



AUDITOR - GENERAL



Provincial general report of the Auditor-General

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

PUBLISHED BY AUTHORITY

PR 303/2008

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FOREWORD

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

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

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

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

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

The Western Cape public sector, excluding local government, comprised 13 departments, nine public entities and four other entities .

Of the 13 provincial departments analysed:

- None of the departments had an adverse or a disclaimer of financial opinion, which represent the worst audit opinions.
- One (8%) department was financially qualified, namely Transport and Public Works.
- Ten (77%) departments were unqualified financially, but had concerns in areas of legislative non-compliance and matters of governance. These departments are Agriculture, Community Safety, Cultural Affairs and Sport, Education, Environmental Affairs and Development Planning, Health, Local Government and Housing, the Premier, Provincial Parliament and Provincial Treasury.

¹ Other entities include two trading entities and two unlisted public entities.



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- Two (15%) departments, Economic Development and Tourism and Social Development, were unqualified without any significant concerns on other matters.

An audit finding on receivables led to the qualification of the one (100%) provincial department that received a qualified audit opinion.

While only one department received a qualified opinion, six other departments continue to face serious challenges to improve the quality of their financial statements and significant efforts are required by those charged with governance, both the legislature and the executive, in this regard. This situation could have led to the qualification of those departments had the financial statements not been adjusted, based on the findings of the auditors.

Of the nine provincial public entities analysed:

- One (11%) public entity, namely Western Cape Cultural Commission, received an adverse opinion, which is one of the worst audit opinions.
- Three (33%) public entities received a qualified audit opinion, namely the Western Cape Language Committee, Western Cape Liquor Board and Western Cape Nature Conservation.
- The reports of five (56%) public entities that received an unqualified financial opinion had concerns in areas of legislative non-compliance and matters of governance. These are the Destination and Marketing Organisation, Western Cape Gambling and Racing Board, Western Cape Investment and Trade Promotion Agency, Western Cape Provincial Development Council and Western Cape Provincial Youth Commission.

The audit findings which gave rise to the qualification of the four public entities include issues on inventory (one case or 25%), capital assets (one case or 25%), revenue (two cases or 50%) and expenditure (two cases or 50%).

In addition to the financial qualifications, the majority of the departments and public entities had the following common shortcomings:

- Non-compliance with applicable legislation, relating mainly to the Public Finance Management Act
- Deficiencies in internal controls, which resulted in material misstatements in the financial statements corrected during the audit that were initially not detected by the internal controls
- Significant difficulties encountered during the audit in respect of the non-availability of supporting documentation and/or expected information
- Prior year audit recommendations were not substantially implemented.

Of the four other entities analysed:

- No entity received an adverse or disclaimer of opinion.
- One (25%) other entity, namely Western Cape Housing Development Fund, received a qualified audit opinion.



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- The reports of two (50%) other entities that received an unqualified financial opinion had concerns in areas of legislative non-compliance and matters of governance. These are Cape Medical Depot and Government Motor Transport.
- One (25%) other entity, Heritage Western Cape, was financially unqualified without any significant concerns on other matters.

Improvements in the audit outcomes in the Western Cape can be attributed mainly to the efforts of individual departments and public entities in collaboration with the provincial treasury.

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

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

Auditor-General

Cape Town

November 2008



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SECTION 1: FOLLOW-UP ON PRIOR YEAR GENERAL REPORT

1.1 Implementation of action plans by leadership

In the 2006-07 general report, it was recommended that the leadership of audited entities in the Western Cape should define and implement realistic action plans with clearly defined milestones that would facilitate ongoing monitoring of progress in addressing the shortcomings. It was further recommended that provincial treasury should play an important role in providing guidance and monitoring the departments' progress in implementing corrective action.

Provincial treasury was then requested to implement steps to improve financial management in the province based on the audit outcomes for 2005-06 and to update the provincial cabinet on a quarterly basis. These plans were carried forward in the form of a financial management improvement plan (FMIP) to address the 2006-07 audit outcomes as well.

The FMIP included a two-way approach. Provincial treasury units were tasked to develop action plans to assist the departments in addressing the identified audit findings. In addition, the departments had to develop their own action plans to address the AG's findings. The identified issues were approached on a transversal and a department-specific basis. Meetings were held on a quarterly basis to provide feedback on progress made with interventions.

The efforts of the departments, together with the assistance of provincial treasury, have seen the number of qualifications raised in 2006-07 decrease from four to one. The departments, together with provincial treasury, are encouraged to continue with the FMIP. The provincial cabinet should continue monitoring the implementation of the FMIP with a view to achieving the province's goal of progressing to a level four financial management capability maturity.

1.2 Ongoing monitoring and evaluation of internal controls by audit committee and internal audit

The 2006-07 general report recommended that individual and shared internal audit functions and audit committees required strengthening since they were crucial to assist management in establishing a sound internal control environment and undertake ongoing evaluation and monitoring of management's compliance with predefined controls and progress in implementing the action plans.

It is pleasing to note that while there were exceptions, this recommendation has been substantially implemented in departments, public entities and other entities. Internal auditors and audit committees should continue to focus on coordinating the process of developing and implementing action plans to clear issues raised by the AG.

1.3 Coordination between portfolio committees and standing committee on public accounts

In the previous general report, we encouraged coordination between the various portfolio committees and the standing committee on public accounts (SCOPA) in the province in their review of the financial management and performance of the audited entities.



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The *Western Cape Provincial Parliament Standing Rules* makes a very clear distinction between the powers and functions of SCOPA and any other committee. These rules also make specific provision for and give guidance on SCOPA's relationship with other committees.

With regard to our interaction with the Western Cape SCOPA, it is encouraging to report that there exists a good working relationship and coordination between SCOPA and other committees, which should continue.

1.4 National Treasury's monitoring tool/checklist

In the 2006-07 general report, we recommended that a monitoring tool or checklist should be developed by the National Treasury, in conjunction with the provincial treasury, to enable the legislature and the executive to monitor progress made with implementation of the relevant action plans and to assist with their respective oversight responsibilities on a periodic basis.

For its part, the Western Cape provincial treasury has proactively assisted departments and public entities, including other entities, to improve their financial management practices. Provincial treasury continued to conduct regular meetings with departments to identify areas requiring attention and to provide guidance in this respect. The provincial treasury designed a financial management improvement plan to address the audit outcomes for 2005-06, which was carried forward to address the 2006-07 audit outcomes. Central to the monitoring role of the provincial treasury were the following key initiatives:

- A checklist was provided to departments to assist them in the preparation of financial statements in accordance with the National Treasury guide for the preparation of annual reports and checking the financial statements before submission for auditing by the AG.
- Provincial treasury instructions and practice notes were developed and implemented to address areas of concern in supply chain management, asset management (with a special focus on property management), and human resource management.
- Training with regard to LOGIS, the main asset management system, was intensified.
- A framework for the evaluation of the "Quarterly Performance Assessments" of all departments was developed to assist them to improve the management of and reporting on performance information.
- Regular meetings were held with departments where issues relating to accounting matters and accounting systems were addressed by various units within the provincial treasury in collaboration with the respective departments.

While this recommendation has been largely implemented, the provincial treasury should continue to follow through on its financial management improvement plan and assess whether the guidance provided to all the Western Cape government entities is producing the desired results of improved financial management and governance.

1.5 Strengthening capacity of provincial treasury

Strengthening of the capacity of the provincial treasury to enable effective accounting, technical support and evaluation of the readiness of provincial departments to cope with the migration from cash to accrual accounting was a key recommendation emanating from the 2006-07 general report.



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The provincial treasury in the Western Cape had a vacancy rate of around 20% during the year under review after discounting the appointment of several internal audit staff personnel in 2007. Following a Budget Council meeting in 2003, a decision was taken to make treasuries more responsive to modern financial management and governance practices, as espoused by the PFMA and the MFMA, the latter which required greater specialisation.

Further amendments made to the treasury structure and methodology of operation were still underway, which by itself has also resulted in slower filling of posts, as well as higher staff turnover, according to provincial treasury.

This matter is under implementation, with provincial treasury having embarked on a structured approach for the recruitment and selection of suitably qualified personnel through to remuneration administration, training and development, coaching and mentoring, performance appraisal, delegations and assignments, career planning and competency audits.

1.6 Evaluation of human resource management strategic framework

A critical evaluation of the human resource strategic framework was needed in the province as this could assist in informing the human resource strategic plans that would focus on the attraction and retention of suitably qualified officials, particularly in the area of finance. This was a key recommendation of the 2006-07 general report.

Departments, in particular, continued to experience vacancy rates above the 5% norm, which resulted in a lack of adequate supervision monitoring at all levels. This is directly related to a lack of the approval and implementation of human resource management strategies.

During the 2007-08 audits, we again noted that most departments, public entities and other entities did not have formal human resource management plans in place, while others' plans were in draft form.

Departments, public entities and other entities are encouraged to renew their endeavours to formalise and implement effective human resource management and related policies, which are critical in capacitating these entities with appropriately qualified personnel practices to carry out their mandates.



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SECTION 2: PROVINCIAL DEPARTMENTS

1. FINANCIAL REPORTING RESULTS

1.1 Introduction

The Western Cape provincial government comprises 13 departments, all of which have been included as part of our analysis, as depicted in table 1 below.

The audit reports in respect of the 2006-07 consolidated financial statements for provincial departments were signed on 20 December 2007, having been received on 10 November 2007. The delay in the submission of the consolidated statements for provincial departments was due to the late finalisation of the audit of the Department of Community Safety.

Due to the earlier timing of this general report, the audit outcomes for the 2007-08 consolidated financial statements for provincial departments will be reported on in the next general report.

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

Table 1 below provides details as to the audit outcomes for the Western Cape provincial departments.

Table 1: Audit opinions on provincial departments

Type of audit opinion	2007-08		2006-07	
	Number	%	Number	%
Adverse	0	0%	0	0%
Disclaimer	0	0%	0	0%
Qualified	1	8%	4	31%
Financially unqualified (with other matters)	10	77%	6	46%
Financially unqualified (with no other matters)	2	15%	3	23%
Total analysed	13	100%	13	100%

There has been a notable reduction in the number of qualified audit opinions, while at the same time the number of financially unqualified (with no other matters) audit opinions have decreased compared to the same period for the previous year. More specifically, table 1 reflects the following:

- No department received an adverse or disclaimer of financial opinion, which represents the worst audit opinions.



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- The year under review saw one (2006-07: 4 or 31%) out of 13 votes (or 8%) being qualified financially.

Of the four departments with qualified opinions in 2006-07, Community Safety, Education, and the Premier received unqualified opinions (with other matters) while the status of Transport and Public Works remained the same. Provincial treasury contributed to this improvement through providing guidance and training to the departments.

- **Transport and Public Works** was the only department qualified and its only audit finding was in respect of property rental debtors.

