads and Public Works	Qualified	Qualified	Qualified	Qualified	Financially unqualified (with other matters)

Three departments have shown improvement over the last five years, while two have deteriorated and two have stayed the same. The remaining five have fluctuated.

### 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 the provincial departments that were qualified per audit finding. The audit findings are split between items in the balance sheet (statement of financial position) highlighted in blue bars and the income statement (statement of financial performance) highlighted in green bars.

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



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## Overall conclusion

The Departments of Health and Education were disclaimed, and the Departments of Transport, Roads and Public Works; Agriculture and Land Reform; Office of the Premier; and the Provincial Legislature were qualified. The reasons for the disclaimers and/or qualifications are as follows:

- Unavailability of/inadequate supporting documentation
- Capital assets (with the exception of Transport, Roads and Public Works):
  - o Lack of complete and accurate asset registers
  - o Where there were asset registers they had not been updated and adequately maintained.
  - o Specifically related to the Department of Agriculture and Land Reform, assets transferred from the North West Province were not included in the asset register.
  - o Physical asset verification of assets was not possible.
  - o No process was in place to value assets.
- Inadequate systems were in place to identify and record accruals, commitments, lease commitments, receivables and irregular expenditure.

The two disclaimed departments also have in common that they were decentralised in terms of geographical location, with remote processing. The findings relating to the unavailability of supporting documentation can also be attributed to proper systems not being maintained for the filing and retrieval of supporting documentation from these locations.

The root cause of these findings can be summarised as follows:

## Capacity

Departments experienced difficulties in terms of the number of employees available to perform the tasks at hand, as well as a lack of appropriately skilled individuals at various levels.

## Leadership involvement

### • Leadership tone

Management did not instil an attitude of being fully committed to, and acting with, urgency and discipline to resolve matters from the prior year on all levels of staff.

### • Monitoring and supervision

In various departments key officials were not involved throughout the period under review due to posts being vacant and filled by acting staff. Further to this, the decentralised nature of the disclaimed departments, linked with capacity constraints at various levels, further exacerbated the issue of proper monitoring and supervision.





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### **Prioritisation of addressing issues**

Departments lacked a centrally controlled and monitored action plan to prevent the recurrence of the prior year issues.

### **Internal audit**

The shared internal audit unit was not effective in executing all its responsibilities during the period under review.

### **1.4 Audit findings related to 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.

### **Material non-compliance with applicable legislation**

Ninety-two per cent of all departments reported instances of non-compliance with applicable legislation. The majority of findings related to non-compliance with the PFMA and Treasury Regulations, mainly due to a lack of commitment and discipline and in certain instances a lack of understanding and knowledge of the requirements of the said legislation.

### **Governance**

All departments (100%) reported findings in respect of governance, which are broken down according to the following:

- **Audit committee and internal audit unit**

The centralised audit committee and internal audit unit were in operation throughout the financial year and operated in accordance with approved written terms of reference. The internal audit unit has been unsuccessful in terms of substantially fulfilling its responsibilities this year due to capacity problems in terms of staffing and budget, as well as not being acknowledged by all departments.

- **Other matters of governance**

Significant difficulties were experienced during the audit due to delays/unavailability of expected information and/or unavailability of senior management at the Departments of Health; Education; Provincial Legislature; Transport, Roads and Public Works; and Tourism, Environment and Conservation.

Prior year audit recommendations were not substantially implemented by the Departments of Agriculture and Land Reform; Health; Education; Office of the Premier and the Provincial Legislature. Details of the non-implementation of SCOPA resolutions are provided in section 5.



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## **Material misstatements**

All financial statements submitted for auditing were subject to material amendments due to the ineffectiveness of the internal controls such as a lack of management review and a lack of proper systems for the collation of disclosure note information.

In order to deal with the prevalence of material misstatements in financial statements that have to be corrected during the audit period, departments need to:

- re-emphasise the role of chief financial officers in the preparation of regular management accounts, particularly related 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 units and audit committees can play a critical 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 2007-08, 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 the provincial treasury to improve the process of managing and reporting on performance information.

In general there has been an improvement in this area of auditing due to action taken by departments in addressing the prior year audit findings. A matter of concern is that for the Departments of Agriculture and Land Reform; Education; Health; Social Services and Population Development; Sport; Arts and Culture; and Tourism, Environment and Conservation:

- there was insufficient appropriate audit evidence in relation to the performance information provided
- there was inconsistencies between the measurable objectives in the annual report and the strategic/corporate/annual performance plan/budget
- performance information was not received in time for audit purposes.

## **3. INFORMATION SYSTEMS AUDIT**

### **3.1 Introduction**

Information systems (IS) controls are significant in determining the effectiveness of internal controls. Weak



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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.

Table 3 below presents the results of the user account management process that was audited at all 13 provincial departments and the following key findings were identified:

**Table 3: Results of information systems audits for the Northern Cape provincial departments for 2007-08**

Audit finding	% Departments with finding
<b>User account management standards and procedures</b>	
Incomplete user account management procedures	62
<b>Access request authorisation</b>	
Access request forms not consistently completed	46
<b>Application security</b>	
Lack of segregation of duties	23
Excessive access rights assigned to users	31
Inactive accounts not deactivated in time	85
User access levels not periodically reviewed	100
User identifications not uniquely assigned	46

The root causes for the weaknesses in the user account management process were incomplete user account management standards and procedures, access requests authorisations not consistently completed and inadequate application security access management.

## 4. DRIVERS LEADING TO AUDIT RESULTS

### 4.1 Introduction

The following benchmark information is considered to be 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



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- 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 4 below presents the results of the 12 Northern Cape departments in achieving the above good practice indicators.

**Table 4: Results of good practices indicators for Northern Cape provincial departments (12) for 2007-08**

No.	Good practices	Percentage of total departments achieving good practice indicators <sup>1</sup>
1	Clear trail of supporting documentation that is easily available and provided timely	75%
2	Quality of financial statements and management information	67%
3	Timeliness of financial statements and management information	75%
4	Availability of key officials during audits	58%
5	Development of, and compliance with, risk management and good internal control and governance practices	58%
6	Leadership/supervision/monitoring	67%

### • Clear trail of supporting documentation

While the majority (75%) of departments' supporting documentation was easily accessible, a few (25%) 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; Education; and the provincial legislature 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, especially Health and Education that have multiple locations.

<sup>1</sup> This would serve as a baseline to monitor future improvement



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- **Quality annual financial statements**

While departments have continued to make progress in response to challenges to submit quality financial statements, challenges still remain for four (33%) departments, namely Health; Education; Office of the Premier; and Provincial Legislature. The number of material corrections to the financial statements mainly related to issues of disclosure associated with the ongoing transition to accrual accounting. In this regard, processes and systems need to be further refined in order to accurately compile information for the preparation and presentation of the financial statements.

- **Timeliness of annual financial statements and management information**

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. Three departments (25%), namely Education; Health; and Provincial Legislature did, however, not submit the related management information in time.

- **Availability of key officials**

Availability of key officials (heads of departments and chief financial officers) during the audit to deal with audit-related matters and to clear these in a timely manner was problematic in 42% of departments. The affected departments were Health; Agriculture and Land Reform; Provincial Legislature; Transport, Roads and Public Works; and Tourism, Environment and Conservation.

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

Effective risk management and internal control practices continue to be a challenge for the majority of the departments. Contrary to legislative requirements, fraud prevention plans and risk management strategies either did not exist or were not regularly updated and monitored at the majority of departments. The affected departments were Health; Education; Provincial Legislature; Office of the Premier; and Transport, Roads 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 members are employed, particularly in the finance and accounting division. Effective leadership and oversight are needed to monitor the performance of management, especially insofar as financial management is concerned.

The practice of supervision and monitoring, especially insofar as financial management is concerned, was evident in 67% of the provincial departments, namely Agriculture and Land Reform; Economic Affairs; Housing and Local Government; Safety and Liaison; Social Services and Population Development; Sports, Arts and Culture; and Tourism, Environment and Conservation.



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## 5. SCOPA 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 SCOPA resolutions included in the accounting officer's report. The table below indicates, where applicable, the status of the implementation of such resolutions.

