



on the provincial audit outcomes of **GENERAL REPORT**
WESTERN CAPE
2009-10



AUDITOR - GENERAL
SOUTH AFRICA



A U D I T O R - G E N E R A L
S O U T H A F R I C A

Auditing to build public confidence

General Report

**on the national audit outcomes
of Western Cape 2009-10**

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A U D I T O R - G E N E R A L
S O U T H A F R I C A

Auditing to build public confidence

Our reputation promise/mission

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



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SECTION 1: FOREWORD

It is with great pleasure that I present to the Western Cape Provincial Parliament the 2009-10 general report, which summarises the results of the audit outcomes of the provincial departments, including the provincial parliament, provincial revenue fund (PRF), provincial public entities and one schedule 3 public entity that was not audited by the AGSA, for the financial year ended 31 March 2010.

It is pleasing to note the positive outcomes in the province as no department or public entity received a qualified, disclaimer or adverse audit opinion in this financial year. The province has continued to improve its position year on year through the commitment of its leadership. This report also highlights the continuing trend of timely submission of financial statements for audit by all departments, including the provincial parliament and all public entities. The current provincial leadership, championed by the Premier, is building on these successes and has committed to paying particular attention to the remaining challenges relating to weaknesses in controls around IT systems which all departments need to address. Other improvements are required at the six departments and seven public entities that did not receive a "clean audit opinion" (financially unqualified with no findings on predetermined objectives and compliance with laws and regulations). These relate to the findings on the reporting of performance on predetermined objectives and compliance with laws and regulations, with particular reference to transversal material misstatements in the financial statements that were submitted for audit and deviations from supply chain management (SCM) controls. Human resource management, with particular reference to the filling of vacancies at senior management levels and in finance units, is another area that requires the leadership's constant attention.

The attainment of "clean audit opinions" by all government departments and public entities is a milestone we encourage and support. I am confident that this is achievable if the cabinet continues with the commendable practice of regularly monitoring the implementation of the financial management improvement plans by each department. As emphasised by the Premier, such monitoring would be facilitated by the insights continuously provided by the provincial treasury's "Operation Red Flag" team, working closely with audit committees and internal audit units.

It is also pleasing to note that the provincial executive is committed to driving further improvements in audit outcomes by implementing or intensifying the following initiatives:

- Cabinet to continue monitoring the financial management implementation plans and the key issues identified by the "red flag" team.
- The IT areas would be an issue of focus, and processes (through the IT modernisation process) would be put in place to address weaknesses in the IT systems.
- The Premier acknowledged that there were problems with asset management, particularly in large and more complex departments, and said these would be addressed to ensure that the province attains clean administration.
- Addressing the findings on predetermined objectives would also be an area of focus for the Premier and ministers.

Through our continued commitment to simpler, clearer and more relevant reporting, as well as the visibility of the leadership of our audit teams, we support the executive and the provincial parliament in their committed efforts to work towards achieving clean administration. In this regard we will continue our quarterly



engagement with the provincial leadership with a view to providing timely insights aimed at improving the internal control environment. We will also update the internal control dashboard with our assessment and evaluation of the leadership tone in influencing the adequacy of internal controls.

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

Together, we will continue to make every effort to collaborate in order to accelerate the implementation of actions and contribute towards strengthening our country's democracy.

Auditor-General

Auditor-General
Pretoria
December 2010

SECTION 2: EXECUTIVE SUMMARY

The purpose of this general report is to provide an overview of the audit outcomes of provincial government for the 2009-10 financial year as well as recommendations to those charged with governance and oversight on maintaining the financially unqualified audit opinions and eradicating findings on the reporting on predetermined objectives and compliance with laws and regulations. An overview of these audit outcomes was presented to the provincial legislature during October 2010 to facilitate dialogue on the understanding of the key underlying issues driving these audit outcomes and possible solutions in this regard.

The summary which follows contains key issues and conclusions reached on the main sections in this report, while further details are contained in the body of the report.

2.1 Part A: Audits conducted by the AGSA

• Overview of audit outcomes

The financial statements of all 13 provincial departments, including the provincial legislature and all 12 entities, were submitted and the audits completed timeously within the legislated deadline. The audit of the provincial revenue fund (PRF) has not been included in the analysis. The PRF does not have a legislated deadline and the audit was finalised within three months of receipt of financial statements, i.e. on 5 November 2010, as agreed with provincial treasury.

Although the leadership and management of all departments and entities are commended for meeting the financial statement submission date, particular attention needs to be paid to the quality of the information submitted for audit to avoid transversal material corrections.

It should be noted that the comparatives (2008-09) have been restated to include the audit of the PRF finalised since the previous general report was prepared and issued. A high-level review of audit outcomes for the current and prior year is as follows:

Table 1: Summary of audit outcomes

Audit outcomes	Departments (including legislature and revenue fund)		Public entities (including trading and other types of entities)	
	2009-10	2008-09	2009-10	2008-09
Opinion on financial statements:				
Disclaimer	0	0	0	1
Adverse	0	0	0	0
Qualified	0	1	0	2
Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations	6	13	7	10

Audit outcomes	Departments (including legislature and revenue fund)		Public entities (including trading and other types of entities)	
	2009-10	2008-09	2009-10	2008-09
Financially unqualified with no findings on predetermined objectives or compliance with laws and regulations	7	0	5	0
Total number of audits reported on	13	14	12	13
Number of audits not finalised at legislated date for submission to the executive authority – 30 September 2010	1	0	0	0
Total number of audits	14	14	12*	13
Entities with findings arising from the AGSA's other legal reporting responsibilities:				
Predetermined objectives	4	9	3	4
Compliance with laws and regulations	5	3	1	5

* Western Cape Youth Commission closed during 2008-09 and received a qualified opinion in 2008-09.

It is pleasing to note that the Western Cape's outcomes have improved to a position where it attracted no qualified, disclaimer or adverse opinion for the 2009-10 financial year.

Highlights of the audit outcomes for the year under review are as follows:

- Seven departments, including the provincial legislature registered clean audit opinions (financially unqualified opinion with no findings on predetermined objectives and/or compliance with laws and regulations) for the year under review, which is a 100% increase compared to 2008-09.
- One department, Transport and Public Works, moved from a qualified opinion to a financially unqualified opinion with findings on predetermined objectives and compliance with laws and regulations.
- Five entities registered a clean audit opinion for the year under review, which is a 100% improvement compared to 2008-09.
- The Housing Development Fund and the Liquor Board improved from a disclaimer of opinion and qualified opinion, respectively, to financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations.

Further details are provided in section 3.1.1.

A proposal has been approved by the Premier and the Cabinet for repealing the Western Cape Provincial Development Council Act, 2004 and the establishment of a non-statutory forum for social dialogue in the province. The Western Cape Provincial Development Council will continue to operate until the end of the financial year (31 March 2011).

Health incurred unauthorised expenditure of R70,5 million (2008-09: R89,1 million).

Irregular expenditure was incurred by nine departments (R43,4 million) and two public entities (R2,2 million), because proper SCM processes were not followed. The corresponding figures for 2008-09 are eight departments (R22 million) and two public entities (R4,4 million). Seventeen per cent of the irregular expenditure (R7,5 million) disclosed in the auditees' financial statements was attributable to misstatements identified during the audit process and subsequently corrected by the auditees.



Nine of the 25 auditees incurred a combined amount of R3,4 million (2008-09: R3,8 million) in fruitless and wasteful expenditure due to, among others, the late cancellation of a conference, an asset that was purchased but not received and late payment of invoices.

Further details are provided on unauthorised, irregular and fruitless and wasteful expenditure in section 3.1.4.

According to the disclosures made in their financial statements, four departments and one public entity incurred material losses during the current financial year totalling R24,4 million due to damaged assets or assets which could not be accounted for, damage to government vehicles and debts written off.

Two departments materially underspent their budgets on capital projects by R177,6 million, which resulted in a lack of and/or delayed service delivery.

Further details on material losses and underspending are provided in section 3.1.5.

The financial statements submitted for audit were subjected to material corrections during the audit, as follows:

- Three departments (it includes those with findings in 2008-09).
- Five entities (it includes those with findings in 2008-09).

Of the material misstatements corrected at the departments and entities, 29% related to misclassification and 71% to disclosure.

Financial statements containing material misstatements could conceal matters such as under- or overspending during the year. These material misstatements could have been detected by the departments and entities had management adequately reviewed the financial statements. Refer to section 3.1.6 for further details.

Departments with findings arising from the audit of predetermined objectives decreased from nine to four compared to the previous year. At public entities, findings were raised at three of the 11 audits completed to which predetermined objectives are applicable, compared to four of the 12 audits completed during 2008-09.

Table 2: Summary of findings arising from the audit of predetermined objectives

Category of finding	Departments (including legislature)*		Public entities (including trading and other types of entities)	
	2009-10	2008-09	2009-10	2008-09
Non-compliance with regulatory requirements	23%	50%	9%	31%
Information on performance against predetermined objectives not useful	8%	33%	9%	23%
Information on performance against predetermined objectives not reliable	31%	58%	18%	8%
Information on performance against predetermined objectives not submitted for audit by 31 May 2010	0%	0%	0%	0%
Total number of audits with findings	4	9	3	4



Note: The PRF does not have predetermined objectives. The Western Cape Housing Development Fund does not have its own predetermined objectives as they are included as part of the predetermined objectives of Local Government and Housing.

The percentages in the table relate to those departments and entities that had findings arising from the audit of performance against predetermined objectives information calculated as a percentage of the total number of entities audited.

Nine departments and eight entities had no findings resulting from the audit of performance against predetermined objectives information.

Based on the results of the audits it is evident that the Western Cape has some distance to go before being ready for an audit conclusion to be included in the audit reports in respect of performance against predetermined objectives. For further details refer to section 3.2.

The table below reflects the number (percentage) of departments and entities that failed to comply with the mentioned laws and regulations.

Non-compliance	PFMA	SCM regulations	HR management
Departments	5 of 13	9 of 13	7 of 12*
Entities	1 of 12	2 of 12	Not applicable**

* The review of human resource management did not include the provincial legislature.

** Human resource management was not included as a special focus area for entities for the year under review.

Departments and entities should consider implementing self-assessment procedures through compliance checklists, together with ongoing review and monitoring by management to prevent lapses in compliance with laws and regulations. Furthermore, internal audit should review the adequacy of internal controls in this regard. Refer to section 3.3 for further details.

Significant findings on information technology systems

Departments and entities rely heavily on computerised information systems (chiefly BAS, Persal and Logis in the case of departments) to perform their statutory financial management, reporting and administrative functions. Significant weaknesses identified in the management of information systems include the following:

- At 11 of the 13 departments and seven entities (100% of those reviewed) weaknesses were identified regarding IT governance.
- At nine departments and seven entities weaknesses were identified regarding security management.
- Thirteen departments and seven entities had findings relating to user access control.
- Ten departments and seven entities had findings relating to IT service continuity.

Some of these weaknesses were reported in the prior year but had not been addressed and the risks therefore remain. This was brought to the attention of leadership to enable them to address internal control deficiencies where required. Refer to section 3.4 for further details.



• **Overview of action taken or to be taken to address audit outcomes**

Progress on undertakings given by the executive authority and provincial treasury to address matters previously reported

Subsequent to the 2008-09 roadshow at meetings with the Premier and the legislature in October 2009, the political and administrative leadership made specific commitments that would enable the province to achieve clean audit outcomes in the near future. The commitments included the following:

- Provincial treasury was tasked to provide technical support and training to departments and entities, as well as coordinate and monitor the implementation of financial management improvement plans, and to report to the provincial cabinet on a quarterly basis. The accounting officers and accounting authorities, in turn, had to report on progress to MECs and various boards and councils of departments and entities.
- The external audit findings related to material misstatements in the financial statements and the preparation of more regular financial statements, non-compliance with laws and regulations, predetermined objectives and asset management would be areas of focus.
- Strengthening of the internal audit function and audit committees to assist management in establishing sound internal control, conducting ongoing monitoring and evaluation of the entities' compliance with pre-defined controls and their progress in implementing the action plans.
- Strengthening oversight through improved coordination between SCOPA and the provincial portfolio committees to ensure a holistic oversight of financial management and performance information.

It is pleasing to note that the impact of these initiatives has been the fact that, overall, the audit outcomes for the Western Cape province improved significantly compared to the previous year. The remaining challenge for the Premier and the MECs is to ensure that internal control measures to sustain clean administrations are institutionalised, while doubling efforts to address internal control deficiencies in respect of predetermined objectives, compliance with laws, supply chain management, asset management, as well as material misstatements.

