



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



Provincial general report of the Auditor-General

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

PUBLISHED BY AUTHORITY

PR 305/2008

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FOREWORD

It gives me great pleasure to present my 2007-08 General Report to the provincial legislature, summarising the results of the audit outcomes of the KwaZulu-Natal provincial 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 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 the results of other audits.

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

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

We trust that the analyses contained in this general report will help guide the legislature and the executive 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 it can be addressed immediately. The analyses further make specific reference to the areas where these internal control shortcomings were identified, including their level of prevalence.

The KwaZulu-Natal public sector, excluding local government, comprises 16 departments, 13 provincial public entities and nine provincial other entities.

Of the 16 provincial departments analysed:

- Three (19%) departments were financially qualified (qualified), namely Agriculture and Environmental Affairs; Works; and Social Welfare and Population Development.
- Twelve (75%) departments were financially unqualified but had concerns in areas of internal control, governance and legislative non-compliance, namely Arts, Culture and Tourism; Community Safety and Liaison; Economic Development; Health; Education; Local Government and Traditional Affairs; Office of the Premier; Provincial Legislature; Provincial Treasury; the Royal Household; Sport and Recreation and Transport.
- One (6%) department, namely Housing, was unqualified without any significant concerns on other matters.



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Of the 11 provincial public entities analysed:

- One (10%) entity, namely the KwaZulu-Natal Nature Conservation Board, received an adverse opinion.
- Four (35%) entities, namely Amafa Akwazulu-Natali; Ithala Development Finance Corporation Ltd and Group; Natal Sharks Board and uMsekeli Municipal Support Services, received a qualified audit opinion.
- The reports of five (45%) entities that received a financially unqualified opinion had other matters. These were Ithala Ltd; KwaZulu-Natal Gambling Board; KwaZulu-Natal Tourism Authority, Mjindi Farming (Pty) Ltd and the KwaZulu-Natal Provincial Planning and Development Commission.
- One (10%) entity, namely KZN Growth Fund Managers (Pty) Ltd, was unqualified without any significant concerns on other matters.

Of the eight provincial other entities analysed:

- One (12%) entity, namely Traditional Levies and Trust Account, received an adverse opinion.
- One (12%) entity, namely the KZN Housing Fund, received a qualified audit opinion.
- The reports of three (38%) entities that received a financially unqualified opinion had other matters. These were Dube Tradeport; KwaZulu-Natal Provincial Medical Supply Centre and Trade and Investment KZN.
- Three (38%) entities, namely Natal Joint Municipal Pension Fund (Provident); Natal Joint Municipal Pension Fund (Retirement) and Natal Joint Pension Fund (Superannuation) were unqualified without any significant concerns on other matters.

The findings leading to the financial qualifications and other matters are common to the KwaZulu-Natal departments and provincial entities. Most audit findings on all entities that were qualified were the result of issues relating to asset management. This affected three provincial departments, three public entities and two provincial other entities.

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

- Non-compliance with applicable legislation (44%), mainly in respect of the Public Finance Management Act.
- Internal controls, mainly in relation to material adjustments to the financial statements (88%) due to errors that were not initially detected by the departments' own internal controls.
- SCOPA resolutions not substantially implemented (31%).

Similarly, in addition to the financial qualifications, the majority of the provincial public entities and other entities had shortcomings in respect of:

- Internal controls, relating mainly to material adjustments to the financial statements (73%) during the audit due to errors that were not initially detected by the entities' own internal controls.

Managing and reporting on performance information for the departments and provincial entities have shown marked improvements, mainly due to guidance from 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 and involvement from provincial treasury.



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

Auditor-General

Auditor-General

Pretoria

November 2008



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SECTION 1: FOLLOW-UP ON PRIOR YEAR GENERAL REPORT

1. IMPLEMENTATION OF ACTION PLANS BY LEADERSHIP

Departments compiled action plans based on prior year audit reports and management reports. The KwaZulu-Natal Provincial Treasury has assisted departments as follows to improve their financial management practices:

- Developed and implemented a financial management improvement programme of support for all departments to help with preparations, pre-review and timely submission of the annual financial statements to the AG.
- Conducted readiness audits at departments on performance information.
- Approved a deviation from the National Treasury guidance on immovable assets, minor assets. In this regard Provincial Circular 1 of 2008 was issued to guide departments on the appropriate accounting treatment and disclosure requirements for the province.
- Issued guidance to allow departments to deviate from National Treasury's instruction to capitalise assets at invoice value from 1 April 2002. As a result, KwaZulu-Natal departments only capitalised assets at invoice value from 1 April 2004.
- Issued a standardised audit working paper file. This helped to enhance the quality of audit evidence submitted to the AG as well as facilitate a more effective and efficient consolidation process.
- Monitoring of the implementation of action plans drawn up by departments based on the audit reports and management letters.
- Monthly monitoring of key performance indicators for financial management and determining fixed targets to be reached.
- Reporting to the MEC: Finance on financial management of departments.
- Compilation of manuals for financial functions and the use of the financial systems, and provision of necessary training.
- Attendance of audit steering committee meetings.

Provincial treasury has instituted financial management interventions at the Department of Agriculture and Environmental Affairs. As a result, the department has engaged the services of financial consultants to assist it to ensure that the department minimises its audit qualifications and reduces the emphasis of matter issues on the 2007-08 audit report.

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

In terms of provincial legislation the KZN province has a centralised audit committee and internal audit function that operates from the provincial treasury. For the year under review the following successes have been reported:

- Internal audit completed most of their assignments per the audit plan. This was as a result of having an action plan to increase internal capacity as well as the use of consultants.
- Internal audit also embarked on a road show to address each department specifically in terms of their role.
- The audit committee was fully staffed, with adequate meetings taking place.



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- Both audit committee members and internal audit staff who were specifically allocated to departments were invited to the audit steering committee meetings that were held at the departments, and attended accordingly.

3. COORDINATION BETWEEN PORTFOLIO AND STANDING COMMITTEES

The *Legislature Standing Rules and Orders* makes a distinction between the powers and functions of the Public Accounts Committee (PAC) and any other committee. These rules also make clear provision for and give guidance on the PAC's relationship with other committees. Currently, members of the other portfolio committees are also members of the PAC.

4. TREASURY'S MONITORING TOOL/CHECKLIST

In response to the analysis of audit outcomes of the province for the year ended 2006-07, provincial treasury embarked on a strategy to address identified shortcomings and to promote sound financial management in the province to eliminate audit qualifications. The planned intervention strategy in implementing the Financial Management Improvement Programme entails a twofold approach:

- Short-term intervention strategy
 - The development and implementation of a plan, with immediate effect, for the following:
 - Preparation of annual financial statements
 - Management and clearance of suspense accounts
 - A revitalisation plan that will be presented to the AG for agreement on how the 2008-09 audit would be focused in terms of immovable asset management and supply chain management.
- Long-term intervention strategy

To assess financial capacity and capabilities in order to meet the rating level on 6 (optimising level) as determined by National Treasury.
- Project goals and objectives in the context of the five identified focus areas.
- Detailed status report on each of the focus areas:
 - Annual financial statements
 - Asset management
 - Supply chain management
 - Suspense account
 - Change management.
- The following goals and objectives guide the project:
 - To provide assistance to departments in the completion of annual financial statements for the 2007-08 financial year.
 - To provide skills transfer and assistance to departments to clear and manage suspense accounts.
 - To undertake a high level review and assessment of asset management implementation at all departments in respect of both immovable and movable assets and utilisation of Hard Cat.



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- To undertake a high level review of supply chain management implementation at all departments.
- To effect change management in all the focus areas under review through effective engagement, collaboration and communication, underpinned by training and skills transfer initiatives.

5. STRENGTHENING CAPACITY OF PROVINCIAL TREASURY

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

6. EVALUATION OF HUMAN RESOURCES STRATEGIC FRAMEWORK

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



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SECTION 2: PROVINCIAL DEPARTMENTS

1. FINANCIAL REPORTING RESULTS

1.1 Introduction

The KwaZulu-Natal provincial government comprises 16 departments all of which have been included in our analysis.

Audit reports in respect of the consolidated financial statements for the 2004-05 financial year for provincial departments and public entities were signed on 31 July 2008, having been received on 31 May 2007 and 29 February 2008, respectively.

The following are the main reasons for the delay in submission of the consolidated financial statements:

- Difficulties experienced in reconciling many of the balances to the department's annual financial statements and the provincial revenue fund
- Staff turnover and lack of staff allocated for this task at the provincial treasury severely hampered this process.

1.2 Overview of audit opinions

Table 1 below provides details of the actual audit outcomes for the KwaZulu-Natal 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%	1	6%
Qualified	3	19%	5	31%
Financially unqualified (with other matters)	12	75%	9	56%
Financially unqualified (with no other matters)	1	6%	1	6%
Total analysed	16	100%	16	100%

Significant improvement has been made in the KwaZulu-Natal province insofar as the financial qualifications of departments are concerned, with only three (19%) being qualified in 2007-08 versus six (37%) in 2006-07. The Department of Agriculture and Environmental Affairs which received a disclaimer in the previous year has now moved to a qualification, which is indicative of the guidance and support provided by the provincial treasury as well as actions by management of the department to resolve all audit qualifications.



