



AUDITOR - GENERAL  
SOUTH AFRICA



**GENERAL REPORT**  
ON THE PROVINCIAL AUDIT OUTCOMES

**LIMPOPO**  
**PFMA 2011-12**



AUDITOR - GENERAL  
SOUTH AFRICA

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ON THE PROVINCIAL AUDIT OUTCOMES  
**LIMPOPO**  
2011-12

PR05/2013  
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# Our *reputation promise/mission*

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



The information and insights presented in this flagship publication of my office are aimed at empowering oversight structures and provincial 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.



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## **AUDITOR-GENERAL: TERENCE NOMBEMBE**

*Our responsibility extends to citizens who trust us to make a contribution towards a better South Africa*

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**Limpopo Housing Board**

**Mukumbani Tea Estate**

**Mutale Agric Estate**

# FOREWORD



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# FOREWORD

I have the pleasure to present to the legislature of the Limpopo province my 2011-12 general report, analysing the results of the audit outcomes of the Limpopo provincial government for the financial year ended 31 March 2012.

The results reflect an overall regression, which means that the provincial administration is moving further away from the desired clean audit outcomes.

My message from the 2010-11 financial report confirmed the following commitments:

*“The political leadership committed to address the critical challenges that still exist with regard to skills and capacity in finance units, specifically at CFO level, and committed to address this by March 2012 ... The executive authority and oversight structures have committed to quarterly monitoring and evaluate the status of the key controls and commitments in order to achieve sustainable clean audit outcomes.”*

The process of addressing the skills in the various finance sections was started by the provincial treasury but deferred with a view to focusing on the immediate cash flow 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. The uncoordinated working relationship between the intervention team and the provincial leadership had a negative impact on the effectiveness of the quarterly monitoring and evaluation of the stability and sustainability of internal controls.



***Together we can do more. We cannot tolerate unauthorised, irregular as well as fruitless and wasteful expenditure and we cannot allow these issues to keep on happening. Internal controls and root causes need to be addressed and in particular the skills of our people.***

**– Hon SC Sekoati  
Chairperson Portfolio Committee on  
Provincial Treasury**

Hence the focus on accountability and consequences for poor performance by the executive and the legislature was neglected until the second quarter of the 2012-13 financial year. This is despite the numerous attempts by the AGSA to engage with the executive, the legislature and the intervention team regarding the progress on the 2010-11 commitments.

The intervention had a positive effect on reducing unauthorised expenditure. However, a lot still needs to be done to respond to the 62% of departments that still have commitments/liabilities in excess of budgeted funds and departments that are still underspending on capital budgets and conditional grants by 77% and 38%, respectively. As a result the big departments (that constitute more than 80% of the budget) did not achieve their predetermined objectives.

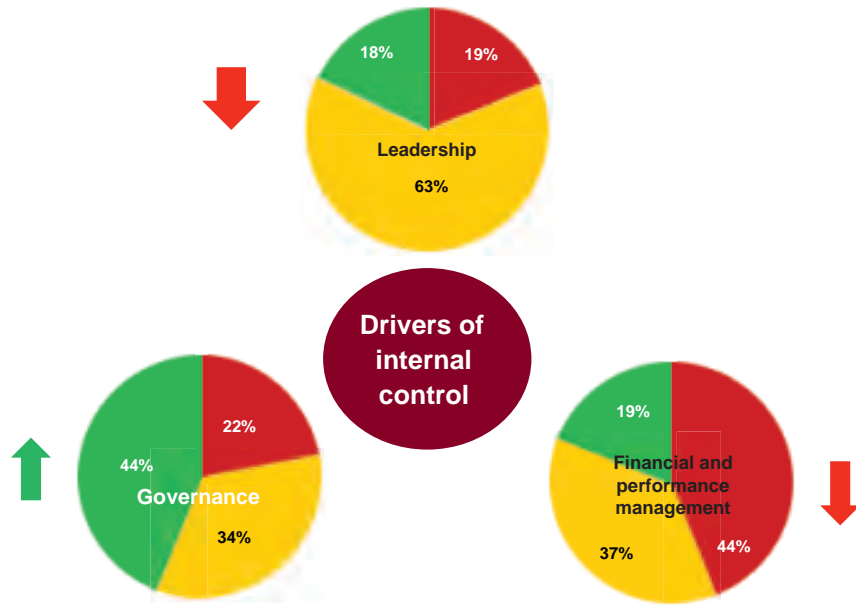
As committed in the previous year's general report, my office remains committed to support the commitments made in this report working collaborative with the executive leadership, the administrative leadership, the legislature and the national intervention team. In this regard we will support the speaker and the premier to reflect on the progress of the province before the end of the financial year.

I want to thank the audit teams from my office and the audit firms that assisted in the province for their diligent efforts towards fulfilling our constitutional mandate and their commitment to strengthening cooperation with the leadership of the province.

*Auditor-General*

**Auditor-General  
Pretoria  
March 2013**

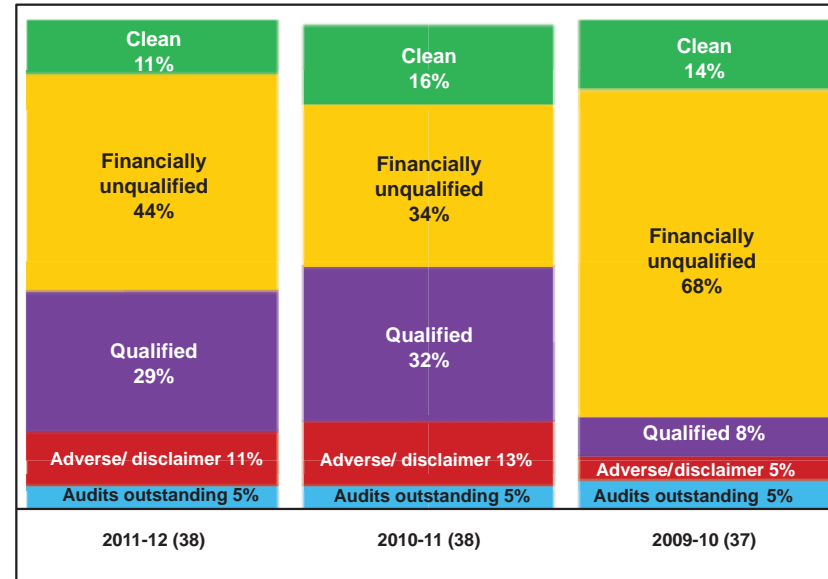
### Analysis of key controls



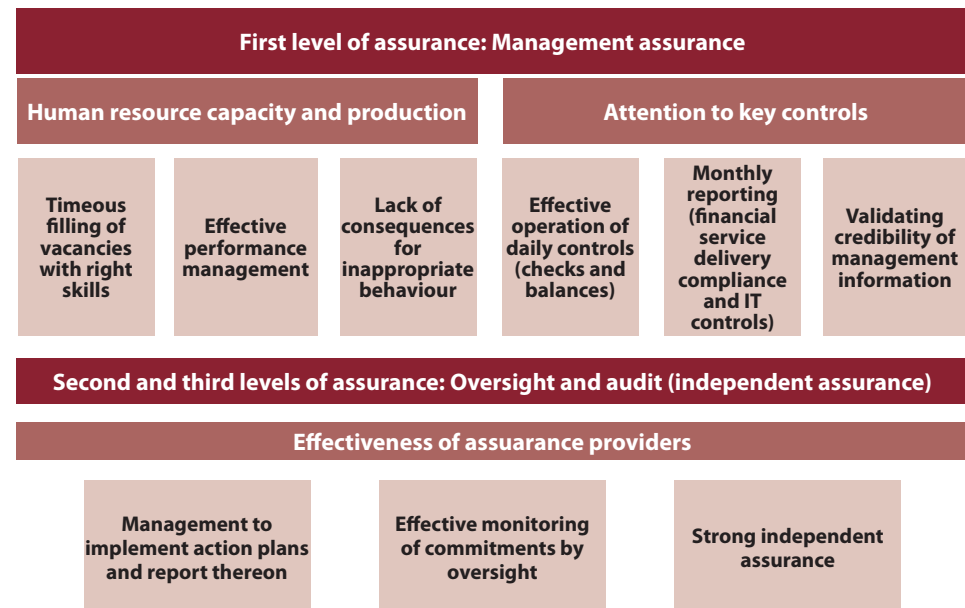
### Key focus assessment



### Audit outcomes



### Audit outcomes





# SECTION 1

## EXECUTIVE SUMMARY



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# SECTION 1:







## EXECUTIVE SUMMARY






Significant aspects of audit outcomes are summarised in the table below, while sections 2 to 3 provide a more detailed analysis of findings, trends and root causes. Commitments received from role players are outlined in section 4. Section 5 outlines emerging matters and auditees' financial health indicators.




**Table 1: Significant aspects of the audit outcomes**




Aspect	Indicator	Key outcomes and trends
<b>Overall audit outcomes</b>		<ul style="list-style-type: none"> <li>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.</li> </ul>
		<ul style="list-style-type: none"> <li>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.</li> </ul>
		<ul style="list-style-type: none"> <li>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.</li> </ul>

Aspect	Indicator	Key outcomes and trends
<b>Submission of financial statements and annual performance reports for audit</b>		<ul style="list-style-type: none"> <li>Thirty-five auditees submitted annual financial statements and performance reports on the legislated date of 31 May.</li> </ul>
		<ul style="list-style-type: none"> <li>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).</li> </ul>
		<ul style="list-style-type: none"> <li>The Limpopo Parks and Tourism Board once again failed to submit its financial statements together with its performance report on time.</li> </ul>
<b>Qualification on financial statements</b>		<ul style="list-style-type: none"> <li>The component where the highest number of auditees (8) successfully managed to resolve their findings pertained to liabilities.</li> </ul>
		<ul style="list-style-type: none"> <li>The highest number of repeat qualification findings on financial statements was on non-current assets and unauthorised, irregular, as well as fruitless and wasteful expenditure. These were identified at 17 auditees.</li> </ul>
		<ul style="list-style-type: none"> <li>The highest number of new qualification findings was on unauthorised, irregular as well as fruitless and wasteful expenditure. This was identified at 12 auditees.</li> </ul>
<b>Reporting on PDOs</b>		<ul style="list-style-type: none"> <li>Four auditees improved to no findings on PDOs.</li> </ul>
		<ul style="list-style-type: none"> <li>Ninety-five per cent of public entities achieved more than 80% of their PDOs for the year.</li> <li>Three auditees regressed from the previous year.</li> </ul>
		<ul style="list-style-type: none"> <li>Thirty-eight per cent of departments achieved less than 80% of their PDOs for the year.</li> <li>Eighteen auditees remained unchanged with findings on PDOs. Seven auditees maintained their status of no findings on PDOs.</li> </ul>




Aspect	Indicator	Key outcomes and trends
<b>Findings on non-compliance with laws and regulations</b>		<ul style="list-style-type: none"> <li>Four auditees did not have any findings on non-compliance with laws and regulations.</li> </ul>
		<ul style="list-style-type: none"> <li>Nine auditees had new non-compliance findings. Overall, there has been a regression from the previous year, where 26 of 36 (72%) auditees had findings on non-compliance with laws and regulations, to 32 out of 36 (89%) auditees that had findings on non-compliance in the year under review. All departments (100%) had findings on non-compliance with laws and regulations.</li> </ul>
		<ul style="list-style-type: none"> <li>Twenty-three auditees had repeat findings on non-compliance with laws and regulations from the previous year.</li> </ul>
<b>Supply chain management (SCM)</b>		<ul style="list-style-type: none"> <li>Nine auditees had no findings on SCM for the year under review, seven of which maintained their no finding status and two addressed their findings of the previous year.</li> </ul>
		<ul style="list-style-type: none"> <li>Nine auditees regressed from no findings on SCM to findings on SCM. The irregular expenditure in the province increased from R1,1 billion in 2010-11 to R2,78 billion in 2011-12.</li> </ul>
		<ul style="list-style-type: none"> <li>Ten auditees had repeat findings on SCM from the previous year in one or more categories.</li> </ul>

Aspect	Indicator	Key outcomes and trends
<b>Internal controls</b>		<ul style="list-style-type: none"> <li>An improvement was noted in the governance structures, specifically relating to the internal audit unit. During the year under review, the province successfully managed to address its historical capacity challenges at the central internal audit unit.</li> </ul>
		<ul style="list-style-type: none"> <li>There was a regression in the internal control element underlying leadership, specifically relating to oversight responsibilities, HR management and action plans to address internal control deficiencies. Furthermore, there was also regression in the internal control element underlying financial and performance management, which resulted in the increase in the number of financial statements that were subject to material corrections during the audit process.</li> </ul>
<b>Human resource management</b>		<ul style="list-style-type: none"> <li>Three departments maintained their status of no findings on human resource management. Human resource management was not a focus area at public entities in the previous year.</li> </ul>
		<ul style="list-style-type: none"> <li>Five departments had new findings on human resource management. Out of 22 public entities, eight had findings on human resource management in the year under review.</li> </ul>
		<ul style="list-style-type: none"> <li>Five departments had repeat findings on human resource management.</li> <li>The leadership acknowledged that the province had critical challenges with regard to skills and capacity at the finance units. The leadership once again made a firm commitment to conduct a skills audit by 31 March 2013 to determine the extent of this challenge in the province.</li> </ul>

Aspect	Indicator	Key outcomes and trends
<b>Management of information technology (IT)</b>		<ul style="list-style-type: none"> <li>Management committed to implement recommendations made during the previous year's audit regarding the management of IT. While some commitments have been resolved, the majority have either been partially resolved or not resolved at all. With regard to the four focus areas, namely IT governance, security management, user access controls and IT service continuity tested, three auditees managed to address their previous year's findings on security management and two departments resolved their previous year's findings on user access controls. Roads and Transport was the only department that successfully managed to address its previous year's findings on IT service continuity.</li> </ul>
<b>Audit committees and internal audit units</b>	  	<ul style="list-style-type: none"> <li>All public entities had audit committees and internal audit units in place. The province has a shared audit committee and internal audit unit for all departments. The legislature has its own audit committee and internal audit unit.</li> <li>Findings relating to internal audit units and audit committees were mostly prevalent at the public entities. Instances were identified where the internal audit units did not physically evaluate compliance with laws and regulations or did not evaluate the reliability and integrity of financial and operational information. There were also instances where the audit committees did not conduct an external assessment of the internal audit unit.</li> </ul>

Aspect	Indicator	Key outcomes and trends
<b>National intervention in terms of section 100(1)(b) of the Constitution</b>	  	<ul style="list-style-type: none"> <li>The intervention stabilised the cash flow of the province and was also able to facilitate a reduction in unauthorised expenditure.</li> <li>The respective roles and responsibilities for the intervention team versus the provincial leadership were not clearly defined, causing confusion and frustration. Poor cooperation and communication between the intervention team and the provincial leadership undermined the effectiveness of the intervention in stabilising the administration of the five affected departments.</li> </ul>
<b>Leadership commitments</b>		<ul style="list-style-type: none"> <li>The leadership made a number of commitments and implemented various initiatives to improve on audit outcomes. However, subsequent to the section 100(1)(b) intervention, many of the commitments and initiatives could not be honoured. It is pleasing to note that subsequent to year-end, the leadership commenced with various initiatives, in particular, the establishment of the operation clean audit 2014 executive coordinating committee by the Premier to accelerate the drive towards better administration.</li> </ul>



Aspect	Indicator	Key outcomes and trends
<p><i>Financial health indicators</i></p>		<ul style="list-style-type: none"> <li>In the year under review the Auditor-General of South Africa (AGSA) identified the financial health of auditees as a new focus area, as it has a significant and direct impact on effective and efficient service delivery. The approach to the focus area was developed and implemented in a phased approach in consultation with the National Treasury.</li> </ul>
		<ul style="list-style-type: none"> <li>Cash management measures were put in place since the administration in December 2011 to reduce the overdraft and cash shortfall. Due to these measures the provincial cash position improved to a positive balance as at 31 March 2012.</li> </ul>
		<ul style="list-style-type: none"> <li>There were, however, outstanding accruals (goods and services received but not yet paid) at year-end. If one adds the accumulated unauthorised expenditure not yet dealt with at year-end, the province is in fact starting the 2012-13 financial year with a significant deficit. As of year-end, four departments had incurred liabilities in excess of available funds and at six departments, more than 10% of their next year's budget would be used to pay off current expenditure.</li> </ul>

# SECTION 2

## OVERVIEW OF AUDIT OUTCOMES

- 2.1 OVERALL AUDIT OUTCOMES
- 2.2 FINDINGS ARISING FROM THE AUDIT OF FINANCIAL STATEMENTS
- 2.3 FINDINGS ARISING FROM THE AUDIT OF REPORTING ON PREDETERMINED OBJECTIVES
- 2.4 FINDINGS ARISING FROM THE AUDIT OF COMPLIANCE WITH LAWS AND REGULATIONS
- 2.5 NATIONAL INTERVENTION IN TERMS OF SECTION 100(1)(B) OF THE CONSTITUTION



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# SECTION 2:

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## OVERVIEW OF AUDIT OUTCOMES

This section of the general report provides the province's overall audit outcomes (section 2.1), followed by further details on findings arising from the audit of the financial statements (section 2.2), reporting by auditees against their PDOs (section 2.3) and compliance by auditees with laws and regulations (section 2.4). To properly understand the outcomes it is necessary to also discuss the impact of the national intervention in the province (section 2.5).

Root causes of audit findings and recommended best practices are also analysed in the respective sections. This should be read with an analysis of the drivers of audit outcomes in section 3 of this general report. Section 4 records the commitments received from the provincial executive leadership and oversight structures and other national and provincial role players in response to the 2011-12 audit outcomes. Section 5 highlights other current emerging matters and the financial health of the province.

## 2.1 OVERALL AUDIT OUTCOMES

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

Previously, we had reported on entities only up to holding company level while in this general report we are analysing 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.

### 2.1.1 Summary of overall audit outcomes

Thirteen (93%) departments and 22 (92%) public entities submitted financial statements by 31 May 2012 within the legislated time frame of two months of receipt thereof by the AGSA. The Limpopo Tourism Agency submitted its financial statements almost two months after the legislated time frame. The audit was, however, completed within two months of receipt of these financial statements and its audit outcomes are therefore included in this report. The financial statements of the Provincial Revenue Fund and the Limpopo Tribal & Trust Account remained outstanding as at 15 October 2012, the cut-off date set by the AGSA for inclusion of audit outcomes in this general report.

The audit outcomes and outstanding audit reports (current and previous years) are summarised in the following table. Where applicable, audit opinions relate to the consolidated financial statements of auditees. 'With findings' denotes findings on PDOs and/or compliance with laws and regulations. Clean audits are achieved when the financial statements are unqualified and there are no reported audit findings in respect of either reporting on PDOs or compliance with laws and regulations.

**Table 2: 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%
<b>Total number of audits in the province</b>	<b>14</b>	<b>14</b>	<b>24</b>	<b>24</b>	<b>38</b>	<b>38</b>




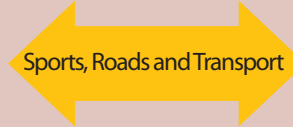


\* Including legislature and Provincial Revenue Fund

\*\* Including Limpopo Tribal and Trust Account

## 2.1.2 Improvements and regressions in audit outcomes


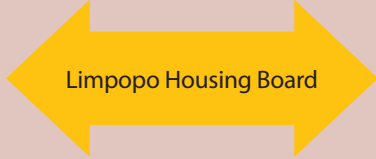

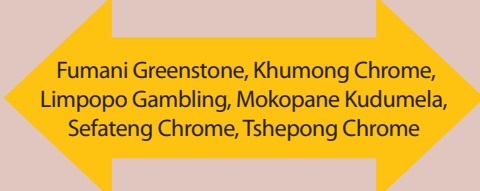




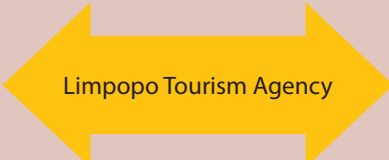
The following figure analyses the overall movement in provincial government audit outcomes between the current and previous financial years.

