PFMA 2013-14

General report on the provincial audit outcomes of MPUMALANGA

AUDITOR-GENERAL
SOUTH AFRICA

General report on audit outcomes

MPUMALANGA
PFMA 2013-14

Our reputation promise/mission

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

AUDITOR-GENERAL
SOUTH AFRICA

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

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

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

Auditor-General

Kimi Makwetu
Auditor-General

OVERVIEW

Five auditees achieved clean audits (Section 2)

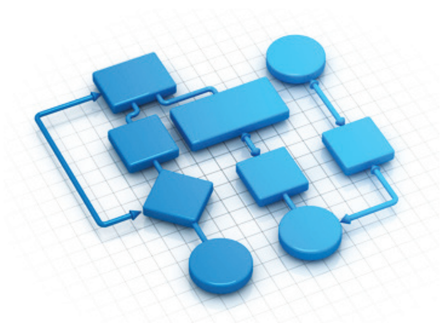
Increased levels of irregular expenditure, while unauthorised as well as fruitless and wasteful expenditure decreased (Section 3.3.2)

76% of the auditees received financially unqualified audit opinions (Section 3.1)

The Departments of Health and Public Works, Roads and Transport need the most attention (Section 3.1)

No progress in improving reliability and usefulness of annual performance reports (Section 3.2)

Qualified opinions avoided by correcting material misstatements identified during audit process (Section 3.1)



Uncompetitive and unfair procurement processes; conflicts of interest not declared
(Section 3.3.1)

Indications of financial health issues at some departments and public entities
(Section 4)

Key role players provided inadequate assurance to improve controls
(Section 6)

Weak HR management practices, vacancies and instability in key positions are affecting audit outcomes
(Section 5.1)

Confidentiality, integrity and access to information at risk
(Section 5.2)

Finance, Cooperative Governance and Traditional Affairs as well as Office of the Premier should strengthen their contributions
(Section 7)

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Department of Finance

Department of Social Development

PUBLIC ENTITY

Mpumalanga Gambling Board

Mpumalanga Regional Training Trust

EXECUTIVE SUMMARY

Executive summary

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

The total budgeted expenditure of the province was R34,2 billion in 2013-14. The following were the main areas of expenditure:

- Employee cost R20 billion
- Goods and services R7 billion
- Transfer payments R4,2 billion
- Capital expenditure R3 billion

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

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

Financially unqualified opinion with no findings

Auditees that received a **financially unqualified opinion with no findings** (depicted in green in this report) are those that have passed the audit test in each of the above-mentioned areas. This is commonly referred to as a ‘clean audit’. I am pleased to report that this year the audit outcomes show a commendable improvement with five (29%) of the 17 auditees attaining clean audit outcomes compared to 18% in 2012-13.

The clean audit outcomes and improvements correlate with the level of commitment shown by the key role players in improving the control environment. The alignment between the administrative and the political leadership created a foundation for accounting officers and authorities and other role players to execute their responsibilities effectively. These responsibilities include ensuring that these role players adhere to basic financial disciplines and exercise rigorous oversight. The province’s audit outcomes are beginning to reflect the benefits of an ideal combined assurance model where all assurance providers play their roles effectively and complementarily.

The administrative leadership, audit committees, Department of Finance and Office of the Premier should continue to collaborate, proactively identify risks, and address internal control weaknesses to sustain these commendable audit outcomes as well as to improve the outcomes of the other auditees.

Financially unqualified opinion with findings

Eight auditees (47%) received **financially unqualified opinions with findings** on their performance information or compliance with legislation, or both these aspects (depicted in yellow in this report). These are auditees that have passed the critical test of fair presentation of the financial statements, which means that they have accounted accurately for the financial transactions they have carried out.

However, inadequate controls regarding performance information and compliance with key legislation continued to prevent these auditees from obtaining clean audit outcomes. These deviations from internal controls were largely in the area of non-compliance with key legislation. Auditees in this category were unable to fully apply best practices, leading to shortcomings in their control environment.

There was a notable decrease in non-compliance with key legislation despite the significant increase in the amount of irregular expenditure compared to the previous year. Since the previous period, reported unauthorised expenditure and fruitless and wasteful expenditure decreased from R136 million to R18,2 million and from R16,5 million to R7,4 million, respectively.

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

Qualified opinion

Four auditees (24%) received a **qualified opinion** (depicted in purple in this report), which means that they were unable to adequately and accurately account for all the financial effects of the transactions and activities they conducted. In this regard, the financial statements they presented were unreliable in certain areas.

The qualified audit opinions increased from three (18%) to four (24%) in the year under review. The Department of Community Safety, Security and Liaison regressed from financially unqualified with findings to qualified, while the Department of Health, the Department of Agriculture, Rural Development and Land Administration as well as the Mpumalanga Economic Growth Agency could not address all of their previously reported findings.

These unfavourable audit outcomes were due to instability in leadership positions, resulting in a deterioration of basic internal controls. These auditees also disregarded internal and external audit findings, recommendations from audit committees, and resolutions from legislature committees.

These four auditees furthermore furnished us with performance information that was not reliable, which compromised their ability to drive effective accountability. We also identified that a number of rules and regulations applicable to financial management and reporting matters were not observed as required in specific legislation.

The political and administrative leadership must be decisive and act in a timely manner to create stability in key positions, including those of accounting officers, senior management and finance staff. The stability of the administrative leadership and key senior managers through succession planning remains critical to ensuring that institutional knowledge is not lost. In turn, accounting officers and senior management must monitor the implementation of effective and sustainable internal controls and disciplines for provincial audit outcomes to further improve. These controls should support the preparation of reliable and credible financial and performance information, and prevent non-compliance with legislation. The leadership needs to continue leading by example in setting a tone of zero tolerance for non-performance and holding staff accountable for achieving a strong control environment.

Other significant audit observations

Annual performance reports

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

It is commendable that all auditees submitted their annual performance reports for auditing on time. However, only nine auditees (53%) submitted annual performance reports that did not contain material misstatements in the year under review – the same number as in the previous year. Auditees are still relying on the audit process to identify and correct misstatements in performance information. Two auditees addressed findings reported in the previous year by implementing our previous recommendations, which strengthened their internal control environment.

Regrettably, two auditees regressed as they became complacent and did not apply the same diligence as in previous years when reporting on predetermined objectives in the year under review. These auditees need to adopt the best practices in the province and implement proper record-keeping measures to ensure that complete, relevant and accurate information is accessible and available to support performance reporting. In addition, auditees need to continue implementing the recommendations in the performance audit report on the readiness of auditees to report on their performance.

Non-compliance with key legislation

There has been an improvement from three auditees (18%) to five auditees (29%) that did not have material findings on their compliance with key legislation since the previous year. We are, however, concerned that 12 auditees (71%) still had findings on non-compliance with laws and regulations, many of which related to the quality of the financial statements submitted for auditing and supply chain management (SCM). Irregular as well as fruitless and wasteful expenditure due to non-compliance was reported in the audit reports of eight auditees (47%), mainly due to a lack of basic controls to prevent and detect non-compliance with legislation – particularly related to SCM. The value of these controls cannot be emphasised enough, as they are an important mechanism to prevent the widespread abuse of public resources that should be used to provide services to citizens.

Irregular expenditure

As a result of the breakdown in controls and the lack of proper systems to prevent, detect and record irregular expenditure, auditees entered into transactions that were not carried out in accordance with regulations and other prescripts. In this regard, the irregular expenditure totalled R1,008 billion for the period under review, of which R956 million related to non-adherence to SCM processes. Of this amount, our normal audits showed that R73 million related to goods and services that were received despite the normal processes governing procurement not having been followed. For the remainder of the irregular expenditure of R883 million, we could not specifically confirm that goods and services had been received but our financial audits did not identify any specific risks or material instances of payment for goods not received or services not rendered.

Irregular expenditure has increased by R774 million since the previous year, while the number of auditees incurring irregular expenditure has increased by four (23%). The main contributors to the irregular expenditure were the Departments of Health; Public Works, Road and Transport; and Education, with Health contributing R818 million to the total.

The Department of Public Works, Roads and Transport, as implementing agent, contributed significantly to the high amount of irregular expenditure, due to a lack of proper planning and weaknesses in the procurement processes. There was also no clear monitoring mechanism in the province to hold this department accountable for these weaknesses. If this is not adequately addressed, it will have a negative impact on the province’s drive to clean administration.

The widespread irregular expenditure in the province can be addressed effectively by accounting officers and authorities insisting on the implementation of basic controls to prevent non-compliance with legislation. The accounting officers and authorities, with the support of the provincial treasury, should also continue to investigate allegations of officials failing to comply with SCM legislation. There is an ongoing need for oversight role players to ensure that accounting officers and senior management are kept accountable for providing the desired level of assurance to maintain the momentum towards improved audit outcomes.

Financial health

The number of auditees about whose financial health status we are concerned has increased from three to eight in the period under review. However, it is encouraging that the entity that had a going concern challenge in the previous period addressed their financial weaknesses in the period under review.

Even though there were no auditees with serious financial health matters, the following concerns are worth noting:

- At 31 March 2014, one auditee reported a bank overdraft of R17,5 million (2012-13: R15 million) in their financial statements.
- Accruals older than 30 days amounted to R235 million. More than 60% of this was reported at the Department of Health. At 31 March 2014, funds to be surrendered amounted to R1,55 billion, of which cash balances amounted to R564 million. The province would require R1,22 billion to clear the backlog relating to funds to be surrendered to the National Treasury and long-outstanding accruals.
- The total provincial budget for 2014-15 is R36,2 billion. Of this, R21,8 billion (60%) is for salaries. Therefore, only R14,4 billion remains for goods, services and matters such as capital expenditure.
- Taking into account the above-mentioned accruals and funds to be surrendered to the National Treasury, the remaining budget available for service delivery is R13,18 billion (the net amount of funds to be surrendered and accruals), which is only 36% of the total budget.

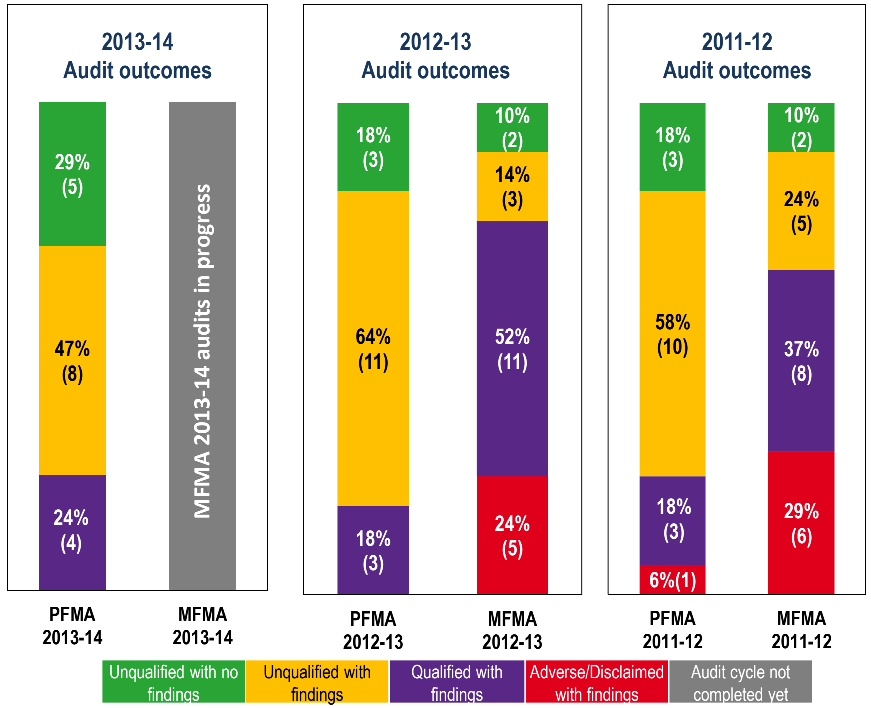
To address these shortcomings, the following controls should be implemented:

- Departments should ensure that they procure goods and services economically and receive value for money from all such goods and services.
- Budgeting processes should be tightened to ensure that only key service delivery activities are prioritised. Departments should improve their controls to ensure that they only procure services that have been budgeted for.
- The province should start using the officials that have been appointed to perform services to minimise outsourcing. This will save on the additional costs paid to consultants.

Comparison of provincial and local government audit outcomes

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

Figure 1: Comparison of provincial and local government audit outcomes



Despite the province's emphasis on clean administration, the provincial government has been slow in reaching this goal, with only five auditees (29%) attaining clean audits in 2013-14. These auditees took it upon themselves to ensure that appropriate basic financial disciplines were implemented and that sound action plans were developed and implemented to address the root causes of previous findings.

Provincial government was able to improve and sustain the internal control environment, which supported the quality of the financial statements submitted for auditing and reduced the number of auditees with findings on non-compliance with key legislation. The improvement in audit outcomes was brought about by the political and administrative leadership building on the firm foundation laid in previous years and their continued commitment to achieving clean administration, together with the oversight role played by various assurance providers and oversight structures.

Unfortunately, progress towards clean audits has been slower in the local government sphere, with only two auditees (10%) attaining financially unqualified opinions with no findings in 2012-13. The provincial government's continued efforts to align local government with the province's vision of achieving clean administration at all auditees are expected to bear fruit in the near future.

It is truly encouraging to see the premier continuing to work closely with mayors, through the premier's coordinating forum, to ensure that his office and all coordinating departments are appropriately positioned to play a bigger role in making sure that all spheres of government in the province work together to serve the public.

The Department of Finance, Department of Cooperative Governance and Traditional Affairs and Office of the Premier have a direct role to play in supporting and monitoring local government, thereby providing a level of assurance. These departments, together with district municipalities and other relevant role players, have developed an integrated municipal support plan that has been approved by the provincial executive. This plan will provide collaborative and effective support to local government. The provincial legislature further provides oversight through its speakers' forum and oversight committees.

As assurance providers, the Department of Cooperative Governance and Traditional Affairs, working together with the Department of Finance and the Office of the Premier, has an important role to play by promoting integrated service delivery that seeks to enable Mpumalanga to become globally competitive. This includes developing and monitoring provincial policies and legislation to promote integration in government's development programmes and service delivery.

Key leadership actions

We remain hopeful that the progress towards clean audits in the provincial sphere can be copied in the local government sphere. It is crucial to note that those auditees that have progressed towards clean audits share the following characteristics:

- Accounting officers and authorities were proactive in driving action plans to improve the financial control environment and to instil a culture of good financial governance and compliance with legislation.
- Executive authorities and accounting officers or authorities set a tone of zero tolerance for non-performance and held staff accountable for producing quality financial and performance information and complying with key legislation.
- Audit committees and internal audit units were robust and proactive regarding the implementation and monitoring of action plans to address recurring findings and previous commitments.
- Accounting officers or authorities and senior management successfully implemented basic internal controls and accounting disciplines by preparing regular and accurate financial statements, which enabled governance structures to play an effective review role.
- Performance and consequence management was improved by incorporating the requirements of preparing credible and regular financial reports into senior management's performance agreements, and holding them accountable.
- Stability at senior management level and within finance units was improved, and the required level of technical competence and experience was maintained.

In addition to these characteristics being copied by all auditees, the executive and oversight leadership must still do the following:

- The political and administrative leadership should take firm action to address capacity and skills challenges to bring stability to the administration.
- The political leadership should insist on receiving an adequate and effective action plan from management to address recommendations from the different assurance providers, including milestones and responsible persons, and a frequent update on progress made with implementation.
- The executive and oversight leadership should build a close relationship with the heads of internal audit units and chairpersons of audit committees to provide them with a platform to escalate challenges weakening their effectiveness.
- The legislature committees should continue working together to continuously follow up the implementation of house resolutions.

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

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

AUDIT OUTCOMES, RECOMMENDATIONS AND ROLE PLAYERS' COMMITMENTS

1. Our auditing and reporting process

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

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

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

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

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

During the auditing process, we work closely with the accounting officer or authority, senior management, audit committee and internal audit unit, as they are **key role players** in providing assurance on the credibility of auditees' financial statements and performance report as well as on their compliance with legislation.

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

Figure 2 that follows gives an overview of our message on the 2013-14 audit outcomes, which is a continuation of what we had reported and recommended in our last report on the audit outcomes in the province.

The overall audit outcomes in figure 2 show our opinion on auditees' financial statements and whether we had identified material audit findings on the quality of their annual performance report and compliance with key legislation. The overall audit outcomes fall into four categories:

1. Auditees that received a **financially unqualified opinion with no findings** are those that were able to:
   - produce financial statements that were free from material misstatements (material misstatements refer to errors or omissions that are so significant that they affect the credibility and reliability of the financial statements)
   - measure and report on their performance in accordance with the predetermined objectives in their annual performance plan in a manner that is useful and reliable
   - comply with key legislation.

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

2. Auditees that received a **financially unqualified opinion with findings** are those that either were able to produce financial statements without material misstatements or managed to make corrections before the financial statements were finalised, but are still struggling with some, or all, of the following:
   - align their performance reports to the predetermined objectives they committed to in their annual performance plans
   - set clear performance indicators and targets to measure their performance against their predetermined objectives
   - report reliably on whether they achieved their performance targets
   - determine which legislation they should comply with and implement the required policies, procedures and controls to ensure their compliance.
3. Auditees that received a **financially qualified opinion with findings** have the same challenges as those that were unqualified with findings but, in addition, they could not produce credible and reliable financial statements. There are material misstatements in their financial statements, which they could not correct before the financial statements were finalised.
4. The financial statements of auditees with an **adverse opinion** include so many material misstatements that we disagree with almost all the amounts and disclosures in the financial statements. Those auditees with a **disclaimed opinion** could not provide us with evidence for most of the amounts and disclosures in their financial statements. We were unable to conclude or express an opinion on the credibility of their financial statements. Auditees with adverse and disclaimed opinions are typically also:
   - unable to provide sufficient supporting documentation for the achievements they report in their annual performance reports
   - not complying with key legislation.

