



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



# Provincial general report of the Auditor-General

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

PUBLISHED BY AUTHORITY

PR 309/2008

ISBN 978-0-621-38368-3



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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 North West provincial government departments, public entities and other entities for the financial year ended 31 March 2008.

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

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

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

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

The North West public sector, excluding local government, comprised 13 departments, 12 public entities and eight other entities. Thirteen departments, seven public entities and four other entities were analysed. The reason for the delay in the completion of the audits of five public entities (North West Housing Corporation, Mafikeng Industrial Development Zone (Pty) Ltd, Dirapeng (Pty) Ltd, Golden Leopard Resorts (Pty) Ltd and Kgama Wildlife Operations (Pty) Ltd and four other entities (North West Agricultural Bank, Agribank Creditors Settlement Trust, Signal Developments (Pty) Ltd and North West Tribal and Trust Fund) is the annual financial statements either being outstanding, submitted late or audits not completed due to prior year backlogs.

The non-submission of annual financial statements and the result of these financial statements not being audited pose a high risk of uncertainty, specifically in the area of fraud.

### Of the 13 provincial departments analysed:

- One (8%) department had a disclaimer of opinion: Developmental Local Government and Housing.
- Five (38%) departments were financially qualified: Agriculture, Conservation and Environmental Affairs,





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- Education, Health, Social Development and Transport, Roads and Community Safety.
- Five (38%) departments were financially unqualified but had concerns in areas of internal control, governance and legislative non-compliance, namely Office of the Premier, Sport, Arts and Culture, Provincial Legislature, Economic Development and Tourism and Public Works.
- Two (15%) departments were unqualified without any significant concerns on other matters, namely Contingency Reserve and Finance.

### **Of the seven provincial entities analysed:**

- Four (57%) public entities, namely Mmabana Arts, Culture and Sport Foundation, North West Parks and Tourism Board, North West Gambling Board and North West Provincial Aids Council, were qualified.
- Three (43%) public entities were financially unqualified but had concerns in areas of internal control, governance and legislative non-compliance, namely Invest North West, North West Development Corporation and North West Youth Development Trust.

### **Of the four other entities analysed:**

- One (25%) entity, namely the North West Directorate for Entrepreneurial Development in Natural Resources, had a qualified audit opinion.
- Three (75%) other entities were unqualified without any significant concerns on other matters, namely North West Transport Investments (Pty) Ltd, Atteridgeville Bus Service (Pty) Ltd and North West Star (Pty) Ltd.

For the departments, public entities and other entities that were financially unqualified (with other matters), the particular internal control weaknesses identified during the audit should be reviewed by management in time and prompt remedial action should be taken to alleviate the weaknesses to prevent recurrence, in order to sustain the positive audit results.

Financial qualifications resulted mainly from issues on capital assets. Poor internal control measures, lack of supporting documentation and inaccurate recording of assets in the asset management system had the result that the completeness, existence and valuation of movable and immovable assets could not be confirmed.

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

- non-compliance with applicable legislation (62%), relating mainly to compliance with the Public Finance Management Act
- internal controls, relating to the areas of material adjustments to financial statements (62%) during the audit that were initially not detected by the department's own internal controls.

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

- internal controls, relating to the areas of material adjustments to financial statements (71%) during the audit that were initially not detected by the public entity's own internal controls.



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The root causes of the shortcomings are primarily found in the following focus areas:

- Lack of capacity
- Inadequate governance arrangements
- Insufficient supervision and monitoring by leadership
- Insufficient prioritisation of identified issues, so far as it relates to coordinated action plans

While much needs to be done to improve performance and thereby service delivery, I am confident that the tide can be turned towards achieving financially unqualified audit opinions and I will follow up on the action plans developed for improved performance and report on the related progress in the next general report.

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

A handwritten signature in blue ink, which appears to read 'Auditor-General'. The signature is stylized and fluid.

Auditor-General

Pretoria

November 2008



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## SECTION 1: FOLLOW-UP ON PRIOR YEAR GENERAL REPORT

### 1. IMPLEMENTATION OF ACTION PLANS BY THE LEADERSHIP

Departments compiled action plans based on prior year audit reports and management reports. The provincial treasury has also proactively assisted departments in improving their financial management practices, the details of which are reflected in paragraph 4 below.

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

In terms of section 38(1)(ii) of the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA), the accounting officer of a department must ensure that the department has and maintains a system of internal audit under the control and direction of an audit committee. In this regard the North West Provincial Government opted to have the following structures in place:

- An internal audit unit and audit committee serving the Provincial Legislature
- An internal audit unit and audit committee serving the Department of Education
- A centralised internal audit unit and audit committee serving the remainder of the departments

As part of our audit process, the efficiency and effectiveness of the internal audit units and audit committees were evaluated and reported on in the audit reports of the different departments. Despite challenges at the Provincial Legislature regarding their internal audit unit not operating in terms of an approved internal audit plan and fulfilling its responsibilities, the department received an unqualified audit opinion as a result of other good practices and financial discipline.

The two most remarkable achievements by the centralised internal audit and audit committee were the rating they received from the Institute of Internal Auditors (IIA), rating their work as "Generally conforms to international internal auditing standards" and the head of internal audit receiving the "Internal Auditor of the Year" award from the IIA.

The provincial internal audit unit was tasked with reviewing the annual financial statements before handing them over to the Auditor-General, with the aim of improving the quality of financial statements as well as compliance with legislation. This intervention met with mixed results, where in certain departments, this had a positive impact.

### 3. COORDINATION BETWEEN PORTFOLIO AND STANDING COMMITTEES

Coordination between the Public Accounts Committee and the various portfolio committees has been achieved through the appointment of the chairpersons of the various portfolio committees to serve as members of the Public Accounts Committee. Through this initiative, issues discussed during the different portfolio committee meetings have filtered through to the public accounts meetings and were discussed with the accounting officers during public hearings.



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

As part of the North West Provincial Treasury's function of promoting and enforcing transparent and effective management in respect of revenue, expenditure, assets and liabilities of the provincial departments as set out in section 18(1)(c) of the PFMA, the provincial treasury embarked on the following actions to address the audit findings reported in previous audit reports:

- The provincial Accountant-General established a Centre of Excellence division to assist the departments to improve control over asset management and risk management. This unit assisted the departments to implement the asset management framework and standard procedures developed by the provincial treasury and the National Treasury.
- Regular monitoring and compliance reporting were done by the Executive Technical Committee (EXTEC) and the Executive Committee (EXCO) to improve involvement of the heads of departments (HODs) in the processes.
- The provincial treasury embarked on a programme of support for all departments to help with the preparations, pre-review and timely submission of the annual financial statements to the Auditor-General. In the provincial departments this was successful, whereas this was not the case with provincial entities. The impact needs to be measured continuously.
- The preparation of annual financial statements was centralised with the assistance of the departmental chief financial officers (CFOs). Departmental audit files which support the amounts in the financial statements were standardised and made a compulsory file to be submitted to the Auditor-General with the annual financial statements.
- The provincial treasury, for the past six years, has arranged a formal handing-over function on 31 May to ensure all provincial departments and public entities submit their financials on time.
- Ongoing interactions between the departments and the Auditor-General on audit progress and possible outcomes to identify transversal issues.
- Annual PFMA preparation session with the national and provincial treasuries. The provincial treasury implemented a comprehensive action plan with continuous report-back to the National Treasury to address issues emanating from the session.

In response to the analysis of audit outcomes of the province for the year 2006-07, the provincial treasury also embarked on a strategy to address shortcomings identified therein 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 two-fold approach:

##### **Short-term intervention strategy**

The development and implementation of a plan with immediate effect for:

- Risk management strategy and risk assessment



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- Half-year preparation of annual financial statements and requesting the Auditor-General to conduct an interim audit
- Preparation of quality annual financial statements
- Management and clearing of suspense accounts
- Development of a revitalisation plan for 2008-09 focused on immovable asset management and supply chain management
- Improving the quality of the audit working paper file which supports the financial statements.

### Long-term intervention strategy

- To undertake an assessment of the financial capacity and capabilities in order to meet the financial management capability maturity model rating level 6 (optimising level).
- 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 in all departments in respect of both immovable and movable assets and utilisation of the Walker Asset Management module.
- To undertake a high-level review of supply chain management implementation in 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.

The above interventions are commendable; however, in order to maximise positive results, the impact thereof needs to be measured and monitored on an ongoing basis.

## 5. STRENGTHENING CAPACITY OF PROVINCIAL TREASURY

The provincial treasury embarked on a financial management training programme. Phase 1, which comprised eight financial modules (NQF Level 5), was launched in 2005 and targeted 700 officials from the chief financial officer's division of various departments. Phase 2 was launched in 2008 (NQF Level 5/6), which targeted 1 000 non-core financial managers between salary levels 9-12 from 12 provincial departments.

The provincial treasury conducted specific training on the PFMA, Treasury Regulations and the annual financial statements preparation guide.

## 6. EVALUATION OF HUMAN RESOURCE STRATEGIC FRAMEWORK

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



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## SECTION 2: PROVINCIAL DEPARTMENTS

### 1. FINANCIAL REPORTING RESULTS

#### 1.1 Introduction

The North West provincial government comprises 13 departments, which were all included as part of our analysis.

Consolidated financial statements for the previous financial periods were not submitted for auditing and consequently no audit reports have been issued.

The reasons for the delay in submission of consolidated financial statements include:

- difficulties experienced in the preparation of financial statements for the Provincial Revenue Fund
- the lack of skilled staff at the provincial treasury which severely hampered this process.

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

- Table 1 below provides details of the actual audit outcomes of the North West 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	1	8%	0	0%
Qualified	5	38%	8	62%
Financially unqualified (with other matters)	5	38%	5	38%
Financially unqualified (with no other matters)	2	16%	0	0%
<b>Total analysed</b>	<b>13</b>	<b>100%</b>	<b>13</b>	<b>100%</b>

Of the eight departments previously qualified, the Department of Developmental Local Government and Housing moved to a disclaimer. The reasons for this were serious control weaknesses in the administration of housing projects, attributable to staff capacity at both the department and the municipalities in the province.

Five of the entities previously qualified, continued to receive qualifications, primarily in the areas of capital assets, receivables and presentation. The root cause related to the skills capacity, driven by high vacancies and the lack of understanding of accounting standards and regulations.



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Two departments, namely Public Works and Economic Development and Tourism, moved to unqualified opinions (with other matters). The reasons for the improvement are that the Department of Public Works made use of an exemption from the National Treasury with respect to the valuation of immovable assets while the Department of Economic Development and Tourism strengthened their internal controls around asset management, by maintaining a fixed asset register and performing asset reconciliations.

