



CONSOLIDATED *general report on national and provincial audit outcomes*



Consolidated general report on the national and provincial audit outcomes 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 key legislation.

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 the national and 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 government.

Auditor-General

Kimi Makwetu
Auditor-General



AUDITOR - GENERAL
SOUTH AFRICA

OVERVIEW



119 auditees achieved clean audits
(Section 2.1)

Improvement in audit outcomes
(Section 2.1)

The departments of education, health and public works need the most attention
(Section 2.1)

80% financially unqualified audit opinions
(Section 2.2.1)

Qualified opinions avoided by correcting material misstatements identified during the audit process
(Section 2.2.1)

No improvement in the quality of performance reports submitted for audit
(Section 2.2.2)

Some progress made towards improving the reliability and usefulness of annual performance report
(Section 2.2.2)



Material non-compliance with legislation by 72% of auditees
(Section 2.2.3)

Uncompetitive and unfair procurement processes, as well as conflicts of interest not declared
(Section 2.2.3.1)



Increase in unauthorised and irregular expenditure and a reduction in fruitless and wasteful expenditure
(Section 2.2.3.2)



Indications of financial health issues at some departments and public entities
(Section 2.3)

Some improvement in HR management controls
(Section 3.2)



Confidentiality, integrity and availability of information at risk
(Section 3.3)



Improvement in audit outcomes is only possible through improved assurance by key role players
(Section 4)

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CLEAN AUDITS 2013-14

Unqualified financial statements with no material findings on the quality of the annual performance report or non-compliance with key legislation

NATIONAL CLEAN AUDITS 2013-14



DEPARTMENTS

Environmental Affairs
Performance Monitoring and Evaluation
Public Enterprises
Social Development
Sport and Recreation
Statistics South Africa
Tourism



PUBLIC ENTITIES

Artscape
Banking Seta
Community Schemes Ombuds Service
Competition Tribunal
Council for Scientific and Industrial Research
Disaster Relief Fund
Driving License Card Trading Account

PUBLIC ENTITIES

Financial and
Accounting Services Seta

Freedom Park

Guardian Fund

Health and Welfare Seta

Human Science Research
Council

Independent Regulatory
Board for Auditors

iSimangaliso Wetland
Park

Iziko Museums of Cape
Town

KwaZulu-Natal Museum:
Pietermaritzburg

Land and Agricultural
Bank of SA

Legal Aid South Africa

Luthuli Museum

Media Development and
Diversity Agency

Media, Information and
Communication

Technologies Seta

National Consumer
Tribunal

National Energy
Regulator of South Africa

National Film and Video
Foundation of South
Africa

National Nuclear
Regulator

National Prosecuting
Authority

National Research
Foundation

Pension Funds
Adjudicator

President's Fund

Refugee Relief Fund

Road Accident Fund

Road Traffic Infringement
Agency

Robben Island Museum

SA Civil Aviation
Authority

SA Medical Research
Council

Social Relief Fund

South African Bureau of
Standards

South African Local
Government Association

South African National
Biodiversity Institute

South African
Qualifications Authority

South African Revenue
Services

State President Fund

The Playhouse Company

Unemployment Insurance
Fund

Universal Service Fund

War Museum of the Boer
Republics: Bloemfontein

EASTERN CAPE CLEAN AUDITS 2013-14



DEPARTMENTS

Local Government and Traditional Affairs
Office of the Premier
Provincial treasury



PUBLIC ENTITY

Eastern Cape Socio-Economic Consultative
Council

FREE STATE CLEAN AUDITS 2013-14



DEPARTMENTS

Provincial legislature
Provincial treasury
Sport, Arts, Culture and Recreation



PUBLIC ENTITY

Free State Fleet Management Trading Entity

GAUTENG

CLEAN AUDITS 2013-14



DEPARTMENTS

Cooperative Governance and Traditional Affairs	Provincial treasury
Office of the Premier	Social Development
Provincial legislature	Sport, Arts, Culture and Recreation



PUBLIC ENTITIES

Constitution Hill Development Company	Gauteng Tourism Authority
Cradle of Human Kind World Heritage Site	Gautrain Management Agency
Dinokeng Trading Entity	Greater Newtown Development Agency
Gauteng Film Commission	Industrial Development Zone (Pty) Ltd
Gauteng Funding Agency	Supplier Park Development Co
Gauteng Growth and Development Agency	The Innovation Hub
Gauteng Partnership Fund	



DEPARTMENT

Finance



PUBLIC ENTITIES

Amafa aKwaZulu-Natali

Dube TradePort Corporation

Growth Fund Managers

Ithala Development Finance Corporation Ltd

Ithala Ltd

Natal Joint Municipal Pension Fund: Provident

Natal Joint Municipal Pension Fund: Retirement

Natal Joint Municipal Pension Fund:
Superannuation

LIMPOPO

CLEAN AUDITS 2013-14



DEPARTMENT

Cooperative Governance, Human Settlements and Traditional Affairs



PUBLIC ENTITY

None



DEPARTMENTS

Cooperative Governance and Traditional Affairs
Finance
Social Development



PUBLIC ENTITIES

Mpumalanga Gambling Board
Mpumalanga Regional Training Trust

NORTHERN CAPE

CLEAN AUDITS 2013-14



DEPARTMENTS

Economic Development and Tourism
Environment and Nature Conservation
Provincial treasury
Social Development



PUBLIC ENTITY

Northern Cape Tourism Authority

NORTH WEST CLEAN AUDITS 2013-14



DEPARTMENT

Provincial treasury



PUBLIC ENTITY

None



DEPARTMENTS

Agriculture	Office of the Premier
Community Safety	Provincial parliament
Cultural Affairs and Sport	Provincial treasury
Economic Development and Tourism	Social Development
Human Settlements	Transport and Public Works
Local Government	



PUBLIC ENTITIES

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



FOREWORD

FOREWORD

It is my pleasure to present to Parliament my 2013-14 general report on the audit outcomes of national and provincial government. The departments and public entities in these spheres of government are responsible for the biggest portion of government spending, with the total budgeted expenditure of the national and provincial departments being R1 035 billion in 2013-14. The following were the main areas of expenditure:

- Employee cost R256 billion
- Goods and services R103 billion
- Capital expenditure R29 billion
- Transfer payments R438 billion

Overall, this year's audit outcomes reflect an improvement. We are seeing positive movements in all three of the following areas that we audit on an annual basis:

- Fair presentation and the absence of material misstatements in the financial statements. Material misstatements refer to errors or omissions that are so significant that they affect the credibility and reliability of the financial statements.
- Useful and reliable measurement and reporting by auditees on their performance in the annual performance report in accordance with the predetermined objectives in their annual performance plan.
- Compliance with key legislation governing financial matters.

The audit outcome of each auditee are categorised as follows:

Financially unqualified with no findings

Auditees that received a **financially unqualified opinion with no findings** are those that have passed the audit test in all the aforementioned aspects (depicted in green in this report). This audit outcome is also commonly referred to as a 'clean audit'.

I am pleased to report that the audit outcomes this year show an improvement, with 119 (25%) of the 469 auditees attaining clean audit outcomes compared to 22% in the previous year.

The 40 departments and 79 public entities (provinces and nationally) in this category have control environments characterised by strong leadership control, good governance and financial and performance management controls that prevent or detect and correct errors and non-compliance. Most importantly, they have managers and leaders who understand their responsibilities and discharge their duties in an ethical and effective manner. These auditees were able to submit financial statements and annual performance reports for auditing that were of such quality that we did not identify any material misstatements. They were also able to comply with key legislation.

Financially unqualified with findings

In total, 238 auditees (51%) 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.

Inadequate controls regarding performance information and compliance with key legislation continue to prevent these auditees from obtaining clean audit outcomes.

These deviations from internal controls were largely in respect of compliance with key legislation in the areas of supply chain management. In this category there are a number of auditees that incurred unauthorised, irregular as well as fruitless and wasteful expenditure due to material deviations from internal controls that govern these transactions.

Also, this is a category of auditees that submitted financial statements and performance reports that were initially unreliable and incorrect. The accounting officers/authorities of these auditees need to make sure that the basic disciplines of preparing and reviewing regular financial and performance reports are improved and sustained. Internal audit units and audit committees should continue to support the work of oversight committees by confirming the credibility of information used for accountability purposes. In turn, the oversight committees should collaborate and coordinate their oversight initiatives to derive optimal benefit from their oversight work.

Qualified audit opinion

Seventy-three (16%) auditees received a **qualified audit opinion** (depicted in purple in this report), which means that they were unable to adequately and accurately account for all the financial effects of the transactions and activities they conducted. In this regard, the financial statements they presented were unreliable in certain areas.

Adverse opinion

The two public entities that received **adverse opinions** (depicted in red in this report) performed similarly to those auditees described above, with the exception that the conditions with regard to unreliable financial statements were common in most areas of the financial statements. This is unlike a qualified opinion where this is limited to certain areas.

Auditees in this category have demonstrated extreme levels of lack of accountability for financial statements. This is a classic example of controls that have broken down everywhere.

Disclaimer of opinion

Sixteen auditees received a **disclaimer of opinion** (also depicted in red in this report). These auditees could not provide us with evidence for most of the amounts and disclosures in the financial statements. We were unable to conclude or express an opinion on the credibility of their financial statements.

Auditees with adverse and disclaimed opinions are typically also:

- unable to provide sufficient supporting documentation for the achievements they report in their annual performance reports
- not complying with key legislation.

It is of concern that 15 departments in the education, health and public works sectors received a qualified or disclaimed opinion. These are key service delivery departments that account for 37% of total spending by departments and must be able to adequately and accurately account for their financial transactions.

Other significant audit observations

In addition to the overall audit outcomes, I highlight the following audit observations that require attention from the coordinating/monitoring departments, executive authorities and oversight structures:

- Eighty per cent of the financial statements we audited received a financially unqualified audit opinion. However, 165 auditees (37%) received such opinion only because they corrected all the misstatements we had identified during the audit. Only 43% (and not 80%) of the auditees would have an unqualified



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Auditor-General

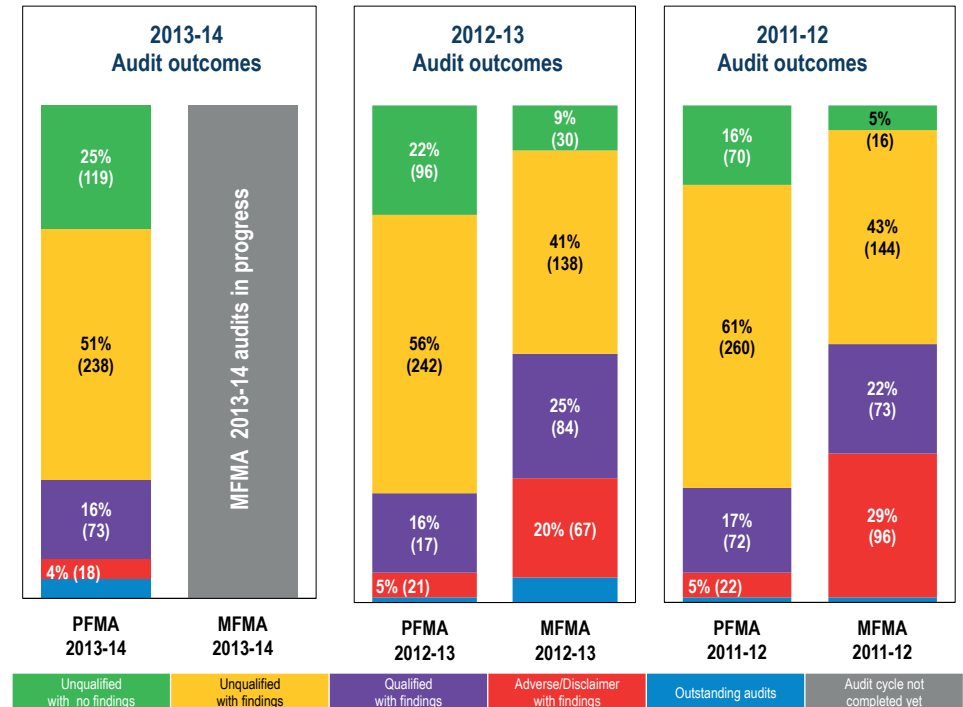
audit opinion had we not identified the misstatements and allowed them to make the corrections.

- The quality of annual performance reports is improving every year. Sixty-two per cent of auditees now report on their performance in a useful and reliable manner. However, only 42% of auditees submitted annual performance reports without material misstatements. This means that 20% of the auditees had good outcomes only because they corrected the misstatements identified during the audit. The main service delivery sectors are lagging behind with only six departments in the education, health and public works sector getting it right. This is a red flag for the implementation and monitoring of the national development plan where performance in these sectors is key to its success.
- Non-compliance with key legislation remains at high levels, with 72% of auditees not complying. If auditees could address the material misstatements in submitted financial statements, non-compliance with supply chain management legislation and recurring unauthorised, irregular and fruitless and wasteful expenditure, these outcomes will improve.
- Irregular expenditure continues to be of particular concern. This is expenditure that was not made in the manner prescribed by legislation. Such expenditure does not necessarily mean that money was wasted or that fraud was 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. This totalled R62,7 billion for this year, of which R29,1 billion (47%) was as a result of prior year irregularities identified this year. In the executive summary and in section 2.2.3.2 of my report I highlight the reasons for this high amount and provide some perspective on what it means.
- The number of auditees with negative financial risk indicators has increased. Attention should be given to the 53 public entities where significant uncertainty exists about their ability to operate in the foreseeable future. In my report I also raise red flags about the financial management at departments which is not evident from the financial statements they produce (on a modified cash basis).

The financial statements of almost a fifth of departments would have shown a deficit instead of a surplus had they been prepared in the same manner as those of public entities and local government.

The audit outcomes of national and provincial government are improving but much work still needs to be done to bring all auditees to the level of clean audit. I also remain hopeful that the improvements in the audit outcomes in national and provincial government will transpire in local government, where the progress has been slower as shown in the following figure which compares the results over the past three years:

Figure 1: Comparison of national, provincial and local government audit outcomes



The support and oversight provided to national and provincial government by coordinating/monitoring departments have improved since the previous year with 40% now providing an adequate level of assurance and only 5% providing limited/ no assurance. In terms of support to local government, it looks very different, with none providing adequate assurance and 45% providing no or limited assurance. I urge the key role players in national and provincial government also to increase their efforts in local government.

Key leadership actions

I emphasise that those in leadership, whether at the auditee, within the executive, at oversight level or at key departments such as the treasuries and offices of the premiers, have played and continue to play a crucial role in improved audit outcomes. I encourage them to continuously enhance their assurance role through the following actions:

- Respond through action plans and well-coordinated initiatives to the recommendations we make in this report in order to improve key controls and address the six risk areas: ■ quality of submitted financial statements and performance reports ■ supply chain management ■ financial health ■ human resource management (including the use of consultants) ■ information technology controls.
- Focus on getting the basics right – fill vacant positions with competent officials, implement basic internal controls and insist on regular and credible reports on the state of auditees' finances and their performance in accordance with its annual performance plan.
- Enforce compliance with legislation by implementing processes and procedures that will make it part of the daily disciplines and monitor to determine whether auditees have complied. At all times demonstrate ethical leadership and a respect for the legislation that was enacted by Parliament on behalf of the citizens of this country.

- Hold people accountable for poor performance and transgressions. This will demonstrate that such behaviour is not tolerated and will encourage responsible, accountable and transparent administration.
- Encourage and support robust and proactive audit committees and internal audit functions and ensure that their recommendations and reports are responded to.

I am encouraged by the responses and commitments of the executive and oversight to continuously work on solutions with the auditees, key role players and my office to drive financial and performance management in national and provincial government in order to build the public's confidence in government. My office remains firmly committed to making a positive contribution towards this journey and we will continue to make ourselves available to provide proactive insights and recommendations.

I wish to thank the audit teams from my office and the audit firms that assisted with the auditing of national and provincial government for their diligent efforts towards fulfilling our constitutional mandate of strengthening our democracy through auditing.

Auditor-General

**Auditor-General
Pretoria
November 2014**

SECTION 1: EXECUTIVE SUMMARY

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Our auditing and reporting process

We audit every department and some of the public entities in the country, 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 ministers and members of the executive council and audit committees.
- Our opinion on the financial statements, material findings on the annual performance report and 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 nine provincial **general reports** and a consolidated 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 national and provincial leadership, Parliament and the legislatures 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 ministers, 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 ■ human resource management (including the use of consultants) ■ information technology controls.

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 also continue to strengthen our relationships with coordinating and monitoring departments (such as the treasuries and the department of Performance

Monitoring and Evaluation), premiers, ministers, Parliament and legislatures, as we are convinced that their involvement and oversight have played – and will continue to play – a crucial role in the performance of departments and public entities. 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 that follows gives 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.

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 five 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.This audit outcome is also commonly referred to as a 'clean audit'.
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 implement and the required policies, procedures and controls to ensure they comply.
3. Auditees that received a **financially qualified audit opinion with findings** face the same challenges as those that were financially unqualified with findings, but they were also unable to 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.

4. The financial statements of auditees with an **adverse opinion** include so many material misstatements that we disagree with virtually all the amounts and disclosures in the financial statements.
5. Those auditees with a **disclaimer of audit opinion** could not provide us with evidence for most of the amounts and disclosures in the financial statements. We were unable to conclude or express an opinion on the credibility of their financial statements.

Auditees with adverse and disclaimed opinions are typically also:

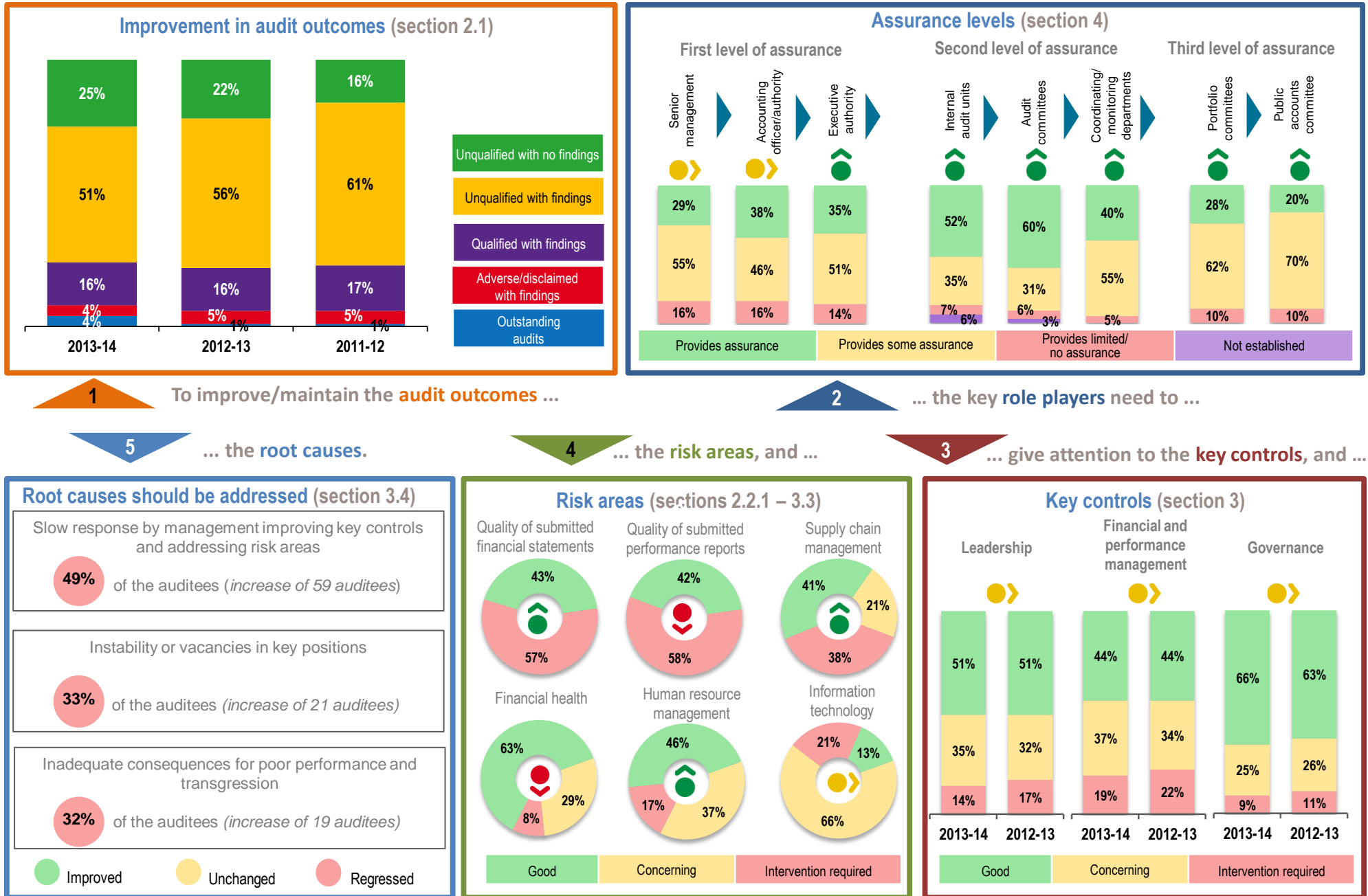
- unable to provide sufficient supporting documentation for the achievements they report in their annual performance reports
- not complying with key legislation.

When studying figure 1 and other figures and when reading the rest of the report, please note that only a movement of more than 5% (in the number of auditees) is regarded as an improvement or a regression. Movement is depicted as follows:

 Improved  Stagnant or little progress  Regressed

The rest of the section summarises the audit outcomes and our key recommendations for improvements.

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



Audit outcomes improved

The audit outcomes of 469 auditees (165 departments and 304 public entities) are included in this general report. These increased from 447 in 2012-13 as a result of a net increase of 22 auditees, which includes 15 further education and training colleges (FET) and one public entity in the Eastern Cape that we audited for the first time this year. The comparative figure we use is 435, which excludes 12 auditees for which the audits are outstanding for 2013-14. There are also five auditees whose 2012-13 audits are outstanding and four new auditees with outstanding audits (i.e. with no comparative). The majority of the audits are outstanding as the financial statements or information to support the financial statements was provided late.

The number of auditees that received a **financially unqualified opinion with no findings (clean audits) increased** to 119 (25%). These auditees comprise 40 departments (24%) and 79 public entities (26%). The biggest moves towards clean audit opinions in 2013-14 opinions were by departments.

All provinces improved except KwaZulu-Natal where the outcomes showed little movement. At national government the outcomes regressed. The biggest contributors to the total number of clean audits were national government (53 – 23% of national auditees), Gauteng (19 - 54% of their auditees) and Western Cape (18 – 78% of their auditees).

The increase in clean audits and the overall net improvement in audit outcomes serve as a good overall indicator that audit outcomes are improving, albeit slightly. The results in each of the three areas that we audit provide a more detailed view of the improvements made and the remaining challenges.

Financial statements improved slightly

The number of auditees with unqualified audit opinions on financial statements increased from 338 in the previous year to 357 (76%¹) in the current year. Thirty-two departments received a qualified audit opinion and two departments a disclaimer. These departments are responsible for a third of the total budgeted expenditure of the national and provincial departments. Sixteen public entities are in the disclaimer/adverse category, with 41 being qualified.

Fifty per cent of the financial statements of the national and provincial departments of **education, health and public works** were qualified or disclaimed.

¹ The 76% is calculated based on the total number of auditees (469), which include the 21 auditees with outstanding audits.

Limpopo and North West have the lowest number of auditees that received financially unqualified audit opinions, with Western Cape achieving 100% and Gauteng 91%. Only Mpumalanga regressed, while most of the provinces recorded improvements.

In total 165 auditees (37%) received a financially unqualified audit opinion only because they corrected all the misstatements we had identified during the audit. **Only 43% (and not 80%)** of the auditees would have received an unqualified audit opinion had we not identified the misstatements and allowed them to make the corrections.

The **most common areas** in the financial statements that were qualified were the following:

- Property, infrastructure, plant and equipment (departments and public entities)
- Irregular expenditure (departments)
- Commitments (departments)
- Receivable and revenue (public entities).

Improvement in quality of annual performance reports

The **quality of annual performance reports improved**, with the number of auditees with no material findings on the quality of their annual performance reports increasing from 236 (57%) to 256 (62%).

Although reporting on performance is improving, the main service delivery sectors are lagging behind. In the **education, health and public works** sector only six departments reported their performance in a useful and reliable manner.

The outcomes of auditees in most provinces improved, while auditees in Limpopo and North West had the poorest results.

Although 62% of auditees had no material findings, **only 42% of auditees submitted annual performance reports without material misstatements**. This means 20% of the auditees had good outcomes only because they corrected the misstatements identified during the audit.

The most common findings on **usefulness** reported at 24% of auditees were that they reported on indicators that were not well defined, with targets that were not measurable or specific enough to ensure that the required performance could be measured and reported in a useful manner. Twenty-nine per cent of auditees had findings on the **reliability** of the information they reported.

In addition to the findings arising from our annual audit, this report includes findings and recommendations from the performance audit we conducted on the **readiness of government to report on its performance**. The findings address

a number of areas that require attention to improve and sustain the quality of performance reporting by auditees. The **main areas of findings** relate to guidance and oversight; policy and planning; budgeting; alignment of staff; collection, processing and reporting of information; monitoring and evaluation and addressing under-performance.

Non-compliance with key legislation remains at high levels

The number of auditees with material compliance findings **decreased only slightly** from 76% of auditees to 72%. The main improvements were recorded by provincial auditees.

Results in the **education, health and public works** sectors remain poor with only one department out of the 30 in these sectors having no material findings on compliance.

In the past three years, **material misstatements in submitted financial statements, supply chain management** and the prevention and follow-up of **unauthorised, irregular and fruitless and wasteful expenditure** have consistently been the areas where most non-compliance occurred.

Some improvement in supply chain management

There has been **some progress** overall in reducing the number of auditees with findings on compliance with supply chain management legislation from 281 (65%) to 266 (59%) auditees. There was also an 11% overall reduction in the number of auditees with **material findings** (i.e. findings reported in the audit report), which is a definite sign that auditees are paying attention to supply chain management. It is of great concern, however, that **almost half of the departments and a third of public entities had material findings on compliance with supply chain management legislation**.

The number of national auditees without supply chain management findings increased, as did four of the provinces, with the auditees in Western Cape and Gauteng province performing the best. The auditees in Limpopo, Mpumalanga, Eastern Cape and Free State not only performed the worst but have also regressed since the previous year.

We again experienced **limitations in auditing supply chain management** this year. Forty-four (10%) auditees could not provide us with procurement documentation.

The main findings arising from our audit were in respect of **uncompetitive and unfair procurement processes** at 50% of auditees and indications of **inadequate contract management** by 15% of auditees.

Departments made awards to the value of R612 million to suppliers in which **employees or their close family members** had an interest. Although such awards are not prohibited, it is of concern that suppliers and employees do not always declare their interest. We reported findings in this regard at 9% of auditees in respect of awards to employees and also 9% in respect of awards to close family members. There has been no improvement in this regard.

Increase in unauthorised and irregular expenditure and a reduction in fruitless and wasteful expenditure

Unauthorised expenditure of approximately R2,6 billion (R2,3 billion in 2012-13) was incurred by 30 departments. Little progress has been made in decreasing the extent thereof in the past three years.

Irregular expenditure of R62,7 billion was incurred by 309 auditees. In total, R29,1 billion (47%) of the irregular expenditure was incurred in previous years but identified and disclosed for the first time this year. The large increase in irregular expenditure from R27,4 billion in the previous year is mostly due to the R30,7 billion in irregular expenditure recognised by the Property Management Trading Entity, based on a review of the prior year's transactions to determine the full extent of its irregular expenditure. R16,9 billion of the remaining irregular expenditure was incurred by departments in the education, health and public works sectors.

Ninety-three per cent of the irregular expenditure (R58,3 billion) was as a result of **non-compliance with supply chain management legislation**. We did not perform any investigations into the irregular expenditure as that is the role of the accounting officer and oversight body. However, through our normal audits we determined that goods and services were received for R22,3 million (38%) of the supply chain-related irregular expenditure despite the normal processes governing procurement not being followed. We cannot, however, confirm that the goods and services were delivered at the best price and that value was received.

Fruitless and wasteful expenditure of just over R1,1 billion was incurred by 245 auditees. This expenditure decreased from R2,4 billion in the previous year.

Risks to the financial health of auditees should receive attention

As in the prior year, our audits included a high-level analysis of auditees' financial health 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. We also performed audit

procedures to assess whether there are any events or conditions that may cast significant doubt on an auditee's ability to continue as a going concern.

The number of auditees where intervention is required (38) has remained largely unchanged, namely those with material going concern uncertainties or adverse or disclaimed opinions, which resulted in their financial statements not being reliable enough for an analysis of their financial health.

We identified 125 auditees (29%) with a "concerning" status that had a number of negative financial risk indicators requiring attention. The number of auditees with this status increased from 9% to 29%, with the regression occurring at both departments and public entities. The main reason for the regression is the increase in auditees with concerning indicators at national government and in the Free State. Our current year assessment was also based on a greater number of relevant indicators compared to what we used in the previous year.

Important findings arising from our analyses included the following:

- Fifty-three public entities either disclosed that a material uncertainty existed with regard to their ability to operate in the foreseeable future (i.e. as a going concern) or were qualified because such disclosures were not included.
- The financial statements of almost a fifth of departments (2012-13: 17%) would have shown a deficit instead of a surplus had they been prepared in the same manner as those of public entities and local government. Forty-one departments had an overdraft at year-end, 19 of which also had an overdraft in the previous year.
- Forty per cent of departments underspent on their capital budget and 4% on their conditional grants by more than 10%.
- Although there was a reduction in the number of public entities that took more than 90 days to recover money owed to them, extended debt-collection periods remained a challenge for 14% (2012-13: 21%) of auditees. The weakness in debt management is further highlighted by the fact that 23% (2012-13: 27%) of auditees estimated that more than 10% of their debtors would be unable to pay them.

Status of internal control and the root causes should be addressed to further improve audit outcomes

As part of our auditing process, we continue to assess internal controls to determine the effectiveness of their design and implementation in ensuring reliable financial and performance reporting and compliance with legislation. Overall, there

were a number of auditees with good internal controls relating to leadership, financial and performance management and governance.

The following **basic controls and disciplines** should be strengthened to ensure that errors, omissions and non-compliance are prevented, detected and corrected timeously:

- Effective leadership based on a culture of honesty, ethical practices and good governance
- Use of audit action plans to address internal control deficiencies
- Proper record keeping and document control
- Controls over daily and monthly processing and reconciliation of transactions
- Review and monitoring of compliance with legislation.

Leadership should also give specific attention to effective human resource management and the status of information and communication technology controls, which we analyse in the paragraphs that follow.

Human resource management showed some improvement

There has been some improvement in the status of human resource management when compared to the previous year, as evidenced by the increase in the number of auditees whose controls we assessed as being 'good', together with a reduction in those whose controls we assessed as 'requiring intervention'.

In this report we also raise concerns regarding the management of vacancies, especially in key positions and instability in these positions.

The high vacancy rate (16%) and instability in the accounting officer positions remain pronounced, with higher vacancies at provincial departments. Instability at this level (on average fewer than three years in office) affects the ability of auditees to build and maintain a robust control environment for financial and performance management and weakens the accountability chain.

The vacancies in chief financial officer positions remain a cause for concern, with a fifth of departments and more than a third of public entities operating without a chief financial officer. The positions were in most instances vacant for longer than six months. The chief financial officer's average term in office was just over three years.

Vacancies and high turnover in chief financial officer positions, combined with the high vacancy levels in the financial units, hamper the ability of auditees to perform proper financial planning, record keeping and financial reporting, which resulted in financial statements of poor quality that require many corrections. This further

impacts on the implementation of daily and monthly processing and reconciling of transactions.

The head of the supply chain management unit plays a significant role in ensuring that controls are in place to enable fair and competitive procurement processes and to prevent abuse of the supply chain management process. Attention should be given to prolonged vacancies (18%) at this level at both departments and public entities, which have shown an increase since the previous year.

There were still weaknesses in the performance management of senior management, such as performance contracts not being in place at the levels of accounting officer, chief executive officer and chief financial officer.

In accordance with legislation, failure to comply with legislated obligations and responsibilities, and incurring unauthorised, irregular and fruitless and wasteful expenditure should be investigated as this could constitute financial misconduct by accounting officers or officials. Our key findings in this regard include failure by management to take effective and appropriate disciplinary steps against officials who made or permitted unauthorised, irregular or fruitless and wasteful expenditure. Further, allegations of financial misconduct on the part of accounting officers and other officials were not always investigated.

Departments should use consultants effectively

Departments used consultants to assist them with financial reporting, preparation of performance information, information technology services or other services. The cost of the consultancy services was estimated at **R12,1 billion**.

Our audit on the management of consultants at 120 departments revealed that **skills were not transferred** at 28% of the departments, with **poor performance management and monitoring** at 26% and **inadequate planning and appointment processes** at 19% of departments.

Thirty-nine departments were assisted by consultants for financial reporting services at a cost of R386 million. Seventy-three per cent of the cost was incurred by six departments, which included the national department of Public Works, a provincial treasury and two health departments. Sixty-one per cent of these departments received financially unqualified audit opinions. Good audit outcomes cannot always be directly attributed to the work that consultants performed, but we have seen a number of examples of how departments were able to use consultants effectively to contribute positively to their audit outcomes.

Information technology controls are showing a slight improvement

The number of auditees with findings on the status of their information technology controls **shows a slight improvement since** last year. **Furthermore**, there has been a reduction from **27% to 21%** in the number of auditees with findings

considered material. It is therefore evident that auditees are paying attention to improving their information technology controls.

Most auditees are in the process of implementing the information technology governance framework approved by cabinet for national and provincial government, as well as for public entities. When fully implemented, this framework should have a positive impact on the functioning of the information technology control environment and service delivery in the public service domain. However, the legislatures have opted not to adopt the cabinet-approved framework and are struggling either to develop or to implement alternative frameworks, which is a matter of concern. Also, the status of controls in the areas of security management, user access and information technology service continuity **has not shown much improvement; however, it was found that auditees had improved** the design of these controls and had started to implement them, **but only 20-31% of auditees' information technology controls were operating effectively in the three focus areas we assessed**. This poses a risk in terms of the confidentiality, integrity and availability of information on the information technology systems concerned.

We have also identified a number of risks in the manner in which systems are being developed and changed. Weaknesses such as poor planning, governance and project management are creating challenges that affect major system developments, i.e. projects such as the Integrated Financial Management System and the Integrated Justice System. Strengthening internal controls would create an enabling environment that could increase the likelihood of these information technology projects progressing economically, efficiently and effectively and delivering positive results.

Continued focus on the root causes is required

Many auditees did not receive a clean audit opinion as their financial and performance reports were of a poor quality and they had high levels of non-compliance with legislation. The most common root causes of the audit outcomes that need to be addressed remain the following:

- The slow response of accounting officers and senior managers in addressing weaknesses in internal controls in the six areas
- Instability or vacancies in key positions – particularly at the level of accounting officers and chief financial officers
- Inadequate consequences for transgressions and poor performance that is apparent from the findings we report on.

All role players should increase the level of assurance they provide

In order to sustain improvements in audit outcomes, auditee management and leadership and those that perform an oversight or governance function should work towards improving the key controls. They should address the root causes we again highlight in this report and ensure that there is an improvement in the six 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, still too few of the role players are providing the necessary assurance.

Senior management, accounting officers/authorities and executive authorities provide adequate assurance at only 34% of auditees. We again emphasise that particular attention should be given to the assurance provided by senior management as the accounting officers and executive authorities are relying on senior management to implement financial and performance management controls. Accounting officers must also improve the level of assurance they are providing.

In total 56% of the contributors to the second level of assurance (internal audit, audit committees and the coordinating/ monitoring departments) are providing the required level of assurance. This has improved since the prior year (41%). These role players, when fully effective and if supported by the accounting officers/authorities and executive authorities, will have a significant impact in improving the controls at auditees. Section 4 of our report includes the findings from an assessment we performed of the oversight function at the offices of the premier as well as the provincial and national treasury. We also included recommendations to improve these functions.

The assurance provided by public accounts committees and the portfolio committees remained below the level required to ensure that the oversight and accountability processes have a direct and positive impact on auditees' controls and audit outcomes. Some of weaknesses that have not been fully addressed are the lack of collaboration between the committees and the level of interaction by provincial portfolio committees with my office.

The initiatives and commitments of all role players continue to have a positive impact on audit outcomes

While we have identified the remaining gaps in the levels of assurance provided by key national and provincial role players, we recognise that their initiatives and commitments have contributed to the improvement in audit outcomes. We further believe that their existing initiatives, together with additional ones that may result from our recent interactions with them, as well as those following the tabling of this report, will lay the foundation for further improvements in audit outcomes.

The status of prior year commitments made by provincial role players can be found in our provincial general reports, together with new commitments made by them.

We include in section 4 of this report details of the initiatives and commitments of national role players in response to our messages, together with recommendations on how their oversight and monitoring functions can be further improved.

SECTION 2: OVERVIEW OF AUDIT OUTCOMES

Figure 1: Audit outcomes over past three years (all auditees)

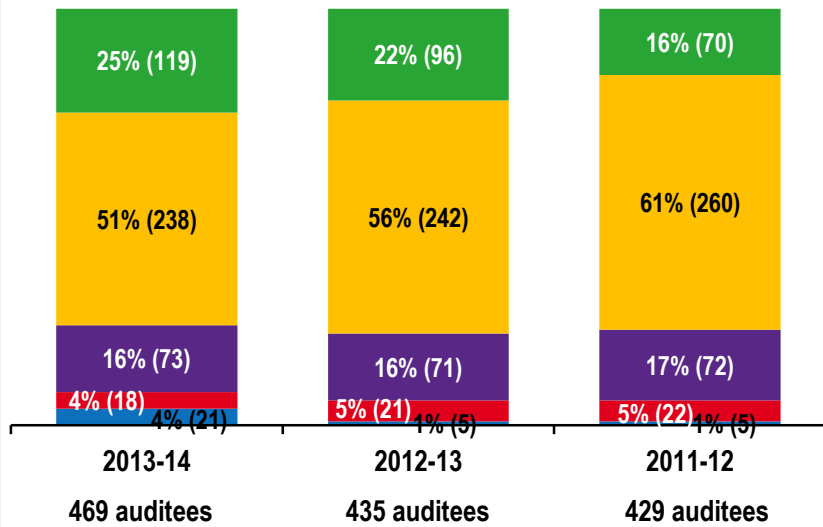


Figure 2: Improvement in audit outcomes (departments)

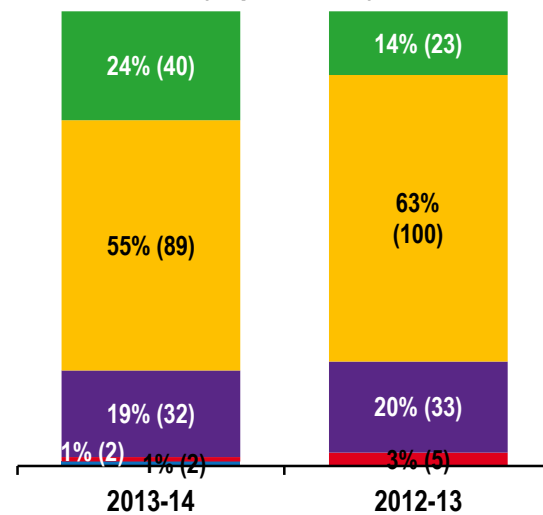


Figure 3: Limited change in audit outcomes (public entities)

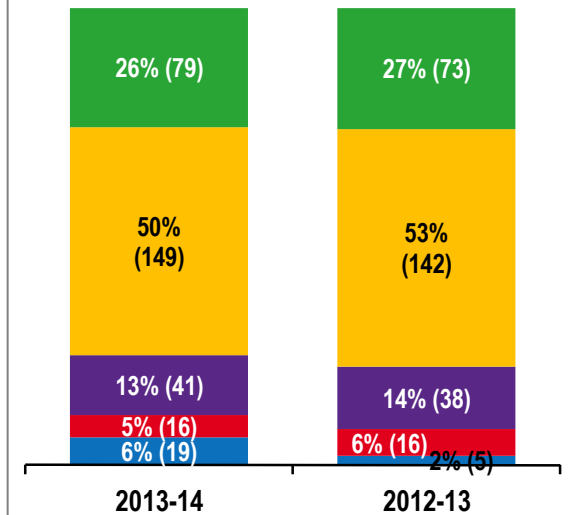


Figure 4: Education, health and public works vs. other departments

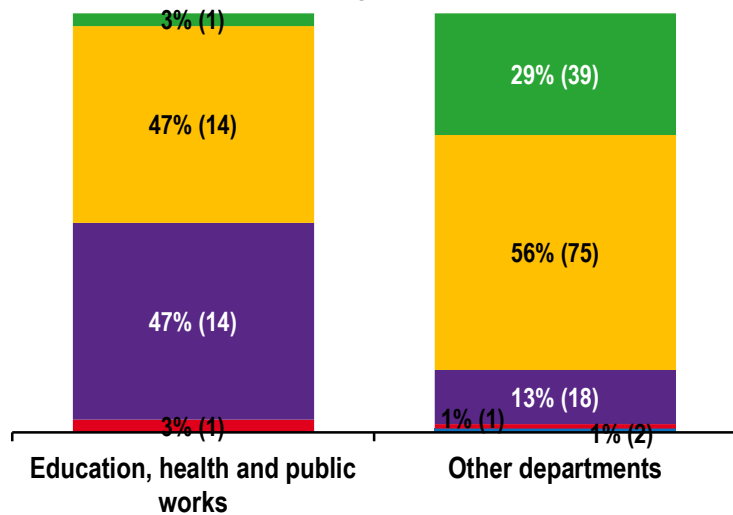
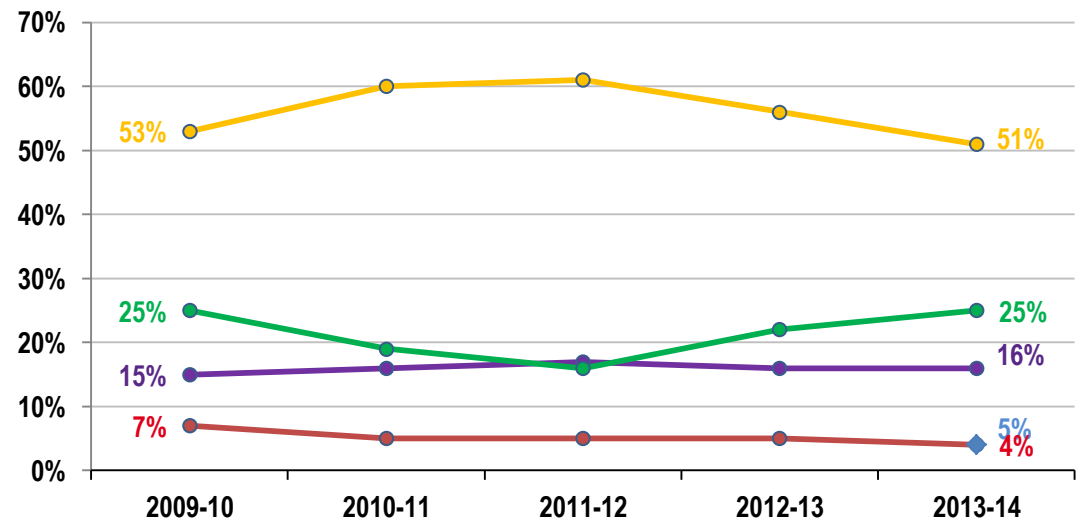


Figure 5: Audit outcomes over past five years (all auditees)



2.1 Overall audit outcomes

National and provincial government consists of 165 departments and 415 public entities. The public entities include 149 national and 69 provincial public entities, 55 major public entities and government business enterprises, 35 constitutional institutions and trading entities, 23 universities, 50 further education training (FET) colleges and 34 other entities that are not subject to the Public Finance Management Act (PFMA).

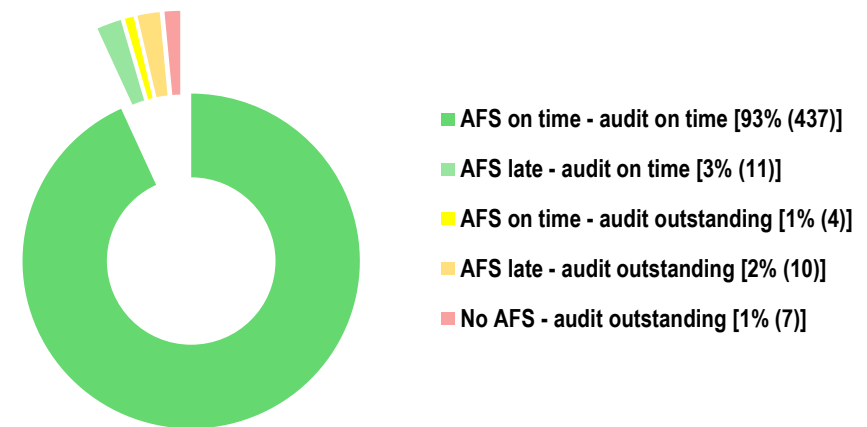
The audit outcomes of 111 public entities audited by private auditors are not included in the analysis presented in this report, except in the portfolio outcomes (section 5) if a minister has executive responsibility for them and in the annexures to this report.

The number of departments has increased by two since the previous year due to the closure of one department and the establishment of three new departments. The number of public entities has decreased by nine due to the closure of six public entities, the establishment of three new public entities and the exclusion of 20 public entities that are subsidiaries of holding companies or are dormant. Sixteen auditees (one public entity in the Eastern Cape and 15 FET colleges) were audited by the AGSA for the first time, bringing the number of auditees to 304. We excluded the 2012-13 audit outcomes of 12 auditees from the analysis as their 2013-14 audits are still outstanding.

Submission of financial statements for auditing and completion of audits

Figure 6 shows that a total of 441 (94%) auditees were able to submit their financial statements for auditing by 31 May 2014 as required by legislation. Although the financial statements of the Department of Military Veterans and three public entities (the Passenger Rail Agency of SA and two FET colleges) were received on time, the audits were not completed by the date of this report. Two departments in Limpopo and nine public entities submitted their financial statements late, but we were able to complete those audits by 10 September, which is the cut-off date we set for inclusion of the audit outcomes in this report.

Figure 6: Submission of financial statements and completion of audits



The audits of the KwaZulu-Natal Legislature and nine public entities that submitted their financial statements late are still in progress. The financial statements of seven public entities were not submitted by the date of this report.

Movement in audit outcomes

Figure 1 indicates that there has been a slight overall improvement in the audit outcomes when compared to the previous year. Figures 2 and 3 show that there was little change in the overall outcomes of public entities but that departments improved significantly. The table that follows analyses the movement in audit outcomes of the different auditees since the previous year.

The number of auditees with clean audits increased to 119 (25%), which represents 17% of the national departments, 27% of the provincial departments, 24% of national public entities and 29% of the provincial public entities.

In total, 74% of the 238 auditees with an unqualified audit opinion with findings had received the same opinion last year. Only 45 auditees (previously unqualified with findings) were able to improve to clean audits since the previous year. Although there has been some progress towards financially unqualified audits (as detailed in section 2.2), the remaining challenge is to address the material findings on the quality of the annual performance report and compliance with legislation. The progress over the past three years and the key findings in these areas are provided in sections 2.3. and 2.4.

Annexure 1 lists all auditees with their current and prior year audit outcomes.

Figure 5 shows the five-year audit outcomes of national and provincial government. The overall 2013-14 audit outcomes are very similar to those of 2009-10, with a quarter of the auditees receiving clean audit opinions. It should be noted, however, that the number of auditees we audit has increased over the past five years – auditees with clean audit opinions increased from 100 (18 departments and 82 public entities) to 119 (40 departments and 79 public entities).

Annexure 2 lists the audit outcomes for the past five years.

Education, health and public works

In 2013-14, the expenditure of the national and provincial departments of education, health and public works contributed to almost 37% of the total spending by departments. Figure 4 shows that half of these departments' financial statements were financially qualified or disclaimed compared to 14% of the other departments. Except for one clean audit, all these departments had material findings on the quality of their annual performance reports and/or compliance with legislation.

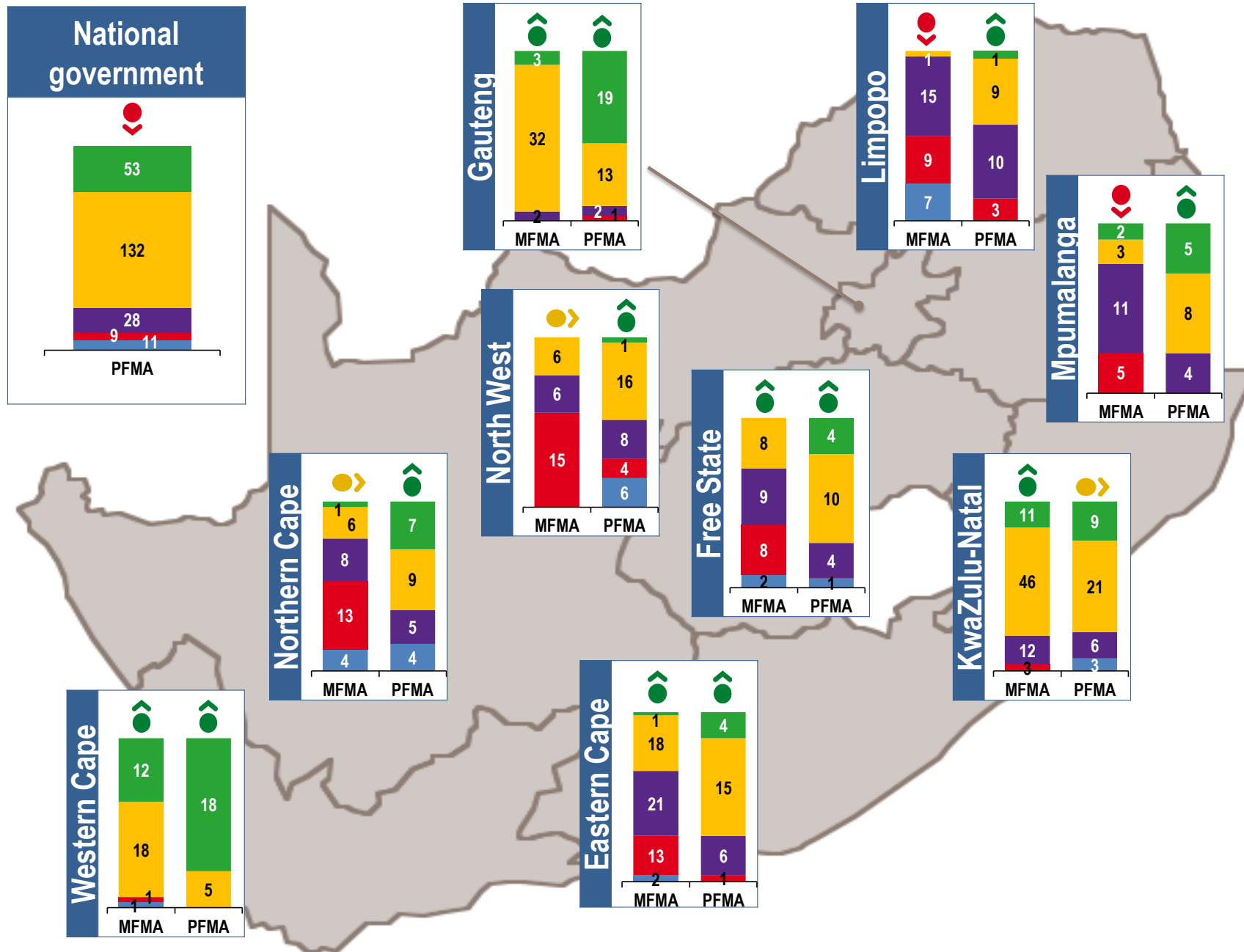
These sectors receive a substantial portion of the budget and are responsible for implementing key programmes to improve the health and welfare of the citizens. Their poor audit outcomes should receive urgent attention from all role players to ensure accountability and thus improved service delivery.

Table 1: Movement in audit outcomes

	92	288	50	18	12 + 9
	Improved	Unchanged	Regressed	New auditee	Outstanding
Unqualified with no findings = 119	20 (DEP) 25 (PE) 2 (PE)	19 (DEP) 51 (PE)		1 (DEP) 1 (PE)	1 (DEP) 3 (PE)
Unqualified with findings = 238	13 (DEP) 20 (PE) 1 (PE)	74 (DEP) 102 (PE)	2 (DEP) 22 (PE)	4 (PE)	2 (PE)
Qualified with findings = 73	4 (DEP) 7 (PE)	19 (DEP) 14 (PE)	2 (DEP) 6 (DEP) 14 (PE)	1 (DEP) 6 (PE)	1 (PE)
Adverse or disclaimed with findings = 18		1 (DEP) 8 (PE)	1 (PE) 1 (DEP) 2 (PE)	5 (PE)	5 (PE)

DEP – departments PE – public entities Colour of the number indicates the audit opinion from which the auditee has moved.
Of the 21 outstanding audits, five remain outstanding since the 2012-13 financial year, while four new auditees' audits are also outstanding.

Figure 7: National and provincial audit outcomes



National and provincial audit outcomes

Figure 7 shows an improvement in the audit outcomes in most provinces, but a regression in the audit outcomes of the national government and little progress in KwaZulu-Natal. The number of auditees with an unqualified audit opinion with no findings (clean audit) improved from 96 in the previous year to 119 (40 departments and 79 public entities) (25%) in 2013-14, with the highest contributors being Gauteng and Western Cape. Regressions in the number of auditees with clean audit opinions were noted in KwaZulu-Natal and the national auditees. Fifty-nine per cent of the auditees (70) with clean audits in the previous year were able to sustain their clean audit status.

Details of the movement in audit outcomes are as follows:

National government

Retained clean audits (36): Performance Monitoring and Evaluation, Social Development and 34 public entities

Improved to clean audit (16): Environmental Affairs, Public Enterprises, Sport and Recreation, Statistics South Africa, Tourism and 11 public entities

New auditee (1): Community Schemes Ombuds Service

There was a net regression in the audit outcomes of national government with 32 auditees improving on their audit opinions and 34 regressing. Sixty-three per cent of the auditees received the same audit opinion as in the previous year, with the majority receiving a financially unqualified audit opinion with findings. Fifteen FET colleges are now audited by us. The audit outcomes of 12 of these entities are included in this report, of which the financial statements of only one were financially unqualified. The audit of one department (Military Veterans) and 10 public entities were still outstanding at the time of this report.

Eastern Cape

Retained clean audits (3): Provincial treasury, Office of the Premier and Eastern Cape Socio-Economic Consultative Council

Improved to clean audit (1): Local Government and Traditional Affairs

The province reflects a net improvement of five audit outcomes, with six improvements and one regression. The 2013-14 financial year is the first year that no department received an adverse/ disclaimer of opinion while only one public entity is reflected in this category.

Although there was also an improvement in the audit outcomes of local government in the province, 64% of the auditees' financial statements were financially qualified.

Free State

Retained clean audits (3): Provincial treasury, Sport, Arts, Culture and Recreation and Free State Fleet Management Trading Entity

Improved to clean audit (1): Provincial legislature

There has been a slight year-on-year improvement in the overall audit outcomes when compared to the previous year; however, the number of clean audit opinions remained unchanged. There was a decrease of 11% in the number of auditees with qualified audit opinions, while the audit of one public entity was still outstanding at the time of this report.

There was an improvement in the audit outcomes of local government; however, no auditees received a clean audit report.

Gauteng

Retained clean audits (8): Office of the Premier, provincial legislature, provincial treasury, Social Development, Sport, Arts, Culture and Recreation, Gauteng Funding Agency, Gautrain Management Agency and Gauteng Partnership Fund

Improved to clean audit (10): Public entities

New auditee (1): Cooperative Governance and Traditional Affairs

Although there has been a significant improvement in the overall audit outcomes when compared to the previous year, 34% of the auditees remained financial unqualified with the majority of the findings relating to non-compliance with legislation. One public entity regressed from a financially unqualified audit opinion with findings to an adverse audit opinion.

There was an improvement in the audit outcomes of local government in the province, with 96% of the auditees obtaining financially unqualified audit opinions.

KwaZulu-Natal

Retained clean audits (7): Provincial treasury, Amafa aKwaZulu-Natali, Dube TradePort Corporation, Growth Fund Managers, Natal Joint Municipal Pension Fund: Provident, Natal Joint Municipal Pension Fund: Retirement and Natal Joint Municipal Pension Fund: Superannuation

Improved to clean audit (2): Ithala Ltd and Ithala Development Finance Corporation Ltd

There was a 14% reduction in the number of auditees with financially unqualified audit opinions with no findings, while the number of auditees with financially qualified financial statements remained unchanged. Five improvements were offset by five regressions, resulting in no net improvement in the audit outcomes of the province. The audits of the provincial legislature and two public entities were still outstanding at the time of this report.

The audit outcomes of local government were the same as those of the provincial government in the province, with three auditees receiving a disclaimer.

Limpopo

Improved to clean audit (1): Cooperative Governance, Human Settlements and Traditional Affairs

There has been an improvement in the overall audit outcomes when compared to the previous year. However, more than 50% of the auditees' financial statements were again financially qualified.

During the local government audits, an overall regression was noted, with only one auditee receiving an unqualified audit opinion with findings.

Mpumalanga

Retained clean audits (2): Finance and Mpumalanga Gambling Board

Improved to clean audit (3): Cooperative Governance and Traditional Affairs, Social Development and Mpumalanga Regional Training Trust

Although there has been an improvement in the overall audit outcomes when compared with the previous year, the majority of auditees received unqualified audit opinions with findings. Five of the auditees that received an unqualified audit opinion with findings have been in this same category for at least the past three years. Twenty-four per cent of the auditees' financial statements were financially qualified.

A regression was noted in the audit outcomes of the local government auditees in the province, with 76% receiving a financially qualified audit opinion.

Northern Cape

Retained clean audits (1): Social Development

Improved to clean audit (4): Economic Development and Tourism, Environment and Nature Conservation, the provincial treasury and Northern Cape Tourism Authority

There has been an improvement in the number of auditees with a financially unqualified audit opinion with no findings. Seven auditees have remained in the category of financially unqualified audit opinion with findings for the past two years, failing to address the findings on their annual performance reports and/ or compliance with legislation.

There was been no changed in the audit outcomes of local government, with only one auditee receiving an unqualified audit opinion with no findings.

North West

Improved to clean audit (1): Provincial treasury

Overall there have been nine improvements and two regressions, with the provincial treasury being the first department to receive a clean audit in the province. There has been some progress in reducing the number of auditees with a disclaimer of opinion, with three auditees able to improve from a disclaimer to qualified with findings. However, of concern are the four public entities that remained unchanged with a disclaimer of opinion. The audits of six public entities were still outstanding at the time of this report.

The audit outcomes of local government remained the same as in the previous year, with more than 50% of the auditees receiving a disclaimer.

Western Cape

Retained clean audits (10): Agriculture, Cultural Affairs and Sport, Community Safety, Economic Development and Tourism, Transport and Public Works, Gambling and Racing Board, Government Motor Transport, Western Cape Cultural Commission, Western Cape Investment and Trade Agency and Western Cape Language Committee

Improved to clean audit (8): Human Settlements, Local Government, Office of the Premier, provincial legislature, provincial treasury, Social Development, Heritage Western Cape and Western Cape Nature Conservation Board

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. Two auditees improved from a qualified audit opinion, bringing the total number of financially unqualified auditees to 100% in the province.

The audit outcomes of local government improved, with only one auditee receiving an adverse opinion.

Figure 1: Three-year trend – audit of financial statements

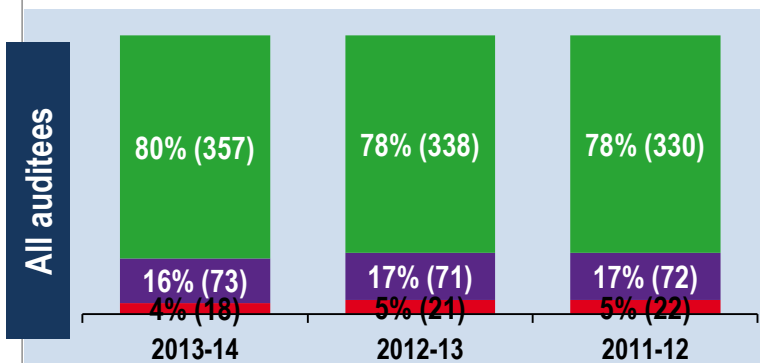


Figure 2: Status of submitted financial statements

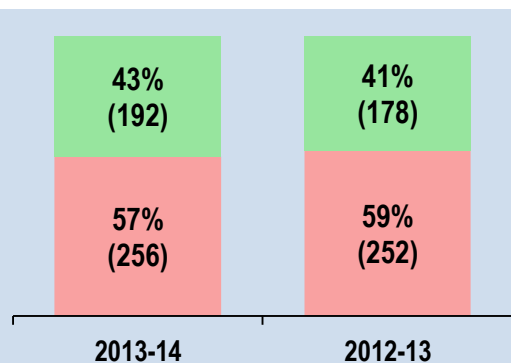
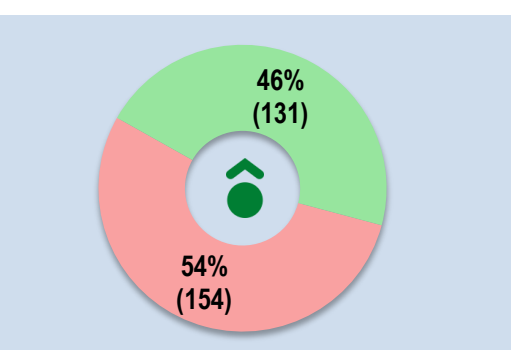
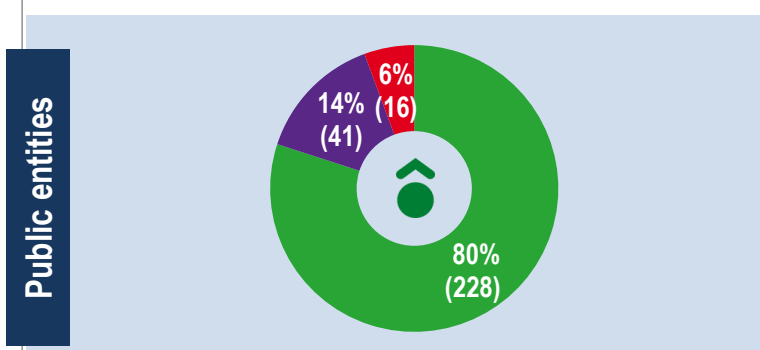
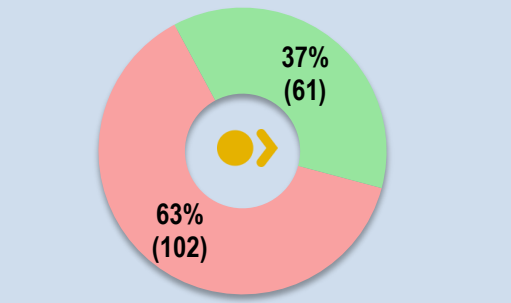
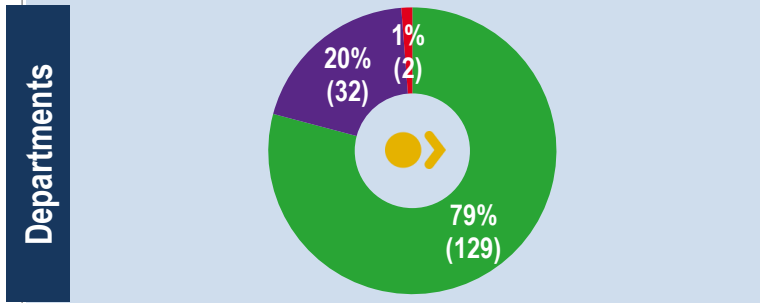
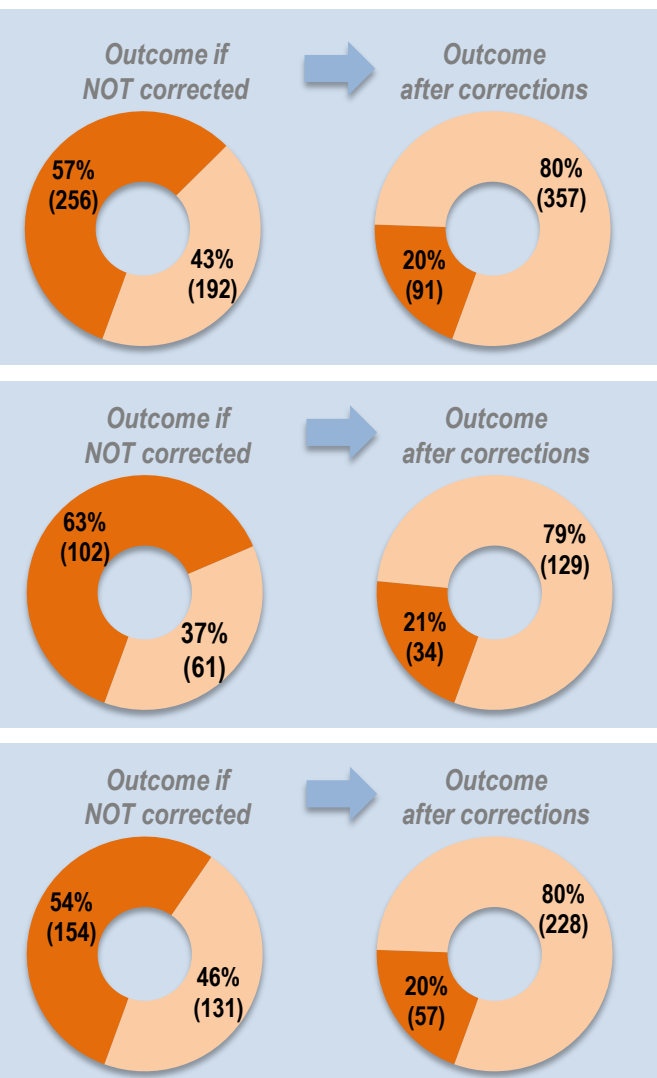


Figure 3: Quality of financial statements submitted

[165 auditees (2012-13: 160) avoided qualifications due to the correction of material misstatements during the audit process]



Unqualified	Qualified	Adverse/disclaimer	With no material misstatements	With material misstatements	No material misstatements	Material misstatements
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2.2 Status of the three areas that we audit and report on

2.2.1 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 financial framework and applicable legislation. The audit provides the users with reasonable assurance regarding the degree to which the financial statements are reliable and credible on the basis that the audit procedures performed did not reveal any material errors or omissions in the financial statements. We use the term *material misstatement* to refer to such material errors or omissions.

Table 1 in section 2.1 on the overall audit outcomes also shows the movement in the financial audit outcomes. Figure 1 shows that the audit opinions on financial statements **improved** when compared to the previous year, with 80% (2012-13: 78%) of the financial statements now unqualified.

The table in section 2.1 further shows that only 18 auditees received an **adverse or disclaimed opinion** (two departments and 16 public entities), with 12 auditees moving from these opinions in the previous year to a qualified and even an unqualified opinion (Equalisation Fund – an entity in the energy portfolio). The departments that improved to qualified included the Limpopo health department and the public works departments in Limpopo, North West and Eastern Cape. Fifty per cent of these 18 auditees had the same audit opinion in the previous year, while a third have been in this category for the past five years.

The auditees with adverse or disclaimed opinions were as follows:

- Limpopo education department – for the past five years
- Department of Home Affairs - regressed from a qualified audit
- Compensation Fund – for the past five years
- Third Party Fund (a public entity in the Justice portfolio) – for the past five years
- Pan SA Language Board - regressed from a qualified audit opinion
- Five FET colleges - audited by us for the first time in the current year
- Four public entities in North West - three of them for the past five years
- Two public entities in Limpopo and one each in Gauteng and the Eastern Cape.

It is commendable that 33 auditees (7%) (13 departments and 20 public entities) (2012-13: 31 [7%]) were able to improve from a financially qualified audit opinion to a financially unqualified audit opinion with findings.

As shown in table 1 (section 2.1), the financial statements of almost 36% of the auditees that received a financially **qualified audit opinion** in the previous year again received a qualified audit opinion (33 auditees). Twenty-four (72%) of these auditees received qualified, adverse or disclaimed opinions for five consecutive years. These auditees include the Correctional Services, Water Affairs and its trading entity and the Property Management Trading Entity (the trading entity of Public Works), and in the provinces six health departments, three education departments and two departments of public works.

A total of 22 auditees (5%) (eight departments and 14 public entities) regressed from a financially unqualified audit opinion to a financially qualified audit opinion. These auditees included the departments of Arts and Culture; International Relations and Cooperation and the Free State education department, as well as the KwaZulu-Natal transport department and the Office of the Premier of the Free State, both having regressed from clean audit opinions.

Fifty per cent of the financial statements of the national and provincial departments of **education, health and public works** were qualified or disclaimed.

Figure 4: Departments that received qualified and disclaimed opinions

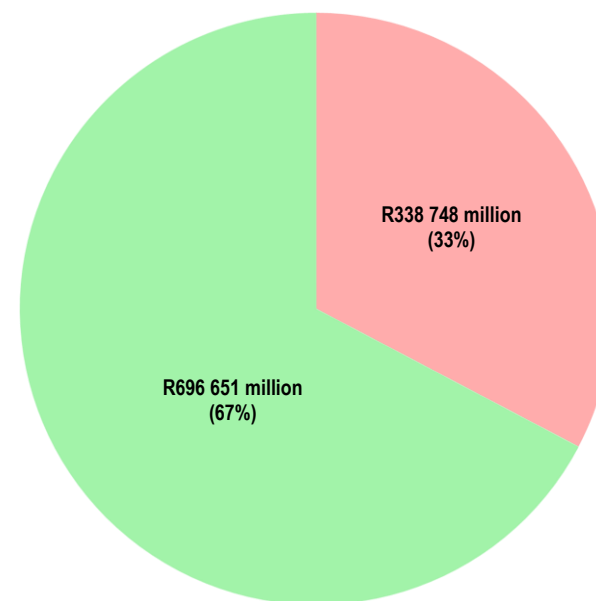


Figure 4 shows that 34 departments that received qualified and disclaimed opinions are responsible for a third of the total budget allocated to departments.

Table 1 below (column: financially unqualified auditees after correction of material misstatements) shows that Limpopo and North West have the lowest number of auditees that received financially unqualified audit opinions, with the Western Cape achieving 100% and Gauteng 91%. Only Mpumalanga regressed, while most of the provinces recorded improvements.

Table 1: Status of financial statements in national and provincial government

Portfolio	Financially unqualified auditees <u>before</u> correction of material misstatements	Movement	Financially unqualified auditees <u>after</u> correction of material misstatements	Movement
National auditees	45%	➡	83%	➡
Eastern Cape	38%	⬆	73%	⬆
Free State	33%	⬆	78%	⬆
Gauteng	63%	⬆	91%	➡
KwaZulu-Natal	42%	⬇	83%	⬆
Limpopo	13%	⬇	43%	➡
Mpumalanga	35%	⬆	76%	⬇
Northern Cape	32%	⬆	74%	⬆
North West	17%	⬆	59%	⬆
Western Cape	78%	➡	100%	⬆

The quality of the financial statements submitted for auditing

While almost all the auditees submitted their financial statements for auditing on time, figure 2 shows that only 192 (43%) submitted financial statements without material misstatements. Overall, there has been an improvement in this regard since the previous year

Figure 3 shows that 165 auditees (37%) received a financially unqualified audit opinion only because they corrected all the misstatements we had identified during the audit. Only 43% of the auditees would have received an unqualified audit opinion had we not identified the misstatements and allowed them to make the

corrections. Table 1 (column: financially unqualified auditees before correction of material misstatements) shows the low percentages of auditees in national and provincial government that would have received unqualified audit opinions had corrections not been made. It also shows that in six provinces there has been improvement in the quality of their submitted financial statements, while KwaZulu-Natal and Limpopo have fewer auditees submitting quality financial statements.

There is a notable difference in the quality of the financial statements submitted by departments when compared to those of the public entities. There were 131 public entities (46%) in whose financial statements no material corrections were required, while only 61 departments (37%) submitted financial statements that required no material adjustments. The main reason for this is that controls that are in place to detect the problems at an early stage are better at public entities. See section 3.1 for more detail.

We report the poor quality of the financial statements we receive in the audit reports of some auditees as a material compliance finding, as it also constitutes non-compliance with the PFMA (refer to section 2.2.3). The finding is only reported for auditees subject to the PFMA and 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. An additional four departments and 25 public entities would have received a clean audit outcome had it not been for this particular compliance finding.

The most common areas where departments made corrections in order to achieve unqualified audit opinions relate to commitments and contingent liabilities (37%) and property, infrastructure, plant and equipment (30%). At public entities, areas where corrections were made are payables, accruals and borrowings (36%), revenue (32%) and expenditure (31%).

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 audit fees.

A total of 39 departments (24%) were assisted by consultants in the preparation of their financial statements and related financial reporting services. See section 3.2 for more detail.

Financial statement areas qualified (uncorrected material misstatements)

Although we reported the material misstatements to management for correction, 91 auditees (2012-13: 92) could not make the necessary corrections to their financial statements, which resulted in qualified, adverse or disclaimed audit opinions. The major reason for not making the corrections was the unavailability of or incomplete information or documentation to determine the correct amounts to be reflected in the financial statements.

Figures 5 (34 departments' financial statements qualified) and 6 (57 public entities' financial statements qualified) indicate the three most common financial statement qualification areas and the progress made in addressing these since the previous year.

Figure 5: Top three financial statement qualification areas – departments

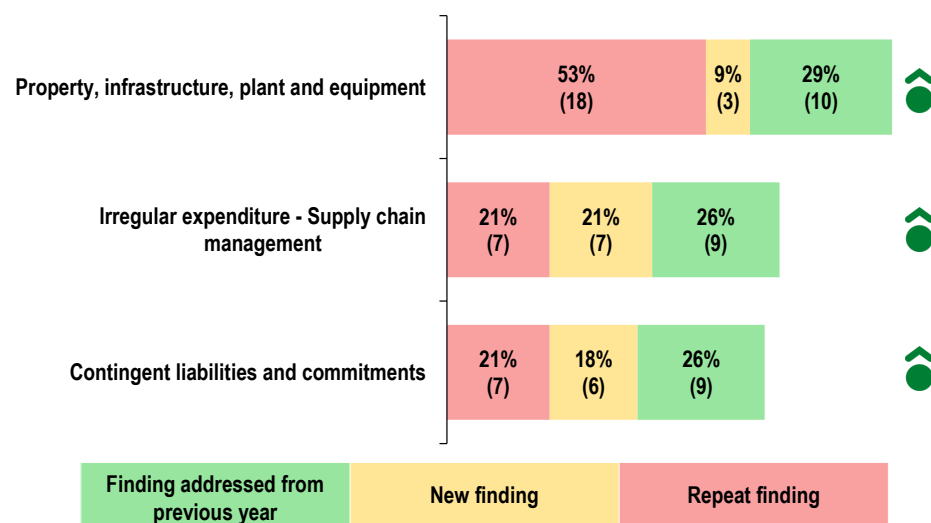
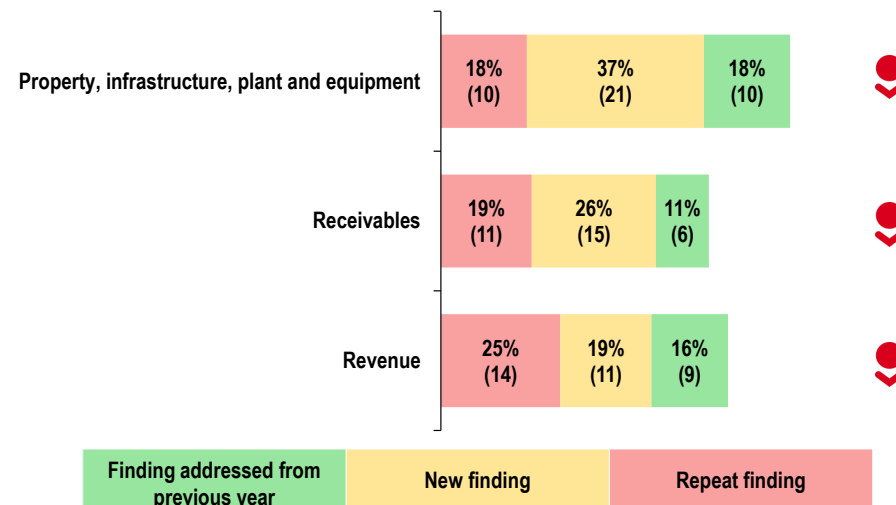


Figure 6: Top three financial statement qualification areas – public entities



The reasons for the most common qualifications and the auditees qualified are as follows:

Property, infrastructure, plant and equipment (21 departments and 31 public entities)

The number of departments that are qualified in this area continues to decrease. The most improvements were in the public works sector, with the national department and the departments in Eastern Cape and Free State having addressed their prior year qualifications. Of the 18 departments that did not improve, 50% were in the education, health and public works sectors. In this grouping are also three provincial departments in the arts and culture sector and the departments of Home Affairs, Water Affairs and Correctional Services. Six of the 13 departments in Limpopo are qualified on their assets.

The number of public entities qualified in this area increased significantly. Some of the public entities that were qualified for the first time this year were 14 national public entities, which include seven FET colleges that we had not audited before. Of the 16 public entities in North West, 50% were qualified on their assets.

At departments the main reason for the qualification was that the value of assets recorded in the financial statements did not include all the assets they own or we could not obtain sufficient evidence that all the assets were included (19 departments). At 13 departments, values were included of assets that did not exist or whose existence we could not confirm. This was as a result of incorrect and

incomplete asset registers and inadequate or missing supporting documentation. At some departments a lack of skills in the asset management units contributed to these deficiencies, as well as poor systems, processes and controls to account for assets.

At public entities the main reason for the qualification was that they did not review the value of their assets annually or they performed the calculation incorrectly, resulting in assets being included in the financial statements at unrealistic values (24 public entities). Twenty public entities did not include all the assets they own or we could not obtain sufficient evidence that all the assets were included.

Irregular expenditure – supply chain management (14 departments)

The main reason why departments were qualified on the irregular expenditure they disclosed in their financial statements was that not all irregular expenditure incurred in the year was disclosed or we could not obtain sufficient evidence that all such expenditure was included. This was due to a lack of adequate systems and processes to identify and record irregular expenditure.

There was a reduction overall in the number of departments qualified in this area (nine departments addressed the qualification but seven were newly qualified). The seven departments that had the same qualification in the previous year were all provincial departments and included the health departments of the Free State, Northern Cape and Eastern Cape and the public works departments in North West and the Eastern Cape.

Contingent liabilities and commitments (13 departments)

Most of the 13 departments were qualified on the disclosure in the financial statements of the commitments of the department to third parties. As a result of inadequate systems for the recording and monitoring of commitments made through contracts or other agreements, we could not obtain sufficient evidence that all such commitments were included.

The current financial and procurement systems used by departments do not fully support the management of commitments but most departments have been able to supplement it with registers and processes to assist them in reporting on these transactions. Departments that were able to address this problem in the past year were the national Department of Public Works, four provincial health departments and two provincial education departments.

Receivables (26 public entities) and revenue (25 public entities)

Thirty-five public entities were qualified on the value of receivables (debtors) and/or the revenue disclosed in their financial statements. These public entities included nine of the 12 FET colleges audited for the first time this year. Sixteen public entities were qualified on the amounts disclosed in their financial statements for both receivables and revenue. For 14 of these public entities the completeness of debtors and revenue transactions was in question due to a lack of supporting evidence. These public entities included the Compensation Fund, the Water Trading Entity (in the Water Affairs portfolio), five FET colleges and three provincial trading entities for fleet management.

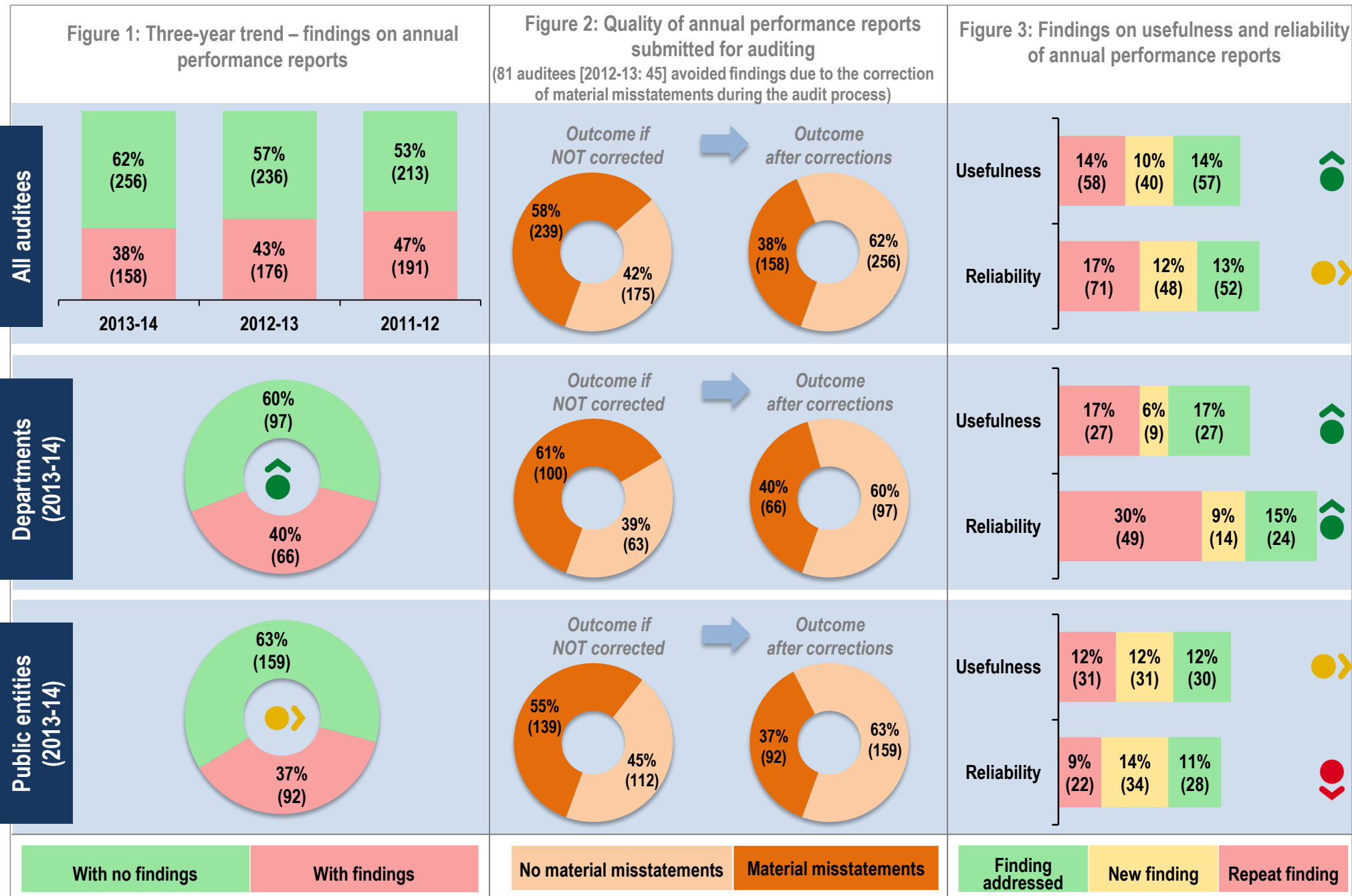
The revenue amounts at some public entities were also qualified because we could not obtain sufficient evidence that the revenue recorded was based on transactions that had taken place or that the amounts were correctly calculated. Similarly, we could not confirm the existence of some debtors or that the money owed by them was correctly calculated.

Recommendations

Auditees that received qualified, adverse or disclaimers of opinions and those that submitted poor quality financial statements for auditing should strengthen their processes and controls to create and/or sustain a control environment that supports reliable reporting. For such auditees, we recommend the implementation of at least the following key controls and best practices that are in place at some auditees:

- Controls should be in place to ensure that transactions are processed in an accurate, complete and timely manner. This will reduce the errors and omissions in financial reports. Daily disciplines such as the review and approval processes and the monthly reconciliation of key accounts should be normal practice. This will enable officials to prepare credible monthly management accounts and meaningful analyses and forecasts. It will also allow the auditees to test the robustness of their processes before the financial statements are submitted for audit at year-end. Errors and omissions will be identified and rectified at an earlier stage.
- Financial systems should also be set up to enable users to implement controls on a monthly basis. Where the financial systems do not support such control, alternative procedures should be considered, such as registers and reconciliations outside the system. This proved useful for those auditees that are able to produce unqualified financial statement in spite of inadequate systems. Information in the account records and registers must be continuously validated, especially where there is a high risk of inaccuracies, for example:

- Property, plant and equipment – performing regular physical asset verifications and assessing the condition of the assets
- Accruals and commitments – updating the registers on a regular basis
- Irregular expenditure – this should also be updated regularly to avoid misstatements being identified at year-end.
- In 2013-14 the reporting framework of departments changed and a number of material misstatements in the submitted financial statements were as a result of the changes not being understood and/or implemented. At public entities where the financial statements were qualified or disclaimed it was on GRAP requirements that were not new but with which these public entities are still struggling. Employees in the finance units must be provided with training in order to keep up to date with changes in financial reporting requirements. They also need close supervision and review by qualified and competent senior managers, including the chief financial officer. The vacancies and instability in the chief financial officer position should be addressed (also refer to section 3.2). Effective human resource management should also be implemented to equip the finance function with adequate and sufficiently skilled personnel.
- Action plans must be implemented and monitored. Auditees need to prepare audit action plans based on the audit findings, root causes and recommendations provided by us as well as internal audit, audit committees and other governance structures. The plan should include definite actions that need to be implemented to address the matters, with timelines and responsibilities assigned. Progress should be reported to the audit committee.
- Proper record keeping and availability of the evidence that supports all amounts and disclosures in the financial statements are key. These records and other evidence should be maintained throughout the year. Chief financial officers are called upon to determine whether such evidence is available as part of their review and sign-off of the financial statements. Internal audit can provide support in this regard.



2.2.2 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.

We audit selected material programmes of departments and objectives of public entities on an annual basis 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.

As part of the annual audit, 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 further 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.

In addition to the results from the annual audit, we report in this section of the general report on the findings arising from a performance audit on the readiness of government to report on its performance. The audit was performed to identify the root causes of the departments' slowness in producing useful and reliable annual performance reports in spite of the introduction of the *Framework for managing programme performance information* (FMPPPI) in 2007.

This section concludes with recommendations to further improve the quality of annual performance reports.

2.2.2.1 Outcomes of the 2013-14 audit

A total of 34 auditees (7%) are not required to report on their predetermined objectives, which include 12 FET colleges, five national and provincial public entities, 13 other entities and four trading entities. Some of these auditees are not subject to the PFMA which requires performance reporting; some are in the process of closing down, while the objectives of some auditees are reported on at departmental level. These auditees are excluded from the discussion and graphics that follow.

Figure 1 shows that 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. One hundred and ninety-three auditees (47%) (68 departments and 125 public entities) had no material findings in the current and previous year. Sixty-three auditees (15%) (29 departments and 34 public entities) were able to address their prior year findings, but 47 auditees (11%) (13 departments and 34 public entities) have regressed since the previous year. Of the three biggest service delivery sectors (education, health and public works) all had material findings on their annual performance reports except for three education departments (Gauteng, Mpumalanga and Western Cape), one health department (Western Cape) and two public works departments (KwaZulu-Natal and Western Cape).

Table 1 below shows that Limpopo (despite an improvement since the previous year), Northern Cape and North West have the lowest number of auditees with no material findings on their annual performance reports, while the Western Cape at 91% (also an improvement) and Gauteng at 84% had the highest percentage of auditees with no findings. The other improvement was in the Eastern Cape and Free State. The national auditees and other provinces remained at the same level as in the previous year.

Table 1: Status of annual performance reports in national and provincial government

Portfolio	Annual performance reports <u>before</u> adjustments made	Movement	Annual performance reports <u>after</u> adjustments made	Movement
National auditees	40%		64%	
Eastern Cape	46%		69%	
Free State	39%		50%	
Gauteng	75%		84%	
KwaZulu-Natal	47%		66%	
Limpopo	30%		48%	
Mpumalanga	41%		53%	
Northern Cape	32%		42%	
North West	8%		23%	
Western Cape	68%		91%	

The quality of the annual performance reports submitted for auditing

While most auditees submitted their annual performance reports for auditing on time, figure 2 shows that only 175 auditees (42%) submitted annual performance reports that did not contain material misstatements. This is a reduction compared to the previous year when 192 auditees (47%) submitted annual performance reports that contained no material misstatements. The departments remained at a level of 39%, while public entities regressed from 51% to 46%.

Figure 2 shows that 81 auditees (20%) (34 departments and 47 public entities) had no material findings. This is only because they corrected all the misstatements we had identified during the audit. This represents an improvement since the previous year when only 45 auditees (11%) (17 departments and 28 public entities) corrected all the misstatements identified. Eleven per cent more departments were able to make the corrections in the 2013-14 financial year. Table 1 above shows that Limpopo and North West have the lowest number of auditees that submitted annual performance reports without any material misstatements, the highest number being recorded by Gauteng at 75% and the Western Cape at 68%.

Findings on usefulness and reliability of annual performance reports

Some auditees' main programmes/objectives are material in relation to their budget and mandate. In section 5 we provide details of the programmes and objectives of national departments and public entities selected for audit in respect of which we reported material findings on usefulness and reliability. Our provincial general reports provide similar information.

Overall, the information on these main programmes/objectives as reported in the annual performance reports of 98 auditees (24%) (2012-13: 116 [28%]), were not **useful**, with departments at 9% and public entities at 15%. The number of auditees with findings on usefulness has decreased since the previous year, with most of the improvements noted at departments.

The most common findings on usefulness of information relate to auditees reporting on indicators that were not well defined, with targets that were not measurable or not specific enough to ensure that the required performance could be measured and reported in a useful manner. Performance indicators and targets are defined as part of the annual planning and budget process.

Findings on **reliability** were identified at 119 auditees (29%) (2012-13: 123 [30%]). Sixty-three departments (15%) had findings on reliability, with the public entities at a lower percentage of 14% (56 public entities). Thirty per cent of the departments

also had findings on reliability in the previous year. See sections 2.2.2.2 and 3.1 for more detail.

While the quality of the annual performance reports is continuously improving, the low number of auditees that submitted their annual performance reports without material misstatements (42%) (as per table 1 above) indicates that most of the auditees are still struggling to produce credible annual performance reports.

2.2.2.2 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 at the following auditees:

- Performance oversight institutions (the treasuries, offices of the Premier and Department of Performance Monitoring and Evaluation)
- National departments responsible for the education, public works and social development sectors
- Provincial departments in the education, health public works and social development sectors.

The focus areas of the audit are presented in figure 4 below.

Figure 4: Focus areas of the audit



The audit identified the root causes of the departments' failure to produce annual performance reports in 2010-11 that were useful and reliable. The key findings and recommendations for the national departments were reported to the relevant auditees through management reports in the period between September 2012 and March 2013. The management reports for the performance oversight institutions were issued between December 2012 and January 2014. The root causes and recommendations were incorporated into our audit approach for annual performance reports and reported in previous general reports as the audit progressed.

