



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

FINAL MANAGEMENT REPORT

KZN DEPARTMENT OF SPORT AND RECREATION

2011-03-31



MANAGEMENT REPORT

KZN DEPARTMENT OF SPORT AND RECREATION

2011-03-31

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FINAL MANAGEMENT REPORT TO THE ACCOUNTING OFFICER ON THE AUDIT OF THE DEPARTMENT OF SPORT AND RECREATION FOR THE YEAR ENDED 31 MARCH 2011

INTRODUCTION

1. This management report includes audit findings arising from the audit of the financial statements, reporting on predetermined objectives and compliance with laws and regulations for the year ended 31 March 2011 which were communicated to management and includes their response to these findings. The report also includes information on the internal control deficiencies that were identified. Addressing these deficiencies will assist in ensuring an improvement in the audit outcomes.
 2. The management report consists of an executive summary and detailed audit findings which are contained in annexures A and B.
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THE AUDITOR-GENERAL'S RESPONSIBILITIES

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996) and section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and section 40(2) of the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA), our responsibility is to express an opinion on the financial statements and to report on findings relating to our audit of the report on predetermined objectives and compliance with material matters in laws and regulations applicable to the Department of Sport and Recreation. Our engagement letter sets out our responsibilities in detail. These include the following:
- Performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements, the report on predetermined objectives and compliance with laws and regulations applicable to the Department of Sport and Recreation. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, the report on predetermined objectives and material non-compliance with laws and regulations.
 - Considering internal controls relevant to the Department of Sport and Recreation's preparation and fair presentation of the financial statements, the report on predetermined objectives and compliance with laws and regulations.
 - Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management.
 - Evaluating the appropriateness of systems and processes that ensure the accuracy and completeness of the financial statements, the report on predetermined objectives and compliance with laws and regulations.
4. Because of the test nature and other inherent limitations of an audit, we do not guarantee the completeness and accuracy of the financial statements or the report on predetermined objectives or compliance with all applicable laws and regulations.
5. Having formed an opinion on the financial statements, we may include additional communication in the auditor's report that does not have an effect on the auditor's opinion. These may include:
- an emphasis of matter paragraph to draw users' attention to a matter presented or disclosed in the financial statements which is of such importance that it is fundamental to their understanding of the financial statements.
 - an additional matter paragraph to draw users' attention to any matter, other than those presented or disclosed in the financial statements, that is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.
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THE ACCOUNTING OFFICER'S RESPONSIBILITIES

6. The accounting officer's responsibilities are set out in detail in the engagement letter. These include the following:
- The preparation and fair presentation of the financial statements in accordance with the Departmental Financial Reporting Framework prescribed by the National Treasury.
 - Planning, monitoring of and reporting on performance against predetermined objectives.
 - Review and monitoring of compliance with laws and regulations and disclosing known instances of non-compliance or suspected non-compliance with laws and regulations.
 - Designing, implementing and maintaining proper record keeping and internal controls necessary to enable the preparation of financial statements and the report on predetermined objectives that are free from material misstatement whether due to fraud or error, and compliance with laws and regulations.
 - Designing and implementing formal controls over IT systems to ensure the reliability of the systems and the availability, accuracy and protection of information.
 - Implementing appropriate risk management activities to ensure that regular risk assessments are conducted.
 - Disclosing all matters concerning any risk, allegation or instance of fraud.
 - Accounting for and disclosing related-party relationships and transactions.
 - Providing access to all information that is relevant to the preparation of the financial statements and performance information, such as records and documents.
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EXECUTIVE SUMMARY

SECTION 1: Meetings with oversight bodies and those charged with governance

7. During the audit cycle we met with key stakeholders to communicate matters relating to the audit outcomes of the department and emerging risks. Insight was provided on the key controls that impact these audit outcomes to enable corrective action to be taken.
8. Meetings were conducted as follows:
 - Executive authority 1 March 2011; 26 July 2011
 - Accounting officer 9 June 2011; 15 July 2011; 21 July 2011
9. At these meetings commitments were made to address improvements in the internal control environment with the objective of achieving clean administration. Progress made on these commitments is discussed later in this report.

SECTION 2: MATTERS RELATING TO THE AUDITOR'S REPORT

PART A – MISSTATEMENTS IN THE FINANCIAL STATEMENTS

10. Material misstatements in the financial statements were identified during the audit. These misstatements were not prevented or detected by the department's system of internal control. These material misstatements also constitute non-compliance with the PFMA and Treasury Regulations.

Material misstatements		Impact R	Internal control deficiency
Financial statement item	Finding		
Material misstatements corrected			
Irregular expenditure	Non-compliance with Treasury Regulations, original tax clearance certificates were not obtained and deviations from competitive bidding were not approved.	73 987 741	Leadership
Grant received	Non-disclosure of EPWP incentive grant	500 000	Financial management
Lease commitments	Lease commitments schedule was inaccurate	319 000	Financial management
Bank overdraft	Bank overdraft disclosed as a negative current asset instead of a current liability	1 264 000	Financial management
Movable assets	Movable assets per the asset register did not agree to the financial statements	763 000	Financial management

PART B – MATTERS TO BE BROUGHT TO THE ATTENTION OF THE USERS

EMPHASIS OF MATTER PARAGRAPH

An emphasis of matter paragraph will be included in our auditor's report to highlight the following matter to the users of the financial statements:

Irregular expenditure

11. As disclosed in note 35 to the financial statements the department incurred irregular expenditure of R73, 99 million as the expenditure incurred was in contravention of Treasury Regulations 16A6 and 16A9, relating to supply chain management.
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ADDITIONAL MATTER PARAGRAPHS

An additional matter paragraph will be included in our auditor's report to highlight the following matters to the users of the financial statements:

Unaudited supplementary schedules

12. The supplementary information set out on pages XX to XX does not form part of the financial statements and is presented as additional information. I have not audited these schedules, and accordingly, I do not express an opinion thereon.

Financial reporting framework

13. The financial reporting framework prescribed by the National Treasury and applied by the department is a compliance framework. Thus my opinion would have reflected that the financial statements had been properly prepared instead of fairly presented as required by section 20(2)(a) of the PAA, which requires me to express an opinion on the fair presentation of the financial statements of the department.
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PART C – REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

FINDINGS ON THE REPORT ON PREDETERMINED OBJECTIVES

Included below are the findings raised during our audit of the report on predetermined objectives.

Presentation of information

14. No matters to report.

Usefulness of information

15. No matters to report.

Reliability of information

16. No matters to report.
-

FINDINGS ON COMPLIANCE WITH LAWS AND REGULATIONS

Included below are findings on material non-compliance with laws and regulations applicable to the department.

Annual financial statements

17. The accounting officer submitted financial statements for auditing that were not prepared in all material aspects in accordance with the Departmental Financial Reporting Framework issued by National Treasury as required by section 40(1)(b) of the PFMA. The material misstatements with regards to irregular expenditure, grant received, lease commitments, bank overdraft and movable assets were subsequently corrected.

Procurement and contract management

18. Goods and services with a transaction value of between R10 000 and R500 000 were procured without inviting at least three written price quotations from prospective suppliers as per the requirements of Treasury Regulation 16A6.1 and National Treasury Practice Note 8 of 2007-08 effective from 1 December 2007.
19. Goods and services with a transaction value of over R500 000 were not procured by means of a competitive bidding process as per the requirements of Treasury Regulation 16A6.4 and National Treasury Practice Note 6 of 2007-08 effective from 1 April 2007 and National Treasury Practice Note 8 of 2007-08 effective from 1 December 2007.
20. Awards were made to suppliers who did not provide original tax clearance certificates to prove that their tax matters were in order as per the requirements of Treasury Regulation 16A9.1(d) and National Treasury Practice Note 8 of 2007-08 effective from 1 December 2007.
21. Awards were made to bidders who did not submit a SBD 4 control form declaring whether the bidder or any person connected with the bidder is employed by the state or if the bidder is a legal person, whether the bidder has a relationship with persons/ a person involved in the evaluation and/or adjudication of the bids as per the requirements of National Treasury Practice Note 7 of 2009-10 effective from 2 October 2009.
22. Construction contracts were awarded to contractors that were not registered with the Construction Industry Development Board as required by section 22(3) of the Construction Industry Development Board Act of South Africa, 2000 (Act No.38 of 2000), Construction Industry Development Board regulation 18(1A) and Treasury Regulation 16A6.3(a).
23. Instances were identified where senior managers did not disclose their business interest in a supplier to the department as per the requirements of chapter 3(C1) of the Public Service Regulations, Treasury Regulation 16A8.3 and Treasury Regulation 16A8.4.
24. Officials performed remunerative work outside their employment in the department without written permission from the relevant authority as per the requirements of section 30 of the Public Service Act of South Africa, 1994 (Proclamation No.103 of 1994).

Expenditure management

25. The accounting officer did not take effective and appropriate steps to prevent and detect irregular expenditure as per the requirements of section 38(1)(c)(ii) of the PFMA and Treasury Regulation 9.1.1.

INTERNAL CONTROL

Achievement of internal control objectives

26. Significant deficiencies that resulted in the basis for the findings on compliance with laws and regulations are summarised below. Detailed information on significant internal control deficiencies is provided in section 5 of this report.

- Leadership
Leadership did not exercise oversight and monitoring of compliance with SCM regulations.
- Financial management
No processes were in place to prevent and identify irregular expenditure.

PART D – OTHER REPORTS

INVESTIGATIONS

27. Investigations in progress

Description	Reason		
	Supply chain management	Fraud	Financial misconduct
Conflict of interest	✓		
Fraud and corruption – suppliers and certain staff	✓	✓	

28. Investigations completed during the financial year

Description	Reason		
	Supply chain management	Fraud	Financial misconduct
Conflict of interest - Disciplinary action and criminal charges are being instituted against the implicated officials.	✓		
An official misused a hired vehicle and failed to report the accident - Disciplinary action: Recovery of R270 626-95 in monthly instalments of R2000 from salary.			✓

PERFORMANCE AUDITS

29. No performance audits were undertaken in the 2010-11 financial year.

AGREED-UPON PROCEDURES ENGAGEMENT

30. No agreed-upon procedures engagements were undertaken in the 2010-11 financial year.

DONOR FUNDING

31. No donor funding audits were undertaken in the 2010-11 financial year.

SPECIAL AUDITS

32. No special audits were undertaken in the 2010-11 financial year.

SECTION 3: CONCLUSION ON THE REPORT ON PREDETERMINED OBJECTIVES

Included below is our conclusion on the report on predetermined objectives

Introduction

33. I have audited the report on predetermined objectives of the Department of Sport and Recreation as at 31 March 2011, for the year ended as set out on pages xx to xx.

The accounting officer's responsibilities

34. The accounting officer is responsible for the preparation and fair presentation of the report on predetermined objectives in accordance with the requirements of the applicable laws and regulations, relevant frameworks, circulars, and guidance issued by the National Treasury and the Presidency regarding the planning, management, monitoring and reporting of performance against predetermined objectives, and for such internal control as management determines necessary to enable the preparation of a report on predetermined objectives that is useful and reliable.

The Auditor-General's responsibilities

35. As required by sections 4 and 20 of the Public Audit Act of South Africa, 2004 (Act No.25 of 2004) (PAA), read with *General Notice No. 1111 of 2010, issued in Government Gazette No. 33872 of 15 December 2010* my responsibility is to prepare an audit conclusion on the report on predetermined objectives.

36. I conducted my audit in accordance with the International Standards on Assurance Engagements (ISAE) 3000: *Assurance engagements other than audits or reviews of historical information*.

I will report on whether I have received all the information and explanations required to conduct the engagement, or if I became aware of additional information, the omission of which may result in the report on predetermined objectives being materially misstated or misleading.

37. I provide limited assurance with respect to the presentation and usefulness of the information contained in the report on predetermined objectives.