Actions to improve audit outcomes

The lack of improved audit outcomes of certain departments and entities in the province can be attributed to these departments and entities not having addressed the following fundamentals of internal control:

- *Leadership*
- *Financial and performance management*
- *Governance*

The performance of departments and entities in the three fundamental areas of key controls mentioned above can be summarised as follows:



Leadership	Previous good practice maintained or improved		Improvements required	
	Departments	Entities	Departments	Entities
1. Commitments to improve on the audit outcomes by those charged with governance at departments and entities by setting the right tone from the top to create an environment conducive to sound financial management and improved service delivery.				
- Financial statements	8	5	5	7
- Predetermined objectives	9	8	4	3
2. Decisive actions to implement and monitor action plans and key controls at the executive level				
- Financial statements	8	5	5	7
- Predetermined objectives	9	8	4	3
3. Ensure that a proper SCM environment is established and maintained, with properly skilled staff and ongoing monitoring of compliance with applicable laws and regulations to prevent irregular expenditure.	4	10	9	2
4. Leadership's implementation of action plans to address user access control deficiencies.	0	0	13	7

Financial and performance management	Previous good practice maintained or improved		Improvements required	
	Departments	Entities	Departments	Entities
1. Basic daily key controls for processes related to financial reporting. These key controls should also be extended to deal with other disclosure notes in the financial statements and predetermined objectives.				
- Financial statements	10	7	3	5
- Predetermined objectives	9	8	4	3
2. Ensuring that asset registers are reconciled to the physical assets and financial statements on a regular basis.	4	6	9	6
3. Compiling accurate financial statements and performance information and continuously monitoring thereof for quality. Ensuring that performance information is supported with relevant and reliable information.				
- Financial statements	10	7	3	5
- Predetermined objectives	9	8	4	3
4. There are appropriate means (e.g. checklists) for monitoring compliance with laws and regulations on a regular basis.	8	11	5	1
5. Application systems susceptible to compromised data integrity.	0	0	13	7

Governance	Previous good practice maintained or improved		Improvements required	
	Departments	Entities	Departments	Entities
1. Maintain/implement effective risk management strategies, including fraud prevention plans.	12	12	1	0
2. Shared internal audit unit capacity constraints to be addressed/audit committee members to be appointed.				
- Financial statements	10	7	3	5
- Predetermined objectives	9	8	4	3
3. Lack of IT governance framework to direct the positioning of IT, resource requirements, risk and internal control management.	2	0	11	7



Those departments and entities which had not improved their audit outcomes and had findings on predetermined objectives and compliance with laws and regulations must institute measures to comply with the basic key controls around leadership, financial and performance management and governance, as mentioned above. Refer to annexures 5(a) to 5(c) for further details.

For those departments and entities that had improved:

- Management and those charged with oversight and governance continued to be actively involved in fulfilling their monitoring roles and oversight responsibilities by interrogating the reasons for external audit findings and passing resolutions that required action to address them. The leadership (executive as well as management) of departments and entities set the right tone from the top to implement action plans that addressed all audit findings.
- Credible financial management improvement plans (FMIPs) were developed to address matters previously reported relating to expenditure management, asset management, material misstatements in the financial statements, predetermined objectives and compliance with laws and regulations

Commitments made by the executive and legislature that require monitoring in the year ahead

During the meeting of 12 October 2010 when the Auditor-General presented the audit outcomes to the provincial legislature, the provincial executive and legislature made the following commitments:

- The province will aim to improve its audit outcomes for next year.
- Cabinet will continue to monitor the financial management implementation plan and the key issues identified by the provincial treasury's red flag team.
- The IT areas will be an area of focus, and systems would be introduced (through the IT modernisation process) to address weaknesses in the IT systems.
- The Premier acknowledged that there were problems with asset management in certain departments and said these would be addressed to ensure that the province receives clean audit opinions.
- Addressing the findings on predetermined objectives will also be an area of focus for the Premier and MECs.
- To sustain and improve audit outcomes, interaction will take place with various portfolio committees around the audit outcomes to apprise them of the key controls.

The AGSA will continue to monitor progress towards improving audit outcomes against the financial management improvement plan on a quarterly basis.

Initiatives by the AGSA

The AGSA embarked on many initiatives to enhance accountability in the province and to influence the process towards obtaining financially unqualified audit opinions, which included the following.



- The main initiative was to strengthen the relationship with the political and the administrative leadership to deepen the understanding of the AGSA and the mechanisms relating to performance management, and ultimately accountability, thereby paving the road towards improving public confidence.
- Other initiatives included meetings with the Premier, all ministers and the speaker of the provincial legislature to discuss the AGSA's assessment of quarterly key controls for the respective departments and to highlight those areas that they could influence to ensure clean audit outcomes.

Matters that may potentially impact the auditor's report in the coming year

Immovable assets

Accounting reforms include the complete and accurate recording of immovable assets in the annual financial statements of departments, which is expected to receive significant attention in the year ahead. Although the Department of Transport and Public Works has a custodian immovable asset management plan in place, as required by the Government Immovable Asset Management Act (GIAMA), it would be important to ensure that the leadership of the department monitors the implementation of the plan to comply with GIAMA.

Finance leases

Following recent guidance received from National Treasury, the use of Government Motor Transport vehicles must be accounted for as a finance lease. It is envisaged that accounting for this would be complex and the departments and entities should plan appropriately for this significant change.

• Overview of specific focus areas

Significant findings raised during audits of human resource management and compensation of employees (departments only)

The regularity audits of departments included an assessment of departments' compliance with legislation that supports effective human resource management and controls over compensation of employees.

The audits revealed that seven departments did not comply with all the requirements for effective human resource management system. These weaknesses impact the departments' financial management, as well as their ability to deliver services in accordance with their mandates. Weaknesses were identified in the following areas:

- Human resource planning and organisation
- Job evaluation
- Management of vacancies
- Appointment process
- Acting positions
- Budget control
- Senior management performance agreements
- Suspensions



In general the audits established that compensation of employees is not an area of high risk. The weaknesses in the controls over compensation identified at nine departments in the following areas are, however, of concern:

- Sick and incapacity leave
- Leave administration
- Performance bonuses
- Management of overtime
- Service terminations
- Payroll controls

Conclusion

Whilst this is not a notable weak area for the Western Cape, the leadership has to implement and monitor internal control measures necessary to ensure compliance with the PFMA, Treasury Regulations, the Public Service Act, 1994, Public Service Regulations, 2001 and directives/determinations issued by the Minister of Public Service and Administration (MPSA) that support effective human resource management and controls over compensation to ensure that the lapses listed above do not have an adverse impact on the management of human resources. A concerted effort must also be made to fill vacancies of key positions in senior management and, specifically, in the finance units.

Significant findings raised during audits of procurement and contract management

The regularity audits included an assessment of the procurement processes and contract management and the controls implemented by auditees to ensure a fair, equitable, transparent, competitive and cost-effective SCM system that prevents and detects fraud, non-performance by suppliers and non-compliance with SCM legislation. The audits revealed that a total of six departments had findings on procurement and contract management:

- Two employees with an interest in a supplier conducted business in two different departments (Social Development and Transport and Public Works).
- Close family members of two employees in two separate departments (Agriculture and Community Safety) had interests in suppliers doing business with the departments.
- Two employees in two different departments (Health and Premier) did not have approval to perform other remunerative work.

Legislation applicable to the declaration of such interests was not always complied with due to ineffective monitoring by the leadership. We noted, however, that the findings listed in the report entitled *Performance audit of entities that are connected with government employees and doing business with departments* tabled on 12 June 2009 had been substantially investigated and appropriately dealt with by all departments.

Non-compliance with SCM legislation resulted in R13,8 million in irregular expenditure out of a total of R45,6 million incurred in the year under review, details of which have been included in paragraph 3.1.4.2 of this report. (The balance of the irregular expenditure included in the R45,6 million related to non-compliance with financial delegations, finance leases and human resource management regulations.)



Non-compliance with the SCM legislation was identified at nine departments. The most significant findings were as follows:

- Competitive bidding deviation not justified (two departments, namely Health and Transport and Public Works)
- Use of sole suppliers without adequate motivation (two departments, namely Health and Transport and Public Works)
- Emergency procurement without adequate motivation (two departments, namely Health and Transport and Public Works)
- Contracts amended/extended/renewed without adequate motivation (two departments, namely Health and Local Government and Housing)
- Three quotations not obtained and no reasons recorded and / or approved (three departments, namely Cultural Affairs and Sport, Education and Health).

The root cause of these weaknesses relates to controls not being implemented and monitored by the leadership to prevent and detect instances of non-compliance and failure. The following control deficiencies were most prevalent:

- Lack of SCM policies/procedures, or the policies/procedures were in conflict with legislation
- Inadequate segregation of duties in procurement
- SCM officials were not adequately trained
- Risk assessments did not address procurement and contract management risks
- Fraud prevention plans did not include specific measures for procurement
- Internal audit units did not perform an evaluation of SCM compliance.

Conclusion

Many of the above findings resulted mainly from ineffective monitoring by the leadership to ensure compliance with SCM regulations. The non-compliance specifically pertaining to interests in contracts, however, should be largely addressed with the proposed Western Cape legislation to prohibit government officials from performing remunerative work for provincial government.

Investigations and performance audits

Details of investigation and performance audits are contained in the sections 3.5 and 5.3 of this report.

Investigations

Investigations were completed at three departments during the year under review and investigations were in progress at nine departments and at two public entities at year-end.

Performance audit

The AGSA conducted a performance audit of the infrastructure delivery process at the Departments of Health and Education as part of a transversal performance audit on infrastructure delivery. The audits identified various shortcomings in the areas mentioned below, which the leadership of the two departments undertook to correct:

- Demand management (needs determination, budgeting, planning)
 - Acquisition management (tender process, appointment of contractors)
 - Project management and information
 - Commissioning and utilisation.
- **Overview of status of provincial consolidation and status of tabling of annual reports**

The audit of the consolidated financial statements for departments and public entities was completed on 3 December 2010 and 18 November 2010, respectively, well within the three-month deadline from receipt of the financial statements. The consolidations continue to take the form of an aggregation of the financial information and do not constitute a consolidation in the normal accounting sense. An agreed-upon procedures audit is conducted. The province is urged to improve the status of the consolidation of departments to the stage where an audit opinion can be expressed thereon.

The status of tabling of the 2009-10 annual reports is provided in section 7 of this general report, which indicates that all the annual reports of departments and entities were tabled between 22 and 30 September 2010 in accordance with section 65(1)(a) of the PFMA.

2.2 Part B: Audits not conducted by the AGSA

- **Overview of audit outcomes**

This is the first year that the so-called section 4(3) audit of Casidra (Pty) Ltd is included in the analysis of the audit outcomes for the Western Cape. Section 4(3) audits are those audits which the Auditor-General had opted not to perform in terms of the Public Audit Act, 2004.

Casidra received a financially unqualified audit opinion with findings on predetermined objectives.

Findings on predetermined objectives

Material findings and shortcomings in the processes, systems and procedures were identified in the audit of Casidra's predetermined objectives, leading to findings in the areas of the usefulness and reliability of the reported predetermined objectives.



The main root cause is that the accounting officer did not implement an effective, efficient and transparent system and internal control regarding predetermined objectives that describe and represent how the entity's processes of performance planning, monitoring, measurement, review and reporting will be conducted, organised and managed.

Concluding comments on audit outcomes

Overall, the results of departments and entities in the province represent a positive outcome given the absence of qualified, disclaimer or adverse audit opinions.

However, attention needs to be given to areas affecting compliance with laws and regulations and reporting on achievement against predetermined objectives and transversal material misstatements. To this end, the province has some distance to go before realising the ultimate audit outcome of clean administration for all the departments and entities.

- **Overview of status of tabling of annual report**

The status of tabling of the 2009-10 annual report of the one public entity not audited by the AGSA is provided in section 7 of this general report, which reflects that the public entity tabled its annual report in accordance with section 65(1)(a) of the PFMA.

PART A - AUDITS CONDUCTED BY THE AGSA

SECTION 3: OVERVIEW OF AUDIT OUTCOMES FOR 2009-10

3.1 Summary of audit outcomes

The table below provides details of the 2009-10 audit outcomes of departments (including the provincial legislature and the PRF) and public entities (including trading entities and other types of entities). The table also reflects the status of completion of the 2009-10 audits as at 31 August 2010.

Table 3: Summary of audit outcomes

Audit outcomes	Departments (including legislature and revenue fund)		Public entities (including trading and other types of entities)	
	2009-10	2008-09	2009-10	2008-09
Opinion on financial statements:				
Disclaimer	0	0	0	1
Adverse	0	0	0	0
Qualified	0	1	0	2
Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations	6	13*	7	10
Financially unqualified with no findings on predetermined objectives or compliance with laws and regulations	7	0	5	0
Total number of audits reported on	13	14	12	13
Number of audits not finalised at legislated date for submission to the executive authority – 30 September 2010	1	0	0	0
Total number of audits	14	14	12**	13
Entities with findings arising from the AGSA's other legal reporting responsibilities:				
Predetermined objectives	4	9	3	4
Compliance with laws and regulations	5	3	1	5

* It should be noted that this comparative (2008-09) for departments have been restated to include the PRF, which is being reported on for the first time in the current general report.

** The Western Cape Youth Commission was liquidated in 2008-09.

Departments

- Financially unqualified with no findings on predetermined objectives and/or compliance with laws and regulations (seven): These are Agriculture, Community Safety, Cultural Affairs and Sport, Economic Development and Tourism, Environmental Affairs and Development Planning, the provincial legislature and provincial treasury.
- Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations (six): They are Education, Health, Local Government and Housing, Premier, Social Development and Transport and Public Works.



3.1.1 Movements in audit outcomes

Table 4: Movements in audit outcomes

Type of auditee	Unchanged	Improvement	Regression	New entities or those no longer in existence	Total
Departments	5	8	0	0	13
Public entities	5	7	0	1*	13
Total number of audits reported on	11	14	0	1	26

* One public entity, the Western Cape Youth Commission was liquidated in 2008-09.

The overall audit outcomes for departments and entities have improved. It is pleasing to note that the Western Cape does not have any qualified, disclaimer or adverse opinions for the 2009-10 financial year, while none had regressed.

Departments

Improvements (eight)

Of the eight improvements, seven departments, namely Agriculture, Community Safety, Cultural Affairs and Sport, Economic Development and Tourism, Environmental Affairs and Development Planning, provincial treasury and provincial legislature, improved from a financially unqualified opinion with findings on predetermined objectives and/or compliance with laws and regulations to a financially unqualified opinion with no findings on predetermined objectives and/or compliance with laws and regulations.

The remaining one, Transport and Public Works, moved from a qualified opinion to a financially unqualified opinion with findings on predetermined objectives and/or compliance with laws and regulations.