Please note that only a movement of more than 5% is regarded as an improvement or a regression in the figures included in this report. Movement is depicted as follows:

Improved   Stagnant or little progress   Regressed

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

Figure 2: Overview of audit outcomes and key recommendations for improvement

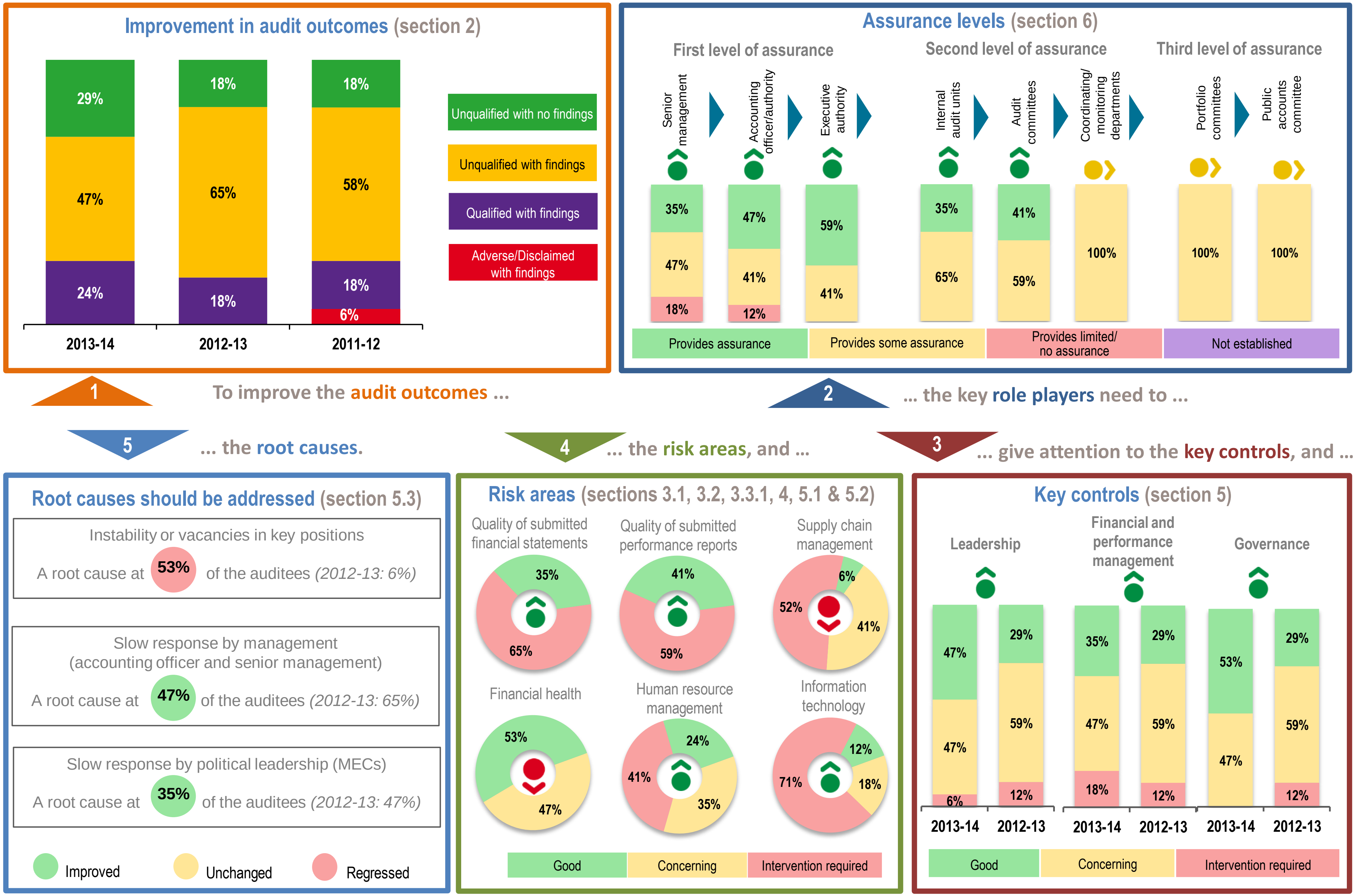


Figure 3: Movement in audit outcomes

Audit outcome / Movement	Improved (3)	Unchanged (12)	Regressed (2)
Unqualified with no findings = 5	Cooperative Governance and Traditional Affairs; Social Development; Mpumalanga Regional Training Trust	Finance; Mpumalanga Gambling Board	
Unqualified with findings = 8		Culture, Sport and Recreation; Economic Development, Environment and Tourism; Education; Human Settlements; Provincial Legislature; Public Works, Roads and Transport; Mpumalanga Tourism and Parks Agency	Office of the Premier
Qualified with findings = 4		Agriculture, Rural Development and Land Administration; Health; Mpumalanga Economic Growth Agency	Community Safety, Security and Liaison

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

2. Overall audit outcomes

Provincial government in Mpumalanga consists of 12 departments, the legislature and four public entities. The provincial revenue fund was excluded from this report.

Figure 2 indicates that there has been an improvement in the overall audit outcomes when compared to the previous year. Figure 3 analyses the movement in the audit outcomes of the different auditees since the previous year that had resulted in the net improvement in the audit outcomes of the province.

Auditees in the province achieved five unqualified opinions with no findings in 2013-14, improving from the three clean audits in the 2012-13 financial year. The improvement can be attributed to the timeous response of accounting officers, senior management and executive authorities to a call to strengthen the control environment by adhering to basic accounting disciplines throughout the year. Commitment by the administrative leadership and cooperation between the political and administrative leadership formed the basis for the achievement of the five clean audits. There were again no disclaimed or adverse audit opinions in 2013-14.

Notwithstanding this achievement, most of the auditees in the province still struggled to get their administration in order. The audit opinions of eight auditees (47%) were unqualified with findings, but it is discouraging that five (63%) of these auditees have been in this category for at least the past three years. Four auditees (24%) received qualified audit opinions, with three of these receiving repeat qualifications. The management of assets continued to be a challenge, as three of these auditees were qualified on assets.

The Office of the Premier was unable to sustain its 2012-13 clean audit, due to non-compliance with SCM prescripts, resulting in an unqualified opinion with findings in 2013-14.

Most auditees in the province continued to find it difficult to create an effective key control environment that contributed to good financial and performance reporting as well as compliance with legislation. These auditees could not address their material findings, as their action plans did not adequately address the root causes of these findings. This was made even worse by leadership instability at some of these auditees during the year.

Figure 3 shows that most auditees obtained unqualified audit opinions with findings. Auditees found it difficult to improve these audit outcomes, as they focused more on obtaining a financially unqualified audit opinion, but did not demonstrate the same commitment to addressing findings on the annual performance report and compliance with legislation.

Section 3 analyses the status of the financial statements, annual performance reports and compliance with legislation at auditees, which contributed to the overall audit outcomes.

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

3.1 Financial statements

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

Figure 4: Three-year trend – financial statements

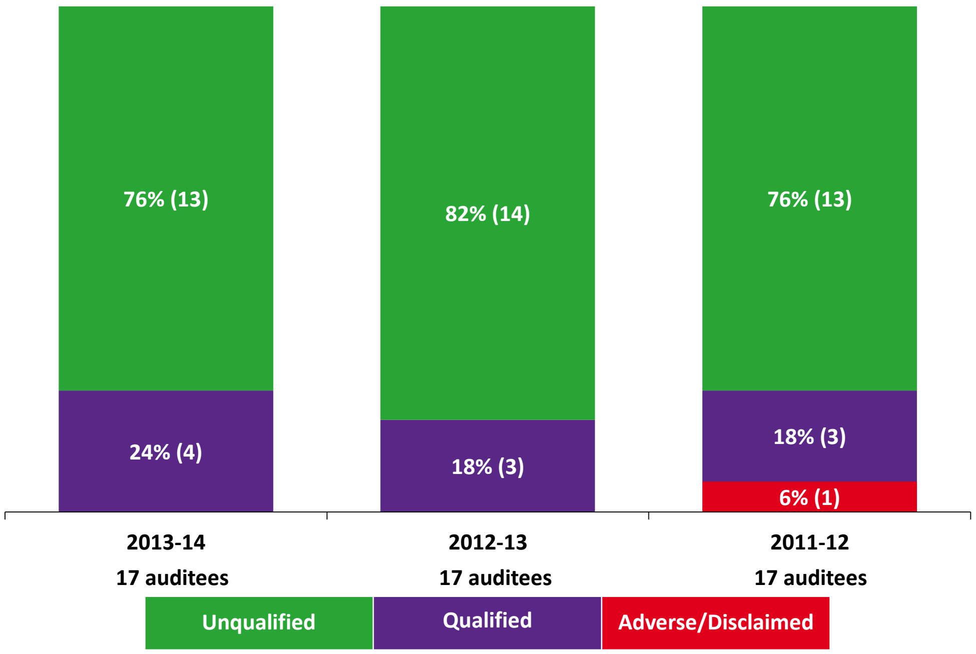


Figure 4 shows that the number of auditees who were unable to make all the adjustments to their submitted financial statements resulting in qualified opinions increased from the previous year. Instability in key positions and the failure to adequately monitor the implementation of day-to-day checks and balances over assets were the root cause of the regression and lack of improvement in these audit outcomes.

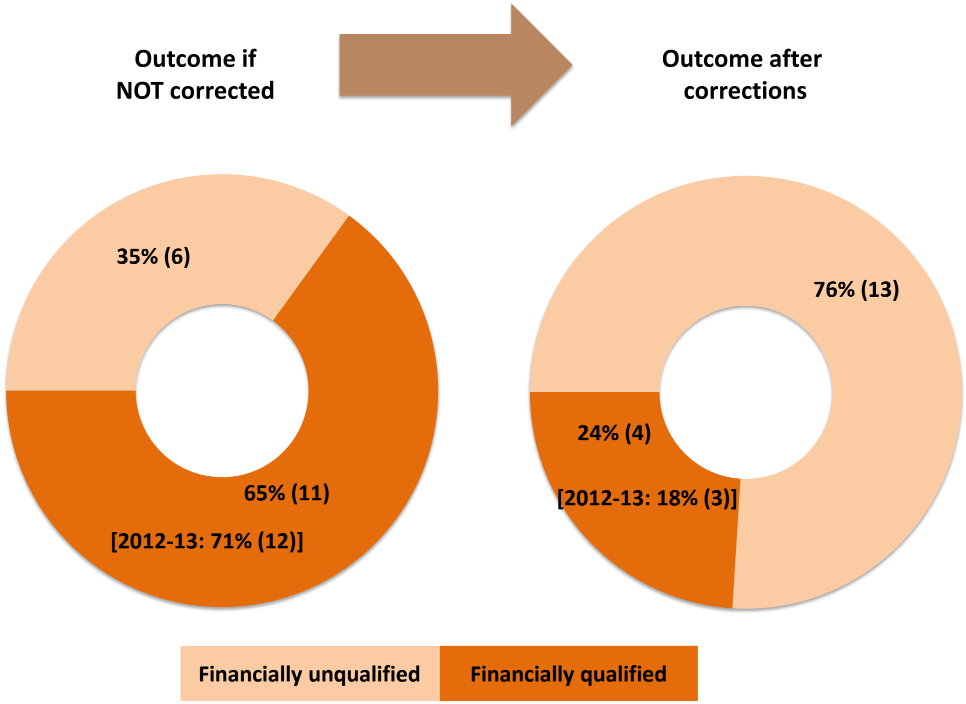
In 2013-14, the budgeted expenditure of the Departments of Education, Health as well as Public Works, Roads and Transport made up 80% of the total expenditure in the province. The Departments of Education and Public Works, Roads and Transport have been getting unqualified audit opinions for at least the past three years, while the Department of Health has been qualified for at least the past five years. The Department of Education has made significant progress to address material findings previously reported. The leadership of this department rigorously monitored the implementation of the action plan to address the root causes of material findings.

Unfortunately, the Departments of Health and Public Works, Roads and Transport have been unable to improve their audit outcomes due to leadership instability and the slow response by management to address our concerns regarding the quality of the submitted financial information. We are very concerned that these service delivery departments, who are responsible for most of the provincial budget, are unable to keep accurate financial records. Those charged with governance should pay more attention to filling vacancies and stabilising the leadership of these departments as well as implementing consequences for the lack of accurate financial reporting. This, in turn, will create a good basis for improving the key internal control environment at these departments.

The quality of the financial statements submitted by auditees and the financial statement qualification areas are further analysed in figures 5 and 6 below.

The quality of the financial statements submitted for auditing

Figure 5: Quality of financial statements submitted for auditing



While all auditees submitted their financial statements for auditing on time, figure 5 shows that only six auditees (35%) submitted financial statements that did not contain material misstatements. These auditees were the Department of Cooperative Governance and Traditional Affairs; Department of Social Development; Department of Human Settlements; Department of Finance; Mpumalanga Gambling Board and Mpumalanga Regional Training Trust.

Figure 5 therefore indicates that of the 13 auditees that had unqualified opinions on their financial statements, seven (41%) obtained this opinion because they were able to correct all the misstatements identified during the audit process. Only six auditees (35%) would have obtained an unqualified audit opinion if we did not allow them to correct the misstatements identified during the audit. Overall, the quality of the financial statements submitted for audit purposes has slightly improved when compared to the five auditees (29%) that had submitted quality financial statements in the previous year.

We report the poor quality of submitted financial statements in the audit reports of auditees as a material compliance finding, as it also constitutes non-compliance with the Public Finance Management Act (PFMA). (Section 3.3 discusses compliance with legislation in more detail.) The finding is only reported if the financial statements we received for auditing included material misstatements that could have been prevented or detected if the auditee had an effective internal control system. We do not report a finding if the misstatement resulted from an isolated incident or if it relates to the disclosure of unauthorised, irregular or fruitless and wasteful expenditure identified after the financial statements had been submitted. The most common area that auditees corrected to achieve unqualified audit opinions was disclosure notes.

We acknowledge the review processes put in place by auditees to improve the quality of the financial statements. However, most of the review processes of other assurance providers, including the provincial treasury, internal audit units and audit committees, focus on the presentation of the financial statements. The accuracy, validity and completeness of the figures disclosed in the notes continued to be a challenge. Senior managers were unable to adequately monitor the implementation of controls over the accumulation of the amounts disclosed in the notes throughout the financial year.

Our internal control assessment shows that the auditees who continued to rely on the audit process to produce credible financial statements have neglected the basic financial disciplines. The continued reliance on the auditors to identify corrections to be made to the financial statements to obtain an unqualified audit opinion is not a sustainable practice. Furthermore, it places undue pressure on legislated deadlines and increases the audit fees.

Four auditees appointed consultants to assist them with financial reporting. Auditees continued to engage consultants in an attempt to repair the damage caused by the inadequate implementation and monitoring of internal controls throughout the financial year. Auditees engaged consultants despite having permanent employees tasked to perform the work done by the consultant. Auditees should invest more money to empower and train employees, as this will create a foundation for sustained improvement in the quality of the financial statements.

Financial statement areas qualified

Even though we reported the material misstatements to management for correction, four auditees (2012-13: three) could not make all of the necessary corrections to the financial statements, which resulted in qualified audit opinions. These auditees were unable to make the corrections, due to the magnitude of the work that had to be done to correct the entire population and the lack of skilled personnel to make such corrections.

Figure 6: Three most common financial statement qualification areas

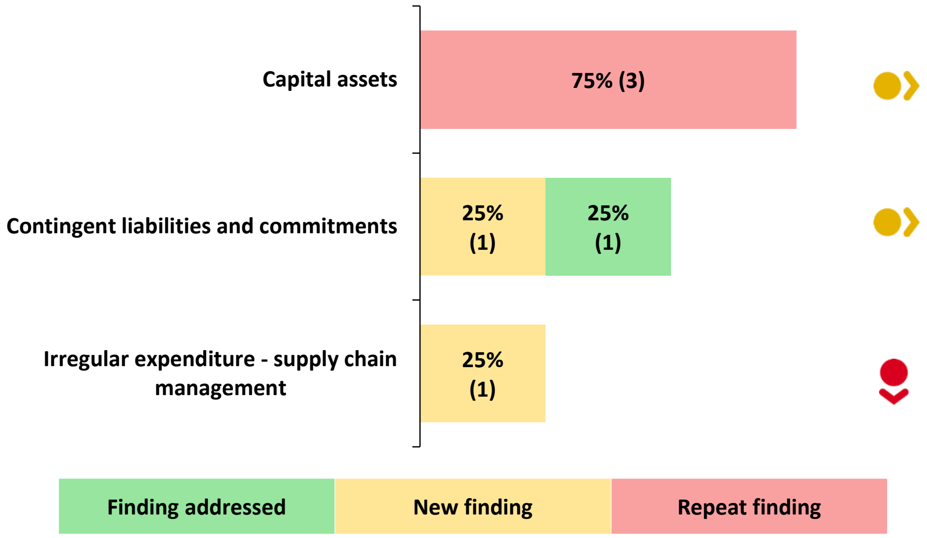


Figure 6 indicates the three most common financial statement qualification areas and auditees' progress in addressing these since the previous year.

The table below highlights the auditees qualified and the areas of qualifications.

Table 1: Areas of qualifications

Auditee	Areas of qualifications
Agriculture, Rural Development and Land Administration	• *Property, plant and equipment* • *Accruals* • *Employee compensation*
Community Safety, Security and Liaison	• *Departmental revenue* • *Commitments* • *Accrued departmental revenue* • *Fruitless and wasteful expenditure*
Health	• *Property, plant and equipment* • *Irregular expenditure*
Mpumalanga Economic Growth Agency	• *Investment properties* • *Other financial asset debtors*

These qualification areas are discussed in more detail below.

Capital assets

The financial statements of the Departments of Health as well as Agriculture, Rural Development and Land Affairs included assets that we could not physically verify. We could furthermore not trace some of the assets belonging to these departments back to the fixed asset register. We also reported this finding in the previous year. The provincial treasury should assist the departments to improve their asset management processes to avoid future qualifications.

We are encouraged that the Mpumalanga Economic Growth Agency was able to address issues relating to property, plant and equipment, as they engaged the services of consultants. However, the auditee included both the value of some residential properties for which it had loaned the buyer money to purchase the property as well as the loan owed by the buyer in the financial statements. We could not confirm the rightful owner of these properties. This is a long-standing matter that the accounting authority and executive authority must resolve to avoid future qualifications.

Contingent liabilities and commitments

The Department of Community Safety, Security and Liaison failed to correctly disclose the value of their commitments regarding the security services for the province. This was mainly due to a lack of skills within the department, especially relating to the application of the requirements of the Modified Cash Standard.

Irregular expenditure – supply chain management

The Department of Health continued to incur a significant amount of irregular expenditure, with the irregular expenditure for the period under review amounting to R818 million. The auditee failed to investigate the irregular expenditure identified in the previous year and to assess transactions not selected for auditing to determine whether further irregular expenditure should be disclosed. As we also identified significant weaknesses in the internal controls in place to prevent and detect non-compliance with SCM regulations, the irregular expenditure disclosed by the auditee was incomplete.

Other qualification areas

The Department of Community Safety, Security and Liaison was given a one-year exemption in the previous year to disclose the accrued departmental revenue relating to traffic fines (in other words, the revenue due to the department by motorists). The department was unable to put processes in place to ensure full compliance with the Modified Cash Standard in accounting for the revenue due from traffic fines. The department should work together with the provincial treasury to establish internal controls to ensure the correct accumulation and disclosure of traffic fine revenue.

Recommendations

Auditees that received qualified opinions and those that submitted poor quality financial statements for auditing should strengthen their processes and controls to create a sustainable internal control environment that supports reliable reporting. We recommend the implementation of at least the following key controls and best practices in place at those auditees who submitted financial statements without material misstatements:

- Maintain stability at the level of accounting officer and senior management by filling funded vacant posts with skilled officials who are committed to a sound control environment.
- Design and implement a credible action plan to address matters raised by internal auditors, external auditors, audit committees and other governance structures.
- Adhere to basic financial disciplines, such as regularly reconciling financial information (e.g. reconciling fixed asset registers to the general ledger on a quarterly basis) and continuously validating the information in the accounting records (e.g. physical verifications).
- Implement an effective performance management system, including consequences for non-performance.
- Thoroughly investigate missing assets before writing them off.
- Implement processes for accumulating and verifying amounts included in the disclosure notes on a monthly basis. This will give auditees an opportunity to test the robustness of their processes before the financial statements are submitted for audit purposes.

3.2 Annual performance reports

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

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

We audited the **usefulness of the reported performance information** by determining whether it was presented in the annual report in the prescribed manner and was consistent with the auditees' planned objectives as defined in their strategic plans and annual performance plans, and the corporate plan for schedule 3D public entities. We also assessed whether the performance indicators and targets set to measure the achievement of the objectives were well defined, verifiable, specific, time bound, measurable and relevant.