The Department of Finance and the Contingency Reserve improved from unqualified (with other matters) to unqualified (with no other matters) audit opinions.

The remaining three departments who were previously unqualified (with other matters) in the 2006-07 financial year remained the same.

- Table 2 below provides details of the actual audit outcomes of the North West 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
Office of the Premier	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Qualified	Financially unqualified (with no other matters)	Financially unqualified (with no other matters)
Provincial Legislature	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Qualified	Financially unqualified (with no other matters)	Qualified
Health	Qualified	Qualified	Qualified	Qualified	Qualified
Sport, Arts and Culture	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with no other matters)	Financially unqualified (with no other matters)	Not established as a department on its own
Economic Development and Tourism	Financially unqualified (with other matters)	Qualified	Qualified	Not established as a department on its own	Not established as a department on its own
Finance	Financially unqualified (with no other matters)	Financially unqualified (with other matters)	Financially unqualified (with no other matters)	Financially unqualified (with no other matters)	Financially unqualified (with no other matters)
Education	Qualified	Qualified	Qualified	Disclaimer	Financially unqualified (with no other matters)



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

Department	2007-08	2006-07	2005-06	2004-05	2003-04
Developmental Local Government and Housing	Disclaimer	Qualified	Qualified	Qualified	Financially unqualified (with no other matters)
Transport, Roads and Community Safety	Qualified	Qualified	Qualified	Financially unqualified (with no other matters)	Qualified
Public Works	Financially unqualified (with other matters)	Qualified	Qualified	Financially unqualified (with no other matters)	Financially unqualified (with no other matters)
Social Development	Qualified	Qualified	Qualified	Qualified	Qualified
Agriculture, Conservation and Environmental Affairs	Qualified	Qualified	Adverse	Qualified	Financially unqualified (with no other matters)
Contingency Reserve	Financially unqualified (with no other matters)	Financially unqualified (with other matters)	Financially unqualified (with no other matters)	Financially unqualified (with no other matters)	Financially unqualified (with no other matters)

The Department of Developmental Local Government and Housing received a disclaimer in the current financial period, compared to previously qualified opinions. The lack of capacity to deal with the major balance sheet items, e.g. capital assets, has resulted in a trend of declining audit opinions. The lack of supporting documentation for housing projects, which led to the disclaimer, poses a high risk to the department, specifically in the area of fraud.

A specific area of focus is the number of departments being qualified on capital assets, with the resultant effect of recurring findings. The departments who were most often qualified in these areas over the past three years are the Departments of Health, Education, Transport, Roads and Safety, Social Development and Agriculture, Conservation and Environmental Affairs.

The ability of the Departments of Sport, Arts and Culture, Finance and the Contingency Reserve to continuously achieve unqualified audit opinions for the past four or five years and the ability of the Office of the Premier and Provincial Legislature to attain unqualified audit opinions for the past two years are to be commended.

The successes of these departments can be attributed to the quality of financial information submitted for audit, implementation of the prior year audit recommendations, implementation of resolutions made by the Public Accounts Committee and the availability of senior management, especially the CFO, during the time of the audit.





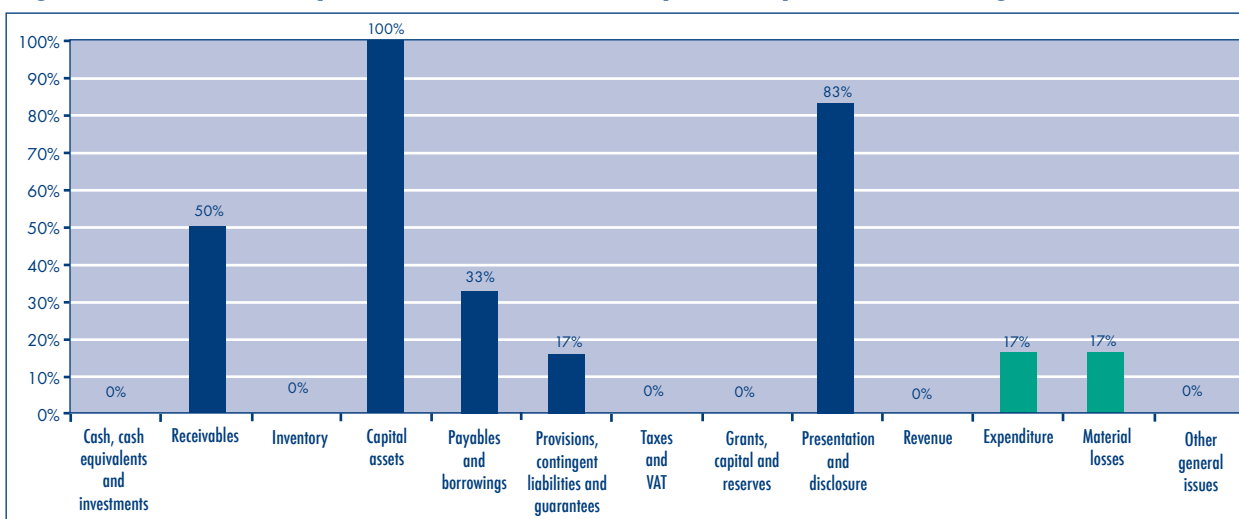
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The qualification on assets is the most common audit finding across all these departments and it relates mainly to a lack of supporting documentation and incomplete and inaccurate asset registers.

### 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 (6) that were qualified per audit finding**



### Overall conclusion

- Assets are the most common audit finding appearing in all the qualified audit reports. Poor internal control measures, lack of supporting documentation and inaccurate recording of assets in the asset management system had the result that the completeness, existence and valuation of movable and immovable assets could not be confirmed.
- With the exception of the Department of Transport, all departments who were qualified received qualifications on presentation and disclosure issues. These qualifications are the result of a lack of supporting documentation substantiating commitments, accruals and employee benefit provisions disclosed in the notes to the financial statements. Various instances of overstatements of accruals due to poor cut-off procedures were also reported.
- Three of the six departments qualified had qualifications on amounts disclosed as receivables in the statement of financial position. These qualifications were caused by a lack of supporting documentation for amounts owed to the departments, debtors with credit balances and long outstanding balances.
- Inadequate levels of supervision and monitoring contributed to the matters identified above.

### 1.4 Audit findings related to other matters

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



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

Most instances of non-compliance with relevant legislation which did not affect the financial statements related to non-compliance with the PFMA and Treasury Regulations, which was reported in eight (62%) provincial departments. Inadequate supervision and monitoring by the leadership (accounting officers, chief financial officers and relevant managers) had in part contributed to the negative audit findings in this area. The right leadership tone, with the support of internal audit, is necessary to establish a strong control environment and ensure compliance.

The non-payment of creditors within the prescribed period of 30 days was the most prevalent transversal audit finding relating to non-compliance with the PFMA.

The following findings of major non-compliance with legislation were made:

- Department of Education
  - Non-compliance with the Preferential Procurement Policy Framework Act in awarding tenders.
  - Contrary to section 43(5) of the South African Schools Act, not all schools had submitted financial statements.
  - Contrary to the Value-Added Tax Act, tax invoices were paid by the department where suppliers were not registered as VAT vendors.
  - Instances where officials of the department performed duties outside official duty and without approval as required by section 33(1) (b) of the Employment of Educators Act.
- Department of Agriculture
  - The department increased the threshold limit for procurement of goods and services through a bidding process determined by the National Treasury to an amount of R500 000.

## **Governance**

The existence of good risk management and internal control practices, which include audit committees as well as internal audit functions, contributed greatly to the achievement of 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.

In this regard, the North West Provincial Government opted to have the following structures in place:

- An internal audit unit and audit committee serving the Provincial Legislature
- An internal audit unit and audit committee serving the Department of Education
- A centralised internal audit unit and audit committee serving the remainder of the departments

These audit committees and internal audit functions were in operation throughout the financial year at 100% and 93% of the departments respectively.

The two most remarkable achievements made by the centralised internal audit and audit committee is the rating they received from the Institute of Internal Auditors (IIA), rating their work as "Generally conforms to international internal auditing standards" and the head of internal audit receiving the "Internal Auditor of the Year" award from the IIA.



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The shared arrangement of the audit unit and audit committee yielded the desired impact in certain departments; however, this impact was limited in areas such as the Department of Developmental Local Government and Housing. This arrangement needs to be reviewed to strengthen the role of governance, particularly in the departments with recurring qualified audit opinions.

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

### **Material misstatements**

An improvement in the quality of financial statements submitted for auditing is still required. This is illustrated by the fact that material adjustments had to be made to the financial statements submitted for auditing of eight of the 13 departments to avoid either qualification or further qualification. This was due primarily to the lack of adequately qualified accounting personnel.

## **2. PERFORMANCE REPORTING RESULTS**

### **2.1 Introduction**

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

### **2.2 Results of the auditing of performance information**

Six provincial departments (46%) were lacking in respect of reporting on all predetermined objectives in the annual performance report. Inconsistencies were found between the measurable objectives reported on in the annual report and the strategic/corporate/annual performance/budget at four departments (31%). Sufficient appropriate audit evidence supporting performance information could not be submitted at four departments (31%).

Based on the above, the need is evident for performance audit committees to play a critical role in ensuring that departments' measurable objectives are regularly monitored, reported and supported by adequate supporting documentation, which will facilitate the tracking of service delivery.

## **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 information systems audits**

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



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User account management is the systematic process of managing the access of users to the network and applications and includes the establishment, review, disabling and removal of user accounts.

The user account management process was audited at 10 of the provincial departments and the following key findings were identified:

User account management process	% of departments with finding
<b>User account management standards and procedures</b>	
Incomplete user account management procedures	100
<b>Access request authorisation</b>	
Access request forms not consistently completed	80
<b>Application security</b>	
Lack of segregation of duties	80
Excessive access rights assigned to users	50
Inactive accounts not deactivated in time	100
User access levels not periodically reviewed	100
User identifications not uniquely assigned	30

## 4. ISSUES DRIVING AUDIT RESULTS

### 4.1 Introduction

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

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



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### 4.2 Achievement against good practice indicators

Table 3 below presents the results of the North West departments in achieving the above good practice indicators.