### 5.2 SCOPA resolutions not yet implemented

The Departments of Agriculture and Land Reform; Economic Affairs; Housing and Local Government; Safety and Liaison and Social Services and Population Development substantially implemented all the SCOPA resolutions from 2006-07. The Departments of Health; Office of the Premier; Transport, Roads and Public Works and the Provincial Legislature did not implement the majority of the 2006-07 SCOPA resolutions. The reasons for not implementing SCOPA resolutions were multiple and included the HoD or CFO positions being vacant for long periods at certain departments, officials not realising the extent of actions required to fully address resolutions, a lack of accountability and a lack of taking ownership of resolutions. Although the Department of Tourism, Environment and Conservation did not implement all the SCOPA resolutions from 2006-07 they obtained a financially unqualified (with other matters) report for 2006-07 and 2007-08.

**Table 5: SCOPA resolutions not yet implemented from the 2006-07 financial year**

No.	Department	No. of resolutions	Resolutions not yet implemented
1	Agriculture and Land Reform	4	1
2	Economic Affairs	11	1
3	Education	18	5
4	Health	14	14
5	Housing and Local Government	6	1
6	Office of the Premier	4	4
7	Provincial Legislature	7	5
8	Safety and Liaison	6	1
9	Social Services and Population Development	6	1
10	Sport, Arts and Culture	7	2
11	Tourism, Environment and Conservation	5	5
12	Transport, Roads and Public Works	10	9

## 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 of receipt of the audit report.



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**6.2 Status of annual reports tabled****Table 6: Status of annual reports tabled**

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

**7. SUMMARY OF OTHER AUDITS****7.1 Performance auditing**

A performance audit is described as an independent audit 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 the 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
- auditing of the effectiveness of performance in relation to achievement of the policy objectives, operational goals and other intended effects of the audited entity.

**7.2 Results of performance auditing**

Two performance audits, namely Health – Infrastructure spending, and Housing – low-cost housing projects were completed at the date of this report and the audit of the Department of Education for infrastructure spending was work-in-progress as at 28 October 2008.



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**Table 7: Results of performance audits**

Department	Report description	Expected date of tabling
Health	Infrastructure spending	This report will be tabled by the National Treasury
Education	Infrastructure spending	January 2009
Housing	Low-cost housing projects	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, which may result in legal proceedings for adjudication and ensure probity in the accounts, financial statements and financial management of an institution referred to in section 4(1) and 4(3) of the PAA, and which may result in legal proceedings for adjudication. 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

**Table 8: Results of investigations**

Department	Report description	Expected date of tabling
Health	Financial management	January 2009
Housing	Housing fund projects	Could not be confirmed





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## SECTION 3: PROVINCIAL ENTITIES

### 1. FINANCIAL REPORTING RESULTS

#### 1.1 Introduction

The Northern Cape Provincial Government comprises 10 known entities, four of which have not been included as part of our analysis due to the non-inclusion as part of the provincial consolidation (at the time of finalising the consolidations for the financial years 2003 to 2007, financial statements were not available for all entities and the provincial treasury did not have sufficient information to determine if the entities should in fact be consolidated). The balance of six comprises two public entities, two other entities, a trading account and a trust fund. The provincial treasury is in the process of identifying all entities which need to be consolidated.

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

- Table 1 below provides details of the actual audit outcomes for the Northern Cape provincial entities.

**Table 1: Audit opinions on provincial entities**

Type of audit opinion	2007-08		2006-07	
	Number	%	Number	%
Adverse	0	0%	0	0%
Disclaimer	0	0%	0	0%
Qualified	2	34%	2	40%
Financially unqualified (with other matters)	2	33%	1	20%
Financially unqualified (with no other matters)	0	0%	0	0%
Audit report not finalised	2	33%	2	40%
<b>Total analysed</b>	<b>6</b>	<b>100%</b>	<b>5</b>	<b>100%</b>

There has been improvement in that two (33%) entities were financially unqualified (with other matters) in 2007-08 versus one (20%) in 2006-07.



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- Table 2 below provides details of the actual audit outcomes for the Northern Cape provincial public entities for the past four years.

**Table 2: Audit opinions on provincial entities for the previous four years**

Public entities	2007-08	2006-07	2005-06	2004-05
Northern Cape Youth Commission	Financially unqualified (with other matters)	None	None	None
Northern Cape Tourism Authority	Financially unqualified (with other matters)	Qualification	Qualification	Financially unqualified (with other matters)
Other entities	2007-08	2006-07	2005-06	2004-05
McGregor Museum	Qualification	Qualification	Qualification	Qualification
Road Capital Account	Qualification	Financially unqualified (with other matters)	Qualification	Disclaimer
Northern Cape Arts and Culture Council	Audit report outstanding	Audit report outstanding	Disclaimer	Disclaimer
Northern Cape Premier Education Trust Fund	Audit report outstanding	Audit report outstanding	Disclaimer	Disclaimer

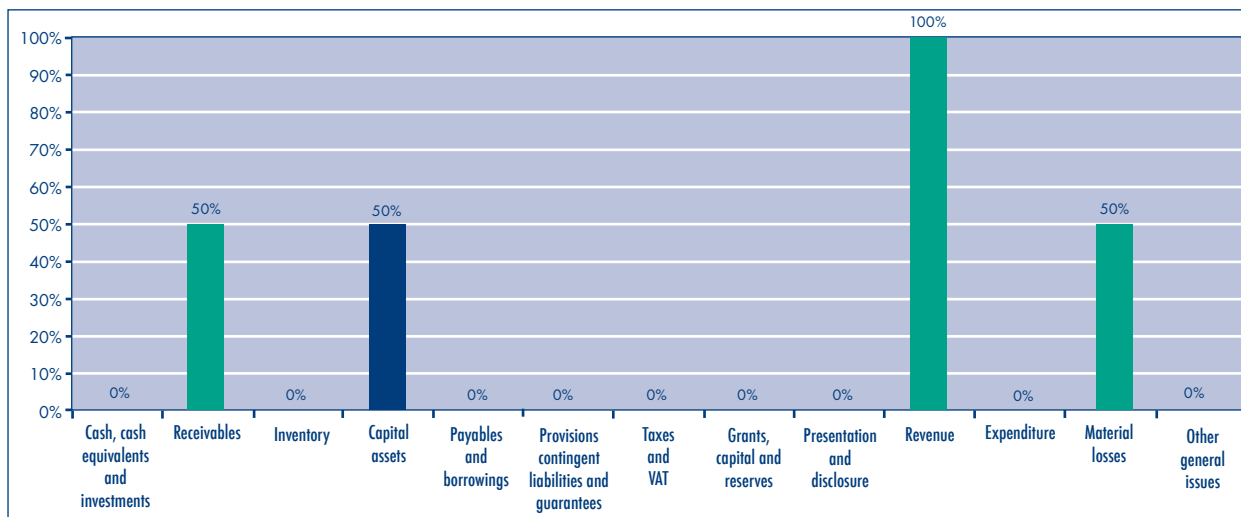
### 1.3 Qualification details

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 the provincial entities that were qualified per audit finding. The audit findings are split between items in 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 entities (2) that were qualified per audit finding**



### Overall conclusion

The main reasons for the two entities being qualified were:

#### Capital assets

- Non-compliance with IAS 16 with regard to the recognition of assets

#### Receivables

- Sufficient appropriate evidence was not available to confirm the valuation of receivables.

#### Revenue

- The completeness and accuracy of revenue could not be confirmed due to shortcomings identified in the costing system of the Roads Capital Account. At the McGregor Museum the qualification related to the feasibility for the entity to institute accounting controls over cash collected from donations prior to initial entry in the accounting records.

### 1.4 Audit findings related to 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.

#### Matters of governance

##### Non-compliance

The majority of material non-compliance with applicable legislation related mainly to the non-compliance with the PFMA and Treasury Regulations. In terms of non-compliance with other enabling legislation, two entities, namely the Youth Commission and the Road Capital Account, reported such non-compliance.



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## **Governance**

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

The audit committee and internal audit unit were in operation for 50% of the entities and operated in accordance with approved written terms of reference. The public entity that had an internal audit unit and audit committee, namely the Northern Cape Youth Commission, made use of the provincial one during the 2007-08 year. Prior to that it was part of the Department of the Premier. The other entity, the Roads Capital Account, was part of the Department of Transport, Roads and Public Works. The internal audit units for both have been unsuccessful in terms of substantially fulfilling their responsibilities this year, although the National Youth Commission was unqualified with other matters.