Unchanged (five)

Five departments, namely Education, Health, Local Government and Housing, Premier, Social Development were financially unqualified opinion with findings on predetermined objectives and/or compliance with laws and regulations.

Entities

Five public entities, namely Heritage Western Cape, Destination Marketing Organisation (trading as Cape Town Routes Unlimited), Western Cape Gambling and Racing Board, Western Cape Nature Conservation Board and Western Cape Provincial Development Council, were financially unqualified with no findings on predetermined objectives and/or compliance with laws and regulations.



Seven entities, namely Western Cape Cultural Commission, Cape Medical Depot, Government Motor Transport, Western Cape Housing Development Fund, Western Cape Investment and Trade Promotion Agency, Western Cape Language Committee and Western Cape Liquor Board, were financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations.

Improvements (seven)

Of the seven entities that improved, five moved from a financially unqualified opinion with findings on predetermined objectives and/or compliance with laws and regulations to a financially unqualified opinion with no findings on predetermined objectives and/or compliance with laws and regulations. They are Heritage Western Cape, Destination Marketing Organisation (trading as Cape Town Routes Unlimited), Western Cape Gambling and Racing Board, Western Cape Nature Conservation Board and Western Cape Provincial Development Council.

Two other entities, the Western Cape Housing Development Fund and Western Cape Liquor Board, moved from a disclaimer and a qualified opinion, respectively, to a financially unqualified opinion with findings on predetermined objectives and/or compliance with laws and regulations.

Unchanged (five)

Five entities, namely Western Cape Cultural Commission, Cape Medical Depot, Government Motor Transport, Western Cape Investment and Trade Promotion Agency and Western Cape Language Committee, were financially unqualified opinion with findings on predetermined objectives and/or compliance with laws and regulations.

The improvements in the outcomes of departments and entities can be attributed to the following:

- The leadership (ministers, accounting officers and accounting authorities) of departments and entities set the right tone at the top in creating an environment that is conducive to good accountability and service delivery through positive attitude, integrity, competence and ethical behaviour.
- The leadership, together with provincial treasury, committed to driving a process through financial management improvement plans to address the AGSA's previous audit findings, which were monitored by the audit committees on a quarterly basis.

Conclusion

Whilst there has been a commendable improvement in the audit outcomes for departments and entities since the previous year, the challenge of improving outcomes in the areas of compliance with laws and regulations and predetermined objectives in order to achieve clean administration remains. Another area that requires attention is transversal material misstatements in the financial statements, which are not identified by the audit entities' systems of internal control.

Moreover, the sustainability of those departments and public entities with clean administrations is a formidable task and is only possible provided that the good practices, as discussed in section four, are institutionalised in their systems.

3.1.2 Financial statement audit

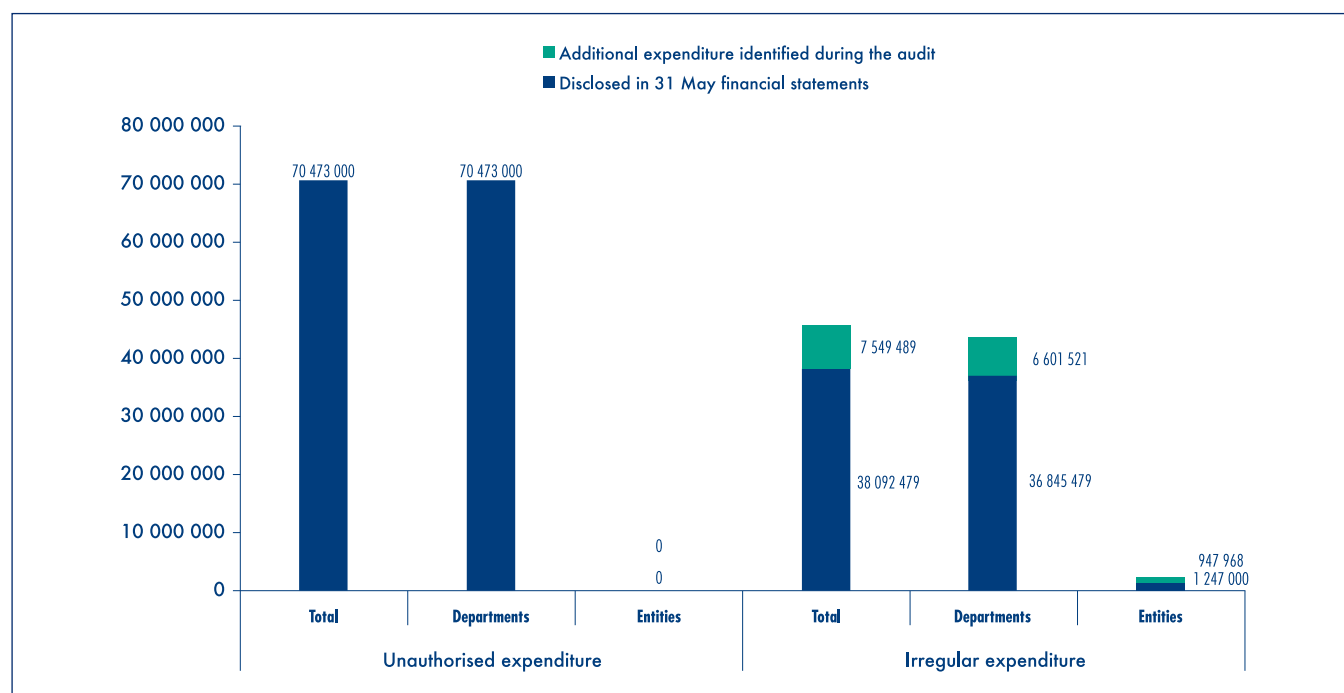
There were no areas in the financial statements of departments and entities in the Western Cape that were qualified for the year under review.

3.1.3 Funding of operations/financial sustainability/going concern

A proposal has been approved by the Premier and the Cabinet for repealing the Western Cape Provincial Development Council Act and the establishment of a non-statutory forum for social dialogue in the province. The Western Cape Provincial Development Council will continue to operate until the end of the financial year (31 March 2011).

3.1.4 Unauthorised, irregular, and fruitless and wasteful expenditure incurred during the year

Figure 1: Unauthorised and irregular expenditure incurred during the year



According to the disclosures made in their financial statements, one department incurred unauthorised expenditure of R70,5 million, while in the case of nine of the 13 departments, including the provincial legislature and two public entities, irregular expenditure amounting to R45,6 million was identified during the current financial year. Of the irregular expenditure, 17% or R7,5 million is attributable to misstatements that were identified during the audit and subsequently corrected by the auditees.

Findings with regard to unauthorised expenditure were also reported in 2008-09. This remains a risk as the financial management improvement plans of many departments and entities do not address the root causes in this regard.

3.1.4.1 Unauthorised expenditure – R70,5 million

Table 5: Unauthorised expenditure (PFMA)

Type of auditee	Nature and extent of unauthorised expenditure					
	Overspending of vote/main division of vote			Spending not in accordance with purpose of vote		
	Number	%	R'000	Number	%	R'000
Departments	1	8%	70 473	0	0%	0
Total	1	8%	70 473	0	0%	0

One department (Health) of the 13 audited incurred unauthorised expenditure R70,5 million as a result of increased patient activity, a higher than anticipated inflation rate on medical and surgical sundries, especially medicines, an unexpected outbreak of diseases such as H1N1 and measles, the impact of HIV/Aids and tuberculosis on laboratory costs, the inadequacy of the National Treasury services grant and the health professions training and development grant, as well as the higher than funded levels of occupational specific dispensations and improvements of conditions of service.

3.1.4.2 Irregular expenditure – R45,6 million

Table 6: Irregular expenditure

Type of auditee	Nature and extent of irregular expenditure								
	Related to SCM			Related to compensation of employees			Other		
	Number	%	R'000	Number	%	R'000	Number	%	R'000
Departments	9	69%	11 654	1	8%	7	5	38%	31 786
Public entities	2	17%	2 195	0	0%	0	0	0	0
Other entities (trading, etc.)	0	0%	0	0	0%	0	0	0%	0
Total	9	36%	13 849	1	9%	7	5	38%	31 786

The breakdown of the nine departments and two public entities that incurred irregular expenditure due to proper SCM processes not being followed is as follows:

Departments

- The nine departments are Agriculture, Cultural Affairs and Sport, Education, Environmental Affairs and Development Planning, Health, Local Government and Housing, Premier, provincial legislature and provincial treasury. Of this amount, R1,8 million was as a result of misstatements identified during the audit.



Public entities

- The two public entities are Western Cape Gambling and Racing Board and Western Cape Investment and Trade Agency. Of this amount, R0,9 million was as a result of misstatements identified during the audit.

The root cause of the transgressions was that although SCM policies were in place, there were instances of poor planning and deliberate disregard for these policies. Furthermore, there were inadequate monitoring and review by leadership with regard to compliance with SCM regulations and policies, using sole suppliers, emergency procurement, amendment and extension to contract without documenting the reasons, as well as the reasons behind it.

3.1.4.3 Fruitless and wasteful expenditure – R3,4 million

Nine auditees incurred a combined amount of R3,4 million in fruitless and wasteful expenditure. This includes seven departments with an amount of R3,3 million and two public entities that incurred an amount of R0,1 million. The fruitless and wasteful expenditure relates to the late cancellation of a conference, an asset that was purchased but not received and late payment of invoices.

3.1.5 Material losses, material impairment of assets and material underspending of the vote/conditional grant

Table 7: Material losses, material impairment of assets and material underspending of the vote/conditional grant

Type of auditee	Extent of material losses, impairments and underspending											
	Material losses			Material impairment of assets			Material underspending of vote			Material underspending of conditional grant		
	Number	%	R'000	Number	%	R'000	Number	%	R'000	Number	%	R'000
Departments	4	31%	9 981	1	8%	7 347	2	15%	177 570	1	8%	83 988
Public entities	1	9%	14 379	0	0%	0	0	0%	0	0	0%	0
Total	5	20%	24 360	0	4%	7 347	2	8%	177 570	1	4%	83 988

3.1.5.1 Material losses

According to the disclosures made in their financial statements, four departments (Agriculture, Economic Development and Tourism, Education and Health) and one public entity (Western Cape Housing Development Fund) incurred material losses during the current financial year totalling about R24,4 million due to damaged assets or assets not accounted for, damage to government vehicles and debts written off.

3.1.5.2 Material impairments

One department (Premier) disclosed material impairments in its financial statements due to assets that could not be located and redundant assets identified during the audit. The department was investigating these assets to determine whether they could be written off in accordance with the prescribed thefts and losses process.



3.1.5.3 Material underspending of a vote/conditional grant

Health materially underspent its budget on programme 8 (Health Facilities Management) by an amount of R92,7 million. The impact of this underspending was a delay in the awarding of tenders and roll-out and/or commencement of capital projects, which included the building of new hospitals.

Local Government and Housing also materially underspent its budget by an amount of R84,9 million on programme 2 (housing) due to underperformance on the N2 Gateway project, as a result of the closing down of Thubelisha Homes and contractors not being paid, as well as the withholding of conditional grants to certain municipalities for the delivery of houses due to alleged irregular expenditure, resulting in a delay with the delivery of houses.

3.1.6 Transversal material misstatements corrected during the audit

All departments and entities did not produce monthly financial statements. It was encouraging to note, however, that in anticipation of the move towards monthly financial statements, all the departments with the exception of Health had started preparing six-monthly financial statements. These interim financial statements were reviewed by internal audit and this assisted in reducing the number of audited entities with transversal material misstatements in the current year under review compared with the previous year, as reflected in figure 2 below. It is indeed pleasing to note that there has been a positive response to the AGSA’s messages around key controls to produce financial statements more regularly.