The department continued to have serious challenges with the management of immovable assets (scoped out for 2007-08, as per National Treasury exemption of 16 May 2008 and therefore no qualification on assets). The resulting property debtor rentals emanating from these immovable assets could not be supported with adequate evidence, which was further compounded by inadequate debtors' information such as lease agreements.

- **Community Safety, Education, and Premier** moved from qualified to unqualified (with other matters), as indicated below.
- **Education:** The improvement is due to the department's liaison with several financial institutions to reconcile their records on housing guarantees to that of the financial institutions through the involvement of and monitoring by top management.
- **Community Safety:** The ongoing involvement of top management, together with the support of provincial treasury, went a long way in resolving previous audit qualifications. The extended time to conclude the audit process assisted in resolving the findings relating to the completeness, valuation and existence of the closing balance of tangible capital assets.
- **Premier:** The involvement of top management assisted in resolving the previous audit qualification. The extended time to conclude the audit process assisted in resolving the findings relating to the completeness, valuation and existence of the closing balance of tangible capital assets.
- Ten (77%) (2006-07: six or 46%) departments were unqualified financially, but had concerns in areas of legislative non-compliance and governance matters. The affected departments for the financial year under review are Agriculture, Community Safety, Cultural Affairs and Sport, Education, Environmental Affairs and Development Planning, Health, Local Government and Housing, Premier, Provincial Parliament and Provincial Treasury. The findings on other matters resulted mainly from a lack of supervision and monitoring to ensure compliance with established risk management and good internal control and governance practices. The other matters need to be addressed urgently as they could continue to adversely affect a department's ability to move to an unqualified audit opinion with no other matters.
- Out of 13, two (15%) departments (Economic Development and Tourism and Social Development) were unqualified without any significant concerns on other matters, compared to three departments in 2006-07.



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Table 2 below provides details as to the audit outcomes for the Western Cape provincial departments for the last five years. The departments in this table vary in size and nature, often with different challenges, therefore caution is required in comparing the departments.

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

Department	2007-08	2006-07	2005-06	2004-05	2003-04
Premier	Financially unqualified (with other matters)	Qualified	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)
Provincial Parliament	Financially unqualified (with other matters)	Financially unqualified (with no other matters)	Financially unqualified (with no other matters)	Financially unqualified (with no other matters)	Financially unqualified (with other matters)
Provincial Treasury	Financially unqualified (with other matters)	Financially unqualified (with no other matters)	Financially unqualified (with no other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)
Community Safety	Financially unqualified (with other matters)	Qualified	Qualified	Financially unqualified (with other matters)	Financially unqualified (with other matters)
Education	Financially unqualified (with other matters)	Qualified	Disclaimer	Qualified	Qualified
Health	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Qualified
Social Development	Financially unqualified (with no other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Qualified
Local Government and Housing ²	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)	N/A	N/A
Local Government	N/A	N/A	N/A	Financially unqualified (with other matters)	Financially unqualified (with other matters)
Housing	N/A	N/A	N/A	Financially unqualified (with other matters)	Financially unqualified (with other matters)

² Prior to 2005-06, Local Government and Housing consisted of two separate departments, namely Local Government and Housing as indicated in table 2 above.



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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
Agriculture	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)
Economic Development and Tourism	Financially unqualified (with no other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)
Cultural Affairs and Sport	Financially unqualified (with other matters)	Financially unqualified (with no other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)
Environmental Affairs and Development Planning	Financially unqualified with other matters)	Financially unqualified (with other matters)	Financially unqualified (with no other matters)	Financially unqualified (with other matters)	Financially unqualified (with no other matters)
Transport and Public Works	Qualified	Qualified	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)

Except for the disclaimer in 2005-06, it is notable that over the past five years (between 2003-04 and 2007-08) the Western Cape province had not received any adverse opinions or disclaimers, which are the two worst audit opinions. The last five years, however, have seen a consistently higher number of departments with a history of audit opinions that are financially unqualified, but which had concerns in areas such as legislative non-compliance and matters of governance. The reported matters in this regard relate to basic elements of financial management that require the continued attention of accounting officers. Details of some of the audit findings leading to other matters are discussed in section 1.4 of this report.

The table above shows that the number of qualified audit opinions fluctuated between one and four over the last five years. While Transport and Public Works had received qualified opinions in the last two years, they had reduced the number of qualification issues since 2006-07, which is positive. As indicated elsewhere, the department continued to experience serious challenges with the management of immovable assets (scoped out for 2007-08 and therefore no qualification on assets) and accounting for the property debtor rentals emanating from these immovable assets.

The turnaround in 2007-08 by Education in achieving an unqualified audit opinion with other matters, compared to the previous four financial years for which it had received one disclaimer and three qualified audit opinions, is noteworthy. The Premier and Community Safety also achieved a better audit outcome after having been qualified in 2006-07.

During the period under review, the number of financially unqualified audit opinions (with no other matters) remained at low levels, with Economic Development and Tourism and Social Development being the only two departments that received a clean audit opinion in 2007-08.

The higher number of financially unqualified audit opinions with other matters, in particular, indicates that more robust and focused initiatives are required by accounting officers, with the continued support of the



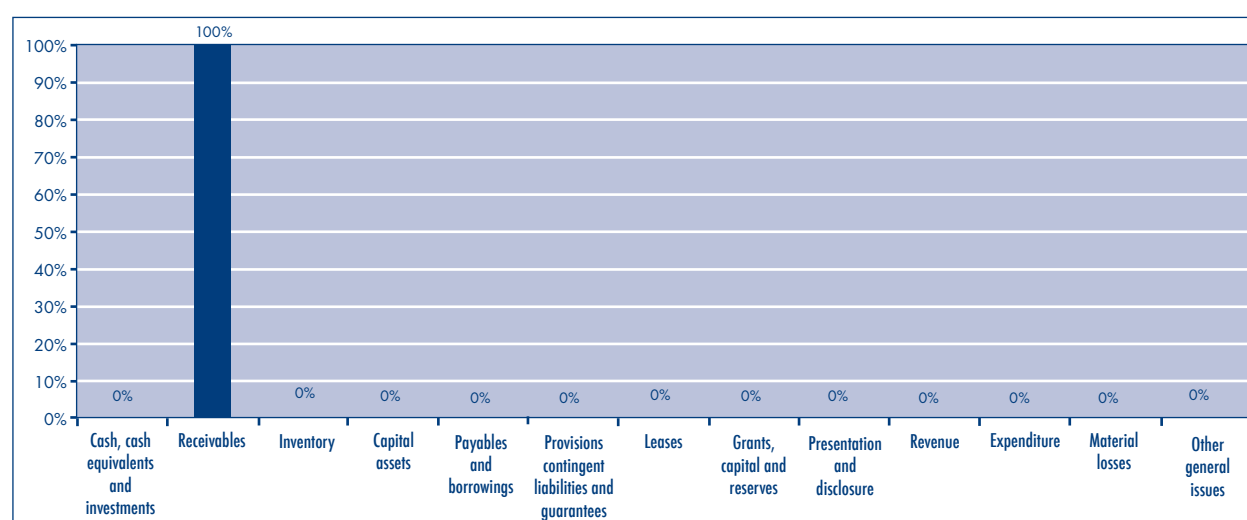
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provincial treasury, to implement more sustainable accounting and internal control practices that could result in unqualified audit opinions without any significant concerns on other matters. The initiatives should focus on improving document management to ensure that documents are readily available and furnished for audit purposes in a timelier manner; that financial statements are prepared in compliance with the established accounting framework, and that risk management and good internal control and governance practices are developed and complied with.

1.3 Qualification details

Figure 1 below illustrates that there was only one area of audit findings which gave rise to the qualified audit opinion of the one (100%) affected provincial department.

Figure 1: Provincial department (one) that was qualified per audit finding



Overall conclusion

It is encouraging that only one (8%) department, namely Transport and Public Works, was qualified compared to four (31%) departments for the previous financial year.

The provincial Department of Transport and Public Works was only qualified in respect of the completeness of receivables for departmental revenue due to deficiencies in the management of property debtor files. The department was also qualified in this area, among others, during the 2006-07 financial year.

The department continued to face serious challenges with the management of immovable assets (scoped out for 2007-08 and therefore no qualification on assets). The completeness of the property debtor rentals emanating from these immovable assets could not be supported with adequate evidence, which was further compounded by inadequate debtors' information such as lease agreements. The department requires a comprehensive action plan to address the property rental debtors' qualification.

It was mentioned earlier that National Treasury had granted an exemption to the department regarding the disclosure of immovable assets due to uncertainties relating to the ownership of immovable properties between national and provincial government. The exemption also extended to the use of fair value for the



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valuation of assets where the cost could not be determined accurately. The department would have been qualified in these respects had it not been for the exemption.

It is critical, therefore, that the department develop and implement plans to achieve the key milestones that relate to the accuracy, valuation, ownership and completeness of immovable assets for the 2008-09 and 2009-10 financial years, as determined by National Treasury.

1.4 Audit findings in respect of other matters

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

The number of departments with findings on other matters increased from six in 2006-07 to 10 in the current year under review (see table 1), reflecting continued difficulties experienced by departments, specifically in complying with legislative requirements and in submitting accurate and quality financial statements for audit purposes.

Material non-compliance with relevant legislation

Most instances of material non-compliance with relevant legislation not affecting the financial statements related to non-compliance with the PFMA and Treasury Regulations in the case of seven or 54% (2006 07: seven or 54%) of the departments. Inadequate supervision and monitoring by the leadership (accounting officers, chief financial officers and relevant managers) had in part contributed to the negative audit findings in this area. The right leadership tone, with the support of internal audit, is necessary to establish a strong control environment and ensure compliance.

Matters of governance

Seven departments had concerns raised on matters of governance, which included findings on audit committees, the timely availability of supporting documentation and implementation of external audit recommendations.

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

The audit committees were in operation throughout the financial year and substantially fulfilled their responsibilities set out in the Treasury Regulations, with the only exception being Transport and Public Works where the audit committee was only in operation for nine months of the year.

For the year under review, the internal audit function had substantially met its responsibilities in terms of the National Treasury Regulations. The outsourcing arrangements with regard to internal audit for provincial departments will be drawing to a close in December 2008. The province has made some progress in attracting and retaining suitably qualified internal auditors as the outsourcing arrangements are being wound down. Efforts to fully capacitate the internal audit function in departments need to be bolstered further at a strategic level to ensure the sustainability of the function.



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Significant difficulties were experienced concerning delays in providing or the unavailability of expected information while some departments had not substantially implemented the prior year's external audit recommendations.

Material misstatements

Fewer departments (eight or 62%) had to effect material corrections to their financial statements after auditors had identified errors, omissions and inconsistencies, compared to nine (69%) departments in 2006-07.