## **Material misstatements**

All the financial statements submitted for auditing were subject to material amendments resulting from the audit.

## **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 2007-08, 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**

None of the entities reported on performance information as required.

## **3. DRIVERS LEADING TO AUDIT RESULTS**

### **3.1 Introduction**

In the view of the AG, the following benchmark information is considered to be 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)



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### 3.2 Achievement against good practice indicators

Table 5 below presents the results of the Northern Cape entities in achieving the said good practice indicators.

**Table 5: Results of good practice indicators for Northern Cape provincial entities for 2007-08**

No.	Good practices	Percentage of public entities achieving good practice indicators <sup>2</sup>	Percentage of entities achieving good practice indicators <sup>3</sup>
1	Clear trail of supporting documentation that is easily available and provided in time	100%	100%
2	Quality of financial statements and management information	50%	50%
3	Timeliness of financial statements and management information	50%	100%
4	Availability of key officials during audits	100%	50%
5	Development of, and compliance with, risk management and good internal control and governance practices	0%	0%
6	Supervision/monitoring	50%	50%

Root causes for the purposes of unqualified audit reports (two public entities) in the Northern Cape

The Youth Commission complied with four out of six good governance indicators of which a clear trail of supporting documentation and availability of key officials were significant. The Northern Cape Tourism Authority complied with three out of six good governance indicators.

## 4. SCOPA RESOLUTIONS

### 4.1 Introduction

The Road Capital Account is audited as part of the Department of Transport, however, all SCOPA resolutions issued as part of the process followed for departments related to the department only. None of the other entities appeared before SCOPA.

<sup>2</sup> This would serve as a baseline to monitor future improvement

<sup>3</sup> This would serve as a baseline to monitor future improvement



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## 4.2 SCOPA resolutions not yet implemented

Entity	No. of resolutions	Resolutions not yet implemented
McGregor Museum	0	0
Road Capital Account	0	0
Youth Commission	0	0
Northern Cape Tourism Authority	0	0
Northern Cape Arts and Culture Council	Audit report outstanding	Audit report outstanding
Northern Cape Premier Education Trust Fund	Audit report outstanding	Audit report outstanding

## 5. TABLING OF ANNUAL REPORTS

### 5.1 Introduction

At the date of this report the status of the tabling of annual reports was as set out below.

### 5.2 Status of annual reports tabled

No.	Entity	Tabled (Y/N)
1	McGregor Museum	N
2	Road Capital Account	Y
3	Youth Commission	N
4	Northern Cape Tourism Authority	N
5	Northern Cape Arts and Culture Council	Audit report outstanding
6	Northern Cape Premier Education Trust Fund	Audit report outstanding

## 6. SUMMARY OF OTHER AUDITS

### 6.1 Results of performance auditing

No performance audits were conducted.

### 6.2 Results of investigations

No investigations were conducted.



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## SECTION 4: CONCLUSION

Comprehensive action plans, combined with regular monitoring, are required to address the issues identified, especially at the two disclaimed departments. These plans need to be monitored and tracked centrally on a frequent basis by the provincial treasury. Senior management in the affected departments must be fully committed to the action plans and enforce compliance from the top down. The plans must be directed at the root cause of the issues identified and not to merely address the symptoms. These should include addressing capacity constraints, frequent monitoring and supervision at all appropriate levels, as well as directing internal audit effort to high-risk areas as identified.

The good practices which led to a notable improvement in three departments in the province need to be maintained and the departments who moved from unqualified (with other matters) to qualified opinions need to focus on good practices to move back to unqualified opinions. Improvement is needed in areas such as material misstatements in financial statements and actions to clear issues raised by the AG during prior years. In order to deal with the prevalence of material misstatements in financial statements that have to be corrected during the audit period, departments need to 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. Public entities and other entities also need to do more to produce quality financial statements that comply with the established accounting framework. Internal auditors and audit committees should focus on coordinating the process of developing and implementing action plans to clear issues raised by the AG.

The critical message I am 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.

I am confident that the challenges are not insurmountable and remain committed to working with the legislatures 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: NORTHERN CAPE

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
PD	Education	NC	Disclaimer	Disclaimer				1	1				1		1				1	1		1		1		
PD	Health	NC	Disclaimer	Disclaimer		1		1	1	1			1		1	1			1	1						
PD	Agriculture and Land Reform	NC	Qualification	Financially unqualified (with other matters)				1											1	1	1	1	1	1	1	
PD	Office of the Premier	NC	Qualification	Qualification																1	1	1	1	1	1	
PD	Provincial Legislature	NC	Qualification	Financially unqualified (with other matters)				1	1				1			1			1	1	1	1	1	1	1	
PD	Transport, Roads and Public Works	NC	Qualification	Qualification												1		1	1	1	1	1	1	1	1	
PD	Economic Affairs	NC	Financially unqualified (with other matters)	Qualification															1	1	1	1	1	1	1	
PD	Housing and Local Government	NC	Financially unqualified (with other matters)	Financially unqualified (with other matters)															1	1	1	1	1	1	1	
PD	Safety and Liaison	NC	Financially unqualified (with other matters)	Qualification															1	1	1	1	1	1	1	
PD	Social Services and Population Development	NC	Financially unqualified (with other matters)	Financially unqualified (with other matters)															1	1	1	1	1	1	1	
PD	Sport, Arts and Culture	NC	Financially unqualified (with other matters)	Qualification															1	1	1	1	1	1	1	
PD	Tourism, Environment and Conservation	NC	Financially unqualified (with other matters)	Financially unqualified (with other matters)															1	1	1	1	1	1	1	
PD	Provincial Treasury	NC	Audit report outstanding	Qualification															1	1	1	1	1	1	1	
PE	Northern Cape Youth Commission	NC	Financially unqualified (with other matters)	No comparative															1	1	1	1	1	1	1	
PE	Northern Cape Tourism Authority	NC	Financially unqualified (with other matters)	Qualification															1	1	1	1	1	1	1	
OE	McGregor Museum	NC	Qualification	Qualification		1	1	1						1					1	1	1	1	1	1	1	
TA	Road Capital Account	NC	Qualification	Financially unqualified (with other matters)										1		1			1	1	1	1	1	1	1	





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## ANNEXURE 1: NORTHERN CAPE (continued)

Classification	Department	Portfolio	Audit opinion 2007/08	Audit opinion 2006/07
OE	Northern Cape Arts and Culture Council	NC	Audit report outstanding	Audit report outstanding
TF	Northern Cape Premier Education Trust Fund	NC	Audit report outstanding	

## ABBREVIATIONS

PD = Provincial Department

PE = National Public Entity

TA = Trading account

TF = Trust fund

OE = due to lack of information, classified as on other entity

## SUMMARY

## Totals

Departments existing	13
Departments analysed	12
Departments qualified	6

Public entities existing	2
Public entities analysed	2
Public entities qualified	0

Other entities existing	4
Other entities analysed	2
Other entities qualified	2

Departments	0	2	0	5	3	1	0	0	0	4	0	2	4	0	11	12	12	9	8	9	7	7	8
Public entities	0	0	0	0	0	0	0	0	0	0	0	0	0	0	2	2	2	2	2	1	1	2	0
Other entities	0	1	0	1	0	0	0	0	0	0	2	0	1	0	2	2	2	2	1	2	1	0	1

## AUDIT FINDINGS RELATING TO QUALIFICATIONS

Departments	0%	33%	0%	83%	50%	17%	0%	0%	67%	0%	33%	67%	0%
Public entities	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Other entities	0%	50%	0%	50%	0%	0%	0%	0%	100%	0%	50%	50%	0%

## AUDIT FINDINGS RELATING TO OTHER MATTERS

Departments	92%	100%	100%
Public entities	100%	100%	100%
Other entities	100%	100%	100%

## GOOD PRACTICES

Departments	75%	67%	75%	58%	67%
Public entities	100%	50%	100%	100%	50%
Other entities	100%	50%	100%	50%	50%



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## ANNEXURE 2: NORTHERN CAPE – SUMMARY OF 2007-08 AUDIT REPORTS ON OTHER ENTITIES

### 1. McGregor Museum

#### A. Qualification

- **Capital assets**

SA Statements of Generally Accepted Accounting Practice. IAS 16 (AC123), *Property, Plant and Equipment* requires the recognition of an asset if it is probable that future economic benefits associated with the item will flow to the entity and the cost of the item can be measured reliably. Contrary to this, the entity's accounting policy states that expenses relating to the acquisition of moveable assets are written off in full against income in the year in which it is incurred.