Figure 5: Findings in key areas at provincial departments

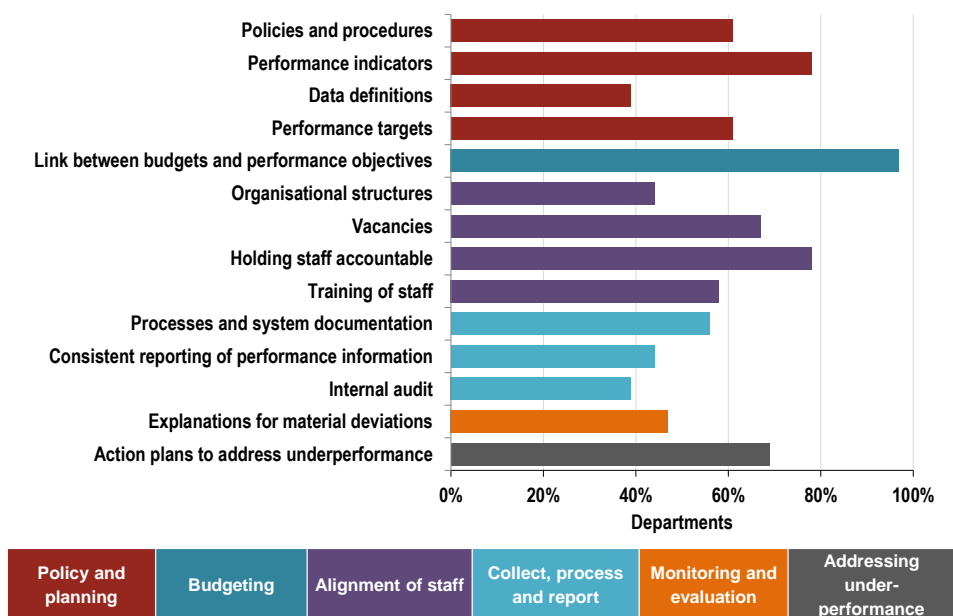


Figure 5 shows the percentage of provincial departments audited that had findings in key areas. The key findings in each area were as follows:

Guidance and oversight

The roles and responsibilities of oversight institutions to provide performance management and reporting guidance and oversight were not clear. As a result, some oversight institutions did not:

- guide and assist departments in developing performance indicators and performance reporting systems
- monitor and evaluate the accountability documents of departments

- assist departments that underperformed by recommending and monitoring corrective action.

Policy and planning

Some departments did not have approved and/or comprehensive policies and procedures for reporting on performance. As a result, there was no clear guidance regarding departments' performance reporting objectives, processes and systems. The performance reporting roles and responsibilities of the various levels of staff and management were also not clear.

Performance indicators were not always well defined or verifiable. They also did not measure whether resources were used efficiently, effectively and economically to produce the desired outputs and outcomes. The performance information could therefore not be used to provide feedback on the achievement of the strategic goals of the department.

Some performance targets did not comply with the SMART (Specific, Measurable, Attainable, Relevant, Time-bound) criteria and/or were not realistic. In addition, the performance targets were not based on accurate baseline information or the results of research and programme evaluations. If targets are not SMART, it is difficult to determine whether or not they had been achieved. Unrealistic targets affect the usefulness of performance information as the reasons for not achieving the targets cannot be adequately explained.

Budgeting

The link between the budgets of provincial departments and their measurable performance objectives and targets was not always clear. The correlation between performance implementation (planned versus actual performance) and financial implementation (budgeted versus actual expenditure) could therefore not be monitored and evaluated. They could not determine whether the cost to achieve a performance objective and target was higher or lower than planned. The economy and efficiency with which performance objectives and targets were achieved could also not be assessed.

Alignment of staff

The organisational structures and human resource capacity required to report on performance had not been determined by some departments. The departments therefore did not ensure that:

- they had the human resource capacity, skills and competencies required to manage and report on their performance
- clear reporting lines were established in the performance management and reporting process

- roles and responsibilities were defined for managing and reporting on performance.

At some departments vacancy rates of over 20% were experienced in positions responsible for reporting on performance. The vacancies contributed to departments not having sufficient staff to manage and report on their performance.

Officials were not always held accountable for managing and reporting on performance and/or achieving performance targets. As a result, useful and reliable performance reporting was not rewarded while underperformance was not addressed.

Some departments did not ensure that staff charged with the core responsibility of reporting on performance were trained.

Collect, process and report

Approved processes and system documentation to collect, collate, verify and store performance data and to report on actual performance did not always exist. Therefore, there was no clear guidance on the following:

- Responsibilities for collecting performance data
- The data-collection methods and systems for each performance indicator
- Supporting evidence that has to be maintained
- Delegations to verify and approve performance information
- Controls to ensure consistent reporting of performance information in quarterly and annual performance reports.

Some performance indicators, targets and actual performance were not reported consistently across performance reports. Inconsistency in reporting performance information affects the usefulness of the reported performance information as comparisons cannot be made between planned and actual performance.

The internal audit units of some departments did not perform annual reviews of performance information systems, or their reviews did not focus on the usefulness and reliability of reported performance information.

Monitoring and evaluation

Inconsistencies between planned and actual performance were not always explained. Evidence to support the explanations was not maintained or explanations were not reviewed by management.

Addressing underperformance

Action plans were not always developed to ensure prompt implementation of corrective action where deviations indicating that underperformance occurred and/or where shortcomings regarding performance reporting were identified.

2.2.2.3 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 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 best practices that are in place at some auditees and which were also identified through the performance audit:

- **Roles and responsibilities** in the performance information management process must be defined to make accountability clear and personal and to allow for timely corrective action.

National and provincial oversight institutions should provide the required levels of performance management and reporting guidance and oversight.

- **Policies and procedures** to report on performance information should be developed and implemented. The policies and procedures should clearly explain the following:

- The objectives of reporting on performance
- The processes to develop performance indicators and targets
- The processes and systems to collect, collate, process and report on performance
- Monitoring and evaluation processes
- The roles and responsibilities of staff, management and oversight mechanisms.

A suite of performance indicators that are well defined and verifiable should be developed. It should be comprehensive (measures all objectives) and balanced (measures efficiency, effectiveness and economy in producing outputs and outcomes).

Performance targets that meet the SMART criteria should be developed. In addition, standards/baselines should be determined through documented research and programme evaluations to ensure that performance targets are realistic.

Data for all performance indicators should be defined. The data definitions should be communicated to all staff involved in collecting, collating, verifying and storing actual performance data.

- The **methodologies and systems** used for compiling budgets should be improved to strengthen the link between budgets and performance targets.

The correlation between planned and actual performance (performance implementation) in relation to the budgeted versus actual expenditure (financial implementation) should be monitored and evaluated.

- The **organisational structures** required to report on performance should be determined and implemented. This will ensure that:
 - departments have the required capacity
 - departments appoint staff with the required skills, competencies and experience
 - clear reporting lines exist
 - roles and responsibilities have been defined.

Auditees need to ensure that they have adequate skills and resources to perform proper strategic planning, performance monitoring and reporting that meet the applicable requirements. They should ensure that staff responsible for reporting on performance and management responsible for oversight receive training on performance information frameworks, performance reporting methodologies, the FMPPI or areas where the previous audit of predetermined objectives indicated shortcomings.

Staff involved in reporting on performance and those responsible for achieving performance targets should be held accountable during individual performance assessments.

- **Formal processes and systems** for the collection, collation, verification and storage of actual performance information should be developed, documented and approved by the head of the department.

Prior to finalising the quarterly and annual performance reports, the reported performance should be reviewed against the approved annual performance plans to ensure that all performance indicators and targets are reported consistently.

- Auditees should ensure that they have an **adequately resourced and functioning internal audit unit** that provides assurance on the quality of the quarterly and annual performance reports.

Departmental or centralised internal audit units should consider performance reporting risks when compiling their annual audit plans. Internal audit units should focus on the following aspects during their reviews:

- The effectiveness of performance information processes and systems
- The usefulness of reported performance information
- The reliability of reported performance information

- Compliance with reporting and presentation requirements.

Accounting officers and senior management must cooperate with and respond to the advice and recommendations of internal audit.

- Sufficient oversight and monitoring of performance should be performed during the reporting cycle to ensure that performance targets are reported as planned. The accounting officers should provide effective oversight and hold the responsible officials accountable for the preparation of the performance reports.

Monitoring and evaluation processes should be developed to ensure that:

- variances between planned performance targets and actual performance are identified in time
- valid explanations are provided for variances between planned performance targets and actual performance
- supporting evidence is maintained for the explanations
- programme managers and senior management formally approve the explanations.

Larger auditees should consider a dedicated strategic planning and/or monitoring and evaluation unit that is empowered with competent and capable individuals who have a good understanding of the requirements for performance reporting. Officials should be appointed whose responsibility should be to collect, collate and verify performance information.

- Auditees should prepare an **audit action plan** based on the audit findings of the 2013-14 financial year, including definite actions that need to be implemented to address the matters reported by the auditors. Management should be held accountable for implementing action plans, while progress made with the implementation of action plans should be monitored monthly. The accounting officer must improve oversight by intervening decisively and in a timely manner to ensure quicker responses. Action plans need to address the root causes of weaknesses in performance reporting and the implementation of internal controls that will ensure complete and accurate collection, collation and reporting of predetermined objectives on a quarterly basis. This will enforce management's commitment to improving performance reporting. Commitments need to be allocated time frames and assigned to individuals who will be responsible for their implementation.
- The **leadership, governance structures and portfolio committees** must interrogate performance information to enhance its credibility prior to submission to the auditors. This includes ensuring that planned targets and indicators are measurable and that performance reports are reviewed and supported by information that is accurate, valid and complete.

Where implemented controls have not been adhered to, senior management must act promptly to prevent the future occurrence of similar actions.

Figure 1: Three-year trend – compliance with key legislation

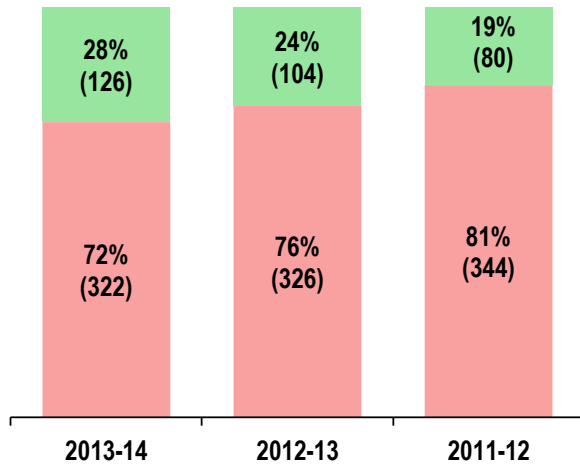


Figure 2: Compliance with key legislation per auditee type

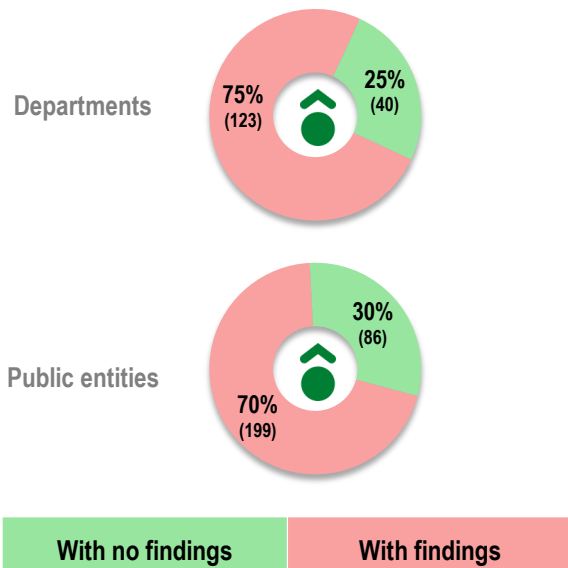


Figure 3: Findings on compliance with key legislation – departments

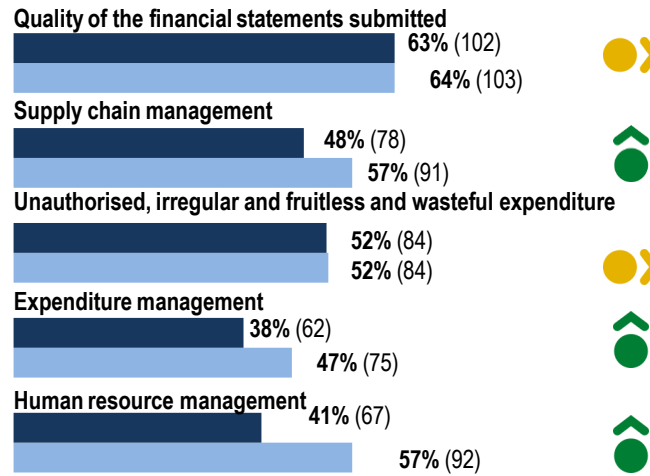


Figure 4: Findings on compliance with key legislation – public entities

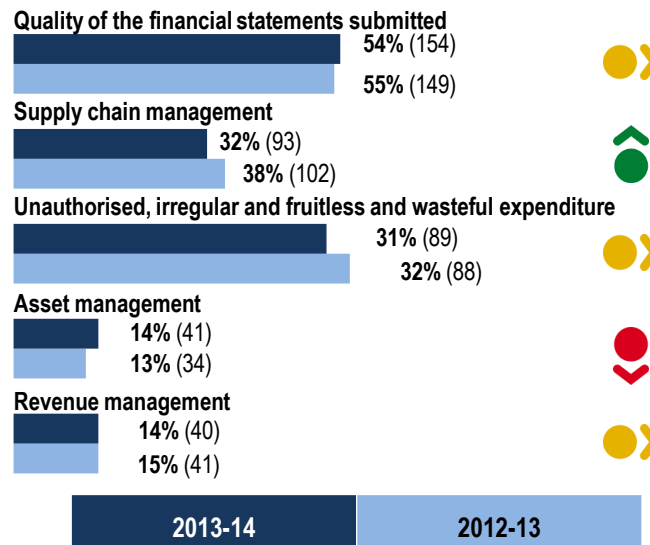


Table 1: Status of compliance with key legislation in national and provincial government

Portfolio	Auditees with no findings on compliance	Movement
National auditees	27%	➡
Eastern Cape	15%	➡
Free State	22%	➡
Gauteng	54%	⬆
KwaZulu-Natal	25%	⬇
Limpopo	1 auditee	➡
Mpumalanga	29%	⬆
Northern Cape	33%	⬆
North West	1 auditee	➡
Western Cape	78%	⬆

2.2.3 Compliance with key legislation

We annually audit and report on compliance with key legislation applicable to financial matters, financial management and other related matters (referred to as 'key legislation' hereafter).

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 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

Figures 1 and 2 show the number and type of auditees with material compliance findings over the past three years, while table 1 shows the progress made by national and provincial auditees.

While the three-year trend reflects an improvement, non-compliance with key legislation remains at a high level. Notable increases in the number of auditees with no material findings in the current year were noted only at national departments (from three to seven), provincial departments (from 21 to 30) and provincial public entities (from 17 to 23).

Only 81 (65%) of the prior year's 124 auditees retained their status of no material findings on compliance with key legislation. Provincial auditees that achieved this status increased by 40% from 49 to 68, thanks largely to improvements in Gauteng and the Western Cape.

While other departments collectively reduced their number of auditees with findings on compliance with key legislation by 14%, the departments of Education, Health and Public Works have remained at the same high level of

97% (29 out of 30 auditees). Further, the high incidence of repeat audit findings on the audit focus areas continue to characterise these three sectors.

Findings on compliance with key legislation

Figures 3 and 4 show the compliance areas with the most material findings for departments and public entities in the current year and the progress made in addressing these findings.

In the past three years, material misstatements in submitted financial statements, supply chain management and unauthorised, irregular as well as fruitless and wasteful expenditure have consistently been the areas with the most non-compliance. The prior year's improvement in material misstatements and unauthorised, irregular as well as fruitless and wasteful expenditure did not continue in the current year.

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

- There were material misstatements or limitations in the financial statements submitted for auditing. It should be noted that this finding was only reported in certain circumstances, as mentioned in section 2.1.
- Supply chain management (SCM) regulations were not complied with.
- Unauthorised, irregular as well as fruitless and wasteful expenditure was not prevented or adequately dealt with.
- Fifty-four departments (33%) did not pay creditors within 30 days or an agreed-upon period. This is 10 fewer than in the prior year and has been an encouraging, continuing trend since the 2011-12 financial year when 71 departments failed to pay their creditors on time.
- Forty departments (25%) did not always verify new appointments properly (2012-13: 54) while funded vacant posts were not filled within 12 months at 38 departments (23%). We analyse human resource management controls and weaknesses in section 3.2.

Sections 2.2.3.1 and 2.2.3.2 provide more information on SCM and unauthorised, irregular as well as fruitless and wasteful expenditure, followed by recommendations and best practices in section 2.2.3.3. Annexure 1 also details the auditees with material compliance findings and indicates whether these findings recurred.

Figure 1: Status of supply chain management

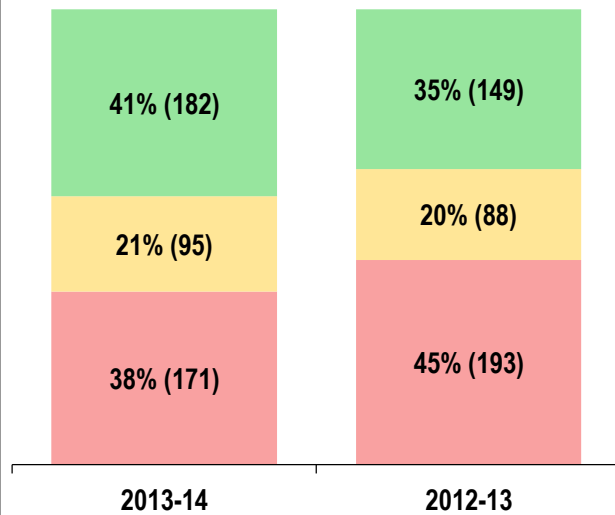


Figure 3: Findings on supply chain management

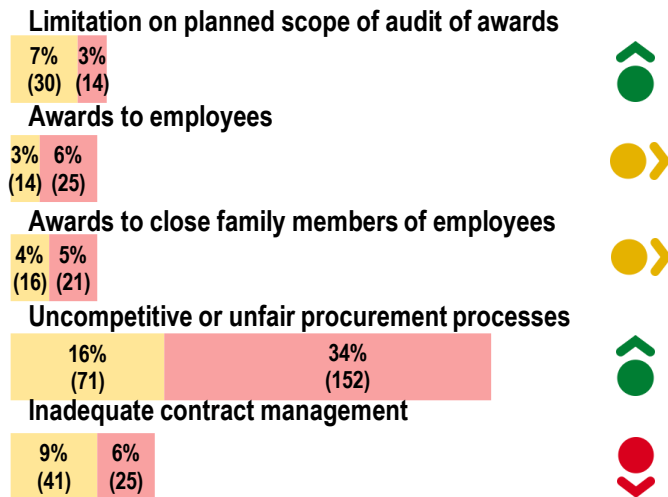


Table 1: Status of supply chain management in national and provincial government

Portfolio	No findings on supply chain management	Movement
National auditees	42%	↑
Eastern Cape	19%	↓
Free State	11%	↓
Gauteng	57%	↑
KwaZulu-Natal	44%	↑
Limpopo	13%	↓
Mpumalanga	6%	↓
Northern Cape	37%	↑
North West	28%	→
Western Cape	78%	↑

Figure 2: Supply chain management findings per auditee type

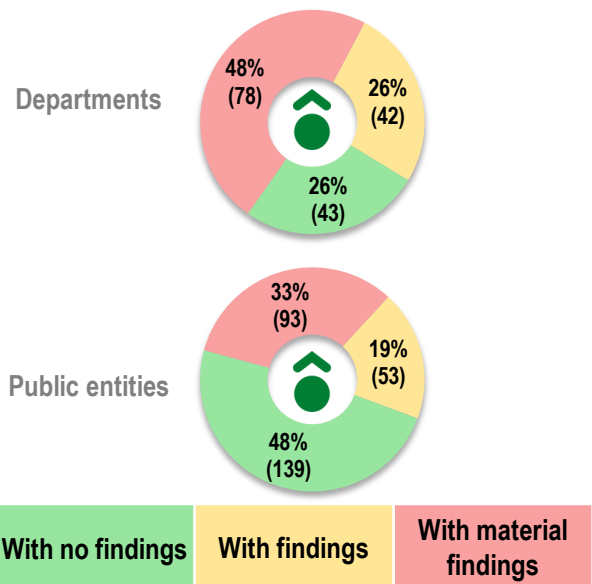
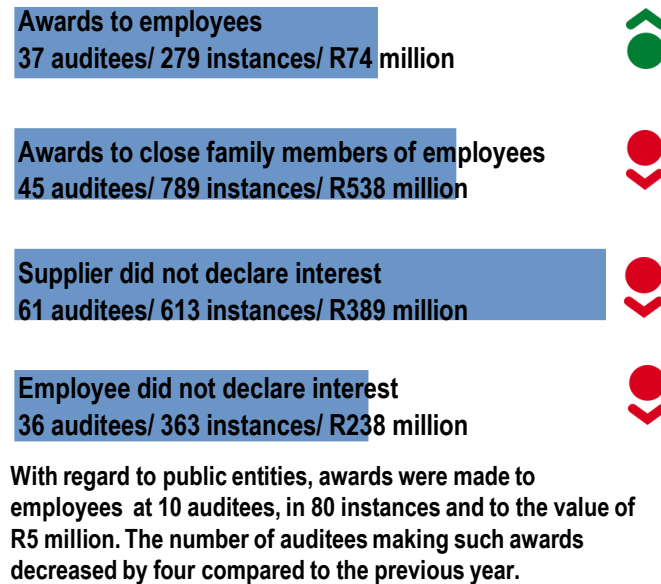


Figure 4: Awards to employees and close family members (departments)



2.2.3.1 Supply chain management

As part of our SCM audits, we tested 6 464 contracts (with an approximate value of R67,5 billion) and 22 556 quotations (with an approximate value of R3,2 billion), referred to as *awards* in the rest of the report.

We tested whether the prescribed procurement processes had been followed to ensure that all suppliers are given equal opportunity to compete and that some suppliers are 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 financial interests of employees of the auditee and their close family members in suppliers to 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 any financial interest they had in order for safeguards to be put in place to prevent improper influence and an unfair procurement process.

We reported all findings arising from the audit to management in a management report to auditees, while we reported material compliance findings in their audit reports.

Figure 1 shows the number of auditees that had audit findings and those where we reported material compliance findings in the audit report in the current and previous years. There has been some progress, overall, in reducing the number of auditees with audit findings (266 vs. 281 auditees in the prior year). The 11% overall reduction in the number of auditees with material findings is a definite sign that auditees are paying attention to SCM, but it is still of great concern that almost half of the departments and a third of public entities materially did not comply with SCM legislation.

Table 1 shows that the number of national auditees without SCM findings has increased, as did number of auditees in four of the provinces, with the auditees in Western Cape and Gauteng province performing the best. The auditees in Limpopo, Mpumalanga, Eastern Cape and Free State not only performed the worst but have also regressed since the previous year.

Figure 3 shows the SCM areas in which auditees had findings, the proportion of auditees where the findings were material enough to be reported in the audit report and the progress made in some SCM areas. The remainder of this section provides further detail on the outcomes of our audits in the different areas.

Annexure 1 lists the auditees with SCM findings and indicates whether these were repeat findings.

Limitations on planned scope of audit of awards

In total, we were unable to audit awards with a value of R2,1 billion at 44 auditees (10% of auditees) as they could not provide us with evidence that awards had been made in accordance with the requirements of SCM legislation. We had encountered similar limitations at 12 of these 44 auditees (27%) in the previous year. Overall, it should serve as a red flag to oversight structures that we could also not perform any alternative audit procedures to obtain reasonable assurance that the expenditure incurred in respect of these awards was not irregular.

The main reason why we were unable to audit these contracts was that supporting documentation for the award process was not made available because the documentation either did not exist or could not be retrieved as a result of poor document management.

Awards to employees and close family members

The findings on awards to employees or close family members remained more or less unchanged since the previous year. Figure 4 shows the extent of awards to employees and family members and whether the required financial interest declarations had been made by them. At 58 (36%) departments and 20 (7%) public entities awards were made to employees and family members of employees. There was a decrease in the number of auditees where awards were made to employees but an increase in those where awards were made to close family members of employees. Although such awards are not prohibited by current legislation, it is of concern that little progress has been made in addressing the lack of financial interest declarations made by the employees and suppliers.

Uncompetitive or unfair procurement processes

Overall, there has been a reduction in the number of auditees with findings on uncompetitive or unfair procurement processes since the previous year. The number of departments with repeat findings on uncompetitive or unfair procurement processes was 40 (25%), while the number of public entities with repeat findings was 42 (15%).

The most common findings were as follows:

- Three written quotations were not invited and the deviation was not approved, or the approved deviation was not reasonable or justified – reported at 146 auditees
- Competitive bids were not invited and the deviation was not approved, or the approved deviation was not reasonable or justified – reported at 79 auditees
- No financial interest declaration was submitted by suppliers – reported at 46 auditees.

Non-compliance results in irregular expenditure and erodes the confidence of the public in national and government to conduct its procurement process in a fair, equitable, competitive and transparent manner.

Inadequate contract management

The overall level of contract management findings regressed at 10 departments and two public entities which were unable to address their prior year findings in this focus area, while 53 additional auditees also attracted findings.

The most common findings were as follows:

- Lack of or inadequate contract performance measures and monitoring, reported at 18 auditees
- Contracts were amended or extended without proper approval – reported at 30 auditees.

Inadequate supply chain management controls

We assessed whether auditees implemented adequate internal controls to prevent, detect or correct irregularities in their SCM processes.

The most common shortcomings that should be addressed were as follows:

- Lack of or inadequate action taken to address SCM risks identified
- Inadequate controls to ensure that interest is declared
- SCM officials were not adequately trained.

2.2.3.2 Unauthorised, irregular as well as fruitless and wasteful expenditure

Unauthorised expenditure

Unauthorised expenditure is refers to expenditure by departments 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.

Figure 5: Trend in unauthorised expenditure

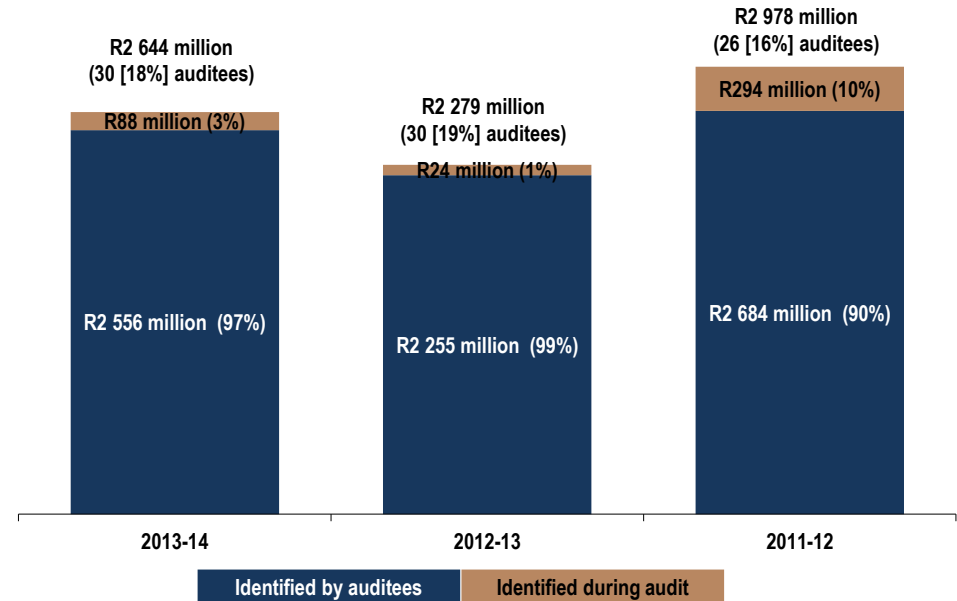


Figure 5 shows a decrease in unauthorised expenditure since 2011-12 but a slight increase since the previous year. Fifteen auditees recorded unauthorised expenditure in the current and previous years, 10 of which incurred such expenditure for the past three years. These departments include the health departments of the Free State, Kwazulu-Natal and Northern Cape, the education departments of KwaZulu-Natal and Limpopo, as well as the national Department of Public Works. The main contributors (81%) to the unauthorised expenditure in 2013-14 were as follows:

- | | | |
|---|---|--------------|
| • Department of Transport | - | R768 million |
| • Education (Free State) | - | R427 million |
| • Health (KwaZulu-Natal) | - | R323 million |
| • Education (KwaZulu-Natal) | - | R260 million |
| • Education (North-West) | - | R256 million |
| • Department of International Relations and Cooperation | - | R117 million |

Ninety-seven per cent of the unauthorised expenditure was identified by the departments themselves, while the audit process identified the unauthorised expenditure at only three per cent of departments.

Of the R2 644 million unauthorised expenditure incurred in 2013-14, most (98%) was as a result of overspending of the approved budget or main division within the budget. The remainder incurred unauthorised expenditure because such expenditure was not incurred for the purpose it was intended. Poorly prepared budgets and inadequate budget control were the reasons for overspending.

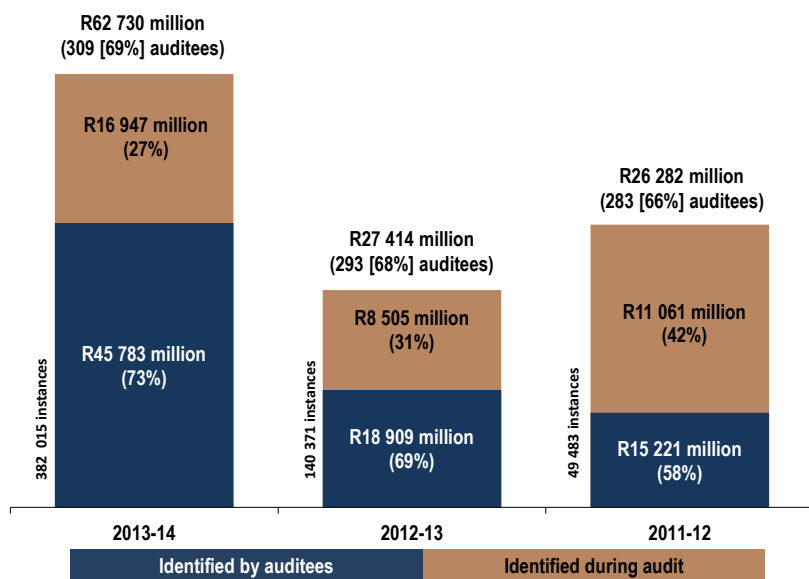
Irregular expenditure

Irregular expenditure refers to expenditure that was not incurred in the manner prescribed by legislation. Such expenditure does not necessarily mean that money was wasted or that fraud was 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 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, should 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.

Extent of irregular expenditure

Figure 6: Auditees incurring irregular expenditure



The 129% increase in irregular expenditure from R27,4 billion to R62,7 billion, as shown in figure 6, is mostly due to the R30,7 billion in irregular expenditure incurred by the Property Management Trading Entity (PMTE), a trading entity under the national Department of Public Works responsible for leases and capital projects and capital maintenance on behalf of national departments. The PMTE and Department of Public Works had received qualified opinions on their financial statements in previous years as they could not quantify the total irregular expenditure incurred. During 2013-14 a review was performed of all transactions since 2009-10 and it was determined that R30,7 billion in total was incurred in the period and of this amount, R6,3 billion related to 2013-14. The PMTE again received a qualified opinion as our audit could not confirm that the amount disclosed was correct. Further detail on the audit outcomes of the public works portfolio is included in section 5.

Figure 7: Auditees incurring irregular expenditure – excluding the PMTE

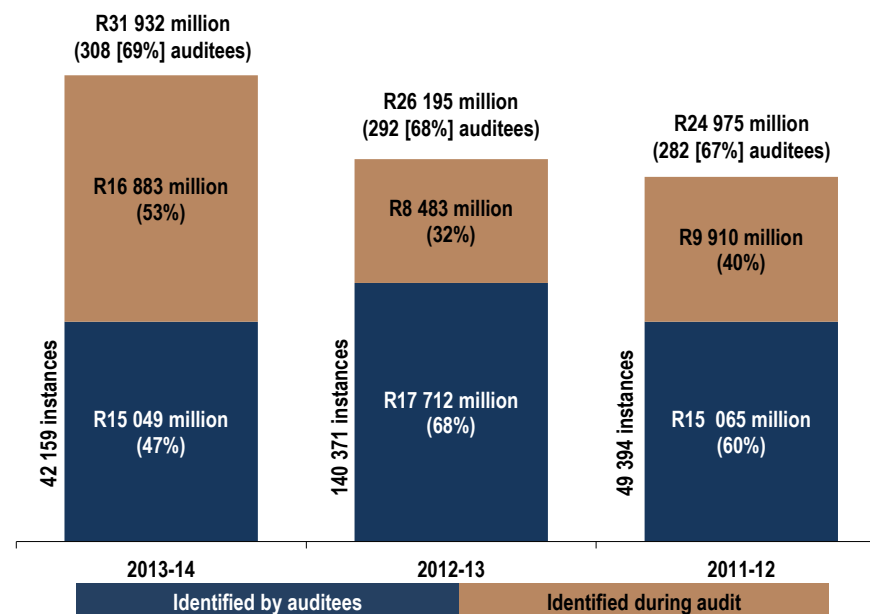


Figure 7 excludes the irregular expenditure incurred by the PMTE. It shows the number of auditees that incurred irregular expenditure and the value of the increase. The number of instances, however, decreased.

The main contributors to the irregular expenditure in 2013-14 were as follows:

Auditee	2013-14 Irregular expenditure R million	2012-13 Irregular expenditure R million
Education (Limpopo)	2 209	1 222
Education (KwaZulu-Natal)	2 680	358
Roads and Transport (Gauteng)	1 991	2 357
Roads and Public Works (Eastern Cape)	1 952	662
Education (Gauteng)	1 772	233
Central Energy Fund	1 604	875
Department of Transport	1 597	346
South African National Roads Agency	1 541	5

As in the case of the PMTE, R2 077 million of the irregular expenditure was as a result of a review by some auditees of the extent of their prior year irregular expenditure and full recognition thereof in order to address a qualification of the irregular expenditure disclosed in their financial statements in the previous year.

A total of 76 auditees disclosed in the financial statements that they still have to investigate the whole population to determine the full extent of their irregular expenditure. This means the irregular expenditure value for 2013-14 could have been higher had these investigations been completed.

Figure 8: Previous year irregular expenditure identified in the current year

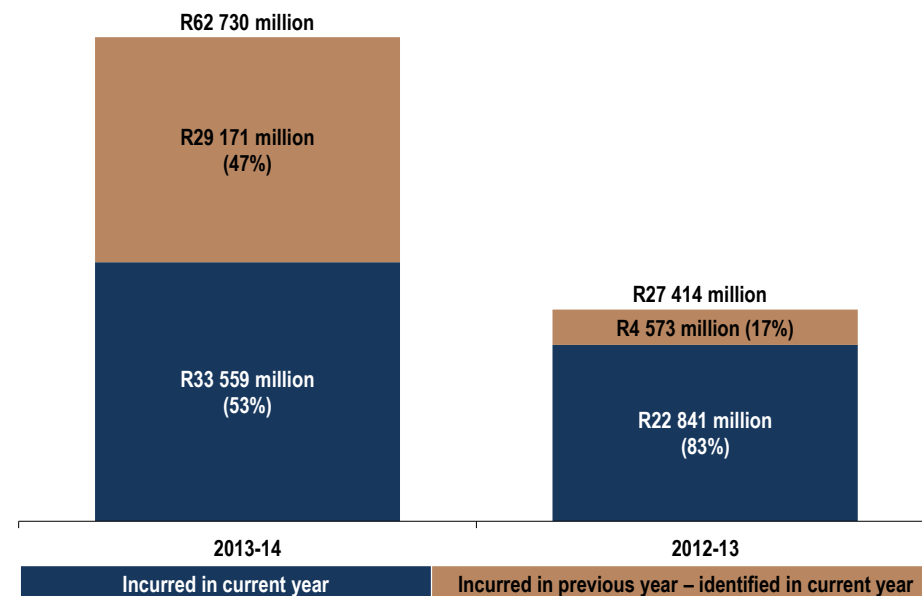
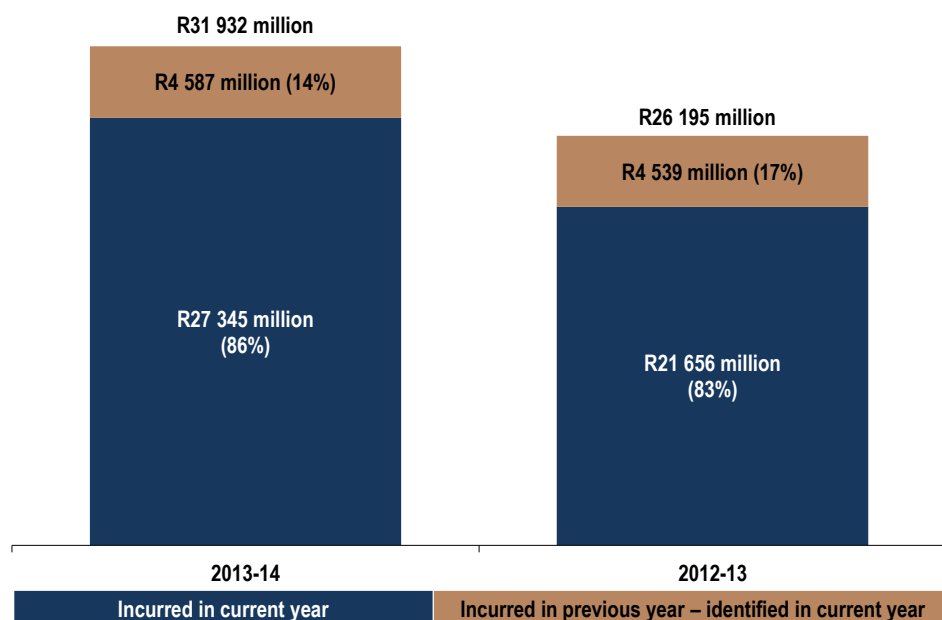


Figure 8 shows that 53% of the expenditure was the result of instances of non-compliance in 2013-14; the remainder was expenditure resulting from transgressions in previous years. If only the irregular expenditure incurred in the current year is considered, actual irregular expenditure increased by R10 718 million (47%). Figure 9, which excludes the PMTE, shows an increase of R5 737 million (22%).

Figure 9: Prior year irregular expenditure identified in the current year – excluding the PMTE



Nature of irregular expenditure

Of the R62,7 billion in irregular expenditure identified in 2013-14, most (93%) was as a result of non-compliance with SCM legislation. The following were the main areas of SCM 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 being followed – R31 028 million (53%)
- Non-compliance with procurement process requirements – R23 693 million (40%)
- Non-compliance with legislation on contract management – R3 892 million (7%).

Follow-up of irregular expenditure

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 had been committed or money had been wasted due to goods and services not being received or not procured at the best price. Irregular expenditure 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 the end of 2012-13 the auditees' financial statements showed that the balance of irregular expenditure that required action to be taken was R54 612 million. It is of concern that in 2013-14 only R15 278 million (28%) was dealt with as required by legislation.

We did not investigate irregular expenditure as that is the role of the accounting officer and oversight body.

However, through our normal audits we determined that goods and services were received for R22 303 million (38%) of the irregular expenditure relating to non-compliance with SCM regulations despite the normal processes governing procurement not being followed. We cannot, however, confirm that the goods and services were delivered at the best price and that value was received.

Fruitless and wasteful expenditure

Fruitless and wasteful expenditure refers to expenditure that was incurred 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, should disclose the amounts in the financial statements. Fruitless and wasteful expenditure must be reported when it is identified – even if the expenditure relates to a previous financial year.

The PFMA further provides for steps that accounting officers should take to investigate the fruitless and wasteful expenditure to determine whether any officials are liable for the expenditure and to recover the money if liability is proven.

Figure 10: Trend in fruitless and wasteful expenditure

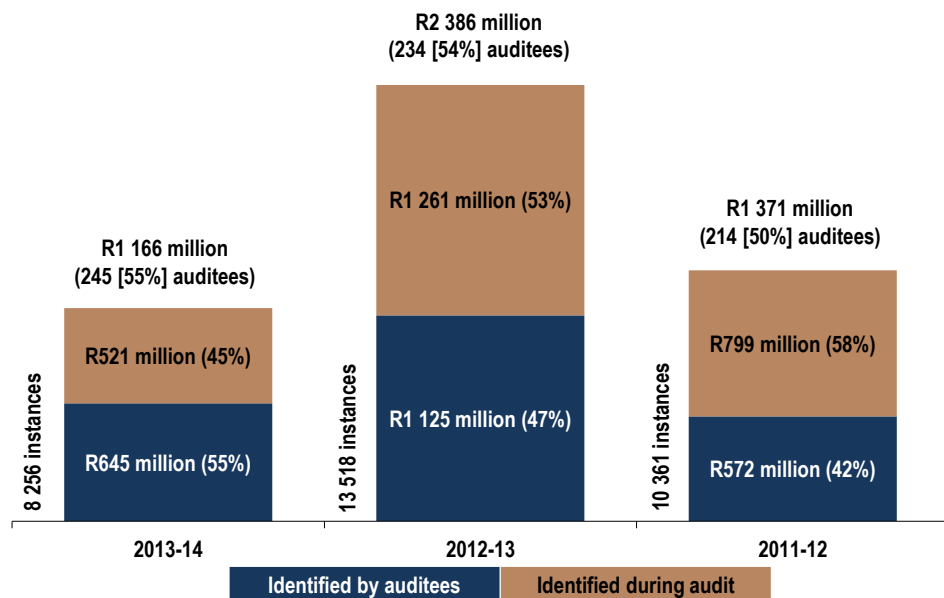


Figure 10 shows a decrease in the value and instances of fruitless and wasteful expenditure since 2012-13. The number of auditees has, however, increased. One hundred eighty-two auditees incurred fruitless and wasteful expenditure in the current and previous year, 148 of which incurred such expenditure for the past three years.

More than half of the fruitless and wasteful expenditure was identified by the auditees, which shows an improvement in the detection and reporting thereof.

The main contributors (76%) to the fruitless and wasteful expenditure in 2013-14 were as follows:

- Department of Defence - R304 million
- Education (Limpopo) - R168 million
- Health (Gauteng) - R161 million
- Education (Eastern Cape) - R 69 million
- Health (Eastern Cape) - R 51 million
- Cooperative Governance (Northern Cape) - R 44 million
- Health (Limpopo) - R 34 million

- Road Accident Fund - R 30 million
- Department of Environmental affairs - R 26 million

Of the R1 166 million, 49% was incurred to prevent further fruitless and irregular expenditure or losses. It normally relates to the cost of cancelling irregular contracts or contracts of non-performers.

The general nature of the fruitless and wasteful expenditure incurred was as follows:

- Litigations and claims - R665 million (57%) - 25 auditees
- Interest on overdue accounts and late payments - R61 million (5%) - 158 auditees
- Penalties - R34 million (3%) - 78 auditees
- Other (e.g. reprinting of publications due to negligence; travel, accommodation and training bookings not used; cancellation fees; services acquired but not utilised) - R405 million (35%) - 139 auditees.

2.2.3.3 Recommendations

In order to address the underlying root causes of non-compliance with legislation generally, as well as SCM specifically, we recommend the following actions to auditee management, oversight structures, national and provincial key role players and those charged with governance.

Action to be taken by leadership

- Accounting officers/authorities, executive authorities, provincial treasuries and the premiers should continue to impress upon officials that legislation should not be viewed as red tape or bureaucracy, but reflects, through Parliament, the will of the citizens and how public funds should be administered and services delivered.
- Treasuries should further improve their monitoring and support activities to educate and assist auditees to fully implement legislative requirements and instructions from the time these become effective.
- Public accounts committees should intensify their focus on compliance matters and ensure that their members obtain sufficient knowledge of legislation to meaningfully interact on matters of compliance and that those effective resolutions are adopted to enforce adherence to legislation.
- A less tolerant approach should be taken by all parties, including those charged with governance and oversight (executive, portfolio committees, public accounts committees, audit committees and accounting officers), which will

result in accountability being enforced and consequences for those who intentionally fail to comply with legislation.

- Officials should be trained on a continuous basis, not only on the specific legislative requirements but also with regard to the aims and objectives of the legislation and the practical implementation thereof.
- Compliance monitoring should be introduced as a formal process at auditees, with clearly defined responsibilities assigned to senior officials whose performance in this regard must be periodically assessed.
- Policies and procedures must be developed by the human resource units of auditees to implement consequence management for officials who fail to comply with applicable legislation, while appropriate and timely action must be taken against transgressors.
- Auditees' performance management system should hold officials accountable for internal control deficiencies relevant to compliance with the legislation that applies to their organisation.
- Audit action plans should be developed to ensure that recurring compliance findings identified every year are addressed by accounting officers and authorities. Such audit action plans should be specific and should include timelines and identify the officials responsible for specific parts of the action plan. Persons assigned responsibility for implementing audit action plans should be those senior managers from the finance, SCM, human resource, asset management, budget management or other units that are responsible for the transactions, processes and actions that resulted in the non-compliance.

Aspects of financial and performance management that must be improved

- Auditee management should implement processes to identify all legislation that applies to their organisations and should monitor changes to such legislation.

- Proper record keeping and specific measures to safeguard documentation, especially in the area of SCM, will enable compliance, but also demonstrate transparency and accountability on the part of auditees and not raise concerns about possible fraud or irregularities where documentation cannot be produced for independent audit.
- Compliance checklists should be implemented as a tool to supplement auditee policies and procedures. These will enable officials, supervisors and monitoring units (e.g. internal audit) to independently check whether all legislative requirements are met in the daily transactional and management processes as well as in the SCM process.
- Regular reports to management and governance structures on compliance with key legislation, specifically in the area of SCM, will also promote awareness of legislative requirements and will ensure that management deals with compliance in a regular and structured manner.

Contributions required from auditees' governance structures

- Audit committees should ensure that auditees' risk assessment processes are more thorough and not relegated to an annual exercise that does not comprehensively address all compliance objectives and obligations.
- Internal audit needs to be more proactive in monitoring compliance with legislation and management must ensure that their findings are timeously responded to. Audit committees should improve their support to internal audit by directing and supporting the conduct of compliance audits.
- Internal audit must focus on internal controls in the SCM processes by proactively auditing the integrity of contract award processes and providing independent assurance to management with regard to compliance.

Figure 1: Regression in status of financial health

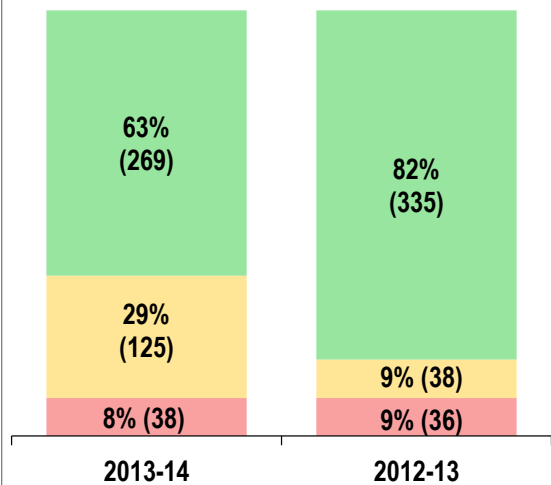


Figure 2: Financial health risks per auditee type

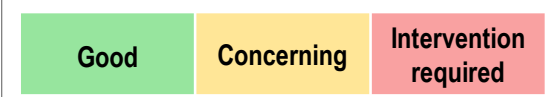
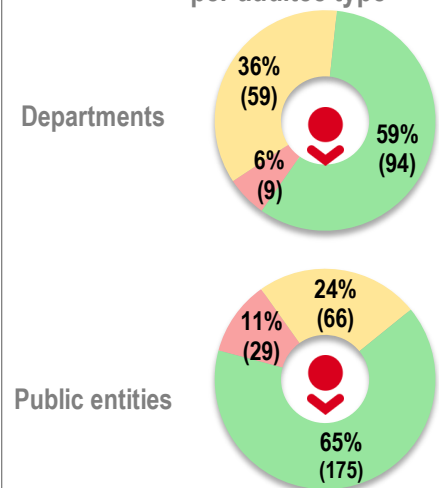


Figure 3: Areas of financial health concerns – departments

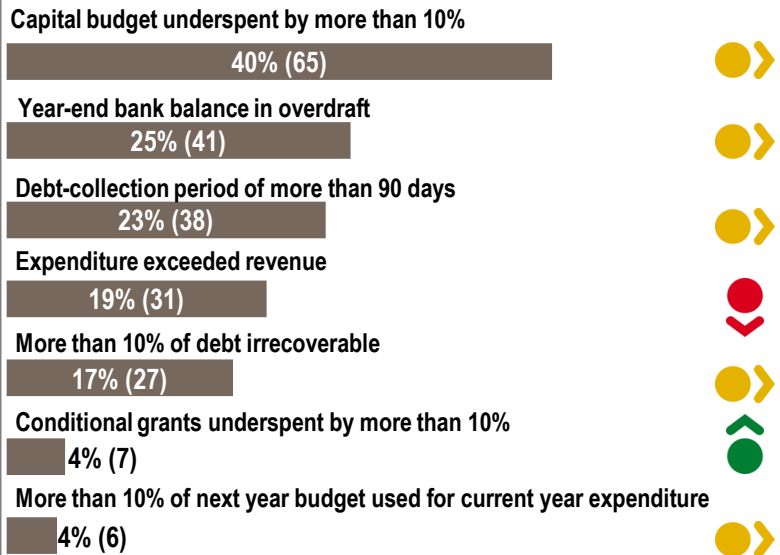


Figure 4: Areas of financial health concerns – public entities

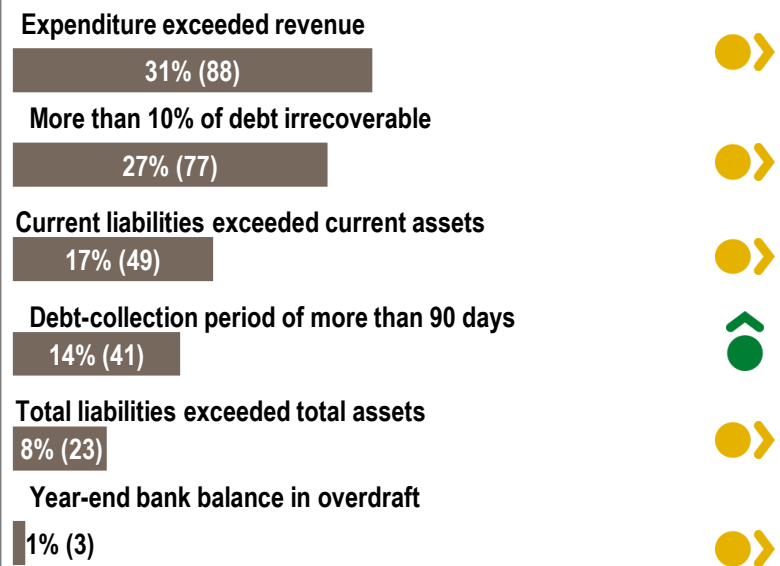


Table 1: Status of financial health in national and provincial government

Portfolio	Auditees with good status	Movement
National auditees	69%	Declining
Eastern Cape	92%	Improving
Free State	11%	Declining
Gauteng	80%	Improving
KwaZulu-Natal	81%	Improving
Limpopo	39%	Improving
Mpumalanga	53%	Declining
Northern Cape	16%	Improving
North West	7%	Improving
Western Cape	91%	Stable

2.3 Financial health

Our audits included a high-level analysis of auditees' financial health 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. We also performed procedures to assess whether there are any events or conditions that may cast significant doubt on an auditees' ability to continue as a going concern.

Figure 1 shows the status of auditees' financial health based on the assessment. Auditees with a "concerning" status are those where we identified a number of negative indicators that should receive attention. Auditees where intervention is required are those with material going concern uncertainties or adverse or disclaimed opinions, which resulted in their financial statements not being reliable enough for analysis.

The number of auditees with a "concerning" status increased and figure 2 further shows that the regression took place at both departments and public entities. The regression is mostly as a result of our assessment taking into consideration more indicators than in the previous year. There were also specific concerns at auditees in the Free State, Mpumalanga and at national level (as shown in table 1) which are discussed in more detail in the provincial general reports and section 5 of this report.

Figures 3 and 4 shows specific areas of financial health concerns at departments and public entities and the movement since the previous year. The indicators are discussed in the rest of this section.

Financial health information not readily evident in financial statements of departments

Departments prepare their financial statements on what is called the modified cash basis of accounting. This means that the amounts disclosed in the financial statements are only what was actually paid during the year and do not include accruals (the liabilities for unpaid expenses) at year-end. While this basis of accounting is common for government accounting, we believe it is important for management to understand the status of departments' financial health which may not easily be seen in the financial statements prepared on this basis.

In order to perform this analysis, we reconstructed the financial statements of departments to determine whether they would still have reported surpluses for the year had they used the 'accrual basis of accounting that is applied by public entities and local government. We also assessed the impact on the 2014-15 financial years' budget of expenses incurred but unpaid at March 2014.

The reconstructed financial statements showed that close to a fifth of departments incurred a deficit instead of the surplus they reported (2012-13: 17%). Although the spending of most of departments was again within their approved budgets, more than 90% technically had insufficient finances to settle all liabilities that existed at year-end if the unpaid expenses at year-end were taken into account (2012-13: 79%). For most departments, this will have a minor impact, but six departments started the 2014-15 financial year with more than 10% of their budget effectively spent. Three of these departments were in the same financial position in the prior year.

Continued improvements will be aided by improved in-year monitoring of expenditure incurred (and not just paid) and systems to account for liabilities incurred. Addressing the late payment of creditors (as reported in section 2.2.3) will further reduce the unpaid liabilities at year-end.

A further matter that requires attention is the 41 departments (2012-13: 36) that had an overdraft at year-end, 19 of which also had an overdraft in the previous year. This was largely as a result of prior year unauthorised expenditure, overspending and the voted funds not being drawn from the revenue fund.

Underspending of capital budgets and conditional grants

The number of departments that underspent on their conditional grants (seven) and capital budgets (65) remains high, which places the achievement of service delivery objectives by these departments at risk. Two (2012-13:5) of these departments are in the health sector.

The root causes of underspending were a lack of capacity to deliver, monitor and oversee capital projects and key national service delivery programmes and delays in appointing service providers.

Debt management

Although there was a reduction in the number of public entities that took more than 90 days to recover money owed to them, extended debt-collection periods remained a challenge for 14% (2012-13: 21%) of auditees. The weakness in debt management is further highlighted by 27% (2012-13: 27%) of auditees that estimated that more than 10% of their debtors would not be able to pay them.

As departments use the modified cash basis of accounting, revenue earned but not yet received is not reported in their financial statements. All debts that are not recovered should be considered in the context of revenue that has been, or could be, lost to the state.

The root causes of the long-outstanding debts, which could place the revenue funds under pressure or impact on the ability of public entities to operate, remain poor revenue collection and debtor management practices.

Financial health risks at public entities

Fifty-three public entities (2012-13: 56) either disclosed that a material uncertainty existed with regard to their ability to operate in the foreseeable future (i.e. as a going concern) or were qualified because such disclosures were not included. Besides these public entities, others also displayed indicators of financial health risk relating to spending more in one year than can be covered with available resources, with the result that their income is less than their expenditure or their liabilities exceed their assets.

Even though the majority of public entities that incurred deficits for the financial year will be able to continue their operations, the negative indicators raise concerns about the financial viability of some and the pressure to acquire additional funding from government.

Annexure 1 to this report identifies those auditees whose indicators are of concern.

SECTION 3: INTERNAL CONTROLS AND ROOT CAUSES OF AUDIT OUTCOMES

Figure 1: Slight improvement in drivers of internal control

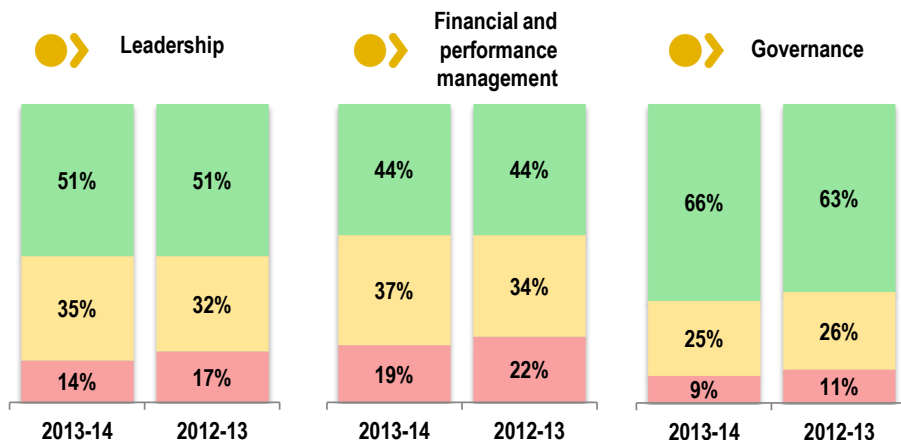


Figure 2: Aspect of drivers of internal control requiring most attention

Audit areas and number of auditees

Audit Area	Financial statements			Performance reports			Compliance with legislation		
	Good	Concerning	Intervention required	Good	Concerning	Intervention required	Good	Concerning	Intervention required
Effective leadership	70%	22%	8%	73%	19%	8%	66%	23%	11%
Human resource controls	47%	38%	15%	61%	26%	13%	50%	33%	17%
Audit action plans	47%	41%	13%	55%	32%	14%	47%	38%	15%
IT governance and controls	13%	66%	21%	47%	44%	9%	48%	43%	9%
Proper record keeping	46%	36%	18%	53%	28%	20%	53%	34%	14%
Daily and monthly controls	39%	42%	19%	58%	26%	16%	52%	33%	15%
Review and monitor compliance	39%	42%	19%	53%	30%	17%	26%	46%	29%

Good
Concerning
Intervention required
 (Also applies to the remainder of this section)

Table 1: Progress made in improving drivers of internal control

Portfolio	Leadership	Financial and performance management	Governance
National auditees	➡	➡	➡
Eastern Cape	⬆	⬆	⬇
Free State	➡	➡	➡
Gauteng	⬆	⬆	⬆
KwaZulu-Natal	⬇	⬆	⬇
Limpopo	⬇	⬇	➡
Mpumalanga	⬆	⬆	⬇
Northern Cape	➡	➡	⬆
North West	➡	➡	⬆
Western Cape	⬆	➡	⬆

3.1 Status of internal controls

A key responsibility of accounting officers, senior managers and officials is to implement and maintain effective and efficient systems of internal control. We assessed the internal controls to determine the effectiveness of their design and implementation in ensuring reliable financial and performance reporting and compliance with legislation. To make it easier to implement corrective action, we categorised the principles of the different components of internal control as leadership, financial and performance management, or governance. We call these the drivers of internal control.

Status of the drivers of internal controls

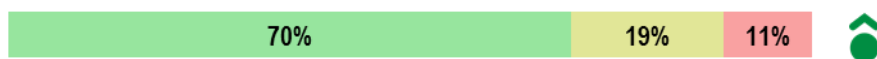
Figure 1 shows the status of the different areas of internal control and the overall movement therein since the previous year. The lack of overall improvement is the result of some national and provincial auditees having made progress, which was offset by the regression and stagnation by other auditees as seen in table 1.

In sections 2.2.1 (quality of financial statements), 2.2.2 (quality of annual performance reports and 2.2.3 (compliance with legislation) we commented broadly on those key controls that should receive attention to improve or sustain the audit outcomes.

Figure 2 shows the status of the specific control areas requiring the most attention. The remainder of this section provides more detail on the basic controls and disciplines that need to be strengthened to improve the quality of the financial and performance reports and prevent non-compliance with legislation.

Sections 3.2 and 3.3 provide further information on the status of the human resource controls and the information and communication technology (ICT) governance and controls. The effectiveness of internal control is significantly impacted on by root causes. Section 3.4 describes the most common root causes that should be addressed if the systems of internal control are to be significantly improved.

Providing effective leadership



In order to improve and sustain audit outcomes, auditees require effective leadership that is based on a culture of honesty, ethical business practices and good governance, protecting and enhancing the interests of the entity.

Leadership controls still requiring attention at approximately 30% of auditees include the following key aspects:

- Implementing formal codes of conduct and periodically communicating to officials their existence and continued applicability
- Monitoring the performance of key officials relating to the maintenance of adequate systems of internal control that ensure credible monthly financial reporting, reliable reporting against predetermined objectives and compliance with laws and regulations
- Establishing clear lines of accountability
- Taking corrective/disciplinary action against key officials for misconduct
- Honouring commitments made for interventions following the 2012-13 audit outcomes.

Effective leadership controls improved to 67% at departments and to 75% at public entities.

Audit action plans to address internal control deficiencies



Developing and monitoring the implementation of action plans to address identified internal control deficiencies form a key element of internal control, which is the responsibility of heads of departments, chief executive officers and their senior management team.

At both departments and public entities the internal controls in the form of audit action plans assessed as being 'good' remained at 31% and 58% respectively, resulting in a lack of significant overall improvement for either auditee type.

The matters requiring attention include the following:

- Setting action plans to specifically address the external and internal audit findings
- Assigning clear responsibility to specific staff members to carry out action plans
- Monitoring to ensure that the responsibilities assigned were carried out effectively and consistently
- Developing audit action plans early enough in the financial year to resolve matters by year-end
- Ensuring that audit action plans address all three areas of audit outcomes, namely qualifications, findings on annual performance reports and non-compliance with legislation
- Focusing the actions to be taken on the root causes of the findings, thereby ensuring that sustainable solutions are found.

Proper record keeping and document control



Proper and timely record keeping ensures that complete, relevant and accurate information is accessible and available to support financial and performance reporting. Sound record keeping will also enable senior management to hold staff accountable for their actions.

Some of the matters requiring attention include the following:

- Establishing proper record keeping so that records supporting financial and performance information as well as compliance with legislation can be made available when required for auditing purposes.
- Putting in place policies, procedures and monitoring mechanisms to manage records, and making staff aware of their responsibilities in this regard.

At both departments and public entities the record keeping and document controls assessed as being 'good' remained at 39% and 56% respectively, resulting in a lack of significant overall improvement for either auditee type.

Implement controls over daily and monthly processing and reconciling of transactions



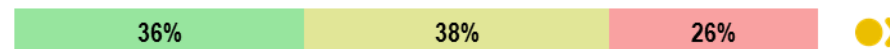
Controls should be in place to ensure that transactions are processed in an accurate, complete and timely manner, which in turn will reduce the errors and omissions in financial and performance reports.

Some of the matters requiring attention include the following:

- Daily capturing of financial transactions, supervisory reviews of captured information and independent monthly reconciliation of key accounts
- Collection of performance information at intervals appropriate for monitoring set service delivery targets and milestones and validation of recorded information
- Confirming that legislative requirements and policies have been complied with prior to initiating transactions.

Good processing controls were established at 40% of departments and 56% of public entities.

Review and monitor compliance with legislation



Auditees need to have mechanisms that identify applicable legislation as well as changes to legislation, assess the requirements of legislation and implement processes to ensure and monitor compliance with legislation.

As detailed in section 2.2.3, many auditees did not comply with legislation. Most of the irregular expenditure incurred was again only identified during the auditing process. This indicates that the internal controls of most auditees not only failed to prevent non-compliance with legislation, but also failed to timeously detect the deviations, with some deviations only being detected and responded to following our audits.

Overall, there was no increase in the number of auditees that have good controls. However, those auditees that have significant deficiencies that require intervention have decreased.

At 28% for departments and 41% for public entities controls to prevent or detect non-compliance with legislation are clearly short of the required level. Further, these controls have not significantly improved over the prior year.

Compliance monitoring matters requiring attention are included in our recommendations in section 2.2.3.

Annexure 3 details the status of auditees' key controls and the movement since the previous year.

Figure 1: Status of human resource management controls

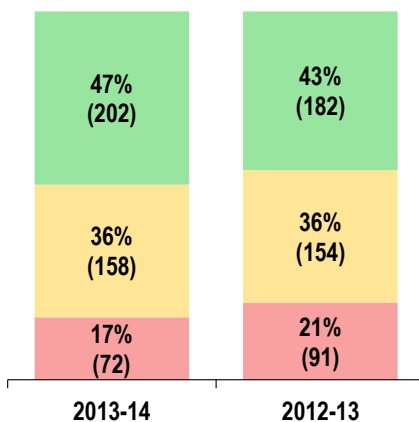


Figure 2: Human resource management controls per auditee type

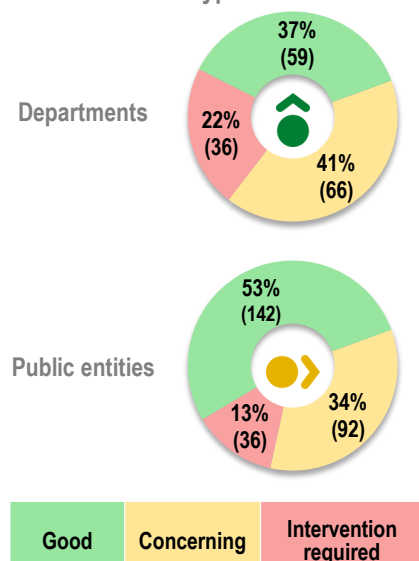


Table 1: Status of human resource management controls in national and provincial government

Portfolio	Auditees with good human resource management controls	Movement
National auditees	54%	➔
Eastern Cape	40%	➔
Free State	33%	➔
Gauteng	51%	⬆
KwaZulu-Natal	42%	⬇
Limpopo	26%	➔
Mpumalanga	35%	⬆
Northern Cape	21%	➔
North West	31%	⬆
Western Cape	100%	⬆

3.2 Human resource management

Human resource 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 human resource management that focused on the following areas: ■ human resource 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 auditees' human resource management controls.

Status of human resource management controls

Figure 1 shows that there has been a slight improvement in the status of human resource management when compared to the previous year, as evidenced by the increase in the number of auditees whose controls we assessed as being 'good', together with a reduction in those whose controls we assessed as 'requiring intervention'.

Figure 2 shows that the overall improvement occurred largely at departments, with those whose controls were assessed as being good increasing from 39 (24%) to 58 (36%). We assessed the human resource management controls of 10 national departments (26%) and 27 provincial departments (22%) as requiring intervention. In the case of national departments this was a regression of one auditee, but in the case of provincial departments an improvement on the 43 of the prior year.

Overall, controls at public entities did not improve as there has been neither an increase in those whose controls we assessed as being good nor a significant reduction in those whose controls require intervention. At an overall level, 39% of provincial public entities still lag behind national public entities (56%) as regards the implementation and maintenance of good human resource controls.

Figure 3: Vacancies in key positions – departments

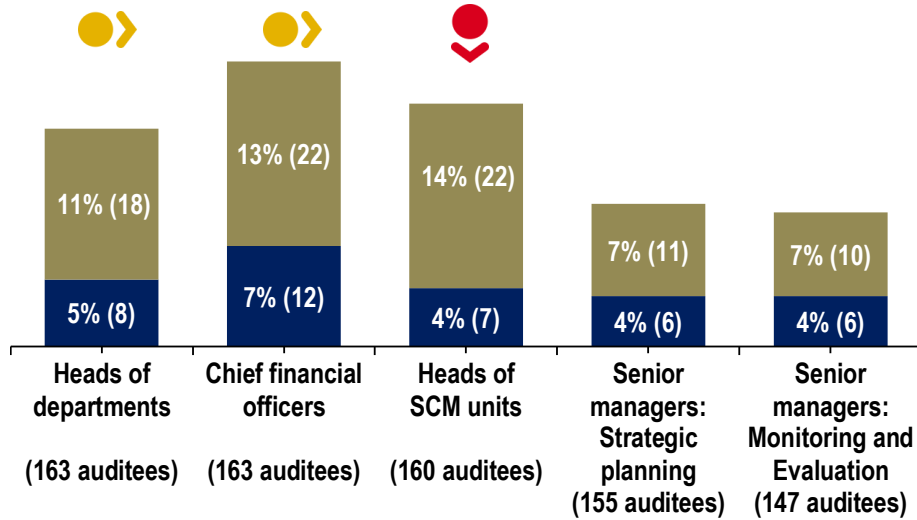


Figure 4: Stability in key positions – departments

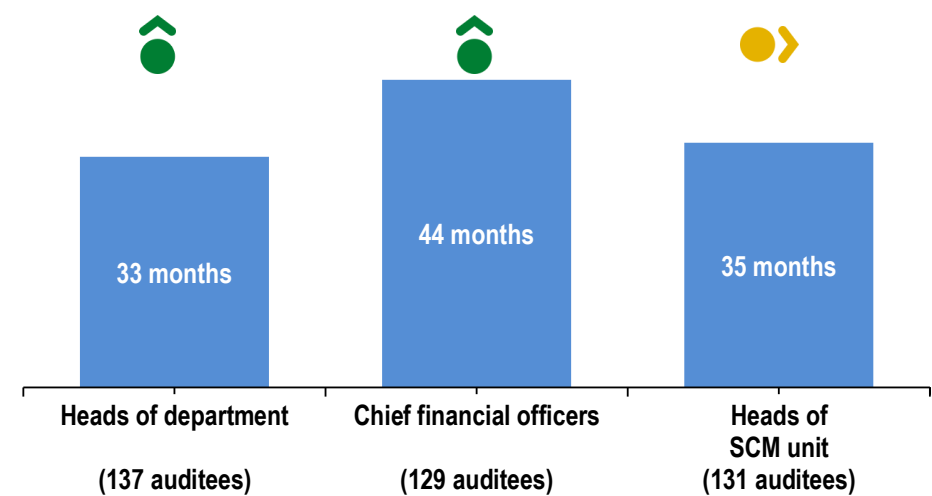


Figure 5: Vacancies in key positions – public entities

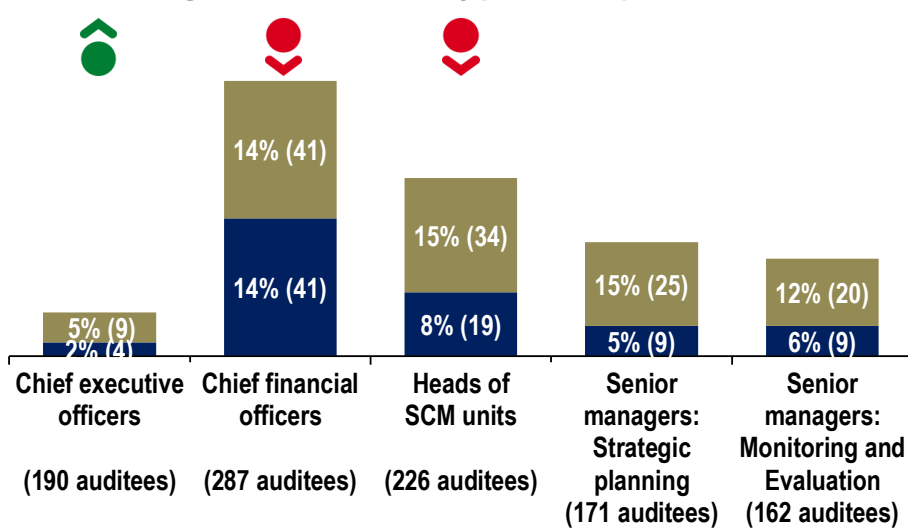
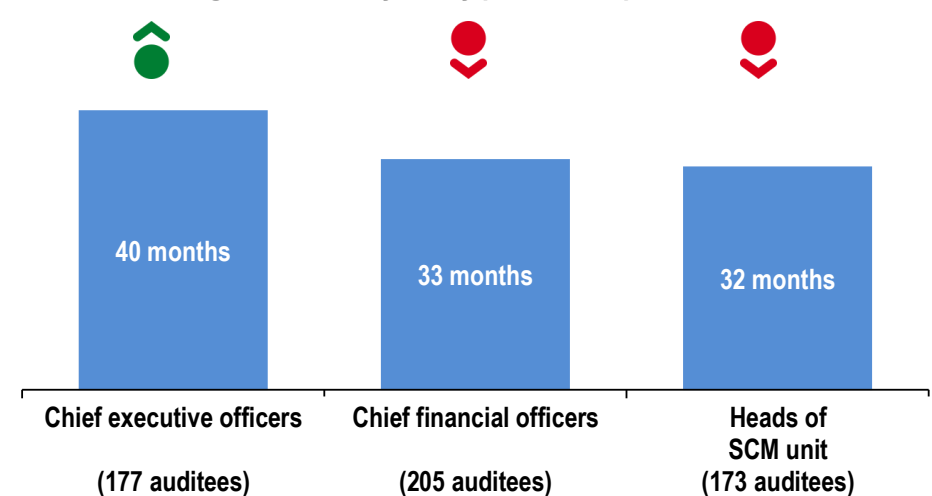


Figure 6: Stability in key positions – public entities



Vacant for less than 6 months

Vacant for more than 6 months

Average number of months in position

Management of vacancies and acting positions

One of the biggest challenges facing national and provincial government is to attract and retain qualified and competent persons in all areas of administration. Auditees have not made much progress since the previous year in reducing their staff vacancy rates. At 14% (17% in departments and 14% in public entities) the average overall vacancy rate at year-end remained virtually unchanged. The vacancy rate in senior management was 14% (17% in departments and 13% in public entities) while that of finance units was 11% (16% in departments and 9% in public entities).

Figures 3 and 5 shows the number of auditees where the following key positions were vacant at year-end and also indicates the period that the positions had been vacant: accounting officer, chief executive officer, chief financial officer, heads of the SCM unit and senior management responsible for strategic planning and monitoring and evaluation. Figures 4 and 6 shows the average number of months accounting officers, chief executive officers, chief financial officers and heads of SCM units had been in their positions.

The vacancies in chief financial officer positions remain a cause for concern, with a fifth of departments and more than a third of public entities operating without chief financial officers. Figures 3 and 5 show that the vacancies were mostly for longer than six months. Figure 4, however, shows that where departments have chief financial officers there is stability in the position, with chief financial officers on average remaining in the position for almost four years. Chief financial officers at public entities, however, spent a shorter time in these positions. Vacancies and high turnaround in chief financial officer positions, combined with the high vacancy levels in the finance units, prevent auditees from performing proper financial planning, record keeping and financial reporting, which results in financial statements of poor quality that require many corrections. It further impacts on the implementation of daily and monthly processing and reconciling of transactions.

The high vacancy rate and instability in the accounting officer positions remain pronounced, with higher vacancies at provincial departments. Instability at this level affects the ability of auditees to build and maintain a robust control environment for financial and performance management and weakens the accountability chain.

The head of the SCM unit plays a significant role in ensuring that controls are in place to enable fair and competitive procurement processes and to prevent abuse of the SCM process. Attention should be given to prolonged vacancies at this level at both departments and public entities that have shown an increase since the previous year.

Not all auditees have a specific position for strategic planning or to perform the monitoring and evaluation function. However, most auditees have assigned the responsibilities to senior managers where auditees did not have these specific positions. Figures 3 and 5 show that there were vacancies in these positions at more than 10% of departments and around 20% of public entities. These positions are crucial for effective strategic planning and performance management and reporting and affect the quality of the annual performance reports that we report on.

The most common findings on the management of vacancies and acting positions were that senior managers at 35 (8%) auditees acted in positions for more than six months and at 29 (7%) auditees other employees acted for more than 12 months. Senior management positions were not filled within 12 months at 69 (16%) auditees. For departments, these findings also include non-compliance with the requirements of the Public Service Act.

We reiterate our concern that acting positions are intended as a short-term solution, as acting individuals are likely to take on less than the full responsibility, functions and powers of the higher position and are less committed to the deliverables due to the temporary nature of the position.

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 and evaluating and monitoring performance. Further, where leadership consistently takes action it will demonstrate to all officials that poor performance has consequences.

The required performance management systems at many auditees should receive more attention as 10 (7%) accounting officers, 73 (31%) chief executive officers and 36 (11%) chief financial officers either did not have performance contracts or their contracts had not been signed early enough in the financial year.

Consequences for transgressions

In accordance with legislation, the failure to comply with legislated obligations and responsibilities and incurring unauthorised, irregular and fruitless and wasteful expenditure should be investigated as it could constitute financial misconduct on the part of accounting officers or officials. The legislation provides for clear steps to be taken in response to possible financial misconduct and to follow up on expenditure.

We audited compliance with this legislation and reported the following material non-compliance in the audit reports:

- At 39 auditees effective and appropriate disciplinary steps were not taken against officials who made or permitted unauthorised, irregular or fruitless and wasteful expenditure.
- Allegations of financial misconduct on the part of accounting officers were not investigated at eight departments, while at 18 auditees such allegations against other officials were not investigated.
- At nine auditees disciplinary hearings were not held in cases where financial misconduct was confirmed. At two of these auditees the case was against an accounting officer.
- At 10 provincial auditees, allegations of fraud, corruption, improper conduct or failure to comply with the SCM system were not investigated. The lack of consequences could create an environment where transgressions will continue.

Other common human resource findings

We reported other human resource findings to auditees, which include the following:

- A verification process for new appointments did not always take place at 57 auditees, while at 26 of the auditees the process did not include all prescribed verifications.
- Thirteen auditees did not have a human resource plan which must be based on their strategic plan. The achievement of some of these auditees' service delivery objectives are therefore at risk

Effective use of consultants by departments

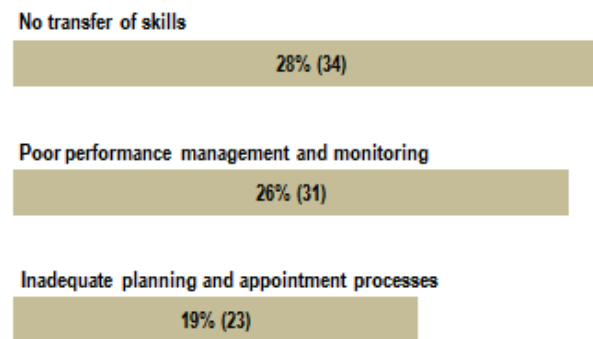
National and provincial departments spent an estimated total of R12,1 billion on consultancy services in 2013-14 to supplement their human resources. Consultancy services are services of an intellectual or advisory nature. The amount was spent in the following areas:

- Financial reporting service – R386 million
- Preparation of performance information – R23,9 million
- Information technology services – R1 billion
- Other services – R10,7 billion.

Findings on management of consultants

Our audits included an assessment of the management of consultants at 120 of the departments. The assessments were based on the requirements set in a practice note issued by the National Treasury in 2003 which regulates the appointment and management of consultants at departments. Figure 7 shows the number of departments that had findings in the focus areas of the audit.

Figure 7: Findings arising from the audit on the use of consultants at 120 departments



Although the most common reason for appointing consultants was a lack of skills, we found that the contracts at 24 departments (20%) did not include any conditions or objectives in terms of the **transfer of skills** from the consultants to the employees. The fact that the terms of reference at 23 departments (19%) did not include a requirement for transfer of skills is an indication that it was not considered as part of the bidding process. Where such a requirement was included, the measures to monitor the transfer of skills were not always implemented at 21 departments (18%), while at 16 departments (13%) no evaluation was performed on transfer of skills at the end of the project.

We identified shortcomings in the **management and monitoring of performance** of consultants. The measures to monitor the performance of the consultants were either not defined or not implemented at 25 departments (21%). At 18 departments (15%) where the contract performance measures and methods were monitored, such monitoring proved to be inadequate as it failed to detect under-performance by the consultants. Of greater concern was the payment of consultants without signed contracts at eight departments (7%).

The following were our key findings on the **planning and appointment processes**:

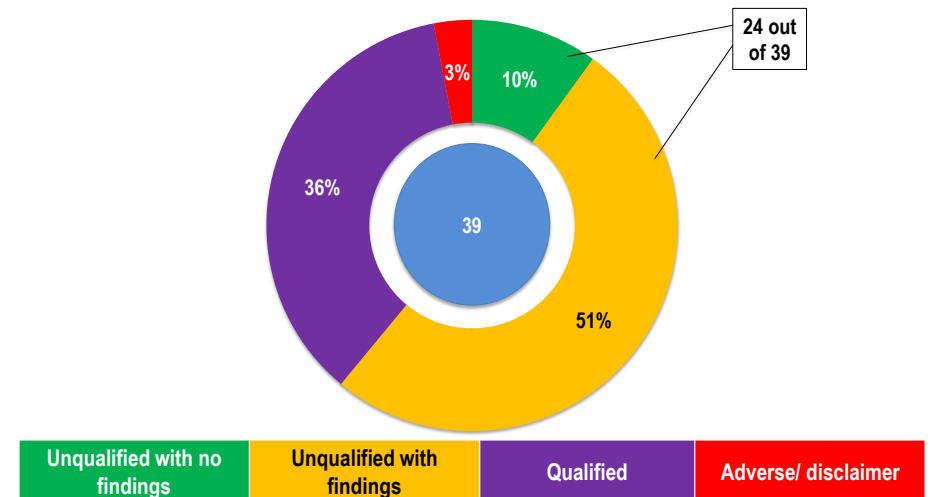
- As with all other procurement, consultants should be contracted based on a needs assessment. Such assessment should consider cost, type and extent of service, the deliverables and whether internal capacity exists and/or whether there is an opportunity for the transfer of skills. At 18 departments (15%) the consultants were appointed without conducting a needs assessment and at four (3%) the needs assessments performed were inadequate.
- As part of the bidding process, there should be terms of reference that clearly define what will be required from the consultant and that state the required experience and qualifications. At nine departments (8%) the consultants were appointed without terms of reference, while at six (5%) the terms of reference were inadequate.

In addition to poor project management, the root cause of these findings was the lack of policies or strategies on the use of consultants as identified at eight departments (7%). A policy or strategy should be in place that defines the main purpose and objectives of appointing consultants and should include measures to prevent over-reliance on consultants.

Although there are departments that do not manage their consultants effectively, the majority of departments where we performed the audit did comply with the requirements set in the practice note.

Consultants used for financial reporting services

Figure 8: Audit outcomes of auditees assisted by consultants – financial reporting



As shown in figure 8, a total of 39 departments (24%) were assisted by consultants for financial reporting services. The total cost was R386 million, with 73% of the cost incurred by six departments which included the national Department of Public Works, a provincial treasury and two health departments. Financial reporting services included, for example, preparation of financial statements, maintaining the fixed asset register, performing bank reconciliations and preparing other monthly and annual financial reports. The most common reasons why departments appointed consultants for financial reporting were a lack of skills (27%), vacancies (12%) or a combination thereof (51%).

The use of consultants for financial reporting was most prevalent at national departments (21% of the national departments), eight of the departments in the Eastern Cape, four of the departments in the Free State, five departments in KwaZulu-Natal and four departments in the Northern Cape.

The audit outcomes of the departments that used consultants show that 61% of their financial statements were financially unqualified. Good audit outcomes cannot always be attributed directly to the work the consultants performed, but the following are examples of how consultants made a positive contribution:

- The Free State department of public works was able to update their immovable asset register with the help of consultants and could disclose the correct values in their financial statements. Similarly, the department of police, roads and transport could overcome a lack of skills in preparation of the financial statements with the help of consultants
- The departments of health and public works in Limpopo improved from disclaimers to qualified audit opinions with the help of consultants appointed through the national intervention team.
- The assistance of consultants at three Eastern Cape departments with asset registers and review of financial statements contributed to their unqualified audit opinions.

- With the assistance of consultants the Gauteng department of infrastructure development was able to update its immovable asset register and perform the required transfers without any significant errors.
- The work of consultants at the Western Cape education department was of such quality that no material errors were identified in the areas they worked on.
- The Department of Public Works was able to obtain an unqualified audit opinion with the assistance of consultants.

We did find that consultants at 14 departments were performing work for the department in areas that were financially qualified in the financial statements. In our assessment the main reasons for a lack of impact by the consultants on the audit outcomes at these auditees were poor project management by the department and consultants being appointed too late in the audit year for their work to make a difference to the outcomes.

Figure 1: Status of information technology controls

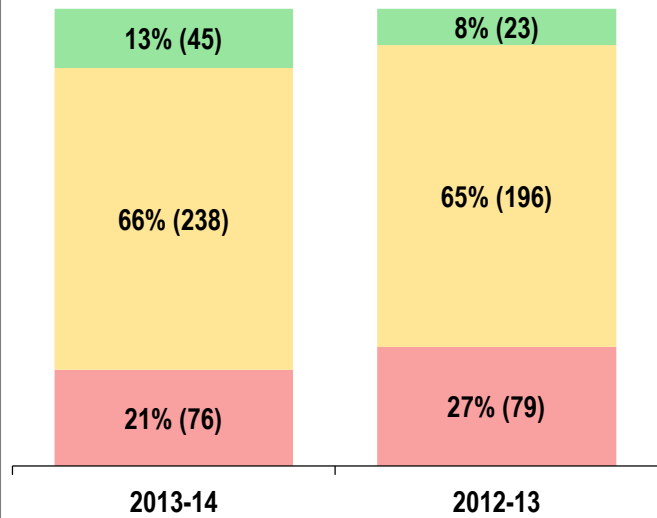


Figure 2: Findings on information technology controls

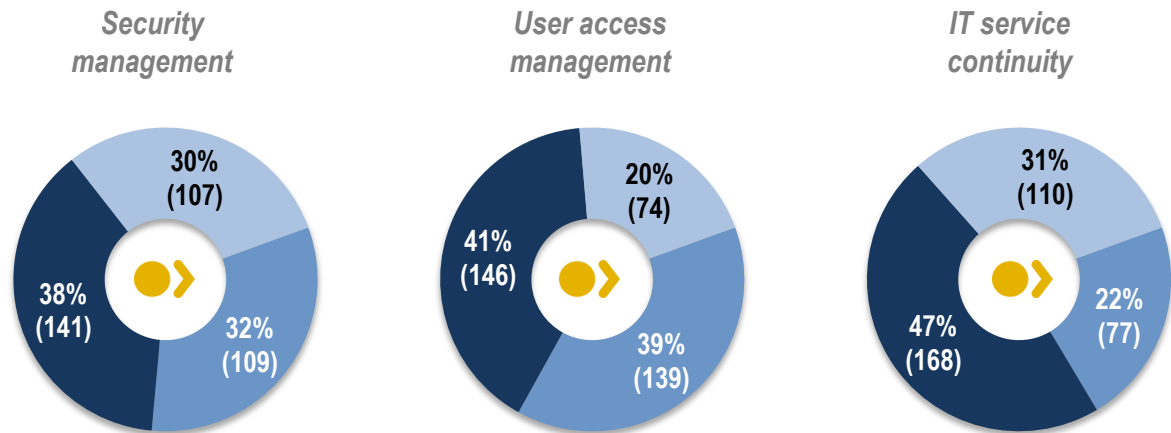
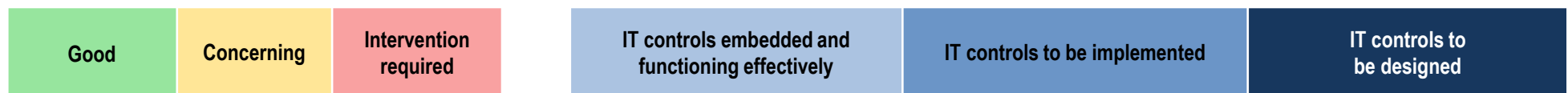


Figure 3: Status of information technology and controls

	Confidentiality	Integrity	Availability
Status of national and provincial government information	The necessary level of secrecy is enforced for all national and provincial government information. This was assessed by auditing the following focus areas: <ul style="list-style-type: none"> Security management IT governance User access controls 	All national and provincial government information is authentic, remains unaltered until authorised to change, and is complete. This was assessed by performing data analytics and auditing on the following focus areas: <ul style="list-style-type: none"> Security management User access controls 	All national and provincial government information is ready for use when expected. This was assessed by auditing the following focus areas: <ul style="list-style-type: none"> Security management IT service continuity
Status of key enabling controls	Good governance		
	Effective management		
	Secure architecture or infrastructure		



3.3 Information technology

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

In the assessment of the findings on IT controls that focus on IT governance, security management, user access management and IT service continuity, the following was observed:

- Figure 1 shows a slight improvement since the previous year in the number of auditees that had no audit findings on IT controls.
- Auditees with no findings (green) had IT internal controls that were operating effectively.
- Auditees with findings (yellow) were those auditees that had IT internal control weaknesses in some, but not all key focus areas. Auditees with material findings (red) had IT control weaknesses in all key focus areas.

To evaluate the status of the IT controls in the areas we audited they were grouped into three categories and criteria were set for each group:

- **Where IT controls are being designed**, management should ensure that the controls would mitigate risks and threats to IT systems.
- **Where IT controls are being implemented**, management should ensure that the designed controls are implemented and embedded in IT processes and systems. Particular attention should be given to ensuring that staff are aware of and understand the IT controls being implemented, as well as their roles and responsibilities in this regard.
- **Where IT controls have been embedded and are functioning effectively**, management should ensure that the IT controls that have been designed and implemented are functioning effectively at all times. Management should sustain these IT controls through disciplined and consistently performed daily, monthly and quarterly IT operational practices.

Figure 2 indicates the status of the IT controls in the areas we audited and the movement since the previous financial year. It also shows the number of auditees where the IT controls are either not in place (not designed) or not implemented, as well as those where IT controls are functioning effectively.

Information technology governance

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 an 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 with implementation. We will evaluate the implementation of phase 1 in the following audit cycle to determine whether good IT governance principles have been implemented. In the 2014-15 financial year the implementation of phase 2 should be prioritised by the accounting officers and governance champions.

As the legislatures have opted to develop their own IT governance framework, management should prioritise the implementation of these customised governance frameworks.

The most significant IT governance findings for the legislatures were the following:

- At the legislatures of four provinces (Eastern Cape, Mpumalanga, Northern Cape and North West) an IT governance framework had not been designed to serve as a basis for defining IT processes, managing IT process risks and mapping the processes against defined standards and policies. In three other provinces (Limpopo, Western Cape and Gauteng) certain elements of the framework had been implemented by the legislatures, but it had not been fully implemented as management was still in the process of aligning their business process to Control Objectives for Information and related Technology (COBIT).
- An updated and approved IT strategy was not in place at the legislatures to structure the use of technology as part of the overall business strategy.

Security management

A secure IT environment ensures the confidentiality, integrity and availability of critical IT systems and business processes.

While 30% of the auditees have IT controls that are embedded and functioning effectively, 38% of the auditees continue to experience challenges with design and 32% with the implementation of security management policies.

The most common findings were the following:

- Most departments and public entities still experienced challenges due to a lack of adequately designed security policies and procedures, while some departments and public entities that had already designed adequate security policies and procedures have not succeeded in implementing them successfully.
- Password settings and security parameters were not always adequately configured to protect the IT infrastructure from unauthorised access.

User access management

User access controls are measures designed by management to prevent and detect unauthorised access to and the creation or amendment of financial and performance information stored in the application systems.

While 20% of the auditees have IT controls that are embedded and functioning effectively, 41% of them continue to experience challenges with design and 39% with the implementation of user access policies and procedures.

The most common findings were the following:

- Management activities, such as reviews of administrator activities and user access rights, were not performed
- Access request documentation was not adequately completed and former users' access was not timeously removed
- Segregation of duties was not maintained.

Information technology service continuity

IT service continuity controls enable institutions to recover critical business operations and application systems affected by disasters or major system disruptions within reasonable time frames.

While 31% of the auditees have IT controls that are embedded and functioning effectively, 47% of them continue to experience challenges with design and 22% with the implementation of adequate IT service continuity controls. In the case of departments, the data hosted on their transversal systems is available at the disaster recovery site of the State Information Technology Agency (SITA). In all other cases, both departments and entities have to make provision for their own data recovery strategies.

The most common findings were the following:

- Disaster recovery plans (DRPs) and backup procedures had not been adequately designed. Backups were therefore inadequately controlled, which could affect the availability of information and systems.
- Where DRPs were found to be adequately designed, it was noted that the required number of DRP tests as stipulated in the approved DRP testing strategy had not been performed during the financial year under review.

The following are the drivers for the lack of improvement in IT controls:

- SITA has not yet set standards, in consultation with the State Security Agency, for the information system security environment of departments, as required by the State Information Technology Agency Act, 1998 (Act No. 88 of 1998) (SITA Act).

