

PFMA 2013-14



General report on the provincial audit outcomes of the **WESTERN CAPE**



AUDITOR-GENERAL  
SOUTH AFRICA



# General report on audit outcomes

## WESTERN CAPE PFMA 2013-14

### Our reputation promise/mission

"The Auditor-General of South Africa has a constitutional mandate and, as the Supreme Audit Institution (SAI) of South Africa, exists to strengthen our country's democracy by enabling oversight, accountability and governance in the public sector through auditing, thereby building public confidence."



The information and insights presented in this flagship publication of my office are aimed at empowering oversight structures and executive leaders to focus on those issues that will result in reliable financial statements, credible reporting on service delivery and compliance with laws and regulations.

This publication also captures the commitments that leaders have made to improve audit outcomes.

I wish to thank the audit teams from my office and the audit firms that assisted with the auditing of provincial government for their diligent efforts towards fulfilling our constitutional mandate and the manner in which they continue to strengthen cooperation with the leadership of the province.

*Auditor-General*

Kimi Makwetu  
**Auditor-General**



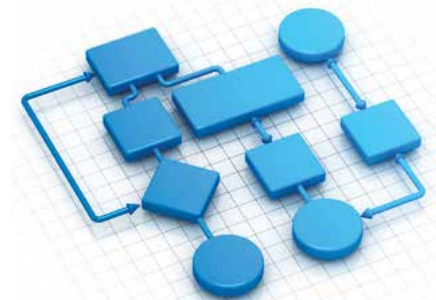
**AUDITOR - GENERAL  
SOUTH AFRICA**

# OVERVIEW



Improvement in audit outcomes and performance report

Progress made towards improving reliability and usefulness of annual performance report



Improvement in supply chain management



Audit findings avoided by correcting material misstatements identified during audit process

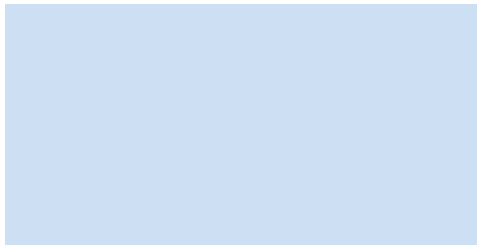
Improvement in HR management controls



Progress in addressing root causes of poor audit outcomes



Implementation and impact of commitments and initiatives of role players



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# WESTERN CAPE

# CLEAN AUDITS 2013-14



## DEPARTMENT

Agriculture	Local Government
Community Safety	Premier
Cultural Affairs and Sport	Provincial Parliament
Economic Development and Tourism	Provincial treasury
Transport and Public works	Social Development
Human Settlements	



## PUBLIC ENTITY

Heritage Western Cape	Western Cape Investment and Trade Promotion Agency
Western Cape Nature Conservation Board	Western Cape Language Committee
Western Cape Gambling and Racing Board	
Government Motor Transport	
Western Cape Cultural Commission	



# EXECUTIVE SUMMARY

7

## Executive summary

This general report summarises the audit outcomes of the Western Cape provincial government for the 2013-14 financial year.

The total budgeted expenditure of the province was R44 billion in 2013-14. The following were the main areas of expenditure:

- Employee cost R23,7 billion
- Goods and services R9,1 billion
- Transfer payments R7,3 billion
- Capital expenditure R3,9 billion

It is important to note that our annual audits have once again examined the following three areas:

1. Fair presentation and absence of material misstatements in financial statements
2. Reliable and credible performance information for purposes of reporting on predetermined performance objectives
3. Compliance with all laws and regulations governing financial matters.

### Financially unqualified with no findings

Auditees that received a **financially unqualified opinion with no findings** (depicted in green in this report) are those that have passed the audit test in each of the above-mentioned aspects. This is commonly referred to as a 'clean audit'. It is commendable that this year's audit outcomes show an improvement, with 18 (78%) of the 23 auditees attaining clean audit outcomes compared to 48% in 2012-13.

The improvement and sustainability of audit outcomes were achieved because the political and administrative leadership had set the tone at the top and included clean audit outcomes as a standing agenda item at all Cabinet meetings. The commitment to and ownership of the corporate governance and review outlook (CGRO) process by all stakeholders, as well as the provincial treasury's involvement through budgetary control, monitoring of monthly reports and enforcement of financial management principles by issuing provincial instruction notes, were also key drivers of the improved audit outcomes. Accounting officers/authorities and senior management, as a first line of defence, improved in their implementation of basic internal controls and accounting disciplines, which ensured that an effective control environment was maintained, and exercised rigorous oversight and support in driving clean audit outcomes.

While there have been improvements in the first and second level of assurance, increased focus is required to improve daily and monthly processes vested in senior management, accounting officers/authorities and executive authorities. The assurance level for internal audit indicates that some internal audit units were not adequately resourced with the relevant specialist skills and budget to fully complete their audit work plans. The third level assurance providers should further improve follow-up and monitoring to ensure timely implementation of their resolutions and confirm the credibility of the progress reported against such resolutions.

The province incurred no unauthorised expenditure in the past two years. Furthermore, it is encouraging to note that no auditees in the province had material findings on compliance with supply chain management regulations, while only one department had a finding on prevention of irregular expenditure.

The continued commitment of the coordinating ministries, the provincial treasury and department of the Premier to the CGRO process is critical to ensure the sustainability and further improvement of audit outcomes in the province. We encourage the coordinating ministries to specifically focus on the credibility of reported information and progress on action plans for the five auditees that did not achieve clean audit outcomes for the year under review.

### Financially unqualified with findings

Five (22%) auditees received **financially unqualified audit opinions with findings** on their performance information, compliance with legislation, or both these aspects (depicted in yellow in this report). These are auditees that have passed the critical test of fair presentation of financial statements, which means that they have accounted accurately for their financial transactions.

These auditees will be required to strengthen and institutionalise the basic internal controls and disciplines around financial and performance management to improve their audit outcomes. Particular attention should be paid to the review of reported financial and performance information to ensure its accuracy and completeness, especially in a decentralised environment such as Health and Education, while working more closely with governance and oversight structures. Provincial treasury should also encourage these auditees to implement the training and guidance on accounting standards and performance reporting to ensure the credibility of financial and performance reporting.

It is encouraging to note that the province recorded no qualified, adverse or disclaimed audit opinions for 2013-14. However, it is of concern that the departments of Education and Health, which together comprise 72% of the provincial budget, have remained financially unqualified with findings. One department and three entities made use of external service providers to assist with financial reporting. The use of consultants contributed to the improved quality of

financial statements, especially in the case of Western Cape Nature Conservation Board which received a clean audit.

## **Other significant audit observations**

### ***Annual performance reports***

Auditees are required to measure their actual service delivery against the performance indicators and targets set for each of their predetermined performance objectives and to report on this in their annual performance reports.

It is commendable that all auditees submitted their annual performance reports on time for auditing. The quality of submitted performance reports improved due to better planning and review by auditees and the implementation of recommendations following our earlier review of their strategic plans to ensure that performance indicators and targets were measurable and well defined. Fifteen (68%) auditees submitted annual performance reports that did not contain material misstatements. This is an improvement since the prior year when 13 auditees (59%) had submitted performance reports that did not contain material misstatements. Five auditees corrected all misstatements we had identified during the audit, resulting in two auditees with material findings. These two auditees (9%) were not able to make the necessary corrections to their performance reports due to shortcomings in the collation of the supporting evidence by the responsible managers and the failure to maintain regular, accurate and complete records throughout the financial year.

### ***Non-compliance with laws and regulations***

In the current year there has been a significant improvement, from 11 (48%) auditees to 18 (78%) with no material findings on compliance with key legislation when compared to the previous year. Five (22%) auditees still had findings on compliance with laws and regulations, which related mainly to the area of quality of the financial statements submitted for auditing.

The increase in the number of auditees that submitted financial statements containing material misstatements from four to five is a concern and will require auditees to improve their processes and reviews to support the preparation of credible financial statements.

### ***Irregular expenditure***

As a result of weaknesses in controls, auditees entered into transactions that were not carried out in accordance with regulations and other prescripts. This was classified as irregular expenditure which totalled R170 million for the period under review, an improvement from R221 million in 2013. Of the R170 million in irregular expenditure incurred in 2013-14, most (90%) was as a result of non-compliance

with supply chain management legislation. The irregular expenditure in the province can be addressed effectively by accounting officers/authorities, with the support of provincial treasury. This includes addressing the remaining supply chain management non-compliance, as well as the completion (expiry) of multi-year contracts over time which were awarded irregularly in financial years preceding 2014. There is an ongoing need for oversight role players to ensure that accounting officers/authorities and senior management are held accountable for providing the desired level of assurance to maintain the momentum towards improved audit outcomes.

### ***Financial health***

The majority of auditees in the province have maintained good practices regarding financial health since the prior year. Financial health concerns were raised at only two auditees and related mainly to the following:

- Debt management, where the nature of the debtors makes the debt difficult to recover as the debtors are not easily traceable in certain instances and not in a financial position to pay
- Underspensing of capital budgets, relating mainly to delays in capital infrastructure projects at service delivery departments.

None of the departments were in a bank overdraft position at year-end, utilised more than 10% of next year's budget to fund current year's expenditure or had expenditure that exceeded revenue.

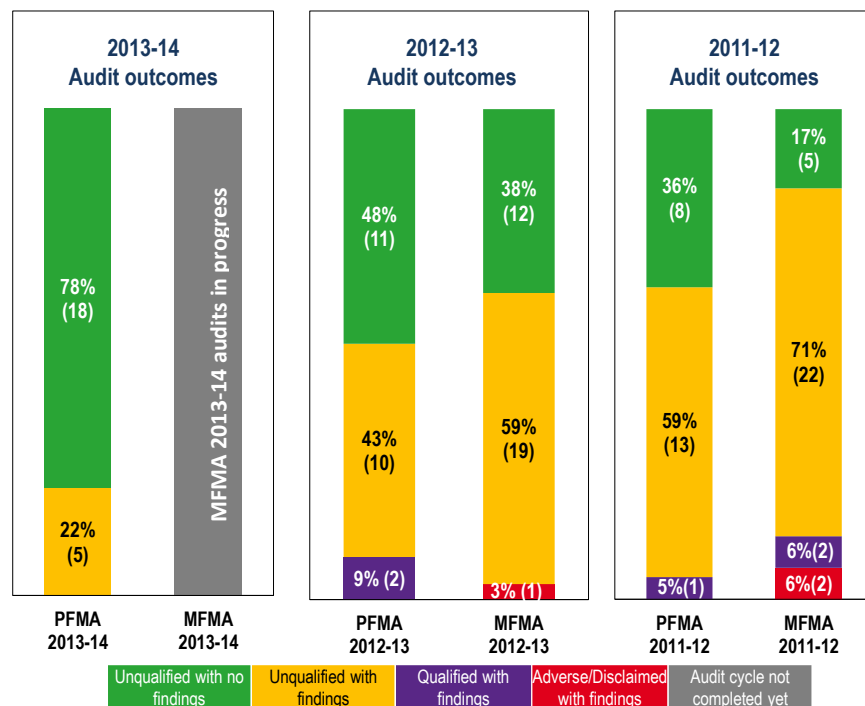
### ***Implementation of the IFMS pilot***

We reviewed the pilot implementation of the leave management module of the new integrated financial management system (IFMS) at Economic Development and Tourism. We identified shortcomings in some information technology (IT) controls and the set-up of this module. These findings may pose a risk to the integrity and availability of the information and should be considered in future roll-outs of IFMS modules.

### ***Comparison of provincial and local government audit outcomes***

The Western Cape provincial government, through coordinating departments and oversight structures, supports both provincial and local government by setting standards of accountability, transparency, clean government and integrity across all institutions of government in the province. Although these two spheres of government operate autonomously, improvement in the administration and audit outcomes will benefit the province as a whole. The figure below compares the results of the two spheres of government over the last three financial years.

## Comparison of provincial and local government audit outcomes



Given the province's emphasis on clean administration, the provincial government has over the past two years assumed the lead on this front, obtaining 18 (78%) clean audits in 2013-14. This was due to the provincial treasury and the office of the premier continuing to embrace and own the assurance initiatives and leading the collective effort through the CGRO process to see significant improvement in the provincial government audit outcomes.

However, progress towards clean audits has been slightly slower in the local government sphere with 12 (38%) of the auditees attaining financially unqualified opinions with no findings in 2012-13. The Western Cape government's continued efforts to align local government with the province's vision of achieving clean administration for all auditees are also expected to bear further fruit in the near future for this sphere of government. It is encouraging to see the premier committing to work closely with the mayors and municipal managers, through the premier's coordinating forum, so that the premier's office and all coordinating departments are appropriately positioned to play a bigger role in ensuring that all spheres of the Western Cape government work together to serve the public.

Provincial treasury, the department of local government and the office of the premier have a direct role to play in supporting and monitoring local government, thereby providing a level of assurance. The provincial parliament provides oversight through its standing committee on local government.

National Treasury should strengthen the support initiatives that it provides to the metros, specifically support initiatives relating to compliance with legislation and performance information.

### Provincial department of local government

The department of local government, in collaboration with provincial treasury, holds municipalities accountable through the municipal governance review and outlook (MGRO) process to work towards the achievement of clean governance and clean audit outcomes. Municipalities are also required to develop municipal governance action plans (MGAPs) that address identified control weaknesses and past audit findings. Two MGRO engagements have taken place during the year under review and the second engagement, in particular, focused on the MGAPs to address the 2012-13 audit report matters.

The department of local government has also performed a readiness assessment to determine what municipalities should do to improve their management and reporting on predetermined objectives. In this regard, the department also assisted municipalities with the development of standard key performance indicators. The department has performed an assessment of the municipal annual integrated development plan for all municipalities to ensure that they meet the SMART principles (i.e. specific, measurable, achievable, realistic and time-bound) before they were approved by the council.

Feedback on the status of the MGRO process and municipal and provincial treasury action plans was presented to cabinet following the engagements in September 2013 and February 2014.

### Key leadership actions

We remain hopeful that the advances towards clean audits can be sustained in the provincial and local government spheres. It is crucial for the executive and oversight leadership to note that those auditees that advanced towards clean audits were characterised by the following:

- Accounting officers/authorities were proactive in driving action plans to improve the financial control environment and to instil a culture of good financial governance and compliance with legislation.
- The executive authority and accounting officer/authority set a tone of zero tolerance for non-performance and held staff accountable for keeping quality financial and performance information and complying with key legislation.

- c) Robust and proactive audit committee and internal audit functions on matters regarding the implementation and monitoring of action plans to address recurring findings and the commitments made.
- d) Accounting officers/authorities and senior management successfully implemented basic internal controls and accounting disciplines by preparing regular and accurate financial statements, which enabled governance structures to play an effective oversight role.
- e) Accounting officers/authorities and senior management proactively managed risk assessment processes to ensure readiness for changes in accounting requirements and legislation.
- f) Stability at senior management level and within finance units, with the required level of technical competence and experience.

In our partnership with the Western Cape Province we envisage a public service characterised by transparent financial and performance reporting. This will be led by accounting officers/authorities that appreciate ethical and professional behaviour and have a low tolerance for indecisive execution of controls and deviation from legislation. Auditees must be supported by strong internal audit capabilities that contribute to a culture of good internal controls, and accurate and empowering financial and performance reporting, to enable effective oversight by audit committees and legislative oversight.

We are encouraged by the commitment and spirit of cooperation of the newly elected cabinet and the public commitment to accountability and consequence management. A strong foundation has been laid by the premier in her response to sustain and further improve the province's current audit outcomes and her commitments have already been operationalised into signed performance agreements with members of the executive council. This is further enhanced by the development of a provincial audit and risk management action plan, namely the provincial corporate governance and review and outlook process (CGRO), which will be monitored by the provincial executive. Members of the executive council undertook to further enhance their monitoring of the implementation of the CGRO process and continue to obtain regular and credible assurance from accounting officers/authorities and audit committees on the status of internal controls, the reliability of the financial and performance reports and the implementation of actions to improve audit outcomes.

We are encouraged by the commitments of the legislature to enhance oversight of the executive, accounting officers/authorities and senior management, which will have a direct and positive impact on the auditees' key controls and audit outcomes. While we acknowledge the process implemented to further improve oversight by the portfolio committees, we will seek more regular interactions directly with committees or through the chairpersons during the 2014-15 financial year to support them in their oversight efforts. In order to enhance oversight, it is

critical that resolutions are tabled timeously and are followed up on a quarterly basis. For improved assurances and greater impact by committees, they should invite audit committees to have regular engagements. At such meetings, the audit committees should independently inform the committees of the auditees' status of internal control, progress made in implementing the CGRO process and systems of recording, reporting and monitoring to ensure the credibility of financial and performance information, as well as compliance with legislation.

We remain firmly committed to making a positive contribution to overcoming the obstacles to clean administration in the province. We will continue to make ourselves available and provide proactive insights into the root causes of weak internal control environments. The engagements will include timely feedback on, and inputs into, the adequacy of the assurance provided by all role players.



# SUMMARY OF AUDIT OUTCOMES AND KEY RECOMMENDATIONS FOR IMPROVEMENT

# 1. Our auditing and reporting process

We audit every department and nine of the public entities in the province, also called *auditees* in this report, so that we can report on the **quality of their financial statements** and **annual performance reports** and on their **compliance with key legislation**.

We also assess the root cause of any error or non-compliance, based on the internal control that had failed to prevent or detect it. We report in the following three types of reports:

- We report our findings, root causes and recommendations in **management reports** to the senior management and accounting officers or authorities of auditees, which are also shared with the members of the executive council and audit committees.
- Our opinion on the financial statements, material findings on the annual performance report and non-compliance with legislation as well as significant deficiencies in internal controls are included in an **audit report**, which is published with the auditee's annual report and dealt with by the public accounts committees and portfolio committees as applicable.
- Annually we report on the audit outcomes of all auditees in a **provincial general report** (such as this one), in which we also analyse the root causes that need to be addressed to improve audit outcomes in the province. Before the general reports are published, we share the outcomes and root causes with the provincial leadership, the provincial legislature and key role players in national and provincial government.

Over the past few years, we have intensified our efforts to assist in improving audit outcomes by identifying **the key controls** that should be in place at auditees; assessing these on a regular basis; and sharing the assessment with members of the executive, accounting officers and authorities, as well as audit committees.

We further identified the following **key risk areas** that need to be addressed to improve audit outcomes as well as financial and performance management, and we specifically audit these so that we can report on the status thereof: ■ quality of submitted financial statements and performance reports ■ supply chain management ■ financial health ■ information technology controls ■ human resource management (including the use of consultants).

During the auditing process, we work closely with the accounting officer or authority, senior management, audit committee and internal audit unit, as they are

**key role players** in providing assurance on the credibility of the auditee's financial statements, performance report as well as compliance with legislation.

We continue to strengthen our relationship with the members of the executive council, the premier and the provincial treasury, as we are convinced that their involvement and oversight have played – and will continue to play – a crucial role in the performance of auditees in the province. We share our messages on key controls, risk areas and root causes with them and obtain and monitor their commitments to implement initiatives that can improve audit outcomes.

Figure 1 provides an overview of our message on the 2013-14 audit outcomes, which is a continuation of what we had reported and recommended in our last report on the audit outcomes in the province.

The overall audit outcome in figure 1 shows our opinion per auditee on their financial statements and whether we raised material audit findings on the quality of their annual performance report and compliance with key legislation. The overall audit outcomes fall into three categories:

1. Auditees that received a **financially unqualified opinion with no findings** are those that were able to:
  - produce financial statements free from material misstatements. Material misstatements mean errors or omissions that are so significant that they affect the credibility and reliability of the financial statements
  - measure and report on their performance in accordance with the predetermined objectives in their annual performance plan in a manner which is useful and reliable
  - comply with key legislation.
2. Auditees that received a **financially unqualified opinion with findings** are those that were able to produce financial statements without material misstatements but are struggling to:
  - align their performance reports to the predetermined objectives they committed to in their annual performance plans
  - set clear performance indicators and targets to measure their performance against their predetermined objectives
  - report reliably on whether they achieved their performance targets
  - determine which legislation they should comply with and to implement the required policies, procedures and controls to ensure that they comply.

This audit outcome is also commonly referred to as a 'clean audit'.



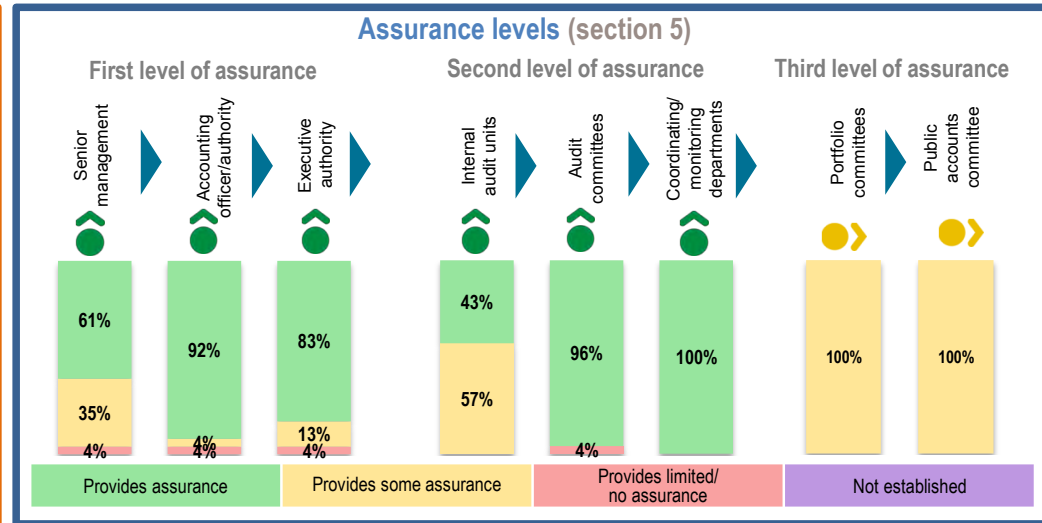
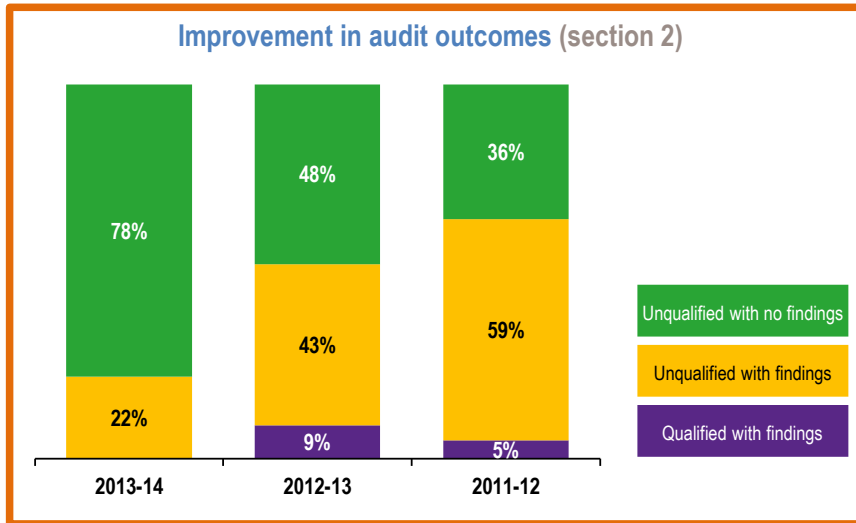
- Auditees that received a **financially qualified audit opinion with findings** face the same challenges as those that were unqualified with findings but, in addition, could not produce credible and reliable financial statements. There are material misstatements in their financial statements, which they could not correct before the financial statements were published.