**Figure 1: 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
<b>Total</b>	<b>1</b>	<b>8</b>	<b>4</b>

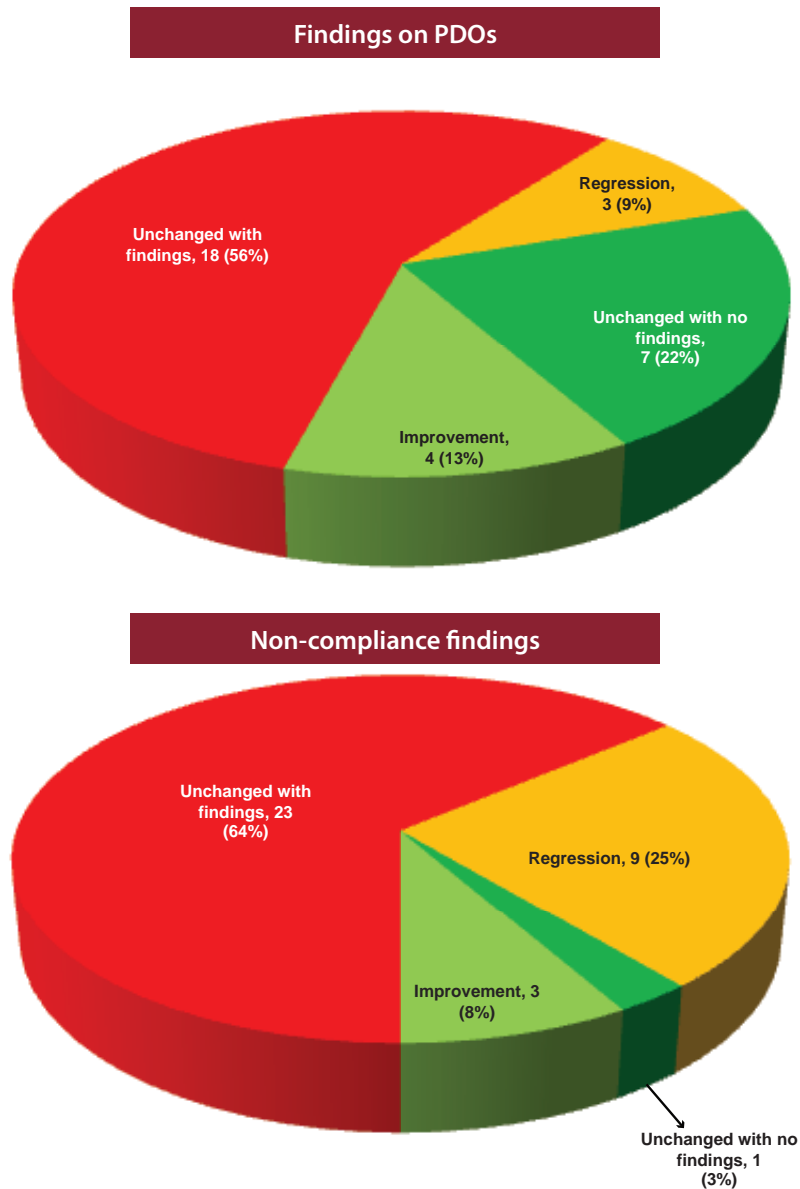


**Figure 2: Summarised movement in overall audit outcomes – public entities**

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>Mashashane 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>	
<b>Total</b>	<b>6</b>	<b>12</b>	<b>5</b>

The following figure provides an analysis of findings on PDOs and compliance with laws and regulations.

**Figure 3: Summarised movements in findings on predetermined objectives and compliance with laws and regulations**



The number of public entities audited by the AGSA increased from 15 to 23 in the current year due to a request from the Limpopo provincial executive committee that the AGSA take over the audit of all provincial and other public entities. Three of the eight entities taken over by the AGSA showed a regression in their audit opinion, while the remaining five had additional findings on PDOs and/or non-compliance with laws and regulations.

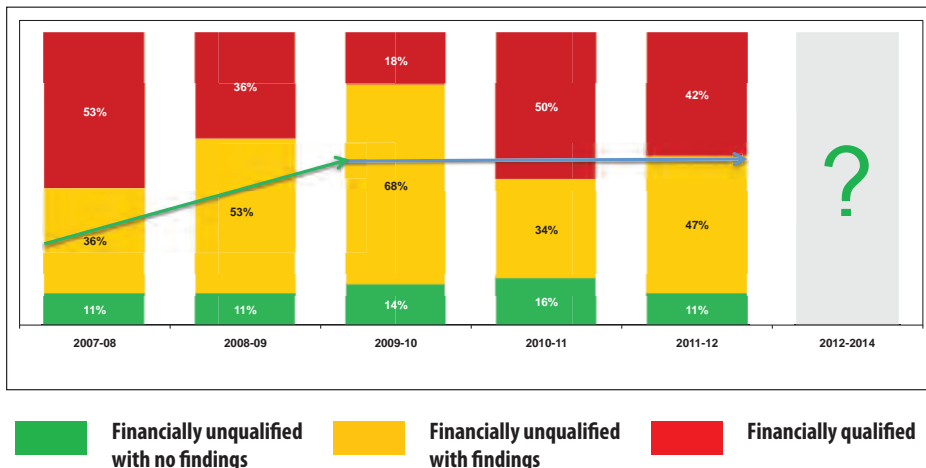
There has been an overall improvement in the reporting on PDOs at departments while there has been an increase in the number of entities that had findings on PDOs. This is largely attributable to the work performed on PDOs by the shared internal audit unit of the province, since the internal audit plans for 2011-12 included the audit and review of this focus area.

As far as compliance with laws and regulations is concerned, the province has shown an overall regression from the previous year. All departments had findings on non-compliance with laws and regulations. Of the 23 entities audited, 19 (83%) had findings on non-compliance. The Departments of Agriculture and Cooperative Governance, Human Settlements and Traditional Affairs (CoGHSTA) and the Limpopo Roads Agency that did not have non-compliance findings in the previous year both regressed to unqualified with findings on laws and regulations.

### 2.1.3 Province's progress towards producing unqualified financial statements

Obtaining financially unqualified audit reports is an important milestone in striving for clean administration. The province's five-year progress towards producing unqualified financial statements is depicted in the following figure.

**Figure 4: Five-year progress towards financially unqualified audit reports**



The two departments and one public entity that obtained clean audit opinions in the previous year were unable to sustain this outcome in the year under review. The 11% reflected as unqualified audit opinions with no findings in 2011-12, relates to four public entities that were dormant in the current year and that are in the process of being de-registered. These entities had very limited or no operating transactions to audit. Of concern is the number of entities that remain static in the unqualified with findings on predetermined objectives and/or laws and regulations category.

As reported in my general report of 2010-11, I remain concerned that many of the issues that ultimately resulted in qualified audit opinions, including four disclaimers, were identified as potential risks and brought to the attention of the executive by AGSA representatives early in 2012 and yet little or no effort was made to deal with the issues.

The legislature, premier and provincial treasury must lead by example in the area of clean audits. While the legislature and the provincial treasury made progress in the drive towards clean audits, the premier still required more effort to address its recurring non-compliance findings around expenditure management and its financial reporting process.

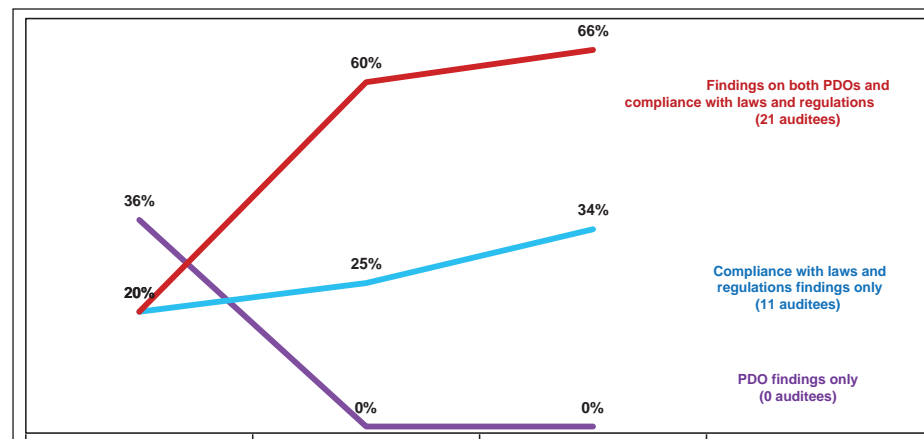
Auditees that improved to financially unqualified with no findings should not assume that the control environment is not prone to any weaknesses. Another factor impacting the risk assessment process is the element of change in the public sector. Because conditions impacting operations will change continuously, it is important that risk assessments are conducted regularly to identify and analyse risks associated with such changes. It is critical that auditees that have met this milestone implement more stringent and rigorous monitoring processes throughout the year to be able to sustain a strong internal control environment.

The value of clean audits cannot be overemphasised. A clean audit significantly enhances public confidence and accountability. While a clean audit is not a reflection of the absence of fraud and corruption or even good service delivery, it is a critical cornerstone of achieving transparent and accountable governance.

**2.1.4 Province’s rate of addressing findings arising from the audit of predetermined objectives and compliance with laws and regulations**

The progress made by the province over the past three years in addressing audit findings on PDOs and compliance with laws and regulations is depicted below.

**Figure 5: Three-year progress in addressing findings on predetermined objectives and compliance**



Since the 2009-10 financial year, the province has shown a steady decline in the

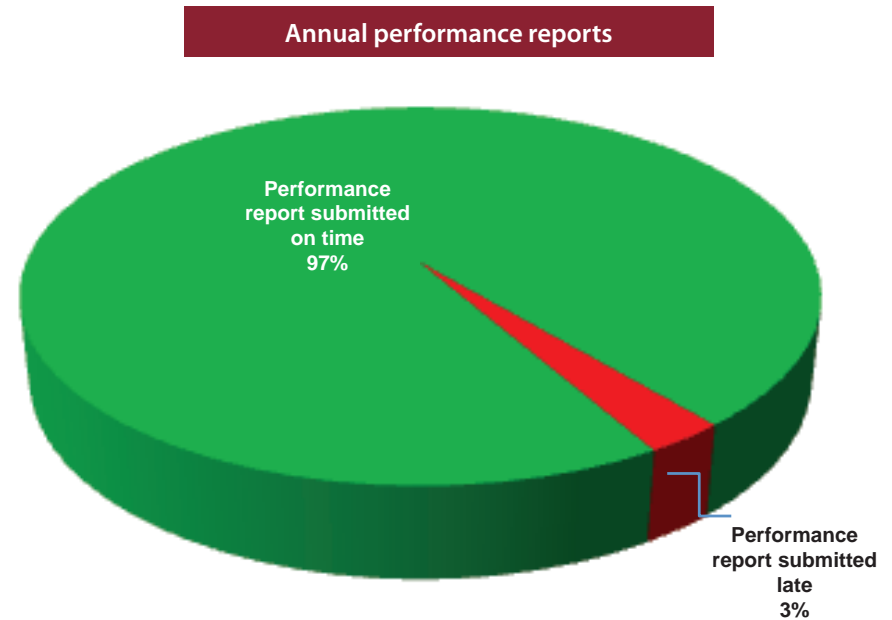
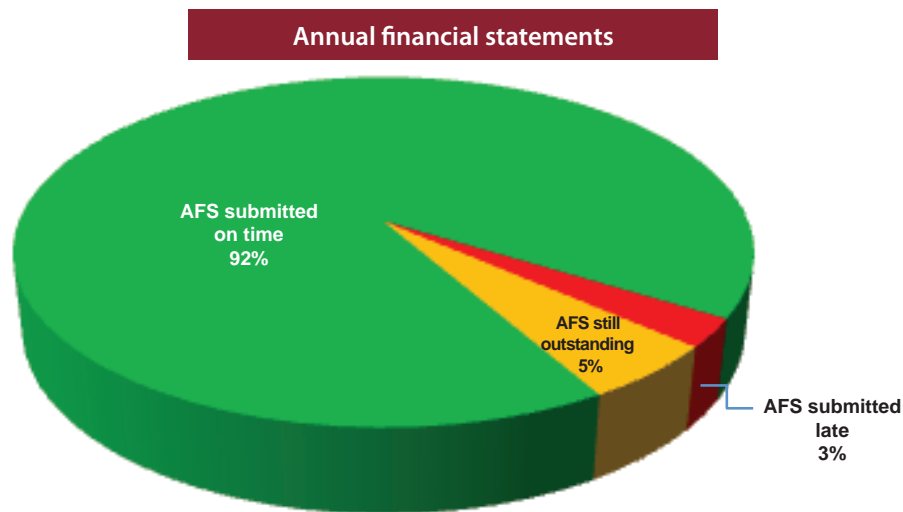
number of auditees that had findings on PDOs only. There were no auditees with findings on PDOs only for the previous year and that trend has been repeated in the current year. There has also been a significant increase in the number of auditees with findings on both PDOs and compliance with laws and regulations since 2009-10. This trend is indicative of the province having made progress in addressing the challenges on predetermined objectives. However, the increasing trend in the findings on non-compliance with laws and regulations from 2009-10 is concerning.

Further details on the findings relating to PDOs and non-compliance with laws and regulations appear in the sections below.

### 2.1.5 Status and outcomes of audits not finalised by 15 October 2012

The timeliness of completion of audits is primarily influenced by the date of receipt by the AGSA of auditees' financial statements and the efficiency with which the audits proceed thereafter. As can be seen in the following figure, a total of three (8%) auditees were still unable to meet the legal requirement for timely submission of financial statements. The Limpopo Tourism Agency submitted its financial statements and performance information on 17 July 2012 and the audit was completed in time for inclusion in this report.

**Figure 6: Timeliness of submission of financial statements and annual performance reports for audit**



The Provincial Revenue Fund and the Limpopo Tribal and Trust Account are not required to prepare and submit a report on performance information for auditing.

Between 15 October 2012, the date set by the AGSA for inclusion of audit outcomes in the general report, and the date of this report, no other audit was finalised.

The following table shows the reasons why the remaining audits were outstanding at the date of this report. The table further indicates the previous year's audit outcomes of these outstanding audits.

**Table 3: Previous outcomes of audits outstanding at the date of this report**

Auditee	Reason not finalised			Audit outcome of audit last finalised			
	AFS not yet received	Late receipt of AFS	Audit in progress due to other reasons	Adverse/Disclaimer	Qualified	Financially unqualified with findings	Financially unqualified with no findings
<b>Departments</b>							
Provincial Revenue Fund	●					●	
<b>Public entities</b>							
Limpopo Tribal and Trust Account	●						
<b>Total</b>	<b>2</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1</b>	<b>0</b>

As reported in my general report of the previous year, the financial statements for the Provincial Revenue Fund were still not submitted for the 2008-09, 2009-10, 2010-11 and 2011-12 financial years due to the internal challenges experienced by the provincial treasury in reconciling the fund's records

The financial statements of the Tribal and Trust Account have been in arrears for the past 13 years. Subsequent to year-end, a report on the Tribal and Trust Account was tabled in the provincial legislature by the portfolio committee on finance wherein an agreement was reached with traditional leaders to adopt the opening balances of this account. With consensus being reached on the opening balances, the provincial treasury was in a position to prepare the financial statements of the trust.

## 2.2 FINDINGS ARISING FROM THE AUDIT OF 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 financial position (statement of financial position) and results of an auditee's operations (statement of financial results) and cash flows for the period in accordance with the applicable accounting framework and the requirements of the applicable legislation. The audit provides the users with assurance on the degree to which the financial statements are reliable and credible.

### 2.2.1 The quality of financial statements submitted for audit purposes

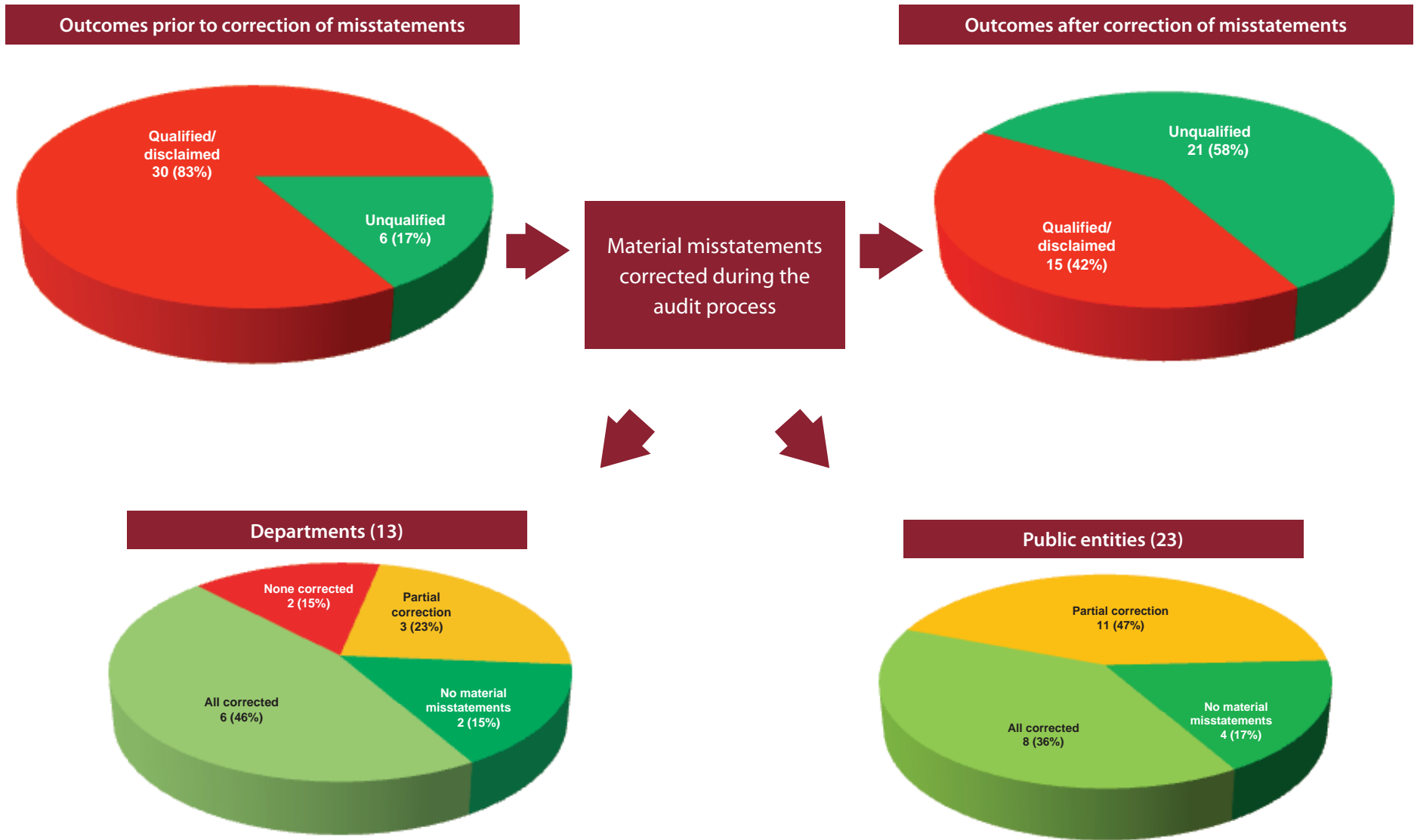
As in previous years, many auditees submitted financial statements that contained material misstatements in one or more areas. Only two (15%) departments and four (17%) public entities submitted financial statements that required no material adjustments, compared to two (15%) departments and nine (39%) public entities in the previous year.

Six (46%) departments and nine (39%) public entities were able to achieve a financially unqualified audit outcome because they corrected all misstatements identified during the audit. Some auditees were not willing and/or able to correct all of the misstatements and therefore could not avoid the qualification of their financial statements.

The extent of material misstatements in financial statements submitted for audit for the year under review is depicted in the following figure.