While there has been improvement in the quality of financial statements, the next few years will pose greater challenges to departments with the ongoing transition to accrual accounting. In order to deal with the prevalence of material misstatements in financial statements that have to be corrected during the audit period, departments need to:

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

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

2. PERFORMANCE REPORTING RESULTS

2.1 Introduction

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

2.2 Results of the audit of performance information

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

There has been improvement in the management of and reporting on performance information, in that the number of departments with no findings increased from 38% in 2006-07 to 46% in 2007-08.

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



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3. INFORMATION SYSTEMS AUDIT

3.1 Introduction

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

3.2 Results of the information systems audits

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

The user account management process in respect of the LOGIS system was audited at 11 provincial departments of the Western Cape and the following key findings were identified:

Table 3: User account management process in respect of LOGIS

USER ACCOUNT MANAGEMENT PROCESS	Percentage of departments with findings
User account management standards and procedures	
Incomplete user account management procedures	75%
Access request authorisation	
Access request forms not consistently completed	0%
Application security	
Lack of segregation of duties	25%
Excessive access rights assigned to users	0%
Inactive accounts not timeously deactivated	0%
User access levels not periodically reviewed	50%
User identifications not uniquely assigned	0%

4. ISSUES DRIVING AUDIT RESULTS

4.1 Introduction

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

- A clear trail of supporting documentation
- Quality of financial statements and management information
- Timeliness of financial statements and management information
- Availability of key officials during audits



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- Development of and compliance with risk management and good internal control practices
- Supervision and monitoring (leadership effectiveness).

4.2 Achievement against good practice indicators

Table 4 below presents the results of the 13 Western Cape departments achieving the above-mentioned good practice indicators.

Table 4: Results of good practice indicators for Western Cape provincial departments for 2007 08

No.	Good practices	Percentage of total departments achieving good practice indicator ³
1	Clear trail of supporting documentation that is easily available and provided timeously	62%
2	Quality of financial statements and management information	46%
3	Timeliness of financial statements and management information	100%
4	Availability of key officials during audits	100%
5	Development of and compliance with risk management and good internal control and governance practices	69%
6	Supervision / monitoring	77%

- **Clear trail of supporting documentation**

In the 2006-07 general report, we noted that qualifications in the Western Cape departments were mainly driven by the fact that information could not be presented to the auditors during the audit (limitation of scope). While the majority (62%) of departments' supporting documentation was easily accessible, a few (38%) have to do more to ensure that sufficient appropriate audit evidence is available to support the transactions and balances in the financial statements. Significant difficulties were experienced during the audit concerning delays in providing or the unavailability of expected information. Management of documentation requires improvement to ensure that it is readily available and furnished in a timelier manner 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 (54%) departments. Material corrections to the financial

³ This would serve as a baseline to monitor future improvement



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statements mainly relate to issues of disclosure associated with the ongoing transition to accrual accounting. In this regard, processes (manual or automated) need to be further refined in order to accurately collate information for the preparation and presentation of the financial statements as mentioned in section 1.4 above.

- **Timeliness of annual financial statements**

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

- **Availability of key officials**

As noted in the previous general report, key officials were in some cases not available to provide the required context to audit findings. 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 in that officials received earlier notice of audit findings and could take corrective action before the final conclusions that lead to an audit opinion.

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

Western Cape provincial departments have made important advances in establishing effective governance arrangements, such as risk management and internal control practices, including internal audit. The centralised audit committees fulfilled a key role in reviewing the effectiveness of internal governance arrangements.

Effective risk management and internal control practices, however, continued to pose a challenge for some departments. In the case of 69% departments, risk management strategies and plans, including fraud prevention plans, had been reviewed and updated regularly for changing circumstances. In the case of one department, the audit committee was not operational for part of the year under review. Committees established to monitor the implementation of audit recommendations need to be strengthened to fulfil their roles effectively.

- **Leadership, supervision and monitoring**

In the previous year, we reported that effective monitoring by the leadership to improve financial management in the Western Cape should be supported with appropriately developed tools like checklists to interrogate the existence of basic financial management practices in the provincial government.

The practice of supervision and monitoring, especially insofar as financial management is concerned, was evident in 77% of all departments.



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5. SCOPA RESOLUTIONS

5.1 Introduction

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

5.2 SCOPA resolutions not yet implemented

No.	Department	No. of resolutions	Resolutions not yet implemented
1	Premier	4	0
2	Provincial Parliament	0	0
3	Provincial Treasury	3	0
4	Community Safety	8	0
5	Education	7	0
6	Health	7	0
7	Social Development	0	0
8	Local Government and Housing	0	0
9	Environmental Affairs and Development Planning	0	0
10	Transport and Public Works	10	0
11	Agriculture	4	0
12	Economic Development and Tourism	0	0
13	Cultural Affairs and Sport	0	0

6. TABLING OF ANNUAL REPORT

6.1 Introduction

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

6.2 Annual reports tabled

No.	Department	Tabled (Y/N)
1	Premier	Y
2	Provincial Parliament	Y
3	Provincial Treasury	Y
4	Community Safety	Y
5	Education	Y
6	Health	Y
7	Social Development	Y
8	Local Government and Housing	Y
9	Environmental Affairs and Development Planning	Y
10	Transport and Public Works	Y
11	Agriculture	Y
12	Economic Development and Tourism	Y
13	Cultural Affairs and Sport	Y



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7. SUMMARY OF OTHER AUDITS

7.1 Performance auditing

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

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

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

7.2 Results of performance auditing

The following performance audits had been completed at the date of this report.

Department	Report description	Date of report	Expected date of tabling
Local Government and Housing	Allocation of housing subsidies to municipal employees and the administration of low-cost housing projects by the department	May 2008	N/A
Western Cape: transversal audit	Transversal audit of conflict of interest: Audit of entities that are connected with government employees and doing business with departments of the Western Cape Provincial Administration	August 2008	November 2008

7.3 Investigations

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



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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 investigation

Department	Report description	Date of report	Date of tabling
Community Safety	An investigation (agreed-upon procedure) was conducted during the year under review following a request by the Western Cape Provincial Parliament. The investigation aimed to establish the status of actions implemented in respect of the AG's findings highlighted in prior year audit reports.	17 July 2008	23 July 2008



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SECTION 3: PROVINCIAL PUBLIC ENTITIES

1. FINANCIAL REPORTING RESULTS

1.1 Introduction

The Western Cape provincial government has nine listed public entities.

Audit reports in respect of the consolidated financial statements of provincial public entities for 2006-07 were signed on 11 December 2007, having been received on 11 September 2007.

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

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

Table 1: Audit opinions on provincial public entities

Type of audit opinion	2007-08		2006-07	
	Number	%	Number	%
Adverse	1	11%	0	0%
Disclaimer	0	0%	0	0%
Qualified	3	33%	1	11%
Financially unqualified (with other matters)	5	56%	5	56%
Financially unqualified (with no other matters)	0	0%	3	33%
Total analysed	9	100%	19	100%

There has been a general deterioration in the audit outcomes for public entities compared to the previous year. Table 1 reflects the following:

- One (11%) public entity, namely the Western Cape Cultural Commission, which falls under Cultural Affairs and Sport, moved from a previously unqualified audit opinion (with no other matters) to an adverse opinion in the current year. The latter is one of the worst audit opinions. The deterioration in audit outcomes, which is considered a one-off situation, was due to the incorrect processing of transactions throughout the financial year emanating from incorrect parameters set on the accounting system. The errors were not detected due to a lack of monitoring throughout the year by senior management.
- Three (33%) (2006-07: one or 11%) public entities received a qualified audit opinion.



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- The Western Cape Language Committee, which also falls under Cultural Affairs and Sport, had errors relating to the incorrect processing of transactions throughout the financial year due to incorrect parameters set on the accounting system.
 - The Western Cape Liquor Board maintained its qualification as the accuracy and completeness of revenue and receivables in respect of the liquor licences remained a problem. The liquor licence income is collected by the South African Revenue Service (SARS) in an agency relationship and SARS pays the money over to the Board in a lump sum. SARS does not supply the Board with a complete and detailed breakdown of the income collected. The Board could therefore not determine which debtors had settled their debts in respect of liquor licences at year-end. The legislation to address the collection of liquor licence income had not been finalised at the time of this report. Furthermore, no provision for the impairment of receivables was made as adequate measures to assess and identify the risk of bad debts were not instituted by the Board.
 - In the case of the Western Cape Nature Conservation Board, the counting of physical inventories could not be observed at the end of the year due to a breakdown in communication, and alternative audit procedures could not be carried out successfully regarding the existence of inventory at year-end.
- Five (56%) public entities received an unqualified financial opinion, but had concerns in areas of legislative non-compliance and governance matters. These were the Destination and Marketing Organisation, Western Cape Gambling and Racing Board, Western Cape Investment and Trade Promotion Agency, Western Cape Provincial Development Council and Western Cape Provincial Youth Commission. The other matters need to be addressed urgently as they could continue to adversely affect the public entities' ability to move to an unqualified audit opinion with no other matters.

Table 2 below provides details as to the audit outcomes for the Western Cape provincial public entities for the previous five years. The public entities in this table vary in size and nature, and face different challenges. Caution is therefore required in comparing these public entities.

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

Public entity	2007-08	2006-07	2005-06	2004-05	2003-04
Western Cape Provincial Youth Commission	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Adverse	N/A	N/A
Western Cape Nature Conservation	Qualified	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Qualified	FU (with other matters)
Western Cape Provincial Development Council	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with no other matters)	Financially unqualified (with other matters)
Western Cape Gambling and Racing Board	Financially unqualified (with other matters)	Financially unqualified (with no other matters)	Financially unqualified (with no other matters)	Financially unqualified (with no other matters)	Financially unqualified (with no other matters)



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Table 2: Audit opinions on provincial public entities for the previous five years (continued)

Public entity	2007-08	2006-07	2005-06	2004-05	2003-04
Western Cape Cultural Commission	Adverse	Financially unqualified (with no other matters)	Financially unqualified (with no other matters)	Qualified	Qualified
Western Cape Language Committee	Qualified	Financially unqualified (with no other matters)	Financially unqualified (with no other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)
Destination Marketing Organisation	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with no other matters)	Financially unqualified (with other matters)	N/A
Western Cape Investment and Trade Promotion Agency	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with no other matters)	Financially unqualified (with other matters)	Financially unqualified (with no other matters)
Western Cape Liquor Board	Qualified	Qualified	Qualified	N/A	N/A

As in the case of departments, the last five years have seen a consistently high number of public entities with a history of audit opinions that are financially unqualified, but which had concerns in areas such as legislative non-compliance and matters of governance. Details of some of the audit findings leading to other matters are discussed in section 1.4 of this section of the report.

One (11%) out of nine public entities received three qualifications in the last three years. As indicated in section 1.3 below, the accuracy and completeness of revenue and receivables in respect of the liquor licences remained a problem for the Liquor Board. The legislation to address the collection of liquor licence income had not been finalised at the time of this report.