When viewing figure 1 and the rest of the report, please note that only a movement of more than 5% is regarded as an improvement or a regression. Movement is depicted as follows:



The rest of the section summarises the audit outcomes and our key recommendations for improvement, followed by a summary of the audit outcomes of the auditees in each portfolio of the member of the executive council. The report also includes three annexures that detail the audit outcomes and findings per auditee, the status of the drivers of internal controls at the auditees and a five-year view of the audit outcomes. The glossary of terms included after the annexures defines the terminology used in this report.

Figure 1: Overview of audit outcomes and key recommendations for improvement



1 To improve/maintain the audit outcomes ...

2 ... the key role players need to ...

5 ... the root causes.

4 ... the risk areas, and ...

3 ... give attention to the key controls, and ...

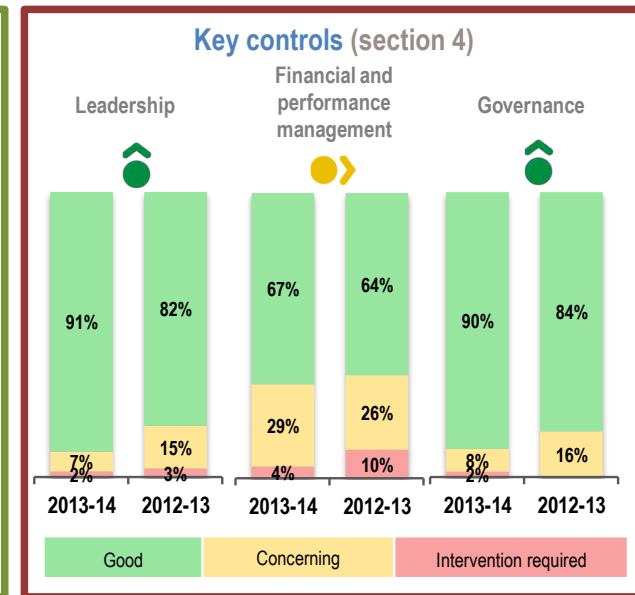
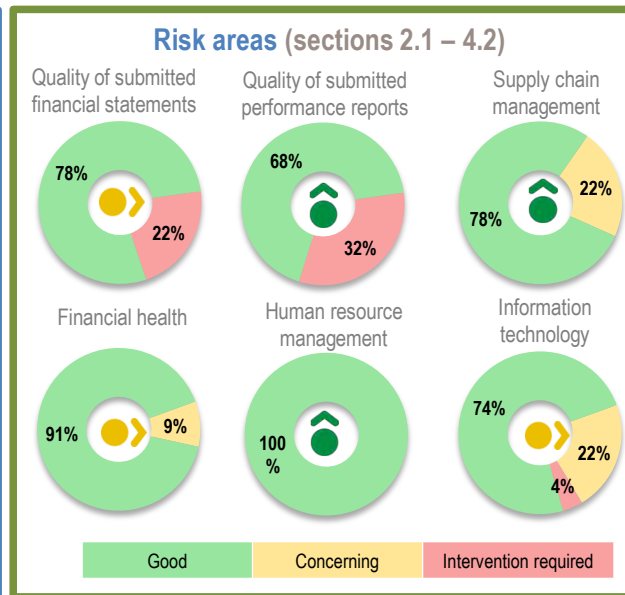
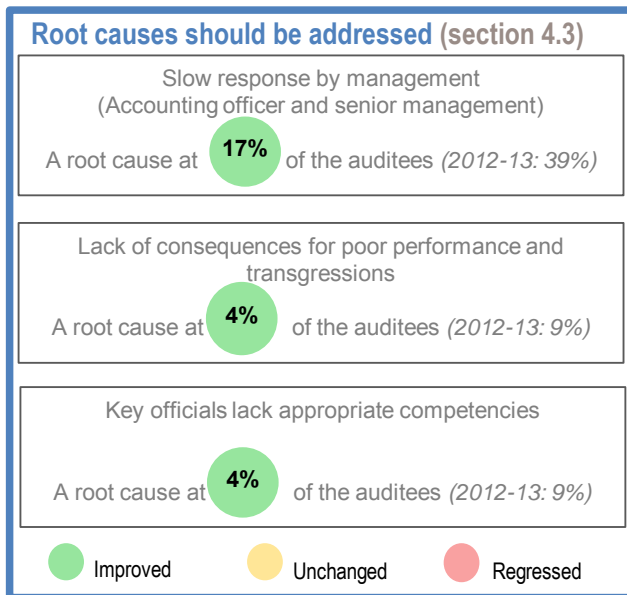
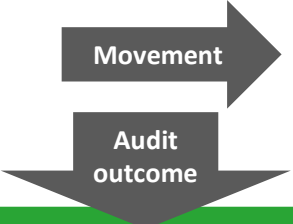


Figure 2: Movements in audit outcomes



	<span style="font-size: 24px; color: white; border-radius: 50%; padding: 5px 15px;">9</span> Improved	<span style="font-size: 24px; color: white; border-radius: 50%; padding: 5px 15px;">13</span> Unchanged	<span style="font-size: 24px; color: white; border-radius: 50%; padding: 5px 15px;">1</span> Regressed
Unqualified with no findings = 18	Human Settlements, Local Government, Premier, Western Cape Provincial Parliament, Western cape Provincial Treasury, Social Development, Heritage Western Cape, Western Cape Nature Conservation Board	Agriculture, Community Safety, Cultural Affairs and Sport, Economic Development and Tourism, Transport and Public Works, Western Cape Gambling and Racing Board, Government Motor Transport, Western Cape Cultural Commission, Western Cape Investment and Trade Promotion Agency, Western Cape Language Committee	
Unqualified with findings = 5	Western Cape Housing Development Fund	Education, Environmental Affairs and Development Planning, Health	Western Cape Liquor Authority
Qualified with findings = 0			

The colour of the auditee's name indicates the audit opinion from where the auditee has moved.

## Overall audit outcomes

Provincial government consists of 14 departments and 10 public entities. The public entities include seven public entities, one trading entity and two other entities, only one of which is not subject to the Public Finance Management Act (PFMA), namely the Western Cape Housing Development Fund. The number of public entities has decreased from 11 to 10 since the previous year due to the incorporation of Destination Marketing Organisation into Western Cape Investment and Trade Promotion Agency. As provided for in the Public Audit Act (PAA), we have opted not to audit one of the public entities (Casidra). The audit outcome of this public entity is not included in this report, but is reflected in the annexures.

Figure 1 indicates that there has been an improvement in the overall audit outcomes when compared to the previous year. Figure 2 analyses the movement in the audit outcomes of the different auditees since the previous year that had resulted in the net improvement in the audit outcomes of the province. The positive trend towards clean administration in the province, which started gaining momentum in 2012 and 2013, continued in 2014 with 18 (78%) of the 23 auditees in the province achieving clean audit outcomes. The improvement was more prominent at departments than at public entities. With a view to maintaining the gains made towards clean audits, there is a need for sustained attention to the three key control areas of leadership, financial and performance management and governance. To further improve audit outcomes, it will be necessary to institutionalise internal controls to produce reliable, credible and accurate financial and performance reports and to ensure compliance with legislation. We are confident that should leadership continue with the commitment they have displayed, the continued upward trend will be sustained.

Seven auditees (30%) managed to move from financially unqualified with findings to a clean audit outcome, while 10 auditees (43%) maintained their clean audit outcomes of 2013. Two auditees improved from qualified opinions: The Western Cape Nature Conservation Board improved to a clean audit outcome due to commitment by leadership and assistance provided by consultants, while the Western Cape Housing Development Fund (WCHDF) improved to a financially unqualified opinion with findings thanks to dedicated staff members being appointed to correct accounting errors from the previous years.

The following is an analysis of audit outcomes for financial statements, annual performance reports and compliance with legislation which contributed to the overall audit outcomes.

## 2. Status of the three areas that we audit and report on

### 2.1 Financial statements

The purpose of the annual audit of the financial statements is to provide the users thereof with an opinion on whether the financial statements fairly present, in all material respects, the key financial information for the reporting period in accordance with the applicable financial framework and applicable legislation. The audit provides the users with reasonable assurance on the degree to which the financial statements are reliable and credible, on the basis that the audit procedures performed did not identify any material errors or omissions in the financial statements. We use the term *material misstatement* to refer to such material errors or omissions.

Figure 3: Three-year trend – financial statements

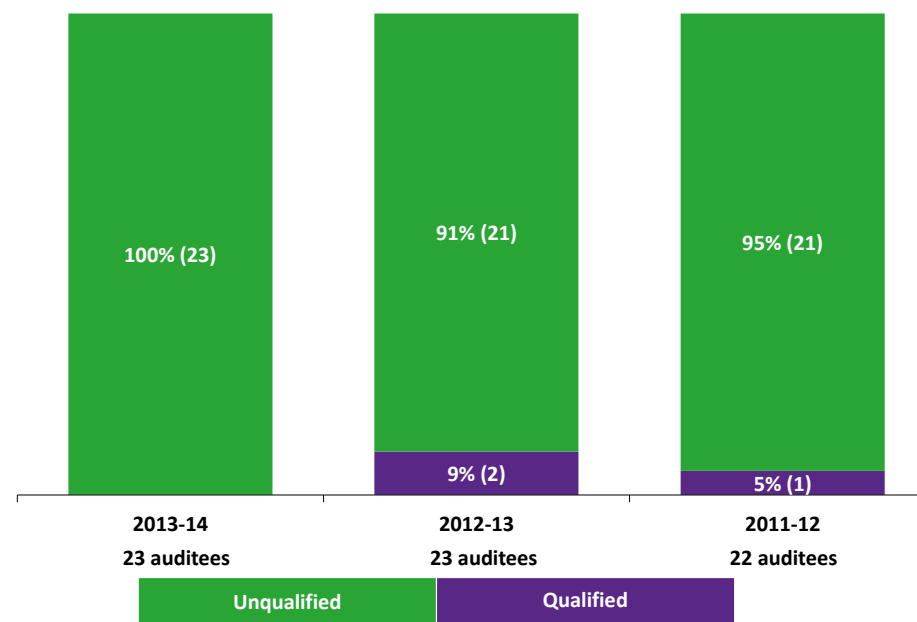
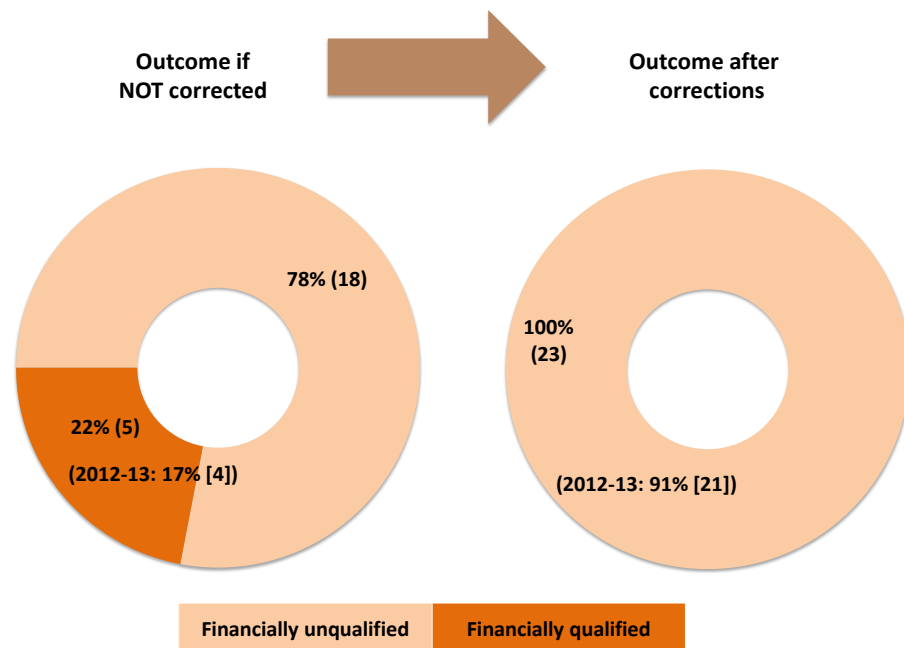


Figure 3 shows that there has been an improvement in the audit opinions on financial statements when compared to the previous two years. There was a turnaround in the qualified audit opinions of two public entities since the previous year, while all departments maintained their unqualified financial audit opinions of the previous financial year.

In 2013-14, the budgeted expenditure of Education, Health and Transport and Public Works comprised 83% of the total in the province. All three maintained their unqualified audit opinions, with no material findings on performance reports since 2012-13. Both Education and Health had compliance findings in their audit reports relating to material misstatements corrected. Health had a compliance finding relating to non-prevention of irregular expenditure, while Education had a compliance finding relating to the national school nutrition programme (NSNP) where some meals were not prepared according to the recommended food specifications and approved menu.

## The quality of the financial statements submitted for auditing

Figure 4: Quality of financial statements submitted for auditing



While all auditees submitted their financial statements for auditing on time, figure 4 shows that 18 auditees (78%) submitted financial statements that contained no material misstatements. Five auditees (three departments and two public entities) had material misstatements in their submitted financial statements. These auditees were Education, Environmental Affairs and Development Planning, Health, WCHDF and Western Cape Liquor Authority.

Figure 4 also shows that these five auditees (22%) received financially unqualified audit opinions only because they corrected all the misstatements we had identified during the audit. The quality of the financial statements did not improve in the case of two auditees (one department and one entity), where repeat material misstatements were identified in their financial statements. Two departments and one entity regressed, while two entities had addressed the quality of their financial statements.

We report the poor quality of the financial statements we receive in the audit reports of auditees as a material compliance finding, as it also constitutes non-compliance with the PFMA (refer to section 2.3). The finding is only reported if the financial statements we received for auditing included material misstatements which could have been prevented or detected if the auditee had an effective internal control system. We do not report if the misstatement resulted from an isolated incident or if it relates to the disclosure of unauthorised, irregular or fruitless and wasteful expenditure which was identified after the financial statements were submitted. WCHDF would have received a clean audit outcome had it not been for this particular compliance finding.

The most common areas corrected by auditees are disclosure notes and fixed assets. The misstatements that were reported can be attributed to inadequate review controls over the preparation of the annual financial statements by management; inadequate understanding of some of the revised disclosure note requirements of the new Modified Cash Standard (MCS) as well as inadequate maintenance of financial records during the financial year. The late roll-out of the MCS and related training played a part in the regression in this area at two departments. The clarification of the definition of commitments as included in the relevant disclosure note had an impact on material misstatements.

The continued reliance on the auditors to identify corrections to be made to the financial statements to obtain an unqualified audit opinion is not a sustainable practice. Furthermore, it places undue pressure on legislated deadlines and increases the audit fees.

## Financial statement areas qualified

During the current financial year, all auditees were able to correct material misstatements identified by the auditors. Both auditees (WCHDF and Western Cape Nature Conservation Board) where material misstatements led to qualifications in the previous financial year were able to resolve the misstatements in the current year due to the commitment of the relevant leadership of the two entities. One entity made use of consultants, while the other entity had dedicated staff members who were appointed to rectify accounting errors from the previous years. The items qualified in the previous year were property plant and equipment and liabilities.

## Recommendations

Auditees that submitted poor quality financial statements for auditing should strengthen their processes and controls to improve the control environment to support reliable reporting. For such auditees, we recommend the implementation or improvement of at least the following key controls and good practices that are in place at various auditees that had submitted financial statements that were free from material misstatements:

- Action plans that are developed in a timely manner and where responsibility is assigned to the relevant members of management to implement and monitor progress made with the action plan.
- Maintain accurate and complete financial records throughout the year.
- Adequate review of key processes to ensure that the financial statements submitted for auditing are free of material misstatements.
- Ensure that the finance officials' understanding of the requirements of the MCS, specifically relating to disclosure notes, is enhanced through regular discussions with different role players. An implementation plan should be developed to appropriately respond to amendments to the MCS. This should include the preparation of interim financial statements and an assessment of the internal control environment by internal audit units, especially with regard to disclosure notes.
- Enhance processes for gathering information in respect of disclosure notes from all role players and performing completeness verifications on the information received.
- Where functions are decentralised, each institution should submit information to head office for inclusion in the financial statements, clearly identifying roles and responsibilities and including the verification of information. This information should be submitted early enough to allow sufficient time for head office to verify the credibility thereof.

Inadequately documented policies and procedures to enable and support the understanding and execution of key processes should also be addressed at one auditee where the lack of appropriate competencies was reported as a root cause as explained in section 4.3 of this report.

## 2.2 Annual performance reports

Auditees are required to measure their actual service delivery against the performance indicators and targets set for each of their predetermined performance objectives and to report on this in their annual performance reports.

The WCHDF is not required to report on their performance as they are not subject to the PFMA and is excluded from the discussion and graphics that follow.

We audit selected material programmes of departments and objectives of public entities to determine whether the information in the annual performance reports is useful and reliable for oversight bodies, the public and other users of the reports to assess the performance of the auditee. The programmes and objectives we select are those that are important for the auditee to deliver on its mandate. In the audit report, we reported findings arising from the audits that were material enough to be brought to the attention of these users.

We audited the **usefulness of the reported performance information** by determining whether it was presented in the annual report in the prescribed manner and was consistent with the auditees' planned objectives as defined in their strategic plans and annual performance plans. We also assessed whether the performance indicators and targets that were set to measure achievement of the objectives were well defined, verifiable, specific, time bound, measurable and relevant.

We audited the **reliability of the reported information** by determining whether it could be traced back to the source data or documentation and was accurate, complete and valid.

Figure 5: Three-year trend – quality of annual performance reports

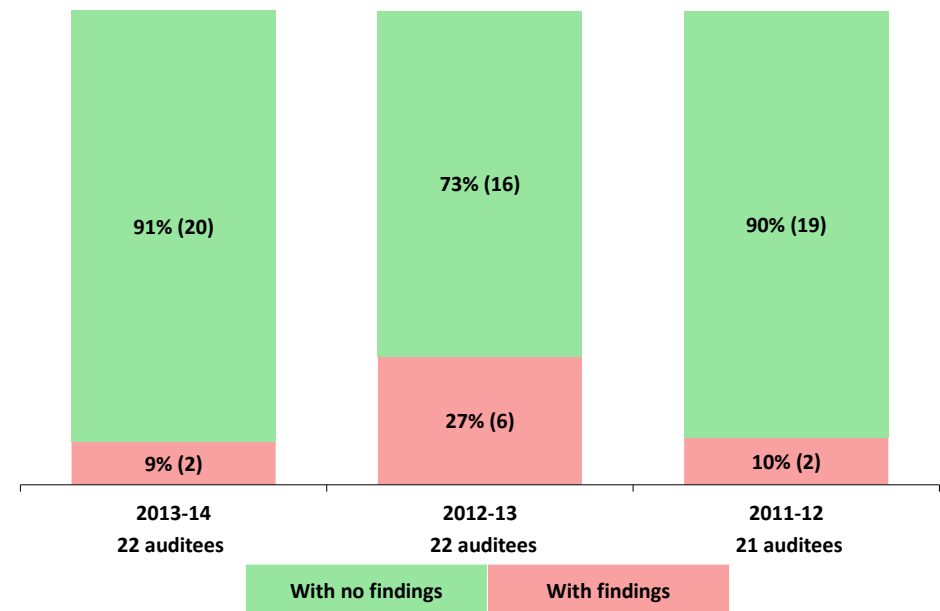


Figure 5 shows that there has been an increase in the number of auditees with no material findings on the quality of their annual performance reports when compared to the previous year. For 2013-14, one department and one entity had findings on their annual performance reports. The improvement from six auditees in the previous year is as a result of four departments that had addressed findings relating to usefulness and reliability. One entity improved since the prior year in both categories; however, another entity regressed. Health, Education and Transport and Public Works had no findings on their annual performance reports.

### The quality of the annual performance reports submitted for auditing

While all auditees submitted their annual performance reports for auditing on time, figure 6 shows that 15 auditees (68%) submitted annual performance reports that did not contain material misstatements. This is an improvement since the prior year when 13 auditees (59%) had submitted performance reports that did not contain material misstatements. Five auditees corrected all misstatements we had identified during the audit, resulting in two auditees with material findings. The two auditees (Environmental Affairs and Development Planning and Liquor Authority) were not able to make the necessary corrections to their performance reports due to shortcomings in the collation of the supporting evidence by the responsible managers and the failure to maintain regular, accurate and complete records throughout the financial year.

The overall budget for 2013-14 for the seven auditees (Environmental Affairs and Development Planning, Gambling and Racing Board, Health, Human Settlements, the Premier, Provincial treasury and Social Development) that submitted performance reports that contained material misstatements comprised 12% of the province's budget expenditure.