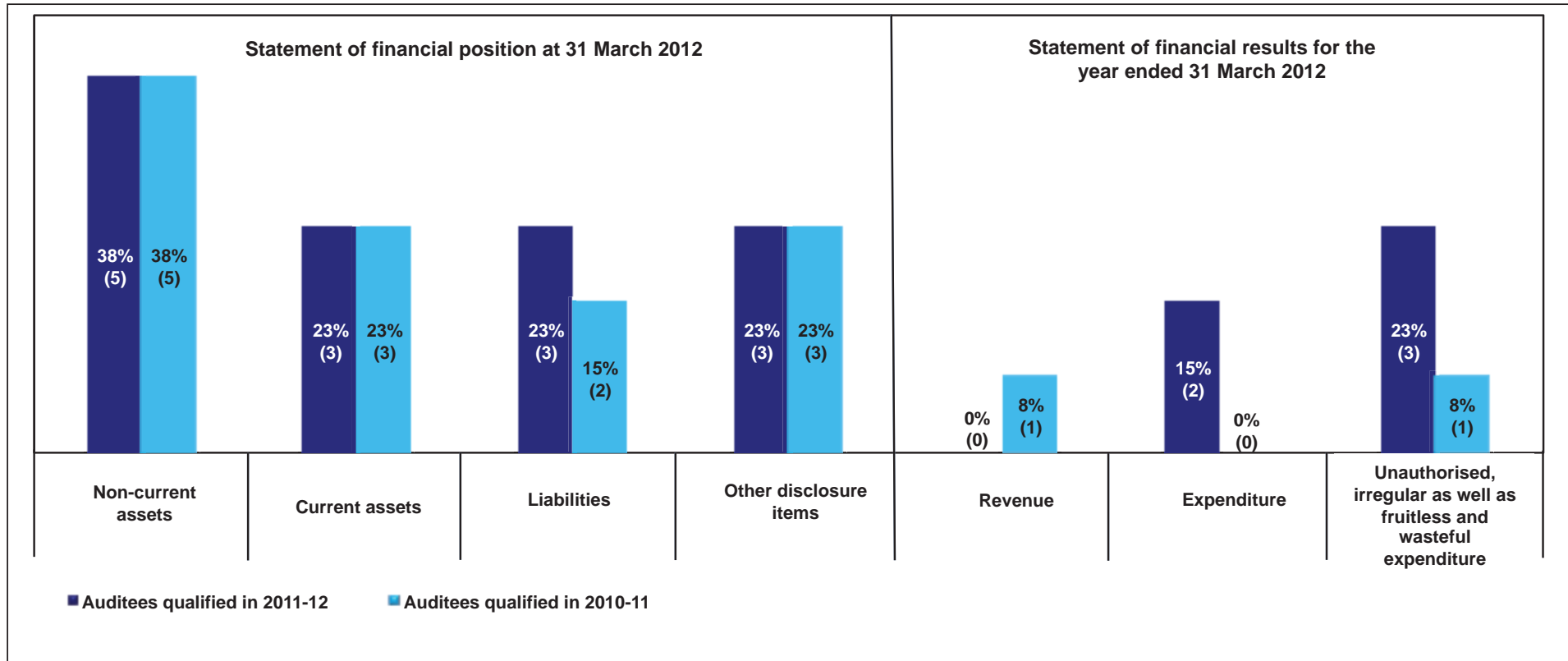
**Figure 7: Material misstatements in financial statements submitted for audit**



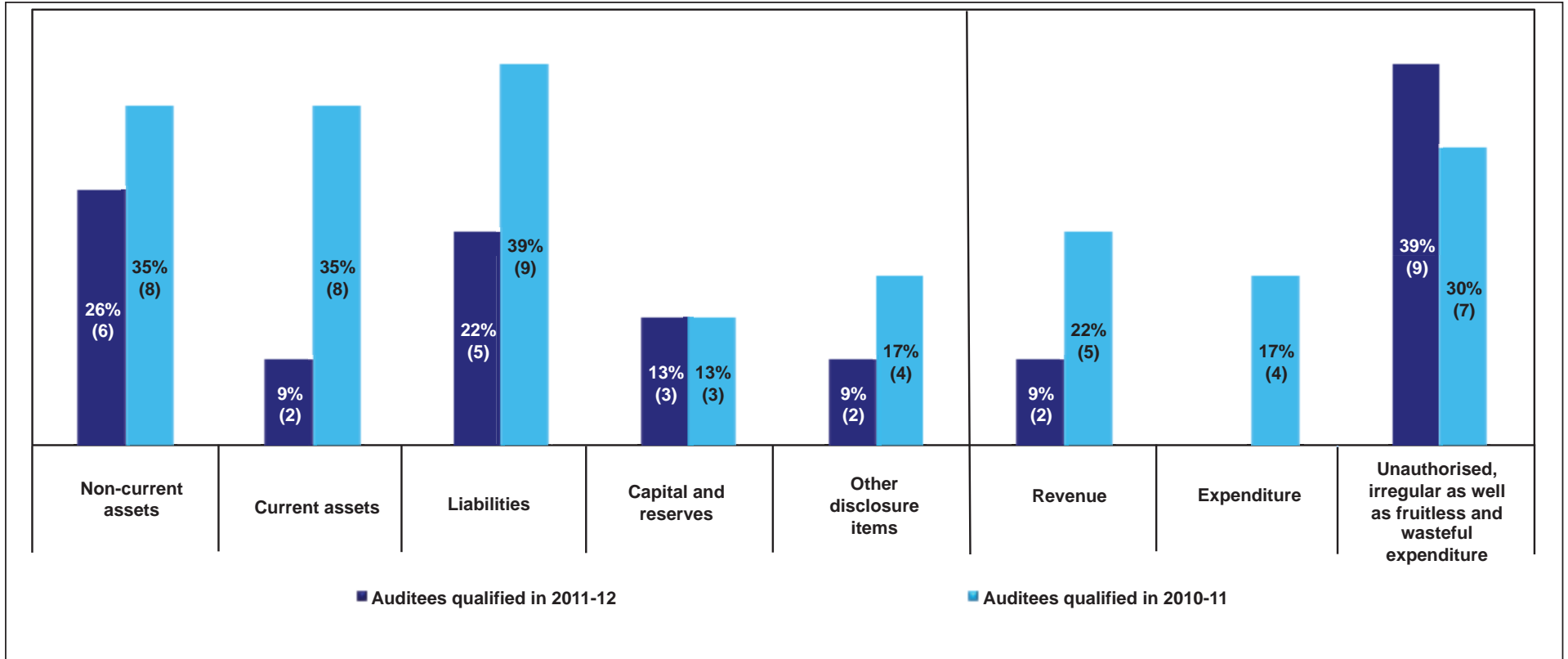
## 2.2.2 Financial statement qualification findings

The following figure shows the areas that were materially misstated (qualified) in the financial statements of the five (38%) departments and 10 (43%) public entities [2010-11: six (46%) departments and 11 (48%) public entities] that received disclaimed, adverse or qualified audit opinions.

**Figure 8: Financial statement qualification areas – departments**



**Figure 9: Financial statement qualification areas – public entities**



The table that follows shows the progress, or lack thereof, made by auditees in addressing their previous year's financial statement qualifications. Only completed audits are reflected on.

**Table 4: Progress made by auditees in addressing previous year financial statement qualifications**

Auditee	2011-12 Audit opinion	2010-11 Audit opinion	Movement in addressing 2010-11 financial statement qualification areas							
			Non-current assets	Current assets	Capital and reserves	Liabilities	Other disclosure items	Revenue	Expenditure	Unauthorised, irregular as well as fruitless and wasteful expenditure
<b>Departments</b>										
Education	Disclaimer	Qualified	Repeat	Repeat		New	Repeat		New	New
Health	Disclaimer	Disclaimer	Repeat	Repeat		Repeat	Repeat	Addressed	New	Repeat
Public Works	Disclaimer	Qualified	Repeat	Repeat		Repeat	New			New
Roads and Transport	Qualified	Qualified	New				Addressed			
Social Development	Financially unqualified with findings	Qualified	Addressed							
Sport, Arts and Culture	Qualified	Qualified	Repeat							
<b>Public entities</b>										
Centennial Trading Company 145	Financially unqualified with no findings	Disclaimer	Addressed	Addressed	Addressed	Addressed	Addressed	Addressed	Addressed	
Corridor Mining	Qualified	Financially unqualified with findings	New							
Gateway Airports Authority Limited	Qualified	Financially unqualified with findings	New	New	New	New	New			New
Great North Transport	Qualified	Financially unqualified with no findings	New			New				New
Limpopo Agribusiness Development Corporation	Qualified	Adverse	Addressed	Addressed		Addressed		Addressed	Addressed	Repeat



Auditee	2011-12 Audit opinion	2010-11 Audit opinion	Movement in addressing 2010-11 financial statement qualification areas							
			Non-current assets	Current assets	Capital and reserves	Liabilities	Other disclosure items	Revenue	Expenditure	Unauthorised, irregular as well as fruitless and wasteful expenditure
Limpopo Business Support Agency	Qualified	Qualified	Repeat	Repeat	New	New	Repeat	Addressed		Repeat
Limpopo Development Enterprise	Qualified	Qualified	Repeat	Addressed		New	Addressed	Repeat		New
Limpopo Tourism Agency	Disclaimer	Disclaimer	Repeat	Addressed	Repeat	Repeat	Addressed	New		Repeat
Mashashane Hatchery	Qualified	Disclaimer	Addressed	Addressed		Addressed		Addressed		Repeat
Mukumbani Tea Estate	Financially unqualified with no findings	Qualified				Addressed			Addressed	
Mununzwu	Qualified	Qualified	Addressed	Addressed		Addressed			Addressed	Repeat
Mutale Agricultural Estate	Financially unqualified with no findings	Qualified	Addressed		Addressed	Addressed				
Trade Investment Limpopo	Qualified	Qualified				Addressed				Repeat
Ventico	Financially unqualified with findings	Qualified		Addressed		Addressed				Addressed

The table that follows provides detail of the financial statement qualification areas, the basis for qualification and the reason for qualification.

**Table 5: Nature of qualifications**

Financial statement qualification areas	Basis for qualification	Reason for qualification
<b>Non-current assets</b> <ul style="list-style-type: none"> <li>• Property</li> <li>• Infrastructure</li> <li>• Plant and equipment</li> </ul>	Completeness of assets reflected in financial statements	<ul style="list-style-type: none"> <li>• No/incomplete asset register</li> <li>• Register was not updated on a timely basis</li> <li>• Register did not reconcile with the general ledger</li> </ul>
	Values at which assets are reflected	<ul style="list-style-type: none"> <li>• No/incorrect assessment of residual values/useful lives</li> <li>• Documentation to support the value of assets purchased could not be provided</li> </ul>
	Existence of assets	<ul style="list-style-type: none"> <li>• Assets were not identifiable/could not be physically verified</li> <li>• Duplication of assets in the register</li> </ul>
<b>Current assets</b>	Completeness (all receivables accounted for)	<ul style="list-style-type: none"> <li>• Aged receivables list did not reconcile with the general ledger</li> <li>• Not all revenue due to be collected was billed</li> <li>• Receivables sub-ledger did not reconcile with the general ledger</li> <li>• Suspense accounts were not reconciled and cleared in respect of consumer receivables</li> </ul>
	Value at which receivables are stated in financial statements	<ul style="list-style-type: none"> <li>• No/ineffective policies and procedures for collection of receivables impacting on the provision for doubtful debts</li> </ul>

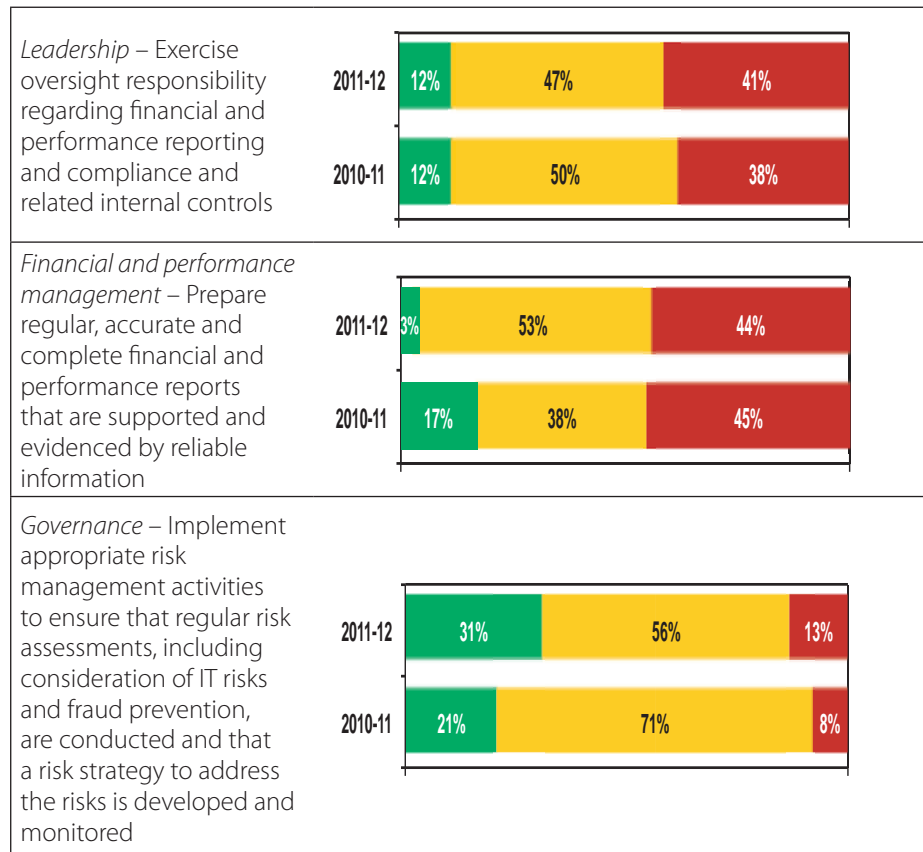
Financial statement qualification areas	Basis for qualification	Reason for qualification
<b>Expenditure</b> <ul style="list-style-type: none"> <li>• Transfer payments</li> <li>• Employee costs</li> </ul>	Completeness of recorded expenditure	<ul style="list-style-type: none"> <li>• Not all expenses/costs were recorded</li> <li>• Suspense account was not reconciled and cleared</li> </ul>
	Occurrence	<ul style="list-style-type: none"> <li>• No/inadequate documentation to support recorded expenditure</li> <li>• No/inadequate supporting documents</li> </ul>
<b>Disclosure</b>	Completeness	<ul style="list-style-type: none"> <li>• Disclosure was not in accordance with the reporting framework</li> <li>• No systems and processes in place to determine the completeness of disclosure items (accruals, commitments, etc.)</li> </ul>
<b>Unauthorised, irregular and fruitless and wasteful expenditure</b>	Unauthorised expenditure	<ul style="list-style-type: none"> <li>• Overspending of the budget</li> </ul>
	Irregular expenditure	<ul style="list-style-type: none"> <li>• Contravention of SCM regulations</li> <li>• Sufficient appropriate audit evidence was not available to verify completeness</li> </ul>
	Fruitless and wasteful expenditure	<ul style="list-style-type: none"> <li>• Interest charged on outstanding accounts</li> <li>• Non-disclosure of opening balances</li> </ul>
<b>Liabilities</b>	Values at which liabilities are reflected	<ul style="list-style-type: none"> <li>• Liabilities, e.g. provisions and employee benefits were not valued in accordance with the reporting framework</li> </ul>

### 2.2.3 Root causes and best practice recommendations

The existence of a sound system of internal control influences the ability of auditees to produce financial statements that are free from material misstatement. The key drivers of these controls are classified under the fundamental principles of (i) leadership; (ii) financial and performance management; and (iii) governance. More information on the specific drivers of internal control and recommendations is provided in section 3 of this report.

The figure that follows indicates the significant deficiencies in the internal control that requires attention from the leadership to improve the audit outcomes.

**Figure 10: Assessment of key drivers of internal control over financial reporting**



Identified root causes, which gave rise to this assessment and the recommended way forward, are summarised as follows.

**Table 6: Identified root causes and way forward (good practices)**

Aspect	Identified root causes and way forward
<b>Lack of effective continuous processes</b>	The quality of financial statements submitted for auditing by the departments and entities was still not adequate, as evidenced by the increase in material misstatements identified and corrected during the audit. Inaccurate disclosure notes in the financial statements are an ongoing challenge at the departments.
	Departments and entities that are still struggling to achieve clean audit outcomes do not have effective continuous processes to ensure that information on financial performance is maintained and monitored throughout the period. Since these entities do not have their own processes to ensure the quality of their financial information, they rely on the audit process to identify errors and attempt to correct them at this late stage.
	Certain auditees required significant year-end effort to avoid qualifications, e.g. the Department of Roads and Transport hoped to resolve the qualification on assets with year-end effort; however, the errors were significant and detected too late in the audit process to be corrected.
	<u>Way forward</u>
	Assurance on the credibility of financial information on which decisions are based must first and foremost be provided by management and then the audit committee and internal audit unit. This process must be conducted at least on a quarterly basis. Financial skills and credible information systems, which are discussed further below, are also areas which require further attention.
	Entities that have progressed to clean audits should not assume that the control environment is no longer vulnerable or prone to weaknesses. To maintain this milestone, extra effort and more rigorous monitoring is required to ensure that there is no breakdown in internal controls, which includes quarterly preparation of financial statements and accompanying disclosure notes.

Aspect	Identified root causes and way forward
<p><b>Limitations of information systems used by auditees</b></p>	<p>The information systems in the province do not cater for integration of data and requires manual records to be maintained, which are inherently prone to human error, e.g. the province has been without an asset management system for the past five years and the procurement system (FINEST) does not have functionalities relating to the recording of accruals, commitments, etc. The current lack of skills at the finance support units to perform these functions manually and carry out regular reconciliations further contributes to poor quality of financial information.</p>
	<p>The province planned for an IT audit to be conducted to formally review and assess the IT environment including the province's IT governance structures and security management processes. However, the national intervention team suspended this initiative without offering an alternative solution to address the weaknesses in the IT environment.</p>
	<p>The Limpopo province had adopted COBIT as the IT governance framework; however, minimal progress has been made with regard to the implementation of the framework. This has contributed to the inconsistent performance of IT risk assessments.</p> <p>A new asset management system (IFMS) was introduced in the province in 2010 as a pilot project to be rolled out at four departments. There were still significant challenges experienced with the system and as a result the manual asset registers were still used as a source for the audit of assets in 2011-12.</p>
	<p><u>Way forward</u></p> <p>These unique challenges that the province faces require a more hands-on approach from both the political and administrative leadership.</p> <p>The province, in consultation with the National Treasury, looked at the possibility of introducing LOGIS to manage assets and procurement. The value of having a reliable information system in place cannot be underestimated considering that the financial reporting requirements are set to intensify over the next few years to make way for full accrual accounting.</p>

Aspect	Identified root causes and way forward
<p><b>Limitations of information systems used by auditees</b></p>	<p>The province was awaiting the approval and roll out of the governance-wide framework from the Department of Public Service and Administration (DPSA). In the interim, the provincial Government Information Technology Officers (GITOs) approached the State Information Technology Agency (SITA) to perform a capability maturity assessment as the first phase towards implementing an IT governance framework at each department. However, departments need to be careful that they do not incur costs for a "product" that might not be aligned with the DPSA framework. It is important to note the AGSA will audit the IT governance framework based on DPSA's requirements. We recommend that the departments implement COBIT until the governance-wide framework is rolled out by the DPSA.</p> <p>Subsequent to year-end, the provincial treasury started with an initiative to host monthly GITO forums to discuss the way forward in addressing prevalent IT-related issues. The AGSA is also invited to attend these meetings to share inputs and make recommendations on the way forward.</p> <p>The public entities do not have transversal systems and guidelines from the provincial treasury. However, as public entities use similar financial packages, they should consider consulting with each other on efficient best practice methods.</p>

Aspect	Identified root causes and way forward
<b>Performance management and skills acquisition</b>	<p>There is a huge challenge in capacitating the finance units with the necessary skills required to provide the required level of support to the chief financial officer (CFO).</p> <p>Generally, the performance management process in the province is not effective in that poor performers are not held accountable. What is even more concerning is that performance contracts were either not signed with officials or performance appraisals were not conducted at four departments, e.g. at the departments of Education and Health, performance appraisals since 2010-11 remain outstanding for a number of officials with the backlog further increasing in the 2011-12 financial year. In the absence of an effective performance management process, the leadership would have no grounds on which to hold poor performers accountable.</p> <p>The commitment made by the leadership to conduct a financial skills audit by 31 March 2012 could not be carried out due to the national intervention in the province in December 2011. The proposed solution offered by the intervention team was not feasible and, consequently, the province decided to revert to the skills audit proposal that was planned prior the intervention.</p>
	<p><u>Way forward</u></p> <p>The leadership should prioritise capacitating the province with much needed skills. The leadership made a stern commitment that the skills audit would be finalised by 31 March 2013 so that the way forward could be clearer and action plans could be implemented to address the gaps revealed by this audit.</p> <p>Dealing expeditiously and decisively with poor performance and setting a precedent that poor performance will not be tolerated should become a norm at all departments and entities. Procrastination in dealing with poor performance and holding officials accountable adversely affects audit outcomes and service delivery, e.g. the leadership delayed in dealing with poor performance at the Department of Health. The CFO was suspended only after the 2011-12 financial year-end even though the department was showing a steady decline in service delivery and audit outcomes from 2009-10, which ultimately resulted in the department obtaining two consecutive disclaimers. During a provincial executive leadership Lekgotla in September 2012, the Premier, supported by all participants, made a firm commitment that inappropriate behaviour by officials should have consequences and that action must be taken in a timely manner.</p>

Aspect	Identified root causes and way forward
<b>Commitment to obtain financially unqualified reports</b>	<p>The commitments made by the provincial leadership, including the milestones contained in the clean audit strategy document of the province, were not achieved. The implementation of the commitments and the clean audit strategy initiatives was also, to a certain degree, hampered by the national intervention in the province.</p>
	<p><u>Way forward</u></p> <p>The provincial political leadership committed to working closely with the national intervention team in implementing turnaround strategies for the province. However, there was an apparent lack of communication which had a detrimental effect on the efforts of both parties in facilitating improved audit outcomes. The success of the national intervention and the goal towards improved financial management practices in the province is highly dependent on effective communication between both parties.</p> <p>It is encouraging to note that the monthly head of department (HoD) forum hosted by the Office of the Premier gained momentum and the level of interactions at this forum intensified. At each monthly forum, two departments are required to report on the status of their action plans thereby ensuring that the administrative leadership is held accountable and at the same time taking ownership in resolving audit findings. It is important that such initiatives are extended to the public entities in the province.</p>

Aspect	Identified root causes and way forward
<b>Monitoring by audit committees and internal audit units</b>	Currently, there is insufficient time between the annual financial statements being completed by auditees and the legislated submission date to the AGSA for either the audit committees or internal audit units to contribute significantly to the quality of the financial statements. The lack of quarterly financial reporting, including the preparation of disclosure notes, also limits the audit committees and internal audit units to provide the required level of assurance over financial reporting.
	<u>Way forward</u>
	Timelines should be strictly adhered to for submission of financial statements and other financial information to the audit committees and internal audit units for review.  The culture of preparing quarterly financial information for submission to the internal audit unit and audit committee for review would allow for material errors to be identified in advance and would also assist in alleviating year-end pressure where errors in financial reporting may go unnoticed.  As discussed above, it is critical that officials are held accountable if they are unable to provide information timeously.

## 2.3 FINDINGS ARISING FROM THE AUDIT OF REPORTING ON PREDETERMINED OBJECTIVES

The PAA requires the AGSA to annually audit the reported information relating to the performance of the auditees against their PDOs.