I further provide limited assurance with respect to the reliability of the following selected material programmes:

- Mass sport and recreation participation
- Facilities
- World cup 2010 and major projects

38. The criteria used as a basis for the audit conclusion are as follows:

- Presentation of information:
 - Performance against predetermined objectives is reported using the National Treasury guidelines

- Usefulness of information:
 - Measurability: Indicators are well-defined and verifiable, and targets are specific, measurable and time-bound
 - Relevance: A clear and logical link exists between the objectives, outcomes, outputs, indicators and performance targets
 - Consistency: Objectives, indicators and targets are consistent between planning and reporting documents
- Reliability of information:
 - Validity: Actual reported performance has occurred and pertains to the entity
 - Accuracy: Amounts, numbers, and other data relating to reported actual performance have been recorded and reported appropriately
 - Completeness: All actual results and events that should have been recorded have been included in the annual performance report

39. An audit involves performing procedures to obtain audit evidence about the reporting of performance against predetermined objectives. The procedures selected depend on the auditor's judgement, and include the following:

- Understanding and testing the internal policies, procedures and controls relating to the management of and reporting on performance information
- Evaluating and testing processes, systems, controls and review of documentation in place at a detail level in the audited entity to support the generation, collation, aggregation, monitoring and reporting of the selected performance indicators and targets
- Evaluating, testing and confirmation of the existence and consistency of planned and reported performance information as well as the presentation and disclosure thereof in accordance with applicable requirements and guidance
- Conducting detailed audit testing and obtaining sufficient appropriate audit evidence to verify the validity, accuracy and completeness of reported indicators and targets

Basis for conclusion

40. I believe that the evidence obtained from the work performed provides an appropriate basis for the limited assurance conclusion expressed below.

Conclusion

41. Based on my work described in this report, nothing has come to my attention that causes me to believe that the report on predetermined objectives is not fairly stated, in all material respects, in accordance with the predetermined criteria.

SECTION 4: SPECIFIC FOCUS AREAS

PART A – SIGNIFICANT FINDINGS FROM THE AUDIT OF PROCUREMENT AND CONTRACT MANAGEMENT

The audit included an assessment of procurement processes, contract management and controls of the department, which should ensure a fair, equitable, transparent, competitive and cost-effective supply chain management (SCM) system that complies with legislation and minimises the

likelihood of fraud, corruption, favouritism and unfair and irregular practices. The assessment has indicated the following deficiencies:

Irregular expenditure

42. R73 987 741 (100%) of irregular expenditure was incurred in the period as a result of the contravention of SCM legislation. 100% of the irregular expenditure was identified during the audit process. The incomplete identification of SCM irregular expenditure was as a result of a lack of understanding of the definition of irregular expenditure and legislation and inadequate processes to identify irregular expenditure with regards to SCM.

Awards to persons in the service of the state

43. Awards were made to suppliers in which the following persons in service of the state had a business or private interest:

- An official of the department has an undeclared business interest in a company, and the department made use of the services of this entity to the value of R390 700 during the 2010/11 financial year. This further constitutes non-compliance with Treasury Regulation 16A 8.3.
- Awards were made to persons in the service of other state institutions to the value of R16,8 million. SBD 4 control forms were not completed, resulting in non-compliance with Treasury Regulation 16A 8.4.

Performance of other remunerative work by employees

44. An official of the department was identified as having a business interest in suppliers of the department that received awards of at least R390 700. A further four officials were identified as having a business interest in suppliers to other state institutions.

None of these officials had approval in accordance with the applicable legislation and/or policy of the department to perform or engage in remunerative work outside their employment.

Procurement processes and contract management

45. The following findings on procurement processes and contract management relate to three contracts with a total value of R5 581 924 and one hundred and eighteen price quotations with a total value of R10,513,279:

Procurement process – Quotations

- Deviations from obtaining less than the required number of quotations were not approved.
- Conflict of interest was not declared.

Procurement process - Competitive bidding

- Original tax clearance certificates were not obtained from bidders.
- Deviations for not inviting competitive bids were not approved.

Construction contracts

- A construction contract was awarded to a supplier with an inappropriate grading in terms of the CIDB.
- Construction projects were not registered with the CIDB.
- Invitations to tender for construction contracts were not advertised on the CIDB website.

Internal control deficiencies

There is a lack of understanding of SCM relating to laws and regulations in the department. This needs to be addressed by management. Management also need to closely monitor the implementation of policies and procedures and institute corrective action.

SECTION 5: SIGNIFICANT DEFICIENCIES IN INTERNAL CONTROL

PART A – ASSESSMENT OF THE ACHIEVEMENT OF CONTROL OBJECTIVES

46. The achievement of the objectives of internal control is demonstrated by the implementation of key controls. The assessment below is based on significant deficiencies relating to the fair presentation of the financial statements, material misstatements corrected as a result of the audit, findings on predetermined objectives and findings on non-compliance with laws and regulations. Significant deficiencies occur when internal controls either do not exist or are not appropriately designed to address the risk or are not implemented and which either had or could cause the financial statements or report on predetermined objectives to be materially misstated and material non-compliance with laws and regulations to occur. When a significant deficiency is not applicable, it is assessed with a 😊, 😐 to indicate that the deficiency still exists but significant progress had been made to address it, while 😞 indicates that urgent attention to the matter is required. Part B gives additional information on the deficiencies that should be addressed. Other deficiencies in internal control, which require the attention of management, are included in the detailed findings attached to this report.

3 Audit dimensions Fundamentals of internal control	Financial	Performance objectives	Compliance with laws and regulations
	Assessment		
Leadership			
<ul style="list-style-type: none"> Provide effective leadership based on a culture of honesty, ethical business practices and good governance, protecting and enhancing the best interests of the entity 			
<ul style="list-style-type: none"> Exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls 			
<ul style="list-style-type: none"> Implement effective HR management to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored 			
<ul style="list-style-type: none"> Establish and communicate policies and procedures to enable and support understanding and execution of internal control objectives, processes, and responsibilities 			
<ul style="list-style-type: none"> Develop and monitor the implementation of action plans to address internal control deficiencies 			
<ul style="list-style-type: none"> Establish an IT governance framework that supports and enables the business, delivers value and improves performance 			
Financial and performance management			
<ul style="list-style-type: none"> Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting 			
<ul style="list-style-type: none"> Implement controls over daily and monthly processing and reconciling of transactions 			
<ul style="list-style-type: none"> Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information 			
<ul style="list-style-type: none"> Review and monitor compliance with applicable laws and regulations 			
<ul style="list-style-type: none"> Design and implement formal controls over IT systems to ensure the reliability of the systems and the availability, accuracy and protection of information 			
Governance			
<ul style="list-style-type: none"> Implement appropriate risk management activities to ensure that regular risk assessments, including consideration of IT risks and fraud prevention, are conducted and that a risk strategy to address the risks is developed and monitored 			
<ul style="list-style-type: none"> Ensure that there is an adequately resourced and functioning internal audit unit that identifies internal control deficiencies and recommends corrective action effectively 			
<ul style="list-style-type: none"> Ensure that the audit committee promotes accountability and service delivery through evaluating and monitoring responses to risks and providing oversight over the effectiveness of the internal control environment including financial and performance reporting and compliance with laws and regulations 			

PART B – DETAILS CONCERNING THE ACHIEVEMENT OF INTERNAL CONTROL OBJECTIVES

LEADERSHIP

Ethical business practices

47. Management established a formal code of conduct which addressed appropriate ethical and moral behaviour, however staff do not properly understand the code and implement it.

Oversight responsibility regarding reporting and compliance

48. Management does not adequately review the financial statements prior to their submission for audit and thus the following matters were not identified and corrected prior to submission:

- Incomplete disclosures regarding grant received and lease commitments
- Inaccurate disclosures regarding bank overdraft and movable assets.

Effective human resource management

49. An assessment of the human resource management has identified the following deficiencies:

- The accounting officer position has been vacant since April 2010.
- An official was overpaid as a result of an increase being granted to the official contrary to the requirements of Public Service Regulation chapter 1 part V C3(a).

Implementation of policies and procedures

50. Management did not monitor the implementation of policies and procedures of the department, resulting in numerous instances of non-compliance with the PFMA and Treasury Regulations, as detailed under the 'reporting on compliance with laws and regulations section' of this report. In addition, management did not take corrective action on the following internal control deficiencies identified during our audit:

- There are no procedures in place to prevent and detect irregular expenditure.

Establishment of an IT governance framework

51. An information technology governance framework and controls, which provides for the structures, policies and processes through which IT supports the organisation's strategies and objectives, were not always appropriately designed and implemented. The department is in the process of considering a framework with the assistance of Treasury.

FINANCIAL AND PERFORMANCE MANAGEMENT

Controls over daily and monthly processing and reconciling of transactions

52. Management did not implement the following controls as designed for the department's year end stock count:

- The stock count sheets were not sequentially pre-numbered
- Open lines on the stock sheets were not crossed out or cancelled
- Officials performing the stock count did not initial each page
- Alterations made on stock sheets were not initialled
- A register of stock sheets was not kept.

53. Management did not design daily and monthly controls to mitigate the department's business risks:

- No stock registers were maintained to record the movement of stock
- Regular reconciliations from theoretical stock to actual stock on hand were not performed

Formal control over IT systems

54. The Department of Sport and Recreation (department) is significantly reliant on information technology (IT) systems to perform its statutory financial management, reporting and administrative functions. Ineffective information systems controls may contribute to financial management weaknesses, inaccurate financial and performance information and poor performance.

55. Weaknesses relating to IT governance, security management, user access control, IT service continuity and facilities and environmental controls were identified. Findings were also reported in the prior year. Management had made progress in implementing corrective actions for the weaknesses identified. The risk relating to the integrity, confidentiality and availability of the Department's information remains and could therefore be compromised.

Weaknesses were identified in the following information systems areas:

Security management

56. Security management controls, which should prevent unauthorised access to the application system that generates the information used to prepare the financial statements, were not adequately designed and implemented.

User access control

57. User access controls, whereby only valid and authorised users are allowed access to initiate and approve transactions on the system and whereby user access is adequately segregated when transactions are captured and approved, had not always been appropriately designed and implemented.

IT service continuity

58. IT service continuity controls, through which the availability of financial and performance information in instances of data loss or a disaster is ensured, were not adequately implemented and tested.

Facilities and environmental control

59. Physical, environmental and data centre controls implemented to ensure the security, integrity, performance and accessibility of the systems and information, had been designed but not always appropriately implemented.

Monitoring of compliance with laws and regulations

60. Compliance with laws and regulations was not adequately reviewed and monitored during the year. Non-compliance with laws and regulations could have been prevented had compliance been properly reviewed and monitored:

- Procurement and contract management - refer to details under "findings on compliance with laws and regulations section" of this report.
- Expenditure management - refer to details under "findings on compliance with laws and regulations" section of this report.

Accuracy and completeness of financial statements

61. As per section 2 of this report, material adjustments were made to the financial statements.

GOVERNANCE

Risk management

62. Although a risk assessment was conducted, there needs to be an increased focus on the implementation of the fraud prevention plan.

Fraud prevention, detection and response

63. The following audit findings indicate that the deficiencies in the respective controls would not prevent or detect fraudulent activities:

- The department did not always determine whether the price of goods ordered is reasonable or competitive. Consequently, the acquisition of inventory has been at excessively high prices.
-

PART C – ACTIONS TAKEN TO ADDRESS MATTERS PREVIOUSLY REPORTED

Executive authority

64. Action plans were put in place to address the prior year findings.

Accounting officer and Chief financial officer

65. A forensic investigation was undertaken as part of the action plan to address the conflict of interest finding in the prior year audit.

PART D – EMERGING RISKS

Accounting and compliance matters

66. The department does not have the appropriate systems and internal controls in place to move towards accounting for inventory in the financial statements.

Subsequent events

67. An audit committee was appointed on 1 June 2011.

SECTION 6: RATINGS OF DETAILED AUDIT FINDINGS

68. For the purposes of this report, the detailed audit findings included in annexures A to B have been classified as follows:

- Matters to be included in the auditor's report - These matters should be addressed as a matter of urgency.
- Other important matters – These matters should be addressed to achieve clean administration.

SECTION 7: CONCLUSION

69. The matters communicated throughout this report relate to the three fundamentals of internal control which should be addressed to achieve sustained clean administration. The AGSA staff remains committed to assisting in the process of identifying and communicating 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.

