



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

PUBLISHED BY AUTHORITY

PR 308/2008

ISBN 978-0-621-38367-6



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 GAUTENG PROVINCIAL

DEPARTMENTS, PUBLIC ENTITIES AND OTHER

ENTITIES FOR THE FINANCIAL YEAR 2007-08

PUBLISHED BY AUTHORITY

PR 308/2008

ISBN 978-0-621-38367-6



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

Cover design by the Auditor-General

Layout and repro by Business Design & Repro Centre

Printed and bound by BusinessPrint Centre, Pretoria



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

TABLE OF CONTENTS

	Page
FOREWORD	1
SECTION 1: FOLLOW-UP ON PRIOR YEAR GENERAL REPORT	4
1. Implementation of action plans by leadership	4
2. Ongoing monitoring and evaluation of internal controls by audit committee and internal audit	4
3. Treasury's monitoring tool/checklist	4
4. Strengthening capacity of the provincial treasury	4
5. Evaluation of human resource strategic framework	5
SECTION 2: PROVINCIAL DEPARTMENTS	6
1. FINANCIAL REPORTING RESULTS	6
1.1 Introduction	6
1.2 Overview of audit opinions on provincial departments for 2007-08	6
1.3 Qualification details	8
1.4 Audit findings in respect of other matters	8
2. PERFORMANCE REPORTING RESULTS	9
2.1 Introduction	9
2.2 Results of the audit of performance information	10
3. INFORMATION SYSTEMS AUDIT	10
3.1 Introduction	10
3.2 Results of the information systems audit	10
4. ISSUES DRIVING AUDIT RESULTS	11
4.1 Introduction	11
4.2 Achievement against good practice indicators	11



AUDITOR - GENERAL

5.	SCOPA RESOLUTIONS	13
5.1	Introduction	13
5.2	SCOPA resolutions not yet implemented	14
6.	TABLING OF ANNUAL REPORTS	14
6.1	Introduction	14
6.2	Annual reports tabled	15
7.	SUMMARY OF OTHER AUDITS	15
7.1	Performance auditing	15
7.2	Results of performance auditing	16
7.3	Investigations	16
7.4	Results of investigations	16
	SECTION 3: PROVINCIAL PUBLIC ENTITIES	17
1.	FINANCIAL REPORTING RESULTS	17
1.1	Introduction	17
1.2	Overview of audit opinions on provincial public entities for 2007-08	17
1.3	Qualification details	19
1.4	Audit findings in respect of other matters	19
2.	PERFORMANCE REPORTING RESULTS	20
2.1	Introduction	20
2.2	Results of the audit of performance information	20
3.	INFORMATION SYSTEMS AUDIT	20
4.	ISSUES DRIVING AUDIT RESULTS	21
4.1	Introduction	21
4.2	Achievement against good practice indicators	21
5.	SCOPA RESOLUTIONS	23
5.1	Introduction	23
5.2	SCOPA resolutions not yet implemented	23



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

6.	TABLING OF ANNUAL REPORTS	23
6.1	Introduction	23
6.2	Annual reports tabled	24
7.	SUMMARY OF OTHER AUDITS	24
7.1	Performance auditing	24
7.2	Investigations	24
	SECTION 4: OTHER ENTITIES	25
1.	FINANCIAL REPORTING RESULTS	25
1.1	Introduction	25
1.2	Overview of audit opinions on other entities for 2007-08	25
1.3	Qualification details	27
1.4	Audit findings in respect of other matters	28
2.	PERFORMANCE REPORTING RESULTS	29
3.	INFORMATION SYSTEMS AUDIT	29
4.	ISSUES DRIVING AUDIT RESULTS	29
4.1	Introduction	31
4.2	Achievement against good practice indicators	31
5.	SCOPA RESOLUTIONS	31
5.1	Introduction	31
5.2	SCOPA resolutions not yet implemented	31
6.	TABLING OF ANNUAL REPORT	31
6.1	Introduction	31
6.2	Annual reports tabled	32
7.	SUMMARY OF OTHER AUDITS	32
7.1	Performance auditing	32
7.2	Investigations	32
	SECTION 5: CONCLUSION	33



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

ANNEXURE 1: GAUTENG	34
ANNEXURE 2: GAUTENG AUDIT REPORTS SUMMARIES FOR PROVINCIAL DEPARTMENTS	36
ANNEXURE 3: GAUTENG AUDIT REPORTS SUMMARIES FOR PROVINCIAL PUBLIC ENTITIES	48
ANNEXURE 4: GAUTENG AUDIT REPORTS SUMMARIES FOR OTHER ENTITIES	60



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

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 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 both provincial departments, public entities and other entities reflected under sections covering financial reporting results, performance reporting results, results of information systems audit, issues driving 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 leadership:

- Close leadership involvement is required to address challenges such as human resource competency and capacity issues, among other, 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 legislature through the various portfolio committees and the standing committees on public accounts to work towards achieving unqualified audit opinions. Most of the problems that we identified in our audits relate to basic internal control issues that require effective monitoring by the leadership so that they can be addressed immediately. The analysis further provides specific reference to the areas where these internal control shortcomings were identified, including their level of prevalence in each sphere of government.

The Gauteng public sector, excluding local government, comprises 14 departments, 10 public entities and 13 other entities.

Of the 14 provincial departments analysed:

- two (14%) departments, namely Health and Education were financially qualified (qualified)
- 11 (79%) departments were financially unqualified but had concerns in areas of internal control, governance and legislative non-compliance, namely Office of the Premier; Gauteng Provincial Legislature; Economic Development; Social Development; Housing; Local Government; Public Transport, Roads and Works; Community Safety; Sports, Arts, Culture and Recreation; Gauteng Shared Service Centre and Gauteng Treasury
- one (7%) department (Agriculture, Conservation and Environment) was unqualified without any significant concerns on other matters.



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

Of the 10 provincial public entities analysed:

- three (30 %) public entities, namely the Blue IQ Investment Holdings, Constitution Hill Development Company (Pty) Ltd and Greater Newtown Development Company (Pty) Ltd received a disclaimer opinion
- one (10%) public entity, namely the Blue Catalyst Investment Company received a qualified audit opinion
- the reports of five (50%) public entities that received an unqualified financial opinion had other matters. These were the Gauteng Economic Development Agency, Gauteng Tourism Authority, Gauteng Enterprise Propeller, XHASA ATC and Gauteng Partnership Fund
- one (10%) public entity (Gauteng Gambling Board) was unqualified without any significant concerns on other matters.

Of the 13 other entities analysed:

- two (15%) other entities, namely the Gauteng Liquor Board and Gauteng Kopanong Precinct received disclaimer opinions
- three (23%) other entities, namely the Gauteng Housing Fund, Impophoma Infrastructure Support Entity and Gauteng Fund Project Office received a qualified audit opinion
- the reports of five (39%) other entities that received an unqualified financial opinion had other matters. These were the Emoyeni Trading Entity, Urban Transport Fund, G-Fleet Management, Gauteng Film Commission and Cost Recovery Trading Entity
- three (23%) other entities (Dinokeng Trading Entity, Cradle of Humankind World Heritage Site and Medical Supplies Depot) were unqualified without any significant concerns on other matters.

The majority of audit findings on public entities and other entities that were qualified resulted from issues on presentation and disclosure, receivables, capital assets, provisions, contingent liabilities and guarantees, taxes and VAT, grants, capital and reserves, revenue and expenditure. This affected nine public entities and other entities while one department was qualified on asset management and the other department was qualified due to accounts receivable.

The findings which led to the financial qualifications in the Departments of Health and Education related to capital assets and receivables. The financial qualifications in the four public entities and five other (trading) entities were spread across most balance sheet and income statement items.

Addressing the identified shortcomings highlighted in this report will require a coordinated effort by a number of parties to turn the situation around. The proactive involvement of the provincial treasury and internal audit is welcomed to assist public entities and other entities to improve their financial management practices. Important initiatives required to address the shortcomings include the following:

- Strengthening of internal audit functions and audit committees as a matter of urgency, to pay special attention to assisting the management of public entities and other entities to establishing a sound internal control environment and ongoing evaluation as well as monitoring of management compliance within predefined controls and progress on implementing the action plans.
- Strengthening the capacity of the provincial treasury to enable effective accounting technical support and evaluation of public entities and other entities in order to ensure that these entities cope with the



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

requirements of Generally Recognised Accounting Practice and South African Standards of Generally Accepted Accounting Practice.

While much needs to be done to improve performance and thereby service delivery, the AG is confident that the tide can be turned towards achieving unqualified audit opinions and will follow up on the province's actions in this regard and report on the related progress in the next general report.

Managing and reporting on performance information for the departments and public entities have shown marked improvements, mainly due to guidance from the National Treasury in the form of the *Framework for managing programme performance information* issued in May 2007 supported by various training initiatives and further guidance.

In conclusion, I wish to thank the AG staff in Gauteng 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 Gauteng Province. Together, we will continue to make every effort to collaborate in order to contribute towards strengthening of our country's democracy.



Auditor-General

Pretoria

December 2008



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

SECTION 1: FOLLOW-UP ON PRIOR YEAR GENERAL REPORT

1. IMPLEMENTATION OF ACTION PLANS BY LEADERSHIP

Departments compiled action plans based on the prior year's audit and management reports as well as internal audit reports. The Gauteng Provincial Treasury has proactively assisted departments to improve their financial management processes by way of:

- monitoring the implementation of action plans compiled by the departments based on the audit reports, management reports, as well as internal audit reports
- introducing monthly compliance reports for financial accounting and asset management by the treasury. We have noted with concern that the rate of compliance by the departments was very poor. In order to ensure ongoing oversight the provincial treasury has reached an agreement with SCOPA that the quarterly compliance reports for departments with a high rate of non-compliance will be tabled in SCOPA
- introducing CFO forums chaired by the provincial treasury whereby further challenges in implementing the action plans are addressed. The forum is also used as a platform for departments to report back on how far they are in implementing their action plans
- providing the necessary training to departments
- assisting departments with dealing with technical accounting queries during the audit process as well as attending audit steering committee meetings where invited by departments.

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

The Gauteng Provincial Government departments had audit committees which were shared by a cluster of departments while the legislature and public entities had separate audit committees. The attendance of accounting officers of the cluster audit committee meetings, except for cluster 3, was a concern as the accounting officers did not attend the majority of the meetings held during the year.

Internal audit units and audit committees were not effective in monitoring internal controls of the Gauteng Provincial Government public entities and other (trading) entities. The majority of the internal audit projects for these entities were not executed and the audit committee paid limited attention to the risk and control matters affecting other entities.

3. TREASURY'S MONITORING TOOL/CHECKLIST

The provincial treasury developed a template that departments used to track progress with clearing audit queries. The departments that utilised this tool found it very useful and have committed themselves to continue using this tool. The legislature also developed a process that is used to track the implementation of relevant action plans by departments.

4. STRENGTHENING CAPACITY OF THE PROVINCIAL TREASURY

The Gauteng treasury started operating as a separate department from April 2006 and this has enabled the department to increase its capacity in terms of personnel. The unit that is responsible for assisting



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

departments with financial management has been capacitated fully and therefore has been able to provide focused assistance to departments. The partnership between the National Treasury (OAG) and the provincial accountant-general's office has yielded fruitful results as treasury officials were trained by the National Treasury in new reforms/templates for the preparation of annual financial statements to enable them to train departments.

5. EVALUATION OF HUMAN RESOURCE STRATEGIC FRAMEWORK

One of the functions of the Gauteng treasury is to ensure that there is capacity within the CFO's offices. An assessment of the capacity of the CFO's offices was performed in the 2006-07 financial year, which then informed the 2007-08 strategy to address this constraint.

In the 2007-08 financial year the treasury set aside R6 million to help HoDs to appoint suitably qualified personnel within the office of their CFO. Among others, departments used the money to appoint asset managers and chief risk officers. Not all departments were able to fill these positions.

The Gauteng Global City Region Academy is an initiative that the Gauteng Provincial Government has come up with in order to address skills shortages and it is only proper that the Gauteng treasury becomes an integral part of this initiative to address the financial management capacity shortage in the province going forward.



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

SECTION 2: PROVINCIAL DEPARTMENTS

1. FINANCIAL REPORTING RESULTS

1.1 Introduction

The Gauteng Provincial Government comprises 14 departments, all of which have been included as part of our analysis.

The audits of the consolidated financial statements for the 2007-08 provincial departments were finalised on 3 October 2008. The audit for 2007-08 was delayed due to the late finalisation of the audit of the Department of Education.

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

- Table 1 below provides details of the actual audit outcomes for the Gauteng 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	0	0%	0	0%
Qualified	2	14%	1	7%
Financially unqualified (with other matters)	11	79%	12	86%
Financially unqualified (with no other matters)	1	7%	1	7%
Total analysed	14	100%	14	100%

There has been no improvement with respect to the overall number of qualified reports when compared to that of the prior year. In the last two financial years, namely 2006-07 and 2007-08, no departments have been disclaimed. During 2006-07 the Department of Economic Development received a qualified audit opinion due to provisions and capital commitments which could not be supported with adequate supporting documentation. However, in 2007-08 the department received an unqualified audit opinion as a result of an improved document management system and accounting processes. In 2006-07 the Department of Health received an unqualified report. In 2007-08 the Department of Health received a qualified audit opinion since it did not apply one of the three prescribed ways of undertaking fair value of assets and was also not able to account for the existence of certain capital assets. In 2006-07 the Department of Education received an unqualified opinion while in 2007-08 it was qualified due to the accuracy and completeness of staff debtors that could not be confirmed.