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

No.	Good practices	Percentage of total departments achieving good practice indicator <sup>1</sup>
1	Clear trail of supporting documentation that is easily available and provided in time	54%
2	Quality of financial statements and management information	54%
3	Timeliness of financial statements and management information	100%
4	Availability of key officials during audits	54%
5	Development of and compliance with risk management and good internal control and governance practices	54%
6	Leadership / supervision / monitoring	54%

- **Clear trail of supporting documentation**

While supporting documentation was easily accessible at the Department of Economic Development and Tourism, Office of the Premier, Provincial Legislature, Department of Public Works, Department of Sports, Arts and Culture, Contingency Reserve and the Department of Finance, the remaining departments (46%) have to do more to ensure that sufficient appropriate audit evidence is available to support the transactions and balances in the financial statements. The management of documentation requires improvement to ensure that it is safeguarded and readily available for audit purposes.

- **Quality annual financial statements**

While departments have continued to make progress in response to challenges to submit quality financial statements, challenges still remain for six (46%) departments. The departments who achieved this good practice are the Department of Economic Development and Tourism, Office of the Premier, Provincial Legislature, Department of Public Works, Department of Finance, Contingency Reserve and the Department

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



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of Sport, Arts and Culture. Material corrections to the financial statements mainly relate to issues of disclosure associated with the ongoing transition to accrual accounting. In this regard, processes need to be further refined in order to accurately collate information for the preparation and presentation of the financial statements. The quality of the financial information in this case is a reflection of the inadequate level of skills within the departments.

- **Timeliness of annual financial statements**

All departments submitted their financial statements on 30 May 2008, in accordance with the time frames as set out in the PFMA. However, when comparing this result with the number of qualified audit reports as well as the amount of audit adjustments which had to be done to avoid audit qualifications, it is clear that proper control measures have not been implemented to ensure good quality of these financial statements.

- **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 clear these in a timely manner. This went a long way towards avoiding qualifications, because officials received earlier notice of audit findings and could take corrective action before the final conclusions that led to an audit opinion. Senior officials at all seven departments who received an unqualified audit report were available throughout the audit process.

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

Effective risk management and internal control practices continue to be a challenge for the majority of the departments. Contrary to legislative requirements, fraud prevention plans and risk management strategies were in certain cases non-existent.

The departments share a centralised audit committee and internal audit function, which has brought about certain improvements, but it is limited by capacity constraints.

- **Leadership, supervision and monitoring**

Effective leadership and oversight are needed to monitor the performance of management, especially insofar as financial management is concerned, which was found to be inadequate and needs improvement.

Supervision and monitoring cover oversight of internal controls over financial reporting by management or other parties outside the process; or the application of independent methodologies, like customised procedures or standard checklists, by employees within a process. A lack of monitoring is the root cause of an ineffective system of internal control which gave rise to audit qualifications.



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**5. PROVINCIAL PUBLIC ACCOUNTS COMMITTEE (PPAC) RESOLUTIONS****5.1 Introduction**

As part of the International Standards on Auditing, ISA 720, *Other information contained in documents containing audited financial statements*, we are expected to include the review of the Provincial Public Accounts Committee (PPAC) resolutions included in the accounting officer's report. The table below indicates that, where applicable, all departments have implemented or started to implement the PPAC resolutions.

**5.2 PPAC resolutions not yet implemented**

Table 6 below presents the results of the North West departments in implementing the above resolutions.

**Table 6: Implementation of PPAC resolutions for provincial departments for 2007-08**

No.	Department	No. of resolutions	Resolutions not yet implemented
1	Office of the Premier	0	0
2	Provincial Legislature	12	2
3	Health	3	1
4	Sport, Arts and Culture	0	0
5	Economic Development	6	4
6	Finance	0	0
7	Education	21	11
8	Local Government and Housing	5	5
9	Transport, Roads and Community Safety	8	6
10	Public Works	6	2
11	Social Development	4	3
12	Agriculture, Conservation and Environment	3	0
13	Contingency Reserve	0	0

The lack of capacity has also translated itself into the slow pace of implementation of the PPAC resolutions. This is of particular concern in the departments where there were qualified audit opinions, namely Education, Local Government and Housing, Transport and Social Development. Moreover, had this situation been adequately monitored by the leadership and oversight mechanisms, there could have been a more positive outcome.

In the case of Legislature, Health, Public Works and Agriculture, the resolutions have been dealt with significantly, which is commendable.

Economic Development is an area of concern that needs to be addressed, as the PPAC resolutions were not adequately prioritised.



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## 6. TABLING OF ANNUAL REPORTS

### 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 on those financial statements, within one month of receipt of the audit report.

### 6.2 Annual reports tabled

Table 7 below presents the results of the North West departments in tabling their annual reports for 2007-08.

**Table 7: Tabling of annual reports for provincial departments for 2007-08**

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

The annual reports of all the departments were tabled on 23 September 2008 in the provincial legislature.

## 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:





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

### 7.2 Results of performance auditing

No performance audit reports were tabled at the date of this report; however, the following were work-in-progress as at 12 September 2008:

Department	Report description	Expected date of tabling for WIP
All departments	Performance audit of entities that are connected with government employees and are doing business with departments of the North West Provincial Administration	January 2009
Agriculture	Performance audit of the purchasing of tractors by the Department of Agriculture, Conservation and Environment	December 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, and which may result in legal proceedings for adjudication. An investigation may be performed where the AG –

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

### 7.4 Results of investigations

No investigations were performed at any of the departments.



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## SECTION 3: PROVINCIAL ENTITIES

### 1. FINANCIAL REPORTING RESULTS

#### 1.1 Introduction

The North West provincial government has 12 listed provincial entities.

Five public entities have not been included as part of our analysis due to the non-submission or late submission of financial statements for auditing. These are the North West Housing Corporation, Mafikeng Industrial Development Zone, Kgama Wildlife Operations (Pty) Ltd, Dirapeng (Pty) Ltd and Golden Leopard Resorts (Pty) Ltd.

The analysis and statistics below depict the audit outcomes of the other provincial entities as at 12 September 2008.

Consolidated financial statements for the provincial entities have not been prepared by the provincial treasury. The main reason for the non-submission of consolidated annual financial statements is the non-submission of financial statements by entities for auditing.

#### 1.2 Overview of audit opinions

- Table 1 below provides details as to the actual audit outcomes of the provincial entities.

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

Type of audit opinion	2007-08		2006-07	
	Number	%	Number	%
Adverse	0	0%	0	0%
Disclaimer	0	0%	0	0%
Qualified	4	57%	3	43%
Financially unqualified (with other matters)	3	43%	4	57%
Financially unqualified (with no other matters)	0	0%	0	0%
<b>Total analysed</b>	<b>7</b>	<b>100%</b>	<b>7</b>	<b>100%</b>

The audit opinions of the three entities previously qualified, namely Mmabana Arts, Culture and Sport Foundation, North West Parks and Tourism Board and North West Provincial Aids Council, remained the same.



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Three of the four previously unqualified (with other matters) remained the same whilst the North West Gambling Board moved to a qualification.

The North West Gambling Board was qualified due to various cases of non-compliance with Statements of Generally Recognised Accounting Practice (GRAP) and South African Statements of Generally Accepted Accounting Practice (GAAP). This can mainly be attributed to a lack of capacity and skills to fully comply with this complex accounting framework.

- Table 2 below provides details of the actual audit outcomes of the North West provincial entities for the previous three years.

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

Provincial entity	2007-08	2006-07	2005-06
Invest North West	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)
Mmabana Arts, Culture and Sport Foundation	Qualified	Qualified	Qualified
North West Gambling Board	Qualified	Financially unqualified (with other matters)	Financially unqualified (with other matters)
North West Housing Corporation	Audit in progress	Disclaimer	Adverse
North West Parks and Tourism Board	Qualified	Qualified	Qualified
North West Provincial Aids Council	Qualified	Qualified	Disclaimer
North West Youth Development Trust	Financially unqualified (with other matters)	Financially unqualified (with other matters)	
Kgama Wildlife Operations (Pty) Ltd	Audit in progress	Qualified	Qualified
Dirapeng (Pty) Ltd	No AFS received	Qualified	Qualified
Golden Leopard Resorts (Pty) Ltd	No AFS received	Qualified	Qualified
North West Development Corporation	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)
Mafikeng Industrial Development Zone (Pty) Ltd	Audit in progress*	Audit in progress*	Audit in progress*

\* Financial statements for the 2003-04, 2004-05, 2005-06, 2006-07 and 2007-08 financial years were received simultaneously after the due date and at the time of this report these audits were still in progress.

The findings at three of the four entities qualified have been repeated from prior years. The North West Gambling Board regressed from an unqualified to a qualified audit opinion. These qualifications are mainly due to a lack of adequate internal controls to identify, implement and monitor compliance with GRAP and GAAP, which is an indication of an inadequate financial skills capacity.

Three of the seven public entities audited, have been unqualified for the past three years. A clear audit trail, good quality of financial statements and assistance of key officials during the audits are the main drivers for the positive results and should be encouraged.



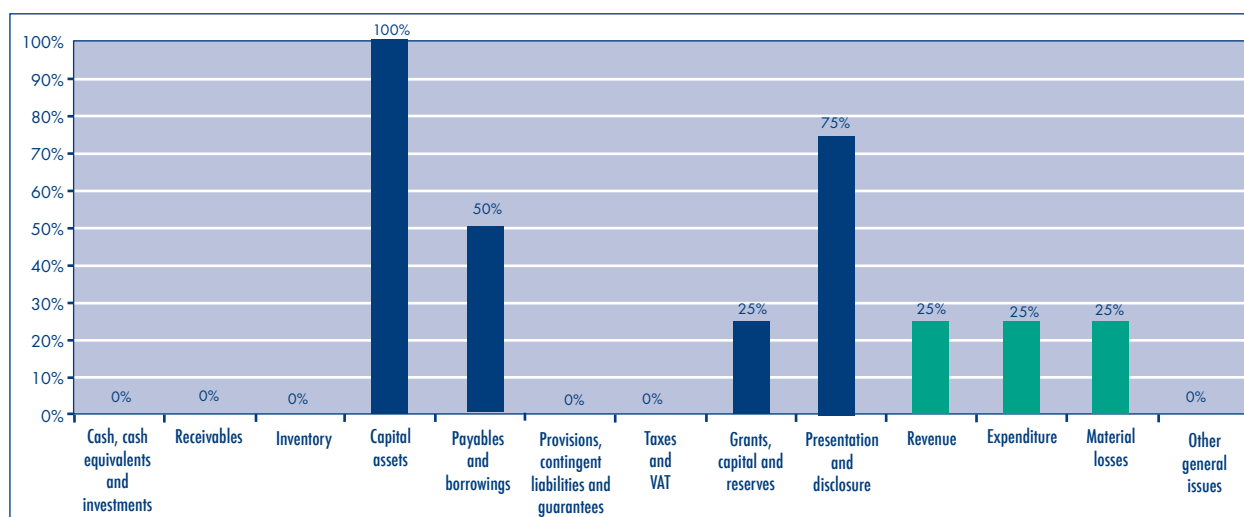
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As indicated in the introduction, the audit opinions of five public entities were not available at the date of this report due to the late/non-submission of financial statements. Our audit observations indicated that most of these entities experience a serious lack of skills within their finance departments and rely mostly on consultants to compile their financial statements. For the purpose of public accountability, the trend of non-submission of financial statements by the legislative deadline is an area of concern which needs to be addressed urgently.