- Some departments took the initiative of designing their own standards. However, neither the senior managers at the departments nor the management of public entities are monitoring the implementation of the controls designed to ensure that they remain adequate and are consistently operating effectively.
- There is a lack of appropriately skilled resources to design and implement IT security controls, such as IT security policies and procedures.
- Departments are not successful in attracting staff and filling vacant key posts, such as those of IT managers, system controllers and information security officers.
- Staff are not fulfilling their responsibilities by ensuring compliance with the controls established to secure and regulate departments' IT environments.
- The approval of policies and procedures is not prioritised.

Risks and concerns associated with system developments or changes in IT systems across government

The following are the most prevalent areas of inefficiency noted where systems are developed or implemented:

- IT projects are poorly governed or overall governance is absent
- IT project timelines are not adequately managed, with the result that the projects overrun their approved budgets
- The scope of IT projects is not adequately managed, with the result that processes that were not initially approved are added to a project, which sometimes results in project delays or budget overruns
- There are no consequences for those charged with governance when IT projects are not delivered within timelines, scope and budget.

Transversal systems at departments

A number of transversal systems are being developed and implemented in government. Various inefficiencies have been identified in the processes followed, which led to the delays and challenges outlined below.

The Integrated Financial Management System (IFMS) project was initiated in 2002 to replace the ageing transversal financial systems, namely the Basic Accounting System (BAS), Personnel and Salary System (Persal) and the Logistical Information System (Logis). Cabinet approved the project, which was intended to commence in 2005 with an estimated project timeline of seven years. However, despite project spend amounting to approximately R650 million, it has not yet been finalised due to several challenges. A new technological approach to IFMS has since been approved by cabinet and at this stage the incomplete modules are on hold due to the change in the overall approach. The National

Treasury is currently completing the tender process to appoint a service provider to implement the new solution.

The Integrated Justice Systems (IJS) project was initiated in 1999 to electronically enable and integrate the end-to-end criminal justice business processes across several departments. Cabinet approved the project to commence in 2000. Since the inception of the IJS project R2,32 billion has been spent against the approved budget of R2,45 billion. It is expected that further funding from National Treasury will be required to complete the IJS project. Over the past few years the IJS programme management office has been losing momentum, which was identified as the key threat to the project meeting its defined objectives.

Systems implemented at legislatures

The Northern Cape Provincial Legislature, the Western Cape Provincial Parliament and the Limpopo Provincial Legislature are currently still using the government's transversal systems, namely Persal, BAS and Logis. However, these legislatures are researching the possibility of implementing integrated systems for finance, human resources and supply chain management. Systems suited to the size of these legislatures with the functionality to meet the requirements set in the Financial Management of Parliaments and Legislatures Act, 2009 (Act No. 10 of 2009) will be considered and currently include systems such as Microsoft Dynamics, PROMUN and SAGE X3. Suitable hosted services will also be considered. Currently, there is no legislation governing the ICT processes of legislatures. In addition, legislatures do not have the internal capacity to manage or maintain the systems after implementation, which creates the risk of dependency on consultants.

3.4 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 executive authorities. We also included the root causes of material findings reported in the audit report as internal control deficiencies in the audit report, classified under the key drivers of leadership, financial and performance management, or governance.

Figure 1: Status of overall root causes

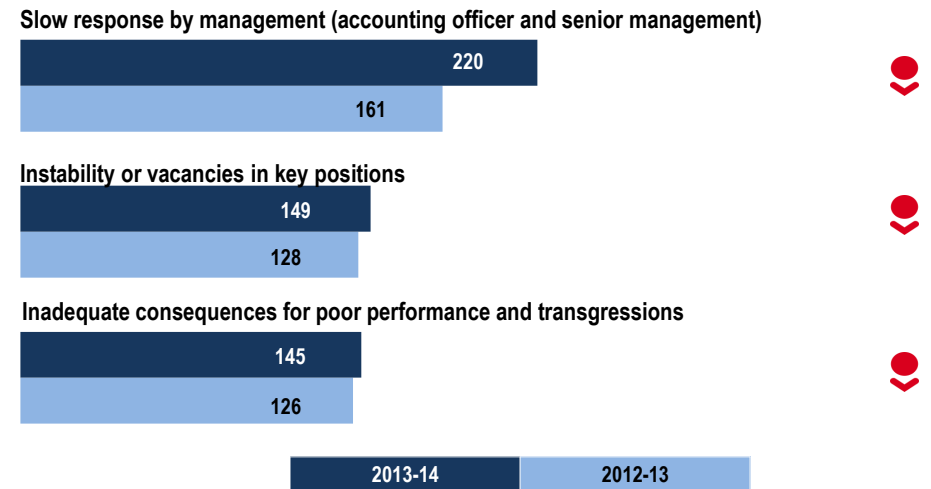


Figure 1 shows the most common root causes we identified which affect the rate at which audit outcomes improve.

Figure 2: Analysis of top three root causes in the three audit areas

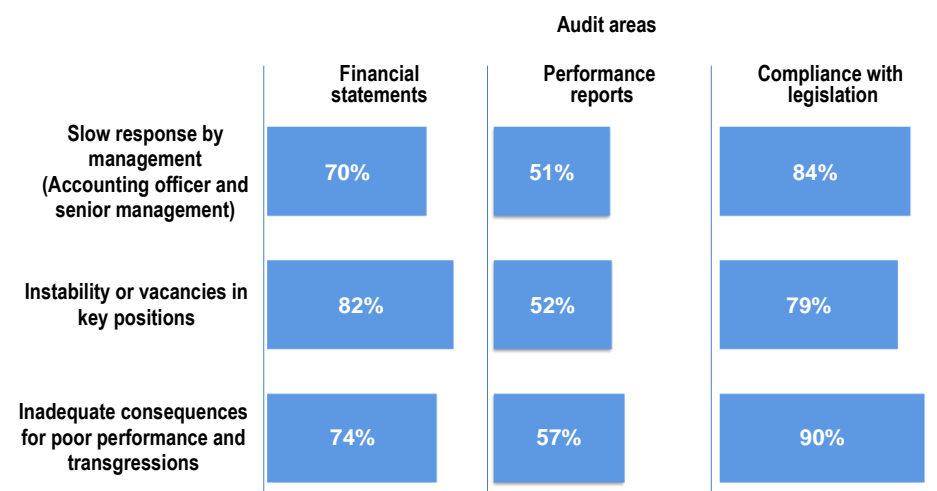


Figure 2 shows the percentage of auditees affected by the top three root causes in the areas that we audit and report on. The instability and vacancies in key positions had the greatest effect on the quality of financial statements, while inadequate consequences are the main root cause of weaknesses in preparing annual performance reports and compliance with legislation.

The information that follows summarises the three most common root causes of the audit outcomes and provides recommendations to address the root causes.

Slow response by management in improving internal controls

Detail of root cause

We identified the slow response by management (accounting officers/authorities and senior management) to our messages about addressing weaknesses in internal controls and the six risk areas as a root cause of poor audit outcomes at 49% of the auditees. As shown in section 3.1 we found that the key controls at most of the auditees were not in place to support the preparation of quality financial statements and annual performance reports and to ensure compliance with legislation. Role players such as the executive and coordinating institutions can contribute positively to an auditee's control environment. However, it is the responsibility of accounting officers and senior management to design and implement the controls and to ensure that they work effectively and consistently.

As discussed in section 4, the accounting officers and senior management also failed to provide the level of assurance required.

We assess the status of the key controls on a regular basis and discuss it with the accounting officers and key senior management officials. We specifically audit the six risk areas annually. We report all our audit findings in a management report that includes the root causes of the findings and our recommendations. Our message and their delivery have been consistent for a number of years, but management's slow response to this message is hampering improvement in audit outcomes.

In our assessment, the slow response is more prevalent at departments (at 56%), although it also has been identified as a root cause at 45% of the public entities.

Recommendations

The following actions should be taken to address the root cause:

- Accounting officers and authorities should view the AGSA, internal audit units, audit committees and the risk management function as important partners in fulfilling their legislated responsibilities. Attention should be given to the reports of these assurance providers and there should be regular interactions with them.
- Accounting officers and authorities should ensure that senior management has action plans in place to address the internal control deficiencies identified by our reports as root causes of audit findings. The action plans should focus on the root causes of audit outcomes and not only on addressing specific findings as this would prevent new or similar findings in future. Accounting officers and authorities should monitor the implementation of the plans.
- Executive authorities should hold accounting officers responsible for control weaknesses that are not addressed as it is an indication of neglect of their legislated duty to ensure that there are effective, efficient and transparent systems of financial and risk management and internal control. In turn, accounting officers should ensure that senior managers are fulfilling their duties and address any negligence in this regard.
- The treasuries should intensify their current initiatives to support departments in improving their controls through guidance, interactions, capacity building and monitoring. Both treasuries and the departments responsible for public entities should also provide such support to public entities where it is apparent that the slow response by management is as a result of inadequate capacity and skills at management level.

Instability or vacancies in key positions

Detail of root cause

We identified instability and vacancies in key positions to be a root cause of poor audit outcomes at 33% of the auditees.

As discussed in section 3.2, the overall vacancy rates at auditees remain high, but in our view the vacancies and instability at the level of accounting officer, chief executive officer and chief financial officer are affecting the rate at which audit outcomes improve.

In our assessment, the impact of instability and vacancies is affecting audit outcomes at 36% of departments and to a lesser degree those of public entities at 31%.

Recommendations

The following actions should be taken to address the root cause:

- Executive authorities should appoint accounting officers in the departments where there are still vacancies and should endeavour to retain accounting officers in their positions for the period of their contract. Accounting authorities should commit to the same for chief executive officers.
- Accounting officers and authorities should fill the vacancies in senior management as soon as the position becomes vacant, with a maximum period of 12 months for a recruitment process. Particular attention should be paid to the appointment and retention of chief financial officers, heads of SCM and senior management responsible for strategic planning as well as monitoring and evaluation.
- Offices of the premier, the department of Performance Monitoring and Evaluation, the treasuries and the departments responsible for the public entities should monitor vacancies and retention in key positions and provide support where needed.

Inadequate consequences for poor performance and transgressions

Detail of root cause

We identified inadequate consequences for poor performance and transgressions to be a root cause of poor audit outcomes at 32% of the auditees (almost 46% of the departments and 24% of the public entities).

Leaders and officials who deliberately or negligently ignore their duties and contravene legislation should be decisively dealt with through performance management and by enforcing the legislated consequences for transgressions. If they are not held accountable for their actions, the perception is created that such behaviour and its results are acceptable and tolerated.

The 2013-14 audits again confirmed weaknesses in the performance management of senior management. The low level of action in response to the high levels of non-compliance, poor audit outcomes, SCM transgressions and unauthorised, irregular as well as fruitless and wasteful expenditure clearly shows a lack of consequences for transgressions. Section 3.2 includes more information in this regard.

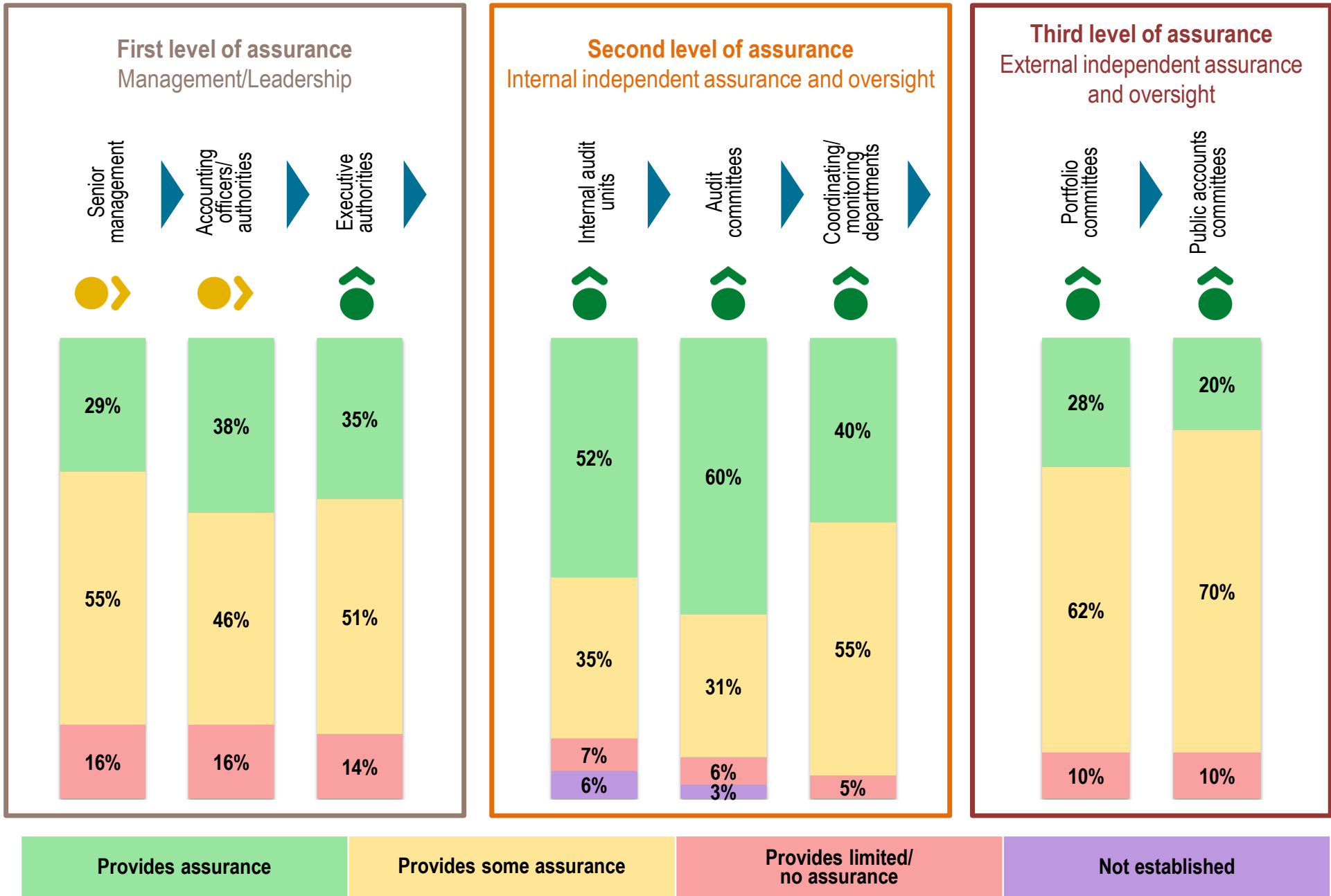
Recommendations

The following actions should be taken to address the root cause:

- Accounting officers and authorities should ensure that compliance findings are investigated to determine whether there are indicators of financial misconduct or misconduct in the SCM processes, followed by disciplinary hearings where misconduct was confirmed. All unauthorised, irregular as well as fruitless and wasteful expenditure should also be investigated timeously to determine whether such expenditure should be recovered from the responsible official.
- In order to improve the performance and productivity of officials, the leadership should set the tone by implementing sound performance management processes, evaluating and monitoring performance and consistently demonstrating that poor performance has consequences.
- Accounting officers and authorities, executive authorities and senior managers should demonstrate the importance of integrity and ethical values through actions and behaviour, and establish expectations for standards of conduct. The leadership should also ensure that deviations from expected standards are identified and addressed in a timely manner.

SECTION 4: INITIATIVES AND IMPACT OF KEY ROLE PLAYERS ON AUDIT OUTCOMES

Figure 1: Assurance provided by role players



4. Initiatives and impact of key role players on audit outcomes

Ministers, members of executive councils (MECs) and accounting officers use the annual report to report on the financial position of auditees, their performance against predetermined objectives and overall governance, while one of the important oversight functions of legislatures is to consider auditees' annual reports. To perform their oversight function, they need assurance that the information in the annual report is credible. To this end, the annual report also includes our audit report, which provides assurance on the credibility of the financial statements, the annual performance report as well as the auditees' compliance with legislation.

Our reporting and the oversight processes reflect on history as these take place after the financial year. Many other role players contribute throughout the year to the credibility of financial and performance information and compliance with legislation by ensuring that adequate internal controls are implemented.

These role players' mandate differs from ours and we categorised them as follows: (1) Those directly involved with the management of the auditee (management/leadership assurance); (2) those that perform an oversight or governance function, either as an internal governance function or as an external monitoring function (internal independent assurance and oversight); and (3) the independent assurance providers that give an objective assessment of the auditee's reporting (external independent assurance and oversight).

As in prior years, we assessed the level of assurance provided by the role players based on the status of internal controls of auditees and the impact of the different role players on these controls. In the current environment, which continues to be characterised by inadequate internal controls, corrected and uncorrected material misstatements in financial and performance information, and widespread non-compliance with legislation, we believe all role players should provide an extensive level of assurance.

Figure 1 shows the assessed level of assurance provided by key role players. An overview of the assurance provided by each of the three levels of assurance providers follows.

First level of assurance: Management/leadership

4.1 Senior management

2013-14	29% (125)	55% (245)	16% (68)
2012-13	31% (131)	55% (238)	14% (59)

The level of assurance provided by senior management remained unchanged since the previous year and continues to be well below what is required. Accounting officers and executive authorities are relying on senior management, which includes the chief financial officer, chief information officer, head of the SCM unit and those responsible for strategic planning and monitoring, to implement basic financial and performance management controls. These include the following:

- Ensure proper record keeping so that complete, relevant and accurate information is accessible and available to support financial and performance reporting
- Implement controls over daily and monthly processing and reconciling of transactions
- Prepare regular, accurate and complete financial and performance reports that are supported by reliable information.
- Review and monitor compliance with applicable legislation
- Design and implement formal controls over IT systems.

As we reported last year, senior management continues, on request, to make representations to us regarding the quality of the financial statements and performance reports they submit for auditing. Again, our audits continue to show that these representations are unreliable at many auditees. These written representations also include stating in writing that no material breaches of legislation have occurred other than those disclosed to the auditors at the commencement of the audit. This, too, has proven to be unreliable as evidenced by the material compliance findings arising from our audits.

The assessment of controls (as reported in section 3.1) shows that the financial and performance management controls at almost 56% of auditees were a cause for concern or required intervention, with little progress having been made since the previous year. This is the prime basis for our assessment that senior management at more than 70% of the auditees provided only some, limited or no assurance. We recommend that these officials follow the example set by senior management at the 22% of departments that provided the required level of assurance and those at 32% public entities that performed likewise.

As we highlight in section 3.2, the absence or ineffective use of performance agreements which, together with prolonged vacancies and instability in key senior management positions, will continue to keep senior management assurance at a level that negatively impacts on other assurance providers.

4.2 Accounting officers or accounting authorities

2013-14	38% (167)	46% (203)	16% (69)
2012-13	35% (150)	50% (212)	15% (66)

The assurance provided by accounting officers (heads of departments or directors-general) or the accounting authorities of public entities has shown little improvement since the previous year, with fewer than 40% providing the required level of assurance. The accounting officers at only 33% of departments provided the required level of assurance, compared to accounting authorities at 41% of public entities.

As reported in section 3.1, there has been little improvement in the status of those internal controls for which accounting officers and authorities are responsible, as their leadership, planning, risk management, oversight and monitoring did not always result in sustainable practices that translated into improved audit outcomes. Although 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.

The responsibilities of accounting officers and authorities are clearly described in sections 38 (for departments) and 51 (for public entities) of the PFMA. It includes their responsibility to ensure that there are consequences for transgressions through disciplinary steps against officials who contravene the PFMA and make or permit unauthorised, irregular and fruitless and wasteful expenditure.

We recommend that accounting officers and authorities respond to our message on key controls and focus on the following actions that will create a strong control environment and enable them to comply with the requirements of the PFMA:

- Provide effective and ethical leadership and exercise oversight of financial and performance reporting and compliance with legislation
- Implement effective human resource management to ensure that adequate and sufficiently skilled staff are employed and that performance is monitored
- Establish policies and procedures to enable sustainable internal control practices and monitor the implementation of action plans to address internal control deficiencies
- Establish an IT governance framework that supports and enables the achievement of objectives, delivers value and improves performance
- Implement appropriate risk management activities to ensure that regular risk assessments, including the consideration of IT risks and fraud prevention, are conducted and that a risk strategy to address the risks is developed and monitored

- Ensure that an adequately resourced and functioning internal audit unit is in place and that internal audit reports are responded to
- Support the audit committee and ensure that its reports are responded to.

4.3 Executive authorities

2013-14	35% (148)	51% (216)	14% (57)
2012-13	30% (111)	56% (210)	14% (52)

The executive authorities (ministers and MECs) have a monitoring and oversight role in their portfolios and play a direct role in departments, as they have specific oversight responsibilities towards their departments in terms of the PFMA and the Public Service Act. They are well placed to bring about improvements in the audit outcomes by becoming more actively involved in key governance matters and by managing the performance of the accounting officers and authorities. Our assessment that executive authorities, while improving, are not yet providing the required level of assurance is based on the inadequate leadership controls observed at almost half of the auditees (as detailed in section 3.1). It is further supported by our assessment of the impact they have on audit outcomes as observed through our regular interactions with them and the commitments they had made and honoured to improve audit outcomes.

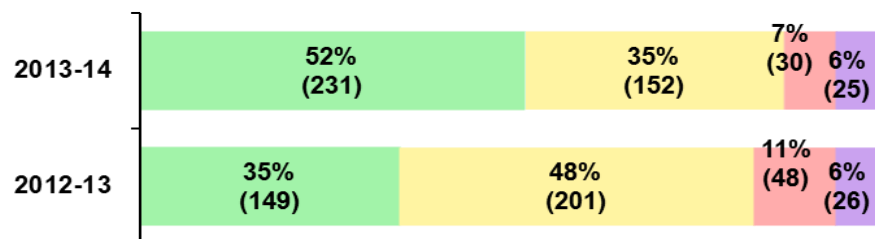
In the past four years, we have increasingly engaged with ministers and MECs on how they can bring about improvements in the audit outcomes of their portfolios. At these interactions we discussed the status of key controls and their commitments to improve audit outcomes, and we also shared the identified risks.

We are convinced that the oversight and monitoring role of the executive strengthens the assurance processes significantly and in the past year has impacted and will continue to impact positively on the audit outcomes. We therefore undertake to continue with the engagements, but with greater emphasis on quality conversations that will yield a stronger impact.

Section 5 of this report provides details on our assessment of the assurance provided by individual ministers and the status of the valuable commitments made by them in the prior year. We also outline new commitments received. Our provincial general reports contain similar information relating to the MECs.

Second level of assurance: Internal independent assurance and oversight

4.4 Internal audit



Internal audit assists 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. The establishment of internal audit units is a requirement of legislation, but these units were in place at only 94% (2012-13: 94%) of auditees.

Encouragingly, the level of assurance provided by the established units has increased significantly since the previous year to 44% of departments (from 28%) and 58% of public entities (from 40%).

The operations of only 11% (2012-13: 15%) of the internal audit units did not fully comply with all the requirements of legislation. The material non-compliance we reported in the audit reports of these auditees included the following:

- Internal audit not evaluating or making recommendations on the reliability and integrity of financial and operational information
- Internal audit not evaluating or making recommendations on compliance with laws and regulations
- Internal audit units not reporting quarterly on performance against the audit plan.

Although the work of most of the units covered all the required aspects, further improvements are required from the internal audit units of 26% (2012-13: 30%) of departments and 24% (2012-13: 25%) of public entities that did not evaluate information systems (IT controls). Such evaluations, together with recommendations made by internal audit, will contribute towards addressing the IT control issues and reduce the associated risks we highlight under section 3.3.

The 14% (2012-13: 16%) of internal audit units that did not evaluate the reliability of performance information should be requested by management and audit committees to do so. We observed that 92% (2012-13: 94%) of internal audit units

evaluate internal controls and 89% (2012-13: 90%) evaluate compliance with key legislation.

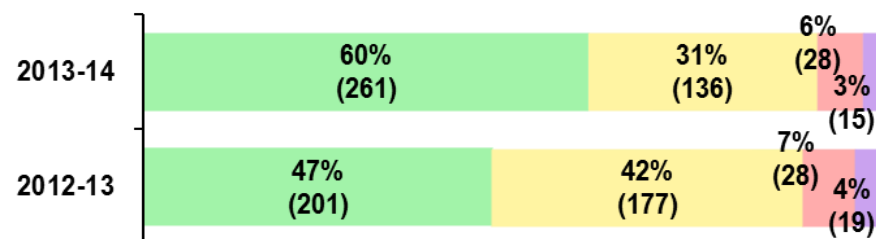
Internal audit can only be effective if units are adequately resourced and collectively possess the required competencies; if audit committees oversee and support their operations, and if accounting officers or authorities and senior management cooperate and timeously respond to their advice and recommendations. At some auditees, well-resourced and effective internal audit units have helped to improve internal controls and impacted positively on audit outcomes. In our assessment 69% (2012-13: 68%) of internal audit units of public entities have impacted positively on audit outcomes. It is our observation that the lack of a positive impact at 48% (2012-13: 46%) of departments was due to management not addressing internal audit findings.

We encourage auditee management to ensure that the internal audit units have the capacity and skills to perform their functions, to view audit as adding value to the organisation (and not just seen as a legislative requirement) and to be supportive of internal audit work.

Vacancy rates in internal audit units also require attention, more so in departments. The average period that positions in departments were vacant was 11 months (2012-13: 10) and seven months (2012-13: six) at public entities.

We outline, under our assessment of audit committees, the specific areas where internal audit units can make significant contributions to the audit outcomes.

4.5 Audit committees



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

Audit committees were in place at 97% (2012-13: 95%) of auditees. At 60% (2012-13: 47%) of auditees audit committees were already providing full assurance. However, 14% (2012-13: 12%) of the committees did not evaluate information systems and 10% (2012-13: 8%) did not evaluate performance information. We

noted that 94% (2012-13: 96%) of audit committees evaluate the internal controls of their auditees and 92% (2012-13: 92%) evaluate compliance with key legislation.

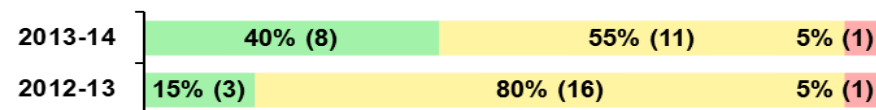
In our assessment, the audit committees of 76% (2012-13: 77%) of departments and 80% (2012-13: 81%) of public entities had a positive impact on the audit outcomes and their assurance was also enhanced by the interactions of 87% (2012-13: 83%) of departments and 81% (2012-13: 80%) of public entities with their ministers and MECs in the past year for the purpose of sharing information and risks.

We recognise that for audit committees to provide the required level of assurance as second-level assurance providers, they depend heavily on the reliability of the assurance provided by senior management and internal audit units. The lower the assurance provided by these two role players, the more difficult it is for audit committees to accurately assess the control environment of the auditee, including being assured that all significant risks are effectively managed. Audit committees are therefore advised to consider our observations made earlier in this section in connection with senior management, accounting officers, chief executive officers and internal audit units and to support and contribute to any initiatives or action plans to address the assurance gaps.

Specific areas where internal audit units and audit committees can jointly make significant contributions to the audit outcomes include the following:

- Encourage their auditees to submit regular financial and performance reports for audit committee review
- Monitor the implementation of auditees' audit action plans in respect of prior year audit findings
- With a view to detecting material misstatements, thoroughly review financial statements before their submission for auditing
- Monitor the appropriateness and timeliness of action taken by management in instances of known transgressions by officials
- Ensure that internal audit coverage plans assign appropriate resources to the six key risk areas identified by the AGSA
- Thoroughly review auditees' quarterly key control reports to satisfy themselves that the information contained therein is credible and that appropriate action is taken where deficiencies are identified.

4.6 Coordinating/monitoring departments



At national and provincial level there are departments that play a coordinating and monitoring role as defined in legislation and in their mandates, which should contribute to the overall assurance process. These departments are the provincial treasuries, the National Treasury, offices of the premier and the Department of Performance Monitoring and Evaluation (DPME). The impact of these departments on the controls of the auditees was assessed based on interactions with the departments, commitments given and honoured and the impact of their actions and initiatives.

In our assessment, the majority of the departments were providing some assurance through their coordinating and monitoring functions and the levels of assurance improved since the previous year. A summary of the assessments follows, but a more detailed view on the provincial role players is provided in the provincial general reports. We also include a view on the role of the Department of Cooperative Governance and Traditional Affairs (CoGTA) and the Department of Public Service and Administration although we did not assess the assurance level.

4.6.1 Offices of the premier

Legislative mandate

The legislative mandate for the nine provincial offices of the premiers is derived from sections 125 and 127 of the Constitution, sections 3(7), 3(8) and 7(3) of the Public Service Act and sections 16, 17, 18, 19 and 20 of the Intergovernmental Relations Framework. In terms of this mandate, the provincial offices are responsible for specific coordinating functions and the provision of strategic direction within their respective provinces. In addition to this legislation, the offices of the premier also have oversight responsibilities in terms of monitoring and evaluating provincial performance reporting and ensuring provincial alignment to government development priorities. This responsibility is outlined in the National Treasury FMPPI.

These offices play a critical role in ensuring that provinces operate as intended and ultimately deliver the required services to their citizens. They are, however, limited by the legislation that governs them as it is not explicit in defining their roles and responsibilities in terms of oversight. This lack of legislation also limits their ability to perform effective oversight in a consistent manner.

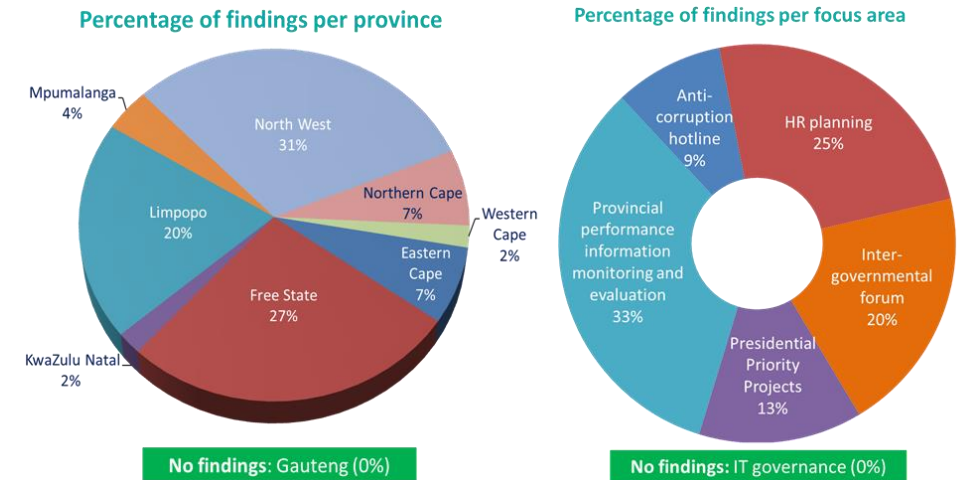
The assessment below was performed in order to evaluate the processes put in place by the offices of the premier to fulfil their constitutional mandates as highlighted above.

Focus areas identified

After analysing the legislation governing the provincial premiers' offices and their strategic objectives and programmes, the following six audit focus areas were identified for assessment:

- **Intergovernmental forums:** The intergovernmental forums were assessed to determine whether they were operational and whether they had sufficient processes in place to enable effective reporting on provincial and national initiatives to the President's coordinating council.
- **National anti-corruption hotline:** The audit of the national anti-corruption hotline focused on whether reported cases were resolved timeously and whether necessary action, including consequence management, was taken.
- In addition, an assessment was performed to determine whether all provinces included indicators and targets relating to the hotline in their annual performance plans and reported on the achievement thereof in their annual performance reports.
- **Presidential priority projects:** The audit of this area was aimed at determining whether the provincial offices were involved in monitoring and evaluating progress made with the presidential priority projects and whether reports were submitted timeously to the DPME.
- **IT governance:** The offices are responsible for the appointment of the provincial Government Information Technology Officer (GITO). The audit of this focus area analysed the role of the provincial GITO as per the guidelines set by DPISA and included an assessment of the role played by the offices of the premier in assisting their provincial departments to implement the IT governance framework.
- **Human resource planning:** The offices have responsibilities to evaluate and monitor human resource planning and performance management within their provinces. The objective of the audit of this focus area was to determine whether human resource policies and plans were in place. An evaluation of developed consequence management frameworks was also performed.
- **Monitoring and evaluation of provincial performance information:** The existence and development of provincial policies to ensure the quality of provincial performance information were evaluated as part of the audit of this focus area. This audit also included an assessment of the assistance provided to under-performing departments.

Figure 2: Outcomes of focus areas

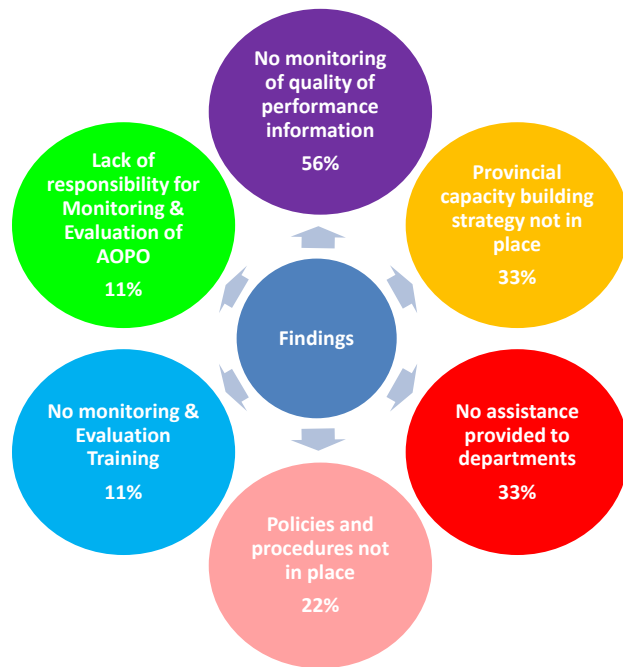


With the exception of Gauteng, findings relating to the sector procedures performed were reported at all provincial offices as depicted above.

The focus areas that had findings prevalent at 25% or more of the provinces are analysed in more detail below. The majority of the findings reported relate to two focus areas, namely **provincial performance information monitoring and evaluation** and **human resource planning**.

Performance information monitoring and evaluation

Figure 3: Analysis of findings on performance information monitoring and evaluation



Chapter 7 of the National Treasury FMPPI sets out the role of the premier's office in terms of monitoring and evaluating provincial performance reporting and alignment to government development priorities.

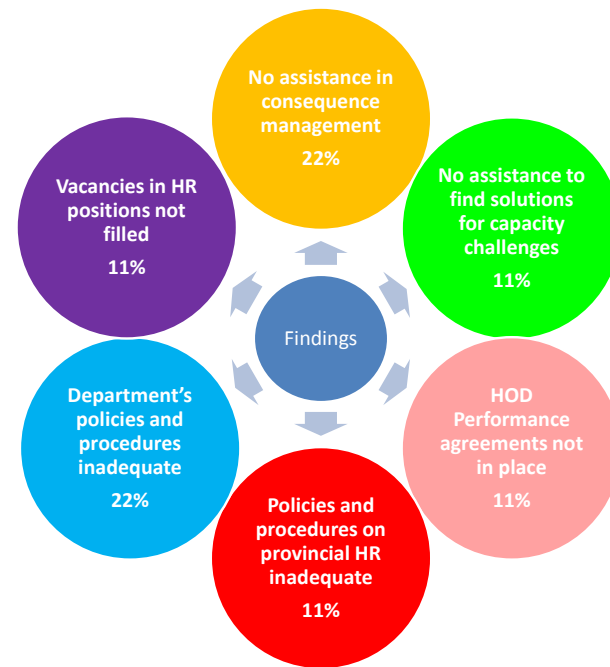
At 56% of the provinces the quality of performance information was not monitored. The root cause of this finding is inadequate skills and resources within the provincial offices to adhere to the requirements of the framework. Furthermore, a lack of strategic direction due to the lack of a provincial capacity-building strategy was prevalent at three of the nine provincial offices, namely Eastern Cape, Free State and North West.

A further consequence of the skills challenge is the lack of assistance provided to provincial departments in the Free State, Limpopo and North West. In the case of the Free State, there is no separate unit to monitor and evaluate performance information. Consequently, the national development priorities as outlined by government might not be appropriately implemented and monitored.

KwaZulu-Natal, Mpumalanga and the Northern Cape received no findings in this focus area.

Human resource planning

Figure 4: Analysis of findings on human resource planning



The provincial offices, with the assistance of DPSSA, are responsible for coordinating public service regulation matters in their respective provinces. Additionally, they are required to provide direction relating to human resource capacity, consequence management and performance management.

Where policies and procedures are inadequate for this purpose, the premier through the provincial executive should develop relevant legislation and ensure implementation thereof. Policies and procedures were not in place for North West and Free State in respect of the following:

- Coordination of training of senior management
- Performance agreements for accounting officers of each department
- Monitoring of vacancies
- Monitoring of departmental human resource plans
- Provincial human resource functions.

Assistance to provincial departments relating to consequence management was not provided by the Mpumalanga and North West offices. This could affect the

timely resolution of cases, with investigations delaying the implementation of government priorities.

Information technology governance emerging risk

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 enable service delivery. All state departments and public entities are therefore required to adopt and implement good IT governance practices. In order to assist departments with their IT functions, DPSA developed an 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. With the exception of the Western Cape, the DPSA's moderated MPAT self-assessment results indicated that phase 1 deliverables had not been completed for all departments in the provinces by 31 March 2014. To address this risk the offices should:

- perform a root cause analysis to identify why the province has not yet implemented its phase 1 deliverables
- determine the required resources to enable the achievement of the outstanding phase 1 deliverables.

Recommendations

Alignment of government priorities per the national development plan should be monitored by the provincial offices and progress against this plan should be reported to the DPME and Presidency on a regular basis. If sufficient progress is not made, appropriate action should be taken to ensure that government priorities are implemented timeously.

In order to further strengthen the offices' ability to perform effective oversight in this regard, it is recommended that national legislation be developed and implemented. This legislation should define the roles and responsibilities of the relevant stakeholders to ensure that information is available and credible and supports progress reported against priorities. This will enable effective oversight in respect of the credibility and quality of reported performance information.

Capacitation of own and provincial resources by ensuring that provincial human resource plans adequately address skill shortages should be made a focus of the provincial offices as this was the root cause for most of the findings reported. This should be supported by a capacity-building strategy that must be implemented and monitored on a regular basis.

Consistency between the nine provinces should be improved by:

- sharing best practices implemented by offices that have had an impact on audit outcomes and service delivery in their respective provinces

- alignment with national oversight bodies, for example the DPME, DPSA and the Presidency
- improvement and enhancement of legislation to define oversight responsibilities.

It is imperative that these offices execute their responsibilities diligently, as any lapse in oversight could result in non-achievement of the development priorities of government and thus have a negative impact on the lives of citizens of South Africa.

4.6.2 Provincial treasuries and National Treasury

Four provincial treasuries were assessed as providing some assurance whereas the Free State, Gauteng, KwaZulu-Natal, Northern Cape and Western Cape provide the level of assurance required to impact positively on the credibility of provinces' financial statements and performance reports and their compliance with legislation. The provincial general reports provide detail of these assessments, as well as the commitments and initiatives made by MECs of finance and the treasuries to improve audit outcomes.

In relation to audit outcomes, the areas within the National Treasury's sphere of influence are primarily to ensure stability and soundness of the financial system and financial services, to manage the budget preparation process and to enforce transparency and effective management in respect of revenue, expenditure, assets and liabilities. In our assessment, the National Treasury continues to be instrumental in strengthening the credibility of financial and performance information, including compliance with the PFMA and improved governance. Although the required monitoring and enforcement are performed and support is provided to auditees through the required frameworks, guidance and assistance, our assessment that they do not yet provide the level of assurance required is based on the limited impact that their initiatives have had to date on the following:

- Improving the audit outcomes on compliance, in particular the quality of financial statements submitted for auditing, supply chain management and the prevention of unauthorised, irregular and/or fruitless and wasteful expenditure
- Improving the quality of annual performance reports.

The National Treasury is committed to continue with the following initiatives to improve public financial management, accounting and reporting:

- Procurement reform which is aimed at rooting out corruption and wastage while introducing innovative approaches to government procurement
- Modernisation of the state procurement system to ensure the efficient, effective and transparent use of financial and other resources to improve service delivery

- Building the capacity of the Office of the Chief Procurement Officer (OCPO) to deliver on its mandate to oversee and support procurement matters across the public sector
- Strengthening the governance and execution of the IFMS project through the Programme Management Office (PMO)
- Developing financial management regulatory frameworks, aligning reporting frameworks with local and international best practice, reviewing treasury regulations and treasury instructions, developing and implementing accounting policies, and enforcing compliance with public finance legislation
- Developing support plans in conjunction with targeted departments and entities to address financial management weaknesses identified by the audit outcomes and through the Financial Management Capability Maturity Model (FMCMM) assessments
- Improving capacity within government in respect of financial management, internal audit and risk management.

Key sector audit messages

The provincial treasuries and the National Treasury are responsible for specific oversight functions. These oversight functions are there to assist in ensuring that auditees operate as intended, deliver the required services, report correctly on their finances and performance, as well as comply with legislation.

The objective of the sector audit procedures was to establish whether the treasury offices had planned and performed these core functions in the following key areas:

- Budget preparation and monitoring
- Compliance monitoring and enforcement
- Support to municipalities.

The key message emanating from this audit was that the Limpopo and Mpumalanga offices noticeably fared worse than the rest of the treasuries. Overall, the following transversal messages require attention:

- Vacancies in monitoring and compliance units
- Inadequate quarterly reporting to provincial legislatures.

4.6.3 Department of Performance Monitoring and Evaluation

Some policy shifts took place during the year within National Treasury and as from November 2013, the DPME was given the role to guide strategic and annual performance planning in government. The DPME has been working with the National Planning Commission (NPC), vested during 2013-14 in the Presidency, to develop an implementation plan – the *Medium-term strategic framework* (MTSF) for the national development plan 2030. As from October 2014 the NPC was

transferred from the Presidency to the DPME. This strategic direction will in future result in DPME aligning the national development plan and the MTSF into delivery agreements, strategic plans and APPs of departments at national and provincial level on an annual basis. As a result of the new strategic direction, the name of the department changed from the Department of Performance Monitoring and Evaluation to the Department of Planning, Monitoring and Evaluation.

The DPME's contribution to assurance is primarily the following:

- Facilitating the development of plans or delivery agreements for the cross-cutting priorities or outcomes of government and monitoring and evaluating the implementation of these plans
- Monitoring the performance of individual national and provincial government departments
- Monitoring frontline service delivery
- Managing the Presidential hotline
- Performing evaluations of major and strategic government programmes
- Promoting good monitoring and evaluation practices in government.

Ongoing activities of the DPME include the following:

- Monitoring progress made with the implementation of the delivery agreements for the 14 outcomes relating to the five key priority areas as well as facilitating quarterly reporting to cabinet
- Continuing with the MPAT annual assessments and reporting the results to cabinet
- Promoting and strengthening participatory democracy through its citizen-based monitoring programme (CBM) by visiting a target number of service delivery sites
- Continuing to implement the Presidential hotline and the frontline service delivery monitoring programme (FSDM) to offer a platform for citizens to provide feedback on the quality of services they receive from government institutions.

In our assessment, the DPME provides some assurance as it monitors and evaluates various aspects that are linked to the audit outcomes and service delivery of government.

This enables the cabinet to identify the weaknesses in government that need to be addressed to ensure improved performance/ service delivery by government institutions.

4.6.4 Department of Public Service Administration

The DPSA derives its mandate from section 195 of the Constitution and the Public Service Act, 1994 (Act No. 103 of 1994). The DPSA is responsible for establishing norms and standards for national and provincial government relating to:

- the functions of the public service
- organisational structures and establishments of departments and other organisational and governance arrangements in the public service
- labour relations, conditions of service and other employment practices for employees
- the health and wellness of employees
- information management
- electronic government in the public service
- integrity, ethics, conduct and anti-corruption
- transformation, reform, innovation and any other matter to improve the effectiveness and efficiency of the public service and its service delivery to the public.

In relation to audit outcomes, the areas within the DPSA's sphere of influence are primarily the following:

- In respect of human resources: Establishing norms and standards relating to skills, capacity, vacancies, performance management, etc.
- In respect of the management of information technology: Managing and overseeing IT policy and planning in the public sector
- In respect of compliance to legislation by departments: Establishing regulations and codes of conduct regarding integrity, ethics, conduct and anti-corruption in the public service.

With the introduction of the national development plan 2030, the DPSA is required to implement and coordinate interventions aimed at achieving an efficient, effective and development-oriented public service which is an essential element of a capable and developmental state.

Measures implemented by the Department of Public Service and Administration

The DPSA implemented the following initiatives to support and/or exercise oversight of provincial government:

- The Public Administration Management Bill was developed and speaks directly to the basic values and principles governing the public administration

contained in chapter 10 of our Constitution. The Public Administration Management Bill seeks to:

- a) address public administration as one entity
 - b) promote and maintain of high standard of professional ethics
 - c) facilitate skilling and multi-skilling of members of public administration
 - d) deploy human resources across the three spheres of government
 - e) ensure efficient, economic and effective use of resources
 - f) create a public administration that is development oriented and accountable, among other principles. These principles must apply to administration in every sphere of government.
- The first government leadership summit was successfully hosted by the department on 3 April 2013. The summit, which was attended by 500 senior public servants from national, provincial and local government, was aimed at providing a platform for discussions on key matters and challenges relevant to addressing priority issues in the public sector.
 - The DPSA also launched the Batho Pele call centre number simultaneously with the public service charter. By calling the Batho Pele call centre the public will be able to communicate directly with the public service on any experience they have had or to request assistance.
 - The public service charter seeks to improve service delivery programmes, reinforce the partners' commitment to service delivery improvement for the benefit of all citizens and ensure an effective, efficient and responsive public service.
 - The Office of Compliance and Standards was established in 2012-13 to monitor compliance with public service regulatory frameworks by government departments. The office will also develop service standards and remedial measures for intervention where necessary and has done work in support of interventions in North West and Limpopo.
 - The DPSA developed and launched the e-Disclosure system, which all senior managers in the public service are required to use to disclose their financial interests. This initiative is part of the integrity programme implemented by government to entrench the principle of clean government. The e-Disclosure system, developed in partnership with SITA, is being rolled out to all national and provincial departments and will improve the compliance rate for disclosure of financial interests.
 - During this period the protocol for recruitment and filling of advertised posts of deputy directors-general and heads of department was approved by the cabinet and is being implemented.

- The *Public service integrity management framework* was also approved and the department is briefing the provinces.

Although the DPSA introduced a significant number of measures to assist other government departments to professionalise the public service, it still lacks adequate capacity and systems to consolidate, monitor and analyse the audit outcomes of government as explained below:

- Currently the DPSA does not have the capacity to effectively execute the responsibilities imposed by the national development plan and therefore relies heavily on cooperation and collaboration with the other centre of government entities to gather information to inform policy and practice note changes. Entities used by the DPSA to gather information are the National Treasury, the DPME in the Presidency and the AGSA.
- There was an overall improvement in the status of human resource management in government in the 2013-14 financial year. For the key areas of concern refer to the details presented in section 3.2. While the actual implementation policies and procedures created in terms of the Public Service Act are the responsibility of the individual accounting officers of national and provincial departments, the DPSA is the custodian of these policies.
- As analysed in section 3.3, information technology controls require further attention.
- The Public Information and Communication Technology Management (PSICTM) branch does not have the capacity to assist the national and provincial departments, local government and public entities with the implementation of the *Corporate governance of information and communication technology policy framework* (CGICTPF). In the 2014-15 financial year government is expected to implement phase 2 of the CGICTPF although the effective implementation of phase 1 is still to be determined.
- The *Minimum information security standards framework* (MISS framework) that seeks to establish and reinforce core rules, guidelines, practices, regulations and standards for safeguarding information has not been updated in more than 10 years and is therefore not aligned to best practice. The MISS framework will provide guidance on how the departments should approach information security.

Recommendations

In order for the DPSA to enhance the level of oversight, the following areas need further attention:

- The DPSA should actively pursue the passing of the Public Administration and Management Bill. Once the bill is passed into law, the DPSA will be in a position to enforce compliance in the areas of public service regulations, ethics and integrity as well conduct regular audits and issue norms and standards.

- The DPSA needs to create the capacity and systems to consolidate, monitor and analyse the audit outcomes of government to be able to identify and address weaknesses in current legislation, regulations and guidance.
- The DPSA must assume and execute its role in ensuring the successful roll-out of the IFMS in the country.

Information technology systems

- A key focus for the DPSA is strengthening the governance framework within which IT services are identified, specified, procured, contracted and managed in government. The cabinet approved the adoption of a governance framework for IT in November 2012. The process will be a three-phased approach and the departments were all required to have completed phase 1 by 31 of March 2014. The IT governance framework should be integrated with overall enterprise governance to facilitate alignment of IT with business activities. In addition, the IT governance framework should ensure that structures and processes are in place to provide strategic direction for IT. The departments had to implement phase 1 of the CGICT framework by 31 March 2014, but according to the DPME's MPAT assessment the majority of the departments (both national and provincial) are still struggling to implement the deliverables of phase 1.
- There is a need for the Office of the Government Chief Information Officer (OGCIO) directorate to be fully capacitated in order to provide training and support during the framework implementation. The directorate has the responsibility to manage and oversee ICT policy and planning in the public sector; however, there are challenges with regard to the leadership as the position of the chief information officer has been vacant for more than three years, with an official working on a contractual basis.
- There is still a need for more collaboration and coordination with other departments and public entities charged with the responsibility of managing ICT within the public sector in order to leverage from each other's technologies and capabilities to achieve the e-government objective and also to enable and support the implementation of the national development plan.
- The DPSA, in coordination with the Department of Postal and Telecommunications, has to ensure that the transfer of SITA from the public service administration portfolio to the postal and telecommunications portfolio is done seamlessly. Government cannot afford to have any gaps in the oversight of SITA as SITA is crucial to the implementation of the IFMS project and renders support to all national and provincial department through ICT hoisting, procurement and ICT project development initiatives.

4.6.5 Department of Cooperative Governance and Traditional Affairs

CoGTA derives its mandate from chapters 3 and 7 of the Constitution and defines its primary mandate as follows:

- To develop and monitor the implementation of national policy and legislation, seeking to transform and strengthen key institutions and mechanisms of governance to fulfil their developmental role
- To develop, promote and monitor mechanisms, systems and structures to enable integrated service delivery and implementation within government
- To promote sustainable development by providing support to provincial and local government.

For CoGTA to achieve an integrated, responsive and highly effective governance system, the Department of Cooperative Governance (DCoG) identified 11 strategic goals, one being to strengthen cooperative governance and provide oversight and support to provincial and local government.

The purpose of reporting on the cooperative governance sector is to highlight the progress made and challenges facing national and provincial departments in providing oversight, support and monitoring. The focus areas for this sector are as follows:

- Identifying key legislative requirements applicable to national and provincial departments in the monitoring and oversight of local government and assessing whether these are met
- Determining whether the sector has core customised performance indicators and whether these are included in the strategic plans (APPs) for all
- Determining the spending trends and possible challenges around the municipal infrastructure grant (MIG) and the municipal systems improvement grant (MSIG).

Measures implemented by the Department of Cooperative Governance

The DCoG implemented the following initiatives to support and/or exercise oversight of provincial government:

- Developed guidelines in consultation with the provinces on provincial monitoring of municipalities as well as non-performance and maladministration in terms of sections 105 and 106 of the Municipal Systems Act
- Monitored provinces to support municipalities in filling vacancies in senior manager posts in compliance with the Municipal Systems Act
- Facilitated provincial workshops to roll out the revised individual development plan framework for municipalities to improve development planning capacity at municipalities outside metros and secondary cities

- Provided support to municipalities to improve the delivery of free basic services to indigent households
- Commenced with the initial processes to develop a monitoring and reporting system for local government, as required by the FMPPI
- Supported provinces to develop and implement a performance management system framework
- Convened workshops and obtained inputs from the municipalities through the provinces on the core set of local government performance indicators
- Improved expenditure on the MIG and MSIG:
 - Monitored monthly expenditure reports
 - Commenced with the development of a new MIG policy.

Coordination between key role players, i.e. CoGTA, the National Treasury and South African Local Government Association (SALGA), should be improved to identify and address the key needs of the municipalities.

We noted the following:

- National DCoG did not determine and provide customised indicators for the provincial cooperative governance sector for 2013-14. As the primary objective of customised indicators is to ensure consistent service delivery by all provincial departments within the cooperative governance sector, the absence of these customised indicators can have a negative impact on the delivery of key services in the provinces as well as within the sector.
- The approval by the minister and members of the executive council (MinMEC) of the guidelines on provincial monitoring of municipalities, as well as non-performance and maladministration in terms of sections 105 and 106 of the Municipal Systems Act, is still outstanding.
- The monitoring and reporting systems for local government were not developed by 31 March 2014 as per the planned target. This was as a result of the work involved being underestimated.
- Provinces could not be supported in developing and implementing a performance management system framework as there were delays in the appointment of a service provider and thus training could not be provided to the municipalities.
- The core set of local government performance indicators was not approved by March 2014 as per the planned target.
- Although the national CoGTA did have mechanisms in place to monitor spending of the MIG and MSIG, we noted the following shortcomings:
 - The MIG management information system (MIS) was not effectively used by all the provinces, resulting in the use of Excel spreadsheets for

capturing information. This was mainly due to inadequate training of the relevant officials.

- Even though spending was monitored through the monthly reports, which make provision for the analysis of variances as well as remedial action to address the areas of concern, and submitted by the provincial departments to national, this process proved to be ineffective in ensuring that:
 - o the funds transferred were fully spent
 - o where the funds were spent, the spending was in line with the intended purpose.
- Monthly spending reports received from municipalities also often differed from the reports submitted to the National Treasury, creating significant challenges in ensuring accurate and effective monitoring of these grants during the quarterly reporting processes.
- Support intervention, which includes, but is not limited to meetings or coordinating meetings at the municipalities, work sessions by the provincial departments with the municipalities and development of action plans to outline interventions, was not yielding the required results in addressing the challenges to ensure appropriate and effective spending of the grants.
- The above shortcomings were mainly due to the following two key factors:
 - o The department did not have sufficient capacity to adequately monitor the spending of these grants and to ensure that meaningful analysis was performed on the reports, which should have enabled the department to adequately track the spending of these grants.
 - o The department also did not have sufficient funding to address the lack of resources/ capacity constraints in the monitoring unit.
- Monthly reports were not always submitted to the national department by the municipalities via the provincial departments for MIG and directly to DCoG for MSIG to enable the national department to conduct meaningful analyses and timeously identify weaknesses. Where reports were submitted, it was only to ensure compliance. These reports were therefore inaccurate and incomplete and not aligned to actual spending.

Recommendations

In order for the national DCoG to enhance the level of an oversight and support institution, it must focus on the following areas:

- Improve coordination within the national CoGTA and between itself and the nine provincial CoGTAs.
- Develop tools and mechanisms to strengthen support, monitoring and intervention initiatives by sector departments and provinces. Initiatives should

be clearly articulated in the strategic plans and must have measurable targets, goals and adequate funding to ensure effective implementation of efforts.

- The national CoGTA, National Treasury and SALGA should coordinate efforts to determine key needs at municipal level and formulate action plans to address these needs in a coordinated manner. Furthermore, these role players should work together to find the best service providers to address these specific needs.
- Determine and provide customised indicators to the provincial cooperative governance sector to ensure consistent service delivery by all provincial cooperative governance departments.
- Expedite the approval of the guidelines on provincial monitoring of municipalities as well as non-performance and maladministration in terms of sections 105 and 106 of the Municipal Systems Act and ensure that they are implemented without further delay.
- Expedite development of the monitoring and reporting system for local government as required by the FMPPPI to ensure that the planned target for implementation of the system is achieved by 31 March 2015.
- Consult timeously with all relevant stakeholders to ensure that the core set of local government performance indicators is approved by the target date.
- The department had successfully requested additional funding from the National Treasury to ensure that it has the necessary means to increase its monitoring capacity. This process, however; also requires the department to engage the DPSA to align the additional budgeted capacity with the human resource plan.
- Conduct meaningful analysis of the MIG and MSIG reports to adequately track and monitor spending of the MIG and MSIG, and to identify municipalities that require intervention.
- The national and provincial CoGTAs should ensure that the MIG MIS is effectively and efficiently used so that information is readily available on the system for monitoring processes. Officials responsible for capturing information on the MIG MIS should be trained. Non-utilisation of the system should be escalated to the relevant MEC for action, and this process should be communicated to the minister.
- Develop action plans to ensure that spending trends at the municipalities are improved.
- Monitor the performance of the MSIG to ensure that progress is made with capacity building to eliminate continuous funding for the same initiatives, thereby improving the effectiveness of the grant.
- Benchmark against well-performing sector departments, e.g. Western Cape and Gauteng.

Third level of assurance: External independent assurance and oversight

4.7 Legislatures

Introduction and background

The legislative sector consists of Parliament of the Republic of South Africa (Parliament), i.e. the National Assembly and the National Council of Provinces and the nine provincial legislatures of the Eastern Cape, Free State, Gauteng, KwaZulu-Natal, Limpopo, Mpumalanga, Northern Cape, North West and the Western Cape. These institutions were established in terms of the Constitution of the Republic of South Africa, 1996 (Act No.108 of 1996) (Constitution) and have a common constitutional mandate, which relates among others to:

- *law making* – the power to make laws is exercised in accordance with sections 43(a) and 44 of the Constitution
- *oversight of the executive* – national cabinet ministers and MECs at a provincial level must account fully and on a regular basis to the legislative arms on their departments' functions and take full responsibility for their performance
- *ensuring the involvement of citizens in legislative processes* – this is done by providing for the facilitation of public involvement in the legislative processes of the legislative sector and its committees.

Parliament and the provincial legislatures must maintain oversight of all executive organs of state. Oversight entails proactive interactions with the executive authorities and the departments and public entities within their portfolios to encourage compliance with their constitutional obligations and to ensure that agreed-upon objectives are achieved. The oversight is conducted through committees, which consist of public accounts committees and portfolio committees. One of the key oversight functions of these committees is the consideration of annual reports of all state institutions and the reports of the Auditor-General. The public accounts committee focuses specifically on aspects of the annual report that deal with financial management and related performance management, as well as the implementation of legislation by auditees and providing assurance in this regard, while the portfolio committee mainly considers non-financial information relating to the performance of auditees and provides assurance based on their oversight.

Key initiatives of the legislative sector

Parliament and the provincial legislatures have organised themselves into a sector on a voluntary basis. A key resolution of the first Speakers' Forum since the establishment of the fifth democratic Parliament was to strengthen the legislative arm through closer cooperation and systematic implementation of common

programmes to build effective institutions and to deliver on the vision of the Constitution. The strategic focus of the South African Legislative Sector (SALS) is:

- to deepen and entrench a people-centred democracy in South Africa through reinforcing public participation mechanisms in legislative processes, contributing to nation-building and ensuring a focus on gender and disability
- to strengthen law-making by reviewing and evaluating the impact of legislation and educating the public on the Constitution
- to strengthen oversight capacity to enable the legislative arm to scrutinise government programmes and budgets in order to ensure accountability by the executive – key in this regard was the development of an oversight model aimed at improving oversight by establishing a baseline for systems, mechanisms and tools for conducting oversight and, further, to standardise oversight practices
- to lead by example in building effective and efficient legislative sector institutions to help strengthen constitutional democracy and to ensure service delivery – the passing of the Financial Management of Parliament Amendment Bill in August 2014, which will also apply to provincial legislatures once it becomes effective, is key in this regard and represents an important milestone to strengthen sound financial and performance management and compliance with legislation in the legislative sector
- to participate in the international legislative community in order to strengthen the capacity of the sector and share knowledge and experiences with counterparts internationally.

Key audit findings

During the year under review we performed procedures to establish whether Parliament and the provincial legislatures have planned and performed their core functions of oversight, law-making and public participation. Our main findings are in the area of oversight, which indicate that although institutions in the legislative sector generally perform their oversight functions through the committee systems, the following matters require urgent attention:

- Three auditees (30%) (Parliament, Eastern Cape and Northern Cape) in the legislative sector did not have formal processes to monitor the tabling of annual performance plans, budgets, quarterly reports and annual reports of departments and public entities. This will enable the committees to establish whether or not their constitutional oversight and accountability processes have a direct and positive impact on auditees' internal controls, audit outcomes and service delivery through the recommendations they make on the affairs of departments and public entities.

- Two (20%) auditees (Parliament and the Free State) within the legislative sector did not follow up on the implementation of action plans and commitments, including recommendations from audit reports of some departments and public entities to address reported internal control deficiencies and audit findings. The follow-up of the implementation of action plans, commitments and recommendations by the legislative entities through their various committees will ensure effective and high-impact oversight.

Recommendations

We recommend the following for improved oversight:

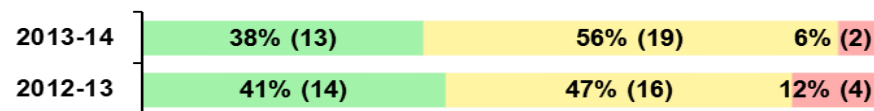
- The Speakers' Forum should, in the ongoing roll-out of the oversight model for the South African legislative sector, consider:
 - establishing appropriate processes to measure the effectiveness of the legislative oversight function in holding the executive arm of government accountable in respect of financial and performance management and compliance with legislation.
 - improving the mechanisms at their disposal to effectively monitor the status of auditees' action plans and commitments to address reported internal control deficiencies and past audit findings. For example, audit committees could be invited to have regular interactions with the committees where they (audit committees) can independently inform the committees of the status of auditees' implementation of commitments and resolutions to ensure effective monitoring of progress.

The Speakers' Forum, together with the legislative sector finance forum, should plan appropriately to guide and support the accounting officers of affected provincial legislatures in implementing the relevant requirements following the passing of the Financial Management of Parliament Amendment Bill. Appropriate systems, processes and procedures should be implemented, including building the requisite capacity and skill to implement the new financial reporting framework, performance management and reporting, compliance with supply chain management, as well as related governance arrangements. This will support effective service delivery by the legislative sector. In terms of the Constitution, Parliament and the provincial legislatures must maintain oversight of all executive organs of state. Oversight entails proactive interactions with the executive authorities and the departments and public entities within their portfolios to encourage compliance with their constitutional obligations with a view to delivering on agreed-to objectives for the achievement of government priorities. The mechanism used to conduct oversight is generally through committees. The public accounts committees and portfolio committees deal with financial and performance management and the implementation of legislation by auditees and are key assurance providers in this regard.

We assessed the level of assurance provided and the impact thereof on audit outcomes of the national portfolio committees, public accounts committees and

portfolio committees, as independent assurance providers on the internal controls of the auditees. The assessments are based on our interactions with them, commitments made and honoured and the impact of their resolutions, actions and initiatives.

4.8 National portfolio committees



The portfolio committees remain a catalyst stakeholder group that carries the AGSA message into the oversight space. They amass the necessary volume of oversight work and are portfolio-specific, thus providing ample time for issues that affect specific departments to be elevated. During the year under review, portfolio committees have taken the following initiatives:

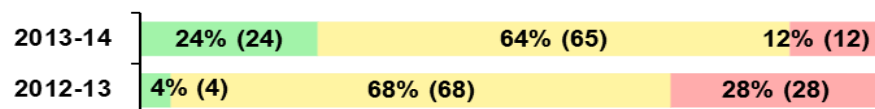
- The portfolio committees elevated audit of predetermined objective issues in all their interactions with departments largely because of their mandate which allows them to focus on policy and service delivery issues.
- The portfolio committees mostly made time to interact with the AGSA leadership on a quarterly basis as part of the key control discussions and were therefore able to be apprised of key issues that require their oversight scrutiny.
- Most committees used the insight gained from the AGSA reports to conduct oversight and call for specific action to be taken by departments in order to improve governance.
- In instances where the AGSA leadership presented to portfolio committees, there has been an improvement in the quality of recommendations made by the committees in their reports, leading to improved oversight and accountability.
- Portfolio committees have also sought to sharpen their oversight focus by requesting capacity-building sessions facilitated by the AGSA, thereby gaining much-needed insight and a better understanding of the AGSA's processes and products.
- During the annual financial assessment of departments (BRRR process), portfolio committees scheduled structured interactions with the AGSA to be briefed on the latest audit outcomes. The portfolio committees have made a commendable effort to use the AGSA's recommendations to call for corrective action by the departments, especially in the year under review.

Having noted the initiatives taken by the portfolio committees, it is unfortunate that most committees have not used the insight gained from the audit findings on sectoral service delivery aspects contained in the general report on departments with regard to functions that extend across all three spheres of government. This

sectoral perspective can be used by a number of committees in National Assembly to oversee key service delivery such as education, health, human settlements, social development and public works.

The portfolio committees have provided some level of assurance in light of their oversight role, as demonstrated above. The impact, however, has been limited.

4.9 Provincial portfolio committees and provincial public accounts committees



The provincial portfolio committees provided some assurance. The oversight role of portfolio committees in the provinces can be enhanced by ensuring that departments and public entities provide credible information on which House resolutions and decisions can be based. The audit committees and internal audit units play a crucial role in validating the credibility of information provided by departments and public entities; however, it remains a challenge that provincial portfolio committees are not able to use the information gathered from this level of assurance.

In instances where departments and public entities' audit committees and internal audit units have engaged the portfolio committee on the credibility of information provided, portfolio committees were able to perform robust oversight, adopt resolutions and track their implementation. In addition, in instances where members of both the Standing Committee of Public Accounts (SCOPA) and the relevant portfolio committees were represented in a joint hearing, critical issues were dealt with. This collaborative process promotes holistic oversight in addressing issues of finance, predetermined objectives and policy matters.

Overall, areas that should be addressed to improve assurance and the impact of these committees include the following:

- Portfolio committees should make sure that auditees develop action plans to address reported internal control deficiencies and should secure commitments from the departments to ensure effective monitoring of progress.
- The audit committees should be invited to interact regularly with portfolio committees and at such meetings the audit committees should independently advise committees of the status of risk management, systems for monitoring, recording and reporting on predetermined objectives, as well as of the status of the existence of audit committees and implementation of audit findings with a view to corrective measures.

- There should be greater collaboration between portfolio committees and the provincial public accounts committees to ensure effective sharing of information relevant to their oversight responsibilities.

The provincial public accounts committees have through various initiatives been assessed to have provided some level of assurance; however, initiatives undertaken by these committees in the year under review seem to have yielded limited impact. The major obstacles to provincial public accounts committees achieving the required level of assurance relate mostly to the following issues:

- Conducting timely hearings with the departments to raise audit issues
- The timeliness of processing resolutions, including monitoring them to ensure that they are implemented, remains a challenge in almost all the provinces.

4.10 National Standing Committee on Public Accounts

For the period under review SCOPA made various attempts to provide assurance on its role as an oversight committee by undertaking a series of activities as per its strategic plan. Below are some of these activities:

- SCOPA structured its oversight activities by focusing on the findings made by the AGSA on its reports (regulatory and performance audit reports). During its interactions with departments, SCOPA planned its hearings based on the root causes of the key audit findings highlighted during briefings by the AGSA.
- Given its role as financial oversight committee, SCOPA has emphasised the importance of assurance mechanisms such as internal audit units and audit committees of departments by making them a permanent feature during hearings although their full participation is still lacking.
- SCOPA has made ongoing attempts to collaborate with portfolio committees in its hearings; however, there has been limited success in this regard. Further attempts were made to escalate this matter through the National Assembly House chairperson for committees and plans are underway to ensure close collaboration on overlapping issues that affect portfolio committees.
- The committee has also strengthened ties with other institutions such as the National Treasury and DPSA in an effort to focus more intensely on issues pertaining to accountability at all levels. In its interactions with these institutions, SCOPA has called for the proper monitoring of processes pertaining to SCM and ethical behaviour in the public sector in order to resolve some of the findings highlighted by the AGSA.
- During the course of its oversight, SCOPA has taken a firm position against departments that fail to discipline employees found guilty of gross financial management misconduct, thereby playing a role in highlighting the importance of consequence management in the public sector.

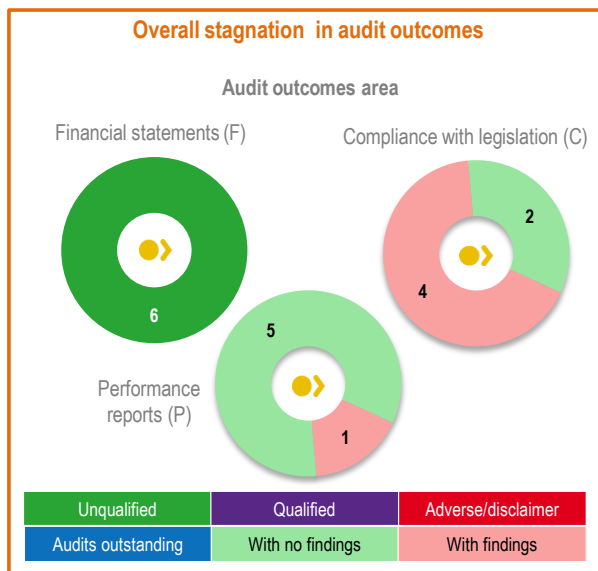
- While it has dealt with performance audit report on infrastructure in the previous financial year, the committee followed up on the progress made with the completion of the Kimberley Hospital, a clear demonstration of its desire to ensure that issues highlighted in the performance audit report are given full attention.
- SCOPA has also ventured into other forms of oversight by visiting various departments to follow up on the issues raised by the AGSA and evidence gathered during its hearings, thereby extending its activities beyond the traditional oversight channels.

Although there are notable improvements in SCOPA's oversight scrutiny, there remains a gap in the completion of its work.

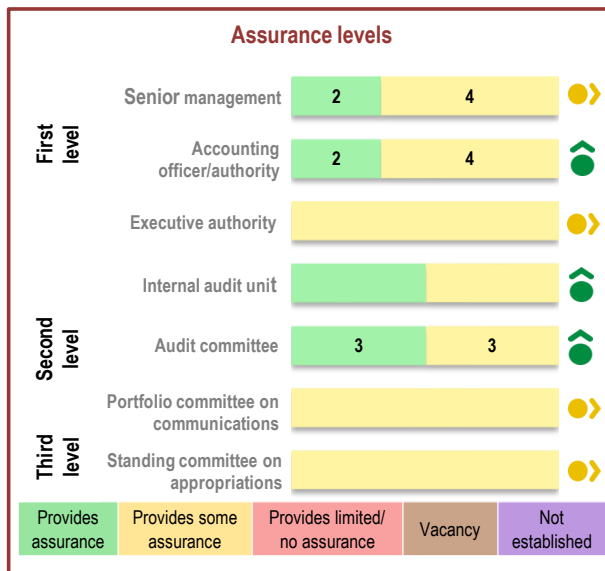
- There are challenges pertaining to the late processing of resolutions by the House, which undermines all the hard work done by the committee. In the past financial year none of SCOPA's resolutions were passed by the House.
- The general follow-up on resolutions is also weak because of the limited assessment of explanations provided by the relevant ministers/ accounting officers in response to SCOPA's recommendations.

SECTION 5: AUDIT OUTCOMES OF INDIVIDUAL PORTFOLIOS

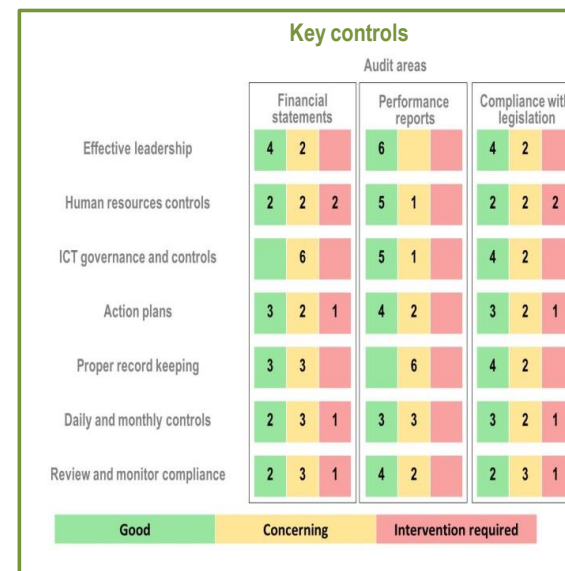
Vote 1: The Presidency



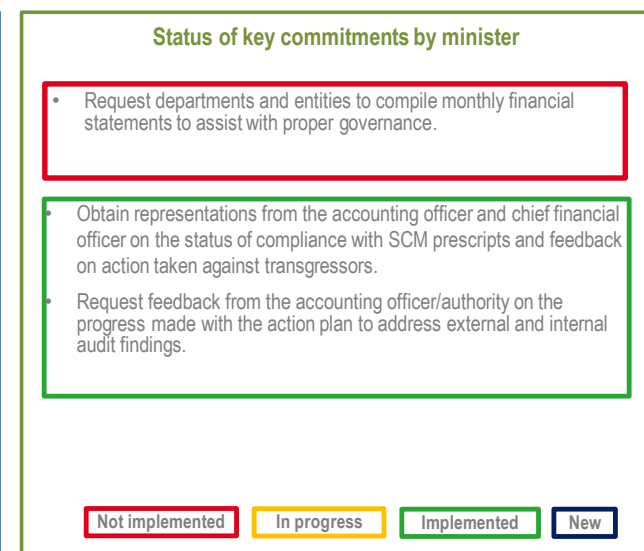
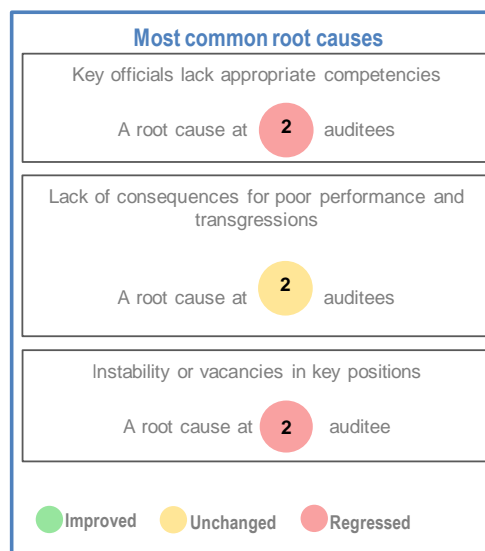
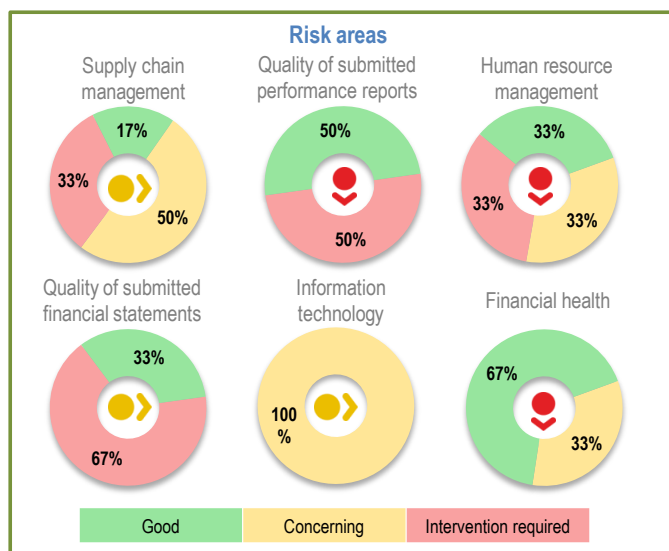
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To improve the **audit outcomes** ...
... the **risk areas** and ...
4



2
... the key role players need to **assure** that ...
... the **root causes** are addressed ...
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3
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6



Auditees included in the portfolio

- The Presidency
- Brand South Africa Trust (Brand SA)
- Department of Performance Monitoring and Evaluation (DPME)
- Government Communication and Information System (GCIS)
- Media Development and Diversity Agency (MDDA)
- National Youth Development Agency (NYDA)

The departments' budgeted expenditure for the 2013-14 financial year was R1,725 billion. The main expenditure was:

Employee cost	R588 million
Goods and services	R487 million
Transfer payments	R575 million.

Overall audit outcome

There was no improvement in the audit outcome within the Presidency's portfolio. The DPME and MDDA maintained their clean audit outcomes. The remaining entities within the portfolio had also retained their financially unqualified audit outcomes with findings on compliance with legislation.

The main findings from our audit were reported in the audit reports and need to be addressed to improve the overall audit outcomes. They are as follows:

Financial statements

The Brand SA, GCIS, NYDA and the Presidency submitted financial statements for auditing that contained material misstatements in the areas of expenditure, non-current assets, liabilities and disclosure items. These entities received an unqualified audit opinion only because they corrected all the material misstatements identified during the auditing process.

The following controls should be strengthened to create a control environment that supports reliable financial reporting:

- Daily, weekly and monthly disciplines of preparing reconciliations for key accounts.
- Implement a system that will enable regular, accurate and complete financial statements that are supported and evidenced by reliable information.

- The process of preparing financial statements should be reviewed by the leadership and internal audit. The audit committees should exercise sufficient oversight over this process.

Annual performance report

The Presidency's published annual performance report included information on its performance against predetermined objectives that was not useful and reliable for Programme 1: Administration.

The DPME and the NYDA submitted annual performance reports for auditing that contained material misstatements. They avoided material findings in their audit reports only because they corrected all the misstatements we identified during the auditing process.

The following controls should be strengthened to create a control environment that supports useful and reliable reporting on the performance of the portfolio:

- The technical indicator descriptions and the strategic plans should be extensively reviewed by leadership before tabling in Parliament.
- Record keeping measures to ensure that complete, relevant and accurate information is accessible and available to support performance reporting.
- The achievements reported in the quarterly and annual performance reports should be reviewed against source documents by management, leadership and internal audit.

Compliance with legislation

We identified material non-compliance with legislation by GCIS, NYDA and the Presidency in the following areas:

- The NYDA and the Presidency did not always follow a competitive bidding process for procuring goods and services.
- The NYDA did not advertise an invitation for competitive bidding in at least the government tender bulletin and did not have supporting evidence that quotations were awarded to bidders based on points given for criteria that were stipulated in the original invitation for bidding.
- The NYDA and the Presidency did not take reasonable steps to prevent irregular expenditure as well as fruitless and wasteful expenditure in the case of the NYDA.
- The NYDA did not implement consequence management processes against those that incurred and/or permitted fruitless and wasteful expenditure incurred in the previous and current year.
- The NYDA and the Presidency did not have effective systems of internal controls with regards to performance information.

- Not all senior managers at the Presidency had signed performance agreements. Furthermore, not all funded vacant posts were filled within 12 months.
- The NYDA did not implement effective and appropriate steps to collect all money due to them.
- The GCIS appointed employees without following a proper process to verify the claims made in their applications.

The portfolio incurred R29, 7 million in irregular expenditure and R2, 5 million in fruitless and wasteful expenditure. The Presidency and NYDA accounted for a combined 94% of irregular expenditure for the portfolio and 93% of fruitless and wasteful expenditure.

There was a reduction in the supply chain management risk for the NYDA, as is evident from a 73% reduction in irregular expenditure compared to the previous year and less non-compliance with supply chain management legislation. This was a result of improved monitoring, oversight and consequence management by leadership.

The supply chain management environment within the Presidency remains of concern. Non-compliance with supply chain management legislation recurred and irregular expenditure increased by 94% compared to the previous year. The Presidency should capacitate the supply chain unit with full time, adequately skilled officials and improve the supply chain management controls to ensure compliance with legislation and to prevent non-compliance.

The following controls should be strengthened to create a control environment that supports compliance with legislation:

- Mechanisms that identify applicable legislation as well as changes to legislation. Implement processes to ensure and monitor compliance with legislation.
- Performance and consequence management processes where staff do not comply with legislation.

Root causes

Accounting officers/accounting authorities and chief financial officers should address the root causes of poor audit outcomes and inadequate controls as follows:

- Audit action plans should be developed in a timely manner and responsibility assigned to the relevant members of management to implement and monitor progress made against actions included in the plan.
- Link the implementation of the audit action plan and the audit outcome to individual performance contracts.

- Fill key vacancies and improve competencies in key sections through training, including finance and those responsible for performance reporting.

Impact of key role players on audit outcomes

The first and second levels of assurance should be improved by:

- Providing effective leadership, and exercising oversight of financial and performance reporting and compliance with legislation.
- Implementing effective human resource management to ensure that adequate and sufficiently skilled staff is employed and that performance is monitored.
- Establishing policies and procedures to enable sustainable internal control practices, and monitoring the implementation of action plans to address internal control deficiencies.
- Supporting internal audit and the audit committee, and ensuring a response to all reports.

We met with the previous minister once and corresponded in writing three times during the past year. The interaction and correspondence had minimal impact as there were no changes in the audit outcome within the Presidency's portfolio. The minister's lack of impact on the controls of the auditees as well as the status and impact of the commitments contributed to the assessed assurance provided by the minister.

There is no oversight committee for the Presidency. The assurance provided through the Standing Committee on Appropriations' oversight of the DPME and the NYDA, and the Portfolio Committee on Communications' oversight of Brand SA, the GCIS and the MDDA, should be improved. The oversight had little impact as changes in the audit outcome were slight within these auditees.

The previous year's commitments to track the progress of implementing action plans by auditees and monitoring key controls quarterly, with a specific focus on compliance with supply chain management regulations were implemented, but did not have an impact on the outcomes. The commitment to ensure the accuracy of financial statements submitted for audit by preparing monthly financial statements was not implemented.

Risks to financial health

The main concern on financial health is the inadequate debt collection of the NYDA's loan book and the bank overdraft by the Presidency as a result of previous years' unauthorised expenditure of R45 million.

Vote 2: Parliament of the Republic of South Africa

Stagnation in audit outcomes

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

Assurance levels

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

Key controls

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

F = Financial P = Performance C = Compliance

Good Concerning Intervention required

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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

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

Status of key commitments by Presiding Officers

(1) Establish Parliament's oversight mechanism in line with the requirements of the FMPA.	Filling of key management positions (chief audit executive and chief financial officer, except for chief information officer)
(2) Fill key management positions and institutionalise the practice of monitoring of key controls by the accounting officer and internal audit.	Monitoring to ensure timely implementation of action plan to address past audit findings and identified internal control deficiencies
(3) Establish Marang work flow to ensure timely payment of invoices and implement consequence management for non-compliance.	

Not implemented In progress Implemented New

The total voted funds for Parliament for the 2013-14 financial year amounted to R1,873 billion. The main expenditure was incurred for compensation of the employees and members (R1,223 billion), transfers to non-profit institutions (R333 million) and general expenses (R475 million).

Overall audit outcome

There has been no movement in the audit outcomes of Parliament due to management not addressing past audit findings and identified internal control deficiencies in a timely manner, especially in the area of asset management, which had been identified as an emerging risk in the prior year. The financial statements contained material misstatements relating to property, plant and equipment due to inadequate review of the financial statements and late reconciliation of the fixed asset register.

The main findings arising from our audit, as reported in the audit report, which should be addressed to improve the overall audit outcomes, are as follows:

Financial statements

Parliament submitted financial statements for auditing that contained material misstatements in the area of property, plant and equipment. Parliament received an unqualified audit opinion only because they corrected all the misstatements we identified during the auditing process.

The following controls should be strengthened to create a control environment that supports reliable financial reporting:

- Management should perform an adequate review of the financial statements with regard to property, plant and equipment before submission for auditing.
- Institutionalise the controls over the fixed asset register to ensure that it is completed timeously and accurately before submission for auditing.

Annual performance report

Parliament submitted an annual performance report that contained material misstatements and avoided material findings in the audit report by correcting all the misstatements identified during the audit process.

The following controls should be strengthened to create a control environment that supports reliable reporting on the performance of Parliament:

- Management should implement a proper record management system to ensure that supporting documentation to support the reported predetermined objectives in the annual performance report is readily available.

- Prioritise and monitor the implementation of the re-engineering of the predetermined objective process to ensure that internal controls to sustain good predetermined objective audit outcomes are institutionalised.

Compliance with legislation

We did not identify instances of material non-compliance with legislation with respect to Parliament besides those corrected in the financial statements, as indicated above.

The following controls should be strengthened to sustain a control environment that supports compliance with legislation:

- Continuously improve the monitoring of compliance with the FMPA and SCM regulations and implement appropriate consequence management in instances of non-compliance with the process and relevant legislative requirements.
- Document and file all SCM deviations appropriately. The implementation of the approved SCM regulations should also be prioritised and adequate training should be provided to staff to understand and apply the new regulations.

Root causes

Senior management of Parliament should address the root causes of audit outcomes and inadequate controls as follows:

- Secretary to the Parliament should monitor the effective implementation of the action plans to address all audit findings and identified internal control deficiencies, especially in the area of asset management.
- Management should implement appropriate consequence management in instances where staff members do not perform their duties and meet legislative requirements.

Impact of key role players on audit outcomes

We assess the level of assurance provided by the assurance providers based on the status of internal controls and the impact of the different role players on these controls.

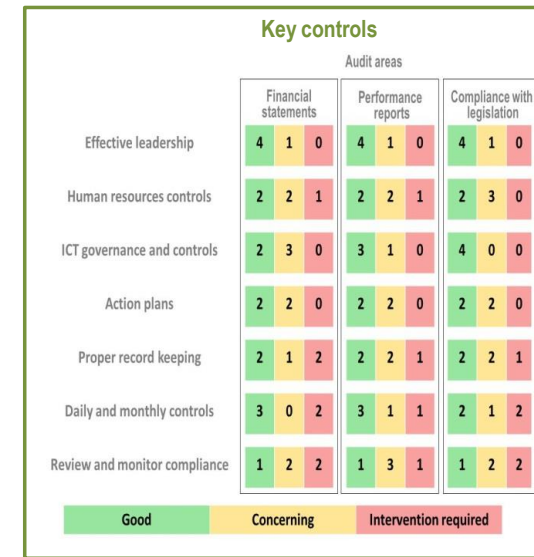
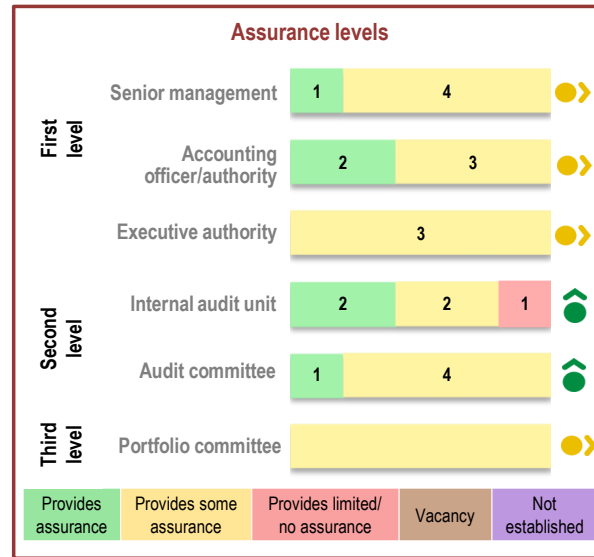
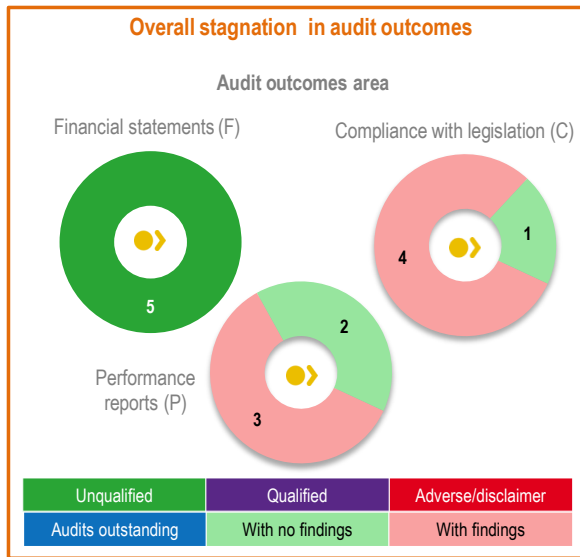
Senior management and the accounting officer should further improve the assurance levels by improving the credibility of financial and performance reporting.

We met with the executive authority three times in the past year and these interactions had some impact on the audit outcomes. To further improve the assurance level, the executive authority should insist on receiving credible financial and performance reports in a timelier manner to enable them to effectively perform their oversight function.

The impact of the Parliamentary oversight Authority, as an independent assurance provider on the internal controls of the auditee, was mainly assessed on the basis of the AGSA's interactions with the chairpersons of the committee (i.e. the executive authority), commitments made and honoured and the impact of their resolutions, actions and initiatives.

Vote 3: Cooperative governance and traditional affairs

(including the Municipal Demarcation Board and the Commission for the Promotion and Protection of cultural, religious and linguistic communities, which are constitutional institutions)

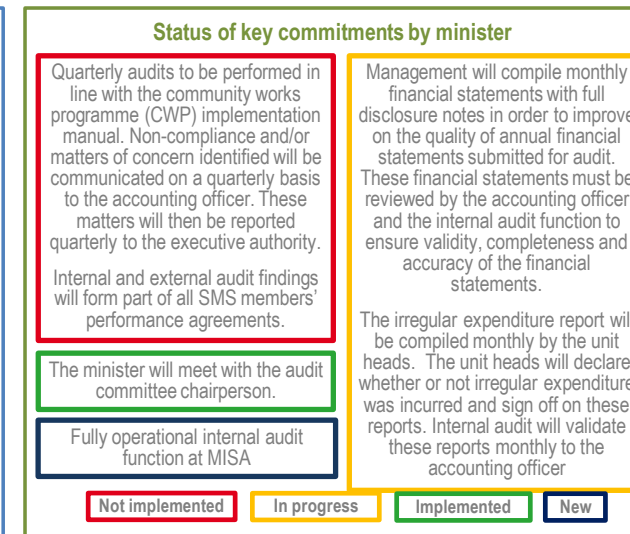
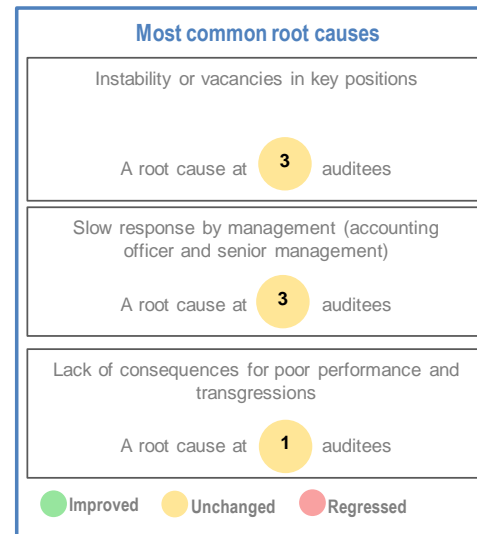
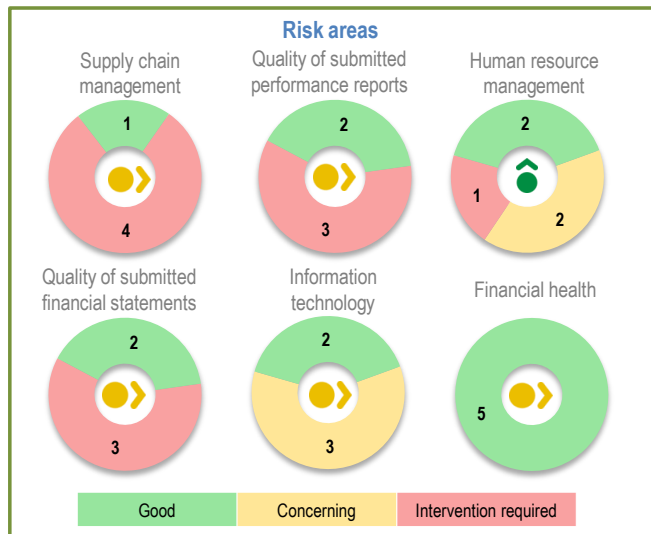


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Auditees included in the portfolio

- Department of Cooperative Governance and Traditional Affairs (CoGTA)
- Municipal Infrastructure Support Agency (MISA)
- South African Local Government Association (SALGA)

The department's budgeted expenditure for the 2013-14 financial year was R58,5 billion. The main expenditure was:

Goods and services	R1,9 billion
Employee cost	R245,1 million
Transfer payments	R56,3 billion.