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

- Table 2 below provides details of the actual audit outcomes for the Gauteng 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
Office of the Premier	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)
Gauteng Provincial Legislature	Financially unqualified (with other matters)	Financially unqualified (with no other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)
Economic Development	Financially unqualified (with other matters)	Qualified	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)
Health	Qualified	Financially unqualified (with other matters)	Qualified	Qualified	Qualified
Education	Qualified	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)
Social Development	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Qualified	Financially unqualified (with other matters)
Housing	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Qualified	Qualified	Financially unqualified (with other matters)
Local Government	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)
Public Transport, Roads and Works	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Disclaimer	Qualified	Financially unqualified (with other matters)
Community Safety	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Qualified	Financially unqualified (with other matters)
Agriculture, Conservation and Environment	Financially unqualified (with no other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Qualified	Financially unqualified (with other matters)
Sports, Arts, Culture and Recreation	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)
Gauteng Shared Service Centre	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Qualified	Qualified
Gauteng Treasury	Financially unqualified (with other matters)	Financially unqualified (with other matters)	n/a	n/a	n/a



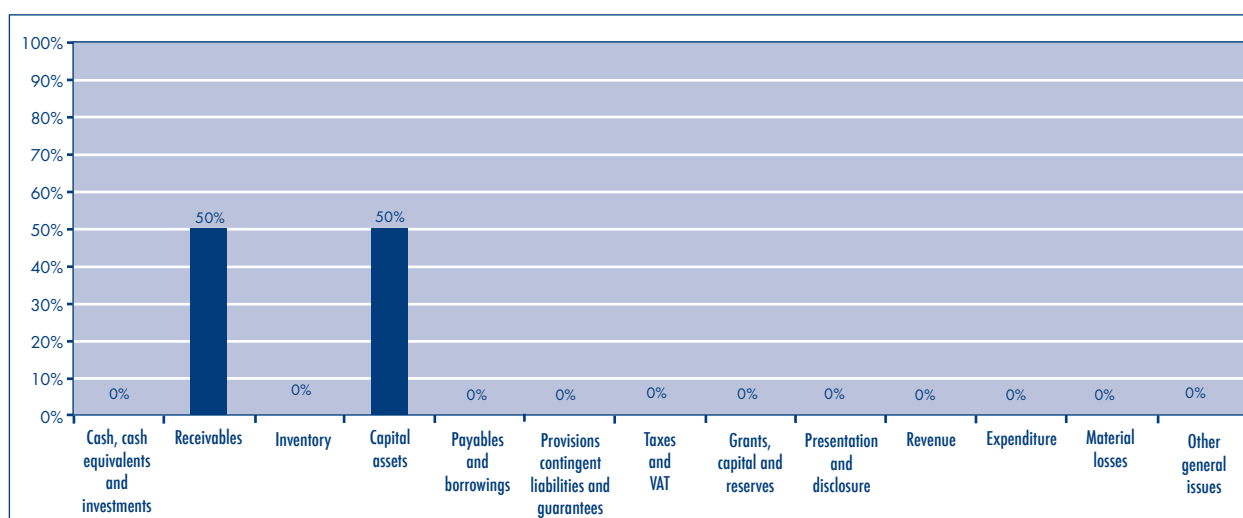
AUDITOR - GENERAL

Since 2004 the province has improved from seven audit qualifications to two in the current financial year and one in the prior financial year. This overall improvement was mainly attributable to the improvement in the processes of the Gauteng Shared Service Centre and the introduction of service level agreements to manage the lines of accountability between the departments and the Gauteng Shared Service Centre. The provincial treasury's involvement through the CFO forums has also assisted the departments by creating a forum to share information on new accounting developments.

1.3 Qualification details

Figure 1 below provides a breakdown of the audit findings which gave rise to the qualified audit opinions. It also provides an indication of the percentage of the provincial departments that was qualified per audit finding. The audit finding is on the balance sheet (statement of financial position) highlighted in blue bars and the income statement (statement of financial performance) highlighted in green bars which in the case of Gauteng is not applicable.

Figure 1: Provincial department that was qualified per audit finding



The Department of Health's audit opinion was qualified since it did not apply one of the three prescribed ways of undertaking fair value of assets and was unable to account for the existence of certain assets and the Department of Education was qualified due to the accuracy and completeness of staff debtors that could not be confirmed.

1.4 Audit findings in respect of other matters

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

Material non-compliance with relevant legislation

Instances of material non-compliance with the PFMA and Treasury Regulations, not affecting the financial statements, were reported in 11 (79%) provincial departments. Inadequate supervision and monitoring by the



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

leadership (accounting officers, chief financial officers and relevant managers) had, in part, contributed to the negative audit findings in this area. The right leadership tone, with the support of internal audit, is necessary to establish a strong control environment and ensure compliance.

Matters of governance

Seventy-one per cent of provincial departments had concerns raised on matters of governance which included findings on difficulties experienced during the audit as a result of the late submission of audit information and failure to implement audit recommendations. Only the Gauteng Provincial Treasury, Gauteng Shared Service Centre, Provincial Legislature and Department of Agriculture, Conservation and Environment had no issues reported on under matters of governance.

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

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. They have been successful in terms of substantially fulfilling their responsibilities this year.

Material misstatements

Sixty-four per cent of departments had to make material corrections to their financial statements due to errors, omissions and inconsistencies identified by the auditors.

While there has been improvement in the quality of financial statements, the next few years will pose greater challenges to departments with the ongoing transition to accrual accounting. 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 and audit committees can play a crucial role in the review process of the financial statements
- work closely with the National Treasury and the provincial treasury to improve financial management and controls in order to produce quality financial statements that comply with the relevant standards.

2. PERFORMANCE REPORTING RESULTS

2.1 Introduction

The AG continued to report on the auditing of performance information in line with the relevant phasing-in approach. For 2007-08, the review was extended to the controls and systems used in generating and reporting on performance information.



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

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 to improve the process of managing and reporting on performance information.

Of the departments 79% complied with the regulatory framework for reporting on performance information, however, 57% of departments' measurable objectives were inconsistent with the annual report and the strategic/corporate/annual performance/budget documentation. The Departments of Housing; Agriculture, Conservation and Environment; Safety; Gauteng Shared Service Centre; Treasury; Health; Economic Development and Social Development had measurable objectives that were inconsistent.

The Departments of Local Government and Social Development did not have adequate systems to gather evidence to support the performance targets reported on.

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

3. INFORMATION SYSTEMS AUDIT

3.1 Introduction

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

3.2 Results of the information systems audits

During the year under review the IS controls relating to the management of user accounts were evaluated. User account management is the systematic process of managing the access of users to the network and applications, and includes the establishment, review, disabling and removal of user accounts.

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



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

Audit finding	% Departments with findings
User account management standards and procedures	
Incomplete user account management procedures	58
Access request authorisation	
Access request forms not consistently completed	75
Application security	
Lack of segregation of duties	66
Excessive access rights assigned to users	41
Inactive accounts not deactivated in time	83
User access levels not periodically reviewed	83
User identifications not uniquely assigned	66

4. ISSUES DRIVING AUDIT RESULTS

4.1 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
- Leadership, supervision and monitoring (leadership effectiveness)

4.2 Achievement against good practice indicators

Table 3 below presents the results of the Gauteng departments achieving the above good practice indicators.



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

Table 3: Results of good practice indicators for Gauteng provincial departments for 2007-08

No.	Good practices	Percentage of total departments achieving good practice indicators ¹
1	Clear trail of supporting documentation that is easily available and provided in time	36%
2	Quality of financial statements and management information	36%
3	Timeliness of financial statements and management information	100%
4	Availability of key officials during audits	93%
5	Development of, and compliance with, risk management and good internal control and governance practices	64%
6	Leadership/supervision/monitoring	50%

- **Clear trail of supporting documentation**

While the minority (36%) of departments' supporting documentation was easily accessible, the majority (64%) 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; Community Safety; Economic Development; Housing; Office of the Premier; Public Transport, Roads and Works; Social Development; Education; and Sports, Arts, Culture and Recreation concerning delays in providing the required information. The management of documentation requires improvement to ensure that it is readily available and furnished in a more timely manner for audit purposes.

- **Quality annual financial statements**

While the Departments of Community Safety; Office of the Premier; Provincial Legislature; Agriculture, Conservation and Environment; and Sports, Arts, Culture and Recreation have continued to make progress in response to challenges relating to quality financial statements submitted for auditing, challenges still remain for the other nine departments (64%) which had material corrections to the financial statements after submission for auditing. Material corrections to the financial statements mainly related to issues of disclosure associated with the ongoing transition to accrual accounting. In this regard, processes need to be further refined in order to accurately collate information for the preparation and presentation of the financial statements.

¹ This would serve as a baseline to monitor future improvement



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

- **Timeliness of annual financial statements**

The timely submission of financial statements for auditing is important in order to enhance accountability. Good planning for the financial statement preparation process has ensured that all departments (100%) had submitted their financial statements for auditing by the legislated deadline of 31 May.

- **Availability of key officials**

There has been a notable improvement in the availability of 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. This went a long way towards avoiding qualifications, because officials received earlier notice of audit findings and could take corrective action before the final conclusions that lead to an audit opinion.

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

Effective risk management and internal control practices were not a challenge for the majority (64%) of the departments. According to legislative requirements, fraud prevention plans and risk management strategies did exist or were regularly updated and monitored at the majority of departments. The Departments of Health; Education; Economic Development; Social Development; and Public Transport, Roads and Works need to develop a risk management system to respond to the challenge of material misstatement of disclosure associated with the transition to accrual accounting.

- **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 as far as financial management is concerned.

The practice of supervision and monitoring, especially as far as financial management is concerned, was evident in only 50% of the provincial departments, namely the Departments of Community Safety; Provincial Treasury; Gauteng Shared Service Centre; Local Government; Office of the Premier; Provincial Legislature; and Agriculture, Conservation and Environment.

5. SCOPA RESOLUTIONS

5.1 Introduction

As part of the International Standards on Auditing, ISA 720, *Other information 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.



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

5.2 SCOPA resolutions not yet implemented

Except for the Department of Sports, Arts, Culture and Recreation which implemented two out of three resolutions, all other departments implemented all the resolutions resulting from the 2006-07 audits. No resolutions were taken by the Public Accounts Committee resulting from the audit of the Departments of Economic Development and Health during 2006-07.

No.	Department	No. of resolutions	Resolutions not yet implemented
1	Office of the Premier	1	0
2	Gauteng Provincial Legislature	0	0
3	Economic Development	Not yet available	n/a
4	Health	Not yet available	n/a
5	Education	5	0
6	Social Development	4	0
7	Housing	4	0
8	Local Government	5	5
9	Public Transport, Roads and Works	4	0
10	Community Safety	3	0
11	Agriculture, Conservation and Environment	1	0
12	Sports, Arts, Culture and Recreation	3	1
13	Gauteng Shared Service Centre	6	0
14	Gauteng Treasury	2	0

6. TABLING OF ANNUAL REPORTS**6.1 Introduction**

In terms of section 40(1)(c) and (d) of the PFMA the accounting officer of a department, trading entity or constitutional institutions must submit financial statements within five months of the end of the financial year to the relevant treasury and, in the case of the department or trading entity, also to the executive authority responsible for that department or trading entity (i) an annual report on the activities of that department, trading entity or constitutional institution during that financial year; (ii) the financial statements for that financial year after those statements have been audited and (iii) the Auditor-General's report on those statements.



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

6.2 Annual reports tabled

No.	Department	Tabled (Y/N)
1	Office of the Premier	Y
2	Gauteng Provincial Legislature	Y
3	Economic Development	Y
4	Health	Y
5	Education	Y
6	Social Development	Y
7	Housing	Y
8	Local Government	Y
9	Public Transport, Roads and Works	Y
10	Community Safety	Y
11	Agriculture, Conservation and Environment	Y
12	Sports, Arts, Culture and Recreation	Y
13	Gauteng Shared Service Centre	Y
14	Gauteng Treasury	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.



AUDITOR - GENERAL

7.2 Results of performance auditing

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

Department	Report issued	Date of report	WIP as at 31 July 2008	Expected date of tabling for WIP
Gauteng: Department of Housing: Allocation of housing subsidies to municipal employees and the administration of low-cost housing projects by the department	Yes	May 2008	N/A	N/A
Gauteng: Entities that are connected with government employees and doing business with departments	No	In process	Yes	November 2008
Department of Education: Investment in infrastructure	No	In process	Yes	September 2009
Department of Health: Investment in infrastructure	No	In process	Yes	September 2009

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

No investigations were conducted by the Auditor-General during the year under review.