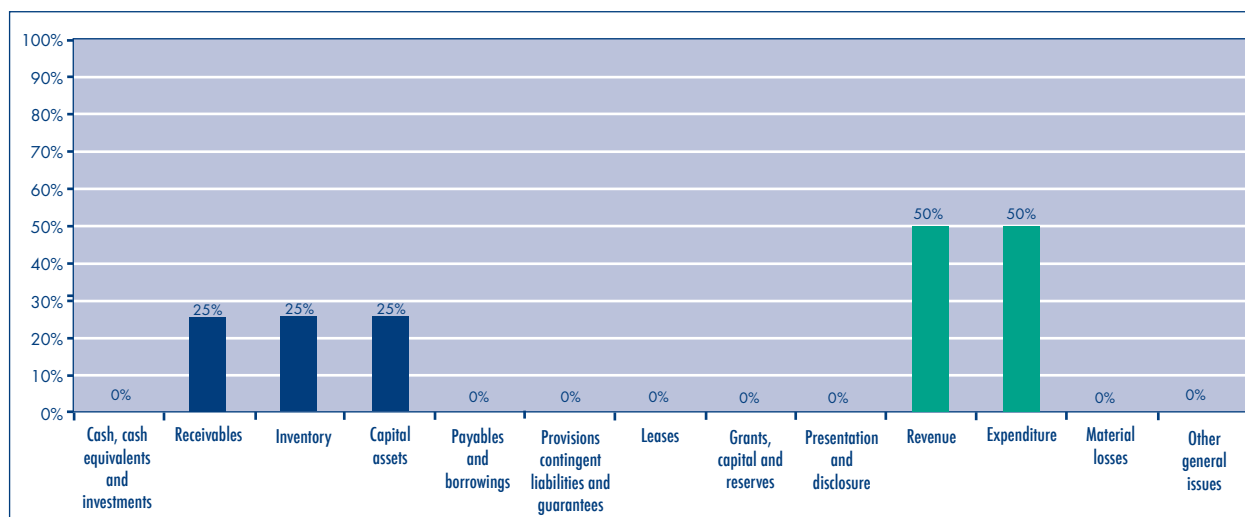
The fluctuating number of qualified audit opinions, together with the high occurrence of financially unqualified audit opinions with other matters, indicates that more robust and focused initiatives are required by accounting authorities, with the continued support of the provincial treasury, to implement more sustainable accounting and internal control practices that would result in unqualified audit opinions.

1.3 Qualification details

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



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

Overall conclusion

The main reasons for the four public entities being qualified are as follows:

- Inventory: One (25%) public entity, namely Western Cape Nature Conservation, had findings on inventory as the existence of inventory at year-end could not be verified.
- Capital assets: One (25%) public entity, namely Western Cape Cultural Commission, had not determined or assessed the residual value of its property, plant and equipment for the year under review.
- Receivables: One (25%) public entity, namely Western Cape Liquor Board, had not made provision for the impairment of receivables.
- Revenue: Two (50%) public entities, namely Western Cape Cultural Commission and Western Cape Liquor Board, had findings on revenue control weaknesses in the following areas:
 - Revenue was misstated as a result of transactions in respect of rentals of facilities being incorrectly processed throughout the financial year emanating from incorrect parameters set on the accounting system in the case of the Cultural Commission.
 - The Liquor Board remained unable to accurately and completely account for the revenue and receivables raised for liquor licences due to the fact that the income collected by the South African Revenue Service was paid over in a lump sum and the Board was not provided with a detailed breakdown of income collected for accounting purposes.
- Expenditure was materially misstated as a result of transactions in respect of goods and services incorrectly recorded in the accounting records in the case of two (50%) public entities, namely, Western Cape Cultural Commission and Western Cape Language Committee. This was due to the incorrect processing of transactions throughout the financial year emanating from incorrect parameters set on the accounting system. The errors were not detected due to a lack of monitoring throughout the year by senior management.



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1.4 Audit findings in respect of other matters

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

Material non-compliance with relevant legislation

Most instances of material non-compliance with relevant legislation not affecting the financial statements related to non-compliance with the PFMA and Treasury Regulations in the case of three (33%) public entities. Inadequate supervision and monitoring by the leadership (accounting authorities, chief financial officers and relevant managers) had in part contributed to the negative audit findings in this area. The right leadership tone, with the support of internal audit, is necessary to establish a strong control environment and ensure compliance.

Matters of governance

Fifty-six per cent of public entities had concerns raised on matters of governance, which included findings on audit committees, the timely availability of supporting documentation and implementation of external audit recommendations.

One public entity (Western Cape Provincial Development Council) had findings reported under governance, which related to shortcomings in audit committees and internal audit. The audit committee of the Provincial Development Council did not operate in accordance with written terms of reference and had also not substantially fulfilled its responsibilities under the Treasury Regulations. The Council also did not have a fully functioning internal audit unit. Endeavours should be renewed to improve the functioning of the audit committee and establish a fully functional internal audit as required by the PFMA.

Significant difficulties were experienced at three of the public entities concerning delays in providing or the unavailability of expected information and/or the unavailability of senior management.

The majority of the prior year’s external audit recommendations have been substantially implemented, with the exception of Western Cape Cultural Commission, Western Cape Language Committee and the Provincial Development Council.

Material misstatements

All public entities (nine or 100%) had to effect material corrections to their financial statements after the auditors identified errors, omissions and inconsistencies, compared to six or 67% public entities in 2006-07. This reflects the increasingly complex accounting environment in which public entities operate, which requires the chief financial officers of the public entities to work more closely with the provincial treasury in order to produce quality financial statements that comply with the established accounting framework.

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



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2. PERFORMANCE REPORTING RESULTS

2.1 Introduction

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

2.2 Results of the audit of performance information

The *Framework for Managing Programme Performance Information* introduced by National Treasury, supported by various training initiatives during the financial year under review, has led to public entities improving the process of managing and reporting on performance information, with an increase in public entities with no audit findings from 33% in 2006-07 to 67% in 2007-08.

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

3. INFORMATION SYSTEMS AUDIT

No information systems audits were performed at Western Cape public entities during 2007-08.

4. ISSUES DRIVING AUDIT RESULTS

4.1 Introduction

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

- A 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 4 below reflects the Western Cape public entities' achievement of the above-mentioned good practice indicators. The assessment of public entities against these good practices is based on the professional judgement of auditors during the 2007-08 audits.



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Table 4: Results of good practice indicators for the Western Cape provincial public entities (9) for 2007-08

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

- **Clear trail of supporting documentation**

Some 67% (six out of nine) of public entities displayed this good practice. This needs to be improved, because the easy availability of supporting documentation contributes significantly to the efficiency of the audit and public entities are encouraged to further improve in this regard.

- **Quality annual financial statements**

None of the public entities have made any progress in preparing better quality financial statements for auditing purposes. The production of periodic management information by the chief financial officers should be enhanced and reviewed to ensure the credibility thereof. Financial statements should be subjected to a quality review by internal audit and the audit committee before submission for auditing. Greater effort is required from all the public entities to improve this further with the support of the National Treasury and provincial treasury to clarify technical accounting issues in a timely manner.

- **Timeliness of annual financial statements**

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

- **Availability of key officials**

In 67% (six out of nine) of public entities key officials were available during the audit of public entities, which went a long way to clear audit findings in a timely manner. There is much room for improvement in this area in future.

⁴ This would serve as a baseline to monitor future improvement.



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

Our assessment indicates that governance practices are generally present in 78% (seven out of nine) of public entities. Audit committees and internal audit need to be strengthened in the case of the Western Cape Provincial Development Council, while fraud prevention plans require attention at the Western Cape Youth Commission. This will assist public entities in achieving good governance and accountability and ensuring that risk management processes receive the appropriate attention.

- **Leadership, supervision and monitoring**

Adequate supervision and monitoring were only present in 67% (six out of nine) of public entities. The lack of supervision and monitoring by the leadership (accounting authorities, chief financial officers and relevant managers) has in part contributed to the negative audit findings, which could have been avoided. The right leadership tone is necessary to establish a strong control environment and ensure compliance. In addition, oversight by the parent departments needs to be enhanced.

5. SCOPA RESOLUTIONS

5.1 Introduction

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

5.2 SCOPA resolutions not yet implemented

Public entity	No. of resolutions	Resolutions not yet implemented
Western Cape Provincial Youth Commission	2	0
Western Cape Nature Conservation	0	0
Western Cape Provincial Development Council	1	0
Western Cape Gambling and Racing Board	0	0
Western Cape Cultural Commission	0	0
Western Cape Language Committee	0	0
Destination Marketing Organisation	3	0
Western Cape Investment and Trade Promotion Agency	0	0
Western Cape Liquor Board	0	0



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6. TABLING OF ANNUAL REPORT

6.1 Introduction

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

6.2 Annual reports tabled

No.	Public entity	Tabled (Y/N)
1	Western Cape Provincial Youth Commission	Y
2	Western Cape Nature Conservation	Y
3	Western Cape Provincial Development Council	Y
4	Western Cape Gambling and Racing Board	Y
5	Western Cape Cultural Commission	Y
6	Western Cape Language Committee	Y
7	Destination Marketing Organisation	Y
8	Western Cape Investment and Trade Promotion Agency	Y
9	Western Cape Liquor Board	Y

7. SUMMARY OF OTHER AUDITS

7.1 Performance auditing

No performance audits were performed at the Western Cape public entities for 2007-08.

7.2 Investigations

No investigations were conducted at the Western Cape public entities for 2007-08.



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SECTION 4: OTHER ENTITIES

1. FINANCIAL REPORTING RESULTS

1.1 Introduction

The Western Cape provincial government comprises four other entities, which include two trading entities and two unlisted public entities.

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

Table 1 below provides details as to the audit outcomes for the Western Cape 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)	2	50%	2	50%
Financially unqualified (with no other matters)	1	25%	1	25%
Total analysed	4	100%	4	100%

There has been a slight improvement in the audit outcomes for other entities compared to the previous year as there were no adverse opinions or any disclaimers. Table 1 reflects the following:

- One (25%) other entity, namely Western Cape Housing Development Fund, received a qualification compared to a disclaimer the previous year. The Fund has implemented a financial improvement plan to address findings raised by the AG, but needs a more comprehensive plan to address the findings around rights and ownership, as well as the valuation of properties.
- Two (50%) other entities received an unqualified financial opinion, but had concerns in areas of legislative non-compliance and governance matters. These were the Cape Medical Depot and Government Motor Transport. The findings on other matters resulted mainly from a lack of supervision and monitoring to ensure compliance with established risk management and good internal control and governance practices. The other matters need to be addressed urgently as they could continue to adversely affect these entities' ability to move to an unqualified audit opinion with no other matters.



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- One (25%) other entity, namely Heritage Western Cape, had no matters to report, which was the same as the previous year.