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

Figure 7: Three-year trend – quality of annual performance reports

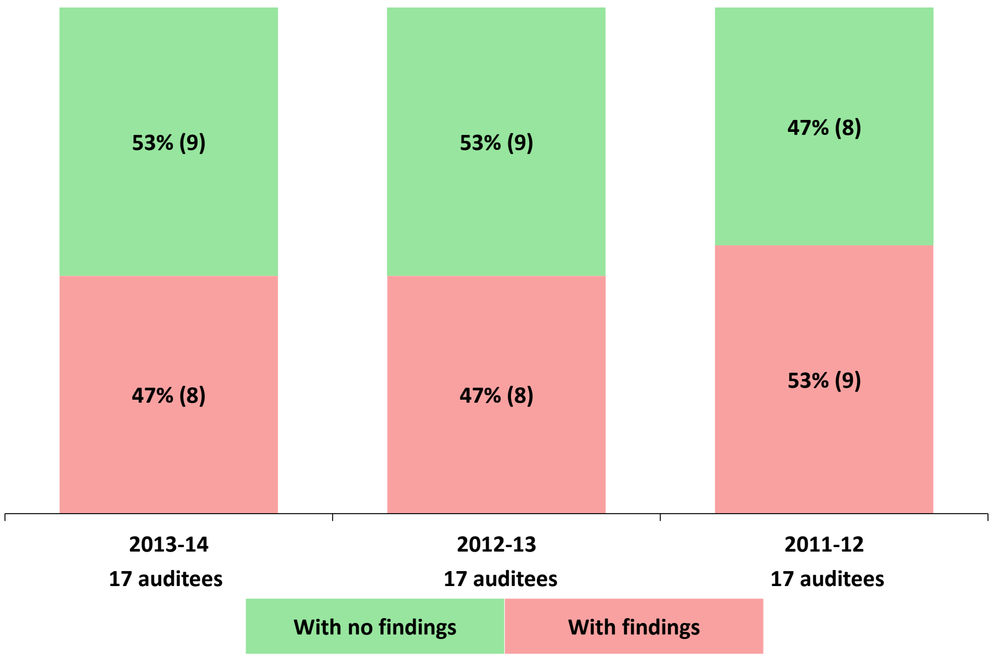


Figure 7 assesses the quality of performance reports over the past three years. On a positive note, the Department of Economic Development, Environment and Tourism and the Mpumalanga Regional Training Trust addressed previous weaknesses, due to stability in the positions of heads of both the strategic planning and the monitoring and evaluation unit. These auditees also put adequate and credible action plans in place to address our findings. On the other hand, the legislature and the Department of Safety, Security and Liaison regressed to having material findings on their annual performance reports, resulting in no overall improvement in the quality of annual performance reports when compared to the previous year.

We are further concerned that of the three biggest spending departments, only the Department of Education produced a reliable annual performance report, while the Departments of Health as well as Public Works, Roads and Transport did not fully address their previous findings.

The regressions and the lack of improvement were the result of inadequate processes to support the collection, collation and verification of reported information. Furthermore, the Department of Health failed to fill the position of senior manager in the monitoring and evaluation unit created during the year.

The quality of the annual performance reports submitted for auditing

While all auditees submitted their annual performance reports for auditing on time, figure 8 shows that the reports of only seven auditees (41%) did not contain material misstatements. These auditees were the Mpumalanga Gambling Board; Department of Cooperative Governance and Traditional Affairs; Department of Finance; Mpumalanga Regional Training Trust; Department of Culture, Sport and Recreation; Office of the Premier; and Department of Education. We are encouraged by the improvement in this focus area since the previous year, when only six auditees (35%) submitted performance reports of a high quality.

Figure 8: Quality of submitted annual performance reports

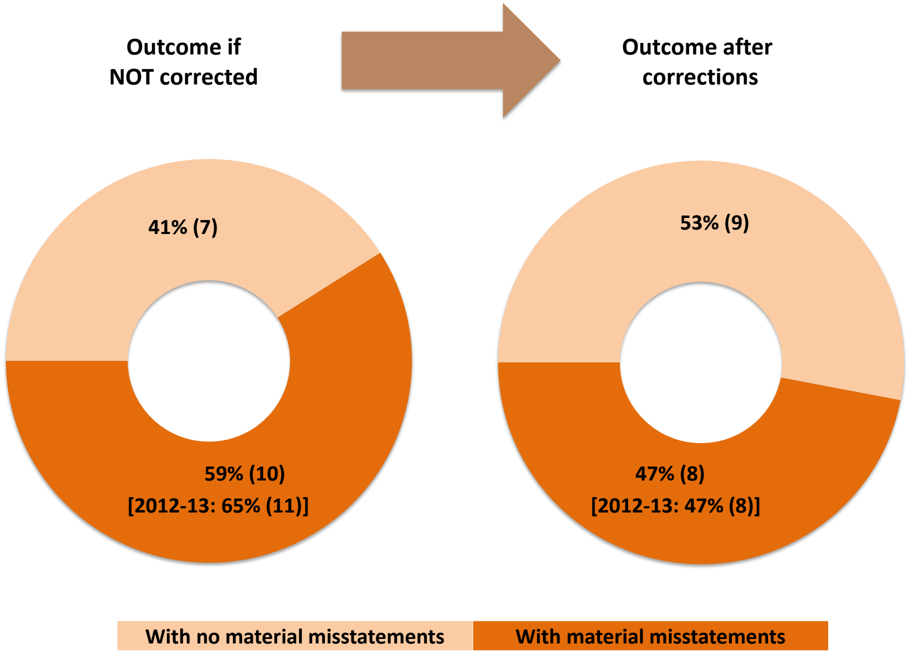


Figure 8 shows that two auditees (12%) did not have any material findings because they were able to correct all the misstatements identified during the audit process. This is an improvement compared to the previous year, when three auditees materially adjusted their reported performance information by relying on the audit process to improve the quality of their annual performance reports.

The provincial legislature and the Department of Community Safety, Security and Liaison had no findings in the previous year, as they were able to correct misstatements identified during the audit process. Their regression in the year under review indicates that reliance on the audit process to address the quality of the annual performance report is not a sustainable practice. Auditees should rather institutionalise the necessary controls to support the collection, collation and verification of performance information presented in the annual performance report.

Findings on the usefulness and reliability of annual performance reports

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

Table 2: Auditees with material findings on usefulness and reliability

Auditee	Programme/Objective	Not useful	Not reliable
Agriculture, Rural Development and Land Administration	Programme 3: farmer support and development		X
Community Safety, Security and Liaison	Programme 4: transport regulations		X
	Programme 5: security management		X
Health	Programme 2: district health services	X	X
	Programme 4: provincial hospitals services	X	X
	Programme 5: tertiary hospitals services	X	X
Human Settlements	Programme 3: housing developments	X	X
Mpumalanga Provincial Legislature	Programme 2: parliamentary business		X
Public Works, Roads and Transport	Programme 2: public works		X
	Programme 3: transport infrastructure		X
	Programme 4: transport operations		X
	Programme 5: community based programmes		X
Mpumalanga Economic Growth Agency	Programme 2: infrastructure development	X	X
	Programme 3: trade and investment promotion		X
	Programme 4: property development managements		X
	Programme 5: housing		X
	Programme 6: agriculture development		X
	Programme 7: enterprise development		X
Mpumalanga Tourism and Parks Agency	Programme 5: tourism		X
	Programme 6: biodiversity conservation		X

The most common findings on the **usefulness** of information were the following:

- Indicators or measures were not well defined at three auditees (18%).
- We could not verify the process and system that produced the indicators at one auditee (6%).
- Performance indicators were not measurable and specific at one auditee (6%).

The most common findings on the **reliability** of information were the following:

- Reported performance information was not accurate at eight auditees (47%).
- Reported performance information was not valid at seven auditees (41%).
- Reported performance information was not complete at eight auditees (41%).

Table 2 above indicates that most of the auditees still could not produce credible annual performance reports, due to poor controls over the collecting, collating and verifying of performance information.

Poor reporting on performance outcomes could lead to incorrect decisions on the allocation of resources for the upcoming financial periods. This could also affect the assessment by the public and oversight structures on the performance of the auditees in meeting their service delivery mandate.

Recommendations

Auditees that had material findings and those that submitted annual performance reports of a poor quality for auditing should strengthen their processes and controls to create and sustain a control environment that supports useful and reliable reporting on performance. These auditees should implement at least the following key controls and best practices in place at those auditees with no findings on their performance reporting:

- Develop, implement and monitor action plans to address the root causes of weaknesses in performance reporting.
- Develop and implement standard operating procedures for collecting, collating, verifying and storing each indicator and its related targets.
- Develop procedures to ensure that all staff members involved in performance reporting understand the level of performance for each programme so that they can collect the relevant information.
- Institutionalise a culture of performance and act on poor performance by any staff member.
- Fill vacancies within performance reporting units with qualified and competent staff.
- Prepare regular reports on performance information, with internal audit units auditing such reports and senior management implementing the internal audit recommendations.

Performance audit on the readiness of government to report on its performance

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

- selected central performance oversight institutions
- selected national departments with concurrent functions
- provincial oversight institutions (provincial treasuries and offices of the premier) in all nine provinces
- identified provincial departments (focusing on the four sectors that have the highest total government expenditure, namely education, health, public works and social development).

This audit was performed transversally across the provinces and focused on the following:

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

The audit identified the root causes for departments continuing to produce annual performance reports that were not useful and reliable. In Mpumalanga, we performed the audit at the following oversight institutions:

- Office of the Premier
- Provincial treasury

The audit indicated that the provincial oversight institutions did provide performance management and reporting guidance, but did not monitor and evaluate the performance reports of departments.

We performed the audit at the following departments in the province:

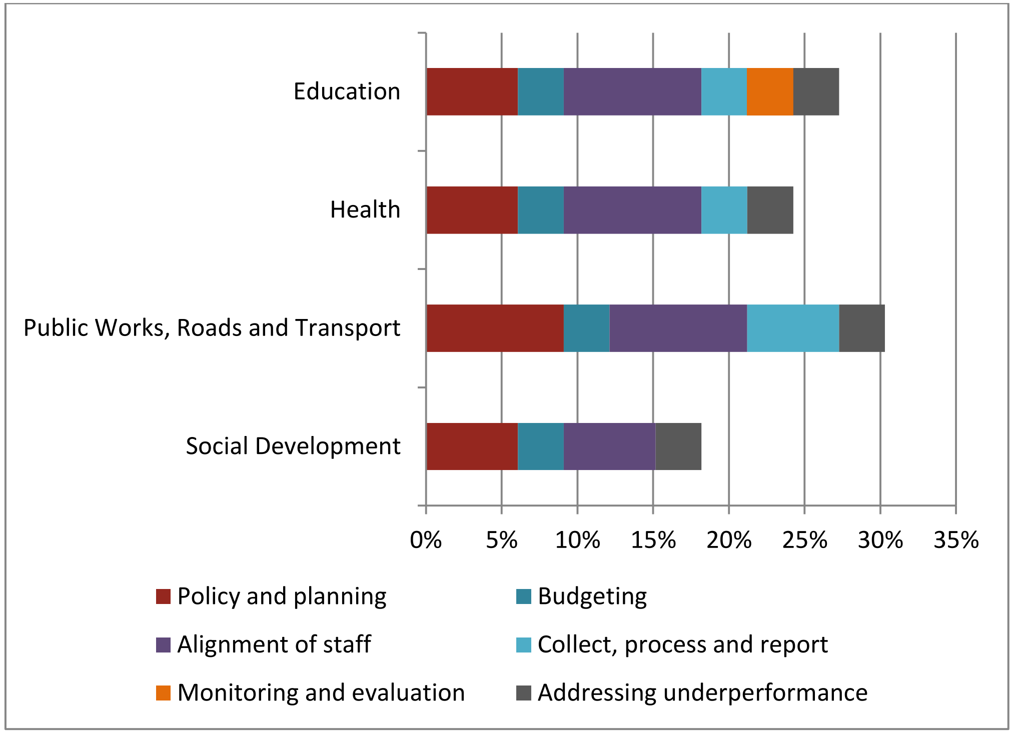
- Department of Education
- Department of Health
- Department of Public Works, Roads and Transport
- Department of Social Development

The most common findings identified at these departments were the following:

- Some performance indicators were not well defined or verifiable, or did not measure whether resources had been used efficiently, effectively and economically to produce the desired outputs and outcomes.
- Performance targets did not always comply with the SMART criteria, or were not realistic as they were not selected based on accurate baseline information or research and evaluation.
- Staff were not sufficiently skilled to manage and report on performance.
- Staff were not always held accountable for reporting on performance and achieving performance targets.
- Action plans were not developed to ensure prompt corrective action where underperformance occurred or where performance reporting shortcomings were identified.

Figure 9 shows the distribution of findings in the province.

Figure 9: Percentage of findings per department for each focus area



Based on the findings raised on the quality of the annual performance reports earlier on in this section, two (50%) of these auditees have already addressed the usefulness and reliability of their annual performance reports. At the remaining 50%, the inadequate progress was mainly due to a lack of effective oversight and monitoring by oversight departments. Although accounting officers and authorities are aware of the importance of valid, accurate and complete performance information, they failed to fill key oversight positions and senior manager positions responsible for monitoring and evaluation, which then made it difficult to hold the responsible officials accountable for not preparing credible performance information.

3.3 Compliance with key legislation

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

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

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

Status and findings on compliance with key legislation

Figure 10: Three-year trend – compliance with key legislation

Figure 10 shows that the number of auditees with no material findings on compliance with key legislation has increased when compared to the previous year. However, over the three years from 2011-12, the outcomes in this regard have remained stagnant. It is clear that most auditees struggled to address the material findings previously reported, as they continued to have repeat findings. Auditees had also not implemented processes to monitor compliance with legislation. Furthermore, internal and external audit recommendations to address non-compliance findings were not implemented, indicating that management was slow to take effective steps to respond to compliance issues.

Figure 11: Most common compliance areas with findings

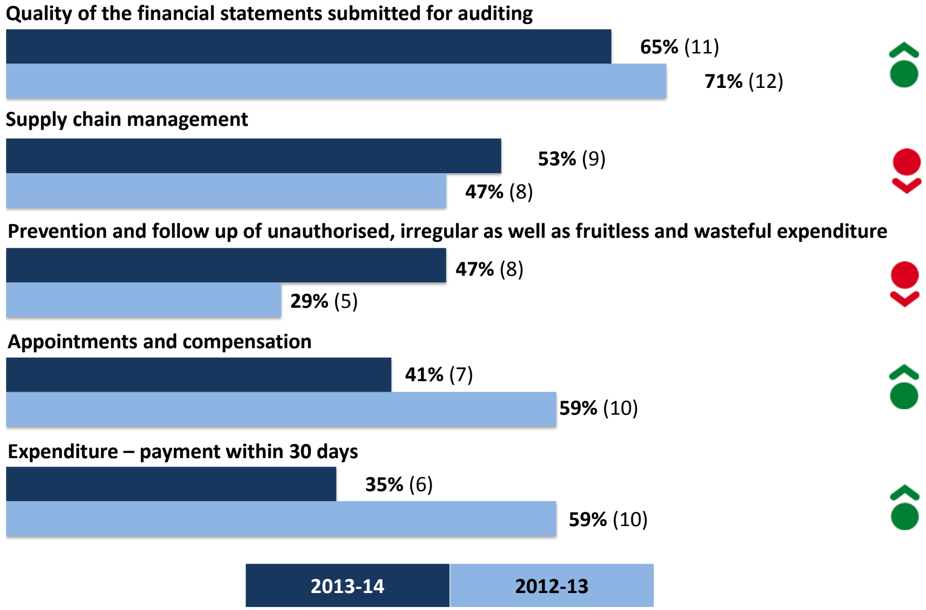


Figure 11 shows the compliance areas with the most material findings and the progress made by auditees in addressing these findings.

Material misstatements in the submitted annual financial statements as well as weaknesses in procurement management continued to be the focus areas with the most findings. An encouraging trend is that there were fewer findings on HR management and expenditure management, but a downward trend resulted in more findings on unauthorised, irregular as well as fruitless and wasteful expenditure. Auditees should focus on reviewing and monitoring compliance with legislation to address these non-compliance findings.

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

- There were material misstatements in the financial statements submitted for auditing, as discussed in section 3.1.
- SCM legislation was not complied with, as detailed in section 3.3.1.
- Unauthorised, irregular as well as fruitless and wasteful expenditure was not prevented or adequately dealt with, as outlined in section 3.3.2.
- Funded vacant posts were not filled within 12 months, as noted in section 5.1.

Sections 3.3.1 and 3.3.2 below provide more information on SCM and unauthorised, irregular as well as fruitless and wasteful expenditure, followed by recommendations and best practices to improve compliance in section 3.3.3.

3.3.1 Supply chain management

As part of our audits of SCM, we tested 295 contracts (with an approximate value of R5,2 billion) and 848 quotations (with an approximate value of R70,1 million), also referred to as 'awards' in this report.

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

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

In addition, the premier made a pronouncement during his state of the province address that prohibited state officials from doing business with the state in the province. Any auditee that still has findings in this regard is therefore in breach of this announcement.

We reported all the findings from the audit in a management report, while we reported the material non-compliance findings in the audit report.

Figure 12: Status of supply chain management

Figure 12 shows the number of auditees that had findings on SCM and those where we reported material non-compliance findings in the current and previous year. Material findings are those findings that we considered sufficiently important to include in the audit report. Non-material findings are those findings that were reported only in the management report; but if not addressed, could result in material findings in future.

There has been an overall increase in the number of auditees with both findings and material findings. Non-compliance with SCM legislation remained a challenge. Worryingly, the three departments that spend the most, continued to have material non-compliance findings in this regard.

Figure 13: Most common supply chain management findings

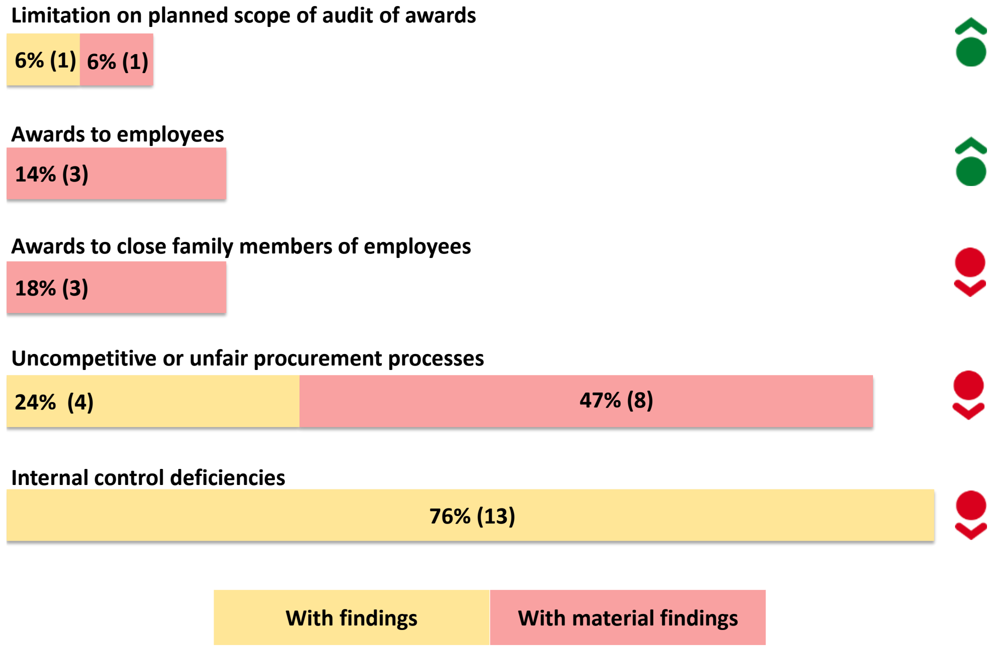


Figure 13 indicates the extent of findings in the areas we report on and the movement since the previous year. The most common findings are discussed in more detail below.