Yours sincerely

Barry van der Merwe
Senior Manager: KZN 7

29 July 2011

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CFO
Audit committee
Head of internal audit

SUMMARY OF DETAILED AUDIT FINDINGS

Page. no.	Finding	Classification					Rating			In which years was it reported		
		Misstatements in financial statements	Misstatements in annual performance report	Non-compliance with laws & regulations	Internal control deficiency	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters	2009/10	2008/09	2007/08
Operating expenditure												
24	Conflict of interest			✓			✓			✓		
26	Construction contracts			✓			✓					
27	Irregular expenditure – no original tax clearance certificates			✓			✓					
29	At least 3 quotations not obtained and deviation not approved			✓			✓					
30	Goods and services not procured through competitive bidding and deviation not approved			✓			✓					
31	Construction projects not registered with the CIDB			✓			✓					
32	Approval of additional remunerative work			✓			✓					
Inventory												
34	Year end stock count				✓			✓				
35	Improper stock record keeping				✓			✓				

Page. no.	Finding	Classification					Rating			In which years was it reported		
		Misstatements in financial statements	Misstatements in annual performance report	Non-compliance with laws & regulations	Internal control deficiency	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters	2009/10	2008/09	2007/08
36	Could not reconcile stock test count to the department's stock count				✓			✓				
Operating expenditure												
38	Order not authorised			✓				✓				
38	Inventory procured at significantly high prices			✓				✓				
40	List of prospective suppliers			✓				✓				
41	The invitations to tender for construction contracts not advertised on the CIDB website			✓				✓				
42	SCM policies do not provide for the prescribed minimum			✓				✓				
43	SCM policy			✓				✓				
44	Forensic investigation on procurement			✓				✓				
Employee costs												
45	Salary overpayment			✓				✓				
IT General controls												
49	User account management: review of access rights and monitoring of activities				✓			✓		✓	✓	
50	BAS security settings				✓			✓				
51	Personnel and salary system				✓			✓				

Page. no.	Finding	Classification					Rating			In which years was it reported		
		Misstatements in financial statements	Misstatements in annual performance report	Non-compliance with laws & regulations	Internal control deficiency	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters	2009/10	2008/09	2007/08
52	Review of access rights and monitoring of activities				✓			✓				
54	Hardcat system: user account management procedures				✓			✓				
55	Review of system controller's activities				✓			✓				
56	Review of access rights				✓			✓				
57	System security parameter settings				✓			✓				
59	IT Governance: Information security officer				✓			✓	✓			
61	IT governance framework				✓			✓	✓			
62	IT steering committee				✓			✓				
64	IT policies: IT security policy				✓			✓	✓			
65	Continuity of IT services				✓			✓	✓			
66	Facilities and physical environment				✓			✓	✓			

DETAILED AUDIT FINDINGS

ANNEXURE A: MATTERS AFFECTING THE AUDITOR'S REPORT

Operating expenditure

1. Conflict of interest

Audit finding

In accordance with Treasury Regulation 16A 8.3, a supply chain management official or other role player must recognise and disclose any conflict of interest that may arise. This is also a requirement of chapter 3(C1) of the Public Service Regulations.

In addition Treasury Regulation 16A 8.4 states that if a supply chain management official or other role player, or any close family member, partner or associate of such official or other role player, has any private or business interest in any contract to be awarded, that official or other role player must:-

- (a) Disclose that interest; and
- (b) Withdraw from participating in any manner whatsoever in the process relating to that contract.

An exception report generated through Computer Assisted Audit Techniques (CAATs) revealed that employee 15635911 had undisclosed interests in an entity that transacted with the department totaling R390,700.

No.	TRANSDATE	Supplier	Payment no.	Amount (R)
1	2010/05/17	MTINGI INVESTMENTS & TOURS	17398	382,500.00
2	2010/10/18	MTINGI INVESTMENTS & TOURS	20426	8,200.00

Further inspection of the declarations confirmed that the official did not disclose his interest.

After examining the supporting documentation for payment number 20426 the following exceptions were noted:

- a) No quotes were submitted for this service.
- b) The motivation for deviation was recommended by employee 15635911.
- c) No proof is attached that other suppliers were not within budget (as per the motivation).
- d) Employee 15635911 was the official that certified that the service was rendered which resulted in payment of R8200.
- e) The invoice date is 5 May 2010 however employee 15635911 only certified that the service was rendered on the 14 October 2010.

Based on the above, the aforementioned treasury regulations and the Public Service Regulations were not complied with.

The SCM function does not have adequate procedures in place to identify instances where employees of the department hold an interest in prospective suppliers, prior to the request for quotations being sent out.

The Department may enter into trade arrangements with officials, contrary to Treasury Regulation 16A 8.3.

It was also noted that awards totaling R16, 8 million were made to bidders who did not submit a SBD 4 control form declaring whether the bidder or any person connected with the bidder is employed by the state or if the bidder is a legal person, whether the bidder has a relationship with persons or a person involved in the evaluation and/or adjudication of the bids as required by National Treasury Practice Note 7 of 2009/10.

Internal control deficiency

Sound integrity and ethical values as well as compliance with laws and regulations have not been adequately enforced and monitored by the AO and SCM management.

Recommendation

- a) The department should examine the above transactions and determine whether any irregular expenditure was incurred.
- b) Employees; senior and junior should declare any business, commercial and financial interest or activities undertaken for financial gain that may raise a conflict of interest and management should implement controls to ensure that no direct employee holds any financial interest in suppliers that are used for any procurement of goods and services by the Department.
- c) Management should perform checks on CIPRO, on a monthly basis, by randomly selecting officials from the PERSAL system, and ensuring through a CIPRO search, that these officials do not have interests in prospective suppliers, by cross referencing this to the supplier database.

Management response

The department performs the verification of suppliers on receipt of the supplier database registration form prior to registration in the internal supplier database by performing cross referencing to the Provincial supplier database only. This exercise proved to be insufficient as the provincial supplier database does not provide details of the ownership of the company, as a result SCM could not verify the companies being owned by the officials or the relatives. To enforce the control measure, the department applied for access to CIPRO database in 2010. The contract with CIPRO was finalized in June 2011. This will enable SCM's delegated officials to access CIPRO supplier database for verification and validation of the supplier details for the suppliers who are trading with the department and those submitting new applications forms. SCM will also be able to identify companies owned by the officials or their relatives and thereafter implement necessary control measures to avoid the conflict of interest.

SCM officials are work-shopped on the SCM code of conduct and sign these codes annually. Human Capital Management Unit has also conducted workshops to all department officials on the code of conduct and declaration of interest. Senior managers sign the declaration of interest and disclose their businesses performed outside the department where they gain remuneration. For the 2010/11 financial year all permanent staff were requested to complete declarations i.r.t. related party transactions.

The supplier database registration form that was submitted by Mtingi Investments & Tours indicated the owner of the company as Mr. Khulekani Erick Nkosi. Information that was completed in the supplier registration form such as the name of the company, ZNT number, addresses and the company registration number was verified on Provincial supplier database. There was no way SCM could ascertain that the real owner of the company is the department official as access to CIPRO for the verification of supplier details was only approved in June 2011.

The management has acknowledged the recommendations and will put the necessary controls in place.

Name: V. Mkhize
Position: Deputy Manager: Supply Chain Management
Date: 07 July 2011

Auditor's conclusion

Management response is acknowledged and it will be followed up during the next audit. On further investigation of this matter it was noted that the transactions with Mtingi Investments and Tours constituted irregular expenditure which has been disclosed in the annual financial statements. The non-submission of SBD 4 control forms has been reported as non-compliance.

2. Construction Contracts

Audit finding

The following law and regulations have an impact on the transactions between the department and Kusasa Kusa Trading and Projects.

(1) In terms of the Construction Industry Development Board (CIDB) regulation 25(1), in soliciting a tender offer or an expression of interest for a construction works contract it should be stipulated that only submissions of tender offers or expressions of interest by contractors who are registered in the category of registration required in terms of sub regulation (3) or higher, may be evaluated in relation to that contract.

(2) In terms of CIDB regulation 24, every client or employer who is inviting calls for expression of interest or soliciting competitive tenders must publish that invitation to tender on the CIDB's website.

(3) In terms of section 22(3) of the CIDB Act and CIDB regulation 18(1A)(a), all construction contracts above R200 000 must be recorded in the CIDB register of projects.

(4) In terms of CIDB regulation 17, a contractor registered in a contractor grading designation is considered to be capable of undertaking a contract in the range of tender indicated in that grading in the class of the construction works to which the category of registration of that contractor relates.

During the audit of procurement and contract management the following was noted:

- 1) Per inspection of the "Request for goods and services" document, it was noted that prospective suppliers were requested to provide their CIDB documents, but no mention was made with regards to the minimum levels applicable. E.g. request for quotation sent to **Kusasa Kusa trading and Projects** for order no.A561065.
- 2) A "Request for goods and services" document was sent out to prospective suppliers and no evidence was provided by the department, that an invitation to tender, or for calls of expression (in the case of a 2 stage bidding process) was advertised in the CIDB website. E.g. request sent to **Kusasa Kusa Trading and Projects**.
- 3) The construction project was not registered with the CIDB.
- 4) Per inspection of the CIDB contractor details, it was noted that **Kusasa Kusa Trading and Projects** is listed as a Grade - 1GBPE. The amount quoted, and paid to this supplier amounted to R 348 560. The Payment to the supplier is over the maximum for Grade 1, being R200 000.
- 5) There was no evidence that the department has a signed contract with **Kusasa Kusa Trading and Projects** (project no.2010/HO/0910/10/009) for the construction of the combination court at Makhoso Primary School.

The department has not complied with the CIDB Act and regulations. There may be irregular expenditure with regard to the advertising of the bid resulting in a small pool of bidders, and due to the project being awarded to a contractor whose CIDB grading was not suitable for the value of the award.

Internal control deficiency

Lack of controls implemented by management and supervision over the selection of prospective suppliers.

Recommendation

- a) Management must examine the above transaction and determine whether any irregular expenditure was incurred.
- b) Management must implement controls to ensure compliance with the CIDB Act and regulations.

Management response

The management acknowledges the auditors comments with regards to the publication of invitations and registration of projects on CIDB website and awarding of contracts in accordance with the relevant grading. The department was still in a learning period on the processes and procedures to be followed when procuring construction services as we mainly deal with procurement of goods and services. The management will implement necessary controls as recommended to ensure that the department complies with the CIDB Act and Regulations.

Name : V. Mkhize
 Position : Deputy Management : SCM
 Date : 08 July 2011

Auditor's conclusion

Irregular expenditure of R348 560 has been disclosed in the financial statements.

3. Irregular expenditure – no original tax clearance certificates

Audit finding

In terms of paragraph 6.1 of Practice Note 8 of 2007/08 (PN8) and Treasury Regulation 16A9.1(d), the accounting officer must be in possession of an original tax clearance certificate for all price quotations and competitive bids exceeding the value of R30 000 (VAT included).

The following amounts were awarded to bidders who did not have their SARS tax clearance certificates confirming that their tax matters are in order:

No.	Supplier	Amount R
1	MTINGI INVESTMENTS & TOURS	390,700.00
2	THANDISIZWE PROJECTS	124,911.50
3	UPHAWU EVENTS MANAGEMENT C.C	1,212,200.00
4	MQGULAQGULA INVESTMENTS CC	182,720.00
5	ABAPHUMELELI TRAD 321 CC	370,000.00
6	DERRANGO RECORDS & ENTERTAINMENT	1,207,500.00
7	MTIMANDE OMUHLE TRADING CC	325,140.00

No.	Supplier	Amount R
8	MAPHAKATHWAYO CONSTRUCTION & SE	218,000.00
9	ROADSHOW EXPRESS CC	301,000.00
10	MTINGI TRAVEL AND TOURS	53,700.00
11	HAMBRA INVESTMENTS AND TOURS	218,702.00
12	THUSI AND BOYS TRADING ENTERPRISE	338,000.00
13	AMANDLESIZWE TRADING	338,000.00
14	MLOSAM TRADING ENTERPRISE CC, t/a CBD PROJECTS	180,800.00
15	IKHWEZI BUS SERVICE (PTY) LTD	132,000.00
16	INYAMEKO TRADING 970	39,500.00
17	CHIPPAS BUS SERVICE	294,500.00
18	- AST AFRICA TRADING 243 CC (Touch Africa)	598,500.00
19	- NKABANE TRADING ENTERPRISE CC (The tax clearance certificate was approved on 2010-09-03, and expired on 2011-09-03. The service was provided between June and July 2010, during the World Cup) therefore this tax clearance certificate is not accepted as appropriate audit evidence)	1,850,000.00
TOTAL		R8,375,873.50

Based on our sample selected for testing, irregular expenditure of R8,375,873.50 has been identified. The department is requested to evaluate procurement transactions to identify all suppliers whereby there is no original tax clearance certificate on file as required by PN8 and Treasury Regulation 16A9.1 in order to quantify the total amount of irregular expenditure incurred in the 2010/11 financial year, as this needs to be disclosed accurately in the financial statements.