Overall audit outcome

The lack of improvement in the overall audit outcome was caused by CoGTA, as past material findings on its annual performance report and compliance with legislation were not addressed. MISA was audited for the first time this year, receiving an unqualified audit opinion on its financial statements with material findings on its annual performance report and compliance with legislation. SALGA remained unchanged, receiving an unqualified audit opinion with no material findings on its annual performance report and compliance with legislation.

The main findings from our audit were reported in the audit reports and need to be addressed to improve the overall audit outcomes. They are as follows:

Financial statements

CoGTA and MISA submitted financial statements for auditing that contained material misstatements. CoGTA contained misstatements in the areas of accruals, commitments and lease commitments. MISA's misstatements were in the areas of assets, receivables, grant revenue, depreciation, payables, general expenses lease commitments and commitments. Both received unqualified audit opinions only because they corrected all the material misstatements we identified during the auditing process.

The following controls should be strengthened to create/sustain a control environment that supports reliable financial reporting:

- Financial systems and controls should be implemented and maintained monthly to ensure that regular, accurate and complete financial statements can be compiled.
- The finance and internal audit divisions should be adequately capacitated to prepare, review and validate the financial statements and supporting schedules.

- Staff should be trained and coached to ensure that they fully understand the requirements of the financial reporting framework.

Annual performance report

CoGTA's and MISA's published annual performance reports included information on their performance against predetermined objectives that was not useful and reliable for the following programmes we had selected to audit.

Auditee	Programme/objective	Not useful	Not reliable
CoGTA	Programme 5: Provincial and municipal government support (PMGS)	x	x
	Programme 6: Infrastructure and economic development (IED)		x
MISA	Programme 2: Technical support	x	x

The following controls should be strengthened to create/sustain a control environment that supports useful and reliable reporting on the performance of the portfolio.

- Implement adequate record keeping and project management, and perform quarterly audits on the community works programme (CWP).
- Follow up and implement actions/commitments per the post-audit action plan.
- MISA should implement proper performance systems and processes, prepare technical indicator descriptions for all indicators and clearly define "support" to be provided.

Compliance with legislation

We identified material non-compliance with legislation by CoGTA and MISA in the following areas:

- CoGTA and MISA did not have effective, efficient and transparent systems of risk management and internal control with respect to performance information and management. Furthermore, MISA's strategic and annual performance plan was not provided to Parliament to facilitate the annual discussions of the individual votes.
- MISA did not have an established internal audit function.

- CoGTA did not always obtain three quotations, as prescribed by supply chain management legislation. MISA did not always advertise competitive bids for 21 days, the bid adjudication was not performed by committees composed in terms of the department's policy and mandatory IT goods were not procured as prescribed by the TR.
- CoGTA and MISA did not take reasonable steps to prevent irregular expenditure.
- CoGTA did not have effective controls for payment processing and approval. MISA did not pay all its creditors within 30 days from receipt of invoice.
- COGTA did not always perform proper verification processes when appointing employees.

CoGTA incurred irregular expenditure of R588,882 million, which was 95% of the total incurred by the CoGTA portfolio. CoGTA identified all of its irregular expenditure. The majority of the irregular expenditure relates to non-compliance with supply chain management laws and regulations when procuring goods and services related to CWP.

For CoGTA and MISA, the status of supply chain management remains unsatisfactory as it resulted in material findings on compliance being reported and irregular expenditure being incurred.

The following controls should be strengthened to create a control environment that supports compliance with legislation:

- Management should review and monitor compliance with applicable laws and regulations.
- CoGTA must perform quarterly audits on the CWP, provide adequate project management and ensure proper (complete, accurate and reliable) records are maintained.
- Appropriate and timely action to be taken against transgressors.

Root causes

The accounting officers, chief financial officers and chief audit executives should address the root causes of poor audit outcomes and inadequate controls as follows:

- The MISA accounting officer should provide quarterly feedback to the executive authority on the progress made in filling vacancies at key management levels.
- Track and monitor timely implementation of post-audit action plans.

- Prepare monthly financial statements to eliminate material corrections to the financial statements submitted for audit. Management and those charged with governance should adequately review these financial statements.
- Implement adequate controls to properly review and monitor compliance with laws and regulations (mainly in the area of supply chain management). Audit CWP projects quarterly and timely, provide adequate project management and implement proper record keeping.
- Appropriate and timely action to be taken against transgressors.

Impact of key role players on audit outcomes

The first and second levels of assurance should be improved by ensuring the timely implementation of appropriate action plans to address the previous year's findings and monitoring those regularly to prevent repeat findings. Furthermore, adequate oversight and monitoring should be exercised with regards to compliance with supply chain management laws and regulations, CWP projects, monthly preparation of financial statements and policies and processes governing performance information.

We met with the previous ministers four times in the past year and these interactions had minimal impact on the audit outcomes. The reason for our assessment was the prevalence of repeat findings reported for CoGTA in the current year due to commitments not being followed up and the previous minister's limited time in the role. This assessment, the minister's lack of impact on the controls of auditees as well as the status and impact of the commitments contributed to the assessed assurance provided by the minister.

The assurance provided through the oversight of the portfolio committee should be improved. The previous year's commitments to request all entities to confirm that full monthly financial statements are prepared; proper action plans are developed, implemented and monitored by accounting officers; timely action is taken against transgressors and key control assessments were monitored quarterly, were not fully implemented. The committee should reinforce the previous year's commitments.

No new commitments have yet been obtained from the portfolio committee.

Risks to monitoring and oversight responsibilities

The executive authority and accounting officer should address the following matters, which could affect the monitoring and oversight responsibilities in the portfolio:

- Customised indicators for the cooperative governance sector should be developed and included in all provincial departments' annual performance plans to ensure consistent service delivery by all provincial departments.
- Effective monitoring (other than monitoring spending through monthly reports) of the conditional grants to ensure that grants transferred are fully spent as well as spent in line with the purpose of the grant.
- Ensure sufficient capacity to monitor the spending of the grants.
- Develop and implement a monitoring and reporting system for local government as required by the FMPPI.

Constitutional institutions

- Commission for the Promotion and Protection of cultural, religious and linguistic communities (CRL Rights Commission)
- Municipal Demarcation Board (MDB)

The CRL Rights Commission and the MDB are included in the portfolio but are not under the authority of the minister.

Overall audit outcome

The lack of improvement in the overall audit outcome was caused by the MDB not addressing past material findings on compliance with legislation and the CRL Rights Commission not addressing past material findings on its annual performance report and compliance with legislation.

The main findings from our audit were reported in the audit reports and need to be addressed to improve the overall audit outcomes. They are as follows:

Financial statements

The CRL Rights Commission submitted financial statements for auditing that contained material misstatements in the areas of assets, provisions, creditors and receivables. It received an unqualified audit opinion only because it corrected all the material misstatements we identified during the auditing process.

The following control should be strengthened to create a control environment that supports reliable financial reporting:

- Although monthly financial statements are being prepared, these statements should be reviewed for accuracy and completeness with reference to underlying supporting documents throughout the year. This will avoid material misstatements in the year-end financial statements presented for auditing.

Annual performance report

The published annual performance report of CRL Rights Commission included information on their performance against predetermined objectives that was not useful for the following programmes we had selected to audit.

Auditee	Programme/objective	Not Useful	Not reliable
CRL Rights Commission	Research and policy development	x	
	Investigation and conflict resolution	x	
	Community engagement	x	
	Corporate services	x	

The following control should be strengthened to create a control environment that supports useful and reliable reporting on the performance of the auditee.

- A post audit action plan should be developed and implemented to ensure compliance with the requirements of the FMPPI during strategic planning i.e. to ensure that all targets are time bound.

Compliance with legislation

We identified material non-compliance with legislation at CRL Rights Commission and MDB in the following areas:

- MDB did not always request three quotations as prescribed, and CRL Rights Commission made awards to bidders who did not submit a declaration on whether they are employed by/connected to the state.
- Sufficient appropriate audit evidence could not be obtained from the CRL Rights Commission that quotations were awarded to bidders based on points given for criteria that were stipulated in the original invitation.
- CRL Rights Commission and MDB did not take reasonable steps to prevent irregular expenditure.
- CRL Rights Commission did not pay all invoices within 30 days from receipt of invoice and did not implement proper control systems to safeguard and maintain assets.

The status of supply chain management remains unsatisfactory for both the MDB and CRL Rights Commission. This resulted in material findings on compliance being reported as well as irregular expenditure being incurred.

The following controls should be strengthened to create a control environment that supports compliance with legislation:

- Management should adequately review and monitor compliance with legislation.
- The institutions should implement measures, such as regular training, to create a proper understanding of supply chain management regulations and updates to enable compliance.

Root causes

The accounting officer, senior management and those charged with governance should address the root causes of poor audit outcomes and inadequate controls as follows:

- The accounting authorities should provide quarterly feedback to the executive authority on the progress made in filling vacancies at key management levels.
- Develop and implement action plans to address internal and external audit findings and root causes.

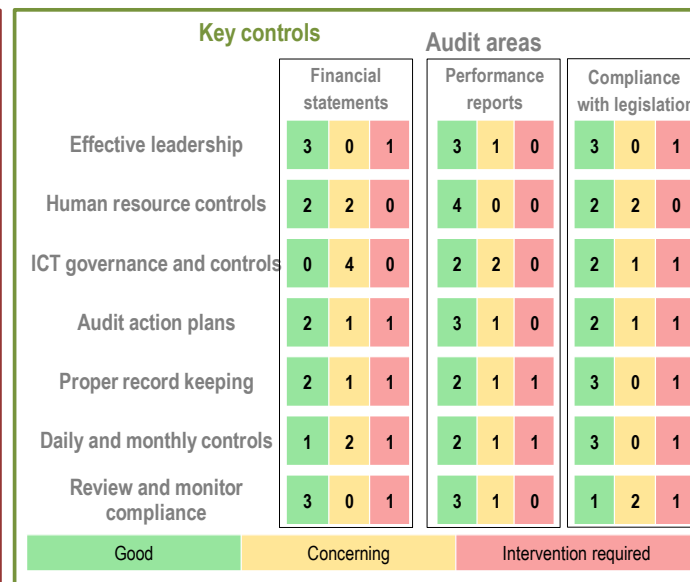
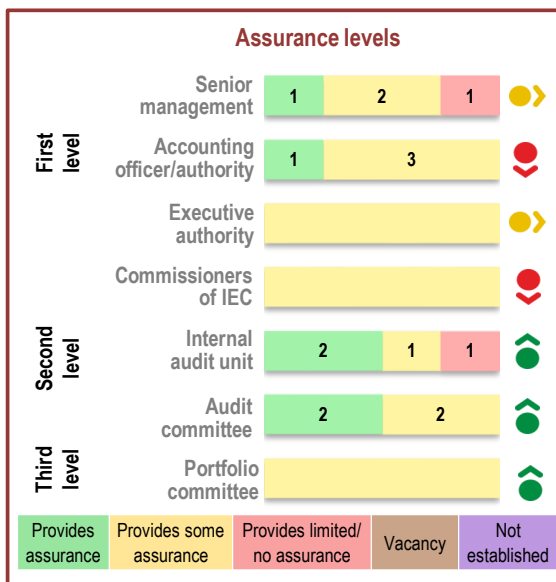
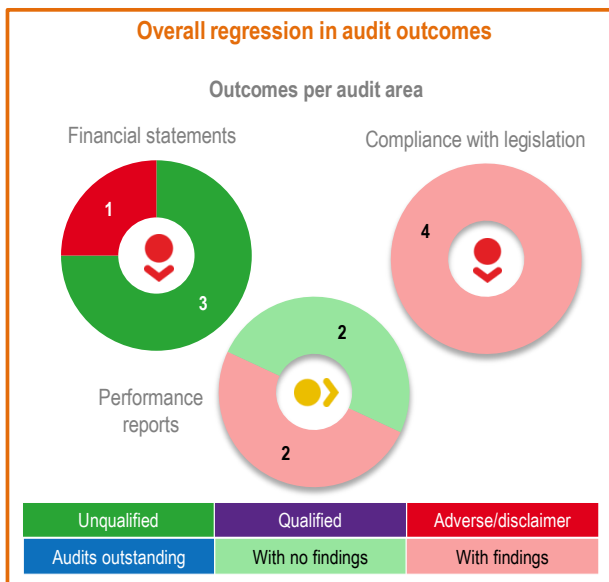
- Implement adequate review processes to ensure strategic and annual performance plans comply with the FMPPI.
- Adequate review and monitoring by management of compliance with legislation.

Impact of key role players on audit outcomes

The first and second levels of assurance should be improved by implementing the recommendations of the internal and external auditors.

We met with the executive authorities twice in the past year and these interactions had no impact on the audit outcomes. Compliance with legislation still remains a challenge resulting in irregular expenditure. This assessment, the lack of impact of the executive authorities on the controls of the auditees as well as the status and impact of the commitments contributed to the assessed assurance provided by the executive authorities.

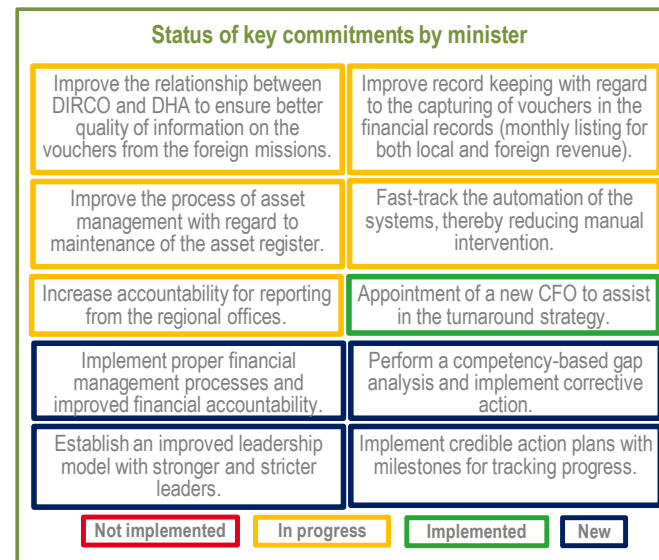
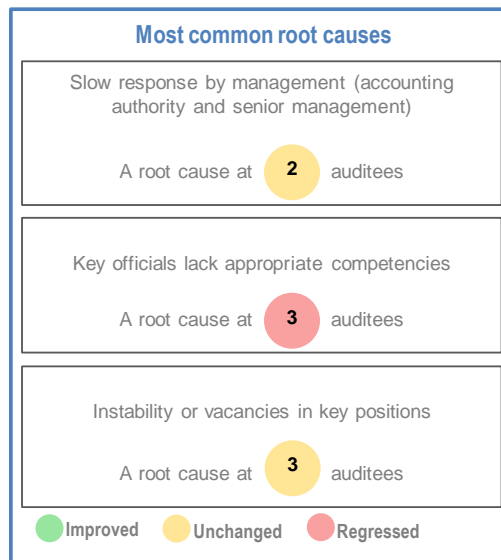
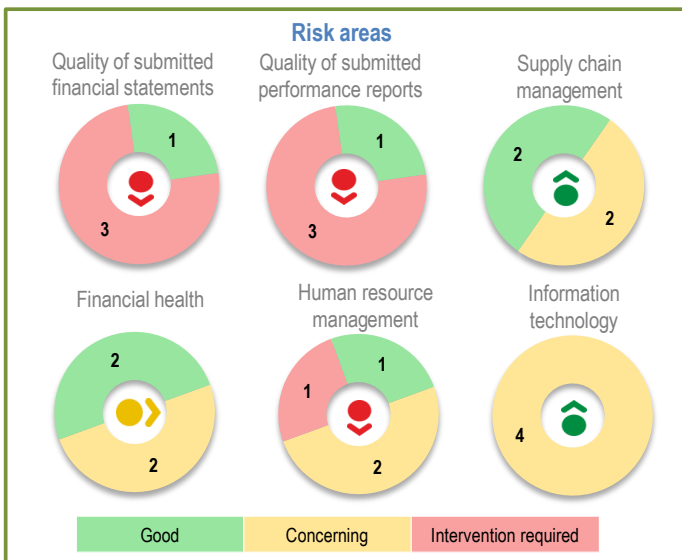
Vote 4: Home affairs



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Auditees included in the portfolio

National department and public entities:

- *Department of Home Affairs (DHA)*
- *Government Printing Works (GPW)*
- *Film and Publications Board (FPB)*

Constitutional institutions:

- *Independent Electoral Commission (IEC)*

The budgeted expenditure for the department for the 2013-14 financial year was R6,9 billion. The main expenditure was in respect of goods and services of R2,5 billion, employee cost of R2,4 billion and transfer payments of R1,8 billion.

National department and public entities

The regression in the overall audit outcome was due to the Department of Home Affairs moving from a qualified audit opinion to a disclaimer.

The main findings arising from our audit, as reported in the audit reports, which should be addressed to improve the overall audit outcomes, are as follows:

Financial statements

We commend the GPW for submitting annual financial statements for auditing that were free from material misstatements.

The FBP submitted financial statements for auditing that contained material misstatements. It received an unqualified audit opinion only because it corrected all the misstatements that we identified during the audit.

The DHA submitted a set of financial statements that was inaccurate and incomplete, which contributed to their disclaimed opinion. The status of the financial statements submitted for auditing reflected a continued reliance on the auditors to identify corrections in the annual financial statements, which is not a sustainable practice.

The following internal controls over the daily and monthly processing of transactions should be strengthened to create a control environment that supports reliable financial reporting:

- Perform regular account balance reconciliations to provide assurance that all valid transactions are accurately recorded in a timely manner and are presented and disclosed in accordance with stipulated requirements.

- Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial reporting.
- Enable monitoring of management actions to address internal and external audit recommendations through quality monthly and quarterly reporting to governance structures.

Annual performance report

The GPW submitted an annual performance report for auditing that was free from material misstatements and it had no material findings. We commend it for sustaining this outcome for three consecutive years.

The published annual performance reports of the DHA included information on its performance against predetermined objectives that was not useful and/or reliable for the following programmes:

Auditee	Programme	Not useful	Not reliable
DHA	Programme 2: Citizen affairs	X	X
	Programme 3: Immigration		X

The FPB submitted an annual performance report for auditing that contained material misstatements. It avoided material findings in its audit report only because it corrected all the misstatements we identified during the audit.

The following controls should be strengthened to create a control environment that supports useful and reliable reporting on the performance of the portfolio:

- Documentation and information required to support reported performance results must be defined in advance.
- Processes that provide for the collation, verification and storage of information for performance reporting must be adopted and communicated throughout the organisation.
- Roles and responsibilities in the performance information management process must be clearly defined to make accountability clear and personal and allow for timely corrective action.
- Reported performance results must be reconciled to documentary evidence on a monthly basis to provide assurance regarding the credibility of information made available for management decision-making.

Compliance with key legislation

We identified instances of material non-compliance with key legislation by the DHA and GPW in the following areas:

DHA:

Expenditure management:

- The DHA did not settle all its contractual obligations within 30 days or an agreed period, as required by the PFMA and the Treasury Regulations.

Human resource management and compensation:

- Funded vacant posts were not advertised within six months and vacant positions were not filled within 12 months of the posts becoming vacant.
- Management did not record all leave taken by employees accurately and in full as they did not reconcile transactions daily.

Asset management:

- Proper controls for the safeguarding and maintenance of asset records were not implemented at the DHA, resulting in a modified opinion being expressed on all asset balances.

Revenue management:

- The DHA did not develop appropriate processes for the identification, collection, recording, reconciliation and safeguarding of information about revenue, as required by the Treasury Regulations, nor did management of the DHA take appropriate steps to collect all money that was due to the department. The modified opinion expressed is a repeat of the previous financial year. Management did not take appropriate corrective action to address the matters reported in the previous financial year.

Consequence management:

- Cases of irregular and fruitless and wasteful expenditure incurred in the previous financial year were condoned without investigations having been conducted, as required by the PFMA.

GPW:

Contrary to the requirements of the Treasury Regulations, the internal audit function did not evaluate the reliability and integrity of financial and performance information and the entity's compliance with laws and regulations.

Irregular expenditure

Total irregular expenditure incurred in the portfolio amounted to R1,87 million, with the FPB being the largest contributor, incurring R1,1 million due to non-compliance with SCM laws and regulations. The DHA had not finalised certain investigations regarding potential irregular expenditure by the financial year-end. Therefore such expenditure was not disclosed as irregular expenditure in the annual financial statements.

The following controls should be strengthened to create a control environment that supports compliance with legislation:

- The leadership and governance structures should review and monitor compliance with applicable laws and regulations through the use of compliance checklists that must be signed off.
- Implement action plans to address compliance deviations that must contain specific management actions that are required to address compliance deviations.
- The internal audit units must focus on delivering high impact audits on an entity's implemented processes to ensure that the process is effective in achieving its intended objectives.

Root causes

The leadership and senior management of the entities should address the root causes of poor audit outcomes and inadequate controls as follows:

- Senior management should take immediate corrective action and ensure that the weaknesses in key controls, as reported, are addressed timeously to avoid repeat findings.
- Fill all vacancies with people with requisite skills and provide training to address development gaps of existing staff.
- Ensure that the portfolio has adequate skills and resources to report and monitor appropriately and effectively in terms of financial and service delivery.

Impact of key role players on audit outcomes

The first and second levels of assurance should be improved by ensuring stability at the level of senior management at the department. The internal audit units and audit committees should implement an effective and consistent method to follow up on actions taken to address audit findings relating to internal control weaknesses.

We met with the previous minister four times in the past year. The audit outcome for the DHA may have been different had the leadership effectively implemented the initiatives that the minister had proposed. We also met with the current minister who has outlined the following planned actions:

- Implement proper financial management processes and improved financial accountability.
- Perform a competency based gap analysis and implement corrective action.
- Establish an improved leadership model with stronger and strict leaders accompanied with structures of accountability.
- Implement credible action plans with milestones for tracking progress.

We anticipate that these actions will improve future audit outcomes. This contributed to the assessed assurance provided by the minister.

The previous year's commitments are still in progress and further commitments, have been made by the minister as mentioned above. We recommend that the leadership strive towards implementing these commitments by the end of the 2014-15 financial year.

The assurance provided through the oversight of the portfolio committee should be improved through timely analysis of the strategic plans, annual reports and audit outcomes in the portfolio.

Constitutional institutions

The IEC is included in the portfolio and reports to the commissioners as the executive authority.

The overall audit outcome of the IEC regressed, resulting in an unqualified opinion with findings on compliance with key legislation and performance information.

The main findings arising from our audit, which should be addressed to improve the overall audit outcomes, are as follows:

Financial statements

The IEC received an unqualified audit opinion because it corrected the financial statement misstatements we identified during the audit.

The misstatements related to disclosure notes that are one-off items compiled at year-end. If the IEC had prepared regular, accurate and complete financial statements, including disclosure notes that are supported and evidenced by reliable information, the misstatements could have been avoided.

Annual performance report

The published annual performance report of the IEC included information on their performance against predetermined objectives that was not reliable for programme 2: Outreach.

The findings reported on performance against predetermined objectives were as a result of the IEC not maintaining verifiable records of reported results.

Root causes

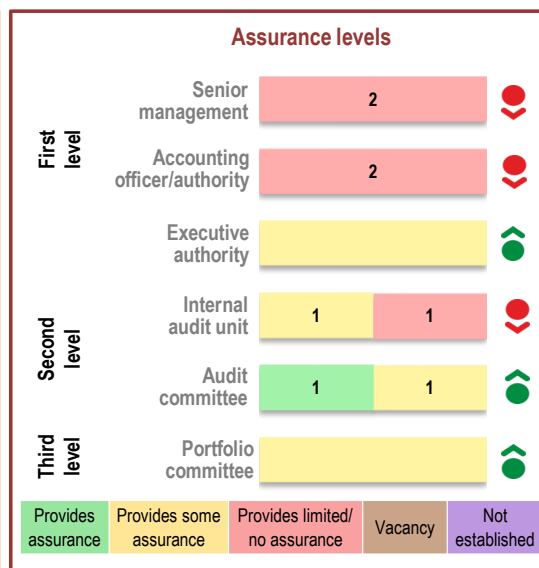
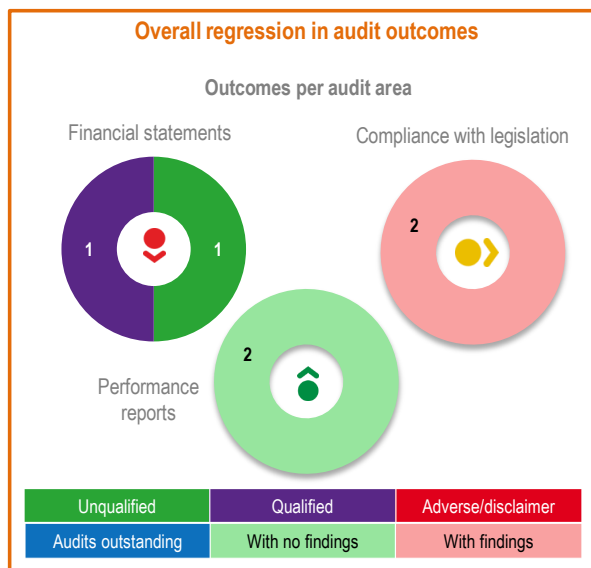
The leadership and senior management of the IEC should address the root causes of inadequate controls as follows:

- Fill all vacancies with people with requisite skills and provide training to address development gaps of existing staff.

Impact of key role players on audit outcomes

The assurance provided by key role players should be improved by ensuring stability at the level of senior management at the IEC.

Vote 5: International relations and cooperation



Key controls

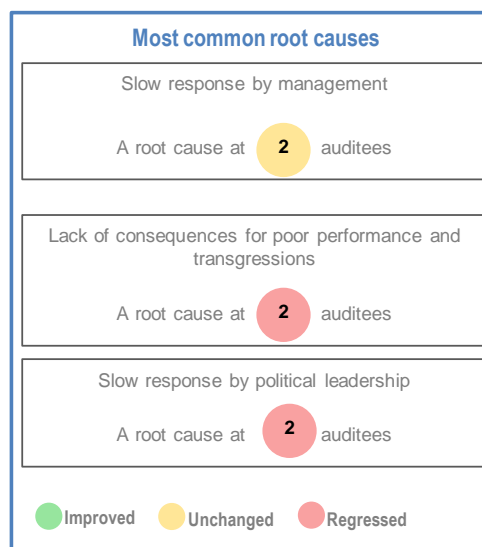
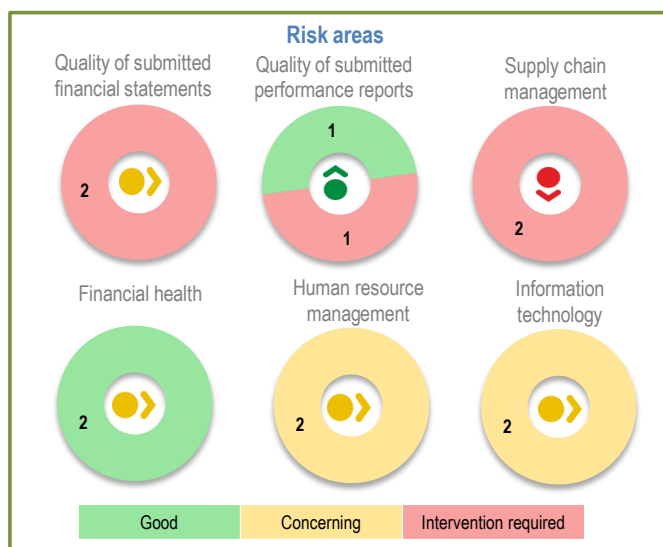
Control Area	Financial statements			Performance reports			Compliance with legislation		
	Good	Concerning	Intervention required	Good	Concerning	Intervention required	Good	Concerning	Intervention required
Effective leadership	1	0	1	1	0	1	1	0	1
Human resource controls	0	2	0	1	0	1	0	2	0
ICT governance and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

Legend: Good (Green), Concerning (Yellow), Intervention required (Red), Not assessed (Grey)

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To improve/maintain the **audit outcomes** ...
... the **risk areas** and ...
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... the key role players need to **assure** that ...
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... attention is given to the **key controls** and ...
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Status of key commitments by minister

(1) Implement proper oversight mechanisms at the ARF and ensure that a framework is implemented to govern the activities of the entity; (2) Enhance performance and consequence management.

(1) The chief financial officer was appointed.
(2) The investigation into the ARF irregularities was finalised.

(1) Follow up on the development of existing and new finance team to perform effective financial management, including monthly reconciliations; (2) Monitor the compilation of monthly financial statements and reconciliations, including disclosure notes; (3) Perform a detailed root cause analysis for recurring asset issues despite new interventions being rolled out so that appropriate action can be taken; (4) Chief financial officer to commit resources to deal with timely update of fixed asset registers at head office; (5) Closely monitor SCM compliance and human resource management; (6) CIO to address identified IT deficiencies.

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

Auditees included in the portfolio

■ Department of International Relations and Cooperation (DIRCO)

■ African Renaissance and International Cooperation Fund (ARF)

The budget (voted funds) of the department in the portfolio for the 2013-14 financial year was R5,754 billion. The main expenditure was in respect of goods and services of R2,013 billion, employee cost of R2,354 billion, transfers and subsidies of R966 million and payment for capital assets of R386 million.

Overall audit outcome

The regression in the overall audit outcomes was due to DIRCO receiving a qualified audit opinion on its financial statements while the ARF remained unqualified with findings on compliance with legislation.

The main findings arising from our audit, as reported in the audit reports, which should be addressed to improve the overall audit outcomes, are as follows:

Financial statements

The published financial statements of DIRCO included the following material misstatement:

- Tangible capital assets and minor capital assets were materially understated. This is due to the department not maintaining an updated asset register in accordance with the requirements of the Modified Cash Standard and an ineffective system of control over assets.

DIRCO and ARF submitted financial statements for auditing that contained material misstatements in the areas of movable tangible capital assets, voted funds to be surrendered to the National Revenue Fund, irregular expenditure, public private partnership disclosure note, related parties, payables and receivables. ARF received an unqualified audit opinion only because they corrected all the misstatements we identified during the auditing process. DIRCO could not make all the corrections due to an incorrect asset register.

The following controls should be strengthened to create a control environment that supports reliable financial reporting:

- Streamlining the movable tangible assets acquisition at the department, and all missions to seamlessly capitalise, depreciate and retire assets from the asset register.
- Fast-track the process to reassess useful lives of all assets and the disposal process for all unusable assets lying in storage across missions.

- Run regular exception reports on the asset register for all blank fields, e.g. acquisition date, location, description etc. to ensure a credible asset register.
- Strengthen the level of oversight of financial reporting processes, including detailed reviews of the financial reports and monitoring of the implementation of the audit findings action plan.
- Enforce financial reporting discipline, including mandatory controls over key monthly reconciliation processes and review of compliance matters.
- Expedite the implementation of the national IT governance framework so as to gain a broader understanding of the IT internal controls prescribed for effective IT governance and put in place the proper processes and structures for developing adequate and effective IT internal controls.
- The CIO should closely monitor the implementation of IT controls in the areas of security management, user access management and IT continuity, including deviations and areas that need improvement.
- Implement effective human resource processes to ensure that adequate and sufficiently skilled finance resources are in place, performance is adequately monitored and consequence management is enforced.

Annual performance report

The quality of the annual performance reports has improved for both auditees as sufficient controls were in place. DIRCO addressed the measurability of the targets, resulting in usefulness of the annual performance report. ARF has also improved as they reported on performance information this year and have since compiled a strategic plan, annual performance plan and quarterly reports.

ARF submitted an annual performance report for auditing that contained material misstatements. They avoided material findings in their audit report only because they corrected all the misstatements we identified during the auditing process.

The following controls should be strengthened to create a control environment that supports useful and reliable reporting on the performance of the ARF.

- Create stable ARF governance structures and allocate responsibilities based on delegations for performance report preparation.
- Strengthen oversight of the activities of the ARF and implement processes for effective reviews and monitoring of the performance reporting process, including the corrective actions to address the audit findings.

Compliance with legislation

We identified material non-compliance with legislation by DIRCO and ARF in the following areas:

- DIRCO did not adequately implement proper control systems to safeguard and maintain assets.
- Neither of the auditees in all instances followed competitive bidding processes or requested three quotations, DIRCO did not always award contracts to and accept quotations from bidders who had submitted a declaration on whether they are employed by the state or are connected to any person employed by the state.
- DIRCO and ARF did not take effective steps to prevent unauthorised, irregular, fruitless and wasteful expenditure. This resulted in the department reporting unauthorised expenditure of R116,6 million and both auditees reporting combined irregular expenditure of R59,3 million, with DIRCO accounting for 58% of the irregular expenditure. Hundred per cent of this irregular expenditure related to contravention of SCM regulations. This is an increase of R23,3 million compared to the prior year.
- DIRCO did not ensure that contractual obligations were met and money owed was paid within 30 days.
- DIRCO did not take effective and appropriate steps to collect all money due.
- DIRCO did not take effective and appropriate disciplinary steps against officials who made and/or permitted irregular and fruitless and wasteful expenditure.
- DIRCO did not ensure that oversight and governance with regard to the performance reporting process of the ARF were effective and documented, and approve delegation of authority that indicated the responsibilities of the officials delegated.
- DIRCO transferred funds to the ARF without rendering the transfer of the funds subject to the ARF establishing effective, efficient and transparent financial management and internal control systems.
- ARF did not timeously submit the proposed strategic plan for 2013-14 to the executive authority for approval and did not report timeously on its quarterly performance to the executive authority.
- The ARF did not implement proper controls to ensure that document policies and procedures are developed that could provide a framework according to which its operational activities should be conducted and did not conduct a risk assessment and implement a risk strategy.

- DIRCO did not ensure that documented terms of reference were in place for key structures and an effective internal audit function within the ARF.
- Contracts were not concluded between ARF and the project implementation agencies and funds were spent in excess of the amount agreed by the minister of Finance.

Procurement processes, contract management and the related controls are not always effective to ensure fair, equitable, transparent, competitive and cost-effective procurement. The SCM system, including the processes and controls, needs to be improved to comply with legislation and minimise the likelihood of fraud, corruption, irregular and fruitless and wasteful expenditure, favouritism as well as unfair and irregular SCM practices.

Non-compliance with laws and regulations could have been prevented had compliance been properly reviewed and monitored by the senior management. There has been no improvement in the monitoring of controls implemented to ensure that all relevant laws and regulations are complied with, as requested previously, as the same non-compliance matters have been continuously reported. This was due to a lack of accountability by all involved to address matters previously reported.

The following controls should be strengthened to create a control environment that supports compliance with legislation:

- Implement consequence management in respect of employees who continuously fail to comply with the legislated prescripts.
- Review and monitor compliance with the laws and regulations and enhance accountability.
- Finalise a decision on whether or not the ARF will continue to exist and then proceed to implement and formalise processes through implementation of a governance framework, policies and controls.

Root causes

The accounting officer and senior management should address the root causes of poor audit outcomes and inadequate controls as follows:

- Implement the AGSA's recommendations, as committed to, promptly to avoid repeat findings
- Implement consequences for repeated poor performance and transgressions

Impact of key role players on audit outcomes

The first and second levels of assurance should be improved by ensuring that the accounting officer and senior management promptly implement the AGSA's recommendations and enforce consequences for poor performance and continuous breaches.

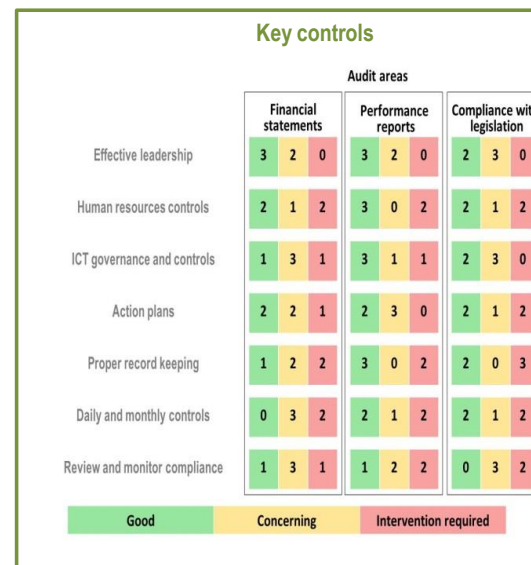
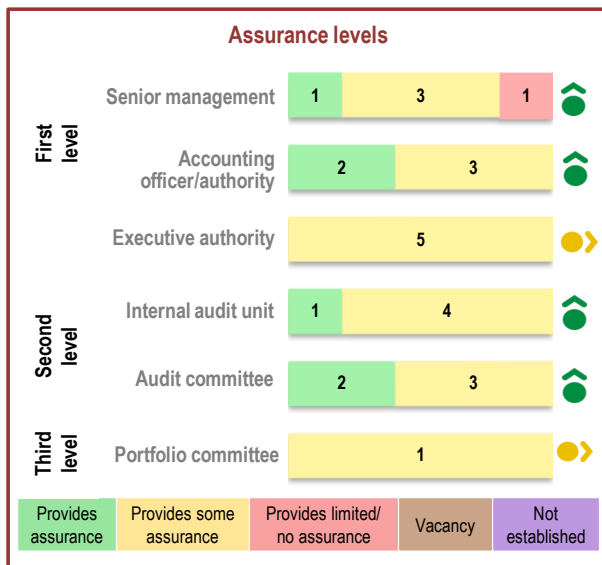
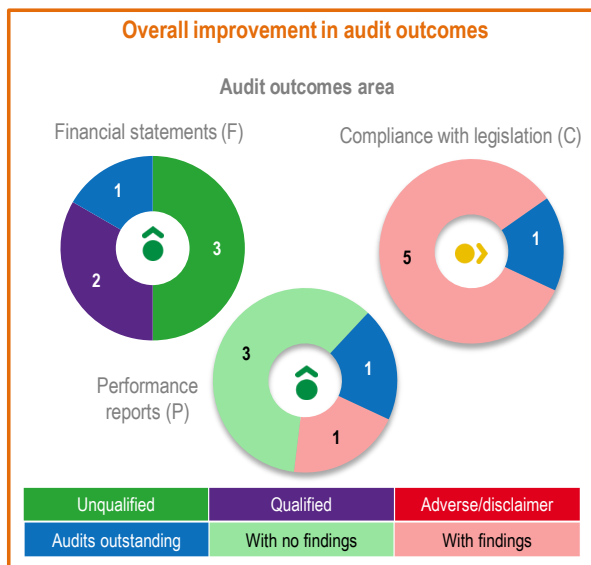
The audit committee should strengthen its oversight of the effectiveness of the internal control environment in respect of financial reporting and compliance with legislation.

We met with the minister three times in the past year and these interactions had some impact on the audit outcomes. Our assessment of the impact is based on the effort that has been made in addressing the performance reporting matters while there has been no impact on DIRCO's asset and ARF compliance issues.

The limited impact of the minister on the controls of the auditees as well as the status and impact of the commitments contributed to the assessed assurance provided by the minister.

The assurance provided through the oversight of the portfolio committee should be improved through regular interactions and by actively engaging the minister on the progress made in achieving clean administration.

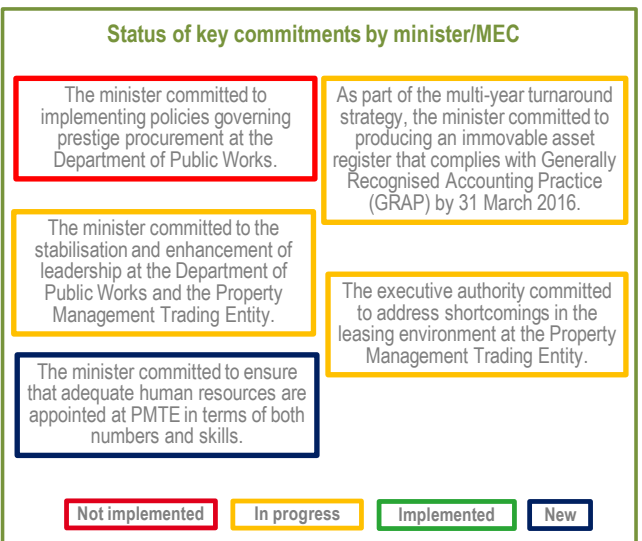
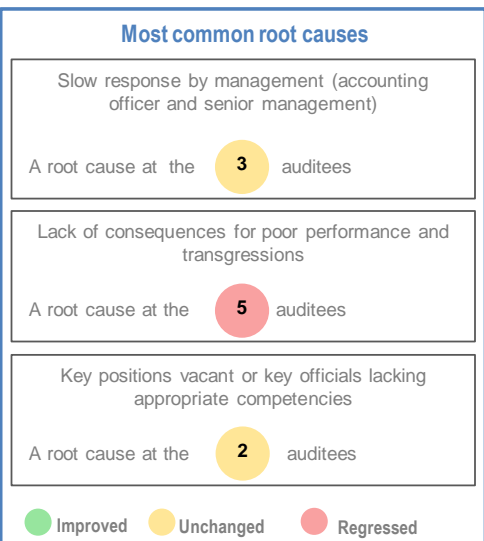
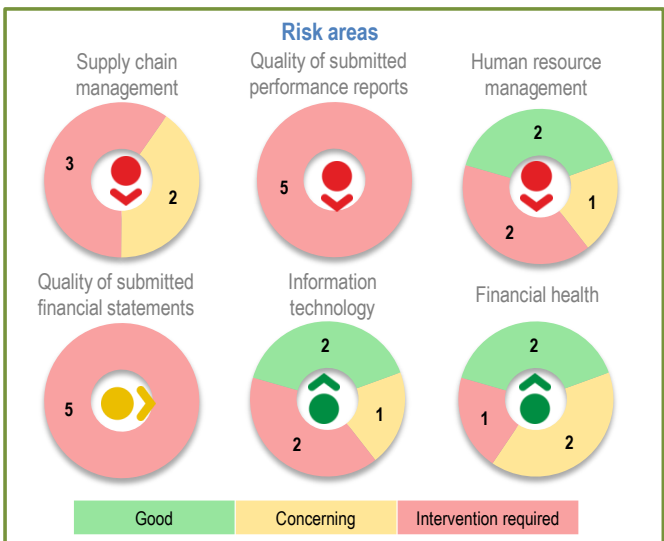
Vote 7: Public works



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To improve/maintain the **audit outcomes** ...
... the **risk areas** and ...
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... the key role players need to **assure** that ...
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... attention is given to the **key controls** and ...
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Auditees included in the portfolio

- National Department of Public Works (DPW)
- Construction Industry Development Board (CIDB)
- Council for the Built Environment (CBE)
- Independent Development Trust (IDT)
- Parliamentary Villages Management Board (PVMB)
- Property Management Trading Entity (PMTE)

The DPW's budgeted expenditure for the 2013-14 financial year was R6,2 billion. The main categories of expenditure were as follows:

Employee costs	R1,5 billion
Goods and services	R1,4 billion
Transfer payments	R2,6 billion
Capital expenditure	R778 million.

Overall audit outcome

The improvement in the overall audit outcome was a result of DPW improving from a qualified audit opinion to an unqualified audit opinion with findings, and the PMTE improving from a disclaimer of audit opinion to a qualified audit opinion. It should be noted that, in line with the long term strategy to transform the PMTE into a fully-fledged property management entity, immovable assets as well as directly related income and expenditure were transferred from DPW to PMTE during the year under review. This move has exempted PMTE from disclosing fair values of immovable assets until 31 March 2016 in line with directive 2 issued by the Accounting Standards Board.

The IDT regressed from an unqualified audit opinion with findings to a qualified audit opinion while the audit opinions for CIDB and CBE remained unchanged at unqualified with findings. The PVMB has not submitted financial statements for auditing since its last audit report had been issued for the financial year ended 31 March 2012. This was due to historical leadership instability and the resultant lack of oversight in ensuring the timely preparation and auditing of annual financial statements. The director-general (DG) of the Department of Public Works is the chairperson of the board in accordance with enabling legislation. After the appointment of the current DG in January 2013 the back-log was reduced significantly. The DG has prioritised the matter and the situation is expected to be rectified by the following year-end.

The main findings from our audit were reported in the audit reports and need to be addressed to improve the overall audit outcomes. They are as follows:

Financial statements

The financial statements of the PMTE and IDT included the following material misstatements:

- The PMTE was qualified on irregular expenditure due to the lack of an adequate system for identifying and recognising all irregular expenditure. In addition, irregular expenditure was incorrectly recorded based on actual payments instead of when the transaction, condition or event linked to the non-compliance was recognised as expenditure in accordance with the GRAP standards.
- Operating leases at the PMTE were qualified due to discrepancies between the signed lease agreements and the manual lease schedules that were used to prepare the financial statements.
- The PMTE was qualified on accruals as the entity did not have adequate systems to identify and record outstanding payments for goods and services received but not yet paid at year end.
- The IDT was qualified on other income due to the inability to obtain sufficient appropriate audit evidence that management had properly charged and accounted for all tender deposits.
- The leave pay accrual at IDT was qualified, as the system of control did not ensure the accuracy of employee leave records.
- The absence of accurate and complete underlying accounting records resulted in a qualification on funds due to IDT from programme principals.

All auditees in the portfolio submitted financial statements for auditing that contained material misstatements. The DPW, CBE and CIDB received unqualified audit opinions only because they corrected all the misstatements we identified during the auditing process. PMTE and IDT could not make all the corrections because the state of accounting records at these entities did not permit it, resulting in audit qualifications.

The following controls should be strengthened to create a control environment that supports reliable financial reporting:

- PMTE should be capacitated with enough skilled, permanent human resources to ensure that the improvement in the audit outcome, achieved with the assistance of consultants, is sustainable.
- The implementation of appropriate information systems at PMTE must be expedited. These systems must accommodate accrual accounting and effective lease and immovable asset management.

- Adequate systems should be implemented, including manual systems where information is not readily available from information systems, to enable the preparation of accurate and complete financial information throughout the year.

Annual performance report

The DPW's annual performance report included information on its performance against predetermined objectives that was not reliable for Programme 3: Expanded Public Works Programme (EPWP).

DPW, IDT, CBE and CIDB submitted annual performance reports for auditing that contained material misstatements. PMTE does not report separately on the audit of predetermined objectives as it is included in one of DPW's programmes. IDT, CBE and CIDB avoided material findings in their audit reports only because they corrected all the misstatements we identified during the auditing process. DPW only corrected some of the material misstatements. Therefore the material findings on the reliability of the performance information formed the basis of the qualified conclusion for Programme 3: EPWP.

The following controls should be strengthened to create a control environment that supports useful and reliable reporting on the performance of the portfolio:

- DPW must strengthen guidelines on document retention and records management for the EPWP programme and strictly monitor and control its implementation. Oversight must be improved to ensure that EPWP payments are only made to valid beneficiaries.
- The portfolio of evidence supporting information contained in quarterly performance reports must be reviewed by internal audit. Any errors should be rectified immediately to ensure the validity, accuracy and completeness of these quarterly reports that form the basis of the annual performance report.
- The annual performance report must be properly reviewed prior to submission for audit purposes to avoid the report containing material misstatements that must be rectified during the external audit process.

Compliance with legislation

We identified material non-compliance with legislation at DPW, PMTE, IDT and CIDB in the following areas:

- Reasonable steps were not taken to prevent irregular expenditure at DPW, PMTE, CIDB and IDT, and fruitless and wasteful expenditure at PMTE.
- DPW, PMTE and IDT did not implement proper record keeping. This would have ensured that complete, relevant and accurate information was accessible and available to evaluate the compliance with procurement

and contract management legislative requirements. Where documentation was available at DPW and PMTE, we identified actual instances of non-compliance that resulted in irregular expenditure.

- In certain instances, DPW and PMTE did not take effective and appropriate disciplinary steps against officials who made or permitted irregular expenditure and, in PMTE's case, fruitless and wasteful expenditure. Some allegations of corruption, improper conduct or failure to comply with the supply chain management system have not yet been investigated. Similarly, at CIDB we could not obtain sufficient and appropriate audit evidence that effective disciplinary steps had been taken against officials who incurred or permitted irregular expenditure in the previous year. Investigations have not been conducted into allegations of financial misconduct by officials in the previous year.
- Human resource-related non-compliance at DPW included:
 - appointments to posts that were not approved and funded
 - funded vacant posts that were not filled within 12 months
 - claims in candidates' applications were not always verified before appointment
 - the lack of an approved human resource plan throughout the year.
- DPW did not implement effective, efficient and transparent systems of risk management and internal control for performance information.
- Internal audit at DPW did not assess the operational procedure and monitoring mechanisms over transfers made in terms of the annual Division of Revenue Act.
- The IDT and PMTE did not take effective and appropriate steps to collect money due to them.
- The accounting officer of the DPW did not formulate a policy and reporting framework for the head of the PMTE.
- The PMTE did not let immovable state property at market related tariffs.
- The PMTE bank account was in overdraft throughout the reporting period.

PMTE disclosed supply chain-related irregular expenditure amounting to R30,9 billion. This constituted 99% of total irregular expenditure disclosed by the Public Works portfolio. The amount disclosed consists of R6,3 billion (68% of the Public Works portfolio), which relates to the current year and R24,6 billion (99% of the Public Works portfolio), which was identified during the current year but relates to expenditure incurred in prior years. The significant amount of irregular expenditure emanates from the PMTE revisiting its previous years' expenditure to completely account for irregular expenditure, given that the completeness of irregular expenditure was qualified since 2008-09. Additionally, construction-related irregular expenditure, previously accounted for by client departments, is now being accounted for by PMTE.

The PMTE also incurred fruitless and wasteful expenditure of R16 million, which amounts to 98% of the total fruitless and wasteful expenditure incurred by the Public Works portfolio. The bulk of fruitless and wasteful expenditure consist of payments made in relation to unused owned and leased properties.

The following controls should be strengthened to create a control environment that supports compliance with legislation:

- Reviewing and monitoring compliance must be strengthened. The focus must shift to preventing non-compliance. Relevant action plans must be compiled to address shortcomings and their implementation enforced. Risk management units and internal audit must form an integral part of this process.
- Supply chain management record keeping and retention must be improved, specifically at PMTE and IDT. Compliance to all relevant supply chain management laws and regulations must be confirmed prior to finalising procurement transactions.
- Consequence management must be strengthened to discourage continued transgressions, given the lack of improvement with regards to compliance in the portfolio. Cognisance is taken that DPW and PMTE have a significant number of allegations to investigate; however, every effort must be made to expedite these so that individuals can be held accountable where necessary.

Root causes

The accounting officer, accounting authorities and senior management should address the root causes of poor audit outcomes and inadequate controls as follows:

- Slow response by management was a concern at CBE, IDT and PMTE. At CBE and IDT management must ensure that an appropriate audit action plan is implemented promptly to obtain improved opinions. It is critical that IDT management takes timely and appropriate action on findings raised in the interim stage of the audit. Had this been done during the past audit, the qualified opinion could have been avoided. At PMTE a multi-year turnaround strategy is in the process of being implemented; however, adherence to agreed deadlines for the submission of documentation for audit purposes must be improved in future.
- The lack of consequences for poor performance and transgressions should be addressed by a formal disciplinary process that is clear and enforced by those charged with governance in the portfolio.
- DPW and PMTE should continue to permanently appoint appropriate individuals with relevant qualifications, skills and experience in vacant key positions. Ongoing mentoring and training should take place to ensure that skills are maintained or improved where necessary.

Impact of key role players on audit outcomes

The first and second levels of assurance should be improved by implementing the recommendations of internal and external audit through developing and timeously implementing comprehensive audit action plans. The status of implementation must be audited by internal audit and monitored by the audit committee on an ongoing basis. Internal and external audit findings must also be considered during the risk assessment process and adequate prevention strategies must be formulated.

We met with the minister four times in the past year and these interactions had some impact on the audit outcomes as improvements were realised by DPW and PMTE. IDT, however, regressed to a qualified opinion and performance and compliance findings at DPW and PMTE remained largely unresolved.

This assessment, the impact of the minister on the controls of the auditees as well as the status and impact of the commitments contributed to the assessed assurance provided by the minister.

The assurance provided through the oversight of the portfolio committee should be improved. The previous committee committed to monitoring the progress of the turnaround strategy at DPW and PMTE, including the following: finalisation of the PMTE business case; implementation of iE-Works and an accrual accounting system for PMTE; status of disciplinary action where unauthorised, irregular, fruitless and wasteful expenditure was not prevented; preparation of monthly financial statements and the capacitation of governance functions. The committee also committed to monitoring going concern issues at PMTE and IDT. These commitments were in progress when the committee's term came to an end.

The new portfolio committee has not yet made any commitments.

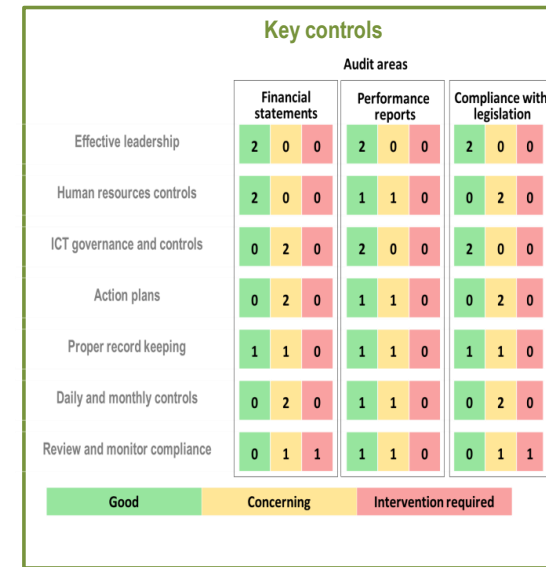
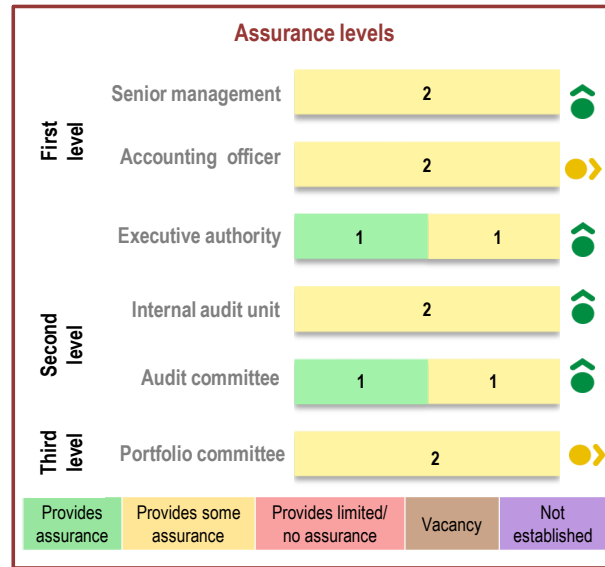
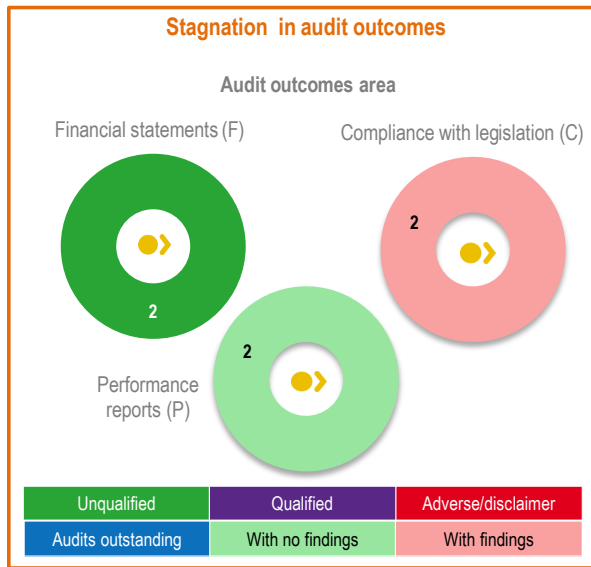
Risks to financial health and service delivery

PMTE reported a bank overdraft of R433 million and its current liabilities exceeded the current assets as at 31 March 2014. Some improvement has been noted compared to the previous year; however, the financial situation at the PMTE remains unfavourable and focus on revenue collection should be intensified. Additionally, the continued underspending of the capital budget at DPW remains a concern given the negative impact on infrastructure delivery.

Although an improvement has also been noted at the IDT, certain material unfavourable indicators with regards to financial health remain. These include underspending of the capital budget, delayed creditor payment and debtor collection periods, and the entity being over leveraged, with creditors as a percentage of cash and cash equivalents being 330%. National Treasury approved three R50 million transfer payments to be received by IDT over a period of three years which commenced during the year under review.

Those charged with governance should continuously monitor the implementation of corrective actions proposed by the management of DPW and PMTE as part of the turnaround strategy to ensure that the mandate in terms of infrastructure delivery and immovable asset management is achieved. The future funding model of the IDT should be prioritised.

Vote 8: Women, children and people with disabilities (including the Commission for Gender Equality)



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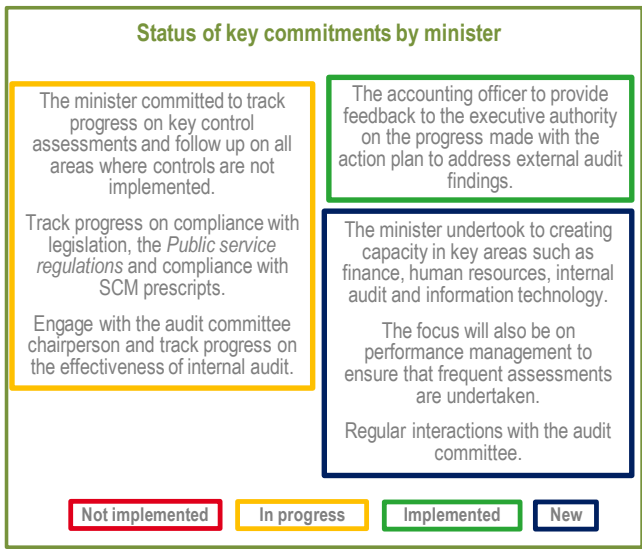
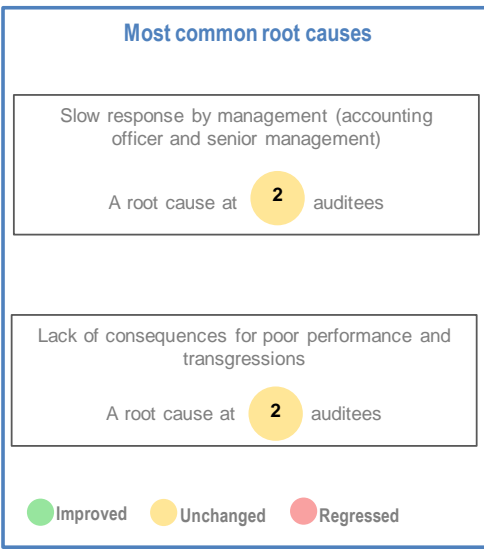
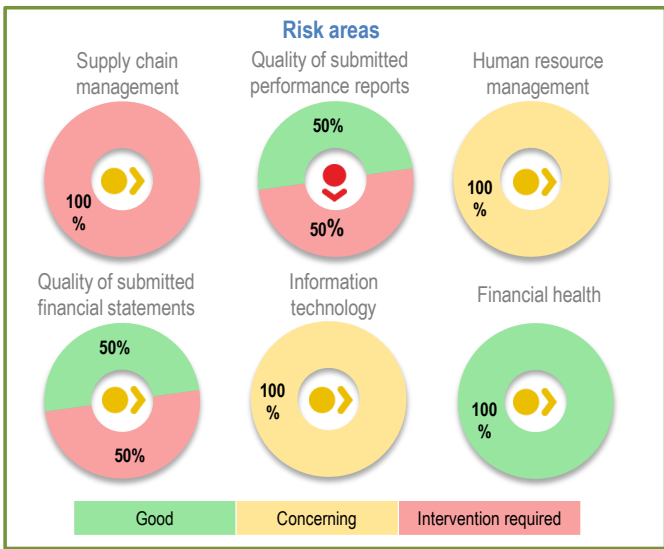
... the key role players need to **assure** that ...
... the **root causes** are addressed ...

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

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Auditees included in the portfolio

■ Department of Women, Children and People with Disabilities (DWCPD)

The DWCPD's budgeted expenditure for the 2013-14 financial year was R198 million. The main expenditure was:

- Employee cost R80 million
- Transfer payments R63 million (inclusive of amount transferred to the CGE)
- Goods and services R51 million.

Overall audit outcome

The lack of improvement in the overall audit outcome was caused by the DWCPD not addressing past material findings on compliance with legislation.

The main findings from our audit were reported in the audit report and need to be addressed to improve the overall audit outcomes. They are as follows:

Financial statements

The department submitted financial statements for auditing that contained material misstatements in the area of accruals. The department received an unqualified audit opinion only because it corrected all the material misstatements identified during the auditing process.

The following controls should be strengthened to create a control environment that supports reliable financial reporting:

- Senior management needs to be more involved in establishing proper systems to facilitate preparing reliable financial statements prior to submission for audit.

Compliance with legislation

We identified material non-compliance with legislation by the DWCPD in the following areas:

- The DWCPD awarded contracts or quotations to bidders based on points given for criteria that differed from those stipulated in the original invitation for quotations.
- The DWCPD did not always fill funded vacancies within 12 months.
- The DWCPD's internal audit unit did not always submit a quarterly report to the audit committee detailing the performance against the annual internal audit plan.

Non-compliance with supply chain management prescripts remains a risk and resulted in key reported non-compliance matters. This resulted in irregular expenditure; however, the amount decreased from R6 million in the previous year to R4 million.

The following controls should be strengthened to create a control environment that supports compliance with legislation:

- Enhance current compliance processes, together with monitoring by the accounting officer and senior management, to prevent non-compliance and irregular expenditure specifically in the area of supply chain management.

Root causes

The accounting officer, senior management and those charged with governance should address the root causes as follows:

- The accounting officer and senior management should enhance their oversight of the preparation and review of the annual financial statements and annual performance report prior to submission for audit. This will avoid adjustments to financial statements and enhance adherence to supply chain management and human resource management prescripts. Compliance with legislation should be closely monitored and reviewed. The focus should be on prevention of irregular expenditure.
- There should be consequence management and action should be taken against transgressors.

Impact of key role players on audit outcomes

The first and second levels of assurance should be improved by implementing the recommendations of internal and external auditors.

We met with the previous minister three times in the past year and these interactions had no impact on the audit outcomes. However, there was an improvement in the key controls and control environment and fewer non-compliance matters were reported on in the audit report. The minister made time quarterly to assess the status of controls and intervened where necessary. This assessment, the impact of the minister on the controls of the auditees as well as the status and impact of the commitments contributed to the assessed assurance provided by the minister. We have engaged with the new minister, shared key control assessments and obtained new commitments.

The assurance provided through the oversight of the portfolio committee should be improved. The portfolio committee should monitor progress quarterly against the annual performance plan and track the implementation of action plans to address previously identified audit findings.

The previous year's commitments to monitor progress quarterly against the annual performance plan, track the implementation of action plans quarterly to address previously identified issues and track progress that internal audit is fully established and capacitated to deliver against the internal audit plan, were in progress.

Constitutional institution

■ *Commission for Gender Equality (CGE)*

The Commission for Gender Equality (CGE) is included in the portfolio but is not under the authority of the minister.

Overall audit outcome

The lack of improvement in the overall audit outcome was caused by the CGE not addressing past material findings on compliance with legislation.

The main findings from our audit were reported in the audit reports and need to be addressed to improve the overall audit outcomes. They are as follows:

Annual performance report

The CGE submitted an annual performance report for auditing that contained material misstatements. It avoided material findings in its audit reports only because it corrected all the material misstatements identified during the auditing process.

The following controls should be strengthened to create a control environment that supports useful and reliable reporting on the performance of the auditee.

- Implementing processes, which should include ongoing review by senior management and internal audit, should be enhanced to ensure that the annual performance report is accurate and complete and supported by reliable information prior to submission for auditing.

Compliance with legislation

We identified material non-compliance with legislation by the CGE in the following areas:

- The CGE did not always apply the preferential point system when procuring goods and services. Quotations were awarded to bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state.

- The CGE awarded contracts or quotations to bidders based on points given for criteria that differed from those stipulated in the original invitation for bidding and quotations. Bid adjudication was not always done by committees that were properly constituted.
- The CGE did not take effective steps to prevent irregular expenditure.

Non-compliance with supply chain management prescripts remains a risk and resulted in key reported non-compliance matters in the audit report. This resulted in irregular expenditure; which remained constant from the previous year.

The following controls should be strengthened to create a control environment that supports compliance with legislation:

- Appropriate compliance checklists should be implemented and senior management and the accounting officer should continuously monitor to ensure compliance with all applicable legislation. The focus should be on prevention of irregular expenditure.

Root causes

The accounting officer, senior management and those charged with governance should address the root causes of poor audit outcomes and inadequate controls as follows:

- Develop and implement action plans to address internal and external audit findings and root causes.
- Implement appropriate compliance checklists and ongoing monitoring by senior management and the accounting officer to ensure compliance with all applicable legislation.
- Employ consequence management and take action against transgressors.

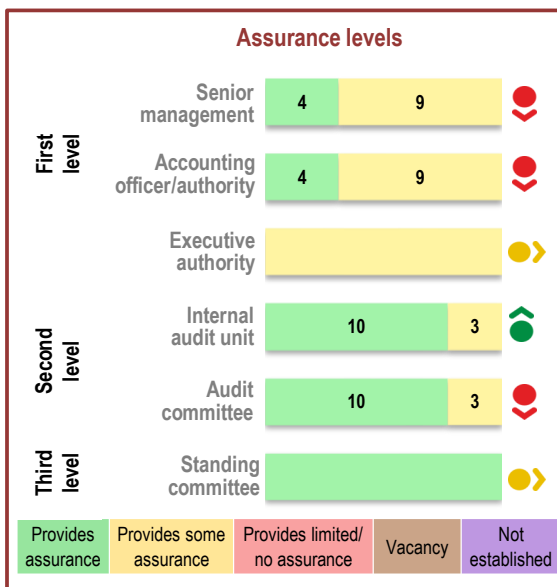
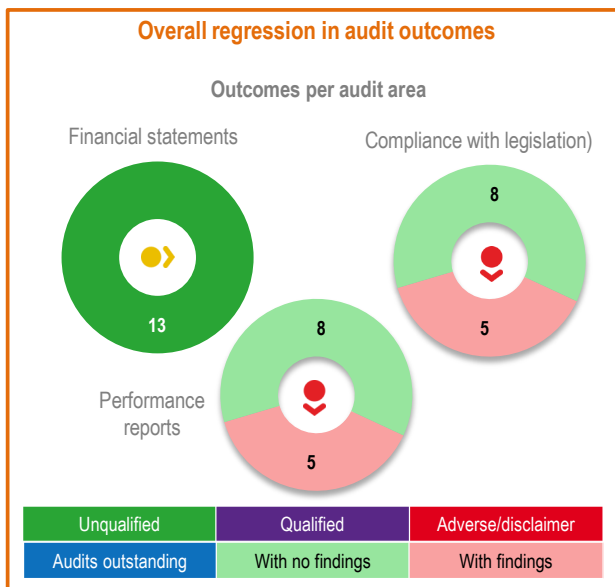
Impact of key role players on audit outcomes

The first and second levels of assurance should be improved by implementing the recommendations of internal and external auditors.

We met with the executive authority two times in the past year and these interactions had no impact on the audit outcomes. The status of the key control assessment remained largely unchanged and the non-compliance matters continue to be reported.

The assurance provided through the oversight of the portfolio committee should be improved. The portfolio committee should monitor progress quarterly against the annual performance plan and track the implementation of action plans to address previously identified issues on a quarterly basis.

Vote 10: Finance (National Treasury)



Key controls

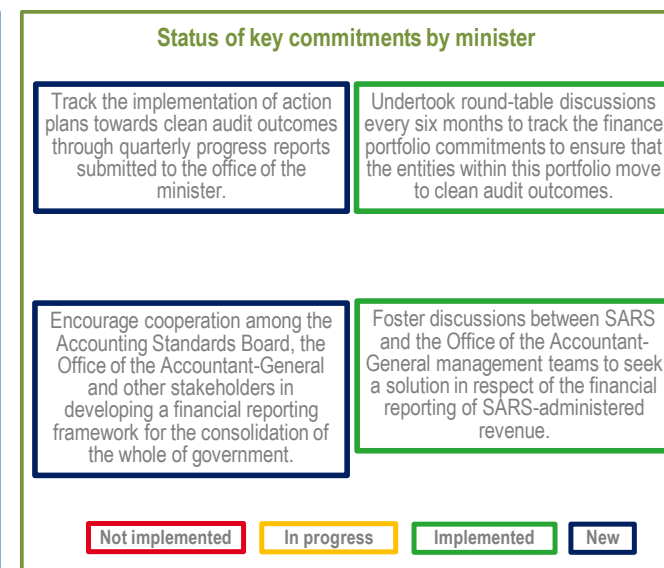
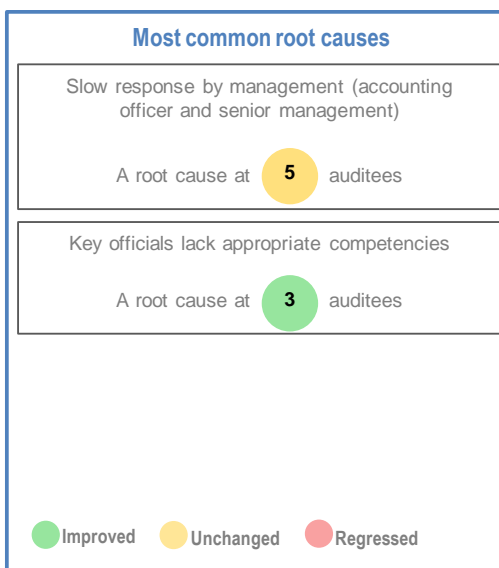
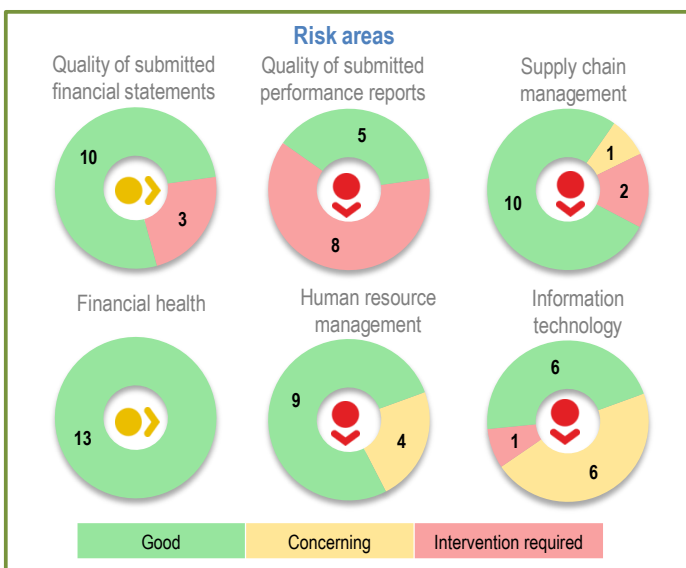
Control Area	Financial statements			Performance reports			Compliance with legislation		
	Good	Concerning	Intervention required	Good	Concerning	Intervention required	Good	Concerning	Intervention required
Effective leadership	9	4	0	5	7	1	5	7	1
Human resource controls	10	3	0	5	8	0	12	1	0
ICT governance and controls	6	6	1						
Audit action plans	12	1	0	13	0	0	13	0	0
Proper record keeping	12	2	0	11	2	0	13	0	0
Daily and monthly controls	12	1	0	13	0	0	12	1	0
Review and monitor compliance	11	2	0	10	2	1	9	2	2

Good Concerning Intervention required Not assessed

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



Auditees included in the portfolio audited by the Auditor-General of South Africa

■ *National Treasury (NT)* ■ *Co-operative Banks Development Agency (CBDA)*
 ■ *Financial Intelligence Centre (FIC)* ■ *Financial Services Board (FSB)*
 ■ *Government Pensions Administration Agency (GPAA)* ■ *Independent Regulatory Board for Auditors (IRBA)* ■ *Land and Agricultural Development Bank of South Africa (Land Bank Group)* ■ *Office of the Ombud for Financial Services Providers (FAIS Ombud)* ■ *Office of the Pension Funds Adjudicator (PFA)* ■ *Project Development Facility (PDF)* ■ *Public Investment Corporation (PIC)* ■ *South African Revenue Services (SARS)* ■ *Technical Assistance Unit (TAU)*

The budget (voted funds) of the department in the portfolio for the 2013-14 financial year was R25,2 billion and mainly comprised transfer payments of R20,7 billion and payments for financial assets of R2,9 billion.

Overall audit outcomes

The regression in the overall audit outcomes was caused by performance reports of FSB, PIC, PDF, National Treasury and TAU not being useful and/or reliable, as well as compliance findings attracted by FAIS Ombud. SARS, however, has improved as their annual performance report is now useful and has received an unqualified audit opinion with no findings. The National Treasury, CBDA, GPAA and FIC remain unchanged as they received an unqualified audit opinion with findings on their annual performance report and/or compliance with legislation. The Land Bank Group, IRBA and PFA maintained unqualified audit outcomes with no findings.

The main findings arising from our audit, as reported in the audit reports, which should be addressed to improve the overall audit outcomes, are as follows:

Financial statements

National Treasury, CBDA and FIC submitted financial statements for auditing that contained material misstatements in the area of disclosure notes, revenue and liabilities. These auditees received an unqualified audit opinion only because they corrected all the misstatements we identified during the auditing process.

The following controls should be strengthened to sustain a control environment that supports reliable financial reporting:

- Employ sufficiently skilled officials who possess the required competencies to prepare financial statements that are free from material misstatement.

- Improve record keeping to ensure that financial reporting is supported by complete, relevant and accurate information that agrees to recorded transactions.
- Implement controls that will facilitate continuous gathering of information for the disclosure notes to financial statements required at year-end.
- In respect of IT controls, improve security management, user access management and IT service continuity.

Annual performance report

The published annual performance report of the National Treasury, PDF, TAU, FSB and PIC included information on their performance against predetermined objectives that was not useful and/or reliable for the following programmes and objectives we had selected to audit:

Auditee	Programme/objective	Not useful	Not reliable
National Treasury	Programme 2: Economic policy, tax, Financial Regulation and Research	x	x
	Programme 3: Public finance and budget management	x	x
	Programme 5: Financial systems and accounting	x	x
	Programme 7: Civil and military pension contributions to funds and other benefits	x	x
	Programme 8: Technical support and development finance	x	x
Project Development Facility	Programme 8: Technical support and development finance	x	x
Technical Assistance Unit	Programme 8: Technical support and development finance	x	x

Auditee	Programme/objective	Not useful	Not reliable
Financial Services Board	Objective: Effective and efficient systems, processes and procedures fully implemented by end 2014.	x	
Public Investment Corporation Limited	Objective: Contribution to Education, Health, Housing, Infrastructure and Environmental Affairs	x	
	Objective: Increase investments in Africa (non-domestic)	x	
	Objective: BEE: Contribute to enterprise development in the private equity sector & SME	x	

The CBDA, Land Bank Group and PFA submitted annual performance reports for auditing that contained material misstatements. They avoided material findings in their audit reports only because they corrected all the misstatements we identified during the auditing process.

The following controls should be strengthened to sustain a control environment that supports useful and reliable reporting on the performance of the portfolio:

- Management should ensure that planned targets and indicators are measurable and that performance reports are reviewed and supported by sufficient, appropriate audit evidence.
- Employ sufficiently skilled officials who possess the required competencies to prepare performance reports that are useful and reliable.
- Improve record keeping to ensure that performance reporting is supported by complete, relevant and accurate information that agrees to recorded transactions.

Compliance with legislation

We identified material non-compliance with legislation by CBDA, GPAA and FAIS Ombud (excluding non-compliance with PFMA due to submitting financial statements for auditing that contained material misstatements) in the following areas:

- The CBDA did not establish and manage a Cooperative Banks Deposit Insurance Fund.
- The GPAA extended contracts without the approval of a delegated official and did not always follow the National Treasury instruction note on *enhancing compliance monitoring and improving transparency and accountability in supply chain management*.
- The FAIS Ombud procured goods and services of a transaction value in excess of R500 000 without inviting competitive bids and also approved deviations where it was possible to have invited the submission of competitive bids.

The following controls should be strengthened to sustain a control environment that supports compliance with legislation:

- Review and monitor compliance with procurement regulations and consistently apply the interpretation thereof.
- Implement consequence management in respect of employees who fail to comply with the legislated prescripts.

Root causes

The accounting officer and senior management should address the root causes of poor audit outcomes and inadequate controls as follows:

- Train and develop key officials in financial and performance reporting, as well as compliance with legislation.
- Implement the recommendations of internal audit and the AGSA promptly.
- Implement commitments made to address the internal control deficiencies in respect of non-compliance.

Impact of key role players on audit outcomes

The assurance provided by the accounting officer, accounting authorities and senior management should be improved by strengthening the control environment in respect of financial and performance reporting, as well as compliance with legislation. They should implement the recommendations of internal audit and direct the work of the audit committee towards evaluating performance reports.

The audit committee should strengthen its oversight of the effectiveness of internal control over financial reporting, performance reporting and compliance with legislation.

We met with the minister twice in the past year and these interactions had some impact on the audit outcomes. The impact of the minister on the controls of the

auditees, as well as the status and impact of the commitments, contributed to the assessed assurance provided by the minister.

The assurance provided through the oversight of the standing committee should be maintained. The committee actively engaged with the minister, highlighting the importance of clean administration.

A number of transversal systems are being developed and implemented in government. The DPISA, SITA and the National Treasury are key role players in the IFMS project. The success of this project may enable improved audit outcomes in the whole of government.

Constitutional institutions

The Financial and Fiscal Commission is included in the portfolio but not under the authority of the minister. The commission retained an unqualified audit opinion with findings in respect of compliance with legislation due to material misstatements contained in its financial statements submitted for auditing. Senior management should address the inadequate controls by training and developing key officials in financial reporting. In respect of risk to its financial health, the commission should improve the management of its capital budgets and monitor creditor balances closely.

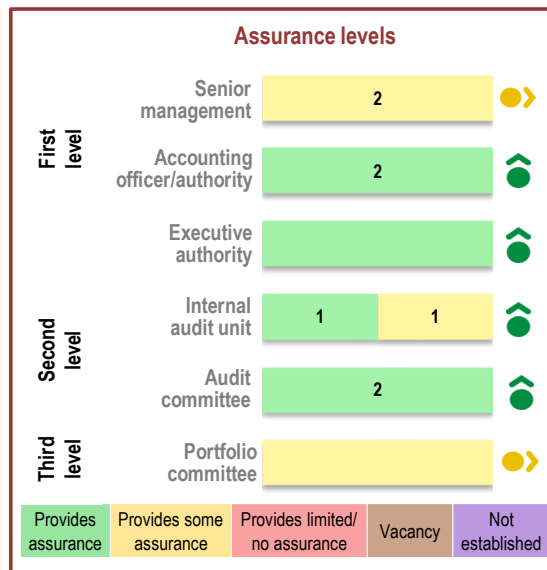
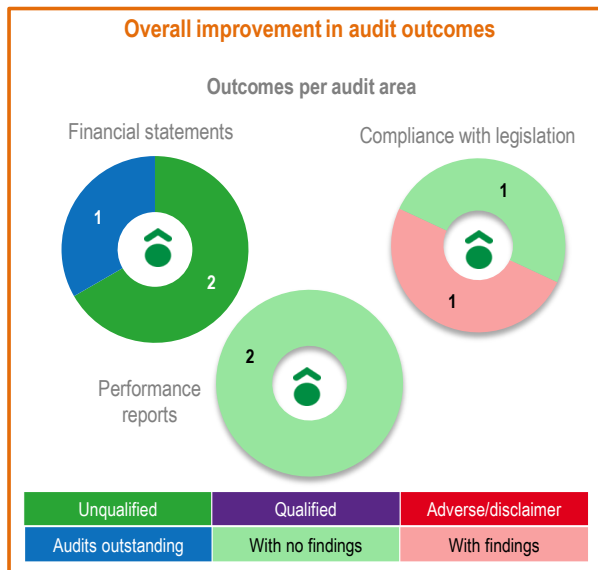
Entities included in the portfolio not audited by the Auditor-General of South Africa

We did not audit the following entities included in the portfolio of the minister:

- *Accounting Standards Board (ASB)* ■ *Development Bank of Southern Africa (DBSA)* ■ *Development Bank of Southern Africa Development Fund (DBSA Fund)*
- *South African Special Risk Insurance Association Limited (SASRIA)*

The overall audit outcomes of these entities remained unchanged as compared to the previous year, with the financial statements of all these entities receiving an unqualified opinion, with no material findings on the quality of the annual performance reports, as well as no material findings on compliance with legislation.

Vote 11: Public enterprises



Key controls

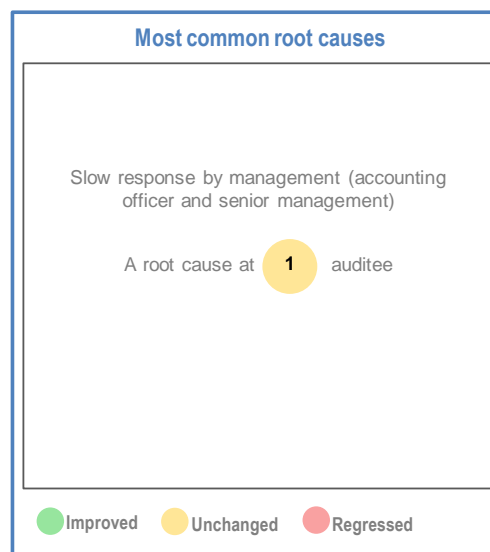
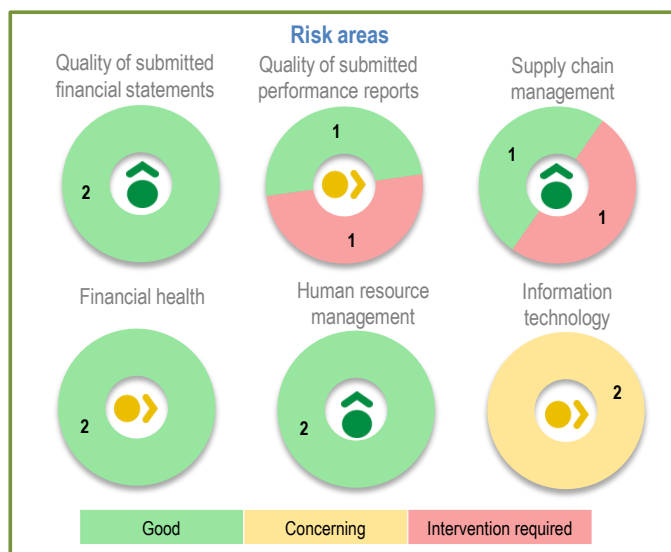
Control Area	Financial statements			Performance reports			Compliance with legislation		
	Good	Concerning	Intervention required	Good	Concerning	Intervention required	Good	Concerning	Intervention required
Effective leadership	2	0	0	2	0	0	2	0	0
Human resource controls	2	0	0	2	0	0	2	0	0
ICT governance and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

Good Concerning Intervention required

1
To improve/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



Status of key commitments by minister

Focus on the sustainability of clean audit and clean administration in order to lead by example for the state-owned companies.	The DPE and the SOCs must prepare interim financial statements subject to an interim audit.
Continuous focus on the engagements between the audit committee and board chairpersons of the state-owned companies and the executive.	DPE portfolio managers to attend audit committee and board meetings to pick up on and identify issues earlier to avoid surprises.
All entities in the portfolio must provide the DPE with action plans and progress made to address audit findings and achieve clean audits in 2013-14.	Internal audit must implement processes to review actions taken by entities to improve audit outcomes.

Not implemented In progress Implemented New

Auditees included in the portfolio audited by the Auditor-General of South Africa

- *Department of Public Enterprises (DPE)*
- *South African Forestry Company SOC Limited (SAFCOL)*
- *South African Express Airways SOC Limited (SAX)*

The budgeted expenditure for the department for the 2013-14 financial year was R294 million. The main expenditure was in respect of goods and services of R128 million, employee cost of R84 million and transfer payments of R58 million.

Overall audit outcome

The improvement in the overall audit outcomes for the portfolio was as a result of the decisive action taken by the DPE to regain its clean audit outcome status and SAFCOL obtaining an unqualified audit opinion in the current year.

The department formed a clean audit outcome task team solely dedicated to ensuring that all requirements were in place to achieve the set target of an unqualified audit opinion with no findings on its performance against predetermined objectives and compliance with legislation.

SAFCOL was able to address all the qualification areas of the previous financial year through the implementation of the audit recommendations, assisted by the following processes:

- Filling the vacancy in the CFO position, resulting in a fully functioning executive committee.
- Ensuring that the process of physical verification of the Mozambique plantation was proactively completed during the current financial period and that the valuation thereof was completely and accurately recorded in the annual financial statements.

The audit outcome of SAX was still outstanding at the date of this report due to the late submission of the annual financial statements, which was also the case in the previous financial year. This is mainly due to the instability and vacancies in the finance division.

The main findings arising from our audit, as reported in the audit reports, which should be addressed to improve the overall audit outcomes, are as follows:

Financial statements

We commend the DPE and SAFCOL for submitting annual financial statements for auditing that were free from material misstatements. The processes implemented by the department and SAFCOL should be shared throughout the portfolio.

The following controls should be strengthened to sustain a control environment that supports reliable financial reporting

- Daily, weekly and monthly financial disciplines should be entrenched in financial activities, systems and process, thus promoting a culture of clean administration.

Annual performance report

The department again submitted an annual performance report that was useful and reliable. We recommend that the DPE sustain this outcome and assist the entities within its portfolio to achieve the same.

SAFCOL submitted an annual performance report for auditing that contained material misstatements. It avoided material findings in its audit report only because it corrected all the misstatements we identified during the audit.

The following controls should be strengthened to create a control environment that supports useful and reliable reporting on the performance of the auditee:

- The preparation of performance reports, supported by reliable information, which are reviewed by senior management as the first level of assurance.

Compliance with legislation

We identified material non-compliance with legislation by SAFCOL in the following areas:

- Goods, works or services were not always procured through a procurement process which was fair, equitable, transparent and competitive as required, in that bid documentation did not specify the evaluation and adjudication criteria to be applied. Furthermore, contracts were awarded to and quotations were accepted from suppliers whose tax matters had not been declared by SARS to be in order.
- The accounting authority did not take reasonable steps to detect and prevent irregular expenditure of R16,4 million and fruitless and wasteful expenditure of R1,8 million.
- Existing credit cards were not cancelled as required.
- The corporate plan did not include all the strategic objectives and outcomes agreed upon by the executive authority in the shareholders' compact.

The following controls should be strengthened to create a control environment that supports compliance with legislation:

- The leadership within the entities must fully enforce the requirements of their SCM policies and procedures, which should be aligned to all applicable legislation, while maintaining the ability of the entities to be profitable businesses.
- Daily and monthly processes relating to SCM should be aligned to the internal policies and applicable legislation.
- Senior management should regularly review and monitor compliance with applicable legislation.

Root causes

We commend the department for the overall improvement in audit outcomes within the portfolio as well as its own clean audit. The accounting authority should address the root causes of poor audit outcomes and inadequate controls as follows:

- Senior management should take immediate action and hold officials accountable for not adhering to the implemented internal controls.

Impact of key role players on audit outcomes

The first and second levels of assurance should be improved through the timeous implementation of internal and external audit recommendations to strengthen the control environment. The internal audit units and audit committees should implement an effective and consistent method to follow up on actions taken to address audit findings relating to internal control weaknesses.

We met with the previous minister four times in the past year and these interactions had some impact on the audit outcomes. These interactions were mostly focused on governance and oversight of the SOCs. The following were the main concerns highlighted through these interactions:

- The strategic direction of the portfolio – Eskom’s future energy sources and the long-term turnaround strategy (LTTS) for the aviation industry.
- Funding concerns for the national and regional airlines SAA and SAX as well as Eskom.
- Ensuring stability in the governance structures of the portfolio.

The oversight function of the minister, which includes holding regular meetings with the chairperson of the board, CEOs and audit committee chairpersons from the portfolio, should continue to further develop strategies for the entities to be financially sustainable and to share best practices.

This assessment, as well as the minister’s receptivity to our messages, contributed to the assessed assurance provided by the minister.

Although the previous year’s commitments are still in progress, they have gained momentum and have contributed positively to the improvement in the audit outcomes in the portfolio. We recommend that the leadership strive towards fully implementing these commitments by the end of the 2014-15 financial year.

The assurance provided through the oversight of the portfolio committee should be improved through the timeous analysis of the strategic plans, annual reports and audit outcomes of the auditees within the portfolio.

Entities included in the portfolio not audited by the Auditor-General of South Africa

We do not audit the following entities included in the portfolio of the minister:

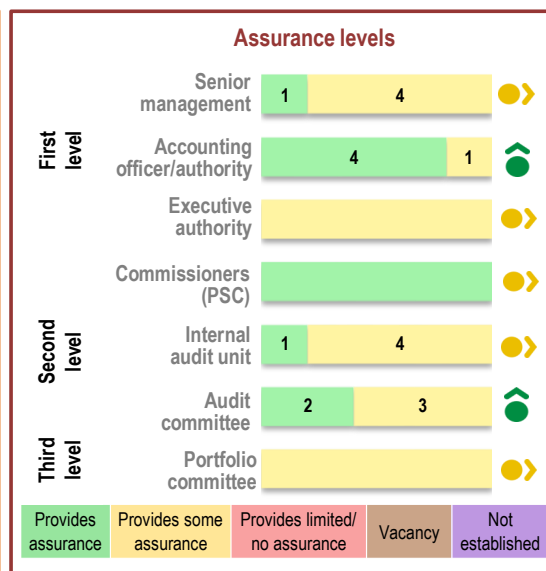
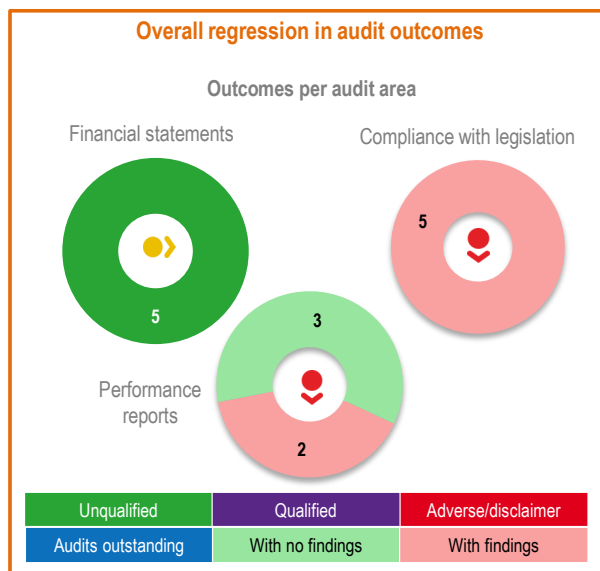
- *Alexkor SOC Limited*
- *Broadband Infraco SOC Limited*
- *Denel SOC Limited*
- *Eskom Holdings SOC Limited*
- *South African Airways SOC Limited*
- *Transnet SOC Limited*

The overall audit outcomes of these entities have improved. The audit outcomes were as follows:

- Two auditees (40%) received an unqualified opinion with no findings – an improvement from one auditee (20%) in the previous year.
- Three auditees (60%) had material findings on compliance with legislation – an improvement from four auditees (80%) in the previous year.

The audit of South African Airways SOC Limited was still outstanding at the date of this report.