Figure 6: Quality of submitted annual performance report

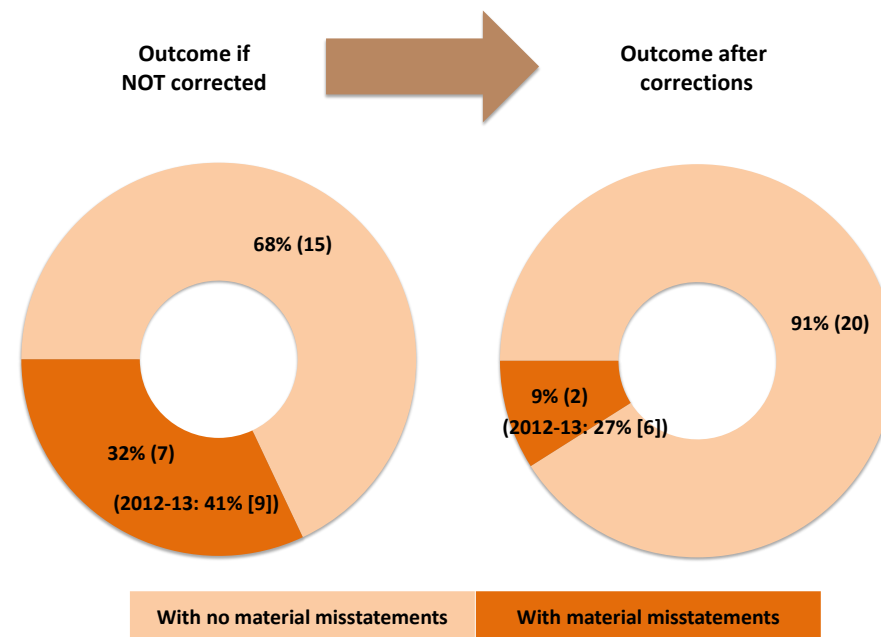


Figure 6 shows that 20 auditees (91%) had no material findings.

The main areas that were initially misstated were where the reported information was not valid, accurate and complete when compared to source information, mainly due to the following:

- Insufficient documented processes for collecting, collating and verifying information.
- Insufficient record keeping to support reported information.
- Inadequate processes to timeously review information for completeness and accuracy in decentralised environments.

There has been an increase in auditees with no material findings on the quality of their annual performance reports when compared to the previous year, in particular the usefulness of performance reports. This is attributable to:

- implementation of adequate action plans to address the review of performance indicators and targets included in the annual performance plan to ensure that they are in line with the SMART principles.
- documentation of standard operating procedures to ensure consistent interpretation of performance indicators and targets.

Reliance on auditors to identify corrections to be made to the annual performance reports is a practice that should be discouraged.

## Findings on usefulness and reliability of annual performance reports

Some auditees' main programmes are material in relation to their budget and mandate. The programmes and objectives selected for audit on which we reported material findings on usefulness and reliability were the following:

Auditee	Programme	Not useful	Not reliable
Environmental Affairs and Development Planning	Programme 3: Compliance and enforcement	x	x
	Programme 4: Environmental quality management	x	x
Liquor Authority	Programme 2: Liquor licence tribunal	x	
	Programme 4: Liquor licence administration	x	

The most common finding on the usefulness of information was in respect of indicators or measures that were not well defined.

The findings on reliability of information relate to reported performance information not being valid, accurate and complete.

Auditees had made a considerable effort to address findings reported in the prior year and the commitment of leadership to ensure valid, accurate and complete performance reports.

## Recommendations

Auditees that had material findings and those that submitted poor quality annual performance reports for auditing should strengthen their processes and controls to create (or improve) a control environment that supports useful and reliable reporting on performance. For such auditees we recommend the implementation of at least the following key controls and good practices that are in place at auditees that had submitted performance reports:

- Adequate review of strategic plans before approval thereof by provincial treasury, internal audit and/or leadership to ensure compliance with the SMART principles and framework for strategic and annual performance plans.
- Develop and communicate policies and procedures to ensure that management understands and clearly identifies the process for collecting, collating, verifying and record keeping to support the reported information.
- Where functions are decentralised, each institution should submit information to head office for inclusion in the performance report, clearly identifying roles and responsibilities and including the verification of information.
- Regular, complete and accurate reporting on performance information should be institutionalised.

## Western Cape performance audit of the readiness of government to report on its performance

The performance audit on the readiness of government to report on its performance was conducted during the 2010-11 to the 2012-13 financial year at:

- selected central performance oversight institutions
- selected national departments with concurrent functions
- provincial oversight institutions (provincial treasuries and offices of the premier at all nine provinces)
- identified provincial departments (the audit focused on the four sectors that had the highest total government expenditure, namely education, transport and public works and social development)

The audit was performed transversally in 2011-12 across provinces and focused on the following:

- The performance reporting guidance and oversight that government departments received.
- The systems and processes that government departments have put in place to report on their performance.

The audit revealed the root causes of the departments' continued failure to produce annual performance reports that are useful and reliable. In the Western Cape, the audit was performed at the following oversight institutions and departments:

- Oversight institutions
- Department of the Premier



- Provincial treasury

The audit indicated that the provincial oversight institutions had provided performance management and reporting guidance and oversight.

#### Departments

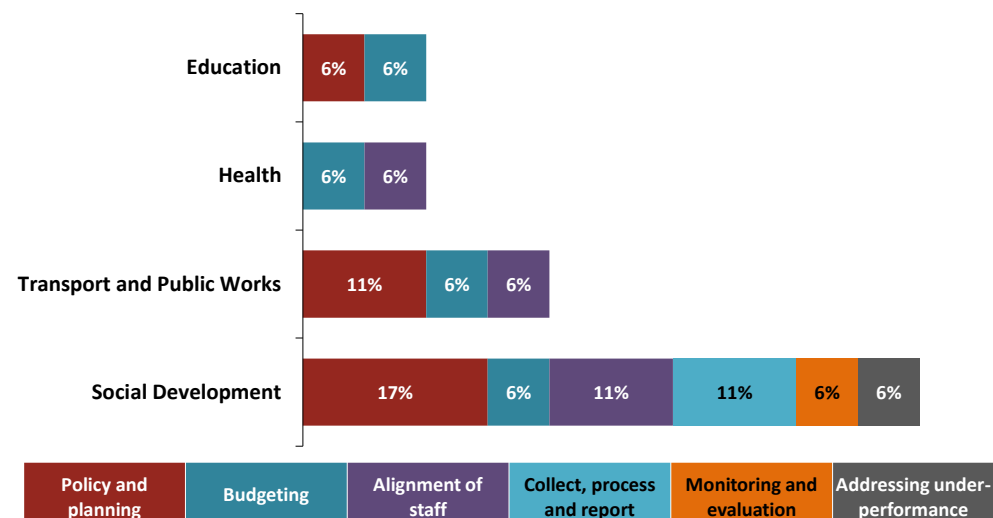
- Department of Education
- Department of Health
- Department of Transport and Public Works
- Department of Social Development.

Except for the Department of Social Development, limited findings were identified at all audited departments. Only the following common findings were identified at the departments:

- Some performance indicators were not well defined and verifiable or did not measure whether resources were used efficiently, effectively and economically to produce the desired outputs and outcomes.
- Performance targets did not always comply with the SMART criteria and/or were not realistic. Targets were not realistic as they were not selected based on accurate baseline information or research and evaluations.
- Some departments did not hold their staff accountable for reporting on performance and/or achieving performance targets.

The Department of Social Development has since the audit implemented a number of corrective measures, which resulted in the department not having material findings on the usefulness and reliability of their 2013-14 annual performance report.

Figure 7: Findings on readiness audit



Based on the findings raised on the annual performance reports in the aforementioned section, progress has been made by auditees to address the usefulness and reliability of their annual performance reports. This is due to commitment of accounting officers/authorities to ensure valid, accurate and complete performance information.

## 2.3 Compliance with key legislation

We annually audit and report on compliance with key legislation applicable to financial matters, financial management and other related matters.

We focused on the following areas in our compliance audits: ■ material misstatements in the submitted annual financial statements ■ asset and liability management ■ audit committee ■ budget management ■ expenditure management ■ unauthorised, irregular as well as fruitless and wasteful expenditure ■ consequence management ■ internal audit unit ■ revenue management ■ strategic planning and performance management ■ annual financial statements and annual report ■ transfer of funds and conditional grants ■ procurement and contract management (in other words, supply chain management) ■ human resource (HR) management and compensation.

In the audit report, we reported findings arising from the audits that were material enough to be brought to the attention of oversight bodies and the public.

## Status and findings on compliance with key legislation

Figure 8: Three-year trend – compliance with key legislation

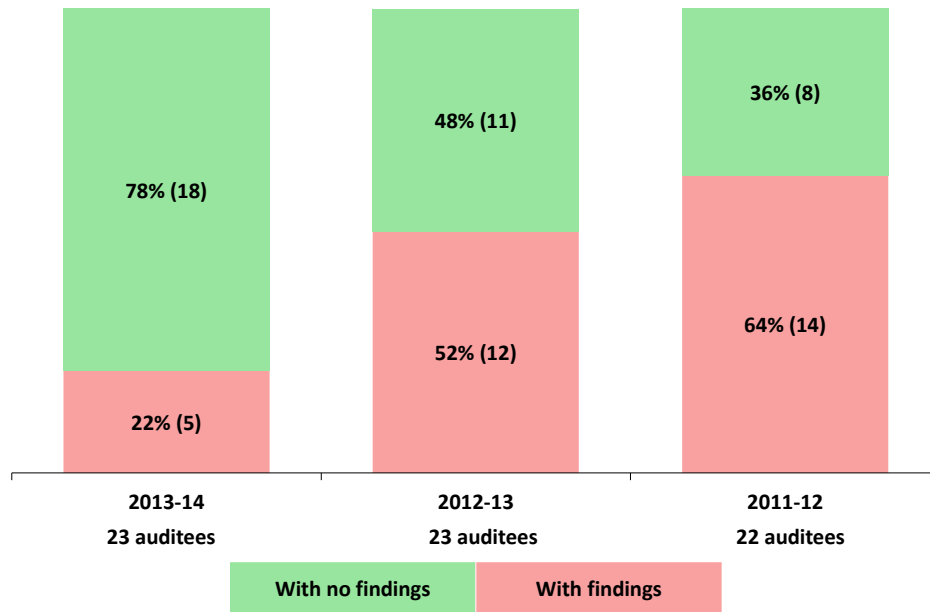


Figure 8 shows that there has been an increase in the number of auditees with no material findings on their compliance with key legislation when compared to the previous year. Departments with compliance findings decreased significantly, from nine in the previous year to three in the current year. The number of compliance findings raised at public entities also decreased since the previous year. Education and Health had compliance findings for all three years as reflected in figure 8. Transport and Public Works had improved since 2011-12 and had no material findings on compliance in 2012-13 and 2013-14.

Figure 9: Trends in findings on compliance with legislation

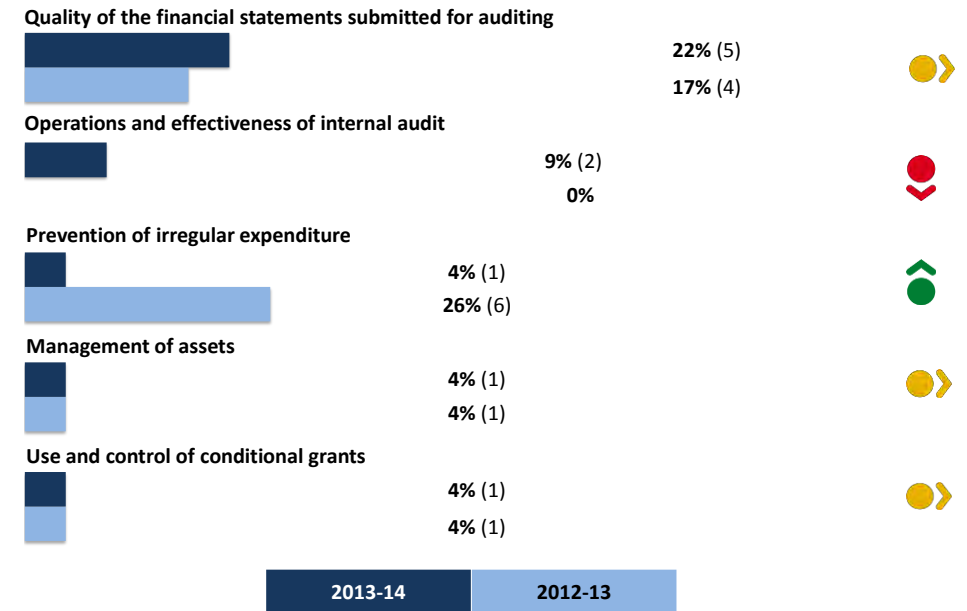


Figure 9 shows the compliance areas with the most material findings and the progress made by auditees in addressing these findings. There were five (22%) auditees (three departments and two public entities), where compliance findings were reported. Two focus areas (procurement and contract management and human resource management) with findings reported in 2012-13 were addressed and no findings were reported in 2013-14. Health and Education had new findings on the quality of their financial statements submitted for auditing. Health had a repeat finding on irregular expenditure not prevented and Education had a new finding relating to meals in some instances not being prepared according to the recommended food specifications and approved menu plans, in contravention of the Division of Revenue Act (DoRA) requirements.

The most common findings across these compliance areas were the following:

- There were material misstatements in the financial statements submitted for auditing, as mentioned in section 2.1.
- The effectiveness of the internal audit function was an area of concern (refer to section 5 for more detail).
- Irregular expenditure was not prevented (refer to section 2.3.2 for more detail).

Five auditees addressed findings relating to the prevention of irregular expenditure, mainly due to improved documentation in their supply chain management (SCM) processes.

Sections 2.3.1 and 2.3.2 provide more information on SCM and unauthorised, irregular as well as fruitless and wasteful expenditure, followed by recommendations and good practices in section 2.3.3.

## 2.3.1 Supply chain management

As part of our audits of SCM, we tested 387 contracts (with an approximate value of R3,1 billion) and 1 174 quotations (with an approximate value of R60 million), also referred to as *awards* in this report.

We tested whether the prescribed procurement processes had been followed, which would have ensured that all suppliers were given equal opportunity to compete and that some suppliers were not favoured above others. We also focused on contract management, as shortcomings in this area can result in delays, wastage as well as fruitless and wasteful expenditure, which in turn have a direct impact on service delivery.

We further assessed the interests of employees of the auditee and their close family members in suppliers of the auditee. Legislation does not prohibit awards to suppliers in which employees or their close family members have an interest, but requires employees and prospective suppliers to declare the interest in order for safeguards to be put in place to prevent improper influence and an unfair procurement process.

We reported all the findings arising from the audit to management in a management report. There were no material compliance findings to include in the audit report.

**Figure 10: Status of supply chain management**

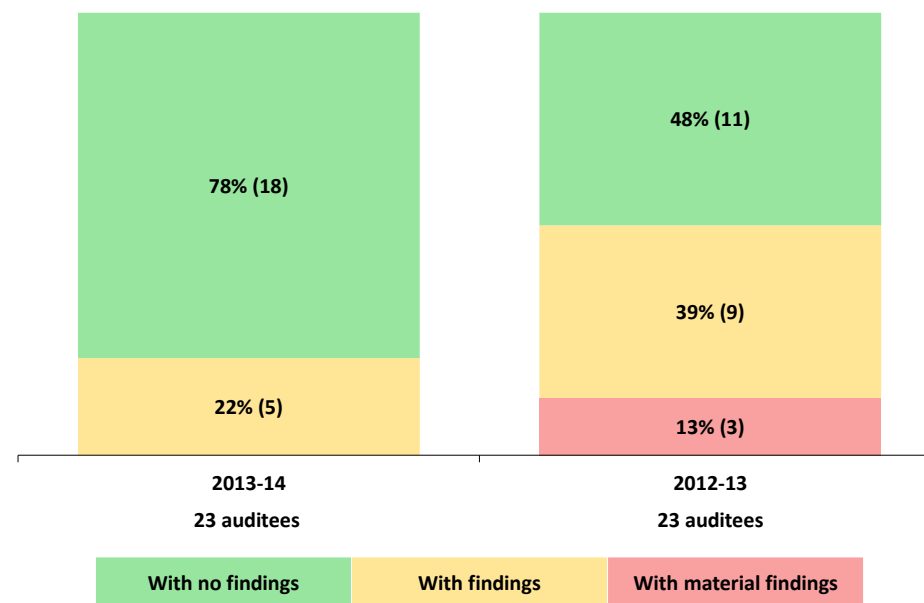


Figure 10 shows the number of auditees that had audit findings on SCM and those where we reported material compliance findings in the audit report in the current and previous years. Overall, seven departments (30%) and one entity (4%) addressed prior year SCM findings and one entity (4%) regressed. On a net basis, seven auditees (58%) addressed the SCM findings reported on in the prior year. This includes three auditees (13%) where material SCM findings were addressed.

**Figure 11: Findings on supply chain management**

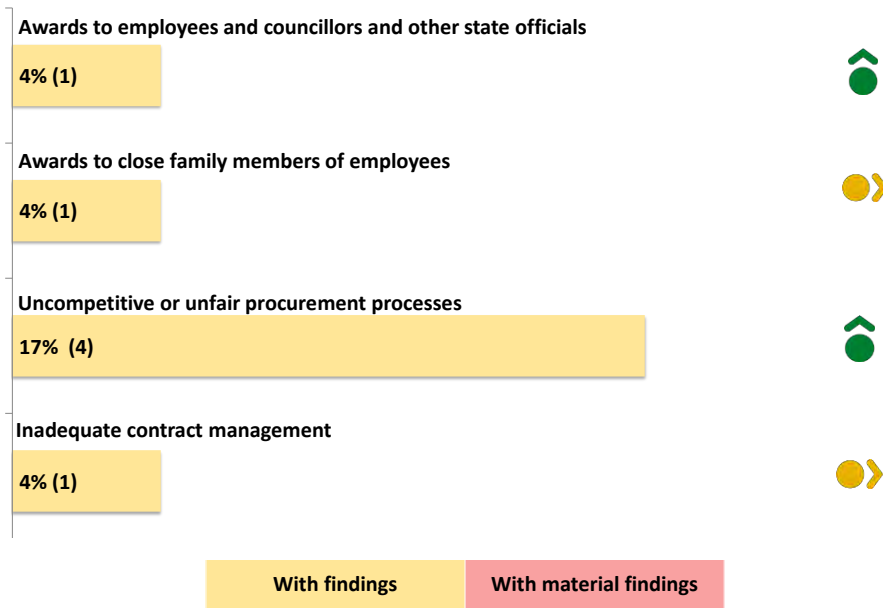


Figure 11 indicates the extent of findings in the areas we report on and the movement since the previous year.

Most of the prior year findings related to the approval of deviations when three quotes were not obtained. Auditees improved their documentation to support the reasons for and approval of deviation where three quotes could not be obtained, resulting in an improvement.

The most common findings categorised under uncompetitive and unfair procurement processes were as follows:

- The names of bidders who submitted competitive bids were not published on the auditees' websites (three auditees [13%]).
- The names of the winning bidders were not published on the auditees' websites (two auditees [9%]).

It should be noted that these two findings were not material and did not result in uncompetitive and unfair procurement processes.

There were 35 instances at four auditees of awards with an overall value of R70 million to suppliers in which close family members of employees of the auditees had an interest. In 3% of these instances the supplier submitted a false declaration. The persons involved were other officials not involved in the procurement process.

There were five instances of awards with an overall value of R472 000 to suppliers in which employees of the auditees had a financial interest. In 20% of these instances, the employee did not declare the interest.

The following internal control deficiencies identified should be addressed to improve the status of SCM in the province: timely corrective action; review and monitoring of compliance with legislation by management; the establishment, timely updating and communication of policies and procedures to support internal control objectives and processes.

## 2.3.2 Unauthorised, irregular as well as fruitless and wasteful expenditure

### Unauthorised expenditure

Unauthorised expenditure is expenditure that was not incurred in accordance with the approved budget. The PFMA requires accounting officers to take all reasonable steps to prevent unauthorised expenditure. The auditee should have processes in place to identify any unauthorised expenditure that was incurred and disclose the amounts in the financial statements. The PFMA also includes the steps that accounting officers and oversight bodies should take to investigate unauthorised expenditure to determine whether any officials are liable for the expenditure and to recover the money if liability is proven.

The auditees in the province had incurred no unauthorised expenditure for the 2013-14 and 2012-13 financial years. This is attributed to appropriate monitoring of spending against the budgets. Good practices applied included the following:

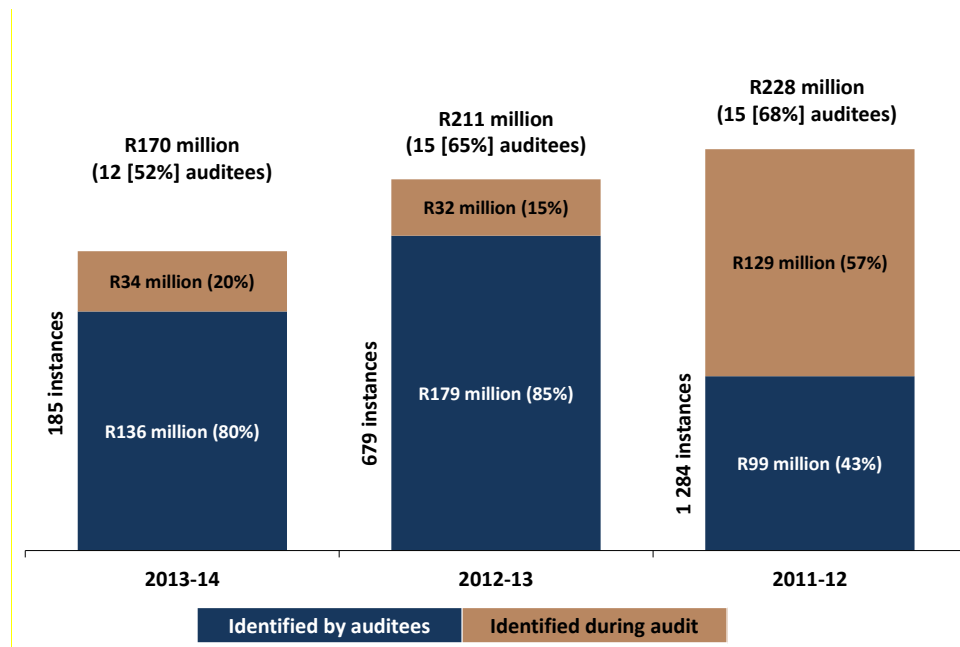
- Management is actively involved in the drafting of budgets, ensuring that they are aligned to the organisational strategic objectives and thus reducing the risk of budget misalignment due to poor planning. Finally, budgets are translated into the cash flow forecasts that are submitted to provincial treasury.
- Programme, responsibility and project managers are appointed for each budget responsibility and medium term expenditure framework budget allocations are issued to each manager, clearly communicating each manager's responsibility with regards to budget management.
- Financial year-end monitoring includes the daily monitoring of expenditure and cash management at the end of the financial year to prevent any possible overexpenditure.
- General awareness through the policy on unauthorised, irregular and fruitless and wasteful expenditure, including workshops on the aforementioned policy.

