



Auditing to build public confidence

MEDIA RELEASE

12 March 2013

Auditor-General calls for stringent oversight as latest results show Limpopo is moving further away from the desired clean audit outcomes

POLOKWANE – The Limpopo provincial leadership must immediately develop and implement turnaround strategies to arrest the current situation which shows the provincial government moving further away from the desired clean audit outcomes, Auditor-General Terence Nombembe cautioned today.

Releasing his general report on how provincial departments and entities performed in the 2011-12 year, Nombembe said the province “had a very good reason to be proud and celebrate” in the previous year as two departments had received clean audits, but the positive picture has now been tainted as only the Department of Social Development and nine entities have shown some improvement, while four departments and five entities have regressed from their promising previous year’s results. The results reflect an overall regression.

During the year under review, the national government placed five Limpopo departments under administration. The audit outcomes of two of these departments, Education and Public Works, showed a regression from qualified audit opinions to disclaimer of opinions. The audit opinions for the other three departments that are under administration remained the same as Health again received a disclaimer of opinion, Roads and Transport received a qualified opinion and Provincial Treasury maintained their unqualified opinion with other matters.

The report shows that the Department of Agriculture, the Department of Cooperative Governance, Human Settlements and Traditional Affairs, as well as one of the entities that had achieved clean audit outcomes in the previous year, have not sustained their results. And while they remained financially unqualified, their audit reports reflect that they did not comply with the relevant legislation.

AG buoyed by Premier’s pronouncement that plans are in place to address internal systems.

During his 2013 State of the Province address recently, Premier Cassel Mathale indicated that his provincial government was working closely with the national intervention team to address some of the administrative and governance issues that could hamper the province's drive towards total clean administration.

"We made a commitment to work with the national intervention team and we remain steadfast to this commitment. One of the critical issues highlighted by the (intervention) team was that there is a need to strengthen the structural capacity of the Provincial Treasury. We are working together with the National Treasury to strengthen the Provincial Treasury. We have upgraded the post structure of the executive management of the Provincial Treasury to enable it to respond to its mandate adequately," the Premier announced.

The AG said this was an important announcement as it sets the tone and commitment towards clean administration. However he cautioned that commitments needed to be backed up with tangible, sustainable plans that will ensure that clean administration is entrenched, and that regressions in positive audit outcomes are avoided.

"Regressions in audit outcomes are generally due to lack of commitment to sustainability. The golden rule of maintaining clean audits is that when you reach the finishing line (clean audit), you need to know that you are just starting another critical journey towards maintaining that clean audit," said Nombembe.

Leadership commitment needed to ensure action plans are implemented

Nombembe says the overall regression in audit results in the province can be attributed to the fact that commitments made by leadership to address the previous year's outcomes were not honoured. When he met provincial leaders last year to discuss the province's results, the provincial leadership led by Premier Cassel Mathale undertook to address the critical challenges that still exist with regard to skills and capacity in finance units, specifically at chief financial officer level, and committed to address this by March 2012. Unfortunately, the process of addressing the skills in the various finance sections was started by provincial treasury but deferred with a view of focussing on the immediate cashflow recovery plan by the national intervention team. In October 2012 this process was resumed with a new commitment to complete it by 31 March 2013

He was quick to point out, however, that the intervention team has had a significant positive impact in curbing unauthorised expenditure and improving cash flow. Unauthorised expenditure was reduced from R774 million in 2010-11 to R175 million, and Province managed to close the financial year with a positive bank balance of R231 million. There were, however, outstanding accruals (goods and services received but not yet paid) amounting to R1,1 billion at year-end. If one adds the accumulated unauthorised expenditure not yet dealt with at year-end (R2,8 billion), the province is in fact starting the 2012-13 financial year with a deficit of R3,7 billion.

Unfortunately, he said, there were very few consequences for poor performance relating to audit outcomes and the province is still unable to achieve credible in-year financial reporting as the senior managers in the province are not yet in a position to give assurance that all basic key controls are implemented and are functioning effectively.