Vote 12: Public service and administration



Key controls

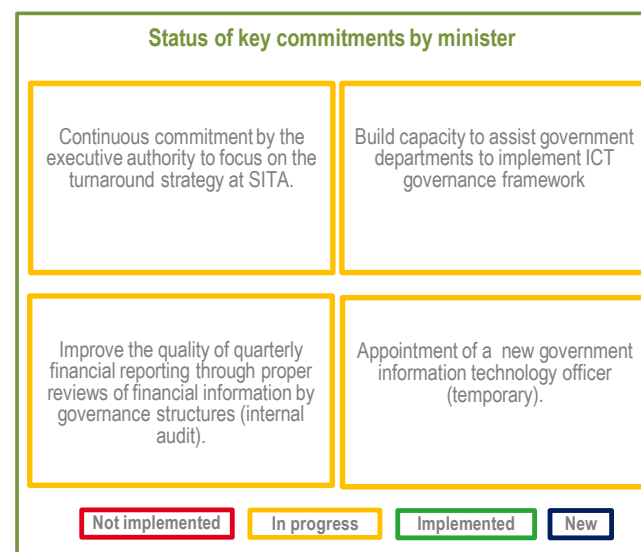
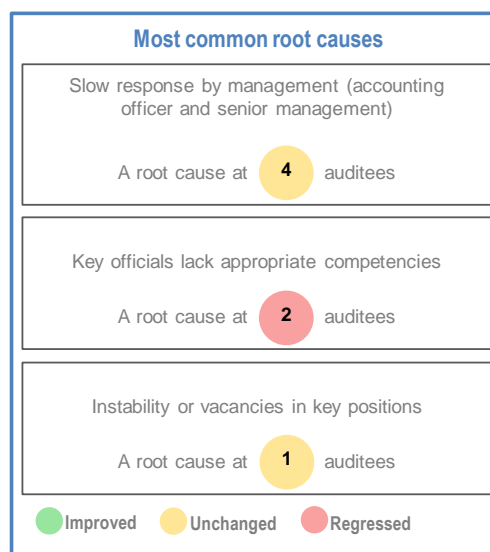
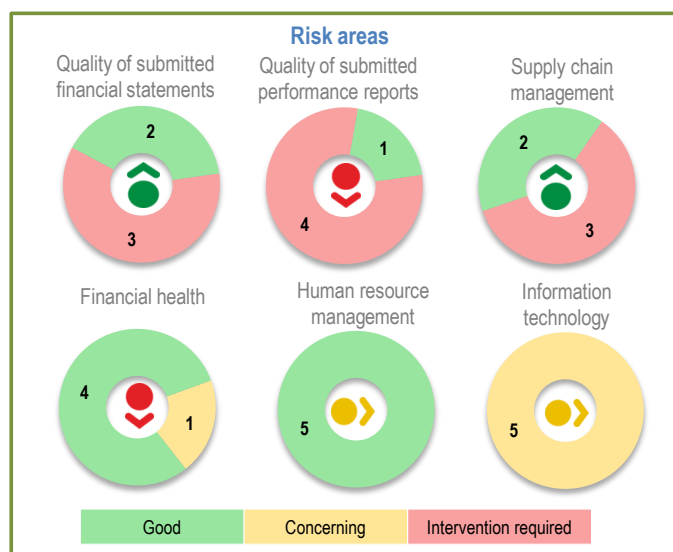
Key controls	Financial statements			Performance reports			Compliance with legislation		
	Good	Concerning	Intervention required	Good	Concerning	Intervention required	Good	Concerning	Intervention required
Effective leadership	5	0	0	5	0	0	5	0	0
Human resource controls	5	0	0	5	0	0	5	0	0
ICT governance and controls	0	5	0	4	1	0	4	1	0
Audit action plans	5	0	0	5	0	0	4	1	0
Proper record keeping	5	0	0	4	0	1	4	1	0
Daily and monthly controls	4	1	0	5	0	0	5	0	0
Review and monitor compliance	5	0	0	4	1	0	1	3	1

Good Concerning Intervention required

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

2
... the key role players need to **assure** that ...
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5

3
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6



Auditees included in the portfolio

National departments and public entities:

- *Department of Public Service and Administration (DPSA)*
- *National School of Government (NSG department)*
- *National School of Government (NSG trading entity)*
- *State Information Technology Agency SOC Ltd (SITA)*

Constitutional institutions:

- *The Office of the Public Service Commission (PSC)*

The budgeted expenditure for the departments for the 2013-14 financial year was R1,1 billion. The main expenditure was in respect of goods and services of R315 million, employee cost of R406 million and transfer payments of R408 million.

National departments and public entities

The regression in the overall audit outcome was due the failure to implement controls to ensure compliance with key legislation and regulations as well as failure to prepare financial statements and performance reports that are free of material misstatements.

The main findings arising from our audit, as reported in the audit reports, which should be addressed to improve the overall audit outcomes, are as follows:

Financial statements

We commend the DPSA and the NSG trading entity for submitting annual financial statements for auditing that were free from material misstatements.

The NSG department and SITA submitted financial statements for auditing that contained material misstatements. They received an unqualified audit opinion only because they corrected all the misstatements we identified during the audit. This continued reliance on the auditors to identify corrections is not a sustainable practice. It places undue pressure on legislated deadlines and unnecessarily increases the audit fees.

The following controls should be strengthened to create a control environment that supports reliable financial reporting:

- The misstatements identified at the NSG department related to disclosure notes that are one-off items compiled at year-end. Had this entity prepared regular, accurate and complete financial statements, including

disclosure notes that are supported and evidenced by reliable information, the misstatements could have been avoided.

- SITA should implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial reporting. We identified material misstatements in numerous classes of transactions, account balances and disclosure notes, which were subsequently corrected by management.
- SITA should tailor the Enterprise Resource Planning (ERP) system to the needs of the business and use it for capturing and processing daily transactions. It should also prepare full financial statements on a monthly basis that are supported and evidenced by reliable information.

Annual performance report

The published annual performance reports of the DPSA and SITA included information on their performance against predetermined objectives that was not useful and or reliable for the following programmes and objectives we had selected to audit.

Auditee	Programme/objective	Not useful	Not reliable
DPSA	Centre for public service innovation	X	
SITA	Drive economies of scale in the acquisition of large ICT goods and services		X
	Improve supply chain management mean time to respond		X

The NSG department and the NSG trading entity submitted annual performance reports for auditing that contained material misstatements. They avoided material findings in their audit reports only because they corrected all the misstatements we identified during the audit.

The following controls should be strengthened to create a control environment that supports useful and reliable reporting on the performance of the portfolio:

- The entities should define up-front which supporting documentation will be required and by when and an independent verification by the internal audit unit should be performed on the validity, accuracy and completeness of reported information.

Compliance with key legislation

We identified material non-compliance with key legislation by the DPSA, the NSG department, NSG trading entity and SITA in the following areas:

Procurement and contract management:

- Various instances of non-compliance were identified at SITA as the procurement agent for ICT goods and services on behalf of government. Such non-compliance related to procurement without obtaining three quotations (also applicable to the NSG), procurement without inviting competitive bids, deviations from competitive bids without valid reasons and contracts awarded to suppliers who had not submitted the required procurement documentation.
- At the DPSA and SITA instances were noted where government officials employed by SITA and other government departments had interests in suppliers rendering services to the DPSA, SITA and other government departments that used the preferred suppliers identified by SITA.

Expenditure management

- The NSG department, NSG trading entity and SITA did not take reasonable steps to prevent irregular expenditure.

Unauthorised expenditure incurred in the portfolio amounted to R13,7 million which related to initiatives launched by the previous minister as a result of the Public Administration Bill. The minister appointed an advisory task team, which increased expenditure in this regard. The NSG also held an event to launch the NSG that was not budgeted for. Neither entity incurred unauthorised expenditure in the prior year.

The total irregular expenditure incurred in the portfolio amounted to R38,4 million, with SITA being the largest contributor, incurring R35,2 million. The main contributing factor towards this irregular expenditure was non-adherence to SCM prescripts because of a lack of competencies and skills within the SCM unit.

The following controls should be strengthened to create a control environment that supports compliance with legislation:

- Systems and processes that result in proper service delivery planning, implementation, reporting, monitoring and oversight should be put in place in order to eliminate unauthorised expenditure.
- SCM-related record keeping should be improved to ensure that SCM decisions can be verified against the SCM policy. In addition, consequence management should be applied for all SCM transgressions.
- Independent reviews should be performed on all strategic procurement projects where all procurement files should be assessed/verified on a cyclical basis for compliance with legislation, regulations and policies.

- The impact of non-compliance with legislation and regulations should be clearly explained and internalised by all involved in the SCM environment.

Root causes

The leadership and senior management of the entities should address the root causes of poor audit outcomes and inadequate controls as follows:

- Senior management should take immediate action and hold officials accountable for not adhering to the implemented internal controls.
- Ensure that the portfolio has adequate skills and resources to report appropriately and effectively in terms of financial and service delivery.
- Fill all vacancies with people with the requisite skills and provide training to address development gaps of existing staff.

Specific areas where internal audit units and audit committees can jointly make significant contributions to the audit outcomes include the following:

- Encourage their auditees to submit regular financial and performance data.
- Monitor the implementation of the auditees' action plans in respect of prior year audit findings.
- Thoroughly review financial statements before their submission for auditing with a view to detecting material misstatements.
- Monitor action taken in the case of known transgressions.
- Ensure that internal audit coverage plans assign appropriate resources to the six key risk areas we identified.
- Thoroughly review the auditees' quarterly reports to satisfy themselves that the information contained therein is credible.

Impact of key role players on audit outcomes

The first and second levels of assurance should be improved through the timely implementation of internal and external audit recommendations to strengthen the control environment. The internal audit units and audit committees should implement an effective and consistent method to follow up on actions taken to address audit findings relating to internal control weaknesses.

We met with the previous minister four times in the past year and these interactions had little impact on the current year's audit outcomes for the portfolio. We anticipate that the initiatives taken by the minister will bear fruit in coming years provided that leadership stability is maintained in the portfolio. This assessment, as well as the minister's receptivity to our messages, contributed to the assessed assurance provided by the minister.

The previous year's commitments are still in progress. The slow pace at which these commitments are implemented has contributed to the regression in the audit outcomes in the portfolio. We recommend that the leadership increase the momentum and strive towards fully implementing these commitments by the end of the 2014-15 financial year.

The assurance provided through the oversight of the portfolio committee should be improved through timeous analysis of the strategic plans, annual reports and audit outcomes of the auditees within the portfolio.

Risks to service delivery

The accounting authority and senior management of SITA should address the following matters which could affect service delivery in the portfolio:

- Capital expenditure at SITA: The entity has significantly underspent its capital expenditure budget for the last six years. This is concerning as the entity has aging infrastructure and a lack of adequate investment herein may negatively impact service delivery. The current position of the integrated financial management system (IFMS) project further compounds the situation since the entity has elected not to invest in infrastructure supporting the legacy system.

Constitutional institutions

The Office of the Public Service Commission (PSC) is included in the portfolio but reports to the Public Service Commission as the executive authority. The overall audit outcome of the PSC regressed because the financial statements submitted for auditing contained material misstatements, resulting in an unqualified opinion with findings on compliance with key legislation.

The main findings arising from our audit, which should be addressed to improve the overall audit outcomes, are as follows:

Financial statements

The PSC received an unqualified audit opinion only because it corrected the misstatement we identified during the audit.

The misstatement related to a disclosure note that is a one-off item compiled at year-end. If the PSC had prepared regular, accurate and complete financial statements, including disclosure notes that are supported and evidenced by reliable information, the misstatement could have been avoided.

Root causes

The leadership and senior management of the PSC should address the root causes of inadequate controls as follows:

- Fill all vacancies with people with the requisite skills, and provide training to address development gaps of existing staff.

Impact of key role players on audit outcomes

The assurance provided by the key role players should be maintained by ensuring stability at the level of accounting officer and senior management at the PSC.

Vote 13: Statistics South Africa

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	Role	Assurance Level
First level	Senior management	Provides 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	Concerning	Good
ICT governance and controls	Concerning	Intervention required	Not assessed
Audit action plans	Good	Concerning	Good
Proper record keeping	Good	Concerning	Good
Daily and monthly controls	Good	Good	Good
Review and monitor compliance	Good	Good	Good

F = Financial P = Performance C = Compliance

Good Concerning Intervention required Not assessed

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To maintain the **audit outcomes** ...
... the **risk areas** and ...
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... the key role players need to **assure** that ...
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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

- Slow response by management
- Lack of consequences for poor performance and transgressions
- Instability or vacancies in key positions

Status of key commitments by minister

Management undertook to hold executive managers accountable for the quality of performance reports through the performance management system.	The accounting officer undertook to track the progress made with leave approvals through monthly progress reports from human resource management.
The minister, together with management, committed to the implementation of a corrective action plan which will monitor and track the corrective actions taken.	Management has committed to implement controls to collate information required for year-end disclosure notes.
The minister committed to follow up on performance and consequence management.	The minister committed to discuss with management and National Treasury the matter of Statistics SA's unfunded mandates.
The minister committed to follow up on the investigations into procurement of goods and services.	

Not implemented In progress Implemented New

Auditees included in the portfolio

■ Statistics South Africa (Statistics SA)

The budget (voted funds) of the department for the 2013-14 financial year was R1,742 billion. The expenditure was in respect of the following:

- Employee cost – R1,103 billion
- Goods and services – R589 million
- Transfers and subsidies – R18 million
- Capital expenditure – R32 million

Overall audit outcome

The improvement in the overall audit outcome of Statistics SA to unqualified with no findings in the 2013-14 financial year, compared to unqualified with findings in 2012-13 financial year, was due to leadership's commitments to implement controls to address the audit findings and to draft actions plan to monitor delivery on those commitments.

The findings arising from our audit, which should be addressed to sustain the improved overall audit outcomes, are as follows:

Financial statements

Statistics SA submitted financial statements for auditing that were free from material misstatements. Management has honoured prior year commitments by implementing monthly controls to collate information required for year-end disclosure notes, i.e. accruals, commitments and disclosure notes. The implementation of the actions plans was monitored and tracked monthly by the leadership. The implemented controls resulted in an improvement in the quality of the financial statements and these should be observed at all times to sustain the outcomes.

Despite the improved outcomes, the following controls should also be strengthened to sustain a control environment that supports reliable financial reporting:

- Enhance vacancy management within the finance section to ensure that adequate and sufficiently skilled resources are in place.
- Strengthen action plans implemented to ensure that financial reporting and related controls prevent misstatements and to enhance oversight responsibility and leadership to detect misstatements prior to the audit process commencing.
- Enhance the design of user access management controls that provide assurance on the confidentiality, integrity and availability of financial information.

Annual performance report

No material findings were raised on the annual performance report that was submitted for audit. This was due to leadership and management implementing some of the prior year commitments and action plans. Executive managers were requested to submit and sign off on the reported performance information before it was submitted to the strategy division for consolidation, which resulted in a slight improvement. The strategy division selected a sample of clusters on a quarterly basis and verified the evidence submitted to support the reported performance to ensure that it is credible.

Despite the action plans and commitments implemented, the annual performance reports submitted for auditing contained some material misstatements. Statistics SA avoided material findings in their audit report only because they corrected all the misstatements we identified during the auditing process.

The following controls should therefore be strengthened to create a control environment that supports useful and reliable reporting on the performance of the auditee:

- Strengthen performance and consequence management by holding executive managers accountable for the quality of performance reports through the performance management system, as committed to in the prior year, to avoid repeat findings.
- Strengthen performance reporting and related controls to prevent misstatements and to enhance oversight responsibility and leadership to detect misstatements prior to the audit process commencing.
- Prepare regular, accurate and complete performance reports that are supported by reliable information and review these reports for errors.
- Strengthen record keeping to ensure that complete, relevant and accurate information is available and accessible to support performance reporting.

Compliance with legislation

We did not identify any material findings relating to non-compliance with legislation by Statistics SA. Management implemented commitments made in the prior year which resulted in financial statements that were free from material misstatements and the improved audit outcome.

The status of supply chain and human resource management remained unchanged due to the implementation of action plans still being in progress. The delays in implementation of action plans are due to human resource constraints in these areas.

The following controls should be strengthened to create a control environment that supports compliance with legislation:

- Enhance consequence management to hold staff accountable for non-compliance with SCM requirements.
- Enhance vacancy management (vacant positions should be advertised and filled within the period prescribed in the *Public service regulations* and officials should not act in vacant position for a period longer than allowed without appropriate approval)
- Policies and procedures should be timeously reviewed, updated and approved to ensure that they are in line with public sector legislation and regulations.

Root causes

Notwithstanding the improved audit outcomes and implemented measures to maintain these outcomes, the leadership should address the root causes of inadequate controls as follows:

- Enhance performance and consequence management by holding executive managers accountable for the quality of performance reports through the performance management system
- Improve vacancy management to ensure that there is capacity in the finance section
- Ensure that management completes the implementation of corrective action plans compiled to address prior year findings.

Impact of key role players on audit outcomes

The first level of assurance should be maintained by ensuring that the accounting officer and senior management continue to implement the AGSA's recommendations and impose consequences for poor performance.

Internal audit should improve their performance to ensure that it provides the required level of assurance.

We met with the previous minister once during the previous year and this interaction had a significant impact on the audit outcomes due to the minister's subsequent follow-up with the Statistics SA leadership. The financial statements were free from material misstatements; however, there was a repeat finding on the annual performance report (adjustment of material misstatements). Some commitments made were not timeously honoured, such as holding executive managers accountable for the quality of performance report through performance management system. Consequence management has not been promptly enhanced.

We met once with the new minister in the current year to discuss the 2013-14 audit outcomes. He undertook to address the performance information and funding matters raised by having discussions with management. The minister further requested that management provide him with a submission on their financial constraints so that he could engage with National Treasury.

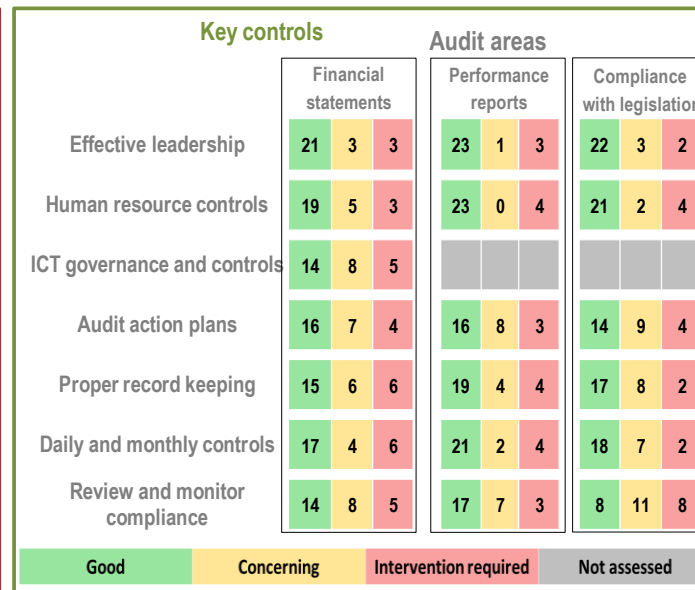
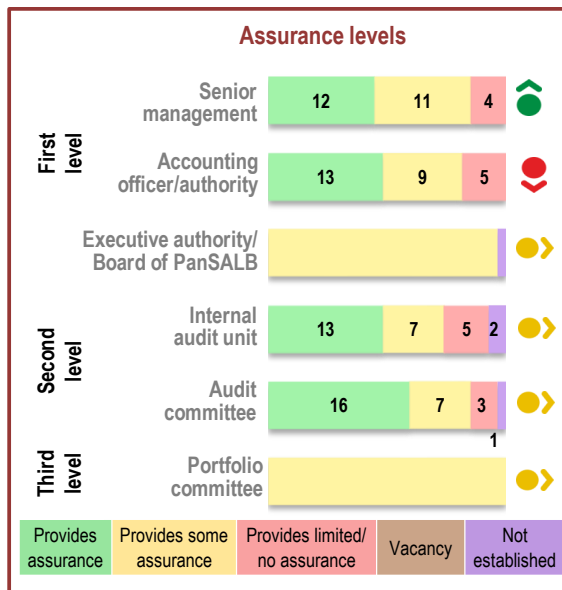
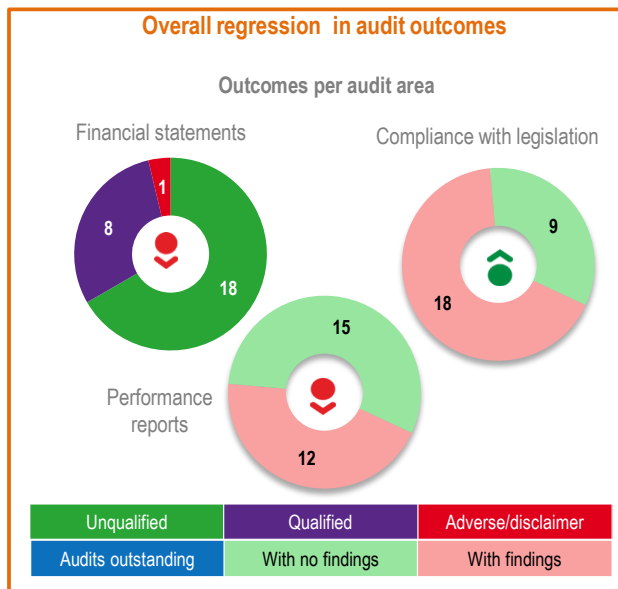
The assurance provided through the oversight of the portfolio committee should be improved through regular interactions. We only met once with the portfolio committee in the past year.

Risks to financial health and service delivery

The minister should address the following matter, which could affect financial health/service delivery monitoring and oversight responsibilities in the portfolio:

- Financial health: Although there are no unfavourable indicators for Statistics SA, the ability to deliver services is negatively affected by funding constraints due to unfunded mandates (Master Sample Survey and Living Condition Survey). In the 2013-14 financial year the Master Sample Survey was funded from the vacancy savings and this could in future become problematic once all the vacancies have been filled. The vacancy rate is currently 10% and the actual expenditure for the Master Sample Survey in 2013-14 was R4,5 million, while the estimated cost for both mandates in 2014-15 is R87,5 million. The minister committed to discuss the funding matter with management and National Treasury.

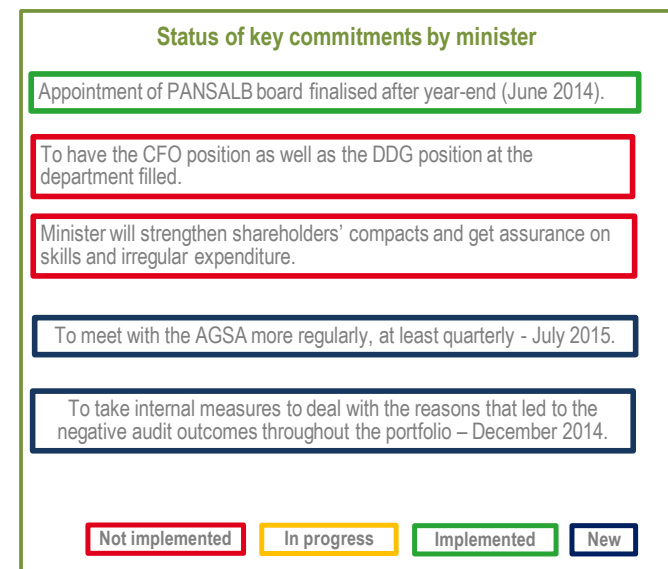
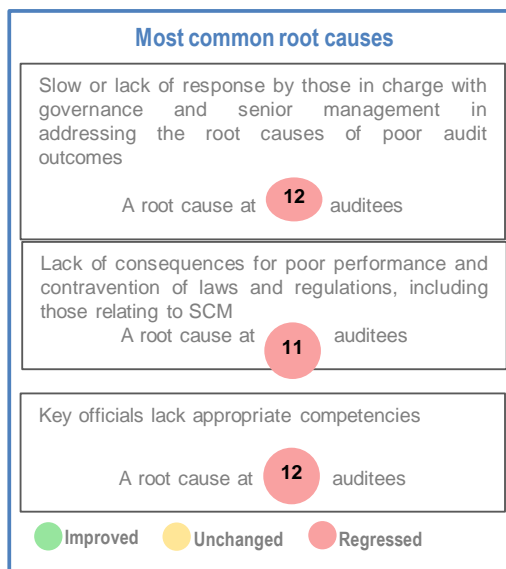
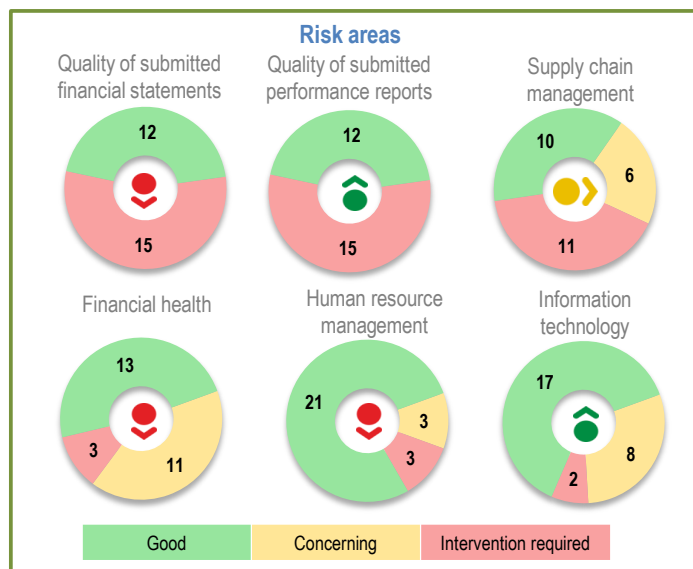
Vote 14: Arts and culture



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To improve/maintain the **audit outcomes** ...
... the **risk areas** and ...
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... the key role players need to **assure** that ...
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Auditees included in the portfolio

Department of Arts and Culture, ArtsCape, Die Afrikaanse Taalmuseum, Ditsong: Museums of South Africa, Freedom Park, Iziko Museums of Cape Town, Kwazulu-Natal Museum, Luthuli Museum, Market theatre Foundation, Msunduzi/Voortrekker Museum, National Arts Council, National English Literary Museum (Grahamstown), National Film and Video Foundation, National Heritage Council, National Library, National Museum, Nelson Mandela National Museum (Mthatha), Performing Arts Centre of the Free State, Robben Island Museum, South Africa Library for the Blind (Grahamstown), South African Heritage Resources Agency, the Playhouse Company, the South African State Theatre, War Museum of the Boer Republics, William Humphrey's Art Gallery, Windybrow Theatre.

The total budgeted expenditure by auditees in the portfolio for the 2013-14 financial year was R29 145 million. The main expenditure was in respect of employee cost (R196 million), goods and services (R470 million), transfer payments (R2 242 million) and capital expenditure (R7 million).

Overall audit outcome

The regression in the overall audit outcome was caused by nine auditees in the portfolio having regressed and only five having improved, as follows:

- The department, Ditsong: Museums of SA, Msunduzi/Voortrekker Museum, National Arts Council, National English Literary Museum (Grahamstown), National Library, Nelson Mandela National Museum (Mthatha) and Windybrow Theatre regressed from an unqualified opinion with findings to a qualified opinion. The National Museum regressed from an unqualified opinion with no findings to an unqualified opinion with findings.
- The Iziko Museums of Cape Town and Robben Island Museum improved from an unqualified opinion with findings to an unqualified opinion without findings. The South African Heritage Resource Agency, the South African State Theatre and the William Humphreys Art Gallery improved from a qualified opinion to an unqualified opinion with findings.

The main findings arising from our audit that should be addressed to improve the overall audit outcomes are as follows:

Financial statements

Fourteen (54%) of the auditees submitted financial statements for auditing that contained material misstatements in the areas of revenue, assets, liabilities and other disclosure items:

- The department, Nelson Mandela National Museum and Windybrow Theatre disclosed irregular expenditure relating to the current and prior periods for

which no evidence could be obtained that the amounts disclosed were complete.

- The National Library, Ditsong: Museums of SA, the National English Literary Museum and Msunduzi/Voortrekker Museum disclosed owned assets but evidence could not be obtained to support the value at which these assets were disclosed.
- The National Library, Ditsong Museums of SA, the National English Literary Museum, Nelson Mandela National Museum and National Arts Council disclosed liabilities due to third parties but evidence could not be obtained to support the value at which the liabilities were disclosed.

Die Afrikaanse Taalmuseum, National Heritage Council, National Museum, Performing Arts Centre of the Free State, South Africa Library for the Blind and the South African State Theatre received an unqualified audit opinion because they corrected all the misstatements identified during the auditing process.

The following controls should be strengthened to create a control environment that supports reliable financial reporting:

- Proper record keeping should be implemented to ensure that matters affecting the financial statements are supported with appropriate documentation.
- Review and monitoring of daily and monthly processing of transactions should be performed regularly by senior personnel to ensure compliance with applicable policies and procedures.
- Vacant key management positions should be filled with adequately skilled persons in time to ensure stability.

Annual performance report

The published annual performance report for 11 of the auditees in the portfolio (42%) included information on their performance against predetermined objectives that was not useful and/or reliable for the following programmes and/or objectives we had selected to audit:

Auditee	Programme/objective	Not useful	Not reliable
Department of Arts and Culture	Programme 5: Heritage promotion		X
Die Afrikaanse Taalmuseum	Collection management		X
Ditsong: Museums of South Africa	Museum operations: Heritage collections management	X	X
	Museum operations: Accessioning and inventory management	X	X
	Museum operations: Conservation and restoration	X	X
	Museum operations: Public programmes and exhibitions	X	X
National Heritage Council of South Africa	Programme 1: Strategic management services	X	
	Programme 2: Corporate services	X	
	Programme 3: Company secretariat	X	
	Programme 4: Heritage management	X	
National Library of South Africa	Programme 2: Bibliographic services and collection management	X	X
	Programme 3: Information access services		X
	Programme 4: Preservation services	X	X
Nelson Mandela National Museum	Programme 1: Heritage and resource management	X	X
	Programme 2 Marketing and communication	X	X

	Programme 3: Infrastructure and facilities management	X	X
Performing Arts Centre of the Free State	Programme 2: Artistic services		X
	Programme 3: Technical services	X	X
South Africa Library for the Blind	Programme 1: Library and information services		X
South African Heritage Resources Agency	Objective 2: Governance and accountability	X	
William Humphrey's Art Gallery	Programme 1: Business development	X	
	Programme 2: Public engagement	X	
Windybrow Theatre	Programme 1: Productions	X	
	Programme 3: Outreach initiatives	X	

The following controls should be strengthened to create a control environment that supports useful and reliable reporting on the performance of the portfolio.

- Proper record keeping should be implemented to ensure that all matters affecting the annual performance reports are adequately supported with appropriate documentation.
- Review and monitoring of daily and monthly processing of information should be performed regularly by senior personnel to ensure compliance with applicable policies and procedures.
- Vacant key management positions should be filled with adequately skilled persons in time to ensure stability.

Compliance with legislation

We identified material non-compliance as follows:

Area of non-compliance	Auditees that did not comply
Competitive bidding processes not followed or three quotations not requested.	The department, National Heritage Council, South African State Theatre, Windybrow Theatre
The preferential procurement points system in awarding contracts and quotations was not always applied.	The department, Market Theatre Foundation, National Museum, South African State Theatre, Windybrow Theatre
Contracts were awarded to suppliers who had not declared connections to the state.	The department, South African State Theatre, Nelson Mandela Museum, Msunduzi/ Voortrekker Museum, Afrikaanse Taalmuseum, Windybrow Theatre
Contracts were awarded to and quotations were accepted from suppliers that did not submit tax clearance certificates.	South African State Theatre, Nelson Mandela Museum, Msunduzi/Voortrekker Museum, Windybrow Theatre
Eight (31%) of the auditees did not implement proper control systems to ensure safeguarding and maintenance of assets.	Ditsong: Museums of SA, Msunduzi/ Voortrekker Museum, National Heritage Council, Performance Arts Council of the Free State, South African Library for the Blind, State Theatre of South Africa, National English Literary Museum, Windybrow Theatre
Thirteen (50%) of the auditees did not take reasonable steps to prevent fruitless, wasteful and irregular expenditure from occurring.	The department, Afrikaanse Taalmuseum: Ditsong Museums of SA, Market Theatre Foundation, Msunduzi/ Voortrekker Museum, National Arts Council, National Heritage Council, National Library, Nelson Mandela National Museum, Performing Arts Centre of the Free State, South African Heritage Resources Agency, State Theatre, William Humphreys Art Gallery, Windybrow Theatre

The department, South African State Theatre and Windybrow Theatre incurred irregular expenditure amounting to R173 million (2013: R113 million) for the current year. This constitutes 88% (2013: 73%) of the total amount incurred in the portfolio (DAC: R74 million, SAST: R68 million and WBT: R31 million). Of the irregular expenditure incurred by the portfolio, 58% was identified by the auditees. Due to lack of consequences and inadequate oversight, 100% of the amount incurred related to non-compliance with applicable procurement and supply chain regulations. As a result of non-compliance with procurement regulations, the status of supply chain management remains unsatisfactory for the portfolio.

The following controls should be strengthened to create a control environment that supports compliance with legislation:

- Review and monitoring of compliance with laws and regulations, including those relating to supply chain management.
- Procedures on consequence management should be implemented in terms of action to be taken against officials who failed to comply with laws and regulations. Senior officials must ensure that actions are taken in terms of these procedures and that employees are held accountable for non-compliance.
- Vacant key management positions should be filled with adequately skilled persons in time to ensure stability as well as correct application of the relevant laws and regulations.

Root causes

The minister and accounting officer/authorities should address the root causes of poor audit outcomes and inadequate controls as follows:

- Investigate and take steps to address non-compliance with laws and regulations, including those specific to supply chain management.
- Ensure that key vacant positions are filled with sufficiently skilled individuals and provide adequate training to existing personnel at the department and relevant entities.
- Implement and consistently monitor all action plans to enhance the level of response by those charged with governance and senior management to address significant deficiencies.

Impact of key role players on audit outcomes

The first and second levels of assurance should be improved by ensuring stability at the level of accounting officer/authority and senior management for auditees that had an overall regression in audit outcomes. Action plans to address control weaknesses should be implemented and monitored, while the work of the audit committees should be directed towards evaluating compliance with laws and regulations as well as performance against predetermined objectives.

We met the previous minister once in the past year and this interaction had minimum impact on the audit outcomes. Our assessment is primarily due to the overall regression in the portfolio's outcomes. This assessment, the minimal impact of the minister on the controls of the auditees as well as the status and impact of the commitments contributed to the assessed assurance provided by the minister. We met once with the new minister and the interaction was positive. We look forward to fruitful interactions to improve on the portfolio's overall audit outcomes.

The assurance provided through the oversight of the portfolio committee should be improved by having regular interactions with the entities and the external auditor.

No commitments were made in the previous year. The new portfolio committee made the following commitments:

- Hold the auditees accountable for the audit outcomes
- Have regular interactions with the auditees in order to gain a better understanding of the issues within the portfolio.

Risks to financial health and service delivery

The minister and the accounting officer should address the following matters, which could affect monitoring of financial health and service delivery in the portfolio:

- The department again engaged consultants to assist with financial reporting, IT-related services and other consultancy services. This is due to a shortage of skilled individuals employed by the department. The total amount paid to consultants was R146 million (2012-13: R139 million), consisting of R1 million for financial reporting services, R11 million for IT-related services and R134 million for other consultancy services. The review of the management of consultants indicated that the work of consultants was monitored by employees who were not sufficiently skilled/experienced to ensure that effective contract management occurred. Measures to monitor contract performance and delivery were not defined and/or implemented and no evaluation was performed to compare the consultant's services rendered and the deliverable to the initial project objectives and needs.
- Budget management in the department should also be improved. This will ensure that funds appropriated for special projects and/or infrastructure projects are used in a timeous manner.

Constitutional institutions

The Pan South African Language Board (PanSALB) is included in this portfolio; however, it does not report under the authority of the minister, but to Parliament.

The overall audit outcome regressed due to a disclaimed audit opinion on its financial statements as well as material findings on its annual performance plan and compliance with legislation. This was caused by vacancies in key positions and a lack of adequate internal controls to address previous material findings and to prevent new findings.

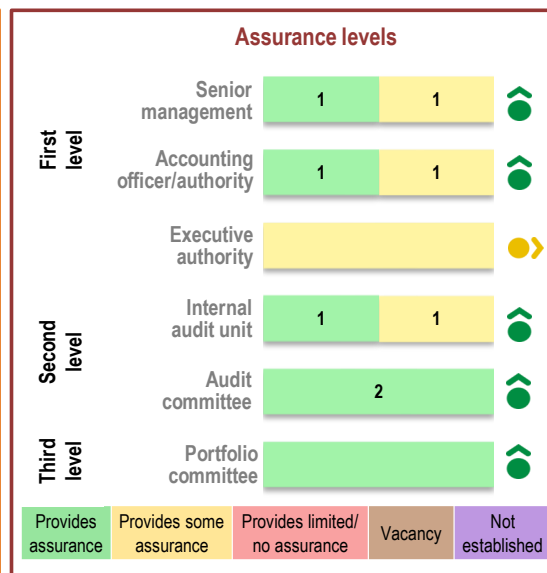
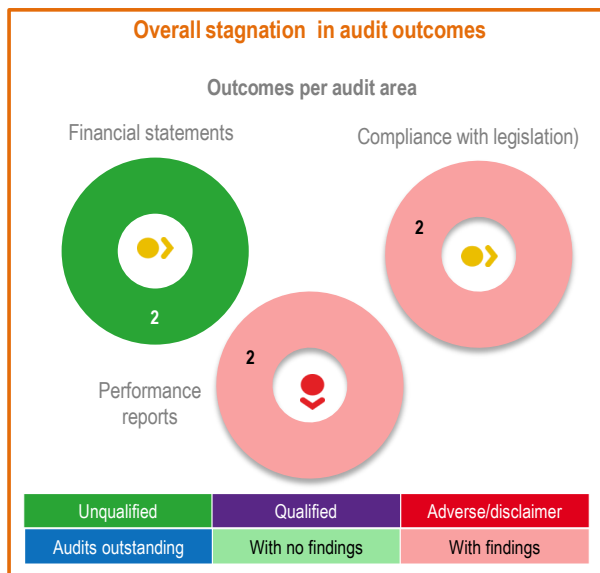
The newly appointed board (appointed in June 2014) should appoint a skilled and experienced chief executive officer (accounting officer).

The accounting officer should address the root causes of the poor audit outcome and inadequate controls as follows:

- Appoint a skilled CFO and skilled staff in the finance section and provide training to staff members on financial reporting, supply chain management and performance information so that they can obtain appropriate skills and gain experience.
- Hold staff members accountable for non-performance and non-compliance with legislation.
- Implement adequate internal controls to ensure accurate and reliable information supporting the financial statements and annual performance report.

The different assurance level providers (management, accounting officer, executive authority and audit committee) should also timeously and adequately review the financial statements and annual performance report

Vote 15: Basic education



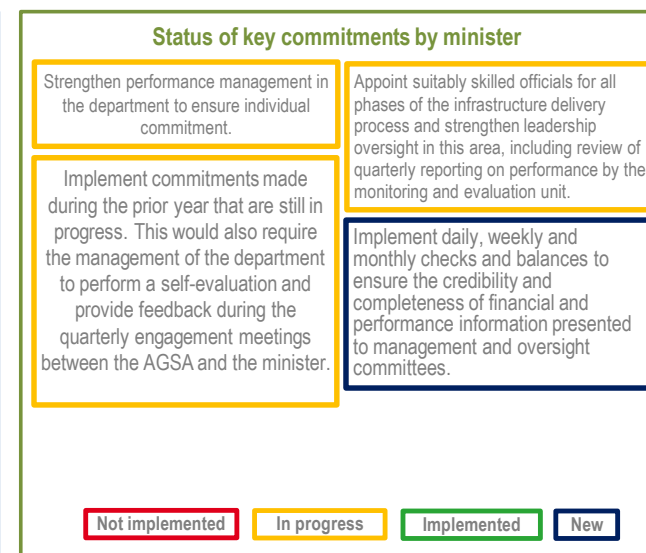
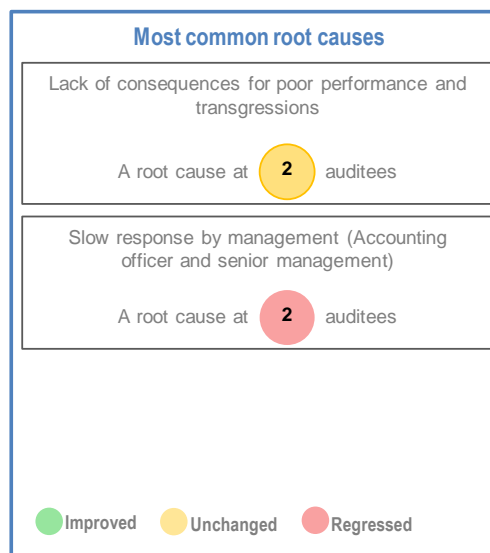
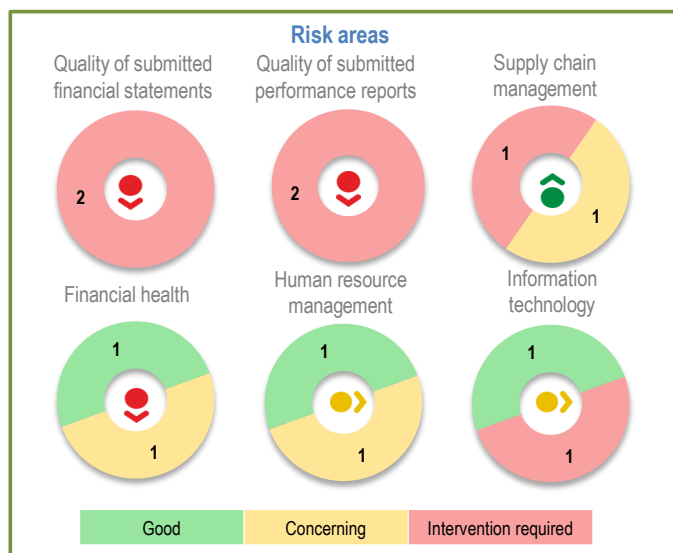
Key controls

Control Area	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	0	2	0	1	1	0
ICT governance and controls	1	0	1	0	0	0	0	0	0
Audit action plans	1	1	0	0	1	1	0	2	0
Proper record keeping	1	1	0	0	0	2	0	1	1
Daily and monthly controls	1	1	0	0	2	0	0	1	1
Review and monitor compliance	1	1	0	0	0	2	0	1	1

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To improve the **audit outcomes** ...
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Auditees included in the portfolio audited by the Auditor-General of South Africa

■ Department of Basic Education ■ Education Labour Relations Council

The budgeted expenditure for the department for the 2013-14 financial year was R17,6 billion. The main expenditure categories budgeted for were in respect of compensation of employees of R388,2 million, goods and services of R1,8 billion, transfers and subsidies of R13,4 billion and payments for capital assets of R1,9 billion.

Overall audit outcome

The lack of improvement in the overall audit outcome was due to the Department of Basic Education (DBE) and the Education Labour Relations Council (ELRC) not addressing past material findings on their annual performance reports and compliance with legislation.

The main findings arising from our audit, as reported in the audit reports, which should be addressed to improve the overall audit outcomes, are as follows:

Financial statements

The DBE and the ELRC submitted financial statements for auditing that contained material misstatements. The misstatements for the DBE were in the areas of irregular expenditure, immovable tangible capital assets, employee benefits (disclosure note) and goods and services, while the misstatements for the ELRC were in the area of trade and other payables. The DBE and the ELRC received an unqualified audit opinion only because they corrected all the misstatements we had identified during the auditing process.

The following controls should be strengthened to create a control environment that supports reliable financial reporting:

- Implement daily, weekly and monthly checks and balances (monthly disciplines) to ensure the credibility and completeness of financial information presented to management and oversight committees.
- Enhance the skills and resources of the infrastructure and internal audit units (applicable to the DBE only).

Annual performance report

The published annual performance reports of the DBE and ELRC included information on their performance against predetermined objectives that was not useful and/or reliable for the following programmes and/or objectives we had selected to audit.

Auditee	Programme/objective	Not useful	Not reliable
Department of Basic Education	Programme 2 - Curriculum policy support and monitoring		X
	Programme 3 - Teachers, education human resources and institutional development		X
	Programme 4 - Planning, information and assessment		X
	Programme 5 - Education enrichment services		X
Education Labour Relations Council	Programme 1 - Dispute management services	X	X

The following controls should be strengthened to create a control environment that supports useful and reliable reporting on the performance of the portfolio:

- Strengthening the skills and resources of the monitoring and evaluation unit to oversee the completeness and accuracy of performance reporting and compliance with applicable requirements.
- Implement daily, weekly and monthly checks and balances to ensure the credibility and completeness of performance reports presented to management and oversight committees.

Compliance with legislation

We identified material non-compliance with legislation by the DBE in the following areas:

- The accounting officer did not take reasonable steps to prevent irregular expenditure with regard to various supply chain matters identified during the audit.
- Contrary to the requirements of the Treasury Regulations regarding transfers and subsidies, the department did not ensure that transfers and subsidies to the National Student Financial Aid scheme were applied for their intended purpose.

- Employees were appointed without following a proper process to verify their qualifications and the existence of criminal records as required in terms of the *Public service regulations*.
- The accounting officer did not ensure that the department had and maintained an effective, efficient and transparent system of internal control regarding performance management.

The DBE incurred R779 million in irregular expenditure, which was 100% of the total amount incurred by the portfolio. This represents an increase of 91% since the previous year; while 40% of the irregular expenditure incurred was identified by the auditee. Of the irregular expenditure 95% was as a result of non-compliance with SCM requirements when appointing agents to manage the infrastructure programme of the department. The extent of non-compliance issues is indicative of a highly deficient monitoring process in the compliance environment.

The following controls should be strengthened to create a control environment that supports compliance with legislation:

- Compliance monitoring with respect to the signed agreements and procurement processes of implementing agents is highly deficient and will need to be prioritised by the DBE leadership.

Root causes

The accounting officer should address the root causes of poor audit outcomes and inadequate controls as follows:

- Consequence management should be improved by incorporating the addressing of prior year findings into the performance contracts of individuals.
- Prepare an audit action plan based on the audit findings of the 2013-14 financial year that includes definite actions that need to be implemented to address the matters that were reported by the auditors. This audit action plan should focus on addressing the internal control deficiencies that led to the findings. This is because repeat findings were identified during the audit as a result of failure to adequately address deficiencies in the control environment.
- Ensure that all significant risks related to the infrastructure programme are audited by internal audit, as required by legislation, in order to improve controls and the managing of these risks. Monitoring across all phases of the infrastructure process will need to be strengthened to ensure that infrastructure projects are completed as intended.
- Identify the reasons that led to the slow response by management (accounting officer and senior management) in improving the control

environment so that corrective action can be taken to yield the desired audit outcomes that are sustainable.

Impact of key role players on audit outcomes

The first and second levels of assurance should be improved by directing the work of management, the internal audit unit and the audit committee towards evaluating and addressing all significant risks impacting the DBE (they currently provide some assurance). This is mainly required with regard to the infrastructure programme, performance information and compliance with legislation.

We met with the minister twice in the past year and these interactions did not yield the desired impact on the audit outcomes due to the lack of monitoring of milestones on a timely basis by appropriate level of management. It is therefore necessary that the key role players focus on improving the audit outcomes by addressing the identified root causes.

The assurance provided by the oversight of the new portfolio committee should be sustained through continued monitoring of progress made against the action plans in order to yield the desired audit outcomes that are sustainable.

The previous year's commitments to improve the audit outcomes are in progress. An ongoing self-review of progress towards the achievement of milestones should be performed on a quarterly basis to ensure that commitments are met. The new portfolio committee made the following commitment:

- Monitor the implementation of commitments made by the accounting officer to address prior and current year audit findings on a quarterly basis.

Risks to financial health and service delivery

The accounting officer should address the following matters, which could affect the financial health in the portfolio:

- The DBE should improve the management of project implementation by agents appointed to ensure that funds appropriated for infrastructure projects are used in a timely manner.

Entities included in the portfolio not audited by the Auditor-General of South Africa

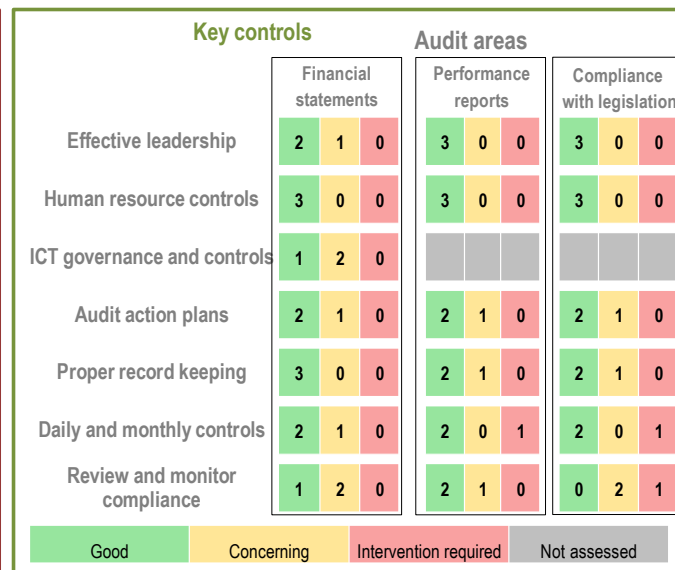
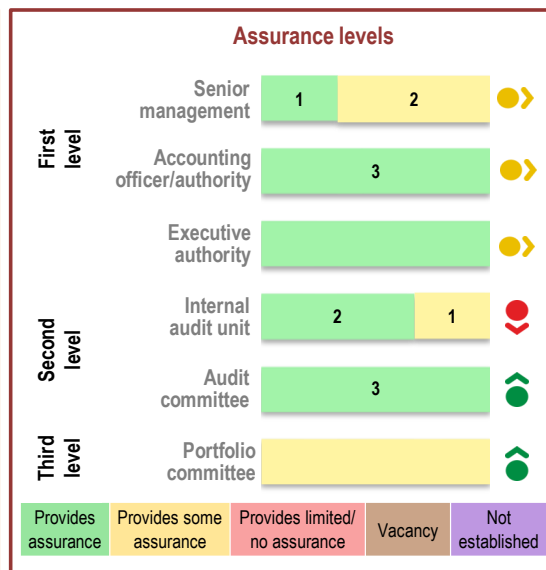
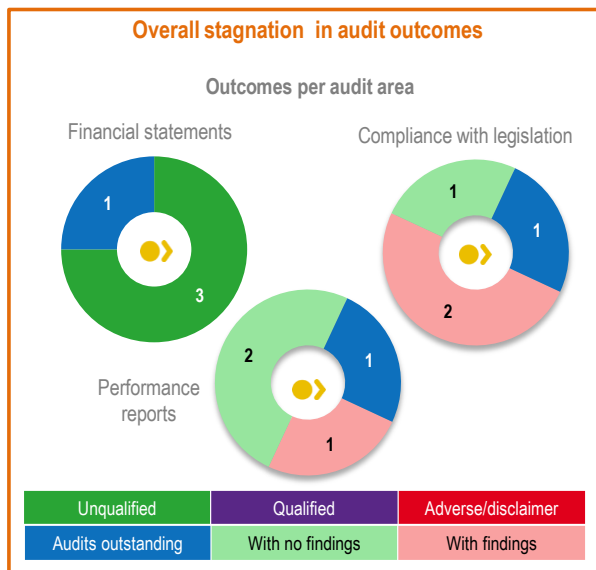
We did not audit the following entities included in the portfolio of the minister:

■ *Umalusi* ■ *South African Council of Educators*

The overall audit outcomes of these entities have remained the same as in the previous year. The audit outcomes were as follows:

- The financial statements of both auditees received an unqualified opinion – the same result as in the previous year.
- Umalusi had no material findings on the quality of its annual performance report – the same result as in the previous year.
- SACE had material findings on the usefulness of its annual performance report - the same result as in the previous year.
- Umalusi and SACE both had no material findings on compliance with legislation – the same result as in the previous year.

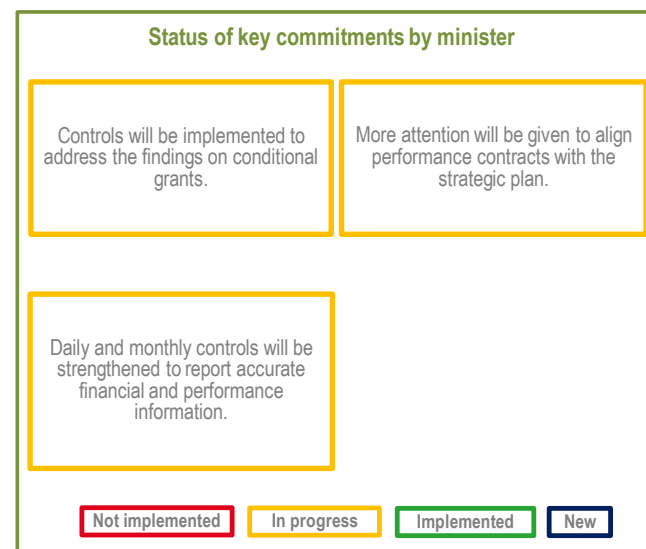
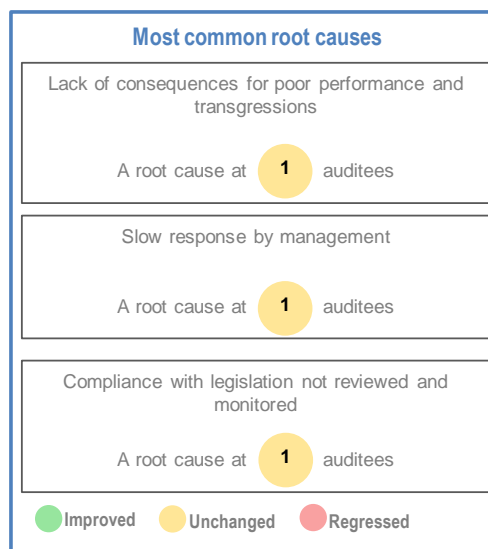
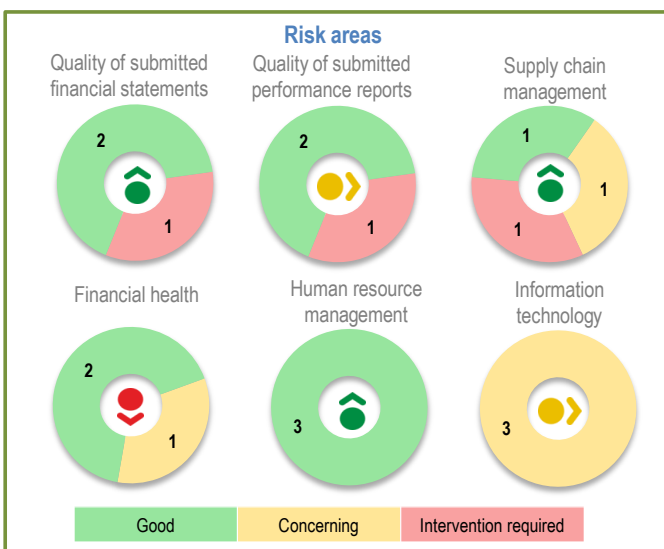
Vote 16: Health



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To improve/maintain the **audit outcomes** ...
... the **risk areas** and ...
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... 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



Auditees included in the portfolio audited by the Auditor-General of South Africa

■ *National Department of Health (NDoH)* ■ *Compensation Commissioner of Occupational Diseases (CCOD)* ■ *Council for Medical Schemes (CMS)* ■ *South African Medical Research Council (MRC)*

The total voted funds for the NDoH for the 2013-14 financial year was R30,5 billion. The main budgeted expenditure was in respect of transfer payments of R28,4 billion, employee costs totalling R538,4 million, goods and services to an amount of R1,1 billion, and expenditure for capital assets totalling R466,3 million.

Overall audit outcome

The lack of improvement in the overall audit outcomes was due to ineffective systems and manual processes in place at provincial departments for reporting on predetermined objectives. In addition, inadequate monitoring processes for the DoRA framework at the NDoH and control weaknesses around SCM processes at CMS persisted during the year. The Medical Research Council continued its positive trend, with another clean audit for the year under review.

The audit outcome of CCOD is not included. CCOD did not submit annual financial statements for audit purposes for the 2011-12, 2012-13 and 2013-14 financial years. The audit report for the 2010-11 financial year has not yet been tabled and no date has been set for tabling of this audit report or the submission of the outstanding annual financial statements.

The main findings arising from our audit, as reported in the audit reports, which should be addressed to improve the overall audit outcomes are as follows:

Financial statements

NDoH submitted financial statements for auditing that contained material misstatements in the areas of cash and cash equivalents, commitments, accruals and capital work in progress. NDoH received an unqualified audit opinion only because they corrected all the misstatements we identified during the auditing process.

The following control should be strengthened to create a control environment that supports reliable financial reporting:

- Adequate daily and monthly processing and reconciling of transactions, especially relating to commitments, accrual and capital work in progress

Annual performance report

The published annual performance report of NDoH included information on their performance against predetermined objectives that was not reliable for the following programmes we had selected to audit.

Auditee	Programme/objective	Not useful	Not reliable
NDoH	Programme 3 : HIV/Aids, tuberculosis, maternal and child health		x
	Programme 5 : Hospital, tertiary health services and human resource development		x

The following controls should be strengthened to create a control environment that supports reliable reporting on the performance of the auditee:

- Proper implementation of policies and procedures approved by the national department for implementation at provincial departments.
- Proper record keeping to support actual achievements of programme 5.

Compliance with legislation

We identified material non-compliance with legislation by CMS and NDoH in the following areas:

- NDoH did not adequately monitor the expenditure incurred and non-financial performance information for the national tertiary services grant and the health professions training and development grant
- A strategic plan covering the financial year under review was not prepared by NDoH
- Systems and processes to report on predetermined objectives were not effective in reporting reliable information at NDoH
- CMS did not take reasonable steps to prevent irregular expenditure as three quotes were not always obtained and/or declarations of interest were not always submitted as prescribed.

CMS incurred R1,4 million in irregular expenditure, which was 88% of the total amount incurred in the national portfolio. Fifteen per cent (R0,21 million) of this irregular expenditure was identified by the auditee in the current year, compared to 70% (R0,89 million) in the previous year. The irregular expenditure incurred as a result of non-compliance with laws and regulations related to supply chain management.

The following controls should be strengthened to create a control environment that supports compliance with legislation:

- CMS should review and monitor compliance with SCM legislation and regulations
- Internal controls designed by NDoH should be implemented to effectively monitor conditional grants.

Root causes

The minister and accounting officer should address the root causes of poor audit outcomes and inadequate controls as follows:

- Appropriate action should be taken against poor performance and transgressions that resulted in the non-compliance identified.
- Response by management of NDoH and the provincial departments should improve to effectively monitor conditional grants and to improve the audit outcomes in respect of predetermined objectives.

Impact of key role players on audit outcomes

The first and second levels of assurance should be improved by addressing areas of internal control weaknesses to move towards clean audit outcomes. The internal audit unit at the NDoH needs to assist management by effectively and timeously reporting of control weaknesses.

We met with the minister three times in the past year and although there has been no improvement in the audit outcomes, we note that all entities are unqualified, with only two entities in the process of addressing concerns around compliance and predetermined objectives. Our assessment is primarily due to the positive impact of the minister's message to the entities to ensure that they addressed key areas of audit concern.

The assurance provided through the oversight of the portfolio committee should be improved. The committee undertook to fully implement the previous year's commitment by engaging with the audit team on weaknesses identified in the

strategic and annual performance planning process. The portfolio committee and SCOPA have not engaged with CCOD on the non-submission of outstanding financial statements and the tabling of the 2010-11 annual report in Parliament.

The previous year's commitments made by the minister are still in progress.

Risks to financial health and service delivery

The accounting officer should address the following matters which could affect the financial health of the portfolio:

- NDoH should improve the management of projects to ensure that the money appropriated for infrastructure projects and conditional grants is used in a timely manner.
- The department engaged consultants to assist with project management and advisory services for infrastructure projects because specialised skills are required to manage these projects. The cost of the consultants was R143,7 million (2012-13: R181,3 million). Our review of the management of consultants produced no significant findings.

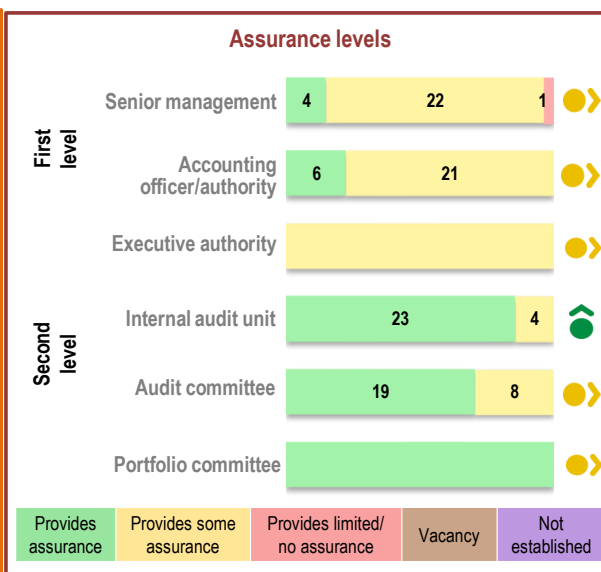
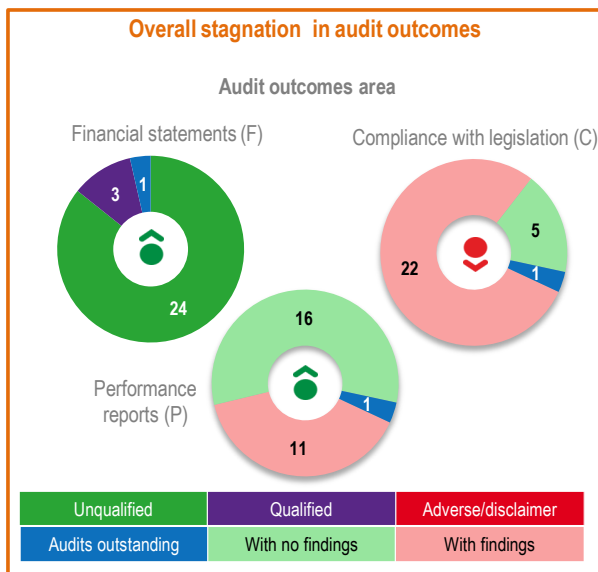
Entity included in the portfolio not audited by the Auditor-General of South Africa

We did not audit the following entity included in the portfolio of the minister

■ *National Health Laboratory Service (NHLS)*

The overall audit outcomes of this entity have remained the same as in the previous year, namely financially unqualified with material findings on compliance with legislation.

Vote 17: Higher education and training (excluding the FET colleges and universities)



Key controls

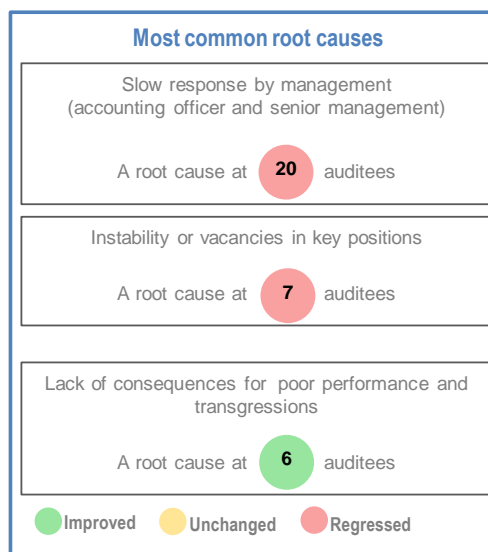
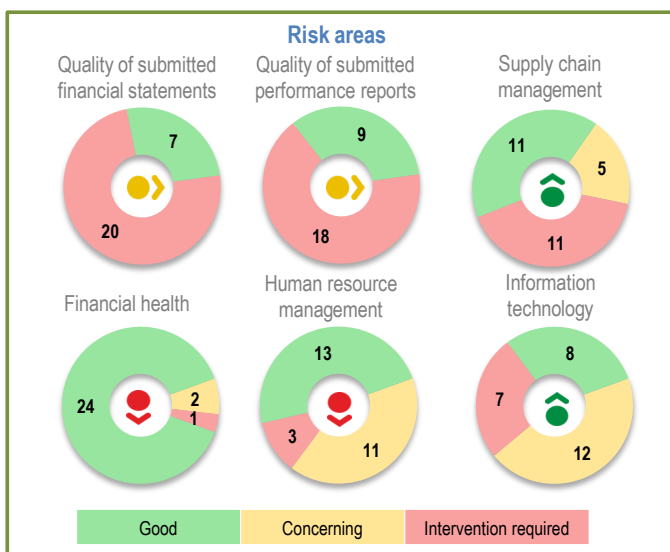
Control Area	Financial statements			Performance reports			Compliance with legislation		
	Good	Concerning	Intervention required	Good	Concerning	Intervention required	Good	Concerning	Intervention required
Effective leadership	21	6	0	21	5	1	19	7	1
Human resource controls	15	9	3	16	7	4	13	12	2
ICT governance and controls	8	12	7						
Audit action plans	9	15	3	13	11	3	13	11	3
Proper record keeping	11	13	3	11	11	5	17	8	2
Daily and monthly controls	6	16	5	13	10	4	16	10	1
Review and monitor compliance	11	14	2	9	13	5	6	17	4

Legend: Good (Green), Concerning (Yellow), Intervention required (Red), Not assessed (Grey)

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To improve the **audit outcomes** ...
... the **risk areas** and ...
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6



Status of key commitments by minister

Issuing of regulations for SCM processes and reporting on performance information for universities and FETs.	Appointment and monitoring of services delivered by administrators appointed at universities, FETs and entities.
Improve the performance and consequence management system.	Develop policies and procedures for collation, verification and reporting on performance targets achieved. Improve monitoring responsibilities of DHET at its entities (SETAs), universities and FETs.
Review the requirement to rotate the auditors of universities every five years.	Amend relevant legislation to phase in the audit of the grant and FETs by the AGSA.
Standardisation of remuneration of board members and sub-committees of board for SETAs.	Amend grant regulations to the Skills Development Act.

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

Department and public entities included in the portfolio audited by the Auditor-General of South Africa

- Department of Higher Education and Training
- Agriculture Sector Education and Training Authority (AGRISETA)
- Banking Sector Education and Training Authority (BANKSETA)
- Chemical Industries Education and Training Authority (CHIETA)
- Construction Sector Education and Training Authority (CETA)
- Council on Higher Education (CHE)
- Culture, Arts Tourism, Hospitality and Sport Education and Training Authority (CATHSSETA)
- Education, Training and Development Practices (ETDPSETA)
- Energy and Water Sector Education and Training Authority (EWSETA)
- Fibre Processing and Manufacturing Sector Education and Training Authority (FP&MSETA)
- Financial and Accounting Services Sector Education and Training Authority (FASSET)
- Food and Beverages Sector Education and Training Authority (FOODBEV)
- Health and Welfare Sector Education and Training Authority (HWSETA)
- Insurance Sector Education and Training Authority (INSETA)
- Local Government Sector Education and Training Authority (LGSETA)
- Manufacturing, Engineering and Related Services Sector Education and Training Authority (MERSETA)
- Media, Information and Communication Technologies SETA (MICTS)
- Mining Qualifications Authority (MQA)
- National Institute for Higher Education: Northern Cape (outstanding)
- National Skills Funds (NSF)
- National Student Financial Aid Scheme (NSFAS)
- Public Services Sector Education and Training Authority (PSETA)
- Qualification Council for Trades and Occupations (QCTO)
- Safety and Security Sector Education and Training Authority (SASSETA)
- Services Sector Education and Training Authority (SERVICES SETA)
- South African Qualifications Authority (SAQA)
- Transport Education and Training Authority (TETA)
- Wholesale and Retail Sector Education and Training Authority (W&R SETA)

The budgeted expenditure for the department for the 2013-14 financial year was R46,6 billion. The main expenditure categories budgeted for were in respect of employee cost of R402,7 million; goods and services of R176,9 million; transfer payments of R46,0 billion and payments for capital assets of R5,7 million.

Overall audit outcome

The overall audit outcome remained largely unchanged for the portfolio. Slight improvements were noted because of HWSETA and SAQA improving to clean audit outcomes and SASSETA and Services SETA improving from qualified opinions on discretionary grants and discretionary commitments to unqualified opinions with findings. CATHSETA regressed from an unqualified audit opinion with findings to a qualified opinion. ETDP regressed from an unqualified opinion with no findings to an unqualified opinion with findings.

The audit outcome of the National Institute for Higher Education – Northern Cape is not included. Due to the late submission of the financial statements for audit we had not finalised the audit by 31 August 2014, which was the cut-off date for inclusion of audit outcomes in the general report.

The main findings as reported in the audit reports, which should be addressed to improve the overall audit outcomes, are as follows:

Financial statements

The published financial statements of CATHSSETA, LGSETA and PSETA included the following material misstatements:

CATHSSETA:

- Irregular expenditure incurred was not identified and disclosed. This was as a result of inadequate systems to identify non-compliance with relevant legislation.
- CATHSSETA recorded project administration expenses in discretionary project expenditure as disclosed. We could not obtain sufficient evidence regarding the project administration expenses. This was as a result of inadequate supporting documents to year-end journals.
- We could not obtain sufficient evidence that property, plant and equipment disclosed existed and was complete. This was as a result of the entity not maintaining a proper system of internal controls over property, plant and equipment.

LGSETA:

- We could not obtain sufficient evidence to confirm that the discretionary grant commitments disclosed were complete and accurate for the current and prior years. This was as a result of the entity not maintaining complete and accurate records for the discretionary grant commitments.

PSETA:

- We could not obtain sufficient evidence regarding conditional grant expenses and the related conditional grant liability disclosed. This was a result of the entity not maintaining proper accounting and related documents. This is a recurring finding.

The Department of Higher Education and Training, AgriSETA, CETA, CHE, CHIETA, EWSETA, ETDP, FP&M SETA, FOODBEV SETA, MQA, NSF, NSFAS, QCTO, SASSETA, Service SETA, TETA and W&R SETA received an unqualified audit opinion only because they corrected all the misstatements we had identified during the auditing process.

The Department of Higher Education and Training, AgriSETA, CETA, CHE, CATHSSETA, CHIETA, EWSETA, ETDP, FP&M SETA, FOODBEV SETA, LGSETA, MQA, NSF, NSFAS, PSETA, QCTO, SASSETA, Service SETA, TETA and W&R SETA submitted financial statements for auditing that contained material misstatements in one or more of the following areas:

- Revenue, expenditure, receivables, payables, cash and cash equivalents, provisions, reserves, property, plant and equipment, intangible assets, operating and finance leases, commitments, irregular expenditure disclosed, related parties and other disclosures.

The following controls should be strengthened to create and sustain a control environment that supports reliable financial reporting:

- Daily and monthly processing and reconciling of transactions should take place throughout the year to ensure that accurate financial statements are prepared.
- Action plans to address internal and external audit reports should be developed and implemented within one month of receipt of reports. The progress on the successful implementation of the action plans should be monitored on a monthly basis.
- Management should improve its record management systems to ensure that appropriate records supporting the financial statements are readily available.
- Management should prioritise the design and implementation of the security management, user access management and IT service continuity controls to prevent unauthorised access to and unavailability of IT

financial and performance management systems or incompleteness of data in the event of major system disruptions or data loss.

Annual performance report

The published annual performance report of the Department of Higher Education and Training, AgriSETA, CETA, CATHSSETA, LGSETA, NSF, NSFAS, PSETA, QCTO, Services SETA and TETA included information on their performance against predetermined objectives that was not useful and/or reliable for the following programmes or objectives we had selected to audit.

Auditee	Programme/objective	Not useful	Not reliable
DHET	Programme 4: Vocational and continuing education and training		X
	Programme 5: Skills development		X
AgriSETA	Objective 2: Establish private partnerships to encourage better use of workplace skills plan	X	X
	Objective 3: Strengthening the agricultural and rural development processes and strategies to promote food security and the growth of rural economy	X	X
CETA	Objective 2: Increasing access to occupationally directed programmes in the construction sector	X	X
	Objective 3: Promoting the growth of a public FET college system that is responsive to the constructions sector's skills needs and priorities	X	X
	Objective 4: Addressing the low level of youth and adult language and numeracy skills to enable training in construction	X	X

Auditee	Programme/objective	Not useful	Not reliable
CATHSSETA	Programme 1: Coordinate research and skills planning for the sector	X	X
	Programme 2: Address sector middle level skill	X	X
	Programme 5: Address sector high level skill	X	X
	Programme 11: Provision of quality training for employed workers	X	X
	Programme 13: Support for small and emerging businesses through skills development	X	X
LGSETA	Programme 2: Sector skills planning	X	X
	Programme 3: Learning programmes	X	X
	Programme 4: Educational training quality assurance	X	X
NSF	Programme 1: Skills development funding		X
NSFAS	Student centre financial aid	X	X
PSETA	Programme 1: Skills planning and research	X	
	Programme 2: Learning programmes	X	
	Programme 3: ETQA	X	
	Programme 5: Finance	X	

Auditee	Programme/objective	Not useful	Not reliable
	Programme 7: Projects	X	
QCTO	Programme 2: Occupation qualification management		X
Services SETA	Programme 4: Learning interventions		X
	Programme 6: Qualifications and quality management	X	X
TETA	Programme 2: Occupationally directed programmes		X

The Department of Higher Education and Training, AgriSETA, CETA, CATHSETA, EWSETA, ETDP, FOODBEV SETA, HWSETA, INSETA, NSF, NSFAS, PSETA, QCTO and SASSETA submitted annual performance reports for auditing that contained material misstatements.

The EWSETA, ETDP, FOODBEV SETA, HWSETA, INSETA, and SASSETA avoided material findings in their audit reports only because they corrected all the misstatements we had identified during the auditing process.

The following controls should be strengthened to create and sustain a control environment that supports useful and reliable reporting on the performance of the portfolio.

- Processes should be developed and implemented to monitor compliance with laws and regulations affecting performance management.
- Processes should be developed and implemented to collect, collate, verify performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets as required by the FMPPI. This includes daily and monthly processing and reconciling of performance information throughout the year and maintaining a proper record management system.
- Action plans to address internal and external audit reports should be developed and implemented within one month of receipt of reports. The progress on the successful implementation of the action plans should be

monitored on a monthly basis. Management should be held accountable for implementing action plans.

- The staff performance management system should include holding individuals accountable for addressing internal control deficiencies identified in relation to performance planning and reporting.

Compliance with legislation

We identified material non-compliance with legislation by the Department of Higher Education and Training, AgriSETA, CETA, CATHSSETA, EWSETA, INSETA, LGSETA, MERSETA, PSETA, QCTO, SASSETA and Service SETA in one or more of the following areas:

- AGRISSETA, EWSETA, MERSETA and PSETA did not always request three quotations for procurement below R500 000.
- CATHSSETA, INSETA and PSETA did not always follow competitive bidding processes.
- AgriSETA and PSETA did not always request tax clearance certificates before making awards to suppliers.
- CHE and PSETA did not always obtain declarations of whether a bidder or anyone related to the bidder is employed by the state.
- SASSETA made a construction award to a bidder that did not meet a requirement of the Construction Industry Development Board.
- Some officials of the Department of Higher Education and Training did not obtain approval for other remunerative work.
- CETA did not always advertise bids in at least the *Government tender bulletin*.
- AgriSETA, CETA, CATHSSETA, EWSETA, LGSETA, MERSETA, PSETA, QCTO and Services SETA did not take reasonable steps to prevent irregular expenditure.
- The Department of Higher Education and Training, CETA and CATHSSETA did not maintain an effective system of internal controls over performance management.
- CATHSSETA did not report on all strategic objectives in the annual performance report as included in the strategic and annual performance plans.
- The internal audit at SASSETA did not review the effectiveness of internal controls.
- The Department of Higher Education and Training did not always complete the required verification checks prior to the appointment of

new staff. The department also had vacant posts for more than 12 months.

- CATHSSETA and QCTO did not maintain adequate controls over asset management.
- NSFAS did not take effective and appropriate steps to collect all money due to them.

SERVICES SETA incurred R63,9 million in irregular expenditure, which was 43,8% of the total amount of R146 million in irregular expenditure incurred by the national portfolio. The amount of irregular expenditure incurred by Services SETA has decreased compared to the R141,4 million incurred in the prior year. The irregular expenditure was as a result of non-compliance with SCM legislation and the Skills Development Act and SETA grant regulations. Ninety-seven per cent of the irregular expenditure incurred was identified by the auditee's own processes of internal controls.

Concerns around the SCM processes were noted in 55% of the portfolio. This is reflected in the audit outcomes for compliance with legislation where most of the findings related to procurement and contract management and irregular expenditure. Controls should be implemented to monitor compliance with SCM processes.

The following controls should be strengthened to create and sustain a control environment that supports compliance with legislation:

- Processes should be in place to monitor compliance with laws and regulations in order to prevent irregular expenditure.
- Action plans to address internal and external audit reports should be developed and implemented within one month of receipt of reports. The progress on the successful implementation of the action plans should be monitored on a monthly basis.
- The staff performance management system should incorporate holding individuals accountable for addressing internal control deficiencies identified in relation to compliance.

Root causes

The minister, accounting officer and accounting authorities should address the root causes of poor audit outcomes and inadequate controls as follows:

- Slow response by management should be improved through quarterly reviews of progress on the implementation of actions plans arising from audits by the internal audit unit. This will provide independent assurance on whether progress is being made in addressing internal control deficiencies.

- All funded vacant positions should be filled with individuals that have the appropriate qualifications and skills as a matter of urgency. In addition, a gap analysis should be performed in relation to the current level of skills and competencies. An action plan should be put in place to address the gaps identified.
- Consequence management should be implemented for non-performance. The performance management processes of staff should be strengthened to incorporate internal controls responsibilities in performance contracts for all staff.

Impact of key role players on audit outcomes

The first level of assurance should be improved by implementing the recommendations of the external and internal audit to strengthen the internal control environment. Generally internal audit and audit committees are providing assurance. The second level of assurance can be strengthened by focusing the internal audit unit and directing the work of the audit committee towards evaluating reliability of monthly financial statements, performance information and compliance with legislation that has a direct impact on the department and entities.

We met with the minister twice in the past year and these interactions had some impact on the improvement in the audit outcomes. However, the slow pace at which commitments made by the minister are addressed remains a concern and has contributed to the assessed assurance provided by the minister.

The assurance provided through the oversight of the portfolio committee should be maintained.

The previous year's commitments to engage with the respective auditees on their action plans to address the audit outcomes for 2012-13 and continuous tracking of progress made against the action plans were in progress. The committee showed particular interest in predetermined objectives and service delivery in the higher education environment. The new portfolio committee made a commitment to drive improved audit outcomes by ensuring service delivery through monitoring of the status of key controls.

Risks to financial health and oversight responsibilities

The minister of Higher Education and Training, together with the minister of Finance, should address the following matters, which could affect the financial health of and monitoring and oversight responsibilities in the portfolio:

- The department is unable to perform all required verification and monitoring functions in respect of its entities and higher education institutions (approximately 100 entities in the portfolio of the minister) due to funding and human resource capacity constraints. As a result, the reliability of reported achievements by the department's entities and institutions that are consolidated into the achievements reported by the department is not always verified.
- Due to the funding constraints faced by the department, the department would not have had sufficient funds to cover accruals (all expenses incurred in the financial year) had it been assessed on the accrual basis of accounting, resulting in possible unauthorised expenditure. Furthermore, on the accrual basis of accounting, the department would have moved from a net asset position to a net liability position.
- NSFAS should improve its creditor payment period.

Further Education and Training Colleges (FET colleges) audited by the Auditor-General of South Africa

■ Central Johannesburg College ■ East Cape Midlands FET College ■ Esayidi FET College ■ Ikhala FET College ■ King Hintsa FET College ■ Letaba FET College ■ Lovedale FET College ■ Maluti FET College ■ Mnambithi FET College ■ Northern Cape Urban FET College ■ Northlink FET College ■ Orbit FET College ■ South West Gauteng FET College ■ Tshwane South FET College ■ Western College for Further Education and Training

The AGSA, in agreement with DHET, has adopted a four-year phased-in approach for taking over audits of the FET colleges that will result in all colleges being audited by the AGSA by 2017. For the FET colleges' financial year ended December 2013, the AGSA performed the audits of 15 of the existing 50 FET colleges.

The audit outcomes of five of the 15 colleges, (East Cape Midlands, Letaba, Maluti, Tshwane South and Western College) are not included as the audits were still in progress at the time of this report.

Overall audit outcome

Of the 10 audits finalised, seven regressed, resulting in overall regression of audit outcomes of the FET colleges audited by the AGSA. The regression in the audit outcomes is mainly due to lack of improvements in internal controls and vacancies in key positions at the FET colleges. The outcomes of Ikhala, King Hintsa and South West Gauteng FET colleges remained unchanged from the previous year.

The main findings, which should be addressed to improve the overall audit outcomes, are as follows:

Financial statements

The financial statements of the FET colleges that received either a qualified opinion or a disclaimer of opinion included the following material misstatements:

- Non-current assets – five (50%) colleges had qualifications relating to the balance of property plant and equipment disclosed in the financial statements.
- Current assets – seven (70%) colleges had qualifications relating to current assets.
- Liabilities – seven (70%) colleges had qualifications relating to current liabilities.
- Expenses – five (50%) colleges had qualifications relating to expenses.

- Revenue – five (50%) colleges had qualifications relating to revenue.
- Capital and reserves – two (20%) colleges had qualifications relating to accumulated funds.
- Other disclosures – two (20%) colleges had qualifications relating to related parties, capital commitments, contingent liabilities and contingent assets.

As a result of poor controls over the record management processes and lack of daily and monthly processing and reconciliation of transactions, information supporting the financial statements was not submitted or in all instances accurate.

The following controls should be strengthened to create a control environment that supports reliable financial reporting:

- Policies and procedures for management of all records and documents, which includes retention requirements for documents, should be developed and implemented.
- Financial policies and procedures should be developed and implemented. These procedures should clearly state the processes and documents that need to be in place to ensure that the financial statements are supported by proper documents.
- Vacancies in the CFO positions at Esayidi, Ikhala, King Hintsa, Lovedale, Mnambithi, Northern Cape Urban and Orbit FET colleges should be urgently filled. The skills of the finance staff at all the colleges should be enhanced through educational and training interventions.
- IT systems should be streamlined to ensure that information is easily retrievable and can be easily collated for reporting purposes.
- Appropriately skilled and fully staffed internal audit and risk management functions should be in place at all of the colleges. Audit committees should be fully constituted and consist of individuals who have a broad mix of experience and expertise

Annual performance report

The FET College Act does not require FET colleges to report on achievements against the strategic plans of the colleges. As a result, there were no annual performance reports on which to perform an audit. The minister is in the process of developing regulations that will in future require FET colleges to produce annual performance reports on achievements against the strategic plans that the colleges are required to prepare for each financial year.

Compliance with legislation

Material non-compliance with the FET College Act was identified in the following areas:

- Nine of the colleges did not keep complete accounting records of all assets, liabilities, income and expenses and disclosures of the college.
- None of the FET colleges had internal audit functions and risk management systems
- The internal audit function of Orbit FET college was not independent as they also performed some management functions.
- Central JHB and Orbit FET colleges did not have an audit committee.
- Northern Cape Urban, Central JHB and Orbit FET colleges did not submit the strategic plan to the minister at least 30 days before the start of the financial year.
- Lovedale FET college did not prepare a strategic plan.
- Lovedale and Orbit FET colleges did not establish an interim council to perform the functions relating to the governance of the college until a permanent council is established.
- The appointment of the lecturers and support staff at Lovedale and Northern Cape Urban FET colleges were not approved by the council.
- Esayidi FET college entered into a loan or overdraft agreement without the approval of the minister.

The following controls should be developed and strengthened to create a control environment that supports compliance with legislation:

- The councils/ interim councils should be established and college statute developed to govern these FET colleges. The council should not perform any management functions.
- Audit committees should be established at all colleges. Audit committee charters should be developed and approved by the council to govern these committees and direct their activities.

- Internal audit functions and risk management systems should be developed and implemented by the colleges. Internal audit functions must be independent and governed by a charter approved by the audit committee.
- IT governance and system controls should be established to ensure the reliability, availability, accuracy and protection of information.
- Documented policies and procedures relevant to financial, performance and compliance management should be developed and implemented to guide the operations of the colleges to comply with relevant legislation and regulations.

Root causes

The councils and principals of the colleges should address the root causes of poor audit outcomes and inadequate controls as follows:

- Vacancies in key positions should be filled with suitably qualified and competent individuals.
- Prepare an audit action plan based on the audit findings of the 2013 financial year that include timelines and responsibilities for actions that need to be implemented to address the internal control deficiencies reported on by the auditors.
- Risk management strategy, policy and procedures should be developed, implemented and monitored to ensure that regular risk assessment is conducted for all risks affecting the FET college, including, but not limited to IT and fraud risks.
- Adequately resourced and functioning internal audit units that identify internal control deficiencies and recommend corrective action should be established. The effectiveness of the internal audit function should be assessed on an annual basis by the audit committee.

Impact of key role players on audit outcomes

The first and second levels of assurance should be improved by senior management (principals and CFOs) preparing and monitoring audit action plans and defining actions that need to be implemented to address the matters reported by the auditors. Adequately resourced and functioning internal audit units should be established at all colleges to identify internal control deficiencies. Risk management processes should be developed and implemented.

Both the minister and the portfolio committee have played an active role in the FET college environment to change the status of the internal control environment and service delivery. This should be maintained.

Entities included in the portfolio not audited by the Auditor-General of South Africa

We did not audit the *National Institute for Higher Education – Mpumalanga* (NIHE - Mpumalanga), the 25 universities (including the two new universities) and 35 of the 50 FET colleges which are included in the portfolio of the minister.

The outcome of the NIHE – Mpumalanga remained the same as in the previous year. The overall audit outcomes of the universities and the FET colleges not audited by the AGSA for the year ended 31 December 2013 have slightly regressed when compared to the previous year.

Universities

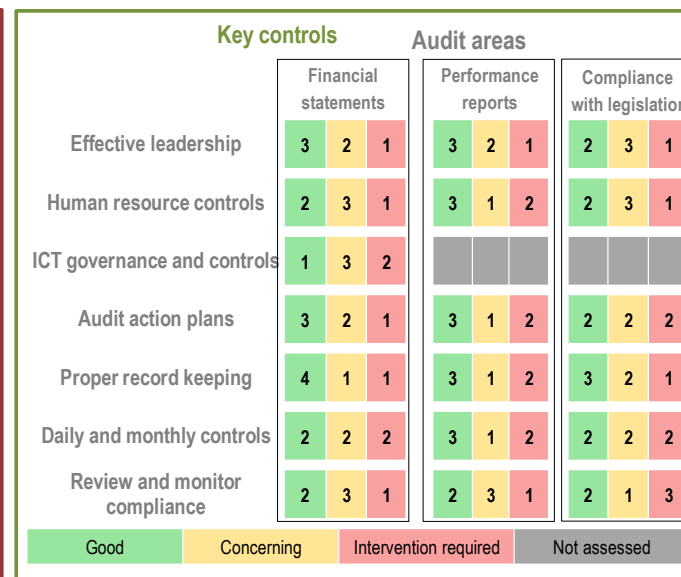
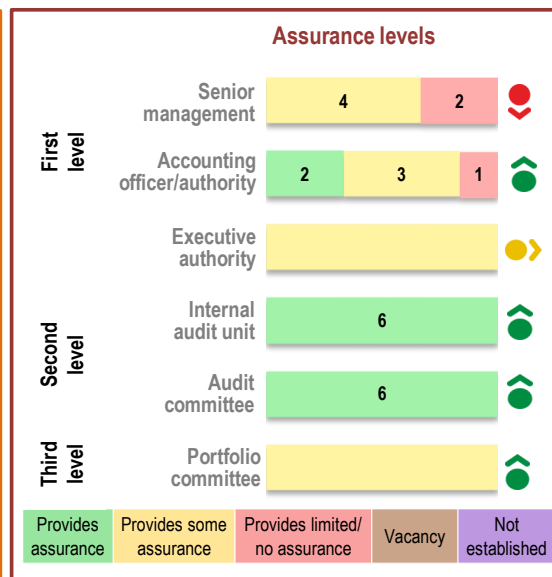
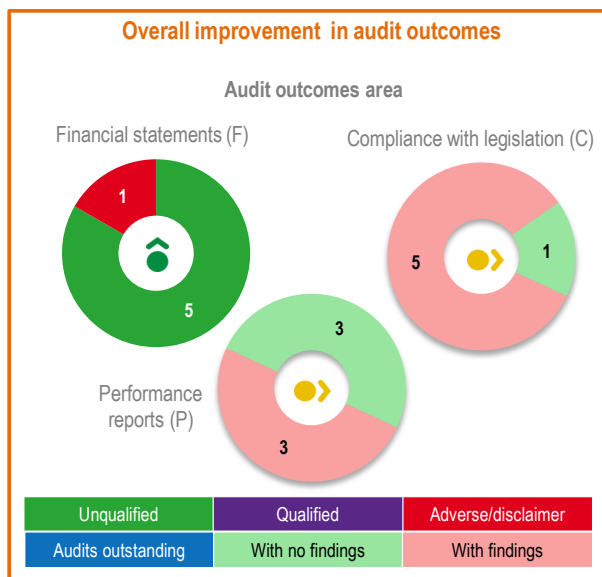
- Seventeen (74%) universities had an unqualified opinion with no findings – a regression from the 78% in the previous year.
- Five (22%) universities received an unqualified opinion with findings on compliance with laws and regulations, which is the same percentage as in the previous year.
- The audit outcome of the Walter Sisulu University (4%) is not included. Due to numerous delays in the submission of information by the university, the audit had not been finalised by 10 September 2014 which was the cut-off date for inclusion of audit outcomes in the general report.
- Sol Plaatje University and the University of Mpumalanga were not audited as they were still in their first year of operation.

Thirty-five further education and training colleges

- The financial statements of 15 (60%) FETs had an unqualified opinion with no findings - an improvement compared to the 58% in the previous year.
- The financial statements of one (4%) FET college (Sedibeng) received a qualified opinion on its financial statements – an improvement compared to 10% in the previous year.
- Nine (36%) FETs received an unqualified opinion with material findings on compliance with legislation - a regression compared to 26% in the previous year.

The audit outcomes of the remaining ten (10) FETs were not finalised at the cut-off date of this report.