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

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

Department	2007-08	2006-07	2005-06	2004-05	2003-04
Agriculture and Environmental Affairs	Qualified	Disclaimer	Disclaimer	Disclaimer	Financially unqualified (with other matters)
Arts, Culture and Tourism	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Qualified	Qualified	n/a
Community Safety & Liaison	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)
Economic Development	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)
Education	Financially unqualified (with other matters)	Qualified	Qualified	Qualified	Disclaimer
Health	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)
Housing	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Qualified	Qualified	Qualified
Local Government and Traditional Affairs	Financially unqualified (with other matters)	Qualified	Financially unqualified (with other matters)	Qualified	Financially unqualified (with other matters)
Office of Premier	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Qualified	Qualified	Financially unqualified (with other matters)
Provincial Legislature	Financially unqualified (with other matters)	Qualified	Qualified	Financially unqualified (with other matters)	Financially unqualified (with other matters)
Provincial Treasury	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Qualified	Financially unqualified (with other matters)	Financially unqualified (with other matters)
Social Welfare and Population Development	Qualified	Financially unqualified (with other matters)	Qualified	Disclaimer	Qualified
Sport and Recreation	Financially unqualified (with other matters)	Financially unqualified (with no other matters)	Qualified	Qualified	n/a
The Royal Household	Financially unqualified (with other matters)	Qualified	Financially unqualified (with other matters)	Qualified	Financially unqualified (with other matters)
Transport	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Qualified	Financially unqualified (with other matters)
Works	Qualified	Qualified	Financially unqualified (with other matters)	Qualified	Qualified



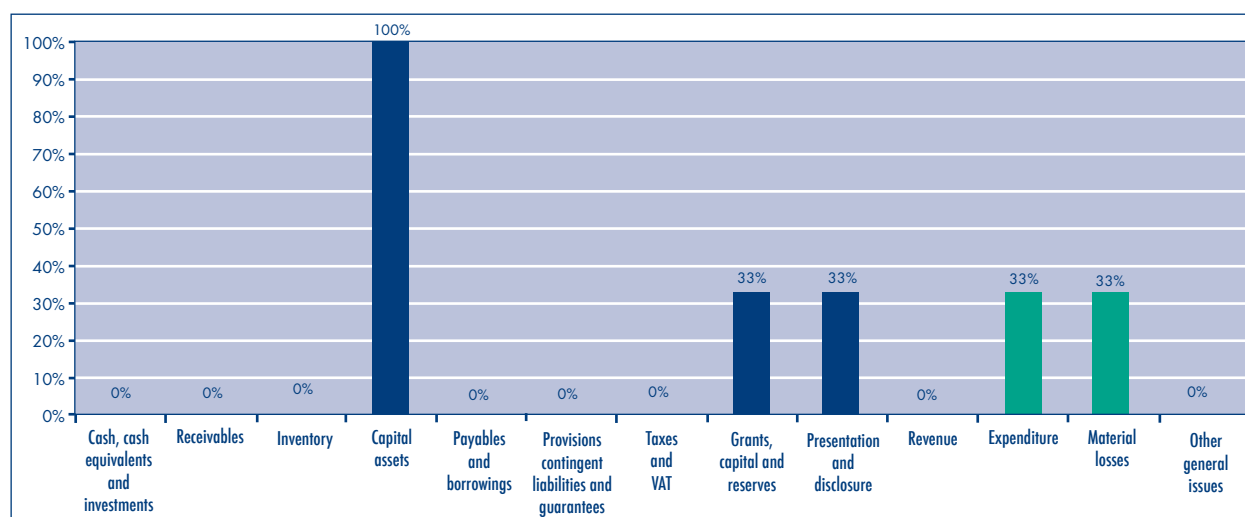
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There has been a distinct overall improvement in the audit opinions issued for the departments. There were no adverse and disclaimer audit opinions for the 2007-08 financial year, compared to the one disclaimed opinion in the previous year. Three qualified audit opinions (five in 2006-07) were issued.

1.3 Qualification details

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

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



Overall conclusion

With the exception of the Departments of Social Welfare and Population Development and Works, both being qualified only in respect of capital assets, the Department of Agriculture and Environmental Affairs was also qualified in respect of the other balance sheet and income statement audit findings indicated.

The root causes for the Departments of Social Welfare and Population Development and Works, being qualified in respect of capital assets, were as a result of deficiencies in their asset management systems.

The Department of Agriculture and Environmental Affairs has shown remarkable improvement after receiving a disclaimer in the previous year. Cognisance should be taken of the fact that the department had resolved a number of issues relating to the prior year and had improved in terms of making supporting documentation available, a matter which had contributed largely to the disclaimer in the prior year.

The following salient matters gave rise to the qualified opinion for the current year:

- Lack of a proper asset management system which resulted in the completeness, existence and valuation



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- of movable assets being unconfirmed.
- Material inconsistencies in the valuation of biological assets, and a physical count of this stock revealed a material shortage of livestock.
- Expenditure was incorrectly classified in the financial statements. Reasonable assurance could not be obtained as to whether expenditure had been properly classified according to the correct accounts.
- Deductions should have been made in respect of “no work no pay” from officials who participated in the national public service strike. These deductions were not made, resulting in an understatement of receivables and an overpayment on salaries.
- Prior year irregular expenditure not condoned as per the accounting requirements; supporting evidence for disclosure of irregular expenditure could not be provided and not all irregular expenditure for the current year was disclosed. Details of the disciplinary actions or steps taken were also not disclosed.
- Material differences were noted in the calculation of the leave provision.
- No supporting documentation for unutilised local and foreign aid assistance.
- Due to the disclaimer of opinion in the prior year, affected comparatives for property, plant and equipment and biological assets and opening balances could be misstated.

1.4 Audit findings in respect to other matters

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

The number of departments with findings on other matters increased from eight in 2006-07 to 12 in the financial year under review (see table 1). Continued difficulties are experienced by departments, specifically in complying with legislative requirements, and in terms of financial statements received for audit that are subject to material amendments resulting from the audit.

Material non-compliance with relevant legislation

Most instances of material non-compliance with applicable legislation related to non-compliance with the PFMA and Treasury Regulations in the case of seven (44%) of the departments. With regard to non-compliance with other enabling legislation, only the Department of Works had a reported finding in terms of non-compliance with the Environmental Conservation Act.

Matters of governance

Thirty-one per cent of provincial departments had concerns raised on matters of governance.

The existence of good risk management and internal control practices, which include corporate governance structures such as audit committees as well as internal audit functions, contributed greatly to the achievement of unqualified audit opinions. Internal audit and audit committees are essential elements in the management review process as they contribute to the design and maintenance of sound internal controls. The centralised audit committee and internal audit were in place throughout the current financial year and operated in accordance with approved written terms of reference. Internal audit was 94% successful in substantially fulfilling its responsibilities this year, with the exception of the Royal Household where only one of the nine planned internal audits was completed (six were withdrawn and two were rolled over).



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The majority of the prior year's external audit recommendations have been substantially implemented. Minimal significant difficulties were experienced during the audit concerning delays in providing or the unavailability of expected information and/or the unavailability of senior management. This is reflected in the percentages for achievement against the good practice indicators as noted in table 3 of this report.

The majority of annual financial statements submitted for audit were subject to material amendments resulting from the audit. The detail of these adjustments is included in the management reports. Only the Departments of Housing and Social Welfare and Population Development did not have material adjustments to their financial statements.

While there has been improvement in the quality of annual financial statements, the next few years will pose even 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 annual 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; and
- work closely with the national and provincial treasury to improve financial management and controls in order to produce quality annual financial statements that comply with the relevant accounting standards.

2. PERFORMANCE REPORTING RESULTS

2.1 Introduction

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

2.2 Results of the audit of performance information

During the financial year under review, the National Treasury introduced the *Framework for Managing Programme Performance Information* and further guidance was provided by the provincial treasury to improve the process of managing and reporting on performance information. This has contributed to the improvement in the management of and reporting on performance information in that 56% of the departments had no findings in this regard.

As the future reporting responsibilities in this area will 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.



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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 by the AG at two of the 16 provincial departments and the following key findings were identified:

Audit finding	% Departments with finding
User account management standards and procedures	
Incomplete user account management procedures	50%
Access request authorisation	
Access request forms not consistently completed	50%
Application security	
Lack of segregation of duties	50%
Excessive access rights assigned to users	0%
Inactive accounts not timeously deactivated	50%
User access levels not periodically reviewed	50%
User identifications not uniquely assigned	50%

4. ISSUES DRIVING AUDIT RESULTS

4.1 Introduction

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

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



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4.2 Achievement against good practice indicators

Table 3 below presents the results of the KwaZulu-Natal departments achieving the above-mentioned good practice indicators.

Table 3: Results of good practice indicators for KwaZulu-Natal provincial departments (16) for 2007-08

No.	Good practices	Percentage of total departments achieving good practice indicator ¹
1	Clear trail of supporting documentation that is easily available and provided timeously	88%
2	Quality of financial statements and management information	75%
3	Timeliness of financial statements and management information	100%
4	Availability of key officials during audits	100%
5	Development and compliance with risk management and good internal control and governance practices	81%
6	Leadership / supervision / monitoring	88%

- **Clear trail of supporting documentation**

The audit is very specific in terms of issuing requests for information with the applicable expectation dates for the required information, as well as having a cut-off date of 30 June 2008 for receipt of all supporting documentation before proceeding to the conclusion and reporting phase of the audit. These dates have been included in the engagement letter and were also discussed at audit steering committee meetings.

- **Quality annual financial statements**

As indicated in table 3 above, this good practice has the lowest percentage and can be linked to matters of governance, indicating that the majority of financials submitted for audit were subject to material amendments resulting from the audit.

¹ This would serve as a baseline to monitor future improvement



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- **Timeliness of annual financial statements**

While the quality of financial statements is important, as mentioned before, the timely submission of financial statements for auditing is equally important. Good planning for the financial statement preparation and provincial treasury support 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 timeously. This went a long way towards avoiding qualifications, because key senior officials received earlier notice of audit findings and could take corrective action thereon before the final conclusions that lead to an audit opinion.

Officials are making themselves available as there is a greater understanding and acceptance of the audit process thanks to the AG Roadshow as well as the fact that national and provincial treasury have stressed the importance of their availability and the direct impact it has on the audit report on issues raised.

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

The majority of departments (81%) continue to apply effective risk management and internal control practices. Fraud prevention plans and risk management strategies were in place or were regularly updated and monitored at the majority of departments.

- **Leadership, supervision and monitoring**

Leadership sets a proper "tone at the top" to create a sound control environment. The leadership must ensure that competent and skilled staff are employed, particularly in the finance and accounting division. Effective leadership and oversight are needed to monitor the performance of management, especially insofar as financial management is concerned.

The practice of supervision and monitoring, especially insofar as financial management is concerned, was evident at 88% of the departments.

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 Standing Committee on Public Accounts (SCOPA) resolutions included in the accounting officer's report. The table below indicates 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

No.	Department	No. of resolutions	Resolutions not yet implemented
1	Agriculture and Environmental Affairs	5	5
2	Arts, Culture and Tourism	0	0
3	Community Safety and Liaison	0	0
4	Economic Development	1	0
5	Education	22	2
6	Health	0	0
7	Housing	8	0
8	Legislature	0	0
9	Local Government and Traditional Affairs	4	0
10	Office of the Premier	0	0
11	Provincial Treasury	0	0
12	Royal Household	2	2
13	Social Welfare and Population Development	3	0
14	Sport and Recreation	0	0
15	Transport	0	0
16	Works	15	12

The Department of Agriculture and Environmental Affairs' resolutions are not being implemented as a result of the following:

- Ongoing problems in the administrative function
- Two suspended HoD's within less than two financial years.
- Three persons filling the position of chief financial officer during the last two financial years.
- The department faced difficulty in finding missing documentation, which resulted in the disclaimer of audit opinion in the previous financial year.
- Ongoing fraud investigations pending action.

The Department of Works' resolutions are not being implemented because of the following:

- The majority of the queries are ongoing from prior years. These queries are continuously followed up and are carried forward as unresolved. These relate mostly to historical issues emanating from the era when Ulundi was functioning as a dual capital city.
- Ongoing fraud investigations pending action.