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

SECTION 3: PROVINCIAL ENTITIES

1. FINANCIAL REPORTING RESULTS

1.1 Introduction

The Gauteng Provincial Government comprises 10 public entities (2006-07: 11).

Audit reports in respect of consolidated financial statements for 2006-07 provincial public entities were finalised on 3 October 2008. The audit for 2007-08 was delayed due to the late finalisation of the audit of Constitution Hill Development Company and Greater Newtown Development Agency.

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

Table 1 below provides details of the actual audit outcomes for the Gauteng provincial public entities and trading entities.

Table 1: Audit opinions on provincial public entities

Type of audit opinion	2007-08		2006-07	
	Number	%	Number	%
Adverse	0	0%	0	0%
Disclaimer	3	30%	2	20%
Qualified	1	10%	2	20%
Financially unqualified (with other matters)	5	50%	5	50%
Financially unqualified (with no other matters)	1	10%	1	10%
Total analysed	10	100%	10	100%

There has been no improvement with respect to the overall number of qualified reports when compared to that of the prior year. In the last two financial years, namely 2006-07 and 2007-08, Blue IQ Investment Holdings moved from a qualified opinion to a disclaimer due to the group consolidation which included unaudited financial statements of two subsidiaries. Blue Catalyst Investment Company (Pty) Ltd remained on a qualified audit opinion. In 2006-07 Blue Catalyst Investment Company (Pty) Ltd was qualified as the accuracy of the grant funding liability amounting to R40,5 million and R578 000 representing a release of these balances to the income statement could not be verified as no specific conditions had been attached to the grants. In 2007-08 Blue Catalyst Investment (Pty) Ltd received a qualified opinion due to omitting disclosure of irregular expenditure of R1 395 219 which was incurred during the financial year. This is contrary to section 55(2)(b) of the PFMA, which requires disclosure of irregular expenditure in the annual financial statements.

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

Constitution Hill Development Company (public entity) received disclaimers for the last three financial years. This year it was disclaimed due to a lack of documentation supporting the measurement of investment properties, wrong treatment of equity loans, project reconciliations required to match project expenses that were not performed, the completeness and accuracy of revenue of R13 million and trade receivables that could not be verified, inter-company receivables that could not be assessed, certain items of equipment that could not be physically verified, value-added tax that was not accounted for, employee costs that could not be verified and non-compliance with the International Accounting Standards.

Greater Newtown Development Agency (public entity) was disclaimed for the past three years due to the wrong treatment of funds received from shareholders, documents supporting the measurement of investments property that could not be submitted, project reconciliations required to match project expenses that were not performed, revenue and receivables that could not be verified as complete and accurate, the recoverability of inter-company receivables that could not be assessed, contingent liabilities that were incorrectly disclosed, value-added tax that was not accounted for and non-compliance with the International Accounting Standards.

Table 2 below provides details of the actual audit outcomes for the Gauteng provincial public entities for the previous three years.

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

Provincial entity	2007-08	2006-07	2005-06
Gauteng Economic Development Agency	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)
Blue IQ Investment Holdings	Disclaimer	Qualified	Qualified
Gauteng Gambling Board	Financially unqualified (with no other matters)	Financially unqualified (with no other matters)	Financially unqualified (with other matters)
Gauteng Tourism Authority	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)
Greater Newtown Development Agency	Disclaimer	Disclaimer	Disclaimer
Blue Catalyst Investment Company (Pty) Ltd	Qualified	Qualified	Disclaimer
Gauteng Enterprise Propeller	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)
Constitution Hill Development Company	Disclaimer	Disclaimer	Disclaimer
XHASA ATC	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)
Gauteng Partnership Fund	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)

Six of the 10 public entities analysed received a financially unqualified audit opinion.

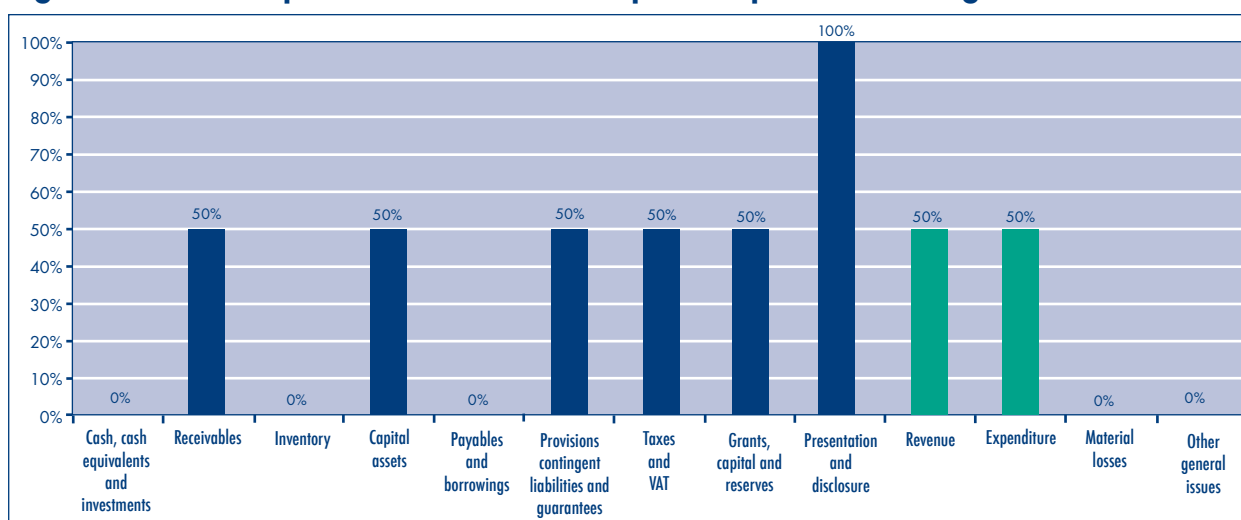


A U D I T O R - G E N E R A L

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 public 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.

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



Overall conclusion

The main reasons for the two public entities, namely Blue IQ Investment Holding (Pty) Ltd and Blue Catalyst Investment Company (Pty) Ltd being qualified were presentation and disclosure while Constitution Hill Development Company and Greater Newtown Development Agency were disclaimed due to receivables, capital assets, provisions, contingent liabilities and guarantees, taxes and VAT, grants, capital and reserves, presentation and disclosure, revenue and expenditure.

1.4 Audit findings in respect of other matters

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

Material non-compliance with relevant legislation

Gauteng Economic Development Agency, Gauteng Partnership Fund and Gauteng Gambling Board represented the 30% of the public entities that did not have any audit findings on material non-compliance with the relevant legislation while the remaining seven entities had findings on non-compliance with the PFMA, Treasury Regulations or Companies Act. The inadequate supervision and monitoring by the leadership (accounting authorities, chief financial officers and relevant managers) had in part contributed to the negative audit findings in this area. The right leadership tone, with the support of internal audit, is necessary to establish a strong control environment and ensure compliance.



AUDITOR - GENERAL

Matters of governance

Six public entities (60%) had concerns raised on matters of governance, which included findings on audit committees, internal audits, the timely availability of supporting documentation and implementation of external audit recommendations.

With the exception of Blue Catalyst Investment Company, Blue IQ Investment Holdings, Constitution Hill Development Company and Greater Newtown Development Company, the audit committee and internal audit unit were in operation throughout the financial year and operated in accordance with approved written terms of reference.

Material misstatements

Four public entities (40%) did not have to make material corrections to their financial statements, namely Gauteng Economic Development Agency, Blue Catalyst Investment Company, Gambling Board and Gauteng Tourism Authority. The increasingly complex accounting environment in which public entities operate, requires the chief financial officers of the public entities to work more closely with the provincial treasury in order to produce quality financial statements that comply with the established accounting framework.

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

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

Although the National Treasury introduced the *Framework for managing programme performance information*, 80% of the public entities did not comply with the regulatory framework while 30% of public entities' predetermined objectives were inconsistent between the annual report and the strategic/performance plan. The Gauteng Gambling Board did not have any findings on performance information.

Actions plans should be implemented to address the high level of non-compliance with the performance information regulatory framework to be used for the management of, and reporting on, performance information, while at the same time maximising the impact of key service delivery priorities.

3. INFORMATION SYSTEMS AUDIT

No information systems audits were performed at the Gauteng public entities for 2007-08.



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

4. ISSUES DRIVING AUDIT RESULTS

4.1 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
- Leadership, supervision and monitoring (leadership effectiveness)

4.2 Achievement against good practice indicators

Table 2 below presents the results of the Gauteng public entities achieving the above good practice indicators.

Table 2: Results of good practices indicators for Gauteng provincial public entities for 2007-08

No.	Good practices	Percentage of total public entities achieving good practice indicators ²
1	Clear trail of supporting documentation that is easily available and provided in time	60%
2	Quality of financial statements and management information	40%
3	Timeliness of financial statements and management information	70%
4	Availability of key officials during audits	70%
5	Development of, and compliance with, risk management and good internal control and governance practices	50%
6	Leadership/supervision/monitoring	60%

² This would serve as a baseline to monitor future improvement



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

- **Clear trail of supporting documentation**

Some 60% (six of 10) of public entities displayed this good practice. This good practice was not evident at the Blue IQ Investments Holdings (Pty) Ltd, Gauteng Economic Development Agency, Constitution Hill Development Company and Greater Newtown Development Agency. This needs to be improved, because the availability of supporting documentation contributes significantly to the efficiency of the audit and public entities are encouraged to further improve in this regard.

- **Quality annual financial statements**

While public entities have continued to make progress in response to challenges in submitting quality financial statements, challenges still remain for six (60%) public entities, namely Blue Catalyst Investment Holdings (Pty) Ltd, Gauteng Enterprise Propeller, Gauteng Partnership Fund, XHASA, Constitution Hill Development Company and Greater Newtown Development Agency. Material corrections to the financial statements mainly related to issues of disclosure associated with accrual accounting. In this regard, processes need to be further refined in order to accurately collate information for the preparation and presentation of the financial statements.

- **Timeliness of annual financial statements**

As in the case of departments, good planning for the financial statement preparation process has ensured that the majority of public entities (70%) had submitted their financial statements for auditing by the legislated deadline of 31 May.

- **Availability of key officials**

Seven public entities' key officials were available during the audit of public entities, which contributed towards clearing audit findings in a timely manner. Difficulties were experienced in Blue Catalyst Investment, Constitution Hill Development Company and Greater Newtown Development Agency.

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

Effective risk management and internal control practices continue to pose a challenge for five public entities. Contrary to legislative requirements, fraud prevention plans and risk management strategies either did not exist or were not regularly updated and monitored in 50% of the public entities.

- **Leadership, supervision and monitoring**

Adequate supervision and monitoring were present at 60% (six of 10) of public entities. The lack of supervision and monitoring by the leadership (accounting authorities, chief financial officers and relevant managers) in part contributed to the negative audit findings, which could have been avoided. The right leadership tone is necessary to establish a strong control environment and ensure compliance. In addition, oversight by the parent departments needs to be enhanced.



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

5. SCOPA RESOLUTIONS

5.1 Introduction

SCOPA had hearings with all the public entities except for Constitution Hill Development Company and Greater Newtown Development Agency. Of the 10 public entities only three SCOPA resolution reports were issued and tabled.

As part of the International Standards on Auditing, ISA 720, *Other information 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 that, where applicable, the status of the implementation of such resolutions.

5.2 SCOPA resolutions not yet implemented

Of the three SCOPA resolution reports issued and tabled, only XHASA had resolutions which were partially implemented.

The reasons for not implementing resolutions were multiple and included officials not realising the extent of actions required to fully address resolutions, a lack of accountability or a lack of taking ownership of resolutions. From the ten public entities SCOPA resolutions were only issued to two public entities, namely Gauteng Gambling Board and XHASA.

Public entity	No. of resolutions	Resolutions not yet implemented
Gauteng Economic Development Agency	Not yet available	n/a
Blue IQ Investment Holdings	Not yet available	n/a
Gauteng Gambling Board	0	0
Gauteng Tourism Authority	Not yet available	n/a
Greater Newtown Development Agency	Not yet available	n/a
Blue Catalyst Investment Company (Pty) Ltd	Not yet available	n/a
Gauteng Enterprise Propeller	Not yet available	n/a
Constitution Hill Development Company	Not yet available	n/a
XHASA ATC	4	2
Gauteng Partnership Fund	0	0

6. TABLING OF ANNUAL REPORTS

6.1 Introduction

Section 55(1)(3) of the PFMA states that an accounting authority must submit the report and statements for tabling in Parliament or the provincial legislature, to the relevant executive authority through the accounting officer of a department designated by the executive authority.



AUDITOR - GENERAL

6.2 Annual reports tabled

No	Public entity	Tabled (Y/N)
1	Gauteng Economic Development Agency	Y
2	Blue IQ Investment Holdings	Y
3	Gauteng Gambling Board	Y
4	Gauteng Tourism Authority	Y
5	Greater Newtown Development Agency	N
6	Blue Catalyst Investment Company (Pty) Ltd	Y
7	Gauteng Enterprise Propeller	Y
8	Constitutional Hill Development Company	N
9	XHASA ATC	Y
10	Gauteng Partnership Fund	Y

7. SUMMARY OF OTHER AUDITS

7.1 Performance auditing

No performance audits were conducted by the Auditor-General during the year under review.