Capital costs of R122 780 (31 March 2007: R86 585) relating to property, plant and equipment were expensed when acquired and not capitalised and depreciated.

The effect of this matter on the accumulated surplus could not be determined even by performing alternative procedures.

- **Receivables**

As stated in note 7 to the financial statements, an outstanding grant of R521 000 existed at 31 March 2008. I could not obtain sufficient appropriate audit evidence on the value of the receivable. The receivable was expected to realise 30 June 2006 already. I was unable to confirm the value of the receivable by alternative means. A provision for irrecoverable receivables has not been recognised in the financial statements.

- **Revenue**

In common with similar organisations, it is not feasible for the entity to institute accounting controls over cash collections from donations and grants prior to the initial entry in the accounting records. Accordingly, it was impractical for us to extend our examination beyond the receipts actually recorded. Therefore the completeness of revenue could not be confirmed.

#### B. Other matters

- **Non-compliance with applicable legislation**

Public Finance Management Act, 1999 (Act No.1 of 1999)

The museum fulfils the definition of a public entity, but has not been listed as management had not yet notified the National Treasury to finalise its status as a public entity as required by section 47(2).



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### C. Other reporting responsibilities

No reporting of performance information

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

## 2. Roads Capital Account

### A. Qualification

- **Revenue**

Due to the shortcomings identified in the costing system of the Roads Capital Account, I was unable to obtain sufficient and appropriate audit evidence to satisfy myself as to the completeness and accuracy of revenue disclosed as R12 561 000 in note 2 to the financial statements. The tariff register and costing system were not updated with the approved increase in rental rates of 10%, resulting in a material loss of revenue. Furthermore, due to month-end closures, no history of the previous month's captured usage is maintained on the system, also resulting in the under-billing of revenue.

- **Material losses**

Sufficient quotations were not obtained for payments to the value of R79 354 as required by section 2.2.8.1 of the approved supply chain management policy, resulting in irregular expenditure being incurred.

### B. Other matters

#### Non-compliance with applicable legislation

Public Finance Management Act

- The responsibility to institute and maintain a system of internal control is defined in section 51. The roads capital account did not have documented and/or approved policies for all their major business processes and cycles.

Treasury Regulations

- Payments amounting to R476 483 were not made within 30 days of receipt of invoices as required by section 8.2.3.
- No delegation for the authorisation of journals exists at the trading entity as required by section 15.12.1, which requires the accounting officer to assign delegations of authority in writing.



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## ANNEXURE 3: NORTHERN CAPE – SUMMARY OF 2007-08 AUDIT REPORTS ON DEPARTMENTS

### 1. Department of Education

#### A. Disclaimer

##### • Material losses

Prior year tender documentation totalling R18 691 039 could not be provided as stated in paragraph 6 of the prior year's audit report. Payments made during the financial year under review amounting to R22 851 503, have been made in contravention of the supply chain management policy. The irregular expenditure relating to this was not disclosed in note 25 to the financial statements. I was consequently unable to satisfy myself as to the completeness of the closing balances of irregular expenditure.

##### • Expenditure

I was unable to obtain sufficient supporting documentation for transport provided as part of departmental activities disclosed in note 5, goods and services. Consequently, I was unable to satisfy myself as to the occurrence and classification of these payments disclosed as R55 426 000.

The accuracy, completeness and occurrence of employee cost of R1 795 910 000 could not be confirmed.

##### • Capital assets

I was unable to satisfy myself concerning the completeness, existence and valuation of the closing balance of major tangible capital assets of R54 949 000 and major intangible assets of R200 000 as the department did not provide sufficient appropriate audit evidence to substantiate these balances and assets could not always be traced to the asset register.

##### • Payables and borrowings

- There was no system for the identification and calculation of accruals on which I could rely. I was therefore unable to satisfy myself as to the valuation, existence and completeness of the accrual balance amounting to R52 452 000 in note 22 to the financial statements.
- I could not satisfy myself as to the completeness of commitments amounting to R30 742 000 as disclosed in note 21.

##### • Presentation and disclosure

- I could not rely on the systems in place to identify and record leave transactions. I could therefore not satisfy myself as to the completeness of the accounting records relating to leave entitlement amounting to R30 908 000.
- There were no satisfactory audit procedures that I could perform to obtain reasonable assurance that all related-party transactions were adequately disclosed. I could therefore not satisfy myself as to the completeness, existence and correct disclosure of the related parties amounting to R11 435 000 as per disclosure note 26.



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### **B. EMPHASIS OF MATTERS**

- **Highlighting critically important information included in the annual report**

#### **Unauthorised expenditure**

Unauthorised expenditure relating to prior years was disclosed as R3 088 000 in note 10 to the financial statements. Unauthorised expenditure for the current year amounting to R23 556 000 incurred due to the overspending of a vote was disclosed.

Accruals exceeded the voted funds to be surrendered of R569 000 as per the statement of financial performance by R18 423 000. This would therefore have constituted unauthorised expenditure had the invoices been paid in time.

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

The disclosure requirements in respect of the statutory appropriation have been changed to be in line with the budget statement. The department implemented this prospectively and did not restate the prior year figures of note 2.

### **C. OTHER MATTERS**

- **Non-compliance with applicable legislation**
  - Payments due to creditors were not always settled within 30 days from receipt of the invoice as required by section 38(1)(f) of the PFMA.
  - The accounting officer did not submit to the National Treasury and the Auditor-General a schedule of the details of disciplinary proceedings as required by TR 4.3.4.
  - The department did not submit reports of transfers made within 15 days after the end of each month to the transferring national officer as required by section 12(1)(a) of the DoRA.

### **D. OTHER REPORTING RESPONSIBILITIES**

- **Measurable objectives not consistent**

Some measurable objectives were not aligned between the strategic plan, budget and annual report.

- **Lack of sufficient appropriate audit evidence**

I was unable to obtain sufficient appropriate audit evidence in relation to the performance information of one of the eight programmes of the Department of Education.



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## 2. Department of Health

### A. Qualified (disclaimer of opinion)

#### • Capital assets

The completeness, existence and valuation of rights and obligations relating to the tangible capital assets of R855,9 million in disclosure note 28 and the intangible capital assets of R1,0 million in disclosure note 29 could not be confirmed as the department did not provide an asset register for these assets. The entity's records did not permit application of alternative audit procedures regarding capital assets.

#### • Receivables

The completeness, existence and valuation of receivables for departmental revenue (patient debtors) disclosed as R72,3 million in disclosure note 24 to the financial statements could not be confirmed as a result of the lack of a properly maintained debtors management system. Contrary to Treasury Regulation 11.5.1 no interest was charged on arrear patient accounts. The entity's records did not permit application of alternative audit procedures regarding the receivable for departmental revenue.

#### • Provisions, contingent liabilities and guarantees

The provision for irrecoverable debt for receivables for departmental revenue was disclosed as R52,6 million in disclosure note 27 to the financial statements. The calculation of the provision was based on the 2007-08 non-payment percentage of 73,91%. As described in paragraph 6 above, I was unable to obtain sufficient appropriate audit evidence regarding the completeness, existence and valuation of receivables for departmental revenue (refer paragraph 6) and therefore I was unable to satisfy myself as to the valuation of the provision. The entity's records did not permit application of alternative audit procedures regarding the provision.

#### • Payables and borrowings

- The completeness, existence and valuation of accruals disclosed as R45,0 million in disclosure note 21 to the financial statements could not be confirmed due to the lack of an accrual list and a proper system to account for accruals. The entity's records did not permit application of alternative audit procedures regarding the accruals.
- The completeness and valuation of commitments disclosed as R190,3 million and the comparative figure amounting to R245,6 million in disclosure note 20 to the financial statements could not be confirmed due to the lack of a commitment register and a proper system to account for commitments. The entity's records did not permit application of alternative audit procedures regarding the commitments.
- I was unable to obtain sufficient appropriate audit evidence regarding the completeness, valuation and classification of lease commitments disclosed as R11,5 million in disclosure note 23 to the financial statements. This has resulted from the lack of a proper system to account for lease commitments, including the absence of a lease register and the department not applying the definition of finance and operating leases to the available lease contracts to determine under which



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category the commitment should be disclosed. The entity's records did not permit application of alternative audit procedures regarding the lease commitments.