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6. TABLING OF ANNUAL REPORT

6.1 Introduction

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

6.2 Annual reports tabled

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

7. SUMMARY OF OTHER AUDITS

7.1 Performance auditing

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

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

- auditing of **economy** in relation to the acquisition of resources in the right quantity, of the right quality, at the right time and place at the lowest possible cost;



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

7.2 Results of performance auditing

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

Department	Report issued	Date of report	WIP as at 31 July 2008	Expected date of tabling for WIP
Department of Education: Investment in Infrastructure	No	In process	Yes	September 2009
Department of Health and Social Welfare: Investment in Infrastructure	No	In process	Yes	September 2009
KZN: Entities that are connected with government employees and doing business with departments	No	In process	Yes	November 2008

7.3 Investigations

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

An investigation may be performed where the AG:

- considers it to be in the public interest,
- receives a complaint relating to such institution or its affairs, or
- receives a request relating to such institution or its affairs, and
- deems it appropriate. This will result in a report (as contemplated in section 20 of the PAA) or a special report (as contemplated in section 29 of the PAA).

7.4 Results of investigations

No investigations were performed by the AG for departments within the province for the financial year under review.



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SECTION 3: PROVINCIAL PUBLIC ENTITIES

1. FINANCIAL REPORTING RESULTS

1.1 Introduction

The KwaZulu-Natal provincial government comprises 13 provincial public entities, two of which have not been included in our analysis due to outstanding annual financial statements for the 2007-08 financial year. In this regard the KwaZulu-Natal Taxi Council and the KZN Development Trust have defaulted.

1.2 Overview of audit opinions

Table 4 below provides details as to the actual audit outcomes for the KwaZulu-Natal provincial public entities.

Table 4: Audit opinions on provincial public entities

Type of audit opinion	2007-08		2006-07	
	Number	%	Number	%
Adverse	1	10%	1	10%
Disclaimer	0	0%	1	10%
Qualified	4	35%	4	35%
Financially unqualified (with other matters)	5	45%	5	45%
Financially unqualified (with no other matters)	1	10%	0	0%
Total analysed	11	100%	11	100%

While an improvement has been shown in that six (55%) provincial public entities were financially unqualified (with or without other matters) in 2007-08 versus five (45%) in 2006-07, the KwaZulu-Natal Nature Conservation Board retained its adverse audit opinion status as a result of repetitive audit findings.

Umsekeli Municipal Support Services improved on its opinion from a disclaimer in the prior year to a qualification in the current financial year.

Table 5 below provides details as to the actual audit outcomes for the KwaZulu-Natal provincial public entities for the past three years.



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

Table 5: Audit opinions on provincial public entities for the past three years

Provincial entity	2007-08	2006-07	2005-06
Amafa Akwazulu-Natali	Qualification	Qualification	Qualification
Ithala Development Finance Corporation Ltd and Group	Qualification	Qualification	Qualification
Ithala Ltd	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)
KwaZulu-Natal Gambling Board	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)
KwaZulu-Natal Nature Conservation Board	Adverse	Adverse	Qualification
KwaZulu-Natal Taxi Council	No AFS received	Qualification	Qualification
KwaZulu-Natal Tourism Authority	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)
KZN Development Trust	No AFS received	Financially unqualified (with other matters)	Financially unqualified (with other matters)
Mjindi Farming (Pty) Ltd	Financially unqualified (with other matters)	Qualification	Qualification
Provincial Planning and Development Commission	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)
The KZN Growth Fund Managers (Pty) Ltd	Financially unqualified (with no other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)
The Natal Sharks Board	Qualification	Qualification	Financially unqualified (with other matters)
uMsekeli Municipal Support Services	Qualification	Disclaimer	Adverse

Six of the 11 public entities received a financially unqualified report, of which two had improved. One had no other matters while the other moved positively from a qualification to unqualified with other matters in relation to the previous year. One entity maintained an adverse opinion as a result of repetitive issues from the prior period. The remaining four entities have qualifications, three of which retained a qualification as for the prior period. One improved from receiving a disclaimer in the previous year to a qualification in the current year.

1.3 Qualification details

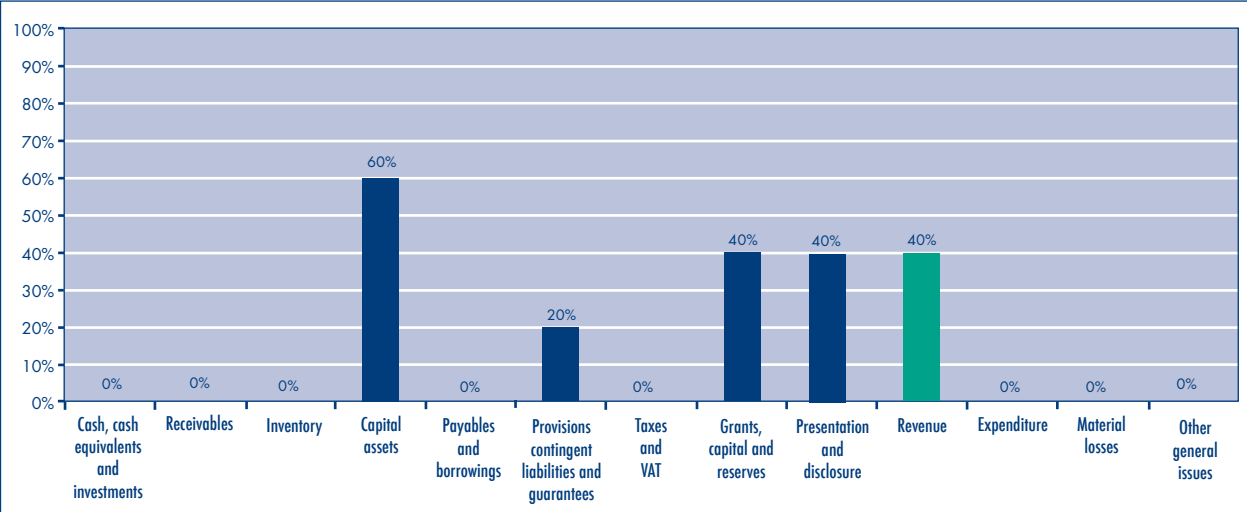
Figure 2 below provides a breakdown of all the audit findings which gave rise to the qualified audit opinions. It also provides an indication of the percentage of provincial public entities that were qualified per audit



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finding. The audit findings are split between items on the balance sheet (statement of financial position) highlighted in blue bars, and the income statement (statement of financial performance) highlighted in green bars.

Figure 2: Provincial public entities (five) that were qualified per audit finding



Overall conclusion

The main reasons for the five provincial public entities being qualified were as follows:

Capital assets

- Lack of a proper asset management system and non-compliance with IAS 16 with regard to useful lives, residual values, depreciation, impairment and componentisation.
- Non-compliance with IAS 41 whereby certain flora and fauna disclosed were not measured and recognised as biological assets.
- Non-compliance with IAS 36 as certain investment property was not impaired accordingly.

Provisions

- Non-compliance with IAS 19: Employee benefits in that the post-retirement obligation relating to medical aid contributions and pension benefits has not been recognised.
- Lack of supporting evidence for retirement obligation and superannuation fund.

Capital, reserves and grants

- Non-compliance with IAS 20 whereby government grants should be recognised as income over the periods necessary to match them with the related costs which they are intended to compensate, on a systematic basis.



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Presentation and disclosure

- Corresponding figures were misstated due to previous year's adverse opinion.

Revenue

- Recognition of revenue although the assets generating the revenue had been transferred to another entity.
- Completeness of revenue from admissions.
- Completeness of revenue from donations and gate takings.

The KwaZulu-Natal Nature Conservation Board's inability to improve on its asset management system and its inadequate policies and procedures to ensure GAAP-compliant financial disclosures, are the main factors contributing to the adverse opinion.

Inadequate policies and procedures to ensure GAAP-compliant financial disclosures were also the main reason for the qualified opinions for Amafa Akwazulu-Natali, the Natal Sharks Board and uMsekeli Municipal Support Services, while the Ithala Development Finance Corporation Ltd was qualified for departing from GAAP by not accounting for the impairment of assets.

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

Most instances of material non-compliance with applicable legislation by two provincial public entities related to non-compliance with the PFMA and Treasury Regulations. In terms of non-compliance with other enabling legislation, two provincial public entities, namely Ithala Development Finance Corporation Ltd and Group and Ithala Ltd, reported such non-compliance.

Matters of governance

The audit committee and internal audit function, respectively, were in place at 82% and 76% of provincial public entities and operated in accordance with approved written terms of reference. They have been successful in terms of substantially fulfilling their responsibilities this year by the same percentage. The exceptions were Mjindi Farming and Umsekeli Municipal Support Services, which did not have an audit committee and internal audit function, and Amafa Akwazulu-Natali which did not have an internal audit function.

Moderate difficulties were experienced during the audit concerning delays in providing or the unavailability of expected information and/or the unavailability of senior management.

The majority of the prior year's external audit recommendations have been substantially implemented.



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Material misstatements

The majority of the annual financial statements submitted for audit by the provincial public entities were subject to material amendments resulting from the audit. The detail of these adjustments is included in the management reports. Mjindi Farming and the KZN Growth Fund, however, had no adjustments to their annual financial statements.

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

The *Framework for Managing Programme Performance Information* introduced by National Treasury has resulted in provincial public entities improving the process of managing and reporting on performance information.

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

3. INFORMATION SYSTEMS AUDIT

3.1 Introduction

No information systems audits were performed at the KwaZulu-Natal provincial public entities for the 2007-08 financial year.

4. ISSUES DRIVING AUDIT RESULTS

4.1 Introduction

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

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



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

4.2 Achievement against good practice indicators

Table 6 below presents the results of the KwaZulu-Natal provincial public entities achieving the above-mentioned good practice indicators.

Table 6: Results of good practice indicators for KwaZulu-Natal provincial public entities for 2007-08

No.	Good practices	Percentage of total public entities achieving good practice indicator ²
1	Clear trail of supporting documentation that is easily available and provided timeously	82%
2	Quality of financial statements and management information	82%
3	Timeliness of financial statements and management information	91%
4	Availability of key officials during audits	82%
5	Development of and compliance with risk management and good internal control and governance practices	73%
6	Leadership / supervision / monitoring	64%

- **Clear trail of supporting documentation**

The audit is very specific in terms of issuing requests for information as well as the applicable expectation dates for the required information, with the cut-off date of 30 June 2008 for receipt of all supporting documentation before proceeding to the conclusion and reporting phase of audit. These dates are included in the engagement letter as well as discussed at audit steering committee meetings. This has also resulted in the auditor and auditee working very closely together to achieve deadlines as well as giving the client sufficient time to resolve queries that result in qualifications.