7.2 Investigations

No investigations were conducted by the Auditor-General during the year under review.



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

SECTION 4: OTHER ENTITIES

1. FINANCIAL REPORTING RESULTS

1.1 Introduction

The Gauteng Provincial Government comprises 13 other entities (2006-2007: 10). In the prior year a section 65 report was issued for the Gauteng Kopanong Precinct (previously known as the Gauteng Precinct Trading Account).

1.2 Overview of audit opinions on other entities for 2007-08

- Table 1 below provides details of the actual audit outcomes for the Gauteng other entities.

Table 1: Audit opinions on other entities

Type of audit opinion	2007-08		2006-07	
	Number	%	Number	%
Adverse	0	0%	0	0%
Disclaimer	2	15%	1	10%
Qualified	3	23%	2	20%
Financially unqualified (with other matters)	5	39%	7	70%
Financially unqualified (with no other matters)	3	23%	0	0%
Total analysed	13	100%	10	100%

Gauteng Kopanong Precinct was disclaimed due to opening balances, employee costs, expenditure, the cash flow statement, related parties and financial instruments disclosures, while the Gauteng Liquor Board was disclaimed due to revenue and receivables, expenses, trade and other payables, provisions, property, plant and equipment, leases and presentation and disclosure.



AUDITOR - GENERAL

- Table 2 below provides details of the actual audit outcomes for the Gauteng other entities for the previous three years.

Table 2: Audit opinions on other entities for the previous three years

Public entity	2007-08	2006-07	2005-06
Gauteng Film Commission	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)
Gauteng Liquor Board	Disclaimer	Disclaimer	Disclaimer
Dinokeng Trading Entity	Financially unqualified (with no other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)
Cradle of Humankind World Heritage Site Trading Entity	Financially unqualified (with no other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)
Gauteng Fund Project Office	Qualified	N/A	N/A
Medical Supplies Depot	Financially unqualified (with no other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)
Gauteng Housing Fund	Qualified	Qualified	n/a
g-Fleet Management	Financially unqualified (with other matters)	Qualified	Qualified
Impophoma Infrastructure Support Entity	Qualified	Financially unqualified (with other matters)	Qualified
Gauteng Kopanong Precinct	Disclaimer	n/a	n/a
Emoyeni Trading Entity	Financially unqualified (with other matters)	n/a	n/a
Urban Transport Fund	Financially unqualified (with other matters)	Financially unqualified (with other matters)	n/a
Cost Recovery Trading Account	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)



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

Eight of the 13 other entities analysed received an unqualified audit opinion. Impophoma Infrastructure Support Entity, Gauteng Fund Project Office and Gauteng Housing Fund received a qualified opinion for 2007-08 while the Gauteng Liquor Board and Gauteng Kopanong Precinct were disclaimed.

Impophoma Infrastructure Support Entity was qualified due to non-compliance with South African Statements of Generally Accepted Accounting Practice IAS 16 (AC123), *Property, Plant and Equipment*, regarding the residual value and useful life of assets, and supporting documentation for the prior year adjustment totalling R5,5 million was submitted for auditing after the deadline.

The Gauteng Fund Project Office was qualified due to the overstatement of operating expenses, lack of evidence regarding compliance with the supply chain management regulations, supporting documentation for accruals not being submitted for auditing and non-compliance with Generally Accepted Accounting Practices. The Housing Fund Project Office was qualified due to the existence of investment property which could not be confirmed as properties that were not registered in the name of the fund were included in the balance, trade and other receivables which could not be confirmed and were included credit balances as well as significant changes that were made to the accounting policies without restating prior year balances.

Gauteng Liquor Board was disclaimed due to revenue and receivables for which there was no adequate system of control, monthly reconciliations were not prepared, overstatements of receivables and lack of supporting documentation. Supporting documentation for expenses, accruals and adjustment to trade and other receivables could not be provided. An unexplained difference of R2 073 000 existed in the reconciliation of trade and other receivables. In 2006-07 and 2005-06 the Gauteng Liquor Board was also disclaimed.

Gauteng Kopanong Precinct was disclaimed due to opening balances which were not accounted for in the financial statements, audit evidence for employee costs totalling around R2,6 million which could not be obtained and salaries for persons not employed by the entity which were included in the employee costs. Sufficient appropriate audit evidence could not be obtained for expenditure of R11,4 million and expenditure of the prior period was recorded in the current period. Trade creditors were incorrectly disclosed in the cash flow statement. The entity did not disclose the amounts for transactions with related parties in the financial statements.

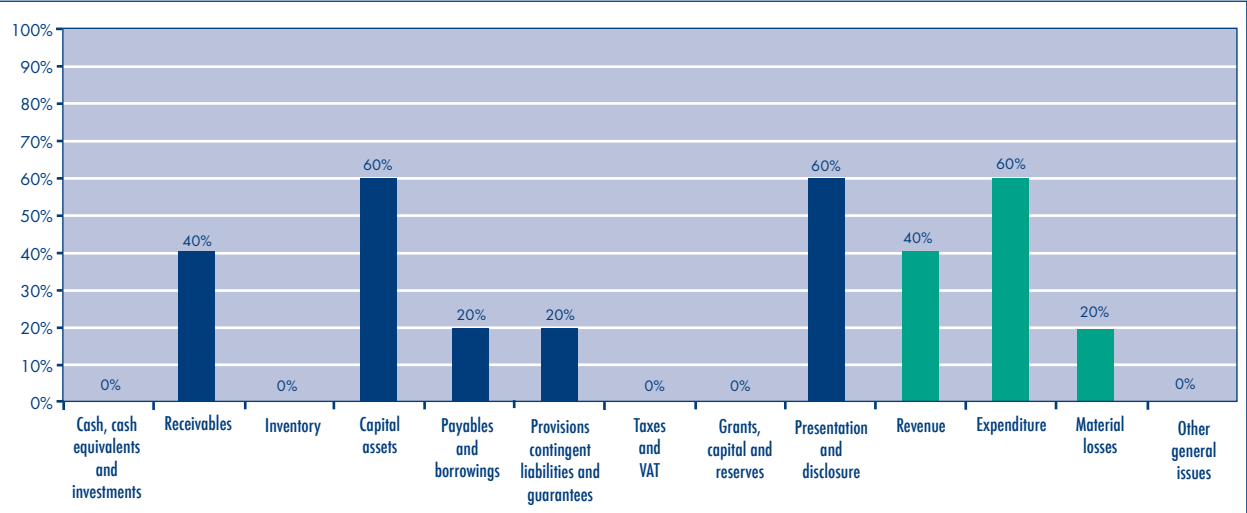
1.3 Qualification details

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 other 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.



AUDITOR - GENERAL

Figure 1: Other entities that were qualified per audit finding



1.4 Audit findings in respect of other matters

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

Material non-compliance with relevant legislation

The material non-compliance with relevant legislation not affecting the financial statements related to non-compliance with the PFMA, Treasury Regulations and the Companies Act was reported in the case of five (38%) other entities, namely, Gauteng Kopanong Precinct, Emoyeni Trading Entity, g-Fleet Management, the Cost Recovery Trading Entity and Urban Transport Fund.

Matters of governance

Although all other entities had audit committees in operation throughout the financial year, audit committees and internal audit units did not substantially fulfil its responsibilities for the year at 62% of other entities.

Material misstatements

Seven of the other entities (54%) had to make material corrections to their financial statements due to errors, omissions and inconsistencies identified by the auditors. This reflects the increasingly complex accounting environment in which the other entities operate.

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



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

2. PERFORMANCE REPORTING RESULTS

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. The audit of performance information for other entities forms part of the information submitted at the provincial departments.

3. INFORMATION SYSTEMS AUDIT

No information systems audits were performed at the Gauteng other entities for 2007-08.

4. ISSUES DRIVING AUDIT RESULTS

4.1 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
- Leadership, supervision and monitoring (leadership effectiveness)

4.2 Achievement against good practice indicators

Table 3 below presents the results of the Gauteng other entities achieving the above good practice indicators.

Table 3: Results of good practice indicators for other entities for 2007-08

No.	Good practices	Percentage of total other entities achieving good practice indicators ³
1	Clear trail of supporting documentation that is easily available and provided in time	54%
2	Quality of financial statements and management information	46%
3	Timeliness of financial statements and management information	85%
4	Availability of key officials during audits	77%
5	Development of, and compliance with, risk management and good internal control and governance practices	38%
6	Leadership/supervision/monitoring	69%

³ This would serve as a baseline to monitor future improvement



AUDITOR - GENERAL

- **Clear trail of supporting documentation**

While the majority (54%) of other entities' supporting documentation was easily accessible, a few (46%) have to do more to ensure that sufficient appropriate audit evidence is available to support the transactions and balances in the financial statements. The management of documentation requires improvement to ensure that it is readily available and furnished in a more timely manner for audit purposes.

- **Quality annual financial statements**

Six (46%) of the other entities had prepared and submitted better quality financial statements for audit purposes. The production of periodic management information should be enhanced and reviewed to ensure the credibility thereof. Financial statements should be subjected to a quality review process prior to submission for auditing. Greater effort is required by Gauteng Kopanong Precinct, Gauteng Liquor Board, Gauteng Fund Project Office, Gauteng Housing Fund, the Impophoma Infrastructure Support Entity, g-Fleet Management and the Cost Recovery Trading Account.

- **Timeliness of annual financial statements**

As in the case of departments, good planning for the financial statement preparation process has ensured that eleven other entities (85%) had submitted their financial statements for auditing by the legislated deadline of 31 May. The financial statements for other entities except Gauteng Liquor Board and Gauteng Fund Project Office were not submitted according to section 40 of the PFMA.

- **Availability of key officials**

In 77% of other entities key officials were available during the audit of public entities, which assisted in clearing audit findings in a timely manner. Due to adhering to the audit planning and the terms of engagement around audit steering committees, significant difficulties relating to the unavailability of senior management were in most cases not experienced during the audits.

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

Effective risk management and internal control practices continued to pose a challenge for the Gauteng Kopanong Precinct, Liquor Board, Gauteng Fund Project Office, Gauteng Housing Fund, the Impophoma Infrastructure Support Entity, Gauteng Film Commission, g-Fleet Management and Urban Transport Fund.

- **Leadership, supervision and monitoring**

Adequate supervision and monitoring were evident in nine (69%) of the other entities. In the case of the Gauteng Liquor Board, Gauteng Fund Project Office, Gauteng Housing Fund and the Impophoma Infrastructure Support Entity endeavours to improve supervision and monitoring should be renewed. Oversight by parent departments also needs to be enhanced.



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

5. SCOPA RESOLUTIONS

5.1 Introduction

SCOPA had hearings with all entities. From the 13 entities, 10 SCOPA resolution reports were issued and tabled.

5.2 SCOPA resolutions not yet implemented

Other entity	No. of resolutions	Resolutions not yet implemented
Gauteng Liquor Board	Not yet available	n/a
Dinokeng Trading Entity	1	0
Cradle of Humankind World Heritage Site Trading Entity	1	0
Medical Supplies Depot	1	0
Gauteng Housing Fund	6	6
g-Fleet Management	0	0
Impophoma Infrastructure Support Entity	1	0
Gauteng Kopanong Precinct	2	0
Emoyeni Trading Entity	1	0
Urban Transport Fund	0	0
Cost Recovery Trading Account	1	0

6. TABLING OF ANNUAL REPORT

6.1 Introduction

Section 41(c) of the PFMA states that an accounting authority must submit the report and statements for tabling in Parliament or the provincial legislature, to the relevant executive authority through the accounting officer of a department designated by the executive authority.



AUDITOR - GENERAL

6.2 Annual reports tabled

No.	Other entities	Tabled (Y/N)
1	Gauteng Liquor Board	N
2	Dinokeng Trading Entity	Y
3	Cradle of Humankind World Heritage Site Trading Entity	Y
4	Medical Supplies Depot	Y
5	Gauteng Housing Fund	Y
6	g-Fleet Management	Y
7	Impophoma Infrastructure Support Entity	Y
8	Gauteng Kopanong Precinct	Y
9	Emoyeni Trading Entity	Y
10	Urban Transport Fund	Y
11	Cost Recovery Trading Account	Y

7. SUMMARY OF OTHER AUDITS

7.1 Performance auditing

No performance audits were conducted by the Auditor-General during the year under review.

7.2 Investigations

No investigations were conducted by the Auditor-General during the year under review.



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

SECTION 5: CONCLUSION

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

Since 2004 the province has improved from seven audit qualifications for the departments to two in the current financial year and one in the prior financial year. This overall improvement is mainly attributable to the improvement in the processes of the Gauteng Shared Service Centre and the introduction of service level agreements to manage the lines of accountability between the departments and Gauteng Shared Service Centre. The support of the provincial treasury in a form of training, monitoring of action plans and CFO forums has assisted the departments in creating capacity and monitoring actions to address audit queries.