- **Material losses**

The department has omitted disclosure of irregular expenditure of at least R12,3 million which was incurred during the financial year due to contraventions of the delegations of authority, as envisaged by section 44 of the PFMA. This is contrary to section 40(3)(b) of the PFMA which requires disclosure of this irregular expenditure in note 25 to the financial statements. I could not perform alternative audit procedures to obtain sufficient appropriate audit evidence to confirm the completeness of irregular expenditure with regard to payment approvals.

- **Expenditure**

In the absence of all supporting documentation for expenditure, I was unable to perform satisfactory audit procedures to obtain reasonable assurance regarding the accuracy, completeness, occurrence and classification of expenditure relating to note 5, goods and services, and note 8, capital assets. I could not determine the effect of the above on the financial statements.

- **Corresponding figures**

The prior year audit report contained various qualification paragraphs that have not been resolved by 31 March 2008.

## **B. Emphasis of matters**

- **Highlighting critically important information included in the annual report**

### **Unauthorised and irregular expenditure**

As disclosed in note 9 to the financial statements, unauthorised expenditure to the amount of R92,1 million was incurred as proper budgetary control had not been followed.

As disclosed in note 25 to the financial statements, irregular expenditure to the amount of R42,0 million was incurred as proper tender processes had not been followed.

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

As disclosed in the appropriation statement, the department has materially underspent the budget on programme 7 to the amount of R87,5 million (30,4% of programme 7 budget).

### **Restatement of corresponding figures**

As disclosed in note 25 to the financial statements, the corresponding figures for 31 March 2007 have been restated to disclose some of the irregular expenditure not disclosed in the prior year.

As disclosed in note 27 to the financial statements, the corresponding figures for 31 March 2007 have been restated as a result of a provision being made for possible irrecoverable debt.



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## **OTHER MATTERS**

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

- **Public Finance Management Act**

The department had a bank account other than the bank account used for its normal operations. The transactions and balances of this account were not recorded on the accounting system or in the financial statements. The existence of this bank account was in contravention of section 7(2) of the PFMA.

The accounting officer did not take effective and appropriate steps to collect all money due to the department as required by section 38(1)(c)(i).

The responsibility to institute and maintain a system of internal control is defined in section 38(1)(a). Adequate policies and procedures were not developed and implemented as required.

- **Treasury Regulations**

The department used the provincial fraud prevention plan and did not update it with specific risks faced by this department as required by section 3.2.1. Furthermore, the department did not complete a risk assessment for the year under review in order to mitigate risks and to ensure that controls were directed to minimise the likelihood of occurrence.

The accounting officer did not ensure that internal procedures and internal control measures are in place for payment approval and processing as required by section 8.1.1.

Payments amounting to R37,8 million were not made within 30 days from receipt of the invoice. This constituted non-compliance with section 8.2.3.

The accounting officer did not ensure that clearing accounts are cleared and correctly allocated to the relevant cost centres on a monthly basis as required by section 17.1.2(b).

### **D. Other reporting responsibilities**

- **Lack of sufficient appropriate audit evidence**

I was unable to obtain sufficient appropriate audit evidence in relation to the performance information of the Department of Health, as the source documentation was not easily accessible.





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

### 3. Department of Agriculture and Land Reform

#### A. Qualification

- **Capital assets**

- The asset register was incomplete as some assets bought during the financial year could not be traced to the asset register. No unique asset numbers were noted on assets worth R1,2 million, which were bought during the financial year under review. These assets were grouped within one total in the asset register.
- Assets transferred from the North West Province during the incorporation of Mothibistad region into the Northern Cape Province were not included in the asset register. This was mostly due to problems experienced during the transfer and incorporation with gathering information from the North West Province.
- The existence of certain assets in the asset register could not be confirmed in the absence of asset numbers and location of assets. Consequently, I was unable to satisfy myself as to the completeness and existence of the closing balance of capital assets as disclosed in note 29.

#### B. Emphasis of matter

- Highlighting critically important information included in the annual report

#### Unauthorised expenditure

As disclosed in note 9 to the annual financial statements the department incurred unauthorised expenditure amounting to R16,17 million for the financial year.

#### Restatement of corresponding figures

As disclosed in note 1.1 to the financial statements, the corresponding figures for 31 March 2007 have been restated as a result of the reclassification of the statutory appropriation.

#### C. Other matters

- **Non-compliance with applicable legislation**

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

The department obtained a bank overdraft facility for an amount of R18 million in contravention of chapter 8, section 4 of the PFMA. I could not obtain sufficient appropriate audit evidence to confirm that the department had obtained written authorisation.



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### **Treasury Regulations**

- The application for rollovers amounting to R6 million was not submitted to the provincial treasury on the last working day of April as required by section 6.4.2 of the Treasury Regulations.
- The department did not submit all its monthly returns timeously to the treasury as required per section 40(4) of the PFMA.

### **D. Other reporting responsibilities**

#### **• Lack of sufficient appropriate audit evidence**

I was unable to obtain sufficient appropriate audit evidence in relation to the actual performance information of the Department of Agriculture and Land Reform for the objective/programmes selected.

## **4. Office of the Premier**

### **A. Qualification**

#### **• Capital assets**

A material number of assets acquired subsequent to 1 April 2002 were not recorded at cost, due to the cost not being available as the department had not kept full and proper records as required by section 40(1)(a) of the PFMA and TR 17.2.3. The financial statements are misstated by a material amount which cannot be accurately determined.

### **B. Emphasis of matters**

#### **Highlighting critically important information included in the annual report**

#### **• Unauthorised expenditure**

As disclosed in note 8 to the financial statements, unauthorised expenditure to the amount of R0,903 million was incurred, as the budget of programme 2 was overspent.

#### **• Irregular expenditure**

As disclosed in note 22 to the financial statements, irregular expenditure to the amount of R8,682 million was incurred, as proper supply chain management processes were not followed.

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

As disclosed in the appropriation statement, the department has materially underspent the budget of programme 1 by R2,107 million. The department requested for this amount to be rolled over to the next financial year.



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- **Restatement of corresponding figures**

As disclosed in notes 1 and 12 to the financial statements, the corresponding figures for 31 March 2007 have been restated as a result of incorrect accounting treatment of local and foreign aid.

### C. OTHER MATTERS

#### Non-compliance with applicable legislation

- **Public Finance Management Act**

The responsibility to institute and maintain a system of internal control is defined in section 38 of the PFMA. Adequate policies were not developed and implemented for all components as required.

Unauthorised expenditure was not immediately reported to the provincial treasury as required by section 38(1)(g).

The accounting officer did not take effective disciplinary steps against officials who made or permitted unauthorised expenditure and irregular expenditure as required by section 38(1)(h).

- **Treasury Regulations**

The department did not complete a risk assessment for the year under review in order to mitigate risks and to ensure that controls were directed to minimise the likelihood of occurrence as required by Treasury Regulation 3.2.1.

Treasury Regulation 8.2.1 requires that public money may not be spent or committed without the approval of the accounting officer or a properly delegated or authorised official. Orders and payments were not always approved by a properly delegated or authorised official.

Accruals which exceeded the payment terms of 30 days as detailed in Treasury Regulation 8.2.3 amounted to R4,159 million. This amount, in turn, exceeded the voted funds to be surrendered of R2,107 million as per the statement of financial performance by R2,052 million. The amount of R2,052 million would therefore have constituted unauthorised expenditure had the invoices been paid in time.

The department did not develop and implement an effective and efficient supply chain management system as required by Treasury Regulation 16A3.1.

### D. Other reporting responsibilities

- Objectives reported in the annual report, but not predetermined as per annual performance plan

I draw attention to the fact that nine objectives in programme 2 and 30 objectives in programme 3 were reported in the annual report of the Office of the Premier, although they were not included as predetermined objectives in the annual performance plan.