- **Quality annual financial statements**

The financial statements submitted for auditing must be of a high quality. Compliance with accounting standards is also a challenge for some provincial public entities.

² This would serve as a baseline to monitor future improvement



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- **Timeliness of annual financial statements**

All provincial public entities have submitted their annual financial statements on time except for two, i.e. KZN Taxi Council, which is in the process of being deregistered, and the KZN Development Trust which submitted on 1 August 2008 because the trust is dormant and the accounting function was outsourced to a firm that failed to meet the timelines.

- **Availability of key officials**

Officials are making themselves available as there is greater understanding and acceptance of the audit process thanks to the AG Road shows as well as the fact that national and provincial treasury have stressed the importance of their availability and the direct impact thereof on the audit report issues being raised.

- **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 provincial public entities. Contrary to legislative requirements, fraud prevention plans and risk management strategies either did not exist or were not regularly updated and monitored at the majority of public entities.

- **Leadership, supervision and monitoring**

Adequate supervision and monitoring were evident at 64% of the provincial public entities. 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.

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 Standing Committee on Public Accounts (SCOPA) resolutions included in the accounting officer's report. The table below indicates 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

Public entity	No. of resolutions	Resolutions not yet implemented
Amafa Akwazulu-Natali	0	0
Ithala Development Finance Corporation Limited and Group	3	0
Ithala Limited	0	0
KwaZulu-Natal Gambling Board	0	0
KwaZulu-Natal Nature Conservation Board	0	0
KwaZulu-Natal Tourism Authority	0	0
Mjindi Farming (Pty) Ltd	0	0
Provincial Planning and Development Commission	0	0
The KZN Growth Fund Managers (Pty) Ltd	0	0
The Natal Sharks Board	0	0
uMsekeli Municipal Support Services	1	0

The provincial public entities are very reactive to SCOPA resolutions.

6. TABLING OF ANNUAL REPORTS

6.1 Introduction

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

6.2 Summary of annual reports tabled

No.	Public entity	Tabled (Y/N)
1	Amafa Akwazulu-Natali	Y
2	Ithala Development Finance Corporation Ltd and Group	Y
3	Ithala Ltd	Y
4	KwaZulu-Natal Gambling Board	Y
5	KwaZulu-Natal Nature Conservation Board	Y
6	KwaZulu-Natal Tourism Authority	Y
7	Mjindi Farming (Pty) Ltd	Y
8	Provincial Planning and Development Commission	Y
9	The KZN Growth Fund Managers (Pty) Ltd	Y
10	The Natal Sharks Board	Y
11	uMsekeli Municipal Support Services	Y



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

7. SUMMARY OF OTHER AUDITS

7.1 Performance auditing

No performance audits were performed at the KwaZulu-Natal provincial public entities for the financial year 2007-08.

7.2 Investigations

No investigations were performed by the AG for provincial public entities within the KwaZulu-Natal province.



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

SECTION 4: PROVINCIAL OTHER ENTITIES

1. FINANCIAL REPORTING RESULTS

1.1 Introduction

The KwaZulu-Natal provincial government comprises nine other entities, one of which had been not been included in our analysis as its annual financial statements had not yet been received for auditing. This refers to KZN Business Rehabilitation Trust Fund.

1.2 Overview of audit opinions

Table 7 below provides details as to the actual audit outcomes for the eight KwaZulu-Natal provincial other entities analysed.

Table 7: Audit opinions on provincial other entities

Type of audit opinion	2007-08		2006-07	
	Number	%	Number	%
Adverse	1	12%	1	12%
Disclaimer	0	0%	0	0%
Qualified	1	12%	2	25%
Financially unqualified (with other matters)	3	38%	2	25%
Financially unqualified (with no other matters)	3	38%	3	38%
Total analysed	8	100%	8	100%

There had been an improvement in that six (75%) provincial other entities are financially unqualified (with or without other matters) in 2007-08 versus five (63%) in 2006-07. The Traditional Levies and Trust Account received an adverse audit opinion as a result of repetitive audit findings. Trade and Investment KZN moved from a qualification to an unqualified report with other matters.

Table 8 below provides details as to the actual audit outcomes for the KwaZulu-Natal provincial other entities for the past three years.



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

Table 8: Audit opinions on provincial other entities for the past three years

Public entity	2007-08	2006-07	2005-06
Dube Tradeport	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)
KZN Business Rehabilitation Trust Fund	No AFS received	No AFS received	Qualification
KZN Housing Fund	Qualification	Qualification	Qualification
Traditional Levies and Trust Account	Adverse	Adverse	Qualification
Provincial Medical Supply Centre	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)
Trade and Investment KZN	Financially unqualified (with other matters)	Qualification	Unqualified
Natal Joint Municipal Pension Fund (Provident)	Financially unqualified (with no other matters)	Financially unqualified (with no other matters)	Financially unqualified (with no other matters)
(Natal Joint Municipal Pension Fund (Retirement))	Financially unqualified (with no other matters)	Financially unqualified (with no other matters)	Financially unqualified (with no other matters)
Natal Joint Municipal Pension Fund (Superannuation)	Financially unqualified (with no other matters)	Financially unqualified (with no other matters)	Financially unqualified (with no other matters)

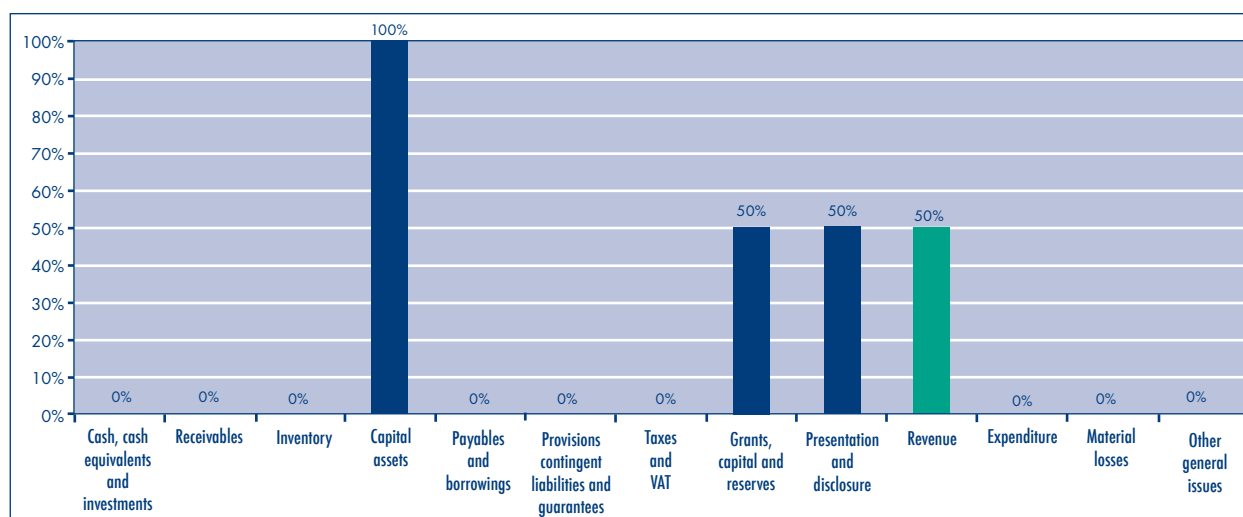
In conclusion the position of provincial other entities has remained mostly unchanged for the past two years. However, Trade and Industry KZN moved from a qualification due to lack of supporting evidence for material amounts in the previous year, to a financially unqualified opinion for the current year with only reported other matters, namely amendments to the annual financial statements as a result of the audit.

1.3 Qualification details

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



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Figure 3: Provincial other entities (two) that were qualified per audit finding

Overall conclusion

The KZN Housing Fund was qualified due to lack of a proper asset management system.

Traditional Levies and Trust Account received an adverse opinion due to lack of proper policies and procedures to ensure GAAP-compliant financial disclosures. The following pertinent items were included in the basis for the adverse opinion:

Capital assets

- Lack of a proper asset management system and non-compliance with IAS 16 with regard to useful lives, residual values, depreciation, impairment and componentisation.

Capital, reserves and grants

- Non-compliance with IAS 20 whereby government grants should be recognised as income over the periods necessary to match them with the related costs that they are intended to compensate, on a systematic basis.

Presentation and disclosure

- Corresponding figures were misstated due to the previous year's adverse opinion
- Non-compliance with IAS 1: Presentation of financial statements.
- Non-compliance with IFRS 7: Financial instruments: Disclosures.
- Suspense accounts not reconciled.

Revenue

- Projects undertaken by the Ingonyama Trust Board were not capitalised.



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- Revenue and Ingonyama Trust Board balance were understated by a material amount.
- Completeness of revenue from tribal authorities.

1.4 Audit findings in respect of provincial other matters

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

Matters of governance

The audit committee and internal audit function were in place at 50% of provincial other entities and operated in accordance with approved written terms of reference.

Moderate significant difficulties were experienced during the audit concerning delays in providing or the unavailability of expected information and/or the unavailability of senior management.

The majority of the prior year's external audit recommendations have been substantially implemented.

Material misstatements

The majority of the financial statements of provincial other entities submitted for audit were subject to material amendments resulting from the audit. The detail of these adjustments is included in the management reports.

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 the 2007-08 financial year, 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

In general there has been improvement in this area of auditing due to provincial treasury's involvement in readiness audits at the provincial public entities. This was further supplemented by the guidance received from National Treasury in terms of a *Framework for Managing Programme Performance Information* that was issued in May 2007.

3. INFORMATION SYSTEMS AUDIT

No information systems audits were performed at the KwaZulu-Natal provincial other entities for the 2007-08 financial year.

4. ISSUES DRIVING AUDIT RESULTS

4.1 Introduction

The following benchmark information can be considered as the basic good practice indicators which are



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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 9 below presents the results of the KwaZulu-Natal provincial other entities achieving the good practice indicators mentioned above.

Table 9: Results of good practice indicators for KwaZulu-Natal provincial other entities for 2007-08

No.	Good practices	Percentage of total public entities achieving good practice indicator ³
1	Clear trail of supporting documentation that is easily available and provided timeously	63%
2	Quality of financial statements and management information	25%
3	Timeliness of financial statements and management information	63%
4	Availability of key officials during audits	100%
5	Development of and compliance with risk management and good internal control and governance practices	88%
6	Leadership / supervision / monitoring	88%

• Clear trail of supporting documentation

Provincial other entities have to do more to ensure that sufficient appropriate documentation is made available in time to support the transactions and balances in the annual financial statements.