Figure 2.1: Transversal material misstatements corrected during the audit – Departments

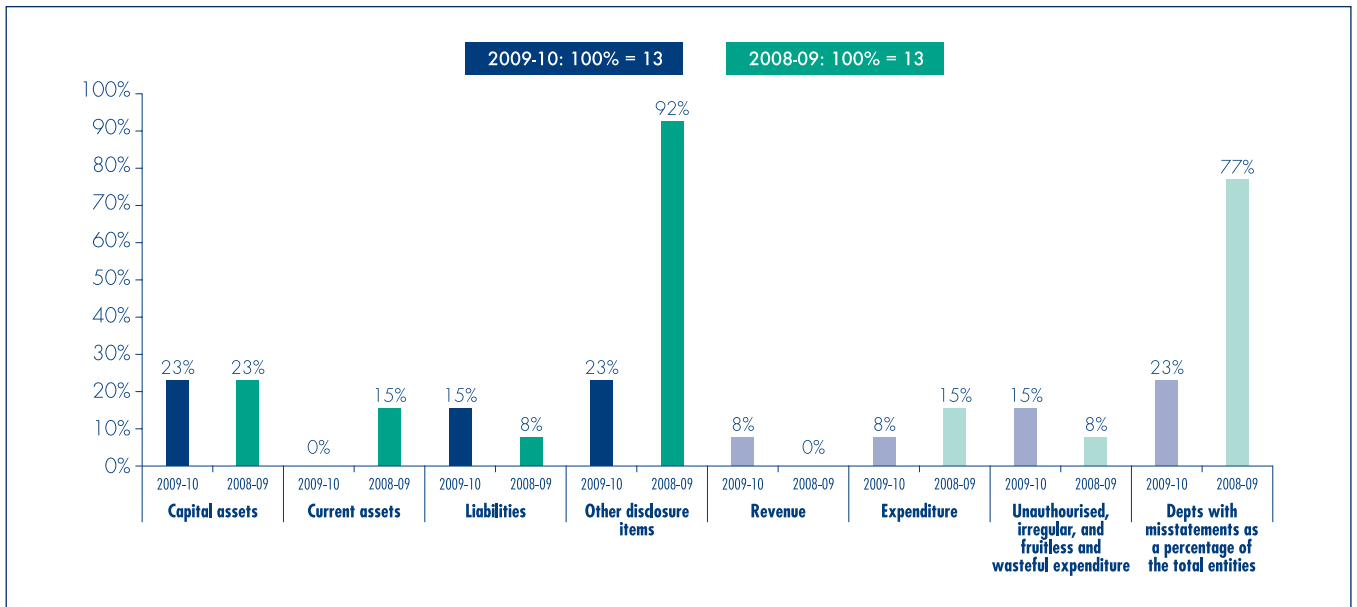
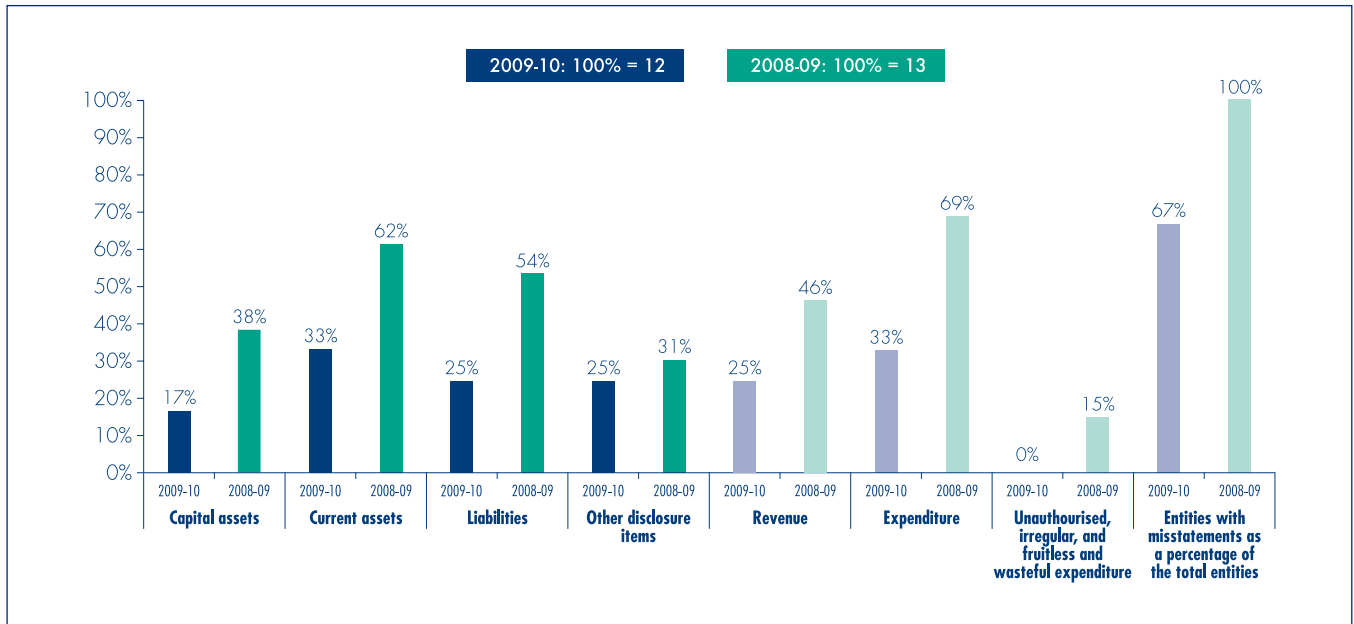


Figure 2.2: Transversal material misstatements corrected during the audit - Entities



Transversal material misstatements in financial statements

Financial statements submitted for audit purposes were subjected to transversal material corrections during the audit at three of the 13 departments and five of the 12 entities. Of the material misstatements corrected at the departments and provincial public and other entities, 29% related to misclassification and 71% to disclosure. Thirty-two per cent (2008-09: 88%) of all departments and entities analysed required material adjustments.

The improvement can be ascribed to the following initiatives:

- Management of departments and certain entities prepared six-monthly financial statements, which were reviewed by internal audit to identify and correct potential material misstatements before the final audit process. (Health chose not to prepare six-monthly financial statements for 2009-10 due to practicality considerations around multi locations of academic institutions and districts.)
- The financial statements were subjected to more rigorous review by management before the financial statements were submitted for auditing purposes.
- Independent reviews of the financial statements were carried out by audit committees, especially for entities, before the financial statements were submitted for audit purposes. (The impact by audit committees for departments was limited as the departments only presented their financial statements to the audit committees for review close to or after 31 May 2010.)

An analysis of transversal material misstatements per account area is as follows:



Departments / Entities	Financial statement areas corrected						
	Capital assets	Current assets	Liabilities	Other disclosure items	Revenue	Expenditure	Unauthorised, irregular, and fruitless and wasteful expenditure
Health							
Premier							
Transport and Public Works							
Total departments corrected	3	0	2	3	1	1	2
Provincial Housing Development Fund							
Western Cape Liquor Board							
Western Cape Cultural Commission							
Cape Medical Depot							
Government Motor Transport							
Total entities corrected	2	4	3	3	3	4	0

The reasons for the misstatements were largely the same as for the previous year and were again as follows:

- Ineffective leadership monitoring and lack of the production of monthly financial statements by the finance unit or at the least six-monthly financial statements by certain entities and one of the departments, namely Health.
- The departments and entities did not respond to provincial treasury and internal audit’s recommendations on their review of the financial statements in a timely manner to prevent material misstatements before the final audit process.
- Information was not captured in a form and time frame to support accurate and complete financial reporting and disclosure notes, for example, accruals and commitments which are not system generated are only produced once a year due to inadequate manual and/or automated processes.
- There was a lack of basic key controls, such as asset counts, reconciliations between the asset registers and late guidance from National Treasury to account for sector specific immovable assets in the case of Transport and Public Works, while irregular expenditure was not identified and recorded on an ongoing basis.

Recommendations

Material misstatements could have been detected by the departments and entities’ financial management system had adequate reviews been undertaken of the financial statements prior to submission for audit and if processes related to disclosure notes and irregular expenditure had been implemented and continuously monitored. It is recommended that the following measures be considered:



- The preparation of the financial statements should be driven by the daily and monthly financial activities and not commence at year-end.
- Monthly financial reporting on all financial disclosure requirements will also ensure that proper skills are developed to submit accurate financial statements at year-end.
- Manual and/or automated processes should be implemented to ensure that information required for disclosure purposes is collated and recorded in a timely manner to facilitate complete and accurate financial reporting.
- More rigorous reviews of the financial statements are required by management and audit committees before those financial statements are submitted for audit purposes.

3.2 Findings on predetermined objectives

The objective of an audit of performance information is to enable the auditor to conclude whether the reported performance against predetermined objectives is reliable, accurate and complete, in all material respects, based on predetermined criteria.

All departments and provincial public and other entities subject to an audit of performance against predetermined objectives information in terms of *General Notice 1570 of 2009*, issued in *Government Gazette No. 32758 of 27 November 2009*, are required to submit their annual performance reports for auditing together with the annual financial statements.

Based on an assessment of audit readiness, it was decided that for the 2009-10 audit cycle, while all audit work will focus on the expression of an opinion on the performance information of national and provincial departments, their public entities and metropolitan councils and their municipal entities, such opinions will not yet be lifted to the level of individual audit reports. Instead, a reflection on the public entities' performance information, should an opinion have been expressed, will be contained at management report level. An opinion will thus be prepared but not expressed publicly beyond being annexed to the management report as part of the readiness strategy.

3.2.1 Conclusions on audit of predetermined objectives

The levels of significance of the findings on the audit of predetermined objectives are as follows:

- Disclaimer: One department (Transport and Public Works)
- Adverse: One department (Health) and two entities (Western Cape Investment and Trade Promotion Agency and Western Cape Liquor Board)
- Qualified conclusions included two departments, namely Local Government and Housing and Social Development, and one entity (Western Cape Language Committee).

The findings were due to the following:

- Material non-compliance with regulatory requirements
- Performance against predetermined objectives not being consistent with objectives, indicators and targets as per the approved strategic/annual performance plans

- The lack of appropriate systems to generate information on performance against predetermined objectives and the source information or evidence provided to support the reported information on performance against predetermined objectives not adequately supporting the accuracy and completeness of the facts throughout.

Table 8: Summary of findings arising from the audit of predetermined objectives

Category of finding	Departments (including legislature)		Public entities (including trading and other types of entities)*	
	2009-10	2008-09	2009-10	2008-09
Non-compliance with regulatory requirements	23%	50%	9%	31%
Information on performance against predetermined objectives not useful	8%	33%	9%	23%
Information on performance against predetermined objectives not reliable	31%	58%	18%	8%
Information on performance against predetermined objectives not submitted for audit by 31 May 2010	0	0%	0	0%
Total number of audits with findings	4	9	3	4

* Western Cape Housing Development Fund did not have separate predetermined objectives, as they were included as part of the predetermined objectives of Local Government and Housing.

The percentages relate to those departments and entities that had findings on the audit of performance against predetermined objectives information, calculated as a percentage of the total number of entities audited.

Explanation of the various audit finding categories

Non-compliance with regulatory requirements

All 13 departments, including the legislature, as well as 11 entities were subjected to auditing in this area.

Non-compliance with regulatory requirements refers to the preparation of the integrated development plan/strategic/corporate/annual performance plan, submission to those delegated for approval depending on the type of institution, the evaluation of the contents for achieving objectives and indicators and the subsequent reporting. Findings relate mainly to a lack of reporting on performance against predetermined objectives, lack of effective, efficient and transparent systems and internal controls regarding performance management and a lack of or inadequate quarterly reporting on performance against predetermined objectives.

Three out of 13 departments, namely Health, Transport and Public Works and Social Development and one out of 11 entities namely Western Cape Investment and Trade Promotion Agency, had a finding relating to non-compliance with section 40(3)(a)/55(2)(a) of the PFMA.

Usefulness of information on performance against predetermined objectives

Our audit focused on the consistency, relevance and measurability of planned and reported information on performance against predetermined objectives.



Usefulness of information on performance against predetermined objectives refers to the reported information being consistent with the objectives and targets and whether the targets are clearly linked to the mandate and objective of the institution, specific and clearly identifying the nature and required level of performance, as well as measurable and time bound. The reported information on performance against predetermined objectives at one out of 13 departments, namely Health, and one out of 11 entities, namely Western Cape Language Committee, was not useful when measured against the aforementioned criteria.

Reported information on performance against predetermined objectives not reliable

The audit focused on whether the reported information on performance against predetermined objectives could be traced back to the source data or documentation and whether the reported information is accurate, complete and consistent in relation to the source data, evidence or documentation. In the case of four out of 13 departments and two out of 11 public entities, namely Health, Transport and Public Works, Social Development, Local Government and Housing, Western Cape Investment and Trade Promotion Agency and Western Cape Liquor Board, the reported information on performance against predetermined objectives was not reliable, measured against the aforementioned criteria.

Information on performance against predetermined objectives not submitted for audit

All of the 24 entities audited in the current year provided information on performance against predetermined objectives in time for audit purposes.

Auditees with no findings at all in the four categories considered as a whole

Of the reports that have been analysed, the following nine departments and eight entities had no findings resulting from the audit of performance against predetermined objectives information:

Departments (nine): Agriculture, Community Safety, Cultural Affairs and Sport, Education, Economic Development and Tourism, Environmental Affairs and Development Planning, Premier, provincial treasury and provincial legislature.

Entities (eight): Cape Medical Depot, Destination Marketing Organisation, Government Motor Transport, Heritage Western Cape, Western Cape Cultural Commission, Western Cape Gambling and Racing Board, Western Cape Provincial Development Council and Western Cape Nature Conservation Board.

Conclusion

Considering the number of qualified audit findings (seven or 29%) it is evident that the Western Cape has some distance to go before being ready for an audit conclusion to be included in the audit reports regarding performance against predetermined objectives.

The auditing of performance objectives has been on the agenda of audit steering committee meetings where management was encouraged to comply with the legislated requirements. At our quarterly stakeholder interactions with the ministers and leadership of the departments, the importance of the quality, reliability and



usefulness of the predetermined objectives reported has been stressed and this awareness has yielded positive commitments from the leadership. This was also discussed at a briefing session with other external stakeholders like audit committees and the standing committee on public accounts.

3.3 Findings on compliance with laws and regulations

Table 9: Summary of findings relating to compliance with laws and regulations

Top 3 categories of non-compliance and SCM issues	Number	Percentage
Departments (including legislature and PRF)		
Lack of safeguarding of assets	1	8%
Risk management and fraud prevention	1	8%
Provisions relating to the Division of Revenue Act	2	15%
SCM issues that resulted in irregular expenditure	9	69%
Public entities (including trading and constitutional institutions and other types of entities)		
Risk management	1	8%
SCM issues that resulted in irregular expenditure	2	17%

In total, five out of 13 departments and two out of 12 entities had findings on compliance with laws and regulations, as highlighted in their audit reports. The areas of non-compliance with laws and regulations relate to the PFMA at two departments and one entity, and to other applicable legislation (Division of Revenue Act) at two departments.

Non-compliance with SCM regulations that resulted in irregular expenditure was found at nine departments and two public entities.

PFMA

- One department (Premier) had findings on general, fiduciary and reporting responsibilities relating to asset management not being met (section 38(1) of the PFMA).
- One department (Transport and Public Works) and one entity (Western Cape Investment and Trade Promotion Agency) failed to update their risk management and fraud prevention plans.
- Two departments (Education and Health) did not comply with the grant conditions as per the Division of Revenue Act.