Internal control deficiency

Lack of monitoring of compliance with laws and regulations pertaining to supply chain management.

Recommendation

- a) The department must evaluate all procurement transactions above R30 000 to identify all suppliers whereby there is no original tax clearance certificate on file. The result of this evaluation should be presented for audit.
- b) All irregular expenditure identified by the department must be disclosed in the financial statements.
- c) Controls should be implemented to ensure that the department complies with all SCM related laws and regulations.

Management response

One of the requirements that is considered during the process of acquiring quotations from the suppliers is that the suppliers are to fax their quotations with tax clearance certificates since the department did not invite the suppliers to be evaluated for the listing in 2010/2011 however follow-ups are being made with the suppliers to submit their original tax clearance certificates.

The expenditure report has been verified with a total amount incurred in 2010/2011 where only copies of tax clearance certificates were obtained for evaluation of quotations. No tax clearance certificates were requested from the local municipalities where transactions for transfer payments were done.

The department is in the process of inviting suppliers to be evaluated and registered in the internal supplier database to ensure that all suppliers that will be engaged by the department to render services have been evaluated prior to providing the services.

Name: V Mkhize
 Position: Deputy Manager Supply Chain Management
 Date: 11 July 2011

Auditor’s conclusion

Only original tax clearance certificates are valid in terms of PN8. Additional irregular expenditure was identified after the department completed the exercise of evaluating all transactions above R30,000. Irregular expenditure of R73,988 million has now been disclosed in the financial statements and has been included as an emphasis of matter in the audit report.

4. At least three quotations not obtained and the deviation not approved

Audit finding

In terms of paragraph 3.3 of Practice Note 8 of 2007/08 and Treasury Regulation 16A6.1, written price quotations should be invited for requirements above R10 000 but not exceeding R500 000.

If it is not possible to obtain at least three (3) written price quotations, the reasons should be recorded and approved by the accounting officer or his / her delegate.

The following goods and services with a transaction value between R10 000 and R500 000 were procured without inviting at least three written price quotations from prospective suppliers and the deviation was not approved by a properly delegated official.

No.	Supplier	Amount R	Payment No.
1	S A LIFESAVER CC	19,995.00	19033
2	P.M MAHLABA	18,000.00	24333
3	P.M MAHLABA	10,400.00	19501
4	TRUST ME TRANSPORT	27,500.00	21410
5	SOTOBÉ INVESTMENTS	15,000.00	17596
		90,895.00	

The department will not receive sufficient quotes to ensure they receive the most competitive prices.

Internal control deficiency

Lack of monitoring of compliance with laws and regulations pertaining to supply chain management.

Recommendation

- a) There must be a process in place for approving deviations from official procurement processes.
- b) Irregular expenditure must be disclosed in the financial statements.

Management response

- SCM did go through the process of acquiring a minimum of three quotations as stipulated in the practice note No. 8 of 2007/2008. Suppliers were invited and proof of invitations are attached to the documents however only two suppliers responded before the specified closing dates.
- Due to the nature of work performed by SCM which involve the procurement of goods and services on daily basis for various events with coverage of eleven districts and a minimum of at least ten projects per week and time limitations to meet the deadlines, it is impossible to cancel and re-invite suppliers to submit quotations to meet a minimum requirement of three quotations.
- SCM has implemented a control tool of inviting at least a minimum of five suppliers per item irrespective of the price estimate to ensure that the most competitive price quotations are received.

Name: V. Mkhize
Position: Deputy Director Supply Chain Management
Date: 13 July 2011

Auditor's conclusion

In terms of paragraph 3.3.3 of Practice Note 8 of 2007/2008, if it is not possible to obtain three quotes the reason must be recorded and approved by the accounting officer. R90 895 has been disclosed in the financial statements as irregular expenditure as the deviation was not approved by the accounting officer before the above transactions took place.

5. Goods and services not procured through competitive bidding and deviation not approved

Audit finding

In terms of Treasury Regulation 16A6.4, if in a specific case it is impractical to invite competitive bids, the accounting officer or accounting authority may procure the required goods or services by other means, provided that the reasons for deviating from inviting competitive bids must be recorded and approved by the accounting officer or accounting authority.

The following service with a transaction value of over R500 000 was not procured by means of a competitive process and the deviation was not approved by the accounting officer:

Name of Supplier	Amount	Payment number
DESTINATIONS TRAVEL	R 820,000.00	24038

This has resulted in non-compliance with Treasury Regulation 16A6.4.

Practice Note 6 of 2007/08 and Practice Note 8 of 2007/08 require goods and services to be procured in a manner that is fair, equitable, transparent and competitive. The above service was not procured in the manner required by these Practice Notes thereby resulting in irregular expenditure being incurred.

Internal control deficiency

Management did not exercise oversight over SCM processes.

Recommendation

- a) Irregular expenditure should be disclosed in the financial statements.
- b) The SCM policies and procedures must be updated to include the requirements of TR16A6.4.

Management response

- The department was approached by the Department of Education in February 2011 to provide assistance to the primary and secondary schools athletics competition. This competition was scheduled for the beginning of March 2011. The period at which the department was notified by Education did not provide sufficient time to undergo the bidding process.
- The project was only approved on the 02nd of March 2011 for the events taking place on the 05th March 2011. When the department approached the travel agency, Destinations Travel to look for accommodation, the agency could not provide a quotation at that time to ascertain whether it was going to be a bid and due to time constraints most of the accommodation could not accommodate a large group athletics that was required. The agency was therefore forced to do an authentic booking to ensure that all participants were accommodated.

Name: V Mkhize
Position: Deputy Manager Supply Chain Management
Date: 13 July 2011

Auditor's conclusion

Irregular expenditure of R820 000 has been disclosed in the financial statements.

6. Construction projects were not registered with the CIDB

Audit finding

In terms of section 22(3) of the CIDB Act, CIDB regulation 18(1A) and Treasury Regulation 16A6.3(a) all construction contracts above R200 000 must be recorded in the CIDB register of projects.

The following construction projects with the value of above R200 000 were not registered with the CIDB.

Name of Supplier	Tender Amount (R)	Bid No.
Ziqhenye Surveying and Construction	2,062,669.72	Bid No. DSR002/2010
Yimpie Projects CC	1,495,430.08	Bid No. DSR001/2010
Mazcon Civil and contractors	2,023,824.33	Bid No. DSR004/2010
Total	5,581,924.13	

This has resulted in non-compliance with CIDB act Section 22 (3), CIDB regulation 18(1A) and Treasury Regulation 16A6.3(a).

Internal control deficiency

Management did not exercise oversight over SCM processes.

Recommendation

Construction contracts should be registered on the CIDB website in compliance with Section 22 (3), CIDB regulation 18(1A) and Treasury Regulation 16A6.3(a).

Management response

- The management acknowledges the auditors comments with regards to the publication of invitations and registration of projects on CIDB website and awarding of contracts in accordance with the relevant grading.
- The department was still in a learning period on the processes and procedures to be followed when procuring services related to construction as we mainly deal with procurement of goods and services.
- The management will implement necessary controls as recommended to ensure that the department complies with the CIDB Act and Regulations.

Name: V. Mkhize
Position: Deputy Director Supply Chain Management
Date: 12 July 2011

Auditor's conclusion

This has been reported as non-compliance and will be followed up during the next audit.

7. Approval of additional remunerative work

Audit finding

In terms of the Public Service Act (PSA) section 30(1): Other remunerative work by employee,

(1) No employee shall perform or engage himself or herself to perform remunerative work outside his or her employment in the relevant department, except with the written permission of the executive authority of the department.

During the audit of procurement and contract management it was noted that the following employees did not receive approval for additional remunerative work as per PSA section 30(1):

ID	Personnel_number	Supplier Name
6603010509086	60808217	MAMOYI TRADING ENTERPRISE CC
8409145500083	63275571	NTWECOKEME SUPPLIERS
7501016477085	19364997	NAMPHO TRADING ENTERPRISE CC
8508210316083	63527774	OKAMPONGO

ID	Personnel_number	Supplier Name
		TRADING CC
6309215843086	15635911	MTINGI INVESTMENTS & TOURS

Internal control deficiency

Lack of controls by management to monitor if employees perform additional remunerative work.

Recommendation

Management must ensure that employees who perform additional remunerative work get prior approval from the executive authority or an office authorised by the said authority.

Management response

The Department has an approved policy on Remunerative Work Outside the Public Service (RWOPS). Staff were work-shopped on the policy during the HR Roadshows held between the 24 May and 8 June 2010.

The HR Chief Directorate maintains a register of employees who have obtained permission from the Executive Authority.

Name : Ms A.L. Ally
Position : Chief Director : HRM
Date : 8 July 2011

Auditor's conclusion

On inspection of the register, the abovementioned employees did not have approval. This matter will be followed up during the next audit.

ANNEXURE B: OTHER IMPORTANT MATTERS

Inventory

8. Inventory year end stock count

Audit finding

According to the Department's stock count procedures the following controls should be in place:

Control over stock sheets

1. Stock sheets must be sequentially pre-numbered.
2. Details of the location of the stock must be clearly marked at the top of the stock sheet e.g. Zululand Region/ Storeroom/ Room.
3. The officials performing the count must initial each stock sheet.
4. A register must be maintained of the stock count sheets issued, indicating which stock sheets were issued to whom.
5. All stock sheets, including the unused and spoilt stock sheets must be returned to the Chief Financial Officer with 3 working days of the count being completed.
6. The returned stock sheets must be checked against the register of stock sheets issued.
7. Missing stock sheets must be followed up.

Completion of the stock sheets

1. Blank stock sheets will be handed out with the following columns which must be completed at the count, Description of item, Quantity 1st count, Quantity 2nd count, indicate if damaged/ obsolete.
2. The stock sheets must be completed in ink.
3. "Description of item" column must include the nature of the item e.g. Volleyball kit consisting of 12 tops and 12 shorts for juniors. This detailed information will enable the finance team to determine a value to be attached to the item.
4. "Quantity 1st count" is the total number in stock counted in the first count for that particular item examples are listed below
 - a. 1 volleyball kits if the kit is described as having 12 tops and 12 shorts
 - b. 5 reams of paper if the description is reams of paper but if the description is boxes of paper then it is 1 box of paper.
5. "Quantity 2nd count" is the total number in stock that is counted during the checking process.
6. "Indicate if damaged/ obsolete" is a narrative comment if the item is damaged/ obsolete and can no longer be used.
7. All blank rows are to be closed/cancelled.
8. All completed stock sheets are to be signed by the respective officials.
9. The Cover Sheet must be completed and signed and attached to the stock sheets.
10. The stock sheets are to be submitted to the Office of the CFO within 3 working days.

On inspection of the stock count sheets of the Department, the following was established:

- a) Pages are not numbered and the last page has no indication that it is the end of the printout.
- b) Open lines on the stock sheets were not crossed out or cancelled.
- c) Officials performing the stock count did not initial each page.
- d) Alterations made on stock sheets were not initialled.
- e) A register of stock sheets was not kept.

Stock could potentially be misstated as the controls are not being adhered to.

Internal control deficiency

- a) Officials that were designated with this task did not adhere to the stock count procedures.
- b) Lack of supervision and review over stock count procedures.

Recommendation

Management should ensure that the staff performing the stock counts adhere to the Department's stock count procedures.

Management response

Management has acknowledged the recommendations from the Auditor General and will work on rectifying the deficiencies that have been identified.

Name : V Mkhize
 Position : Deputy Manager : Supply Chain Management
 Date : 27 June 2011

Auditor's conclusion

This will be followed up during the next audit.

9. Improper stock record keeping

Audit Finding

In terms of Treasury regulation 10.1:

10.1.1 The accounting officer of an institution must take full responsibility and ensure that proper control systems exist for assets and that—

(a) Preventative mechanisms are in place to eliminate theft, losses, wastage and misuse;
 and

(b) Stock levels are at an optimum and economical level.

10.1.2 The accounting officer must ensure that processes (whether manual or electronic) and procedures are in place for the effective, efficient, economical and transparent use of the institution's assets.

Whilst auditing inventory it was found that inadequate stock records were maintained. The only record of stock is the equipment handover certificates which show all inventory that has been distributed to the schools and various institutions. No stock cards or stock registers are kept to record stock that is brought in or to reconcile the balance of stock on hand.