## Irregular expenditure

Irregular expenditure refers to expenditure that was not incurred in the manner prescribed by legislation. Such expenditure does not necessarily mean that money had been wasted or that fraud had been committed, but is an indicator that legislation is not being adhered to, including legislation aimed at ensuring that procurement processes are competitive and fair. It is also an indicator of a significant breakdown in controls at some auditees.

The PFMA requires accounting officers/authorities to take all reasonable steps to prevent irregular expenditure. Auditees should have processes in place to detect non-compliance with legislation that results in irregular expenditure and, if incurred, are required to disclose the amounts in the financial statements. Irregular expenditure must be reported when it is identified – even if such expenditure was incurred in a previous financial year.

**Figure 12: Auditees incurring irregular expenditure**



There has been a gradual downward trend in the amount of irregular expenditure reported in the province over the past three financial years, with a decrease of R41 million (19%) compared to the previous year, and a R17 million decrease (7%) between 2011-12 and 2012-13.

In the current year, Health (R88 million) and Social Development (R55 million) accounted for 84% of the total irregular expenditure reported in the province. At both departments instances of deviation from competitive bidding process were identified. In the case of Health it was identified by both the auditee and auditors and in the case of Social Development it was identified by the auditee. In the 2012-13 year, Health, Education and Transport and Public Works accounted for 92% of the total irregular expenditure reported, with Health the biggest contributor, as indicated above.

Irregular expenditure identified by auditees regressed slightly, with 80% of irregular expenditure identified by auditees in the current year compared to 85% in the prior year.

The R170 million incurred in the current year constitutes less than 1% of the total expenditure budget in the province.

Of the R170 million in irregular expenditure incurred in 2013-14, most (90%) was as a result of non-compliance with SCM legislation. The related SCM non-compliance was assessed as not material for purposes of reporting in auditees' audit reports. The following were the main areas of non-compliance, as disclosed by the auditees in their financial statements, with an indication of the estimated value of the expenditure:

- Procurement without a competitive bidding or quotation process – R75 million (44%)
- Non-compliance with procurement process requirements – R24 million (14%)
- Non-compliance with legislation on contract management – R54 million (32%)

**Figure 13: Previous year irregular expenditure identified in the current year**

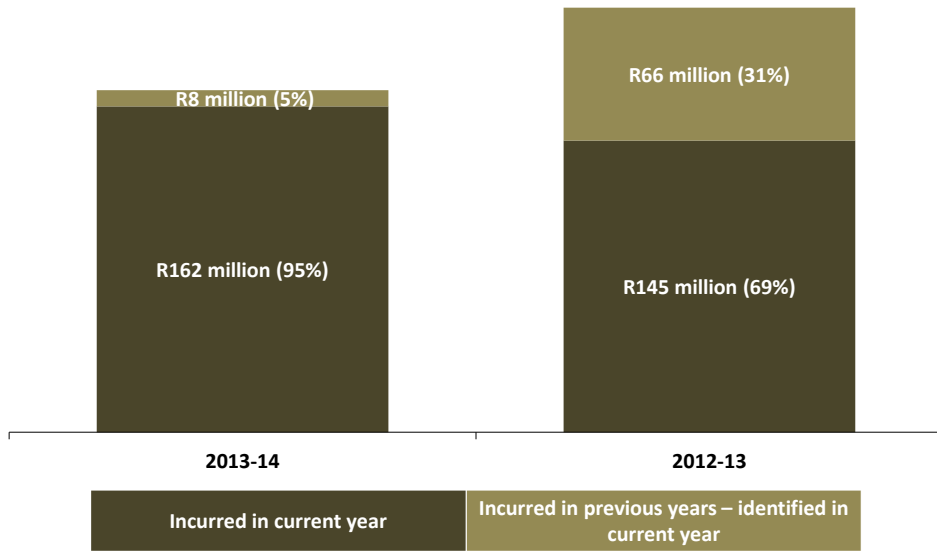


Figure 13 shows that 95% of the irregular expenditure was incurred in 2013-14; the remainder was expenditure resulting from transgressions in previous years. There was a significant reduction in prior year irregular expenditure identified in the current year, mainly due to R62 million being identified for Transport and Public Works in the 2012-13 year.

The PFMA provides for steps that accounting officers should take to investigate irregular expenditure to determine whether any officials are liable for the expenditure and to recover the money if liability is proven. The investigation should also confirm whether fraud has been committed or money has been wasted in that goods and services were not received or had not been procured at the best price. Irregular expenditure incurred remains in the auditee's financial statements until it is recovered if liability is proven, or written off as not recoverable or condoned by a relevant authority (mostly the National Treasury).

At 31 March 2013 the auditees' financial statements showed that the accumulated balance of irregular expenditure in the province that required action to be taken was R305 million. It is encouraging that in 2013-14, R277 million was dealt with as required by legislation, leaving a balance of R27 million at the end of the 2013-14 financial year.

We did not conduct any investigations into the irregular expenditure as that is the role of the accounting officers and oversight bodies.

However, through our normal audits we determined that goods and services were received for R170 million (100%) of the irregular expenditure despite the normal processes governing procurement not being followed.

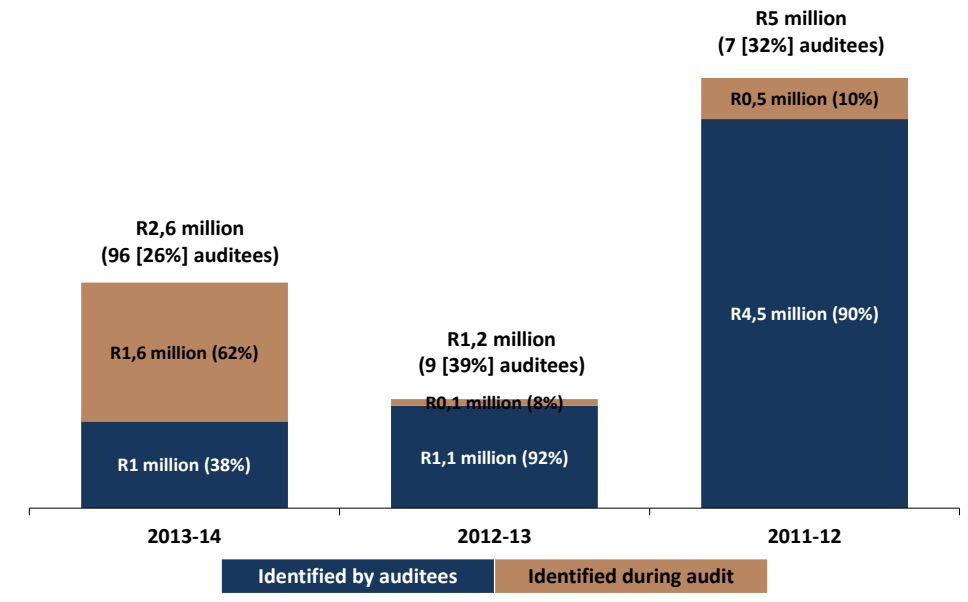
While the improvement in the extent of irregular expenditure findings is encouraging, we urge those charged with governance and oversight to intensify their monitoring of the action plans of all entities to address the risks of irregular expenditure and, at the same time, enforce appropriate consequences when officials fail to comply with the applicable legislation.

### Fruitless and wasteful expenditure

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been taken.

The PFMA requires accounting officers to take all reasonable steps to prevent fruitless and wasteful expenditure. The auditee should have processes in place to detect fruitless and wasteful expenditure and, if incurred, to disclose the amounts in the financial statements. Fruitless and wasteful expenditure must be reported when it is identified – even if the expenditure was incurred in a previous financial year.

**Figure 14: Trend in fruitless and wasteful expenditure**



The amount of fruitless and wasteful expenditure has risen sharply since the previous year by an amount of R1,4 million, following a significant decline of R3,8 million between the 2011-12 and 2012-13 financial years. During the 2013-14 year, Education accounted for R2,36 million (or 91%) of the total fruitless and wasteful expenditure recorded for the province. Of this amount R1,6 million (67%) related to payments on the learner transportation contract, with the balance of R639 000 (27%) relating to interest and penalties levied for overdue/late accounts. The amount relating to the learner transportation contract also represents the full extent of fruitless and wasteful expenditure identified by the auditors. Auditees were able to identify all other fruitless and wasteful expenditure incurred.

The PFMA provides for steps that accounting officers should take to investigate fruitless and wasteful expenditure to determine whether any officials are liable for the expenditure and to recover the money if liability is proven. No instances of non-compliance relating to consequence management were identified.

Although the amount for fruitless and wasteful expenditure increased significantly, this was attributable to a specific issue at one department and is not indicative of a trend of increased fruitless and wasteful expenditure for the province as a whole.

### 2.3.3 Recommendations – compliance

Auditees that had findings on compliance with key legislation and SCM and those that incurred unauthorised, irregular as well as fruitless and wasteful expenditure should strengthen their processes and controls to create (or improve) a control environment that supports compliance. For such auditees we recommend the implementation of at least the following key controls and good practices that were in place at the various auditees that managed to comply with legislation:

- Implement controls and action plans to ensure that the financial statements submitted for auditing are free of material misstatements.
- Controls at institutional level and the control functions performed by the quotation and tender committees should be further enhanced to prevent repeat instances of irregular expenditure.
- Controls to ensure compliance with DoRA and the NSNP framework.
- Improve asset management through regular physical verification of assets and reconciliations.
- Implement controls to ensure that internal audit work is performed as per the requirements of the Treasury Regulations.

## 3. Financial health

Our audits included a high-level analysis of auditees' financial indicators to provide management with an overview of selected aspects of their current financial management and to enable timely remedial action where the auditees' operations and service delivery may be at risk.

Figure 15: Status of financial health

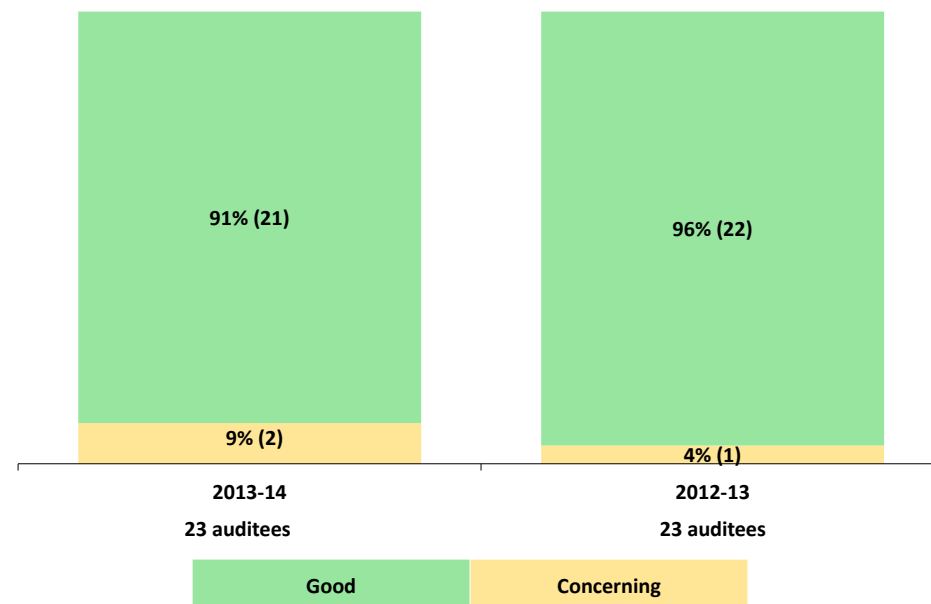
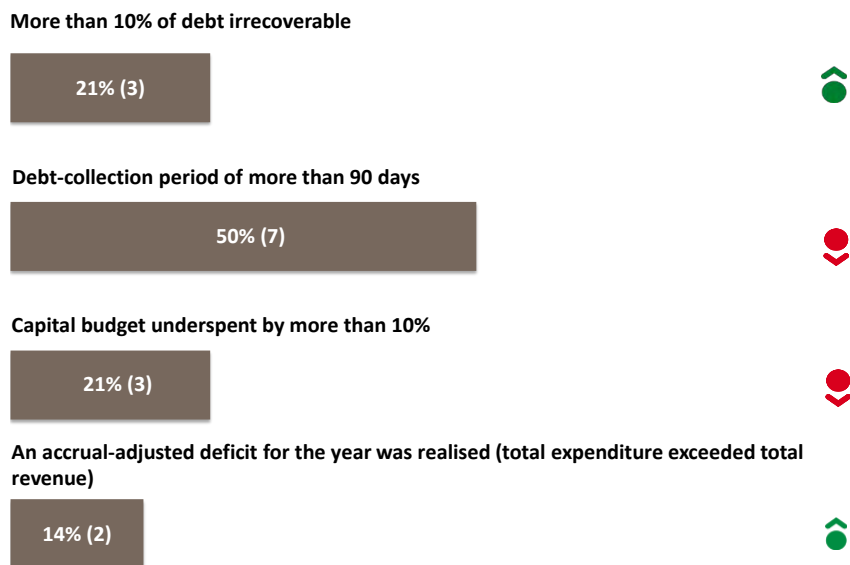


Figure 15 indicates the number of auditees that had more than two of the financial risk indicators (shown as 'concerning'). There has been an increase in the number of auditees that had financial risk indicators when compared to the previous year. The majority of auditees in the province have maintained good practices regarding financial health, with 91% maintaining their "good" status since 2012-13. Concerns were raised at two auditees (9%) (Health and WCHDF) in 2013-14 compared to one auditee (WCHDF) in 2012-13. Health regressed in this area due to the percentage underspending of the final appropriation for capital expenditure moving from 8,3% in 2012-13 to 10,1%, bringing the total indicators with concerns raised to three for Health.

**Figure 16: Areas of financial health concerns – departments**



Figures 16 and 17 show the number of auditees with indicators and the movement since the previous year. These indicators are discussed in the rest of this section.

### *Financial management by departments*

Departments prepare their financial statements on the modified cash basis of accounting. This means that the expenditure disclosed in the financial statements is only what was paid during the year and does not include accruals (the liabilities for unpaid expenses) at year-end. As part of the financial health analyses, we reconstructed the financial statements to determine whether these departments would still have had surpluses for the year had these expenses been included in their financial statements. We also assessed the impact of the unpaid expenses at year-end on the following year's budget.

None of the departments were in a bank overdraft position at year-end, utilised more than 10% of next year's budget to fund current year's expenditure or had expenditure that exceeded revenue. Two of the indicators improved since 2013-14, while one remained unchanged (expenditure did not exceed revenue). The improvement at one department related to increased unspent conditional grants (although still below the threshold at 9,6%) and reduced accruals at year-end at the other.

### *Underspending by departments of capital budgets and conditional grants received*

Three departments (21%) recorded underspending of their capital budgets by more than 10%. The underspending related mainly to delays in capital infrastructure projects at service delivery departments (Education 16% and Health 10,1%) and underspending on capital work by provincial treasury (11.9%). The projects are still in progress.

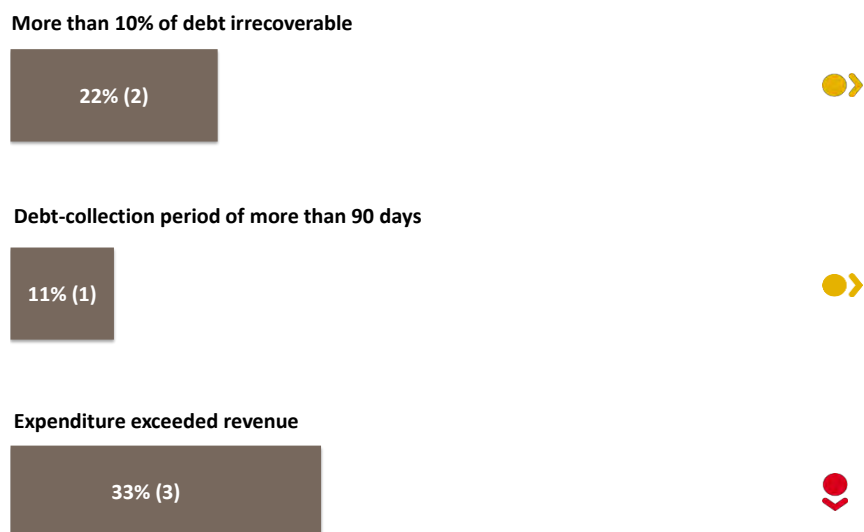
### *Debt management*

The debtor balances at four of the eight auditees with indicators on debt management were insignificant. At the remaining three auditees the nature of the debtors makes them difficult to recover as the debtors are not easily traceable in certain instances and not in a financial position to pay (housing debtors, licence fee debtors and patient debtors).

### *Financial health risks at public entities*

The financial health risk profile for public entities remained satisfactory, with only one further area which, in addition to debt management, was of concern, namely asset and liability management, with three entities (33%) reporting cases where a deficit for the year was realised (i.e. total expenditure exceeded total revenue). The

**30 Figure 17: Areas of financial health concerns – public entities**





deficits mostly related to impairment losses or the spending of prior year rolled over funds approved by provincial treasury.

## 4. Internal controls and root causes

As part of our audits, we assessed auditees' internal controls to determine the effectiveness of their design and implementation in ensuring reliable financial and performance reporting and compliance with key legislation.

Figure 1 shows the status of the different areas of internal control and the overall movement since the previous year. There was an improvement in the controls relating to leadership and governance. Progress in the daily disciplines included in financial and performance management has been slow.

In sections 2.1 (quality of financial statements), 2.2 (quality of annual performance reports and 2.3 (compliance with legislation) we commented broadly on those key controls that should receive attention to improve or sustain the audit outcomes.

Figure 18 shows the status of the controls requiring the most attention.

**Figure 18: Key controls requiring the most attention**

	Audit areas								
	Financial statements			Performance reports			Compliance with legislation		
Effective leadership	23	0	0	22	0	0	22	1	0
Human resource controls	21	2	0	22	0	0	23	0	0
ICT governance and controls	10	12	1	17	5	0	18	4	0
Audit action plans	17	5	1	18	3	1	18	4	1
Proper record keeping	17	6	0	17	4	1	17	6	0
Daily and monthly controls	10	13	0	20	2	0	19	4	0
Review and monitor compliance	15	7	1	19	3	0	9	13	1

Good	Concerning	Intervention required
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To ensure that audit outcomes are sustained or improved, the controls requiring the most attention relate to daily and monthly controls and the monitoring of

compliance, which should be institutionalised. Overall there has been an improvement in the drivers of key controls relating to leadership and governance. There has been some improvement (less than 5% overall) in the daily and monthly processing controls and reconciliations; however, these have not been fully institutionalised by all auditees, resulting in material misstatements in submitted financial statements and performance reports. This also highlights the risk of sustainability of the audit outcomes and, if not addressed by leadership through regular monitoring of adequate action plans, may result in a regression in audit outcomes. There was also an improvement in the monitoring of compliance matters as is evident in the improvement in auditees with compliance findings.

Leadership should also focus on the risk assessment process to ensure that changes in legislation and accounting standards are adequately addressed, something not fully considered during the process in the past. Some concerns were also raised by internal audit units during the review of compliance and performance reporting; however, this did not result in an overall regression in governance-related key controls. There are some resource constraints that have an impact on the ability to perform additional reviews as requested by accounting officers and audit committees

In particular, attention should be paid to the effective utilisation of compliance checklists and monitoring units where functions are decentralised, for example, in the case of departments such as Education, Health and Social Development.

Sections 4.1 and 4.2 provide further information on the status of the HR controls and the information and communication technology (ICT) governance and controls. The effectiveness of internal control is significantly impacted by root causes. Section 4.3 describes the most common root causes that should be addressed.

### 4.1 Human resource management

HR management is effective if adequate and sufficiently skilled staff members are in place and if their performance and productivity are properly managed.

Our audits included an assessment of HR management that focused on the following areas: ■ HR planning and organisation ■ management of vacancies ■ appointment processes ■ performance management ■ acting positions ■ management of leave, overtime and suspensions.

Our audits further looked at the management of vacancies and stability in key positions, competencies of key officials and performance management and consequences for transgressions, as these matters have a direct bearing on the quality of auditees' financial and performance reports and compliance by them with legislation.

Based on the results of these audits we assessed the status of HR management controls.