### 1.3 Qualification details

Figure 1 below provides a breakdown of all the audit findings which gave rise to the qualified audit opinions. It also provides an indication of the percentage of the provincial entities that were qualified per audit finding. The audit findings are split between items 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 entities (4) that were qualified per audit finding**



### Overall conclusion

The qualifications on capital assets, payables and borrowings as well as presentation and disclosure are mainly due to a lack of adequate internal controls, lack of supporting documentation and a general lack of capacity and skills to fully comply with the prescribed accounting framework.

These findings could have been limited, if there had been sufficient supervision and monitoring.

### 1.4 Audit findings related to other matters

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



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

Material non-compliance with relevant legislation not affecting the financial statements related to non-compliance with the PFMA and Treasury Regulations and was reported at one public entity (14%), namely the North West Provincial Council on Aids. The lack of compliance with the governing legislation stems from a lack of adequate supervision and monitoring processes by those charged with governance.

### **Matters of governance**

Six (86%) public entities had concerns raised on audit committees and internal audit.

Three public entities, namely the North West Development Corporation, North West Youth Development Trust and North West Provincial Aids Council, did not have an audit committee or an internal audit function. One entity, Invest North West, did not have an internal audit function in operation throughout the year. Of further concern is that the existing audit committees and internal audit functions of the remaining two entities, the North West Parks and Tourism Board and North West Gambling Board, did not substantially fulfil their responsibilities during the year.

Every effort should therefore be made to fully capacitate the internal audit and audit committees, enabling them to discharge their responsibility effectively and efficiently.

### **Material misstatements/corrections to the financial statements**

Five (71%) public entities required material adjustments to their financial statements, due to errors, omissions and inconsistencies, which were identified by the auditors. These material corrections could have been detected by the entities themselves, had the internal audit and audit committee functions, as detailed above, functioned as expected and if the level of supervision and reviews had been adequate.

These findings also relate to public entities lacking the skills and resources to prepare financial statements of a high quality that would not only comply with the applicable legislation and accounting framework, but that would enable the attainment of a financially unqualified audit opinion. In this regard, public entities should work closely with their provincial treasury to:

- develop a strategy that has the overall aim to improve financial management controls in order to produce accurate financial statements
- reduce the public entities' dependence on the use of consultants to prepare a set of financial statements
- coordinate the best practices existing in public entities that received unqualified audit opinions and utilise this opportunity for knowledge sharing and twinning.

## **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.



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## **2.2 Results of the auditing of performance information**

Twenty-nine per cent (29%) of public entities within the North West did not report on performance against individual pre-determined targets and measurable objectives contained in their strategic plans. A further 29% reported on measurable objectives that were inconsistent with the strategic plan.

Based on the above, it is evident that performance audit committees need to play a critical role in ensuring that the entity's measurable objectives are regularly monitored, reported on and supported by adequate supporting documentation, which will facilitate the tracking of service delivery.

## **3. INFORMATION SYSTEMS AUDIT**

No information systems audits were finalised at the time of compiling this general report.

## **4. ISSUES DRIVING AUDIT RESULTS**

### **4.1 Introduction**

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

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

### **4.2 Achievement against good practice indicators**

Table 3 below presents the results of the North West public entities in achieving the above good practice indicators.



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**Table 3: Results of good practice indicators for North West provincial entities for 2007-08**

No.	Good practices	Percentage of total public entities achieving good practice indicator <sup>2</sup>
1	Clear trail of supporting documentation that is easily available and provided in time	43%
2	Quality of financial statements and management information	43%
3	Timeliness of financial statements and management information	86%
4	Availability of key officials during audits	43%
5	Development of and compliance with risk management and good internal control and governance practices	29%
6	Supervision / monitoring	43%

- **Clear trail of supporting documentation**

Only 43% (three of seven) of public entities displayed this good practice. This needs to be improved, because the availability of supporting documentation contributes significantly to the efficiency of the audit.

- **Quality annual financial statements**

While public entities have continued to make progress in response to challenges in submitting quality financial statements, challenges still remain for four (57%) public entities. Material corrections to the financial statements mainly related to issues of disclosure associated with the ongoing transition to accrual accounting. In this regard, processes need to be further refined in order to accurately collate information for the preparation and presentation of the financial statements.

- **Timeliness of annual financial statements**

One of the seven analysed public entities did not submit its financial statements for auditing by the legislated deadline of 31 May. Good planning for the financial statement preparation process has ensured that six (86%) public entities had submitted their financial statements for auditing by the legislated deadline of 31 May. Although this is commendable, it should be cautioned that the timeliness should not be at the expense of good quality financial information.

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



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- **Availability of key officials**

Only 43% (three of seven) of public entities' key officials were available during the audit, which hampered the process to clear audit findings in a timely manner. There is room for improvement in this area in future.

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

Effective risk management and internal control practices continued to pose a challenge for five of the seven 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. Only at two (29%) of the entities did the internal audit and audit committee substantially fulfil their responsibilities for the year.

- **Leadership, supervision and monitoring**

Adequate supervision and monitoring were only present at 43% (three of seven) of the public entities. The lack of supervision and monitoring by the leadership (accounting authorities, chief financial officers and relevant managers) has, in part, contributed to the negative audit findings, which could have been avoided. The right leadership tone is necessary to establish a strong control environment and ensure compliance. In addition, oversight by the parent departments needs to be enhanced.

## 5. PROVINCIAL PUBLIC ACCOUNTS COMMITTEE (PPAC) RESOLUTIONS

### 5.1 Introduction

As part of the International Standards on Auditing, ISA 720, *Other information contained in documents containing audited financial statements*, we are expected to include the review of the Provincial Public Accounts Committee (PPAC) resolutions included in the accounting officer's report. The table below indicates that, where applicable, all provincial entities have implemented or started to implement the PPAC resolutions.

### 5.2 PPAC resolutions not yet implemented

Table 6 below presents the results of the North West provincial entities in implementing the above resolutions.

**Table 6: Implementation of PPAC resolutions for provincial entities for 2007-08**

Public entity	No. of resolutions	Resolutions not yet implemented
North West Gambling Board	6	0
Mmabana Arts, Culture and Sport Foundation	4	0
North West Development Corporation	No resolutions	N/a
North West Parks and Tourism Board	1	0
Invest North West	1	0
North West Provincial Council on Aids	5	0
North West Youth Development Trust	No resolutions	N/a





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### 6. TABLING OF ANNUAL REPORTS

#### 6.1 Introduction

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

#### 6.2 Annual reports tabled

Table 7 below presents the results of the North West provincial entities in tabling their annual reports for 2007-08. The information supplied below is as at 23 September 2008.

**Table 7: Tabling of annual reports for provincial departments for 2007-08**

No.	Public entity	Tabled (Y/N)
1	North West Gambling Board	Y
2	Mmabana Arts, Culture and Sport Foundation	Y
3	North West Development Corporation	Y
4	North West Parks and Tourism Board	Y
5	Invest North West	Y
6	North West Provincial Council on Aids	N
7	North West Youth Development Trust	N

The Provincial Aids Council and the Youth Development Trust have not as yet completed their annual reports for tabling. This is the result of inadequate planning and prioritisation.

### 7. SUMMARY OF OTHER AUDITS

#### 7.1 Performance auditing

No performance audits were performed at any of these entities.

#### 7.2 Investigations

Public entity	Report description	Date of tabling
North West Parks and Tourism Board	Investigation into the conflict of interest by the management of the North West Parks Board	September 2008



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## SECTION 4: OTHER ENTITIES

### 1. FINANCIAL REPORTING RESULTS

#### 1.1 Introduction

There are eight other entities in the North West, of which four entities have not been included as part of our analysis due to the non-receipt or late submission of annual financial statements for auditing, namely the North West Agricultural Bank, Agribank Creditors Settlement Trust, Signal Developments (Pty) Ltd and the North West Tribal and Trust Fund.

The analysis and statistics below depict the audit outcomes of the rest of the entities as at 12 September 2008.

#### 1.2 Overview of audit opinions on other entities

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

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

Type of audit opinion	2007-08		2006-07	
	Number	%	Number	%
Adverse	0	0%	0	0%
Disclaimer	0	0%	1	25%
Qualified	1	25%	0	0%
Financially unqualified (with other matters)	0	0%	0	0%
Financially unqualified (with no other matters)	3	75%	3	75%
<b>Total analysed</b>	<b>4</b>	<b>100%</b>	<b>4</b>	<b>100%</b>

The North West Directorate of Entrepreneurial Development in Natural Resources improved from a disclaimer to a qualification. This was largely the result of a focused effort by management to address prior year findings and to strengthen capacity. A new CFO has recently been appointed.

The previously unqualified audit opinions (with no other matters) of three entities, namely North West Transport Investments (Pty) Ltd, North West Star (Pty) Ltd and Atteridgeville Bus Services (Pty) Ltd, remained the same. The good practices of these entities are commendable, and should be replicated.



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- Table 2 below provides details as to the actual audit outcomes for the North West other entities for the previous three years.

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

Public entity	2007-08	2006-07	2005-06
Directorate of Entrepreneurial Development	Qualified	Disclaimer	Disclaimer
North West Transport Investments (Pty) Ltd	Financially unqualified (with no other matters)	Financially unqualified (with no other matters)	Financially unqualified (with other matters)
North West Agricultural Bank	No AFS received	Qualified	Qualified
Signal Developments (Pty) Ltd	No AFS received	No AFS received	Disclaimer
North West Tribal and Trust Fund	No AFS received	No AFS received	No AFS received
North West Star (Pty) Ltd	Financially unqualified (with no other matters)	Financially unqualified (with no other matters)	Qualified
Atteridgeville Bus Services (Pty) Ltd	Financially unqualified (with no other matters)	Financially unqualified (with no other matters)	Financially unqualified (with no other matters)
Agribank Creditors Settlement Trust	No AFS received	Disclaimer	Disclaimer

Three of the four entities have been unqualified for the past two years. A clear audit trail, good quality of financial statements and assistance of key officials during the audits are the main drivers of the positive results and should be maintained.