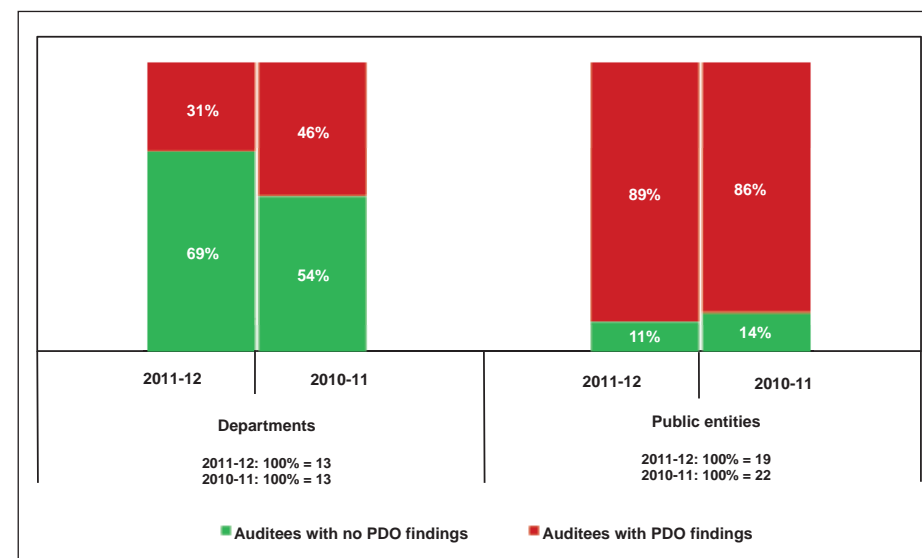
### 2.3.1 Overall outcomes from the audit of reporting on predetermined objectives

Auditees are required to submit their performance report for auditing by 31 March annually. All departments and all public entities submitted their reports in time for audit. The Limpopo Tourism Agency submitted its performance report together with its financial statements on 25 July for auditing. All nine public entities that did not have annual performance reports in the 2010-11 financial year compiled and submitted annual performance reports in the year under review.

CoGHSTA and the Department of Roads and Transport submitted performance reports that contained material misstatements in one or more areas that were subsequently corrected. The remaining 30 (94%) performance reports required no material adjustments.

Movements in the number of auditees with findings on their reporting against PDOs are depicted in the following figure. Excluded from the analysis below are four public entities, namely the Housing Development Fund, Mukumbani Tea Estate, Mutale Agricultural Estate and Centennial Trading Company that did not require reporting on PDOs.

**Figure 11: Overall movements in number of auditees with predetermined objective findings**



It is encouraging to note that departments improved in the reporting on their performance information in the year under review, only four departments had findings. Three of these four departments obtained disclaimers.

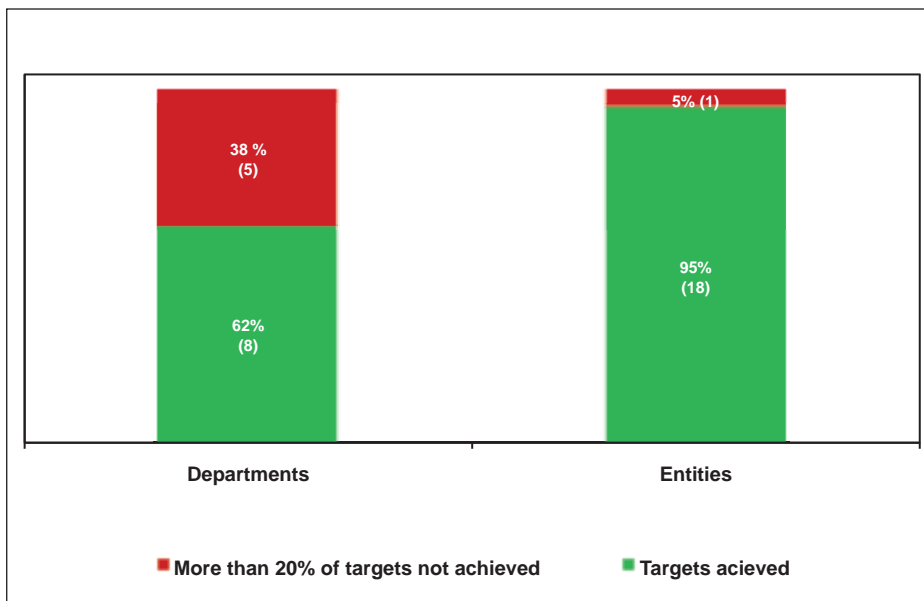
The public entities, on the other hand, showed a regression from the previous year and did not make progress in attending to the challenges in this area. With the assistance from provincial treasury, reporting on predetermined objectives must receive priority during the monthly public entity CFO forums.



Repeat and new findings on predetermined objectives are mainly due to inadequate management processes and systems in place to collate the reporting on performance information and the lack of quarterly reporting.

The following figure depicts auditees where more than 20% of the planned targets were not achieved during the financial year:

**Figure 12: More than 20% of planned targets not achieved during the financial year**



Five (38%) departments and one (5%) entity did not achieve substantially all of its targets as reported in the annual performance reports and therefore negatively impact on service delivery. This includes the following departments where service delivery is crucial: CoGHSTA, Education, Health, Public Works and Roads and Transport. The Limpopo Tourism Agency is the one public entity who did not achieve substantially all of its targets. Identifying the root causes for not achieving service delivery targets and implementing corrective actions is important to prevent such instances from recurring which negatively impacts on basic service delivery that is critical to the ordinary citizens of the province.

### 2.3.2 Predetermined objective findings

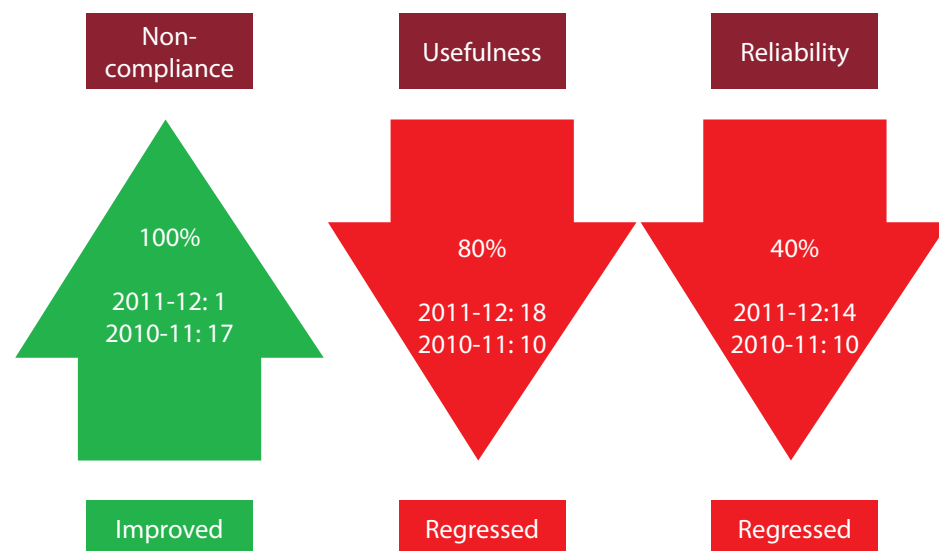
PDO findings are classified under the main audit areas of usefulness and reliability of information.

<b>Non-compliance</b>	<p>Non-compliance with regulatory requirements refers to the preparation of the strategic/corporate plan and the annual performance plan, submission to those delegated for approval depending on the type of institution, the evaluation of the contents for achieving objectives and indicators and the subsequent reporting. Findings on non-compliance in the previous year related mainly to the following:</p> <ul style="list-style-type: none"> <li>• Lack of or inadequate quarterly reporting of information on performance against predetermined objectives</li> <li>• No strategic plan was prepared by some public entities</li> </ul> <p>It is encouraging to note that there has been significant improvement in addressing non-compliance findings at departments and entities in the year under review. The Department of Education was the only department that had a non-compliance finding on its strategic planning and performance management processes i.e. the department's strategic plan was not submitted to the legislature at least seven days prior to the discussion of the department's budget vote.</p>
<b>Usefulness</b>	<p>The usefulness of reported information is measured against the criteria of presentation, consistency, measurability and relevance. Findings are on:</p> <ul style="list-style-type: none"> <li>• reported performance information not being consistent with the objectives and targets</li> <li>• targets not clearly linked to the mandate and objective of the institution</li> <li>• targets not being specific, not clearly identifying the nature and required level of performance, and not measurable and time bound.</li> </ul>
<b>Reliability</b>	<p>Findings on whether the reported information on performance against PDOs could be traced back to the source data or documentation and whether the reported information was accurate, complete and consistent in relation to the source data, evidence or documentation.</p>

Audit work also focused on compliance with laws and regulations relevant to performance planning, management and reporting.

The following figure depicts overall movements on the different areas of PDO findings.

**Figure 13: Overall movements in findings on predetermined objectives [32 auditees reported on (2010-11: 35)]**



The table that follows shows the progress, or lack thereof, made by auditees in addressing their previous year's PDO findings. It does not include the non-compliance findings which are detailed in section 2.4.

**Table 7: Progress made by auditees in addressing previous year findings on predetermined objectives**

Auditee	Movement in addressing 2010-11 predetermined objective findings			
	Reported information not useful	Reported information not reliable	Information not submitted in time for audit	No annual performance report
<b>Departments</b>				
Education	Repeat	Repeat		
Health	Addressed	Repeat		
Office of the Premier	Addressed			
Provincial Treasury		New		
Public Works	Repeat	Repeat		
Roads and Transport	Addressed	Addressed		
Social Development	Addressed	Addressed		
<b>Public entities</b>				
Corridor Mining Resources	Repeat	New		
Fumani Greenstone	New	New		Addressed
Gateway Airport Authority Limited	New	Addressed		
Great North Transport		New		
Khumong Chrome Mining	New	New		Addressed
Limpopo Agribusiness Development Corporation	New			Addressed
Limpopo Business Support Agency	Repeat	Addressed		
Limpopo Development Enterprise	Repeat	New		
Limpopo Gambling Board		Addressed		
Limpopo Tourism Agency	Repeat	Repeat		
Mashashane Hatchery	New			Addressed
Mokopane Kudumela Mining Investments	New	New		Addressed
Munumzwu Estate	New			Addressed
Risima Housing Finance Corporation	New	New		
Sefateng Chrome Mine	New	New		Addressed
Trade Investment Limpopo	Repeat	Addressed		
Tshepong Chrome Mine	New	New		Addressed
Ventico	New			Addressed

Four of the seven departments (57%) successfully managed to address findings relating to usefulness on their reporting against predetermined objectives. The focus on predetermined objectives by internal audit, including the assistance provided by both the AGSA and the provincial treasury in the form of workshops and various other interactions, contributed to the improvement at departments.

It is evident that usefulness and reliability findings are more concerning at the public entities. In the previous year this criteria could not be assessed at nine public entities due to their failure to prepare and submit their reports on predetermined objectives.

The AGSA has, since the 2005-06 financial year, gradually been phasing in the auditing of predetermined objectives and explaining to leaders within all spheres of government the importance of lending credibility to published service delivery information through audit thereof. Considering that seven years has elapsed since the AGSA introduced the auditing of predetermined objectives, it is disappointing to note that there are still departments and entities that continue to have findings on usefulness and reliability in their reports on predetermined objectives. The leadership, audit committees and internal audit units should work together to address the challenges at the public entities.

The table that follows details the nature of the most common findings on PDOs.

**Table 8: Nature of predetermined objective findings**

PDO findings category	Specific PDO findings	Nature of findings
<b>Reported information not useful</b>	<ul style="list-style-type: none"> <li>• Consistency</li> <li>• Relevance</li> <li>• Measurability</li> </ul>	<ul style="list-style-type: none"> <li>• Reported information was not consistent with planned objectives, indicators and targets</li> <li>• Indicators were not well defined in that clear unambiguous data definitions were not available to allow for consistent collection of data</li> </ul>

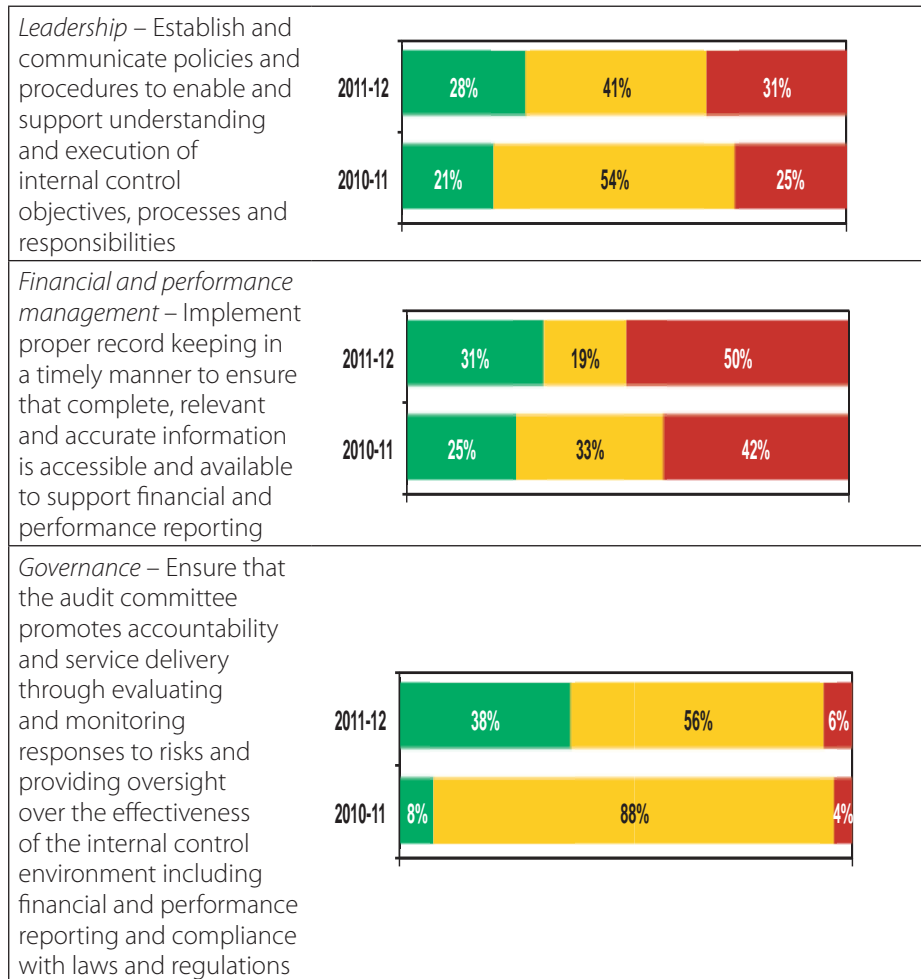
PDO findings category	Specific PDO findings	Nature of findings
<b>Reported information not reliable</b>	<ul style="list-style-type: none"> <li>• Accuracy</li> <li>• Completeness</li> <li>• Validity</li> </ul>	<ul style="list-style-type: none"> <li>• Reported indicators were not accurate-inadequate supporting source information</li> <li>• Reported indicators were not accurate – no supporting source documentation</li> <li>• Reported performance information was incomplete due to the absence of information systems</li> </ul>

### 2.3.3 Root causes and best practice recommendations

The ability of auditees to meet the legislated requirements and satisfy the prescribed criteria related to reporting on PDOs (service delivery) is influenced by the existence of a sound system of internal control. The key drivers of these controls are classified under the fundamental principles of (i) leadership; (ii) financial and performance management; and (iii) governance. More information on the specific drivers of internal control and recommendations is provided in section 3 of this report.

The figure that follows indicates the significant deficiencies in the internal control that requires attention from the leadership to improve the audit outcomes.

**Figure 14: Assessment of drivers of internal control – reporting on predetermined objectives**



Identified root causes, which gave rise to this assessment and the recommended way forward, are summarised as follows.

**Table 9: Identified root causes and way forward (good practices)**

Aspect	Identified root causes and way forward
<b>Systems and processes</b>	<p>Where departments and entities continue to have findings on predetermined objectives, this can be attributed to the following:</p> <ul style="list-style-type: none"> <li>Processes, systems and documentation were inadequate for identifying, collecting, collating, verifying and storing performance information. The IT governance structures on predetermined objectives require intervention. Performance information reports were prepared on manual spreadsheets which are prone to human error. At three of the four departments that had findings on performance information we did not have sufficient information to come to any conclusion on the quality thereof.</li> <li>There was lack of appropriate capacity to manage performance information.</li> </ul> <p>The two departments that obtained clean audit opinions in the previous year shared their best practices with departmental CFOs at a forum arranged by the provincial treasury.</p> <p>Allocation of clear roles and responsibilities with regard to performance management and reporting as well as clear responsibilities for overseeing the achievement of objectives and targets was lacking, particularly at the public entities. Generally, the public entities pay less focus and attention to reporting on predetermined objectives.</p>
	<p><u>Way forward</u></p> <ul style="list-style-type: none"> <li>The leadership must take responsibility for reporting on the reliability and usefulness performance information.</li> <li>Integration of performance information structures and systems within existing management processes and systems must be explored. Adequate IT systems would enable the leadership to be proactive in monitoring progress on service delivery and to take decisive action where necessary.</li> <li>Public entities must share best practices during the monthly CFO forums, e.g. the Limpopo Roads Agency that obtained no findings on predetermined objectives for two consecutive years must share best practices implemented in its quarterly reporting process.</li> </ul> <p>It is the overriding responsibility of management to provide the required level of assurance on the reliability and usefulness of the quarterly reports submitted to the HoDs, MEC and legislature.</p>

Aspect	Identified root causes and way forward
<p><b>Monitoring by audit committees and internal audit</b></p>	<p>The central audit committee improved on its monitoring of the quarterly performance reports of the departments during their quarterly meetings. It is also encouraging to note that the shared provincial internal audit unit increased its focus on the audit and review of the departments’ annual performance reports, which contributed to the overall improvement in this area from the previous year. It is critical that the findings raised by internal audit unit and recommendations provided by the audit committee are attended to timeously in order to sustain this improvement.</p>
	<p>As far as public entities are concerned, there was an increase in the number of entities with findings on predetermined objectives and very little progress was made in addressing weaknesses identified in this area. This is an aspect that did not receive adequate attention from the auditors prior to the AGSA’s takeover of the audit of all provincial public and other entities.</p>
	<p>The required level of review on the quarterly reports by management, internal audit units and the audit committees of public entities were to a large extent not prioritised, resulting in new and repeat findings.</p>
	<p><u>Way forward</u></p> <p>The audit committees at public entities should step up their focus on the review of performance information during quarterly meetings.</p> <p>The internal audit units at public entities should focus on the requirements of predetermined objectives and provide the necessary assurance.</p>

A performance audit to determine the province’s readiness to report on its performance was conducted by the AGSA subsequent to year-end. Some of the key findings that were revealed during this audit are highlighted below.

**Provincial oversight institutions**

The *Framework for managing programme performance information* (FMPPi) issued by the National Treasury defines the roles and responsibilities of both the provincial treasury and Office of the Premier. The Office of the Premier is mandated by the Constitution to conduct performance information oversight and its roles and responsibilities are also clearly depicted in the FMPPi.

However, the Office of the Premier and the provincial treasury did not perform some of the critical functions depicted in the FMPPi, such as providing comprehensive guidance and assistance to departments and entities to enable them to manage their performance information; and monitoring and evaluating the performance information management.

The provincial treasury did not honour all requests for guidance and assistance by departments. For example, in the 2010-11 financial year the provincial treasury did not honour requests from the Department of Health for assistance with the development of their 2011-12 annual performance plans. During the 2011-12 financial year, the provincial treasury also did not honour requests from the Department of Social Development and Safety, Security and Liaison to review the 2012-13 annual performance plans.

The provincial treasury should ensure that relevant staff with technical knowledge are available to provide guidance and assistance to departments and entities. It is critical that the provincial treasury should conduct an annual training needs analysis to incorporate the changing training needs of departments and entities. The provincial treasury should also create sufficient capacity to conduct its performance oversight functions.

**2.4 FINDINGS ARISING FROM THE AUDIT OF COMPLIANCE WITH LAWS AND REGULATIONS**

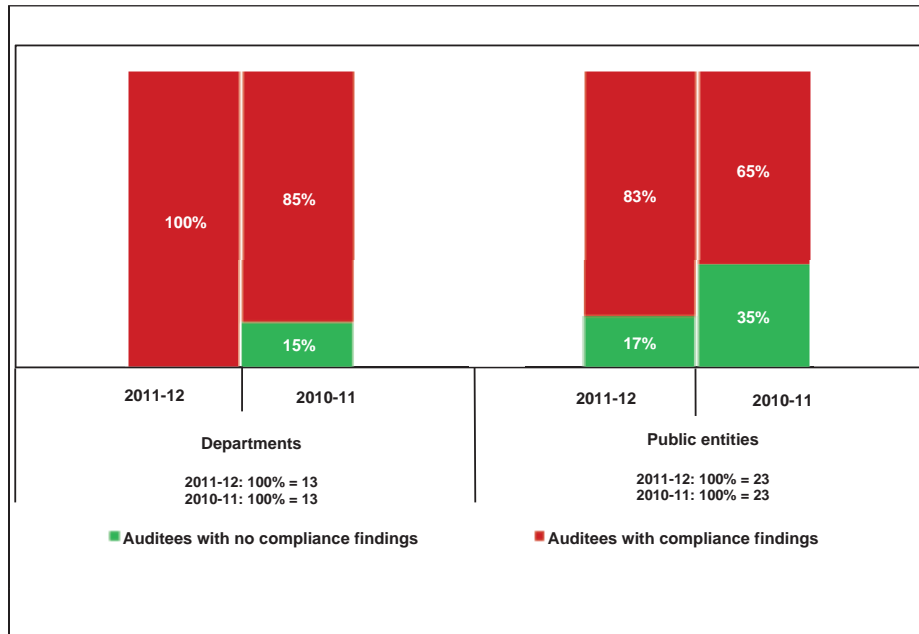
The PAA requires auditors of public sector entities to audit on an annual basis compliance with laws and regulations applicable to financial matters, financial management and other related matters.