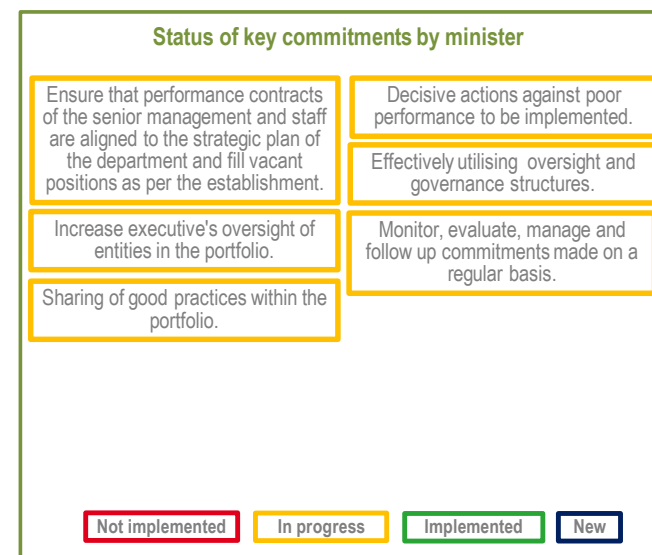
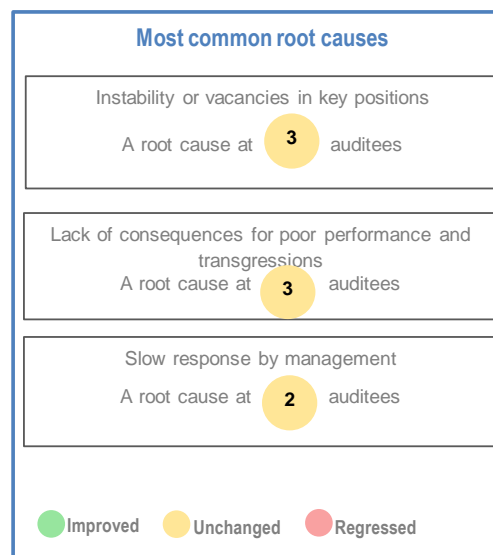
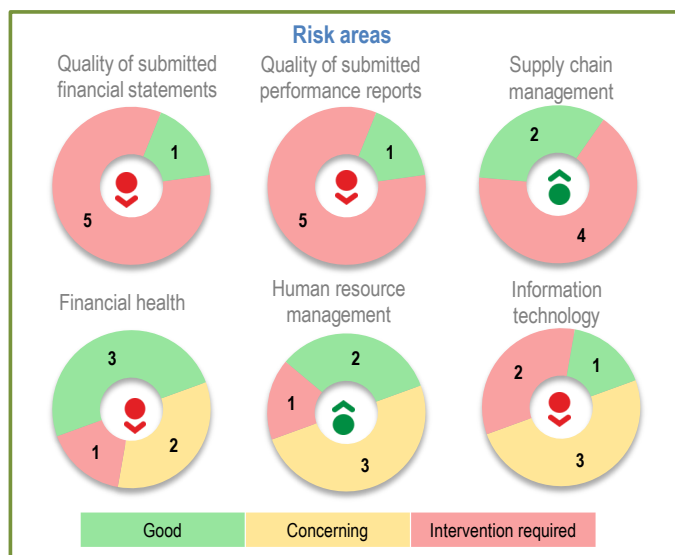
Vote 18: Labour



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To improve the **audit outcomes** ...
... the **risk areas** and ...
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... the key role players need to **assure** that ...
... the **root causes** are addressed ...
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... attention is given to the **key controls** and ...
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Auditees included in the portfolio audited by the Auditor-General of South Africa

■ *Department of Labour (DoL)* ■ *Compensation Fund (CF)* ■ *Council for Conciliation Mediation and Arbitration (CCMA)* ■ *National Economic Development and Labour Council (NEDLAC)* ■ *Sheltered Employment Factories (SEF)* ■ *Unemployment Insurance Fund (UIF)*

The budgeted expenditure for the department for the 2013-14 financial year was R2,4 billion. The main expenditure categories budgeted for were in respect of employee cost of R882,0 million, goods and services of R678,6 million, transfer payments of R824,2 million and capital expenditure of R60,6 million. The revised estimated expenditure for CF was R4,1 billion, the main expenditure being payments to beneficiaries of R3,3 billion. The revised estimated expenditure for UIF was R9,2 billion, with the main expenditure being payments to beneficiaries of R7,9 billion.

Overall audit outcome

The improvement in the overall audit outcome was due to the SEF, receiving an unqualified audit opinion on its financial statements, improving from a qualified opinion in the previous year.

The main findings from our audit, as reported in the audit reports, which should be addressed to improve the overall audit outcomes, are as follows:

Financial statements

The published financial statements of CF were not supported with appropriate supporting documents and we were unable to express an audit opinion due to the following:

- Internal control over record keeping was ineffective. We could not obtain sufficient evidence that the information provided in the financial statements for the current and prior year is accurate and credible.
- The entity did not report all the accounting transactions in accordance with the applicable accounting standard, as the entity applied incorrect accounting standards.
- Material misstatements of prior years were not corrected due to an ineffective turnaround strategy.

The DoL, CCMA, NEDLAC and SEF submitted financial statements for auditing that contained material misstatements in the following areas: comparative figures, cash flow statement, commitments, irregular expenditure, value-added tax and expenditure.

The DoL, CCMA, NEDLAC and SEF received an unqualified audit opinion only because they corrected all the misstatements we had identified during the auditing process.

The following controls should be strengthened to create a control environment that supports reliable financial reporting:

- Improve the effectiveness of risk management relating to the preparation of financial statements.
- Design and implement daily controls to enable credible monthly financial statements.
- Exercise oversight of financial statements by improving the implemented internal monitoring controls to ensure credible financial reporting.

Annual performance report

The published annual performance report of the DoL, CF and SEF included information on their performance against predetermined objectives that was not useful and/or reliable for the following programmes and/or objectives we had selected to audit.

Auditee	Programme/objective	Not useful	Not reliable
DoL	Inspection and enforcement services	x	x
	Public employment services	x	x
	Labour policy and industrial relations	x	x
CF	Compensation directorate	x	x
	Medical directorate	x	x
	Human resource directorate	x	x
SEF	Contribution to employment creation	x	
	Strengthening institutional capacity	x	

NEDLAC and UIF submitted annual performance reports for auditing that contained material misstatements. The entities avoided material findings in their audit report only because they corrected all the misstatements we identified during the auditing process.

The following controls should be strengthened to create a control environment that supports useful and reliable reporting on the performance of the portfolio:

- Implement processes and procedures and assign responsibilities to individuals for collating evidence and reporting to ensure quality of the annual reports.
- Design and implement controls such as reconciliations as well as monitoring and evaluation responsibilities in respect of performance information.
- Improve the effectiveness of monitoring and verification of source documentation relating to the preparation of performance information.

Compliance with legislation

We identified material non-compliance with legislation by the DoL, CF, NEDLAC, and SEF in the following areas:

- DoL, CF and SEF did not take reasonable steps to prevent irregular, fruitless and wasteful expenditure.
- CF and SEF did not always follow competitive bidding processes and/or did not request three quotations as prescribed. CF and DoL did not apply the preferential procurement points system in awarding contracts. CF and DoL did not always advertise invitations for competitive bidding for at least 21 days in the *Government tender bulletin* as prescribed.
- The CF and SEF did not establish systems, procedures and processes to ensure efficient and effective cash management, including collecting revenue when it is due, pursuing debtors with appropriate sensitivity and rigour to ensure that amounts receivable are collected.
- CF did not maintain an effective control environment to accept, adjudicate and make payments to the injured as prescribed.
- CF issued loans without the approval of the delegated authority.
- CF did not take effective and appropriate disciplinary action against officials who incurred and permitted irregular expenditure.

Sufficient appropriate audit evidence could not be obtained, to determine the amount of irregular expenditure for the portfolio, as the CF was unable to identify all the transactions that were in contravention of legislation. The quantifiable irregular expenditure incurred by CF was R85,2 million, which was 92% of the total amount of R93,1 million incurred by the labour portfolio.

The following controls should be strengthened to create a control environment that supports compliance with legislation:

- Develop and implement processes and procedures to monitor compliance with legislation before entering into transactions.
- Officials should be held accountable for non-compliance with legislation, and the tracking of irregular expenditure, as well as proactive prevention thereof.

Root causes

The executive authority, accounting officer and senior management should address the root causes of poor audit outcomes and inadequate controls as follows:

- Implement effective human resource management processes to ensure that vacancies in key management posts are filled to enable the portfolio to develop a strong and effective control environment and workforce.
- Incorporate consequence management in the performance management system.
- The executive authority needs to drive the process of ensuring that all commitments made are implemented, by the deadlines committed to.

Impact of key role players on audit outcomes

The senior management and accounting officer levels of assurance should be improved by implementing the audit recommendations.

We met with the minister four times in the past year but these interactions had minimal impact on the audit outcomes. This is mainly due to slow implementation of action plans for audit recommendations. Commitments and actions regarding oversight of the public entities were not followed through, specifically at the CF. This assessment, as well as the status and impact of the commitments, contributed to the assessed assurance provided by the minister.

The assurance provided through the oversight of the portfolio committee should be improved. New commitments have not yet been agreed with the portfolio committee. All commitments made in the prior year have not yet been fully implemented and have been carried over to the following year

Risks to financial health and service delivery

The accounting officer and senior management should address the following matters, which could affect the financial health and service delivery monitoring in the portfolio:

- Effective and appropriate disciplinary steps were not taken against non-performing officials.

- The CF and SEF should improve the revenue collection and management of debt-collection period in order to ensure that monies due and owed are collected in a timely manner and impairments reduced. The SEF should also improve its management of the budget and creditors.

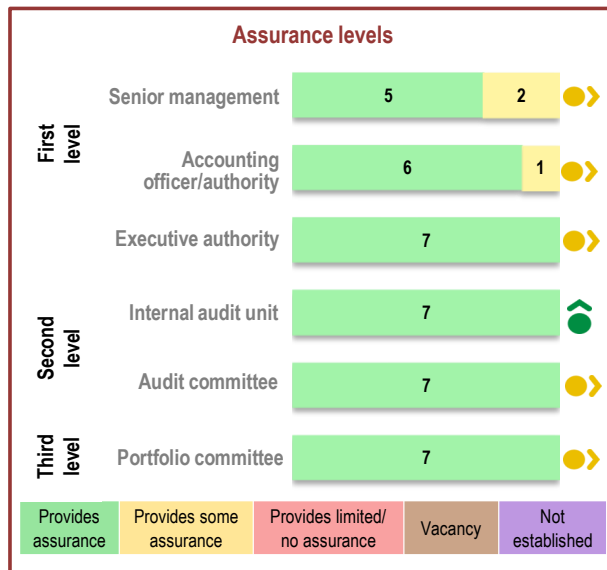
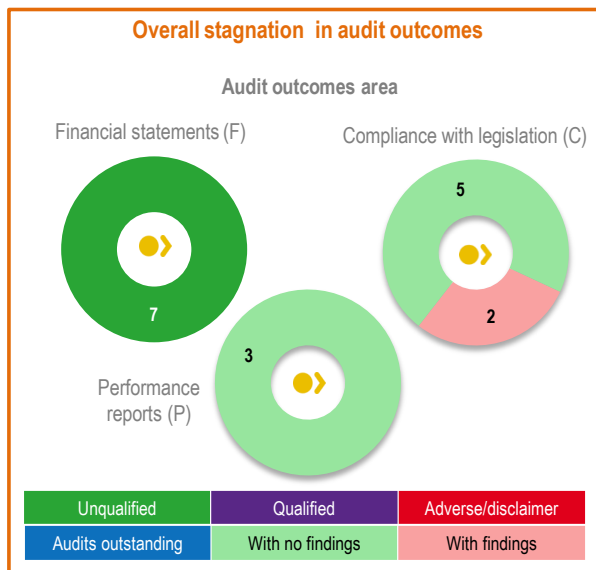
Entities included in the portfolio not audited by the Auditor-General of South Africa

Productivity South Africa (PSA) is included in the portfolio of the minister.

The overall audit outcome of the entity has improved when compared to the previous year.

- The financial statements of the auditee received an unqualified opinion – the same result as in the previous year
- The auditee had no material findings on the quality of the annual performance reports - an improvement since the previous year
- The auditee had material findings on compliance with legislation – the same result as in the previous year.

Vote 19: Social development



Key controls

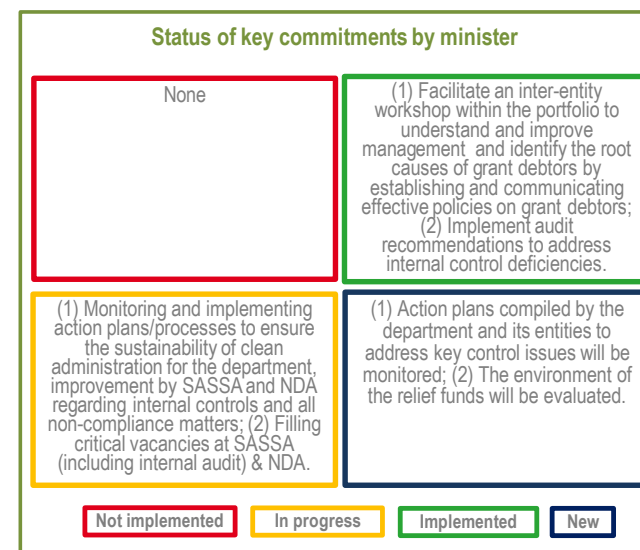
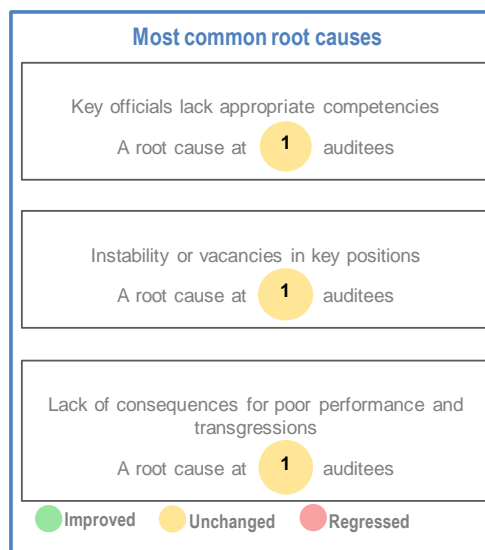
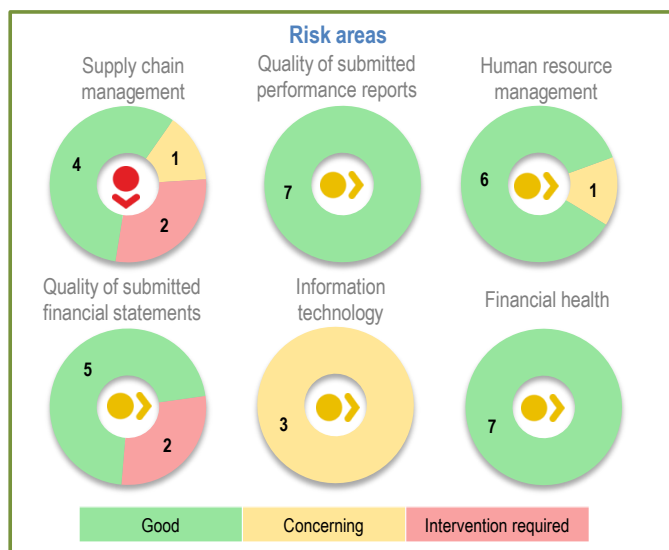
Audit areas	Financial statements			Performance reports			Compliance with legislation		
	Good	Concerning	Intervention required	Good	Concerning	Intervention required	Good	Concerning	Intervention required
Effective leadership	7	0	0	3	0	0	7	0	0
Human resource controls	6	1	0	3	0	0	7	0	0
ICT governance and controls	4	3	0	0	2	0	0	1	0
Action plans	5	2	0	3	0	0	7	0	0
Proper record keeping	6	1	0	2	1	0	6	1	0
Daily and monthly controls	5	2	0	3	0	0	5	2	0
Review and monitor compliance	6	1	0	3	0	0	5	1	1

Legend: Good (Green), Concerning (Yellow), Intervention required (Red).

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To improve the **audit outcomes** ...
... the **risk areas** and ...
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Auditees included in the portfolio

- *Department of Social Development (department)*
- *Disaster Relief Fund*
- *National Development Agency (NDA)*
- *Refugee Relief Fund*
- *Social Relief Fund*
- *South African Social Security Agency (SASSA)*
- *State President Fund*

The budgeted expenditure for the department for the 2013-14 financial year was R119 billion. The main expenditure was as follows:

- Employee cost: R329 million
- Goods and services: R329 million
- Transfer payments:
 - Social assistance grant expenditure: R111 billion
 - Other transfers and subsidies: R7 billion
- Capital expenditure: R6 million

Overall audit outcome

The audit outcome of the portfolio remained the same as in the previous year. The department retained their unqualified opinion with no findings on compliance and SASSA and NDA retained their unqualified opinion with findings on compliance. The department and SASSA (the agent of the department for the social assistance grant value chain), maintained the controls and processes on social assistance grants expenditure and debtors, as required by the Social Assistance Act and the PFMA. Furthermore, the disaster relief, refugee relief, social relief and state president funds retained their unqualified opinion with no findings on compliance.

The main findings arising from our audit, as reported in the audit reports, which should be addressed to improve the overall audit outcomes, relate to non-compliance issues identified with regard to the material adjustments to the financial statements and procurement and contract management.

Financial statements

SASSA and NDA submitted financial statements for auditing that contained material misstatements in the areas of non-current payables, accrued expenses, provisions, deferred revenue and prior period error adjustments for the NDA. SASSA and NDA received an unqualified audit opinion only because they corrected all the misstatements we identified during the auditing process.

The following controls should be strengthened to sustain a control environment that supports reliable financial reporting:

- Implement proper record keeping and review processes.
- Implementation and monitoring of action plans to address weaknesses in the financial reporting process and ensuing compliance with laws and regulations.

Annual performance report

The department, SASSA and NDA submitted annual performance reports for auditing. No matters were reported on the performance against predetermined objectives in the audit reports. The disaster, social, refugee and state president funds are not subject to the PFMA, with the result that the reporting of predetermined objectives is not a legal requirement and, as such, the key controls relating to predetermined objectives in graphic 3 were not assessed for the four funds.

Compliance with legislation

We identified material non-compliance with legislation by SASSA and NDA in the following areas:

- SASSA procured certain goods and services of a transaction value above R500 000 without inviting competitive bids, as required by treasury regulation 16A6.1.
- SASSA awarded a contract to a bidder that had not scored the highest points in the evaluation process, in contravention of section 2(1)(f) of the Preferential Procurement Policy Framework Act and *Preferential procurement regulations*.
- NDA concluded transactions below the value of R500 000 without obtaining the required price quotations, as required by treasury regulation 16A6.1.
- NDA awarded certain contracts to and accepted quotations from bidders that had not submitted a declaration on whether they are employed by the state or are connected to any person employed by the state, which is prescribed in order to comply with treasury regulation 16A8.3.
- NDA awarded a construction contract to a contractor that was not registered with the Construction Industry Development Board (CIDB) in accordance with section 18(1) of the CIDB Act and CIDB regulations 17 and 25(7A).
- NDA did not always register construction projects with the CIDB, as required by section 22 of the CIDB Act and CIDB regulation 18.

- NDA did not take effective steps to prevent irregular expenditure in terms of section 51(1)(b)(ii) of the PFMA.

SASSA incurred R70 million in irregular expenditure, which was 72% of the total amount incurred by the national portfolio. This was an increase of 49% compared to the prior year irregular expenditure, of which SASSA's management identified R29 million. The nature of the irregular expenditure was related mainly to supply chain management.

A regression in the procurement and contract management function resulted in compliance findings and an increase in irregular expenditure.

The following controls should be strengthened to create a control environment that supports compliance with legislation:

- Improve leadership oversight of daily and monthly controls over the review and implementation of policies and procedures on financial management and compliance with procurement and contract management prescripts.
- Effective monitoring of compliance with laws and regulations.
- Ensure that key vacancies are filled with competent staff and finalise the human resource planning and utilisation project at SASSA.
- Implement proper record keeping and review processes.
- Monitor implementation of approved action plans that address deficiencies in key controls.
- Further implementation of the IT governance framework which was established and approved by cabinet and the Department of Public Service Administration (DPSA).

Root causes

The accounting officer/authority should address the root causes of poor audit outcomes and inadequate controls as follows:

- Ensure that the financial statements are complete and accurate and that the required information is adequately disclosed by:
 - ensuring that key officials have the appropriate competencies and that ongoing monitoring and evaluation take place.
- Ensure that the internal controls function efficiently and effectively by:

- filling vacancies in key positions.
- designing and approving policies that are communicated and reviewed for compliance throughout SASSA and the NDA.
- performing regular reviews of compliance with laws and regulations relating to both financial and procurement and contract management to ensure that actions/processes are performed as required by the National Treasury's prescripts (including SA GRAP) and the PFMA and that action is taken in the case of poor performance or transgressions.

Impact of key role players on audit outcomes

The first and second assurance levels should be improved by ensuring stability at the level of accounting officer/authority and senior management by implementing the recommendations of internal audit and directing the work of the audit committee towards evaluating financial statements and procurement and contract compliance.

We met with the minister three times in the past year and these interactions had a significant impact on the audit outcomes. The reason for our assessment is that the minister sustained the portfolios' audit outcomes. In this assessment, the impact of the minister on the controls of the auditees, as well as the status and impact of the commitments, contributed to the assessed assurance provided by the minister.

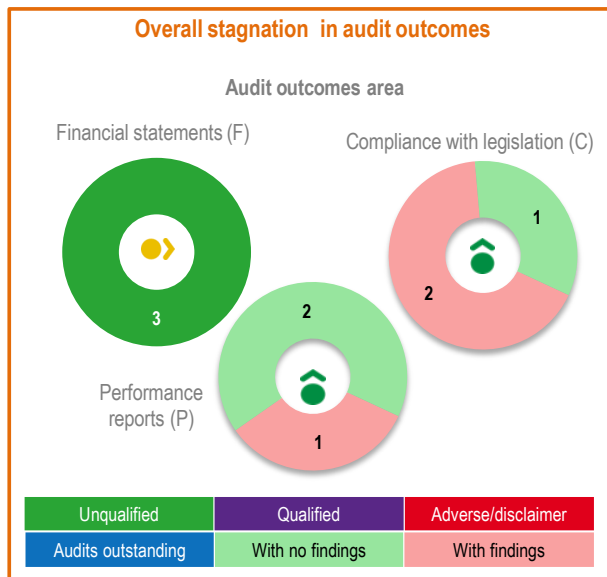
The assurance provided through the oversight of the portfolio committee should be maintained. The reason for our assessment is the portfolio's sustained audit outcomes.

The previous year's commitments to monitor and evaluate actions taken by the minister and accounting officer/authority were in progress.

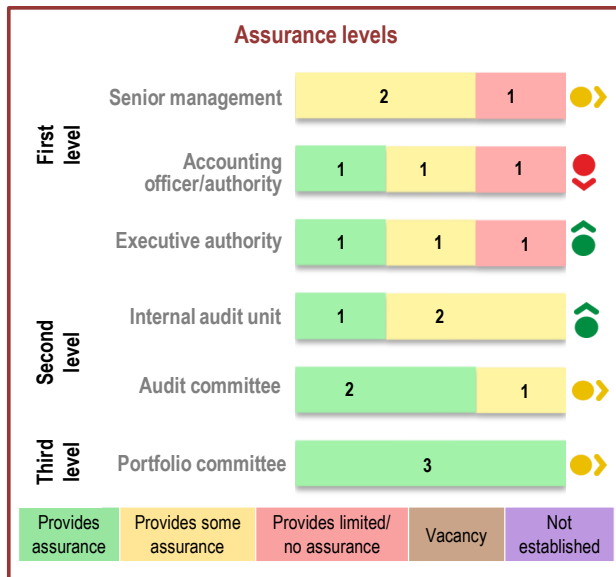
Risks to financial health

No matters were reported on the risk indicators of financial health in the audit reports; however, the disaster relief, refugee relief, social relief and state president funds all had going concern issues emphasised at year-end due to the intention of the department to restructure operation of the funds. These going concern issues did not relate to financial health indicators.

Vote 20: Sport and recreation



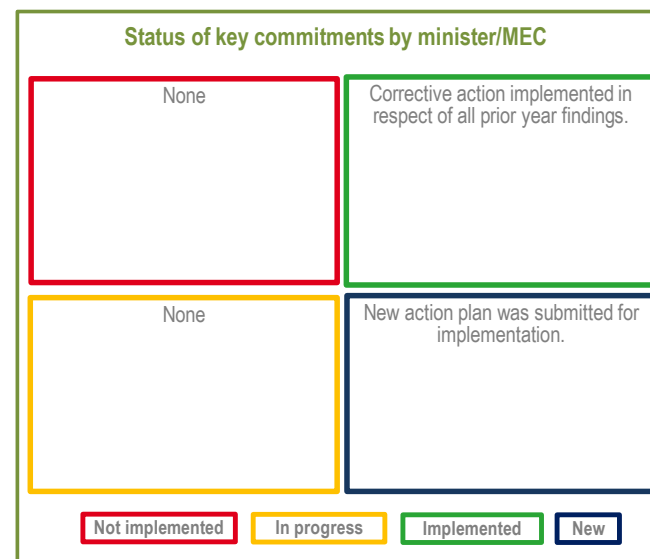
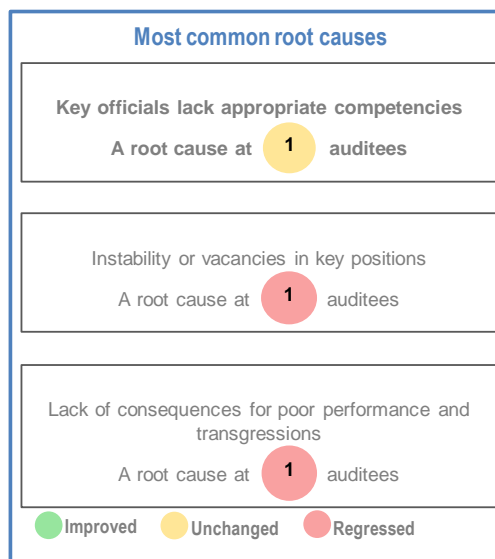
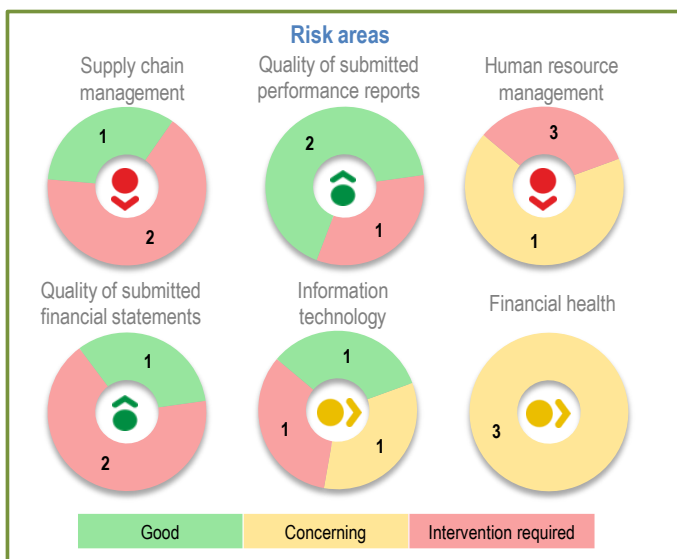
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To improve the **audit outcomes** ...
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Auditees included in the portfolio

- Boxing SA
- Department of Sport and Recreation South Africa
- South African Institute for Drug Free Sport (SAIDS)

The budgeted expenditure for the department for the 2013-14 financial year was R1 billion. The main expenditure was in the following areas:

- Goods and services – R173 million
- Compensation of employees – R86 million
- Payments for financial assets – R2 million
- Transfer and subsidiaries – excluding intra-portfolio transfers – R813 million

Overall audit outcome

The Department of Sport and Recreation SA moved from an unqualified opinion with findings on compliance and performance information to a clean report.

Boxing SA retained its unqualified opinion with findings on compliance and performance information.

SAIDS retained its unqualified opinion with findings on compliance.

The main findings arising from our audit, as reported in the audit reports, which need to be addressed to improve the overall audit outcomes, are as follows:

Financial statements

Boxing SA and SAIDS submitted financial statements for auditing that contained material misstatements. They received an unqualified audit opinion only because they corrected all the misstatements we identified during the audit.

The following controls should be strengthened to create a control environment that supports reliable financial reporting:

- Management should review financial statements for compliance with the accounting framework before submitting them for auditing.
- The internal audit unit should review financial statements and assist management to correct errors.

Annual performance report

The published annual performance report of Boxing SA included information on their performance against predetermined objectives that was not reliable for the following programmes we had selected to audit.

Auditee	Programme	Not useful	Not reliable
Boxing SA	Programme 1: Administration and governance		x
	Programme 2: Enforcement and compliance		x

The following controls should be strengthened to create a control environment that supports useful and reliable reporting on the performance of the auditee:

- Boxing SA should compile technical indicator descriptions and standard operating procedures for accurate measurement, recording and monitoring of performance.

Compliance with legislation

We identified material non-compliance with legislation by Boxing SA and SAIDS in the following areas:

- At Boxing SA and SAIDS goods and services with a transaction value below R500 000 were procured without obtaining the required price quotations, as required by treasury regulation 16A.6.1.
- At Boxing SA and SAIDS goods and services of a transaction value above R500 000 were procured without inviting competitive bids, as required by treasury regulation 16A.6.1.
- Boxing SA and SAIDS did not take reasonable steps to prevent irregular expenditure.
- Boxing SA did not have an approved human resource plan and did not follow proper appointment processes.
- At SAIDS invitations for competitive bidding were not always advertised in at least the *Government tender bulletin*.

The following controls should be strengthened to create or sustain a control environment that supports compliance with legislation

- SCM policies need to be developed, implemented and monitored at both Boxing SA and SAIDS.

- Development and approval of a human resource plan at Boxing SA and implementation of proper controls for new appointments.

Root causes

Management, i.e. the accounting officers and the chief executive officers, should address the root causes of poor audit outcomes and inadequate controls as follows:

- Management should institute adequate controls where they are currently lacking as per the action plans.

Impact of key role players on audit outcomes

The first and second levels of assurance should be improved by ensuring stability at the level of senior management, implementing the recommendations in the management report and directing the work of the audit committee towards evaluating performance information of Boxing SA.

We met with the minister once in the past year and this interaction had an impact on the audit outcomes. The reason for our assessment was the commitment received from the minister and the director-general coupled with the action plans compiled to address the internal control weaknesses.

The assurance provided through the oversight of the portfolio committee was sufficient.

No new commitments were received from the minister.

Risk to financial health

The accounting officer of the department and the accounting authorities of the entities should address the following matters, which could affect financial sustainability in the portfolio:

- The department's debt-collection period is not at an acceptable level.
- The department would have realised a deficit (unauthorised expenditure) if all invoices were received and paid before year end.
- Net cash flow for the year from operating expenditure was negative.
- Boxing SA exceeded its operating budget by 14,4%.
- The debt-collection period as well as the creditor payment period for Boxing SA was at an unacceptable level.
- Twenty-two per cent of accounts receivable were provided for as bad debt by Boxing SA.

Vote 21: Correctional services

Overall stagnation in audit outcomes

Audit area	Audit outcome
Financial statements (F)	Qualified
Performance reports (P)	Material findings
Compliance with legislation (C)	Material findings

Assurance levels

Level	Entity	Assurance Level
First level	Senior management	Provides some assurance
	Accounting officer/authority	Provides some assurance
	Executive authority	Provides some assurance
Second level	Internal audit unit	Provides limited/no assurance
	Audit committee	Provides limited/no assurance
Third level	Portfolio committee	Provides some assurance

Key controls

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

F = Financial P = Performance C = Compliance

Good Concerning Intervention required



To improve/maintain the **audit outcomes** ...
... the **risk areas** and ...



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



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

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

- Lack of consequences for poor performance and transgressions
- Instability or vacancies in key positions
- Key officials lack appropriate competencies

Status of key commitments by minister/MEC

- Quarterly key control meetings held.
- Report to the AGSA on a quarterly basis on the status of implementation of commitments.
 - Address qualification on assets during the financial year.
 - Reduced the material underspending of budget.
- Ensure that all long-outstanding debts are prioritised and paid timeously.
 - Strengthen internal controls.
- Address internal control deficiencies in IT, performance reporting and human resources.
 - Enhance the impact on service delivery.

Not implemented In progress Implemented New

Auditees included in the portfolio

■ Department of Correctional Services

The budgeted expenditure for the department for the 2013-14 financial year was R18,7 billion. The main expenditure was in the following areas:

Employee cost – R12,2 billion

Goods and services – R5,3 billion

Transfer payments – R112 million

Capital expenditure – R1 billion

Overall audit outcome

The lack of improvement in the overall audit outcome was due to the department receiving a qualified audit opinion on its financial statements, with similar findings as reported in the previous year's audit report. The Department of Correctional Services was qualified on completeness, existence and valuation of movable tangible capital assets.

The main findings arising from our audit, as reported in the audit reports, which should be addressed to improve the overall audit outcomes, are as follows:

Financial statements

The published financial statements of the Department Correctional Services included the following material misstatements:

- The department's movable tangible capital assets were understated by an approximate value of R73 million (2013: R88 million). We were unable to physically trace these assets to the asset register. These movable tangible capital assets were further overstated by an approximate value of R67 million (2013: R36 million) as we could not physically verify them. Furthermore, these movable tangible capital assets were overstated by an approximate value of R27 million (2013: R16 million), as they did not reflect appropriate costs or fair values. We were unable to verify the valuation and completeness of assets to the value of R85 million, which were included in a suspense register as this register was not timeously made available to the auditors.

The Department of Correctional Services submitted financial statements for auditing that contained material misstatements.

The following controls should be strengthened to create a control environment that supports reliable financial reporting:

- Implement controls over daily and monthly processing and reconciling of transactions.
- Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.

Annual performance report

The published annual performance report of the Department of Correctional Services included information on their performance against predetermined objectives that was not useful and/or reliable for the following programmes and/or objectives we had selected to audit:

Auditee	Programme/objective	Not useful	Not reliable
Department of Correctional Services	Incarceration	x	x
	Rehabilitation	x	x

The Department of Correctional Services submitted annual performance reports for auditing that contained material misstatements

The following controls should be strengthened to create a control environment that supports useful and reliable reporting on the performance of the auditee:

- Performance indicators must be well defined by having clear data definitions so that data can be collected consistently and is easy to understand and use
- Management should be trained on the requirements of the *Framework for managing programme performance information (FMPPI)*.

Compliance with legislation

We identified material non-compliance with legislation by the Department of Correctional Services in the following areas:

- The accounting officer did not always ensure that the department had and maintained effective, efficient and transparent systems of financial and risk management and internal control as required by section 38(1)(a) of

the PFMA. Departmental systems to collate and report performance information were inadequate.

- The financial statements submitted for auditing were not prepared, in all respects, in accordance with the prescribed financial reporting framework and supported by full and proper records, as required by section 40(1)(a) and (b) of the PFMA. Material misstatements regarding commitments, irregular expenditure and finance leases/ capital expenditure identified by the auditors in the submitted financial statements were subsequently corrected, but the uncorrected material misstatement resulted in the financial statements receiving a qualified audit opinion.
- No evidence could be obtained that the audit committee reviewed the risk areas of the institution's operations covered in the scope of internal and external audits, as required by treasury regulation 3.1.10(c).

The department incurred R43 million in irregular expenditure which represented a decrease of 88% since the prior year. Twenty-eight per cent of the irregular expenditure was identified by management. Irregular expenditure incurred was due mostly to non-compliance with procurement policies.

The following controls should be strengthened to create a control environment that supports compliance with legislation:

- Review and monitor compliance with applicable laws and regulations.
- Implement the recommendations by the internal audit unit.
- Direct the work of the audit committee towards evaluating performance information.

Root causes

Management should address the root causes of poor audit outcomes and inadequate controls as follows:

- Lack of consequences for poor performance and transgressions
- Instability or vacancies in key positions
- Key officials lack appropriate competencies

Impact of key role players on audit outcomes

The first and second levels of assurance should be improved by ensuring stability at the level of accounting officer and senior management, implementing the recommendations of the AGSA and directing the work of the audit committee towards evaluating performance information.

We met with the previous minister three times in the past year and this interaction had no impact on the audit outcomes. The lack of impact by the minister on the controls of the auditee as well as on the status, contributed to the assessed assurance provided. The assurance provided through the oversight of the portfolio committee should be improved.

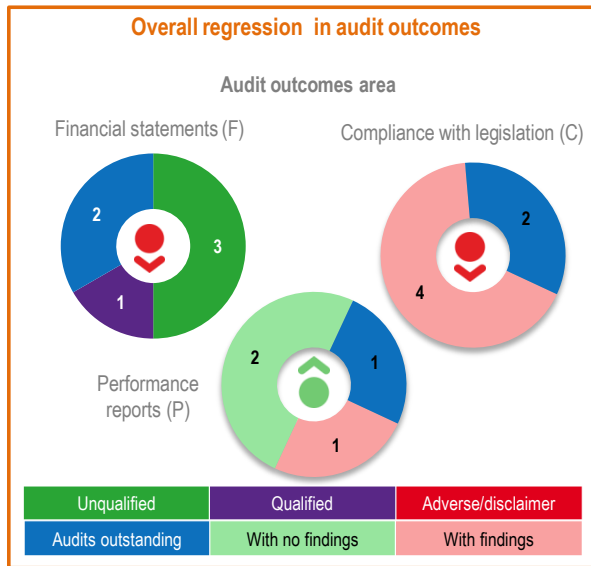
The previous year's commitments were not implemented. There were no commitments made by the portfolio committee.

Risks to financial health and service delivery

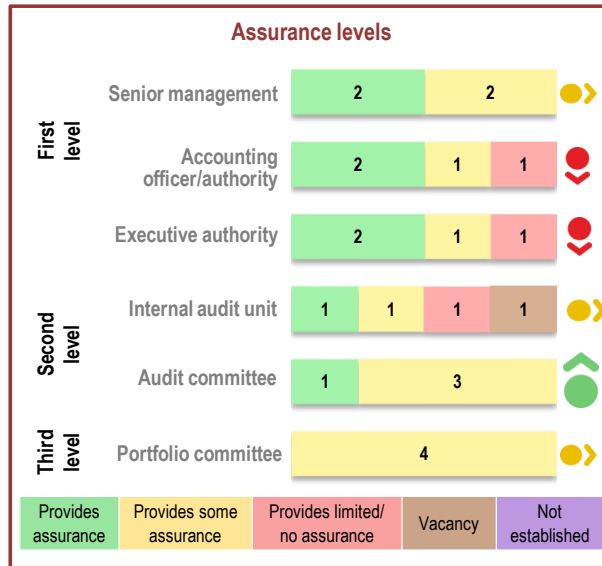
Management should address the following matters, which could affect the financial health in the portfolio:

The department again engaged consultants to assist with IT-related services because of lack of skilled employees. The cost of the consultants was R28 million (2012-13: R6 million). Our review of the management of the consultants revealed that proper measures were not in place to monitor the transfer of skills.

Vote 22: Defence



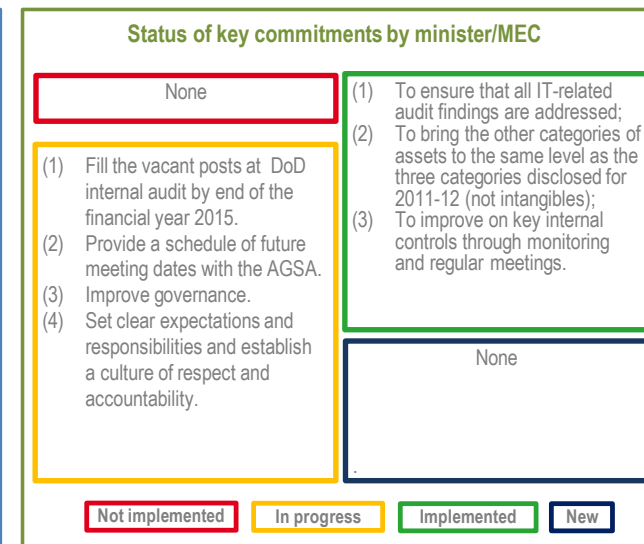
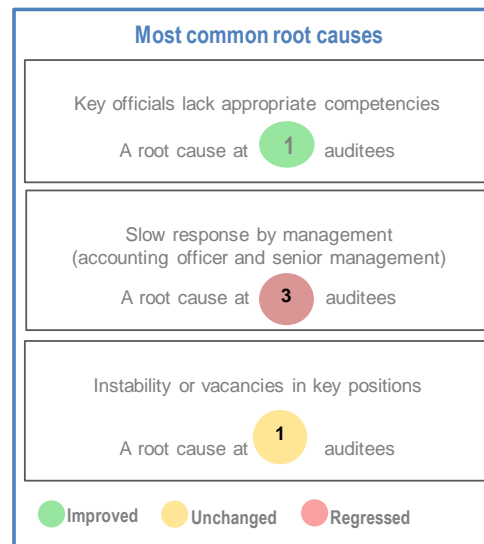
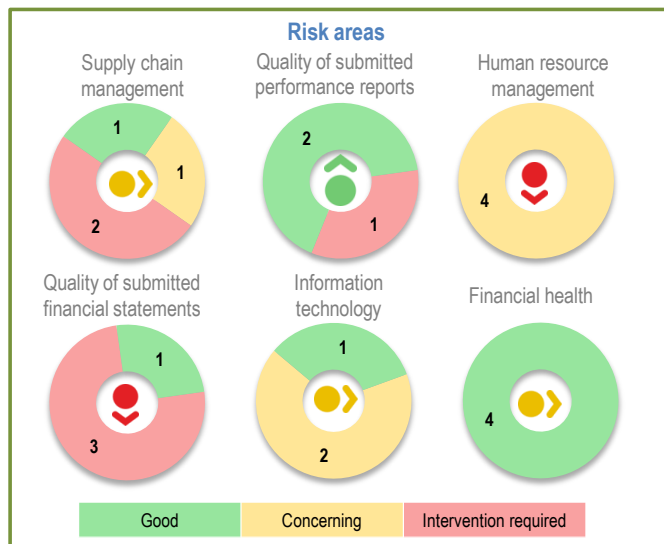
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Auditees included in the portfolio

■ Department of Defence ■ Department of Military Veterans (not finalised yet)
■ Armaments Corporation of South Africa Limited ■ Castle Control Board ■
South African National Defence Force Fund (not finalised yet) ■ Special Defence
Account

The budgeted expenditure for the department for the 2013-14 financial year was R40 billion. The main expenditure was as follows:

- Goods and services – R12 billion
- Compensation of employees – R21 billion
- Payments for financial assets – R154 million
- Transfer and subsidiaries – excl intra portfolio transfers – R6 billion
- Payments for capital assets – R745 million

Overall audit outcome

The regression in the overall audit outcome was caused by the following:

The Department of Defence (DoD) received a qualified audit opinion relating to intangible assets with findings on compliance, which was an improvement since the prior year when they received a qualification on both intangible assets and moveable tangible assets.

- Armscor received an unqualified opinion with findings on compliance with legislation, which was a regression since the prior year.
- The Castle Control Board (CCB) received an unqualified opinion with findings on predetermined objectives and compliance. This was the same opinion that the CCB received in the prior year.
- The Special Defence Account (SDA) regressed from a clean audit to an unqualified opinion with findings due to non-compliance with legislation.

The audit outcomes of Department of Military Veterans (DMV) and the South African National Defence Force Fund (SANDF fund) are not included. This was due to the following:

- The audit of DMV was not finalised because the annual financial statements submitted for audit were not supported by appropriate audit evidence.
- The SANDF fund audit was not finalised because the annual financial statements were submitted late.

Therefore these audits were not completed by the date of this general report.

The main findings arising from our audits, as reported in the audit reports, which need to be addressed to improve the overall audit outcomes are as follows:

- The unavailability of appropriate audit evidence to support the amount disclosed under Intangible assets (DoD)
- The non-compliance with legislation with regard to procurement and contract management (CCB, SDA & Armscor); the subsequent correction of material misstatements found in the submitted annual financial statements. (Armscor, SDA and DoD); internal audit (CCB and DoD), expenditure management (Armscor, CCB and DoD), strategic planning (CCB) and the audit committee (DoD)
- The adverse conclusion on usefulness of reported performance information. (CCB).

Financial statements

The published financial statements of the DoD included the following material misstatements:

- The amount for intangible capital assets was not supported by sufficient appropriate audit evidence.
- Furthermore, the prior year misstatement was restated, but the restatement could not be substantiated with appropriate audit evidence.

Armscor and SDA submitted financial statements for audit that contained material misstatements with regards to irregular expenditure, prepayments and the disclosure of the Armscor medical benefit fund. They received an unqualified audit opinion only because they corrected all the misstatements we identified during the audit.

The following controls should be strengthened to create a control environment that supports reliable financial reporting:

- Review and monitor compliance with applicable laws and regulations
- Implement controls over daily and monthly processing and reconciling of transactions
- Implement effective human resource management to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored.

Annual performance report

The department, Armscor and CCB submitted annual performance reports for auditing. The SDA does not report on predetermined objectives and as such the key controls relating to predetermined objectives in graphic 3 were not assessed.

The published annual performance report of CCB included information on their performance against predetermined objectives that was not useful for the two programmes selected for audit: Programme 2: Preservation, interpretation and showcasing of the history of the castle and programme 4: Increased public profile and position perception across all sectors of the community

The DoD submitted annual performance reports for audit that contained material misstatements. They avoided material findings in their audit reports because they corrected all the misstatements we identified during the audit.

The following controls should be strengthened to create a control environment that supports useful and reliable reporting on the performance of the portfolio.

- Develop and monitor the implementation of action plans to address internal control deficiencies
- Implement effective human resource management to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored.

Compliance with legislation

We identified material non-compliance with legislation by the DoD, Armscor, CCB and SDA in the following areas:

- Armscor: The procurement agent of the SDA did not align their SCM policies to the Preferential Procurement Policy Framework Act and the *Preferential procurement regulations*.
- The DoD, Armscor and CCB did not take reasonable steps to prevent irregular expenditure as required by sections 38(1)(c)(ii) and 51(1)(b)(ii) of the PFMA, treasury regulation 9.1.1 and section 55(3) of the Defence Act.
- The DoD's internal audit committee was not fully operational, resulting in a further finding that the committee was not able to perform the necessary reviews.

The department incurred more than R1 billion in irregular expenditure, which was 82% of the total amount incurred by this portfolio.

The irregular expenditure was a result of the following:

- The salary increase of uniform members was not submitted to the minister of Finance for approval as required by section 55(3) of the Defence Act.
- Armscor: The procurement agent of the DoD did not align their SCM policies to the Preferential Procurement Policy Framework Act and the *Preferential procurement regulations*.

Of the R1 billion in irregular expenditure, 5% was identified by the DoD and 100% related to current year irregular expenditure. This was a 33% increase since the prior year.

The following controls should be strengthened to create a control environment that supports compliance with legislation:

- Review and monitor compliance with applicable laws and regulations

- Implement effective human resource management to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored.

Root causes

The accounting officer/authority should address the root causes of poor audit outcomes and inadequate controls as follows:

- Implement adequate policies and procedures throughout
- Implement adequate checks and balances, thereby strengthening transaction controls
- Implement procedures and practices to monitor and review compliance with legislation
- Key officials lack appropriate competencies
- Instability or vacancies in key positions
- Slow responses of management.

Impact of key role players on audit outcomes

The first and second levels of assurance should be improved by having more frequent interactions. The auditors could not secure a meeting with the minister during the past year (one meeting was held on 1 August 2014 after the audit report was signed). More frequent interactions could impact positively on the audit outcome and could lead to fewer changes to the financial statements.

The assurance levels should be improved by ensuring that an operational internal audit function is in place, thereby empowering the audit committee.

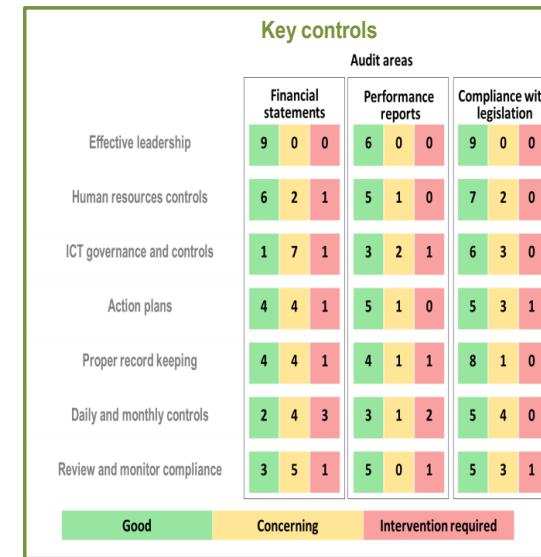
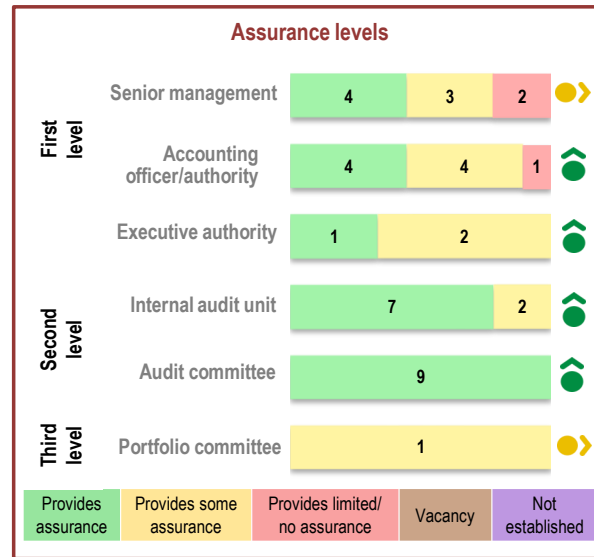
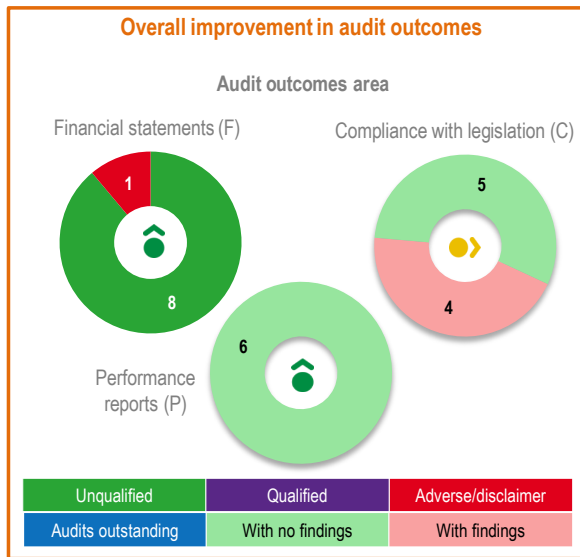
The previous year's commitment to ensure that all IT-related audit findings are addressed and to improve key internal controls through monitoring and regular meetings was implemented. No new commitments were received from the minister, but the Secretary of Defence made the following commitments:

- To ensure that policies and procedures are established and communicated, specifically relating to intangible and tangible assets and performance management.
- To emphasise the importance of proper record keeping throughout the DoD.

Risk to financial health

None of the auditees in the portfolio had findings on or displayed signs that there were matters which could affect the financial sustainability of the portfolio.

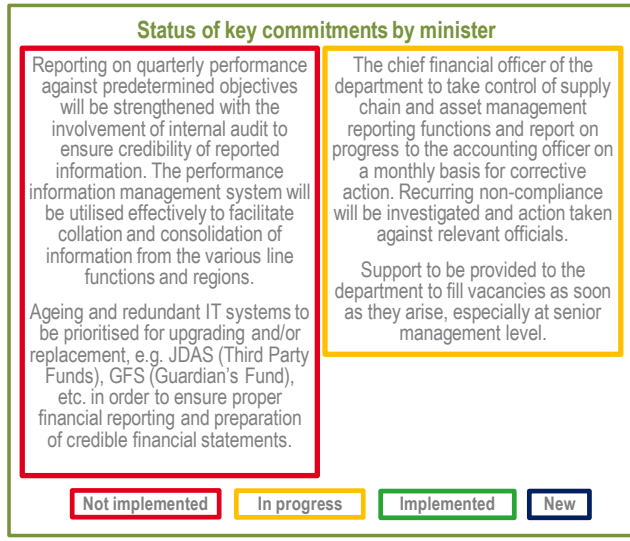
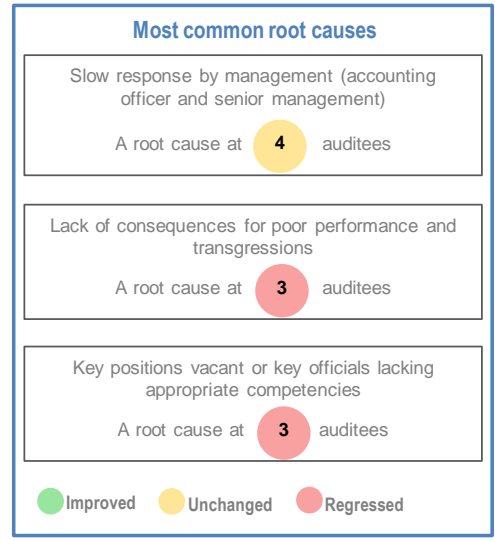
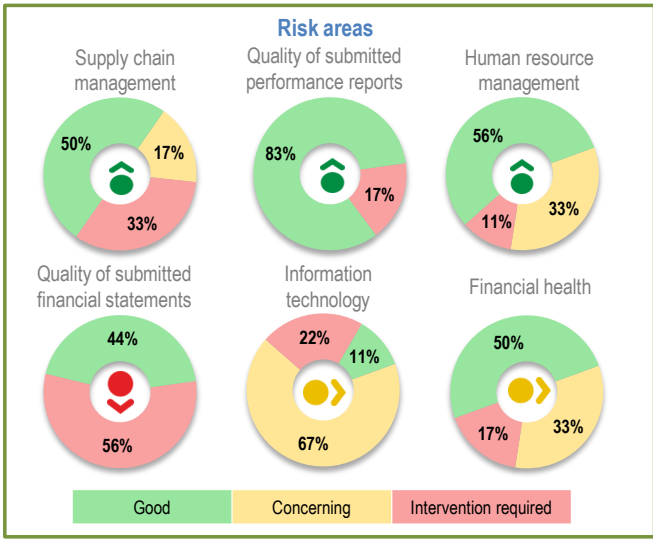
Vote 24: Justice and constitutional development (including Public Protector South Africa and South African Human Rights Commission, which are constitutional institutions)



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To improve/maintain the **audit outcomes** ...
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Auditees included in the portfolio audited by the Auditor-General of South Africa

- Department of Justice and Constitutional Development (DoJ&CD)
- Guardian's Fund (GF)
- Legal Aid South Africa (LASA)
- National Prosecuting Authority (NPA)
- President's Fund (PF)
- Special Investigating Unit (SIU)
- Third Party Funds (TPF)

The DoJ&CD's budgeted expenditure, which included the NPA, for the 2013-14 financial year was R16,7 billion. The main expenditure was:

Employee cost	R6,8 billion
Statutory payments	R2,5 billion with respect to judges and magistrates' salaries
Goods and services	R4,1 billion
Transfer payments	R2,1 billion
Capital expenditure	R1,2 billion.

The transfer payments were made to LASA, SIU, Public Protector South Africa (PPSA) and the South African Human Rights Commission (SAHRC).

Overall audit outcome

The improvement in the overall audit outcome was a result of the SAHRC receiving an unqualified audit opinion on its financial statements. This is discussed under the constitutional institutions section of this portfolio summary. The GF, LASA, NPA and PF maintained their unqualified audit opinion with no other findings. The DoJ&CD and SIU maintained their unqualified audit opinions, with findings in the areas of compliance with legislation and, in the case of the DoJ&CD, also on performance reporting. The TPF continues to receive a disclaimer of audit opinion. The SIU addressed its past material findings on its annual performance report.

Supply chain management, performance reporting and financial health are not applicable to the GF, PF and TPF, as these are funds administered by the DoJ&CD and these areas are not relevant to these funds.

The main findings arising from our audit were reported in the audit reports and need to be addressed to improve/sustain the overall audit outcomes as follows:

Financial statements

The published financial statements of the TPF included the following material misstatements:

- The TPF does not have adequate information systems and proper record keeping processes to support the financial results presented in its financial statements and to facilitate compliance with the financial reporting framework applicable to the entity. These misstatements resulted in a disclaimer of audit opinion.

The DoJ&CD and SIU submitted financial statements for auditing that contained material misstatements in the area of disclosure items. The SIU also had material misstatements in the areas of non-current assets, non-current liabilities, current assets, current liabilities, accumulated surplus, budget comparison and expenditure. The TPF's submitted financial statements contained material misstatements in the areas of current assets, current liabilities and disclosure items. The DoJ&CD and SIU received an unqualified audit opinion only because they corrected all the material misstatements we identified during the auditing process. The TPF could not make the corrections because of information systems limitations and inadequate record keeping.

The following controls should be strengthened to create a control environment that supports reliable financial reporting:

- The TPF requires a financial reporting system to replace the current administrative system, which limits management's ability to supervise and exercise oversight of financial reporting.
- The DoJ&CD and the SIU must prioritise filling vacant posts at senior management level.
- The DoJ&CD and SIU senior management needs to establish proper systems to prepare reliable financial statements and review them prior to submission for auditing.

Annual performance report

The DoJ&CD submitted annual performance reports for auditing that contained material misstatements. They avoided material findings in their audit report only because they corrected all the material misstatements we identified during the auditing process.

The following controls should be strengthened to create a control environment that supports useful and reliable reporting on the performance of the auditee:

- The DoJ&CD's performance information management system should be implemented and used effectively to ensure accurate and complete reporting of actual performance against predetermined targets.

- Management needs to provide leadership and properly review, with the assistance of the internal audit unit, the controls around quarterly reporting, which would enhance the credibility of the reported information in the annual performance report.

Compliance with legislation

We identified material non-compliance with legislation by DoJ&CD and SIU in the following areas:

- The DoJ&CD and SIU did not take effective steps to prevent irregular expenditure resulting from non-compliance with supply chain management prescripts. Furthermore, the DoJ&CD did not take effective and appropriate disciplinary steps against officials who made and/or permitted such irregular expenditure.
- The DoJ&CD did not always advertise its invitations for competitive bids for the prescribed minimum period. Contracts were awarded to, and quotations were accepted from, bidders who did not submit the required declarations as prescribed.
- The SIU did not comply with supply chain management prescripts regarding the various monetary thresholds when issuing invitations to quote and bid.
- The DoJ&CD did not always settle its creditors within the prescribed period of 30 days from receiving an invoice.
- The SIU did not submit its proposed strategic plan to the executive authority for approval.

Non-compliance with supply chain management prescripts remains a risk specifically at the DoJ&CD and the SIU, which had recurring audit findings in that area. The combined amount of the resulting irregular expenditure has, however, decreased when compared to the previous year.

The following controls should be strengthened to create a control environment that supports compliance with legislation:

- Senior management should enhance the current compliance processes and monitor compliance with all applicable legislation, specifically in the area of supply chain management.
- Officials should be held accountable for transgressions and disciplinary action should be taken against transgressors.
- Tracking registers should be implemented by the DoJ&CD to track the movement of invoices across the various line functions from date of receipt until date of payment to identify the reasons for delays in payments to suppliers.

Root causes

Leadership and senior management should address the root causes of poor audit outcomes and inadequate controls as follows:

- Greater oversight by accounting officers/authorities and senior managers in implementing systems to facilitate preparing and reviewing annual financial statements and annual performance reports prior to submission for auditing.
- Replacing the information systems used to manage third party funds should be considered. The current system's limitations prevent management from fulfilling their oversight functions adequately. This intervention may require a multi-year project plan with results not being immediately visible.
- Management should closely monitor and review compliance with legislation and hold officials accountable for transgressions.
- Review the competencies of key officials in areas of financial reporting and supply chain management and prioritise filling vacancies in key positions.

Impact of key role players on audit outcomes

The first and second levels of assurance should be improved by filling vacancies in senior management positions. The development, implementation and monitoring of action plans should be prioritised to ensure that the root causes of findings raised by both internal and external audit are addressed. In this way, repeat audit findings will be avoided and effective corrective actions can be implemented in time.

We were not successful in securing meetings with the previous minister in the past year. However, correspondence was forwarded to the minister quarterly. These ongoing communications had no impact on the audit outcomes, which remained stagnant when compared to the previous year. The assessment of the minister on the controls of the auditees as well as the status and impact of the commitments contributed to the assessed assurance provided by the minister.

The assurance provided through the oversight of the portfolio committee should be improved. The engagements with the portfolio committee had no impact on the audit outcomes which remained stagnant when compared to the previous year.

The previous year's commitments were in progress. They included obtaining confirmations from entities on the preparation of monthly financial statements, the review of financial statements by senior management prior to submission for auditing, the engagements between audit committee chairpersons and executive authorities, the monitoring of the quarterly key control dashboard and tracking progress on the implementation of auditees' action plans.

Risks to financial health

The leadership and senior management of the NPA and the SIU should address the following matters, which could affect the financial health of the respective auditees:

- The SIU should improve its collection rate on debtors to ensure that all amounts billed will be recovered. Non-recovery of debtors could put a financial strain on the entity's ability to meet its liabilities in the future. The NPA should manage its budgeted funds prudently to ensure that supplier invoices are paid on time, that there is no risk of unauthorised expenditure and/or that there are no outstanding liabilities at year-end to impact the budget for the subsequent reporting period.

Constitutional institutions

The [Public Protector South Africa \(PPSA\)](#) and the [South African Human Rights Commission \(SAHRC\)](#) are included in the portfolio, but are not under the authority of the minister.

Overall audit outcome

The SAHRC's audit outcome improved from a qualified audit opinion to an unqualified audit opinion on its financial statements. A greater effort and commitment is required from management to sustain the unqualified audit outcome and to improve on the other areas which have not been satisfactorily addressed. There is a great reliance by management on the audit process to identify weaknesses and shortcomings, which may result in the audit outcome not being sustainable. The PPSA retained its unqualified audit opinion with findings on compliance with legislation.

The main findings from our audit which were reported in the audit reports and need to be addressed to improve the overall audit outcomes are as follows:

Financial statements

The PPSA submitted financial statements for auditing that contained material misstatements in the areas of disclosure items, cash flow statement and budget comparison. The SAHRC submitted financial statements for auditing that contained material misstatements in the areas of disclosure items, non-current assets, non-current liabilities, current assets, current liabilities and expenditure. Both these institutions received an unqualified audit opinion only because they corrected all the material misstatements we identified during the auditing process.

The following controls should be strengthened to create a control environment that supports reliable financial reporting:

- Senior management needs to establish proper systems to prepare reliable financial statements, and to review them prior to submission for auditing.

Annual performance report

No material findings were raised.

Compliance with legislation

We identified material non-compliance with legislation by PPSA and SAHRC in the following areas:

- The PPSA did not take effective steps to prevent irregular expenditure resulting from non-compliance with supply chain management prescripts.
- Both institutions did not always settle their creditors within the prescribed period of 30 days from receiving an invoice.

The following controls should be strengthened to create a control environment that supports compliance with legislation:

- Senior management should enhance the current compliance processes and monitor compliance with all applicable legislation, specifically in the area of supply chain management.
- Officials should be held accountable for transgressions and disciplinary action should be taken against transgressors.
- Tracking registers should be implemented by the entities to track the movement of invoices across the various line functions from the date of receipt until the date of payment to identify the reasons for delays in payments to suppliers.

Root causes

Leadership and senior management should address the root causes of poor audit outcomes and inadequate controls as follows:

- Greater oversight by accounting officers and senior managers in implementing systems to facilitate preparing and reviewing annual financial statements prior to submission for auditing.
- Management closely monitoring and reviewing compliance with legislation and holding officials accountable for transgressions.
- Reviewing the competencies of key officials in the area of financial reporting.

Impact of key role players on audit outcomes

The first and second levels of assurance should be improved by the development, implementation and monitoring of action plans to ensure that root causes of the findings raised by both internal and external audit are addressed. This will avoid repeat audit findings and allow effective corrective actions to be implemented on time.

We met with the executive authority of the SAHRC three times in the past year and the interactions had a significant impact on the audit outcome. We met with the executive authority of the PPSA once in the past year and the interaction had no impact on the audit outcome. The assessment of the executive authorities on the controls of the auditees as well as the status and impact of the commitments contributed to the assessed assurance provided by the executive authorities.

The assurance provided through the oversight of the portfolio committee should be improved. The engagements with the portfolio committee had no impact on the audit outcomes. The previous year's commitments were in progress. They included obtaining confirmations from entities on the preparation of monthly financial statements, the review of financial statements by senior management prior to submission for auditing, the engagements between audit committee chairpersons and executive authorities, the monitoring of the quarterly key control dashboard and tracking progress on the implementation of auditees' action plans.

Risks to financial health

The PPSA's leadership and senior management should address the following matters, which could affect the financial health of the auditee:

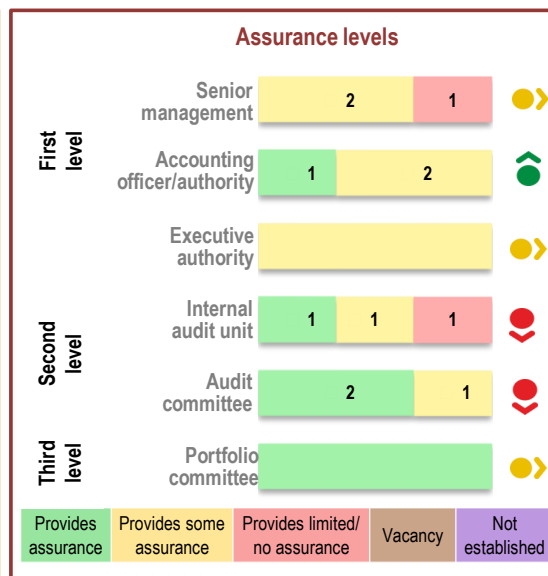
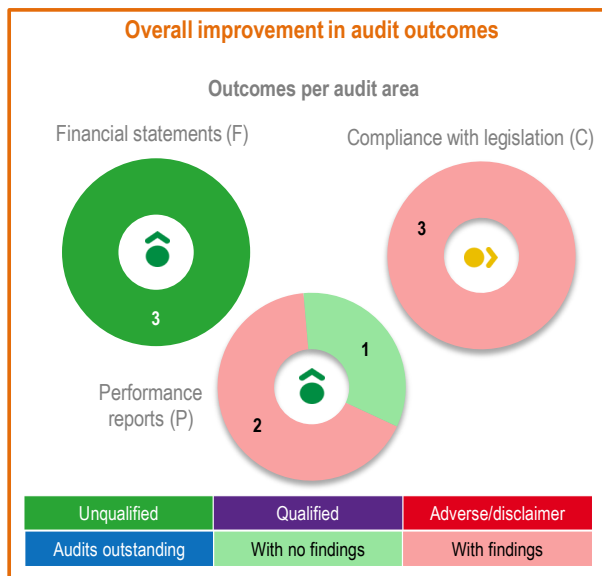
- The institution incurred a deficit in the financial year under review and its cash resources in the short term may be inadequate to meet its commitments to creditors.

Entities included in the portfolio but not audited by the Auditor-General of South Africa

We did not audit the [South African Board for Sheriffs](#) included in the portfolio of the minister.

The overall audit outcome of this entity remained unqualified with findings reported on compliance with legislation.

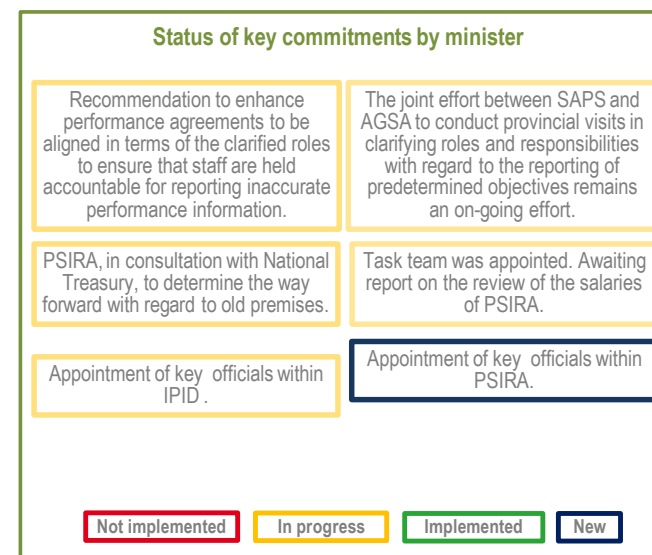
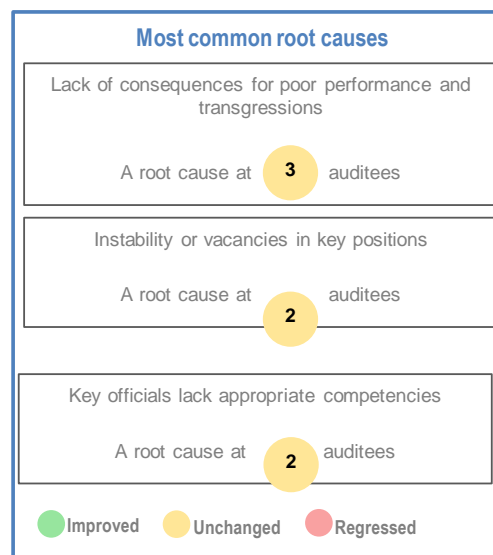
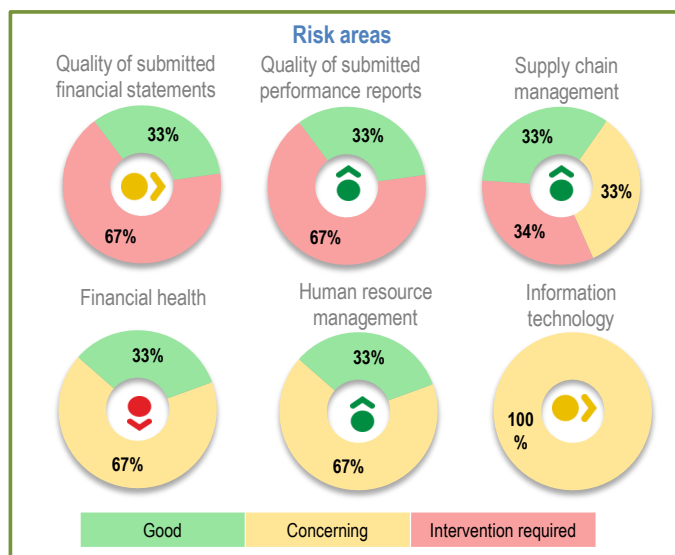
Vote 25: Police



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Auditees included in the portfolio

- *Department of Police (SAPS)*
- *Independent Police Investigative Directorate (IPID)*
- *Private Security Industry Regulator Authority (PSIRA)*

The total budgeted expenditure for the departments (SAPS and IPID) for the 2013-14 financial year was R69 billion. The main expenditure was in respect of employee cost totalling R51,3 billion, goods and services totalling R14 billion, and expenditure for capital assets totalling R3,2 billion.

Overall audit outcome

The overall improvement in the financial audit outcome was as a result of PSIRA improving from qualified to financially unqualified with other matters after they had addressed previous material findings on their unknown deposits. The performance information of IPID improved in terms of usefulness and reliability due to better communication and review processes between different levels of management.

The reported findings in the audit reports, which should be addressed to improve the overall audit outcome, are as follows:

Financial statements

IPID and PSIRA submitted financial statements for auditing that contained material misstatements in the areas of lease commitments, revenue, trade and other receivables, employee benefits, and repairs and maintenance. IPID and PSIRA received an unqualified audit opinion because they corrected all the misstatements we had identified during the audit process.

The following controls should be strengthened to create a control environment that supports reliable financial reporting:

- The different assurance level providers (management, accounting officer/authority and audit committee) should timeously and adequately review the financial statements.
- Skilled staff members should be appointed in critical posts within the finance section.
- PSIRA should enhance the controls relating to its debtors' IT system.

Annual performance report

The published annual performance reports of SAPS and PSIRA included information on their performance against predetermined objectives that was not

reliable for the visible policing programme at SAPS and the law enforcement programme at PSIRA.

Within SAPS the following indicators in programme 2 could not be verified as reliable:

- The reaction time in respect of Alpha, Bravo and Charlie complaints captured on the case administration system (CAS).
- The actual achievement of success in the illicit drug cases and the confiscated liquor cases.
- The firearms applications could not be confirmed as the application forms were not readily available for audit.

SAPS and IPID submitted annual performance reports for auditing that contained material misstatements. They avoided material findings in their audit reports because they corrected all the misstatements identified during the audit process.

The following controls should be strengthened to create a control environment that supports reliable reporting on the performance of the portfolio:

- Adequate record-keeping controls should be implemented over information reported in the annual performance report.
- Management, the accounting officer/authority and the audit committee should timeously and adequately review the information reported in the annual performance report.
- Approved policies and procedures should be implemented for PSIRA.

Compliance with legislation

We identified material non-compliance with legislation by SAPS, IPID and PSIRA in the following areas:

- SAPS did not maintain effective and efficient internal controls over performance management.
- PSIRA did not take effective steps to collect all money due.
- Funded positions at IPID were not filled within 12 months.
- IPID's internal audit function did not submit reports to the audit committee every quarter due to the head of internal audit being an acting position. PSIRA did not have an internal audit function throughout the year as the appointment of the internal auditors was only made in February 2014.
- IPID did not ensure that appropriate audit evidence was maintained for the declaration of interests for contracts awarded to bidders.
- IPID did not take effective steps to prevent irregular expenditure.

- PSIRA did not take effective and appropriate disciplinary steps against officials who had incurred or permitted irregular expenditure. PSIRA was the significant contributor to irregular expenditure in the portfolio to the value of R8 888 151.
- IPID did not meet its contractual obligations and pay money owed within 30 days or as agreed.

SAPS still have two contracts that could result in irregular expenditure, which will be confirmed in the near future.

The following controls should be strengthened to create a control environment that supports compliance with legislation:

- Staff members at PSIRA should be held accountable for non-compliance with SCM legislation.
- Staff members at PSIRA should be trained on the applicable SCM legislation.
- Senior management vacancies should be filled at PSIRA and IPID.

Root causes

The accounting officer or authority should address the root causes of poor audit outcomes and inadequate controls as follows:

- Staff members should be held accountable for non-performance.
- All key funded vacancies should be filled.
- Staff members should be trained in supply chain management and performance information to improve their skills.

Impact of key role players on audit outcomes

The first and second levels of assurance should be improved by the accounting officer or authority and senior management implementing our recommendations and monitoring the effectiveness of internal controls.

We met with the former minister once in the past year and this interaction had some impact on the audit outcomes. The minister appointed key role players at IPID as well as council members at PSIRA.

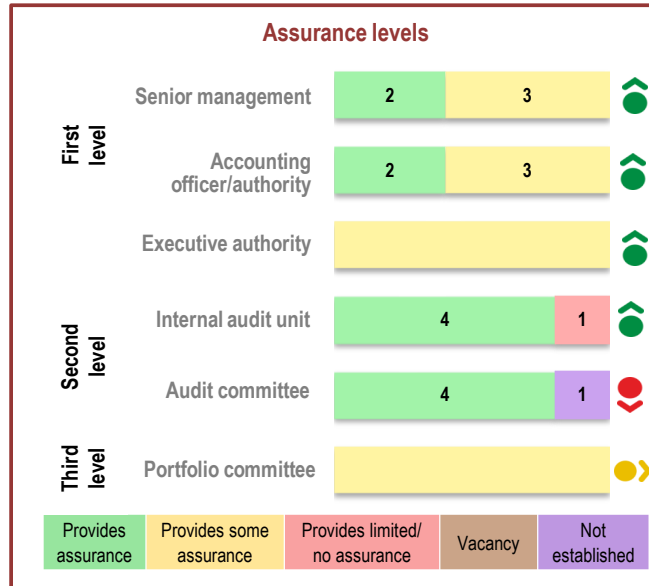
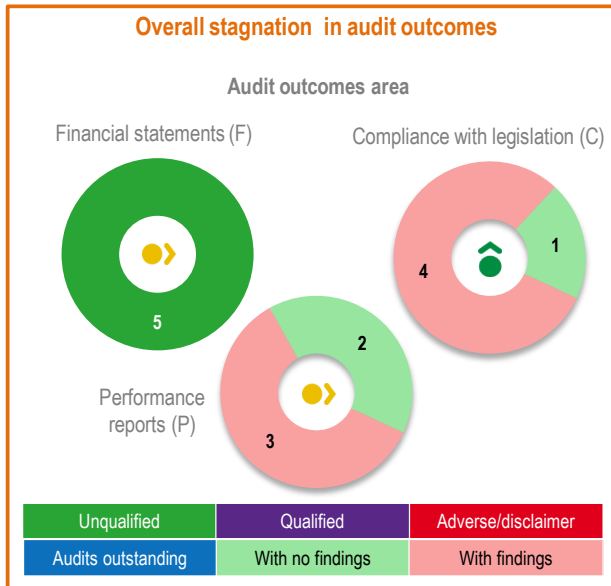
The assurance provided through the oversight of the portfolio committee should be maintained.

Risks to financial health

A regression was noted in respect of financial health; therefore the accounting officer or authority should address the following matters which could affect the financial health of the portfolio:

- IPID should improve the management of creditor payments to ensure that suppliers are paid timeously.
- PSIRA should improve the management of debt collection to ensure that money owed to the entity is collected timeously.

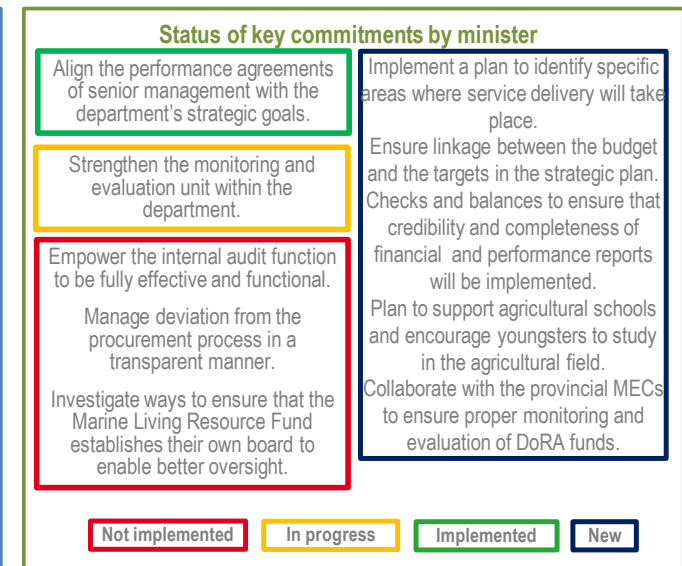
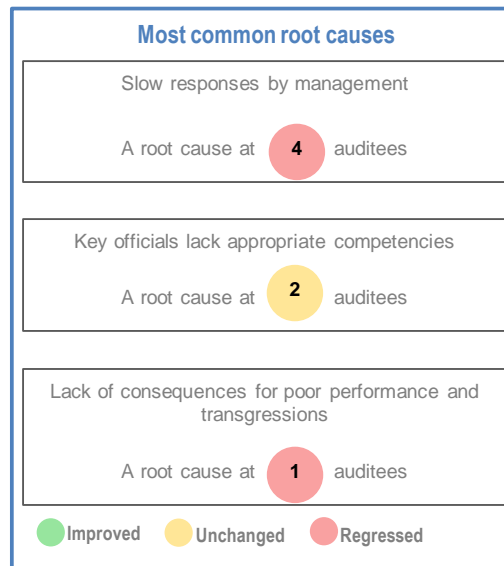
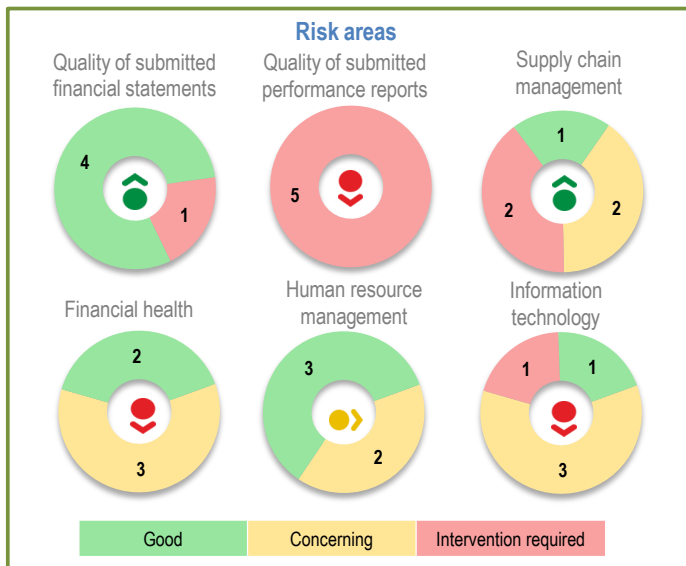
Vote 26: Agriculture, forestry and fisheries



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



Auditees included in the portfolio audited by the Auditor-General of South Africa

■ Department of Agriculture, Forestry and Fisheries (DAFF) ■ Agricultural Research Council(ARC) ■ Marine Living Resource Fund (MLRF) ■ National Agricultural Marketing Council (NAMC) ■ Onderstepoort Biological Products (OBP)

The department's budgeted expenditure for the 2013-14 financial year was R6,2 billion. The following were the main expenditure categories budgeted for:

Transfer payments	R3,6 billion
Employee cost	R1,6 billion
Goods and services	R791,4 million
Payments for capital assets	R147,1 million

Overall audit outcome

The lack of movement towards a clean audit outcome was caused by the auditees not addressing the weaknesses identified in the control environment, which resulted in repeat audit findings on compliance with legislation, and the quality of the annual performance reports.

The main findings from our audit, as reported in the audit reports, which should be addressed to improve the overall audit outcomes, are as follows:

- Compliance with legislation relating to the SCM and the quality of the submitted financial statements.
- The usefulness and reliability of the annual performance reports.

Financial statements

The quality of the financial statements submitted by DAFF and OBP has improved as the financial statements submitted for auditing were free from material misstatements.

We commend the MLRF and NAMC for maintaining the quality of their financial statements.

The ARC submitted financial statements for auditing that contained material misstatements in the areas of property, plant and equipment, intangible assets, assets under construction and related parties. The ARC received an unqualified audit opinion only because it corrected all the misstatements we identified during the auditing process.

The following controls should be strengthened to create a control environment that supports reliable financial reporting:

- The ARC should implement daily and monthly processing and reconciling of transactions to ensure credible reporting on financial statements.
- The ARC should review the accuracy of the financial statements monthly to ensure compliance with the financial reporting framework.
- Some corrective measures had been instituted in the focus areas of user access management and IT service continuity at DAFF. Risks remained where controls over the financial systems had not been adequately designed and implemented. The majority of the entities did not have adequately designed and implemented IT controls for security management, user access management and IT service continuity.

Annual performance report

The published annual performance reports of DAFF, NAMC and OBP included information on their performance against predetermined objectives that was not useful and/or reliable for the following programmes and/or objectives we had selected to audit.

Auditee	Programme/objective	Not useful	Not reliable
DAFF	Programme 3: Food security and agrarian reform		x
	Programme 5: Forestry	x	x
NAMC	Objective 2: Market and economic research	x	
	Objective 3: Statutory measures	X	
OBP	Objective 2: Improve business processes and management practices	X	
	Objective 3: Build a profitable and sustainable company	X	

The ARC and MLRF submitted annual performance reports for auditing that contained material misstatements. These entities avoided material findings in their

audit reports only because they corrected all the misstatements we identified during the auditing process.

The following controls should be strengthened to create a control environment that supports useful and reliable reporting on the performance of the portfolio.

- Enhance daily and monthly processes to collect and verify performance information to ensure that quarterly monitoring reports are valid, accurate and complete.
- To provide assurance over the quality of the quarterly and yearly performance reports, the internal audit unit should appoint staff with adequate knowledge and skills.
- Hold management accountable for implementing action plans. The progress on implementation of action plans should be monitored monthly. The internal audit unit should perform a quarterly review to provide assurance that progress is being made on addressing the root causes.

Compliance with legislation

We identified material non-compliance with legislation by DAFF, MLRF and OBP in the following areas:

- DAFF did not always request three quotations, as prescribed, and MLRF approved deviations from SCM processes in contravention of legislation.
- DAFF and MLRF did not take reasonable steps to prevent irregular expenditure.
- DAFF did not have an audit committee in place for the majority of the year, therefore the committee's roles and responsibilities were not performed.
- The DAFF's internal audit function was under-capacitated (insufficient positions and ineffective leadership) and therefore did not execute its mandate.
- DAFF did not monitor the comprehensive agricultural support programme grant in accordance with legislation.
- The OBP did not have effective, efficient and transparent systems for risk management and internal controls over performance information and management, as required.
- DAFF did not establish a system of effective performance monitoring and evaluation. Consequence management has also not been established.

The MLRF incurred R125,3 million in irregular expenditure, which was 93% of the total amount of R134,9 million incurred by the national portfolio. The amount of irregular expenditure has increased compared to last year's R9 million. The irregular expenditure was a result of non-compliance with SCM legislation. Only

2% of the irregular expenditure was identified by the auditee's own processes of internal controls.

The SCM for the portfolio improved; however, material non-compliance was reported at DAFF and MLRF. DAFF should align its SCM policy to legislation and ensure that all procurement is done by the SCM directorate. MLRF should draft its own SCM policy.

The following controls should be strengthened to create a control environment that supports compliance with legislation:

- Review compliance with SCM processes at regional offices and review payments processed through sundry payments.
- Effective leadership to ensure that key functions (internal audit unit and audit committee) within the DAFF are fully capacitated and functional.
- Monitor the implementation of action plans to ensure that adequate daily and monthly controls over compliance with all relevant legislation are in place.

Root causes

The minister, accounting officer, accounting authorities and senior management of the auditees should address the root causes of poor audit outcomes and inadequate controls as follows:

- Slow responses by management in the areas of compliance with legislation and the quality of performance reports should be improved by continuously monitoring the implementation of action plans with clear milestones and deadlines.
- The competencies of key officials and employees should be improved by providing them with both formal and on-the-job training.
- Consequence management should be included and implemented in the performance management process. Responsibilities for addressing internal control weaknesses that resulted in the audit findings should be included in the performance contracts of all staff.

Impact of key role players on audit outcomes

The first and second levels of assurance should be improved by ensuring that the internal audit function of DAFF is empowered to be fully effective and functional in order to assist the newly appointed audit committee to fulfil its role. Furthermore, it should focus on evaluating the quality of the quarterly and annual performance reports. The accounting officer should hold senior management accountable for repeat non-performance.

We met with the previous minister three times in the past year and these interactions had minimal impact on the audit outcomes. The majority of commitments made were not implemented mainly due to the accounting officer only being appointed in October 2013, resulting in late implementation of interventions. The newly appointed minister made new commitments to address the identified root causes.

The assurance provided through the oversight of the portfolio committee should be improved. The committee did not have an impact on the audit outcomes of the portfolio. The progress made on action plans prepared by the department to address the identified control weaknesses should be monitored on a quarterly basis.

The previous year's commitments to monitor the quality of quarterly performance reports and follow up on actions taken to strengthen the internal audit function were not implemented.

Risks to financial health

The accounting officer, accounting authorities and senior management of DAFF, MLRF and OBP should address the following matters, which could affect the financial health:

- DAFF should carefully monitor and manage its working capital, particularly the debt-collection period relating to the agricultural debt account.
- The MLRF should improve the management of its operating cash flows and expenditure and monitor its current liabilities. The spending on planned capital projects should be accelerated to ensure that service delivery is not compromised.
- The OBP should improve its operating cash flows, manage its expenditure and grow its revenues to ensure profitability. Debt management should be enhanced in order to reduce impairments.

Entities included in the portfolio not audited by the Auditor-General of South Africa

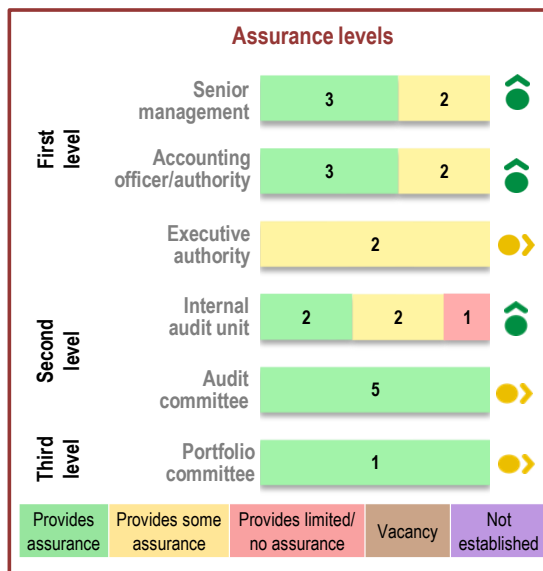
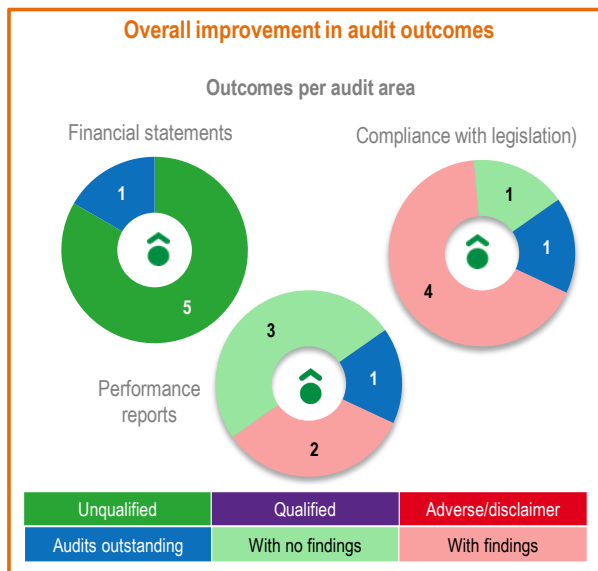
We did not audit the following entities included in the portfolio:

- *Perishable Products Export Control Board (PPECB)*
- *Ncera Farms SOC (Pty) Ltd*

The overall audit outcomes of these entities remained the same as in the previous year. The audit outcomes were as follows:

- The financial statements of both entities received an unqualified opinion – the same result as in the previous year.
- Both entities had no material findings on the quality of the annual performance reports – the same result as in the previous year.
- The PPECB had no material findings on compliance with legislation – the same result as in the previous year – and Ncera Farms did not address past material findings on compliance with legislation.

Vote 27: Communications



Key controls

Audit areas

Key Control	Financial statements			Performance reports			Compliance with legislation		
	Good	Concerning	Intervention required	Good	Concerning	Intervention required	Good	Concerning	Intervention required
Effective leadership	3	2	0	3	2	0	2	3	0
Human resource controls	0	4	1	1	3	1	0	4	1
ICT governance and controls	0	5	0	0	0	0	0	0	0
Audit action plans	3	2	0	2	3	0	2	3	0
Proper record keeping	3	2	0	0	5	0	1	4	0
Daily and monthly controls	2	3	0	2	3	0	2	3	0
Review and monitor compliance	2	3	0	3	2	0	2	3	0



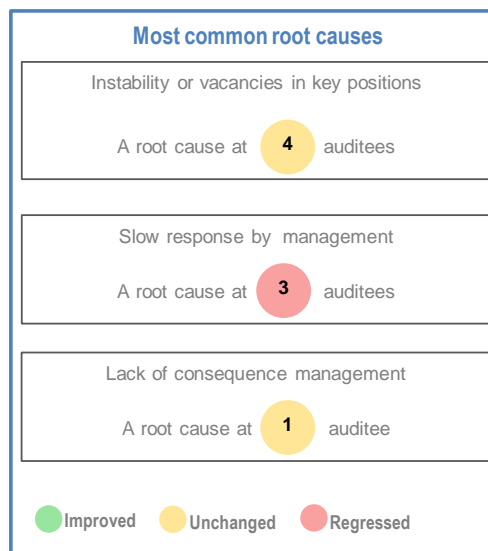
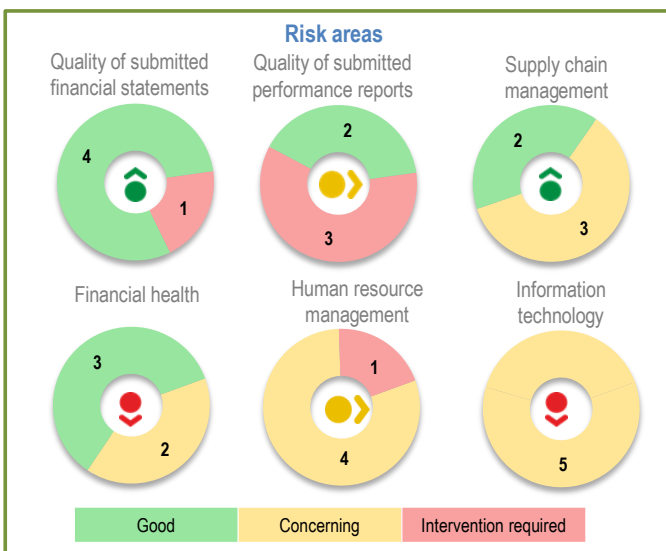
To improve/maintain the **audit outcomes** ...
... the **risk areas** and ...