One entity improved from a disclaimer in the prior two years to a qualification. Previously the entity was not in a position to provide adequate supporting documentation to adequately substantiate the majority of its balance sheet items. Improvements have been made in the internal controls that relate to document control to ensure validity, accuracy and completeness of recorded transactions.

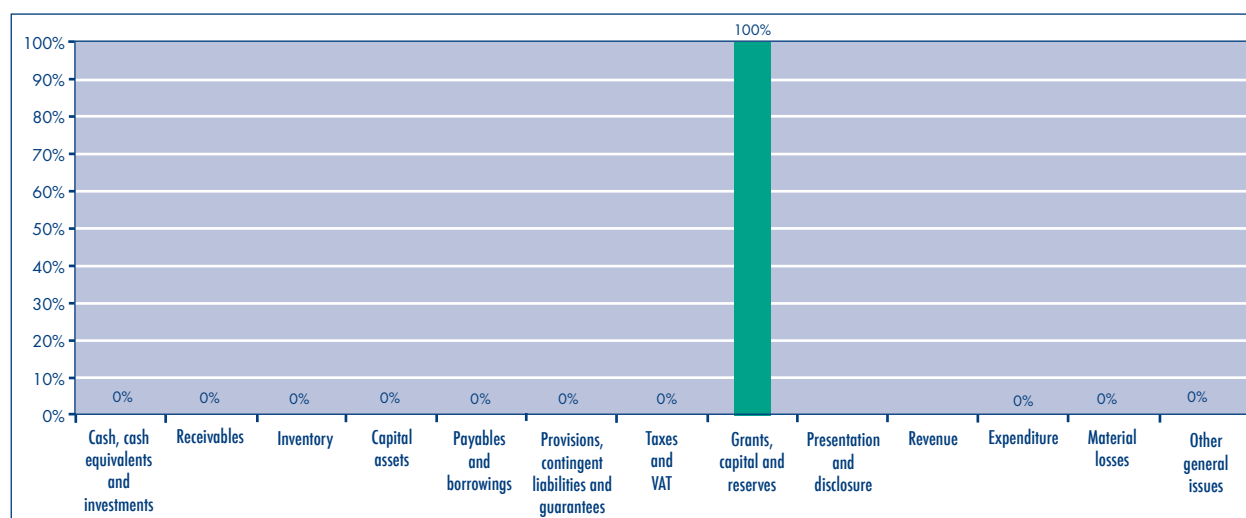
As indicated in the introduction, the audit reports of four entities were not finalised at the date of this report due to the non-submission of financial statements. Our audit observations indicated that most of these entities have a serious lack of skills within their finance departments and rely on consultants to compile their financial statements. For the purpose of public accountability, the trend of non-submission of financial statements by the legislative deadline is an area of concern which needs to be addressed urgently. In addition to this, there is a fraud risk within an environment of disclaimers and non-submission of financial statements. This needs to be dealt with as a matter of urgency.



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### 1.3 Qualification details

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



### Overall conclusion

The qualification was due to the North West Directorate of Entrepreneurial Development in Natural Resources not providing adequate supporting documentation to adequately substantiate movements on certain reserves. Further improvements have to be made in improving the internal controls, particularly document control, to ensure the validity, accuracy and completeness of recorded transactions.

### 1.4 Audit findings related to other matters

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

Only one other entity, namely the Directorate of Entrepreneurial Development, had findings relating to other matters.

### Non-compliance with applicable legislation

Material non-compliance with relevant legislation not affecting the financial statements related to non-compliance with the PFMA and Treasury Regulations. The lack of compliance with the governing legislation stems from a lack of adequate supervision and monitoring processes from those charged with governance.

### Governance

An audit committee and internal audit function was not in operation throughout the financial year.



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Every effort should therefore be made to fully capacitate internal audit and audit committees to enable them to discharge their responsibility effectively and efficiently.

### **Material misstatements**

The entity required material corrections to its financial statements, due to errors, omissions and inconsistencies, which were identified by the auditors. These material corrections could have been detected by the entity, had the internal audit and audit committee functions, as detailed above, functioned as expected and if the level of supervision and reviews had been adequate.

## **2. PERFORMANCE REPORTING RESULTS**

### **2.1 Introduction**

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

### **2.2 Results of the auditing of performance information**

Twenty-five per cent of other entities within the North West Province either did not provide any form of supporting documentation to assess their respective performance against individual pre-determined targets and measurable objectives contained in their strategic plans, or report on such targets in their annual reports.

Based on the above, it is evident that performance audit committees need to play a critical role in ensuring that the entity's measurable objectives are regularly monitored, reported and supported by adequate supporting documentation, which will facilitate the tracking of service delivery.

## **3. INFORMATION SYSTEMS AUDIT**

No information systems audits were finalised at the time of compiling this general report.

## **4. ISSUES DRIVING AUDIT RESULTS**

### **4.1 Introduction**

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

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



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## 4.2 Achievement against good practice indicators

Table 3 below presents the results of the North West other entities in achieving the above good practice indicators.

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

No.	Good practices	Percentage of total public entities achieving good practice indicators <sup>3</sup>
1	Clear trail of supporting documentation that is easily available and provided in time	75%
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	75%
5	Development of and compliance with risk management and good internal control and governance practices	75%
6	Supervision / monitoring	75%

- **Clear trail of supporting documentation**

Significant difficulties were experienced during the audit of the Directorate of Entrepreneurial Development concerning delays in providing or the unavailability of expected information. The management of documentation requires improvement to ensure that it is readily available and furnished in a more timely manner for audit purposes. With sufficient supervision and monitoring, these processes could be streamlined.

- **Quality annual financial statements**

Three (75%) of the other entities had prepared and submitted financial statements of an acceptable quality for auditing purposes. The production of periodic management information should be enhanced and reviewed to ensure the credibility thereof. Financial statements should be subjected to a quality review process prior to submission for auditing. Greater effort is required from the Directorate of Entrepreneurial Development to improve this with the support of the National Treasury and provincial treasury to clarify technical accounting issues during the year and prior to audit.

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



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- **Timeliness of annual financial statements**

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

- **Availability of key officials**

In 75% of other entities key officials were available during the audit of public entities, which assisted in clearing audit findings in a timely manner.

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

The North West other entities have made important advances in establishing effective governance arrangements.

Effective risk management and internal control practices, however, continue to pose a challenge for one other entity. In the case of 75% of other entities, risk management strategies and plans, including fraud prevention plans, have been reviewed and updated regularly for changing circumstances.

- **Supervision and monitoring**

Adequate supervision and monitoring were evident in three (75%) of the other entities. In the case of one entity, endeavours to improve supervision and monitoring should be renewed. Oversight by parent departments also needs to be enhanced.

## **5. PROVINCIAL PUBLIC ACCOUNTS COMMITTEE (PPAC) RESOLUTIONS**

### **5.1 Introduction**

As part of the International Standards on Auditing, ISA 720, *Other information contained in documents containing audited financial statements*, we are expected to include the review of the Provincial Public Accounts Committee (PPAC) resolutions included in the accounting officer's report. The table below indicates that, where applicable, all other entities have implemented or started to implement the PPAC resolutions.



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## 5.2 PPAC resolutions not yet implemented

Table 6 below presents the results of the North West other entities in implementing the above resolutions.

**Table 6: Implementation of PPAC resolutions for other entities for 2007-08**

Other entity	No. of resolutions	Resolutions not yet implemented
Directorate of Entrepreneurial Development	27	2
North West Transport Investments (Pty) Ltd	No resolutions	N/a
Atteridgeville Bus Services (Pty) Ltd	No resolutions	N/a
North West Star (Pty) Ltd	No resolutions	N/a

The efforts of the Directorate of Entrepreneurial Development are to be commended in dealing with the significant PPAC resolutions. The efforts are also evident in the improved audit opinion.

## 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 on those financial statements, within one month of receipt of the audit report.

### 6.2 Annual reports tabled

Table 7 below presents the results of the North West provincial other entities in tabling their annual reports for 2007-08. The information supplied below is as at 23 September 2008.

**Table 7: Tabling of annual reports for other entities for 2007-08**

No.	Public entity	Tabled (Y/N)
1	Directorate of Entrepreneurial Development	N
2	North West Transport Investments (Pty) Ltd	Y
3	Atteridgeville Bus Services (Pty) Ltd	Y
4	North West Star (Pty) Ltd	Y

The Directorate of Entrepreneurial Development has not tabled as a result of the non-completion of the annual report. This was largely as a result of the recent CFO appointment.





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### **7. SUMMARY OF OTHER AUDITS**

#### **7.1 Performance auditing**

No performance audits were performed at any of these entities.

#### **7.2 Investigations**

No investigations were performed at any of these entities.



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## SECTION 5: CONCLUSION

The North West Province faces a number of challenges as highlighted in this report which will require continued effort by the leadership of the province as reflected in section 1 above.

The most outstanding of these challenges is a lack of skills to adequately address the qualification issues relating to asset management, payables and presentation and disclosure requirements. As a result of this shortcoming, financial statements for the Provincial Revenue Fund, certain public and other entities as well as consolidated financial statements were not compiled and submitted for auditing for a number of years.

Other areas of focus should be around:

- the strengthening of the governance arrangements, e.g. the proper functioning of audit committees and internal audit
- enhanced leadership supervision and monitoring
- appropriate prioritisation of matters requiring attention.