Supply chain management

In addition to the matters mentioned above and as highlighted in the audit reports, an analysis of the management reports and financial statements revealed that nine departments incurred irregular expenditure as a result of non-compliance with SCM regulations, namely Cultural Affairs and Sport, Education, Environmental Affairs and Development Planning, Health, Local Government and Housing, provincial legislature, provincial treasury, Premier and Social Development.



Similarly, two entities (Western Cape Gambling and Racing Board and Western Cape Trade Promotion Agency) incurred irregular expenditure as a result of non-compliance with SCM regulations.

Root causes/control deficiencies

The above lapses occurred mainly as a result of ineffective monitoring by the leadership of the affected entities to identify deficiencies in compliance with laws and regulations, as well as ineffective actions to mitigate the risks and implement timely corrective actions to address non-compliance.

The way forward

The leadership (accounting officers and accounting authorities) of the affected departments and entities should implement appropriate measures, for example checklists, to improve regular monitoring of compliance with laws and regulation.

Furthermore, the financial management improvement plans should address the findings on compliance with laws and regulations and adherence to the plan should be monitored by the appropriate level of management in departments and entities.

3.4 Information technology systems matters

IT general controls are those controls relating to the IT infrastructure and are imbedded in information system management processes. The objective of these audits is the evaluation of the effectiveness of IT controls to ensure that:

- financial and sensitive computer systems are only accessed by authorised officials
- systems are developed, enhanced, configured and implemented so that they are effective, functional and secure
- critical information is recoverable and usable in the event of disasters and disruptions
- financial information processes as stored in the computer systems are reliable for financial reporting purposes.

Departments are heavily reliant on computerised information systems (e.g. the BAS, Persal and Logis) to perform their statutory financial management, reporting and administrative functions. These transversal systems are centrally supported by National Treasury. SITA provides important computer networking infrastructure, data storage and retrieval services in this regard; however, there are certain controls that are mainly the responsibility of the departments, namely user access management, security management and IT service continuity.

IT general control audits were performed at 13 departments and seven entities. Five entities were not subject to these reviews, as a decision was taken at the time that it would be more efficient to audit around the computer, i.e. to discount the effect of computer controls and to test compensating controls, as part of detailed audit testing. The following table indicates the number of common focus area findings raised during those audits:

Table 10: Audit findings raised on common IT focus areas

IT focus area findings	Percentage of audited departments with finding	Percentage of audited entities with finding
IT governance	85%	100%
Security management	69%	100%
User access control	100%	100%
Information technology service continuity	77%	100%

The detail findings relating to the audited focus areas include the following:

- Inadequate user access control to ensure that only valid and authorised users are allowed access to initiate and approve transactions on the system and also that user access is adequately segregated when transactions are captured and approved.
- Security management controls did not prevent unauthorised access application systems that generates and prepare financial statements.
- IT service continuity controls could not ensure the availability of financial and performance information in instances of data loss or a disaster.
- Inadequate IT governance structures, policies and processes to ensure that IT supports and extends the strategies and objectives of departments and entities.

Fundamentals of internal control to be addressed

- CFOs have to develop, monitor and enforce user access controls, such as user creation procedures and periodic reviews of the activities of system controllers and users on the applications that generate the financial statements.
- Information technology officers (ITOs), in consultation with SITA, and chief information officers (CIOs) have to clearly define security roles and responsibilities and implement network and operating system security controls that would detect and prevent unauthorised access to the application systems that generate financial information.
- Departments and entities must have business continuity plans that would enable SITA, the ITOs and CIOs to develop disaster recovery plans that are aligned to business requirements.

Accounting officers and accounting authorities have to be involved in the oversight of IT governance processes and must capacitate IT departments with resources that will ensure adequate implementation of an IT plan.

3.5 Investigations and performance audits

3.5.1 Investigations

3.5.1.1 Investigations in progress

Department/Entity	Details
Community Safety	An investigation was conducted into asset shortages identified during an asset verification process.
Cultural Affairs and Sport	At the entity's request, an investigation was conducted by an independent consulting firm into alleged irregularities with regard to the procurement of goods services.



Department/Entity	Details
Education	<ul style="list-style-type: none"> An investigation was conducted by the AGSA during August 2008 into entities that are connected with government employees and doing business with departments of the Western Cape Provincial Administration. Investigation into alleged fruitless and wasteful expenditure relating to infrastructure projects. Investigation by the Forensic Investigative Unit into the alleged abuse of power and preferential procurement with reference to Education Library and Information Services (EDULIS) and alleged learner transport irregularities. At year-end 98 investigations were in progress. These investigations relate to alleged fraud/misappropriation of funds in the department and at a school level.
Environmental Affairs and Development Planning	Two investigations are being conducted with regard to alleged procurement corruption and alleged use of government resources.
Economic Development and Tourism	<p>An investigation into the alleged embezzlement of funds at a BEE Foundation was in progress.</p> <p>Investigation into alleged fraud and corruption in a trust relating to the use of guarantees from the trust to purchase trading stock which was not paid for, while the guarantees were also not repaid.</p>
Health	As result of a SCOPA resolution, an investigation was conducted by an independent consultant into six cancelled contracts pertaining to prior year issues raised by both SCOPA and the AGSA, involving the Western Cape Nursing College and the Valkenberg Hospital.
Premier	Two financial irregularity matters relating to the purchase by a staff member of goods for own use and a possible related-party issue in procurement.
Transport and Public Works	<p>Investigation as a result of a SCOPA resolution into alleged fruitless and wasteful expenditure incurred on infrastructure projects, which include the Western Cape Nurses College, Valkenberg High Care Nurses Admission Unit and various schools.</p> <p>Investigation of contractor exceeding contract value with regard to the construction of the Table View Primary, Samora Machel and Kuyasa schools. The contractor exceeded the contract value to complete the contracts and the excess may be considered fruitless and wasteful expenditure.</p>
Social Development	Twenty-five cases were referred to the provincial forensic investigative unit for investigation, of which 15 were finalised at the end of the financial year. Ten cases were still in progress at the end of the financial year, of which eight relate to alleged irregularities, one to alleged fraud and one to non-disclosure of business interest.
Western Cape Gambling and Racing Board	Included in legal expenses is expenditure which is considered irregular as the board's SCM process was not followed. These transactions were referred to the MEC for Finance, Economic Development and Tourism, for investigation in terms of Treasury Regulation 33.1.3.
Western Cape Nature Conservation Board	An investigation was conducted by an independent consulting firm into the alleged fraudulent activities of a member of staff. The amount involved was R46 399. The investigation resulted in criminal proceedings being instituted against the employee who was dismissed by the entity.

3.5.1.2 Investigations completed during the financial year

Department/Entity	Details
Community Safety	An investigation into alleged fraud relating to the procurement of goods and services was finalised during the year. A debtor for an amount of R115 931 (R107 976 relating to fraud and R7 955 relating to salary overpayment) was created and will be recovered.
Environmental Affairs and Development Planning	Two investigations were concluded during the year under review. One case which related to alleged mismanagement of funds was finalised as the allegation was disproved. The other case investigated related to theft of petty cash. The case was finalised with no loss to the department and the offender was subsequently dismissed.
Premier	An investigation was conducted by the forensic investigation unit into alleged irregularities relating to replacement of equipment in a project. The investigation has resulted in a report to the South African Police Services for further investigation.

3.5.2 Performance audits completed during the financial year

3.5.2.1 Infrastructure audit

The AGSA performed one performance audit for the period under review at two provincial departments, namely Education and Health. No special audits or investigations were conducted by the AGSA.

None of these types of audits were conducted at Casidra (Pty) Ltd.

Refer to section 5.3 for details of the infrastructure audit.



SECTION 4: ACTION TAKEN OR TO BE TAKEN TO ADDRESS AUDIT OUTCOMES

Audit outcomes can be and are influenced by a number of role players in addition to the management of individual auditees. This section of the report provides an overview of the commitments and contributions of key role players, particularly with regard to key systemic issues impacting on financial and performance management.

4.1 Drivers of audit outcomes

The improved audit outcomes in the province can be attributed to the good practices mentioned below.

Leadership

- Commitments to improve on the audit outcomes by those charged with governance at departments and entities by setting the right tone from the top to create an environment conducive to sound financial management and improved service delivery.
- Decisive actions to implement and monitor action plans and key controls at the executive level.
- Ensure that a proper SCM environment is established and maintained, with properly skilled staff and ongoing monitoring of compliance with applicable laws and regulations to prevent irregular expenditure.
- Leadership implement action plans to address IT user access control deficiencies.

Refer to annexure 5(a) for departments and entities that had improved or require improvement.

Financial and performance management

- Basic daily key controls for processes related to financial reporting. These key controls should also be extended to deal with other disclosure notes in the financial statements and predetermined objectives.
- Ensuring that asset registers are reconciled to the physical assets and financial statements on a regular basis.
- Compiling accurate financial statements and performance information and continuously monitoring thereof for quality. Ensuring that performance information is supported with relevant and reliable information.
- There are appropriate means (e.g. checklists) for monitoring compliance with laws and regulations on a regular basis.
- Application systems are in place that are not subject to compromised data integrity regarding:
 - user access controls
 - security management
 - business continuity.

Refer to annexure 5(b) for departments and entities which had improved or require improvement.



Governance

- Maintaining effective risk management strategies, including fraud prevention plans.
- Shared internal audit unit capacity constraints to be addressed/audit committee members to be appointed.
- IT governance framework is implemented to direct the positioning of IT resource requirements, risk and internal control management

Refer to annexure 5(c) for departments and entities which had improved or require improvement.

Those departments and entities whose audit outcomes had not improved and which had findings on predetermined objectives and compliance with laws and regulations must institute measures to comply with the basic key controls around leadership, financial and performance management and governance, as mentioned above.

4.2 Action taken/to be taken to address matters previously reported

4.2.1 Commitments made last year

Subsequent to the 2008-09 roadshow, the political and administrative leadership at meetings with the Premier and the legislature in October 2009 made specific commitments that would enable the province to achieve clean audit outcomes in the near future. The commitments included the following:

- The executive and legislature tasked provincial treasury to provide technical support and training to departments and entities, as well as coordinate and monitor the implementation of financial management improvement plans and to report to the provincial cabinet on a quarterly basis. The accounting officers and accounting authorities, in turn, had to report on progress to ministers and various boards and councils of departments and entities. Specific provincial treasury initiatives included the following:
 - Issuing of treasury instructions and practice notes to provide guidance in the areas of supply chain management, accounting for and management of assets, the compilation of six-monthly financial statements, including an audit working paper file to accompany the financial statements to be submitted for the final audit.
 - Ongoing training in accounting matters, predetermined objectives and Logis, the main asset management system.
 - Monthly monitoring of key performance indicators for financial management and determining fixed targets that should be reached, including the monitoring of asset and liability accounts.
 - Reporting regularly to the Minister of Finance and Economic Development and Tourism on financial management of departments and entities, as part of "Operation Red Flag".
- The external audit findings relating to material misstatements in the financial statements and the preparation of more regular financial statements, non-compliance with laws and regulations, predetermined objectives and asset management would be areas of focus in the financial management improvement plans.

- Strengthening of the internal audit function and audit committees to assist management in establishing sound internal control, conducting ongoing monitoring and evaluation of the entities' compliance with pre-defined controls and their progress in implementing the action plans.
- Strengthening oversight through improved coordination between SCOPA and the provincial portfolio committees to ensure a holistic oversight of financial management and performance information.

4.2.2 Commitments achieved

It is pleasing to note that the impact of these leadership-driven initiatives has been the fact that, overall, the audit outcomes for the Western Cape province improved significantly compared to the previous year.

At an overall level the improvement in the audit outcomes for the province was driven by the leadership (Premier, ministers, accounting officers and accounting authorities) of departments and entities which took ownership of their audit outcomes and monitored the financial management improvement plans, with reporting on progress by accounting officers to the ministers and by accounting authorities to the various boards and councils.

The leadership committed to driving a process through financial management improvement plans that would achieve clean audit opinions, i.e. financially unqualified opinions with no findings on predetermined objectives and/or compliance with laws and regulations.

This process was supported by the provincial treasury through its "red flag campaign" to identify problems in financial reporting in departments and entities and rectify them by introducing the necessary internal control measures. The campaign is focused on combating fraud and corruption by establishing good practice control measures to develop standard operating procedures in areas such as financial accounting, supply chain management, asset management, revenue and expenditure management, internal audit, audit committees and risk management. The provincial treasury also provided the necessary support to internal audit and the audit committees to ensure that they function effectively.

4.2.3 Commitments made this year

During the presentation of the audit outcomes on 12 October 2010, the provincial legislature and the provincial executive committed to taking ownership of their audit outcomes and implementation of the agreed-upon remedial action plans to address the AGSA's findings with a view to achieving a clean administration.

The remaining challenge for the Premier and ministers is to ensure that internal control measures to sustain clean administrations are institutionalised, while doubling efforts to address internal control deficiencies in respect of predetermined objectives, compliance with laws, supply chain management, asset management, as well as material misstatements. In this regard, the following commitments were made:

- The province will aim to achieve 100% clean audit opinions next year.
- Cabinet will continue to monitor the financial management implementation plan and the key issues identified by the provincial treasury red flag team. This includes the key risks that will be reported in the dashboard report and actions to mitigate those risks will be monitored by the cabinet on a monthly basis.

- The IT areas will be an area of focus and systems (through the IT modernisation process) will be put in place to address weaknesses in the IT systems.
- The Premier acknowledged that there were problems with asset management and indicated these would be addressed to ensure that the province attains clean audit opinions.
- Addressing the findings on predetermined objectives will also be an area of focus for the Premier and ministers.
- Interactions around the audit outcomes will be extended to the various portfolio committees and they (portfolio committees) will be apprised of the key controls to sustain and improve audit outcomes.