- This year, we again experienced limitations in auditing SCM. We could not audit awards with a value of R19 million at two auditees (Mpumalanga Economic Growth Agency: R13 million and Department of Health: R6 million), as they could not provide us with evidence that awards had been made in accordance with the requirements of SCM legislation. We could also not perform any alternative audit procedures to obtain assurance that the expenditure incurred in this regard was in line with SCM legislation. The main reason for the limitations was that documents were not submitted when requested, while some documents that were submitted did not contain all the relevant information. These limitations deny the auditees an opportunity to address possible weaknesses in the SCM internal control environment.
- There were 16 instances of awards with an overall value of R7,6 million to suppliers in which employees of the auditees had a financial interest. In 88% of these instances, the supplier did not declare the interest, while none of the employees declared the interest or obtained approval to do business outside of their employment. The persons involved included senior managers and operational employees.
- There were 104 instances of awards with an overall value of R185 million to suppliers in which close family members of employees of the auditees had an interest. In 92% of these instances, the supplier did not declare the interest, while the employees did not declare the interest in 88% of the cases. The persons involved included senior managers and operational employees.
- The most common findings on uncompetitive and unfair procurement processes included awards to providers who were in the service of other state institutions and these providers falsely declaring their interest in the declaration forms; suppliers scoring the highest points or submitting the lowest quotations not being selected without an approved justification in writing; and instances of competitive bids not invited or deviations not approved not being reasonable or justifiable.

The following internal control deficiencies identified at auditees should be addressed to improve the status of SCM in the province:

- Auditees should improve poor record keeping, particularly at the Department of Public Works, Roads and Transport who acts as implementing agent for all departments.
- Management and those charged with governance should respond more timeously to weaknesses in internal controls identified by other assurance providers.
- Auditees should institute consequence management for poor performance and transgressions.
- SCM staff members should be properly trained on SCM prescripts, while their performance management should ensure that they are held accountable when they do not comply with such prescripts.

3.3.2 Unauthorised, irregular as well as fruitless and wasteful expenditure

Unauthorised expenditure

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

Figure 14: Three-year trend – unauthorised expenditure

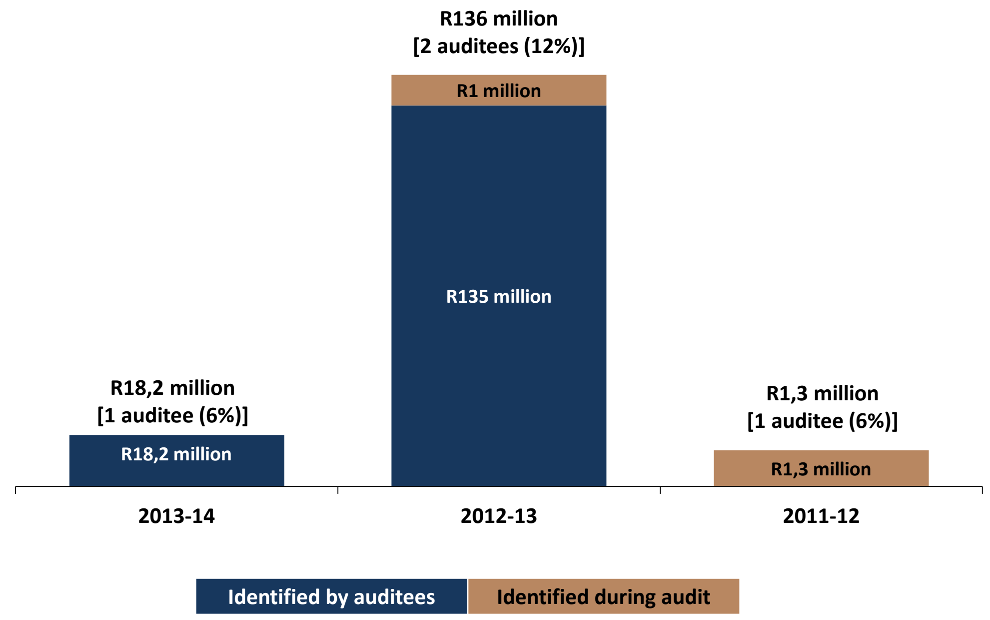


Figure 14 reflects the three-year trend in unauthorised expenditure. The number of auditees incurring unauthorised expenditure has decreased to one, namely the Department of Health, from the previous year's two. There has also been a significant drop of R118 million in the amount of unauthorised expenditure incurred from 2012-13. Unfortunately, when comparing the current amount of unauthorised expenditure to that of 2011-12, it has increased by R16,9 million – in both these years incurred by one auditee.

The Department of Health incurred the unauthorised expenditure of R18,2 million in 2013-14 as a result of overspending on transfers and litigation. Furthermore, the department had accruals of R473 million at year-end. Should they have paid these before year-end, the amount of unauthorised expenditure would have been even higher. Despite the drop in the amount of unauthorised expenditure incurred at the auditee, this still points to poor budget monitoring processes as well as a lack of daily and monthly disciplines to monitor spending against the budget. If the department had identified the potential overspending in advance, they could have corrected it during the budget adjustment process to avoid unauthorised expenditure.

The three auditees (43%) that reported unauthorised expenditure in the previous years, did not investigate such expenditure as required by legislation to determine if any person was liable for the expenditure, pointing to a lack of consequence management.

Irregular expenditure

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

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

Figure 15: Three-year trend – irregular expenditure

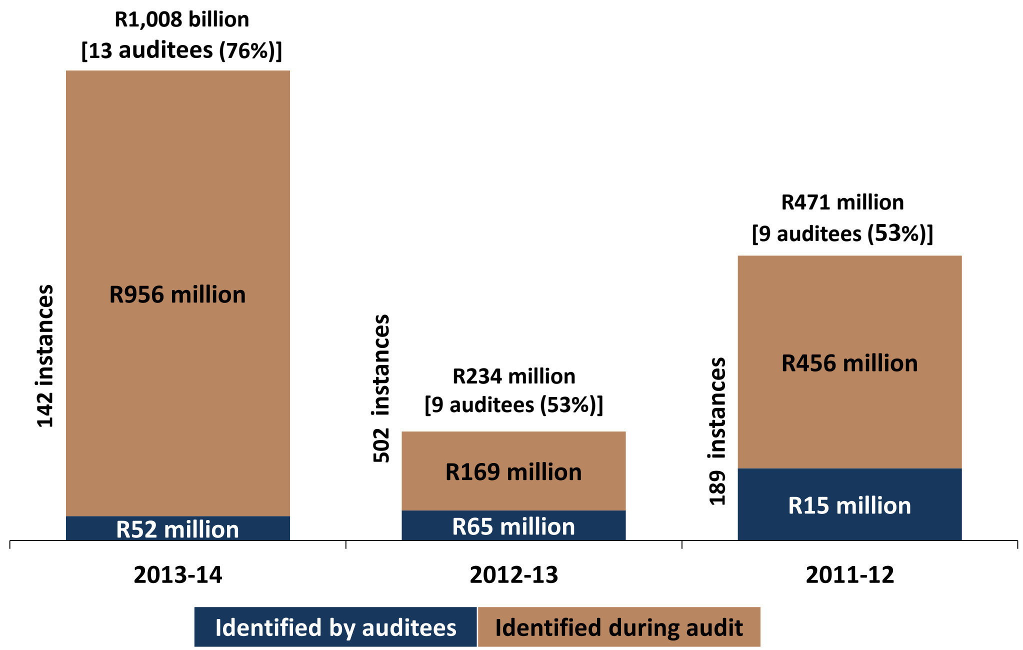


Figure 15 reflects the three-year trend in irregular expenditure. Irregular expenditure has increased dramatically by R774 million in 2013-14 compared to the previous year, while the number of auditees incurring irregular expenditure has increased by four (23%). The Department of Health incurred the most irregular expenditure at R818 million, which represents 81% of the irregular expenditure for the 2013-14 year. The other two big-spending departments incurred R57 million of the irregular expenditure.

A total of 95% of the irregular expenditure of R1,008 billion was identified during the audit process, indicating that management had not implemented adequate processes and controls to prevent or detect irregular expenditure.

Figure 16: Previous years' irregular expenditure identified in current year

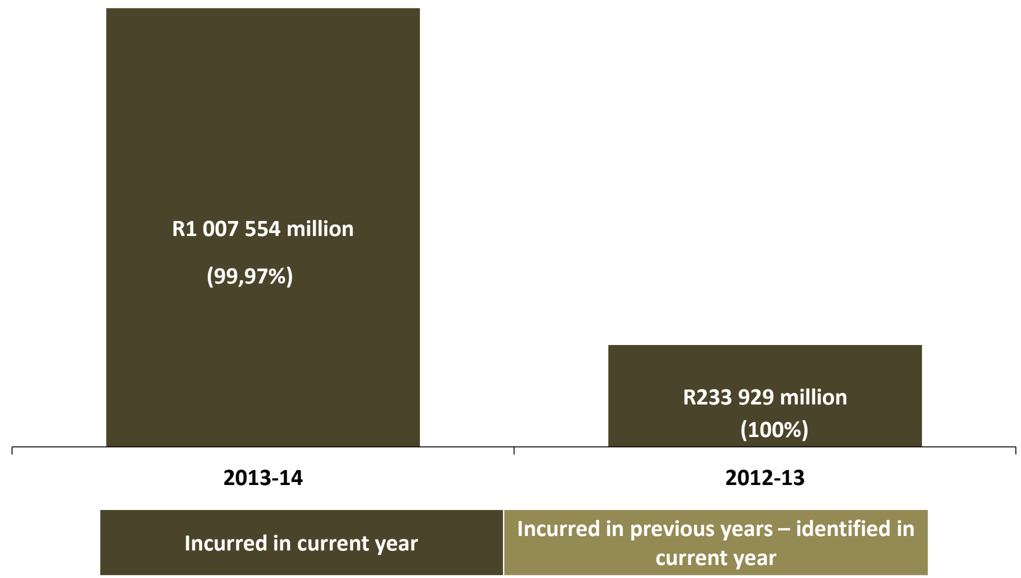


Figure 16 analyses the irregular expenditure reported in the current year in terms of the period to which this irregular expenditure relates. Almost all (99,97%) (2012-13: 100%) of the reported irregular expenditure was incurred and identified during the current year.

Overall, 95% of the irregular expenditure was as a result of non-compliance with SCM legislation. As implementing agent, the Department of Public Works, Roads and Transport was the main contributor to the irregular expenditure in the province, as they had not implemented adequate processes to ensure compliance with SCM regulations on projects implemented on behalf of other auditees. The safeguarding of documentation to allow the easy retrieval thereof during the audit process also requires urgent attention.

The following were the main areas of non-compliance, as disclosed by the auditees in their financial statements, with an indication of the estimated value of the expenditure:

- Procurement without a competitive bidding or quotation process – R19 million (2%).
- Non-compliance with procurement process requirements – R739 million (77%).
- Non-compliance with legislation on contract management – R198 million (21%).

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

At 31 March 2013, the auditees' financial statements showed that irregular expenditure of R1,32 billion still required action to be taken. Only R31,9 million of this amount was dealt with as required by legislation in 2013-14, leaving a balance of R1,29 billion at the end of the 2013-14 financial year, excluding irregular expenditure incurred in the year under review.

Our audits also identified that at three auditees (18%), the accounting officer or oversight body did not investigate the irregular expenditure of the previous year to determine if any person was liable for the expenditure. Consequently, auditees did not determine whether the irregularities constituted fraud or whether any money had been wasted.

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

Of the irregular expenditure of R1,008 billion incurred in the period under review, R956 million related to non-compliance with SCM processes. Through our normal audits, we determined that goods and services were received for R73 million (8%) of the irregular expenditure, despite normal processes governing procurement not having been followed. For the remainder of the amount (R883 million, or 92%), we could not specifically confirm that goods and services had been received, but our financial audits did not identify any specific risks or material instances of payment for goods not received or for services not rendered.

Fruitless and wasteful expenditure

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

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

Figure 17: Three-year trend – fruitless and wasteful expenditure

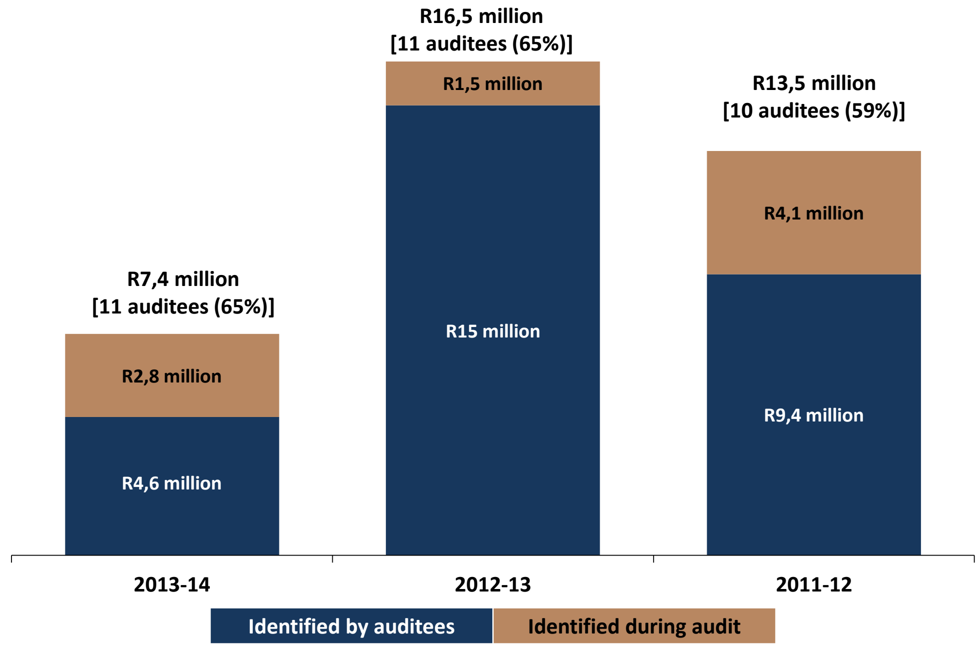


Figure 17 reflects the three-year trend in fruitless and wasteful expenditure. Overall, there has been a decrease of R9,1 million in such expenditure when compared to the previous year. Further to this, the current year reflects the lowest fruitless and wasteful expenditure since 2011-12 by an overall figure of R6,1 million (45%). This is a step in the right direction to eliminate fruitless and wasteful expenditure entirely.

We commend management's transparency in identifying most of the fruitless and wasteful expenditure. However, legislation also requires measures and controls to be designed and implemented to prevent such expenditure.

The auditees incurring the most fruitless and wasteful expenditure were the provincial legislature (R2,7 million), Department of Education (R2,2 million) and Mpumalanga Economic Growth Agency (R1,5 million). In total, these auditees were responsible for 86% of the fruitless and wasteful expenditure incurred. The fruitless and wasteful expenditure was due to the following:

- Acting allowances, leave and no-shows for accommodation represented 53% of the fruitless and wasteful expenditure incurred during the year. It is worrying that auditees continued to incur expenditure on overpayments to suppliers as well employees. This indicates that basic disciplines such as regularly reconciling key accounts were neglected.
- Interest on late payments and penalties represented 30% of the total fruitless and wasteful expenditure incurred. The Mpumalanga Economic Growth Agency incurred about 65% of the total interest on late payments and penalties.
- The provincial legislature incurred about R1,2 million on labour disputes through payments to the Commission for Conciliation, Mediation and Arbitration.

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

Our audits identified that at three auditees (18%), the accounting officer or oversight body did not investigate the fruitless and wasteful expenditure of the previous year to determine if any person was liable for the expenditure. As there were no consequences for incurring fruitless and wasteful expenditure, these issues will most probably recur.

3.3.3 Recommendations – compliance

Auditees that had findings on compliance with key legislation, including SCM prescripts, and those that incurred unauthorised, irregular as well as fruitless and wasteful expenditure should strengthen their processes and controls to create and sustain a control environment that supports compliance. These auditees should implement at least the following key controls and best practices in place at other auditees, especially those with clean audit outcomes:

- The accounting officer or authority should implement a monitoring process to ensure that each senior manager maintains a good control environment in his or her directorate.
- Staff should be held accountable for shortcomings identified during internal and external audit processes.
- The leadership should regularly monitor the audit action plan addressing findings from internal and external auditors, the audit committee and other key role players.

- Policies and procedures should continually be updated to also reflect compliance with legislation.
- A compliance checklist should be utilised when procuring goods and services.
- Record keeping should be improved for documentation obtained during the procurement process.
- The executive council should insist that the Department of Public Works, Roads and Transport implement effective controls to ensure compliance with SCM legislation on all infrastructure projects in the province. The MEC responsible for the department should present a report on compliance for all projects finalised each quarter. The internal audit unit in the Office of the Premier should audit these reports to provide assurance on their credibility before they are presented to the executive council.
- All staff should be knowledgeable of legislation, regularly monitor compliance, and review key internal controls around compliance.
- SCM staff should be properly trained on SCM prescripts, while their performance management should ensure that they are held accountable if they do not comply with such prescripts.

4. Financial health

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

Figure 18: Status of financial health

Figure 18 indicates the number of auditees that had more than two of the financial risk indicators (shown as 'concerning') as well as auditees with material going concern uncertainties or adverse or disclaimed audit opinions that resulted in their financial statements not being reliable enough to analyse (shown as 'intervention required'). There has been an overall increase in the number of auditees with financial risk indicators when compared to the previous year.

We are concerned that the two auditees with more than two financial risk indicators in the previous period had not improved, while another six auditees have now joined them in this risk category.

On a positive note is the improvement at the Mpumalanga Tourism and Parks Agency, which had going concern issues for the past two years, was in a net liability position, and struggled for some time to meet its expenditure obligations.

Figure 19: Areas of financial health concerns

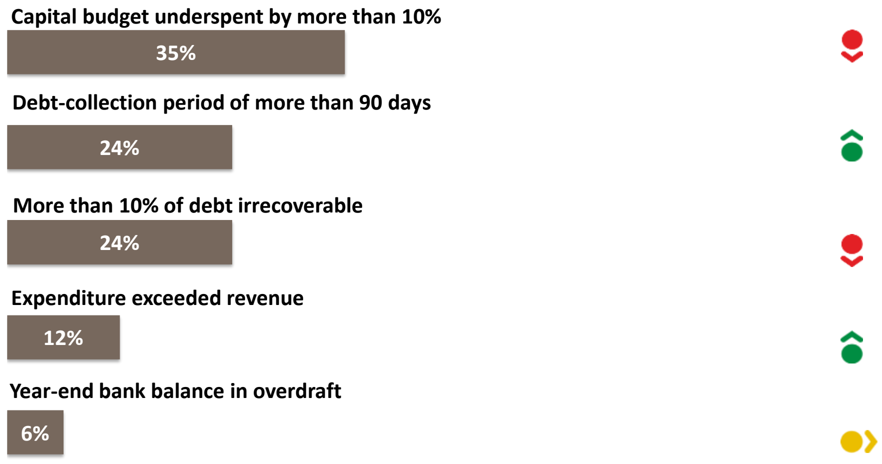


Figure 19 depicts the different financial health indicators and the percentage of auditees that had findings on these indicators. It also analyses the movement from the previous year. These indicators are discussed in the rest of this section.