**Figure 19: Status of human resource management**

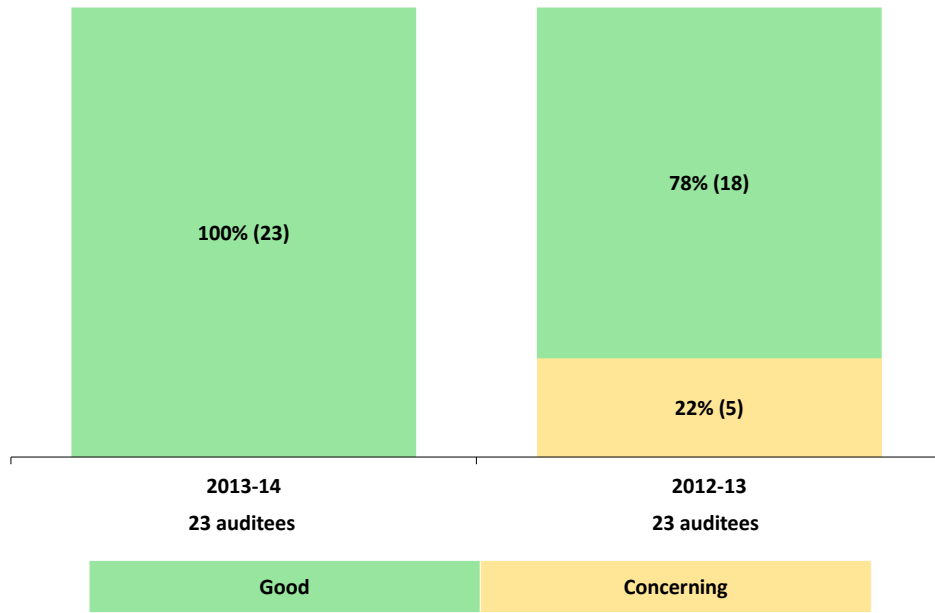
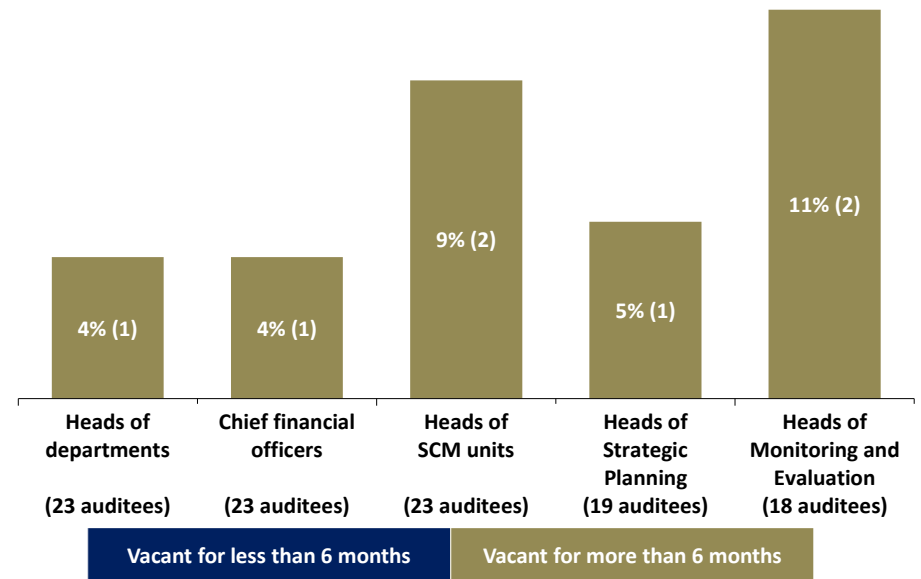


Figure 19 shows that there has been an improvement in the status of HR management when compared to the previous year. Certain HR functions are performed by the department of the Premier on behalf of other departments in the province. The department of the Premier appointed their own service provider for verification procedures during the appointment process to address findings reported in the previous year. Communication processes between the affected departments and the department of the Premier were also improved, resulting in improved record keeping. There was an improvement in the monitoring of compliance matters as is evident in the improvement in auditees with compliance findings.

*Management of vacancies and acting positions*

**Figure 20: Vacancies in key positions**



**Figure 21: Stability in key positions (average number of months in position)**

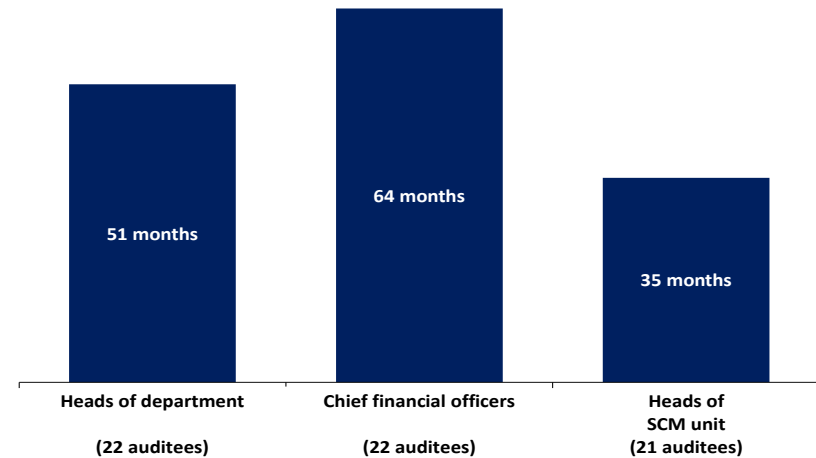


Figure 20 shows the number of auditees where the positions of the accounting officer (head of department or chief executive officer), chief financial officer and heads of the supply chain management unit were vacant at year-end and also indicates the period that these positions had been vacant. Figure 21 shows the average number of months that key officials had been in their positions.

Overall the number of vacancies decreased since the prior year, particularly with regard to heads of SCM units. In the prior year, the high number of vacancies had an impact on the number of findings reported in this area. As reported in section 2.3, there was also an improvement in the number of SCM findings in the current year.

The only finding on the management of vacancies and acting positions was that a proper verification process for new appointments did not always take place.

## Performance management

In order to improve the performance and productivity of staff, the leadership should set the correct tone by implementing sound performance management processes, evaluating and monitoring performance, and consistently demonstrating that poor performance has consequences.

It is pleasing to note that, as in the previous two years, there were no significant findings relating to non-compliance with performance management requirements.

## Competencies of key officials and consequences for transgressions

At one auditee it was recommended that management should consider implementing consequences where irregular expenditure identified could have been prevented as this finding had also been raised in the prior year.

A concern was raised relating to the competencies of key officials at one auditee where findings were reported on the quality of the financial statements, the quality of the performance reports and compliance.

These two root causes are, however, not widespread in the province and had been addressed by most auditees since the previous year.

## Effective use of consultants by departments

Provincial departments spent an estimated total of R353 million on consultancy services in 2013-14 to supplement their human resources. Consultancy services are services of an intellectual or advisory nature. The amount was spent in the following areas:

- Financial reporting – R1,5 million

- Performance information – R3,8 million
- IT-related services – R70 million
- Other – R278 million.

The most common reason why departments appoint consultants was the lack of skills, particularly for IT-related services.

Our audits included an assessment of the management of consultants at 12 of the departments. The following findings were reported at one auditee:

- The terms of references used in the appointment of consultants were inadequate as they did not clearly define the required experience and qualifications.
- The contract of the consultant did not stipulate the terms and conditions for the termination of the contract in the event of non- or underperformance.

A comprehensive contract management system to enable proper record keeping in a timely manner has not been developed and implemented for the department.

## 4.2 Information technology controls

IT controls ensure the confidentiality, integrity and availability of state information, enables service delivery and promotes national security. It is essential therefore that good IT governance, effective IT management and a secure IT infrastructure be in place.

Effective IT governance is essential for the overall well-being of an organisation's IT function and ensures that the organisation's IT control environment functions well and enables service delivery. All state departments and public entities are therefore required to adopt and implement good IT governance principles. For this purpose the Department of Public Service and Administration (DPSA) developed and IT governance framework and guidelines for implementation in phases over a period of three years. Phase 1 was due for implementation by the end of the 2013-14 financial year, and the DPSA moderated the management performance assessment tool (MPAT) self-assessment results to monitor progress made with implementation. The implementation of phase 1 will be evaluated in the following audit cycle to determine whether good IT governance principles have been applied. In the 2014-15 financial year the implementation of phase 2 should be prioritised by the accounting officers and governance champions.

Auditees are required to implement the DPSA's corporate governance of information technology policy framework (CGICTPF), also referred to as the IT governance framework, as approved by Cabinet in three phases. The first phase has to be implemented by the end of 2013-14 financial year, phase 2 by 2014-15 and phase 3 by 2015-16. The centre for e-innovation within the Premier's

department has made significant progress in the adoption and alignment of the DPSA IT governance framework, as evidenced by the completion of phase 2 during the 2013-14 financial year.

As the legislatures have opted to develop their own IT governance frameworks, management should prioritise the implementation of these customised governance frameworks. The most common finding for the legislatures was that an IT governance framework had been developed, but not yet implemented.

**Figure 22: Status of information technology**



Our audit also included an assessment of the IT controls that focus on security management, user account management and IT service continuity. Figure 22 shows that there has been no change since the previous year in the number of auditees with audit findings on IT controls.

**Figure 23: Status of information technology controls**

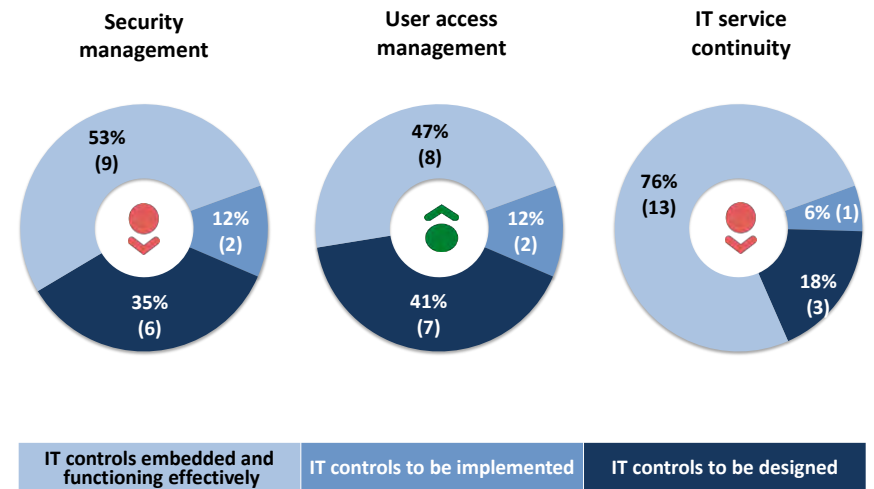


Figure 23 above indicates the status of the controls in the areas we audited and the movement since the previous year. It shows the number of auditees where the IT controls are functioning effectively, or are not in place (i.e. not designed), or have not been implemented.

Although IT controls had been embedded and were functioning effectively at the majority of auditees, some auditees still did not have adequately designed and implemented IT controls for security management, user access management and IT service continuity. The most common findings for these focus areas were the following:

- **Security management:**

Findings relating to the configuration of password settings and security parameters in non-transversal systems were reported for the departments of Cultural Affairs and Sport, Health, and Human Settlements. For the first time, detailed network security reviews were conducted at the department of the Premier and Western Cape Education Department. Detailed Systems, Applications and Products (SAP) and Oracle security audits were also performed for the first time at Western Cape Nature Conservation Board and Government Motor Transport, respectively.

Weaknesses were identified in the logical access parameter settings for both the Oracle and SAP environments. The Western Cape Nature Conservation

Board also failed to design adequate policies and procedures for the management of patches for servers and workstations.

The detailed network security reviews highlighted that the logging functionality on the firewall at the department of the Premier had not been adequately defined. In addition, patch management controls were not operating effectively, insecure network protocols and services were configured and administrative accounts on certain hosts had default passwords. It was also noted that the Central Education Management Information System (CEMIS) web application at the Western Cape Education Department was insecurely designed, password controls were insecurely configured and the CEMIS website did not make provision for encryption between the website and the users of the website.

These findings related to the design of IT controls and resulted in a regression in the area of security management.

- **User access management:**

User account management procedures had not been consistently designed and documented for the non-transversal application systems. The access of users and system administrators was also not regularly reviewed.

User account management procedures for SAP had also not been consistently designed and documented. The access of users and system administrators was not regularly reviewed.

- **Information technology service continuity:**

With the exception of the Western Cape Provincial Parliament, IT service continuity controls for departments in the Western Cape were centralised at the centre for e-innovation within the department of the Premier. The disaster recovery plan (DRP) was found to be adequate, but it was noted that the required number of DRP tests as stipulated in the approved DRP testing strategy had not been performed during the audit period. The DRP for the provincial legislature was outdated and had not been updated since 2012. Inadequate backup policies for the non-transversal systems at the Department of Human Settlements resulted in a regression in the area of IT service continuity.

Findings related to the lack of a DRP at the Western Cape Nature Conservation Board still remain. In addition, no documented backup procedures were in place to ensure that the entity could recover from a system failure or disaster.

Management should prioritise the design and implementation of the security management, user access management and IT service continuity controls to mitigate the risk of unauthorised access to, and unavailability of IT systems or incompleteness of data in the event of major system disruptions or data loss.

## *Integrated financial management system*

The integrated financial management system (IFMS) project was approved by national Cabinet to provide national and provincial government with a system that integrates human resources, payroll, financial and supply chain management as well as business intelligence. Cabinet has mandated SITA to source and implement an enterprise resource planning commercial-off-the-shelf solution for the public service with the expectation that the overall implementation will be concluded by 31 March 2021.

The Western Cape provincial departments (excluding the departments of Health and Education) have been proposed as lead sites for implementation. A pilot implementation of the IFMS HR leave management module focusing specifically on the leave application and approval process was in place at Economic Development and Tourism from November 2013 to April 2014. The IFMS pilot process was run parallel with the Persal leave application process and minor exceptions were noted in the capturing of leave applications. A review of the general and application controls in place for the pilot implementation resulted in findings relating to the inadequate configuration of application controls and security configuration settings, as detailed below.

An analysis of the audit outcomes following a review of the general and application controls in place for the IFMS indicated that the department experienced challenges with the design of controls. It was further noted that the majority of the findings related to the inadequate configuration of SAP settings. The following is a summary of the findings and root causes per focus area:

- **Security management**

Control weaknesses were found for logical access parameter settings for SAP. Inadequately configured logical access parameters on the SAP application could be ascribed to the implementation of default password settings that were not changed due to the system being in pilot stage.

- **Application controls**

Findings for the application control review related to inadequate configuration of SAP settings within the HR module. These deficiencies are attributed to the lack of system functionality to enforce or prompt users to attach supporting documents when capturing specific leave requests. Discrepancies in leave balances and leave quotas were identified as a result of the HR master data being set up incorrectly. This was compounded by the fact that the complete organisational structure and reporting lines of the department were not provided to SITA during the set-up of the HR master data.

Since the IFMS implementation is in its pilot phase at the department and no previous IT audits have been performed within that environment, control

deficiencies that have been identified should be noted and addressed in future roll-outs of the system.

### 4.3 Summary of root causes

Our audits included an assessment of the root causes of audit findings, based on identifying the internal controls that failed to prevent or detect the error or non-compliance. These root causes were confirmed with management and shared in the management report with the accounting officer and the executive authorities.

As reported in section 2 (overall audit outcomes), some auditees produced financial statements and annual performance reports of a poor quality and did not comply with key legislation. The information that follows summarises the three most common root causes of poor audit outcomes and inadequate controls and provides recommendations to address the root causes.

#### Slow response by management

The lack of improvement or the regression in audit outcomes of four auditees was as result of the slow response by management in addressing root causes previously reported or recommendations made during previous engagements.

This was a big improvement compared to the prior year where this was reported for nine auditees.

This also relates to the inadequate design, implementation and monitoring of action plans as reported for some of these auditees.

The accounting officer or authority and the executive authority should ensure that action plans are developed in a timely manner and that responsibility is assigned to the relevant members of management to implement and monitor progress made with actions included in the plan. They should also implement effective measures to validate reports on the progress made.

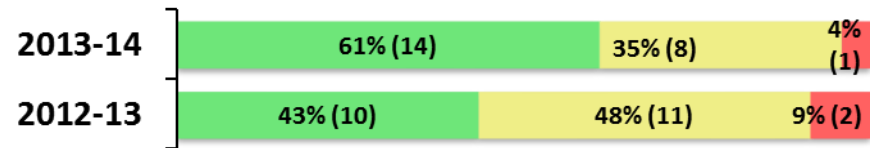
Where auditees implemented these recommendations, there was a marked reduction in the number of audit findings reported.

### 5. Impact of key role players

The management and leadership of the auditee and those that perform an oversight or governance function should work towards improving the key controls, addressing the root causes and ensuring that there is an improvement in the key risk areas, thereby providing assurance on the quality of the financial statements and performance reports as well as compliance with legislation.

Based on our assessment as shown in figure 1, there has been a significant improvement in the assurance provided by all role players. Having said that, we are encouraging all levels of assurance to focus on the basics of assurance as highlighted in the individual sections below so that daily and monthly processes are institutionalised and monitored through extensive, continuous and effective oversight. In addition, assurance providers are tasked to be at the forefront of implementing and monitoring action plans to address changes in legislation and standards. Below is an overview of the assurance provided by each of the assurance providers.

#### Senior management

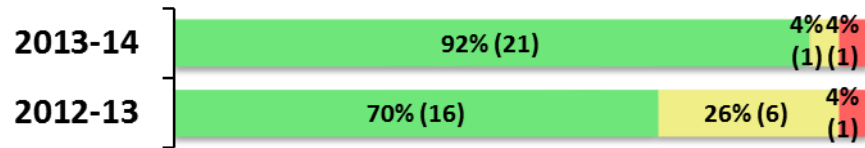


Senior management, which includes the chief financial officer, chief information officer and head of the SCM unit, provides assurance by implementing basic financial and performance controls.

The improvement in the assurance provided by senior management is linked to their own monitoring of the CGRO process and ongoing engagement with the provincial treasury to address internal control deficiencies. Further improvement is required by senior managers to enhance the implementation and monitoring of financial and performance management controls (proper record keeping, controls over processing and reconciling of transactions, regular and accurate reporting, review and monitoring of compliance with legislation and designing and implementing IT system controls).

The need to focus on the status of drivers of internal control, as reported in section 4.1, remains an imperative for the senior management of the province. Full ownership and monitoring of key controls to address deficiencies, especially in the regular preparation of credible financial and performance information, and by implementing appropriate controls to ensure effective review and monitoring of compliance with legislation will enhance the focus on key controls. The ongoing CGRO processes to enhance financial management maturity levels and initiatives to institutionalise internal controls that will address internal control deficiencies in respect of predetermined objectives, compliance with legislation governing SCM and asset management, as well as material misstatements remain key to the success of the province. Senior management is further encouraged to take full ownership of these processes and initiatives.

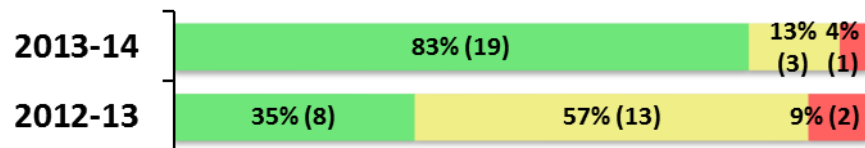
## Accounting officer or accounting authority



Accounting officers and authorities are responsible for auditees' internal controls, including leadership, planning, risk management as well as oversight and monitoring. While accounting officers and authorities depend on senior management for designing and implementing the required financial and performance management controls, they should create an environment that helps to improve such controls.

Accounting officers and authorities, with the support of senior management, should continue to support the improvements in the control environment through enhanced leadership and oversight of the implementation of the CGRO process to address risks relating to credible financial and performance reporting and compliance with legislation, effective HR management and implementation of action plans to address internal control deficiencies. These matters are critical to sustainable practices that translate into improved audit outcomes. They should ensure appropriate risk management activities that support and respond to the internal audit requests and recommendations. They should also ensure that they provide credible information to audit committees and portfolio committees to allow for extensive oversight, especially in the area of predetermined objectives. With the impending retirement of certain accounting officers it is important that the executive authorities use a variety of strategies that will help build the continuity of talent at that level by filling the posts with individuals who are able to ensure the future success of auditees.

## Members of the executive council



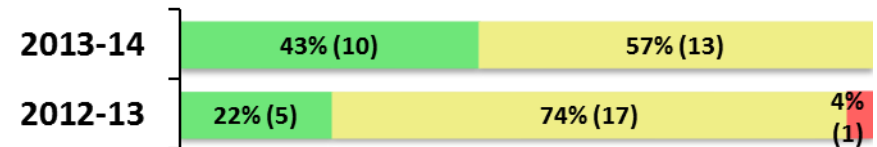
MECs have a monitoring and oversight role at both the departments and public entities. They have specific oversight responsibilities in terms of the PFMA and the Public Service Act. They, therefore, need to ensure that strategies and budgets are aligned to the mandate and that objectives are achieved. MECs can bring about improvements in the audit outcomes of their auditees by being actively involved in

key governance matters and managing the performance of the accounting officers and authorities.

The improvement in the audit outcomes is testament to the increased level of assurance that MECs provide by taking ownership of key controls and consistently focusing on monitoring of action plans to address shortcomings identified in the key controls environment. Through our regular interactions with MECs we have encouraged them to continue effecting improvements in the audit outcomes of their auditees by being actively involved in key governance matters and managing the performance of the accounting officers and authorities.

The MECs undertook to further enhance their monitoring of the implementation of the CGRO process and continue to obtain regular and credible assurance from accounting officers/authorities on the status of internal controls, the reliability of the financial and performance reports and the implementation of actions to improve audit outcomes.

## Internal audit unit



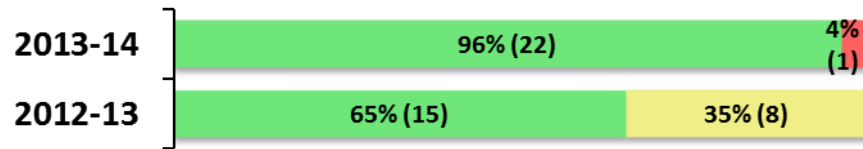
Internal audit units assist accounting officers and authorities in the execution of their duties by providing independent assurance on internal controls, financial information, risk management, performance management and compliance with legislation.

Internal audit is centralised under the department of the Premier and serves departments and selected public entities within the various clusters. All other public entities have their own internal audit units.

There has been an overall improvement in the assurance provided by internal audit; however, progress remains slow, with a regression at two auditees. Leadership should continue to strengthen the internal audit units by evaluating and addressing the resource constraints faced by certain internal audit units, especially at provincial department level.

While we have not obtained specific commitments from internal audit to influence the achievement of clean audit outcomes, we encourage them to consider reviewing compliance with legislation, particularly SCM, and intensifying their review of predetermined objectives in accordance with their risk-based approach as these areas will continue to hamper the achievement of clean audit outcomes if not effectively addressed.

## Audit committee



An audit committee is an independent body that advises the accounting officer or authority and senior management on matters such as internal controls, risk management, performance management as well as evaluation and compliance with legislation. The committee is also required to provide assurance to the accounting officer or authority on the adequacy, reliability and accuracy of financial reporting and information and compliance with legislation.