³ This would serve as a baseline to monitor future improvement



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- **Quality annual financial statements**

The lowest percentage (25%) of other entities achieved this good practice, which can be linked to material adjustments to most (five of eight) of the annual financial statements resulting from the audit. Compliance with accounting standards is also a major contributing factor which poses serious challenges to the provincial other entities.

- **Timeliness of annual financial statements**

The low percentage (63%) in respect of this good practice can be linked to the three pension funds that technically failed to meet the two-month timeline as set by the AG's circular. However, it should be noted that their enabling legislation require them to submit their financial within six months after year-end.

- **Availability of key officials**

Officials are making themselves available as there is greater understanding and acceptance of the audit process thanks to the AG Roadshow as well as the fact that national and provincial treasury has stressed the importance of their availability and the direct impact thereof on the audit report issues raised.

- **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 the provincial other entities. Contrary to legislative requirements, fraud prevention plans and risk management strategies either did not exist or were not regularly updated and monitored at all entities except for the Traditional Levies and Trust Account.

- **Leadership, supervision and monitoring**

Supervision and monitoring were adequate at 88% of the provincial other entities. The right leadership tone necessary to establish a strong control environment and ensure compliance was present in all other entities except for the Traditional Levies and Trust Account.

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 Standing Committee on Public Accounts (SCOPA) resolutions included in the accounting officer's report. The table below indicates 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

Public entity	No. of resolutions	Resolutions not yet implemented
Traditional Levies and Trust Account	3	0

6. TABLING OF ANNUAL REPORTS

6.1 Introduction

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

6.2 Annual reports tabled

No.	Public entity	Tabled (Y/N)
1	Dube Tradeport	Y
2	KZN Business Rehabilitation Trust Fund	N
3	KZN Housing Fund	Y
4	Traditional Levies and Trust Account	Y
5	Provincial Medical Supply Centre	Y
6	Trade and Investment KZN	Y
7	Natal Joint Municipal Pension Fund (Provident)	Y
8	Natal Joint Municipal Pension Fund (Retirement)	Y
9	Natal Joint Municipal Pension Fund (Superannuation)	Y

7. SUMMARY OF OTHER AUDITS

7.1 Performance auditing

No performance audits were performed on provincial other entities at the date of this report.

7.2 Investigations

No investigations were performed by the AG at provincial other entities within the KwaZulu-Natal province during the 2007-08 financial year.



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

SECTION 5: CONCLUSION

The KwaZulu-Natal 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 treasury, to turn the situation around.

There was an improvement in that two fewer departments received a qualified audit opinion, with no adverse and disclaimers of opinion. This was the result of good practices already evident in most departments, which need to be maintained and further improved on. Departments should focus on addressing shortcomings around capital assets, grants, capital and reserves, presentation and disclosure, as well as expenditure and material losses.

Senior management should ensure efficient monitoring and supervision to address areas of non-compliance with legislation. Internal audit is a crucial function in assisting management to establish a sound internal control environment and to perform ongoing evaluation and monitoring of management's compliance with pre-defined controls and progress in implementing the action plans.

Certain provincial public entities and other entities need to take drastic steps in improving their financial administration to avoid adverse and qualified opinions. The immediate focus should be on addressing all shortcomings around capital assets, provisions, contingent liabilities and guarantees, grants capital and reserves, presentation and disclosure and revenue. The repetitive audit findings on non-compliance with legislation and the quality of financial statements are cause for concern. To this end, there is a challenge for senior management to become more directly and continuously involved in ensuring efficient monitoring and ongoing supervision to address these areas.

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

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



AUDITOR - G E N E R A L

ANNEXURE 1: KWAZULU-NATAL AUDIT OUTCOMES

Classification	Department	Portfolio	Audit opinion 2007/08	Audit opinion 2006/07	Cash, cash equivalent and investments	Receivables	Inventory	Capital assets	Payables and borrowings	Provisions, 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	Agriculture and Environmental Affairs	KZN	Qualification	Disclaimer				1				1	1		1				1	1	1	1	1	1	1	1
PD	Social Welfare and Population Development	KZN	Qualification	Financially unqualified (with other matters)				1										1				1	1	1	1	1
PD	Works	KZN	Qualification	Financially unqualified (with other matters)				1										1				1	1	1	1	1
PD	Arts, Culture and Tourism	KZN	Financially unqualified (with other matters)	Financially unqualified (with other matters)																		1	1	1	1	1
PD	Community Safety and Liaison	KZN	Financially unqualified (with other matters)	Financially unqualified (with other matters)														1				1	1	1	1	1
PD	Economic Development	KZN	Financially unqualified (with other matters)	Financially unqualified (with other matters)																		1	1	1	1	1
PD	Education	KZN	Financially unqualified (with other matters)	Financially unqualified (with other matters)																		1	1	1	1	1
PD	Health	KZN	Financially unqualified (with other matters)	Financially unqualified (with other matters)																		1	1	1	1	1
PD	Local Government and Traditional Affairs	KZN	Financially unqualified (with other matters)	Financially unqualified (with other matters)																		1	1	1	1	1
PD	Office of the Premier	KZN	Financially unqualified (with other matters)	Financially unqualified (with other matters)																		1	1	1	1	1
PD	Provincial Legislature	KZN	Financially unqualified (with other matters)	Financially unqualified (with other matters)																		1	1	1	1	1
PD	Provincial Treasury	KZN	Financially unqualified (with other matters)	Financially unqualified (with other matters)																		1	1	1	1	1
PD	Sport and Recreation	KZN	Financially unqualified (with other matters)	Financially unqualified (with other matters)																		1	1	1	1	1
PD	The Royal Household	KZN	Financially unqualified (with other matters)	Financially unqualified (with other matters)																		1	1	1	1	1
PD	Transport	KZN	Financially unqualified (with other matters)	Financially unqualified (with other matters)																		1	1	1	1	1
PD	Housing	KZN	Financially unqualified (with no other matters)	Financially unqualified (with other matters)																		1	1	1	1	1
PE	KwaZulu-Natal Nature Conservation Board	KZN	Adverse	Adverse				1				1	1	1								1	1	1	1	1
PE	Amata Akwazulu-Natali Corporation Ltd	KZN	Qualification	Qualification				1														1	1	1	1	1
PE	Itala Development Finance Corporation Ltd	KZN	Qualification	Qualification				1														1	1	1	1	1
PE	Natal Sharks Board	KZN	Qualification	Qualification									1									1	1	1	1	1
PE	uMsekezi Municipal Support Services	KZN	Qualification	Disclaimer						1												1	1	1	1	1
PE	Itala Limited	KZN	Financially unqualified (with other matters)	Financially unqualified (with other matters)																		1	1	1	1	1
PE	KwaZulu-Natal Gambling Board	KZN	Financially unqualified (with other matters)	Financially unqualified (with other matters)																		1	1	1	1	1
PE	Provincial Planning and Development Commission	KZN	Financially unqualified (with other matters)	Financially unqualified (with other matters)																		1	1	1	1	1
PE	KwaZulu-Natal Tourism Authority	KZN	Financially unqualified (with other matters)	Financially unqualified (with other matters)																		1	1	1	1	1
PE	Mjindi Farming (Pty) Ltd	KZN	Financially unqualified (with other matters)	Financially unqualified (with other matters)																		1	1	1	1	1
PE	KwaZulu-Natal Growth Fund Managers	KZN	Financially unqualified (with no other matters)	Financially unqualified (with other matters)																		1	1	1	1	1



AUDITOR - GENERAL

ANNEXURE 1: KWAZULU-NATAL AUDIT OUTCOMES (continued)

Classification	Department	Portfolio	Audit opinion 2007-08	Audit opinion 2006-07	Cash, cash equivalent and investments	Receivables	Inventory	Capital assets	Payables and borrowings	Provisions, contingent liabilities and guarantees	Taxes and VAT	Grants, capital and reserves	Presentation and disclosure	Revenue	Expenditure	Material losses	Other general issues	Non-compliance	Governance findings	Material misstatements	Clear trail of supporting documentation that is easily available and provided in time	Timeliness of financial statements and management information	Availability of key officials during audits	Development of, and compliance with, risk management and good internal control and governance practices	Leadership / supervision / monitoring
PE	Kwazulu-Natal Development Trust	KZN	Audit outstanding	Financially unqualified (with other matters)																					
PE	Kwazulu-Natal Taxi Council	KZN	Audit outstanding	Qualification																					
OE - UPE	Traditional Leases and Trust Account	KZN	Adverse	Adverse			1					1	1	1					1	1			1		
OE - F	KZN Housing Fund	KZN	Qualification	Qualification			1												1	1			1		
OE - UPE	Dube Tradeport	KZN	Financially unqualified (with other matters)	Financially unqualified (with other matters)															1	1			1		
OE - TE	The Provincial Medical Supply Centre	KZN	Financially unqualified (with other matters)	Financially unqualified (with other matters)															1	1			1		
OE - UPE	Trade and Investment KZN	KZN	Financially unqualified (with other matters)	Financially unqualified (with other matters)															1	1			1		
OE - F	Natal Joint Municipal Pension Fund (Provident)	KZN	Financially unqualified (with no other matters)	Financially unqualified (with no other matters)																			1		
OE - F	Natal Joint Municipal Pension Fund (Retirement)	KZN	Financially unqualified (with no other matters)	Financially unqualified (with no other matters)																			1		
OE - F	Natal Joint Municipal Pension Fund (Superannuation)	KZN	Financially unqualified (with no other matters)	Financially unqualified (with no other matters)																			1		
OE - TE	KZN Business Rehabilitation Trust Fund	KZN	Audit outstanding	Audit outstanding																					

ABBREVIATIONS

PD - Provincial department
PE - Provincial public entity
OE - UPE - Unrelated public entity
OE - F - Fund
OE - TE - Trading entity
OE - TF - Trust fund

SUMMARY

Totals

Departments existing	16
Departments analysed	16
Departments qualified	3

Public entities existing	13
Public entities analysed	13
Public entities qualified	5

Other entities existing	9
Other entities analysed	8
Other entities qualified	2

	0	0	0	3	0	0	0	1	1	0	1	1	0	7	5	14	14	12	16	16	13	14	
Departments																							
Public entities	0	0	0	3	0	1	0	2	2	0	0	0	3	8	8	9	9	10	9	8	7		
Other entities qualified	0	0	0	2	0	0	0	1	1	1	0	0	0	4	5	5	2	5	8	7	7		

AUDIT FINDINGS IN RESPECT OF QUALIFICATIONS

Departments	0%	0%	0%	100%	0%	0%	0%	33%	33%	0%	33%	33%	0%	33%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Public entities	0%	0%	0%	60%	0%	20%	0%	40%	40%	0%	40%	40%	0%	40%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Other entities	0%	0%	0%	100%	0%	0%	0%	50%	50%	0%	50%	50%	0%	50%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%

AUDIT FINDINGS IN RESPECT OF OTHER FINDINGS

Departments	44%	31%	88%
Public entities	27%	73%	73%
Other entities	0%	50%	63%

GOOD PRACTICES

Departments	88%	75%	100%	100%	81%	88%
Public entities	82%	82%	91%	82%	73%	64%
Other entities	63%	25%	63%	100%	88%	88%



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

ANNEXURE 2: KWAZULU-NATAL - SUMMARY OF PROVINCIAL DEPARTMENT AUDIT REPORTS

VOTE 1: OFFICE OF THE PREMIER

Financially unqualified (with other matters)

Emphasis of matter

- **Significant uncertainty**
 - Included in note 20 to the financial statements, is a contingent liability amounting to R1,5 million where the plaintiff is demanding payment for work conducted on behalf of the Office of the Premier as the defendant in the claim.
- **Amendments to the applicable basis of accounting**
 - As disclosed in note 30 to the financial statements, the department has recognised certain immovable assets which may need to be recognised by the Department of Works. However, this has not been done because of approval granted by the National Treasury on 16 May 2008 for a deviation from the basis of accounting applicable to departments.
- **Unauthorised expenditure**
 - As disclosed in note 9 to the financial statements, unauthorised expenditure of R4,33 million was incurred in respect of screens and international satellite broadcasts for the 2010 Soccer World Cup Preliminary Draw.