... the key role players need to **assure** that ...
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... attention is given to the **key controls** and ...
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Status of key commitments by minister/MEC

Engagement with the minister of Finance to second skills to the department to address human resource deficiencies in the department	- Finalising the migration process from the old structure to the new structure in the department.
To ensure stability within the staff component of the department, thereby increasing stability in the public entities.	- Follow up on the filling of critical vacancies.
Implement responses to assessed risk and ensure checks and balances are in place.	- Clarify the process of integration between NEMISA, ISSA and e-SI.
Fill all leadership vacancies by November 2012 and create a monitoring unit consisting of a representative from each entity.	- Clarify the role of each entity to prevent overlapping of functions and responsibilities.
	- Reassess SMS performance agreements to ensure clearly defined roles and responsibilities.

Not implemented
In progress
Implemented
New

Auditees included in the portfolio audited by the Auditor-General of South Africa

■ Department of Communications ■ National Electronic Media Institute of South Africa (NEMISA) ■ South African Broadcasting Corporation (SABC) ■ Universal Services Access Agency of South Africa (USAASA) ■ Universal Services Access Fund (USAF)

The total budgeted expenditure for the vote for the 2013-14 financial year was R2,37 billion. The main expenditure was split between transfer payments of R1,55 billion, employee cost of R195 million, goods and services of R191 million and capital assets of R5 million.

Overall audit outcome

The improvement in the overall audit outcome was as a result of USAF improving from a qualified audit opinion in 2012-13 to financially unqualified with no other findings in 2013-2014. This was due to improved oversight by senior management. Three out of four auditees were still financially unqualified with findings. Improvements were, however, noted in the following key risk areas of the auditees: the quality of financial statements submitted for audit and supply chain management.

The audit outcomes of the SABC and the comparative are not included in these outcomes. This is due to the late submission of the financial statements by the entity.

Financial statements

The department submitted financial statements for auditing that contained material misstatements in the areas of movable assets and impairments. An unqualified audit opinion was received only because they corrected all the misstatements identified during the auditing process.

The following control should be strengthened to create a control environment that supports reliable financial reporting:

- Filling of the CFO position within the department.

Annual performance report

The published annual performance report of NEMISA included information on their performance against predetermined objectives that was not useful for the following programmes we had selected to audit.

- Multi-stakeholder collaboration
- Research and innovation.

USAF and NEMISA both submitted annual performance reports for auditing that contained material misstatements. USAF avoided material findings in their audit reports only because they corrected all misstatements identified during the auditing process.

NEMISA could only correct the misstatements relating to the reliability of the information.

The following controls should be strengthened to create a control environment that supports useful and reliable reporting on the performance of the two entities.

- Proper review of reported information against planning documents
- Roles and responsibilities should be clarified by identifying an individual person/unit who will be responsible for performance information.

Compliance with legislation

We identified material non-compliance with legislation by the department, USAASA and NEMISA in the following areas:

- Payment of expenses after the 30-day period had passed
- Not all members of senior management had signed performance agreements
- Lack of effective steps to prevent irregular expenditure
- Lack of effective, efficient and transparent systems of risk management and internal control with regard to performance information.

The following controls should be strengthened to create a control environment that supports compliance with legislation:

- Senior officials responsible for transgressions should be held accountable
- Business processes implemented should be continuously monitored and improved.

Root causes

Senior management should address the root causes of poor audit outcomes and inadequate controls as follows:

- Increased stability within the portfolio by filling the remaining key vacant positions
- Responses to implement corrective actions should be enhanced and tracked.

Impact of key role players on audit outcomes

The first and second levels of assurance should be improved by timeous implementation of action plans. The roles and responsibilities should be enhanced through performance agreements.

We met with the previous minister three times in the past year and these interactions had some impact on the audit outcomes. The inadequate impact was due to the lack of stability within the position. The new minister has made some new commitments with regard to the entities. These will be monitored during the year.

The assurance provided through the oversight of the portfolio committee should be maintained. The portfolio committee has been able to identify the key issues and demand action plans from management within the portfolio.

Some of the prior year commitments were implemented during the year, while some are still in progress, for example stabilising the department that plays a major role in exercising oversight of the public entities.

Constitutional institutions

The Independent Communications Authority of South Africa (ICASA) is included in the portfolio but not under the authority of the minister. The overall audit outcome of the entity remained unchanged at financially unqualified with findings on predetermined objectives and compliance.

The published annual performance report of ICASA included information on their performance against predetermined objectives that was not useful for one of the strategic outcome-orientated goals (SOOGs) selected for audit. The targets reported in SOOG 4 were not consistent with those in the approved strategic plan and annual performance plan.

ICASA also submitted an annual performance report for auditing that contained material misstatements with regard to the reliability of the reported information. ICASA avoided material findings in their audit report only because they corrected all misstatements identified during the auditing process.

The reported information against planning documents should be properly reviewed to ensure that differences between the planning documents and the reported information are detected early and corrected. This review should also include a review of supporting evidence against the reported outcomes to confirm reliability of the information reported in the annual performance report to avoid material misstatements in the report submitted for audit.

Material non-compliance by the institution was identified in the following areas:

- Lack of effective steps to prevent irregular and fruitful and wasteful expenditure
- Internal audit did not evaluate the effectiveness and efficiency of controls throughout the year.

The following controls should be strengthened to create a control environment that supports compliance with legislation:

- Ensuring adequate accountability and performance management in the institution
- Capacitating the internal audit with adequate staff who have the required competencies and skills.

The management level of assurance is adequate except for the assurance provided on the annual performance report and compliance with legislation, which should be enhanced as stated above.

Entities included in the portfolio not audited by the Auditor-General of South Africa

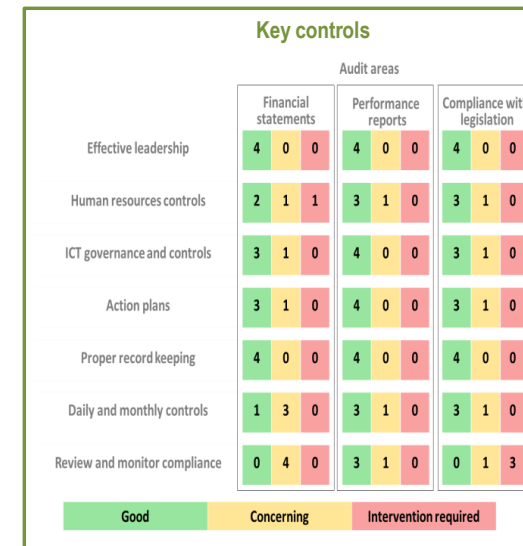
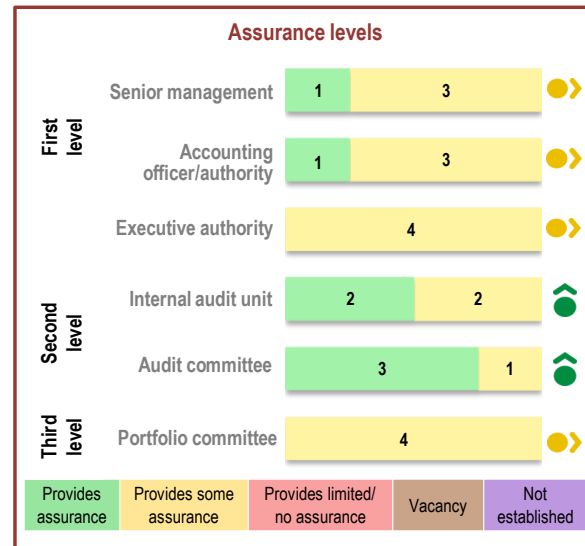
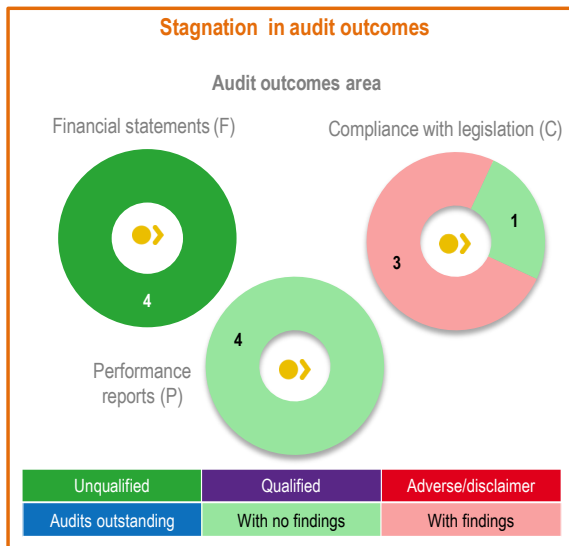
We did not audit the following entities included in the portfolio of the minister:

- *South African Postal Office (SAPO)* ■ *Sentech* ■ *Telkom*

Sentech and Telkom have retained their clean audit status of the previous year.

The audit outcome for SAPO has not been included as the audit was not finalised in time. This was mainly due to late submission of some of the auditing information and some issues identified during the audit process that have not yet been resolved.

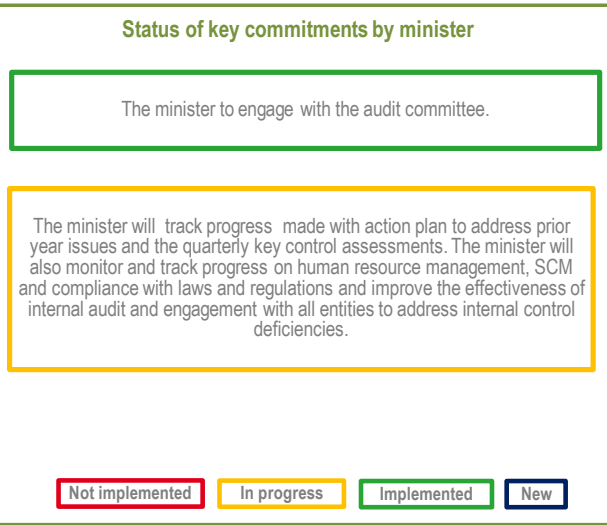
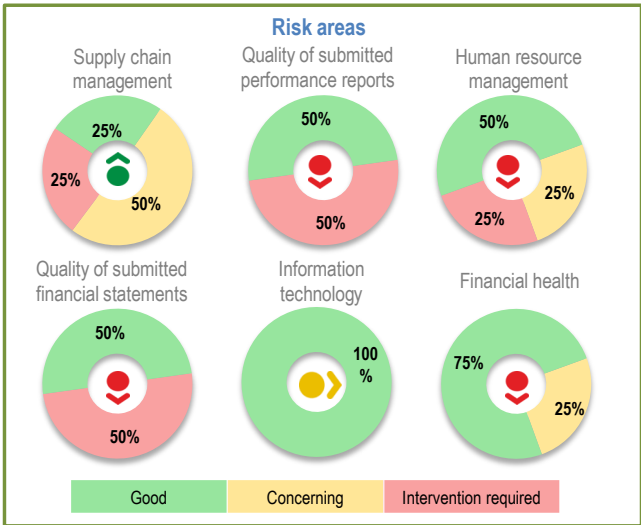
Vote 28: Economic development



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To improve/maintain the **audit outcomes** ...
... the **risk areas** and ...
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... the key role players need to **assure** that ...
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Auditees included in the portfolio audited by the Auditor-General of South Africa

- Economic Development Department (EDD)
- Competition Commission (CC)
- Competition Tribunal (CT)
- International Trade Administration Commission of South Africa (ITAC).

The EDD's budgeted expenditure for the 2013-14 financial year was R771,5 million. The main expenditure was:

Employee cost	R70,9 million,
Goods and services	R66,3 million,
Transfer payments	R627,6 million
Capital expenditure	R6 million.

The transfer payments include transfers to the CC, CT, ITAC, Industrial Development Corporation of SA (IDC), and Small Enterprise Finance Agency (SEFA).

Overall audit outcome

There was one improvement and one regression in the audit outcomes. CT improved to an unqualified audit opinion with no findings as it implemented and monitored actions plans to address the previous year's issues. ITAC regressed from financially an unqualified audit opinion with no findings to a financially unqualified audit opinion with findings on compliance with legislation. This was due to a lack of monitoring by management. The lack of improvement in the rest of the portfolio was caused by management not addressing past material findings on compliance with legislation.

The main findings from our audit were reported in the audit reports and need to be addressed to improve the overall audit outcomes, are as follows:

Financial statements

EDD and ITAC submitted financial statements for auditing that contained material misstatements. At EDD the misstatements were in the areas of receivables, accruals and tangible capital assets. At ITAC they were in the areas of disclosure items. EDD and ITAC received an unqualified audit opinion only because they corrected all the misstatements identified during the auditing process.

The following controls should be strengthened to create a control environment that supports reliable financial reporting:

- EDD's and ITAC's senior management need to establish proper systems to prepare reliable financial statements, and review them prior to submission for auditing.

Annual performance report

EDD and ITAC submitted annual performance reports for auditing that contained material misstatements. They avoided material findings in the audit reports only because they corrected all the misstatements identified during the auditing process.

The following controls should be strengthened to create a control environment that supports useful and reliable reporting on the performance of the entities.

- Senior management, with the assistance of internal audit, needs to review the performance reports to strengthen the controls around the collation of information and consolidation of reporting

Compliance with legislation

We identified material non-compliance with legislation by EDD, CC and ITAC in the following areas:

- EDD, CC and ITAC did not take effective steps to prevent irregular expenditure, as required by the PFMA.
- EDD appointed employees without following a proper process to verify the claims made in their applications. Employees also received overtime compensation in excess of 30% of their monthly salaries.
- CC awarded contracts to, and accepted quotations from, suppliers whose tax matters had not been declared to be in order by the South African Revenue Services.

Non-compliance with supply chain management prescripts remains a risk that led to key reported non-compliance matters. This resulted in irregular expenditure. However, the irregular expenditure for the portfolio has decreased from R30,9 million in the previous year to R7,6 million.

The following controls should be strengthened to create a control environment that supports compliance with legislation:

- Senior management should enhance the current compliance processes to prevent non-compliance and irregular expenditure. It should also monitor compliance with all applicable legislation, specifically in the area of supply chain management. The focus should be on preventing non-compliance.

Root causes

Those charged with governance and management should address the root causes of poor audit outcomes and inadequate controls as follows:

- Enhanced oversight by accounting officers/authorities and senior management to prepare and review financial statements and performance information prior to submission for auditing. Closely monitor and review compliance with legislation.
- There should be consequence management and action should be taken against transgressors.
- Training should be provided to enhance skills in financial reporting.

Impact of key role players on audit outcomes

The first and second levels of assurance should be improved by implementing the recommendations and addressing the real root causes noted by internal and external auditors, in order to avoid repeat findings.

We met with the minister once in the past year and this interaction had no impact on the audit outcomes; however, there was an improvement in the control environment. The impact of the minister on the controls of the entities as well as the status and impact of the commitments contributed to the assessed assurance provided by the minister.

The assurance provided through the oversight of the portfolio committee should be improved as there was an overall stagnation in the audit outcomes. The portfolio committee should monitor progress quarterly against the annual performance plan and track the implementation of action plans to address previously identified audit findings.

The previous year's commitments to monitor progress against the annual performance plan and track the implementation of action plans quarterly to address previously identified issues were in progress.

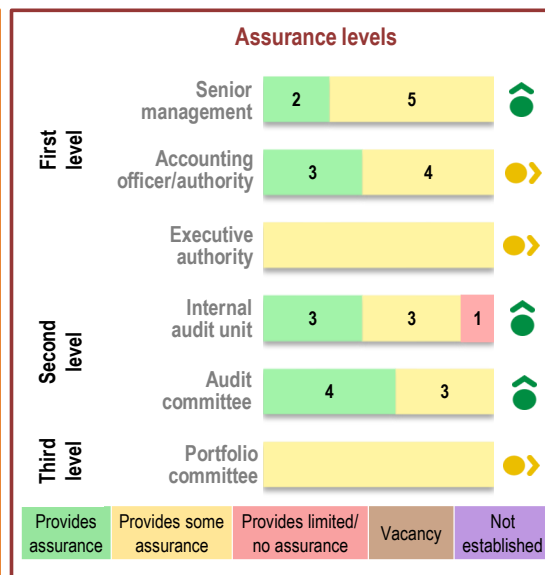
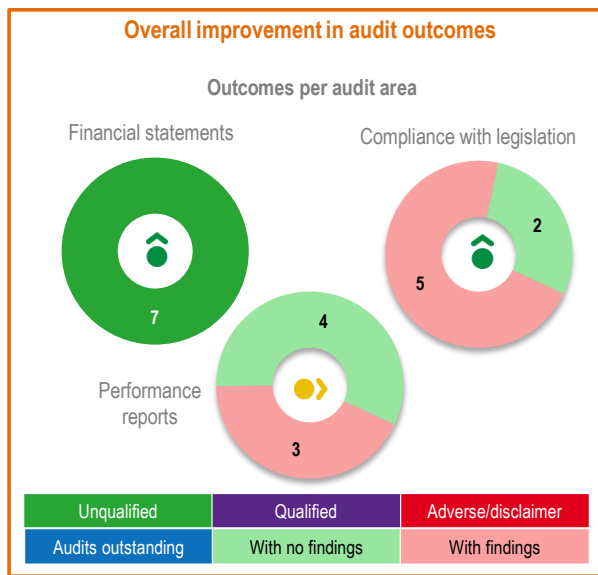
Entities included in the portfolio not audited by the Auditor-General of South Africa

We did not audit the following entities included in the portfolio of the minister

■ Industrial Development Corporation of SA(IDC) ■ Small Enterprise Finance Agency(SEFA).

The overall audit outcomes of these entities have remained the same as in the previous year. Both entities had an unqualified opinion with no findings.

Vote 29: Energy



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	7	0	0	5	2	0	5	2	0
Human resource controls	4	3	0	5	1	1	5	2	0
ICT governance and controls	1	6	0	4	2	1	4	3	0
Audit action plans	4	3	0	4	2	1	5	2	0
Proper record keeping	3	3	1	6	0	1	5	2	0
Daily and monthly controls	3	3	1	6	0	1	6	1	0
Review and monitor compliance	3	3	1	4	2	1	3	3	1



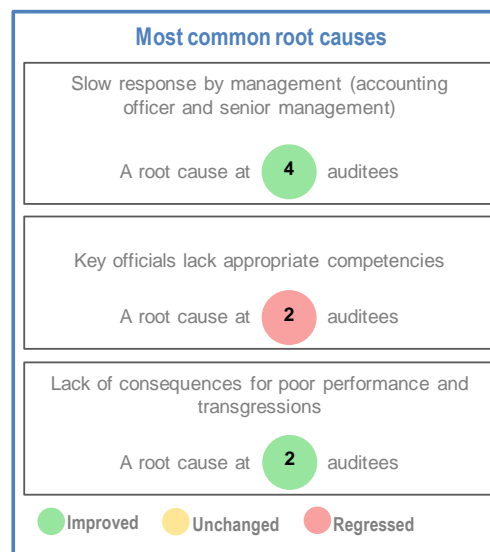
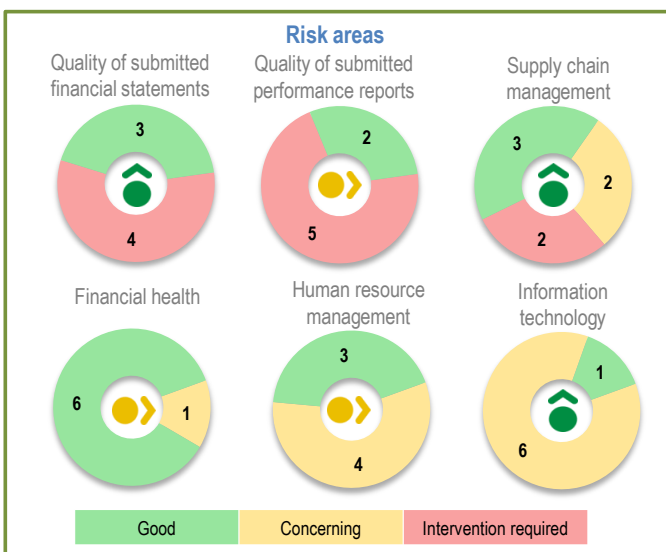
To improve/maintain the **audit outcomes** ...
... the **risk areas** and ...



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



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



Status of key commitments by minister

Improve the quality of quarterly financial reporting through proper review of financial information by the governance structures by means of internal audit.

Not implemented
 In progress
 Implemented
 New

Auditees included in the portfolio

- *Department of Energy (DOE)*
- *CEF SOC Limited (CEF)*
- *Equalisation Fund (EQF)*
- *National Energy Regulator of South Africa (NERSA)*
- *National Nuclear Regulator (NNR)*
- *The South African Nuclear Energy Corporation SOC Limited (NECSA)*
- *South African National Energy Development Institute (SANEDI)*

The budgeted expenditure for the department for the 2013-14 financial year was R6,5 billion. The main expenditure was transfer payments of R6 billion, goods and services of R186 million and employee cost of R229 million.

Overall audit outcome

The improvement in the overall audit outcome was caused by NERSA and NNR that moved from unqualified audit opinions with findings to clean audits and the EQF that moved from an adverse audit opinion to an unqualified audit opinion with findings.

The main findings arising from our audit, as reported in the audit reports, which should be addressed to improve the overall audit outcomes, are as follows:

Financial statements

We commend NERSA, NECSA and the NNR for submitting annual financial statements for auditing purposes that were free from material misstatement. The process followed by these entities should be shared throughout the portfolio.

The DOE, CEF, EQF and SANEDI submitted financial statements for auditing that contained material misstatements in the areas of non-current and current assets, non-current and current liabilities, loans and accruals, revenue and disclosure notes relating to prior period errors and commitments. There were several differences between the prepared annual financial statements and the actual accounting records as well as misclassification between the different accounts.

These entities received an unqualified audit opinion only because they corrected the material misstatements we identified during the auditing process.

The following controls should be strengthened to create and sustain a control environment that supports reliable financial reporting:

- Daily, weekly and monthly financial principles supported by valid documentation should be entrenched in financial activities systems and process, thus promoting a culture of clean administration
- Staff should be adequately trained to address developmental gaps and ensure that they are adequately skilled to perform their duties.

Annual performance report

The DOE and NERSA submitted annual performance reports for auditing that were free from material misstatements and had no material findings. These auditees should sustain this outcome and assist the portfolio to achieve the same through the establishment of CEO/CFO forums in the portfolio.

The published annual performance report of CEF and SANEDI included information on their performance against predetermined objectives that was not useful or reliable for the following programmes we had selected to audit:

Auditee	Programme/objective	Not useful	Not reliable
CEF	Objective 1: CEF will implement projects that contribute to security of energy supply	X	
	Objective 2: CEF activities will meet safety, health environmental, quality targets appropriate to the operating environment		x
SANEDI	Applied energy research	X	
	Energy efficiency	X	

NECSA and NNR submitted annual performance reports for auditing that contained material misstatements. They avoided material findings in their audit reports only because they corrected all the material misstatements we identified during the auditing process.

The EQF did not submit a performance report for auditing. The entity did not set any strategic objectives as it was still waiting for clarity from the National Treasury on whether or not they should prepare performance information.

The following controls should be strengthened to create and sustain a control environment that supports useful and reliable reporting on the performance of the portfolio.

- The leadership should implement performance reporting systems that are managed and led by competent personnel with strong technical skills.

Compliance with legislation

We identified material non-compliance with legislation by the DOE, NECSA and SANEDI in the following areas:

Transfer of funds:

- DOE: Business plans for the utilisation of the INEP conditional grants were not approved prior to the start of the financial year, as required by section 10(1)(a) of DoRA.

Procurement and contract management:

- SANEDI: Contracts were awarded to suppliers whose tax matters had not been declared to be in order by SARS and thus resulted in irregular expenditure.
- SANEDI and NECSA: Competitive bidding processes or request for three quotations was not always complied with and preferential procurement points were not applied.

Irregular expenditure incurred in the portfolio amounted to R1,617 million, with the CEF group being the largest contributor incurring R1,604 million. Irregular expenditure has increased significantly since the prior year and was as a result of non-adherence to SCM legislation identified during the audit.

The following controls should be strengthened to create a control environment that supports compliance with legislation:

- Appropriate training should be given to empower staff to perform their duties effectively.
- Monitoring and oversight of compliance with legislation, in particular legislation dealing with SCM.
- SCM-related record keeping should be improved to ensure that SCM decisions can be verified against SCM policies.

Root causes

The accounting officer, accounting authority and senior management should address the root causes of poor audit outcomes and inadequate controls as follows:

- Senior management should take immediate action and hold officials accountable for not adhering to the implemented internal controls.
- Proper consequence management for poor performance and transgressions should be implemented for all officials as part of performance management.
- Fill all the vacancies with people with the requisite skills, and provide training to address developmental gaps of existing staff.

Impact of key role players on audit outcomes

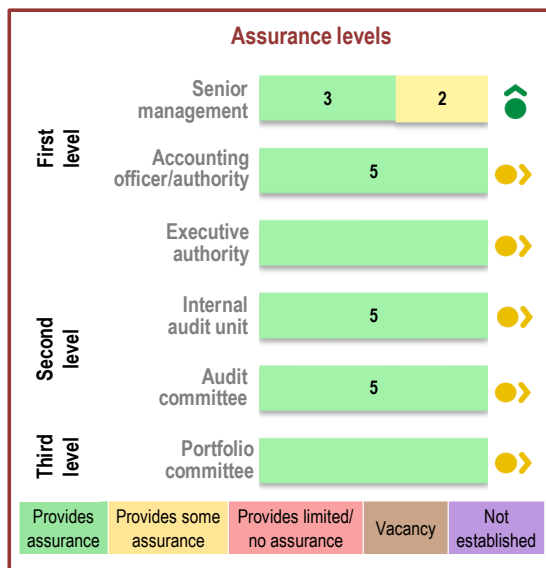
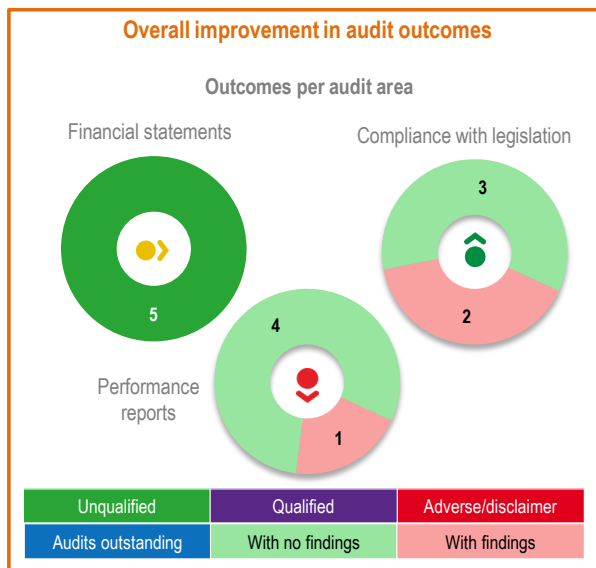
The first and second levels of assurance should be improved by ensuring stability at the level of accounting officer/authority and senior management within the portfolio. The internal audit units and audit committees should implement an effective and consistent method to follow up on actions taken to address audit findings relating to internal control weaknesses.

We met with the previous ministers three times in the past year and these interactions had some impact on the audit outcomes. The oversight by the minister in the portfolio is a concern, specifically in respect of the liability for decommissioning and decontamination of nuclear facilities at NECSA. This contributed to the assessed assurance provided by the minister.

Although the previous year's commitment is still in progress, it has gained momentum and has contributed positively to the improvement in the audit outcomes in the portfolio. We recommend that the leadership strive towards fully implementing this commitment by the end of the 2014-15 financial year.

The assurance provided through the oversight of the portfolio committee should be improved through timeous analysis of the strategic plans, annual reports and audit outcomes of the auditees in the portfolio.

Vote 30: Environmental affairs



Key controls

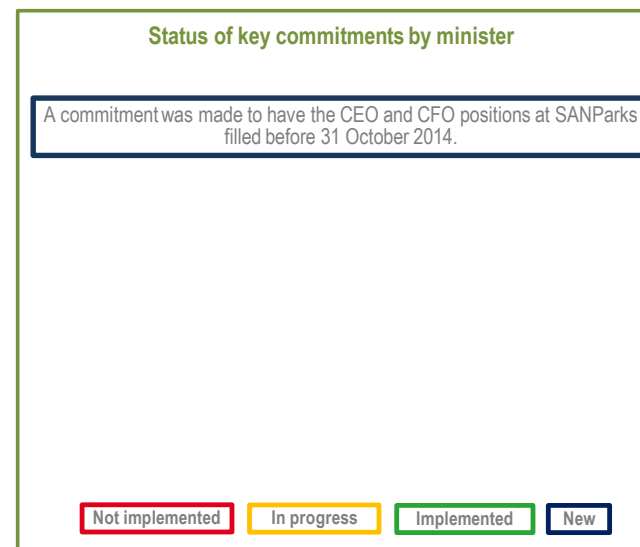
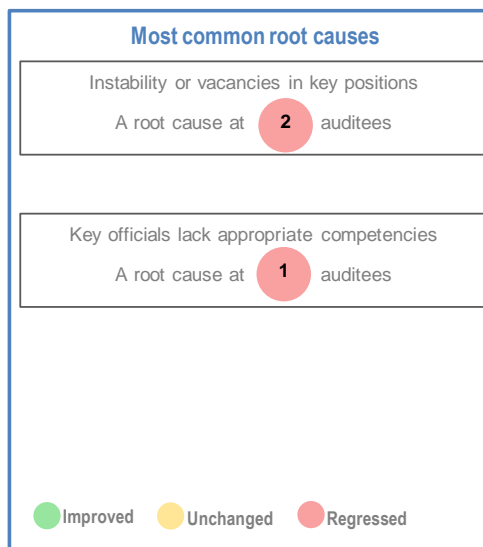
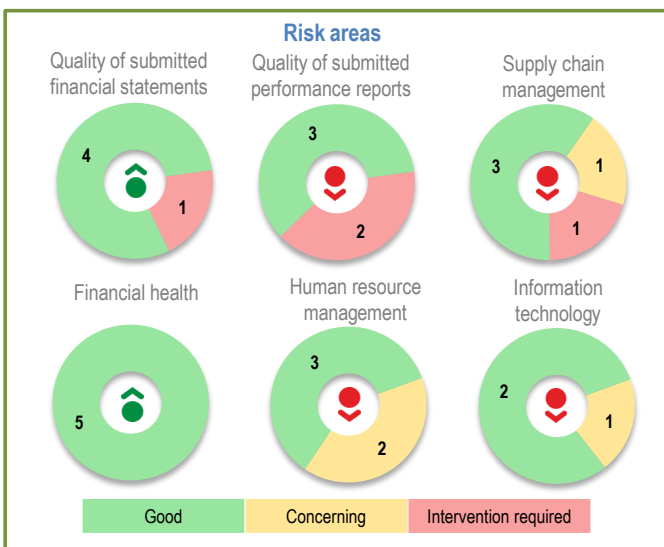
Audit areas

Key Control	Financial statements			Performance reports			Compliance with legislation		
	Good	Concerning	Intervention required	Good	Concerning	Intervention required	Good	Concerning	Intervention required
Effective leadership	5	0	0	5	0	0	5	0	0
Human resource controls	3	1	1	4	1	0	5	0	0
ICT governance and controls	1	3	1						
Audit action plans	5	0	0	5	0	0	5	0	0
Proper record keeping	4	1	0	4	0	1	5	0	0
Daily and monthly controls	4	1	0	5	0	0	5	0	0
Review and monitor compliance	5	0	0	5	0	0	3	2	0

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To improve/maintain the **audit outcomes** ...
... the **risk areas** and ...
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Auditees included in the portfolio

■ Department of Environmental Affairs (DEA) ■ iSimangaliso Wetland Park Authority ■ South African National Biodiversity Institute (SANBI) ■ South African National Parks (SANParks) ■ South African Weather Service (SAWS)

The total budgeted expenditure for the Department of Environmental Affairs was R5,2 billion for the 2013-14 financial year. The main expenditure was in respect of employee cost (R662 324 000), goods and services (R874 996 000), transfer payments (R3 447 747 000) and capital expenditure (R221 775 000).

Overall audit outcome

The net improvement in the overall audit outcome is due to the DEA and SANBI improving to financially unqualified with no findings after addressing previous findings on material compliance with legislation. SANParks' audit outcome regressed, as they had material findings on their annual performance report and compliance with legislation. SAWS did not improve their audit outcome, as they failed to prevent material findings on compliance with legislation. iSimangaliso Wetland Park Authority maintained its clean audit opinion.

The main findings arising from our audit, as reported in the audit reports, which should be addressed to improve the overall audit outcomes, are as follows:

Financial statements

SANParks submitted financial statements for auditing that contained material misstatements in the areas of non-current assets, liabilities, revenue and disclosure items. SANParks received an unqualified audit opinion because they corrected all the misstatements identified during the audit process.

The following control should be strengthened to support reliable financial reporting:

- SANParks should fill the vacant CFO position.

Annual performance report

The published annual performance report of SANParks was not reliable for objective 4: Growing societal support and providing access and benefit sharing, objective 5: Promoting customer focused responsible tourism, objective 7: Improving conservation estate and objective 9: Promoting research and development.

SAWS submitted an annual performance report for auditing that contained material misstatements. They avoided material findings in their audit report only because they corrected all the misstatements identified during the audit process.

The following control should be strengthened to support useful and reliable reporting on the performance of SANParks and SAWS:

- Management should regularly undergo training to adequately review the annual performance report for accuracy, validity and completeness.

Compliance with legislation

We identified material non-compliance with legislation at SANParks and SAWS in the following areas:

- SANParks did not implement proper control systems to safeguard and maintain assets and they did not maintain an effective, efficient and transparent system and internal controls regarding performance management.
- SAWS accepted quotations from bidders who had not submitted a declaration on whether they are employed by the state or are connected to any person employed by the state, as their policy was not appropriately aligned.

Root causes

The minister should address the root causes and inadequate controls as follows:

- Address instability by ensuring that vacancies in key positions are filled.

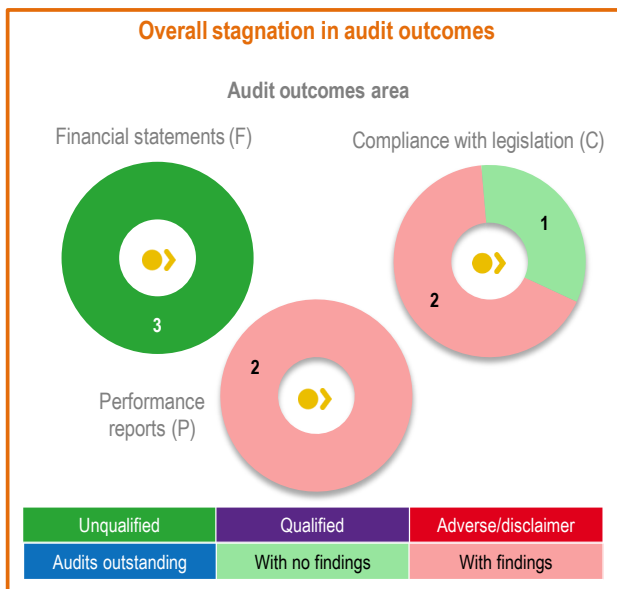
The CEOs and CFOs should address root causes and inadequate controls as follows:

- Ensure that key officials at SAWS have the appropriate competencies.

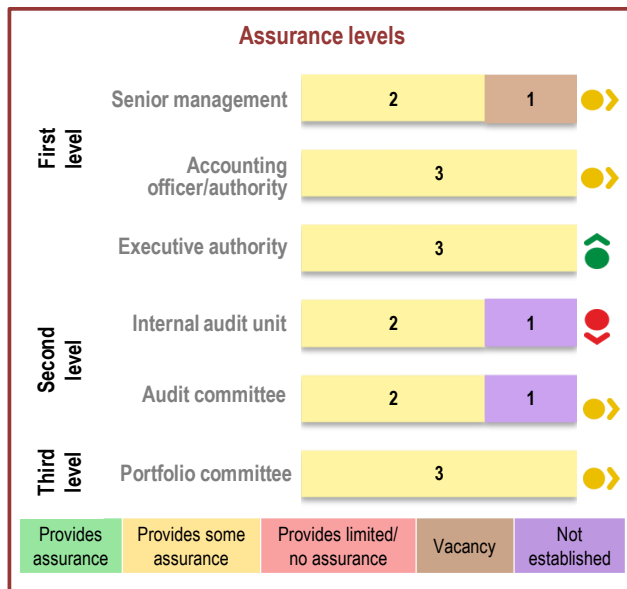
Impact of key role players on audit outcomes

The first and second levels of assurance should be improved by ensuring stability at the level of CEO and senior management. We met with the minister twice in the past year, which impacted the audit outcomes as the DEA and SANBI improved. Furthermore, the assurance provided through the oversight of the portfolio committee should be maintained.

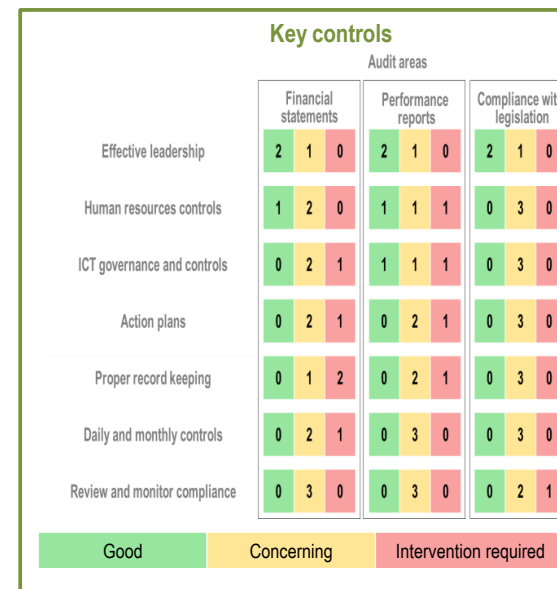
Vote 31: Human settlements



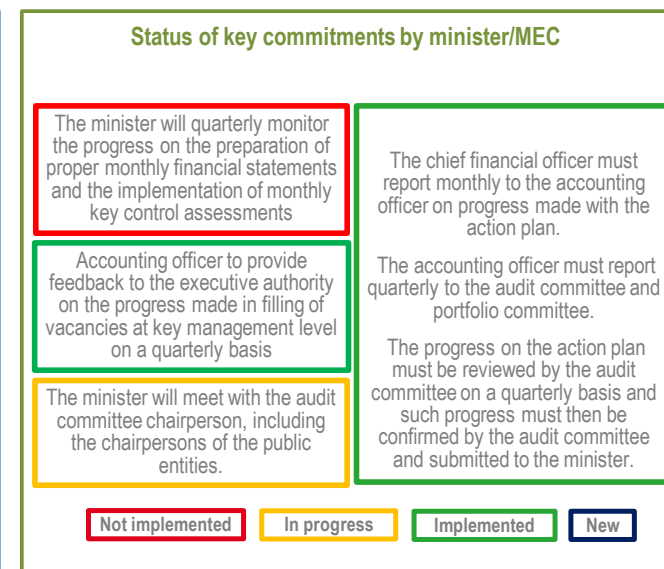
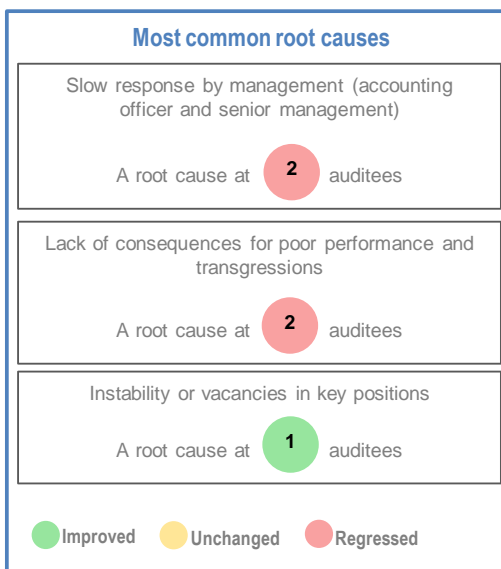
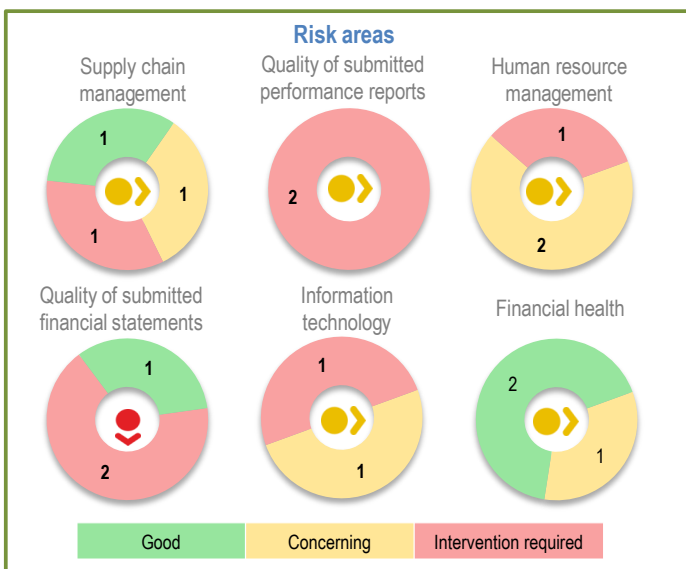
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To improve the **audit outcomes** ...
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Auditees included in the portfolio audited by the Auditor-General of South Africa

■ National Department of Human Settlements (NDHS)

■ Community Scheme Ombud Service (CSOS)

■ National Home Builders Registration Council (NHBRC)

The department's budgeted expenditure for the 2013-14 financial year was R28,3billion. The main expenditure was:

Employee cost	R363 million
Goods and services	R409,5 million
Transfer payments	R27 billion
Capital expenditure	R111 million.

Overall audit outcome

The lack of improvement in the overall audit outcome was caused by the slow response of the NDHS and NHBRC leadership and senior management in addressing deficiencies in internal controls identified by internal and external audit. The outcomes of both entities remained financially unqualified with findings on predetermined objectives and compliance with legislation.

The audit outcome of CSOS was included in the portfolio for the first time in the current period. The entity had limited operations in 2013-14 and obtained a financially unqualified opinion with no findings on predetermined objectives and compliance with laws and regulations.

The main findings from our audit were reported in the audit reports and need to be addressed to improve the overall audit outcomes. They are as follows:

Financial statements

The NDHS submitted financial statements for auditing that contained material misstatements in the areas of accruals, commitments, lease commitments and immovable assets. The NDHS received an unqualified audit opinion only because it corrected all the material misstatements we identified during the auditing process.

The following controls should be strengthened to create a control environment that supports reliable financial reporting:

- Financial systems and controls should be implemented and maintained monthly to ensure that regular, accurate and complete financial statements with full disclosure notes can be compiled.

- The schedules/registers prepared in support of the financial statements should be adequately reviewed by the responsible manager prior to submission.
- Staff involved in preparing financial statements should receive regular training to ensure that they understand the requirements of, and updates to, the financial reporting framework.

Annual performance report

The published annual performance reports of the NDHS and the NHBRC included information on their performance against predetermined objectives that was not useful and/or reliable for the following programmes we had selected to audit:

Auditee	Programme	Not useful	Not reliable
NDHS	Programme 2: Human settlements policy, research and monitoring	x	X
	Programme 3: Programme delivery support	x	X
	Programme 4: Housing development finance	x	X
NHBRC	Programme A: Home builders registration and renewals		X
	Programme B: Home enrolments		X
	Programme C: Compliance		X
	Programme D: Training		X
	Programme E: Inspections		X

The following controls should be strengthened to create a control environment that supports useful and reliable reporting on the performance of the portfolio.

- The NDHS should develop technical indicator descriptions to accurately measure, record and monitor the performance of all planned targets.
- Documented standard operating procedures should be developed and implemented for all planned targets to accurately record actual achievements

and the maintenance of complete and reliable evidence to support reported achievements should.

- Vacancies in key positions within the strategy and planning unit at NDHS should be filled by individuals with the necessary competencies.

Compliance with legislation

We identified material non-compliance with legislation by the NDHS and the NHBRC in the following areas:

- NDHS did not maintain effective, efficient and transparent systems of internal control for performance information.
- Funded vacant posts at NDHS were not filled within 12 months.
- Human resource planning, based on the strategic plan of NDHS with a view to meeting the human resource needs, was not completed and approved.
- NHBRC did not take reasonable steps to prevent irregular expenditure.
- The procurement processes of the NHBRC were not always fair, transparent and equitable as required by the Treasury regulations.
- The NHBRC did not take effective steps to collect all money due to it in a timely manner.

The supply chain management risk has remained unsatisfactory at the NHBRC and resulted in material non-compliance with legislation and significant amounts of irregular expenditure.

NHBRC incurred irregular expenditure of R130,4 million, which was 99% of the total amount incurred by the human settlements portfolio. The public entity did not detect R 25,9 million (20%) of this irregular expenditure, which was identified during the audit process. The root cause of this lack of effective prevention and detection was the misinterpretation and/or circumvention of treasury regulations.

The following controls should be strengthened to create a control environment that supports compliance with legislation:

- Mechanisms that identify applicable legislation and changes must be developed. Training must be provided to all supply chain management staff to ensure compliance.
- Consequence management in respect of repeat transgressors must be enforced.

Root causes

The accounting officers, chief financial officers and chief audit executives of the NDHS and NHBRC should address the root causes of the lack of progression towards clean administration as follows:

- Prepare monthly financial statements with all relevant disclosure notes to eliminate material corrections to the financial statements submitted for audit purposes. Management and those charged with governance must adequately review the financial statements and supporting schedules.
- Implement adequate controls to properly review and monitor compliance with laws and regulations, mainly in the area of supply chain management, to ensure that irregular expenditure is prevented. Appropriate and prompt action must be taken against transgressors.
- Progress on the action plans to address deficiencies, should be reviewed quarterly by internal audit and the progress must be confirmed by the audit committee and submitted to the minister.
- Accounting officers/authorities should provide quarterly feedback to the minister on the progress made in filling vacancies at key management level.

Impact of key role players on audit outcomes

The first and second levels of assurance should be improved by ensuring the timely implementation of appropriate action plans to address the previous year's findings and monitoring those regularly to prevent repeat findings. The accounting officers should direct the work of the internal audit units towards evaluating the usefulness and reliability of performance information as far as possible. The accounting officers should ensure that a culture of high performance is established by holding poor performing employees and transgressors accountable.

We met with the previous minister twice in the past year and maintained a correspondence. These interactions had a minimal impact on the audit outcomes. The reason for our assessment was the minister's limited time in the role and the prevalence of repeat findings reported for the NDHS and the NHBRC in the current year. The repeat findings were due to commitments made on key focus areas pertaining to the department, such as sanitation and performance information, not being followed up. This assessment, the lack of impact of the minister on the controls of the auditees as well as the status and impact of the commitments contributed to the assessed assurance provided by the previous minister.

The previous year's commitments by the minister to meet with the audit committee chairperson and the chairpersons of the public entities were in progress; however, the commitment to monitor the progress on the preparation of proper monthly

financial statements and the implementation of monthly key control assessments has not yet been implemented.

The assurance provided through the oversight of the portfolio committee should be improved. The portfolio committee must direct its focus toward repeat findings at the auditees. Focus must also be placed on the lack of appropriate action against repeat transgressors.

Risks to service delivery

The minister should address the following matters, which could affect the service delivery responsibilities in the portfolio:

- The management of budgets and projects should be improved to ensure that funds appropriated for infrastructure projects are used on time.
- The spending and performance of entities and provincial departments in the portfolio should be monitored more rigorously to ensure that funds are reallocated from underperforming departments and entities in a timelier manner.

Entities included in the portfolio not audited by the Auditor-General of South Africa

We did not audit the following entities included in the portfolio of the minister:

- *Estate Agency Affairs Board (EAAB)* ■ *Housing Development Agency (HDA)*
- *National Housing Finance Corporation Ltd (NHFC)* ■ *National Urban Reconstruction & Housing Agency (NURCHA)* ■ *Rural Housing Loan Fund (RHLF)*
- *Servcon Housing Solutions (Pty) Ltd* ■ *Social Housing Foundation (SHF)*
- *Social Housing Regulatory Authority (SHRA)* ■ *Thubelisha Homes*

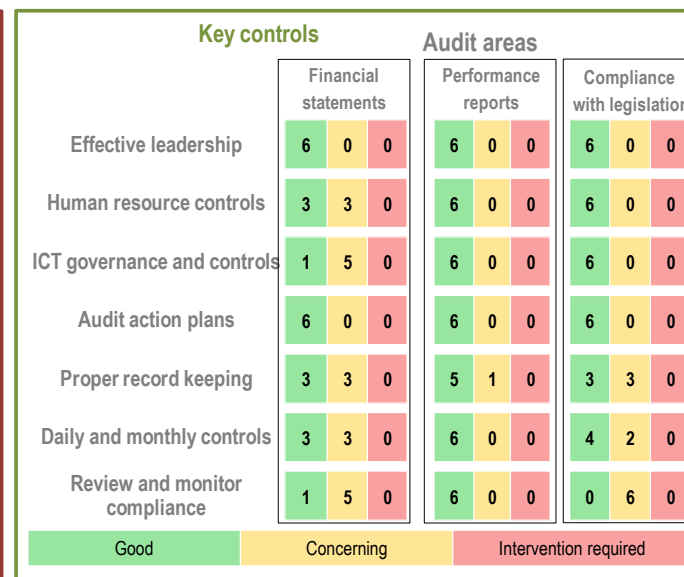
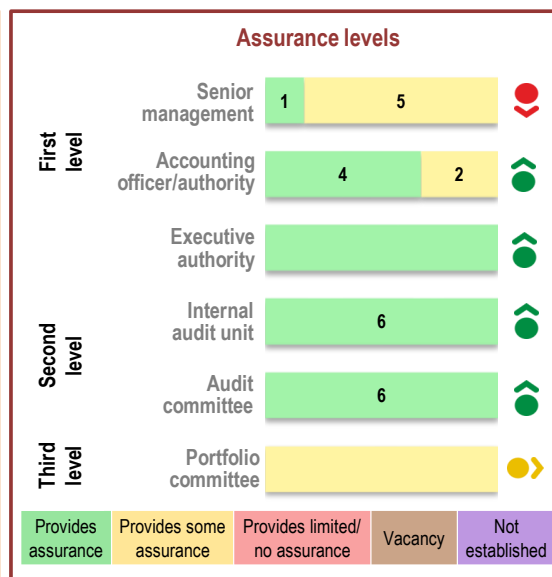
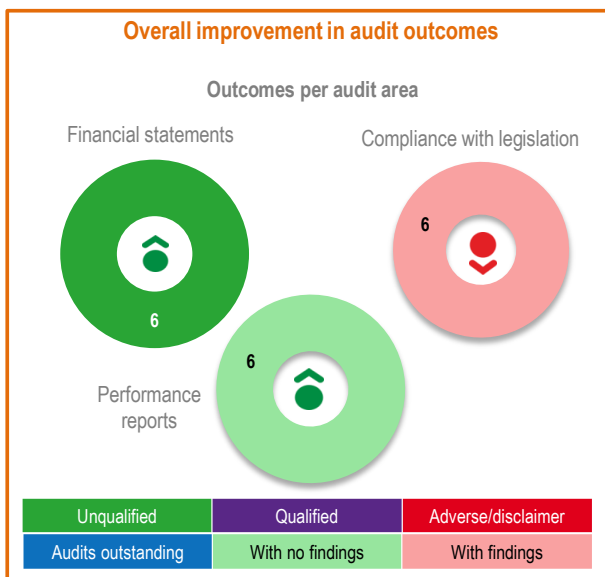
The overall audit outcomes of these entities have remained the same as in the previous year. The audit outcomes were as follows:

- The financial statements of eight auditees (EAAB, HDA, NHFC, NURCHA, RHLF, SHF, SHRA and Thubelisha Homes) received an unqualified opinion in both the current and previous years.
- Seven auditees (78%) (HDA, NHFC, NURCHA, RHLF, SHF, SHRA and Thubelisha Homes) had no material findings on the quality of the annual performance reports in both the current and previous years.
- Five auditees (56%) (HDA, NHFC, RHLF, SHF and Thubelisha Homes) had no material findings on compliance with legislation in both the current and previous years.
- The Estate Agency Affairs Board and the National Urban Reconstruction and Housing Agency have regressed in this regard, incurring material non-compliance with legislation.

The audit outcome of Servcon Housing Solutions (Pty) Ltd was not finalised by 31 August 2014 for the inclusion of its audit outcomes in this report.

Servcon and Thubelisha Homes are currently in the process of liquidation. The liquidation process, however, is protracted and requires urgent attention to conclude.

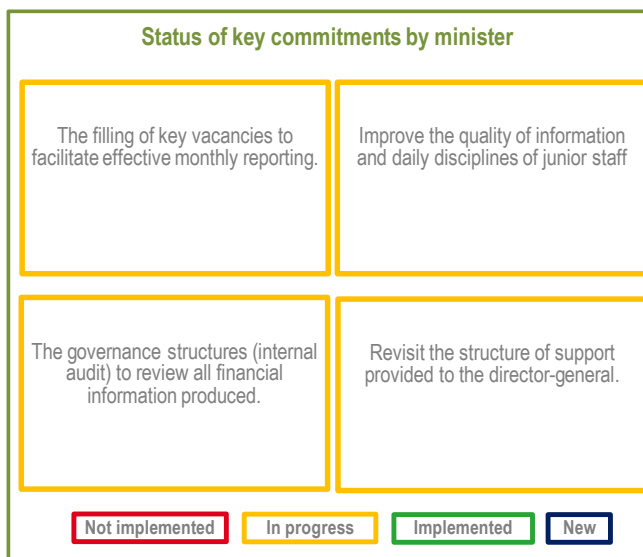
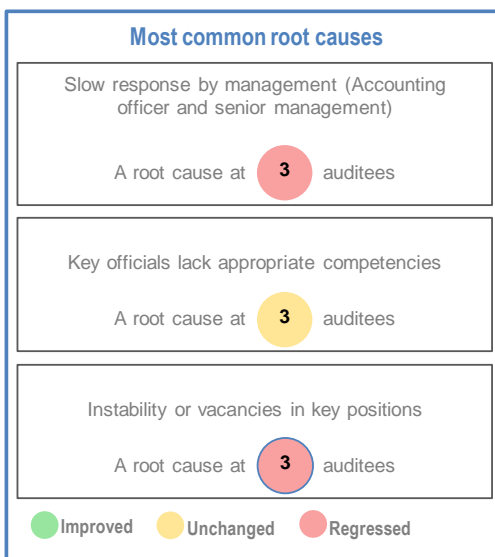
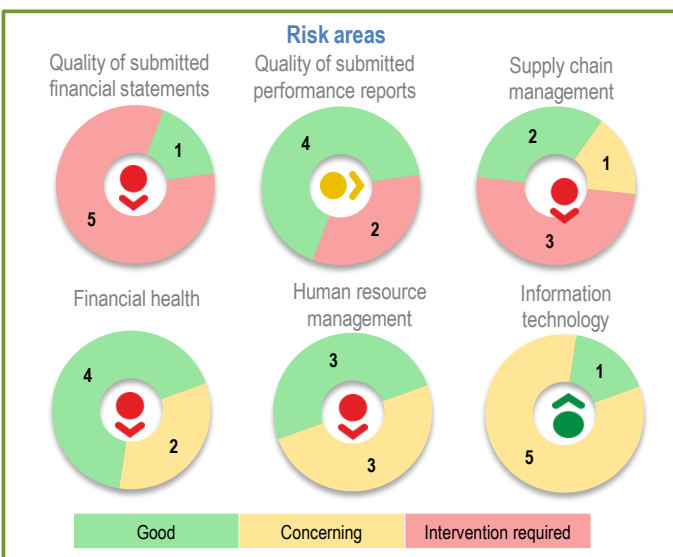
Vote 32: Mineral resources



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To improve/maintain the **audit outcomes** ...
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Auditees included in the portfolio

- *Department on Mineral Resources*
- *Council for Geoscience (CGS)*
- *Council for Mineral Technology (MINTEK)*
- *Mine Health and Safety Council (MHSC)*
- *South Africa Diamond and Precious Metals Regulator (SADPMR)*
- *State Diamond Trader (SDT)*

The budgeted expenditure for the department for the 2013-14 financial year was R1,4 billion. The main expenditure was goods and services of R250 million, employee cost of R435 million and transfer payments of R688 million.

Overall audit outcome

There was one significant improvement in the portfolio in that the Department of Mineral Resources moved from a qualified opinion to unqualified with findings on compliance with laws and regulations. However, MINTEK, and SADPMR regressed due to the fact that the financial statements submitted for auditing contained material misstatements. The SDT regressed because it incurred irregular expenditure. The remainder of the portfolio remained unchanged due to their failure to implement controls to ensure compliance with laws and regulations and prepare financial statements that are free of material misstatements.

The main findings from our audit, as reported in the audit reports, which should be addressed to improve the overall audit outcomes, are as follows:

Financial statements

All the entities in the portfolio, except for the SDT, submitted financial statements for auditing that contained material misstatements. They received an unqualified audit opinion only because they corrected all the misstatements we identified during the audit.

The following controls should be strengthened to create a control environment that supports reliable financial reporting:

- Prepare monthly financial statements with all relevant disclosure notes that are supported and evidenced by reliable information.
- Establish proper record keeping so that records supporting financial information can be made available when required for auditing purposes.
- IT systems should be tailored to the needs of the business to assist in the compilation of accurate financial statements, thereby reducing reliance on manual processes to support the figures in the financial statements.

Annual performance report

Although the published annual performance reports for all the entities in the portfolio included information on their performance against predetermined objectives that was useful and reliable, the DMR and CGS submitted annual performance reports for auditing that contained material misstatements. They avoided material findings in their audit reports only because they corrected all the misstatements we identified during the audit.

The following controls should be strengthened to create a control environment that supports useful and reliable reporting on the performance of the portfolio:

- The auditees should define up-front which supporting documentation will be required and by when. The internal audit unit should perform an independent verification of the validity, accuracy and completeness of reported information.
- The leadership should establish and communicate policies and standard operating procedures to enable and support an understanding and execution of internal control objectives, processes and responsibilities. These should be clear and unambiguous so that any new person coming into the organisation can clearly understand what the task at hand entails.

Compliance with legislation

We identified material non-compliance with legislation in the following areas:

Procurement and contract management:

- MINTEK: Sufficient, appropriate audit evidence could not be obtained that contracts were awarded to suppliers whose tax matters had been declared by SARS to be in order, as required by the *Preferential procurement regulations*.
- The CGS, MINTEK and SDT: Services were not procured through a procurement process which was fair, equitable, transparent and competitive, as required by the PFMA.

Expenditure management

- The CGS, MINTEK, MHSC and SDT did not take reasonable steps to prevent irregular expenditure.

Total irregular expenditure incurred in the portfolio amounted to R7,4 million, with CGS being the largest contributor to irregular expenditure in the portfolio, incurring R4,89 million. The irregular expenditure has increased when compared to the prior year and was as a result of non-compliance with SCM legislation identified during the audit.

The following controls should be strengthened to create a control environment that supports compliance with legislation:

- Review and monitor compliance with applicable laws and regulations through the use of compliance checklists that must be signed off.
- The impact of non-compliance with laws and regulations should be clearly explained and internalised by all involved in the SCM environment. Changes in legislation should be adequately identified and the impact addressed as soon as the legislation is promulgated.
- Independent reviews should be performed on all strategic procurement projects where all procurement files should be assessed on a cyclical basis for compliance with laws and regulations and policies.
- SCM-related record keeping should be improved to ensure that SCM decisions can be verified against the SCM policy. In addition, consequence management should be applied for all SCM transgressions.

Root causes

The executive authority, accounting officer/authorities of the auditees should address the root causes of poor audit outcomes and inadequate controls as follows:

- Senior management should take immediate action and hold officials accountable for not adhering to the implemented internal controls.
- Fill all vacancies with people with requisite skills, and provide training to address development gaps of existing staff.
- Ensure that the portfolio has adequate skills and resources to report and monitor appropriately and effectively in terms of financial and service delivery.

Impact of key role players on audit outcomes

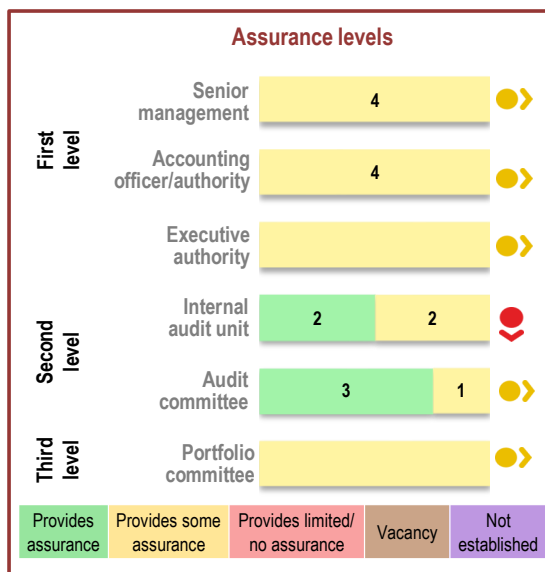
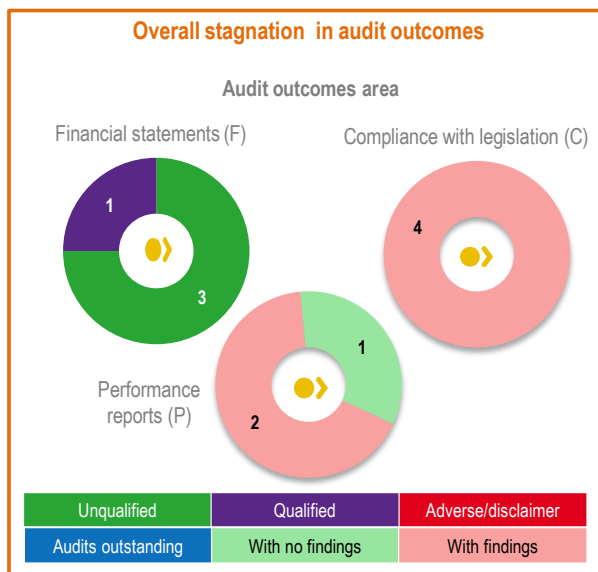
The first and second levels of assurance should be improved by ensuring stability at the level of senior management at the department. The internal audit units and audit committees should implement an effective and consistent method to follow up on actions taken to address audit findings relating to internal control weaknesses.

We met with the previous minister three times in the past year and these interactions had a significant impact on the outcome of the DMR. This assessment, as well as the effective oversight exercised by the minister in the portfolio, contributed to the assessed assurance provided by the minister.

Although the previous year's commitments are still in progress, they have gained momentum and have contributed positively to the improvement in the audit outcomes in the portfolio. We recommend that the leadership strive towards fully implementing these commitments by the end of the 2014-15 financial year.

The assurance provided through the oversight of the portfolio committee should be improved through the timeous analysis of the strategic plans, annual reports and audit outcomes of the auditees in the portfolio.

Vote 33: Rural development and land reform



Key controls

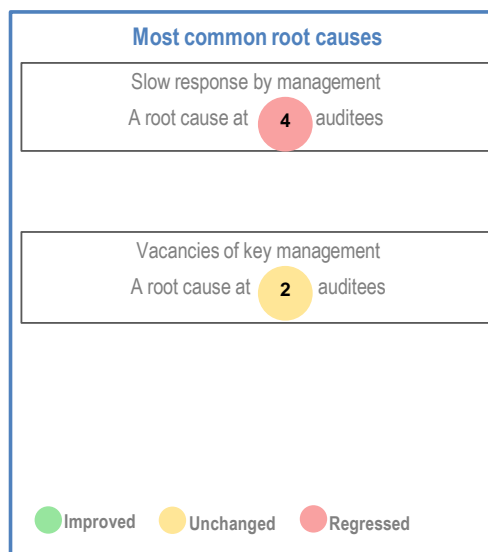
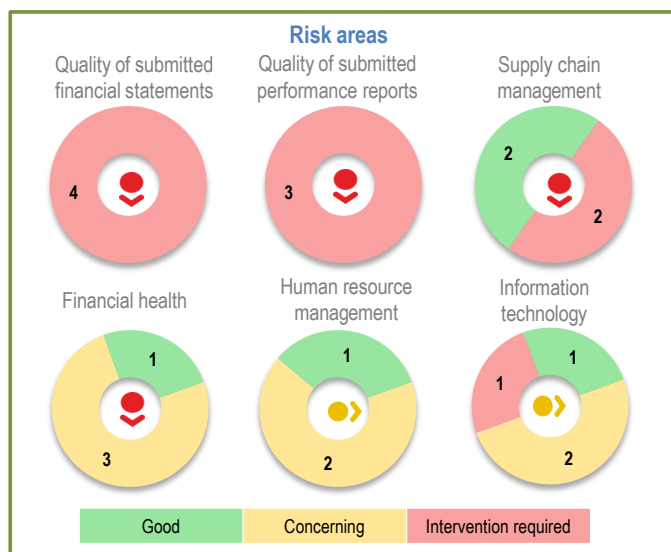
Control Area	Financial statements			Performance reports			Compliance with legislation		
	Good	Concerning	Intervention required	Good	Concerning	Intervention required	Good	Concerning	Intervention required
Effective leadership	2	2	0	1	2	0	2	2	0
Human resource controls	1	2	0	2	1	0	2	1	0
ICT governance and controls	1	2	1	0	0	0	0	0	0
Audit action plans	1	2	1	1	2	0	1	2	1
Proper record keeping	1	3	0	1	2	0	1	3	0
Daily and monthly controls	1	2	1	1	2	0	2	2	0
Review and monitor compliance	2	2	0	2	1	0	2	2	0

Legend: Good (Green), Concerning (Yellow), Intervention required (Red), Not assessed (Grey).

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To improve the **audit outcomes** ...
... the **risk areas** and ...
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... the key role players need to **assure** that ...
... the **root causes** are addressed ...
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... attention is given to the **key controls** and ...
... and the **commitments** are honoured.
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Status of key commitments by minister

Ensure that internal audit function is fully staffed. This will also assist in ensuring that credibility checks are performed on all financial and performance information submitted by management to the different stakeholders.	Draft and implement new operational and financial policies to help the department to mitigate risks, detect and prevent irregularities and safeguard assets and records.
Develop the strategic plans for 2011-2015 financial years using the new planning framework, ensuring that the department-wide objectives are clearly defined, that risks associated with each objective will be defined and that it will be controlled throughout the financial year.	Develop action plans to address weaknesses in internal controls and to sustain existing controls.
	Reduce vacancy rate by filling vacancies in key management positions.
	Implement effective project management to avoid irregular expenditure incurred by the department.

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

Auditees included in the portfolio

■ *Department of Rural Development and Land Reform (DRDLR)* ■ *Agricultural Land Holding Account (ALHA)* ■ *Ingonyama Trust Board (ITB)* ■ *Reg. of Deeds Trading Account (Deeds)*

The department's budgeted expenditure for the 2013-14 financial year was R9,4 billion. The following were the main expenditure categories budgeted for:

Transfer payments	R4,8 billion
Goods and services	R2,6 billion
Compensation of employees	R1,9 billion
Payments for capital assets	R40,8 million

Overall audit outcome

The lack of improvement in the overall audit portfolio outcome was caused by the ITB again receiving a qualified opinion, and all four auditees not addressing past material findings on compliance with legislation. Additionally, Deeds did not address past material findings on its performance report and the ITB had new material findings on its performance report.

The main findings, as reported in the audit reports, which should be addressed to improve the overall audit outcomes, are as follows:

Financial statements

The published financial statements of Ingonyama Trust Board included the following material misstatements:

- Ingonyama Trust Board did not recognise the land at fair values as at the date of acquisition. We could not determine the correct fair value of land as it was impractical to do so.
- Royalties received from the mining operators were incorrectly recognised as revenue by the entity.

The Department of Rural Development and Land Reform, Agricultural Land Holding Account and the Reg. of Deeds Trading Account submitted financial statements for auditing that contained material misstatements in the areas of transfer payments, good and services, compensation of employees, lease commitments, related party disclosures, immovable assets, movable assets, intangible assets, commitments, lease debtors, provisions, accruals and irregular expenditure. The Department of Rural Development and Land Reform, Agricultural Land Holding Account and the Reg. of Deeds Trading Account received an unqualified audit opinion only because they corrected all the misstatements we identified during the auditing process.

The following controls should be strengthened to create a control environment that supports reliable financial reporting:

- Exercise oversight responsibility of financial statement reporting and improving the implemented internal monitoring controls to ensure credible financial reporting (this should also ensure the department's readiness when the immovable asset guide's interim arrangements are no longer applicable)
- Design and implement daily controls to enable the preparation of credible monthly financial statements with disclosure notes.
- Draft, implement and monitor action plans that will ensure effective risk management relating to the preparation of financial statements.

Annual performance report

The published annual performance reports of the Deeds Registration Account and Ingonyama Trust Board included information on their performance against predetermined objectives that was not useful and reliable for the following programmes and/or objectives we had selected to audit.

Auditee	Programme/objective	Not useful	Not reliable
Reg. of Deeds Trading Account	Geospatial and cadastral services Indicator: Operational E-Cadastre	x	
Ingonyama Trust Board	Objective 1 – To administer Ingonyama Trust Land	x	x

The Department of Rural Development and Land Reform submitted an annual performance report that contained material misstatements. The department avoided material findings in its audit report only because it corrected all the misstatements that we identified during the auditing process.

The following controls should be strengthened to create a control environment that supports useful and reliable reporting on the performance of the portfolio:

- Draft, implement and monitor action plans that will address implementation of internal controls to ensure that collection, collating and reporting of predetermined objectives are complete and accurate on a quarterly basis. This will enforce management's commitment to improving performance reporting.

Compliance with legislation

We identified the following material non-compliance in the portfolio:

- The Department of Rural Development and Land Reform, Agricultural Land Holding Account and Reg. of Deeds Trading Account did not take reasonable steps to prevent irregular, fruitless and wasteful expenditure.
- The Department of Rural Development and Land Reform did not maintain an effective, efficient and transparent system of internal control regarding predetermined objectives.
- The Agricultural Land Holding Account did not take effective and appropriate steps to collect all money due to the entity.
- The Reg. of Deeds Trading Account did not always follow competitive bidding processes and did not have an approved human resource plan.

The Department of Rural Development and Land Reform incurred R12,65 million in irregular expenditure, which was 68% of the total amount of R18,6 million incurred by the total portfolio. The irregular expenditure incurred in the current financial year was as a result of the contravention of SCM legislation and *Treasury regulations* relating to payments made without approval. The department identified 34% of the irregular expenditure. The amount of irregular expenditure incurred in the previous year was R7,9 million relating to contravention of SCM legislation, which was 66% of the total amount of R12 million incurred by the portfolio.

The Reg. of Deeds Trading Account did not comply with the prescribed SCM procurement processes, resulting in R5,95 million of irregular expenditure incurred by the entity. This represents a 44% increase when compared to the R4,1 million incurred in the previous year.

The following controls should be strengthened to create a control environment that supports compliance with legislation:

- Develop processes and procedures in order to monitor compliance with legislation before entering into any transactions.
- Officials should be held accountable for non-compliance with laws and legislation.

Root causes

The executive authority, accounting officer and senior management should address the root causes of poor audit outcomes and inadequate controls as follows:

- Action plans should be monitored quarterly to address reported findings. Reasons for not implementing actions plans should be followed up.

- Implement effective human resource management processes to ensure that vacancies of key management are filled.

Impact of key role players on audit outcomes

The senior management, internal audit unit and audit committee should ensure quicker responses to addressing root causes identified and implementation of recommendations made by external and internal audit.

We met with the minister once in the past year and this interaction had a positive impact on the audit outcomes. The reason for our assessment was based on the fact that although the portfolio remained more or less the same in terms of overall audit outcomes, some improvement was made in certain areas of the portfolio, specifically relating to the department's annual performance report. The impact of the minister on the controls of the auditees as well as the status and impact of the commitments contributed to the assessed assurance provided by the minister.

The assurance provided through the oversight of the portfolio committee should be improved. The previous year's commitments as listed below were in progress and new commitments have not yet been agreed with the new portfolio committee. The commitments made in the previous years that have not yet been fully addressed and are therefore carried over to the following year are as follows:

- Ensure that the internal audit function is fully staffed.
- The strategic plans for 2011 – 2015 financial years to be developed using the new planning framework, ensuring that the department-wide objectives are clearly defined, risks associated with each objective will be defined, and it will be controlled throughout the financial year.
- Develop action plans to address weakness in the system of internal controls and to give progress reports quarterly.
- Improve on record keeping, management of information system support, communication of processes and procedures in order to enhance decision making, performance reporting and the ability to meet strategic objectives efficiently and effectively.

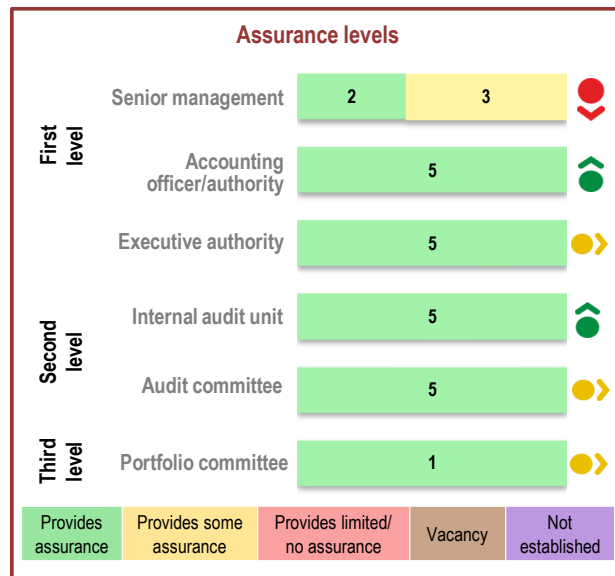
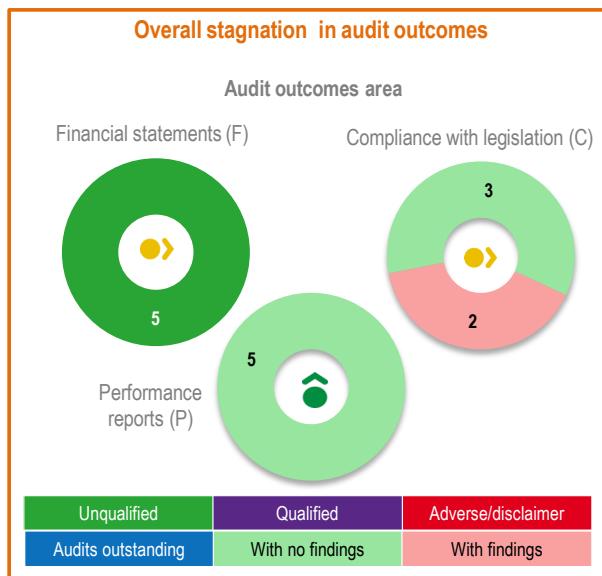
Risks to financial health and service delivery

The accounting officer and senior management should address the following matters, which could affect the financial health and service delivery monitoring in the portfolio:

- We were unable to confirm that some of the consultant's performances were monitored. This might impact service delivery considering that the department engaged consultants to assist with IT-related services and other services because of lack of competency and staff capacity.

The Department of Rural Development and Land Reform, Agricultural Land Holding Account, Ingonyama Trust Board should improve the management of debt-collection period in order to ensure that money owed is collected in a timeous manner and impairments minimised.

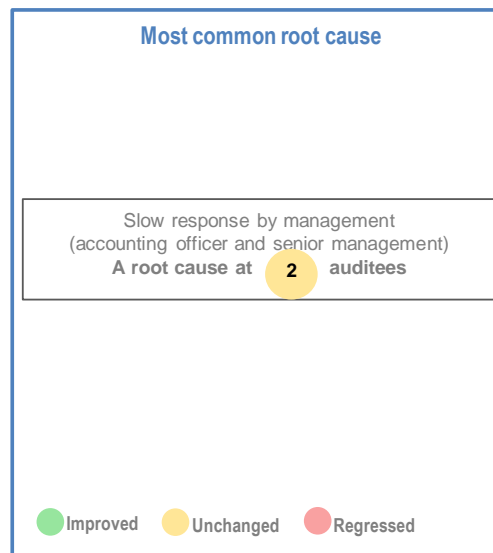
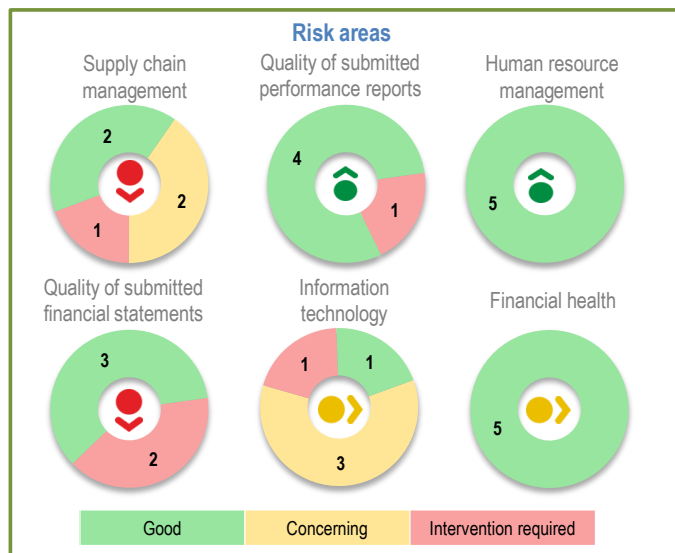
Vote 34: Science and technology



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To improve the **audit outcomes** ...
... the **risk areas** and ...
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... the key role players need to **assure** that ...
... the **root causes** are addressed ...
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... attention is given to the **key controls** and ...
... and the **commitments** are honoured.
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Status of key commitments by minister

(1) To ensure that IT controls are implemented (policies and procedures have been approved and a CIO has already been appointed at the department); (2) During all the quarterly meetings the minister committed to follow up on the performance information findings for the department on an ongoing basis; (3) To make sure that the department and its entities comply with the National Treasury requirements on reporting on predetermined objectives, that management performs proper monitoring during planning to ensure compliance to National Treasury framework and to obtain feedback on a quarterly basis.

(1) Monthly monitoring of the dashboard by management and updating the minister on a quarterly basis on the improvement and actions taken to improve on the controls thereof; (2) A checklist to be implemented on the requirements of the SCM process must be completed with regards to all tenders, quotes and deviations. Internal audit to audit the process to ensure compliance.

(1) To ensure that management does proper monitoring during planning to ensure compliance with the National Treasury's framework and to obtain feedback on a quarterly basis.

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

Auditees included in the portfolio audited by the Auditor-General of South Africa

- Department of Science & Technology (DST)
- African Institute of SA (AISA)
- Council for Scientific & Industrial Research (CSIR)
- Human Science Research Council (HSRC)
- National Research Foundation (NRF)

The budgeted expenditure for the department for the 2013-14 financial year was R6 billion. The main budgeted expenditure was in respect of compensation for employee (R251 million), goods and services (R163 million), transfer payments (R5,8 billion) and payments of capital assets (R30 million).

Overall audit outcome

The outcomes of the portfolio generally remained unchanged. The NRF, CSIR and HSRC received unqualified opinions with no findings on predetermined objectives and compliance. The DST and AISA received unqualified opinions with findings on compliance but they managed to resolve their prior year findings on predetermined objectives.

It should be noted that AISA was incorporated into the HSRC with effect from 1 April 2014 and will operate and continue as a programme under the council.

The main findings arising from our audit, as reported in the audit reports, which need to be addressed to improve the overall audit outcomes are as follows:

- AISA and DST recorded instances of non-compliance as material adjustments were made to the annual financial statements submitted on 31 May 2014.
- A number of compliance findings in respect to supply chain management were identified at DST.
- DST failed to comply with prescripts relating to compensation of employees as the verification process had not been followed for new appointments.

Financial statements

DST and AISA submitted financial statements for auditing that contained material misstatements. They received an unqualified audit opinion only because they had corrected all the misstatements we identified during the audit.

The following controls should be strengthened to create a control environment that supports reliable financial reporting:

- DST and AISA management should properly review the accuracy of the amounts supporting their financial statements.
- Management should implement effective IT governance to ensure that the organisation's IT control environment functions well and enables service delivery.

Annual performance report

NRF submitted an annual performance report for audit that contained material misstatements. They avoided material findings in their audit report only because they corrected all the misstatements we identified during the audit.

The following controls should be strengthened to create a control environment that supports useful and reliable reporting on the performance of NRF:

- Sufficient oversight and monitoring of performance reporting during the reporting cycle to ensure that performance targets are reported as planned.

Compliance with legislation

We identified material non-compliance with legislation by DST in the following areas:

- The DST did not always follow competitive bidding processes, did not always request three quotations and did not always obtain the tax clearance certificates as prescribed.
- The DST did not take reasonable steps to ensure that the vetting process was followed for all new appointments.
- DST and AISA submitted financial statements for auditing that contained material misstatements. They received an unqualified audit opinion only because they corrected all the misstatements we identified during the audit.

Total irregular expenditure incurred for the portfolio amounted to R52 million, which represents 0,84% of the total annual appropriation, while total fruitless and wasteful expenditure incurred for the portfolio amounted to R633 000,00.

The following controls should be strengthened to create a control environment that supports compliance with legislation:

- Proper oversight by the appropriate level of management to ensure regular review of compliance with SCM policies and procedures and effective human resource management.

Root causes

Senior management should address the root causes of poor audit outcomes and inadequate controls as follows:

- Effectively review and monitor compliance with legislation. Implement policies and procedures that address compliance with legislation relating to human resource management.
- Implement procedures to ensure that regular financial and performance reports are issued with reliable supporting documents.
- Institute measures to monitor implementation of action plans.
- Management to improve rate of response to our messages through actions that include in-year monitoring by key role players of commitments given.

Risk to financial health

None of the auditees in the portfolio had findings on or displayed signs that there were matters which could affect the financial sustainability of the portfolio.

Impact of key role players on audit outcomes

The first and second levels of assurance should be improved by ensuring stability at the level of the accounting officer and by implementing the recommendations of the internal audit unit and directing the work of the audit committee towards evaluating performance information.

We met with the minister three times in the past year and in our opinion these interactions had a significant impact on the audit outcomes. Our opinion is based on the commitment shown by the minister, which is evident in the portfolio results.

In response to the audit outcomes, the minister and the chair of the portfolio committee undertook to fully implement the previous year's commitments.

The following new commitments were also made:

- Monthly monitoring of the dashboard by management and updating the minister on a quarterly basis on the improvement and actions taken to improve on the controls thereof.
- To ensure that management performs proper monitoring during planning to ensure compliance with the National Treasury's framework and to obtain feedback on a quarterly basis.
- A checklist to be implemented on the requirements of the SCM process, which must be completed with regards to all tenders, quotes and deviations. Internal audit to audit the process to ensure compliance.

The assurance provided through the oversight of the portfolio committee should be maintained.

Entities included in the portfolio not audited by the Auditor-General of South Africa

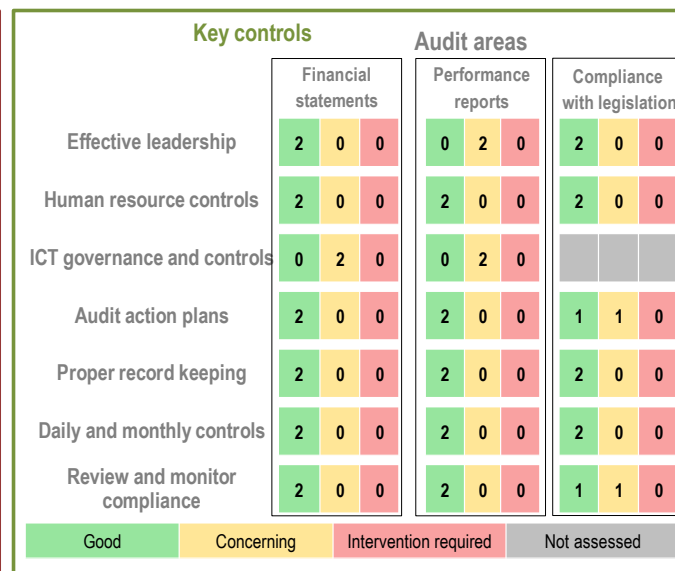
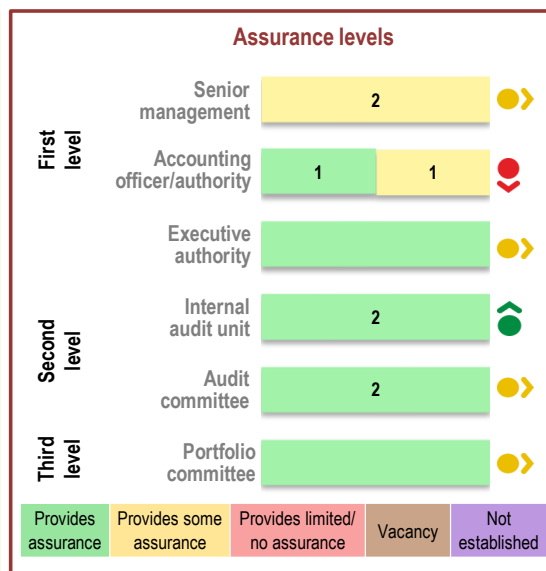
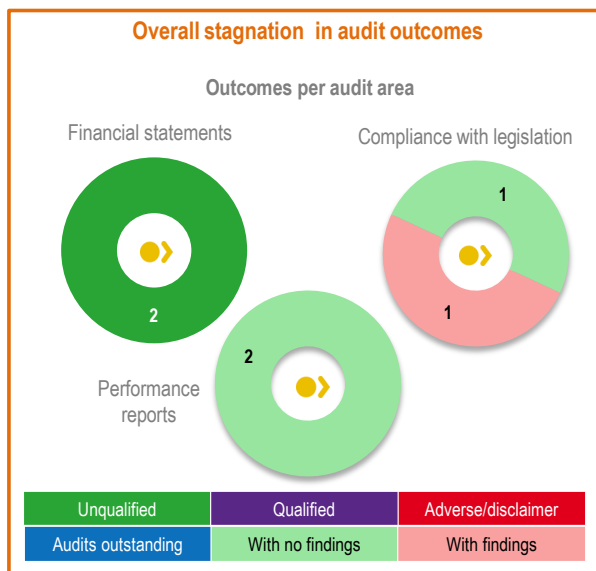
We do not audit the following entities included in the portfolio of the minister:

- *Academy of Science of South Africa (ASSAF)*
- *South African National Space Agency (SANSA)*
- *Technology Innovation Agency (TIA)*

The overall audit outcomes of these entities have improved when compared to the previous year. The audit outcomes were as follows:

- The financial statements of three (100%) auditees received an unqualified opinion – the same result as in the previous year.
- Three (100%) auditees had no material findings on the quality of their annual performance reports – an improvement from one (33%) in the previous year.
- Three (100%) auditees had no material findings on compliance with legislation – the same result as in the previous year.

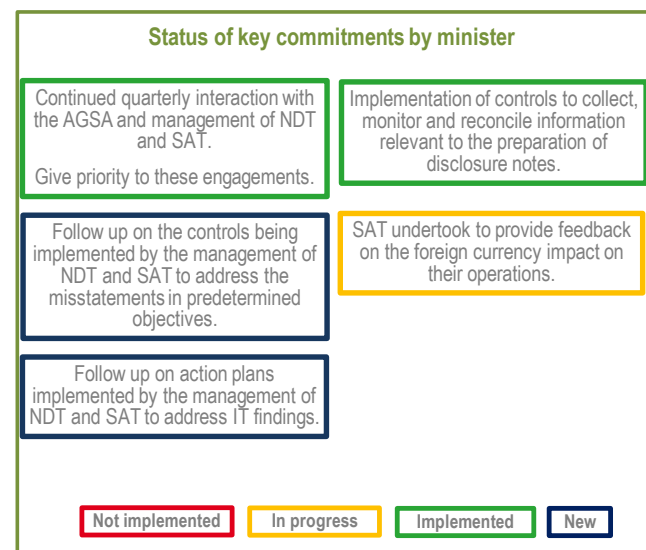
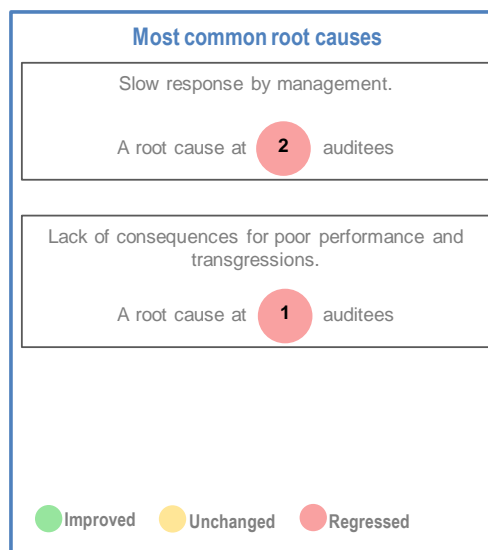
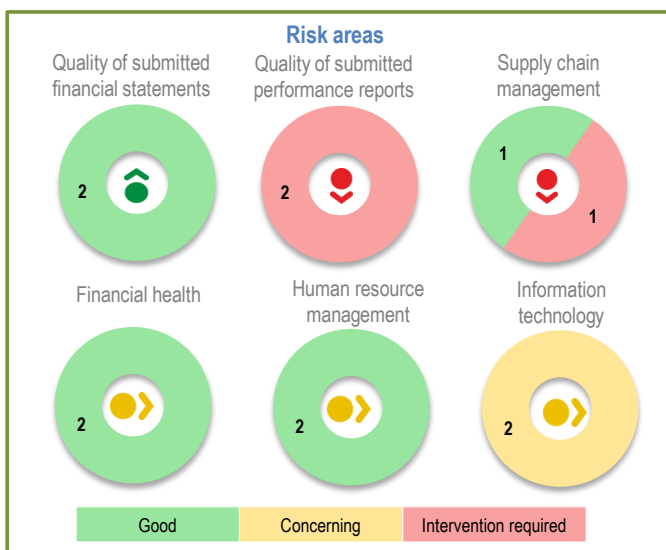
Vote 35: Tourism



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To improve the **audit outcomes** ...
... the **risk areas** and ...
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... the key role players need to **assure** that ...
... the **root causes** are addressed ...
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... attention is given to the **key controls** and ...
... and the **commitments** are honoured.
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Auditees included in the portfolio

■ National Department of Tourism (NDT) ■ South African Tourism (SAT)

The budget (voted funds) of the department in the portfolio for the 2013-14 financial year was R1,521 billion. The main expenditure was in respect of the following:

Employee cost – R206 million

Goods and services – R155 million

Transfer payments – R1, 157 billion

Capital expenditure – R3 million

Overall audit outcome

The overall audit outcomes of the portfolio remained unchanged compared to the prior year. The department has improved while SAT regressed.

The improvement in the audit outcome of NDT to an unqualified audit opinion with no findings in the 2013-14 financial year, compared to an unqualified with findings in the 2012-13 financial year, was due to the leadership's commitments to implement controls to address the audit findings and to draft actions plan to monitor delivery on those commitments. These commitments were provided during the key control discussions and interactions with the minister.

The regression in the audit outcome of the SAT to an unqualified opinion with findings in 2013-14 financial year, compared to an unqualified with no findings in the 2012-13 financial year, was due to material non-compliance with SCM regulations.

The main findings arising from our audit, as reported in the audit reports, which should be addressed to sustain the overall audit outcomes, are as follows:

Financial statements

NDT submitted financial statements for auditing that were free from material misstatements. Management has honoured prior year commitments by implementing monthly controls to collate information required for year-end disclosure notes, i.e. moveable tangible capital assets and commitments. The implementation of the controls and actions plans was monitored and tracked monthly by the leadership. The implemented controls resulted in an improvement in the quality of the financial statements. SAT maintained the good practice of submitting financial statements that were free from material misstatements.

Annual performance report

No material findings were raised on the usefulness and reliability of the reported performance information for these two auditees.

The quality of the annual performance reports regressed for both auditees as adequate controls were not in place. NDT and SAT submitted annual performance reports for auditing that contained material misstatements; however, they avoided material findings in their audit reports only because they corrected all the misstatements identified during the auditing process. These misstatements were as a result of management not ensuring that the performance information reported was supported by reliable evidence.