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

- Performance information not received in time

Performance information was received on 15 June 2008. Subsequently, other performance information was submitted which contained additional sub-programmes. The quality of only nine sub-programmes of the information could be verified for audit purposes, namely:

- a) Human resource administration
- b) Employee health and wellness
- c) Information technology and infrastructure
- d) Traditional leadership
- e) Policy and planning
- f) Special projects
- g) Office on the status of women
- h) Office on the status of persons with disabilities
- i) Office on the rights of the child

## 5. Provincial Legislature

### A. Qualification

- **Capital assets**

I was unable to satisfy myself concerning the existence and completeness of assets disclosed in notes 28 and 29 to the value of R7 643 000 due to the following weaknesses identified:

- The existence of certain assets could not be confirmed due to the absence of information on the identification and the location of the assets.
- The completeness of assets could not be confirmed as several assets could not be traced to the asset register.

- **Material losses**

I was unable to verify the completeness of irregular expenditure of R10 588 000 disclosed in note 26 to the financial statements, as the legislature had no system for the monitoring, detection and reporting of irregular expenditure.

- **Payables and borrowings**

- Due to the lack of adequate systems to accurately account for accruals, I was unable to determine the completeness of accruals of R5 411 000 as disclosed in note 22 to the financial statements. In these circumstances, I am unable to perform alternative procedures. Accruals to the value of R1 742 000 were not paid within 30 days of receipt of the invoice as required by the financial procedure manual. Consequently, if this amount had been paid, the amount of unauthorised expenditure as disclosed in note 9 to the financial statements would have increased to R3 073 000.
- Due to the lack of appropriate accounting records, I was unable to obtain sufficient audit evidence to satisfy myself as to the existence, accuracy and completeness of commitments disclosed as



## AUDITOR - GENERAL

R2 013 000 in disclosure note 21 to the financial statements even after performing alternative procedures. The understatement of commitments could, however, not be quantified.

- **Receivables**

With reference to accounting policy 4.4, receivables included in the statement of financial position arise from cash payments made that are recoverable from another party. Contrary to the policy:

- an amount of R217 000 was disclosed as a receivable from the South African Revenue Service (SARS) at year-end. Subsequent confirmations with SARS, however, indicated that the amount owed to SARS was in fact R135 000, which was made up predominantly of penalties and interest due to the non-submission of EMP 201 returns and late or inaccurate payments made. The amount should thus be reflected as a payable resulting in the misstatement of both receivables and payables.
- included in accounts receivable was an amount of R227 452 for debtors which showed no movement for the year. Advances to the value of R193 191 were also noted to be long outstanding. The possibility of recovering these amounts are, however, doubtful.

## B. EMPHASIS OF MATTERS

- **Highlighting critically important information included in the annual report**

### **Unauthorised and irregular expenditure**

Unauthorised expenditure of R1 331 000 as disclosed in note 9 to the financial statements was incurred for the financial year as the budgets for programme 1 and programme 3 were overspent.

Irregular expenditure of R11 125 000 as disclosed in note 26 to the financial statements was incurred for the financial year as proper supply chain management processes were not followed and certain payments were not approved by an authorised official.

## C. OTHER MATTERS

- **Non-compliance with applicable legislation**

### **Code for the financial administration of the provincial legislature**

- Paragraph 6(1)(d) states that effective, efficient and transparent systems of financial and risk management and internal control should be implemented. Documented policies and procedures were not developed, approved and implemented for various accounting cycles at the legislature.
- Paragraph 21(2) states that the accounting officer, on discovery of any unauthorised, irregular or fruitless and wasteful expenditure, must immediately report, in writing, particulars of the expenditure to the Speaker and the Auditor-General. Unauthorised expenditure of R1 400 000 was, however, not reported to the Auditor-General.



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## Financial procedure manual

- Paragraph 5.5 indicates that no payment shall be made to a supplier who is not properly registered. Payments to the value of R681 119 were made to a supplier who was not registered for value-added tax but where VAT was levied and paid.
- Paragraph 5.6 requires that all payments due to creditors must be settled within 30 days from the date on which the invoice or claim was received, and in the case of civil claims, from the date of settlement or court judgement. A sample of payments to a value of R1 517 995 were not paid within 30 days.
- Paragraph 12.3.3 indicates the requirements for a theft and loss register which should be maintained. A list of losses is maintained but the requirements as per the manual were not met.

## D. OTHER REPORTING RESPONSIBILITIES

### Performance information not received in time

An approved strategic plan and annual performance plan for the year under review could not be provided for audit purposes. Performance information had also not been received by the agreed-upon deadline and was thus not subjected to review.

## OTHER REPORTS

### Investigations

The accounting officer and chief financial officer of the Legislature were suspended in 2004. The disciplinary case of the accounting officer was concluded in December 2007 and the case of the chief financial officer was concluded in July 2008. The salary costs paid and settlement values until the end of March 2008 to the suspended employees amounted to R6 945 000. The legal fees incurred since 2004 relating to the suspensions amounted to R893 104.

## 6. Department of Transport, Roads and Public Works

### A. QUALIFICATION

#### • Material losses

Material adjustments of R3 700 000 were made to the financial statements to provide for irregular expenditure that was not initially disclosed, and material adjustments were made to the paragraph for irregular expenditure amounting to R2 244 342, for irregular expenditure to be incurred in forthcoming financial years. However, even after the adjustments, we were unable to verify the completeness of irregular expenditure disclosed, as the department had no documented and approved policy for the monitoring, detection and reporting of irregular expenditure. Furthermore, the closing balance of irregular expenditure amounting to R4 446 000 could be further understated by an unquantifiable amount as investigations into other alleged irregularities have not been finalised at the date of this audit report.



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### • Payables

A material adjustment of R5 111 159 was made to the financial statements to provide for commitments that were not initially disclosed. However, even after the adjustment we were unable to verify the completeness of commitments, as the department did not maintain a register of all known contractual obligations for the financial year under review.

## B. EMPHASIS OF MATTERS

### • Significant uncertainties

The department is currently in discussion with the Department of Safety and Liaison regarding the disclosure of receivables relating to National Traffic Information System (NaTIS) debtors. A directive was issued by the National Treasury on 21 May 2008 requiring the two departments to reach agreement on the recoverable and irrecoverable portions of NaTIS debtors that existed at 1 April 2005. No agreement on this matter has been reached at the reporting date and no disclosure thereof has been made in the financial statements.

### • Highlighting critically important information included in the annual report

#### Amendments to the applicable basis of accounting

As disclosed in note 30 to the financial statements, the National Treasury on 18 July 2008 approved a deviation from the basis of accounting applicable to departments which granted the department the following exemptions:

- The requirement to have a complete immoveable asset register by 31 March 2008
- The requirement to fair value immovable assets where cost records were not available
- The requirement to disclose the value of minor assets in the financial statements

However, the exemption did not imply that immoveable assets currently recognised by the department should be derecognised, or that, where an asset has been fair valued, this should be reversed.

#### Irregular and unauthorised expenditure

##### Irregular expenditure

As disclosed in note 25 to the financial statements, irregular expenditure of R4 446 000 has not been condoned or followed up to date. The irregular expenditure consisted of the following:

- Irregular expenditure of R1 657 000 related to sufficient quotations not being obtained for the procurement of accommodation and transport, and proper procurement procedures not being followed for the leasing of photocopiers.
- Irregular expenditure of R2 789 000 related to the 2005-06 financial year where proper procurement procedures were not followed for the installation of IT networks and cabling.
- Irregular expenditure of R591 974 as highlighted in the paragraph for irregular expenditure represent future irregular expenses as a result of a tender being awarded for procurement of overalls whereby proper tender procedures were not followed. This matter is currently being investigated.



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- Irregular expenditure amounting to R1 652 368 as highlighted in the paragraph for irregular expenditure represented future irregular expenses as a result of proper procurement procedures not being followed for the leasing of photocopiers. This amount is not complete as it excludes monthly payments to be made in respect of copy charges that fluctuate each month and that cannot be reliably estimated at this stage. This matter is also under investigation.

### **Unauthorised expenditure not resolved**

As disclosed in note 9 to the financial statements, unauthorised expenditure of R2 038 000 relating to the 1996-97 financial year has not been resolved to date.