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

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



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## ANNEXURE 1: NORTH WEST

Classification	Department	Portfolio	Audit opinion 2007/08	Audit opinion 2006/07	Cash, cash equivalents and investments	Receivables	Inventory	Capital assets	Payables and borrowings	Provisions, contingent liabilities and guarantees	Taxes and VAT	Grants, capital and reserves	Presentation and disclosure	Revenue	Expenditure	Material losses	Other general issues	Non-compliance	Governance findings	Material omissions	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 government practices	Leadership / supervision / monitoring
PD	Developmental Local Government and Housing	NW	Disclaimer	Qualification																						
PD	Agriculture, Conservation and Environment	NW	Qualification	Qualification																						
PD	Education	NW	Qualification	Qualification																						
PD	Health	NW	Qualification	Qualification																						
PD	Social Development	NW	Qualification	Qualification																						
PD	Transport, Roads and Community Safety	NW	Qualification	Qualification																						
PD	Economic Development and Tourism	NW	Financially unqualified (with other matters)	Qualification																						
PD	Office of the Premier	NW	Financially unqualified (with other matters)	Financially unqualified (with other matters)																						
PD	Provincial Legislature	NW	Financially unqualified (with other matters)	Financially unqualified (with other matters)																						
PD	Public Works	NW	Financially unqualified (with other matters)	Qualification																						
PD	Sport, Arts and Culture	NW	Financially unqualified (with other matters)	Financially unqualified (with other matters)																						
PD	Contingency Reserve	NW	Financially unqualified (with no other matters)	Financially unqualified (with other matters)																						
PD	Finance	NW	Financially unqualified (with no other matters)	Financially unqualified (with other matters)																						
PD	Provincial Revenue Fund	NW	No financial statements	No financial statements																						
PE	Mmabana Arts, Culture and Sport Foundation	NW	Qualification	Qualification																						
PE	North West Parks and Tourism Board	NW	Qualification	Qualification																						
PE	North West Provincial Aids Council	NW	Qualification	Qualification																						
PE	North West Gambling Board	NW	Qualification	Financially unqualified (with other matters)																						
PE	Invest North West	NW	Financially unqualified (with other matters)	Financially unqualified (with other matters)																						
PE	North West Development Corporation	NW	Financially unqualified (with other matters)	Financially unqualified (with other matters)																						
PE	North West Youth Development Trust	NW	Financially unqualified (with other matters)	Financially unqualified (with other matters)																						
PE	North West Housing Corporation	NW	Late AFS: Audit in progress	Disclaimer																						
PE	Dirapeng (Pty) Ltd	NW	Late AFS: Audit in progress	Qualification																						
PE	Golden Leopard Resorts (Pty) Ltd	NW	Late AFS: Audit in progress	Qualification																						
PE	Kgama Wildlife Operations (Pty) Ltd	NW	Late AFS: Audit in progress	Qualification																						
PE	Mofeng Industrial Development Zone (Pty) Ltd	NW	Late AFS: Audit in progress	Late AFS: Audit in process																						



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## ANNEXURE 1: NORTH WEST (continued)

Classification	Department	Portfolio	Audit opinion 2007-08	Audit opinion 2006-07	Cash, cash equivalents and investments	Receivables	Inventory	Capital assets	Payables and borrowings	Provisions, contingent liabilities and guarantees	Taxes and VAT	Grants, capital and reserves	Presentation and disclosure	Revenue	Expenditure	Material losses	Other general issues	Non-compliance	Governance findings	Material misstatements	Clear trail of supporting documentation that is easily available and provided in time	Quality of financial statements and management information	Timeliness of financial statements and management information	Availability of key officials during audits	Development of, and compliance with, risk management and good internal control and governance practices	Leadership / supervision / monitoring
UPE	North West Directorate of Entrepreneurial Development in Natural Resources	NW	Qualification	Disclaimer								1						1	1	1			1			
UPE	Atteridgeville Bus Services (Pty) Ltd	NW	Financially unqualified (with no other matters)	Financially unqualified (with no other matters)																	1	1	1	1	1	1
UPE	North West Star (Pty) Ltd	NW	Financially unqualified (with no other matters)	Financially unqualified (with no other matters)																	1	1	1	1	1	1
UPE	North West Transport Investments (Pty) Ltd	NW	Financially unqualified (with no other matters)	Financially unqualified (with no other matters)																	1	1	1	1	1	1
TF	Agribank Creditors Settlement Trust	NW	No financial statements	Disclaimer																						
UPE	North West Agricultural Bank	NW	No financial statements	Qualification																						
UPE	Signal Developments (Pty) Ltd	NW	No financial statements	No financial statements																						
F	North West Tribal and Trust Fund	NW	No financial statements	No financial statements																						

## ABBREVIATIONS

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

## SUMMARY

## Totals

Departments analysed	13
Departments qualified	6

Public entities analysed	7
Public entities qualified	4

Other entities analysed	4
Other entities qualified	1

Departments	0	3	0	6	2	1	0	0	5	0	1	1	0	8	8	8	7	7	13	7	7	7	7	7	7
Public entities	0	0	0	4	2	0	0	1	3	1	1	1	0	1	6	5	3	3	6	3	2	3	2	3	3
Other entities qualified	0	0	0	0	0	0	0	1	0	0	0	0	0	1	1	1	3	3	4	3	3	3	3	3	3

## AUDIT FINDINGS IN RESPECT OF QUALIFICATIONS

Departments	0%	50%	0%	100%	33%	17%	0%	0%	83%	0%	17%	17%	0%
Public entities	0%	0%	0%	100%	50%	0%	0%	25%	75%	25%	25%	25%	0%
Other entities	0%	0%	0%	0%	0%	0%	0%	100%	0%	0%	0%	0%	0%

## AUDIT FINDINGS IN RESPECT OF OTHER MATTERS

Departments	62%	62%
Public entities	14%	86%
Other entities	25%	25%

## GOOD PRACTICES

Departments	54%	54%	54%	54%
Public entities	43%	43%	86%	29%
Other entities	75%	75%	100%	75%



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## **ANNEXURE 2: NORTH WEST – SUMMARY OF AUDIT REPORTS OF PROVINCIAL DEPARTMENTS**

### **Vote 1 – Office of the Premier**

**Opinion: Financially unqualified (with other matters)**

**Other matters**

**Non-compliance with applicable legislation**

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

- Contrary to section 38(1)(f), payments to the value of R780 825 were not settled within 30 days from receipt of invoice.

Treasury Regulations were not adhered to

- Contrary to Treasury Regulation 3.2.1, a risk management strategy was not in place for the year under review.
- Contrary to Treasury Regulation 5.2.2(e-i), the strategic plan did not include all the requirements.

### **Vote 2 – North West Provincial Legislature**

**Opinion: Financially unqualified (with other matters)**

**Qualifications**

None

**Emphasis of matters**

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

Amendments to the applicable basis of accounting

- As disclosed in note 26 to the financial statements, the legislature has recognised certain immovable assets which may require to be recognised by the Department of Public Works; however, this has not been done due to the approval by the National Treasury on 16 May 2008 of a deviation from the basis of accounting applicable to departments in this matter.

Material underspending of the voted funds

- As disclosed in the appropriation statement, the provincial legislature has materially underspent the budget on administration and legislature operations to the amount of R6,8 million.



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## Other matters

### Matters of governance

#### Internal audit

- The internal audit function did not operate in terms of an approved internal audit plan.
- The internal audit function did not substantially fulfil its responsibilities for the year, as set out in Treasury Regulation 3.2/27.2.

#### Other matters of governance

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

### Vote 3 – Department of Health

## Opinion: Qualified

### Qualifications

#### Capital assets

- I was unable to obtain sufficient appropriate audit evidence to reliably determine the existence, completeness, valuation and allocation of and rights and obligations relating to tangible capital assets of R610 million, due to limitations that the entity placed on the scope of my work by not submitting an adequate asset register.
- The asset register was not accurate, complete and reconciled. Assets to the value of R610 million as disclosed in note 27 to the financial statements were overstated by R73 million.
- I was unable to obtain sufficient appropriate audit evidence to reliably determine the existence, completeness, valuation and allocation of and rights and obligations relating to tangible capital assets of R610 million, due to limitations that the entity placed on the scope of my work in respect of the non-submission of an adequate reconciliation on assets transferred out of prior year work-in-progress.

#### Presentation and disclosure

- I was unable to obtain sufficient appropriate audit evidence to confirm the existence, completeness, valuation and allocation of and rights and obligations relating to commitments of R900 million.

## Other matters

### Non-compliance with applicable legislation

#### Treasury Regulations

- Contrary to Treasury Regulation 8.2.3, the department did not pay invoices within 30 days of receipt of



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invoice unless otherwise determined contractually.

- Contrary to Treasury Regulation 7.3.2, the tariff/fee structure and the interest exemption granted by the provincial treasury were not disclosed in the 2007-08 annual report.
- Contrary to Treasury Regulation 15.12.3, payments in excess of R2 000 were effected by manual cheque and not electronically, without approval by the relevant treasury.

### **Matters of governance**

Other matters of governance

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

### **Vote 4 – Department of Sport, Arts and Culture**

#### **Opinion: Financially unqualified (with other matters)**

##### **Other matters**

##### **Matters of governance**

Other matters of governance

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

### **Vote 6 – Department of Economic Development and Tourism**

#### **Opinion: Financially unqualified (with other matters)**

##### **Qualifications**

None

##### **Emphasis of matters**

Highlighting critically important matters presented or disclosed in the financial statements

- The department materially underspent the budget.
- Lease commitments were reclassified as finance leases.
- Actual expenditure was classified as irregular expenditure as per Treasury Regulations (Practice note 5 of 2005-06).
- Expenditure of R952 000 was classified as irregular expenditure as per Treasury Regulations (Practice note 5 of 2005-06).



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## Other matters

### Non-compliance with applicable legislation

- Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA)
  - The accounting officer did not take effective and appropriate steps to collect all money due to the department.
  - The fixed asset register was not properly maintained and did not contain sufficient details as required by the North West Provincial Guidance and Procedures for fixed assets.
  - Invoices were not paid within 30 days from receipt of the invoice.
  - The accounting officer did not have any effective and appropriate steps in place to ensure the prevention of unauthorised, irregular and fruitless and wasteful expenditure.

### Matters of governance

Other matters of governance

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

### Vote 7 – Department of Finance

#### Opinion: Financially unqualified (without other matters)

### Vote 8 – Department of Education

#### Opinion: Qualified

#### Qualifications

Capital assets

- The completeness, valuation and existence of and rights and obligations relating to capital assets of R30 905 000 as per the financial statements could not be confirmed due to insufficient audit evidence.

Presentation and disclosure

- The completeness and valuation of and rights and obligations relating to commitments amounting to R88 524 000, as disclosed in a note to the financial statements, could not be confirmed due to the lack of sufficient appropriate audit evidence.

Provisions, contingent liabilities

- I was unable to obtain sufficient appropriate evidence for all leave taken by the employees of the North West Department of Education, as approximately 65 000 leave forms had not been captured by 31 March 2008.





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- Most of these leave forms had also not been approved. Therefore, the completeness and valuation of and rights and obligations relating to leave entitlements to the amount of R49 228 000 and capped leave commitment to the value of R904 228 000 included in the employee benefit provision of R1 118 274 000 as disclosed in the financial statements, could not be confirmed.
- A provision for potential irrecoverable debt to the amount of R12 084 000, as reflected in a note to the financial statements, could not be confirmed since the basis used to calculate such provision could not be supplied for audit purposes.

### Receivables, payables and borrowings

- The completeness, valuation and existence of and rights and obligations relating to receivables of R33 620 000 and payables to the amount of R4 715 000, as per the statement of financial position and the notes to the financial statements, could not be confirmed due to the lack of sufficient audit evidence.
- The completeness and valuation of and rights and obligations relating to inter-departmental receivables/ payables, as disclosed in an annexure, could not be confirmed due to lack of sufficient audit evidence.