**2.4.1 Overall outcomes from the audit of compliance with laws and regulations**

Movements in the number of auditees with findings on compliance with laws and regulations are shown in the following figure.



**Figure 15: Overall movements in number of auditees with compliance findings**



There has been an overall regression at both departments and entities compared to the previous year. All departments and 19 (83%) public entities had findings on non-compliance with laws and regulations. The Department of Agriculture and CoGHSTA that did not have findings on compliance with laws and regulations in the previous year, regressed from a clean audit opinion to a financially unqualified with findings on non-compliance only.

In the previous year, there were eight public or other entities that did not have any findings on non-compliance. The Limpopo Housing Fund sustained that outcome in the year under review while the remaining seven regressed to findings on non-compliance. This includes the Limpopo Roads Agency (Pty) that regressed from a clean audit opinion to financially unqualified with findings on non-compliance laws and regulations. The remaining six were new public entities taken over for auditing by the AGSA in the year under review in terms of section 4(3) of the PAA.

The most prevalent findings on non-compliance with laws and regulations relate

to annual financial statements and expenditure management findings, which is a repeat of the two most prevalent findings of the previous year. There is a lack of commitment of auditees to ensure that annual financial statements submitted for audit purposes are of a high standard and free from material misstatements. Auditees do not implement systems and processes to assist them to report in accordance with the accounting framework. This leads directly to the high prevalence of misstatements on “other disclosure items”. There appears to be a tendency to submit annual financial statements with the expectation that corrections would be pointed out by the audit team and that the AGSA would give management an opportunity to make corrections during the audit process.

Inadequate expenditure management in the province remains a concern and is reflected in the significant increase in unauthorised, irregular as well as fruitless and wasteful expenditure for the year under review. The high incidence of non-compliance with SCM legislation, as identified by the AGSA, inevitably led to an increase in irregular expenditure. At 19 (53%) of the auditees the accounting officers and accounting authorities implemented inadequate controls to prevent irregular expenditure and/or other non-compliance with SCM legislation.

The late payment of creditors has been a recurring material non-compliance finding. This was identified at 15 auditees. Late payment of suppliers impacts negatively on the ability of enterprises, especially small and medium enterprises, to continue providing services to the government. The instances of late payment increased on account of five departments being put under administration.

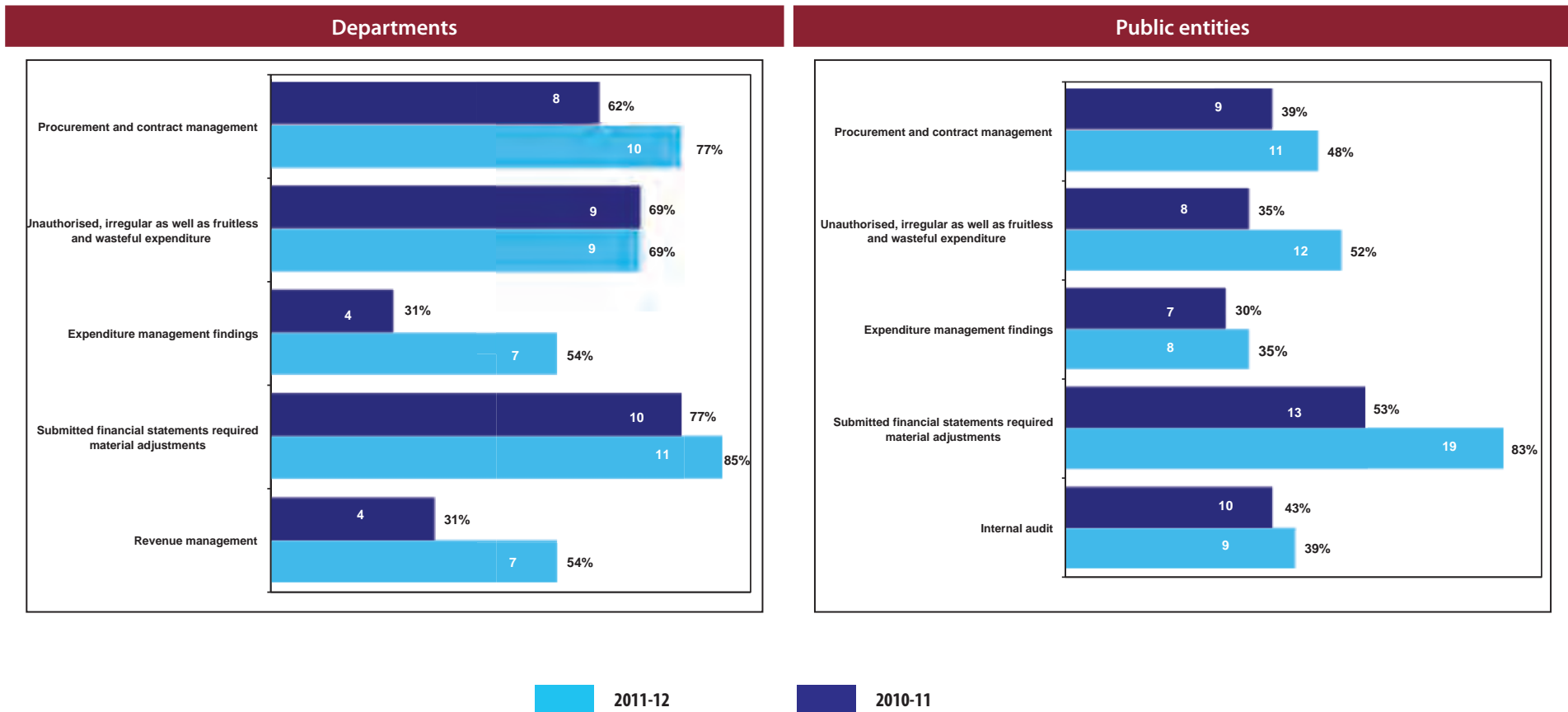
### 2.4.2 Compliance with laws and regulations findings

The procedures performed to obtain evidence that auditees had complied with applicable laws and regulations were limited to the following focus areas:

- Material misstatements in submitted annual financial statements
- Asset and liability management
- Audit committees
- Budgets
- Expenditure management
- Prevention of unauthorised, irregular as well as fruitless and wasteful expenditure
- Financial misconduct
- Internal audit units
- Revenue management
- Strategic planning and performance management
- Transfer of funds and conditional grants
- Procurement and contract management
- Human resource management and compensation.

The following figure depicts the significant overall movements on the different focus areas.

**Figure 16: Overall movements of findings on compliance with laws and regulations**



The table that follows shows the progress, or lack thereof, made by auditees in addressing their previous year's compliance findings.

**Table 10: Progress made by auditees in addressing previous year non-compliance findings**

Auditee	Movement in addressing 2010-11 non-compliance areas										
	Material misstatement / limitations in submitted annual financial statements	Unauthorised, irregular, as well as fruitless and wasteful expenditure	Procurement management	HR management	Expenditure management	Asset and liability management	Budgets	Internal audit	Audit committee	Revenue management	Other areas of non-compliance
<b>Departments</b>											
Agriculture			New								
Cooperative Governance, Human Settlements and Traditional Affairs	New		New								
Economic Development, Environment and Tourism	Repeat	Repeat	Addressed			Addressed				New	
Education	Repeat	Repeat	Repeat	Repeat	Repeat	Repeat	New			New	
Health	Repeat	Repeat	Repeat	Repeat	Repeat	Repeat	New	New		Repeat	
Office of the Premier	Repeat	Repeat	Repeat								
Provincial Legislature	Addressed				New						Repeat
Provincial Treasury	New	New		New							Repeat
Public Works	Repeat	Repeat	Repeat		New	Repeat				Repeat	
Roads and Transport	Repeat	Repeat	New							Repeat	
Safety, Security and Liaison	Repeat	Addressed	Repeat		New	New				Repeat	
Social Development	Repeat	Repeat	Repeat	Repeat	Repeat	Addressed				New	
Sport, Arts and Culture	Repeat	Repeat	Repeat	New	Repeat	Repeat					
<b>Public entities</b>											
Centennial Trading Company 145	Addressed							Addressed			
Corridor Mining Company 145	New										Addressed
Fumani Green Stone	New				New						
Gateway Airport Authority Limited	Repeat		New		New	New		Repeat	New		
Great North Transport	New	New	New			New		New		New	

Auditee	Movement in addressing 2010-11 non-compliance areas										
	Material misstatement / limitations in submitted annual financial statements	Unauthorised, irregular, as well as fruitless and wasteful expenditure	Procurement management	HR management	Expenditure management	Asset and liability management	Budgets	Internal audit	Audit committee	Revenue management	Other areas of non-compliance
Khumong Chrome Mine	New										
Limpopo Agribusiness Development Corporation	Repeat	Repeat	Repeat		Repeat			Repeat			
Limpopo Business Support Agency	Repeat	Repeat	Repeat		Repeat	Repeat	New	New	New		
Limpopo Development Enterprise	Repeat	Repeat	Repeat		Repeat	Repeat				Repeat	
Limpopo Gambling Board	Repeat	Addressed	Addressed		Addressed			Addressed	Addressed		
Limpopo Roads Agency	New	New	New		New		New		New		
Limpopo Tourism Agency	Repeat	Repeat	Repeat		Addressed	Repeat	New				Repeat
Mashashane Hatchery	Repeat	Repeat	Repeat		Addressed	Addressed		Repeat		Addressed	
Mokopane Kudumela Mining Investments	New										
Munumzvu Estate	Repeat	Repeat	Repeat			Addressed		Repeat		Addressed	
Mukumbani Tea Estates	Addressed							Addressed			
Mutale Agricultural Estate	Addressed							Addressed			
Risima Housing Finance Corporation	New	New						New	New		
Sefateng Chrome Mine	New	New			New						Addressed
Tshepong Chrome Mine	New										
Trade Investment Limpopo	Repeat	Repeat	Repeat		Repeat	New	New	Repeat	New		
Ventico	Repeat	New	Repeat					Repeat		Addressed	

The table that follows details the nature of the four most common findings on non-compliance with laws and regulations.

**Table 11: Nature of findings on non-compliance with laws and regulations**

Compliance findings category	Nature of findings
Expenditure management	Creditors were not paid within 30 days
Material misstatements	Financial statements submitted for auditing included material misstatements.
Unauthorised, irregular and fruitless and wasteful expenditure	The accounting officer/authority did not take reasonable steps to prevent unauthorised, irregular and/or fruitless and wasteful expenditure
Procurement and contract management	Details of the findings relating to procurement and contract management are highlighted in the section below

### 2.4.3 Findings arising from the audit of supply chain management

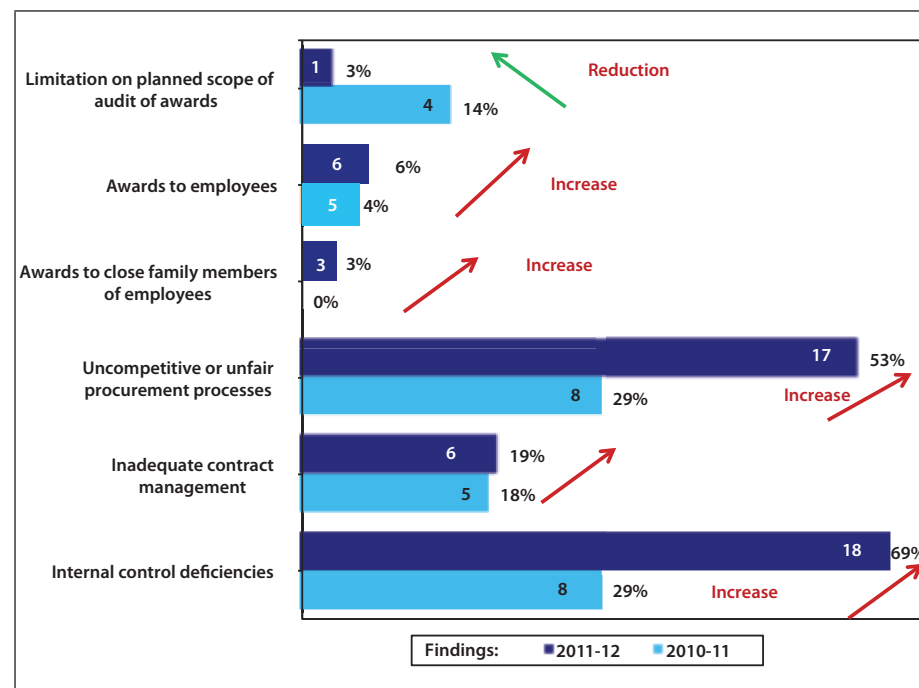
Audits conducted by the AGSA included an assessment of procurement processes, contract management and the related controls in place. To ensure a fair, equitable, transparent, competitive and cost-effective SCM system, the processes and controls need to comply with legislation and must minimise the likelihood of fraud, corruption, favouritism as well as unfair and irregular practices.

Findings arising from the audit were reported in the management reports of 22 (61%) of the auditees, while at 16 (50%) of these auditees the findings were material enough to warrant reporting thereof in the auditor's report.

Contracts awarded and price quotations accepted (referred to as "awards" in the remaining sections of this report) to the value of R5,6 billion were tested. Awards to the value of R739 million that were selected for auditing at the Department of Health could not be audited due to the required information or documentation not being made available. The breakdown is provided in table 12 below.

The following figure presents a summary of SCM findings, with a comparison to the audit results of the previous year. The percentages are based on the number of auditees reported on.

**Figure 17: Summary of findings on supply chain management**



Details of the most prevalent findings are provided in the paragraphs that follow.

#### 2.4.3.1 Limitations on planned scope of audit of awards

At the Department of Health, sufficient appropriate audit evidence could not be provided that awards had been made in compliance with the requirements of SCM legislation for some of the awards selected for testing. No alternative audit procedures could be performed to obtain reasonable assurance that the expenditure incurred in respect of these awards was not irregular. The detail on the limitations and the number of awards is depicted in the table below. A scope limitation was also experienced at this department in the previous year.

**Table 12: Limitations experienced**

Auditee	Number of awards	2011-12 Amount	2010-11 Amount
<b>Departments</b>			
Education	0	0	R191 million
Health	31	R739 million	R33 million
Public Works	0	0	R10 million
Social Development	0	0	R52 million

The reasons for the limitations were bidding and quotation documents that were missing or could not be produced timeously as a result of weak record and document management systems. Another factor was the lack of cooperation by the department in providing requested documentation and information timeously during the audit process. Due to these limitations, the findings reported in the remainder of this section might not reflect the full extent of irregularities and SCM weaknesses at the department.

#### 2.4.3.2 Awards to state officials and close family members

The audit included an assessment of the interest of officials of the auditees and their close family members in suppliers of the auditees.

Legislation does not prohibit such awards but there are policies and legislation in place to ensure that conflicts of interest do not result in the unfair awarding of contracts or acceptance of unfavourable price quotations. Legislation also requires employees to obtain approval for performing remunerative work outside their employment.

Where interests were identified, compliance with SCM legislation and policies of the auditees was tested. The awards identified were also tested with the view to identify possible non-compliance or irregularities that could be an indication that decisions or recommendations were unlawfully and improperly influenced.

The detail on the awards made and information on whether they complied with the legislated requirements are depicted in the table below.



**Table 13: Awards to officials in the employ of auditees and their close family members**

Auditee	Awards made to					No-compliance with regard to awards made							
	Officials			Close family members of officials		Supplier not declare interest		Official did not declare interest		Other remunerative work not approved		Non-compliance/irregularity in procurement process	
	Number*	Amount	Positions	Number*	Amount	Number*	Amount	Number*	Amount	Number*	Amount	Number*	Amount
<b>Departments</b>													
Agriculture										14	No amount		
Co Operative Governance, Human Settlements and Traditional Affairs										24	No amount		
Education	303	R68,6 million	Directors, heads of department and employees	61	R19,4 million	303	R68,8 million					350	R230 million
Health	26	R8,2 million	Directors, heads of department, senior managers and other employees	23	R4,4 million	26	R8,2 million	26	R8,2 million	26	R8,2 million	5	R66 million
Office of the Premier				1	R91 000			1	R91 000			29	R2,2 million
Public Works												282	R24 million
Safety, Security and Liaison												4	R242 118
Social Development												26	R12,4 million
Sport, Arts and Culture						6	R519 050					7	R10 million
<b>Public entities</b>													
Gateway Airport Authority Limited												51	R4,8 million

Auditee	Awards made to					No-compliance with regard to awards made							
	Officials			Close family members of officials		Supplier not declare interest		Official did not declare interest		Other remunerative work not approved		Non-compliance/ irregularity in procurement process	
	Number*	Amount	Positions	Number*	Amount	Number*	Amount	Number*	Amount	Number*	Amount	Number*	Amount
Great North Transport												11	R11,4 million
Limpopo Agribusiness Development Enterprise												2	R1,6 million
Limpopo Business Support Agency												42	R8 million
Limpopo Development Enterprise												9	R2 million
Limpopo Roads Agency												9	R702,3 million
Limpopo Toursim Agency												94	R5,8 million
Mashashane Hatchery												19	R901 571
Munumzwu Estate												3	R198 000
Sefateng Chrome Mine												2	R1,3 million
Trade Investment Limpopo												40	R5,8 million
Ventico												2	R3,6 million
<b>Total</b>	<b>329</b>	<b>R76,8 million</b>		<b>85</b>	<b>R24 million</b>	<b>335</b>	<b>R77,51 million</b>	<b>27</b>	<b>R8,2 million</b>	<b>64</b>	<b>R8,2 million</b>	<b>987</b>	<b>R1 092,3 billion</b>

\*Number indicates number of instances

A significant number of awards made by the Department of Education were mainly to employees and/or family members of teachers, departmental heads, principals and managers.

### 2.4.3.3 Uncompetitive or unfair procurement processes

Our audits also focus on whether procurement processes followed were fair and competitive in that they provided all suppliers equal opportunity to compete for public sector contracts and that the process does not unfairly favour some suppliers above others.

It is important that the prescribed processes are followed to ensure that the selected supplier meets the requirements and has the capacity and ability to deliver the goods and services, and that those goods and services are procured at competitive and economical prices.

The procurement processes of 987 contracts (R5,4 billion) and 2 050 quotations (R0,2 billion) were tested at 13 departments and 19 public entities. The most prevalent findings on non-compliance with SCM legislation that resulted in uncompetitive or unfair procurement processes are summarised in the following table – similar findings were identified in the province in the previous year.

**Table 14: Summarised findings on uncompetitive or unfair procurement processes**

Finding	DP	PE	Nature of finding
<b>Three price quotations not obtained/ deviations not approved or justified</b>	3 (23%)	8 (42%)	A price quotation process is prescribed for procurement of goods and services valued between R10 000 and R500 000. Three price quotations were not in all instances obtained from prospective providers and the deviations were not approved by a properly delegated official or committee as required.

Finding	DP	PE	Nature of finding
<b>Competitive bids not invited/ deviations not approved or justified</b>	4 (13%)	7 (37%)	A competitive bidding process should be followed for the procurement of goods and services above R500 000. Competitive bids were not always invited and the deviations were not approved by a properly delegated official.
<b>Preference point system not applied or not correctly applied</b>	3 (23%)	4 (21%)	The preference point system was not applied in all procurement of goods and services above R30 000, as required by the Preferential Procurement Policy Framework Act.
<b>Other findings</b>	3 (23%)	3 (16%)	Other findings include the following: <ul style="list-style-type: none"> <li>• Quotations were not obtained from the listed prospective suppliers/suppliers meeting listing requirements.</li> <li>• Bids were advertised for shorter periods – no approval of deviation.</li> <li>• Prospective supplier list was not administered in accordance with requirements.</li> </ul>

DP = departments, PE = public entities

### 2.4.3.4 Inadequate contract management

Shortcomings in the manner in which contracts are managed result in delays, wastage and fruitless expenditure, which in turn impact directly on service delivery.

The most prevalent findings on inadequate contract management are summarised in the following table – similar findings were identified in the previous year.

**Table 15: Summarised findings on contract management**

Finding	DP	PE	Nature of findings
<b>No written contract/ contract not signed by delegated official</b>	1(8%)	-	Goods and services were received and payments were made to suppliers without a written, signed contract.
<b>Inadequate contract performance measures and monitoring</b>	1(8%)	-	Measures applied in monitoring the performance of contractors were not sufficient to ensure that contractors delivered in accordance with the contract.
<b>Other findings</b>	-	1(5%)	Contracts were extended or renewed to avoid competitive bidding processes.