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

As disclosed in the appropriation statement, the department has materially underspent its budget by R10 568 000. From this amount, R9 385 000 related to a material underspending/saving on the following two programmes:

- Public Works – R4 300 000
- Road Infrastructure – R5 085 000

## **C. OTHER MATTERS**

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

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

- Documented policies and procedures were not developed, approved and implemented for various accounting cycles at the department. This is in contravention of section 38(1)(a)(i), which requires the department to have effective, efficient and transparent systems of internal control.
- No PFMA compliance plan was developed by the department for the year under review. This is in contravention of section 38(1)(n), whereby the accounting officer should ensure that the department complies with all the provisions of the PFMA.

#### **Treasury Regulations**

- The department did not have approved delegations for the authorisation of payments and journals. This is in contravention of section 15.12.1, which requires the accounting officer to assign delegation(s) of authority in writing.
- The department did not make payments amounting to R23 800 857 within 30 days of the date of receipt of invoice, as required by section 8.2.3.
- The department did not have a consolidated tariff register as required by section 7.3.1. Bids amounting to R8 780 250 were not advertised in the Government Tender Bulletin, as required by section 16A6.3(c)
- Transfer payments amounting to R10 439 421 were made to various district municipalities without proof that the department obtained the necessary progress reports as required by section 8.4.1





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### **Supply Chain Management Policy**

- For contracts amounting to R7 004 337 no declaration of interest form was found in the respective tender files, as required by section 2.2.3 (iii).
- For tenders awarded amounting to R10 347 943 it could not be determined if a formal contract document existed between the successful bidder and the department, as required by section 2.2.3.
- For tenders awarded amounting to R7 302 162 no original tax clearance certificate was found in the respective tender files, as required by section 2.2.3 (ii).

### **D. OTHER REPORTING RESPONSIBILITIES**

#### **Performance information not received in time**

I was not able to complete an evaluation of the quality of the reported performance information as set out in the annual report, since the information was not received by the agreed-upon deadline of 15 June 2008.

#### **Control weaknesses relating to performance information**

No documented, approved and implemented policies and procedures existed at the department for the monitoring, management and reporting of performance information.

### **E. OTHER REPORTS**

#### **Investigations**

With reference to note 25 in the financial statements dealing with current year irregular expenditure and paragraphs 9 and 14 of this audit report, an investigation was being conducted by an independent firm on request of the department. The investigation was initiated based on audit findings relating to improper procurement processes followed for the procurement of overalls and the leasing of photocopiers. Other matters forming part of the investigation included alleged irregularities during the awarding of a contract for work performed on a project, as well as alleged improper procurement procedures during the planning phase for the construction of a state house. The investigation was still ongoing at the reporting date.

## **7. Department of Economic Affairs**

### **A. Financially unqualified with other matters**

#### **B. Emphasis of matter**

- Highlighting critically important information included in the annual report

#### **Loss of assets**

Refer to note 27.2 in the annual financial statements. Assets amounting to R889 368 procured in the 2006-07 financial year could not be physically verified during the current financial year. An internal investigation was still in process to determine the cause and nature of the loss.



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## 8. Department of Housing and Local Government

### A. Financially unqualified with other matters

#### B. Emphasis of matter

##### Highlighting critically important information included in the annual report

- **Fruitless and wasteful expenditure**

As disclosed in note 10 to the financial statements, fruitless and wasteful expenditure to the amount of R12 168 000 was incurred, R10 564 000 of which related to prior years, as a result of terminating the contracts of some contractors due to poor performance. An amount of R1 604 000 was paid in the current year to consultants for which no value was received.

- **Unauthorised expenditure**

As disclosed in note 9 to the financial statements, unauthorised expenditure to the amount of R3 718 000 was incurred, R2 625 000 of which related to prior years, as a result of overspending on conditional grants received. Programme 1 was overspent by R1 093 000 during the current year as disclosed in the statement of financial performance and the appropriation statement.

- **Irregular expenditure**

As disclosed in note 24 to the financial statements, irregular expenditure to the amount of R1 325 000 was incurred in prior years, as a proper tender process had not been followed.

- **Other payables**

As disclosed in note 16.1 to the financial statements, suspense accounts of Housing Development Funds of R2 660 000 (prior year: R2 831 000) arose from the historic changeover from the FMS to BAS. The National Housing Fund was in the process of reconciling and eliminating these suspense accounts. The amount may not necessarily be payable to the Housing Development Funds.

### C. OTHER MATTERS

#### Non-compliance with applicable legislation

- **Public Finance Management Act**

A performance contract was not entered into with the accounting officer, as required by section 36(5) of the PFMA.

An amount of R245 549 paid on behalf of a former employee was not recovered, as required by 38(1)(c) of the PFMA.



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- **Treasury Regulations**

Late submissions and delays in processing resulted in invoices not being paid within 30 days as required by Treasury Regulation 8.2.3. Accruals in excess of 30 days amounted to R937 000 as disclosed in note 21 to the financial statements.

- **National Housing Code**

Inspections of houses completed during the year revealed that some of these houses were not built in line with section 6.2 of the National Housing Code. Various deficiencies were noted, including cracks in floors and walls, leaking roofs, problems with windows and limited access to sanitation and water.

Title deed searches were not performed for various individual subsidy applications, as required by section 4.4.2 of the National Housing Code.

### **D. Other reporting responsibilities**

- **Lack of sufficient appropriate audit evidence**

I was unable to obtain sufficient appropriate audit evidence in relation to the performance information of the Department of Housing and Local Government, as the system used for generating information on targets of the programmes was not adequate for the purposes of the evaluation.

### **E. Other reports**

- **Special investigations in progress or completed**

Various housing projects were being investigated by the special investigating unit and the South African Police Service. As a result, there was a potential that some of the losses incurred by the department could be recovered from the defaulting contractors. The final value of the amounts owed to the department was not known due to the fact that the legal process was still in progress as at 31 March 2008. This was disclosed in paragraph 17 of the accounting officer's report.

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

### **A. Financially unqualified with other matters**

### **B. Emphasis of matter**

- **Highlighting critically important information included in the annual report**

### **Unauthorised expenditure**

The department has incurred unauthorised expenditure amounting to R425 000. Moreover, no evidence was provided to confirm that it has been reported to the National Treasury.



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- **Significant uncertainty**

The department is currently in discussion with the Department of Transport, Roads and Public Works regarding the disclosure of receivables relating to National Traffic Information System (NaTIS) debtors. A directive was issued by the National Treasury on 21 May 2008 requiring the two departments to reach agreement on the recoverable and irrecoverable portions of NaTIS debtors that existed at 1 April 2005.

The transferring department has not presented an amount which it deems recoverable as on 1 April 2005 and therefore no agreement on this matter has been reached at the reporting date. The department has disclosed NaTIS receivables in note 21 and accounted only for amounts receivable since 1 April 2005 due to the above lack of agreement. Therefore the balance of receivables contained a zero amount for the period before that date.

### **C. Other matters**

- **Non-compliance with applicable legislation**

The accounting officer did not submit a cash flow forecast before the end of the last working day of February preceding the financial year to which it relates. This is in contravention of Treasury Regulation TR 15.10.2.1 which stipulates that the cash flow submission must be made by the last day of February.

### **D. Other reporting responsibilities**

- **Non-compliance with regulatory requirements**

In contravention of chapter 3 of the key performance information concepts issued by the National Treasury, the target outputs were not specific and measurable for the sub-programmes Civilian Secretariat and Traffic Management.

- **Measurable objectives not consistent**

Measurable objectives were not consistent between strategic plan, annual performance plan, budget and annual report as required under section 40 (3)(a) of Public Finance Management Act and Treasury Regulation section 5.2.3.

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

### **A. Financially unqualified with other matters**

### **B. Emphasis of matter**

- **Highlighting critically important information included in the annual report**

As disclosed in note 8 to the financial statements, unauthorised expenditure of R231,5 million from prior years, has not been approved. In terms of section 34(2) of the PFMA this amount may become a charge against the funds allocated for the next or future financial years if the provincial legislature does not approve the expenditure.



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### C. Other matters

- **Non-compliance with applicable legislation**

Instances were noted during the year where creditors were not settled within 30 days as required by Treasury Regulation 8.2.3.

### D. Other reporting responsibilities

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

I draw attention to the fact that the Department of Social Services and Population Development did not report actual progress on all the predetermined objectives as required by section 40(3)(a) of the PFMA. For programme 2 (Social welfare services) four out of 14 objectives were not reported on while for programme 3 (Development and research) three out of 23 objectives were not reported on.