Despite the lower assurance levels provided by senior management and internal audit, the audit committees in the province have made significant strides in enhancing their governance and oversight through evaluating and monitoring management's responses to risks and overseeing the effectiveness of the internal control environment, including financial and performance reporting and compliance with legislation. The assurance levels provided by audit committees were also enhanced through regular interactions with MECs, while accounting authorities provided them with assurance on the implementation of the CGRO process. This provided a basis for driving clean audit outcomes in the province.

While we have not obtained specific commitments from audit committees to influence the achievement of clean audit outcomes, we encourage them to engage the department of the Premier on solutions to the resource constraints faced by certain internal audit units.

### Provincial treasury and the premier's office

Provincial treasury carried out a number of interventions in the province over the past few years. This includes budgetary control, the monitoring of monthly reports and enforcing the principles of financial management, including the CGRO process. The dedicated focus by the officials, with the support of the premier's office, to hold MECs accountable for the implementation of the CGRO process through regular reporting on the process to Cabinet has contributed to the significant improvement in the audit outcomes.

The progress made by provincial treasury and the premier's office in implementing the commitments relating to improved financial management and better quality performance reporting, as well as ongoing improvement in compliance with regard to procurement and contract management, is evident in the improved audit outcomes.

While we are encouraged by the reduction in findings on the usefulness and reliability of quality of performance reporting, attention should be given to addressing the internal control deficiencies that led to material misstatements in the annual performance reports of some entities which had to be corrected during the audit. Provincial treasury should also prioritise their support to those departments with material misstatements in their financial statements to strengthen the relevant internal controls and processes so as to accurately manage and report on commitments and assets, in particular.

Provincial treasury and the premier's office are in the process of refining the CGRO process, which will enable enhanced provincial oversight and monitoring of the implementation thereof and ensure that control measures to sustain clean administration are institutionalised.

The AGSA undertakes to continue with general and key control engagements, as well as important technical engagements in support of the efforts of provincial treasury and the premier's office.

### Portfolio committees and public accounts committees

The role of portfolio committees and the public accounts committee remains critical in the province. They are tasked with effective oversight of all departments and public entities and must hold first-level assurance accountable for their actions.

The impact of the portfolio committees and public accounts committee, as independent assurance providers on the internal controls of auditees, was mainly assessed on the basis of the limited interaction between the AGSA and the chairpersons of the committees, commitments made and honoured and the impact of their resolutions, actions and initiatives.

While we acknowledge the current efforts of the portfolio committees to follow through on findings identified by the AGSA, we will seek more regular interactions directly with committees or through the chairpersons, especially with new members of committees. Through these interactions we will add value to the oversight process by sharing the key controls dashboards of departments and public entities, highlighting weakness in internal controls and review of annual reports, as well as progress with the implementation of our recommendations.

The provincial standing committee on public accounts (SCOPA) provided some assurance by conducting hearings at which it extracts commitments from executive authorities and accounting officers/authorities to take corrective actions on our findings. We had 17 interactions with SCOPA, who continued to structure its oversight engagements with departments and public entities based on the insight gained from our briefings. All SCOPA hearings focused on root causes of key audit findings, which resulted in 90 resolutions for implementation by departments and



public entities. Sixty (67%) of the resolutions were implemented, while the remainder (30 or 33%) were not implemented. The majority of the resolutions not implemented related either to follow-up sessions with departments and public entities to report on progress, which could not take place owing to the national elections programme. While SCOPA's progress in focusing on critical areas within departments and public entities is commendable, the committee would strongly benefit from increased positive collaboration with portfolio/standing committees in order to achieve higher impact in influencing clean administration.

## Oversight functions of coordinating departments

The department of the Premier and the provincial treasury not only have an oversight function but are also responsible for providing support to departments and entities in specific fields. Looking at their clean audit outcomes and their ability to lead by example, these departments have a strong foundation to execute their oversight functions.

With the Financial Management of Parliament Amendment Bill, which has been signed into law and will come into effect from 1 April 2015, we encourage the provincial parliament to take the necessary steps to meet the requirements of the act. This has implications for the financial reporting framework and compliance with legislation.

## 6. Initiatives and commitments of key role players

We continued to share our key message on the actions needed to improve audit outcomes with accounting officers and authorities, MECs, the premier and the legislature during 2013-14 through our reports and interactions with them.

We held three meetings with the premier, three meetings with the speaker and 18 meetings with MECs, with a positive impact on audit outcomes. Throughout the year, we monitor the commitments and initiatives of MECs, the premier, the public account committees (PACs) and the portfolio committees to implement initiatives that can improve audit outcomes. The progress made with such commitments and the initiatives of the MECs in response to the previous year's audit outcomes and their new commitments are included in the portfolio summaries in this report.

While the excellent results achieved in the year 2013-14 have been the culmination of many years of perfecting the persuasiveness of our messages, we will continue to drive these messages with all stakeholders. Our messages will, however, take on a new dimension in the form of sustainability and increased responsiveness to

changes in legislation and standards. The monitoring and implementation of action plans will also become an in-depth focus area in the new financial year.

The commitments in the Western Cape are centred on the CGRO process. *Operation clean audit* is driven via this process in the province. Support is provided transversally to all departments and entities within the province by means of training and the issuance of good practice guidance documents in response to audit findings. Further assistance is provided on request directly to departments and entities to assist with any financial, performance or compliance-related matters.

In addition, our stakeholders have committed to focus on the following areas to ensure the sustainability and improvement of the current audit outcomes:

- Increased prominence of clean administration on the Cabinet's agenda, which includes support of provincial treasury's CGRO process to monitor, promote and sustain clean audit outcomes.
- Improved risk assessment processes to ensure readiness for changes in accounting requirements and legislation.
- Improvement of processes to ensure that financial statements are free of material misstatements.
- Measurement and reporting of performance in their annual performance plan in a manner which is useful and reliable. In addition, develop and monitor the implementation of standard operating procedures that are fully documented for performance reporting purposes.
- Identify applicable legislation and implement the required policies, procedures and controls to ensure compliance.
- Regular preparation and review of financial records, including improved controls over the daily and monthly processing and the reconciliation of transactions.
- Review and monitor the implementation of action plans to address internal control deficiencies so as to avoid repeat findings.
- Institutionalising daily and monthly controls across all disciplines within auditees, including the review of these controls and processes.
- The chairs of the audit committees have agreed to the review of the interim annual financial statements by the internal audit unit ahead of submissions to the AGSA.
- Provincial treasury is in the process of making additional funding available which will be ploughed into the effective function and/or expansion of internal control units.

We are satisfied with the progress that the province has made with regards to the commitments given in prior financial years. We are also confident that the shift in focus of the new commitments to sustainability and responsiveness will be achieved, which will enhance the drivers of internal control and audit outcomes.

# AUDIT OUTCOMES OF INDIVIDUAL PORTFOLIOS

# Premier

**Overall improvement in audit outcomes**

Audit area	Audit outcome	
Financial statements (F)	Unqualified	➡
Performance reports (P)	No material findings	⬆
Compliance with legislation (C)	No material findings	⬆

**Assurance levels**

Level	Entity	Assurance	
First level	Senior management	Provides some assurance	➡
	Accounting officer/authority	Provides assurance	⬆
	Executive authority	Provides assurance	⬆
Second level	Internal audit unit	Provides some assurance	➡
	Audit committee	Provides assurance	➡
Third level	Portfolio committee	Provides some assurance	➡

**Key controls**

Key controls	Audit area		
	F	P	C
Effective leadership	Good	Good	Good
Human resource controls	Good	Good	Good
ICT governance and controls	Concerning	Good	Good
Action plans	Good	Concerning	Concerning
Proper record keeping	Good	Good	Good
Daily and monthly controls	Concerning	Good	Good
Review and monitor compliance	Good	Good	Concerning

F = Financial    P = Performance    C = Compliance

Good    Concerning    Intervention required

1  
To maintain the **audit outcomes** ...  
... the **risk areas** and ...  
4

2  
... the key role players need to **assure** that ...  
... the **root causes** are addressed ...  
5

3  
... attention is given to the **key controls** and ...  
... and the **commitments** are honoured.  
6

**Risk areas**

Quality of submitted financial statements ⬆	Quality of submitted performance reports ⬆	Supply chain management ⬆
Financial health ➡	Human resource management ➡	Information technology ➡

Good    Concerning    Intervention required

**Most common root causes**

The auditee received a clean audit and therefore had no material root causes to address.

**Status of key commitments by Premier**

The premier and the audit committee to meet frequently to enable the audit committee to provide the premier with assurance, at least on a quarterly basis, regarding the implementation of the CGROs.	The executive authorities undertook to monitor the development and implementation of action plans (cooperative governance and review outlook or CGRO) on a monthly basis to address the gaps between current and clean audit outcomes with a focus on the preparation of quality financial statements, supply chain management and information technology.
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Not implemented    In progress    Implemented    New

# Provincial parliament

**Overall improvement audit outcome**

Audit area	Audit outcome
Financial statements (F)	Unqualified
Performance reports (P)	No material findings
Compliance with legislation (C)	No material findings

**Assurance levels**

Level	Entity	Assurance
First level	Senior management	Provides assurance
	Accounting officer	Provides assurance
	Speaker	Provides some assurance
Second level	Internal audit unit	Provides assurance
	Audit committee	Provides assurance
Third level	Portfolio committee	Provides some assurance

**Key controls**

Key controls	Audit area		
	F	P	C
Effective leadership	Good	Good	Good
Human resource controls	Good	Good	Good
ICT governance and controls	Concerning	Good	Good
Action plans	Good	Good	Good
Proper record keeping	Good	Good	Good
Daily and monthly controls	Good	Good	Good
Review and monitor compliance	Good	Concerning	Concerning

F = Financial P = Performance C = Compliance

Good Concerning Intervention required

1  
To maintain the **audit outcomes** ...  
... the **risk areas** and ...  
4

2  
... the key role players need to **assure** that ...  
... the **root causes** are addressed ...  
5

3  
... attention is given to the **key controls** and ...  
... and the **commitments** are honoured.  
6

**Risk areas**

Quality of submitted financial statements	Quality of submitted performance reports	Supply chain management
Financial health	Human resource management	Information technology

Good Concerning Intervention required

**Most common root causes**

The auditee received a clean audit and therefore had no material root causes to address.

**Status of key commitments by Speaker**

The speaker and the audit committee to meet frequently to enable the audit committee to provide the speaker with assurance, at least on a quarterly basis, regarding the implementation of the CGROs.	The speaker undertook to monitor the development and implementation of action plans (cooperative governance and review outlook or CGRO) on a monthly basis to address the gaps between current and clean audit outcomes with a focus on the preparation of quality financial statements, supply chain management and information technology.
The speaker undertook to monitor and evaluate the status of key controls and commitment on a quarterly basis to achieve sustained clean audit outcomes.	
The speaker to continue to monitor the implementation of the CGRO process, as well as readiness plans to comply with the requirements of the Financial Management of Parliament Act.	

Not implemented In progress Implemented New

**Sustained a clean audit outcome**

Audit area	Audit outcome
Financial statements (F)	No material findings
Performance reports (P)	No material findings
Compliance with legislation (C)	No material findings

**Assurance levels**

First level	Senior management	Provides assurance
	Accounting officer/authority	Provides assurance
	Executive authority	Provides assurance
Second level	Internal audit unit	Provides assurance
	Audit committee	Provides assurance
Third level	Portfolio committee	Provides some assurance

**Key controls**

Key controls	Audit area		
	F	P	C
Effective leadership	Good	Concerning	Intervention required
Human resource controls	Good	Concerning	Intervention required
ICT governance and controls	Good	Concerning	Intervention required
Audit action plans	Good	Concerning	Intervention required
Proper record keeping	Good	Concerning	Intervention required
Daily and monthly controls	Concerning	Intervention required	Intervention required
Review and monitor compliance	Concerning	Intervention required	Intervention required

F = Financial P = Performance C = Compliance

Good Concerning Intervention required

1  
To maintain the **audit outcomes** ...  
... the **risk areas** and ...  
4

2  
... the key role players need to **assure** that ...  
... the **root causes** are addressed ...  
5

3  
... attention is given to the **key controls** and ...  
... and the **commitments** are honoured.  
6

**Risk areas**

Quality of submitted financial statements	Quality of submitted performance reports	Supply chain management
Good	Concerning	Good
Financial health	Human resource management	Information technology
Good	Good	Good

Good Concerning Intervention required

**Most common root causes**

The auditee received a clean audit and therefore had no material root causes to address.

**Status of key commitments by minister/MEC**

The MEC undertook to continue with quarterly monitoring and evaluation of the status of key controls and commitments to maintain clean audit outcomes.

The MEC and audit committees to meet frequently to enable the audit committee to provide the MEC with assurance, at least on a quarterly basis, regarding the implementation of the CGRO.

The MEC committed ongoing focus on the CGRO implementation process with specific focus on addressing matters identified on performance reports.

Not implemented In progress Implemented New

# Community safety

**Sustained a clean audit outcome**

Audit area	Audit outcome	
Financial statements (F)	Unqualified	●➤
Performance reports (P)	No material findings	●➤
Compliance with legislation (C)	No material findings	●➤

**Assurance levels**

Level	Role	Assurance	Icon
First level	Senior management	Provides some assurance	●➤
	Accounting officer	Provides assurance	●➤
	Executive authority	Provides assurance	●➤
Second level	Internal audit unit	Provides some assurance	●⬇
	Audit committee	Provides assurance	●➤
Third level	Portfolio committee	Provides some assurance	●➤

**Key controls**

Key controls	Audit area		
	F	P	C
Effective leadership	Good	Good	Good
Human resource controls	Good	Good	Good
ICT governance and controls	Good	Good	Good
Action plans	Good	Good	Good
Proper record keeping	Good	Good	Good
Daily and monthly controls	Concerning	Good	Good
Review and monitor compliance	Good	Good	Good

F = Financial P = Performance C = Compliance

Good Concerning Intervention required

1  
To maintain the **audit outcomes** ...  
... the **risk areas** and ...  
4

2  
... the key role players need to **assure** that ...  
... the **root causes** are addressed ...  
5

3  
... attention is given to the **key controls** and ...  
... and the **commitments** are honoured.  
6

**Risk areas**

Quality of submitted financial statements ●➤	Quality of submitted performance reports ●➤	Supply chain management ●➤
Financial health ●➤	Human resource management ●➤	Information technology ●➤

Good Concerning Intervention required

**Most common root causes**

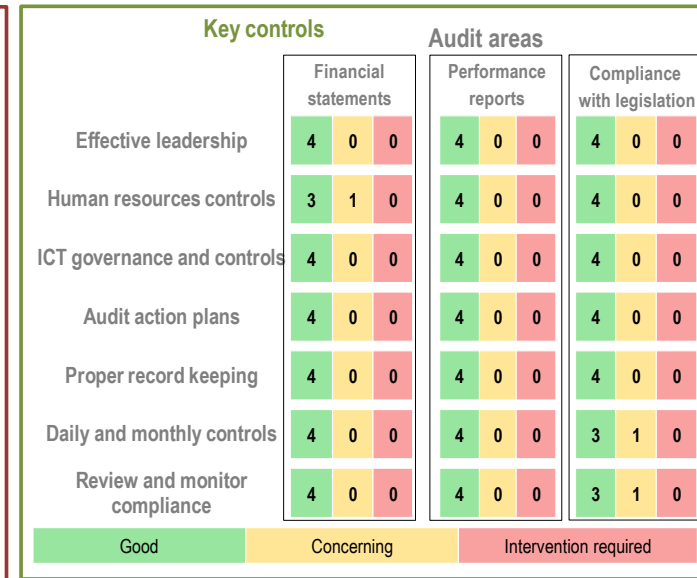
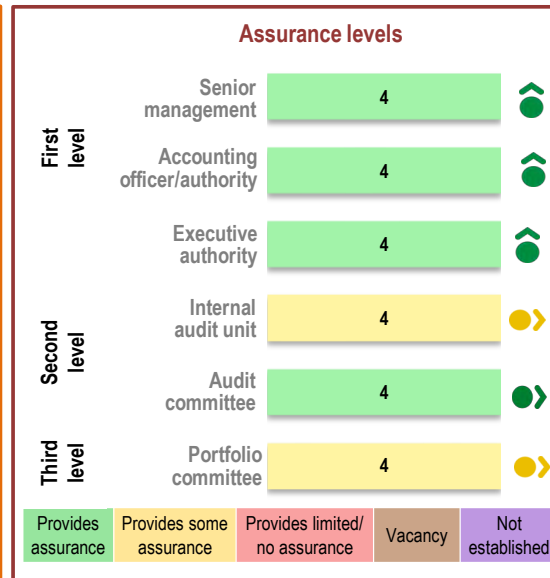
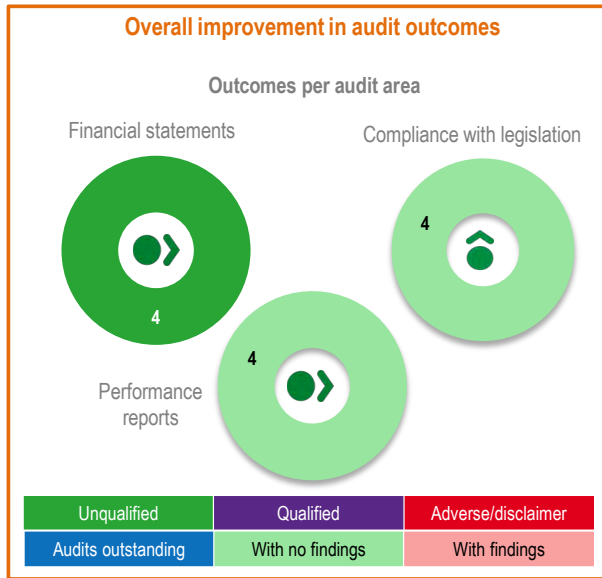
The auditee received a clean audit and therefore had no material root causes to address.

**Status of key commitments by MEC**

The MEC continued to monitor and oversee the financial and performance management of the department to assist in maintaining the current audit status.	Implemented
The MEC is aware of the need for succession planning in the department, particularly in the case of a few senior positions which are already vacant or will be vacated in the next 12 months. He is addressing the issue.	In progress
Continued monitoring of the implementation of actions to address the residual audit findings under the CGRO process.	Not implemented

Not implemented In progress Implemented New

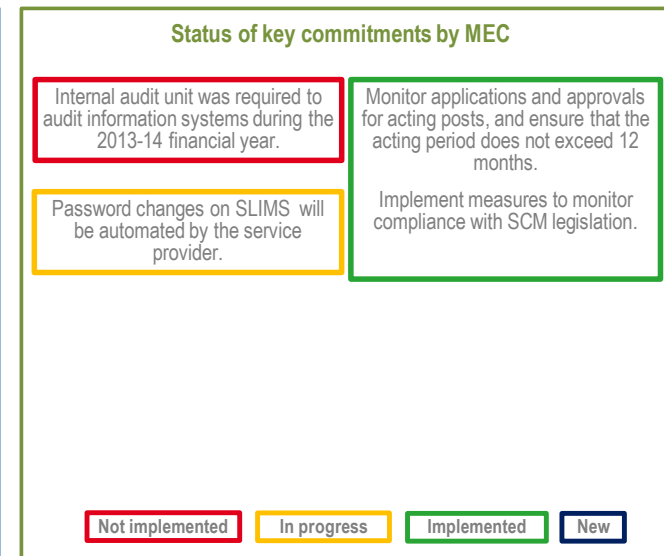
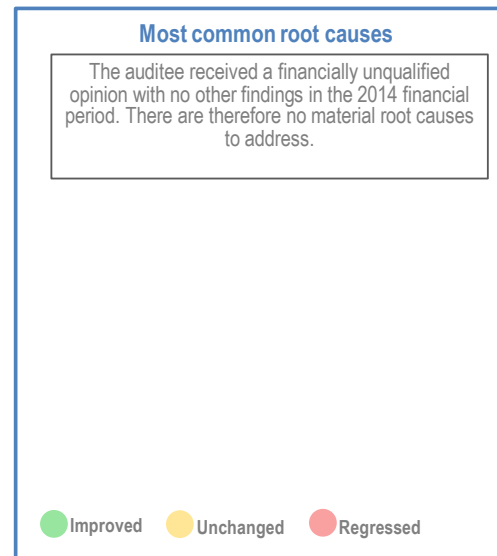
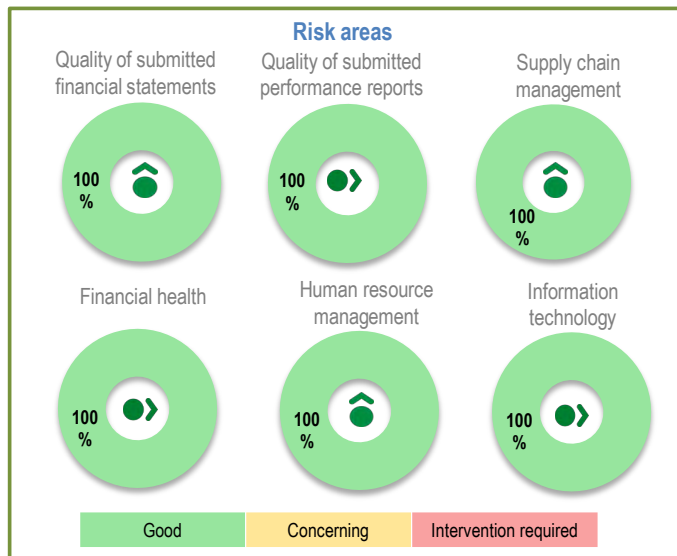
# Cultural affairs and sport



1  
To maintain the **audit outcomes** ...  
... the **risk areas** and ...  
4

2  
... the key role players need to **assure** that ...  
... the **root causes** are addressed ...  
5

3  
... attention is given to the **key controls** and ...  
... and the **commitments** are honoured.  
6





# Education

**Overall stagnation in audit outcomes**

Audit area	Audit outcome
Financial statements (F)	Unqualified
Performance reports (P)	No material findings
Compliance with legislation (C)	Material findings