Nombembe called on the provincial legislature and Parliament to fulfil their oversight role on the five departments currently under administration.

"The oversight responsibility of both the legislature and Parliament, through the National Council of Provinces, for these (five) departments cannot be overemphasised. Members must deal with this responsibility effectively and hold

officials accountable for poor outcomes. It is encouraging to note that portfolio committees have increased their engagements with my office to share insights and to ensure that they (committees) are able to effectively carry out their critical role of holding auditees accountable. To this effect, we will support the Speaker and the Premier to reflect on the progress of the province before the end of the financial year,” Nombembe invited.

The AG reiterated his office’s commitment to assist auditees, highlighting that following the launch of government’s *Operation clean audit* in July 2009, he had introduced regular engagements with municipal, provincial and national political leaders to share his office’s assessment of key controls in the areas mentioned above and to identify threats to clean audits. These engagements helped to create greater awareness on matters that require urgent attention to enable the realisation of clean administration in all spheres of government.

Issued by

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Media note:

The complete General Report on the PFMA audit outcomes of Limpopo is available on www.agsa.co.za

About the AGSA:

The AGSA is the country’s supreme audit institution. It is the only institution that, by law, has to audit and report on how government is spending taxpayers’ money. This has been the focus of the AGSA since its inception in 1911 – the organisation celebrated its 100-year public sector auditing legacy in 2011.

ADDITIONAL MEDIA INFORMATION

About the Limpopo government

The Limpopo provincial government consists of 38 auditees, 14 departments (including the legislature and the revenue fund) and 24 public entities (including the tribal and trust account).

Previously the AGSA had reported on entities only up to holding company level while in this general report it analysed subsidiaries and sub-subsidiaries as well. The number of public entities analysed has therefore increased from 15 to 23 since the 2010-11 financial year.

During this cycle the AGSA took over the remaining audits of those provincial public and other entities not previously audited by the AGSA, in terms of section 4(3) of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA). All provincial public and other entities in the province are now audited by the AGSA.

On 5 December 2011, the national government announced its intervention in the Limpopo provincial government in terms of section 100(1) (b) of the Constitution by placing five departments under national administration. The affected departments are the provincial treasury, Education, Health, Public Works and Roads and Transport. The intervention was initiated to address concerns with regard to supply chain management processes and under- as well as overspending.

Some notable highlights

- Overall, seven auditees (19%) improved from the previous year. Three (8%) auditees progressed to clean audits. These entities had no operating transactions for the year under review as they are in the process of being deregistered. Two (6%) auditees improved from qualified to financially unqualified with findings and two (6%) improved from disclaimer/adverse to qualified.

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- Overall, nine auditees (25%) regressed from the previous year. Three (8%) auditees regressed from being financially unqualified to qualified, whereas two (6%) auditees regressed from a qualification to a disclaimer. Four (11%) auditees regressed from a clean audit to financially unqualified with findings.
 - Eleven (31%) auditees remained financially unqualified but had not addressed their findings on predetermined objectives (PDOs) and/or compliance with laws and regulations in order to obtain clean audits. Six auditees (17%) remained qualified and two auditees (6%) remained with a disclaimer. One auditee (3%) maintained its clean audit opinion from the previous year.
 - Thirty-five auditees submitted annual financial statements and performance reports on the legislated date of 31 May.
 - The financial statements of two entities were still outstanding at the date of this report, namely the provincial revenue fund (four years in arrears) and the Tribal and Trust Account (13 years in arrears).
 - The total irregular expenditure incurred in the province for both the departments and entities amounted to R2,78 billion, which is a substantial increase from the previous year total of R1,1 billion. Furthermore, at the Department of Health, R739 million worth of SCM-related transactions could not be audited due to limitations as documentation could not be provided for audit purposes.
The auditors could not determine whether or not the contracts were awarded in accordance with the requirements of the SCM regulations.
 - The Department of Health (R731 million), Department of Education (R163 million), Department of Roads and Transport (R1,1 billion) and Limpopo Roads Agency (R593 million) incurred the bulk of the irregular expenditure and were responsible for 93% of the total. Irregular expenditure at the Department of Roads and Transport pertains to the bus contracts not tendered in accordance with the requirements of the National Land Transport Act, 2009 (Act No. 5 of 2009). Of the R1,1 billion irregular expenditure incurred at the Department of Roads and Transport, R513 million was incurred in the current year and R588 million related to the previous year, which was identified during the year under review.

