

Report of the auditor-general to the Northern Cape Provincial Legislature on vote no. 6: Department of Economic Development and Tourism

Report on the audit of the financial statements

Qualified opinion

1. I have audited the financial statements of the Department of Economic Development and Tourism set out on pages X to X, which comprise the appropriation statement, statement of financial position as at 31 March 2020, statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, except for the possible effects of the matters described in the basis for qualified opinion section of this auditor's report, the financial statements present fairly, in all material respects, the financial position of the Department of Economic Development and Tourism as at 31 March 2020, and its financial performance and cash flows for the year then ended in accordance with the Modified Cash Standard (MCS) prescribed by National Treasury and the requirements of the Public Finance Management Act of South Africa, 1999 (Act No. 1 of 1999) (PFMA) and the Division of Revenue Act of South Africa, 2019 (Act No. 16 of 2019) (DoRA).

Basis for qualified opinion

Receivables

3. The department did not record all receivables in accordance with Chapter 9, *General Departmental Assets and Liabilities*, which resulted in receivables disclosed in note 9 to the financial statements and recoverable revenue disclosed in the statement of financial position being understated by R3 168 861 respectively. In addition, I was unable to obtain sufficient appropriate audit evidence that all receivables had been recorded, as the department did not have adequate systems in place. I could not confirm this by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to receivables and recoverable revenue stated at R37 568 000 (2019: R35 075 000) and R43 322 000 (2019: R41 658 000) respectively in the financial statements.

Context for the opinion

4. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of this auditor's report.

5. I am independent of the department in accordance with sections 290 and 291 of the *Code of ethics for professional accountants* and parts 1 and 3 of the *International Code of Ethics for Professional Accountants (including International Independence Standards)* of the International Ethics Standards Board for Accountants (IESBA codes) as well as the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA codes.
6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Emphasis of matters

7. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Restatement of corresponding figures

8. As disclosed in note 29 to the financial statements, the corresponding figures for 31 March 2019 were restated as a result of errors in the financial statements of the department at, and for the year ended, 31 March 2020.

A significant subsequent event that occurred between the date of the financial statements and the date of the auditor's report

9. We draw attention to note 25 in the financial statements, which deals with subsequent events and specifically the possible effects of the future implications of Covid-19 on the departments future prospects, performance and cash flows. Management have also described how they plan to deal with these events and circumstances.

Material underspending of the vote

10. As disclosed in the appropriation statement, the department materially underspent the budget by R5 450 000 on integrated economic development services, trade and sector development, economic planning and tourism.

Other matter

11. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Unaudited supplementary schedules

12. The supplementary information set out on pages X to X 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 on them.

Responsibilities of the accounting officer for the financial statements

13. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with MCS prescribed by National Treasury and the requirements of the PFMA and DoRA, and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

14. In preparing the financial statements, the accounting officer is responsible for assessing the department's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the department or to cease operations, or has no realistic alternative but to do so.

Auditor-general's responsibilities for the audit of the financial statements

15. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
16. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

Report on the audit of the annual performance report

Introduction and scope

17. In accordance with the Public Audit Act of South Africa 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report on the usefulness and reliability of the reported performance information against predetermined objectives for the selected programme presented in the annual performance report. I performed procedures to identify material findings but not to gather evidence to express assurance.
18. My procedures address the usefulness and reliability of the reported performance information, which must be based on the approved performance planning documents of the department. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures do not examine whether the actions taken by the department enabled service delivery. My procedures also do not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
19. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected programme presented in the annual performance report of the department for the year ended 31 March 2020:

Programme	Pages in the annual performance report
Programme 6 – Tourism	X – X

20. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

The material findings in respect of the usefulness and reliability of the selected programme are as follows:

Programme 6 – Tourism

Various strategic objectives indicators

21. I was unable to obtain sufficient appropriate audit evidence that clearly defined the predetermined source information and method of collection or that related systems and processes were established to enable consistent measurement and reliable reporting of the actual achievement of the strategic objective indicators listed below. This was due to a lack of measurement definitions and processes as well as the reported achievements not being reported in the annual performance report. I was unable to confirm that the strategic objective indicators are well-defined and verifiable by alternative means. As a result, I was unable to determine whether any adjustments were required to the strategic objectives indicators listed below.