DP = departments, PE = public entities

### 2.4.3.5 Inadequate supply chain management controls

Findings on the most prevalent identified deficiencies in fundamental SCM controls are summarised in the following table – similar findings were identified in the previous year.

**Table 16: Summarised findings on supply chain management controls**

Finding	DP	PE	Nature of findings
<b>Inadequate controls to ensure interest is declared</b>	5 (38%)	1(5%)	<p>The controls at some auditees were inadequate to ensure that:</p> <ul style="list-style-type: none"> <li>officials declare whether they or their close family members, partners and associates have interests in suppliers to the auditee</li> <li>suppliers declare any connections to persons in service of the auditee or other state institutions</li> <li>there is no performance of remunerative work without adequate approval.</li> </ul>

Finding	DP	PE	Nature of findings
<b>SCM policies/ procedures/ fraud prevention plan did not provide measures for prevention of abuse of SCM system</b>	1(8%)	3(16%)	SCM is generally an area of considerable risk at most of the departments. However, the risk assessments performed by some departments did not identify the risk.
<b>No processes to report any breach of or failure to comply with the SCM system</b>	-	3(16%)	Measures applied in monitoring the performance of contractors were not sufficient to ensure that contractors delivered in accordance with the contract as the auditee did not have a system in place to record all the payments and monitor the budget of all the contracts they had entered into.
<b>Other controls</b>	3(23%)	4(21%)	<ul style="list-style-type: none"> <li>SCM policy/procedures were in conflict with applicable legislation/did not include all requirements.</li> <li>SCM officials were not aware of SCM policies/did not understand their roles and responsibilities.</li> <li>Inadequate controls for vendor acceptance and maintenance.</li> </ul>

DP = departments, PE = public entities

### 2.4.4 Unauthorised, irregular as well as fruitless and wasteful expenditure incurred

Legislation requires accounting officers to take reasonable steps to ensure that unauthorised, irregular as well as fruitless and wasteful expenditure is prevented. Although there is an expectation that no such expenditure should be incurred, it is not always possible for an accounting officer to prevent the occurrence thereof even if all reasonable steps had been taken. In those exceptional circumstances where it does occur, legislation makes it compulsory for auditees to disclose

such expenditure in their financial statements and a detailed accountability process is prescribed, which could result in disciplinary processes and recovery of monies from liable officials.

Unauthorised, irregular or fruitless and wasteful expenditure was incurred by 22 (61%) auditees. The audits further revealed that the accounting officers of 21 (58%) auditees did not ensure that reasonable steps were taken to prevent this type of expenditure. This was reported in the auditor's reports as material non-compliance.

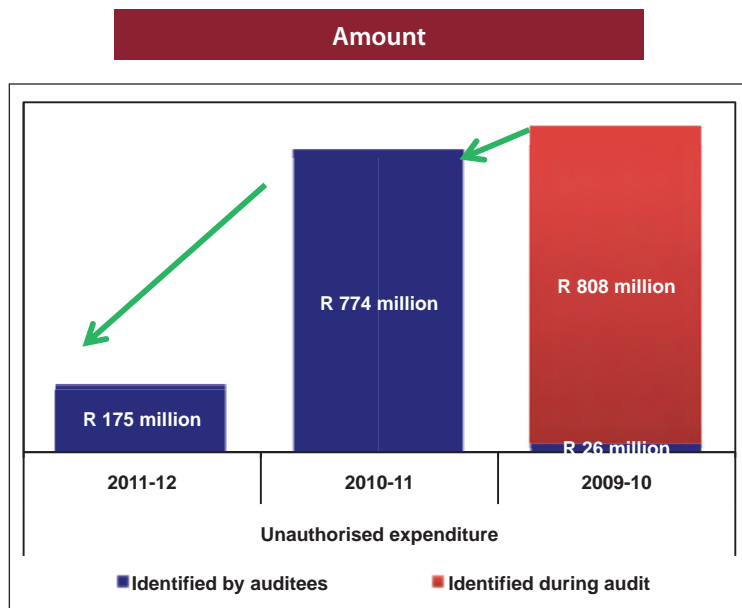
The extent of this expenditure and non-compliance by the accounting officers is indicative of an environment where incurring unauthorised and irregular expenditure has become the norm and not the exception. Reasonable steps are not taken to prevent such expenditure, while the occurrence thereof is also not detected by auditees and is mostly identified during the AGSA's audit process.

**Nature and overall trends in unauthorised expenditure (departments only)**

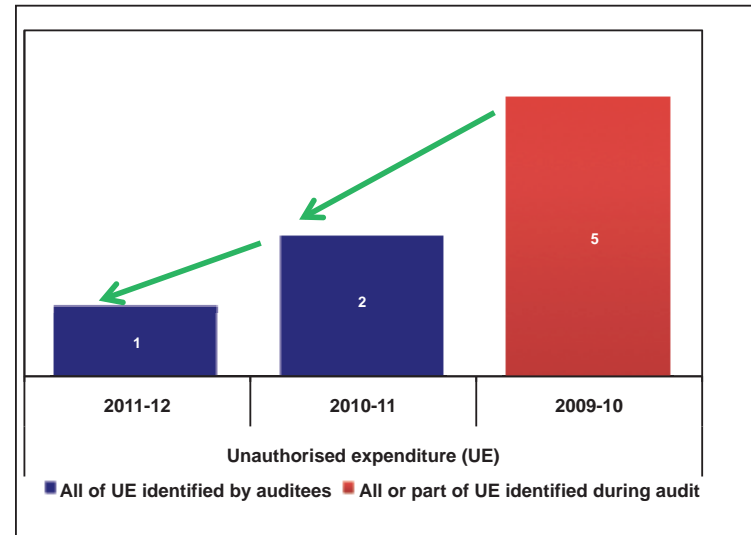
The figure below reflects the three-year trend in unauthorised expenditure.

58

**Figure 18: Three-year trend in unauthorised expenditure**



**Number of auditees (2011-12: 8%)**



The nature of unauthorised expenditure incurred is analysed in the following table.

**Table 17: Nature of and current year movements in unauthorised expenditure**

Nature	Number of auditees	Movement in number of auditees from 2010-11	Amount	Movement in amount from 2010-11
Overspending of votes/main division within votes	1	50%	R175 million	74%
Expenditure not in accordance with votes	0	100%	R0 million	100%

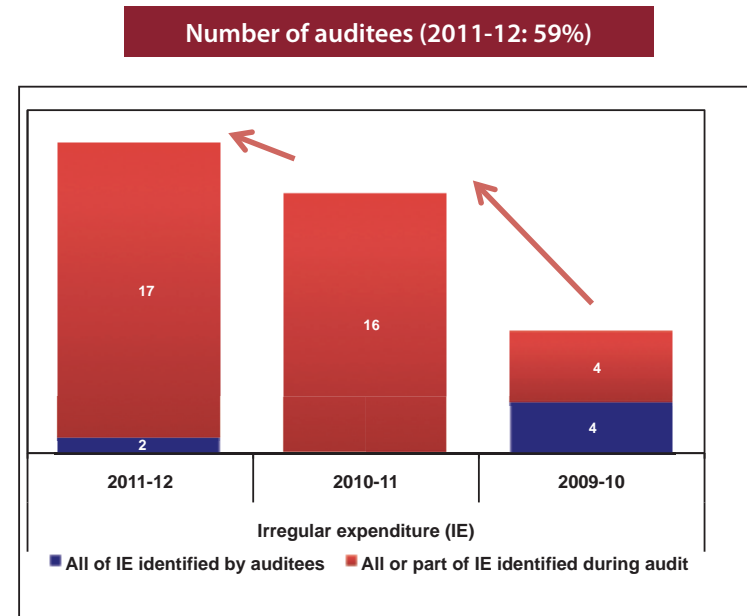
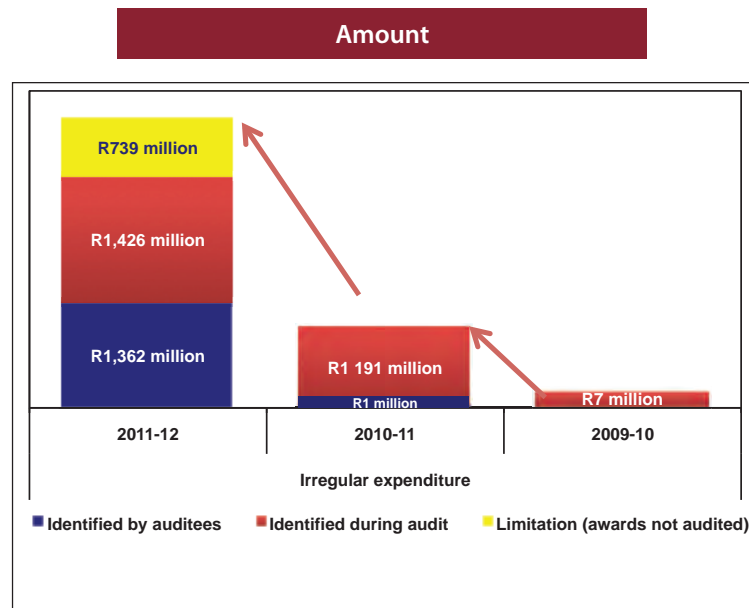
Note: 'Unchanged' denotes an increase/reduction of 5% or less in the level of findings compared to the previous financial year.

The Department of Education incurred the entire unauthorised expenditure of R175 million and this was in respect of overspending of the vote. The reduction in the unauthorised expenditure from the previous year was due to control measures that were put in place by the national intervention team to mitigate over expenditure. They also assisted in establishing a more credible budgeting process for the province.

### Nature and overall trends in irregular expenditure

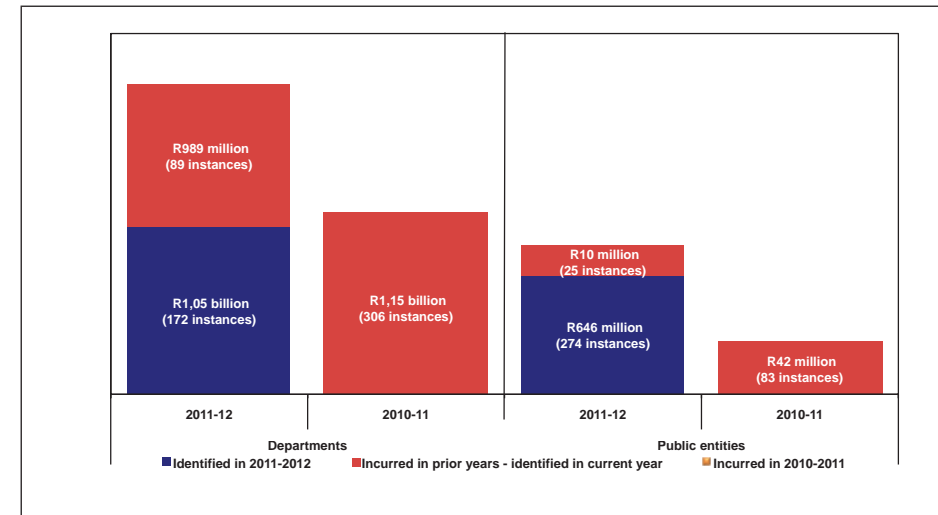
The figure that follows reflects the three-year trend for irregular expenditure.

**Figure 19: Three-year trend in irregular expenditure**



The following figure shows the extent of the irregular expenditure that occurred as a result of transgressions in the current and previous years and those that occurred in previous years but were only recently discovered.

**Figure 20: Irregular expenditure incurred – current and previous years**





The nature of irregular expenditure incurred is analysed in the following table.

**Table 18: Nature of and current year movements in irregular expenditure**

Nature	Number of auditees	Movement in number of auditees from 2010-11	Amount	Movement in amount from 2010-11	Number of instances	Movement in amount from 2010-11
Related to SCM	18	20%	R2,681 million	135%	444	7%
Related to compensation of employees	2	100%	R106 million	62 447%	2	100%
Other non-compliance	1	0%	R1 million	89%	1	0%

60

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's 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. We could not determine whether 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.

The irregular expenditure on compensation of employees was incurred at the Department of Health and Roads Agency Limpopo (Pty) Ltd. At the Department of Health the irregular expenditure was incurred as the budget for the compensation of employees' was exceeded in contravention of Treasury Regulation 3.2.11(b). The Roads Agency Limpopo incurred irregular expenditure due to the CFO acting in a position for longer than 12 months.

The number of auditees with SCM-related irregular expenditure increased by 20% and the amounts incurred increased by 135% in the current year. Uncompetitive or unfair procurement processes remain an issue for all departments and entities. The main reasons for increase are inadequate contract management, controls and monitoring of the entire process of inviting bids, assessing the bids according to the specific criteria and the awarding of tenders.

The findings on procurement processes and contract management are indicative of an environment where the leadership and oversight bodies give insufficient attention to the implementation, enablement, enforcement and monitoring of compliance with the SCM legislation. Departments and entities that continue to incur irregular expenditure suffer from a poor internal control culture with inadequate emphasis placed on the prevention and detection of deviation from SCM prescripts. The control environment is also compromised with the high vacancy rates at SCM units at some departments and entities. This creates opportunities to perpetrate fraud by intentionally not complying with SCM prescripts. There are no consequences taken against officials who deliberately or negligently do not comply with SCM prescripts. This sets a precedent that the leadership is tolerant of poor performance, which results in recurring findings on SCM.

It is also important to note that more than half of the irregular expenditure incurred by departments and entities was identified by the external auditors, indicating that the internal controls of the departments and entities failed to detect these deviations.

Subsequent to the intervention in the province in December 2011, the adjudication process was stopped. The national task team and the provincial treasury had identified the following four critical areas which need serious attention:

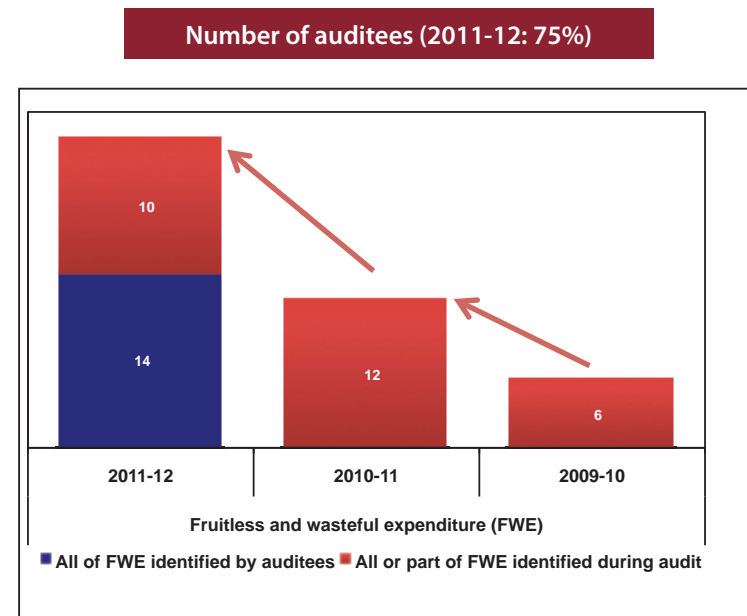
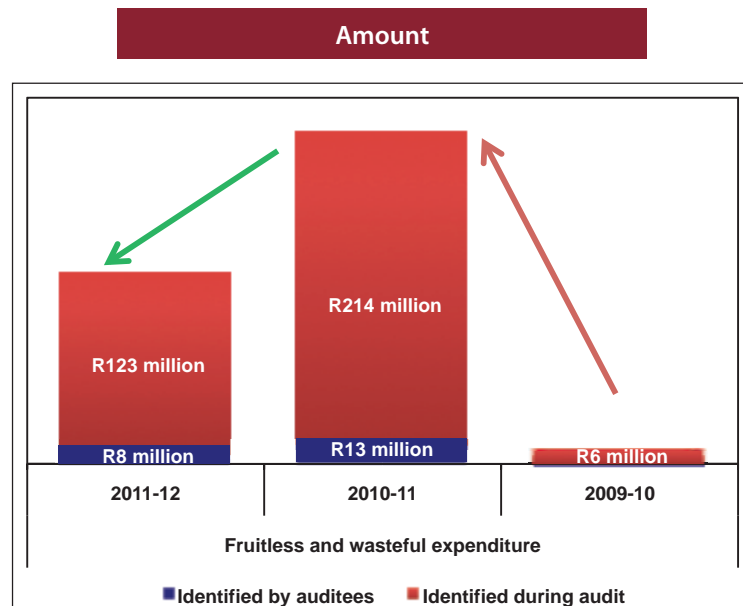
- SCM practitioners skills gaps
- Non-compliance with procurement plan
- Inadequate contract management
- No commitments to strategic sourcing to leverage economies of scale. The current procurement system was open to abuse and the province continued to pay excessive prices for the acquisition of goods and services

The administration team revoked the annual exemption circular issued by the provincial treasury, which was in contravention of SCM prescripts, which was in place at certain departments. However, the administrators assigned to the province are yet to provide viable solutions to address irregularities in the tender process to prevent and eradicate further non-compliance with SCM regulations.

### Nature and overall trends in fruitless and wasteful expenditure

The figure below reflects the three-year trend in fruitless and wasteful expenditure.

**Figure 21: Three-year trend in fruitless and wasteful expenditure**



The nature of fruitless and wasteful expenditure incurred is analysed in the following table.

**Table 19: Analysis of fruitless and wasteful expenditure**

Nature	Number of auditees	Movement in number of auditees from 2010-11	Amount	Movement in amount from 2010-11	Number of instances	Movement in amount from 2010-11
Actual fruitless and wasteful expenditure	24	100%	R131 million	42%	104	30%

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)
- Social Development (R11 million)

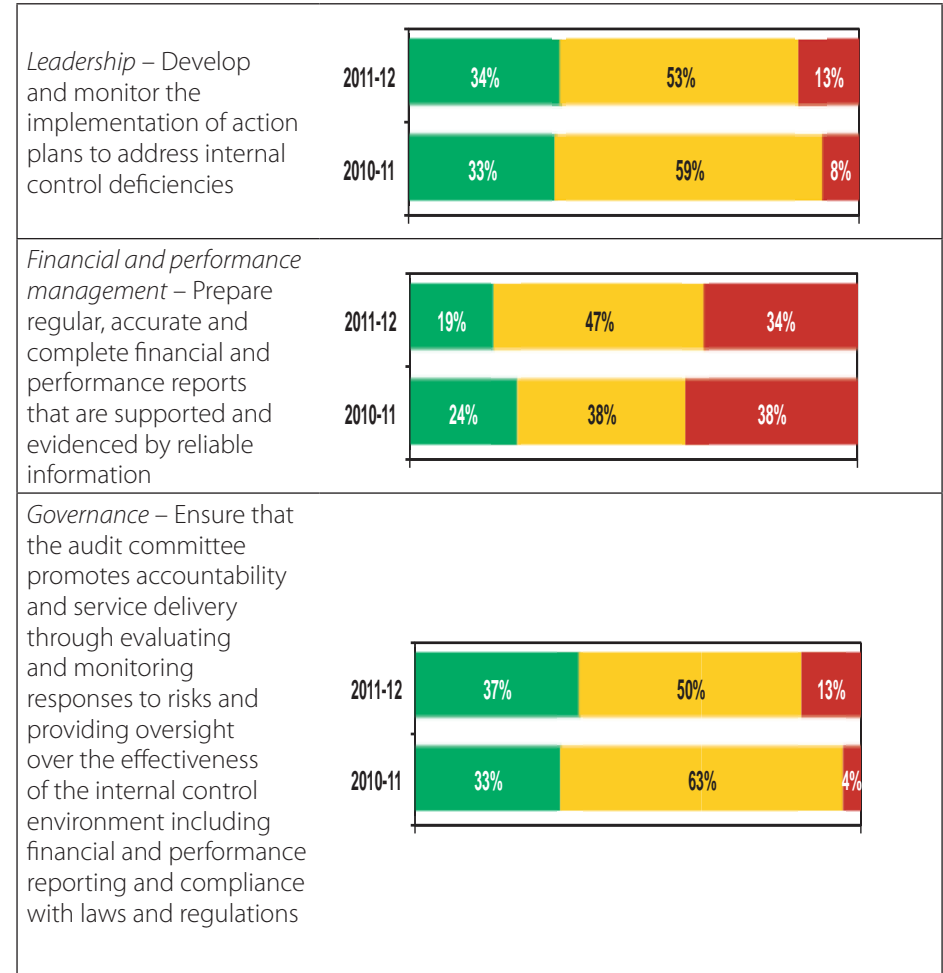
Overall, fruitless and wasteful expenditure decreased by 43% from the previous year, and this decrease is also attributable to the implementation of austerity measures by the national intervention team. However, there has been a 92% increase in the number of auditees incurring fruitless and wasteful expenditure from the previous year. This was primarily on account of an increase in the number of instances identified at the public entities.

### 2.4.5 Root causes and best practice recommendations

The existence of a sound system of internal control influences the ability of auditees to enforce adherence to legislation and to discharge their statutory responsibilities. The key drivers of these controls are classified under the fundamental principles of (i) leadership; (ii) financial and performance management; and (iii) governance. More information on the specific drivers of internal controls and recommendations are provided in section 3 of this report.