Financial management

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

Five of the auditees (83%) that reported expenditure exceeding revenue in the previous year were able to address this risk in the period under review, but the Mpumalanga Regional Training Trust regressed to a reported deficit. The only auditee in the previous year with a risk indicator of current expenditure being funded by the following year's budget was able to address this.

The Department of Public Works, Roads and Transport continued to be in an overdraft position of R17,5 million (2012-13: R15 million). This was due to the department not implementing effective cash management controls to settle all of their creditors within 30 days, which led to non-compliance.

The above financial management indicators suggest that auditees might be spending on items that have not been budgeted for. This can possibly lead to unauthorised expenditure if these auditees do not control their spending properly. Overspending on the current year's expenditure also has a resultant impact on the next year's budget, which could hamper service delivery.

The Office of the Premier and the provincial treasury strengthened their processes of identifying auditees who were struggling to manage their cash flow during the year, and intervened to assist auditees to manage their cash flow. The Department of Agriculture, Rural Development and Land Affairs; Department of Community Safety, Security and Liaison; and Department of Health were all placed under curatorship during the 2013-14 financial year.

The Department of Health was placed under full administration after year-end, due to leadership instability and poor cash-flow management practices.

The poor financial management at these departments can be attributed to the following:

- Poor planning and budgeting for current and capital expenditure.
- Weak expenditure and project management.
- Poor management of resources.

Underspending by departments of capital budgets

Capital budgets and expenditure are usually directly linked to the service delivery of auditees. Underspending could result in auditees not delivering their mandated services. We therefore remain concerned about the province's inability to address the underspending of capital budgets.

The Departments of Culture, Sport and Recreation; Human Settlements; Health; Cooperative Governance and Traditional Affairs; Social Development; and Economic Development, Environment and Tourism underspent their capital budgets by more than 10%. In total, these departments underspent R157 million in the year under review. The Mpumalanga Gambling Board also reported an underspending of more than 10% of its capital budget.

Four of these departments underspent in both the previous and current period. Included in this group are departments that had to make facilities such as libraries, clinics, hospitals and housing available to the public as part of their service delivery mandate. The slow spending of capital budgets therefore had a direct impact on service delivery to the people of the province.

In total, 67% of the auditees were unable to meet some of their service delivery objectives, and we highlighted this in our audit reports as an additional matter.

Furthermore, the Departments of Health and Human Settlements did not submit credible annual performance reports.

Encouragingly, the Departments of Finance and Community Safety, Security and Liaison were able to address their underspending in the period under review.

The underspending of capital budgets points to poor project management and planning, such as the late appointment of contractors, as evidenced by a high amount of commitments at some departments. It can also be attributed to poor cash-flow management, as the accruals of some departments were more than their cash balances at year-end.

Debt management

There has been a slight improvement in the number of auditees with debt-collection periods of more than 90 days. The Department of Culture, Sport and Recreation and the Mpumalanga Tourism and Parks Agency improved on their collection period, while the Department of Human Settlements regressed. The Departments of Community Safety, Security and Liaison as well as Health again struggled with debt collection in the year under review, with these departments taking an average of more than a year to collect money due to them.

We are very concerned about the Department of Community Safety, Security and Liaison, as this department is a major source of income for the province and accounts for more than 60% of the province's budgeted own revenue. This revenue budgeted for collection has already been appropriated to other departments, which means that the province runs a risk of not meeting its obligated mandate should controls not be tightened to collect all revenue due.

A total of 75% of the public entities continued to rely on government funding to sustain them, without putting measures in place to ensure that fees due to them were collected and to generate more revenue for the province. For example, it took more than 90 days for the Mpumalanga Regional Training Trust to collect outstanding debt, while the average debt-impairment rate of three of the four public entities was more than 60%. The poor debt management had a negative impact on the profitability and effective management of these public entities.

Poor debt management at the above auditees can be attributed to the following:

- Inadequate maintenance of proper accounting records for all debtors.
- No proper processes to take action and follow up long-outstanding debt, including legal action.

5. Internal controls and root causes

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

Figure 2 shows the status of the different areas of internal control and the overall movement over the past two years. Based on this assessment, we highlight the following:

- We are pleased that there has been an overall improvement in the drivers of internal controls with regard to leadership, financial and performance management as well as governance in the province. However, the accounting officers and authorities as well as senior management at the forefront of auditees still need to provide the highest level of assurance to ensure the effectiveness of internal controls.
- Regular, complete and accurate reporting remained a challenge with regard to financial and performance management, as we identified material misstatements in the financial statements and annual performance reports of 11 auditees (65%).
- Eleven auditees (65%) were also still struggling to effectively perform checks and balances. Auditees might find it difficult to achieve clean administration until checks and balances are implemented and entrenched in their processes.
- The commitment of, and effective coordination by, the leadership, institutionalising basic financial disciplines as well as implementing the recommendations of governance structures led to improved audit outcomes at the Department of Social Development, the Department of Cooperative Governance and Traditional Affairs and the Mpumalanga Regional Training Trust to clean audits.
- We also noted that a complete disregard for these key controls resulted in unfavourable audit outcomes at the Department of Health; Department of Agriculture, Rural Development and Land Administration; Department of Community Safety, Security and Liaison; and Mpumalanga Economic Growth Agency.

Figure 20: Key controls requiring the most attention

	Audit areas								
	Financial statements			Performance reports			Compliance with legislation		
	Good	Concerning	Intervention required	Good	Concerning	Intervention required	Good	Concerning	Intervention required
Effective leadership	12	4	1	11	6		11	5	1
Human resource controls	4	8	5	8	5	4	6	6	5
ICT governance and controls	2	11	4	4	11	2	3	12	2
Audit action plans	7	9	1	7	8	2	7	8	2
Proper record keeping	7	7	3	8	6	3	7	8	2
Daily and monthly controls	9	5	3	10	5	2	9	6	2
Review and monitor compliance	5	6	6	7	6	4	4	7	6

Good | Concerning | Intervention required

Figure 20 shows the status of the controls requiring the most attention, which are discussed in more detail below.

Review and monitor compliance

As discussed in section 3.3, many auditees did not comply with legislation. This means that the internal controls of auditees failed to prevent or detect non-compliance with legislation, as auditees did not have mechanisms to:

- identify applicable legislation as well as changes thereto
- assess the requirements of legislation
- implement processes to monitor compliance with legislation.

Five auditees (29%) had sufficient controls to review and monitor compliance with legislation, while the internal controls to monitor compliance with legislation of six auditees (35%) required intervention.

Proper record keeping

Some auditees did not adequately implement proper record keeping or adequately monitor filing systems. Documentation, mostly relating to compliance and the quality of the annual performance report, was also not readily available when requested for audit purposes.

Seven (41%) of the auditees effectively managed records relating to financial statements and compliance with legislation; while eight (47%) of the auditees had implemented effective record management controls over performance reporting.

Poor record keeping at three auditees often resulted in documents requested during the audit only being made available after a significant delay, which put pressure on the audit process and fee. These auditees should therefore urgently improve their record management processes, as a delay in submitting requested information clearly indicates poor controls over record management.

Auditees should keep in mind that clean administration does not only relate to the validity, accuracy and completeness of what has been reported, but also to the effectiveness of the controls implemented by management over the records relating to that information.

Daily and monthly controls

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

- Daily capturing of financial transactions, supervisory reviews of captured information, and independent monthly reconciliations of key accounts.
- Collecting performance information at intervals that are appropriate for monitoring service delivery targets and milestones as well as validating recorded information.
- Confirming that legislative requirements and policies have been complied with before initiating transactions.
- Physically verifying assets each quarter and reconciling the results of the verification with the asset register.

We assessed these controls over financial statements and compliance with legislation as good at only nine (53%) of the auditees; and over performance reports at only 10 (59%).

Audit action plans

Action plans are crucial to address the weaknesses in internal controls identified by internal and external auditors, audit committees and other oversight structures. Accounting officers, senior management, executive authorities and those charged with governance, including audit committees and the committees of the legislature, must furthermore continuously review and monitor the action plans.

Seven auditees (41%) successfully implemented this key control. The action plans of the other auditees had not been developed, or developed action plans did not adequately address prior year audit findings or were not monitored. Most auditees found it difficult to draft action plans that directly addressed the root causes of poor audit outcomes.

Sections 5.1 and 5.2 provide further information on the status of HR controls and IT governance and controls. To effectively improve internal controls, it is important to understand the root causes underlying the weaknesses. Section 5.3 therefore describes the most common root causes that should be addressed.

5.1 Human resource management

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

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

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

Based on the results of these audits, we assessed the status of HR management controls as follows:

Figure 21: Status of human resource management

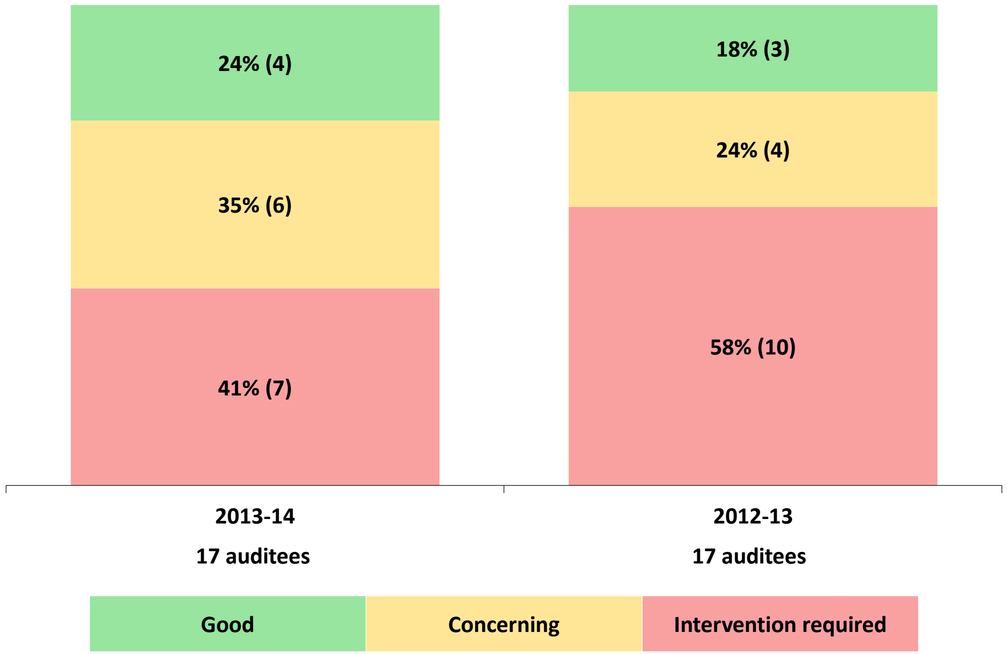


Figure 21 shows that there has been little improvement in the status of HR management when compared to the previous year, with three auditees regressing. The Department of Health could still not address their HR challenges, including that of leadership stability, with four different officials acting as accounting officer during the year under review.

A total of 75% of the auditees where intervention is required to address HR findings received qualified audit outcomes in the period under review, while the rest had material findings on the quality of their financial statements and annual performance reports as well as on compliance with legislation. This clearly indicates that effective HR management is fundamental to a strong control environment.

Management of vacancies and acting positions

Figure 22: Vacancies in key positions

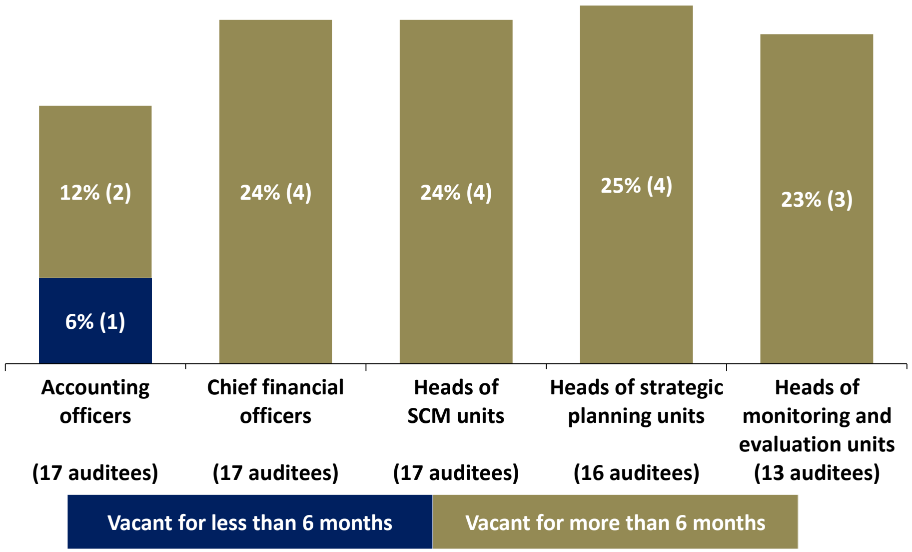


Figure 22 shows the number of auditees where the positions of the accounting officer (head of department or chief executive officer), chief financial officer and heads of the SCM, strategic planning as well as monitoring and evaluation units were vacant at year-end. It also indicates the period that the positions had been vacant. These five positions are key to the achievement of a strong internal control environment, as these employees are directly involved in driving the quality of the financial statements, strategic plans and annual performance reports as well as ensuring that auditees comply with legislation.

The auditees who struggled to fill these positions for an extended period experienced challenges with the quality of their financial statements and annual performance reports as well as compliance with legislation. The Department of Health, where the position of head of the SCM unit had been vacant for more than six years, incurred the most irregular expenditure in the province – clearly demonstrating the importance of stability in key positions.

The Office of the Premier; Department of Finance; Department of Public Works, Roads and Transport; and Mpumalanga Tourism and Parks Agency operated without chief financial officers for more than six months, with the latter two struggling to fill the position for the past two years. Accounting officers or authorities should prioritise the appointment of chief financial officers to ensure sustained improvements in the quality of the financial statements. This position was filled at the Office of the Premier after year-end.

The Departments of Health; Community Safety, Security and Liaison; and Economic Development, Environment and Tourism did not have accounting officers at year-end. Two of these departments operated without a permanent accounting officer for more than six months. Two of these positions were filled after year-end. The premier should prioritise the appointment of accounting officers to create stability at the leadership level of auditees.

Figure 23: Stability in key positions (average number of months in position)

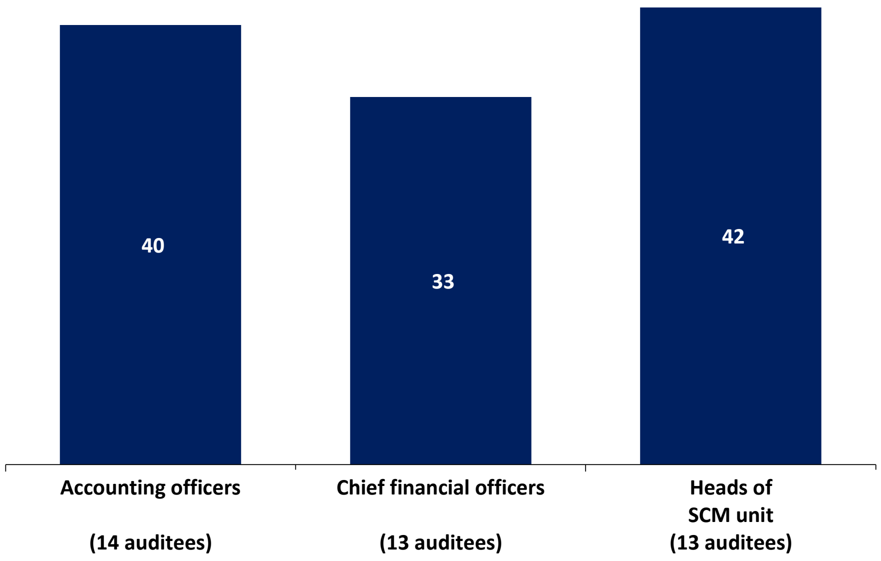


Figure 23 shows the average number of months key officials had been in their positions. On average, the accounting officer, chief financial officer and head of the SCM unit had been in their positions for more than two years. The audit outcomes of most of the auditees with stability in these positions have been improving over the last three years. This stability creates an opportunity for the province to achieve all-round clean audit outcomes but will only be fully realised if recommendations aimed at improving the internal control environment are implemented.

The following were the most common findings on the management of vacancies and acting positions:

- The overall vacancy rate has increased from the previous year.
- Senior management positions were vacant for more than 12 months.

Performance management

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

Even though most of the auditees had implemented performance management systems, this has not yet had a positive effect on the audit outcomes of some auditees.

Senior managers at the Department of Health; Department of Public Works, Roads and Transport; and Mpumalanga Tourism and Parks Agency did not sign performance agreements. None of these auditees complied with all legislation or produced financial statements and annual performance reports of a good quality. The Department of Health and the Mpumalanga Tourism and Parks Agency did also not have a performance management system for employees other than senior managers, which made it difficult for them to deal with poor performers. These auditees should urgently attend to the weaknesses in performance management if improvement is to be expected.

Other common human resource findings

The other most common HR findings were the following:

- Proper verification processes were not followed for new appointments at six (35%) of the auditees.
- Positions in finance sections were vacant for more than 12 months and were not advertised at four auditees (24%).
- Vacant senior manager positions were not advertised within six months and employees acted in these positions for more than six months at four auditees (24%).

5.2 Information technology controls

IT controls ensure the confidentiality, integrity and availability of state information, enable service delivery and promote national security. It is thus essential for good IT governance, effective IT management and a secure IT infrastructure to be in place.

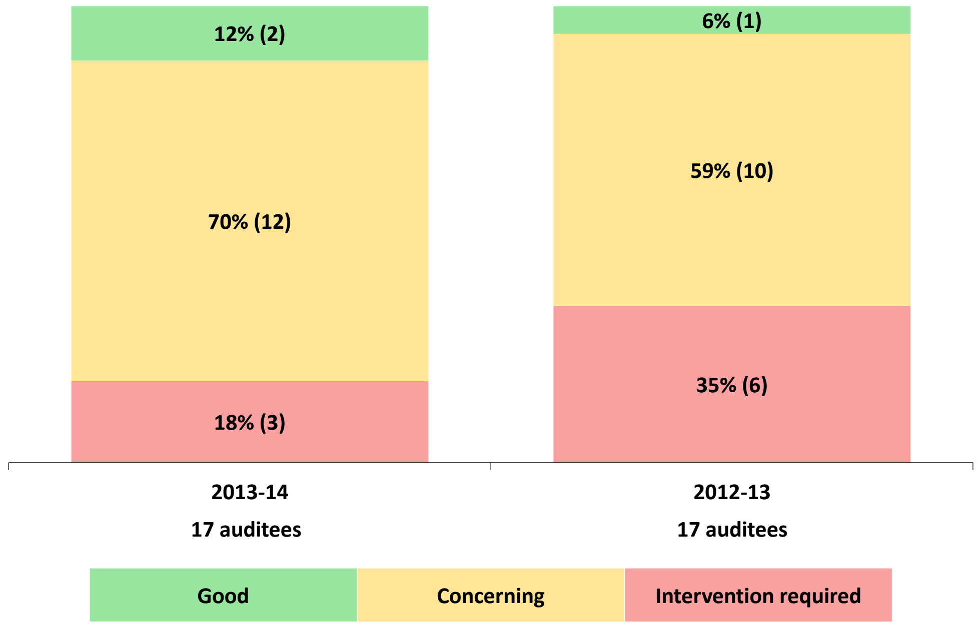
Effective **IT governance** is essential for the overall well-being of an auditee's IT function and ensures that the auditee's IT control environment works well and enables service delivery. All state departments and public entities are therefore required to adopt and implement the IT governance framework and guidelines developed by the national Department of Public Service and Administration in phases over three years. Phase 1 was due for implementation by the end of the 2013-14 financial year and the department moderated the self-assessment results of the management performance assessment tool to monitor the progress of implementation.