Strategic Objectives Indicator	Strategic objective	Reported Achievement
% Compliance to provincial tourism policies and regulations	Fostering inclusivity to unlock tourism development	Not reported
percentage growth in visitor numbers	To develop and promote an equitable, competitive and sustainable tourism destination, enhancing its contribution to the provincial priorities	Not reported

Other matter

22. I draw attention to the matter below.

Achievement of planned targets

23. Refer to the annual performance report on pages X to X for information on the achievement of planned targets for the year and explanations provided for the under and over achievement of a number of targets. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraphs X to X of this report.

Introduction and scope

24. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the department's compliance with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.
25. The material findings on compliance with specific matters in key legislation are as follows:

Annual financial statements

26. The financial statements submitted for auditing were not supported by full and proper records, as required by section 40(1) (a) of the PFMA. Material misstatements of current assets and disclosure items identified by the auditors in the submitted financial statements were corrected, but the uncorrected material misstatements resulted in the financial statements receiving a qualified opinion.

Expenditure Management

27. Effective and appropriate steps were not taken to prevent irregular expenditure amounting to R6 843 000, as disclosed in note 20 to the annual financial statements, as required by section 38(1)(c)(ii) of the PFMA and treasury regulation 9.1.1. The majority of the irregular expenditure was caused due to procurement done without inviting competitive bids.

Strategic planning and performance management

28. Specific information systems were not implemented to enable the monitoring of progress made towards achieving targets, core objectives and service delivery as required by public service regulation 25(1)(e)(i) and (iii).

Procurement and contract management

29. Goods and services of a transaction value above R500 000 were procured without inviting competitive bids, as required by treasury regulations 16A6.1

Consequence management

30. I was unable to obtain sufficient appropriate audit evidence that disciplinary steps were taken against officials who had incurred irregular expenditure as required by section 38(1)(h)(iii) of the PFMA. This was due to proper and complete records that were not maintained as evidence to support the investigations into irregular expenditure.

Other information

31. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the financial statements, the auditor's report and the selected programme presented in the annual performance report that have been specifically reported in this auditor's report.
32. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
33. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected programme presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
34. I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary.

Internal control deficiencies

35. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the qualified opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.
36. There were material findings identified in the financial statements and the annual performance report which could not be addressed and corrected, as leadership did not adequately review the reports before submission for auditing.
37. The department's internal processes and systems did not prevent material misstatements in the financial statements and material non-compliance from occurring.
38. The department did conduct a risk assessment as required by the PFMA however the risk assessment performed was not adequate to detect or prevent the control deficiencies identified.

Other reports

39. I draw attention to the following engagements conducted by various parties which had, or could have, an impact on the matters reported in the department's financial statements, reported performance information, compliance with applicable legislation and other related matters. These reports did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.

40. An investigation was conducted by the South African Police Services to probe the manner in which some projects utilized funds advanced as transfer payments by the department. The investigation aims to establish whether the funds were utilized for the intended purpose and in accordance with approved business plans. The investigation has been referred to the National Prosecution Authority for a final decision at the reporting date.
41. An investigation is being conducted by the South African Police Services on request by the department. The investigation was initiated based on the allegation of possible misappropriation of uncut diamonds that was acquired by the department. The investigation was still ongoing at the reporting date.

Auditor General

Kimberley

30 September 2020



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure – Auditor-general’s responsibility for the audit

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements and the procedures performed on reported performance information for the selected programme and on the department’s compliance with respect to the selected subject matters.

Financial statements

2. In addition to my responsibility for the audit of the financial statements as described in this auditor’s report, I also:
 - identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error; design and perform audit procedures responsive to those risks; and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control
 - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the department’s internal control
 - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer
 - conclude on the appropriateness of the accounting officer’s use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists relating to events or conditions that may cast significant doubt on the ability of the department of Economic Development and Tourism to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor’s report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify my opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor’s report. However, future events or conditions may cause a department to cease operating as a going concern
 - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and determine whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Communication with those charged with governance

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and, where applicable, actions taken to eliminate threats or safeguards applied.