The figure that follows indicates the significant deficiencies in the internal control that requires attention from the leadership to improve the audit outcomes.

**Figure 22: Assessment of drivers of internal control over reporting on compliance with laws and regulations**



Identified root causes, which gave rise to this assessment and the recommended way forward, are summarised as follows.

**Table 20: Identified root causes and way forward (good practices)**

Aspect	Identified root causes and way forward
<b>Leadership tone</b>	<p>All departments and entities had findings on non-compliance with laws and regulations and at a majority of auditees the findings identified are recurring.</p> <p>Where the leadership displays no concern over the control environment of the entity, this tone at the top filters down to the officials and a culture of non-compliance with laws and regulations becomes the norm.</p> <p>At some departments and entities, there is an apparent lack of day-to-day monitoring and involvement by the leadership in the administration of the department, including taking ownership in addressing key control deficiencies. The leadership also becomes involved very late in the audit process to influence audit outcomes.</p>
	<p><u>Way forward</u></p> <p>The right leadership tone, with the support of the audit committee and internal audit unit, is necessary to establish a strong control environment and ensure compliance.</p> <p>Audit action plans must not only address the non-compliance findings identified by the AGSA and the internal audit unit, but must also contain initiatives to prevent non-compliance from happening. As highlighted above, the leadership must set the correct tone at the top by taking the necessary action against those departments and entities that do not comply with laws and regulations.</p> <p>It is critical that the leadership becomes more involved in the day-to-day operations of departments and entities. The leadership must obtain from management, as the first level assurance provider, the status of the entity's compliance and whether the control environment is effective in identifying and addressing violations with laws and regulations. The internal audit unit is there to provide an additional level of assurance regarding the effectiveness of the entity's controls.</p> <p>The executive and portfolio committees need to start interacting with the audit committees at least on a quarterly basis to determine the status of their entities' internal control environment.</p>

Aspect	Identified root causes and way forward
<b>Systems and processes</b>	<p>Although many auditees do have policies and procedures to monitor compliance with laws and regulations, there is a lack of communication of any new or amended policies and procedures to officials.</p> <p>The national intervention team, as part of its recovery plan for the province, would also address transversal issues pertaining to key processes that would be included in new or enhanced policies and procedures.</p>
	<p><u>Way forward</u></p> <p>Monitoring should take place at more frequent intervals, such as on a monthly basis, by dedicated/designated staff members with a view to detect, or preferably prevent non-compliance. The introduction of compliance checklists will give some assurance that controls are achieving the required level of adherence.</p> <p>Officials should be sensitised to all new or amended policies and procedures.</p>

Aspect	Identified root causes and way forward
<b>Oversight and monitoring</b>	<p>The lack of continuous oversight and monitoring by the leadership is one of the main drivers in the regression on compliance with laws and regulations. Non-compliance matters are not dealt with in a proactive manner, thereby resulting in recurring findings.</p> <p>Of particular concern in the area of non-compliance was the number of departments and entities that did not comply with SCM prescripts, which resulted in the significant increase in irregular expenditure.</p> <p>The oversight role of portfolio committees of the legislature was compromised due to the fact that there was no process to ensure the credibility of reports made by accounting officers to these committees. In many instances progress was reported only for the subsequent audit process to reveal that no progress had in fact been made.</p>
	<p><u>Way forward</u></p> <p>It is of paramount importance that the leadership introduces a culture of discipline and setting the right tone. It will go a long way towards dealing with some of the fundamental reasons for recurring non-compliance issues. The involvement of the leadership in the day-to-day operations, including involvement in the audit process, should become a standard practice in the province.</p> <p>The portfolio committees also need to intensify their oversight role by holding accountable those departments that continue to obtain recurring findings on non-compliance with laws and regulations.</p> <p>Subsequent to my reports being issued it was agreed that for departments, the provincial treasury would utilise internal audit to monitor actual progress on turnaround strategies versus that reported by accounting officers. It has also been agreed that a process to facilitate communication between the portfolio committee and the audit committee would be put into place.</p>

Aspect	Identified root causes and way forward
<b>Effective governance measures</b>	<p>The leadership does not periodically seek the findings and views of audit committees and internal audit units on internal control and risk management. It also does not monitor implementation of recommendations by the audit committees and internal audits with a view to remedial action.</p> <p>While the capacity and general skills of the provincial government's shared internal audit unit have greatly improved over the last few years, this is negated by the fact that little attention is paid to addressing audit findings.</p> <p>The roles and function of the audit committees and internal audit units becomes insignificant if recommendations made are not implemented timeously.</p> <p>At the date of this report, there were about 1400 internal audit findings that remained unresolved at the departments.</p>
	<p><u>Way forward</u></p> <p>Meetings between the audit committee and the various executive authorities must take place on a quarterly basis to discuss the progress made in addressing internal control deficiencies. While the provincial leadership had committed to such meetings in November 2011, the distraction of the national intervention resulted in them not being held.</p> <p>Immediate intervention is required by the leadership to ensure that the province addresses the findings and recommendations raised by the internal audit unit.</p>

## 2.5 NATIONAL INTERVENTION IN TERMS OF SECTION 100(1)(B) OF THE CONSTITUTION

On 5 December 2011, the national executive 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 SCM processes and under- as well as overspending.

In terms of section 100(2) of the Constitution, the National Council of Provinces (NCOP) has to approve the intervention and also review it regularly while in process. During May 2012 the NCOP's Select Committee on Finance conducted an oversight visit to the province to look at the intervention. While recommending that the intervention continue, they also raised concerns with regard to the following:

- The absence of national legislation to regulate the processes under which the intervention takes place as provided for by section 100(3) of the Constitution.
- The fact that action plans drawn up to address identified challenges had not yet been approved by the ministerial task team overseeing the intervention.

In addition to the absence of national legislation as intended by section 100(3) of the Constitution, terms of reference setting out the respective roles and responsibilities of both the intervention team as well as the existing (political and administrative) leadership in the province had not been determined and agreed on. Once the provisions of section 100 of the Constitution are implemented, there are no further regulations in place to guide the administration process by distinguishing and clarifying the various roles and responsibilities of officials between the national and provincial spheres of government. There was also a conflict with other laws and regulations as the HoDs still remained responsible for day-to-day activities notwithstanding the fact that their powers were revoked by the administration. This led to a certain degree of confusion regarding the process and created a space which uncooperative officials could abuse to try and avoid their responsibilities.

Despite the premier's public affirmations of cooperation, there was resistance to the intervention process amongst officials at all levels. This resistance and resulting frustration contributed to the late or non-submission of required documents during the audit process. This ultimately resulted in the audit opinions for Education, Health and Public Works being disclaimed.

The immediate focus of the intervention team was on managing the cash flow, eradicating the existing overdraft and curbing SCM irregularities. The 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.

After the previous audit outcomes had been discussed with the provincial leadership towards the end of 2011, the provincial treasury, as an oversight department responsible for financial management, initiated various actions to address identified weaknesses. These included a transversal IT intervention to identify and deal with weaknesses in the IT environment and a financial skills audit across the province to identify weaknesses and recommend corrective action. Both actions were based on AGSA recommendations aimed at addressing vulnerable areas within the provincial administration. The national intervention team responsible for the provincial treasury halted both these initiatives. While an alternative to the skills audit was suggested and implemented, it did not address the problem. Furthermore, for the period immediately after the intervention was announced (December 2011 to February 2012), the leadership's attention was diverted by the intervention and action plans to address previous audit outcomes received minimal attention even at those departments not directly affected by the intervention. By the time that attention was once again placed on the departmental action plans in March 2012, it was nearly financial year-end and too late to have a meaningful impact on the outcomes.





# SECTION 3

## AUDITEES' SYSTEMS OF INTERNAL CONTROL

3.1 OVERALL STATUS OF INTERNAL CONTROL

3.2 HUMAN RESOURCE MANAGEMENT

3.3 MANAGEMENT OF INFORMATION TECHNOLOGY

3.4 AUDIT COMMITTEES AND INTERNAL AUDIT UNITS



AUDITOR - GENERAL  
SOUTH AFRICA



# SECTION 3:

## AUDITEES' SYSTEMS OF INTERNAL CONTROL

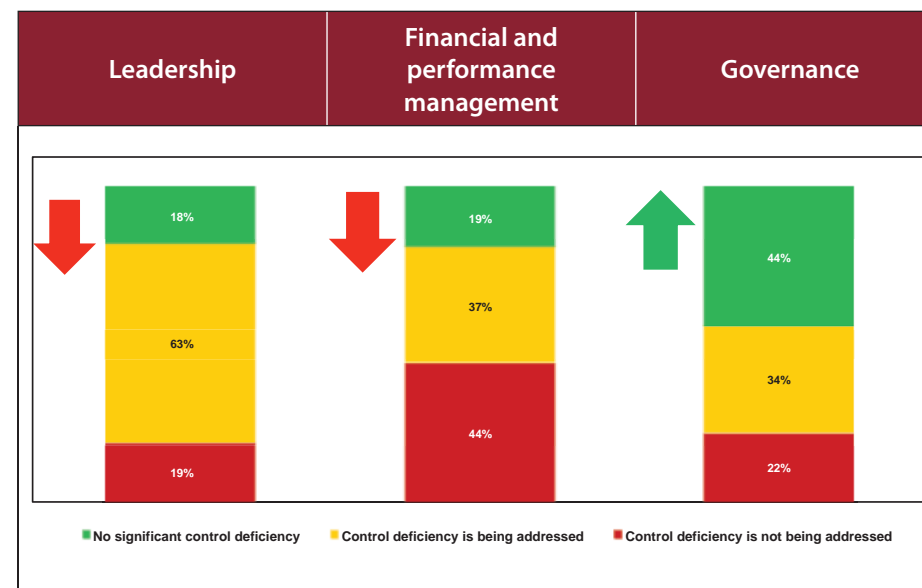
This section provides a view of the status of the systems of internal controls at the auditees at the time of the audit. The overall status is presented (section 3.1) followed by a specific focus on human resource management (section 3.2), IT management (section 3.3), audit committees and internal audit units (section 3.4).

### 3.1 OVERALL STATUS OF INTERNAL CONTROL

A key responsibility of accounting officers/authorities and other officials is to implement and maintain effective and efficient systems of internal control. As part of the audits the auditee's system of internal control is assessed to determine its effectiveness in ensuring reliable financial and performance reporting and compliance with laws and regulations, which in turn will result in a clean audit. For purposes of focusing corrective action, the principles of the different components of internal control have been categorised under leadership, finance and performance management and governance. These are termed the drivers of internal control.

The figure below provides the overall assessment of these drivers at the time of the audit, based on significant deficiencies identified in internal control, which resulted in material misstatements in financial and performance reports and findings on non-compliance with laws and regulations.


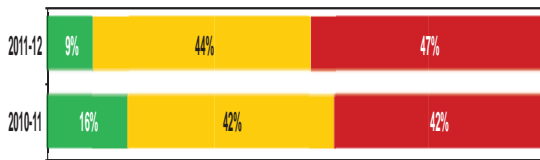
**Figure 23: Overall assessment of drivers of internal control**


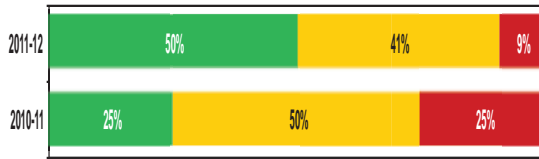


As can be seen from the above figure there has been an increase in the number of auditees with internal control deficiencies in leadership and financial and performance management while the number of auditees with deficiencies at their governance structures has decreased. Although there has been a marginal overall improvement at some entities, the majority of the entities in the province did not make any significant progress during the year under review. Furthermore, the growth in governance skills and capacity is to some extent negated in that their findings do not always receive adequate attention and they also do not always have sufficient time to make a significant difference to the financial and other information prepared for audit.

The status of the internal control elements underlying leadership, financial and performance management and governance and movements in the implementation thereof is presented in the following table.

**Table 21: Status of internal control**

Driver no. 1: Leadership													
Provide effective leadership based on a culture of honesty, ethical business practices and good governance, protecting and enhancing the interests of the entity.	 <table border="1"> <caption>Driver no. 1: Leadership Data</caption> <thead> <tr> <th>Year</th> <th>Green (%)</th> <th>Yellow (%)</th> <th>Red (%)</th> </tr> </thead> <tbody> <tr> <td>2011-12</td> <td>34%</td> <td>56%</td> <td>10%</td> </tr> <tr> <td>2010-11</td> <td>46%</td> <td>41%</td> <td>13%</td> </tr> </tbody> </table>	Year	Green (%)	Yellow (%)	Red (%)	2011-12	34%	56%	10%	2010-11	46%	41%	13%
Year	Green (%)	Yellow (%)	Red (%)										
2011-12	34%	56%	10%										
2010-11	46%	41%	13%										
<ul style="list-style-type: none"> <li>The tone set from the top and commitments made by the provincial leadership that are carried out are key factors towards achieving clean audit outcomes. Effective leadership should be evident through active monitoring of performance, quality of work and outputs of key officials and their timeous action in instances of poor performance. The leadership should further set the tone through timeous action in instances of contravention of laws and regulations as well as failure to fulfil statutory duties. For various reasons we have experienced that these commitments are easily made but seldom implemented.</li> <li>The awarding of contracts to employees and other state officials or awards to close family members of employees was identified at three departments and this further eroded the control environment at these auditees.</li> <li>When officials are not held accountable for their actions, a perception is created that such behaviour and its results are acceptable and tolerated, which further worsens a culture of non-compliance.</li> </ul>													
Exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.	 <table border="1"> <caption>Exercise oversight responsibility Data</caption> <thead> <tr> <th>Year</th> <th>Green (%)</th> <th>Yellow (%)</th> <th>Red (%)</th> </tr> </thead> <tbody> <tr> <td>2011-12</td> <td>9%</td> <td>44%</td> <td>47%</td> </tr> <tr> <td>2010-11</td> <td>16%</td> <td>42%</td> <td>42%</td> </tr> </tbody> </table>	Year	Green (%)	Yellow (%)	Red (%)	2011-12	9%	44%	47%	2010-11	16%	42%	42%
Year	Green (%)	Yellow (%)	Red (%)										
2011-12	9%	44%	47%										
2010-11	16%	42%	42%										

Driver no. 1: Leadership													
<ul style="list-style-type: none"> <li>The provincial executive leadership and accounting officers/authorities did not take full ownership of the key controls and satisfied themselves that identified areas of non-compliance received the required level of attention.</li> <li>Lack of periodic review of progress made by management in addressing external audit findings.</li> <li>The national intervention in the province had to some extent also hampered the leadership at the five departments from effectively carrying out their oversight responsibilities regarding financial and performance reporting and compliance. The intervention team did not clarify the roles and responsibilities of the incoming administration staff and the existing staff, including the executive authority, of these departments.</li> <li>Limited or no interaction between the audit committee and the provincial executive leadership of the various departments and entities. This prevents the leadership from understanding the status of the control environment and the full extent of any internal control deficiencies. In the absence of such interactions, the leadership cannot be proactive in instituting measures to address internal control deficiencies, which ultimately results in poor audit outcomes</li> </ul>													
Implement effective human resource management to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored.	 <table border="1"> <caption>Implement effective human resource management Data</caption> <thead> <tr> <th>Year</th> <th>Green (%)</th> <th>Yellow (%)</th> <th>Red (%)</th> </tr> </thead> <tbody> <tr> <td>2011-12</td> <td>34%</td> <td>53%</td> <td>13%</td> </tr> <tr> <td>2010-11</td> <td>23%</td> <td>63%</td> <td>8%</td> </tr> </tbody> </table>	Year	Green (%)	Yellow (%)	Red (%)	2011-12	34%	53%	13%	2010-11	23%	63%	8%
Year	Green (%)	Yellow (%)	Red (%)										
2011-12	34%	53%	13%										
2010-11	23%	63%	8%										
<b>Section 3.2 provides an analysis of human resource management</b>													
Establish and communicate policies and procedures to enable and support understanding and execution of internal control objectives, processes and responsibilities.	 <table border="1"> <caption>Establish and communicate policies and procedures Data</caption> <thead> <tr> <th>Year</th> <th>Green (%)</th> <th>Yellow (%)</th> <th>Red (%)</th> </tr> </thead> <tbody> <tr> <td>2011-12</td> <td>50%</td> <td>41%</td> <td>9%</td> </tr> <tr> <td>2010-11</td> <td>25%</td> <td>50%</td> <td>25%</td> </tr> </tbody> </table>	Year	Green (%)	Yellow (%)	Red (%)	2011-12	50%	41%	9%	2010-11	25%	50%	25%
Year	Green (%)	Yellow (%)	Red (%)										
2011-12	50%	41%	9%										
2010-11	25%	50%	25%										

### Driver no. 1: Leadership

- Appropriate policies and procedures are fundamental elements of an effective internal control environment that supports good governance and produces clean administration. Through assistance by the national intervention team, the province saw an improvement in this area from the previous year. Public entities are also making progress towards establishing sound policies and procedures. It is important that any amendments to policies and procedures are communicated timeously to officials of departments and entities.
- Four departments in the province (Education, Health, Premier and Public Works) applied an annual exemption circular, issued by the provincial treasury, which was in contravention of SCM prescripts. This exemption which made provision for these departments to unlawfully deviate from SCM laws and regulations was subsequently revoked by the national intervention team. The application of this circular, prior to the intervention, also resulted in some of these departments incurring irregular expenditure and more notably at the Department of Health.

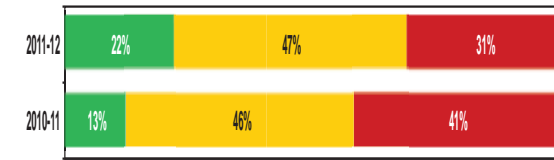
Develop and monitor the implementation of action plans to address internal control deficiencies.



- At 28 auditees repeat qualifications, slow progress in addressing previous year's auditing findings on predetermined objectives, and repeat instances of non-compliance with laws and regulations indicated that the leadership did not adequately monitor progress in the effective implementation and follow up of actions plans to improve audit outcomes. Action plans need to address all three facets of audit outcomes, namely qualifications, findings on reporting against predetermined objectives and findings on compliance with laws and regulations.
- During November 2011, the AGSA and the provincial leadership had started getting the groundwork in place for a turnaround strategy to address the poor outcomes identified during the 2010-11 audit cycle. This was supposed to culminate in a workshop, scheduled for December 2011 and chaired by the AGSA, during which specific actions plans would be agreed on. However, before the workshop could take place the national executive intervention came into effect. The attention of the provincial leadership was subsequently focused on the national intervention and no transversal turnaround strategy was ever developed or implemented. Furthermore, the national intervention team's focus was more on stabilising the cash flow situation in the province rather than attending to or addressing audit outcomes.

### Driver no. 1: Leadership

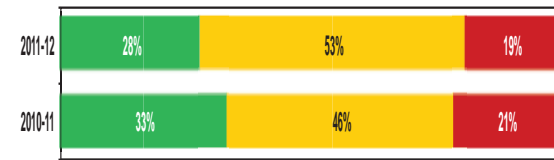
Develop and monitor the implementation of action plans to address internal control deficiencies in the IT environment. Establish an IT governance framework that supports and enables the business, delivers value and improves performance.



### Section 3.3 provides an analysis of the management of IT

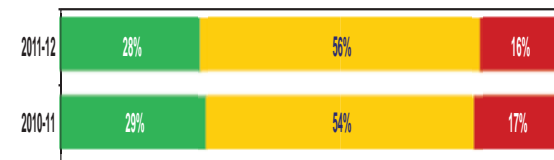
#### Driver no. 2: Financial and performance management

Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.



- When documents supporting financial statements and other information were requested during the audit process, certain auditees provided these only after a significant delay. This is due to inadequate documentation management systems. This was particularly notable at the departments of Education, Health and Public Works that obtained disclaimers in the year under review.

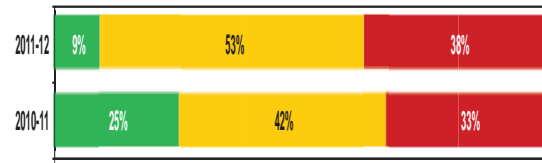
Implement controls over daily and monthly processing and reconciling of transactions.



**Driver no. 2: Financial and performance management**

- The culture of performing and implementing controls over daily and monthly processing and reconciling of transactions is still a challenge at many auditees in the province. In the absence of such control mechanisms, auditees rely on year-end effort to correct their accounting records.
- Management should actively monitor adherence to basic financial controls throughout the financial year, i.e. daily processing of transactions, monthly reconciliation of accounts, the timeous clearing of suspense accounts and continuous review thereof, in order to achieve improved audit outcomes.

Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.

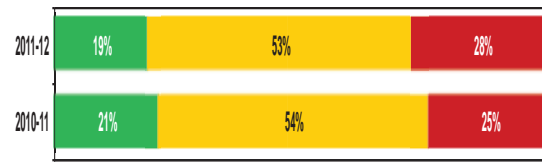


- During the year under review there was deterioration in the accuracy of the financial statements and supporting information, from 64% material corrections required in 2010-11 to 83% in the current year.

This is linked to the lack of skills and experience of support staff at the finance units.