Public entities and other entities need to take drastic steps to improve their financial administration to avoid disclaimer and qualified opinions. These entities should focus on addressing the shortcomings around the misstatement of financial statements as well as presentation and disclosure. Non-compliance with legislation and quality of financial statements remain a challenge for these entities and senior management should become more involved to ensure efficient monitoring and supervision to address these areas.

A significant number of audit reports in the province have "other matters of concern" raised in the audit reports. In order to achieve clean audit opinions, there is a need to implement action plans to ensure that laws and regulations are complied with and to also perform ongoing reviews of financial information to minimise the material adjustments to financial statements resulting from audits. These initiatives are critical to also ensure that the financially unqualified reports are sustained.

We are 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.



AUDITOR - GENERAL

ANNEXURE 1: GAUTENG

Classification	Department	Audit opinion 2007/08	Audit opinion 2008/09	Cash, cash equivalents and investments	Receivables	Inventory	Capital assets	Problems 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	Qualification	Financially unqualified (with other matters)		1																				
PD	Health	Qualification	Financially unqualified (with other matters)				1																		
PD	Community Safety	Financially unqualified (with other matters)	Financially unqualified (with other matters)																						
PD	Economic Development	Financially unqualified (with other matters)	Financially unqualified (with other matters)																						
PD	Gauteng Provincial Treasury	Financially unqualified (with other matters)	Financially unqualified (with other matters)																						
PD	Gauteng Shared Service Centre	Financially unqualified (with other matters)	Financially unqualified (with other matters)																						
PD	Housing	Financially unqualified (with other matters)	Financially unqualified (with other matters)																						
PD	Local Government	Financially unqualified (with other matters)	Financially unqualified (with other matters)																						
PD	Office of the Premier	Financially unqualified (with other matters)	Financially unqualified (with other matters)																						
PD	Provincial Legislature	Financially unqualified (with other matters)	Financially unqualified (with other matters)																						
PD	Public Transport, Roads and Works	Financially unqualified (with other matters)	Financially unqualified (with other matters)																						
PD	Social Development	Financially unqualified (with other matters)	Financially unqualified (with other matters)																						
PD	Sports, Arts, Culture and Recreation	Financially unqualified (with other matters)	Financially unqualified (with other matters)																						
PD	Agriculture, Conservation and Environment	Financially unqualified (with other matters)	Financially unqualified (with other matters)																						
PE	Blue IQ Investment Holdings (Pty) Ltd	Disclaimer	Financially unqualified (with other matters)																						
PE	Constitutional Hill Development Company	Disclaimer	Disclaimer		1		1		1	1	1	1	1	1											
PE	Greater Newtown Development Company	Disclaimer	Disclaimer		1		1		1	1	1	1	1	1											
PE	Blue Catalyst Investment	Qualification	Qualification																						
PE	Gauteng Economic Development Agency	Financially unqualified (with other matters)	Financially unqualified (with other matters)																						
PE	Gauteng Enterprise Propeller	Financially unqualified (with other matters)	Financially unqualified (with other matters)																						
PE	Gauteng Partnership Fund (GPF)	Financially unqualified (with other matters)	Financially unqualified (with other matters)																						
PE	Gauteng Tourism Authority	Financially unqualified (with other matters)	Financially unqualified (with other matters)																						
PE	XHASA Accounting and Technical Centre	Financially unqualified (with other matters)	Financially unqualified (with other matters)																						
PE	Gauteng Gambling Board	Financially unqualified (with other matters)	Financially unqualified (with other matters)																						
TA	Gauteng Kopanong Precinct	Disclaimer	Disclaimer																						
TA	Gauteng Liquor Board	Disclaimer	Disclaimer		1		1		1																
TF	Gauteng Fund Project Office	Qualification	No comparative																						
TF	Gauteng Housing Fund	Qualification	Qualification		1		1																		
TA	The Impophoma Infrastructure Support Entity	Qualification	Qualification																						
TA	Emoyeni Trading Entity	Financially unqualified (with other matters)	Financially unqualified (with other matters)																						
UPE	Gauteng Film Commission	Financially unqualified (with other matters)	Financially unqualified (with other matters)																						



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

ANNEXURE 1: GAUTENG (continued)

Classification	Department	Audit opinion 2007/08	Audit opinion 2006/07	Cash, cash equivalents 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
TA	g-Fleet Management	Financially unqualified (with other matters)	Qualification																						
TA	The Gosi Recovery Trading Entity	Financially unqualified (with other matters)	Financially unqualified (with other matters)																						
TE	Urban Transport Fund	Financially unqualified (with other matters)	Financially unqualified (with other matters)																						
TA	The Dinokeng Trading Entity	Financially unqualified (with no other matters)	Financially unqualified (with other matters)																						
TA	Gauteng Medical Supplies Depot	Financially unqualified (with no other matters)	Financially unqualified (with other matters)																						
TA	The Cradle of Humankind-World Heritage Site Trading Entity	Financially unqualified (with no other matters)	Financially unqualified (with other matters)																						

KEY

PD = Provincial departments
 PE = Provincial public entities
 TA = Trading account
 TF = Trust fund
 UPE = Unlisted public entity

SUMMARY

Totals

Departments existing	14
Departments analysed	14
Departments qualified	2

Public entities existing	10
Public entities analysed	10
Public entities qualified	4

Other entities existing	13
Other entities analysed	13
Other entities qualified	5

Departments	0	1	0	1	0	0	0	0	0	0	0	0	0	0	0	0	0	11	10	9	5	5	14	13	9	7
Public entities	0	2	0	2	0	2	2	2	4	2	2	0	0	0	0	0	0	7	6	6	6	4	7	7	5	6
Other entities	0	2	0	3	1	1	0	0	3	2	3	1	0	5	8	7	7	11	10	5	9					

AUDIT FINDINGS IN RESPECT OF QUALIFICATIONS

Departments	0%	50%	0%	50%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Public entities	0%	50%	0%	50%	0%	50%	50%	50%	50%	100%	50%	50%	50%	50%	50%	50%	50%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Other entities	0%	40%	0%	60%	20%	20%	0%	0%	0%	60%	40%	60%	20%	20%	20%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%

AUDIT FINDINGS IN RESPECT OF OTHER MATTERS

Departments	79%	71%	64%
Public entities	70%	60%	60%
Other entities	38%	62%	54%

GOOD PRACTICES

Departments	36%	36%	100%	93%	64%	50%
Public entities	60%	40%	70%	50%	60%	60%
Other entities	54%	46%	85%	77%	38%	69%



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

ANNEXURE 2: GAUTENG AUDIT REPORTS SUMMARIES FOR PROVINCIAL DEPARTMENTS

1. HEALTH

Qualification

Tangible capital assets

- The department did not comply with the accounting policy as it restated a material number of assets at current cost of a similar asset without regard to the condition of the asset. Therefore capital assets were overstated and the amount could not be quantified.
- The existence of capital assets of R46,7 million could not be confirmed. The closing balance of capital assets was overstated by this amount as ownership could not be confirmed.
- The capital assets were incomplete due to 1 176 asset items owned by the department which were excluded from the note as the department did not establish their cost or fair value. The closing balance of capital assets was consequently also misstated by an unquantifiable amount which would equate to the cost or fair value of the assets had they been determined.

Emphasis of matter

Unauthorised expenditure

- As disclosed in note 9 to the financial statements, unauthorised expenditure to the amount of R805 205 255 was incurred.

Material underspending of the budget

- The department materially underspent the budget on programme 3 (Emergency medical services), programme 4 (Provincial hospital services: Payment for capital assets) and programme 5 (Central hospital services: Payment for capital assets) to the amount of R51 410 845, R51 816 392 and R61 845 007, respectively.

Amendments to the applicable basis of accounting

- As disclosed in note 32 to the financial statements the department has recognised certain immovable assets which may require to be recognised by the Department of Transport, Roads and Works; however, this has not been done due to the approval by the National Treasury on 16 May 2008 of a deviation from the basis of accounting applicable to departments on this matter.



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

Other matters

Non-compliance with applicable legislation

Public Finance Management Act

- The department did not comply with Practice Note No. 6 of 2007-08 which requires the department to report within ten (10) working days to the relevant treasury and the Auditor-General all cases where goods and services above the value of R1 million (VAT included) were procured in terms of Treasury Regulation 16A6.4. Sixteen contracts with a total value of R36 142 010 were awarded without following the competitive bidding process. These transactions were not reported as required by Practice Note No. 6 of 2007-08.
- Accruals exceeded the voted funds to be surrendered of R165 698 268 as per the statement of financial performance by R408 136 732. The amount of R573 835 000 would therefore have constituted unauthorised expenditure had the invoices been paid in time.
- The department did not adequately maintain source documentation as required by Treasury Regulation 17.2.
- Section 38(1)(c)(i) of the PFMA requires the accounting officer of the department to take effective and appropriate steps to collect all money due to the department. The departmental debtors as at 31 March 2008 amounted to R761 million. Included in this amount was an amount of R613 million that has been outstanding for more than 90 days.
- Contrary to section 38(1)(c)(i) of the PFMA and Treasury Regulation 11.2.1, which require the accounting officer of the department to take effective and appropriate steps to collect all money due to the department, billing was not done at regular intervals. The department did not comply with section 42 of the PFMA regarding the transfer of assets to and from the North West Province as a result of the demarcation process.

Matters of governance

- The financial statements submitted for auditing were subject to material amendments resulting from the audit.
- The prior year's external audit recommendations have not substantially been implemented.

Other reporting responsibilities

Non-compliance with regularity requirements

- The strategic plan did not include the following aspects as required by Treasury Regulation 5.2.3: Proposed acquisitions of fixed or movable capital assets, planned capital investments and rehabilitation and maintenance of physical assets.
- Proposed acquisitions of financial assets or capital transfers and plans for the management of financial assets and liabilities.
- Multi-year projections of income and projected receipts from the sale of assets.
- Service delivery improvement programme.



AUDITOR - GENERAL

Measurable objectives, indicators and targets not consistent

- Measurable objectives, indicators and targets for programmes 2.1 to 2.6 as reported in the annual report of the Department of Health, are materially inconsistent when compared to the predetermined objectives, indicators and targets as per the budget.

Lack of systems generating performance information

- It was not possible to obtain sufficient appropriate audit evidence regarding the performance information of the Department of Health for programme 2 as there was no documentation available on the collection, collation and calculation for measures/indicators. The source of reported performance information was not easily accessible for audit purposes and required extensive effort to collect evidence. Reported performance information could not always be substantiated by adequate and accurate original documentation or sources.

Other reports

Investigations

- The department conducted 38 investigations for the year under review, 17 of which were finalised at year-end. Investigations ranged from allegations of procurement irregularities, financial mismanagement at non-government organisations, irregular payments, fraudulent education qualifications, maladministration and conflict of interest.

Performance audits

- A performance audit was conducted during the year under review concerning entities that were connected with government employees and doing business with provincial departments. The report covered the period 1 April 2005 to 31 March 2007. The report to the legislature was not tabled.

2. EDUCATION

Qualification

Accounts receivable

- The accuracy and completeness of the staff debtors balance could not be confirmed. The staff debtors resulted from the no-work-no-pay policy in respect of employees who participated in an illegal strike action. The misstatement in the financial statements could not be quantified as the database of all the employees that were on strike, was incomplete. Material differences were identified between the calculated deductions based on the mandates for employees who were on strike and the actual deductions processed on the payroll system, as well as the amount raised as staff debtors at year-end.



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

Emphasis of matter

Significant uncertainties

- As disclosed in note 23 to the financial statements, the employee provision benefit included negative capped leave balances. Management was waiting for the Education Labour Relations Council (ELRC) resolution on how the amount due to the department would be recovered.

Material underspending of the budget

- As disclosed in paragraph 1.4.1 of the accounting officer's report, the department materially underspent the overall budget by R816 269 000. This underspending was mainly on economic classifications regarding goods and services as well as employee compensation.

Amendments to the applicable basis of accounting

- On 16 May 2008 the National Treasury approved a deviation from the basis of accounting applicable to departments which granted the department exemption from the disclosure of certain immovable assets as disclosed in note 37 to the financial statements.

Other matters

Internal controls

- The root causes that gave rise to the inefficiencies in the system of internal controls which led to the qualification of accounts receivable were identified as control activities and monitoring.

Non-compliance with applicable legislation

- The department did not maintain effective, efficient and transparent systems of financial and internal control as required by the section 38(1) of the PFMA which resulted in payments to the value of R8,4 million not being paid within 30 days after the invoice date. The department did not implement procedures to ensure that the date of receipt of the invoice was recorded.
- In terms of section 40(2) of the Public Finance Management Act, the Auditor-General is required to submit an audit report on the financial statements to the accounting officer within two months of receipt of the statements. The audit of the Department of Education was delayed due to material adjustments to the financial statements after submission for auditing, which resulted in additional audit evidence which had to be considered.

Matters of governance

- The financial statements submitted for auditing were subject to any material amendments resulting from the audit.
- Significant difficulties were experienced during the audit concerning delays or the unavailability of expected information and/or the unavailability of senior management.