### Material losses through criminal conduct as well as unauthorised, fruitless and wasteful or irregular expenditure

- The completeness and valuation of and rights and obligations relating to irregular expenditure to the amount of R230 649 000, as disclosed in a note to the financial statements, could not be confirmed due to an exclusion of an amount of R26 963 863 transferred to 837 schools which was classified as irregular expenditure.

## Other matters

### Non-compliance with applicable legislation

#### Public Finance Management Act

- Various instances were identified where senior officials did not declare all their financial interests in companies/businesses as required by section 38(1)(a)(i) of the PFMA.
- Contrary to section 40(4)(c) of the PFMA, in-year monitoring reports were not submitted within 15 days of the end of each month as prescribed.
- Contrary to section 42(1), (2) and (3) of the PFMA, the department did not file a copy of the signed inventory of assets transferred with the provincial treasury and the Auditor-General within 14 days of the transfer.
- Various personnel, leave, termination and housing files were not submitted as required by section 40 of the PFMA, which requires that full and proper records of the financial affairs of the department should be kept.

#### Treasury Regulations

- Contrary to Treasury Regulation 15.5.1, not all receipts in excess of R500 were banked on a timely basis.
- Contrary to Treasury Regulation 8.2.3, invoices to a total amount of R103 258 937 were not paid within 30 days as required.



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- Contrary to Treasury Regulation 16A6.1, various instances were identified where tenders did not indicate or include the bid evaluation criteria, or a declaration of interest as required.
- Contrary to paragraph 6.1 of the National Treasury Practice Note no. 8 of 2007-08, original valid tax clearance certificates for all price quotations and competitive bids exceeding the value of R30 000 (VAT included) could not be obtained.

#### Preferential Procurement Policy Framework Act

- Contrary to the Preferential Procurement Policy Framework Act, 2000 (Act No. 5 of 2000) read with the Preferential Procurement Policy Framework Act Regulations, the department allocated tenders to the value of R26 235 931 without complying with this Act.
- Contrary to Supply Chain Management Practice Note 8 of 2007-08, the department did not apply the 90/10 principle as stated in the Preferential Procurement Policy Framework Act for transactions valued at more than R500 000.

#### South African Schools Act

- Contrary to section 43(5) of the South African Schools Act, 1996 (Act No. 84 of 1996), not all schools had submitted the financial statements by 30 June as prescribed.
- Various instances were identified where annual financial statements submitted by schools were not compiled by an appropriate accredited individual as required by the South African Schools Act.
- No guidelines were determined by the Member of the Executive Council as required by the South African Schools Act.

#### Value-Added Tax Act

- Contrary to the Value-Added Tax Act, 1991 (Act No. 89 of 1991), tax invoices were paid by the department where suppliers were not registered as VAT vendors, but included the tax charges in their invoices.

#### Employment of Educators Act

- Instances were identified where employees of the department performed or undertook duties outside their official duty without approval as required by section 33(1)(b) of the Employment of Educators Act, 1998 (Act No. 76 of 1998).

### **Matters of governance**

#### Other matters of governance

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



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## **Vote 9 – Department of Developmental Local Government and Housing**

### **Opinion: Disclaimer**

#### **Qualifications**

##### Expenditure

- I did not obtain sufficient, appropriate audit evidence to determine the accuracy, validity and completeness of the expenditure of R785 516 336 regarding housing projects disclosed in the financial statements.

##### Capital assets

- The accuracy and completeness of the disposal of other fixed asset structures could not be confirmed due to insufficient audit evidence.
- Unreconciled difference for machinery and equipment between the note to the financial statements and the asset register.

##### Presentation and disclosure

- Accruals were understated due to poor cut-off procedures.

##### Receivables

- Sufficient, appropriate audit evidence for certain receivables disclosed in the financial statements could not be obtained.

##### Payables and borrowings

- Sufficient, appropriate audit evidence for other payables disclosed in the financial statements could not be obtained.

#### **Emphasis of matters**

##### Highlighting critically important matters presented or disclosed in the financial statements

- The department materially underspent the budget.
- Unauthorised expenditure disclosed in the financial statements had not been submitted to the provincial legislature for consideration.
- 51% of the housing project funds approved prior to 2004 had not yet been spent to date.



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## **Other matters**

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

Division of Revenue Act, 2007 (Act No. 1 of 2007)

- Municipalities did not submit progress reports for all progress payments received on a monthly basis.

### **Matters of governance**

Other matters of governance

- Significant difficulties were experienced during the audit concerning delays or the unavailability of expected information and/or the unavailability of senior management.
- The prior year's external audit recommendations were substantially implemented.

## **Vote 10 – Department of Transport, Road and Community Safety**

### **Opinion: Qualified**

#### **Qualifications**

Capital assets

- I was unable to verify the completeness of movable assets of R462 394 000 as disclosed in the financial statements and various assets in possession of the department could not be traced to the fixed asset register.

#### **Emphasis of matters**

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

Amendments to the applicable basis of accounting

- The Department of Transport, Roads and Community Safety had recognised certain immovable assets which may require to be recognised by Department of Public Works; however, this was not done due to the approval by the National Treasury on 16 May 2008 of a deviation from the basis of accounting applicable to departments in this matter.

Tracing fees

- I was unable to confirm or quantify the amount of commission paid on those fines that were voluntary payments (deemed fruitless and wasteful expenditure) as the available accounting records did not differentiate between voluntary payments and fines collected through the service provider's effort.



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Unauthorised, irregular or fruitless and wasteful expenditure as well as material losses through criminal conduct

- Prior years unauthorised expenditure amounting to R426 952 000 and current year unauthorised expenditure amounting to R2 000 as per financial statements were still awaiting condonement.

### Other matters

#### Non-compliance with applicable legislation

Public Finance Management Act

- Contrary to section 38.1(a) of the PFMA, the department incurred scholar transport expenses without an appropriate contract. However, the payments were approved according to the approval framework.

Treasury Regulations (TR)

- Contrary to TR 9.1.2, fruitless and wasteful expenditure of R2 000 was not reported to the treasury as required.

### Matters of governance

Other matters of governance

- The financial statements submitted for audit were subject to material amendments resulting from the audit.
- Significant difficulties were experienced during the audit concerning delays or the unavailability of expected information and/or the unavailability of senior management.
- SCOPA resolutions were not substantially implemented.

## Vote 11 – Department of Public Works

### Opinion: Financially unqualified (with other matters)

#### Emphasis of matters

#### Highlighting critically important matters presented or disclosed in the financial statements

Significant uncertainties

- There was uncertainty regarding the ownership of immovable assets to the value of R10 433 917 382, situated in tribal areas, as no title deeds could be provided for the land included in the fixed asset register, also affecting the completeness of the fixed asset register.

Amendments to the applicable basis of accounting

- The National Treasury approved a deviation from the basis of accounting applicable to departments



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which granted the department exemption from the disclosure of certain immovable assets and from the use of fair value to value assets where cost could not be determined accurately. The department did not recognise certain immovable assets, as these were recognised by the respective user departments.

#### Underspending of the budget

- The department underspent the budget on buildings and other fixed structures to the amount of R6 230 000.

#### Other matters

#### Non-compliance with applicable legislation

##### Income Tax Act, 1962 (Act No. 58 of 1962)

- The department did not comply with the requirements of the Seventh Schedule of the Income Tax Act, 1962 (Act No. 58 of 1962), with regard to the fringe benefits arising from the accommodation provided to personnel.

##### Treasury Regulations

- Not all supplier invoices were paid within 30 days from receipt of invoices as required by section 38(1) (f) of the PFMA and Treasury Regulation 8.2.3.
- Not all deposits of receipts in excess of R500 were deposited on a timely basis, which constituted a contravention of Treasury Regulation 15.5.1.
- The approval from the National Treasury for the payments of expenditure exceeding R2 000, not paid electronically, was not obtained as required by Treasury Regulation 15.12.3.

#### Matters of governance

##### Other matters of governance

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

### Vote 12 – Department of Social Development

#### Opinion: Qualification

#### Qualifications

##### Capital assets

- Assets physically verified could not in all instances be traced to the fixed asset register due to assets not being bar-coded.
- Adequate supporting documentation could not be obtained for R6 585 000 of the adjustment made to prior year balances.



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### Provisions, contingent liabilities

- Due to control weaknesses surrounding the leave system and differences in our sample of recalculations of the leave provision, I was unable to verify the completeness, existence, valuation and obligation with regards to the leave provision.

### Receivables

- Supporting documentation could not be provided to verify an amount of R3 248 000 relating to receivables.

### Emphasis of matters

#### Highlighting critically important matters presented or disclosed in the financial statements

- The department materially underspent the budget on payments for capital assets to the amount of R39 225 000. In addition to this the department surrendered R124 147 000 to the provincial treasury during the adjustment budget process.
- Unauthorised expenditure amounting to R249 966 000 related to unauthorised expenditure dating from 2001. The department had applied to the provincial treasury to regularise this expenditure.

### Other matters

#### Matters of governance

##### Other matters of governance

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

### Vote 13 – Department of Agriculture, Conservation and Environment

#### Opinion: Qualified

#### Qualifications

##### Tangible capital assets

- The existence of tangible capital assets amounting to R6 113 126 included in the amount as per note 37 could not be confirmed, as the details and locations of these assets as per the department's asset register were inadequate to locate these assets. Consequently no alternative procedures could be performed to confirm the existence of these assets.
- Machinery and equipment included in tangible capital assets amounting to R20 127 000 as per note 37 were not complete. Assets amounting to R2 905 427 were not included in the amount. Furthermore,



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certain other assets were also not recorded in the department's asset register, of which the cost price could not be determined due to sufficient appropriate audit evidence not being available.

- There was an unexplained difference of R2 087 000 between the value of machinery and equipment included in tangible capital assets as per note 37 and the value of the department's assets as per the asset register. The impact of this difference on the amount disclosed per note 37 could therefore not be determined.

#### Presentation and disclosure

- Lease commitments for machinery and equipment as disclosed in note 30 amounting to R1 114 000 were not complete, accurate and correctly valued due to various errors in the department's lease register. Lease agreements of these items that were made available indicated that the amount was understated by R4 012 114. However, not all lease agreements were available and therefore sufficient appropriate audit evidence was not available to calculate the total misstatement.
- The lease commitments for machinery and equipment amounting to R1 114 000 as per note 30 were incorrectly classified as operating leases instead of finance leases. As per accounting policy 5.2, assets acquired in terms of finance leases should be disclosed in note 37. This was not done and consequently tangible capital assets were understated. Not all lease agreements were available and therefore sufficient appropriate audit evidence was not available to calculate the total misstatement.