Management has not implemented adequate control procedures to ensure that a theoretical quantity of stock is maintained and reconciled to the actual quantity of stock.

There is the risk that stock will be misstated, either due to fraud or error, as these misstatements will not be detected due to the lack of controls/procedures to ensure the completeness, existence and valuation of stock.

Internal control deficiency

The head of the asset management unit has not taken full responsibility and ensured that proper control systems exist for asset management.

Recommendation

- a) Management should ensure that all districts keep an adequate stock register, and
- b) Perform regular reconciliations of stock on hand to a theoretical stock level, which
- c) Must be reviewed and reconciled on a monthly basis.

Management response

The department is unable to keep the stock due to unavailability of the warehouse which is supposed to be used as stores and be controlled by the logistics management unit or stores officer. Deliveries are done directly to the beneficiaries and monitored by the project coordinators/sport officers by keeping the handover certificates of the sport equipment that has been provided to various institutions or communities. The stock that was found in the offices was temporally kept to be collected by the beneficiaries. The control tool that the department has implemented is the maintenance of requests from various communities and handover certificates by the sports coordinators and or district heads as a proof of the issues to the relevant beneficiaries.

Name : V Mkhize
Position: Deputy Manager Supply Chain Management
Date : 29 June 2011

Auditor's conclusion

Management response is acknowledged. However, a basic control such as a stock register will assist in holding officials accountable for stock in their possession and serve as a mechanism to reconcile stock movements. This matter will be followed up during the next audit.

10. Could not reconcile inventory test count to the department's stock count

Audit Finding

The results of a test count performed by the auditor should reconcile to the results of the stock count performed by the auditee at year end.

A test count was performed during June, however the results could not be reconciled back to the stock count performed by the department.

This is due to a lack of adequate record keeping by the client. No stock register is kept that records the purchases and distributions of stock. In addition to this is the fact that there are no security controls over stock; most stock is kept in the offices of members of staff, where it would be easy for theft to take place.

As a result of inadequate record keeping theft and losses can take place undetected, as there is no way for the department to reconcile their stock count to any theoretical stock level. This would lead to unnecessary losses being experienced.

Internal control deficiency

Inadequate controls over inventory.

Recommendation

Management should ensure that an adequate record of purchases and distributions of stock is kept, and that there are suitable security controls placed over stock.

Management response

The department is unable to keep the stock on hand due to unavailability of the warehouse which is supposed to be used as stores and be controlled by the logistics management unit or stores officer. Deliveries are done directly to the beneficiaries and monitored by the project coordinators/sport officers by keeping the handover certificates of the sport equipment that has been provided to various institutions or communities. The stock that was found in the offices was temporarily kept to be collected by the beneficiaries. The control tool that the department has implemented is the maintenance of requests from various communities and handover certificates by the sports coordinators and or district heads as a proof of the issues to the relevant beneficiaries.

Stationery inventory is also kept in the cupboards in the individual's offices. The receipting and issuing of this inventory is monitored and controlled by those individuals, which makes it impractical to keep an accurate register due to unavailability of a secure accommodation for all inventories.

Name : V Mkhize
Position: Deputy Manage Supply Chain Management
Date : 30 June 2011

Auditor's conclusion

The implementation of stock registers will be followed up during the next audit.

Operating expenditure

11. Order not authorised

Audit Finding

In terms of procedure 6.2.6 c) of the Department's Procurement and Provisioning Financial Policy and Treasury Regulation 8.2.1 all orders must be authorised by a delegated official.

Sport equipment to the value of R487,250 was purchased from Andimahle Trading Enterprises cc via payment voucher number 21922, however, there was no authorized order for this purchase.

This constitutes non-compliance with the Department's policy and Treasury Regulation 8.2.1.

Internal control deficiency

Ineffective controls over record keeping.

Recommendation

The Department's policy and Treasury Regulation 8.2.1 must be complied with. Management should enforce controls so that documentation is filed in such a manner that facilitates compliance with policies and regulations.

Management response

Order number A722157 for Andimahle Trading was captured and authorized on BAS but due to an oversight the official who authorized the order was not physically signed off on the order note. It must be noted that BAS would not allow the order to be paid without it being authorized on the system. A report was requested on BAS to trace the official who authorized the order but the system cannot generate a report depicting this. It only provides the details of the capturer and authorizer of the payment leg. Management acknowledges the error and will ensure proper maintenance of documentations during the procurement process.

Name : Ms V Mkhize
Position: Deputy Manager : SCM
Date : 29 June 2011

Auditor's conclusion

This non-compliance has been reported in annexure B of the management report, and will be followed up during the next audit.

12. Inventory procured at significantly high prices

Audit Finding

In terms of section 38(1)(c) and 51(1)(b) of the PFMA, an accounting authority of a department must take effective steps to prevent fruitless and wasteful expenditure.

During the audit it was noted that the prices for certain inventory items fluctuated dramatically. The findings for "Cones - Flat" were as follows:

No	Order number	Supplier name	Location	Price (R)	Quantity	Total (R)
1	722133	Menties Trading	Durban North	5.00	1 000.00	5 000.00
2	560641	Jambalele Trading	Hospital Park	6.99	30.00	209.70
3	722135	Big O Trading 310 & Tours	Plessislaer	8.00	1 000.00	8 000.00
4	560612	Simengawe Trading Enterprise	Pietermaritzburg	10.00	1 000.00	10 000.00
5	722187	Somahashi Marketing Solutions	Morningside	22.00	1 000.00	22 000.00
6	722190	Syazenzela Service & Trading	Richards Bay	26.00	1 000.00	26 000.00
7	721167	Malinande Trading & Business Enterprise	Durban	30.00	200.00	6 000.00
8	722134	Izozonke Trading	Glenwood	47.00	1 000.00	47 000.00
9	721108	Sesihle Business Enterprise	Empangeni	50.00	200.00	10 000.00
10	722602	Thakasani Trading Enterprise	Pietermaritzburg	65.00	40.00	2 600.00
11	722188	Miyaki	Richards Bay	72.00	1 000.00	72 000.00
12	722189	Usebe Trading	Bluff	74.00	1 000.00	74 000.00
13	722131	Mnqiwo Trading	Musgrave	75.00	1 000.00	75 000.00
		Total:				357 809.70

Internal control deficiency

This is due to a lack of management review of quotations by suppliers, and a lack of controls to regulate the selection of suppliers based on the prices of individual items.

Recommendation

The Department must consider implementing a process for benchmarking the prices charged by suppliers with the market prices to avoid paying exorbitant prices unnecessarily. Furthermore controls should be implemented to ensure that the prices quoted are validated prior to the acceptance of the quotations.

Management response

The reasons for obtaining different prices for the same items are due to the fact that the prices offered by the suppliers per quotation vary from one supplier to another depending on their manufacturers. Evaluation of quotations is done holistically. If the quotations can be evaluated per item hence issue orders, this will be time consuming on procurement side due to the volume of work and interpreted as splitting of orders. The department in the past had evaluated a bid for sport equipment per item and orders were issued per lowest item. The awarded suppliers rejected the orders because they could not make any profit by supplying one item and they indicated that their prices were based on the total amount of the bid. Some quotations might be far cheaper on certain items and be higher on other items. This might be due to the fact that the items were on sale at the time of the purchase or the supplier negotiated the prices with their manufactures or had stock on hand.

The management acknowledges the auditor's recommendations of benchmarking the prices offered by the suppliers with the market price. The department will implement the necessary controls as per recommendations.

Name : V Mkhize
Position: Deputy Manage Supply Chain Management
Date : 30 June 2011

Auditor's conclusion

Time would be well spent to find suppliers that can supply quality goods at competitive prices. The suppliers mentioned above did not only supply one item. For example, orders 722131 and 722133 were not for cones only, in fact both orders and invoices had the same descriptions and quantities of goods (football kits, footballs and bibs). This matter will be followed up during the next audit.

13. List of Prospective Suppliers

Audit Finding

As per Practice Note 8 of 2007/08 (PN8) paragraph 5.2, Accounting officers should at least once a year, through local representative newspapers or by any other means, invite prospective suppliers to apply for evaluation and listing as prospective suppliers. The list should be updated at least quarterly in order to accommodate especially newly established black owned and empowered businesses and other newly established HDI suppliers.

During the audit of procurement and contract management it was noted that the requirement as per PN8 was not met for the listing of prospective suppliers. The following are the outstanding items:

- The listing criteria are not specified in the department's procurement and provisioning policy
- Prospective suppliers were not invited to apply for evaluation and listing at least once a year, through local representative newspapers or by any other appropriate means.

This will result in the department not having a wider range of suppliers in their database. A wider range of suppliers could result in the same goods being obtained at a cheaper price.

Internal control deficiency

No controls in place to monitor compliance with PN8.

Recommendation

Management should implement procedures to ensure that PN8 is complied with.

Management response

The listing criteria is specified in the supplier database registration forms where all the prerequisites are clearly defined and also included in the advertisements in national and local newspapers when the department invites suppliers who are interested to trade with the department to submit their registration forms for evaluation and listing.

The department did not undergo a process of inviting service providers to be registered in the internal supplier database in 2010/2011 due to the fact that The Provincial Treasury was engaged in the process of re-registering all the service providers in KZN with a purpose of providing them with the new company registration numbers as it was discovered that some suppliers were able to create fraudulent ZNT numbers without being registered on Treasury supplier database however

the suppliers that were approaching the department with their registration forms were considered and evaluated accordingly.

The department is in the process of inviting suppliers to be evaluated and registered in the internal supplier database.

Name: V Mkhize
Position: Deputy Manager Supply Chain Management
Date: 11 July 2011

Auditor's conclusion

This will be followed up during the next audit.

14. The invitations to tender for construction contracts not advertised on the CIDB website

Audit finding

In terms of CIDB regulation 24, every client or employer who is inviting calls for expression of interest or soliciting competitive tenders must publish that invitation to tender on the CIDB's website.

The invitations to tender for the following construction procurement were not advertised on the CIDB website:

- Mazcon Civil and contractors
- Ziqhenye Surveying and Construction
- Yimpie Projects CC
- Kusa Kusa Trading and Projects

This has resulted in non-compliance with CIDB regulation 24 and a smaller pool of bidders, potentially resulting in an irregular outcome.

Internal control deficiency

Management did not exercise oversight over SCM processes.

Recommendation

- a) Processes must be established to ensure that invitations for tenders in relation to construction contracts are advertised on the CIDB website.
- b) The above transactions should be assessed by management to determine whether irregular expenditure was incurred.

Management response

- Although the above mentioned tenders were not advertised on the CIDB website but they were advertised in the national and local newspapers to open up for a wider range of competitive bidders.
- The management acknowledges the auditors comments with regards to the publication of invitations and registration of projects on CIDB website and awarding of contracts in accordance with the relevant grading.

- The department was still in a learning period on the processes and procedures to be followed when procuring services related to construction as we mainly deal with procurement of goods and services.
- The management will implement necessary controls as recommended to ensure that the department complies with the CIDB Act and Regulations.

Name: V. Mkhize
 Position: Deputy Director Supply Chain Management
 Date: 12 July 2011

Auditor’s conclusion

This has been reported as non-compliance in annexure B of the management report and will be followed up during the next audit.

15. SCM policies do not provide for the prescribed minimum

Audit finding

In terms of Treasury Regulations 16A6.2, a supply chain management system must, in the case of procurement through a bidding process, provide for:

- (a) the adjudication of bids through a bid adjudication committee;
- (b) the establishment, composition and functioning of bid specification, evaluation and adjudication committees;
- (c) the selection of bid adjudication committee members;
- (d) bidding procedures; and
- (e) the approval of bid evaluation and/or adjudication committee recommendations.

The department’s SCM policies and procedures do not provide for the following for procurement through a bidding process:

- the adjudication of bids through a bid adjudication committee;
- the establishment, composition and functioning of bid specification, evaluation and adjudication committees
- the selection of bid adjudication committee members
- bidding procedures
- the approval of bid evaluation and/or adjudication committee recommendations
- use of the standard bid documentation and general conditions of a contract in accordance with National Treasury instructions.

Internal control deficiency

SCM policy was not reviewed to ensure that it is aligned with relevant laws and regulations.

Recommendation

The SCM policy should be updated to contain at least all of the minimum prescribed requirements of SCM related laws and regulations.