We will evaluate the implementation of phase 1 in the following audit cycle. In the 2014-15 financial year, accounting officers and governance structures should prioritise the implementation of phase 2.

As legislatures have opted to develop their own IT governance framework, management should prioritise the implementation of this customised governance framework. The most significant IT governance findings at the legislature were the following:

- An IT governance framework had not been designed to serve as a basis for defining IT processes, managing IT process risks, and mapping the processes against defined standards and policies.
- An updated and approved IT strategy was not in place to structure the use of technology at the legislature as part of the overall business strategy.

Figure 24: Status of information technology



Our audit included an assessment of the IT controls that focus on security management, user account management, and IT service continuity. Figure 24 shows that there has been an improvement since the previous year in terms of the number of auditees with audit findings on IT controls. This improvement can be attributed to effective oversight by management, the assistance of the government information technology officers' forum, and the involvement of internal audit units. Although considerable progress had been made since 2012-13 in addressing material findings, risks remained in all of the focus areas despite the corrective measures instituted.

Five auditees maintained adequate security management controls, while two maintained adequate user access management controls and three maintained adequate IT service continuity controls. However, only two auditees had adequate IT controls that had been embedded and were functioning effectively within all three focus areas. At some auditees, little or no progress had been made since the previous year in designing and implementing security management controls. However, we noted improvement in the controls governing the management of user access and IT service continuity at some auditees.

Figure 25: Status of information technology controls

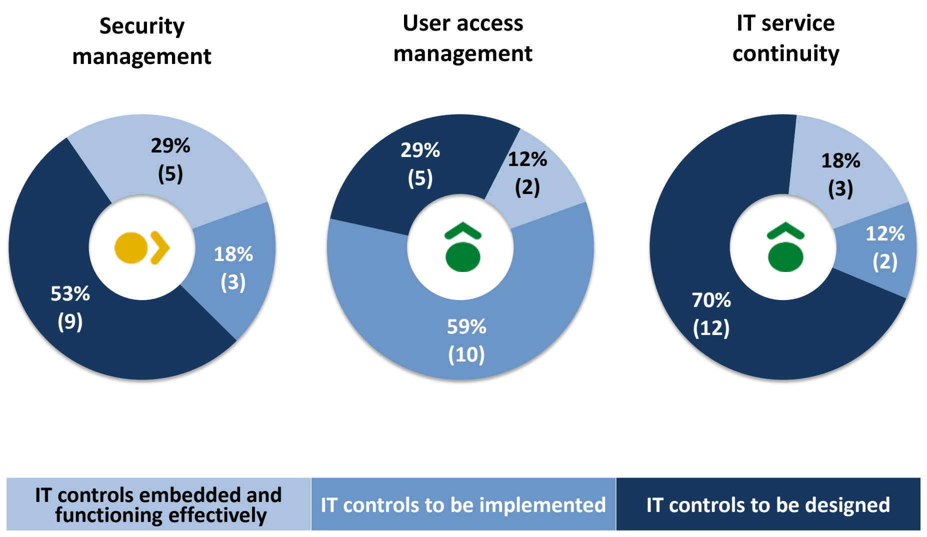


Figure 25 indicates the status of the controls in the areas we audited and the movement since the previous year. It shows the number of auditees where the IT controls are functioning effectively, have not been implemented, or are not in place (in other words, have not been designed).

Most auditees did not have adequately designed and implemented IT controls for security management, user access management and IT service continuity. The most significant findings in each of these areas are listed below.

Security management

Security management controls, such as an IT security policy, patch management procedures and the delegation of information security responsibilities, had not been designed to prevent and detect the risk of unauthorised access to the IT infrastructure that supports the financial and performance application systems. Network security controls that secure the auditees' operating systems and databases had not been adequately implemented to ensure that the auditees' financial and performance information would be processed and stored in a safe environment.

User access management

Adequate user account management processes had not been designed and implemented to monitor the activities of system administrators and the access rights of users. The absence of such processes exposed the application systems in which financial and performance information was stored to the risk of unauthorised access, which could be exploited to create and amend information. User account management standards and procedures were either inadequately designed or not complied with. Consequently, users' access to the auditees' systems was not limited to the level required to execute their duties.

Information technology service continuity

IT service continuity controls, such as a business continuity plan and a disaster recovery plan, had not been designed to enable auditees to recover their critical business operations and application systems that would be affected by disasters or major system disruptions within a reasonable time. In the case of departments, the data hosted on their transversal systems would be available at the disaster recovery site of the State Information Technology Agency. However, adequate backup and restore processes had not been designed and implemented for the performance information stored in the non-transversal application systems.

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

5.3 Summary of root causes

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

As reported in section 3, many auditees produced financial statements and annual performance reports of a poor quality and did not comply with key legislation. The information that follows summarises the three most common root causes of poor audit outcomes and inadequate controls, and provides recommendations to address these root causes.

Instability or vacancies in key positions

Detail of root cause

Stability in key positions and the filling of vacant key positions with competent and qualified staff are crucial for the improvement of the audit outcomes, as the high staff turnover and leadership instability are preventing many auditees from improving their audit outcomes.

We identified instability or vacancies in key positions as a root cause at nine (53%) of the auditees, which is a regression from the previous year. This instability, especially at senior management and accounting officer level, prevented progression, as some of these role players could not complete the processes implemented to address poor outcomes.

Filling vacancies with staff who are not competent further delayed progress, as some recently appointed staff members had to be moved to other positions as they could not cope with their new positions.

Of the nine auditees with leadership instability, 78% had material findings on the quality of the submitted financial statements and annual performance reports as well as compliance with legislation.

In addition, the instability and prolonged vacancies in key positions such as those of accounting officer and chief financial officer (as detailed in section 5.1) led to a weak control environment, as there was no permanent person to enforce the implementation of the action plans and commitments made by the leadership in the previous year.

Recommendations

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

- The political and administrative leadership should drive the process of ensuring that critical vacant positions are filled timeously with competent and skilled officials.
- Auditees should develop a succession plan and a vacancy management plan to respond to the high staff turnover without delay.
- Continuous training of existing staff members in key positions should be improved and the administrative leadership should start optimising the use of key controls and dashboards by objectively assessing internal control deficiencies.

Slow response by management

Detail of root cause

Earlier on in this section, we assessed that only seven (41%) of the auditees had developed and properly implemented action plans to address poor audit outcomes. Senior management is ultimately responsible for ensuring that adequate action plans are developed and that their implementation is frequently monitored so that they can yield the desired results.

We acknowledge the progress made by the province in improving internal controls and the response by management at some auditees, but the management of many auditees still struggled to implement basic financial discipline, which led to the unfavourable audit outcomes.

The slow implementation of recommendations from other assurance providers was a further weakness at eight auditees (47%).

Recommendations

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

- Management should effectively develop, review and monitor the implementation of action plans to assess whether they are achieving the desired outcomes.
- Management should timeously fill key vacancies with competent personnel and develop a plan on how they can manage vacancies without delay.
- Management should promote a culture of high performance.
- Recommendations from the different assurance providers should be fully implemented and their progress monitored monthly.

Slow response by political leadership

Detail of root cause

We have been engaging and sharing the key control dashboards with the political leadership with the hope that they will hold the accounting officers and authorities accountable for the implementation of those controls. Over the years, we have seen some political leaders taking full advantage of this, resulting in positive outcomes.

Unfortunately, the political leadership at some auditees was still not fully driving the principle of consequences for poor performance and creating leadership stability in their portfolios. This was evidenced at six auditees (35%) where we assessed the slow response by the political leadership to be a root cause of poor audit outcomes. Two of these auditees have received qualified audit outcomes for the past two financial years.

It is encouraging that the new political leadership has shown great enthusiasm and commitment to respond to the root causes of the unfavourable audit outcomes.

Recommendations

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

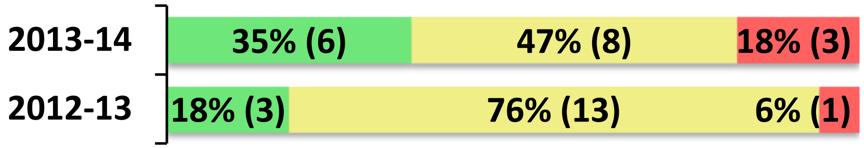
- The political leadership should insist on receiving an adequate and effective action plan to address the poor audit outcomes from management, with milestones and responsible persons, and a frequent update on progress made with implementation.
- Political leaders should take it upon themselves to ensure that vacant positions of accounting officers and authorities as well as senior managers are filled timeously with skilled and competent individuals.
- The political leadership should ensure that best practices are shared and that transversal challenges are addressed and monitored. In addition, staff that do not honour their commitments must be held accountable.

6. Impact of key role players

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

Based on our assessment as shown in figure 2, not all role players are yet providing the necessary assurance. Below is an overview of the assurance provided by each of the assurance providers.

Senior management



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

We assessed that the senior management of six auditees (35%) provided the expected level of assurance, with the rest providing either some or limited assurance. Although we noted an improvement in the assurance provided at this level, we are concerned that most of the practices leading to the improvement had not been institutionalised but rather depended on a few individuals. When these individuals leave, it is very likely that the audit outcomes will regress.

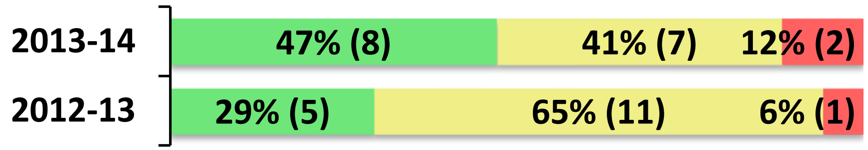
The credibility of the reports produced by auditees continued to be a challenge. This is especially concerning because they are used by accounting officers, executive authorities and the legislature for decision-making purposes.

The following recommendations should be implemented to improve the level of assurance provided by senior management:

- Monitor the implementation of basic daily and monthly checks and balances.
- Monitor the progress made in implementing recommendations of other assurance providers aimed at improving the internal control environment.
- Ensure proper record keeping, particularly relating to the quality of performance reports and compliance with legislation, so that complete, relevant and accurate information is accessible and available to support financial and performance reporting.
- Properly assess the skills and competencies needed at auditees, and compare this to the current capacity to address gaps in competencies through other means, such as training.

Furthermore, the HR challenges outlined in section 5.1 should be addressed to strengthen the assurance provided by senior management. Vacancies need to be filled and senior management members should hold their subordinates accountable for the execution of their responsibilities through performance management.

Accounting officer or accounting authority



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

Although there has been an improvement in the level of assurance provided by this group, it is still not at an acceptable level. Accounting officers or authorities provided only some or no assurance at nine auditees (53%), as they did not hold senior managers accountable for poor performance and did not monitor the implementation of recommendations from other role players, such as internal audit units and legislature committees. Accounting officers and authorities did also not prioritise the quality of financial statements and performance reports. Furthermore, the non-achievement of planned targets indicates that accounting officers and authorities did not plan properly and monitor the budget effectively.

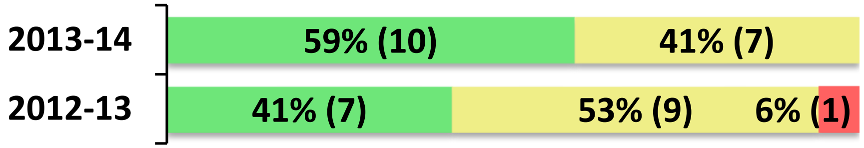
This assessment supports the fact that the slow response by the leadership was a root cause of poor audit outcomes, as discussed in section 5.3 above.

Accounting officers and authorities should implement the following recommendations to improve the level of assurance they provide:

- Monitor the progress made by senior management in implementing the action plans to address internal control deficiencies each month; and play a leading role in monitoring the implementation of recommendations from other assurance providers.

- Implement appropriate risk management activities to ensure that regular risk assessments, including the consideration of IT risks and fraud prevention, are conducted and that a risk strategy to address the risks is developed and monitored.
- Implement effective HR management practices to ensure that adequate and sufficiently skilled staff members are employed and that performance is monitored.
- Insist on a monthly progress report on compliance with legislation on procurement by using compliance checklists to ensure that employees are aware of, and adhere to, key legislation regarding procurement.

Member of executive council



Executive authorities play a monitoring and oversight role over the entire administration of auditees. They have specific oversight responsibilities in terms of the PFMA and the Public Service Act. They therefore need to ensure that strategies and budgets are aligned to the mandate and that objectives are achieved. Executive authorities can bring about improvements in the audit outcomes of their auditees by being actively involved in key governance matters and by managing the performance of the accounting officers and authorities.

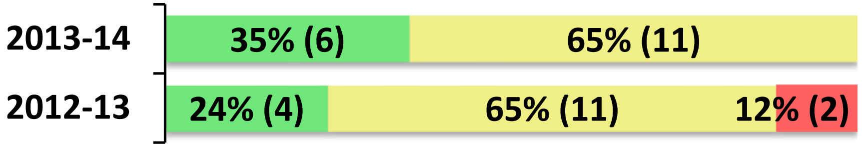
There has been a slight improvement in the level of assurance provided by the executive authority at 10 auditees (59%) compared to the previous year's seven (41%), due to the executive authorities actively overseeing these auditees.

The legislature issued resolutions to address repeat findings at some auditees (annexure 1 lists all auditees with their findings). However, the executive authorities did not focus on ensuring that these resolutions were effectively implemented – once again pointing to the slow response by the political leadership as discussed in section 5.3.

Executive authorities should attend to the following as part of their oversight responsibilities:

- Attend to leadership instability in their departments without delay.
- Assist accounting officers and authorities to address vacancies.
- Insist on having progress on the implementation of action plans to address audit findings as a standing agenda item at quarterly meetings with the accounting officers and authorities.
- Monitor the implementation of the resolutions passed by legislature committees on a quarterly basis.
- Have quarterly engagements with the heads of internal audit units and chairpersons of audit committees to provide them with a platform to escalate challenges weakening their effectiveness.
- Address poor performance and ensure that accounting officers and authorities deal with poor performance across all levels.

Internal audit unit

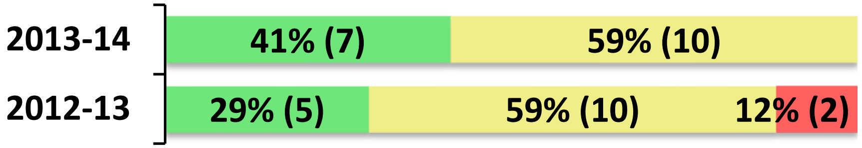


Internal audit units assist accounting officers and authorities in the execution of their duties by providing independent assurance on internal controls, financial information, risk management, performance management and compliance with legislation.

All auditees had functioning internal audit units. There has been a slight improvement in the level of assurance provided by internal auditors since the previous year. Internal audit units are considered effective when management is quick to address findings by implementing internal audit recommendations. On the other hand, the effectiveness of internal audit units is negatively affected by management's failure to implement their recommendations aimed at strengthening the internal control environment.

Accounting officers and authorities should ensure that internal audit units are adequately resourced and that their plans focus on strengthening internal controls.

Audit committee



While accounting officers, accounting authorities and senior management are responsible for matters such as internal controls, risk management, performance management as well as evaluation and compliance with legislation, the audit committee provides assurance on the adequacy, reliability and accuracy of financial and performance reporting as well as compliance with legislation.

All auditees had functioning audit committees. However, as in the case of internal audit units, when management does not implement the recommendations of audit committees, these committees become ineffective in improving the audit outcomes. We can see the benefits of a well-functioning audit committee at those auditees where management is quick to respond to audit committee recommendations.

The other challenge faced by audit committees is the quality and the timing of information given to them. Accounting officers and authorities should therefore provide complete and timely reports to the audit committees, to allow them to perform an effective oversight role and provide proper recommendations.

Office of the Premier

The Office of the Premier provided limited assurance by monitoring the achievement of government priorities. In the previous year, the premier committed to improve the audit outcomes by establishing a culture of holding people accountable, which has to some extent started to yield results. The premier should now ensure that the culture of holding people accountable through an effective performance management system is cascaded to all levels of staff.

The Office of the Premier assisted provincial departments with HR management by performing job evaluations and HR planning. We urge the Office of the Premier to prioritise the timely appointment of competent accounting officers to create stability in auditees – especially those with unfavourable audit outcomes. A competent and skilled accounting officer is fundamental to effective performance and a sound internal control environment. The appointment of acting accounting officers for an extended period should also be minimised, as this has a negative impact on the service delivery mandate and the audit outcomes of auditees.

The premier also made a commitment to continuously refine his office's involvement in monitoring and guidance to the provincial departments through the monitoring and evaluation unit. However, these commitments have not yielded much improvement in the audit outcomes, as auditees continued to have findings on the quality of their annual performance reports and HR management.

Our sector audit on the Office of the Premier further indicated the following shortcomings that need to be addressed:

- The intergovernmental forum did not report annually to the President's coordinating council on progress with the implementation of national policy and legislation in the province.
- Provincial departments were not assisted in developing consequence management.

Department of Finance

The Department of Finance provided some assurance by implementing different programmes to monitor the financial performance of auditees to identify challenges and recommend improvements. These programmes included training to departments, monitoring departments' spending during the year, and reviewing the action plans prepared by departments to improve their internal control environment.

As was the case in the previous year, these initiatives did not have a positive impact on the overall audit outcomes, due to auditees not implementing the guidance provided and not instituting consequences for poor performance and transgressions.

Although some of the prior year commitments were honoured, the role of chief financial officer should be strengthened in the province. Regular meetings of the chief financial officers' forum were not held in the current year to discuss common challenges, share best practices and ensure the uniform application of principles.

The department should implement the following recommendations to have a positive impact on the audit outcomes:

- Proactively identify areas where departments are likely to encounter challenges and provide technical support, most specifically with regard to the practical application of accounting standards.
- Regularly follow up recommendations to departments during the year and report on non-implementation to the relevant structures.
- Assess whether implemented initiatives are yielding the desired results during the year and make amendments where necessary to ensure that deficiencies are attended to before year-end.

The province should also establish a structured way to address instances of departments not responding to the initiatives of coordinating departments.

Our sector audit on the Department of Finance further indicated the following shortcomings that need to be addressed:

- While providing feedback and recommendations on shortcomings noted in the budget reviews of auditees, the department did not have clear timelines on when they should provide such feedback and recommendations.
- Policies and procedures on compliance monitoring and enforcement functions had not been adopted.

Department of Cooperative Governance and Traditional Affairs

This department was not assessed as an assurance provider for the PFMA audit outcomes, as their responsibility is to provide support to local government by, for example, ensuring implementation of an administrative and financial framework. The sector procedures were performed as part of our regularity audit to assess the effectiveness of the support provided by the department to local government.