4.3 Initiatives taken by the AGSA to encourage clean administration

The AGSA embarked on many initiatives to enhance accountability in the province and to influence the process towards obtaining financially unqualified audit opinions. The main initiative was to strengthen the relationship with the political and the administrative leadership to deepen the understanding of the AGSA and the mechanisms relating to performance management, and ultimately accountability, thereby paving the road towards improving public confidence.

These initiatives included the increased visibility of the AGSA's senior leadership and continuous interaction with management and those charged with governance with the objective of improving the effectiveness of the audit process and engaging with all role players that can influence clean administration. To this end, our engagements focused on simplicity, clarity and relevance of the message to gain an understanding, secure buy-in and seek commitment that will influence clean administration. This relationship, together with the receptive tone of leadership within the province, resulted in an improvement in the understanding of the audit findings and their root causes.

During May 2010, the AGSA visited the Premier and all ministers, including the speaker of the provincial legislature, to discuss the key controls for the respective departments and to highlight those areas that they could influence to ensure clean audit outcomes. On 8 October 2010, the AGSA in the Western Cape met with all these key role players to discuss the 2009-10 PFMA audit outcomes. These initiatives by the AGSA serve to enlighten the executive leadership visited of his/her portfolio and to discuss the outcomes and the key controls required of the departments and entities under their influence. The results of this interaction were positive in more than one way as the ministers were able to assess the root causes of the findings on predetermined objectives and compliance with laws and regulations and findings for their respective portfolios.

The AGSA will continue with the quarterly assessments to track progress made by departments and entities to implement and improve on key controls.

4.4 Matters that may potentially impact the auditor's report in the coming year

Continued interaction with the National Treasury, provincial treasury, Accounting Standards Board and other professional bodies has assisted in the interpretation and resolution of accounting matters and the clarification of guidance applicable for the PFMA cycle.



- Accounting reforms include the complete and accurate recording of immovable assets in the financial statements of departments, which is expected to receive significant attention in the year ahead. Although the Department of Transport and Public Works has a custodian immovable asset management plan in place, as required by the Government Immovable Asset Management Act (GIAMA), it would be important to ensure that the leadership of the department monitors the implementation of the plan to comply with GIAMA.
- Following recent guidance received from National Treasury, the use of Government Motor Transport vehicles must be accounted for as a finance lease. It is envisaged that accounting for this would be complex and the departments should appropriately plan for this significant change.
- Predetermined objectives: Should the audit conclusion on the reporting on predetermined objectives be elevated for inclusion in the audit report next year as opposed to being included in the management report for the year, three departments and one public entity would have a qualified audit opinion, while one department and two public entities would have an adverse opinion. Audit findings relating to predetermined objectives raised in the current year, if not cleared, may impact the audit outcomes next year.

SECTION 5: FINDINGS ARISING FROM THE AGSA'S SPECIFIC FOCUS AREAS

5.1 Significant findings from audits of human resource management and compensation of employees

The regularity audits of departments included an assessment of departments' compliance with the PFMA, Treasury Regulations (TR), Public Service Act, 1994 (PSA), Public Service Regulations, 2001 (PSR) and directives/determinations issued by the Minister of Public Service and Administration (MPSA) that support effective human resource management and controls over compensation of employees.

The figure below depicts the incidence of findings in the different areas of human resources (HR) management.

Seven departments did not comply with all the requirements for effective HR management. These weaknesses impact on the department's financial management and ability to deliver services in accordance with their mandate. The highest incidence of non-compliance was noted at the following two departments:

- Education (financially unqualified audit opinion with findings on predetermined objectives and/or compliance with laws and regulations).
- Health (financially unqualified audit opinion with findings on predetermined objectives and/or compliance with laws and regulations).

Figure 3: Findings on human resource management

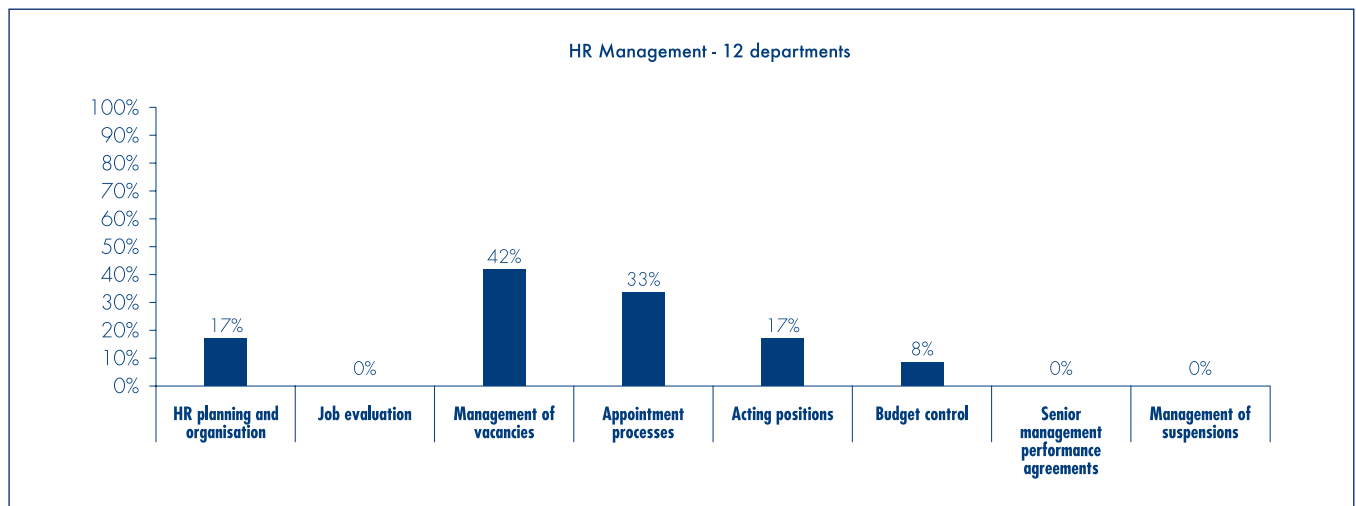
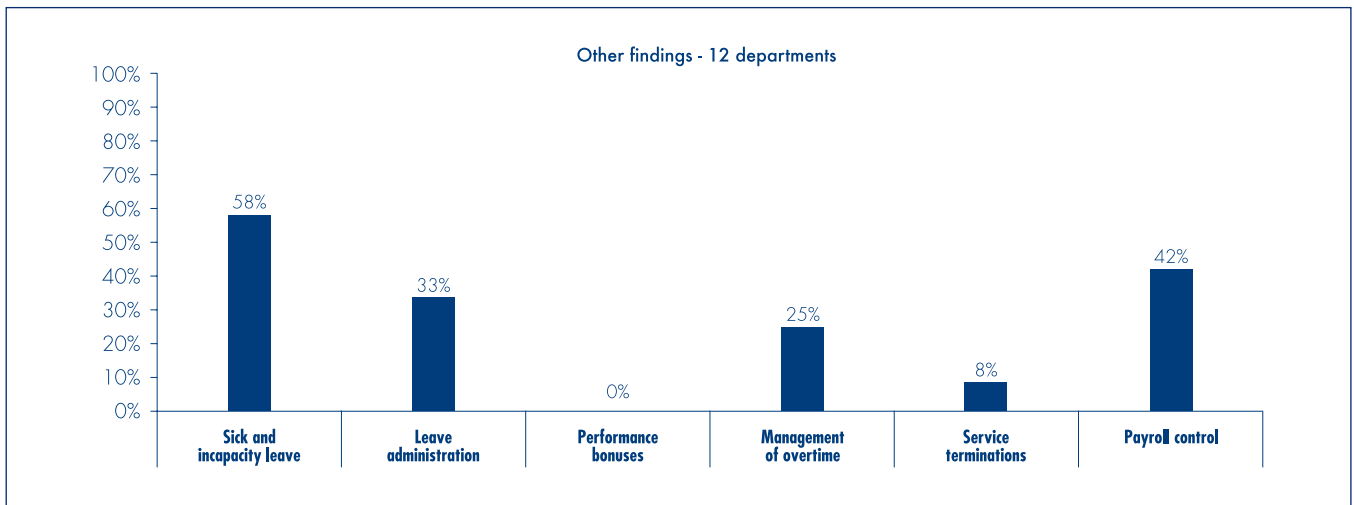


Figure 4 depicts the incidence of weaknesses in control over compensation of employees



In general, we have established that compensation of employees is not an area of high risk as remuneration and conditions of services are determined and managed centrally by the Department of Public Service and Administration. Furthermore, such compensation is implemented and controlled by National Treasury via the Persal system which is used by all departments (excluding the Department of Defence).

It is of concern, however, that the weaknesses identified were in respect of those controls prescribed by legislation for implementation by the departments themselves.

Nine departments did not meet all the requirements for control over compensation of employees. These weaknesses could lead to employees receiving compensation and benefits that they are not entitled to. The highest incidence of non-compliance was noted at the following departments:

- Premier (financially unqualified audit opinion with findings on predetermined objectives and/or compliance with laws and regulations)
- Health (financially unqualified audit opinion with findings on predetermined objectives and/or compliance with laws and regulations)

The detailed findings on HR management and compensation of employees, exceeding 30%, are presented below.

5.1.1 Management of vacancies

The head of the department should address the gaps between the human resources required to perform the department's functions and the existing human resources by means of recruitment and retention strategies.

The average vacancy rate across all departments was 16% at year-end, with an average of 15,2% of the positions for senior managers being vacant. The highest overall vacancy rate was at the office of the Premier at 27% and the highest senior manager vacancy rate was at the Department Economic Development and Tourism at 35%.



5.1.1 Appointment processes

The recruitment and selection processes ensure that candidates with appropriate qualifications and experience to meet the requirements of the specific post are appointed.

Verification checks not performed

A directive was issued by the MPSA (effective 1 January 2008) which states that a process should be followed to check criminal and financial/asset records and to verify citizenship, financial status, qualifications and previous employment for all new appointments.

The process was not effectively implemented at the following departments:

Department	Appointments without verification checks	Appointments with incomplete verification checks
Health	X	X
Education		X
Environmental Affairs and Development planning		X

Lack of written contracts of employment

In terms of PSR 1/VII/B1(g), each employee should, upon appointment, be provided with a written contract of employment, including the terms and conditions of her or his service. Some employees at Health and the provincial treasury were not provided with the required contract upon appointment.

5.1.3 Acting by officials in higher posts

Departments have the option to temporarily direct an employee to act in a higher vacant position for which the employee is then paid an acting allowance. PSR 1/VII/B5.3, however, restricts the acting period to 12 months to ensure that permanent appointment of a suitably qualified and experienced person is not delayed. The DPSA's *Determination on acting allowance for senior management service (SMS)* further restricts the period for acting in a SMS position to six months unless prior approval is obtained from the minister/MEC. Prolonged acting periods can be an indication of ineffective processes to appoint or recruit suitable permanent staff.

Instances were found at Health and the provincial treasury where employees received acting allowances for more than 12 months and six months, respectively.

5.1.4 Sick and incapacity leave

Sick leave – Non-compliance and lack of monitoring

In terms of PSR 1/V/F(c), the head of the department should ensure that sick leave is not abused.

The table below identifies departments that did not comply with the DPSA's *Determination on leave of absence in the public service* (leave determination), which requires that medical certificates be submitted, and/or did not implement processes and procedures to monitor sick leave in order to prevent abuse thereof.

Department	Medical certificates not submitted		No processes and procedures to monitor sick leave	Sick leave monitoring processes and procedures not implemented
	Sick leave of more than three days	Sick leave that was third incident in an eight-week cycle		
Community Safety	X	X		X
Education	X			
Local Government and Housing		X		
Transport and Public Works			X	
Department Health				X
Premier	X	X		X

Incapacity leave incorrectly granted

In terms of the leave determination, incapacity leave is additional sick leave granted conditionally at the employer's discretion, read with the DPSA's *Policy and procedure on incapacity leave for ill-health retirement (PILIR)*. The determination and policy provide clear and specific requirements on how incapacity leave should be dealt with and the number of days that may be granted.

The table below lists departments where more temporary or permanent incapacity leave was granted than the employee was entitled to and/or where the requirements of the determination and the policy were not met.

Department	More temporary/permanent incapacity leave granted than employee was entitled to	Non-compliance with determination and policy
Agriculture	X	X
Transport and Public Works		X

5.1.5 Leave administration

Overstated leave credits

In terms of PSR 1/V/F(b), the head of the department should record all leave taken by an employee accurately and in full. A lack of or inadequate controls were implemented at the following departments to ensure that all leave taken by employees was captured and that it was done timeously.

As a result, the annual/capped leave credits at Health and the office of the Premier have been misstated.

Negative capped leave

In terms of the leave determination, an employee may not be granted annual leave with full pay in excess of the annual leave that the employee is entitled to, plus capped leave in respect of persons who had been in service prior to 1 July 2000. If, due to a bona fide error, an employee had been granted annual leave with full



pay in excess of the days to his or her credit at that time, such excess must be deducted from the subsequent leave cycle.

Employees at the following departments had negative capped leave credits which were not deducted from their annual leave and were not recovered via unpaid leave:

- Cultural Affairs and Sport – the monetary value as disclosed in the financial statements was R219 000.
- Education - the monetary value as disclosed in the financial statements was R2 718 000.
- Health - the monetary value as disclosed in the financial statements was R602 200.
- Premier - the monetary value as disclosed in the financial statements was R543 748.