Other matters

- **Unaudited supplementary schedule**
 - The schedule of immovable assets, land and sub-soil assets does not form part of the financial statements and is presented as additional information. This was not audited and, accordingly, no opinion is expressed thereon.
- **Matters of governance**
 - The annual financial statements submitted for audit were subject to material amendments resulting from the audit.

Other reports

- **Investigation**
 - An investigation into a fraudulent payment of R439 000 to a supplier during the year is in progress. The Office of the Premier has raised a debt for this amount.



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

VOTE 2: KWAZULU-NATAL LEGISLATURE

Financially unqualified (with other matters)

Emphasis of matter

- **Amendment to the applicable basis of accounting**
 - As disclosed in note 37 to the financial statements, the Provincial Legislature has recognised certain immovable assets which may need to be recognised by the Department of Works. However, this has not been done because of approval granted by the National Treasury on 16 May 2008 for a deviation from the basis of accounting applicable to departments.
- **Matters of governance**
 - The annual financial statements submitted for audit were subject to material amendments resulting from the audit.

VOTE 3: DEPARTMENT OF AGRICULTURE AND ENVIROMENTAL AFFAIRS

Qualified

- **Tangible assets**
 - The value of machinery and equipment as per the financial statements (R165,33 million) did not agree with the value in the fixed asset register (R91,04 million).
 - A material number of assets acquired subsequent to 1 April 2004 were not recorded at cost.
 - Certain fixed assets selected from the register could not be located and the assets stolen or lost during the year are still recorded on the fixed assets register.
 - The capital assets in the financial statements are incomplete as not all assets disposed of during the year have been disclosed.
 - The asset balance is incomplete as it does not include all assets belonging to the department.
- **Biological assets**
 - A valuation of the biological assets was performed where inconsistencies were noted.
 - A reconciliation between the physical assets on hand at 31 March 2008 and the assets recorded in the asset register revealed a shortfall of 1 365 head of livestock.
- **Expenditure**
 - Expenditure of R5,34 million was incorrectly classified in the financial statements due to the numerous errors identified,
 - Deductions were not made from employees who participated in the strike.



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

- **Irregular expenditure**

- R28,21 million from the prior year was not condoned or recovered.
- Audit evidence could not be obtained for the irregular expenditure of R3,9 million as disclosed in note 16.4.
- Details of disciplinary action or steps taken in respect of the total irregular expenditure of R32,18 million have not been disclosed in note 32.2 to the financial statements.
- Irregular expenditure totalling R2,53 million incurred without following the tender process has not been disclosed in the financial statements.

- **Employee benefits**

- Material differences were noted in the calculation of leave provision.

- **Government grants**

- No supporting documents were available for donations received amounting to R8,28 million.

- **Corresponding figures**

- The matters relating to property, plant and equipment and biological assets that gave rise to the disclaimer of audit opinion remain substantially unresolved.

Emphasis of matter

- **Amendments to the applicable basis of accounting**

- The department has recognised certain immovable assets which may need to be recognised by the Department of Works.

- **Unauthorised expenditure**

- Unauthorised expenditure amounting to R110,61 million in respect of prior year overspending had not yet been authorised by the KwaZulu-Natal Provincial Legislature.

- **Material underspending of the budget**

- The department had underspent its budget by R311,15 million, which represents 20% of the annual appropriation. Most instances of such underspending (R254,28 million) relate to programme 2: Agricultural development services, which represented 29% of the budget allocation.

Other matters

- **Non-compliance with applicable legislation**

- Public Finance Management Act



AUDITOR - GENERAL

- Revenue tariffs were not revised and approved during the 2007-08 financial year.
- Prior year voted funds to be surrendered amounting to R48,15 million were not paid over to the Provincial Revenue Fund.

- **Matters of governance**

- The annual financial statements submitted for audit were subject to material amendments resulting from the audit.
- SCOPA resolutions have not been substantially implemented

VOTE 4: DEPARTMENT OF ECONOMIC DEVELOPMENT

Financially unqualified (with other matters)

Performance information

- **Lack of sufficient appropriate audit evidence**

- The actual achievement of targets could not be substantiated against adequate source documentation in the case of enterprise development, economic empowerment, trade and investment promotion, sector development, industry development, consumer protection, liquor regulation, research and development, knowledge management, policy and planning, and monitoring and evaluation.

Other matters

- **Matters of governance**

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

Other reports

- **Investigation**

- An investigation is being conducted into the manner in which the Bee Foundation utilised funds of R8 million advanced by the department. The investigation was still underway at the reporting date.

VOTE 5: DEPARTMENT OF EDUCATION

Financially unqualified (with other matters)

Emphasis of matters

- **Amendment to the applicable basis of accounting**



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

- As disclosed in note 37 to the financial statements, the department has recognised certain immovable assets which may need to be recognised by the KwaZulu-Natal Department of Public Works. However, this has not been done because of approval granted by the National Treasury on 16 May 2008 for a deviation from the basis of accounting applicable to departments.
- **Restatement of corresponding figures**
 - As disclosed in note 37 to the financial statements, the corresponding figures for 31 March 2007 have been restated as a result of an error discovered during the audit of the 2007-08 financial year in the financial statements of the department for the year ended 31 March 2008.
- **Unauthorised expenditure**
 - As disclosed in note 11 to the financial statements, unauthorised expenditure to the amount of R11,9 million was incurred as an overexpenditure on programme 5: Further Education and Training.
- **Irregular expenditure**
 - As disclosed in note 32 to the financial statements, irregular expenditure to the amount of R54, 9 million was incurred. This included R34 million overspent on transfer payments and R20,9 million due to the proper procurement process not being followed.

VOTE 6: PROVINCIAL TREASURY

Financially unqualified (with other matters)

Other matters

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

VOTE 7: DEPARTMENT OF HEALTH

Financially unqualified (with other matters)

Emphasis of matter

- **Amendments to the applicable basis of accounting**
 - As disclosed in note 37 to the financial statements, the department has recognised certain immovable assets which may need to be recognised by the Department of Works. However, this has not been done because of approval granted by the National Treasury on 16 May 2008 for a deviation from the basis of accounting applicable to departments.



AUDITOR - GENERAL

- **Unauthorised expenditure**

- As disclosed in note 11 to the annual financial statements, the department had exceeded its authorised expenditure budget of R13,9 billion by R1,2 billion.

Other matters

- **Non-compliance with applicable legislation**

- Public Finance Management Act
 - Supply chain management
Legislative procedures embodied in the Treasury Regulations had not been adhered to in respect of the awarding of tenders to service providers due to certain tenders being considered as emergency/urgent cases when they did not meet the definition of such.

- **Matters of governance**

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

VOTE 8: DEPARTMENT OF HOUSING

Financially unqualified (with no other matters)

Other reports

- **Investigations**

- Forensic investigation into the alleged misallocation of housing to beneficiaries.

VOTE 9: DEPARTMENT OF COMMUNITY SAFETY AND LIAISON

Financially unqualified (with other matters)

Other matters

- **Non-compliance with applicable legislation**

- Public Finance Management Act
Unspent funds amounting to R522 000 were not surrendered to the Provincial Revenue Fund as required by Treasury Regulation 15.8.1.



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

- **Matters of governance**

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

VOTE 10: THE ROYAL HOUSEHOLD

Financially unqualified (with other matters)

Emphasis of matter

- **Unauthorised expenditure**

- Unauthorised expenditure of R1,76 million was incurred due to overspending of the vote. Included is an amount of R5,38 million for prior year unauthorised expenditure that has not yet been approved.

- **Restatement of corresponding figures**

- An adjustment of R1,7 million was made to the opening balance of machinery and equipment which cannot be explained.

Other matters

- **Non-compliance with applicable legislation**

- Public Finance Management Act (PFMA)
 - No policies and procedures in place for an effective control environment as required by PFMA section 38(1)(c)(i).
 - Receivables were not collected as required by PFMA [section 38(1)(c)(i)].
 - The department did not have a risk management strategy or a fraud prevention plan in accordance with Treasury Regulation 3.2.1.
 - The department did not settle all their debts within 30 days as per Treasury Regulation 8.2.3.
 - The department did not surrender voted funds not spent after their 2006-07 financial year as required by Treasury Regulation 15.8.1.

- **Matters of governance**

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



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

- The audit committee and internal audit function did not substantially fulfil their responsibilities.
- SCOPA resolutions have not been substantially implemented

VOTE 11: DEPARTMENT OF LOCAL GOVERNMENT AND TRADITIONAL AFFAIRS

Financially unqualified (with other matters)

Other matters

- **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 been substantially implemented.

Other matters

- **Matters of governance**

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

VOTE 12: DEPARTMENT OF TRANSPORT

Financially unqualified (with other matters)

Emphasis of matter

- **Amendment to the applicable basis of accounting**

- The Department of Transport has recognised certain immovable assets, which may need recognition by the Department of Works. However, this has not been done because of approval granted by the National Treasury on 16 May 2008 for a deviation from the applicable basis of accounting.