**Assurance levels**

First level	Senior management	Provides some assurance
	Accounting officer/authority	Provides assurance
	Executive authority	Provides assurance
Second level	Internal audit unit	Provides some assurance
	Audit committee	Provides assurance
Third level	Portfolio committee	Provides some assurance

**Key controls**

Key controls	Audit area		
	F	P	C
Effective leadership	Good	Good	Good
Human resource controls	Good	Good	Good
ICT governance and controls	Concerning	Concerning	Concerning
Action plans	Good	Good	Good
Proper record keeping	Concerning	Good	Concerning
Daily and monthly controls	Concerning	Good	Concerning
Review and monitor compliance	Concerning	Good	Concerning

F = Financial    P = Performance    C = Compliance

Good    Concerning    Intervention required

1  
To improve the **audit outcomes** ...  
... the **risk areas** and ...  
4

2  
... the key role players need to **assure** that ...  
... the **root causes** are addressed ...  
5

3  
... attention is given to the **key controls** and ...  
... and the **commitments** are honoured.  
6

**Risk areas**

Quality of submitted financial statements	Quality of submitted performance reports	Supply chain management
Intervention required	Good	Good
Financial health	Human resource management	Information technology
Good	Good	Concerning

Good    Concerning    Intervention required

**Most common root causes**

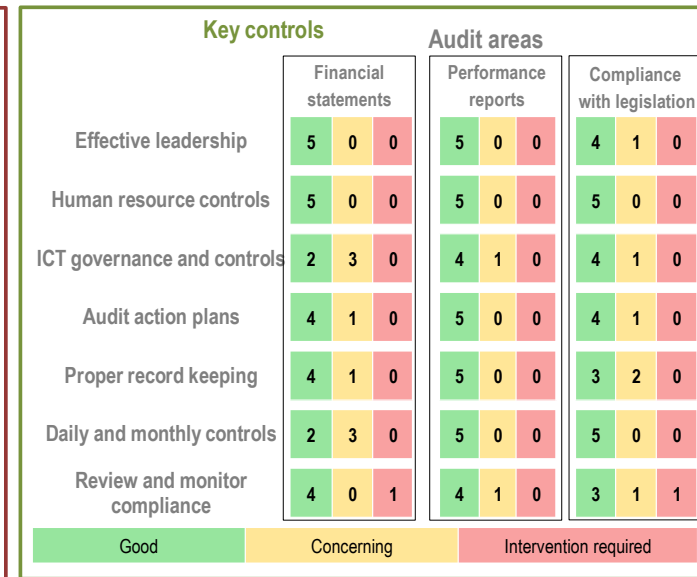
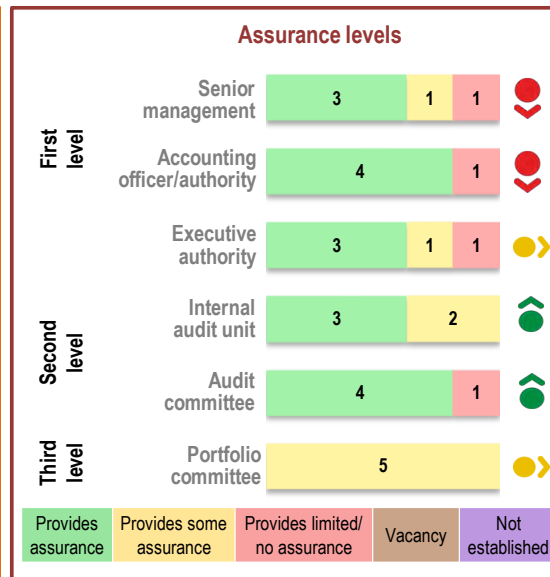
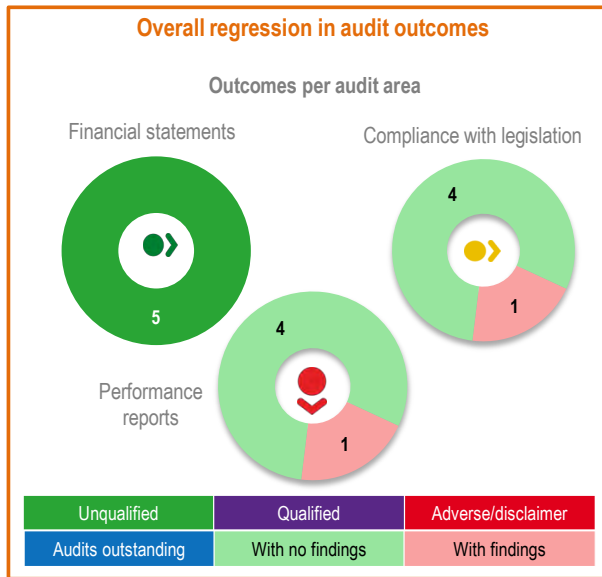
Slow response by management.

**Status of key commitments by MEC**

Implement internal controls to ensure that SCM findings raised in 2012-13 are resolved.	Implemented
Implement controls to ensure that NSNP complies with laws and regulations.	Not implemented
Implement adequate controls to ensure that financial statements are free of material errors/misstatements.	In progress

Not implemented    In progress    Implemented    New

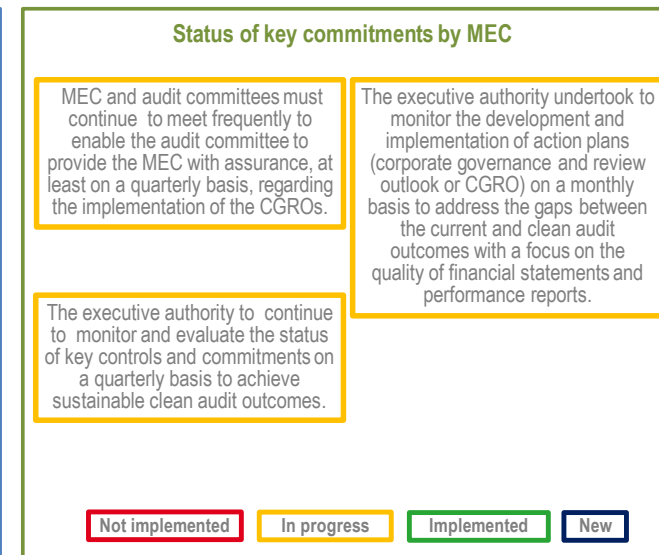
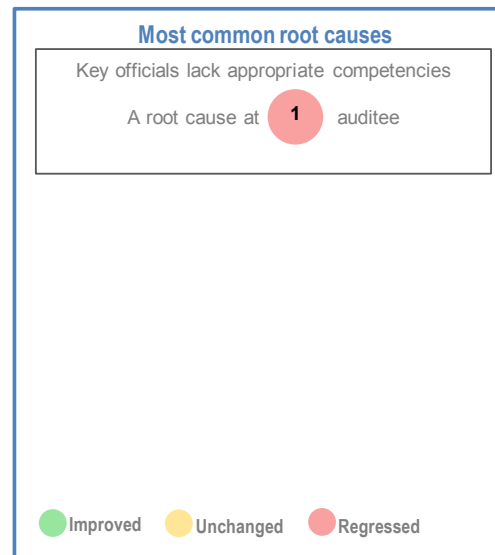
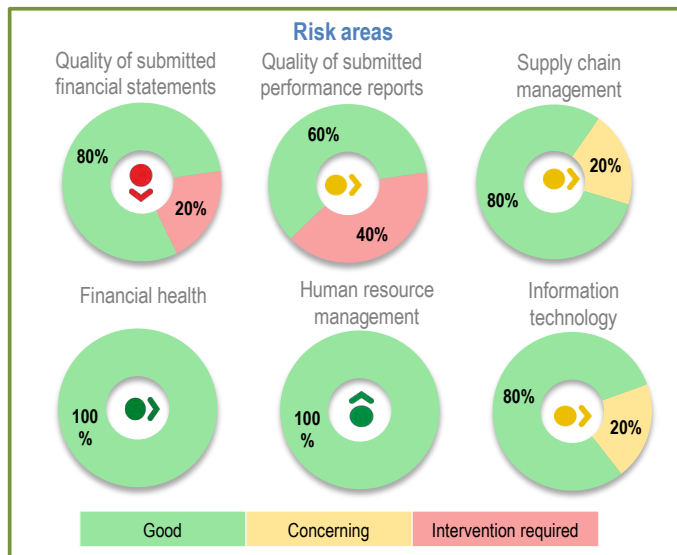
# Finance, economic development and tourism



1  
To improve the **audit outcomes** ...  
... the **risk areas** and ...  
4

2  
... the key role players need to **assure** that ...  
... the **root causes** are addressed ...  
5

3  
... attention is given to the **key controls** and ...  
... and the **commitments** are honoured.  
6



# Health

**Overall stagnation in audit outcomes**

Audit area	Audit outcome
Financial statements (F)	Unqualified
Performance reports (P)	No material findings
Compliance with legislation (C)	Material findings

**Assurance levels**

Level	Entity	Assurance
First level	Senior management	Provides some assurance
	Accounting officer	Provides assurance
	Executive authority	Provides some assurance
Second level	Internal audit unit	Provides assurance
	Audit committee	Provides assurance
Third level	Portfolio committee	Provides some assurance

**Key controls**

Key controls	Audit area		
	F	P	C
Effective leadership	Good	Good	Good
Human resource controls	Good	Good	Good
ICT governance and controls	Concerning	Concerning	Concerning
Action plans	Concerning	Concerning	Concerning
Proper record keeping	Good	Concerning	Good
Daily and monthly controls	Good	Good	Good
Review and monitor compliance	Concerning	Good	Concerning

F = Financial P = Performance C = Compliance

Good Concerning Intervention required

1  
To improve the **audit outcomes** ...  
... the **risk areas** and ...  
4

2  
... the key role players need to **assure** that ...  
... the **root causes** are addressed ...  
5

3  
... attention is given to the **key controls** and ...  
... and the **commitments** are honoured.  
6

**Risk areas**

Quality of submitted financial statements	Quality of submitted performance reports	Supply chain management
Regressed	Improved	Improved
Financial health	Human resource management	Information technology
Regressed	Improved	Concerning

Good Concerning Intervention required

**Most common root causes**

Lack of consequences for poor performance and transgressions
Slow response by management

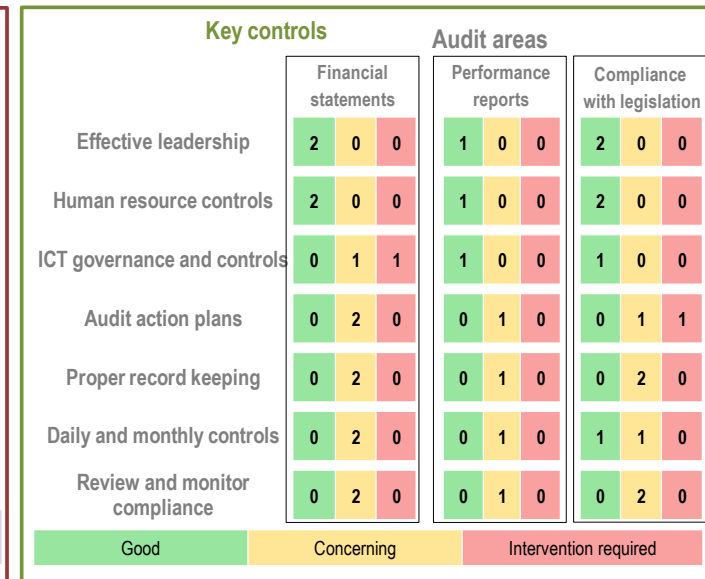
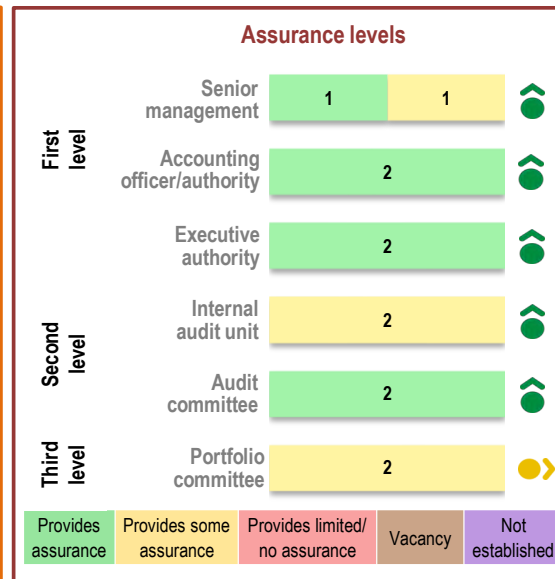
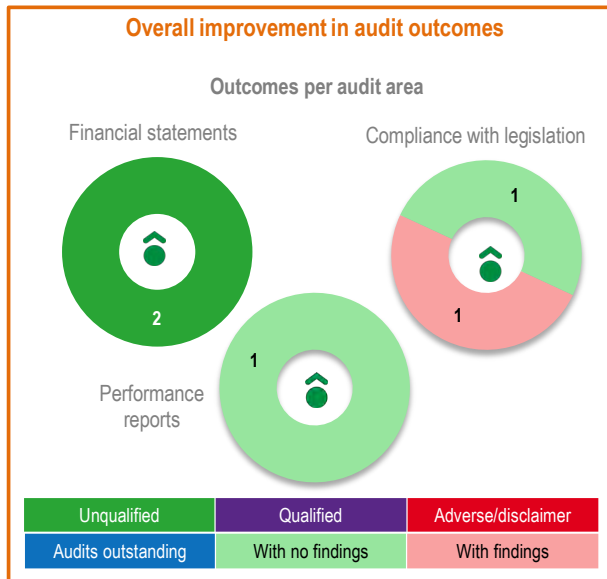
Improved Concerning Regressed

**Status of key commitments by MEC**

Continued implementation of compliance tools, which were developed during the 2011-12 year.	Proper and complete financial statements prepared by each institution required to submit information to head office for inclusion in the financial statement disclosure notes and for statement of financial position items, leading to improved quality of financial statements.
Continued actions to actively pursue a solution to the factors hampering the department in disclosing accurate and complete inventory closing balances.	Implementation of consequence management to avoid recurrence of similar irregular expenditure findings.

Not implemented In progress Implemented New

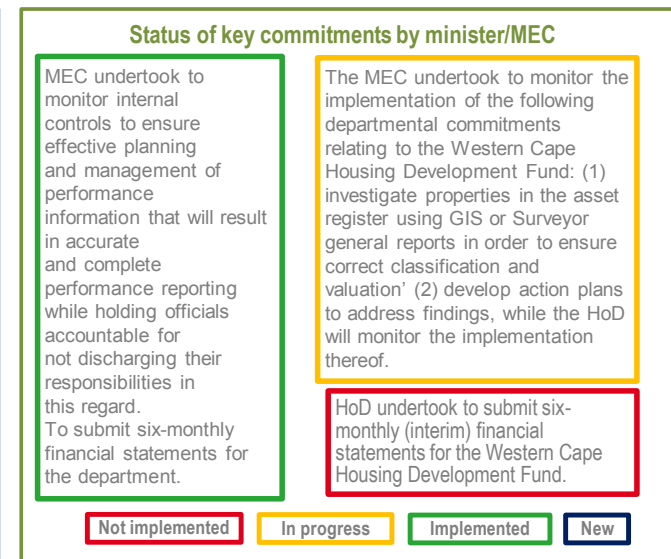
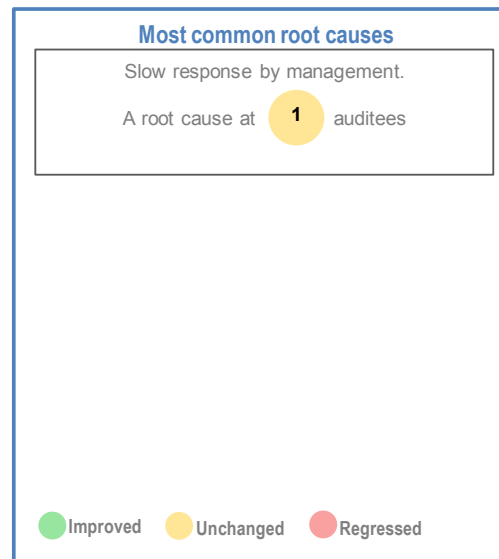
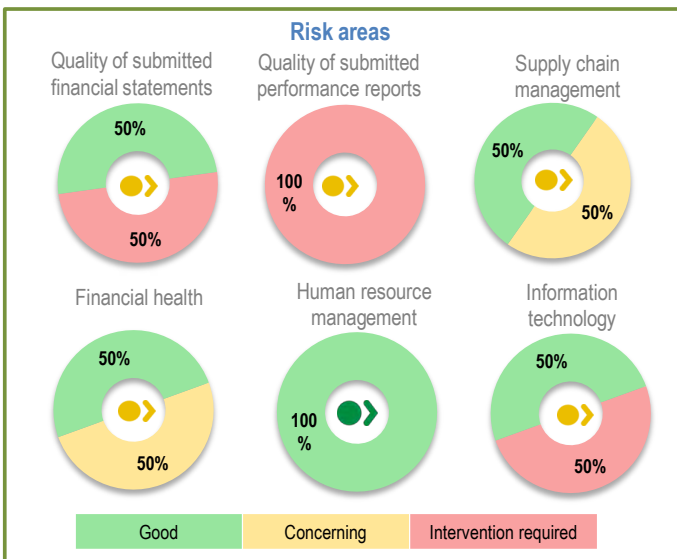
# Human settlements



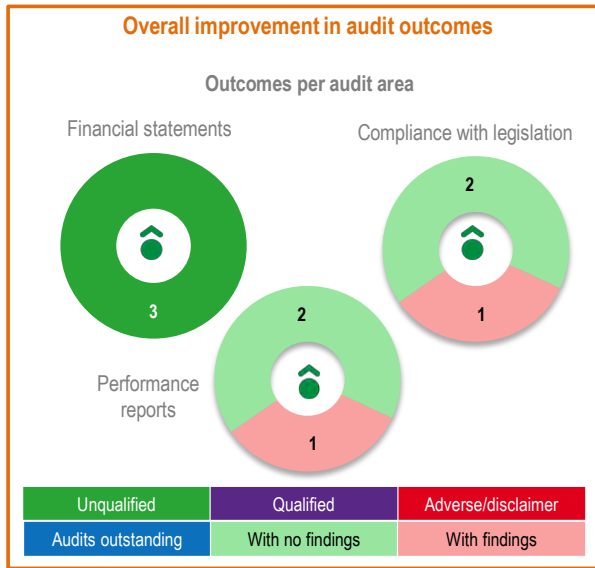
1  
To improve the **audit outcomes** ...  
... the **risk areas** and ...

2  
... the key role players need to **assure** that ...  
... the **root causes** are addressed ...

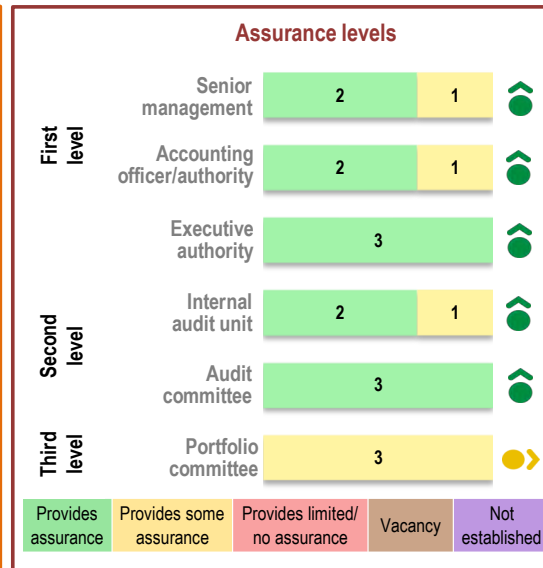
3  
... attention is given to the **key controls** and ...  
... and the **commitments** are honoured.