5.1.6 Payroll control

In terms of TR 8.3.4, the person in charge at the respective pay points must certify that all persons listed on the payroll report are entitled to payment. TR 8.3.5 requires that the payroll report must be returned to the CFO within 10 days of being certified, and that the accounting officer must ensure that all pay-point certificates are received on a monthly basis.

Instances were found at the following departments which indicate that the prescribed control is not fully implemented:

Department	Monthly payroll reports not certified	Certified payrolls not returned within 10 days to finance department	Completeness of certified payroll reports not checked
Health	X	X	X
Premier	X		
Community Safety		X	X
Education		X	
Social Development		X	

5.1.7 Overall conclusion

The long-standing vacancies and the prolonged acting periods need to be addressed by the relevant departments. Leadership has to implement and monitor internal control measures necessary to ensure compliance with the PFMA, Treasury Regulations, the Public Service Act, 1994, Public Service Regulations, 2001 and directives/determinations issued by the Minister of Public Service and Administration (MPSA) that support effective human resource management and controls over compensation to ensure that the lapses listed above do not have an adverse impact on the management of human resources.

5.2 Significant findings from the audit of procurement and contract management

The regularity audits included an assessment of the procurement processes and contract management of the auditees, as well as the controls to ensure a fair, equitable, transparent, competitive and cost-effective SCM system that prevents and detects fraud, non-performance by suppliers and non-compliance with SCM legislation.



As is evident from the analysis of irregular expenditure, the most irregular expenditure incurred by the departments and entities resulted from non-compliance with SCM legislation.

The detailed findings are presented below.

5.2.1 Interest in suppliers

The performance audit report tabled on 12 June 2009 is entitled *Performance audit of entities that are connected with government employees and doing business with provincial departments*. The report disclosed that employees and spouses of employees were doing business with their own departments through companies and close corporations in which they were directors or members.

Legislation does not prohibit such practices but there is legislation that endeavours to ensure that conflicts of interest do not result in the unfair awarding of contracts or acceptance of unfavourable price quotations, and requires employees to obtain approval for performing remunerative work outside their employment. The report also disclosed non-compliance with this legislation and a number of other irregularities in the SCM process at the departments.

The allegations in the report of corruption, improper conduct and failure to comply with the SCM system were either not properly investigated by the following departments within a reasonable time or not appropriately dealt with after being investigated:

- Education
- Health
- Transport and Public Works.

The 2009-10 regularity audits included a similar assessment of the interest of employees and their close family members in entities that are suppliers to the auditee. Where interest in suppliers was identified, a sample was tested to determine whether there was compliance with the legislation applicable to departments, trading entities, constitutional institutions and schedule 3A and 3C public entities. The table below lists the departments where interests were identified and details the resultant findings.

Auditee	Interest not declared by supplier	Employee involved in process of making award to supplier	Employee did not disclose conflict of interest	No approval for employee to perform remunerative work outside employment (departments only)	Interest not included in annual declaration of senior manager (departments only)
Department Social Development	X		X		
Department Health				X	
Department Premier				X	
Department Transport and Public Works					X

Not included in the table above, are two cases where close family members of employees who had an interest in a supplier conducted business with the Departments of Agriculture and Community Safety.



5.2.2 Procurement process

Three price quotations not invited

Contrary of National Treasury Practice Note 8 of 2007-08, irregular expenditure was incurred at the following auditees as goods or services were procured without inviting at least three price quotations and the deviation was not approved and/or the deviation was approved although it was possible to obtain three price quotations.

Auditee	Deviation not approved	Approved deviation not justified	Irregular expenditure incurred
Health	X	X	R640 030
Community Safety	X		R36 983
Education		X	R380 624
Western Cape Gambling and Racing Board		X	R1 247 342
Western Cape Investment Trade and Promotion Agency		X	R947 968

Deviation from competitive bidding without approval

Contrary to Treasury Regulation 16A6.4, irregular expenditure was incurred at the following department because deviation from competitive bidding was not approved:

- Health – R571 086

Deviation from competitive bidding not justified

Contrary to National Treasury Practice Note 8 of 2007-08 and Treasury Regulation 16A6.4, irregular expenditure was incurred at the following department as deviation from competitive bidding was approved on the basis of it being an emergency, even though immediate action was not necessary and sufficient time was available for a bidding process and/or proper planning would have prevented such emergency:

- Health – R571 068
- Community Safety – R1 863 920

At the following departments irregular expenditure was incurred as deviations from competitive bidding were approved in accordance with TR 16A6.4 on the basis that the goods and services were only produced by or available from a sole service provider, although there was no evidence of a thorough market analysis having been performed and/or other evidence of suitable suppliers available in the market:

- Community Safety – R167 357
- Health – R8 883 129



5.2.3 Contract management

Contract amendments/extensions/renewals without approval

In terms of TR 8.2.1, an official of an institution may not spend or commit public money except with the approval of the accounting officer or a properly delegated or authorised official.

At the following departments irregular expenditure was incurred as contracts were amended, extended or renewed without approval by the accounting officer or a delegated official.

- Health – R83 596.
- Local Government and Housing – R1 051 089

Inadequate contract performance measures/monitoring

At the following departments the performance measures and methods whereby some contracts were monitored were found to be inadequate:

- Health
- Premier
- Agriculture

5.2.4 SCM controls

Prohibited supplier database not always checked

In terms of TR16A9.1(c), the National Treasury's database should be checked prior to awarding any contract to ensure that no recommended bidder or any one of its directors is listed as a company or person with whom the public sector is prohibited from doing business.

At the following departments the prohibited supplier database was not always checked prior to awarding a contract:

- Education
- Health

No processes for SCM officials to report breaches/non-compliance

In terms of TR 16A8.5, an official in the SCM unit who becomes aware of a breach of or failure to comply with any aspect of the SCM system must immediately report such breach or failure to the accounting officer or accounting authority in writing.

At the following department and entity processes had not been established for SCM officials to report these matters or, where processes were in place, the officials were not aware of the processes:

- Provincial treasury
- Western Cape Provincial Development Council.

SCM officials were not adequately trained

In terms of TR 16A5.1, the officials implementing the institution's SCM system are trained and deployed in accordance with the requirements of the *Framework for minimum training and deployment* issued by the National Treasury.

At the following departments and entities SCM officials were not trained as required:

- Education
- Health
- Western Cape Investment and Trade Promotion Agency
- Western Cape Provincial Development Council
- Government Motor Transport

National Treasury code of conduct not adopted for SCM practitioners

In terms of TR 16A8.2, the National Treasury's code of conduct for SCM practitioners must be adhered to by all officials and other role players involved in supply chain management.

At the following departments the code of conduct was not signed by officials and other role players involved in supply chain management as evidence that it had been adopted:

- Health
- Government Motor Transport

Risk assessment did not address procurement and contract management risks

In terms of sections 38(1)(a) and 51(1)(a) of the PFMA, the accounting officer/authority should have and maintain effective, efficient and transparent systems of financial and risk management. Furthermore, TR 16A3.2(d)(v) requires an SCM system to provide for risk management.

At the following departments the risks related to procurement and contract management were not assessed even though risks are evident:

- Education
- Transport and Public Works
- Western Cape Investment and Trade Promotion Agency
- Government Motor Transport

Fraud prevention plan did not include specific measures for procurement

In terms of TR 3.2.1 and TR 27.2.1, a risk management strategy, which includes a fraud prevention plan, must be used to direct internal audit effort and priority and to determine the skills required of managers and staff to improve controls and to manage such risks. Furthermore, TR 16A9.1(a) requires that the accounting officer/authority must take all reasonable steps to prevent abuse of the SCM system.

Even though procurement is a major fraud risk area, the fraud prevention plan of the following departments and entity did not include specific measures for preventing and detecting fraud in the procurement process:

- Education
- Health
- Transport and Public Works
- Government Motor Transport

No internal audit evaluation of SCM compliance

In terms of TR 3.2.11 and 27.2.10, the internal audit function must assist the accounting officer/authority in maintaining efficient and effective controls by evaluating controls to determine their effectiveness and efficiency, and by developing recommendations for enhancement or improvement.

The controls subject to evaluation should encompass the safeguarding of assets and compliance with laws and regulations.

At the following departments high volumes of goods and services are procured. Although non-compliance was identified by the AGSA and/or fraud had been identified in the past, internal audit did not evaluate the controls, processes and compliance with laws and regulations with regard to SCM:

- Community Safety
- Education
- Health
- Local Government and Housing
- Transport and Public Works

5.2.6 Overall conclusion

The Western Cape Legislature has passed legislation that will largely address the interest in suppliers by employees and public office bearers. Many of the findings emanating from the detailed work done on procurement and contract management could be eradicated through implementation and effective monitoring of current policies and procedures by the leadership of each of the entities. Any of the findings raised that are not addressed within the next 12 months could have dire consequences for the affected entities.

5.3 Transversal performance audits

The AGSA conducted performance audits of the infrastructure delivery process at the departments of Health and Education as part of a transversal performance audit on infrastructure delivery at all the provinces, except the Northern Cape, which focused on:

- demand management (needs determination, budgeting, planning)
- acquisition management (tender process, appointment of contractors)
- project management and information
- commissioning and utilisation

Infrastructure delivery process

- Various insufficient management processes (policy-making, planning, organising, coordination and monitoring) were identified during the performance audit of the infrastructure delivery process.
- There is a need in the public sector for management to respond to key risks in a timelier manner.

Demand management

- Not all relevant statistics and information were available or utilised when determining needs and all role players were not properly engaged during the planning of the projects.

Examples: Sufficient project information was not available at the identification stage of projects to ensure that realistic values were allocated to projects on the budget. Changes to the scope of work of projects contributed to increases in the total project cost at completion. Total project cost at completion increased by up to R123 million for four projects.

Acquisition management

- The applicable legislation and regulations are not consistently applied by the bid evaluation and adjudication committees during the tender evaluation process.

For example, contracts are awarded to contractors that did not qualify in terms of the prescribed legislation such as the Construction Industry Development Board (CIDB) Act.

- Contractors are awarded multiple contracts without taking their capacity into account which led to the failure of contractors to complete some or all of the projects within time and at the required level of quality.

For example, for a Disaster Management Centre and ambulance station the contract was cancelled, which resulted in delays and additional costs to the amount of approximately R3 247 600 to complete the project.

Project management and information

- Projects are not effectively monitored by staff from the respective departments and the implementing agents. Corrective actions are not instituted timeously against the contractors concerned. Delays were experienced in the completion of the projects and penalties are not always charged for the late completion of projects.

For example, although a construction contract provided for penalties for the late completion of projects, it was either not enforced or was sometimes waived and/or applied in an inconsistent manner, while proof could not be provided that steps were taken against contractors to recover all losses.

- The quality of the construction work is unsatisfactorily, additional costs were incurred to complete the projects and the completion of the facilities was delayed.

For example, projects had to be completed by other contractors due to poor quality of work done by the first contractor. Replacement contractors were not appointed in time to ensure that projects were completed within the set target dates.

Commissioning and utilisation

- There is a lack of effective coordination within and between departments which resulted in facilities not being properly equipped and staffed to support effective service delivery.

Examples: Newly constructed wards have not been utilised since the completion thereof. These areas have not been put into operation owing to funding constraints and delays in the appointment of the required additional staff to deliver the service.

Due to delays in the ordering and delivery of laboratory equipment, technical equipment and resource materials, newly constructed infrastructure at some schools was also underutilised.

- Incomplete and/or substandard work was identified after commissioning and such work was not corrected by the contractors. Additional costs were incurred on the account of the departments to correct it.

For example, quality problems in some instances were not identified during site inspections, while in other instances Transport and Public Works did not ensure that the problems were timeously corrected after being identified. At 12 of the schools inspected defects were found with regard to cracks in the walls, leaking roofs, windows and doors not functioning properly, faulty electrical connections and poorly constructed ablution facilities.

Accounting officers responded positively to the management reports and indicated that wide-ranging corrective action would be implemented. These include:

- participation in the Infrastructure Development Improvement Programme.
- improved needs determination and planning process.
- an increase in capacity at the Department of Health to plan and monitor infrastructure projects, with operational funding constraints taken into account during the design of hospitals.

- ensuring implementation of the Construction Industry Development Board requirements and taking steps against poorly performing contractors.
- improved project management by training staff.
- improved communication with other role players.

As part of the sector audit on Public Works, audit procedures have been compiled and incorporated in the audit plans for regularity audits in the 2010-11 financial year. It is envisaged that these procedures will form part of the regularity audit for the years to come. Performance auditing will evaluate progress made with the implementation of corrective action from time to time and a follow-up performance audit may be conducted at all or some of the auditees.

SECTION 6: CONSOLIDATED FINANCIAL STATEMENTS

Table 11: Status of consolidated audits

Province	Departments - audit completed		Public entities - audit completed	
	2009-10	2008-09	2009-10	2008-09
	Y / N	Y / N	Y / N	Y / N
Western Cape	Y	Y	Y	Y

The audit of the consolidated financial statements for departments and public entities was completed on 3 December 2010 and 18 November 2010, respectively, well within the three-month period after receipt of the financial statements.

The consolidations continue to take the form of an aggregation of the financial information and do not constitute a consolidation in the normal accounting sense. An agreed-upon procedures audit is conducted. The province is urged to improve the status of the consolidation of departments to the stage where an audit opinion can be expressed thereon.



SECTION 7: STATUS OF TABLING OF ANNUAL REPORTS

7.1 Summary of annual reports tabled

In accordance with section 65 of the PFMA, the executive authority responsible for a department must table in the provincial legislature the annual report and annual financial statements as well as the audit report on those statements, within one month of receipt of the audit report. All departments, public entities and other entities, including the one public entity not audited by the AGSA, had tabled their annual reports for the year ended 31 March 2009.