Although the department achieved clean administration on its own audit outcomes, this did not translate into improvement in local government audit outcomes. This indicates that the department is not effective in implementing its legislative responsibilities over local government, due to the flawed process of measuring the performance of the local government programme.

The following were some of the findings relating to the department's monitoring role:

- Municipalities that did not address their external audit findings were not reported to the provincial legislature.
- No agreement existed to assist municipalities in building their capacity for efficient, effective and transparent financial management.
- A consolidated report on the performance of municipalities in the province was not compiled and submitted to the relevant authorities for the 2012-13 financial year.

The department should address these areas by enhancing their oversight role. The department should work on a coordinated plan with other role players such as the provincial treasury, Office of the Premier, district municipalities, South African Local Government Association and all parties with a legislated mandate over local government. This coordinated plan should have quality indicators and targets in terms of how to improve local government outcomes. Working from one coordinated plan will also ensure that resources are properly channelled and results are monitored.

Portfolio committees and public accounts committee

The portfolio committees and the public accounts committee, as an independent third level of assurance, provided some assurance. The assurance provided by the legislature has not really improved since the previous year, as most of the previous commitments have not been implemented.

The late timing of the hearings of the public accounts committee on the outcomes of the auditees resulted in delays in adopting the house resolutions. The poor quality of responses provided by auditees to the public accounts committee caused delays, as hearings then had to be postponed, which put even more pressure on the already tight programme of the legislature and further delaying the finalisation of resolutions. Consequently, these resolutions could not positively influence the audit outcomes of the following year.

Furthermore, the committees did not have an adequate system of tracking the progress made by auditees in implementing house resolutions. Although most auditees were slow to implement house resolutions, the legislature did not take any visible steps to deal with this.

The legislature should look into the timing of the sittings, to ensure that they happen immediately after the tabling of annual reports. This would enable the committees to finalise house resolutions in time for them to have an impact on the following year's audit outcomes. In addition, the collaboration between the public accounts committee and the portfolio committees should be intensified to strengthen the process of following up the house resolutions.

Our sector audit on the legislature further indicated that the annual performance plans, budgets, quarterly reports and annual performance reports of departments and public entities were not examined.

7. Initiatives and commitments of key role players

Each year, we share our key message on the actions needed to improve audit outcomes with accounting officers and authorities, MECs, the premier and the legislature through our reports and interactions with them.

We had meetings with all the MECs and the premier during 2013-14. It is commendable that most of the executive authorities were available to meet us, with 46% meeting us more than three times in the period under review. From these engagements, we obtain commitments to improve the audit outcomes.

Throughout the year, we followed up on the commitments and initiatives of the MECs, premier, public accounts committee and portfolio committees to implement initiatives that can improve audit outcomes.

The portfolio summaries following this section of the report include the progress of such commitments and the initiatives of the MECs in response to the previous year's audit outcomes and new commitments resulting from the 2013-14 audit outcomes.

Unfortunately, we have not fully realised the benefit of these engagements, as some of the executive authorities did not drive the process of ensuring that the desired outcomes are achieved by holding their accounting officers responsible for improvements in the internal control environment.

Our overall assessment is that the different role players are committed to do everything in their power to improve the audit outcomes. However, the implementation of these commitments poses a challenge, as evidenced by the marginal improvement despite this declared willingness.

The increase in the number of auditees with clean administration indicates a step in the right direction. These auditees proved that greater collaboration between management and the political leadership, implementation of commitments (including action plans), stability in leadership and – most of all – adherence to basic financial disciplines have a positive impact on the audit outcomes.

We also obtained the following new commitments from key role players:

Provincial legislature

- The speaker will request all departments to table audit action plans in the legislature and refer them to the relevant portfolio committees.
- Portfolio committees will integrate the monitoring of audit action plans with the review of quarterly reports of departments, and conduct joint meetings with the public accounts committee.
- The public accounts committee will track the implementation of house resolutions relating to audit findings on a quarterly basis. The committee will also review progress made by departments before engaging on new matters.
- During the hearing process of the public accounts committee, the involvement of MECs, audit committees and internal audit units will be maximised. Leadership awareness of internal control deficiencies will also be improved.
- The office of the speaker commits to monitor the implementation of the commitments on a quarterly basis.

Office of the Premier, Department of Cooperative Governance and Department of Finance (Troika)

- Create stability in key positions by filling vacancies within the legislated time.
- Develop a plan to support struggling auditees and consider engaging the services of external parties to provide the necessary support.
- Educate new MECs and heads of department on the areas of weaknesses within their auditees.
- Periodically assess expenditure against the performance of departments to ensure that their spending is directed towards service delivery (to avoid appropriations being used to settle accruals).

We remain confident that the commitment and excitement displayed by the members of the 5th legislature and the executive will take the province to greater heights.

We also undertake to continue with quarterly engagements with the new leadership, with greater emphasis on quality conversations with an increased impact.

AUDIT OUTCOMES OF INDIVIDUAL PORTFOLIOS

Agriculture, Rural Development, Land Administration and Environmental Affairs

Overall stagnation in audit outcomes

Audit area	Audit outcome
Financial statements (F)	Qualified
Performance reports (P)	Material findings
Compliance with legislation (C)	Material findings

Assurance levels

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

Key controls

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

F = Financial P = Performance C = Compliance

Good | Concerning | Intervention required

1 To improve the **audit outcomes** …

2 … the key role players need to **assure** that …

3 … attention is given to the **key controls** and …

… the **risk areas** and … 4

… that the **root causes** are addressed … 5

… and the **commitments** are honoured. 6

Risk areas

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

Good | Concerning | Intervention required

Most common root causes

- Slow response by management in addressing internal control weaknesses and the root causes of poor audit outcomes.
- Slow response by political leadership (MEC) in addressing internal control weaknesses and the root causes of non-compliance.
- Lack of consequences for poor performance and transgressions.

Status of key commitments by MEC

Commitment	Status
Consequence management will be enforced as regulated in legislation.	Not implemented
100% verification of assets.	In progress
Action plan for internal and external audit findings is addressed and monitored on a quarterly basis.	In progress
The department will continue to provide effective leadership.	In progress
Follow up on the action plan to ensure implementation.	New

Not implemented | In progress | New

Community Safety, Security and Liaison

Overall regression in audit outcomes

Audit area	Audit outcome
Financial statements (F)	Qualified
Performance reports (P)	Material findings
Compliance with legislation (C)	Material findings

Assurance levels

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

Key controls

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

F = Financial P = Performance C = Compliance

Good | Concerning | Intervention required

1 To improve the **audit outcomes** …

2 … the key role players need to **assure** that …

3 … attention is given to the **key controls** and …

… the **risk areas** and … 4

… that the **root causes** are addressed … 5

… and the **commitments** are honoured. 6

Risk areas

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

Good | Concerning | Intervention required

Most common root causes

- Slow response by management in addressing internal control weaknesses and the root causes of poor audit outcomes.
- Lack of competencies by key personnel.
- Instability or vacancies in key positions.

Status of key commitments by MEC

Commitment	Status
The completion of the traffic college: Now that the bulk infrastructure has been completed, a service provider must be appointed to start with construction.	Not implemented
The security tender: The current tender is ending in November. A new service provider needs to be appointed before the current tender ends.	Not implemented
Final decision regarding functions currently performed by the municipalities on behalf of the department.	In progress
Feedback from the meeting held with MEDACO regarding how the supplier is helping the department collect traffic fine revenue from debtors.	In progress

Not implemented | In progress

Cooperative Governance and Traditional Affairs

Overall improvement in audit outcomes

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

Assurance levels

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

Key controls

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

Audit area: F = Financial P = Performance C = Compliance

Good Concerning Intervention required

1 To maintain the **audit outcomes** …

2 … the key role players need to **assure** that …

3 … attention is given to the **key controls** and …

4 … the **risk areas** and …

5 … that the **root causes** are addressed …

6 … and the **commitments** are honoured.

Risk areas

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

Good Concerning Intervention required

Most common root causes

None

Status of key commitments by MEC

- CoGTA is playing a critical role in assisting municipalities to achieve clean administration; however, this has not led to an improvement in the audit outcomes of municipalities. (In progress)
- All new appointments will be vetted and all payroll certificates will be signed on the date of payment. (Implemented)

In progress Implemented

Culture, Sport and Recreation

Overall stagnation in audit outcomes

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

Assurance levels

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

Key controls

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

F = Financial P = Performance C = Compliance

Good | Concerning | Intervention required

1 To improve the **audit outcomes** …

2 … the key role players need to **assure** that …

3 … attention is given to the **key controls** and …

… the **risk areas** and … 4

… that the **root causes** are addressed … 5

… and the **commitments** are honoured. 6

Risk areas

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

Good | Concerning | Intervention required

Most common root causes

- Instability or vacancies in key positions.
- Slow response by the political leadership (MEC) in addressing internal control weaknesses and the root causes of non-compliance.

Status of key commitments by MEC

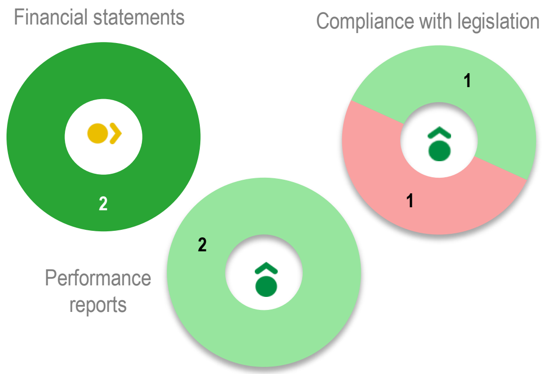
- The finance unit will prepare regular reconciliations of all accounts.
- The department will ensure compliance with all procurement requirements.
- Appointment of personnel within the monitoring and evaluation unit.
- Detailed review of the AFS before submission for audit purposes.

Implemented | New

Education

Overall improvement in audit outcomes

Outcomes per audit area



Unqualified	Qualified	Adverse/Disclaimed
Audits outstanding	With no findings	With findings

Assurance levels

Level	Role player	Provides assurance	Provides some assurance
First level	Senior management	1	1
First level	Accounting officer/authority	2	
First level	Executive authority	1	
Second level	Internal audit unit	2	
Second level	Audit committee	2	
Third level	Portfolio committee		1

Provides assurance | Provides some assurance | Provides limited/ no assurance | Vacancy | Not established

Key controls

Audit areas

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

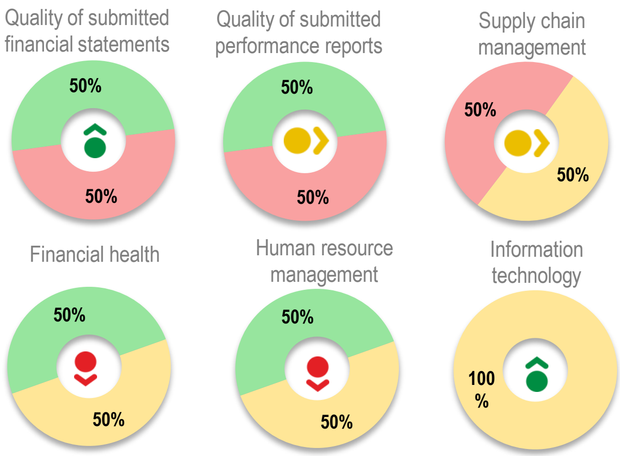
Good | Concerning | Intervention required

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

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

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

Risk areas



Good | Concerning | Intervention required

Most common root causes

Lack of consequences for poor performance and transgressions.

A root cause at 1 auditee.

Regressed

Status of key commitments by MEC

- Monitor that all offer letters are adjusted to make specific provision for formal confirmation pertaining to the personnel suitability checks, and no offer of appointment letters for posts in offices will be issued without satisfactory verification results.
- All reported fraud cases investigated by the internal audit unit or the integrity management unit will be discussed and monitored for corrective action by the audit committee in the in-camera meetings with the HoD.
- All senior management positions will be filled within three months after being advertised.
- The department will ensure that the annual financial statements are compiled as per the approved plan each financial year so that there is ample time set aside for review by internal audit and the office of the accountant general.

Implemented

Overall stagnation in audit outcomes

Outcomes per audit area

Unqualified | Qualified | Adverse/Disclaimed
Audits outstanding | With no findings | With findings

Assurance levels

Level	Role player	Provides assurance	Provides some assurance	Provides limited/ no assurance
First level	Senior management	2	1	2
First level	Accounting officer/ authority	2	2	1
First level	Executive authority	4	1	
Second level	Internal audit unit	3	2	
Second level	Audit committee	3	2	
Third level	Portfolio committee		5	

Provides assurance | Provides some assurance | Provides limited/ no assurance | Vacancy | Not established

Key controls

Audit areas

Key controls	Financial statements: Good	Financial statements: Concerning	Financial statements: Intervention required	Performance reports: Good	Performance reports: Concerning	Performance reports: Intervention required	Compliance with legislation: Good	Compliance with legislation: Concerning	Compliance with legislation: Intervention required
Effective leadership	3	2		3	2		3	2	
Human resource controls	2	1	2	3		2	2	1	2
ICT governance and controls	1	2	2	1	2	2	1	2	2
Audit action plans	2	3		2	2	1	2	2	1
Proper record keeping	3	2		3	1	1	2	3	
Daily and monthly controls	3	1	1	3	1	1	2	2	1
Review and monitor compliance	2	1	2	2	1	2	2	1	2

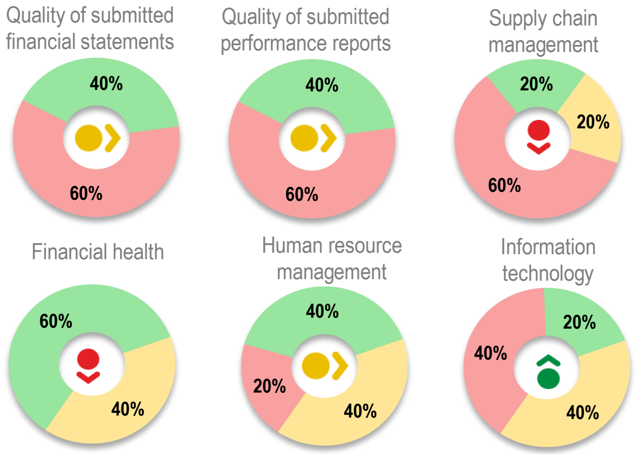
Good | Concerning | Intervention required

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

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

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

Risk areas



Good | Concerning | Intervention required

Most common root causes

Slow response by management (accounting officer and senior management).

A root cause at 3 auditees.

Key officials lack appropriate competencies.

A root cause at 3 auditees.

Instability or vacancies in key positions.

A root cause at 2 auditees.

Regressed

Status of key commitments by MEC

- Appointment of programme managers to oversee the monitoring of entities under the department's control, and enhance communication.
- Verification of candidates' credentials before appointment.
- Management to conduct information-sharing session with key staff on the SCM policy and the delegations of authority manuals.
- All processes and related policies will be documented.
- Redefining the role of the DEDF on oversight of the public entities.
- Filling vacant key positions at all the entities.

In progress | New

Health

Stagnation in audit outcomes

Audit area	Audit outcome
Financial statements (F)	Qualified
Performance reports (P)	Material findings
Compliance with legislation (C)	Material findings

Assurance levels

Level	Role player	Assurance
First level	Senior management	*Provides limited/no assurance*
	Accounting officer	*Provides limited/no assurance*
	Executive authority	*Provides some assurance*
Second level	Internal audit unit	*Provides some assurance*
	Audit committee	*Provides some assurance*
Third level	Portfolio committee	*Provides some assurance*

Key controls

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

F = Financial P = Performance C = Compliance

Good Concerning Intervention required

1 To improve the **audit outcomes** …

2 … the key role players need to **assure** that …

3 … attention is given to the **key controls** and …

… the **risk areas** and … 4

… that the **root causes** are addressed … 5

… and the **commitments** are honoured. 6

Risk areas

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

Good Concerning Intervention required

Most common root causes

- Slow response by political leadership in addressing internal control weaknesses and the root causes of poor audit outcomes.
- Lack of consequences for poor performance and transgressions.
- Instability or vacancies in key positions.

Status of key commitments by MEC

- The department will ensure that all key positions are filled: HR, SCM, IT and performance.
- (1) Assets awaiting disposal written back to asset register; (2) job evaluation policy approved; and (3) appointment verifications implemented.
- Detailed action plans will be developed and monitored.
- Filling of key vacancies.
- Contract registers will be implemented and contracts will be monitored.
- All senior managers to sign performance agreements.

Not implemented Implemented New

Human Settlements

Overall stagnation in audit outcomes

Audit area	Audit outcome
Financial statements (F)	Unqualified
Performance reports (P)	Material findings
Compliance with legislation (C)	Material findings

Assurance levels

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

Key controls

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

F = Financial P = Performance C = Compliance

Good | Concerning | Intervention required

1 To improve the **audit outcomes** …

2 … the key role players need to **assure** that …

3 … attention is given to the **key controls** and …

… the **risk areas** and … 4

… that the **root causes** are addressed … 5

… and the **commitments** are honoured. 6

Risk areas

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

Good | Concerning | Intervention required

Most common root causes

- Slow response by management in addressing internal control weaknesses and the root causes of poor audit outcomes.
- Slow response by the political leadership (MEC) in addressing internal control weaknesses and the root causes of non-compliance.
- Instability or vacancies in key positions.

Status of key commitments by MEC

- Usefulness and reliability of predetermined objectives will be addressed through adjustment of annual performance plan; and ensure that a portfolio of evidence is kept.
- Ensure that all non-compliance is monitored at an appropriate level in order to resolve all findings.
- Ensure that the financial statements are free from material misstatement through review process.
- Appointment of personnel within the monitoring and evaluation unit.
- Ensure that there is a committee/monitoring function that will review issues relating to the Housing Act, and investigate and take appropriate action.
- Monitoring and evaluation unit to be placed under CFO.

Not implemented | In progress | Implemented | New

Office of the Premier

Regression in audit outcomes

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

Assurance levels

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

Key controls

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

F = Financial P = Performance C = Compliance

Good | Concerning | Intervention required

1 To improve the **audit outcomes** …

2 … the key role players need to **assure** that …

3 … attention is given to the **key controls** and …

4 … the **risk areas** and …

5 … that the **root causes** are addressed …

6 … and the **commitments** are honoured.

Risk areas

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

Good | Concerning | Intervention required

Most common root causes

Slow response by management in addressing internal control weaknesses and the root causes of poor audit outcomes.

Instability or vacancies in key positions.

Status of key commitments by premier

Commitment	Status
Establish asset management training.	Not implemented
(1) Institute measures to address inefficiencies in SCM processes; and (2) fill key vacant positions with skilled personnel.	In progress
(1) Assets awaiting disposal written back to asset register; (2) job evaluation policy approved; and (3) appointment verifications implemented.	Implemented

Not implemented | In progress | Implemented

Provincial Legislature

Overall stagnation in audit outcomes

Audit area	Audit outcome
Financial statements (F)	Unqualified
Performance reports (P)	Material findings
Compliance with legislation (C)	Material findings

Assurance levels

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

Key controls

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

F = Financial P = Performance C = Compliance

Good | Concerning | Intervention required

1 To improve the **audit outcomes** …

2 … the key role players need to **assure** that …

3 … attention is given to the **key controls** and …

4 … the **risk areas** and …

5 … that the **root causes** are addressed …

6 … and the **commitments** are honoured.