#### Emphasis of matters

##### Highlighting critically important matters presented or disclosed in the financial statements

Unauthorised, irregular or fruitless and wasteful expenditure as well as material losses through criminal conduct

- Irregular expenditure from prior years amounting to R24 712 000 and R28 855 000 for the current year, as disclosed in note 32, was still awaiting condonement.
- Unauthorised expenditure of R9 988 000 in respect of prior years, as disclosed in note 11 to the financial statements, had not been dealt with in accordance with section 34 of the PFMA.
- Fruitless and wasteful expenditure from prior years amounting to R5 025 000 and R1 497 000 for the current year, as disclosed in note 12, had not yet been resolved.

#### Other matters

##### Non-compliance with applicable legislation

PFMA and Treasury Regulations

- Contrary to Treasury Regulation 16A6.1, the department has increased the threshold limits for procurement of goods and services through a bidding process determined by the National Treasury in Practice Note SCM 2 of 2005 for the period 1 April 2007 to 30 November 2007 to R500 000.
- Not all payments made by the department to suppliers were within 30 days of receipt of the invoice as required by Treasury Regulation 8.2.3. The department did not adequately record the date of receipt of the invoice to ensure compliance.





## AUDITOR - GENERAL

- Insufficient steps had been taken to ensure that all money due to the department was collected (section 38(1)(c)(i) of the PFMA and Treasury Regulation 11.2.1 refer).
- Interest was not charged on all debts due to the state as required by Treasury Regulation 11.5.1.

### **Matters of governance**

#### Other matters of governance

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

### **Vote 14 – Contingency Reserve**

Opinion: Financially unqualified (without other matters)



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## ANNEXURE 3: NORTH WEST – SUMMARY OF AUDIT REPORTS OF PROVINCIAL PUBLIC ENTITIES

### Directorate of Entrepreneurial Development in Natural Resources Utilisation (DED)

#### Opinion: Qualified

#### Qualification

Grants, capital and reserves

- I was unable to satisfactorily determine the existence and valuation of and rights and obligations relating to the prior year Comprehensive Agricultural Support Programme (CASP) and Post Settlement Support Programme project expenditure of R6 297 801 and R7 180 433 respectively, included in funds of R1 443 097, as per note 16 to the financial statements.

#### Emphasis of matters

Going concern

- DED incurred a net loss of R30 131 797 for the year ended 31 March 2008 and as at that date the entity had not received any funding for the year under review. These conditions, along with other matters, point to the existence of a material uncertainty that may cast significant doubt on the entity's ability to continue as a going concern.

#### Other matters

#### Non-compliance with applicable legislation

Treasury Regulations

- Contrary to paragraph 16, the entity does not have its own tender committee.
- Contrary to paragraph 27.2.1 and 27.2.2, the accounting authority did not ensure that a risk assessment was conducted regularly to be able to identify emerging risks of the entity.
- Contrary to paragraphs 28.1.1 to 28.1.3, the remuneration of employees was not disclosed in the notes to the financial statements.
- Contrary to paragraph 31.3.1 read with section 7(4) and 53(3) of the PFMA, an investment policy could not be obtained.

#### Matters of governance

Audit committee

- The schedule 3C public entity did not have an audit committee in operation throughout the financial year.



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### Internal audit

- The schedule 3C public entity did not have an internal audit function in operation throughout the financial year.

### Other matters of governance

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

### **North West Transport Investments (Pty) Limited (under judicial management)**

**Opinion: Financially unqualified (with no other matters)**

### **Atteridgeville Bus Service (Pty) Ltd**

**Opinion: Financially unqualified (with no other matters)**

### **Northwest Star (Pty) Ltd (under judicial management)**

**Opinion: Financially unqualified (with no other matters)**



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## ANNEXURE 4: NORTH WEST – SUMMARY OF AUDIT REPORTS OF PROVINCIAL OTHER ENTITIES

### North West Provincial Council on Aids

#### Opinion: Qualified

#### Qualifications

##### Expenditure

- I was unable to obtain sufficient appropriate audit evidence to determine the occurrence and accuracy of expenditure of R2 313 757.

##### Payables and borrowings

- I was unable to obtain sufficient appropriate audit evidence nor were sufficient systems in place, to reliably determine the existence, completeness and accuracy of and rights and obligations relating to trade and other payables of R1 419 963.

##### Capital assets

- I was unable to reliably determine the valuation of property, plant and equipment of R507 232.

##### Presentation and disclosure

- Lease commitments or agreements were not recognised as finance leases, resulting in the understatement of fixed assets, liabilities and equity costs in the current and previous periods.
- Management did not straight-line the leases, resulting in the cumulative overstatement of operating leases by R11 067, understatement of accumulated loss by R140 165 and the overstatement of accumulated loss for the period by R11 067.

##### Material losses through criminal conduct as well as unauthorised, fruitless and wasteful or irregular expenditure

- The public entity omitted disclosure of fruitless and wasteful expenditure of R38 285, incurred during the financial year.

#### Other matters

#### Non-compliance with applicable legislation

##### Public Finance Management Act

- The accounting authority failed to implement a policy regarding cash management.



## AUDITOR - GENERAL

- The accounting authority did not prepare and submit a budget as per the requirements of section 53(1).
- The accounting authority failed to implement procedures relating to the recognition, recording and reporting of and the timely settlement of expenditure.

North West Provincial Council on Aids Act, 2001 (Act No. 5 of 2001)

- The accounting authority failed to select a new council.

Treasury Regulations

- The accounting authority failed to implement procedures and processes for the awarding of tenders.
- The accounting authority failed to include disclosure of the remuneration of the CEO, CFO and senior management of the entity.

Matters of governance

Audit committee

- The council did not have an audit committee in operation throughout the financial year.

Internal audit

- The council did not have an internal audit function in operation throughout the financial year.

Other matters of governance

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

### North West Gambling Board

#### Opinion: Qualified

#### Qualifications

Capital assets

- Certain finance leases were incorrectly classified as operating leases. The prior period error relating to finance leases was not disclosed in accordance with the Statement of Generally Recognised Accounting Practice, GRAP 3 *Accounting Policies, Changes in Accounting Estimates and Errors*. This also resulted in accumulated surplus being overstated by R122 761.

Presentation and disclosure

- The future lease payments as disclosed in the financial statements amounting to R799 325 were overstated by R203 369.



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- I was unable to establish the occurrence and accuracy of cash generated from operating activities as disclosed in the cash flow statement due to insufficient audit evidence.
- Related party transactions as disclosed in the financial statements did not include all obligations to related parties at year-end.

Payables and borrowings

- Trade and other payables amounting to R3 014 676 as disclosed in the financial statements were understated by R358 608.
- Comparative figures for trade and other payables did not reflect a prior period error of R3 036 194 and this error was also not disclosed in accordance with the Statement of Generally Recognised Accounting Practice, GRAP 3 *Accounting Policies, Changes in Accounting Estimates and Errors*.

Grants, capital and reserves

- An amount of R2 273 786 included in retained earnings as an adjustment to reserves could not be substantiated.

Revenue

- Licence fees and levies surrendered, as disclosed in the statement of financial performance, did not agree to the levies and licence fees received. Management could not provide sufficient explanations for the difference of R1 838 747. I was therefore unable to establish the occurrence and accuracy of this amount.

**Other matters**

**Matters of governance**

Internal audit

- The internal audit function did not substantially fulfil its responsibilities for the year, as set out in Treasury Regulation 3.2/27.2

Other matters of governance

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

**North West Youth Development Trust**

**Opinion: Financially unqualified (with other matters)**

**Other matters**



## AUDITOR - GENERAL

### **Matters of governance**

#### Audit committee

- The trust did not have an audit committee in operation throughout the financial year.

#### Internal audit

- The trust did not have an internal audit function in operation throughout the financial year.

#### Other matters of governance

- The annual financial statements were not submitted for audit as per the legislated deadlines in terms of section 55 of the PFMA.
- The financial statements submitted for audit were subject to material amendments resulting from the audit.

### **North West Development Corporation (Pty) Ltd**

### **Opinion: Financially unqualified (with other matters)**

#### **Other matters**

### **Matters of governance**

#### Audit committee

- The corporation did not have an audit committee in operation throughout the financial year.

#### Internal audit

- The corporation did not have an internal audit function in operation throughout the financial year.

#### Other matters of governance

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

### **North West Parks and Tourism Board**

### **Opinion: Qualification**

#### **Qualifications**

#### Capital assets

- The residual value and the useful life of assets were not reviewed during the financial year.
- R3,8 million worth of assets below R5 000 were written off to R1 value, while these items meet the definition of an asset.
- 

#### Biological assets

- In common with similar organisations, it is not feasible for the board to institute exact accounting control over game quantities due to the elusive nature of the most valuable game species. This risk that over-counting and miscounting could have occurred is increased due to the statistical nature of counts as



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well as the fact that year-end quantities are statistically projected. Therefore I could not obtain adequate evidence to determine the correctness of the game quantities.

## **Other matters**

### **Matters of governance**

#### Other matters of governance

- The public entity had an audit committee in operation throughout the financial year but the audit committee experienced significant difficulties during the year to obtain quorums and set up meetings. Therefore, the audit committee substantially did not fulfil its responsibilities for the year, as set out in section 77 of the PFMA and Treasury Regulation 3.1.10.
- The internal audit function substantially did not fulfil its responsibilities for the year, as set out in Treasury Regulation 3.2/27.2 which requires that the internal audit conduct a risk assessment regularly to identify emerging risks. A management strategy has to be implemented. The internal audit compiled one risk assessment but failed to implement a risk management strategy for these identified threats. During the year under review internal audit also conducted two focused investigations of which the outcome has not yet been reported to the audit committee.
- The financial statements submitted for audit were subject to material amendments resulting from the audit.

## **Mmabana Arts, Culture and Sport Foundation**

### **Opinion: Qualification**

#### **Qualifications**

##### Capital assets

- The residual value and the useful life of assets were not reviewed during the financial year.

##### Presentation and disclosure

- Operating leases were incorrectly classified and should have been classified as finance leases.

### **Invest North West (association incorporated under section 21)**

### **Opinion: Financially unqualified (with other matters)**

## **Other matters**

### **Matters of governance**

#### Other matters of governance

- The public entity had no internal audit function in operation during the financial year.







Accountability

Integrity

Independence

Impartiality