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- Of the total fruitless and wasteful expenditure of R131 million, R121 million was incurred at departments and R10 million was incurred at public entities. The following departments incurred 86% of the total fruitless and wasteful expenditure in the province - Education (R95 million), Health (R8 million) and Social Development (R11 million).
 - The intervention team was successful in curbing unauthorised expenditure (reduced from R774 million in 2010-11 to R175 million) and managed to close the financial year with a positive bank balance of R231 million.

There were, however, outstanding accruals (goods and services received but not yet paid) amounting to R1,1 billion at year-end. If one adds the accumulated unauthorised expenditure not yet dealt with at year-end (R2,8 billion), the province is in fact starting the 2012-13 financial year with a deficit of R3,7 billion.







Summary of audit outcomes for the current and previous years

Audit outcomes	Departments*		Public entities**		Total	
	2011-12	2010-11	2011-12	2010-11	2011-12	2010-11
Financially unqualified with no findings (clean audits)	0	2	4	4	4	6
Financially unqualified with findings	8	5	9	8	17	13
Financially unqualified financial statements	57%	50%	54%	50%	55%	50%
Qualified opinion, with findings	2	5	9	7	11	12
Adverse opinion, with findings	0	0	0	1	0	1
Disclaimer of opinion, with findings	3	1	1	3	4	4
Number of audit reports not issued by 30 September 2012	1	1	1	1	2	2
Outstanding audits and financially qualified financial statements	43%	50%	46%	50%	45%	50%
Total number of audits in the province	14	14	24	24	38	38



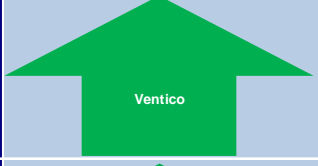






* Including legislature and provincial revenue fund

** Including Limpopo Tribal and Trust account

Summarised movements in overall audit outcomes – departments

Movement in audit outcome from 2010-11 - Departments			
Audit opinion	Improvement	Unchanged	Regressed
Financially unqualified with no findings			
Financially unqualified with findings	 Social Development	 Legislature, LEDET, Premier, Treasury, Safety	 Agriculture, CoGHSTA
Qualified		 Sports, Roads and Transport	
Disclaimer/ Adverse		 Health	 Education, Public Works
Total	1	8	4

Summarised movement in overall audit outcomes – public entities

Movement in audit outcome from 2010-11			
Audit opinion	Improvement	Unchanged	Regressed
Financially unqualified with no findings	 <p>Centennial Trading Company, Mukumbani Tea Estate, Mutale Agric Estate</p>	 <p>Limpopo Housing Board</p>	
Financially unqualified with findings	 <p>Ventico</p>	 <p>Fumani Greenstone, Khumong Chrome, Limpopo Gambling, Mokopane Kudumela, Sefateng Chrome, Tshepong Chrome</p>	 <p>RAL, Risima Housing</p>
Qualified	 <p>Mashahshane Hatchery, LADC</p>	 <p>LimDEV, Munumzvu Estate, LIBSA, TIL</p>	 <p>Corridor Mining, GAAL, Great North Transport</p>
Disclaimer/ Adverse		 <p>Limpopo Tourism Agency</p>	
Total	6	12	5

End.