AUDITOR - GENERAL

Other reports

Investigations

- An investigation was conducted by internal audit in connection with allegations of financial misconduct by two employees from the finance department. The investigation resulted in disciplinary proceedings against the employees implicated and the process has not yet been finalised at the date of this report.

3. COMMUNITY SAFETY

Financially unqualified (with other matters)

Emphasis of matter

- The department has materially underspent the budget of R19 278 000.

Other matters

Non-compliance with applicable legislation

- Treasury Regulations
Payments were not made within the prescribed time frame of 30 days after receipt of an invoice contrary to TR 8.2.3.
- Public Finance Management Act
There were no approved policies and procedures in respect of inventory management as required by section 38(1) (a) (i) of the PFMA and TR 10.1.1.

4. ECONOMIC DEVELOPMENT

Financially unqualified (with other matters)

Emphasis of matter

Financial commitments

- During the year the department entered into a contract with a foreign supplier. The contract gave rise to future financial commitments of R30 448 875 payable in foreign currency.

Contingent liability

- The outcome of forensic investigations into the activities of a past investee, Capstone 518 (Pty) Ltd, was not known at the time of the report. The final outcome of the investigations could result in a contingent liability payable by the department.



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

Other matters

Non-compliance with applicable legislation

- The accounting officer failed to submit a report to the executive authority and the provincial treasury disclosing the impending overspending of the department. The department committed funds to the value of R20 million to be transferred to the Cradle of Humankind Trading Account, however, no savings were available at year-end.
- Contrary to paragraph 4.2.1 of the travel policy, travel and subsistence costs of R599 516 were not supported by adequate source documentation.
- Contrary to section 42 of the PFMA, the Gauteng Kopanong Precinct was handed over to the Department of Transport without preparing an inventory of assets and liabilities.
- The department sponsored accommodation to the value of more than R500 000 to the Progressive Women's Movement, without the required approval of the provincial treasury as per Treasury Regulation 21.1.1.
- Contrary to Treasury Regulation 8.2.3, invoices amounting to R2 689 709 were not paid within 30 days of receipt of the invoice.

Other reporting responsibilities

Performance Information

- The monitoring and evaluation framework for the department was not finalised and approved for the 2007-08 year.
- The strategic plan was not updated with significant changes in the nature of the business and responsibilities, rendering it outdated and inconsistent with the medium-term estimates and performance plan.
- The annual performance plan revealed that performance targets were not well defined, time bound and verifiable.

5. PROVINCIAL TREASURY

Financially unqualified (with other matters)

Other matters

Non-compliance with applicable legislation

- A transfer of R1 500 000 was made to Nokeng Tsa Taemane Local Municipality without concluding a memorandum of understanding between the department and the municipality as stipulated in *Provincial Gazette No. 16 of 2008*. Furthermore, no monthly progress meetings were conducted to ensure that the funds released by the department were used for the intended purpose as required by *Provincial Gazette No. 16 of 2008*, which was also in contravention of section 38(1)(k) of the PFMA.
- The department could not provide proof that prior written consent was obtained from the National Treasury for the establishment of the Gauteng Fund Project Office, which was in contravention of section 38(1)(m) of the PFMA, read with Treasury Regulation 19.4.1.



AUDITOR - GENERAL

Matters of governance

- The financial statements submitted for auditing were subject to material amendments.

6. GAUTENG SHARED SERVICE CENTRE

Financially unqualified (with other matters)

Other matters

Non-compliance with applicable legislation

Public Finance Management Act

- The department did not comply with Practice Note No. 6 of 2007-08 which requires the department to report within ten (10) working days to the relevant treasury and the Auditor-General all cases where goods and services above the value of R1 million (VAT included) were procured in terms of Treasury Regulation 16A6.4.

Other reporting responsibilities

Reporting on performance information

- Measurable objectives were inconsistent between the annual report, the strategic plan, the annual performance plan and the budget.
- The evidence provided to support the performance information was inconsistent with the performance information reported.

Other reports

Investigations

- The department conducted eight investigations for the year under review, ranging from allegations of procurement irregularities, salary payments, remunerative work outside the public service, fraudulent matric certificate, abuse of GG vehicles and official cellular phones.

7. HOUSING

Unqualified (with other matters)

Emphasis of matter

- The department materially overspent the budget on programme 3 to an amount of R68 507 million, which is regarded as unauthorised expenditure.



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

Other matters

Matters of governance

- The financial statements submitted for auditing were subject to material amendments.
- Significant difficulties were experienced during the audit with regard to the unavailability of expected information and senior management.

8. LOCAL GOVERNMENT

Financially unqualified (with other matters)

Other matters

Non-compliance with applicable legislation

Gauteng Land Administration Act

- As reported in the 2005-06 and 2006-07 financial years, the GDLG did not adequately fulfil its mandate, assigned by the Premier of Gauteng province in terms the Gauteng Land Administration Act, 1996 (Act No. 11 of 1996), of maintaining the land register on behalf of the Gauteng Provincial Government.

Public Finance Management Act

- Section 76 of the PFMA requires the department to comply with any regulations or instructions issued by the National Treasury. The department did not comply with Practice Note No. 6 of 2007-08 which requires the department to report within ten (10) working days to the relevant treasury and the Auditor-General, all cases where goods and services above the value of R1 million (VAT included) were procured in terms of Treasury Regulation 16A6.4.

Matters of governance

- The financial statements submitted for auditing were subject to material amendments resulting from the audit.
- Prior year external audit recommendations have not been substantially implemented.
- SCOPA resolutions have not been substantially implemented.

Other reporting responsibilities

Report on performance information

Lack of sufficient appropriate audit evidence

- I was unable to obtain sufficient appropriate audit evidence in relation to the performance information of the GDLG, as the system used for generating information on the targets of the Community Development



AUDITOR - GENERAL

Work and Public Participation, Policy, Local Government Support, Corporate Services, Disaster Management and Monitoring and Evaluation programmes was not adequate for the purposes of the evaluation.

9. OFFICE OF THE PREMIER

Financially unqualified (with other matters)

Other matters

Matters of governance

- Difficulties were experienced during the audit concerning the delays of expected information.

10. PROVINCIAL LEGISLATURE

Financially unqualified (with other matters)

Emphasis of matter

Material underspending of the budget

- As disclosed in the appropriation statement, the legislature has materially underspent the budget on programme 6 (Operational support) and programme 7 (Information and liaison) to the amount of R15 971 000 and R10 504 000, respectively.

Other matters

Non-compliance with applicable legislation

- The provincial secretary did not deposit the political party funds for the 2007-08 financial year into a separate bank account opened for the administration of those funds, as required by section 3(1) of the Gauteng Political Party Fund Act, 2007.

11. PUBLIC TRANSPORT, ROADS AND WORKS

Financially unqualified (with other matters)

Emphasis of matter

Amendments to the applicable basis of accounting

- The National Treasury approved a deviation from the basis of accounting which granted the department exemption from the disclosure of certain immovable assets and the use of fair value to value assets where the cost cannot be determined accurately.



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

Material underspending of the budget

- As disclosed in the appropriation statement, the department materially underspent the budget on various programmes by R322 800.

Other matters

Non-compliance with applicable legislation

- **Public Finance Management Act**

The department did not comply with Practice Note No. 6 of 2007-08 which requires the department to report within 10 days goods and services above R1 million which were procured in terms of TR 16A6.4.

Matters of governance

- The financial statements submitted for auditing were subject to material amendments resulting from the audit.
- Significant difficulties were experienced during the audit concerning delays and unavailability of information.

Other reports

Investigations

- Investigations involving fraud, misconduct and theft have not yet been finalised at the date of the report.

12. SOCIAL DEVELOPMENT

Financially unqualified (with other matters)

Emphasis of matter

Accruals

- Accrual for transfer and subsidy payments to non-profit organisations of R34 412 958 was not released at 31 March 2008. The accrual was as a result of memorandums of agreement entered into with newly identified non-profit organisations prior to the financial year-end as well as payments to existing non-profit organisations not processed at year-end. The department fully utilised its budget allocation of R705 205 000 for transfer and subsidy payments for non-profit organisations for the financial year 31 March 2008.



AUDITOR - GENERAL

Other matters

Non-compliance with applicable legislation

- Section 38(1)(f) of the PFMA requires that the accounting officer for a department must settle all contractual obligations and pay all money owing, including intergovernmental claims, within the prescribed or agreed period. Transfer payments to the value of R78 669 085 were not distributed in accordance with the clauses stipulated in the memorandums of agreement entered into between the department and non-profit organisations.

Matters of governance

- Delays in expected information from management.
- Material corrections were made to the financial statements submitted for auditing.

Other reporting responsibilities

Performance information

- Lack of sufficient appropriate audit evidence
- Lack of access to records
- The actual achievement of measures, indicators and targets for sub-programmes 2.2 to 2.10 could not be substantiated by adequate evidence or source documentation.
- Targets not reported in the annual report
- Treasury Regulations chapter 3.3 of the *Framework for managing performance information*, performance targets express a specific level of performance that the institution, programme or individual is aiming to achieve within a given period. The annual report of Social Development did not include reporting on all targets as required by Treasury Regulations chapter 3.3 of the *Framework for managing performance information*.

Other reports

Investigations

- With reference to note 23.2 regarding irregular expenditure, an investigation was completed by the labour relations unit. The investigation was based on procurement irregularities committed by an official of the department. Disciplinary action against the official was ongoing.

Performance audit

- A performance audit on non-profit organisations was in progress. The outcome of this audit would be presented to the department by the Auditor-General's specialised audit services division.



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

13. SPORTS, ARTS, CULTURE AND RECREATION

Financially unqualified (with other matters)

Emphasis of matter

- Material underspending of the budget
- As disclosed in the appropriation statement, the department materially underspent the budget of administration/Gauteng Youth Commission by R15 412 000.

Other matters

Non-compliance with applicable legislation

- The department did not maintain effective, efficient and transparent systems of financial and internal control as required by the section 38(1) of the PFMA which resulted in payments to the value of R1 845 059 not being paid within 30 days after the receipt of the invoice.

Other reporting responsibilities

Reporting on performance information

- I was unable to complete an evaluation of the quality of the reported performance information in the annual report, as the information was not received in time.

14. AGRICULTURE, CONSERVATION AND ENVIRONMENT

Unqualified (with no other matters)



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

ANNEXURE 3: GAUTENG AUDIT REPORTS SUMMARIES FOR PROVINCIAL PUBLIC ENTITIES

1. Blue IQ Investment Holdings (Pty) Ltd (GROUP REPORT)

Disclaimer

Consolidation

- The group financial statements included unaudited 2008 financial statements of the Greater Newtown and Constitution Hill Development Companies. The opening balances for 2005-06 for these entities were disclaimed and no adjustments were processed for material errors identified in those years; these entities are a significant part of the group.

Blue Catalyst's irregular expenditure amount not disclosed

- Disclosure of R1 395 219 incurred by Blue Catalyst was not disclosed as required by section 55(2) of the PFMA.

Emphasis of matter

- Irregular and fruitless expenditure
 - Blue IQ incurred R36,7 million of irregular expenditure due to supply chain management regulations and policies not yet implemented.
- Restatement of corresponding figures
 - Corresponding figures for 31 March 2007 were restated as a result of a change in accounting for recognition of grants related to investment properties.

Other matters

Non-compliance with applicable legislation

- Public Finance Management Act
 - Blue Catalyst Matching Fund Trust issued a guarantee to Genesis Fitness in contravention of section 66 of the PFMA.
 - Blue IQ entered into a contract with a foreign supplier, which gave rise to future financial commitment denominated in foreign currency in contravention of section 67 of the PFMA.



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

- Treasury Regulations
 - Contrary to the requirements of Treasury Regulation 30.2.1, Blue IQ did not facilitate effective performance monitoring, evaluation and corrective action over entities under its control.
 - Blue IQ did not have a business continuity plan, backup policies and disaster recovery plans as required by Treasury Regulation 27.2.1.
 - Blue IQ's and Blue Catalyst's surplus funds were not invested with the Corporation for Public Deposits and no exemption was obtained from the treasury, as required by Treasury Regulation 31.3.3.
- Blue IQ group did not have an investment policy as required by Treasury Regulation 31.3.1.

Matters of governance

- Internal audit was not fully functional throughout the financial year, as it did not substantially fulfil its responsibilities as set out by Treasury Regulation 27.2.
- The financial statements were subject to material amendments resulting from the audit.

Other reporting responsibilities

Non-compliance with regulatory requirements

- The strategic plan of Blue IQ did not include KPIs and KPAs for assessing the entity's performance in delivering the desired outcomes.
- There was an overall non-compliance with legislative requirements regarding planning, monitoring, managing and reporting of performance information in the manner required by the *Framework for managing performance programme information*.

2. CONSTITUTION HILL DEVELOPMENT COMPANY (PTY) LTD

Disclaimer

The following was the basis for disclaimer of opinion

Investment property

- The supporting documentation to confirm the ownership of land and investment property of R329 million as disclosed in the financial statements could not be submitted.
- In addition, invoices and contracts to support an amount of R13,7 million included in the opening balance of investment property could not be submitted.