- **Lack of sufficient appropriate audit evidence**

I was unable to obtain sufficient appropriate audit evidence in relation to the performance information of the Department of Social Services and Population Development, as I was unable to obtain access to the supporting records pertaining to 11 targets relating to programme 2 (Social welfare services) and one target relating to programme 3 (Development and research).

## 11. Department of Sport, Arts and Culture

### A. Financially unqualified with other matters

### B. Emphasis of matter

- **Highlighting critically important information included in the annual report**

#### **Unauthorised expenditure**

As disclosed in note 8 to the financial statements unauthorised expenditure of R12 205 000 from the prior years has not been approved. In terms of section 34(2) of the PFMA this amount may become a charge against the funds allocated for the next financial years if the provincial legislature does not approve the expenditure.

#### **Irregular expenditure**

As disclosed in note 22 to the financial statements, irregular expenditure to the amount of R5 980 000 was still awaiting condonement. Irregular expenditure for the year under review amounted to R2 279 000.



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## C. Other matters

- **Non-compliance with applicable legislation**

### **Public Finance Management Act**

Irregular expenditure of R1 817 000 incurred during the year was not reported to the National Treasury as required by section 38(1)(g) of the PFMA.

### **Treasury Regulations**

Late submissions and delays in processing resulted in invoices not being paid within 30 days as required by Treasury Regulation 8.2.3. Accruals in excess of 30 days amounted to R1 669 000 as disclosed in note 21 to the financial statements.

## D. Other reporting responsibilities

- **Lack of sufficient appropriate audit evidence**

I was unable to obtain sufficient appropriate audit evidence in relation to the performance information of the Department of Sport, Arts and Culture, as the system used for generating information on targets of the programmes was not adequate for the purposes of the evaluation.

## 12. Department of Tourism, Environment and Conservation

### A. Financially unqualified with other matters

### B. Emphasis of matter

- **Highlighting critically important information included in the annual report**

#### **Unauthorised expenditure**

The department incurred unauthorised expenditure amounting to R14 000 due to the programme administration being overspent. This has been properly disclosed. However, the accounting officer has not yet reported the particulars to the relevant executive authority or the provincial treasury.

#### **Irregular expenditure**

The department incurred irregular expenditure amounting to R167 067 in respect of the purchase of a vehicle, as disclosed in note 24 to the financial statements. The irregular expenditure was the result of non-compliance with chapter 5 of the *Handbook for members of the executive and presiding officers* that was approved by the cabinet on 5 February 2003. The additional expenditure was as a result of finance leases entered into in contravention of the Treasury Regulations.



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

### C. Other matters

#### Non-compliance with applicable legislation

- **Public Finance Management Act**

- (a) Section 38(1)(f) of PFMA states that the accounting officer must settle all contractual obligations and pay all money owing, including intergovernmental claims, within the prescribed or agreed period; however, the department did not clear suspense accounts amounting to R24 548 which had remained uncleared for two consecutive financial reporting periods.
- (b) Section 39(2)(b)(iii) of the PFMA states that the accounting officer must report overspending to the executive authority or relevant treasury. The department had incurred unauthorised expenditure as shown in the appropriation statement to an amount of R14 000 and did not report it as required.
- (c) Section 38(1)(c)(i) of the PFMA states that the accounting officer must take effective and appropriate steps to collect all debts due to the department. Staff debts and subsistence and travel advances amounting to R85 937 and R16 369, respectively, have been outstanding for more than two financial reporting periods and have not yet been referred to the State Attorney.

- **Treasury Regulations**

- (a) Treasury Regulation 8.2.3 states that, unless determined otherwise in a contract, all payments due to the creditors must be settled within 30 days from receipt of an invoice. Contrary to that regulation, payments amounting to R1 423 131 as disclosed in note 6 to the annual financial statements were not made within 30 days.
- (b) Treasury Regulation 3.2.1 states that the accounting officer must implement a risk management strategy that includes the fraud prevention plan. No documentary proof could be provided that the fraud prevention plan was implemented for the whole financial year nor could any proof be obtained that the plan was approved by the accounting officer and the executive authority.

### D. Other reporting responsibilities

- **Measurable objectives not consistent**

No clear link was noted between measurable objectives as per the strategic plan/annual performance plan, budget and annual performance report for the year under review. This occurred consistently throughout all the programmes.

Strategic objectives were not consistent between the strategic plan and the annual performance plan, report and the budget. This occurred with regard to the tourism and environmental management, sustainable management, empowerment and capacity-building services programmes.

Objectives could not be traced to the annual performance plan and some of the performance report objectives differed from those in the performance plan. This occurred consistently throughout all the programmes.



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- **Objectives reported in annual report, but not predetermined as per strategic/corporate/annual performance/integrated development plan and/or budget**

Due to the fact that the objectives could not be traced to the annual performance plan and that some of the performance report objectives differed from those in the performance plan, we were unable to compare the planned outputs, measures/indicators and targets as per the strategic plan and the annual performance plan with the actual outputs, measures/indicators and targets reported in the annual report to ensure consistency. This occurred consistently throughout all the programmes.

- **Lack of sufficient appropriate audit evidence**

Supporting documentation differs from the actual results reported on in the annual performance report. This occurred with regard to the tourism and ecosystem, biodiversity and natural heritage management programmes.

Evidence materially inconsistent with reported performance information

The actual results as per the annual performance plan could not be confirmed with supporting documentation to verify the accuracy of the reported information. This occurred with regard to the tourism and ecosystem, biodiversity and natural heritage management programmes.





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

## **ANNEXURE 4: NORTHERN CAPE – SUMMARY OF 2007-08 AUDIT REPORTS ON PUBLIC ENTITIES**

### **1. Northern Cape Youth Commission**

#### **A. Financially unqualified with other matters**

#### **B. Other matters**

- **Non-compliance with applicable legislation**

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

The entity did not comply with section 3(4) due to the fact that it had no deputy chairperson. Section 3(1) determines that the members of the public entity shall be appointed by the Northern Cape Office of the Premier and shall consist of full-time and part-time members not exceeding nine persons. The composition should be as follows:

- o The minimum composition of five members should be represented as follows – three full-time members and two part-time members.
- o The maximum composition of nine members should be represented as follows – four full-time members and five part-time members.

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

Section 7(2) determines that the Youth Commission should meet at least quarterly. Contrary to this, the public entity did not have any meetings in the last quarter of the 2007-08 financial year.

#### **Treasury Regulations, issued in terms of the PFMA**

The entity did not comply with Treasury Regulations 8.2.3, as purchases amounting to R429 669 were identified which were not settled within 30 days from receipt of the invoice.

Section 16A 8.2 of the Treasury Regulations determines that the code of conduct for supply chain management practitioners must be adhered to by all officials and other role players involved in supply chain management. The public entity has not implemented this code of conduct.

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



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

## **C. Other reporting responsibilities**

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

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

## **2. Northern Cape Tourism Authority**

### **A. Financially unqualified with other matters**

#### **B. Other matters**

- **Non-compliance with applicable legislation**

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

Contrary to the requirements of section 240 of the act, the entity did not keep a register of directors' interests in contracts.

#### **Public Finance Management Act, 1999 (Act No.1 of 1999)**

Section 51(a) states that the accounting authority must ensure that the public entity has and maintains effective, efficient and transparent systems of financial and risk management and internal control. Contrary to this requirement, the entity:

- did not have formal, documented policies and procedures in place for all its relevant business cycles
- did not have a formal, documented fraud prevention plan or policy in place
- did not have a formal, documented risk assessment policy. The entity did not perform a risk assessment for the period under review.

#### **Treasury Regulations, issued in terms of the PFMA**

Treasury Regulation 28.1.5 states that, for purposes of materiality and significance of the Public Finance Management Act, 1999 (Act No. 1 of 1999), the accounting authority must develop a framework of acceptable levels of materiality and significance and agree it with the relevant executive authority in consultation with the external auditors. During the performance of the audit I found that the Northern Cape Tourism Authority did not have a materiality and significance framework in place.

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

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



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

### **C. Other reporting responsibilities**

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

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







Accountability

Integrity

Independence

Impartiality