An analysis of the IT audit outcomes indicated that the portfolio had designed the IT controls that had committed to in the previous cycle; however, these controls did not cover the NDT AoPO system, and as a result the department experienced challenges with the design of user access management controls and security management controls that provide assurance on the confidentiality, integrity and availability of financial information.

The following controls should be strengthened to create a control environment that supports useful and reliable reporting on the performance of the portfolio.

- Strengthening performance reporting and related controls to prevent misstatements and enhancing oversight responsibility and leadership to detect misstatements prior to the audit process commencing.
- Preparing regular, accurate and complete performance reports that are supported and evidenced by reliable information and reviewing these reports for errors.

Compliance with legislation

While NDT improved and had no findings on compliance with legislation, we identified material non-compliance by SAT in the following areas:

- A deviation was approved by the accounting authority even though it was not impractical to invite competitive bids, in contravention of treasury regulation 16A6.4.
- The contract mentioned above was awarded to a close family member of a person employed by the public entity. The person with the conflict of interest did not recuse himself from the procurement process relating to that contract, which is in contravention of treasury regulation 16A8.4.

The following controls should be strengthened to create a control environment that supports compliance with legislation:

- Senior management involved in the compliance monitoring process should review declarations of interest and ask all conflicted officials to remove themselves from the procurement process.
- Proper processes should be in place to ensure that procurement and contract management is properly planned.

Root causes

Leadership at SAT should address the root causes of the regression in audit outcomes and inadequate SCM controls as follows:

- Consequence management should be implemented for staff members who do not comply with applicable laws and regulations.
- Slow response and lack of accountability by senior management involved in the performance reporting process.

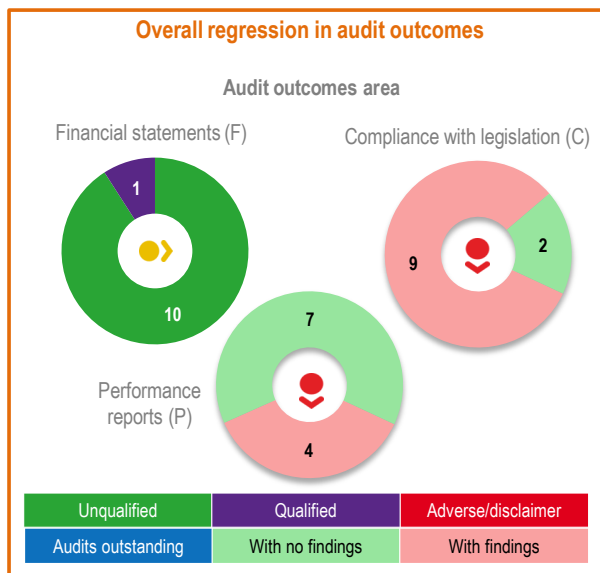
Impact of key role players on audit outcomes

The first level of assurance should be improved by senior management at NDT and SAT by implementing the AGSA's recommendations, after which the internal audit unit should review the performance reports to ensure that they are supported by valid, accurate and complete information to provide the second level of assurance. SAT senior management should focus on improving SCM compliance and IT policies and procedures by implementing commitments and monitoring action plans to address all internal and external audit findings.

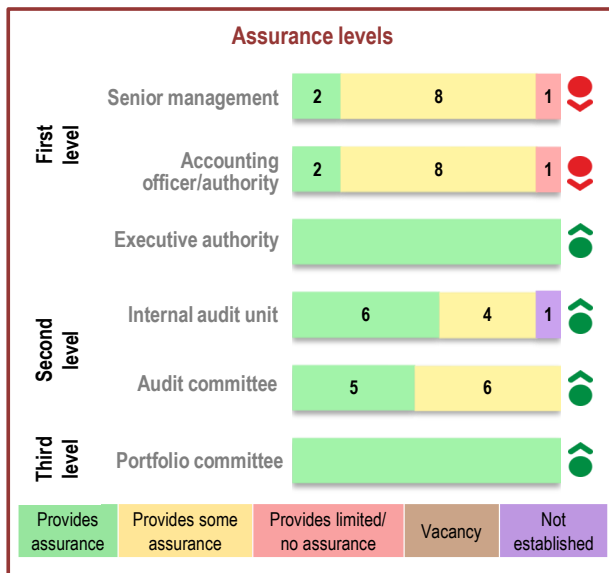
This assessment, the significant impact of the minister on the controls of the auditee as well as the status and impact of the commitments contributed to the assessed assurance provided by the minister. We met once with the previous minister and once with the new minister in the past year and these interactions had a significant impact on the audit outcomes. The minister remained committed to clean administration for the auditees in this portfolio.

The assurance provided through the oversight of the portfolio committee should be maintained. This assessment is based on active engagement between the portfolio committee and the minister on clean administration.

Vote 36: Trade and industry



To improve/maintain the **audit outcomes** ...
... the **risk areas** and ...



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

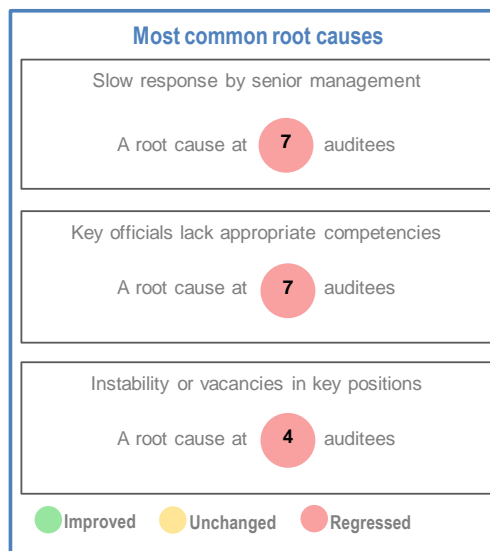
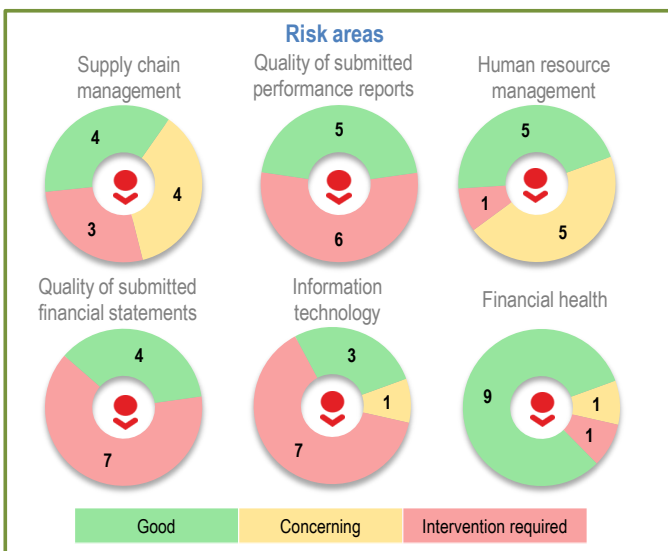
Audit areas

Audit area	Financial statements			Performance reports			Compliance with legislation		
	Good	Concerning	Intervention required	Good	Concerning	Intervention required	Good	Concerning	Intervention required
Effective leadership	11	0	0	11	0	0	11	0	0
Human resources controls	6	4	1	10	1	0	6	4	1
ICT governance and controls	3	4	4	7	3	1	8	2	1
Action plans	7	4	0	9	1	1	7	4	0
Proper record keeping	5	6	0	8	2	1	8	3	0
Daily and monthly controls	5	5	1	10	1	0	8	3	0
Review and monitor compliance	5	5	1	9	2	0	3	5	3

Legend: Good (Green), Concerning (Yellow), Intervention required (Red).



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



Status of key commitments by minister/MEC

Development and implementation of an action plan to address all identified audit findings which will be monitored by the accounting officer, internal audit and audit committee, and escalated to the executive authority when necessary.

To follow up quarterly on key control assessments and the reports from the audit committees on audit-related matters.

To obtain action plans from CIPC, NLB, NGB and the Companies Tribunal to address the audit findings on predetermined objectives, and from NRCS to address the qualified audit opinion. Progress made with the action plans will be tracked on a quarterly basis by the chairpersons of the audit committees.

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

Auditees included in the portfolio audited by the Auditor-General of South Africa

- Department of Trade and Industry (DTI)
- Companies Intellectual Property Commission (CIPC)
- Companies Tribunal ■ National Consumer Commission (NCC)
- National Consumer Tribunal (NCT)
- National Credit Regulator (NCR)
- National Gambling Board (NGB)
- National Lotteries Board (NLB)
- National Regulator for Compulsory Specifications (NRCS)
- Small Enterprise Development Agency (SEDA)
- South African Bureau of Standards (SABS)

The department's budgeted expenditure for the 2013-14 financial year was R9,5 billion. The main expenditure was:

Employee costs	R2,1 billion
Goods and services	R1,8 billion
Transfer payments	R1,5 billion
Capital expenditure	R172 million.

Overall audit outcome

The regression in the overall audit outcome was caused by the Companies Tribunal, NGB, NLB and NRCS.

The audit outcome for the Companies Tribunal moved from financially unqualified with findings on predetermined objectives to financially unqualified with findings on predetermined objectives and compliance with legislation. The regression was due to non-compliance as material adjustments were made to the financial statements, irregular expenditure was not prevented and the entity did not have an internal audit function.

The audit outcome for the NGB moved from financially unqualified with findings on compliance with legislation to financially unqualified with findings on predetermined objectives and compliance with legislation as a result of inconsistencies between planned and reported performance indicators.

The audit outcomes for the NLB moved from financially unqualified with findings on compliance with legislation to financially unqualified with findings on

predetermined objectives and compliance with legislation. This was due to inconsistencies between planned and reported performance objectives, indicators and targets; the immeasurability of performance indicators and targets; and reported performance information not being reliable.

The audit outcome for the NRCS moved from financially unqualified with findings on predetermined objectives and compliance with legislation to a qualified audit opinion, as management did not provide sufficient appropriate audit evidence for non-exchange revenue, trade receivables, employee costs, trade payables and provisions.

The audit opinion of the NCC improved from a qualified audit opinion to financially unqualified with findings on compliance with legislation. This was due to management having addressed the previous year's qualification findings by ensuring compliance with supply chain prescripts.

The audit outcomes for the rest of the portfolio remain unchanged. The department and other entities remain financially unqualified with findings on compliance with legislation and/or predetermined objectives, except for the SABS and the NCT which maintained unqualified audit opinions with no findings.

The main findings from our audit were reported in the audit reports and need to be addressed to improve the overall audit outcomes. They are as follows:

Financial statements

The published financial statements of the NRCS included the following material misstatements:

- The NRCS generates non-exchange revenue from levies for compulsory specifications. We could not confirm the non-exchange revenue and receivables reflected in the financial statements. This was a result of the status of the accounting records not being adequate.
- We could not confirm the employee costs, payables from salary-related accruals and the provision for leave pay reflected in the financial statements of the NRCS as a result of the status of the accounting records not being adequate.

The following auditees submitted financial statements for auditing that contained material misstatements and received an unqualified audit opinion only because they corrected all the misstatements we identified during the auditing process:

Auditee	Areas misstatements identified and corrected
Companies Tribunal	Disclosure notes
NCC	Non-current assets, provisions

Auditee	Areas misstatements identified and corrected
NCR	Expenditure
NGB	Cash flow statement, budget statement, disclosure notes
NLB	Liabilities, expenditure, disclosure notes
SEDA	Current assets, revenue, expenditure, disclosure notes

The following controls should be strengthened to create a control environment that supports reliable financial reporting:

- Improve and maintain ICT governance and controls
- Implement proper and prompt record keeping to ensure that complete, relevant and accurate information is accessible and available to support financial reporting
- Monitor and review compliance with legislation.

Annual performance report

The published annual performance report of the CIPC, Companies Tribunal, NGB and NLB included information on their performance against predetermined objectives that was not useful and/or reliable for the following programmes and/or objectives we had selected to audit.

Auditee	Programme/objective	Not useful	Not reliable
CIPC	Business regulation and reputation		x
	Service delivery and access		x
Companies Tribunal	Adjudicate and make orders/decisions in relation to any application	x	
NGB	Stakeholder liaison and legal	x	
	Compliance and monitoring		x
NLB	Improve the impact of NLDTF	x	x
	Review regulatory practice	x	x

Auditee	Programme/objective	Not useful	Not reliable
	Ensuring stability and enhancing business continuity	x	X

The DTI and NCC submitted annual performance reports for auditing that contained material misstatements. They avoided material findings in their audit reports only because they corrected all the misstatements we identified during the auditing process.

The following controls should be strengthened to create a control environment that supports useful and reliable reporting on the performance of the portfolio:

- Improve and maintain ICT governance and controls
- Implement proper and prompt record keeping to ensure that complete, relevant and accurate information is accessible and available to support performance reporting
- Greater senior management involvement and in-depth review is required together with the quarterly reviews by internal audit to strengthen the controls around the collation of information and consolidation of reporting. This will enhance the credibility of reported performance information.

Compliance with legislation

We identified material non-compliance with legislation by the DTI, CIPC, Companies Tribunal, NCC, NGB and NLB in the following areas:

- NGB and NLB did not always request three quotations as prescribed.
- NCC did not always apply the preferential procurement points system in procurement of goods and services above R30 000.
- DTI, CIPC, Companies Tribunal, NCC, NGB and NLB did not take reasonable steps to prevent irregular expenditure.
- Companies Tribunal did not ensure that an internal audit function was established.
- NGB did not obtain the required approval for its overdraft facility, the strategic plan did not include key performance indicators and measures as required and some board members served on the board without the appropriate approval.

Although the department and some entities incurred irregular expenditure, it has decreased since the previous year.

NLB incurred irregular expenditure of R20 million, which is an increase from the R19 million incurred last year. This represents 44% of the total irregular

expenditure incurred within the portfolio. One hundred percent of the irregular expenditure reported by NLB was identified by management.

The overall risk of non-compliance with supply chain management prescripts did not change, but there was a regression in the audit outcome. The DTI, CIPC, Companies Tribunal, NCC, NGB, and NLB should implement adequate processes to ensure compliance with all supply chain management prescripts to improve the audit outcome.

The following controls should be strengthened to create a control environment that supports compliance with legislation:

- Monitor and review compliance with legislation

Root causes

Leadership should address the root causes of poor audit outcomes and inadequate controls as follows:

- Leadership should ensure that internal and external audit recommendations are implemented timeously and all identified internal control deficiencies are addressed.
- Leadership should ensure that key officials obtain appropriate competencies by providing training where required.
- Vacancies in key positions should be filled as soon as possible, with individuals who possess the necessary competencies

Impact of key role players on audit outcomes

The first and second levels of assurance should be improved by filling vacancies in key positions. The accounting officer/authority should implement controls to ensure that irregular expenditure is prevented and appropriate action is taken against employees who incur irregular expenditure. Furthermore, IT systems which meet the record keeping needs of entities should be implemented as soon as possible.

We met with the minister twice and corresponded in writing two times in the past year. These interactions and correspondences had some impact on the audit outcomes. The audit outcome of the NCC improved from a qualified audit opinion to an unqualified audit opinion as a result of the minister's intervention. Furthermore, the minister monitored the progress of the portfolios performance through the quarterly reporting process using the information supplied by the entities. This assessment, the impact of the minister on the controls of the auditees as well as the status and impact of the commitments contributed to the assessed assurance provided by the minister.

The assurance provided through the oversight of the portfolio committee should be maintained.

The following of the previous year's portfolio committee commitments are still in progress:

- Follow up with management on vacant positions and the competency of staff, especially in key management positions.
- Review managements' adequacy of policies to ensure that there is compliance with legislation.
- Obtain representations from the chief financial officer and the accounting officer on the status of compliance with supply chain management prescripts.
- Require the accounting officer and accounting authorities to provide feedback to the portfolio committee on the progress of the action plan to address audit findings
- Encourage more DTI involvement in assisting entities to obtain clean audits.

Risks to financial health

The NGB should improve the management of budgets to ensure that money appropriated is used in the most efficient manner to prevent going into bank overdraft.

Entities included in the portfolio but not audited by the Auditor-General of South Africa

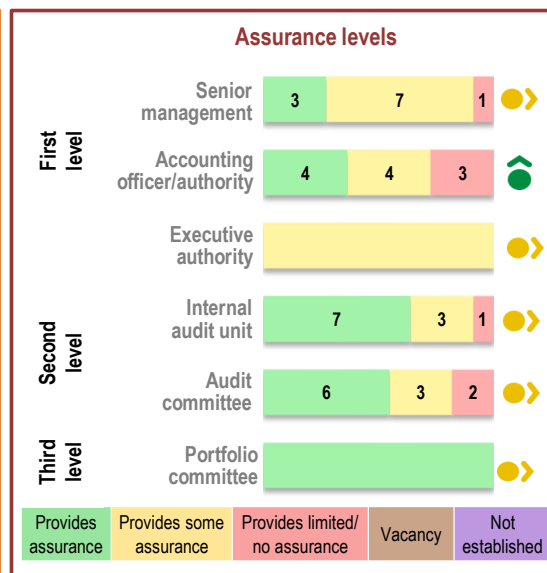
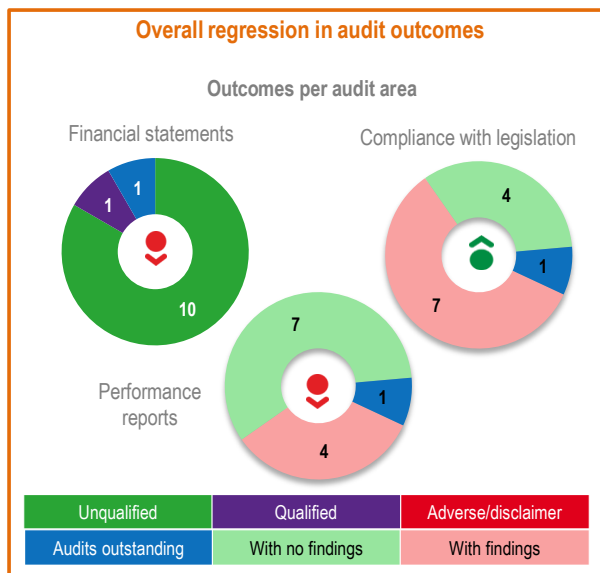
We do not audit the following entities included in the portfolio of the minister:

- *Export Credit Insurance Corporation of South Africa (ECIC)*
- *National Empowerment Fund (NEF)*
- *National Metrology Institute of South Africa (NMISA)*
- *South African National Accreditation System (SANAS)*

The overall audit outcomes of these entities have improved when compared to the previous year. The audit outcomes were as follows:

- The financial statements of four auditees (100%) received an unqualified opinion – unchanged from the four (100%) in the previous year.
- 4 auditees (100%) had no material findings on the quality of the annual performance reports – unchanged from the 4 (100%) in the previous year.
- 4 auditees (100%) had no material findings on compliance with legislation – an improvement from the 2 (50%) in the previous year.

Vote 37: Transport



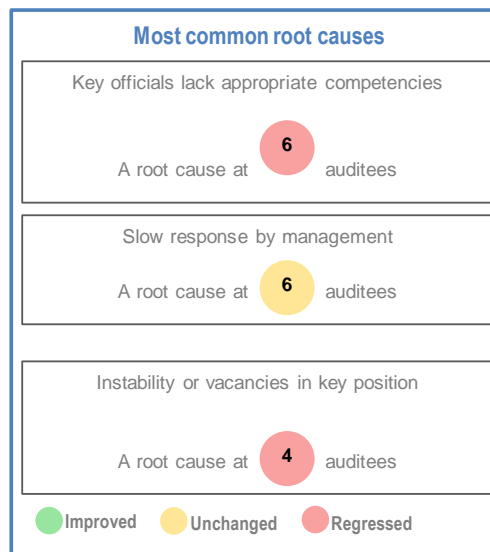
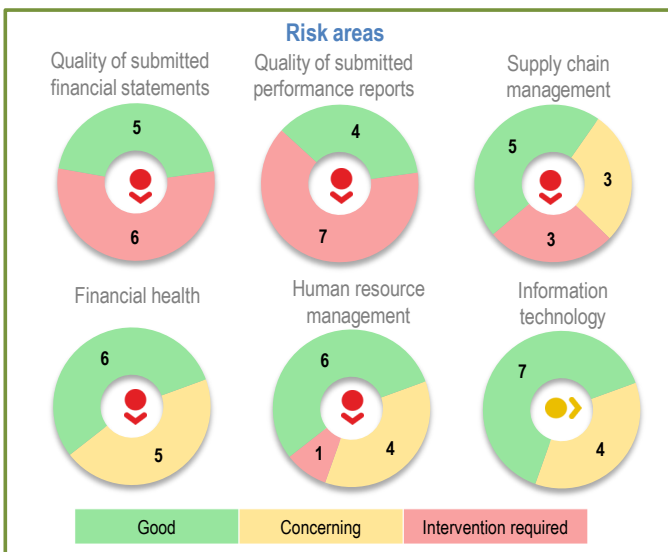
Key controls

Key Control	Financial statements			Performance reports			Compliance with legislation		
	Good	Concerning	Intervention required	Good	Concerning	Intervention required	Good	Concerning	Intervention required
Effective leadership	9	1	1	9	1	1	8	2	1
Human resource controls	5	5	1	7	4	0	7	4	0
ICT governance and controls	5	4	2	7	4	0	8	3	0
Audit action plans	7	3	1	6	3	2	8	2	1
Proper record keeping	5	4	2	7	0	4	8	2	1
Daily and monthly controls	5	4	2	5	3	3	5	4	2
Review and monitor compliance	7	3	1	5	4	2	2	5	4

1
To improve/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



Status of key commitments by minister

Implemented

(1) Review governance structures and strengthen oversight at public entities; (2) To meet regularly with the chairpersons of the boards and audit committees of public entities.

In progress

(1) Implementation of the action plan to address the prior year audit findings; (2) Management of the take-over of major IT-related contracts; (3) Management of vacancies; (4) Contract management at all entities in the portfolio; and (5) Enhance performance and consequence management.

Auditees included in the portfolio audited by Auditor-General of South Africa

■ Department of Transport (Transport) ■ Cross-Border Road Transport Agency (CBRTA) ■ Driving License Card Trading Account (DLCTA) ■ Passenger Rail Agency of SA (PRASA) ■ Ports Regulator of South Africa (Ports Regulator) ■ Railway Safety Regulator (RSR) ■ Road Accident Fund (RAF) Road Traffic ■ Infringement Agency (RTIA) ■ Road Traffic Management Corporation (RTMC) ■ SA Civil Aviation Authority (SACAA) ■ SA Maritime Safety Authority (SAMSA) ■ South African National Roads Agency Limited (SANRAL) ■

The budget (voted funds) of the department in the portfolio for the 2013-14 financial year was R42,401 billion. The main expenditure was in respect of the following:

- Goods and services R703 million
- Transfer payments R41,347 billion
- Capital expenditure R7 million
- Employee cost R344 million

Overall audit outcome

The regression in the overall audit outcome was caused by RTMC which received a qualified audit opinion on its financial statements, while RTIA has addressed its past material findings on compliance with legislation. Transport, CBRTA, RSR, SAMSA, SANRAL and the Ports Regulator remained unchanged as they received an unqualified audit opinion with findings on their annual performance report and/or compliance with legislation.

The audit outcome of PRASA is not included. Due to resubmission of annual financial statements on 12 September 2014, we had not finalised the audit by 31 August 2014, which was the cut-off date for inclusion of audit outcomes in the audit report.

The main findings arising from our audit, as reported in the audit reports, which should be addressed to improve the overall audit outcomes, are as follows:

Financial statements

The published financial statements in the portfolio included the following material misstatements:

- RTMC did not maintain an updated asset register as required by the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP). This impacted on the amount recognised as property, plant and equipment. Consequentially, property, plant and

equipment was materially misstated. RTMC could not make the corrections because they did not keep proper records and perform monthly reconciliations of assets. The instability in leadership of the entity contributed to the qualification.

- Transport, the Ports Regulator, RSR, SAMSA and SANRAL submitted financial statements for auditing that contained material misstatements in the areas of assets, revenue and certain disclosure notes. All these entities received an unqualified audit opinion only because they corrected all the material misstatements we identified during the auditing process. The accounting authority of SAMSA did not submit their financial statements for audit within two months after the end of the financial year, in contravention of section 55(1)(c) of the PFMA.
- An analysis of the IT audit outcomes indicated that the portfolio had designed the IT controls they had committed to in the previous cycle; however, these controls were not implemented, with the result that they still experienced challenges with IT management controls that provide assurance on the confidentiality, integrity and availability of financial information.

The following controls should be strengthened to create a control environment that supports reliable financial reporting:

- Key commitments made to implement the AGSA's recommendations to address the root causes should be promptly implemented.
- Control processes should be implemented to process and reconcile transactions regularly.
- Proper record keeping should be implemented for information supporting disclosure notes which are only finalised at year-end.
- Staff should be trained on the financial reporting framework and their work quality reviewed in a timely manner prior to submission of the financial statements for audit.
- Improve pace of response by management in implementing programme change controls and documenting of security controls and user access.

Annual performance report

The published annual performance report of Transport, CBRTA, RTMC and SAMSA included information on their performance against predetermined objectives that was not useful and/or reliable for the following programmes and/or objectives we had selected to audit:

Auditee	Programme/Objective	Not useful	Not reliable
DOT	Rail transport	x	
	Road transport	x	x
	Public transport	x	x
CBRTA	Road transport inspectorate		x
	Strategic support	x	x
RTMC	Make roads safe	x	x
	Law enforcement and coordination	x	x
SAMSA	Maritime sector development		x
	Maritime safety		x
	Maritime governance	x	x
	Maritime security	x	x

The Ports Regulator, DLCA and SANRAL submitted annual performance reports for auditing that contained material misstatements. They avoided material findings on predetermined objectives in their audit reports only because they corrected all the misstatements we identified during the auditing process. The regression in the quality of the performance reports was due to lack of quality reviews being performed on the annual performance plans, quarterly and annual performance reports.

The following controls should be strengthened to create a control environment that supports useful and reliable reporting on the performance of the portfolio:

- Proper record keeping of evidence to support achievement/ non-achievement of targets
- Prepare regular, accurate and complete performance reports that are supported and evidenced by reliable information
- Quality reviews should be performed in a timely manner prior to submission of such reports for audit.

Compliance with legislation

There has been an improvement in compliance with legislation when compared to the prior year. The portfolio incurred irregular expenditure of R2,6 billion; unauthorised expenditure of R768 million and fruitless and wasteful expenditure of R2,8 million. We identified material non-compliance (excluding non-compliance with PFMA due to the submission of financial statements that contained material misstatements) with legislation by Transport, CBRTA, SAMSA and SANRAL in the following areas:

- Transport did not always follow a competitive bidding process as prescribed by treasury regulation 16A6. Contractual obligations and money owed by the department were not settled within 30 days, resulting in non-compliance with treasury regulation 8.2.3. Senior management posts remained vacant for periods in excess of 12 months and these posts were also not advertised within a period of six months of becoming vacant, which is in contravention of public service regulation 1/VII/C.1A.2. The department therefore had a vacancy of 25% at year-end. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R768 million, irregular amounting to R1,1 billion and fruitless expenditure of R1,2 million.
- CBRTA did not take effective and appropriate steps to prevent irregular expenditure. The irregular expenditure for the entity amounted to R827 000.
- SAMSA extended/amended the contract without the approval of a properly delegated official. An audit committee was not in place for 11 months of the year, which is in contravention of section 51(1)(a)(ii) of the PFMA and treasury regulation 27.1.1, and the internal audit function was not under the control of the audit committee due to the delay in appointment of the committee. The internal audit function was also appointed on a month-to-month contract, resulting in it being ineffective for the year under review and non-compliant with section 51(1)(ii) of the PFMA and treasury regulation 27.1.8. The accounting authority did not take effective steps to prevent irregular expenditure amounting to R28 million and fruitless and wasteful expenditure of R1,1 million, in contravention of section 51(1)(b) of the PFMA.

- SANRAL awarded contracts to bidders based on points that were not calculated in accordance with the requirements of the Preferential Procurement Policy Framework Act and its regulations.
- SANRAL did not request three quotations, as prescribed.
- SANRAL awarded a construction contract to a contractor that did not qualify for the contract in accordance with construction industry development board (CIDB) regulation 17.
- Bid adjudication at SANRAL was not always done by a committee composed in accordance with the policies of the entity, as required by treasury regulation 16A6.2 (a), (b) and (c).
- The accounting authority of SANRAL did not take effective steps to prevent irregular expenditure, while proper control systems to safeguard and maintain assets were not implemented.

SANRAL incurred R1,5 billion in irregular expenditure, which was 57% of the total amount incurred by the portfolio. All the irregular expenditure identified related to supply chain management. The amount decreased by 53% compared to the previous year. None of the irregular expenditure reported was identified by the auditee.

Transport incurred R768 million in unauthorised expenditure, which was 100% of the total amount incurred in the portfolio. Hundred per cent of the unauthorised expenditure was identified by the auditee. No unauthorised expenditure was incurred in the prior year. The unauthorised expenditure was as a result of the electronic national traffic information system (eNaTIS) maintenance and operations cost that was not included in the budget.

The following controls should be strengthened to create a control environment that supports compliance with legislation:

- Review and monitor compliance with applicable legislation to ensure adherence to procurement processes.
- Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support compliance.
- Implement consequence management for staff members who fail to comply with the applicable legislation.
- Key commitments made to implement the AGSA's recommendations to address the root causes should be promptly implemented.

Root causes

The accounting officers and accounting authorities should address the root causes of poor audit outcomes and inadequate controls as follows:

- Key commitments made to implement the AGSA's recommendations to address the root causes should be promptly implemented.
- Vacancies in key positions should be filled timeously to address instability in leadership.
- Provide training on the financial reporting framework to key officials who lack appropriate competencies.
- Controls and processes should be adhered to at all times when procuring goods and services.
- Proper record keeping should be implemented in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting. This should be supported by adequate IT systems.
- Implement consequence management for staff members who fail to comply with the applicable legislation.

Impact of key role players on audit outcomes

The first level of assurance should be improved and the second level should be maintained by ensuring stability at the level of accounting officer and senior management. This was most prevalent at the department and SAMSA. The recommendations of the internal audit unit should be implemented and the work of the audit committee directed towards evaluating performance information. The internal audit functions and audit committees should be strengthened and capacitated to ensure that clean administration is achieved.

We met with the minister three times in the past year and these interactions had minimal impact given the regression in audit outcomes. This assessment, the lack of impact of the minister on the controls of the auditees as well as the status and impact of the commitments contributed to the assessed assurance provided by the minister.

The assurance provided through the oversight of the portfolio committee should be maintained as it is functioning adequately as evidenced by their active engagement with the minister on clean administration.

Risks to financial health and service delivery

The department has incurred unauthorised expenditure to date to the amount of R1,9 billion. R1,2 billion of this amount relates to expenditure on bus subsidies incurred during 2008-09, while the balance relates to payments made on a contract extended from 1 May 2010 which was not included in the budget of the department. A decision is still to be made as to whether the expenditure will be condoned with or without funding. If this expenditure is condoned without funding, the department will need to institute cost-saving measures to fund the expenditure. The implementation of the cost-saving measures in future years could compromise service delivery.

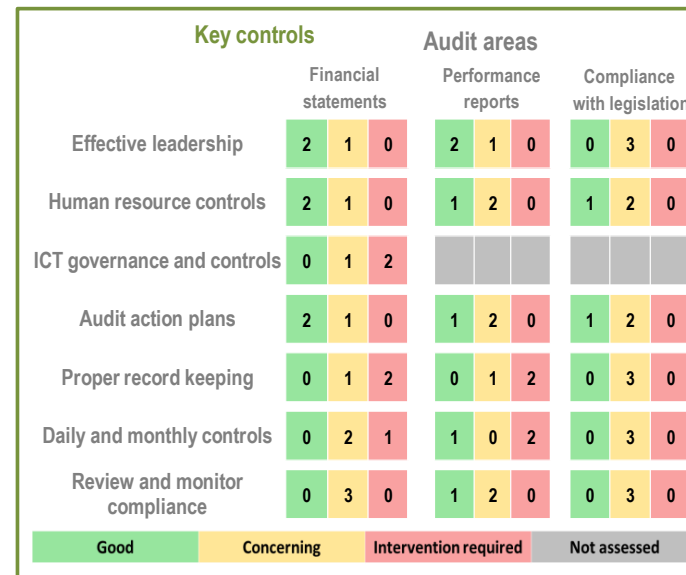
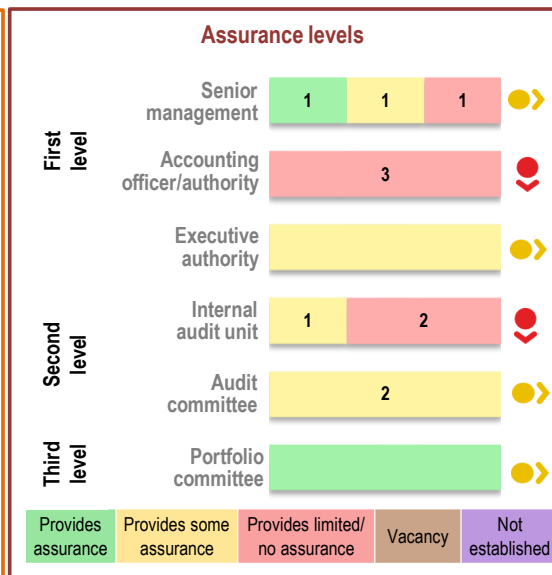
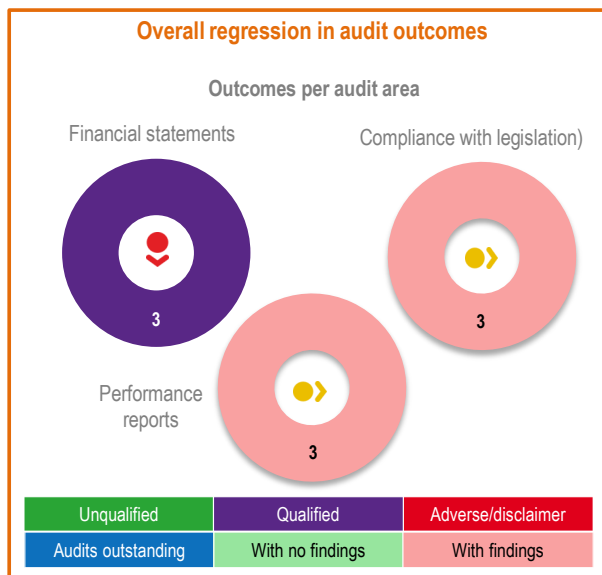
Entities included in the portfolio not audited by the Auditor-General of South Africa

We did not audit the following entities included in the portfolio of the minister:

■ Air Traffic Navigation Services (ATNS) ■ Airports Company of SA Limited (ACSA)

The overall audit outcomes of these entities remain unchanged when compared to the previous year in that the entities received an unqualified report with no findings on predetermined objectives and compliance with legislation.

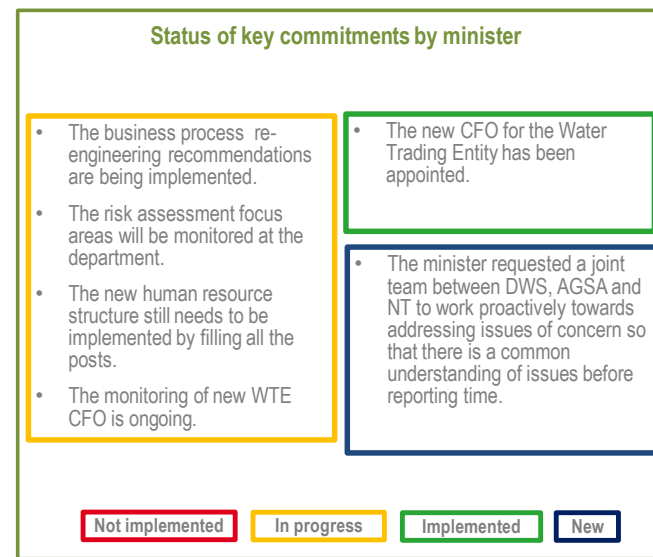
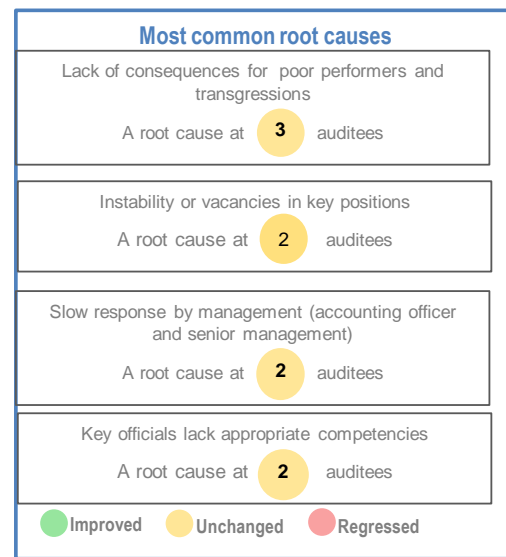
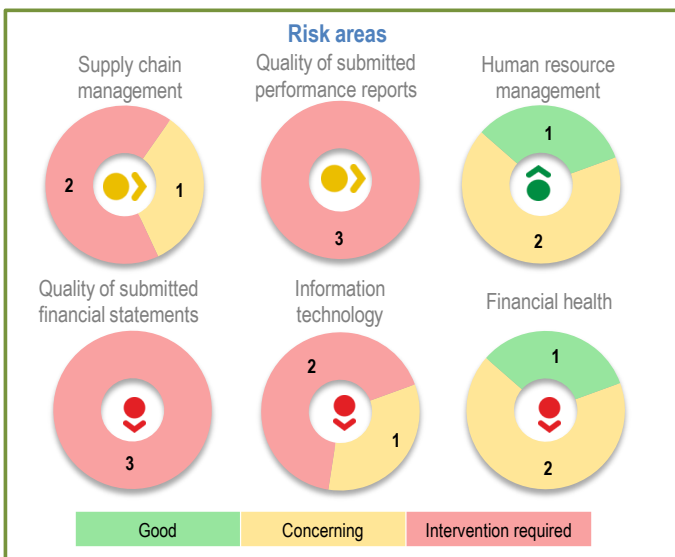
Vote 38: Water affairs



1
To improve/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



Auditees included in the portfolio audited by the Auditor-General of South Africa

- Department of Water Affairs (DWA) ■ Water Research Commission (WRC)
- Water Trading Account (WTE)

The budget for DWA for the 2013-14 financial year was R10 billion. The main expenditure is in respect of compensation of employees (R1,2 billion), goods and services (R1,4 billion), transfers (R3,9 billion) and capital assets (R3,5 billion).

Overall audit outcomes

The overall audit outcomes for DWA and WTE remained qualified. DWA and WTE did, however, as part of the multi-year plan, address some of the 2012-13 qualification areas. WRC regressed from an unqualified audit opinion to a qualified audit opinion due to insufficient and inappropriate audit evidence for the trade receivable balance reflected as R45,6 million.

The main findings arising from our audit, as reported in the audit reports, which should be addressed to improve/sustain the overall audit outcomes, are as follows:

Financial statements

DWA, WRC and WTE submitted financial statements for auditing that contained material misstatements. DWA had misstatements in the areas of commitments, accruals and immovable assets, while WTE had material misstatements on revenue and WRC on trade and other receivables.

The following controls should be strengthened to create a control environment that supports reliable financial reporting:

- Timely and adequate review of annual financial statements by the different assurance level providers (management, accounting officer/authority and audit committee) to ensure compliance with reporting requirements.
- Appointment of skilled key staff members in critical posts within the finance sections.

Annual performance report

The published annual performance report of DWA, WRC and WTE included information on their performance against predetermined objectives that was not reliable and/or useful for the following programmes we had selected to audit.

- Water sector management (DWA & WTE)
- Water infrastructure management (WTE)
- Regional implementation and support (DWA)
- Research portfolio (WRC).

DWA, WRC and WTE submitted annual performance reports for auditing that contained material misstatements.

The following controls should be strengthened to create a control environment that supports useful and reliable reporting on the performance of the portfolio:

- Implement adequate record keeping supporting actual achievements
- Proper review of reported information against planning documents.

Compliance with legislation

The most common material non-compliance with legislation was identified at DWA, WTE and WRC in the following areas:

- DWA, WRC and WTE submitted financial statements that were not prepared in accordance with the prescribed reporting framework
- The DWA and WTE did not maintain effective and efficient internal controls over performance management.
- DWA, WRC and WTE did not take reasonable steps to ensure full compliance with certain procurement processes, such as obtaining of required number of quotations, evaluation of bidders, declaration of interests (internally as well as externally) and performing remunerative work without written permission. Irregular expenditure was mainly as a result of poor planning at DWA and WTE, while knowledge of the delegation of authority was inadequate at WRC.
- DWA, WTE and WRC did not take effective steps to prevent irregular expenditure and fruitless and wasteful expenditure. DWA incurred R920 million, WTE R33 million and WRC R715 602 in irregular expenditure.
- DWA and WTE did not meet contractual obligations and pay money owed within 30 days
- WRC did not take effective steps to collect all money due.

- DWA and WTE did not implement a proper control system to safeguard and maintain their assets.

The following controls should be strengthened to create a control environment that supports compliance with legislation:

- Senior officials should be held accountable for non-compliance with laws and regulations.
- Staff members should be trained on or be made aware of the applicable laws and regulations, including delegation of authority.
- Critical vacancies should be filled.
- Business processes should be continuously monitored and improved to enhance the planning processes.

Root causes

The accounting officer/authority should address the root causes of poor audit outcomes and inadequate controls as follows:

- Improve stability within the portfolio by filling key vacant positions
- Improve the competence of employees by encouraging continuous learning and training
- Accelerate the pace of response by management to address issues facing the department/entities
- Hold senior officials accountable for non-compliance with laws and regulations.

Impact of key role players on audit outcomes

- The first and second levels of assurance should be improved by the accounting officer/authority and senior management by addressing areas of internal control weaknesses.
- The AGSA met with the previous minister three times in the year and these interactions had some impact on the audit outcomes. This assessment, the impact of the minister on the controls of the auditees as well as the status and impact of the commitments contributed to the assessed assurance provided by the minister.
- The assurance provided through the oversight of the portfolio committee should be maintained. The portfolio committee has been able to identify the key issues and requested action plans from management within the portfolio.

Risks to financial health and service delivery

The accounting officer/authority should address the following matters, which could affect the financial health and service delivery in the portfolio:

- DWA and WRC should improve their expenditure as well as asset and liability management
- WTE should improve the management of revenue to ensure that they recover all amounts due
- DWA should improve the management of projects to ensure that the money appropriated for infrastructure projects is used as intended
- DWA should put adequate systems and controls in place to maintain records of regional bulk infrastructure project (RBIG) commitments.

Entities included in the portfolio not audited by the Auditor-General of South Africa

We did not audit the following entities included in the portfolio of the minister:

■ *Trans-Caledon Tunnel Authority (TCTA)* ■ *Inkomati Catchment Management Agency (ICMA)* ■ *Breede-Overberg Catchment Management Agency (BOCMA)*

Both TCTA and ICMA have retained their clean audit status of the previous year.

The audit outcome for BOCMA improved as they moved from financially unqualified with findings in the prior year to a clean audit in the current year.

ANNEXURES

Number	Auditee	2013-14 audit outcomes		2012-13 audit outcomes		Financial statement qualification areas							Findings on predetermined objectives			Findings on compliance											Findings on specific risk areas				Unauthorised, irregular as well as fruitless and wasteful expenditure																	
		Audit opinion	Predetermined objectives	Compliance with legislation	Audit opinion	Predetermined objectives	Compliance with legislation	Non-current assets	Current assets	Liabilities	Capital and reserves	Other disclosure items	Revenue	Expenditure	Unauthorised, irregular, as well as fruitless and wasteful expenditure	Aggregate misstatements	Reported information not useful	Reported information not reliable	Information not submitted in time for audit	No annual performance report	Material misstatement or limitations in submitted AFS	Unauthorised, irregular, as well as fruitless and wasteful expenditure	Annual financial statements and annual report	Asset management	Liability management	Budgets	Expenditure management	Consequence management	Audit committees	Internal audit	Revenue management	Strategic planning and performance management	Transfer and conditional grants	Procurement management	Human resource management	Other	Quality of submitted performance reports	Supply chain management	Financial health	Human resource management	Information technology	Unauthorised expenditure Amount R	Irregular expenditure Amount R	Fruitless and wasteful expenditure Amount R				
17	Eastern Cape Appropriate Technology Unit	R	R	R	R	R	N	R	R	R	R	N	R	R	N	R	R			R	R	N	R	A	N	A	N			R	R				R	R	M				-	3.3m	-					
18	Eastern Cape Development Corporation	A	R		R	R						N				A				R	N								R	N				R	N						-	47.0m	-					
19	Eastern Cape Gambling and Betting Board		R		A	R													N									A	N				A	N							-	0.56m	0.006m					
20	Eastern Cape Government Fleet Management Services	A	R		R	R	A	R				R			N			A	R	R	A	A						R	R	A		N		R	R							-	99.3m	0.42m				
21	Eastern Cape Liquor Board	A	R		R	R										A				N							N		A	R			A	R								-	0.69m	0.62m				
22	Eastern Cape Parks and Tourism Agency	N	R			R										N				R	R			N								A		R	R								-	11.8m	-			
23	Eastern Cape Provincial Arts and Culture Council	A	R		R	R										A				N	R			A	N		N	A	R		R		R	R	F							-	1.5m	0.001m				
24	Eastern Cape Rural Development Agency	R	R		R	R										A	R			A	A							R	A	R		A		R	A							-	1.9m	0.14m				
25	Eastern Cape Socio Economic Consultative Council				A																																						-	-	-			
26	Mayibuye Transport Corporation		R		A	R	A	A	A	A	R	R	A	R						R	R		R						R	A		R											-	21.1m	0.23m			
Free State																																																
Departments																																																
1	Agriculture and Rural Development		R	R		R	R									R	R			A	R		R	A	A	A		R	N	A	N	R	N	R									-	0.63m	0.25m			
2	Cooperative Governance and Traditional Affairs		R	R		R	R									R	N			R	R		R			N						R	R												-	27.4m	0.31m	
3	Economic Development, Tourism and Environmental Affairs		R		A	R	A						A							R	R		R			N		N	N	R		A	R	R			A	R	F						-	10.3m	0.27m	
4	Education		R	R		R	R					N				A	R			R	R		R			R	R	N		R		R	R											427.0m	269.0m	3.6m		
5	Health		R	R		R	R	R	A	A		A	R	A		R				R	R	R	R	A	A	A	A	R	R	A	R	R	A	R	R	M								32.8m	1 102.9m	12.5m		
6	Human Settlements		R	R		R	R		N	R	R				A	R				R	R	N	R	N	N	R	N		N		R	R	R	N	R	R	F								-	857.7m	0.26m	
7	Office of the Premier		N				N												N				N									N													-	0.2m	-	
8	Police, Roads and Transport		R		A	R													R	R									R	A	A	R			A	R	M							10.5m	44.8m	0.69m		
9	Provincial legislature	A	A		N	N										A													A						A	N									-	-	-	
10	Provincial treasury																																												-	0.29m	-	
11	Public Works		R	R		R	R	A	A							R	A			R	R		A						R	N		N													-	72.0m	-	
12	Social Development		R	R		R	R										R				A																								-	0.003m	-	
13	Sport, Arts, Culture and Recreation				A	A																																								-	1.1m	0.89m

Annexure 2: Auditees' audit outcomes, area qualified, findings on predetermined objectives, compliance, specific focus areas and unauthorised, irregular, as well as fruitless and wasteful expenditure

Number	Auditee	Audit opinions				
		2013-14	2012-13	2011-12	2010-11	2009-10
Sphere of government: National						
Portfolio: Agriculture, forestry and fisheries						
Department						
1	Agriculture, Forestry and Fisheries					
Public entities						
2	Agricultural Research Council					
3	Marine Living Resources Fund					
4	National Agricultural Marketing Council					
5	Onderstepoort Biological Products Ltd					
Public entities (not audited by the AGSA)						
6	Ncera Farms (Pty) Ltd					
7	Perishable Products Export Control Board					
Portfolio: Arts and culture						
Department						
1	Arts and Culture					
Public entities						
2	Artscape					
3	Die Afrikaanse Taalmuseum					

Number	Auditee	Audit opinions				
		2013-14	2012-13	2011-12	2010-11	2009-10
4	Ditsong: Museums of South Africa					
5	Freedom Park					
6	Iziko Museums of Cape Town					
7	KwaZulu-Natal Museum					
8	Luthuli Museum					
9	Market Theatre Foundation					
10	Msunduzi/Voortrekker Museum					
11	National Arts Council of South Africa					
12	National Film and Video Foundation of South Africa					
13	National Heritage Council of South Africa					
14	National Library of South Africa					
15	National Museum					
16	Nelson Mandela National Museum					
17	Pan South African Language Board					
18	Performing Arts Centre of the Free State					
19	Robben Island Museum, Cape Town					
20	South Africa Library for the Blind					
21	South Africa Heritage Resources Agency					

Legend (audit outcomes)	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimer with findings	Audit not finalised at legislated date	New auditee
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Number	Auditee	Audit opinions				
		2013-14	2012-13	2011-12	2010-11	2009-10
22	The South African State Theatre					
23	National English Literary Museum					
24	The Playhouse Company					
25	War Museum of the Boer Republics					
26	William Humphreys Art Gallery					
27	Windybrow Theatre					
Portfolio: Basic education						
Department						
1	Basic Education					
Public entity						
2	Education Labour Relations Council					
Public entities (not audited by the AGSA)						
3	South African Council of Educators					
4	Umalusi QA on Further Training and Education					
Portfolio: Communications						
Department						
1	Communications					
Public entities						
2	National Electronic Media Institute of South African					
3	South African Broadcasting Corporation					
4	Independent Communications Authority of South Africa					
5	Universal Service and Access Agency of South Africa					
6	Universal Service and Access Fund					

Number	Auditee	Audit opinions				
		2013-14	2012-13	2011-12	2010-11	2009-10
Public entities (not audited by the AGSA)						
7	Sentech Limited					
8	South African Post Office Limited					
9	Telkom Limited					
Portfolio: Cooperative governance and traditional affairs						
Department						
1	Cooperative Governance and Traditional Affairs					
Public entities						
2	Commission for the Promotion and Protection of the Rights of Cultural Religious and Linguistic Communities					
3	Municipal Demarcation Board					
4	Municipal Infrastructure Support Agency					
5	South African Local Government Association (SALGA)					
Portfolio: Correctional services						
Department						
1	Correctional Services					
Portfolio: Defence and military veterans						
Departments						
1	Defence					
2	Military Veterans					
Public entities						
3	Armaments Corporation of South Africa Limited					
4	Castle Control Board					

Number	Auditee	Audit opinions				
		2013-14	2012-13	2011-12	2010-11	2009-10
5	South African National Defence Force Fund					
6	Special Defence Account					
Portfolio: Economic development						
Department						
1	Economic Development					
Public entities						
2	Competition Commission					
3	Competition Tribunal					
4	International Trade Administration Commission					
Public entities (not audited by the AGSA)						
5	Industrial Development Corporation of SA					
6	Small Enterprise Finance Agency					
Portfolio: Energy						
Department						
1	Energy					
Public entities						
2	CEF (SOC) Ltd					
3	Equalisation Fund					
4	National Energy Regulator of South Africa					
5	National Nuclear Regulator					
6	The South African Nuclear Energy Corporation SOC Ltd					
7	South African National Energy Development Institute (SANEDI)					

Number	Auditee	Audit opinions				
		2013-14	2012-13	2011-12	2010-11	2009-10
Portfolio: Environmental affairs						
Department						
1	Environmental Affairs					
Public entities						
2	iSimangaliso Wetland Park Authority					
3	South African National Biodiversity Institute (SANBI)					
4	South African National Parks					
5	South African Weather Services					
Portfolio: Finance (treasury)						
Department						
1	National Treasury					
Public entities						
2	Cooperative Banks Development Agency					
3	Financial Intelligence Centre					
4	Financial Services Board					
5	Government Pensions Administration Agency					
6	Independent Regulatory Board for Auditors					
7	Land and Agricultural Bank of South Africa					
8	Office of the Ombud for Financial Service Providers					
9	Office of the Pension Funds Adjudicator					
10	Project Development Facility					
11	Public Investment Corporation Limited					
12	South African Revenue Services (own account)					

Legend (audit outcomes)	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimer with findings	Audit not finalised at legislated date	New auditee
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Number	Auditee	Audit opinions				
		2013-14	2012-13	2011-12	2010-11	2009-10
13	Technical Assistance Unit					
14	Financial and Fiscal Commission					
Portfolio: Health						
Department						
1	Health					
Public entities						
2	Compensation Commissioner for Occupational Diseases					
3	Council for Medical Schemes					
4	Medical Research Council of South Africa					
Public entity (not audited by the AGSA)						
5	National Health Laboratory Service					
Portfolio: Higher education and training						
Department						
1	Higher Education and Training					
Public entities						
2	Agricultural Sector Education and Training (AgriSETA)					
3	Banking Sector Education and Training Authority (BANKSETA)					
4	Central JHB FET College					
5	Chemical Industries Education and Training Authority					
6	Construction Education and Training Authority					
7	Council on Higher Education					
8	Culture, Arts, Tourism, Hospitality and Sports Education and Training Authority					
9	East Cape Midlands FET College					
10	Education, Training and Development Practices Sector Education and Training Authority					

Number	Auditee	Audit opinions				
		2013-14	2012-13	2011-12	2010-11	2009-10
11	Energy and Water Sector Education and Training Authority					
12	Esayidi FET College					
13	Fibre Processing Manufacturing Sector Education and Training Authority					
14	Finance and Accounting Services Sector Education Training Authority					
15	Food and Beverages Manufacturing Industry Sector Education Training Authority					
16	Health and Welfare Sector Education and Training Authority					
17	Ikhala FET College					
18	Insurance Sector Education and Training Authority (INSETA)					
19	King Hintsa FET College					
20	Letaba FET College					
21	Local Government Education and Training Authority					
22	Lovedale FET College					
23	Maluti FET College					
24	Manufacturing Engineering and Related Services Education and Training Authority					
25	Media, Information and Communication Technologies Sector Education and Training Authority					
26	Mining Qualifications SETA					
27	Mnambithi FET College					
28	National Institute for Higher Education - NC					
29	National Skills Fund					
30	National Student Financial Aid Scheme					
31	Northern Cape Urban FET College					
32	Northlink FET College					
33	Orbit FET College					
34	Public Service Sector Education and Training Authority					
35	Quality Council for Trades and Occupations					

Number	Auditee	Audit opinions				
		2013-14	2012-13	2011-12	2010-11	2009-10
36	Safety and Security Sector Education and Training Authority (SASSETA)	Yellow	Purple	Purple	Yellow	Yellow
37	Services Sector Education and Training Authority (Services SETA)	Yellow	Purple	Yellow	Purple	Green
38	South African Qualifications Authority	Green	Yellow	Green	Green	Green
39	South West Gauteng FET College	Purple	Blue	Blue	Blue	Blue
40	Transport Education and Training Authority (TETA)	Yellow	Yellow	Yellow	Yellow	Green
41	Tshwane South FET College	Red	Blue	Blue	Blue	Blue
42	Western College for FET	Red	Blue	Blue	Blue	Blue
43	Wholesale and Retail Sector Education and Training Authority	Yellow	Yellow	Purple	Green	Green
Public entities (not audited by the AGSA)						
44	Boland FET College	Green	Green	Green	Green	Green
45	Buffalo City FET College	Green	Green	Yellow	Green	Green
46	Cape Peninsula University of Technology	Green	Green	Green	Green	Green
47	Capricorn FET College	Grey	Green	Green	Green	Green
48	Central University of Technology	Green	Green	Green	Green	Green
49	Coastal FET College	Green	Green	Grey	Purple	Purple
50	College of Cape Town (FET)	Green	Green	Yellow	Green	Green
51	Durban University of Technology	Green	Green	Green	Green	Green
52	Ehlanzeni FET College	Yellow	Green	Green	Green	Green
53	Ekurhuleni East FET College	Yellow	Yellow	Yellow	Green	Green
54	Ekurhuleni West FET College	Yellow	Yellow	Green	Green	Green

Number	Auditee	Audit opinions				
		2013-14	2012-13	2011-12	2010-11	2009-10
55	Elangeni FET College	Green	Green	Grey	Green	Green
56	False Bay FET College	Green	Green	Green	Green	Green
57	Flavius Mareka FET College	Grey	Green	Green	Green	Purple
58	Gert Sibande FET College	Green	Green	Green	Green	Green
59	Goldfields FET College	Green	Green	Yellow	Green	Green
60	Ingw e FET College	Grey	Purple	Grey	Red	Red
61	King Sabatha Dalindyebo FET College	Grey	Grey	Grey	Green	Purple
62	Lephalale FET College	Green	Green	Grey	Green	Green
63	Majuba FET College	Green	Green	Yellow	Grey	Green
64	Mangosuthu University of Technology	Yellow	Green	Green	Green	Purple
65	Mopani South East FET College	Green	Yellow	Yellow	Green	Green
66	Motheo FET College	Grey	Purple	Purple	Red	Purple
67	Mthashana FET College	Grey	Red	Grey	Grey	Grey
68	National Institute for Higher Education - MP	Green	Green	Yellow	Yellow	Yellow
69	Nelson Mandela Metropolitan University	Green	Green	Green	Green	Green
70	Nkangala FET College	Yellow	Yellow	Yellow	Purple	Red
71	North West University	Green	Green	Green	Green	Green
72	Northern Cape Rural FET College	Yellow	Purple	Purple	Green	Purple
73	Port Elizabeth FET College	Yellow	Yellow	Yellow	Green	Green
74	Rhodes University	Green	Green	Green	Green	Green

Legend (audit outcomes)	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimer with findings	Audit not finalised at legislated date	New auditee
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Number	Auditee	Audit opinions				
		2013-14	2012-13	2011-12	2010-11	2009-10
75	Sedibeng FET College					
76	Sekhukhune FET College					
77	South Cape FET College					
78	Taletso FET College					
79	Thekwini FET College					
80	Tshwane North FET College					
81	Tshwane University of Technology					
82	Umfolosi FET College					
83	Umgungundlovu FET College					
84	University of Cape Town					
85	University of Fort Hare					
86	University of Johannesburg					
87	University of Kwazulu-Natal					
88	University of Limpopo					
89	University of Pretoria					
90	University of South Africa					
91	University of Stellenbosch					
92	University of the Free State					
93	University of the Western Cape					
94	University of the Witwatersrand					
95	University of Venda					
96	University of Zululand					
97	Vaal University of Technology					

Number	Auditee	Audit opinions				
		2013-14	2012-13	2011-12	2010-11	2009-10
98	Vhembe FET College					
99	Vuselela FET College					
100	Walter Sisulu University for Technology and Science					
101	Waterberg FET College					
102	West Coast FET College					
Portfolio: Home affairs						
Department						
1	Home Affairs					
Public entities						
2	Film and Publication Board					
3	Government Printing Works					
4	Independent Electoral Commission					
Portfolio: Human settlements						
Department						
1	Human Settlements					
Public entities						
2	Community Schemes Ombuds Service					
3	National Home Builders Regulatory Council					
Public entities (not audited by the AGSA)						
4	Estate Agency Affairs Board					
5	Housing Development Agency					
6	National Housing Finance Corporation Ltd					
7	National Urban Reconstruction and Housing Agency					

Number	Auditee	Audit opinions				
		2013-14	2012-13	2011-12	2010-11	2009-10
8	Rural Housing Loan Fund					
9	Servcon Housing Solutions (Pty) Ltd					
10	Social Housing Foundation					
11	Social Housing Regulatory Authority					
12	Thubelisha Homes					
Portfolio: International relations and cooperation						
Department						
1	International Relations and Cooperation					
Public entity						
2	African Renaissance and International Cooperation Fund					
Portfolio: Justice and constitutional development						
Department						
1	Justice and Constitutional Development					
Public entities						
2	Guardians Fund					
3	Legal Aid South Africa					
4	National Prosecuting Authority					
5	President's Fund					
6	South African Human Rights Commission					
7	Special Investigating Unit					
8	The Public Protector of South Africa					
9	Third Party Funds (Monies in Trust)					

Number	Auditee	Audit opinions				
		2013-14	2012-13	2011-12	2010-11	2009-10
Public entity (not audited by the AGSA)						
10	South African Board of Sheriffs					
Portfolio: Labour						
Department						
1	Labour					
Public entities						
2	Commission for Conciliation, Mediation and Arbitration					
3	Compensation Fund					
4	National Economic Development and Labour Council					
5	Sheltered Employment Factories					
6	Unemployment Insurance Fund					
Public entity (not audited by the AGSA)						
7	Productivity SA					
Portfolio: Mineral resources						
Department						
1	Mineral Resources					
Public entities						
2	Council for Geoscience					
3	Council for Mineral Technology (Mintek)					
4	Mine Health and Safety Council					
5	South Africa Diamond and Precious Metals Regulator					
6	State Diamond Trader					

Legend (audit outcomes)	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimer with findings	Audit not finalised at legislated date	New auditee
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Number	Auditee	Audit opinions				
		2013-14	2012-13	2011-12	2010-11	2009-10
Portfolio: Parliament						
Department						
1	Parliament of the Republic of South Africa					
Portfolio: Police						
Departments						
1	Police					
2	Independent Police Investigative Directorate					
Public entity						
3	Private Security Industry Regulatory Authority					
Portfolio: Public enterprises						
Department						
1	Public Enterprises					
Public entities						
2	South African Express Airways SOC Limited					
3	South African Forestry Company SOC Limited					
Public entities (not audited by the AGSA)						
4	Alexkor SOC Limited					
5	Broadband Infraco SOC Ltd					
6	Denel SOC Ltd					
7	Eskom Holdings SOC Limited					
8	South African Airways SOC Limited					
9	Transnet SOC Limited					

Number	Auditee	Audit opinions				
		2013-14	2012-13	2011-12	2010-11	2009-10
Portfolio: Public service and administration						
Departments						
1	Public Service and Administration					
2	National School of Government					
3	Public Service Commission					
Public entities						
4	National School of Government Trading Entity					
5	State Information Technology Agency SOC Limited					
Portfolio: Public works						
Department						
1	Public Works					
Public entities						
2	Construction Industry Development Board					
3	Council for the Built Environment (CBE)					
4	Independent Development Trust					
5	Parliamentary Villages Management Board					
6	The Property Management Trading Entity					
Portfolio: Rural development and land reform						
Department						
1	Rural Development and Land Reform					
Public entities						
2	Agricultural Land Holding Account					
3	Ingonyama Trust Board					
4	Deeds Registration Trading Account					

Number	Auditee	Audit opinions				
		2013-14	2012-13	2011-12	2010-11	2009-10
Portfolio: Science and technology						
Department						
1	Science and Technology					
Public entities						
2	Africa Institute of South Africa, Pretoria					
3	Council for Scientific and Industrial Research (CSIR)					
4	Human Sciences Research Council					
5	National Research Foundation					
Public entities (not audited by the AGSA)						
6	Academy of Science of South Africa					
7	South African National Space Agency					
8	Technology Innovation Agency					
Portfolio: Social development						
Department						
1	Social Development					
Public entities						
2	Disaster Relief Fund					
3	National Development Agency					
4	Refugee Relief Fund					
5	Social Relief Fund					
6	South African Social Security Agency (SASSA)					
7	State President Fund					

Number	Auditee	Audit opinions				
		2013-14	2012-13	2011-12	2010-11	2009-10
Portfolio: Sport and recreation						
Department						
1	Sport and Recreation South Africa					
Public entities						
2	Boxing South Africa					
3	SA Institute for Drug-free Sport					
Portfolio: Statistics South Africa						
Department						
1	Statistics South Africa					
Portfolio: The Presidency						
Departments						
1	Performance Monitoring and Evaluation					
2	Government Communications and Information System					
3	The Presidency					
Public entities						
4	Media Development and Diversity Agency					
5	National Youth Development Agency					
6	The South African International Marketing Council Trust/Brand South Africa					
Portfolio: Tourism						
Department						
1	Tourism					

Legend (audit outcomes)	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimer with findings	Audit not finalised at legislated date	New auditee
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Number	Auditee	Audit opinions				
		2013-14	2012-13	2011-12	2010-11	2009-10
Public entity						
2	South African Tourism	Yellow	Green	Yellow	Yellow	Green
Portfolio: Trade and industry						
Department						
1	Trade and Industry	Yellow	Yellow	Yellow	Yellow	Yellow
Public entities						
2	Companies and Intellectual Property Commission	Yellow	Yellow	Purple	Purple	Yellow
3	Companies Tribunal	Yellow	Yellow	Green	Blue	Blue
4	National Consumer Commission	Yellow	Purple	Yellow	Blue	Blue
5	National Consumer Tribunal	Green	Green	Yellow	Yellow	Yellow
6	National Credit Regulator	Yellow	Yellow	Yellow	Green	Green
7	National Gambling Board of South Africa	Yellow	Yellow	Yellow	Yellow	Yellow
8	National Lotteries Board	Yellow	Yellow	Yellow	Yellow	Yellow
9	National Regulator for Compulsory Specifications	Purple	Yellow	Purple	Yellow	Yellow
10	Small Enterprise Development Agency	Yellow	Yellow	Green	Green	Yellow
11	SA Bureau of Standards (SABS)	Green	Green	Green	Green	Green
Public entities (not audited by the AGSA)						
12	Export Credit Insurance Corporation of SA	Green	Green	Green	Yellow	Green
13	National Empowerment Fund	Green	Green	Green	Green	Green
14	National Metrology Institute of SA	Green	Yellow	Yellow	Yellow	Green
15	SA National Accreditation System	Green	Yellow	Green	Green	Green
Portfolio: Transport						
Department						
1	Transport	Yellow	Yellow	Yellow	Yellow	Yellow

Number	Auditee	Audit opinions				
		2013-14	2012-13	2011-12	2010-11	2009-10
Public entities						
2	Cross-Border Road Transport Agency	Yellow	Yellow	Purple	Purple	Purple
3	Driving Licence Card Account	Green	Green	Yellow	Yellow	Yellow
4	Passenger Rail Agency of South Africa	Grey	Yellow	Yellow	Yellow	Yellow
5	Ports Regulator of South Africa	Yellow	Yellow	Yellow	Yellow	Yellow
6	Railway Safety Regulator	Yellow	Yellow	Yellow	Yellow	Yellow
7	Road Accident Fund	Green	Green	Yellow	Yellow	Green
8	Road Traffic Infringement Agency	Green	Yellow	Yellow	Red	Blue
9	Road Traffic Management Corporation	Purple	Yellow	Yellow	Pink	Pink
10	South African Civil Aviation Authority	Green	Green	Yellow	Yellow	Yellow
11	South African Maritime Safety Authority	Yellow	Yellow	Yellow	Yellow	Yellow
12	The South African National Roads Agency Limited	Yellow	Yellow	Green	Green	Green
Public entities (not audited by the AGSA)						
13	Air Traffic Navigation Services	Green	Green	Green	Green	Green
14	Airports Company of SA Limited	Green	Green	Yellow	Green	Green
Portfolio: Water affairs						
Department						
1	Water Affairs	Purple	Purple	Purple	Purple	Purple
Public entities						
2	Water Research Commission	Purple	Yellow	Yellow	Yellow	Green
3	Water Trading Account	Purple	Purple	Purple	Red	Purple
Public entities (not audited by the AGSA)						
4	Breede-Overberg Catchment Management Agency	Grey	Yellow	Green	Yellow	Green
5	Inkomati Catchment Management Agency	Grey	Green	Green	Green	Yellow
6	Trans-Caledon Tunnel Authority	Grey	Green	Green	Green	Green

Number	Auditee	Audit opinions				
		2013-14	2012-13	2011-12	2010-11	2009-10
Portfolio: Women, children and people with disabilities						
Department						
1	Women, Children and People with Disabilities					
Public entity						
2	Commission on Gender Equality					
Sphere of government: Provincial						
Eastern Cape						
Departments						
1	Economic Development, Environmental Affairs and Tourism					
2	Education					
3	Health					
4	Human Settlements					
5	Local Government and Traditional Affairs					
6	Office of the Premier					
7	Provincial legislature					
8	Provincial treasury					
9	Roads and Public Works					
10	Rural Development and Agrarian Reform					
11	Safety and Liaison					
12	Social Development					
13	Sport, Recreation, Arts and Culture					
14	Transport					

Number	Auditee	Audit opinions				
		2013-14	2012-13	2011-12	2010-11	2009-10
Public entities						
15	COEGA Development Corporation					
16	East London Industrial Development Zone Corporation					
17	Eastern Cape Appropriate Technology Unit					
18	Eastern Cape Development Corporation					
19	Eastern Cape Gambling and Betting Board					
20	Eastern Cape Government Fleet Management Services					
21	Eastern Cape Liquor Board					
22	Eastern Cape Parks and Tourism Agency					
23	Eastern Cape Provincial Arts and Culture Council					
24	Eastern Cape Rural Development Agency					
25	Eastern Cape Socio-Economic Consultative Council					
26	Mayibuye Transport Corporation					
Free State						
Departments						
1	Agriculture and Rural Development					
2	Cooperative Governance and Traditional Affairs					
3	Economic Development, Tourism and Environmental Affairs					
4	Education					
5	Health					
6	Human Settlements					
7	Office of the Premier					

Legend (audit outcomes)	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimer with findings	Audit not finalised at legislated date	New auditee
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Number	Auditee	Audit opinions				
		2013-14	2012-13	2011-12	2010-11	2009-10
8	Police, Roads and Transport					
9	Provincial legislature					
10	Provincial treasury					
11	Public Works					
12	Social Development					
13	Sport, Arts, Culture and Recreation					
Public entities						
14	Central Medical Trading Account					
15	Free State Development Corporation					
16	Free State Fleet Management Trading Entity					
17	Free State Gambling and Liquor Authority					
18	Free State Political Party Fund					
19	Free State Tourism Authority					
Gauteng						
Departments						
1	Agriculture and Rural Development					
2	Community Safety					
3	Cooperative Governance and Traditional Affairs					
4	Economic Development					
5	Education					
6	Finance					
7	Health					
8	Human Settlements					

Number	Auditee	Audit opinions				
		2013-14	2012-13	2011-12	2010-11	2009-10
9	Infrastructure Development					
10	Office of the Premier					
11	Provincial legislature					
12	Provincial treasury					
13	Roads and Transport					
14	Social Development					
15	Sports, Arts, Culture and Recreation					
Public entities						
16	Constitutional Hill Development Company					
17	Cost Recovery Trading Entity					
18	Cradle of Humankind Trading Entity					
19	Dinokeng World Heritage Trading Entity					
20	Gauteng Enterprise Propeller					
21	Gauteng Film Commission					
22	Gauteng Funding Agency					
23	Gauteng Gambling Board					
24	Gauteng Growth and Development Agency					
25	Gauteng Housing Fund					
26	Gauteng Liquor Board					
27	Gauteng Medical Supplies Depot					
28	Gauteng Partnership Fund					
29	Gauteng Tourism Authority					
30	Gautrain Management Agency					

Number	Auditee	Audit opinions				
		2013-14	2012-13	2011-12	2010-11	2009-10
31	g-FleeT Management					
32	Greater New town Development Company					
33	Industrial Development Zone					
34	Supplier Park Development Co					
35	The Innovation Hub					
Kw aZulu-Natal						
Departments						
1	Agriculture, Environmental Affairs and Rural Development					
2	Arts and Culture					
3	Community Safety and Liaison					
4	Cooperative Governance and Traditional Affairs					
5	Economic Development and Tourism					
6	Education					
7	Health					
8	Human Settlements					
9	Office of the Premier					
10	Provincial legislature					
11	Provincial treasury					
12	Public Works					
13	Social Development					
14	Sport and Recreation					
15	The Royal Household					
16	Transport					

Number	Auditee	Audit opinions				
		2013-14	2012-13	2011-12	2010-11	2009-10
Public entities						
17	Agri-Business Development Agency					
18	Amafa Akw azulu-Natali					
19	Dube Tradeport Company					
20	Ithala Development Finance Corporation Ltd					
21	Ithala Limited					
22	Kw aZulu-Natal Business Rehabilitation Trust Fund					
23	Kw aZulu-Natal Gaming and Betting Board					
24	Kw aZulu-Natal Growth Fund Managers (Pty) Ltd					
25	Kw aZulu-Natal Nature Conservation Board					
26	Kw aZulu-Natal Provincial Pharmaceutical Supply Depot					
27	Kw aZulu-Natal Sharks Board					
28	Kw aZulu-Natal Tourism Authority					
29	KZN Film Company					
30	KZN Housing Fund					
31	KZN Liquor Authority					
32	KZN Political Parties' Fund					
33	Mjindi Farming (Pty) Ltd					
34	Natal Joint Municipal Pension Fund (Provident)					
35	Natal Joint Municipal Pension Fund (Retirement)					
36	Natal Joint Municipal Pension Fund (Superannuation)					
37	The Kw aZulu-Natal Royal Household Trust					
38	Trade and Investment Kw aZulu-Natal					
39	Traditional Levies and Trust Account					

Legend (audit outcomes)	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimer with findings	Audit not finalised at legislated date	New auditee
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Number	Auditee	Audit opinions				
		2013-14	2012-13	2011-12	2010-11	2009-10
Public entities (not audited by the AGSA)						
40	Banzi Pan Devco (Pty) Ltd	Green	Green	Yellow	Green	Yellow
41	Cow slip Investments (Pty) Ltd	Green	Green	Yellow	Yellow	Yellow
42	Durban Wharfside Trust	Green	Green	Yellow	Yellow	Yellow
43	La Mercy Property Investment	Green	Green	Green	Blue	Blue
44	Mabibi Development Company (Pty) Ltd	Green	Green	Yellow	Yellow	Yellow
45	Moses Kotana Institute	Grey	Yellow	Green	Yellow	Yellow
46	Nongoma Plaza Ltd	Green	Green	Yellow	Yellow	Yellow
47	Richards Bay Industrial Development Zone (Pty) Ltd	White	Green	Green	Yellow	Yellow
48	Rocktail Bay Devco (Pty) Ltd	Green	Green	Yellow	Yellow	Yellow
49	Sibaya Conservation Projects (Pty) Ltd	Green	Green	Yellow	Yellow	Yellow
50	Sundumbili Plaza	Green	Green	Yellow	Yellow	Yellow
51	Ubiciko Twines and Fabric (Pty) Ltd	Green	Green	Yellow	Yellow	Yellow
Limpopo						
Departments						
1	Agriculture	Purple	Purple	Yellow	Green	Yellow
2	Cooperative Governance, Human Settlements and Traditional Affairs	Green	Yellow	Yellow	Green	Yellow
3	Economic Development, Environment and Tourism	Purple	Yellow	Yellow	Yellow	Yellow
4	Education	Red	Red	Red	Purple	Red
5	Health	Purple	Red	Red	Red	Purple
6	Office of the Premier	Yellow	Yellow	Yellow	Yellow	Yellow
7	Provincial legislature	Yellow	Yellow	Yellow	Yellow	Yellow
8	Provincial treasury	Yellow	Yellow	Yellow	Yellow	Yellow

Number	Auditee	Audit opinions				
		2013-14	2012-13	2011-12	2010-11	2009-10
9	Public Works	Purple	Red	Red	Purple	Purple
10	Roads and Transport	Yellow	Yellow	Purple	Purple	Yellow
11	Safety, Security and Liaison	Yellow	Yellow	Yellow	Yellow	Yellow
12	Social Development	Purple	Purple	Yellow	Purple	Purple
13	Sport, Arts and Culture	Purple	Purple	Purple	Purple	Yellow
Public entities						
14	Corridor Mining Resources	Purple	Purple	Purple	Yellow	Blue
15	Gateway Airport Authority Limited	Red	Purple	Purple	Yellow	Yellow
16	Great North Transport	Yellow	Yellow	Purple	Blue	Blue
17	Limpopo Economic Development Agency	Yellow	Purple	Purple	Purple	Yellow
18	Limpopo Gambling Board	Yellow	Yellow	Yellow	Yellow	Yellow
19	Limpopo Roads Agency	Pink	Red	Yellow	Green	Yellow
20	Limpopo Tourism Agency	Purple	Red	Red	Red	Red
21	Munizw u Estate (Pty) Ltd	Purple	Purple	Purple	Purple	Blue
22	Risima Housing Finance Corporation	Yellow	Yellow	Yellow	Blue	Blue
23	Venteco	Purple	Purple	Yellow	Purple	Blue
Mpumalanga						
Departments						
1	Agriculture, Rural Development and Land Administration	Purple	Purple	Yellow	Yellow	Yellow
2	Community Safety, Security and Liaison	Purple	Yellow	Yellow	Green	Yellow
3	Cooperative Governance and Traditional Affairs	Green	Yellow	Yellow	Yellow	Yellow
4	Culture, Sport and Recreation	Yellow	Yellow	Yellow	Yellow	Yellow
5	Economic Development, Environment and Tourism	Yellow	Yellow	Purple	Yellow	Yellow

Number	Auditee	Audit opinions				
		2013-14	2012-13	2011-12	2010-11	2009-10
6	Education					
7	Finance					
8	Health					
9	Human Settlements					
10	Office of the Premier					
11	Provincial legislature					
12	Public Works, Roads and Transport					
13	Social Development					
Public entities						
14	Mpumalanga Economic Growth Agency					
15	Mpumalanga Gambling Board					
16	Mpumalanga Regional Training Trust					
17	Mpumalanga Tourism and Parks Agency					
Northern Cape						
Departments						
1	Agriculture, Land Reform and Rural Development					
2	Cooperative Governance, Human Settlements and Traditional Affairs					
3	Economic Development and Tourism					
4	Education					
5	Environment and Nature Conservation					
6	Health					

Number	Auditee	Audit opinions				
		2013-14	2012-13	2011-12	2010-11	2009-10
7	Office of the Premier					
8	Provincial legislature					
9	Provincial treasury					
10	Roads and Public Works					
11	Social Development					
12	Sport, Arts and Culture					
13	Transport, Safety and Liaison					
Public entities						
14	Kalahari Kid Corporation					
15	Northern Cape Economic Development, Trade and Investment Promotion Agency					
16	Northern Cape Fleet Management					
17	Northern Cape Gambling Board					
18	Northern Cape Liquor Board					
19	Northern Cape Tourism Authority					
North West						
Departments						
1	Agriculture and Rural Development					
2	Economic Development, Tourism, Conservation and Environment					
3	Education					
4	Health					
5	Human Settlements					

Legend (audit outcomes)	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimer with findings	Audit not finalised at legislated date	New auditee
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Number	Auditee	Audit opinions				
		2013-14	2012-13	2011-12	2010-11	2009-10
6	Local Government and Traditional Affairs					
7	Office of the Premier					
8	Provincial legislature					
9	Provincial treasury					
10	Public Safety					
11	Public Works, Roads and Transport					
12	Social Development					
13	Sport, Arts and Culture					
Public entities						
14	Agribank					
15	Agribank Creditors Settlement Trust					
16	Atteridgeville Bus Services					
17	Dirapeng					
18	Golden Leopard Resorts					
19	Invest North West					
20	Kgama Wildlife Operations					
21	Madikwe River Lodge					
22	Mafikeng Industrial Development Zone					
23	Mmabana Arts, Culture and Sport					
24	North West Parks and Tourism Board					
25	North West Directorate of Entrepreneurial Development in Natural Resources					
26	North West Gambling Board					
27	North West Housing Corporation					
28	North West Provincial Aids Council					

Number	Auditee	Audit opinions				
		2013-14	2012-13	2011-12	2010-11	2009-10
29	North West Provincial Arts and Cultural Council					
30	North West Star					
31	North West Transport Investments					
32	North West Tribal and Trust Fund					
33	North West Youth Development Trust					
34	NW Development Corporation					
35	Signal Developments					
Western Cape						
Departments						
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	Office of the Premier					
11	Provincial legislature					
12	Provincial treasury					
13	Social Development					
14	Transport and Public Works					

Number	Auditee	Audit opinions				
		2013-14	2012-13	2011-12	2010-11	2009-10
Public entities						
15	Government Motor Transport	Green	Green	Yellow	Yellow	Yellow
16	The Heritage Western Cape	Green	Yellow	Green	Yellow	Green
17	Western Cape Cultural Commission	Green	Green	Green	Yellow	Yellow
18	Western Cape Gambling and Racing Board	Green	Green	Green	Yellow	Green
19	Western Cape Housing Development Fund	Yellow	Purple	Yellow	Red	Yellow
20	Western Cape Investment and Trade Promotion Agency	Green	Green	Yellow	Yellow	Yellow
21	Western Cape Language Committee	Green	Green	Green	Yellow	Yellow
22	Western Cape Liquor Authority	Yellow	Green	Blue	Blue	Blue
23	Western Cape Nature Conservation Board	Green	Purple	Yellow	Green	Green
Public entity (not audited by the AGSA)						
24	Cassidra (Pty) Ltd	Yellow	Green	Green	Green	Yellow

Legend (audit outcomes)	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimer with findings	Audit not finalised at legislated date	New auditee
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Number	Auditee	Leadership																					Financial and performance															Governance														
		Movement			Effective leadership culture			Oversight responsibility			Human resource management			Policies and procedures			Action plans			IT governance			Movement			Proper record keeping			Processing and reconciling controls			Reporting			Compliance			IT systems 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	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C			
Portfolio: Finance (Treasury)																																																				
Department																																																				
1	National Treasury	↓	↔	↔																																																
Public entities																																																				
2	Cooperative Banks Development Agency	↑	↓	↔																																																
3	Financial Intelligence Centre	↔	↑	↑																																																
4	Financial Services Board	↓	↔	↓																																																
5	Government Pensions Administration Agency	↔	↑	↑																																																
6	Independent Regulatory Board for Auditors	↔	↑	↔																																																
7	Land and Agricultural Bank of South Africa	↔	↓	↓																																																
8	Office of the Ombud for Financial Service Providers	↔	↔	↔																																																
9	Office of the Pension Funds Adjudicator	↔	↓	↔																																																
10	Project Development Facility	↔	↓	↓																																																
11	Public Investment Corporation Limited	↑	↓	↓																																																
12	South African Revenue Services (Own Account)	↑	↔	↔																																																
13	Technical Assistance Unit	↔	↓	↓																																																
14	The Financial and Fiscal Commission	↔	↔	↑																																																
Portfolio: Health																																																				
Department																																																				
1	Health	↔	↔	↔																																																
Public entities																																																				
2	Council for Medical Schemes	↓	↔	↔																																																
3	Medical Research Council of South Africa	↑	↑	↑																																																

 Good
 In progress
 Intervention required
 F Financial
 P Performance
 C Compliance
 ↑ Improved
 ↔ Unchanged
 ↓ Regressed

Number	Auditee	Leadership																					Financial and performance															Governance														
		Movement			Effective leadership culture			Oversight responsibility			Human resource management			Policies and procedures			Action plans			IT governance			Movement			Proper record keeping			Processing and reconciling controls			Reporting			Compliance			IT systems 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	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C			
Portfolio: Human settlements																																																				
Department																																																				
1	Human Settlements	↓	↓	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔						
Public entities																																																				
2	Community Schemes Ombuds Service																																																			
3	National Home Builders Regulatory Council	↑	↓	↓	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔			
Portfolio: International relations and cooperation																																																				
Department																																																				
1	International Relations and Cooperation	↓	↑	↓	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔			
Public entity																																																				
2	African Renaissance and International Cooperation Fund	↓	↓	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔			
Portfolio: Justice and constitutional development																																																				
Department																																																				
1	Justice and Constitutional Development	↔	↔	↑	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔			
Public entities																																																				
2	Guardians Fund	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔			
3	Legal Aid South Africa	↑	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔			
4	National Prosecuting Authority	↑	↔	↑	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔			
5	President's Fund	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔			
6	South African Human Rights Commission	↑	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔			
7	Special Investigating Unit	↓	↑	↑	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔			
8	The Public Protector of South Africa	↑	↓	↓	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔			
9	Third Party Funds (Monies in Trust)	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔			
Portfolio: Labour																																																				
Department																																																				
1	Labour	↔	↓	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔			

Number	Auditee	Leadership																					Financial and performance															Governance														
		Movement			Effective leadership culture			Oversight responsibility			Human resource management			Policies and procedures			Action plans			IT governance			Movement			Proper record keeping			Processing and reconciling controls			Reporting			Compliance			IT systems 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	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C			
Public entities																																																				
2	Commission for Conciliation, Mediation and Arbitration	↔	↔	↔																																																
3	Compensation Fund	↓	↓	↓																																																
4	National Economic Development and Labour Council	↑	↑	↑																																																
5	Sheltered Employment Factories	↑	↑	↑																																																
6	Unemployment Insurance Fund	↓	↓	↔																																																
Portfolio: Mineral resources																																																				
Department																																																				
1	Mineral Resources	↑	↔	↑																																																
Public entities																																																				
2	Council for Geoscience	↓	↔	↓																																																
3	Council for Mineral Technology (Mintek)	↓	↔	↔																																																
4	Mine Health and Safety Council	↑	↑	↑																																																
5	South Africa Diamond and Precious Metals Regulator	↓	↔	↓																																																
6	State Diamond Trader	↔	↔	↓																																																
Portfolio: Parliament																																																				
Department																																																				
1	Parliament of the Republic of South Africa	↔	↔	↑																																																
Portfolio: Police																																																				
Departments																																																				
1	Police	↔	↑	↑																																																
2	Independent Police Investigative Directorate	↓	↓	↓																																																
Public entity																																																				
3	Private Security Industry Regulatory Authority	↓	↓	↔																																																

■ Good
 ■ In progress
 ■ Intervention required
 F Financial
 P Performance
 C Compliance
 ↑ Improved
 ↔ Unchanged
 ↓ Regressed

Number	Auditee	Leadership																					Financial and performance															Governance														
		Movement			Effective leadership culture			Oversight responsibility			Human resource management			Policies and procedures			Action plans			IT governance			Movement			Proper record keeping			Processing and reconciling controls			Reporting			Compliance			IT systems 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	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C			
Portfolio: Statistics South Africa																																																				
Department																																																				
1	Statistics South Africa	↓	↓	↓																																																
Portfolio: The Presidency																																																				
Departments																																																				
1	Performance Monitoring and Evaluation	↑	↓	↓																																																
2	Government Communications and Information System	↔	↑	↔																																																
3	The Presidency	↓	↓	↓																																																
Public entities																																																				
4	Media Development and Diversity Agency	↔	↔	↔																																																
5	National Youth Development Agency	↑	↓	↑																																																
6	The South African International Marketing Council Trust/ Brand South Africa	↔	↔	↔																																																
Portfolio: Tourism																																																				
Department																																																				
1	Tourism	↔	↔	↔																																																
Public entity																																																				
2	South African Tourism	↑	↑	↔																																																
Portfolio: Trade and industry																																																				
Department																																																				
1	Trade and Industry	↑	↓	↑																																																
Public entities																																																				
2	Companies and Intellectual Property Commission	↑	↓	↑																																																
3	Companies Tribunal	↔	↑	↑																																																
4	National Consumer Commission	↑	↔	↓																																																
5	National Consumer Tribunal	↔	↔	↔																																																
6	National Credit Regulator	↑	↔	↑																																																
7	National Gambling Board of South Africa	↓	↓	↓																																																

Number	Auditee	Leadership																					Financial and performance															Governance												
		Movement			Effective leadership culture			Oversight responsibility			Human resource management			Policies and procedures			Action plans			IT governance			Movement			Proper record keeping	Processing and reconciling controls			Reporting			Compliance			IT systems 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	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	
8	National Lotteries Board	↓	↔	↔																																														
9	National Regulator for Compulsory Specifications	↑	↑	↑																																														
10	Small Enterprise Development Agency	↓	↔	↔																																														
11	SA Bureau of Standards (SABS)	↑	↔	↔																																														
Portfolio: Transport																																																		
Department																																																		
1	Transport	↓	↓	↓																																														
Public entities																																																		
2	Cross-Border Road Transport Agency	↑	↓	↔																																														
3	Driving Licence Card Account	↓	↓	↓																																														
4	Ports Regulator of South Africa	↑	↑	↑																																														
5	Railway Safety Regulator	↓	↓	↓																																														
6	Road Accident Fund	↔	↔	↔																																														
7	Road Traffic Infringement Agency	↑	↔	↑																																														
8	Road Traffic Management Corporation	↓	↓	↓																																														
9	South African Civil Aviation Authority	↑	↑	↑																																														
10	South African Maritime Safety Authority	↓	↓	↓																																														
11	The South African National Roads Agency Limited	↓	↔	↔																																														
Portfolio: Water affairs																																																		
Department																																																		
1	Water Affairs	↔	↑	↔																																														
Public entities																																																		
2	Water Research Commission	↓	↓	↔																																														
3	Water Trading Account	↑	↑	↔																																														

Good
 In progress
 Intervention required
 F Financial
 P Performance
 C Compliance
 ↑ Improved
 ↔ Unchanged
 ↓ Regressed

Number	Auditee	Leadership																					Financial and performance															Governance														
		Movement			Effective leadership culture			Oversight responsibility			Human resource management			Policies and procedures			Action plans			IT governance			Movement			Proper record keeping			Processing and reconciling controls			Reporting			Compliance			IT systems 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	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C			
31	Natal Joint Municipal Pension Fund (Provident)	↔	↔	↔																																																
32	Natal Joint Municipal Pension Fund (Retirement)	↔	↔	↔																																																
33	Natal Joint Municipal Pension Fund (Superannuation)	↔	↔	↔																																																
34	The Kw aZulu-Natal Royal Household Trust	↔	↑	↓																																																
35	Trade and Investment Kw aZulu-Natal	↓	↓	↓																																																
36	Traditional Levies and Trust Account	↓	↔	↓																																																
Limpopo																																																				
Departments																																																				
1	Agriculture	↔	↑	↑																																																
2	Cooperative Governance, Human Settlements and Traditional Affairs	↑	↔	↑																																																
3	Economic Development, Environment and Tourism	↓	↓	↓																																																
4	Education	↓	↔	↔																																																
5	Health	↑	↔	↔																																																
6	Office of the Premier	↔	↓	↔																																																
7	Provincial legislature	↓	↑	↓																																																
8	Provincial treasury	↑	↔	↔																																																
9	Public Works	↑	↑	↑																																																
10	Roads and Transport	↓	↓	↓																																																
11	Safety, Security and Liaison	↔	↑	↑																																																
12	Social Development	↑	↑	↔																																																
13	Sport, Arts and Culture	↓	↑	↔																																																

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		Movement			Effective leadership culture			Oversight responsibility			Human resource management			Policies and procedures			Action plans			IT governance			Movement			Proper record keeping			Processing and reconciling controls			Reporting			Compliance			IT systems 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	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C			
22	North West Housing Corporation	↔	↔	↔																																																
23	North West Provincial Aids Council	↔	↔	↔																																																
24	North West Provincial Arts and Cultural Council	↔	↔	↔																																																
25	North West Star	↔	↔	↔																																																
26	North West Transport Investments	↔	↔	↔																																																
27	North West Youth Development Trust	↓	↓	↓																																																
28	NW Development Corporation	↓	↓	↓																																																
29	Signal Developments	↔	↔	↔																																																
Western Cape																																																				
Departments																																																				
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	Office of the Premier	↑	↔	↑																																																
11	Provincial legislature	↑	↑	↔																																																
12	Provincial treasury	↔	↔	↑																																																
13	Social Development	↔	↑	↔																																																
14	Transport and Public Works	↔	↔	↔																																																

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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 & 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 &
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>
DPISA	<i>Department of Public Service and Administration</i>
GRAP	<i>Generally Recognised Accounting Practice</i>
HR	<i>human resources</i>
ICT	<i>information and communication technology</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>
SCM	<i>supply chain management</i>
SCOPA	<i>standing committee on public accounts</i>



AUDITOR - GENERAL
SOUTH AFRICA

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