Management response

The management acknowledges the auditors comments. Department's SCM policy (procurement and provisioning) is normally reviewed annually. The policy will be reviewed and revised to incorporate and align it with the relevant legislations and regulations as per recommendations.

Name: V. Mkhize
Position: Deputy Manager Supply Chain Management
Date: 14 July 2011

Auditor's conclusion

This will be followed up during the next audit.

16. SCM Policy

Audit finding

The following regulations should be incorporated into the department's SCM policy:

- TR16A9.1(e)
- TR16A9.1(f) , PPR 15(2)(b)
- TR16A9.2(a)(i)
- TR16A9.2(a)(ii)
- TR16A9.2(a)(iii)
- TR6A8.3(a) & 8.4
- TR6A8.3(d)

The department's SCM policy does not include the following measures:

- a) Rejection of a proposal for the award of a contract if the recommended bidder has committed a corrupt or fraudulent act in competing for the particular contract
- b) Cancellation of a contract awarded if the supplier committed any corrupt or fraudulent act during the bidding process or the execution of that contract or if any official or other role player committed any corrupt or fraudulent act during the bidding process or the execution of that contract that benefited that supplier.
- c) Disregard of the bid of any bidder if that bidder, or any of its directors have abused the institution's supply chain management system;
- d) Disregard of the bid of any bidder if that bidder, or any of its directors have committed fraud or any other improper conduct in relation to such system
- e) Disregard of the bid of any bidder if that bidder, or any of its directors have failed to perform on any previous contract
- f) Disclosure by SCM officials and other role players of any conflict of interest that may arise including if the SCM officials and other role players, or any close family member, partner or associate of such official or other role player, has any private or business interest in any contract to be awarded. And withdrawal from participating in any manner whatsoever in the process relating to that contract.
- g) Non-acceptance of gifts or hospitality or any other act which could compromise the credibility or integrity of the SCM system.

Internal control deficiency

SCM policy was not reviewed to ensure that it is aligned with relevant laws and regulations.

Recommendation

The SCM policy should be updated to be in line with the requirements of treasury regulations.

Management response

The management acknowledges the auditors comments. Department's SCM policy (procurement and provisioning) is normally reviewed annually. The policy will be reviewed and revised to incorporate and align it with the relevant legislations and regulations as per recommendations.

Name: V. Mkhize
Position: Deputy Manager Supply Chain Management
Date: 14 July 2011

Auditor's conclusion

This will be followed up during the next audit.

17. Forensic investigation on procurement

Audit finding

A review was undertaken of the forensic investigation report issued by Ngubane & Co dated July 2010. The content of the report has raised great concern. The recommendations in the report are that disciplinary action and criminal charges should be instituted against the individuals involved in irregular/fraudulent activities as stipulated in the report.

Internal control deficiency

Disregard for the code of conduct and ethical behaviour.

Recommendation

Please provide this office with all details regarding the steps/action taken by the department after receiving the information contained in the forensic investigation report.

Management response

Categorisation of alleged contraventions, in terms of their perceived complexity and seniority of employees alleged to have engaged in such alleged contraventions as per the report was done with the view to simplifying the planning process around the institution of disciplinary hearings. Such exercise is complete.

The department is currently in the process of implementing the recommendations of the forensic report. Due to sensitivities around this matter, the department is of the view that it is not possible at this stage to provide detailed information of the steps that are being undertaken as this may compromise the work being done in this regard.

Name: G V Sangweni
Position: Acting HOD
Date: 14 July 2011

Auditor's conclusion

This matter will be followed up during the next audit.

Employee costs

18. Salary overpayment

Audit Finding

In terms of PSR 1/V/C3 an executing authority may set the salary for a post or an employee above the minimum notch of the salary range indicated by the job weight if she or he has evaluated the job but cannot recruit or retain an employee with the necessary competencies at the salary indicated by the job weight, and should record the reason why the salary indicated by the job weight was insufficient.

Employee 62743368 was appointed above the minimum notch, but all requirements were not adhered to. A review of the information in the personnel file was undertaken and the following matters noted:

- a) This employee was appointed as a manager at the Department of Sport and Recreation on 1 April 2010 at the minimum notch of level 13.
- b) The employee requested to be placed on the highest notch of level 13 as he resigned from another department in February 2010 whereby he earned more than the minimum notch of level 13.
- c) The department enquired directly with a director from DPISA, who confirmed that the appointment of employee 62743368 constituted a new appointment in terms of the Public Service Act, and that the employee must be appointed on the minimum notch unless the department is able to motivate that there were difficulties in filling the post in that the required competency is a scarce skill such as a medical doctor.
- d) Approval for the employee's salary to increase to the maximum notch was granted on 9 July 2010 and the increase was effective from date of appointment being 1 April 2010.
- e) The documented reason for the notch adjustment is that it took some time for the department to find a suitable candidate and the post had to be advertised twice.
- f) There were four additional candidates that had passed the interview assessment.

Based on the review of the personnel file, the requirements of PSR 1/V/C3 were not met.

- a) The position in question is not a scarce skill, as there were four other candidates interviewed that had also passed the assessment.
- b) The reasons documented in the approval of the notch adjustment do not meet the requirements of PSR 1/V/C3.
- c) The difference between the minimum and maximum notch is R127,656 which constitutes a salary overpayment.

Internal control deficiency

The overriding of control measures in place does not promote an efficient and effective management style. The accounting officer has not exercised oversight responsibility to facilitate the compliance with laws regulations and internal controls when the control measures in place are overridden.

Recommendation

- a) Management should obtain legal advice on this matter and the salary overpayment must be recovered by the department.
- b) A process needs to be implemented to prevent further salary overpayments being incurred in the 2011/12 financial year.

Management response

In respect of the above audit query, herewith a management response:

It is common cause that the employee, salary reference number, 62743368 was appointed by the department of Sport and Recreation as the Manager: Human Resources, on 01 April 2010. It is also common cause that the employee is currently being paid at the maximum notch of the salary range, level 13.

Circumstances leading up to the employee's salary determination by the MEC are recorded below as follows:

Subsequent to the conclusion of the interviews for the post conducted on 09 March 2010, a submission for approval for the filling of the post, dated 17 March 2010, based on the recommendation of the selection committee, was submitted to the Executive Authority for her consideration and determination.

It is common cause that the submission recommended Mr RT Hlathi for appointment into the post and further recommended that should he decline the offer, the second best candidate be offered the post. The Executive Authority approved the recommendation as reflected in the submission.

It is further common cause that Mr Hlathi did not decline the post. In fact he accepted the offer and, in his replying acceptance form, dated 26 March 2010, he indicated his intention to negotiate the salary since in the offer of employment given to him, there was no specific salary offer, but only the salary notch and salary range of level 13 was indicated. This intention is reflected in the letter written to the former Head of Department, Mrs Khan, as follows:

“According to these terms, your salary ranges from R615 633.00 to R736 065.00 annually. However, there is no reference to a specific salary which in terms of this employment, the incumbent would be entitled to. In the context of this, I wish to advance the view that in the absence of any possible movement on your salary range, the R736 065.00 be agreed as the salary that would be applicable in my case as per your current salary range.”

It is further common cause that the department did not respond to Mr Hlathi's advanced salary expectation and intention to negotiate this as contained in his replying acceptance form until he was advised by the department on the date of his assumption, on 01 April 2010 that the salary for the post would be at minimum notch.

Subsequent to this, Mr Hlathi wrote another letter to the HOD, dated 06 April 2010, still requesting that his salary be looked into as the department could not unambiguously confirm his specific salary offer before the assumption of duty on 01 April 2010. Part of this letter reads:

“The fact that there is a salary range in each of the grades, in my view, allows you as the HOD, alternatively, the Executive Authority, to use discretion to negotiate improved salary depending on various factors, including but not limited to, perceived competence as a combination of knowledge, skills and experience of the new incumbent, scarcity of skills, criticality of skills and salary level at which the new incumbent was at, with the previous employer.”

In the context of this letter and other prior correspondence, a submission was written to the Executive Authority in which submission, Mr Hlathi's request was communicated to the MEC. It is common cause that this submission recommends “that the Honourable MEC approve the appointment of Mr Hlathi on the 1st notch of salary level 13. It is further common cause that this recommendation was made on the back of the advice sought by the department from DPSA.

It is also worth noting the fact that the same submission cites as part of its discussion, PSR V/C/3, which gives the Executing Authority an element of discretion to “set the salary for a post or an employee above the minimum notch of the salary range indicated by the job weight.” It is now common cause that the Executing Authority exercised this discretion in respect of the “employee” and not the post.

It is also worth noting that the regulation requires that the discretion be exercised after the Executing Authority “had evaluated the job, but cannot recruit or retain an employee with the necessary competencies at the salary indicated by the job weight; and she or he shall record the reason why the salary indicated by the job weight was insufficient.”

In line with this requirement, the Executing Authority, in exercising her discretion, recorded, among others, her reason as follows:

“As far as I am concerned and, due to the amount of time it took to fill this post, I am convinced that Part V.C. 3 of the Public Service Regulations should apply. The department had great difficulty in filling the post such that it had to be advertised twice.”

It is also critical to indicate that the final determination of the Executing Authority on this matter was on 09 July 2010, four months into the employment of Mr R.T. Hlathi. It is in the context of this consideration that among other reasons cited by the Executing Authority in exercising her discretion is the following:

“It is also unfair and probably unwise to set a new official’s salary far below what he/she has been receiving from his/her old employer as this will certainly make it difficult to retain him/her.”

Having regard to the Public Regulation concerned and the fact that at the time of the Executive Authority’s determination Mr Hlathi was already in the employ of the department, as indicated by the citation above, the MEC decided on what she believed was in the best interest of the department, given the challenges the department was faced with during this time. Some of these challenges are captured in the MEC letter written to the former HOD Mrs Khan, dated 15 February 2010, in which letter it was noted thus:

“It should be noted that the position of Human Resource Management is very critical for the Department of Sport and Recreation. Based on all the information during the district visits, it became clear that this is one of the fundamental areas that need immediate attention. Having advertised the vacant position of the HR Manager for the second time within a period of few months, I advise that the process for the employment of the Human Resources Manager be fast-tracked to an extent that the incumbent assumes duty as soon as possible.”

It should further be noted that your view that “the requirements of PSR 1/V/C3 were not met as “the position in question is not a scarce skill” is not necessarily correct and probably misplaced. If you read the PS regulations dealing with grading and remuneration, specifically V/C/3 you would realize that, nowhere does it talk about scarce skill as part of the considerations that the Executive Authority is required to give regard to.

It would seem to me that your view is formulated on the basis of a **personal opinion** of the author of the submission to the Executive Authority dated 21/04/2010 where it is said “**thus part V.C.3 requires the motivation that the department had difficulty in filling the post as the necessary competence could not be found in the market. Typically it would refer to a scarce skill, e.g. Medical Doctor, etc.**” On the basis of this, it has to be indicated that this opinion cannot be elevated to a level of the regulation and use it to find fault with the decision of the Executive Authority, which in our view was arrived at, after due and proper consideration having taken all necessary factors into account.

Your assertion therefore that this is an irregular expenditure cannot be accepted as it does not have any legal or regulatory basis. In fact it is our view that it is formulated based on an opinion that has no legal or regulatory relevance as pointed out above.

Name: GV Sangweni
Position: Acting Head of Department
Date: 4 July 2011

Auditor's conclusion

The letter referred to in management's response, contains the salary range and notch. The notch is the salary.

- The department sent the employee a letter acknowledging receipt of the employee's letter dated 26 March 2010 whereby it clearly stipulated that the salary for the post was R652 572.
- Adverts for the post were inspected and it was noted that the candidate required matric plus a tertiary qualification in HRM and 3 – 5 years public service experience.
- It was further noted that the employee was a member of the selection committee when the post was previously advertised.
- As previously mentioned there were four other candidates that were interviewed and also passed the assessment.
- On further evaluation of supporting documentation there was no documentation to support that PSR V/C/3(a) was applicable, that is, that the department was unable to recruit an employee with the necessary competencies at the salary indicated by the job weight.
- The salary overpayment (wrongly granted remuneration) must be recovered from the employee in terms of section 38 of the Public Service Act of 1994.
- This will be reported as non-compliance in the audit report, and this matter will be followed up during the next audit.