Risk areas

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

Good | Concerning | Intervention required

Most common root causes

- Instability or vacancies in key positions.
- Slow response by the political leadership (speaker) in addressing internal control weaknesses and the root causes of non-compliance.
- Key officials lack appropriate competencies.

Status of key commitments by speaker

- The action plan to address internal and external audit findings was developed. Monitoring will continue in the current financial year through quarterly reporting on progress. An updated action plan will be developed after the year-end audit in the third quarter. (In progress)
- The accounting officer will continue to strengthen the review of quarterly performance reports and financial statements through quarterly and annual review sessions by management. (In progress)
- The compliance recommendations following the compliance review by internal audit will continue to be implemented by management. (In progress)
- Leadership is provided through management structures such as the secretariat and management committee (MANCOM). Managers are required to disclose financial interests on an annual basis. (Implemented)

In progress | Implemented

Public Works, Roads and Transport

Overall stagnation in audit outcomes

Audit area	Audit outcome
Financial statements (F)	Unqualified
Performance reports (P)	Material findings
Compliance with legislation (C)	Material findings

Assurance levels

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

Key controls

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

F = Financial P = Performance C = Compliance

Good | Concerning | Intervention required

1 To improve the **audit outcomes** …

2 … the key role players need to **assure** that …

3 … attention is given to the **key controls** and …

4 … the **risk areas** and …

5 … that the **root causes** are addressed …

6 … and the **commitments** are honoured.

Risk areas

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

Good | Concerning | Intervention required

Most common root causes

- Slow response by management in addressing internal control weaknesses and the root causes of poor audit outcomes.
- Slow response by the political leadership (MEC) in addressing internal control weaknesses and the root causes of non-compliance.
- Instability or vacancies in key positions.

Status of key commitments by MEC

- Filling of a CFO position to ensure stability within the finance section. (Not implemented)
- Intensified monitoring of compliance with laws and regulations. (Not implemented)
- Central filling system for supply chain management unit by the end of third quarter. (New)
- All vacant positions will be filled by end of October 2014. (New)

Not implemented | New

Social Development

Improvement in audit outcomes

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

Assurance levels

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

Key controls

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

F = Financial P = Performance C = Compliance

Good | Concerning | Intervention required

1 To maintain the **audit outcomes** …

2 … the key role players need to **assure** that …

3 … attention is given to the **key controls** and …

4 … the **risk areas** and …

5 … that the **root causes** are addressed …

6 … and the **commitments** are honoured.

Risk areas

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

Good | Concerning | Intervention required

Most common root causes

None

Status of key commitments by MEC

None

ANNEXURES

Annexure 1: Auditees' audit outcomes, areas qualified as well as findings on predetermined objectives, non-compliance and specific focus areas

Auditee	2013-14 audit outcomes			2012-13 audit outcomes			Financial statement qualification areas									Findings on predetermined objectives			
	Audit opinion	Predetermined objectives	Compliance with legislation	Audit opinion	Predetermined objectives	Compliance with legislation	Non-current assets	Current assets	Liabilities	Capital and reserves	Other disclosure items	Revenue	Expenditure	Unauthorised, irregular as well as fruitless and wasteful expenditure	Aggregate misstatements	Reported information not useful	Reported information not reliable	Information not submitted in time for auditing	No annual performance report
Departments																			
Agriculture, Rural Development and Land Administration		R	R		R	R	R		N				N			A	R		
Community Safety, Security and Liaison		N	R			R					N	N		N			N		
Cooperative Governance and Traditional Affairs			A			R													
Culture, Sport and Recreation			R		A	R													
Economic Development, Environment and Tourism		A	R		R	R											A		
Education			R			R													
Finance																			
Health		R	R		R	R	R							N		R	R		
Human Settlements		R	R		R	R										R	R		
Office of the Premier			N																
Provincial Legislature		N	R			N											N		
Public Works, Roads and Transport		R	R		R	R										A	R		
Social Development			A		A	R													
Public entities																			
Mpumalanga Economic Growth Agency		R	R		R	R	R	A	A	A	A	A				N	R		
Mpumalanga Gambling Board																			
Mpumalanga Regional Training Trust		A	A		R	R											A		
Mpumalanga Tourism and Parks Agency		R	R		N	R										A	N		

Auditee	Findings on non-compliance															
	Material misstatements or limitations in submitted AFS	Unauthorised, irregular as well as fruitless and wasteful expenditure	Annual financial statements and annual report	Asset management	Liability management	Budgets	Expenditure management	Consequence management	Audit committee	Internal audit	Revenue management	Strategic planning and performance management	Transfers and conditional grants	Procurement management	Human resource management	Other
Departments																
Agriculture, Rural Development and Land Administration	R	N		R	N	N	R	N			N	A		R	R	
Community Safety, Security and Liaison	R	N					R			N	N				R	
Cooperative Governance and Traditional Affairs															A	
Culture, Sport and Recreation	R													A	R	
Economic Development, Environment and Tourism	R	A					R				A	A		R	R	
Education	R	R					R	N						R	R	
Finance																
Health	R	N	A	R		N	R	N	N	N	N	A	N	R	R	
Human Settlements	A											A			R	
Office of the Premier	N	N												N		
Provincial Legislature	R					A	A				A			N		
Public Works, Roads and Transport	R	R					R					A		R	A	R
Social Development							A								A	
Public entities																
Mpumalanga Economic Growth Agency	R	R		R							R	N		R		
Mpumalanga Gambling Board																
Mpumalanga Regional Training Trust	A			A			A									
Mpumalanga Tourism and Parks Agency	R	R	A	N		A	A		A	A				R		

Auditee	Findings on specific risk areas					Unauthorised, irregular as well as fruitless and wasteful		
	Quality of submitted performance reports	Supply chain management	Financial health	Human resource management	Information technology	Unauthorised expenditure Amount R	Irregular expenditure Amount R	Fruitless and wasteful expenditure Amount R
Departments								
Agriculture, Rural Development and Land Administration	R	R		R		0.00	2.4m	0.00
Community Safety, Security and Liaison	R	R	F	R		0.00	0.62m	0.2m
Cooperative Governance and Traditional Affairs		N		R		0.00	0.00	0.02m
Culture, Sport and Recreation		R		R		0.00	3m	0.00
Economic Development, Environment and Tourism	R	R	F	R		0.00	6.5m	0.00
Education	A	R	F	R		0.00	55.9m	2.2m
Finance		N				0.00	0.00	0.00
Health	R	R	F	R		18.3m	818.4m	0.33m
Human Settlements	R	N	F	R		0.00	0.77m	0.01m
Office of the Premier		N		R		0.00	68.3m	0.00
Provincial Legislature	R	N	F	N		0.00	16m	2.7m
Public Works, Roads and Transport	R	R		R		0.00	14m	0.12m
Social Development	N	R		A		0.00	0.00	0.02m
Public entities								
Mpumalanga Economic Growth Agency	R	R	F	R		0.00	36.8m	15m
Mpumalanga Gambling Board						0.00	0.00	0.00
Mpumalanga Regional Training Trust	A	R	F	A		0.00	0.95m	0.00
Mpumalanga Tourism and Parks Agency	R	R		R		0.00	113m	0.34m

Legend (Audit outcomes)	Unqualified with no findings	Unqualified with findings	Qualified with findings	Legend (Findings)	Addressed (A)	New (N)	Repeat (R)	Not reported (NR)	Financial health findings	Material unfavour-able indicators	Unfavour-able indicators	No unfavourable indicators	Legend (Expenditure)	Improved	Regressed

Annexure 2: Auditees' five-year audit opinions

Auditee	Audit opinions				
	2013-14	2012-13	2011-12	2010-11	2009-10
Departments					
Agriculture, Rural Development and Land Administration	Qualified with findings	Qualified with findings	Unqualified with findings	Unqualified with findings	Unqualified with findings
Community Safety, Security and Liaison	Qualified with findings	Unqualified with findings	Unqualified with findings	Unqualified with no findings	Unqualified with findings
Cooperative Governance and Traditional Affairs	Unqualified with no findings	Unqualified with findings	Unqualified with findings	Unqualified with findings	Unqualified with findings
Culture, Sport and Recreation	Unqualified with findings	Unqualified with findings	Unqualified with findings	Unqualified with findings	Unqualified with findings
Economic Development, Environment and Tourism	Unqualified with findings	Unqualified with findings	Qualified with findings	Unqualified with findings	Unqualified with findings
Education	Unqualified with findings	Unqualified with findings	Unqualified with findings	Unqualified with findings	Qualified with findings
Finance	Unqualified with no findings	Unqualified with no findings	Unqualified with no findings	Unqualified with no findings	Unqualified with no findings
Health	Qualified with findings	Qualified with findings	Qualified with findings	Qualified with findings	Qualified with findings
Human Settlements	Unqualified with findings	Unqualified with findings	Unqualified with findings	Unqualified with findings	Unqualified with findings
Office of the Premier	Unqualified with findings	Unqualified with no findings	Unqualified with no findings	Unqualified with findings	Unqualified with findings
Provincial Legislature	Unqualified with findings	Unqualified with findings	Qualified with findings	Unqualified with no findings	Unqualified with findings
Public Works, Roads and Transport	Unqualified with findings	Unqualified with findings	Unqualified with findings	Unqualified with findings	Unqualified with findings
Social Development	Unqualified with no findings	Unqualified with findings	Unqualified with findings	Unqualified with findings	Unqualified with findings
Public entities					
Mpumalanga Economic Growth Agency	Qualified with findings	Qualified with findings	Disclaimed with findings	Adverse with findings	New auditee
Mpumalanga Gambling Board	Unqualified with no findings	Unqualified with no findings	Unqualified with no findings	Unqualified with no findings	Unqualified with no findings
Mpumalanga Regional Training Trust	Unqualified with no findings	Unqualified with findings	Unqualified with findings	Unqualified with findings	Unqualified with findings
Mpumalanga Tourism and Parks Agency	Unqualified with findings	Unqualified with findings	Unqualified with findings	Unqualified with findings	Unqualified with findings

Legend (Audit outcomes)	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimed with findings	New auditee

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

Auditee	Leadership																				
	Movement			Effective leadership culture			Oversight responsibility			HR management			Policies & procedures			Action plans			IT governance		
	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C
Departments																					
Agriculture, Rural Development and Land Administration	↔	↑	↑																		
Community Safety, Security and Liaison	↓	↓	↔																		
Cooperative Governance and Traditional Affairs	↑	↑	↑																		
Culture, Sport and Recreation	↑	↑	↑																		
Economic Development, Environment and Tourism	↔	↑	↔																		
Education	↑	↑	↑																		
Finance	↔	↔	↓																		
Health	↓	↓	↓																		
Human Settlements	↑	↑	↑																		
Office of the Premier	↓	↔	↓																		
Provincial Legislature	↔	↔	↔																		
Public Works, Roads and Transport	↓	↓	↓																		
Social Development	↑	↑	↑																		
Public entities																					
Mpumalanga Economic Growth Agency	↑	↔	↔																		
Mpumalanga Gambling Board	↔	↔	↔																		
Mpumalanga Regional Training Trust	↑	↑	↑																		
Mpumalanga Tourism and Parks Agency	↓	↓	↓																		

Auditee	Financial and performance management																	
	Movement			Proper record keeping			Processing and reconciling controls			Reporting			Compliance			IT system controls		
	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C
Departments																		
Agriculture, Rural Development and Land Administration	↑	↑	↓															
Community Safety, Security and Liaison	↓	↔	↔															
Cooperative Governance and Traditional Affairs	↑	↑	↑															
Culture, Sport and Recreation	↔	↑	↑															
Economic Development, Environment and Tourism	↑	↑	↔															
Education	↑	↔	↑															
Finance	↔	↔	↔															
Health	↓	↓	↓															
Human Settlements	↑	↑	↓															
Office of the Premier	↓	↔	↓															
Provincial Legislature	↔	↓	↔															
Public Works, Roads and Transport	↔	↔	↓															
Social Development	↑	↑	↑															
Public entities																		
Mpumalanga Economic Growth Agency	↔	↔	↑															
Mpumalanga Gambling Board	↔	↔	↔															
Mpumalanga Regional Training Trust	↑	↑	↑															
Mpumalanga Tourism and Parks Agency	↑	↓	↑															

Auditee	Governance											
	Movement			Risk management			Internal audit			Audit committee		
	F	P	C	F	P	C	F	P	C	F	P	C
Departments												
Agriculture, Rural Development and Land Administration	↓	↔	↔									
Community Safety, Security and Liaison	↓	↓	↓									
Cooperative Governance and Traditional Affairs	↓	↓	↓									
Culture, Sport and Recreation	↓	↓	↓									
Economic Development, Environment and Tourism	↑	↔	↔									
Education	↑	↑	↑									
Finance	↔	↔	↔									
Health	↓	↓	↓									
Human Settlements	↓	↓	↓									
Office of the Premier	↓	↔	↓									
Provincial Legislature	↔	↔	↔									
Public Works, Roads and Transport	↔	↓	↓									
Social Development	↓	↔	↔									
Public entities												
Mpumalanga Economic Growth Agency	↔	↔	↔									
Mpumalanga Gambling Board	↔	↔	↔									
Mpumalanga Regional Training Trust	↑	↑	↑									
Mpumalanga Tourism and Parks Agency	↔	↔	↑									

Good | Concerning | Intervention required

↑ Improved | ↔ Unchanged | ↓ Regressed

F Financial | P Performance | C Compliance

GLOSSARY OF TERMS, ACRONYMS AND ABBREVIATIONS

Glossary of key terminology used in this report

Adverse audit opinion *(on financial statements)*	The financial statements contain material misstatements (see 'misstatement') that are not confined to specific amounts, or the misstatements represent a substantial portion of the financial statements.
Asset *(in financial statements)*	Any item belonging to the auditee, including property, infrastructure, equipment, cash, and debt due to the auditee.
Assurance & assurance provider	As used in this report, assurance is a positive declaration that is intended to give confidence in the credibility of financial and performance reports tabled by auditees and in the extent to which auditees have adhered to legislation to which they are subject. Through the audit report issued to auditees, we provide assurance on the credibility of auditees' financial and performance information as well as auditees' compliance with key legislation. There are role players ('assurance providers') in national and provincial government, other than external auditors, that are also required to contribute to assurance and confidence by ensuring that adequate internal controls are implemented to achieve auditees' financial, service delivery and compliance objectives. Such assurance providers include senior auditee officials (heads of departments, accounting officers, and chief executive officers), various committees (risk management and audit committees), and internal audit units. Other role players further include national and provincial oversight structures and coordinating or monitoring departments, as discussed in this report.
Capital budget	The estimated amount planned to be spent by auditees on capital items in a particular financial period; for example, fixed assets such as property, infrastructure and equipment with long-expected lives and that are required to provide services, produce income or support operations.
Cash flow *(in financial statements)*	The flow of money from operations: incoming funds are revenue (cash inflow) and outgoing funds are expenses (cash outflow).
Clean audit	The financial statements receive a financially unqualified audit opinion and there are no material findings on the quality of the annual performance report or non-compliance with key legislation.
Commitments from role players	Initiatives and courses of action communicated to us by role players in national and provincial government aimed at improving the audit outcomes.
Conditional grants	Money transferred from national government to auditees, subject to certain services being delivered or on compliance with specified requirements.
Contingent liability	A potential liability, the amount of which will depend on the outcome of a future event.

Creditors	Persons, companies or organisations that auditees owe money to for goods and services procured from them.
Current assets (in financial statements)	These assets are made up of cash and other assets, such as inventory or debt for credit extended, which will be traded, used or converted into cash in less than 12 months. All other assets are classified as non-current, and typically include property, plant and equipment as well as long-term investments.
Disclaimed audit opinion (on financial statements)	The auditee provided insufficient evidence in the form of documentation on which we could base an audit opinion. The lack of sufficient evidence is not confined to specific amounts, or represents a substantial portion of the information contained in the financial statements.
Financial and performance management (as one of the drivers of internal control)	The performance of tasks relating to internal control and monitoring by management and other employees to achieve the financial management, reporting and service delivery objectives of the auditee. These controls include the basic daily and monthly controls for the processing and reconciliation of transactions, the preparation of regular and credible financial and performance reports, and the review and monitoring of compliance with legislation.
Financially unqualified audit opinion (on financial statements)	The financial statements contain no material misstatements (see 'material misstatement'). Unless we express a clean audit opinion, findings have been raised on either the annual performance report or non-compliance with legislation, or both these aspects.
Fruitless and wasteful expenditure	Expenditure that was made in vain and could have been avoided had reasonable care been taken. This includes penalties and interest on late payments to creditors or statutory obligations as well as payments made for services not utilised or goods not received.
Going concern	The presumption that an auditee will continue to operate in the foreseeable future, and will not go out of business and liquidate its assets. For the going concern presumption to be reasonable, the auditee must have the capacity and prospect to raise enough financial resources to stay operational.
Governance (as one of the drivers of internal control)	The governance structures (audit committees) and processes (internal audit and risk management) of an auditee.
Human resource management	The management of an auditee's employees, or human resources, which involves adequate and sufficiently skilled people as well as the adequate management of the performance of staff and their productivity.
Information technology (IT)	The computer systems used for capturing and reporting financial and non-financial transactions.

IT controls

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

IT governance

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

IT security management

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

IT service continuity

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

IT user access management

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

Internal control / key controls

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

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

Irregular expenditure

Expenditure incurred without complying with applicable legislation.

Key drivers of internal control

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

Leadership (as one of the drivers of internal control)

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

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

Liability

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

Material finding (from the audit)

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

Material misstatement *(in the financial statements or annual performance report)*	An error or omission that is significant enough to influence the opinions or decisions of users of the reported information. Materiality is considered in terms of either its rand value or the nature and cause of the misstatement, or both these aspects.
Misstatement *(in the financial statements or annual performance report)*	Incorrect or omitted information in the financial statements or annual performance report.
Net deficit *(incurred by auditee)*	The amount by which an auditee's spending exceeds its income during a period or financial year.
Operational budget / operating budget	A short-term budget, usually prepared annually, based on estimates of income and expenses associated with the auditee's operations, such as service delivery costs, administration and salaries.
Oversight structures & coordinating and monitoring departments	National and provincial role players (1) that are directly involved with the management of the auditee (management/leadership assurance) – in other words, the first line of defence; (2) that perform an oversight or governance function, either as an internal governance function or an external monitoring function (internal independent assurance and oversight); and (3) that give an objective assessment of the auditee's reporting (external independent assurance and oversight).
Property, infrastructure and equipment *(in financial statements)*	Assets that physically exist and are expected to be used for more than one year, including land, buildings, leasehold improvements, equipment, furniture, fixtures and vehicles.
Qualified audit opinion *(on financial statements)*	The financial statements contain material misstatements in specific amounts, or there is insufficient evidence for us to conclude that specific amounts included in the financial statements are not materially misstated.
Receivables / debtors *(in financial statements)*	Money owed to the auditee by companies, organisations or persons who have procured goods or services from the auditee.
Reconciliation *(of accounting records)*	The process of matching one set of data to another; for example, the bank statement to the cheque register, or the accounts payable journal to the general ledger.
Root causes *(of audit outcomes being poor or not improving)*	The underlying causes or drivers of audit findings; in other words, why the problem occurred. Addressing the root cause helps ensure that the actions address the real issue, thus preventing or reducing the incidents of recurrence, rather than simply providing a one-time or short-term solution.
Supply chain management	Procuring goods and services through a tender or quotation process and monitoring the quality and timeliness of the goods and services provided.

Acronyms and abbreviations

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

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