Equity loans

- An amount of R384 million, which was received from the Gauteng Department of Economic Development (DED), has been disclosed as shareholders' loans. There was evidence that permission had been granted by the DED to treat this amount as shareholders' loans.



AUDITOR - GENERAL

Project funds and project expenses

- The project reconciliations required to match project expenses to the appropriate projects were not performed for project funds totalling R16 million.

Revenue and receivables

- I was unable to satisfy myself as to the completeness and accuracy of revenue of R13 million and trade receivable of R3,9 million due to completeness issues on invoices, not sequentially numbered, credit balances not explained and/or no reconciliations between sub-ledgers and general ledger.

Inter-company receivables

- Note 5 to the financial statements disclosed R4,7 million as inter-company receivables. The holding company confirmed that it would only settle this amount subject to the outcome of a forensic investigation.

Property, plant and equipment

- Certain items of equipment identified through physical verification were not recorded in the fixed asset register. The R5,4 million could not be completely verified for completeness.

Value-added tax

- Completeness issues and variances were noted between the amounts per the general ledger and the amounts per the VAT 201 amounting to R88 667 for input VAT and R656 928 for output VAT.

Employee costs and related liability

- No provision was made for annual leave due to employees.

Emphasis of matter

- Going concern

As the equity loans were not subordinated at 31 March 2008, the company's total liabilities exceeded its total assets by R98,7 million.

Other matters

- Internal controls

The root causes were control environment, control activities and monitoring which was not properly performed.



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

- Non-compliance with applicable legislation

There was non-compliance with following applicable laws:

- Public Finance Management Act
 - A materiality and significance framework as required by Treasury Regulation 28(3)(1) was not prepared.
 - Section 55(1)(d) – due to the audit backlog the audit could not be finalised within three months after the submission of the financial statements.
 - An effective, efficient and transparent system of financial risk management and internal control over revenue and debtors was not maintained as required by sections 51(1)(a)(i) and 57(a) of the PFMA.
 - The entity did not manage its working capital efficiently and economically as required by section 51(1)(b)(iii) of the PFMA, as it did not take steps to collect rental income received by the rental collection agency.
 - A fraud prevention plan was not prepared as required by the section 50(1)(a) of the PFMA.
 - Section 53(1) – as there was no evidence of submission and approval of the budget.
 - The entity did not comply with Treasury Regulations 31.1 regarding cash management.

- Companies Act

The company did not maintain a register of directors; interest in contracts as required by section 240 of the Companies Act.

Income Tax Act

- There was a contravention of the Income Tax Act, 1962, as tax returns were not submitted to SARS for 2006, 2007 and 2008.

Matters of governance

- The audit committee and internal audit did not operate.

Other matters of governance

- All other matters of governance were not complied with.
- Investigations had been instituted by the holding company into disbursements for project funding which was not completed at the date of the audit report.

Other reporting responsibilities

- Performance information
 - There was no reporting of performance information as required by section 55(2) of the PFMA.



AUDITOR - GENERAL

- No strategic plan
 - A strategic plan which was consistent with the period covered by the medium-term expenditure framework was not prepared, as required by Treasury Regulation 5.1.1.

3. GREATER NEWTOWN DEVELOPMENT COMPANY (PTY) LTD

Disclaimer

The following was the basis for disclaimer of opinion

Equity loans

- An amount to the value of R109,7 million, which was received from the Gauteng Department of Economic Development (DED), has been disclosed as shareholders' loans. There was evidence that permission had been granted by the DED to treat this amount as shareholders' loans.

Investment property

- The supporting documentation to confirm the ownership of land and investment property of R69,2 million as disclosed in the financial statements could not be submitted.

Project funds and project expenses

- The project reconciliations required to match project expenses to the appropriate projects were not performed for project funds totalling R4,4 million.

Revenue and receivables

- I was unable to satisfy myself as to the completeness and accuracy of revenue of R7,1 million and trade receivables of R263 803 due to completeness issues on invoices, not sequentially numbered, credit balances not explained, and/or no reconciliations between sub-ledgers and general ledger.

Inter-company receivables

- Note 5 to the financial statements disclosed R10,8 million as inter-company receivables. The holding company confirmed that it will only settle this amount subject to the outcome of a forensic investigation.

Contingent liabilities

- An amount of R19,7 million accounted for as equity loans was incorrectly disclosed as a contingent liability in note 18 to the financial statement.



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

Value-added tax

- I was not able to verify the completeness, rights and valuation of R52 738 of the VAT that was disclosed in note 10 to the financial statements due to variances noted in the VAT account in the general ledger and the VAT returns submitted to SARS amounting to R706 644.

Emphasis of matter

- Going concern
 - As the equity loans were not subordinated at 31 March 2008 the company's total liabilities exceeded its total assets by R103 246 256.

Other matters

Internal controls

- The root causes that gave rise to the inefficiencies were control environment, activities and monitoring.

Non-compliance with applicable legislation

- Public Finance Management Act
 - A materiality and significance framework as required by Treasury Regulations paragraph 28.3.1 was not prepared.
 - Section 55(1)(d) – due to the audit backlog the audit could not be finalised within three months after the submission of the financial statements.
 - An effective, efficient and transparent system of financial risk management and internal control over revenue and debtors was not maintained as required by sections 51(1)(a)(i) and 57(a) of the PFMA.
 - The entity did not manage its working capital efficiently and economically as required by section 51(1)(b)(iii) of the PFMA, as it did not take steps to collect, on a timely basis, rental income received by the rental collection agency.
 - A fraud prevention plan was not prepared and in use as required by section 50(1)(a) of the PFMA.
 - In terms of section 53(1) of the PFMA, the accounting authority is responsible for the submission of a budget of estimated revenue and expenditure at least six months before the start of the financial year for approval by the executive authority. However, there was no evidence of submission and approval of the budget.
 - The entity did not comply with Treasury Regulations 31.1 on cash management issues.
- Income Tax Act
 - Tax returns for 2006, 2007 and 2008 were not submitted to the South African Revenue Service. This was in contravention of the Income Tax Act, 1962.



AUDITOR - GENERAL

Matters of governance

- The audit committee and internal audit did not operate.

Other matters of governance

- All other matters of governance were not complied with.

Other reporting responsibilities

- No report of performance information
 - The entity did not report on performance against predetermined objectives, as required by section 55(2)(a) of the PFMA.
- No strategic plan
 - The entity did not prepare a strategic plan that was consistent with the period covered by the medium-term expenditure framework for approval by the relevant executive authority, as required by Treasury Regulation 5.1.1.

4. BLUE CATALYST INVESTMENTS (PTY) LTD

Qualified

- Blue Catalyst did not disclose R1 395 219 of irregular expenditure contrary to section 55(2) of the PFMA.

Other matters

- Non-compliance with applicable legislation
 - PFMA and Treasury Regulations
 - Budgets were not prepared on time as required by section 53 of the PFMA.
 - Surplus funds were not invested with the Corporation for Public Deposits and no exemption was obtained from the treasury. There was no developed and approved investment policy as required by Treasury Regulations 31.3.
 - Materiality and significance framework was not developed as required by sections 54(2) and 55(2) of the PFMA.
 - A guarantee was issued by Blue Catalyst Matching Fund Trust in contravention of section 66 of the PFMA.
 - Companies Act
 - Minutes of meetings held were not signed in time by the chairperson as per section 204 of the Companies Act.
 - The register of directors was not updated with the Registrar on the appointment of a director as per section 210(3) of the Companies Act.



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

- Matters of governance
 - Internal audit was not fully functional throughout the year.
 - The audit committee did not substantially fulfil its responsibilities for the year as set out in section 77 of the PFMA.
 - The financial statements were not submitted for auditing as per legislated deadlines set in section 55 of the PFMA.
 - The prior year's external audit recommendations have not been substantially implemented.

Other reporting responsibilities

- Content of the strategic plan
 - Blue Catalyst's strategic plan did not include KPIs and KPAs for assessing the entity's performance in delivering the desired outcomes and objectives.
- Performance information report not submitted on time
 - Blue Catalyst did not submit the performance information report.

5. GAUTENG ECONOMIC DEVELOPMENT AGENCY (GEDA)

Financially unqualified (with other matters)

Emphasis of matter

- Significant uncertainty
 - The GEDA paid an amount of R2,3 million in the previous financial year for a music festival that was intended to support World Aids Day, however, the music festival did not take place and the GEDA instituted legal action against the service provider to recover the amount paid. The outcome of the matter could not yet be determined and could result in a financial loss if they are not successful in recovering this amount.
- Restatement of corresponding figures
 - Corresponding figures were restated as a result of a prior period error in the financial statements.

Other matters

- Matters of governance
 - Significant difficulties were experienced during the audit concerning delays or the unavailability of expected information and/or the unavailability of senior management.
 - The prior year's external audit recommendations have not been implemented.



AUDITOR - GENERAL

Other reporting responsibilities

- Non-compliance with regulatory requirements.
 - Public Finance Management Act
 - The strategic plan was not finalised and submitted to the executive authority for approval on or before 1 April 2007 as required by TR30.1.1 and 30.1.2.
 - Measurable objectives not consistent
 - Measurable objectives were materially inconsistent between the annual report and the strategic plan.
 - The measurable objectives reported in the annual report were materially inconsistent when compared with the predetermined objectives as per the strategic plan.
 - Measurable objectives were materially inconsistent between annual report and budget.
 - Objectives reported in the annual report were materially inconsistent when compared with the predetermined objectives as per the budget.

6. GAUTENG TOURISM AUTHORITY

Financially unqualified (with other matters)

Emphasis of matter

- As indicated in note 18 to the financial statements, irregular expenditure of R970 214 was incurred as a result of non-compliance with the provisions of the supply chain management.

Other matters

- Gauteng Tourism Act, 1998 (Act No. 18 of 1998) (GTA)
 - Section 17(4) of the GTA requires the authority to spend at least 33% of the subsidies received on expenditure of a development nature. The development expenditure for the year only accounted for 7% of the total subsidy received.
- Public Finance Management Act
 - Declaration of interest by board members
 - Four members of the accounting authority did not declare their business interests, as required by section 50(3)(a) of the PFMA.
 - Unaudited supplementary schedules
 - The supplementary information set out on pages 40 to 56 does not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.



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

Other reporting responsibilities

- Non-compliance with regulatory requirements
 - Content of the strategic plan
 - The targets for the selected projects were not specific and measurable, as required by Treasury Regulation 30.1.3(d), to allow effective evaluation of the entity's performance.
 - The targets per the business plan were not aligned to the targets per the strategic plan. Therefore, no comparison between objectives per the strategic plan and the business plan could be made.

7. GAUTENG ENTERPRISE PROPELLER (GEP)

Financially unqualified (with other matters)

Emphasis of matter

- Highlighting critically important matters presented or disclosed in the financial statements.
- The GEP wrote down its investments in associates by R4 million as a result of its share in losses in these companies.

Other matters

- Non-compliance with applicable legislation
 - Public Finance Management Act
 - The GEP was not yet listed as a public entity in terms of section 47 of the PFMA, as they were awaiting the National Treasury's approval for the listing.
 - National Credit Act
 - The GEP did not register as a credit provider as required by section 40(1)(a) of the National Credit Act, 2005 (Act No. 34 of 2005)

Matters of governance

- The financial statements, approved by the accounting officer as submitted for auditing on 31 May 2008 were subject to material amendments resulting from the audit.

Other reporting responsibilities

- Non-compliance with regulatory requirements
 - The strategic plan of the GEP did not include measurable objectives and outcomes as identified by the executive authority as well as key performance measures and indicators for assessing the company's performance in delivering the desired outcomes and objectives.



AUDITOR - GENERAL

- Measurable objectives not consistent
 - Measurable objectives were materially inconsistent between the annual report and the budget.
 - The objectives reported in the annual report were materially inconsistent when compared with the predetermined objectives as per the budget.

8. XHASA ACCOUNTING AND TECHNICAL CENTRE

Financially unqualified (with other matters)

Emphasis of matter

- Going concern
 - The report of the directors on, and note 20 to, the financial statements indicated that the company would be deregistered and its operations transferred to the Gauteng Department of Housing. The directors were of the opinion that the use of the going concern basis was appropriate as the assets and liabilities of the company will be transferred at its book values.
- Significant uncertainties
 - As disclosed in note 22 to the financial statements, the company did not claim input VAT on certain operational and capital expenditure since inception. The company lodged an application with the South African Revenue Service (SARS) to be registered as a welfare organisation. Should the application be successful, an amount of R5 071 000 would be receivable.
 - As disclosed in note 23 to the financial statements, the company did not make provision for income tax payable on the accumulated net surplus generated since incorporation. The company applied to SARS to be registered as a welfare organisation, which could result in an exemption from the payment of income tax. If the application is unsuccessful a potential liability amounting to R2 636 611 would exist for the payment of income tax.
- Restatement of corresponding figures
 - As disclosed in note 16 to the financial statements, the corresponding figures for 31 March 2007 were restated and a prior year adjustment processed against the opening balances for that year as a result of a prior period error discovered during the current financial year in the financial statements of Xhasa ATC.