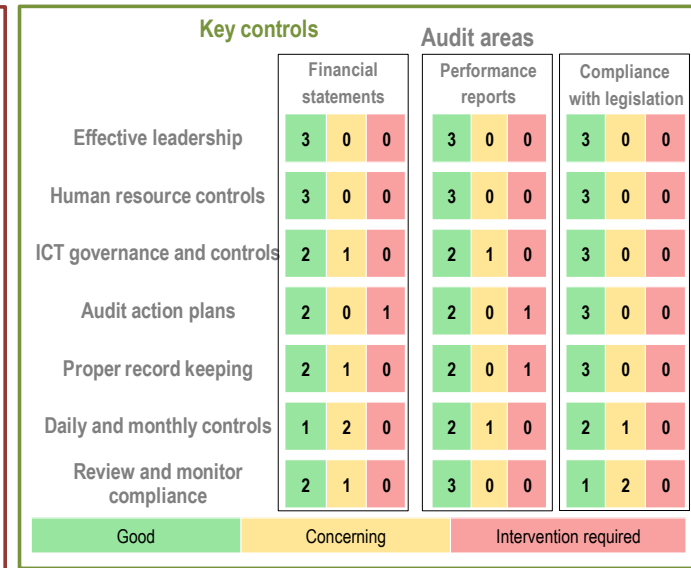
# Local government, environmental affairs and development planning



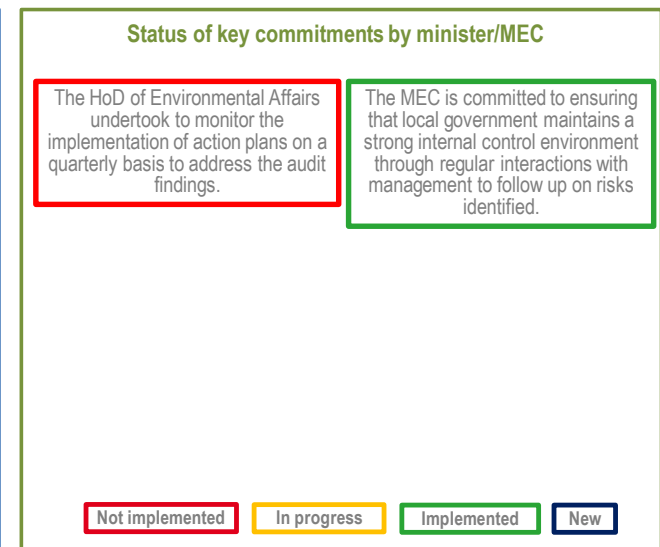
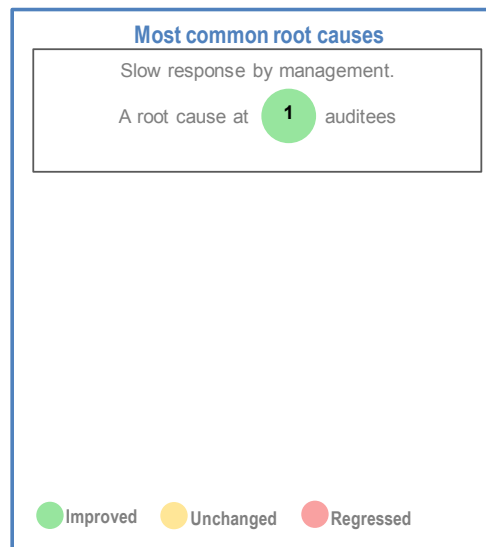
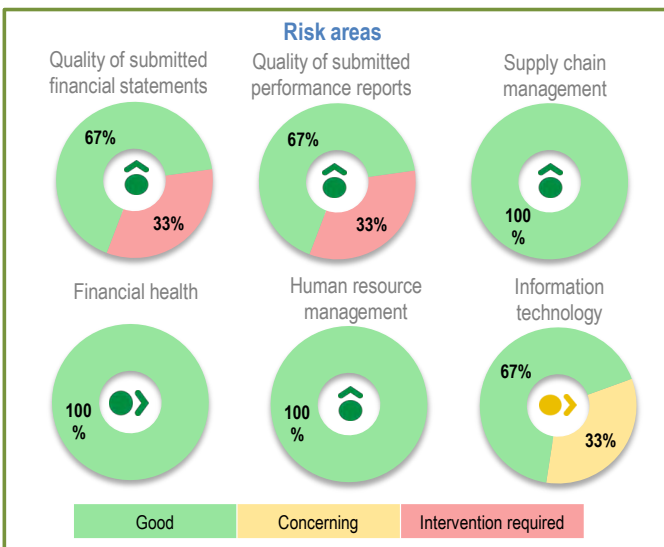
1  
To improve the **audit outcomes** ...  
... the **risk areas** and ...  
4



2  
... the key role players need to **assure** that ...  
... the **root causes** are addressed ...  
5



3  
... attention is given to the **key controls** and ...  
... and the **commitments** are honoured.  
6



# Social development

**Overall improvement in audit outcomes**

Audit area	Audit outcome	
Financial statements (F)	Unqualified	●>>
Performance reports (P)	No material findings	⬆️
Compliance with legislation (C)	No material findings	⬆️

**Assurance levels**

Level	Entity	Assurance	Icon
First level	Senior management	Provides some assurance	●>>
	Accounting officer/authority	Provides assurance	⬆️
	Executive authority	Provides assurance	⬆️
Second level	Internal audit unit	Provides some assurance	●>>
	Audit committee	Provides assurance	⬆️
Third level	Portfolio committee	Provides some assurance	●>>

**Key controls**

Key controls	Audit area		
	F	P	C
Effective leadership	Good	Good	Good
Human resource controls	Good	Good	Good
ICT governance and controls	Good	Good	Good
Action plans	Good	Good	Good
Proper record keeping	Good	Concerning	Concerning
Daily and monthly controls	Concerning	Good	Good
Review and monitor compliance	Good	Good	Concerning
F = Financial P = Performance C = Compliance			
Good	Good	Good	

1  
To maintain the **audit outcomes** ...  
... the **risk areas** and ...  
4

2  
... the key role players need to **assure** that ...  
... the **root causes** are addressed ...  
5

3  
... attention is given to the **key controls** and ...  
... and the **commitments** are honoured.  
6

**Risk areas**

Supply chain management ●>>	Quality of submitted performance reports ●>>	Human resource management ⬆️
Quality of submitted financial statements ⬆️	Information technology ⬆️	Financial health ⬆️
Good	Concerning	Intervention required

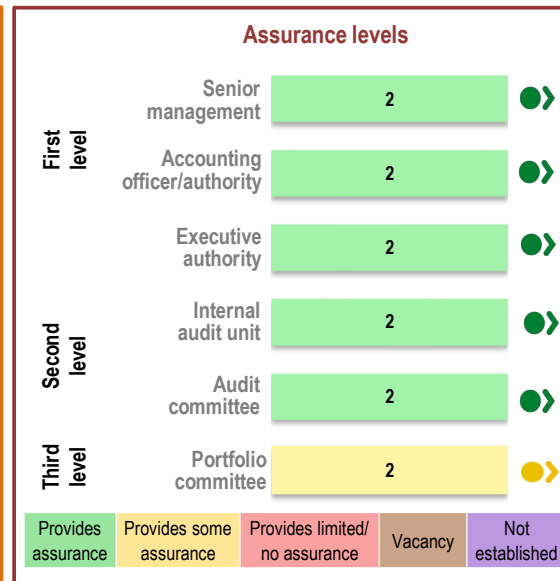
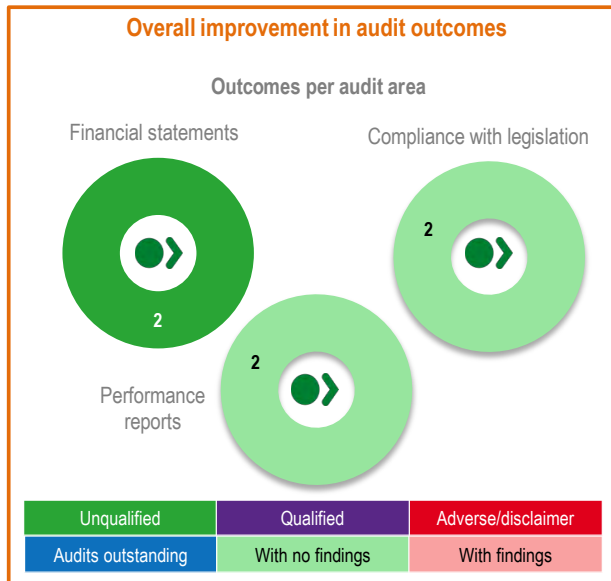
**Most common root causes**

The auditee received a financially unqualified opinion with no other findings in the 2014 financial period. There are therefore no material root causes to address.

**Status of key commitments by MEC**

In progress	Implemented
-------------	-------------

# Transport and public Works



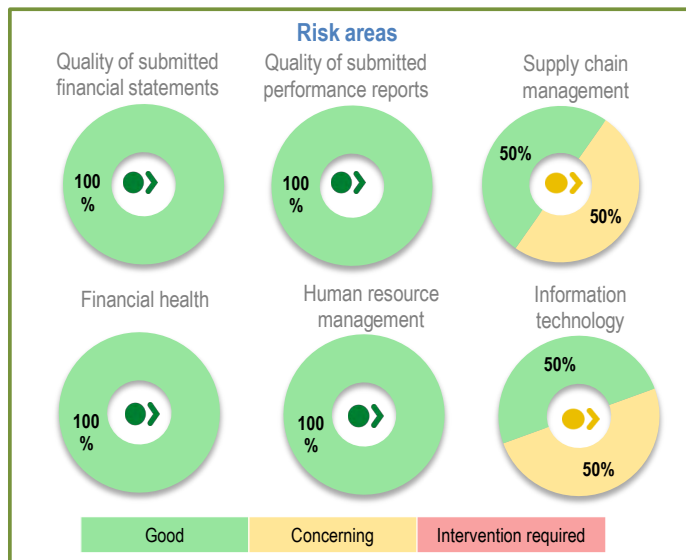
### Key controls

Key Control	Financial statements			Performance reports			Compliance with legislation		
	Good	Concerning	Intervention required	Good	Concerning	Intervention required	Good	Concerning	Intervention required
Effective leadership	2	0	0	2	0	0	2	0	0
Human resource controls	1	1	0	2	0	0	2	0	0
ICT governance and controls	0	2	0	2	0	0	2	0	0
Audit action plans	1	1	0	2	0	0	2	0	0
Proper record keeping	1	1	0	1	1	0	2	0	0
Daily and monthly controls	1	1	0	2	0	0	2	0	0
Review and monitor compliance	1	1	0	2	0	0	1	1	0

1  
To maintain the **audit outcomes** ...  
... the **risk areas** and ...  
4

2  
... the key role players need to **assure** that ...  
... the **root causes** are addressed ...  
5

3  
... attention is given to the **key controls** and ...  
... and the **commitments** are honoured.  
6



### Most common root causes

Both auditees again received a financially unqualified opinion with no findings for the 2014 period. There are therefore no material root causes to address.

Legend: ● Improved (Green), ● Unchanged (Yellow), ● Regressed (Red)

### Status of key commitments by MEC

Commitment	Status
MEC will continue to monitor the CGIP to sustain clean audit outcomes.	In progress
The MEC undertook to monitor the development and implementation of IT controls.	Implemented
The MEC undertook to continue with quarterly monitoring and evaluation of the status of key controls and commitments to maintain clean audit outcomes.	Implemented
The HoD undertook to (1) monitor and implement standard operating procedures and service level agreements with departments and revenue collecting agencies; and (2) monitor service level agreements with shared services.	Implemented

Legend: Not implemented (Red), In progress (Yellow), Implemented (Green), New (Blue)





# ANNEXURES





## Annexure 2: Auditees' five-year audit opinions

No.	Auditee	Audit opinions				
		2013-14	2012-13	2011-12	2010-11	2009-10
<b>Departments</b>						
1	Agriculture					
2	Community Safety					
3	Cultural Affairs and Sport					
4	Economic Development and Tourism					
5	Education					
6	Environmental Affairs and Development Planning					
7	Health					
8	Human Settlements					
9	Local Government					
10	Premier - WC					
11	Provincial parliament					
12	Provincial treasury					
13	Social Development					
14	Transport and Public Works					
<b>Public entities</b>						
15	Western Cape Gambling and Racing Board					
16	Government Motor Transport					
17	The Heritage Western Cape					
18	Western Cape Cultural Commission					
19	Western Cape Housing Development Fund					
20	Western Cape Investment and Trade Promotion Agency					
21	Western Cape Language Committee					
22	Western Cape Liquor Authority					
23	Western Cape Nature Conservation Board					
<b>Public entities (not audited by the AGSA)</b>						
24	Cassidra (Pty) Ltd					
Legend (audit opinions)						
		Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimer with findings
						Audit not finalised at legislated date
						New auditee

### Annexure 3: Assessment of auditees' key controls at the time of the audit

Auditee	Leadership							Financial and performance						Governance													
	Movement		Effective leadership culture		Oversight responsibility		HR management	Policies & procedures		Action plans		IT governance	Movement	Proper record keeping	Processing and reconciling controls	Reporting	Compliance	IT system controls	Movement	Risk management	Internal audit	Audit committee					
	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C
<b>Departments</b>																											
Agriculture	↔	↔	↑										↑	↓	↔							↔	↔	↓			
Community Safety	↔	↔	↑										↔	↓	↑							↔	↔	↓			
Cultural Affairs and Sport	↔	↔	↑										↑	↔	↓							↔	↔	↔			
Economic Development and Tourism	↔	↔	↑										↓	↔	↑							↔	↔	↔			
Education	↑	↔	↑										↓	↔	↓							↔	↔	↔			
Environmental Affairs and Development Planning	↓	↓	↑										↔	↔	↔							↔	↔	↓			
Health	↔	↔	↔										↑	↑	↑							↑	↑	↑			
Human Settlements	↑	↑	↑										↔	↔	↓							↔	↔	↔			
Local Government	↔	↔	↔										↔	↔	↑							↔	↔	↔			
Premier - WC	↑	↔	↑										↑	↑	↔							↓	↓	↓			
Provincial parliament	↑	↑	↔										↑	↑	↔							↔	↔	↔			
Provincial treasury	↔	↔	↑										↑	↔	↑							↔	↔	↔			
Social Development	↔	↑	↔										↓	↑	↓							↔	↔	↔			
Transport and Public Works	↔	↔	↔										↓	↔	↑							↔	↔	↓			
<b>Public entities</b>																											
Western Cape Gambling and Racing Board	↔	↔	↔										↑	↑	↑							↔	↔	↔			
Government Motor Transport	↔	↔	↔										↑	↔	↔							↔	↔	↔			
The Heritage Western Cape	↑	↔	↑										↑	↔	↔							↔	↔	↔			
Western Cape Cultural Commission	↔	↔	↔										↔	↔	↔							↔	↔	↔			
Western Cape Housing Development Fund	↑	↔	↓										↑	↔	↔							↔	↔	↔			
Western Cape Investment and Trade Promotion Agency	↓	↓	↔										↑	↓	↓							↔	↔	↔			
Western Cape Language Committee	↔	↔	↔										↔	↔	↔							↔	↔	↔			
Western Cape Liquor Authority	↓	↔	↓										↓	↓	↓							↓	↓	↔			
Western Cape Nature Conservation Board	↔	↑	↑										↑	↑	↑							↔	↑	↑			
<b>Legend</b>	Good		In progress	Intervention required		Improved	↑	Unchanged	↔	Regressed		↓	Financial	F	Performance	P	Compliance	C									



# GLOSSARY OF TERMS, ACRONYMS AND ABBREVIATIONS

## Glossary of key terminology used in this report

*Adverse audit opinion (on financial statements)*

The financial statements contain material misstatements (see 'misstatement') that are not confined to specific amounts, or the misstatements represent a substantial portion of the financial statements.

*Asset (in financial statements)*

Any item belonging to the auditee, including property, infrastructure, equipment, cash, and debt due to the auditee.

*Assurance and assurance provider*

As used in this report, assurance is a positive declaration that is intended to give confidence in the credibility of financial and performance reports tabled by auditees and in the extent to which auditees have adhered to legislation to which they are subject.

Through the audit report issued to auditees, we provide assurance on the credibility of auditees' financial and performance information as well as auditees' compliance with key legislation.

There are role players ('assurance providers') in national and provincial government, other than external auditors, that are also required to contribute to assurance and confidence by ensuring that adequate internal controls are implemented to achieve auditees' financial, service delivery and compliance objectives. Such assurance providers include senior auditee officials (heads of departments, accounting officers, and chief executive officers), various committees (risk management and audit committees), and internal audit units.

Other role players further include national and provincial oversight structures and coordinating or monitoring departments, as discussed in this report.

*Capital budget*

The estimated amount planned to be spent by auditees on capital items in a particular financial period; for example, fixed assets such as property, infrastructure and equipment with long-expected lives and that are required to provide services, produce income or support operations.

*Cash flow (in financial statements)*

The flow of money from operations: incoming funds are revenue (cash inflow) and outgoing funds are expenses (cash outflow).

*Clean audit*

The financial statements receive a financially unqualified audit opinion and there are no material findings on the quality of the annual performance report or non-compliance with key legislation.

*Commitments from role players*

Initiatives and courses of action communicated to us by role players in national and provincial government aimed at improving the audit outcomes.

*Conditional grants*

Money transferred from national government to auditees, subject to certain services being delivered or on compliance with specified requirements.

*Contingent liability*

A potential liability, the amount of which will depend on the outcome of a future event.



## *Creditors*

Persons, companies or organisations that auditees owe money to for goods and services procured from them.

## *Current assets (in financial statements)*

These assets are made up of cash and other assets, such as inventory or debt for credit extended, which will be traded, used or converted into cash in less than 12 months. All other assets are classified as non-current, and typically include property, plant and equipment as well as long-term investments.

## *Disclaimed audit opinion (on financial statements)*

The auditee provided insufficient evidence in the form of documentation on which we could base an audit opinion. The lack of sufficient evidence is not confined to specific amounts, or represents a substantial portion of the information contained in the financial statements.

## *Financial and performance management (as one of the drivers of internal control)*

The performance of tasks relating to internal control and monitoring by management and other employees to achieve the financial management, reporting and service delivery objectives of the auditee.

These controls include the basic daily and monthly controls for the processing and reconciliation of transactions, the preparation of regular and credible financial and performance reports, and the review and monitoring of compliance with legislation.

## *Financially unqualified audit opinion (on financial statements)*

The financial statements contain no material misstatements (see 'material misstatement'). Unless we express a clean audit opinion, findings have been raised on either the annual performance report or non-compliance with legislation, or both these aspects.

## *Fruitless and wasteful expenditure*

Expenditure that was made in vain and could have been avoided had reasonable care been taken. This includes penalties and interest on late payments to creditors or statutory obligations as well as payments made for services not utilised or goods not received.

## *Going concern*

The presumption that an auditee will continue to operate in the foreseeable future, and will not go out of business and liquidate its assets. For the going concern presumption to be reasonable, the auditee must have the capacity and prospect to raise enough financial resources to stay operational.

## *Governance (as one of the drivers of internal control)*

The governance structures (audit committees) and processes (internal audit and risk management) of an auditee.

## *Human resource management*

The management of an auditee's employees, or human resources, which involves adequate and sufficiently skilled people as well as the adequate management of the performance of staff and their productivity.

## *Information technology (IT)*

The computer systems used for capturing and reporting financial and non-financial transactions.

*IT controls*

Computer-related controls ensure the confidentiality, integrity and availability of state information, enable service delivery and promote national security.

*IT governance*

The leadership, organisational structures and processes which ensure that the auditee's IT resources will sustain its strategies and objectives.

*IT security management*

The controls preventing unauthorised access to auditee networks, operating systems and application systems that generate financial information.

*IT service continuity*

The processes managing the availability of hardware, system software, application software and data to enable auditees to recover or re-establish information system services in the event of a disaster.

*IT user access management*

The procedures through which auditees ensure that only valid, authorised users are allowed segregated access to initiate and approve transactions on the information systems.

*Internal control / key controls*

The process designed and implemented by those charged with governance, management and other personnel to provide reasonable assurance about the achievement of the auditee's objectives with regard to the reliability of financial reporting, the effectiveness and efficiency of operations, and compliance with key legislation.

It consists of all the policies and procedures implemented by auditee management to assist in achieving the orderly and efficient conduct of business, including adhering to policies, safeguarding assets, preventing and detecting fraud and error, ensuring the accuracy and completeness of accounting records, and timeously preparing reliable financial and service delivery information.

*Irregular expenditure*

Expenditure incurred without complying with applicable legislation.

*Key drivers of internal control*

The three components of internal control that should be addressed to improve audit outcomes, namely leadership, financial and performance management, and governance. (These three components are also defined individually in this glossary.)

*Leadership* (as one of the drivers of internal control)

The administrative leaders of an auditee, such as heads of departments, chief executive officers and senior management.

It can also refer to the political leadership or the leadership in the province, such as the premier.

*Liability*

Short-term and long-term debt owed by the auditee.

*Material finding* (from the audit)

An audit finding on the quality of the annual performance report or non-compliance with legislation that is significant enough in terms of its amount, its nature, or both its amount and its nature, to be reported in the audit report.

### *Material misstatement*

*(in the financial statements or annual performance report)*

An error or omission that is significant enough to influence the opinions or decisions of users of the reported information. Materiality is considered in terms of either its rand value or the nature and cause of the misstatement, or both these aspects.

### *Misstatement*

*(in the financial statements or annual performance report)*

Incorrect or omitted information in the financial statements or annual performance report.

### *Net deficit (incurred by auditee)*

The amount by which an auditee's spending exceeds its income during a period or financial year.

### *Operational budget / operating budget*

A short-term budget, usually prepared annually, based on estimates of income and expenses associated with the auditee's operations, such as service delivery costs, administration and salaries.

### *Oversight structures and coordinating and monitoring departments*

National and provincial role players (1) that are directly involved with the management of the auditee (management/leadership assurance) – in other words, the first line of defence; (2) that perform an oversight or governance function, either as an internal governance function or an external monitoring function (internal independent assurance and oversight); and (3) that give an objective assessment of the auditee's reporting (external independent assurance and oversight).

### *Property, infrastructure and equipment*

*(in financial statements)*

Assets that physically exist and are expected to be used for more than one year, including land, buildings, leasehold improvements, equipment, furniture, fixtures and vehicles.

### *Qualified audit opinion (on financial statements)*

The financial statements contain material misstatements in specific amounts, or there is insufficient evidence for us to conclude that specific amounts included in the financial statements are not materially misstated.

### *Receivables / debtors (in financial statements)*

Money owed to the auditee by companies, organisations or persons who have procured goods or services from the auditee.

### *Reconciliation (of accounting records)*

The process of matching one set of data to another; for example, the bank statement to the cheque register, or the accounts payable journal to the general ledger.

### *Root causes (of audit outcomes being poor or not improving)*

The underlying causes or drivers of audit findings; in other words, why the problem occurred. Addressing the root cause helps ensure that the actions address the real issue, thus preventing or reducing the incidents of recurrence, rather than simply providing a one-time or short-term solution.

### *Supply chain management*

Procuring goods and services through a tender or quotation process and monitoring the quality and timeliness of the goods and services provided.

## Acronyms and abbreviations

AGSA	<i>Auditor-General of South Africa</i>
BAS	<i>Basic Accounting System</i>
bn (after an amount)	<i>R'-billion (rand)</i>
CEO	<i>chief executive officer</i>
CFO	<i>chief financial officer</i>
CIO	<i>chief information officer</i>
CoGTA	<i>Department of Cooperative Governance and Traditional Affairs</i>
DPSA	<i>Department of Public Service and Administration</i>
GRAP	<i>Generally Recognised Accounting Practice</i>
HoD	<i>head of department</i>
HR	<i>human resources</i>
ICT	<i>information and communication technology</i>
IFMS	<i>Integrated Financial Management System</i>
IT	<i>information technology</i>
K (after an amount)	<i>R'thousand (rand)</i>
LOGIS	<i>Logistical Information System</i>
m (after an amount)	<i>R'million (rand)</i>
MEC	<i>member of the executive council of a province</i>
PERSAL	<i>Personnel and Salary System</i>
PFMA	<i>Public Finance Management Act, 1999 (Act No. 1 of 1999)</i>
PPAC	<i>provincial public accounts committee</i>
SAP	<i>Systems, Applications and Products System</i>
SCM	<i>supply chain management</i>
SCOPA	<i>standing committee on public accounts</i>





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