Table 2 below provides details as to the audit outcomes for the Western Cape other public entities for the previous five years. The entities in this table vary in size and nature, and face different challenges. Caution is therefore required in comparing the other entities.

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

Public entity	2007-08	2006-07	2005-06	2004-05	2003-04
Western Cape Housing Development Fund	Qualified	Disclaimer	Disclaimer	Disclaimer	Qualified
Cape Medical Depot	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Qualified
Government Motor Transport	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Qualified
The Heritage Western Cape	Financially unqualified (with no other matters)	Financially unqualified (with no other matters)	Financially unqualified (with no other matters)	Financially unqualified (with other matters)	N/A

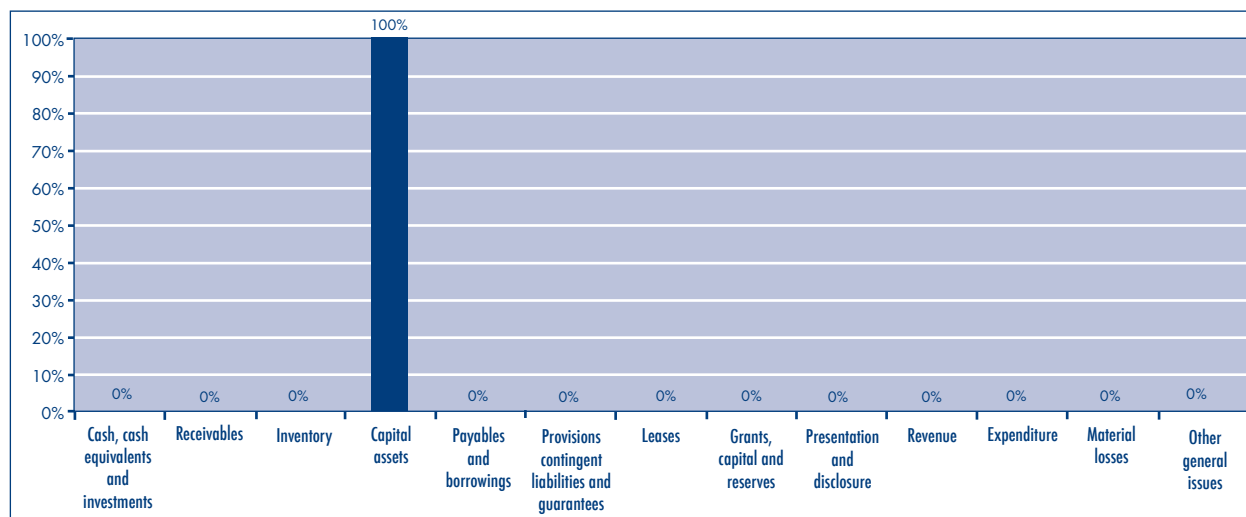
Only one (25%) of the four entities (Housing Development Fund) received a qualification or higher for more than two years during the past five years with the other two entities remaining constant for the past four years with financially unqualified audit opinions with other matters.

1.3 Qualification details

Figure 1 below provides a breakdown of all the audit findings which gave rise to the qualified audit opinion of the one applicable other entity. It also provides an indication of the percentage of the other entities (one of one or 100%) that were qualified per audit finding.



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Figure 1: Other (one) that was qualified per audit finding

Overall conclusion

The main reason for the qualification is as follows:

- Capital assets: One (100%) other entity, namely Western Cape Housing Development Fund, had issues on capital assets, which related to the Fund not having the rights and ownership to properties included in its records, and to errors in the valuation of properties.

1.4 Audit findings in respect of other matters

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

Material non-compliance with relevant legislation

The material non-compliance with relevant legislation not affecting the financial statements related to non-compliance with the PFMA and Treasury Regulations in the case of one (25%) other entity, namely the Cape Medical Depot, which also reported non-compliance with specific enabling legislation.

Matters of governance

Only the Cape Medical Depot and The Heritage Western Cape had a fully functional audit committee, while Western Cape Housing Fund and Government Motor Transport did not have an audit committee throughout the year. The audit committee of Western Cape Housing Fund also did not operate in accordance with written terms of reference. Furthermore, in the case of Western Cape Housing Fund and Government Motor Transport, the audit committees had not substantially fulfilled their responsibilities under the Treasury Regulations.



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The Western Cape Housing Fund also did not have a fully functioning internal audit unit. In this regard, endeavours should be renewed to establish a fully functional internal audit function as required by the PFMA.

Significant difficulties were experienced at three of the other entities concerning delays in providing or the unavailability of expected information while another two did not substantially implement the prior year external audit recommendations.

Material misstatements

Three of the other entities (three or 75%) had to effect material corrections to their financial statements due to errors, omissions and inconsistencies identified by the auditors. This reflects the increasingly complex accounting environment in which the other entities operate.

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

2. PERFORMANCE REPORTING RESULTS

2.1 Introduction

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

2.2 Results of the audit of performance information

The Framework for Managing Programme Performance Information introduced by National Treasury and supported by various training initiatives during the financial year under review has led to public entities improving the process of managing and reporting on performance information.

All other entities reported on their performance information for the year under review, which is an improvement over the last financial year. Seventy-five per cent of entities had no audit findings, which is more favourable compared to 50% the previous year.

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

3. INFORMATION SYSTEMS AUDIT

No information systems audits were performed at the Western Cape other entities during 2007-08.



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4. ISSUES DRIVING AUDIT RESULTS

4.1 Introduction

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

- A 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 4 below reflects the achievement of the Western Cape other entities in terms of the above-mentioned good practice indicators. The assessment of other entities against these good practices is based on the professional judgement of auditors during the 2007-08 audits.

Table 4: Results of good practice indicators for the Western Cape other entities (four) for 2007-08

No.	Good practices	Percentage of total public entities achieving good practice indicator ⁵
1	Clear trail of supporting documentation that is easily available and provided timeously	25%
2	Quality of financial statements and management information	25%
3	Timeliness of financial statements and management information	100%
4	Availability of key officials during audits	100%
5	Development of and compliance with risk management and good internal control and governance practices	50%
6	Supervision / monitoring	50%

• Clear trail of supporting documentation

Only one (25%) of the other entities displayed this good practice. This needs to be improved, because easy availability of supporting documentation contributes significantly towards the efficiency of the audit.

⁵ This would serve as a baseline to monitor future improvement.



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- **Quality annual financial statements**

Only one (25%) of the other entities had prepared and submitted better quality financial statements 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 these entities to improve this further with the support of the National Treasury and provincial treasury to clarify technical accounting issues in a timely manner.

- **Timeliness of annual financial statements**

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

- **Availability of key officials**

With regard to other entities, 100% of the key officials were available during the audit of public entities, which no doubt assisted in clearing audit findings in a timely manner.

- **Governance**

Our assessment indicates that governance practices are generally present in two (50%) of the other entities. In respect of the two other entities (Western Cape Housing Fund and Government Motor Transport) the functioning of their audit committees needs to be strengthened. Internal audit in the case of Western Cape Housing Fund also requires attention. In particular, the internal audit function and audit committees require strengthening since they are crucial to assist management in establishing a sound internal control environment and ensuring ongoing evaluation and monitoring of management's compliance with predefined controls and progress in implementing the action plans.

- **Supervision and monitoring**

Adequate supervision and monitoring were evident at two (or 50%) of the other entities. In the case of the other two entities, endeavours to improve supervision and monitoring should be renewed. Oversight by parent departments also needs to be enhanced.

5. SCOPA RESOLUTIONS

5.1 Introduction

As part of the International Standards on Auditing, ISA 720, "Other information contained in documents containing audited financial statements", we are expected to include the review of the Standing Committee of Public Accounts (SCOPA) resolutions included in the accounting authority's report. The table below indicates that there were no SCOPA resolutions for the other entities.



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5.2 SCOPA resolutions

There were no SCOPA resolutions in respect of other entities

6. TABLING OF ANNUAL REPORT

6.1 Introduction

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

6.2 Annual reports tabled

No.	Other entities	Tabled (Y/N)
1	Western Cape Housing Development Fund	Y
2	Cape Medical Depot	Y
3	Government Motor Transport	Y
4	Heritage Western Cape	Y

7. SUMMARY OF OTHER AUDITS

7.1 Performance auditing

No performance audits were performed at Western Cape other entities for 2007-08.

7.2 Investigations

No investigations were conducted at Western Cape other entities for 2007-08.



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SECTION 5: CONCLUSION

The one qualified department requires a comprehensive action plan to address the property rental debtors' qualification. Furthermore, management of immovable assets requires focused action plans to address the concerns around accuracy, valuation, ownership and completeness in order to avoid a qualification in future. The qualified public entities also need to develop and implement a focused action plan to address the issues around asset management, revenue and expenditure, while the one other entity needs to focus on its inventory management. Importantly, the competency of staff to deal with complex accounting issues should also be reviewed to identify the need for appropriate training interventions.

The good practices which led to the notable improvement of audit opinions in the province need to be maintained and improved on in certain areas such as material misstatements in financial statements and actions to clear issues raised by the AG. In order to deal with the prevalence of material misstatements in financial statements that have to be corrected during the audit period, departments need to re-emphasise the role of chief financial officers in the preparation of regular management accounts, particularly relating to issues of disclosure associated with the ongoing transition to accrual accounting. Public entities and other entities also need to do more to produce quality financial statements that comply with the established accounting framework. Internal auditors and audit committees should focus on coordinating the process of developing and implementing action plans to clear issues raised by the AG.