Information systems audit

DETAILED AUDIT FINDINGS OF THE INFORMATION SYSTEMS AUDIT OF THE GENERAL CONTROLS SURROUNDING THE PERSONNEL AND SALARY SYSTEM, THE BASIC ACCOUNTING SYSTEM AND THE HARDCAT SYSTEM AT THE KWAZULU-NATAL DEPARTMENT OF SPORT AND RECREATION

24. USER ACCOUNT MANAGEMENT

24.1 BASIC ACCOUNTING SYSTEM

24.1.1 Review of access rights and monitoring of activities

Previous audit finding

The following weaknesses were identified regarding the monitoring and review of access rights and activities:

- The activities of the system controller (super user) for BAS were not regularly reviewed by an independent person.
- The access levels of active users on BAS were not periodically reviewed by the system controller to ensure that the access remained in line with the users' job requirements.

Follow-up audit finding

The following weaknesses still existed with regard to the monitoring and review of access rights and activities:

- The activities of the system controller (user creation, user ID maintenance and allocation of functions) were not regularly and formally monitored by an independent person by comparing such activities of the controller to approved access request forms.
- User activity reviews were periodically performed to ensure that user's' current access rights and privileges on the system were still commensurate with their job responsibilities. These reviews, however, were not formalised and approved by the CFO.

If the controller's activities are not monitored and reviews of access rights are not periodically performed, unauthorised activities might be performed that would not be timely detected.

Internal control deficiency

Leadership: Lack of adequate formalised monitoring and review controls due to a lack of capacity and oversight.

Recommendation

The weaknesses identified with regard to the review of access rights and the monitoring of activities should be rectified. The following measures should be instituted to address these weaknesses:

- Periodic checks should be performed to ensure that employees' current level of access to BAS is commensurate with their job responsibilities. Evidence of such reviews should be kept.
- Management should establish a process to ensure that the activities of controllers with regard to user ID maintenance and the allocation of functions to users are regularly

reviewed by an independent person by comparing such activities to the approved change requests. Evidence of such reviews should be kept.

The individuals responsible for direction and implementation of the recommendations made have been cited in the management response reflected below.

Management response

The Department agrees with the findings. Reviews in respect of user rights and privileges were conducted but not recorded in writing. This practice will be corrected going forward and the reviews will be documented. These reviews will be approved by the CFO.

Sandra Chendriah-Deputy Manager – Financial Management

Responsible official: ZK Buthelezi

Position: CFO

Action date: September 2011

Auditor's conclusion

Management responses are noted and an assessment of the corrective actions agreed upon by management will be performed quarterly.

24.1.2 BAS security settings

Audit finding

Adequate password and access controls were in place on the system to ensure that access would be restricted to authorised users. However, the following weaknesses were identified in the system security controls:

- The password history was set to five.

The shorter the frequency of using the same passwords, the more susceptible it is to be easily guessed.

Internal control deficiency

Leadership: Adequate policies and procedures not implemented due to the fact that the security settings were not appropriately set due to oversight. The password history was set to 5 in terms of the previous Treasury guideline document.

Recommendation

The following amendments should be made to the BAS application's security settings:

- The password history setting should be set to at least 8.

The shorter the frequency of using the same passwords, the more susceptible it is to be easily guessed.

The individuals responsible for direction and implementation of the recommendations made have been cited in the management response reflected below.

Management responses

Agreed we will change the password history to maximum allowed on the system viz 8.

Sandra Chendriah-Deputy Manager – Financial Management

Responsible official: ZK Buthelezi

Position: CFO

Action date: July 2011

Auditor's conclusion

Management responses are noted and an assessment of the corrective actions agreed upon by management will be performed quarterly.

24.2 PERSONNEL AND SALARY SYSTEM

24.2.1 User account management procedures

Previous audit finding

It was established that although comprehensively documented and formally approved user account management procedures had been issued by the National Treasury (PERSAL Notice 267), the procedures document was not communicated to the PERSAL users.

Follow-up audit finding

A formal PERSAL policy was in place. However, formally documented and approved user account management procedure was not available. Cognisance was taken of the fact that the department used the Provincial PERSAL policy issued by Provincial Treasury as guidance. However, no evidence could be provided that the policy had been tailored to the specific needs of the department and that it had been formally adopted as a departmental procedure document by the Head of the Department.

The lack of formal user account management processes could result in user account management activities not being dealt with in a consistent manner and might even lead to unauthorised access being gained to the system. The integrity, confidentiality and reliability of the system might be compromised.

Internal control deficiency

Leadership: Formal user account management standards and procedures were not refined due to a lack of capacity and oversight.

Recommendation

The department should develop, approve and implement user account management procedures for the PERSAL application system. The approved procedures should be

communicated to all the relevant users and compliance with these procedures should be monitored regularly. The user account management procedures should include, but not limited to the following:

- Requests for access (setting up of new users)
- Approval of requests
- Resetting of passwords
- Termination of access and inactive accounts
- Change of access (users transferred)
- Monitoring of the actions of the system controllers on application security level (creation of IDs, user ID maintenance, allocation of functions to users, etc.)
- Periodic checks to ensure that employees' access remains commensurate with their job responsibilities

The individuals responsible for direction and implementation of the recommendations made have been cited in the management response reflected below.

Management response

The Department agrees with the findings. It must be noted that the Department utilizes the Provincial Persal Policy which details user account management guidelines. We will adopt and approve formal user account management procedures for the Department.

Lalitha Marrie-Assistant Manager – Human Capital Management

Responsible official: TR Hlathi

Position: Manager - Human Capital Management

Action date: September 2011

Auditor's conclusion

Management responses are noted and an assessment of the corrective actions agreed upon by management will be performed quarterly.

24.2.2 Review of access rights and monitoring of activities

Previous audit finding

The following weaknesses were identified regarding the monitoring and review of access rights and activities:

- The activities of the system controller (super user) for PERSAL system were not regularly monitored by an independent person or a supervisor.
- The access levels of active users on PERSAL were not periodically reviewed by the system controller to ensure that the access remained in line with the users' job requirements.

Follow-up audit finding

The following weaknesses still existed with regard to the monitoring of activities and the review of access rights:

- Users' profiles were reviewed once during the year to ensure that their current access to the system was commensurate with their job responsibilities. This was signed by the Deputy Manager but was not signed as approval by the Head.
- The activities of the system controller (user creation, user ID maintenance and allocation of functions) were not regularly monitored by an independent person by comparing such activities of the controller to approved access request forms.

If the controllers' activities and users' access rights are not monitored, unauthorised activities might be performed that would not be timely detected.

Internal control deficiency

Leadership: Lack of adequate formalised monitoring and review controls due to a lack of capacity and oversight.

Recommendation

The weaknesses identified with regard to the monitoring of activities and the review of access rights should be rectified. The following measures should therefore be instituted:

- Users' profiles should regularly be reviewed to ensure that their current access to the system remains commensurate with their job responsibilities. Evidence of such reviews should be kept.
- Management should establish a process to ensure that the activities of the PERSAL controllers with regard to user ID maintenance are regularly reviewed by an independent person by comparing such activities to the approved access request forms. Evidence of such reviews should be kept.

The individuals responsible for direction and implementation of the recommendations made have been cited in the management response reflected below.

Management response

The Department agrees with the findings. We will review each employee on a quarterly basis and retain evidence and Management approval of such reviews. We will also ensure that the syscon activity report is reviewed and approved by the Manager - Human Capital Management. The Provincial Persal Controller also regularly monitors the activities of the Departmental system controller from a Provincial level.

Lalitha Marrie-Assistant Manager – Human Capital Management
Responsible official: TR Hlathi
Position: Manager - Human Capital Management
Action date: September 2011

Auditor's conclusion

Management responses are noted and an assessment of the corrective actions agreed upon by management will be performed quarterly.

24.3 HARDCAT SYSTEM – USER ACCOUNT MANAGEMENT

24.3.1 HARDCAT user account management procedures

Audit finding

Formally approved user account management procedures relating to the operating and application system security administration did exist in respect of HARDCAT. However, the procedures did not include a section for the following:

- Periodic checks to ensure that employees' access remains commensurate with their job responsibilities
- Monitoring actions of the system controllers on application security level (creation of IDs, user ID maintenance, allocating functions to users etc.).

Documented procedures are essential to effective user account management as they offer direction to ensure that only authorised users have access to the system. The lack of formally documented and approved procedures could result in the following:

- Inconsistency in the application of the requirements for granting, modifying and terminating user access
- Failure to address breaches in the application of the user account management processes as the stakeholders might not all be aware of the process
- Difficulties in transferring knowledge, which could lead to operating interruptions should the individual who performs a duty not be available

Internal control deficiency

Leadership: Inadequate implementation of key controls as the user account management procedures did not address various important matters. This was due to an oversight of responsibility.

Recommendation

Management should ensure that formal procedures for the transversal systems (application level) and the procedures should incorporate the following, as a minimum:

- Monitoring of the actions of the system controllers on application security level (creation of IDs, user ID maintenance, allocation of functions to users, etc.)
- Periodic checks to ensure that employees' access remains commensurate with their job responsibilities

The user account management procedures should be formally approved, periodically reviewed for appropriateness, communicated to the relevant stakeholders and regularly monitored for compliance.

The individuals responsible for direction and implementation of the recommendations made have been cited in the management response reflected below.

Management response

Agreed we will ensure that the user account management procedures are updated as recommended. We have also discussed this with Treasury.

N Hlela – Assistant Manager Asset Management
Responsible Official: V Mkhize – Deputy Manager SCM
Position: GM Supply Chain & Asset Management
Action date: 30 September 2011

Auditor's conclusion

Management responses are noted and an assessment of the corrective actions agreed upon by management will be performed quarterly.

24.3.2 Review of system controller's activities

Audit finding

The activities of the Hardcat system controller were not independently reviewed to ensure that all user ID maintenance activities performed by the Hardcat system controller related to valid and approved user requests

Security administration and system/user ID maintenance performed by the system controller might not be supported by valid and approved requests.

Internal control deficiency

Leadership: Formal access authorisation review procedures were not established to address the review and monitoring of the system controller at the Department in particular. This was due to an oversight and lack of capacity. Formal monitoring procedures need to be further refined.

Recommendation

Regular, independent reviews should be undertaken to ensure that all user ID maintenance activities performed by the Hardcat system controller relate to valid and approved user requests.

The individuals responsible for direction and implementation of the recommendations made have been cited in the management response reflected below.

The individuals responsible for direction and implementation of the recommendations made have been cited in the management response reflected below.

Management response

We will discuss this with Management and ensure that formal monitoring of the system controller takes place.

N Hlela – Assistant Manager Asset Management
Responsible Official: V Mkhize – Deputy Manager SCM
Position: GM Supply Chain & Asset Management
Action date: 30 September 2011

Auditor's conclusion

Management responses are noted and an assessment of the corrective actions agreed upon by management will be performed quarterly.

24.3.3 Review of access rights

Audit finding

No formal procedures had been established to ensure that the access of Hardcat users would periodically be reviewed to confirm that their current access was commensurate with their job responsibilities.

If the access rights of users are not periodically reviewed, unauthorized activities might be performed that would not be timely detected.

Internal control deficiency

Leadership: The access rights granted to users was recently reviewed to ensure that their current access rights commensurate with their job responsibilities but this has not been formally approved by management as they are awaiting Treasury's approval of the Treasury users that have access to the system. Formal access review procedures are not always signed off by Management as evidence of approval.

Recommendation

Management should establish a formal process to ensure that the functions allocated to users on systems are regularly reviewed by comparing them to the approved change requests.

Checks should periodically be carried out to ensure that employees' current access to the Hardcat System is commensurate with their job responsibilities and evidence of such reviews should be kept.

The individuals responsible for direction and implementation of the recommendations made have been cited in the management response reflected below.

Management response

We are in the process of reviewing access granted. We will initially deactivate the users and then review for appropriateness and reactivate where necessary.

N Hlela – Assistant Manager Asset Management

Responsible Official: V Mkhize – Deputy Manager SCM

Position: GM Supply Chain & Asset Management

Action date: 30 August 2011

Auditor's conclusion

Management responses are noted and an assessment of the corrective actions agreed upon by management will be performed quarterly.

24.3.4 System security parameter settings

Audit finding

Some of the HARDCAT system security parameters were not adequately set.

For example:

- Users are not forced off the system after working hours
- Grace login not available on the system
- System does not disconnect after unsuccessful logons
- Users can log onto multiple workstations
- Number of stored passwords = 6 passwords
- Password provided for password resets are not forced to change on initial logon.