Other matters

- **Non-compliance with applicable legislation**

- Public Finance Management Act

All Prodiba (Pty) Limited receipts were deposited into a bank account instead of the department's Paymaster-General account at the Newcastle Road Traffic Inspectorate, contrary to Treasury Regulation 15.5.3.



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

- **Unaudited supplementary schedule**

- A schedule of immovable assets, land and sub-soil assets was included in the financial statements as additional information. This schedule was not audited and accordingly no opinion was expressed thereon.

- **Matters of governance**

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

Other reports

- **Investigations**

- An investigation is being conducted by the department into alleged unauthorised payments.
- Investigations are being conducted by the department into alleged tender irregularities.

VOTE 13: DEPARTMENT OF SOCIAL WELFARE AND POPULATION DEVELOPMENT

Qualified

- **Tangible capital assets**

- In terms of section 38(1)(d) of the PFMA, the accounting officer is responsible for the management of assets, including the safeguarding and maintenance thereof. Due to lack of a proper asset management system, the following material deficiencies were identified in the management of the department's tangible capital assets:
 - The value of transport assets disclosed in note 37 to the financial statements (R60,8 million) did not agree with the fixed asset register (R59,9 million).
 - The value of computer equipment disclosed in note 37 to the financial statements (R24,7 million) did not agree with the fixed asset register (R9,1 million).
 - The value of furniture and other equipment in note 37 to the financial statements (R17,7 million) did not agree with the fixed asset register (R3,0 million).
 - The value of other machinery and equipment in note 37 to the financial statements (R4,3 million) did not agree with the fixed asset register (R1,6 million).
- As a result of the above there were no satisfactory audit procedures that I could perform to obtain reasonable assurance that all tangible capital assets had been properly recorded at the correct amounts. Consequently, I was unable to conclude on the existence, completeness and valuation of the assets of R107, 4 million, as disclosed in note 37 to the financial statements.
- The fixed asset register also included assets to the value of R3,2 million at 31 March 2008 that still had to be transferred to the South African Social Security Agency.



AUDITOR - GENERAL

Emphasis of matter

Disallowances, damages and losses to the amount of R11,3 million had accumulated as at 31 March 2008 in respect of prior overspending on budget allocation of pension and grant payments, prior years' fraudulent activities engaged by some beneficiaries and long-outstanding debts.

Other matters

- **Non-compliance with applicable legislation**
 - Written assurance was not obtained from the department confirming that they had implemented effective, efficient and transparent financial management and internal control systems before transfer payments were made, which constitutes non-compliance with section 38(1)(j) of the PFMA.
 - Effective and appropriate steps as required by Treasury Regulations 11.2.1 were not taken by the accounting officer in the collection of debts recorded as R20,1 million at 31 March 2008. Debts as reflected in note 16 increased from R9,9 million in 2007 to R20,1 million in 2008 (102%).
- **Performance information**
 - I was unable to obtain sufficient appropriate audit evidence in relation to the performance information as used for generating information on the target of social welfare services, and development and research were not adequate for purposes of the evaluation.

VOTE 14: DEPARTMENT OF WORKS

Qualified

- **Tangible capital assets**
 - In the absence of exact physical location, detailed description and bar codes, computer equipment to the value of R4 100 695 could not be traced.

Emphasis of matter

- **Amendment to the applicable basis of accounting**
 - National Treasury approved a deviation from the basis of accounting which granted the department exemption from the disclosure of certain immovable assets and from the use of fair value in accounting for these assets.



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's efforts to collect all monies due to the department were ineffective.

- Environmental Conservation Act

Environmental impact assessments were not undertaken.

- Unaudited supplementary schedule

- No opinion was expressed on the additional information relating to immovable assets, land and sub-soil assets.

Other matters

- **Matters of governance**

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

VOTE 15: DEPARTMENT OF ARTS, CULTURE AND TOURISM

Financially unqualified (with other matters)

Emphasis of matter

- Highlighting note 37 and the deviation from the basis of accounting applicable to departments
- **Matters of governance**
 - The annual financial statements submitted for audit were subject to material amendments resulting from the audit.

Other matters

- **Matters of governance**

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



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

VOTE 16: DEPARTMENT OF SPORT AND RECREATION

Financially unqualified (with other matters)

Other matters

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



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

ANNEXURE 3: KWAZULU-NATAL - SUMMARY OF PUBLIC ENTITIES AUDIT REPORTS

1. AMAFA AKWAZULU-NATALI

Qualified

- **Property, plant and equipment**

- As disclosed in accounting policy note 1.1, no depreciation was provided for on property, plant and equipment, contrary to the South African Statement of Generally Accepted Accounting Practice, IAS 16 (AC 123). This is as a result of a decision taken by management not to undertake an assessment of depreciation and impairment of property, plant and equipment for the financial year. Accordingly, I was unable to determine the effect of the misstatement on the financial statements.

- **Revenue**

- In common with similar organisations, the public entity did not consider it feasible to institute accounting controls over cash collections from donations and gate-takings at its various sites prior to initial entry of the collections in the accounting records. Accordingly, it was impracticable for me to extend my examination beyond the receipts actually recorded. Therefore, I am unable to attest to the completeness of cash donations and gate-taking income totalling R459 802.

Other matters

- **Unaudited supplementary schedules**

- Supplementary schedules were included in the financial statements as additional information. These schedules were not audited and accordingly no opinion was expressed thereon.

- **Matters of governance**

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

Other reporting responsibilities

- **Non-compliance with regulatory requirements**

- No strategic plan

The accounting authority did not finalise and submit a strategic plan for approval to the relevant executive authority on or before 1 April 2007, as required by Treasury Regulations 30.1.1 and 30.1.2.



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

2. KWAZULU-NATAL NATURE CONSERVATION BOARD

Adverse

- **Property, plant and equipment**

- The value of property, plant and equipment in the financial statements (R323,72 million) does not agree with the fixed asset register (R397,68 million).
- No asset numbers were allocated to physically locate the assets recorded in the asset register.
- Assets amounting to R125,16 million funded by conditional grants were not accounted for in accordance with the South African Statement of Generally Accepted Accounting Practice, IAS20 (AC134).
- The entity did not comply with South African Statement of Generally Accepted Accounting Practice, IAS 16 (AC123), the residual values and useful lives of assets were not reviewed at year-end and aircrafts and boats with separately identifiable components were not depreciated separately.
- Of the R58,94 million assets transferred to Isimangaliso Wetlands Park Authority, R12,64 million could not be agreed to the assets taken over by the Isimangaliso Wetlands Park Authority.

- **Revenue**

- The assets and revenue relating to the eco-tourism and other revenue-generating operations should be transferred or accrue to the Isimangaliso Wetlands Park Authority.
- The completeness and accuracy of the admission revenue of R21,7 million, which is four percent of total revenue, could not be confirmed.

- **Government grants and deferred income – special projects**

- Transactions in respect of the special projects of R34 million have not been accounted for in the financial statements as per SA GAAP, IAS 20 (AC134): Accounting for government grants and disclosure of government assistance.

- **Biological assets**

- The biological assets have not been recognised in the financial statements as required by SA GAAP, IAS 41 (AC137): Agriculture.

- **Corresponding figures**

- The matters relating to special projects, property, plant and equipment, biological assets and admission revenue that gave rise to the adverse audit opinion remain substantially unresolved.



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

Emphasis of matter

- **Significant uncertainty**

- The land claims affecting 79 496 hectares of the entity's protected areas were settled by the Department of Land Affairs and the buildings situated on this land should be transferred to the new owner. At year-end buildings amounting R18,66 million had not been disposed of in the books pending the finalisation of the land claims.
- Outstanding land claims within the organisation's protected areas were in the process of being settled by the Department of Land Affairs.

- **Matters of governance**

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

3. ITHALA DEVELOPMENT FINANCE CORPORATION LTD AND GROUP

Qualified

- **Investment property**

- Impairment in investment property was not accounted for in terms of IAS 36 (AC 128): Impairment of assets, resulting in an overstatement of investment properties of the group of R34,9m (2007: R56, 9m), retained income of R34,9m (2007: R56,9m) and net income attributable to the shareholder of R22,7m (2007: R7,4m).

Emphasis of matters

- **Going concern**

- Exemption from Banks Act
The Company's exemption from the provisions of the Banks Act, 2007 (Act No. 20 of 2007) expires on the earlier of 31 December 2008 or promulgation of the Dedicated Banks Act, as referred to in the directors' report.

- **Subsidiaries**

- The KZN Growth Fund and Cowslip subsidiaries have not been consolidated in the group annual financial statements for the reasons given in the directors' report.

- **Restatement of corresponding figures**

- The corresponding figures for 31 March 2007 have been restated as a result of prior year adjustments discovered during the 2008 financial period in the financial statements of the IFDC as disclosed in the financial statements.



AUDITOR - GENERAL

Other matters

- **Non-compliance with applicable legislation**
 - Public Finance Management
 - The credit committee and assets and liabilities committees did not meet in terms of its mandate during the financial year and the effectiveness of these committees could not be assessed for the financial period, which constitutes non-compliance with the accounting authority's responsibilities in terms of section 51(1)(a)(i) of the PFMA.
 - KwaZulu-Natal Ithala Development Finance Corporation Limited Act
 - There was no evidence of any consultation with the MEC for Finance and Economic Development or of the Minister's approval for setting the level of the chief executive officer's remuneration each year after effecting increases, as required by section 15(6) of the act.
 - The Financial Intelligence Centre Act
 - In certain instances there was no evidence of the institution obtaining the person's residential address, as required by chapter 1, part 2, subsection 3 of the act.
 - Companies Act of South Africa
 - The company share register has not been updated as required by section 93 of the act.
 - The company statutory records have not been updated to reflect the current company secretary and resignation of the public officer on 1 July 2002, as required by section 268 of the act.
 - National Credit Act
 - A quotation in the prescribed form setting out the principal debt, the proposed distribution of the amount, the interest rate and other credit costs, the total cost of the proposed agreement, and the basis of any costs that may be assessed under section 121(3) of the act if the consumer rescinds the contract, was in certain instances not documented as required by section 92(2)(b) of the act.
- **Matters of governance**
 - The annual financial statements submitted for audit were subject to material amendments resulting from the audit.