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

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



AUDITOR - GENERAL

ANNEXURE 1: WESTERN CAPE – AUDIT OUTCOMES

Classification	Department	Portfolio	Audit opinion 2007/08	Audit opinion 2006/07	Cash, cash equivalent and investments	Receivables	Inventory	Capital assets	Payables and borrowings	Provisions, contingent liabilities and guarantees	Taxes and VAT	Grants, capital and reserves	Presentation and disclosure	Revenue	Expenditure	Material losses	Other general issues	Non-compliance	Governance findings	Material misstatements	Clear trail of supporting documentation that is easily available and provided in time	Quality of financial statements and management information	Timeliness of financial statements and management information	Availability of key officials during audits	Development of, and compliance with, risk management and good internal control and governance practices	Leadership / supervision / monitoring
PD	Agriculture	WC	Financially unqualified (with other matters)	Financially unqualified (with other matters)																						
PD	Community Safety	WC	Financially unqualified (with other matters)	Financially unqualified (with other matters)																						
PD	Cultural Affairs and Sport	WC	Financially unqualified (with other matters)	Financially unqualified (with other matters)																						
PD	Economic Development and Tourism	WC	Financially unqualified (with no other matters)	Financially unqualified (with other matters)																						
PD	Education	WC	Financially unqualified (with other matters)	Financially unqualified (with other matters)																						
PD	Environmental Affairs and Development Planning	WC	Financially unqualified (with other matters)	Financially unqualified (with other matters)																						
PD	Health	WC	Financially unqualified (with other matters)	Financially unqualified (with other matters)																						
PD	Local Government and Housing	WC	Financially unqualified (with other matters)	Financially unqualified (with other matters)																						
PD	Provincial Parliament	WC	Financially unqualified (with other matters)	Financially unqualified (with other matters)																						
PD	Provincial Premier	WC	Financially unqualified (with other matters)	Financially unqualified (with other matters)																						
PD	Provincial Treasury	WC	Financially unqualified (with other matters)	Financially unqualified (with other matters)																						
PD	Social Development	WC	Financially unqualified (with other matters)	Financially unqualified (with other matters)																						
PD	Transport and Public Works	WC	Financially unqualified (with no other matters)	Financially unqualified (with other matters)																						
PD	Transport and Public Works	WC	Qualification	Qualification																						
PE	Destination Marketing Organisation																									
	(TA Cape Town Routes Unlimited)	WC	Financially unqualified (with other matters)	Financially unqualified (with other matters)																						
PE	Western Cape Gambling and Racing Board	WC	Financially unqualified (with other matters)	Financially unqualified (with no other matters)																						
PE	Western Cape Cultural Commission	WC	Adverse	Financially unqualified (with no other matters)																						
PE	Western Cape Investment and Trade Promotion Agency	WC	Financially unqualified (with other matters)	Financially unqualified (with other matters)																						
PE	Western Cape Language Committee	WC	Qualification	Financially unqualified (with no other matters)																						
PE	Western Cape Liquor Board	WC	Qualification	Qualification																						
PE	Western Cape Nature Conservation Board	WC	Qualification	Financially unqualified (with other matters)																						
PE	Western Cape Provincial Development Council	WC	Financially unqualified (with other matters)	Financially unqualified (with other matters)																						
PE	Western Cape Provincial Youth Commission	WC	Financially unqualified (with other matters)	Financially unqualified (with other matters)																						



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ANNEXURE 1: WESTERN CAPE – AUDIT OUTCOMES (continued)

Classification	Department	Portfolio	Audit opinion 2007-08	Audit opinion 2006-07	Cash, cash equivalent and investments	Receivables	Inventory	Capital assets	Payables and borrowings	Provisions, contingent liabilities and guarantees	Taxes and VAT	Grants, capital and reserves	Presentation and disclosure	Revenue	Expenditure	Material losses	Other general issues	Non-compliance	Governance findings	Material misstatements	Clear trail of supporting documentation that is easily available and provided in time	Quality of financial statements and management information	Timeliness of financial statements and management information	Availability of key officials during audits	Development of, and compliance with, risk management and good internal control and governance practices	Leadership / supervision / monitoring
Fund	Western Cape Housing Development Fund	WC	Qualification	Disclaimer			1												1	1			1	1		
Trading entity	Cape Medical Depot	WC	Financially unqualified (with other matters)	Financially unqualified (with other matters)														1	1	1			1	1		
Trading entity	Government Motor Transport	WC	Financially unqualified (with other matters)	Financially unqualified (with other matters)															1	1			1	1		1
UPE	The Heritage Western Cape	WC	Financially unqualified (with no other matters)	Financially unqualified (with no other matters)																		1	1	1	1	

ABBREVIATIONS

PD Provincial department
PE Listed public entities
UPE Unlisted public entities

SUMMARY

Totals	13	1
Departments analysed		
Departments qualified		
Public entities analysed	9	
Public entities qualified	4	
Other entities analysed	1	
Other entities qualified	0	

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

AUDIT FINDINGS IN RESPECT OF QUALIFICATION

Departments	0%	100%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Public entities	0%	25%	25%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	50%	50%	0%	0%	33%	54%	62%	62%	62%	62%	62%	62%	62%
Other entities	0%	0%	0%	100%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	25%	75%	75%	75%	75%	75%	75%	75%	75%

AUDIT FINDINGS IN RESPECT OF MATTERS

Departments	54%	54%	62%
Public entities	33%	56%	100%
Other entities	25%	75%	75%

GOOD PRACTICES

Departments	62%	46%	100%	100%	69%	77%
Public entities	67%	0%	100%	100%	76%	67%
Other entities	25%	25%	100%	100%	50%	50%



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ANNEXURE 2: WESTERN CAPE – SUMMARY OF 2007-08 AUDIT REPORTS FOR PROVINCIAL DEPARTMENTS

1. Department of the Premier

A. AUDIT OPINION

- **Unqualified with emphasis and other matters**

B. EMPHASIS OF MATTER

- **Highlighting critically important matters presented or disclosed in the financial statements**
 - Irregular expenditure has been incurred, mostly in relation to procurement of goods and services.
 - The closing balance of assets as disclosed in the financial statements has not been adjusted for the errors found in the current year.

C. OTHER MATTERS

- **Non-compliance with applicable legislation**
 - Treasury Regulations
 - A number of payments were not consistently made within 30 days of receipt of the invoice during the year. Accruals which exceed the payment terms of 30 days amount to R3 637 641. This amount, in turn, exceeds the voted funds to be surrendered of R1 270 705, as per the statement of financial performance, by R2 366 936. The amount of R2 366 936 would therefore have constituted unauthorised expenditure had the invoices been paid in time.
- **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 in providing or the unavailability of expected information.

D. OTHER REPORTS

- **Investigations**
 - An investigation was conducted by forensic audit at the request of the department. The investigation was initiated based on allegations made by one of the entity's contractors



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regarding possible misappropriation of assets by employees. The investigation has resulted in an employee being dismissed.

2. Provincial Parliament

A. AUDIT OPINION

- **Unqualified with other matters**

B OTHER MATTERS

- **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 have not been substantially implemented.

3. Provincial Treasury

A. AUDIT OPINION

- **Unqualified with other matters**

B. OTHER MATTERS

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

4. Community Safety

A. AUDIT OPINION

- **Unqualified with emphasis and other matters**

B. EMPHASIS OF MATTER

- **Highlighting critically important matters presented or disclosed in the financial statements**
 - Irregular expenditure in respect of the prior year alleged irregular transactions relating to disallowances of R919 849 and a financial loss of R536 910, had not been reconciled to the accounting records of the department and was still being investigated by management. Consequently, the accounting records and the financial statements in respect of the



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2006-07 financial year were not adjusted for the financial loss recommended by the Fraud Investigation Unit.

- Irregular expenditure relating to the procurement of goods and services amounting to R2,188 million has been incurred.

C. OTHER MATTERS

• Non-compliance with applicable legislation

- Treasury Regulations
 - Irregular expenditure - Accruals which exceed the payment terms of 30 days amount to R3,001 million. This amount, in turn, exceeds voted funds to be surrendered amounting to R2,141 million as per the statement of financial performance by R860 000. The amount of R860 000 would, therefore, have constituted unauthorised expenditure had the invoices been paid in time.
 - The department did not finalise the fraud prevention plan for the year under review.

• 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 in providing or the unavailability of expected information.

D. OTHER REPORTING RESPONSIBILITIES

• Reporting on performance information

- Measurable objectives are materially inconsistent between the annual report and the strategic plan and budget
 - All (36) measurable objectives for programmes 2 and 4 reported in the annual report of the department are materially inconsistent when compared to the predetermined objectives as per either the strategic plan or the budget.
- Objectives reported in the annual report but not predetermined as per the strategic plan and the budget
 - Fifteen (42%) objectives for programmes 2 and 4 were reported in the annual report of the department although they were not included as predetermined objectives in the strategic plan. Similarly, seven (19%) objectives were not predetermined in the budget.

E. OTHER REPORTS

• Special audits

- A special audit (agreed-upon procedure) was conducted during the year under review



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following a request by the Western Cape Provincial Parliament. The investigation aimed to establish the status of actions implemented in respect of the Auditor-General's findings highlighted in prior year audit reports. The special audit covered the period 1 April 2005 to 31 March 2008 and the factual finding report was issued on 17 July 2008.

5. Education

A. AUDIT OPINION

- **Unqualified with other matters**

B. OTHER MATTERS

- **Non-compliance with applicable legislation**
 - Treasury Regulations
 - A fraud prevention plan has not been implemented.
 - The risk management policy has not been implemented.
- **Matters of governance**
 - Significant difficulties were experienced during the audit concerning delays in providing or the unavailability of expected information.
 - Investment in infrastructure - According to paragraphs 6.5.1 (b)(ii) and 21 of the 2005-06 and 2006-07 audit reports, two tender contracts for infrastructure projects were cancelled as the contractor did not have the capacity to successfully complete the projects. The Department of Public Works and Transport estimated that the loss owing to cancellation of the two contracts would amount to R12m and that an accurate value could only be determined after finalisation of the final account for both the cancelled contracts and new contracts to complete the projects. The two projects have now been completed; however, the accounts have not been finalised and an accurate value of the loss owing to cancellation of the two contracts has still not been determined.

C. OTHER REPORTING RESPONSIBILITIES

- **Reporting on performance information**
 - Measurable objectives are materially inconsistent between the annual report and the budget
 - The measurable objectives reported in the annual report are materially inconsistent when compared to the predetermined objectives as per the budget.
 - Measurable objectives are materially inconsistent between the annual report and the annual performance plan
 - The measurable objectives reported in the annual report are materially inconsistent when compared to the predetermined objectives as per the annual performance plan.



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- Lack of targets and outputs for performance measures reported in the annual report
 - No target was set in the annual performance plan and no outputs were reported in the annual report for the performance measure PM211: Percentage of learner days lost due to learner absenteeism in public ordinary schools. No target was set and no actual output was reported.
 - The following performance measures were identified in the annual performance plan, but no target was set and no actual output was indicated in the annual report:
 - o PPM201: Endorsement rate in Grade 12 examinations
 - o PPM202: Pass rate in Grade 12 for mathematics and science
 - o PPM203: Number of schools achieving less than 60% in Grade 12.
- Lack of sufficient and appropriate audit evidence
 - Unable to obtain sufficient appropriate audit evidence in relation to the performance information as the system used to generate information on the target outputs was not adequate for purposes of evaluation. Details are as follows:
 - o PM206: Expenditure on maintenance as a percentage of the value of school infrastructure - the valuation of R15 052 800 000 (R15 billion) for the replacement value of all immovable school infrastructure made by the quantity surveyors.
 - o PM219: "Pass ratio in Grade 12 examinations" – the total of 33,783 for the number of learners who passed Senior Certificate examinations.

6. Health

A. AUDIT OPINION

- **Unqualified with emphasis and other matters**

B. EMPHASIS OF MATTER

- **Highlighting critically important matters presented or disclosed in the financial statements**
 - Irregular expenditure
 - Irregular expenditure totalling R40 693 000 was incurred as a result of non-compliance with the supply chain management and financial delegations issued by the accounting officer as well as not following proper procurement processes.
 - Unauthorised expenditure
 - Unauthorised expenditure totalling R114 228 000 was incurred on programmes 2, 4 and 5 as a result of the occupational specific dispensation for nurses which was implemented with effect from 1 July 2007 and for which insufficient funds were allocated to the department to address the full cost of implementation.