Weak system security parameter settings increase the risk of unauthorised access being gained to the system and information resources.

Internal control deficiency

Leadership: Adequate procedures not implemented. This is due to a systems limitation and an oversight by the service provider and the Department. The system timeout facility had been set too high for the application system, the password history too low and the system did not have the functionality to set a grace login count.

Recommendation

Management should ensure that strong system security settings such as the following are implemented:

- Grace login = 3
- Number of stored passwords = 12 or greater
- Multiple workstations = not allowed

The individuals responsible for direction and implementation of the recommendations made have been cited in the management response reflected below.

Management response

Agreed we will address these weaknesses where possible. For those settings identified as a result of systems limitation we will bring to the notice of the custodian of the system namely Provincial Treasury.

N Hlela – Assistant Manager Asset Management

Responsible Official: V Mkhize – Deputy Manager SCM

Position: GM Supply Chain & Asset Management

Action date: 30 August 2011

Auditor's conclusion

Management responses are noted and an assessment of the corrective actions agreed upon by management will be performed quarterly.

25. INFORMATION TECHNOLOGY GOVERNANCE

25.1 INFORMATION SECURITY OFFICER

Previous audit finding

In terms of paragraph 1.1 of the Minimum Information Security Standards (MISS), the head of every institution bears overall responsibility for the provision and maintenance of security in his/her institution. Furthermore, paragraph 1.2 stipulates that the security function must be delegated in writing to a fit and proper officer/employee. At the time of the performance of the risk assessment, the head of the institution had not delegated the responsibility for the security function in writing to a fit and proper officer/employee to ensure that security would be effectively administered.

Follow-up audit finding

At the time of the review assessment, the Head of the Department had not delegated the responsibility for the security function in writing to a fit and proper officer/employee to ensure that information security would be effectively administered.

Information security might not be effectively administered.

Internal control deficiency

Leadership: Adequate policies and procedures not established due to the security function not being formally allocated. This was due to oversight and a lack of capacity.

Recommendation

The main duty of the security officer would be to support the head of the department by performing the formally delegated responsibilities in respect of IT security. The head of the department should formally delegate these responsibilities to the security officer, which should at least include the following:

- Develop and maintain an IT security policy, as well as security procedures and standards for the operating unit and provide guidance consistent with the department's requirements and the specifications of the MISS.
- Conduct reviews of all systems to ensure that effective IT security policies are in place for each system and include the following:
 - Risk assessments
 - Current and effective IT security plans that are integrated into all stages of the system life cycle
 - Annual system assessments
 - Current and tested contingency plans
 - Current certification and accreditation

- Conduct annual assessments of the operating unit's IT security programme to confirm the effective implementation of and compliance with established policies and procedures.
- Establish a process for tracking remedial actions to mitigate risks in accordance with the institution's standard for plans of action and milestones.
- Maintain the IT system inventory in accordance with the institution's standard for inventory management.
- Establish a process for ensuring that all users (such as the IT security officer, system administrators, contracted staff, technical representatives) are periodically briefed about IT security awareness and receive copies of rules of behaviour, as well as training to enable them to fulfil their IT security responsibilities and understand the consequences of non-compliance.
- Act as the operating unit's central point of contact for all incidents, develop procedures for dealing with incidents and report all incidents to the incident response function.
- Participate as a voting member in the institution's IT security coordinating committee (SCC), as well as in special committees under the IT SCC and provide other support to the IT SCC as required.
- Cooperate with the institution's accounting officers and the CIO on IT security matters (concerning incidents, potential threats and other concerns).
- Ensure that system owners establish processes to ensure that:
 - IT personnel receive specialised training
 - Access privileges are revoked in a timely manner (e.g. after transfer, resignation, retirement, change of job description, etc.). In the case of individuals who are separated for adverse reasons, such privileges should be revoked immediately upon, or just prior to notification of the impending action.
- Serve as certification agent for systems within his/her operating unit (except in the case of systems for which the IT security officer is also the system owner, or moderate and high-impact systems for which the IT security officer is also the IS security officer).
- Establish a process for identifying, tracking and reporting on security patch management.
- Establish a chain of custody that documents the name, title, office and telephone number of each individual who has sequential possession of a system's hard drive when it is removed due to compromise and might be subjected to forensic examination as evidence in potential prosecutions.
- Ensure that cryptography is used for the transmission of classified information that impacts national security, in accordance with the institution's security policy.
- Ensure that IT security is addressed in the development and acquisition of information systems and security-related products and services by:
 - following a methodology for security considerations in the information system development life cycle
 - working with system owners to determine the information type and system impact levels and the control baseline for the protection of the system and its data
 - working with system owners to ensure the integration of the system security configuration into the security architecture, which, in turn, is integrated into the institution's overarching IT enterprise architecture.
- Ensure that network and system warning banners communicate that there is no expectation of privacy in the authorised or unauthorised use of IT systems.

- Ensure that the institution's policies and practices allow for the following account management controls:
 - Creation of accounts based on formal requests and authorisation by the users' supervisors
 - Identification and documentation of user accounts with appropriate access levels/account permissions
 - Account termination
 - Periodic status reviews of all currently open accounts on all systems through the auditing (review) of user accounts (employee, contractor and guest accounts)
- Administer access control software.
- Review access rights on a regular basis to ensure compliance with the data security policies and procedures.

Monitor security and investigate security violation attempts.

The individuals responsible for direction and implementation of the recommendations made have been cited in the management response reflected below.

Management response

The Department agrees with the findings. We will request that the Head of the Department delegates this responsibility in writing.

Elvin Rambaran-Deputy Manager – Administration Support

Responsible official: T Ndungane

Position: Director - Administration

Action date: September 2011

25.2 INFORMATION TECHNOLOGY GOVERNANCE FRAMEWORK

Audit finding

At the time of the audit, an IT governance framework that gives due consideration to the risks, processes and controls required to ensure IT value and improved service delivery, had not yet been implemented. Without an implemented IT governance framework that serves as a basis for defining and managing IT process risks and mapping the processes against defined standards and policies, IT governance processes cannot be effectively undertaken.

Internal control deficiency

Governance: Inadequate identification and management of risk due to an IT governance framework not yet developed and implemented. Management are awaiting approval of PGITOC and Treasury in this regard.

Recommendation

An IT governance framework should be developed and implemented. IT governance is the responsibility of top management and includes the leadership, organisational structures and processes that ensure that the department's IT section sustains and extends the department's strategies and objectives.

The IT governance framework should ensure that:

- The IT function is aligned with the business requirements of the department
- The IT function enables the business objectives and maximises benefits
- IT resources are used responsibly
- IT risks are managed appropriately.

Without such a framework IT risks might not be appropriately managed.

The individuals responsible for direction and implementation of the recommendations made have been cited in the management response reflected below.

Management responses

Agreed, we are considering a framework along with Treasury. We will formally select this within the next 6 months.

Elvin Rambaran-Deputy Manager – Administration Support

Responsible official: T Ndungane

Position: Director - Administration

Action date: September 2011

Auditor's conclusion

Management responses are noted and an assessment of the corrective actions agreed upon by management will be performed quarterly.

25.3 INFORMATION TECHNOLOGY STEERING COMMITTEE

Audit finding

A formal IT steering committee had not been established at the department to oversee the activities of the IT section.

The lack of an established steering committee IT could result in business objectives might not be aligned and opportunities might not be appropriately managed.

Internal control deficiency

Leadership: Adequate procedures not implemented due to the lack of a formal IT steering committee for the financial year. This was due to oversight and a lack of capacity.

Recommendation

A formal management-level IT steering committee should be established and meetings should be held on a regular basis to ensure that the IT function remains in line with the corporate mission and objectives. The committee should include senior managers who represent all the business areas in the department. Such a committee should typically serve as a general review board for major information systems projects. Furthermore, the committee should monitor performance and institute appropriate actions to achieve the desired results. Formal minutes should be kept of the steering committee meetings to document the committee's activities and decisions and to inform top management of the IT activities.

The individuals responsible for direction and implementation of the recommendations made have been cited in the management response reflected below.

Management responses

Agreed we will implement this with the participation of senior management by September 2011.

Elvin Rambaran-Deputy Manager – Administration Support
Responsible official: T Ndungane
Position: Director - Administration
Action date: September 2011

Auditor's conclusion

Management responses are noted and an assessment of the corrective actions agreed upon by management will be performed quarterly.

26. INFORMATION TECHNOLOGY POLICIES

26.1 INFORMATION TECHNOLOGY SECURITY POLICY

Previous audit finding

A formal and comprehensive IT system security policy had not been approved and implemented to ensure that the IT environment would be governed as prescribed in chapter 3, paragraphs 1.1 and 1.2 of the MISS. However, cognisance was taken of the fact that a draft IT policy existed.

Follow-up audit finding

A formal and comprehensive IT system security policy had not been approved and implemented. The policy has been prepared but needs to be approved by the Head of the Department before circulation to the users for acknowledgement and acceptance.

Without a comprehensive and formally approved IT security policy, users do not have any rules and procedures to follow to minimise the risk of errors, fraud and the loss of data confidentiality, integrity and availability.

Internal control deficiency

Leadership: Adequate policies and procedures not implemented. The Head of the Department's approval is required before circulation to the users for acknowledgement, acceptance and implementation.

Recommendation

A formal IT security policy should be developed, approved and implemented by the head of the department.

The individuals responsible for direction and implementation of the recommendations made have been cited in the management response reflected below.

Management response

The Department agrees with the findings. We will ensure that the Head of the Department approves the policy within the next 4 months and thereafter circulate for user acknowledgement.

Elvin Rambaran-Deputy Manager – Administration Support

Responsible official: T Ndungane

Position: Director - Administration

Action date: September 2011

27. CONTINUITY OF INFORMATION TECHNOLOGY SERVICES

27.1 BUSINESS CONTINUITY PLAN AND DISASTER RECOVERY PLAN

Previous audit finding

Although a formal, comprehensive and approved business continuity plan (BCP) and disaster recovery plan (DRP) had been established for the department, the plan had not been tested within the last year. The department might consequently not be able to recover normal business operations after a disaster or information processing interruptions.

Follow-up audit finding

Although the DRP was prepared and approved, no DRP testing had taken place for determine the effectiveness of the plan. A test is planned to take place within the next financial year.

The department might not be able to recover normal business operations after a disaster or information processing interruptions.

Internal control deficiency

Leadership: Adequate policies and procedures not implemented. The lack of formally tested DRP is due to oversight and lack of capacity.

Recommendation

The BCP and DRP should be tested on a regular basis and updated as necessitated by circumstances. A copy of the BCP and DRP should also be retained off site.

The individuals responsible for direction and implementation of the recommendations made have been cited in the management response reflected below.

Management response

The Department agrees with the findings. We plan on testing the DRP by September 2011.

Elvin Rambaran-Deputy Manager – Administration Support

Responsible official: DT Ndungane

Position: Director - Administration

Action date: September 2011

28. FACILITIES AND PHYSICAL ENVIRONMENT

28.1 PHYSICAL ACCESS AND ENVIRONMENTAL CONTROLS

Audit finding

The following physical and environmental shortcomings were noted with the Department's primary server room at Highway House:

- Servers were not placed on a raised floor,
- Visitors are not escorted from the ground floor to the IT area.
- Visitors entering the building are not required to complete a visitor's register or to declare physical computer equipment such as laptops.
- Formal policies and procedures relating to physical and environmental controls were not available.
- Formal evacuation procedures were not available.
- Backups are only removed weekly for offsite storage.

Environmental hazards such as flood could result in a loss of data and could impact the IT department's ability to provide continuous computing services. Furthermore unauthorised access to the Head Office and the removal of equipment could occur.

Internal control deficiency

Leadership: Adequate procedures not implemented due to the fact that a number of specific physical and environmental weaknesses were cited with the current Head Office server room due to oversight and lack of capacity.

Recommendation

As a matter of urgency physical access controls to the Head Office should be improved, the server room should have a raised floor installed and backups should be removed on a daily basis.

The individuals responsible for direction and implementation of the recommendations made have been cited in the management response reflected below.

Management responses

Agreed, these weaknesses will be addressed within the next three months. Cost considerations also play a major part and in some instances.

Elvin Rambaran-Deputy Manager – Administration Support

*Responsible official: T Ndungane
Position: Director - Administration
Action date: September 2011*

Auditor's conclusion

Management responses are noted and an assessment of the corrective actions agreed upon by management will be performed quarterly.