4. ITHALA LTD

Financially unqualified (with other matters)

Emphasis of matters

- **Going concern**



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

- Exemption from Banks Act
 - The Company's exemption from the provisions of the Banks Act, 2007 (Act No. 20 of 2007) expires on the earlier of 31 December 2008 or promulgation of the Dedicated Banks Act, as referred to in the directors' report.
- **Quality of earnings**
 - Net income for the year includes R5,9 million (2007: R6, 8 million) in respect of dormant accounts released to income as disclosed in note 20 to the financial statements. The income from this source accounts for 24% of the total net profit of R24,1 million (2007: 40% of the total net profit of R17,1 million).
- **Restatement of corresponding figures**
 - The corresponding figures for 31 March 2007 have been restated as a result of prior year adjustments discovered during the 2008 financial period in the financial statements of Ithala Ltd as disclosed in the financial statements

Other matters

- **Non-compliance with applicable legislation**
 - The Financial Intelligence Centre Act
 - In certain instances there was no evidence of the institution obtaining the person's residential address, as required by chapter 1, part 2, subsection 3 of the act.
 - Companies Act of South Africa
 - The company share register has not been updated as required by section 93 of the act.
 - The company statutory records have not been updated to reflect the current company secretary and resignation of the public officer on 1 July 2002, as required by section 268 of the act.
 - National Credit Act
 - A quotation in the prescribed form setting out the principal debt, the proposed distribution of the amount, the interest rate and other credit costs, the total cost of the proposed agreement, and the basis of any costs that may be assessed under section 121(3) of the act if the consumer rescinds the contract, was in certain instances not documented as required by section 92(2)(b) of the act.
- **Matters of governance**
 - The annual financial statements submitted for audit were subject to material amendments resulting from the audit.



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

5. KWAZULU-NATAL GAMBLING BOARD

Financially unqualified (with other matters)

Emphasis of matter

- **Significant uncertainty**
 - As disclosed in note 13.1 of the financial statements, the KwaZulu-Natal Gambling Board is the defendant in a lawsuit instituted by a service provider due to cancellation of a contract. The KwaZulu-Natal Gambling Board won the case but, however, then lost on appeal and the case was set for retrial in September 2008. The Gambling Board is currently opposing the claim. The ultimate outcome of the matter cannot presently be determined, and a contingent liability of R36 million has been disclosed in the financial statements.

6. KZN GROWTH FUND MANAGERS (PTY) LTD

Financially unqualified (with other matters)

Emphasis of matter

As disclosed in note 4 to the financial statements, a provision of R3 627 816 was made for the impairment of a loan for the aquaculture project.

7. KWAZULU-NATAL TOURISM AUTHORITY

Financially unqualified (with other matters)

Other matters

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

8. MJINDI FARMING (PTY) LTD

Financially unqualified (with other matters)

Emphasis of matters

- **Going concern**
 - Lease agreement between the farmers and Mjindi Farming (Pty) Ltd has not been renewed.
 - Department of Agriculture has not budgeted to fund Mjindi for 2008-09



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

- **Significant uncertainties**

- An amount of R5,77 million owing to the Department of Water Affairs and Forestry is currently in dispute.
- At year-end the land controlled and owned by Mjindi Farming (Pty) Ltd was subject to land claims.

9. NATAL SHARKS BOARD

Qualified

- **Employee benefits**

- The post-retirement obligation relating to medical aid contributions and pension benefits has not been recognised in accordance with the South African Statement of Generally Accepted Accounting Practice, IAS 19 (AC 116): Employee benefits.

Emphasis of matter

- **Restatement of corresponding figures**

- The corresponding figures for 31 March 2007 relating to property, plant and equipment, accounts receivable, accounts payable, project funds and deferred grant have been restated as a result of errors discovered during the year ended 31 March 2008.

Other matters

Non-compliance with applicable legislation

- **Public Finance Management Act**

- A comprehensive supply chain management system as required by Treasury Regulation 16A4.1 was not established.

- **Matters of governance**

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

10. KWA-ZULU-NATAL PROVINCIAL PLANNING AND DEVELOPMENT COMMISSION

Financially unqualified (with other matters)

Other matters

- **Matters of governance**

- Financial statements were submitted late.



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

11. UMSEKELI MUNICIPAL SUPPORT SERVICES

Qualified

- **Provisions**

- Supporting evidence for the retirement obligation (R2 million) and superannuation fund (R27 million) could not be provided for audit purposes.

- **Government grants**

- Expenditure funded by the Department of Local Government and Traditional Affairs was not accounted for in the financial statements in terms of IAS 20.

Emphasis of matter

- **Going concern**

- The entity closed down on 31 March 2007 and, pending the approval of relevant legislation, all assets and liabilities will be transferred to the Department of Local Government and Traditional Affairs.

Other matters

- **Matters of governance**

- The public entity did not have a functioning audit committee during the year under review.
- There was no internal audit function in operation throughout the financial year.
- The financial statements submitted for auditing were subject to material amendments resulting from the audit.
- Significant difficulties were experienced during the audit concerning delays in providing and unavailability of expected information.
- The prior year's external audit recommendations were not substantially implemented.
- SCOPA resolutions were not substantially implemented.

Performance information

- Due to the disestablishment and closing down of the entity, the public entity has not reported performance against predetermined objectives, as required by section 55(2)(a) of the PFMA.



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

ANNEXURE 4: KWAZULU-NATAL - SUMMARY OF PROVINCIAL OTHER ENTITIES

1. DUBE TRADEPORT

Financially unqualified (with other matters)

Emphasis of matters

- **Significant uncertainty**
 - With reference to note 18.2 to the financial statements, Dube TradePort is the defendant in a case relating to bid costs amounting to R11,4 million payable to the non-compliant bidder should Dube TradePort be unsuccessful in the litigation. The ultimate outcome of the matter cannot presently be determined and no provision has been made in the financial statements for any liability that may result.
- **Restatement of corresponding figures**
 - The corresponding figures for the 2006-07 balance sheet amounting to R150 654 have been restated as a result of an error discovered in the 2007-08 financial statements of Dube TradePort.

2. KZN HOUSING FUND

Qualified

- **Property, plant and equipment**
 - General ledger did not agree to the asset register
 - Inadequate information in the asset register
 - Right of ownership could not be confirmed as a result of inadequate supporting documentation
 - At least 900 immovable assets were recorded in the asset register at a zero value.

Consequently, I could not verify the existence, valuation and right of ownership of the land and buildings as disclosed in the financial statements.

Other matters

Material adjustments were processed to the financials submitted for audit on 31 May 2008.



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3. KWAZULU-NATAL PROVINCIAL MEDICAL SUPPLY CENTRE

Financially unqualified (with other matters)

Matters of governance

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

4. NATAL JOINT MUNICIPAL PENSION FUND (Provident)

Financially unqualified (with no other matters)

5. NATAL JOINT MUNICIPAL PENSION FUND (Retirement)

Financially unqualified (with no other matters)

6. NATAL JOINT MUNICIPAL PENSION FUND (Superannuation)

Financially unqualified (with no other matters)

7. TRADE AND INVESTMENT KZN

Financially unqualified (with other matters)

Other matters

- **Unaudited supplementary schedule**
 - No opinion was expressed on the supplementary schedule provided as additional information.

8. TRADITIONAL LEVIES AND TRUST ACCOUNT

Adverse

- **Property, plant and equipment**
 - All new assets were recognised as expenses in the year they were acquired, which is non-compliance with paragraph 7 of South African Statement of Generally Accepted Accounting Practice, IAS16 (AC 123): Property, plant and equipment, resulting in fixed assets and traditional accounts being understated by R2,17 million.
 - Assets were not assessed for impairment and no review was performed on residual values and useful lives, as required by IAS16 (AC 123) and IAS36 (AC128): Impairment of assets.
 - An asset (motor vehicle) with a book value of R75 603 that had been deregistered in 2005 was still recorded in the fixed asset register, resulting in fixed assets disclosed in note 12 to the financial statements being overstated by R75 603.



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- A reconciliation between the carrying amount at the beginning and end of the period for each class of fixed assets was not disclosed as required by paragraph 73(e) of IAS16 (AC123).
- The fixed asset register did not have sufficient details to allow for specific identification of fixed assets.
- **Ingonyama Trust Board**
 - Projects undertaken on behalf of the Traditional Levies and Trust Account by the Ingonyama Trust Board during the 2007-08 financial year amounting to R391 965 were not capitalised, resulting in fixed assets and Ingonyama Trust Board being understated.
 - Collections by Ingonyama Trust Board on behalf of Traditional Levies and Trust Account amounting to R 22,7 million were not accounted for in the financial statements.
- **Presentation and disclosure**
 - A reconciliation between the carrying amount at the beginning and the end of the period, separately disclosing each change for each component of equity, was not performed as required by paragraph 106 of IAS1 (AC101).
 - Disclosures as required by IFRS7 were not made in the financial statements.
- **Government grants**
 - Expenditure and fixed assets funded by the Department of Local Government and Traditional Affairs were not accounted for in terms of IAS20 (AC134).
- **Suspense account**
 - The entity did not provide sufficient appropriate audit evidence for the amount of R3,36 million relating to the suspense account.
- **Revenue**
 - Traditional income could not be verified for completeness and accuracy due to the fact that traditional income is dependent on the receipts actually recorded while there was no adequate system of control over such revenue.

Emphasis of matter

Traditional councils in the Umzimkhulu area were not consolidated into the financial statements of Traditional Levies and Trust Account. They are to be incorporated once a fact-finding mission has been completed and conclusions to that effect have been reached.

Other matters

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



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- Significant difficulties were experienced during the audit concerning delays in providing and unavailability of expected information.
- The prior year's external audit recommendations were not substantially implemented.

Performance information

The entity has not reported performance against predetermined objectives, as required by *Auditor-General Audit Circular 1 of 2007*.



AUDITOR - GENERAL

No.	Other entity	Portfolio/Province	Classification	1. The auditee has an audit committee	2. The audit committee operates in accordance with written terms of reference	3. The audit committee substantially fulfilled its responsibilities for the year, as set out in section 77 of the PFMA and Treasury Regulation 3.1 10/27 1.8	a. The auditee has an internal audit function	b. The internal audit function operates in terms of an internal audit plan	c. The internal audit function substantially fulfilled its responsibilities for the year, as set out in Treasury Regulations 3.2/21.2
1	Dube Tradeport	KZN	PE	1	1	1	1	1	1
2	KZN Housing Fund	KZN	PE	1	1	1	1	1	1
3	The Provincial Medical Supply Centre	KZN	PE	1	1	1	1	1	1
4	Trade and Investment KZN	KZN	PE	1	1	1	1	1	1
5	Traditional Levies and Trust Account	KZN	PE	1	1	1	1	1	1
6	Natal Joint Pension Fund (Provident)	KZN	PE	1	1	1	1	1	1
7	Natal Joint Pension Fund (Retirement)	KZN	PE	1	1	1	1	1	1
8	Natal Joint Pension Fund (Superannuation)	KZN	PE	1	1	1	1	1	1
8				8	8	8	8	8	8
				% Governance findings					
				100%	100%	100%	100%	100%	100%

- No AFs received



Accountability

Integrity

Independence

Impartiality