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C. OTHER MATTERS

- **Non-compliance with applicable legislation**
 - Treasury Regulations
 - The department has not had an approved fraud prevention plan to prevent and detect fraud and to mitigate specific fraud risks since the 2005-06 financial year.
- **Matters of governance**
 - The financial statements submitted for audit were subject to material amendments resulting from the audit.
 - The prior year external audit recommendations had not been substantially implemented.

D. OTHER REPORTING RESPONSIBILITIES

- **Report on performance information**
 - Incomplete reporting on actual achievements in the annual report.
 - Actual progress on four indicators relating to programme 2, which were specified in the national tables of the annual performance plan, was not reported on in the annual report as the department had failed to collect data and evidence in relation to these indicators during the year.
 - Nine indicators, evaluated for programme 2, were listed in the annual performance plan, but targets were not specified.
 - Lack of sufficient and appropriate audit evidence
 - Unable to verify 33 indicators for programme 2: the processes and systems that produce the data for the indicators. The source was not clearly specified or the monitoring and evaluation report was listed as the source, but the source on which the monitoring and evaluation report is based was not specified.
 - The actual achievement of 38 indicators for programme 2 could not be substantiated by adequate evidence.
 - Lack of controls within systems generating performance information
 - The actual processes to validate and verify data submitted as performance information are not aligned with the internal information management policies and procedures.
 - Evidence materially inconsistent with reported performance information
 - The evidence provided to support the performance information reported in the annual report for programme 2 was materially inconsistent with the reported performance information for 43 of the 69 indicators tested.
 - The evidence provided to support the performance information of 13 performance indicators reported in the annual report for the three central hospitals under programme 5 differed as per the hospital information systems (HIS and Clinicom), the provincial information management database (SINJANI) and the actual performance reported.



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- The targets set for nine performance indicators under programme 2 and three performance indicators under programme 5 did not appear to be relevant in relation to the department's actual performance over the past two to three financial years.

7. Social Development

A. AUDIT OPINION

- **Unqualified with emphasis and other matters**

- Financially unqualified with no other matters

B. EMPHASIS OF MATTER

- **Contingent liabilities**

- The department and the national government are jointly and severally liable for damages arising from a claim amounting to R102 million instituted during 1999. The ultimate quantum of the liability will be determined after judgment at a later stage.

C. OTHER MATTERS

- **Matters of governance**

- Unaudited supplementary schedules
 - The Statement of Conditional Grants to municipalities includes amounts spent by those municipalities. This amount has not been audited and accordingly no opinion is expressed thereon.

8. Local Government and Housing

A. AUDIT OPINION

- **Unqualified with other matters**

B. OTHER MATTERS

- **Non-compliance with applicable legislation**

- Treasury Regulations
 - Invoices amounting to R1 750 846 were not paid within 30 days from receipt. A similar audit finding was reported in the previous three years.

- **Matters of governance**

- Unaudited supplementary schedules



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- The Statement of Unconditional Grants to municipalities includes amounts spent by those municipalities. This amount has not been audited and accordingly no opinion is expressed thereon.

C. OTHER REPORTING RESPONSIBILITIES

- **Reporting on performance information**

- Non-compliance with regulatory requirements
 - It was found that one of the department's performance objectives had not been well defined, while five planned targets were not measurable
- Evidence materially inconsistent with reported performance information
 - The evidence provided to support the performance information reported in the annual report was, in 28 of the 88 cases tested, materially inconsistent with the reported performance information. This has subsequently been adjusted in the annual report.

D. OTHER REPORTS

- **Investigations**

- The department referred the following matters to the Special Investigation Unit (SIU) for investigation in terms Presidential Proclamation No. 7 of 2007, dated 25 April 2007, during the year under review:
 - The 572 cases identified in the performance audit report of the Auditor-General, issued on 4 January 2006, on housing subsidies awarded to government employees by the former Western Cape Department of Housing during the period January 1995 to March 2004.
 - The 2 210 cases where housing subsidies were awarded to municipal officials at eight municipalities earning in excess of the subsidy threshold, as identified by the Auditor-General during a performance audit performed on the allocation of housing subsidies to municipal employees and the administration of low-cost housing projects by the Western Cape Department of Local Government and Housing during the period January 1995 to November 2005.
 - A total of 15 people housing projects (PHP) where possible irregularities were identified by the department.
 - Twenty-nine PHP housing projects out of a total of 158, for which subsidies amounting to R115 496 761 had been approved for the building of 7 818 houses, were identified by the department as "blocked" or slow-moving projects as a result of possible irregularities with its administration by external parties or where progress made on the projects was not up to standard. Six of these projects have already been referred to the SIU as part of the above 15 projects, while some of the others have also been identified for possible referral. Several of these projects had already been "blocked" since 2004 and 2005 and the building of some of the houses has consequently been delayed.



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- **Performance audits**

- A performance audit report on the allocation of housing subsidies to municipal employees and the administration of low-cost housing projects by the department during the period January 2005 to November 2005 was issued subsequent to year-end.

9. Environmental Affairs and Development Planning

A. AUDIT OPINION

- **Unqualified with emphasis and other matters**

B. EMPHASIS OF MATTER

- **Highlighting critically important matters presented or disclosed in the financial statements**
 - The department has materially underspent the budget on programmes 1, 2 and 3 to a total amount of R1,717 million.

C. OTHER MATTERS

- **Non-compliance with applicable legislation**
 - The department failed to conduct an investigation into plant and equipment not found during the asset counts of the past five years.
 - The fraud and corruption prevention plan has not yet been implemented.
- **Matters of governance**
 - Significant difficulties were experienced during the audit concerning delays in providing or the unavailability of expected information.

10. Transport and Public Works

A. AUDIT OPINION

- **Qualified**
 - The department utilises the MDA system to manage debtors in respect of the properties it controls and leases. Significant weaknesses were identified regarding the management of debtor files, and as a consequence the information on the MDA system could not be relied on. Alternative procedures were performed on the immovable asset register to determine the extent of properties being leased by the department; however, sufficient appropriate audit evidence in respect of the completeness of the information in the MDA system could not be obtained. As a result, the completeness of the property debtors could not be verified.



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B. EMPHASIS OF MATTER

- **Highlighting critically important matters presented or disclosed in the financial statements**
 - The irregular expenditure in respect of the prior year alleged irregular transactions, which related to disallowances of R919 849 and a financial loss of R536 910, had not been reconciled to the accounting records of the department and was still being investigated by management. Consequently, the accounting records and the financial statements in respect of the 2006-07 financial year were not adjusted for the financial loss as recommended by the Fraud Investigation Unit.
 - Irregular expenditure relating to the procurement of goods and services amounting to R2,188 million has been incurred.

C. OTHER MATTERS

- **Non-compliance with applicable legislation**
 - Treasury Regulations
 - Irregular expenditure - Accruals which exceed the payment terms of 30 days amount to R3,001 million. This amount, in turn, exceeds voted funds to be surrendered amounting to R2,141 million, as per the statement of financial performance, by R860 000. The amount of R860 000 would, therefore, have constituted unauthorised expenditure had the invoices been paid in time.
 - The department did not finalise the fraud prevention plan for the year under review.
- **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 in providing or the unavailability of expected information.

D. OTHER REPORTING RESPONSIBILITIES

- **Reporting on performance information**
 - Measurable objectives are materially inconsistent between the annual report and the strategic plan and budget
 - All (36) measurable objectives for programmes 2 and 4 reported in the annual report of the department are materially inconsistent when compared to the predetermined objectives as per either the strategic plan or the budget.
 - Objectives reported in the annual report but not predetermined as per the strategic plan and the budget



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

- Fifteen (42%) objectives for programmes 2 and 4 were reported in the annual report of the department although they were not included as predetermined objectives in the strategic plan. Similarly, seven (19%) objectives were not predetermined in the budget.

E. OTHER REPORTS

• Special audits

- A special audit (agreed-upon procedure) was conducted during the year under review following a request by the Western Cape Provincial Parliament. The investigation aimed to establish the status of actions implemented in respect of the Auditor-General's findings highlighted in prior year audit reports. The special audit covered the period 1 April 2005 to 31 March 2008 and the factual finding report was issued on 17 July 2008.

11. Agriculture

A. AUDIT OPINION

- **Unqualified with other matters**

B. OTHER MATTERS

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

12. Economic Development and Tourism

A. AUDIT OPINION

- **Unqualified with emphasis of matters**
 - Financially unqualified with no other matters

B. EMPHASIS OF MATTER

- **Significant uncertainty**
 - Departmental revenue and receivables
 - The department remained unable to accurately and completely account for revenue and receivables raised in respect of the liquor licences as this income is collected by the South African Revenue Services (SARS) in an agency relationship. SARS transfers these collections in a lump sum without giving a detailed breakdown of the revenue collected. The inability of the department to rectify this is as a result of the legislation pertaining to this matter not being finalised.



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

13. Cultural Affairs and Sport

A. AUDIT OPINION

- **Unqualified with other matters**

B. OTHER MATTERS

- **Matters of governance**
 - A risk management policy has not been prepared.

C. OTHER REPORTING RESPONSIBILITIES

- **Reporting on performance information**
 - Lack of sufficient and appropriate audit evidence
 - The actual achievement of targets for the number of sports facilities upgraded could not be substantiated by adequate evidence/source documents.
 - Evidence materially inconsistent with reported performance information
 - The evidence provided to support the performance information reported in the annual report was, in a number of cases tested, materially inconsistent with the reported performance information.



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

ANNEXURE 3: WESTERN CAPE – SUMMARY OF 2007-08 AUDIT REPORTS FOR PUBLIC ENTITIES AND OTHER ENTITIES

WESTERN CAPE PUBLIC ENTITIES

1. Western Cape Provincial Youth Commission

A. AUDIT OPINION

- **Unqualified with emphasis and other matters**

B. EMPHASIS OF MATTER

- **Going concern**
 - A process is under way whereby the Western Cape Youth Commission will be merged with other entities to form the National Youth Development Agency. The date on which this will occur is still unconfirmed.
- **Irregular expenditure**
 - Irregular expenditure to the amount of R491 910 was incurred as proper tender processes were not followed.

C. OTHER MATTERS

- **Non-compliance with applicable legislation**
 - Public Finance Management Act
 - Members of the accounting authority did not declare their business interest.
 - The entity did not have a formal fraud prevention plan or a risk management policy.
 - Treasury Regulations
 - Accruals to the amount of R83 030 due to creditors had not been paid within the required 30 days after receipt of the invoice.
- **Matters of governance**
 - The financial statements submitted for audit were subject to material amendments resulting from the audit.