Table 12: Annual reports tabled by departments and public entities

Type of auditee	Percentage of reports tabled at 30 September 2010	
	2009-10	2008-09
Departments	100%	100%
Public entities	100%	100%
Other entities*	100%	100%
Total	100%	100%

* Includes the one public entity not audited by the AGSA.

All the annual reports of departments and entities were tabled between 22 and 30 September 2010 in accordance with section 65(1)(a) of the PFMA.



PART B - AUDITS NOT CONDUCTED BY THE AGSA

SECTION 8: OVERVIEW OF AUDIT OUTCOMES FOR 2009-10

8.1 Summary of audit outcomes

This is the first year that the so-called section 4(3) audit of Casidra (Pty) Ltd is included in the analysis of the audit outcomes for the Western Cape province. Section 4(3) audits are those audits, which the Auditor-General has opted not to perform in terms of the Public Audit Act, 2004.

Casidra is the acronym for 'Cape Agency for Sustainable Integrated Development in Rural Areas'. Casidra is an implementing agency of the sole shareholder, the Western Cape Provincial Government (WCPG). A shareholder's compact has been concluded between Casidra and the WCPG.

The organisation is listed as a schedule 3D public entity (provincial business entity) in terms of the PFMA and has a board of directors as the accounting authority. Casidra resides under the Western Cape Department of Agriculture and its minister, as the designated executive authority. The department provides transfer funding to Casidra in terms of the PFMA.

Casidra achieved a financially unqualified audit opinion with findings on predetermined objectives. There were no findings to report on compliance with laws and regulations and no other reports were issued in respect of investigations or performance audits.

Casidra would have received a qualified audit conclusion on predetermined objectives had an opinion been issued in the current year. The detailed findings on predetermined objectives include the following:

- Usefulness of predetermined objectives

The strategic and corporate plans did not include indicators and targets for all of the entity's programmes, while changes to the indicators and targets were not disclosed in the annual performance report.

- Reported information not reliable

Sufficient appropriate audit evidence could not be obtained in relation to certain objectives in the programmes selected for audit purposes.

The driver of the audit outcome in respect of the findings on predetermined objectives is that the accounting officer had not implemented an effective, efficient and transparent system and internal controls regarding predetermined objectives that describe and represent how the entity's processes of performance planning, monitoring, measurement, review and reporting will be conducted, organised and managed.

As reflected in section 7, Casidra's annual report was tabled in accordance with section 65(1)(a) of the PFMA.

CONCLUSION

While the improved audit outcomes in the Western Cape are commendable, the province faces a number of challenges as highlighted in this report which will require a coordinated effort by the leadership of the province, with the support of the National Treasury and the provincial treasury, to sustain its good performance and to improve in those areas of concern.

Certain entities need to take steps in improving their financial administration to sustain their unqualified audit opinions and address matters preventing their classification as clean administrations.

The repeated audit findings on non-compliance with legislation and the quality of financial statements, although improved compared to the prior year, remain a cause for concern. Senior management should ensure efficient monitoring through the use of compliance checklists and ongoing supervision to address areas of non-compliance with laws and regulations. Internal audit is a crucial function in assisting management to establish a sound internal control environment and perform ongoing evaluation and monitoring of management's compliance with predefined controls and progress in implementing the action plans.

With regard to predetermined objectives, the leadership of departments and entities must ensure that the necessary systems and controls are in place that will result in accurate reporting, continuous monitoring of achievements of the measurable objectives and overall compliance with the reporting requirements of predetermined objectives.

The leadership must also renew endeavours to ensure that findings in respect of deficiencies in the information technology control environment are effectively addressed.

Other areas of concern that the leadership of departments and entities must address include the following:

- Shortcomings around the safeguarding and monthly reconciliation of both movable and immovable assets
- Irregular expenditure, which requires improved monitoring to ensure compliance with SCM regulations
- Underexpenditure of votes/budgets, as it has a direct impact on service delivery and/or could raise questions about the quality of public services. It requires proper planning, execution and oversight by leadership of projects to ensure delivery.

We wish to reiterate our critical message to the legislators and the executive that it is possible to obtain an unqualified audit report with clean administrations if key controls are institutionalised and constantly monitored by the leadership.

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

ANNEXURES TO THE GENERAL REPORT

- Annexure 1:** Listing of audit outcomes, areas qualified and findings on predetermined objectives
- Annexure 2:** Listing of key non-financial statement findings related to compliance with laws and regulations
- Annexure 3:** Listing of audit findings raised on common IT focus areas
- Annexure 4:** Listing of entities with dates on which the annual reports were tabled
- Annexure 5(a):** Drivers of audit outcomes: Leadership: Departments/Entities
- Annexure 5(b):** Drivers of audit outcomes: Financial and performance management: Departments/Entities
- Annexure 5(c):** Drivers of audit outcomes: Governance: Departments/Entities

ANNEXURE 1: Listing of audit outcomes, areas qualified and findings on predetermined objectives

Number	Auditee	Audit outcome 2009-10	Audit outcome 2008-09 Capital assets	Financial statement qualification areas								Findings on predetermined objectives				
				Current assets	Liabilities	Capital and reserves	Other disclosure items	Revenue	Expenditure	Unauthorized, irregular, and frivolous and wasteful expenditure	Non-compliance with regulatory requirements	Reported information not useful	Reported information not reliable	Information not submitted for audit by 31 May 2010		
Audits conducted by the AGSA																
Departments																
1	Health	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations													
2	Local Government and Housing	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations													
3	Social Development	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations													
4	Transport and Public Works	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations	Qualified													
Public entities																
5	Western Cape Investment and Trade Promotion Agency	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations													
6	Western Cape Language Committee	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations													
7	Western Cape Liquor Board	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations	Qualified													
Audits not conducted by the AGSA																
Schedule 3 and other entities																
1	Casdira (Pty) Ltd															



ANNEXURE 2: Listing of key non-financial statement findings related to compliance with laws and regulations																	
Number	Auditee	Prohibited action/non-adherence															
		Annual budget	Responsibilities	Delegation of responsibilities	Audit committee	Internal audit unit	Payments	Transfer of funds and sub-entities	Misconduct/disciplinary/criminal proceedings	Plans (Strategic/corporate/integrated development plans)	Management of losses and claims	Conditional allocations	Companies Act requirements	Entity specific legislation	HR management	Procurement (SCM)	SCM issue that resulted in irregular expenditure
Audits conducted by the AGSA																	
Departments																	
1	Education																
2	Health																
3	Local Government and Housing																
4	Premier																
5	Transport and Public Works																
Public entities																	
1	Western Cape Investment Trade and Promotion Agency																
Audits not conducted by the AGSA																	
Schedule 3 and other entities																	



ANNEXURE 3 : Listing of audit findings raised on common IT focus areas

Number	Auditee	Focus areas			
		IT Governance	Security management	User access control	Information technology service continuity
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	Local Government and Housing				
9	Premier				
10	Provincial Legislature				
11	Provincial Treasury				
12	Social Development				
13	Transport and Public Works				
Entities					
1	Cape Medical Depot				
2	Destination Marketing Organisation	Information systems audit not performed due to the decision to audit around the computer as being more efficient			
3	Government Motor Transport				
4	Heritage Western Cape				
5	Western Cape Cultural Commission				
6	Western Cape Gambling and Racing Board	Information systems audit not performed due to the decision to audit around the computer as being more efficient			
7	Western Cape Housing Development Fund				
8	Western Cape Language Committee				
9	Western Cape Liquor Board				
10	Western Cape Nature Conservation Board				
11	Western Cape Investment and Trade Promotion Agency	Information systems audit not performed due to the decision to audit around the computer as being more efficient			
12	Western Cape Provincial Development Council				

ANNEXURE 4: Listing of entities with dates on which the annual reports were tabled

No.	Auditee	Date of tabling of annual report
Audits conducted by the AGSA		
Departments		
1	Agriculture	29 September 2010
2	Community Safety	22 September 2010
3	Cultural Affairs and Sport	29 September 2010
4	Economic Development and Tourism	29 September 2010
5	Education	22 September 2010
6	Environmental Affairs and Development Planning	29 September 2010
7	Health	28 September 2010
8	Local Government and Housing	30 September 2010
9	Premier	30 September 2010
10	Provincial Legislature	29 September 2010
11	Provincial Treasury	29 September 2010
12	Social Development	29 September 2010
13	Transport and Public Works	28 September 2010
Public entities		
1	Cape Medical Depot	28 September 2010
2	Destination Marketing Organisation	30 September 2010
3	Government Motor Transport	22 September 2010
4	Heritage Western Cape	30 September 2010
5	Western Cape Cultural Commission	30 September 2010
6	Western Cape Gambling and Racing Board	22 September 2010
7	Western Cape Housing Development Fund	28 September 2010
8	Western Cape Language Committee	30 September 2010
9	Western Cape Liquor Board	29 September 2010
10	Western Cape Nature Conservation Board	28 September 2010
11	Western Cape Investment and Trade Promotion Agency	30 September 2010
12	Western Cape Provincial Development Council	30 September 2010
Audits not conducted by the AGSA		
Schedule 3 and other entities		
1.	Casidra (Pty) Ltd	28 September 2010



ANNEXURE 5(a): Drivers of audit outcomes: Leadership - Departments/Entities

Number	Department/Entity	Maintained/improved previous good practices						Improvements required									
		1. Commitments to improve on the audit outcomes by those charged with governance at departments and entities by setting the right tone from the top to create an environment conducive to sound financial management and improved service delivery		2. Decisive actions to implement and monitor action plans and key controls at the executive level		3. Ensure that a proper SCM environment is established and maintained, with properly skilled staff and ongoing monitoring of compliance with applicable laws and regulations to prevent irregular expenditure		4. Leadership's implementation of action plans to address user access control deficiencies (information systems)		1. Commitments to improve on the audit outcomes by those charged with governance at departments and entities by setting the right tone from the top to create an environment conducive to sound financial management and improved service delivery		2. Decisive actions to implement and monitor action plans and key controls at the executive level		3. Ensure that a proper SCM environment is established and maintained, with properly skilled staff and ongoing monitoring of compliance with applicable laws and regulations to prevent irregular expenditure		4. Leadership's implementation of action plans to address user access control deficiencies (information systems)	
		Financial statements	Pre-determined objectives	Financial statements	Pre-determined objectives	Financial statements	Pre-determined objectives	Financial statements	Pre-determined objectives	Financial statements	Pre-determined objectives	Financial statements	Pre-determined objectives	Financial statements	Pre-determined objectives	Financial statements	Pre-determined objectives
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	Local Government and Housing																
9	Provincial Parliament																
10	Premier																
11	Provincial Treasury																
12	Social Development																
13	Transport and Public Works																
Public Entities																	
1	Cape Medical Depot																
2	Government Motor Transport																
3	The Heritage Western Cape																
4	Western Cape Housing Development Fund																
5	Destination Marketing Org (TA Cape Town Routes Unlimited)																
6	Western Cape Cultural Commission																



ANNEXURE 5(a): Drivers of audit outcomes: Leadership - Departments/Entities

Number	Department/Entity	Maintained/improved previous good practices				Improvements required				
		1. Commitments to improve on the audit outcomes by those charged with governance at departments and entities by setting the right tone from the top to create an environment conducive to sound financial management and improved service delivery	2. Decisive actions to implement and monitor action plans and key controls at the executive level	3. Ensure that a proper SCM environment is established and maintained, with properly skilled staff and ongoing monitoring of compliance with applicable laws and regulations to prevent irregular expenditure	4. Leadership's implementation of action plans to address user access control deficiencies (information systems)	Financial statements	Pre-determined objectives	2. Decisive actions to implement and monitor action plans and key controls at the executive level	3. Ensure that a proper SCM environment is established and maintained, with properly skilled staff and ongoing monitoring of compliance with applicable laws and regulations to prevent irregular expenditure	4. Leadership's implementation of action plans to address user access control deficiencies (information systems)
7	Western Cape Gambling and Racing Board									
8	Western Cape Investment and Trade Promotion Agency									
9	Western Cape Language Committee									
10	Western Cape Liquor Board									
11	Western Cape Nature Conservation Board									
12	Western Cape Provincial Development Council									



ANNEXURE 5(c): Drivers of audit outcomes: Governance - Departments/Entities

Number	Department/Entity	Maintained/improved previous good practices						Improvements required			
		1. Shared internal audit unit capacity constraints to be addressed/audit committee members to be appointed		2. Maintaining effective risk management strategies, including fraud prevention plans		3. Lack of IT governance framework to direct the positioning of IT, resource requirements, risk and internal control management		1. Shared internal audit unit capacity constraints to be addressed/audit committee members to be appointed		2. Maintaining effective risk management strategies, including fraud prevention plans	3. Lack of IT governance framework to direct the positioning of IT, resource requirements, risk and internal control management
		Financial statements	Predetermined objectives	Financial statements	Predetermined objectives	Financial statements	Predetermined objectives	Financial statements	Predetermined objectives		
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	Local Government and Housing										
9	Provincial Parliament										
10	Premier										
11	Provincial Treasury										
12	Social Development										
13	Transport and Public Works										
Public Entities											
1	Cape Medical Depot										
2	Government Motor Transport										
3	The Heritage Western Cape										
4	Western Cape Housing Development Fund										
5	Destination Marketing Org (TA Cape Town Routes Unlimited)										
6	Western Cape Cultural Commission										
7	Western Cape Gambling and Racing Board										
8	Western Cape Investment and Trade Promotion Agency										
9	Western Cape Language Committee										
10	Western Cape Liquor Board										
11	Western Cape Nature Conservation Board										
12	Western Cape Provincial Development Council										



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