Other matters

- Non-compliance with applicable legislation
 - Companies Act
 - Xhasa did not maintain signed minutes of meetings of the company as required by section 204 (1) of the Companies Act.



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

- Xhasa did not maintain a register of directors' interest in contracts as required by section 240 (1) of the Companies Act.

Matters of governance

- Other matters of governance
 - The financial statements submitted for auditing were subject to material amendments.
 - SCOPA resolutions were not substantially implemented.

9. GAUTENG PARTNERSHIP FUND

Financially unqualified (with other matters)

Emphasis of matter

- Restatement of corresponding figures
 - The corresponding figures for 2007 were restated as a result of a prior period error in the financial statements of Gauteng Partnership Fund.

Other matters

- Non-compliance with applicable legislation
 - Public Finance Management Act
 - Section 76 of the PFMA requires the entity to comply with any regulations or instructions issued by the National Treasury. The entity did not comply with Practice Note No. 6 of 2007-08 which requires the entity to report within ten (10) working days to the relevant treasury and the Auditor-General, all cases where goods and services above the value of R1 million (VAT included) were procured in terms of Treasury Regulation 16A6.4.
 - One contract with a total value of R1 899 514 was awarded without following the competitive bidding process. This transaction was not reported as required by Practice Note No. 6 of 2007-08.

Matters of governance

- Other matters of governance
 - The financial statements submitted for auditing were subject to material amendments.

10. GAUTENG GAMBLING BOARD

Financially unqualified (with no other matters)



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

ANNEXURE 4: GAUTENG AUDIT REPORTS SUMMARIES FOR OTHER ENTITIES

1. GAUTENG KOPANONG PRECINCT

Disclaimer

Cash flow statement

- Incorrect disclosure of trade creditors and trade receivable in the cash flow statement.

Related parties

- The entity did not disclose related-party transactions in the financial statements.

Expenditure

- Insufficient appropriate audit evidence for the amount related to expenditure of R11,4 million.
- The current year's expenditure was overstated by an amount of R9,6 million.
- The amount of R2,6 million for employee cost disclosed in note 7 to the financial statement could not be verified.
- Salaries of various persons not employed by the entity were included in the employee costs of the entity.

Other general issues

- The entity has not included opening balances in the financial statements for the year under review.

Other matters

Matters of governance

- Difficulties were experienced during the audit concerning the delays of expected information.

Material corrections were made to the financial statements.

2. GAUTENG LIQUOR BOARD (GLB)

Disclaimer

Revenue and receivables

- The completeness of licence fee revenue and receivables could not be verified as there was no adequate system of control for the collection and recording of revenue and receivables.
- No monthly reconciliations were performed to identify income earned and amounts received from SARS.
- A recalculation of licence fee income indicated that the current year's licence fees receivable were overstated by R2 414 000 and the prior year's revenue overstated by R4136 285.
- No supporting documentation was provided to verify prepayments of R437 479.



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

Expenditure

- No supporting documentation was provided to verify the completeness, occurrence and accuracy of expenses to the value of R3 081 670.

Trade and other payables

- No supporting documents were provided to verify the completeness and valuation of prior year adjustments to accounts payable and expenditure balances.
- There was an unexplained difference of R2 073 000 for the accounts payable balance as reflected in the balance sheet and the amount reflected in the notes to the balance sheet.
- The reconciliation of the inter-entity balance between the GLB and the Department of Economic Development.

Provisions

- An accrual of R766 049 included in provisions was not supported by audit evidence.

Property, plant and equipment

- The completeness and valuation of prior year adjustments to property, plant and equipment could not be verified due to the non-submission of supporting documentation.
- The residual values and useful lives of property, plant and equipment were not assessed in terms of IAS 16(AC123).

Leases

- Operating lease expenditure for buildings recognised was overstated by R269 158 due to miscalculations and incorrect classification of finance lease payments.

Presentation and disclosure

- The annual financial statements were incorrectly prepared and were presented in accordance with Generally Recognised Accounting Practices: Presentation of financial statements (GRAP 1), instead of SA Statements of GAAP.

Emphasis of matter

Going concern

- The GLB was technically insolvent at 31 March 2008 as its total liabilities exceeded its total assets by R1 011 000.
- The entity has incurred a net loss of R812 000 at year-end – the third consecutive year.
- The GLB as a trading entity was able to acquire financial support from the Department of Economic Development.



AUDITOR - GENERAL

Other matters

Non-compliance with applicable legislation

- Contrary to Treasury Regulation 8.2.3 invoices amounting to R2 689 709 were not paid within 30 days of receipt of the invoice.
- The GLB liquor licence rates have not been reviewed since 1 June 1992, contrary to Treasury Regulation 19.5.
- Contrary to section 40(1)(c) of the PFMA, the GLB did not submit annual financial statements within two months after the end of the financial year to the Auditor-General for auditing.

Matters of governance

- Significant difficulties were experienced during the audit concerning delays or the unavailability of expected information and/or the unavailability of senior management.
- Prior year's external audit recommendations have not been substantially implemented.

Other reporting responsibilities

Reporting of performance information

- The GLB did not report on performance against predetermined objectives, as required by section 40(3)(a) of the PFMA.
- The accounting officer of the GLB did not prepare a strategic plan that is consistent with the period covered by the medium-term expenditure framework for approval by the relevant executive authority, as required by Treasury Regulation 5.1.1.

3. GAUTENG FUND PROJECT OFFICE

Qualified

Operating expenses

- Included in operating expenses was an amount of R2 459 812 which related to expenses that were incurred in the prior financial period. Had the prior year expenses not been included in the current year's financial statements, operating expenses would have been reduced by R 2 459 812 and net income increased by R2 459 812.
- The financial activities of the Gauteng Fund Project Office were previously accounted for as a programme under the Department of Economic Development and were transferred to the Gauteng Treasury with effect from 5 June 2007. Included in the financial statements were expenses of R13 714 660 incurred prior to 1 October 2007. No approval was obtained from the treasury to allow the Gauteng Fund Project Office to account for these expenses retrospectively.
- Management was unable to provide evidence that consulting services incurred during the year were procured in terms of the supply chain management regulations. Therefore, I was not able to determine whether any adjustments were necessary to disclose irregular expenditure in the financial statements.



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

Accounts payable

- I was unable to verify or confirm by alternative means the completeness and valuation of accounts payable as management did not provide supporting documentation for accruals amounting to R219 836.

Generally Accepted Accounting Practice

- AC 126, *Related party disclosures* states that an entity shall disclose remuneration of key management personnel in the financial statements. The trading entity did not disclose any information relating to the remuneration for key management personnel in the financial statements.

Other matters

Non-compliance with applicable legislation

- The trading entity did not comply with Practice Note No. 6 of 2007-08 which requires the trading entity to report within ten (10) working days to the relevant treasury and the Auditor-General all cases where goods and services above the value of R1 million (VAT included) were procured in terms of Treasury Regulation 16A6.4. Three contracts with a total value of R7 421 400 were awarded without following the competitive bidding process. These transactions were not reported as required by Practice Note No. 6 of 2007-08.

Matters of governance

- The financial statements were not submitted for auditing within the legislated deadlines as required by section 40 of the PFMA.
- Significant difficulties were experienced during the audit with regard to the unavailability of expected information and senior management.

4. GAUTENG HOUSING FUND

Qualified

Investment property

- I was unable to confirm or verify by alternative means the historical cost value of investment property amounting to R171,767 million.
- Certain investment properties were registered in names other than that of the Gauteng Housing Fund. These properties were already transferred and should not be recognised in the accounting records of the Gauteng Housing Fund.

Trade and other receivables

- Trade and other receivables were disclosed at an amount of R7,634 million. I was unable to confirm the



AUDITOR - GENERAL

valuation and completeness of this amount due to an unexplained difference of R4,681 million between the National Debtors System (NDS) and the Basic Accounting System (BAS).

- Included in trade and other receivables were credit balances amounting to R22,943 million as a result of system errors on the National Debtors System. The trade and other receivables were therefore understated by this amount.

Changes in accounting policy

- The department made significant changes to the accounting policies in the year under review and these were not disclosed in the accounting policies and in the notes to the financial statements.

Other matters

Non-compliance with applicable legislation

- Section 22 of the PFMA requires all money received by the provincial government to be deposited into the provincial fund. There was no evidence that R5,301 million surplus of the prior year was deposited into the provincial revenue fund.

Matters of governance

- The financial statements submitted for auditing were subject to material amendments.
- Significant difficulties were experienced during the audit concerning delays or the unavailability of expected information and the unavailability of senior management.
- The prior year's external audit recommendations were not substantially implemented.

SCOPA resolutions were not substantially implemented.

5. IMPOPHOMA INFRASTRUCTURE SUPPORT ENTITY

Qualified

Property, plant and equipment

- The residual value and the useful life of property, plant and equipment were not reviewed annually as required by IAS 16.
- The accuracy of the prior year adjustment of property, plant and equipment amounting to R5,5 million could not be confirmed as the supporting documentation was only submitted after the agreed deadline.

Revenue

- The occurrence and accuracy of revenue transactions amounting to R8,1 million could not be verified as supporting documentation was not provided for audit purposes.



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

Fruitless and wasteful expenditure

- The entity incurred fruitless and wasteful expenditure amounting to R3,9 million which was not disclosed as required by the PFMA.

Other matters

Non-compliance with applicable legislation

- Creditors were not settled within 30 days of receipt of an invoice as required by Treasury Regulation 8.2.3.
- Section 40(2) of the PFMA in that the audit report was not issued within two months of receipt of financial statements due to capacity constraints.

Matters of governance

- The audit committee did not substantially fulfil its responsibilities for the year as required by section 77 of the PFMA.
- The internal audit unit did not substantially fulfil its responsibilities for the year as required by Treasury Regulation 3.2.
- The financial statements submitted for auditing were subject to material amendments resulting from the audit.
- Significant difficulties were experienced during the audit concerning delays and unavailability of information.

6. EMOYENI TRADING ENTITY

Unqualified (with other matters)

Other matters

Matters of governance

- The audit committee did not fulfil its responsibilities as set out in section 77 of PFMA and Treasury Regulation 3.1.10.
- The internal auditor did not fulfil its responsibilities as set out in Treasury Regulation 3.2.
- Material corrections were made to the financial statements.
- Difficulties were experienced during the audit concerning the delays of expected information.

7. GAUTENG FILM COMMISSION (GFC)

Unqualified (with other matters)

Emphasis of matter

- The GFC gave a guarantee of \$3 million per annum worth of advertising revenue to a service provider



AUDITOR - GENERAL

over a period of five years. For the period under review, the GFC made good of the full guarantee and paid an amount of R18 million.

Other matters

Non-compliance with applicable legislation

- Contrary to section 51(a)(i) of the PFMA, there was no risk management policy in place for the entire period under review. The policy was approved by management subsequent to the 2007-08 financial year-end.
- The Gauteng Film Commission was not yet listed as a public entity in terms of section 47 of the PFMA.
- Bank reconciliations were not performed monthly, which was in contravention of TR 31.1.2.
- The cash management policy did not include any procedure relating to variance analyses of the actual cash flow with the approved budget which was in contravention of TR 31.1.2.
- The entity did not make use of the mechanism established by the National Treasury for whistle-blowing to report any unfair decisions made or complaints relating to the bidding process which was in contravention of TR 16A 9.3.
- The supply chain management system documentation did not make any reference to the National Treasury's supply chain management code of conduct and there was no indication of the code of conduct being signed by the staff members involved, which was in contravention of TR 16A.

8. g-Fleet management

Unqualified (with other matters)

Other matters

Matters of governance

- The audit committee did not substantially fulfil its responsibilities for the year as required by section 77 of the PFMA.
- The financial statements submitted for auditing were subject to material amendments resulting from the audit.

Non-compliance with applicable legislation

- Public Finance Management Act
The financial statements submitted for auditing were revised and resubmitted on 23 June 2008 due to material misstatements, which resulted in a delay in the finalisation of the audit.



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

9. COST RECOVERY TRADING ACCOUNT

Unqualified (with other matters)

Other matters

Matters of governance

Other matters of governance

- The financial statements submitted for auditing were subject to material amendments.

10. URBAN TRANSPORT FUND

Unqualified (with other matters)

Other matters

Matters of governance

- The audit committee did not fulfil its responsibilities as set out in section 77 of PFMA and Treasury Regulation 3.1.10.
- The internal auditor did not fulfil its responsibilities as set out in Treasury Regulation 3.2.
- Difficulties were experienced during the audit concerning the delays of expected information.
- Material corrections were made to the financial statements.

11. DINOKENG TRADING ENTITY

Unqualified (with no other matters)

12. MEDICAL SUPPLIES DEPOT

Unqualified (with no other matters)

13. CRADLE OF HUMAN KIND WORLD HERITAGE SITE TRADING ENTITY

Unqualified (with no other matters)



Accountability

Integrity

Independence

Impartiality