D. OTHER REPORTING RESPONSIBILITIES

- **Reporting on performance information**



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

- Lack of systems generating performance information
 - Unable to obtain sufficient, appropriate audit evidence as the system used to generate targets was not adequate for purposes of the evaluation.
 - The actual achievement of a number of targets for programme 1: Research and policy, and programme 3: Corporate services, could not be substantiated by adequate evidence.

E. OTHER REPORTS

- **Investigations**

- An investigation is being conducted into the financial conduct of a former official of the Western Cape Youth Commission who had illegally procured services from a provider.

2. Western Cape Nature Conservation Board

A. AUDIT OPINION

- **Qualified**

B. BASIS FOR QUALIFIED OPINION

- **Inventory**

- Because of a breakdown in communication regarding the dates of the count, the counting of physical inventories was not observed at the end of the year. Alternative audit procedures could also not be carried out successfully to determine the existence of inventory items held at 31 March 2008, which are stated in the balance sheet at R913 845, as inventory balances are recorded on a periodic system.

C. EMPHASIS OF MATTER

- **Irregular expenditure**

- An amount of R498 000 is disclosed in note 30 to the annual financial statements as irregular expenditure.

- **Restatement of corresponding figures**

- The comparative amounts contained in the financial statements have been restated by correcting prior year errors and also by changing the allocation of expenses to better reflect the actual nature of the expense incurred. The latter has had no effect on the net results of the prior year.



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

D. OTHER MATTERS

- **Non-compliance with applicable legislation**
 - Management failed to comply in all respects with the requirements of the Treasury Regulations relating to supply chain management.
- **Matters of governance**
 - The financial statements submitted for audit were subject to material amendments resulting from the audit.
- **Unaudited supplementary schedules**
 - The detailed statement of financial performance does not form part of the annual financial statements and is presented as additional information. This schedule has not been audited and accordingly no opinion is expressed thereon.

3. Western Cape Provincial Development Council

A. AUDIT OPINION

- **Unqualified with emphasis and other matters**

B. EMPHASIS OF MATTER

- **Restatement of corresponding figures**
 - The corresponding figures for 2007 have been restated as a result of an error discovered during 2008 in the financial statements.

C. OTHER MATTERS

- **Non-compliance with applicable legislation**
 - Public Finance Management Act
 - An internal audit function under the direction and control of the audit committee was not in operation for the year under review.
- **Matters of governance**
 - The audit committee did not operate in accordance with approved written terms of reference and did not substantially fulfil its responsibilities for the year.
 - The entity also did not have an internal audit function throughout the financial year operating in terms of an approved internal audit plan and which substantially fulfilled its responsibilities for the year.



AUDITOR - GENERAL

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

D. OTHER REPORTING RESPONSIBILITIES

• Reporting on performance information

- Measurable objectives not consistent
 - The planned outputs in the strategic plan are materially inconsistent when compared to the actual outputs reported in the annual report.
- Lack of sufficient appropriate audit evidence
 - Sufficient appropriate audit evidence could not be obtained as a system had not been developed to establish, monitor and report on performance information.

4. Western Cape Gambling and Racing Board

A. AUDIT OPINION

- Unqualified with other matters

B. OTHER MATTERS

• Matters of governance

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

5. Western Cape Cultural Commission

A. AUDIT OPINION

- Adverse

B. BASIS FOR ADVERSE OPINION

• Revenue

- Revenue is misstated by R458 918 as a result of transactions in respect of rentals of facilities incorrectly recorded in the accounting records.

• Expenditure

- Expenditure is misstated by R693 050 as a result of transactions in respect of goods and services incorrectly recorded in the accounting records.



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

- **Property, plant and equipment**

- The entity did not determine or assess the residual values of property, plant and equipment for the year under review.

C. OTHER MATTERS

- **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 in providing or the unavailability of expected information.
- The prior year external audit recommendations have not been substantially implemented.

6. Western Cape Language Committee

A. AUDIT OPINION

- **Qualified**

B. BASIS FOR QUALIFIED OPINION

- **Expenditure**

- Expenditure is materially misstated by R26 215 as a result of transactions in respect of goods and services incorrectly recorded in the accounting records.

C. OTHER MATTERS

- **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 in providing or the unavailability of expected information.
- The prior year external audit recommendations have not been substantially implemented.

7. Destination Marketing Organisation

A. AUDIT OPINION

- **Unqualified with emphasis and other matters**



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

B. EMPHASIS OF MATTERS

- **Highlighting critically important matters presented or disclosed in the financial statements**
 - Prior year irregular expenditure
 - Irregular expenditure of R547 000 was incurred during the prior year and authorised by the board during the year under review. This was regarded as irregular expenditure due to non-compliance with the relevant supply chain management policy.
 - Arbitration award
 - An amount of R335 475 was awarded to the former chief operating officer and legal costs of R124 973 were incurred as part of an arbitration settlement during the year under review.

C. OTHER MATTERS

- **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 in providing or the unavailability of expected information.

8. Western Cape Investment and Trade Promotion Agency

A. AUDIT OPINION

- **Unqualified with other matters**

B. OTHER MATTERS

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

C. OTHER REPORTING RESPONSIBILITIES

- **Reporting on performance information**
 - Non-compliance with regulatory requirements
 - Various instances of non-compliance with regulatory requirements, such as objectives not deemed to be measurable, time bound, specific or consistent with the prior year.



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

- Lack of sufficient appropriate audit evidence
 - The actual achievement of measures/indicators/targets could not be substantiated by adequate evidence/source documentation for some of the selections audited.
- Evidence materially inconsistent with the reported performance information
 - The evidence provided to support the performance information reported in the annual reports was materially inconsistent with the reported performance information for some of the selections audited.

9. Western Cape Liquor Board

A. AUDIT OPINION

- **Qualified**

B. BASIS FOR QUALIFIED OPINION

- **Other income and receivables**

- The Western Cape Liquor Board remained unable to accurately and completely account for the revenue and receivables raised in respect of liquor licenses due to the fact that liquor licence income is collected by the South African Revenue Service (SARS) in an agency relationship, and SARS pays the money over in a lump sum. SARS does not supply the Liquor Board with a complete and detailed breakdown of the income collected. The Board was therefore unable to determine which debtors had settled their debts in respect of liquor licences at year-end.

The above-mentioned situation is as a result of the legislation pertaining to this matter not being finalised.

Consequently, the completeness and accuracy of other income and receivables as disclosed in the annual financial statements could not be verified.

- **Provision for bad debt**

- No provision was made for the impairment of receivables. Information could not be furnished nor could I perform reasonable alternative audit procedures to obtain reasonable assurance that receivables should not be impaired. Consequently, receivables might not be fairly valued.

C. OTHER MATTERS

- **Matters of governance**

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



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

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

WESTERN CAPE OTHER ENTITIES

1. Cape Medical Depot

A. AUDIT OPINION

- **Unqualified with emphasis and other matters**

B. EMPHASIS OF MATTER

- **Highlighting critically important matters presented or disclosed in the financial statements**
 - Irregular expenditure
 - Irregular expenditure of R242 344 was incurred during the year under review as a result of non-compliance with the financial delegations issued by the accounting officer.

C. OTHER MATTERS

- **Non-compliance with applicable legislation**
 - Treasury Regulations
 - Invoices to the value of R14 250 840 (2006-07: R63 218 421 and 2005-06: R58 739 980) were not settled within 30 days of receipt of the invoices.
 - Sufficient appropriate evidence for transactions with a total value of R482 509 (2006-07: R1 397 524 and 2005-06: R1 174 623) was not retained and could therefore not be presented for audit purposes to confirm the existence, completeness and valuation of these inventory transactions and whether the entity holds the rights to the assets.
 - The entity does not have an approved fraud prevention plan to prevent and detect fraud and to mitigate specific fraud risks.
 - Medicines and Related Substance Act
 - The entity is presently operating in contravention of the provisions of the Medicines and Related Substances Act, 1965 (Act No. 101 of 1965). Due to non-compliance with Good Wholesaling Practice requirements relating to the warehousing of medicines, the Medical Control Council has not issued the required licence for the wholesaling of medicines.



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

- **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 in providing or the unavailability of expected information.
- The prior year external audit recommendations had not been substantially implemented.

2. Government Motor Transport

A. AUDIT OPINION

- **Unqualified with emphasis and other matters**

B. EMPHASIS OF MATTER

- **Restatement of corresponding figures**

- The corresponding figures for the financial year ended 31 March 2007 have been restated as a result of errors discovered during 2008 in the financial statements.

C. OTHER MATTERS

- **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 in providing or the unavailability of expected information.
- The prior year external audit recommendations had not been substantially implemented.

D. OTHER REPORTING RESPONSIBILITIES

- **Reporting on performance information**

- Non-compliance with regulatory requirements
 - The annual performance plan of the trading entity did not include the set targets for the following predetermined measurable objectives as the information can only be produced on an annual basis:
 - Train transport officials (Fleetman)
 - Log and follow up Misuse complaints
 - Manage traffic violation incident documentation
 - Logging of incidents by MIB
 - Full implementation of debtor management module in Fleetman.



AUDITOR - GENERAL

- No quarterly reporting on performance information
 - No quarterly reports on progress made in achieving measurable objectives and targets were prepared by the different programme managers and as a whole for the Government Motor Transport to facilitate effective performance monitoring, evaluation and corrective action.
- Lack of sufficient and appropriate audit evidence
 - The actual achievement of the following measures could not be substantiated by adequate source documentation:
 - o Identify under-utilisation
 - o Manage traffic violation incident documentation.

3. Western Cape Housing Development Fund

A. AUDIT OPINION

- **Qualified**

B. BASIS FOR QUALIFIED OPINION

- **Property**
 - Included in the financial statements are properties with a projected value of R51 million which are registered in names other than that of the entity and to which the entity does not have right and ownership. The closing balance of property is thus misstated by an equivalent amount.
 - Projected discrepancies between valuation certificates for properties and their value/cost on the property register amounted to R10,7 million. The closing carrying value of property is consequently understated by an equivalent amount.

C. OTHER MATTERS

- **Matters of governance**
 - The entity did not have an audit committee throughout the financial year operating in accordance with approved written terms of reference and which substantially fulfilled its responsibilities for the year.
 - The entity also did not have an internal audit function throughout the financial year operating in terms of an approved internal audit plan and which substantially fulfilled its responsibilities for the year.
 - The financial statements submitted for audit were subject to material amendments resulting from the audit.
 - Significant difficulties were experienced during the audit concerning delays in providing or the unavailability of expected information.



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

D. OTHER REPORTING RESPONSIBILITIES

- **Reporting on performance information**
 - The entity has not reported performance against predetermined objects as it is currently dormant and all objectives are reported in the annual report of the Western Cape Department of Local Government and Housing.

4. Heritage Western Cape

A. AUDIT OPINION

- **Unqualified with emphasis of matters**
 - Financially unqualified with no other matters



Accountability

Integrity

Independence

Impartiality