- Quarterly financial reporting, including accompanying disclosure notes for submission to the internal audit unit and audit committee for review, must be implemented to ensure that the information on which decisions are based is credible and reliable.
- Although the production of quality information on performance against predetermined objectives had improved at departments, public entities still had challenges in this area. There was a lack of adequate systems for collecting, recording and reporting on performance information. The provincial treasury must provide the required level of support to public entities to ensure that there is an improvement in this area in the next financial year. Even though monthly public entity CFO forums were taking place, there was still a need to intensify focus and sharing of best practices relating to predetermined objectives.

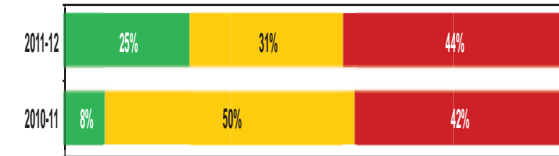
Review and monitor compliance with applicable laws and regulations.



**Driver no. 2: Financial and performance management**

- The most prevalent findings on non-compliance with laws and regulations relate to annual financial statements and incurrence of unauthorised, irregular as well as fruitless and wasteful expenditure.
- Inadequate expenditure management in the province is of concern and is reflected in the significant increase in irregular expenditure identified during the year under review. The majority of the irregular expenditure incurred was identified during the audit process, indicating that the internal controls of the departments and public entities failed to detect these deviations.
- Active governance and involvement by the internal audit units and audit committees go a long way in meeting the tender process challenges, thus helping the province towards clean administration by 2014 and beyond. It is disappointing to note that currently there are no or very little consequences for officials who wilfully or negligently transgress laws and regulations. Non-compliance must have consequences and accountability must be enforced.

Design and implement formal controls over IT systems to ensure the reliability of the systems and the availability, accuracy and protection of information and to address application systems susceptible to compromised data integrity (Information systems).



### Section 3.3 provides an analysis of the management of IT

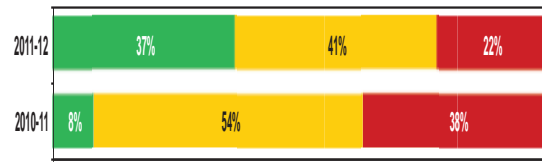
#### Driver no. 3: Governance

Implement appropriate risk management activities to ensure that regular risk assessments, including consideration of IT risks and fraud prevention, are conducted and that a risk strategy to address the risks is developed and monitored.



- The IT control environment at public entities in the province was generally more stable and reliable as the financial systems in use were off-the-shelf packages with little or no customisation. The challenge in managing IT risks was still prevalent at the departments. Performing annual risk assessments in the IT environment is a fundamental management responsibility which very few auditees adequately discharged during the year under review. The monthly GITO forums introduced in the province would hopefully address the prevailing weaknesses in the IT environment.
- Implementation of the IT governance framework at all departments in the province should receive immediate attention.
- The risk assessment processes must inform the work plans of internal and external audit findings. These are essential elements in the review of the design and implementation of sound internal controls to achieve good governance and accountability in respect of financial reporting and information on performance against predetermined objectives/service delivery.
- We noted an improvement in the risk assessment activities at public entities from the previous year. The risk assessment activities at departments still required attention.

Ensure that there is an adequately resourced and functioning internal audit unit that identifies internal control deficiencies and recommends corrective action effectively.



#### Driver no. 3: Governance

### Section 3.4 provides an analysis of internal audit units

Ensure that the audit committee promotes accountability and service delivery through evaluating and monitoring responses to risks and providing oversight of the effectiveness of the internal control environment, including financial and performance reporting and compliance with laws and regulations.



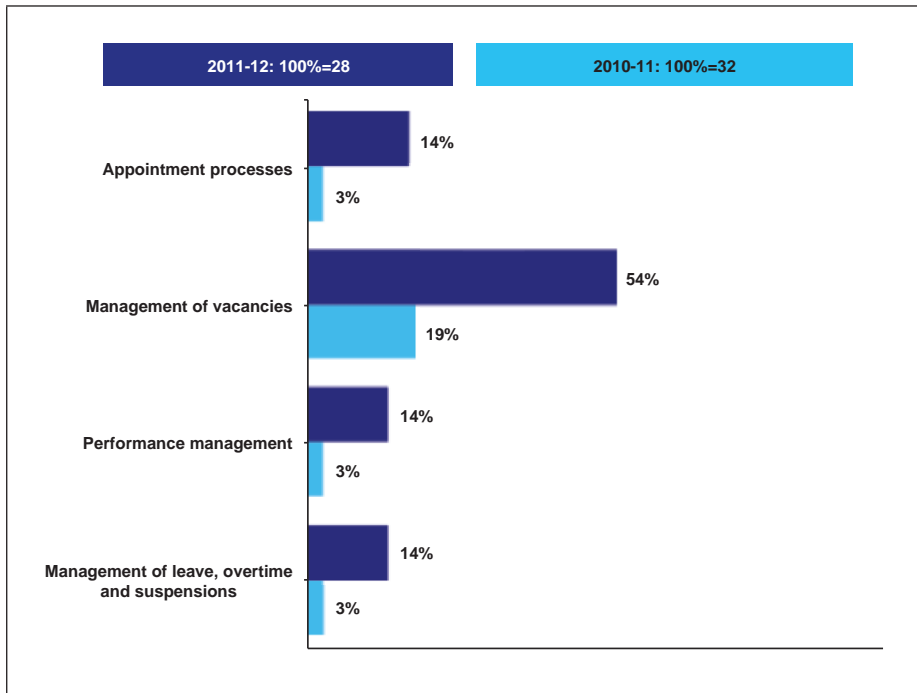


### 3.2 HUMAN RESOURCE MANAGEMENT

Effective human resource (HR) management is a key driver of audit outcomes. In this context, HR management is deemed effective if adequate and sufficiently skilled resources are in place and their performance and productivity are managed. Auditees often identify a lack of capacity as the root cause of audit outcomes, which prompted the AGSA to specifically focus on HR management.

The following figure shows the outcome of an assessment of HR management at auditees.

**Figure 24: Summary of key human resource management findings**



**Table 22: Nature of key findings**

Findings	Key findings
<b>Management of vacancies and acting positions</b>	<ul style="list-style-type: none"> <li>Management of vacancies continues to be a challenge in the province. There was no improvement in the overall vacancy rates from the previous year at the Departments of Agriculture (20%), Education (20%), Health (46%), Public Works (51%), Safety, Security and Liaison (60%), Social Development (48%) and Sport, Arts and Culture (43%). The vacancy rates at the Departments of Public Works and Sport, Arts and Culture showed a significant deterioration from the previous year with the overall vacancy rates increasing by 15% and 32%, respectively.</li> <li>At certain departments and entities, CFOs and other senior finance personnel were acting in positions exceeding 12 months.</li> <li>The high vacancy rate at senior management level is also causing a concern. The Departments of Agriculture (41%), Education (33%), Health (47%) and Public Works (48%) had the highest number of senior management vacancies in the province. The senior management vacancy rate at the Limpopo Business Support Agency was 44%.</li> </ul>
<b>Performance management</b>	<ul style="list-style-type: none"> <li>Individual performance contracts were not signed with line managers.</li> <li>Performance appraisals were not conducted timeously.</li> </ul>
<b>Management of leave, overtime and suspensions</b>	<ul style="list-style-type: none"> <li>Medical certificates were not submitted for sick leave.</li> <li>Employees received more family responsibility leave and/or special leave than entitled to.</li> <li>Employees were on suspension with pay for more than 30 days.</li> <li>Employees received overtime for more than the maximum hours allowed.</li> <li>Employees were suspended without adequate grounds.</li> </ul>

Findings	Key findings
<b>Appointment processes</b>	<ul style="list-style-type: none"> <li>• New appointees did not have the required qualifications and experience for the positions.</li> <li>• Background checks were not conducted prior to making any new appointments.</li> </ul>

Except for HR planning and organisation, there has been an increase in findings for almost all categories of HR management considered in the year under review.

Very little action was taken against officials for poor performance related to poor audit outcomes. This poses a real threat to the achievement of clean audits. As long as there are no consequences for inappropriate behaviour, auditees will continue to have findings on predetermined objectives and non-compliance with laws and regulations. Furthermore, action plans will not be followed up and monitored if adequately skilled officials are not employed and retained.

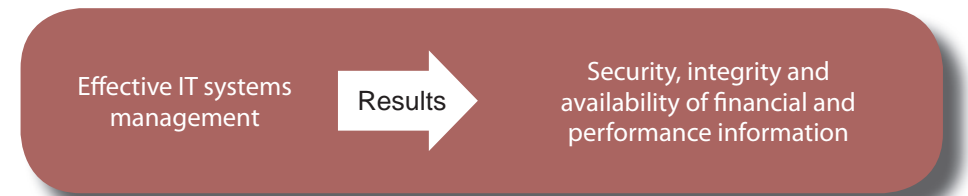
The intervention team discouraged appointments as part of the austerity measures aimed at bringing the provincial administration back within its budget. The intervention team established a human resources task team with a view to curb the increasing trend in the provincial budget for the compensation of employees. All appointments at senior management level and below were decentralised and were referred to this task team for evaluation and approval before appointments were made. While this process ensured that only key appointments were made, the time taken by the human resources task team in offering its recommendations was prolonging the appointment process. High vacancy rate poses a significant threat to the control environment as well as service delivery. The entity becomes vulnerable to fraudulent transactions due to the lack of segregation of duties.

A service provider was identified to carry out an assessment of skills and competencies at departments and recommend appropriate capacity-building interventions. The leadership had put into place processes for procuring these services but this process was subsequently cancelled by the national intervention team. The alternative solution offered by the intervention team

was not practical, resulting in the province reverting to the initial proposal. The unnecessary time wasted in considering alternative solutions could prove costly for the province as *2014 Operation Clean Audit* draws closer. As far as HR management is concerned, the province found itself in the same position, if not worse off, as prior to the intervention.

### 3.3 MANAGEMENT OF INFORMATION TECHNOLOGY

#### 3.3.1 Information technology management as a specific key driver of audit outcomes



IT in the province is important to enable the responsibilities of ensuring operational integrity of financial statement and performance information reports and enable the facilitation and monitoring of service delivery.

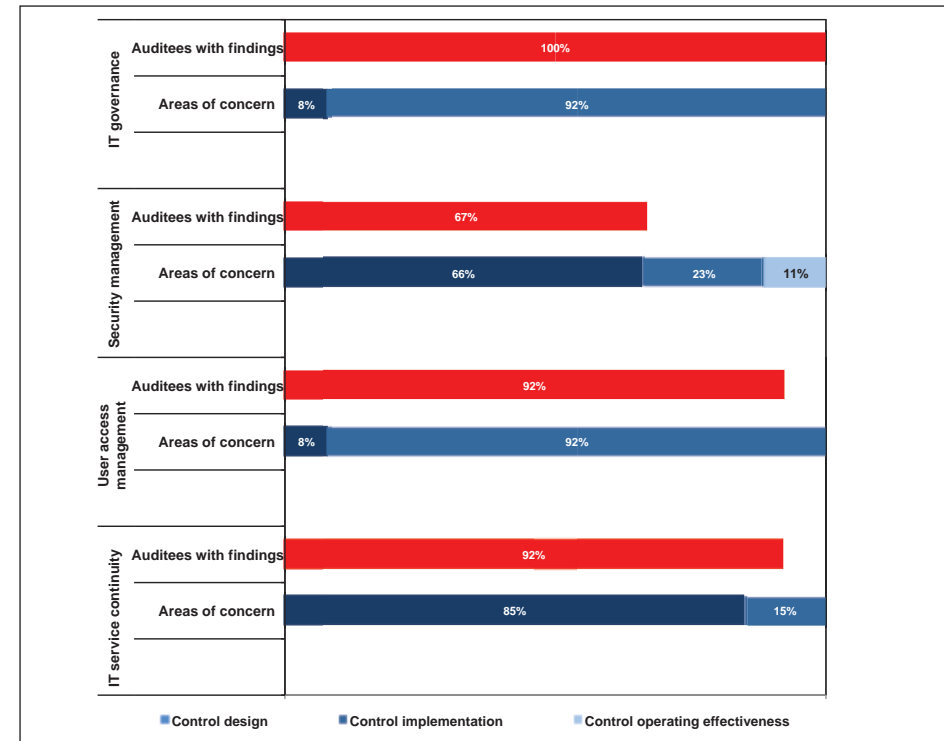
IT process should be in place to enable service delivery and safeguard the provincial information.

	<b>CONFIDENTIALITY</b>	<b>INTEGRITY</b>	<b>AVAILABILITY</b>
<b>Status of state information</b>	<p>The necessary level of secrecy is enforced for all state information. This will be ensured by auditing the following focus areas:</p> <ul style="list-style-type: none"> <li>IT governance</li> <li>Security management</li> <li>User access control</li> </ul>	<p>All state information is authentic, remains unaltered until authorised to change and is complete. This will be ensured by auditing the following focus areas:</p> <ul style="list-style-type: none"> <li>User access controls</li> <li>Data analytics</li> </ul>	<p>All state information is ready for use when expected. This will be ensured by auditing the following focus areas:</p> <ul style="list-style-type: none"> <li>IT service continuity</li> <li>Security management</li> </ul>
<b>Status of key enabling controls</b>	<b>GOOD GOVERNANCE</b>		
	<b>EFFECTIVE MANAGEMENT</b>		
	<b>SECURE ARCHITECTURE/INFRASTRUCTURE</b>		

IT controls for financial systems were evaluated at all 13 departments and controls for performance information were evaluated at three sectoral departments, i.e. Health, Education and CoGHSTA. Where systems were developed or customised, project governance was assessed at the various phases of the project to ensure that controls were built into the systems prior to implementation.

### 3.3.2 Summary of overall identified weaknesses in the management of financial information systems

**Figure 25: Summary of information systems control weaknesses**



#### Key findings:

##### Information technology governance

During 2006, the Limpopo province had adopted COBIT as the IT governance framework; however, minimal progress was made with regard to the implementation of the framework. This was the case at all departments (100%). The legislature bodies, on the other hand, are not required to utilise government-wide frameworks and can develop their own. However, the provincial legislature failed to develop its own IT governance framework in the year under review.

This contributed to the inconsistent performance of IT risk assessments and monitoring of the performance of IT service providers.

## Security management

IT management had designed and implemented adequate IT security controls at CoGHSTA, DPW and Agriculture (23%). However, 66 % of the departments did not design security policies. The remaining 11% of the departments did not implement policies and procedures. As a result the IT security parameters were not adequately configured to protect the infrastructure from unauthorised access.

## User account management

The provincial treasury designed the user account management policies for the BAS and Persal transversal systems. The Department of Roads and Transport implemented the policy and associated controls. However, 92% of the departments continued to experience challenges with the implementation of certain aspects of the policy as the departments had not been trained on the policy and had not tailored the policy to suit the specific needs of the different departments.

## Information technology service continuity

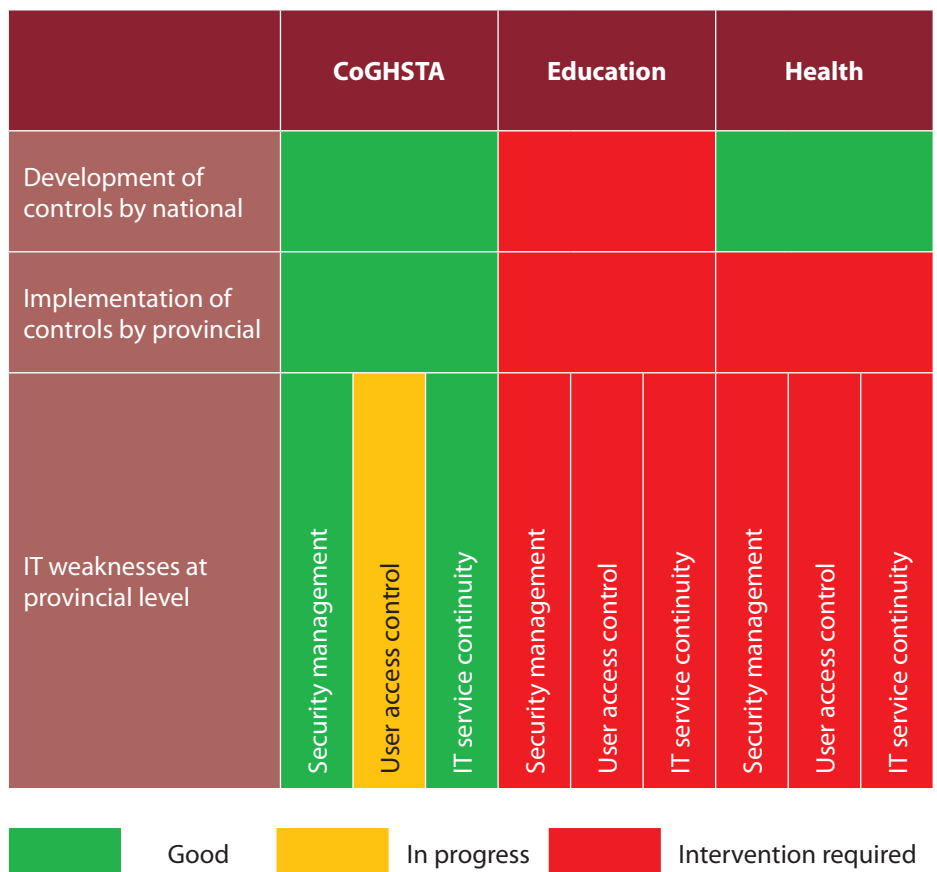
The disaster recovery plans for the departments must facilitate the recovery of the internal network as well as connectivity to the SITA transversal systems. Adequate controls to facilitate the above were in place at the Department of Roads and Transport. However, 85% of the departments did not have disaster recovery plans. In addition, the remaining departments (15%) had adequate disaster recovery plans but there was no opportunity to test them because the disaster recovery plans were approved late in the financial year.

Furthermore, none of the departments participated in the annual SITA Persal disaster testing as departments do not take accountability and responsibility for backing up their data, even though roles and responsibilities are stated in their service level agreements with SITA.

## 3.3.3 Audit of performance information systems

The audit focused on compliance with National Treasury Framework 86 of 2007 for managing programme performance information. According to this framework, the national departments have the overall responsibility for designing IT controls to govern the application systems used by the provincial departments to manage performance information. We reviewed three departments, namely CoGHSTA, Health and Education, for the existence of IT controls to govern application systems and the compliance of the provincial departments to these controls. Drivers of IT control weaknesses and the summary are shown below:

**Figure 26: Comparison between national and provincial implementation of information technology controls over performance systems**



### **Department of Cooperative Governance, Human Settlements and Traditional Affairs**

The national department had fulfilled its mandate by designing adequate IT policies and procedures to govern the Housing Subsidy System (HSS). Provincial departments had implemented the IT controls apart from user access controls to manage access to the HSS.

User access for users who were granted access to create and approve transactions was not actively monitored to ensure that the access corresponds with roles and responsibilities. This is due to the lack of accountability on the provincial management by not having provincial policies that require a regular review of user access.

### **Department of Education**

Intervention is required due to the fact that the national and provincial departments are not fulfilling their responsibilities. The national department had not designed adequate IT controls as no guidelines were available for the implementation of IT controls for the Education Management Information System (EMIS). This lack of a designed guideline could be attributed to the national department's lack of accountability in terms of complying with the National Treasury's framework. The provincial department also did not proactively request adequate guidance from the national department.

EMIS is designed to collect and analyse data on the educational system to improve planning, resource allocation, monitoring and policy information. The information currently on the provincial EMIS is unreliable, which severely hampers the leadership in proactively dealing with challenges in the province.

### **Department of Health**

Good progress was made by the national department as it had developed guidance for the implementation of all the systems used for predetermined objectives, namely the District Health Information System (DHIS), the electronic tuberculosis register (ETR.Net) and the electronic drug-resistant tuberculosis register (EDR.Net). However, intervention is required at the provincial department as they did not

comply with the guidance provided by the national department. This could be attributed to a lack of leadership accountability at the provincial department.

### **3.3.4 Status of addressing management commitments**

Following the 2010-11 audits, management had not addressed identified weaknesses in their information systems environments and the status of honouring such commitments as determined during the 2011-12 audits is depicted below:

**Table 23: Progress in addressing management commitments – departments**

Auditee	IT governance	Security management	User access controls	IT service continuity
Agriculture				
Cooperative Governance, Human Settlements and Traditional Affairs				
Economic Development, Environment and Tourism				
Education				
Health				
Sport, Arts and Culture				
Office of the Premier				
Safety, Security and Liaison				
Roads and Transport				
Provincial Treasury				
Provincial Legislature				
Public Works				
Social Development				
<b>Total</b>	13	13	13	13
Not addressed (intervention required)	13	10	11	12
Addressed		3	2	1

Poor progress was made in addressing findings that had been raised previously. As a result, the risks still remain in all focus areas even though some corrective measures were taken. This was due to a lack of consequences for non-performance of the resolution of findings. In addition, auditees, internal audit units and audit committees did not continuously monitor the IT findings. All departments had GITO's except for three, namely Education, Safety, Security and Liaison and Social Development.

### 3.3.5 Key information technology concerns

#### Key drivers of lack of commitments

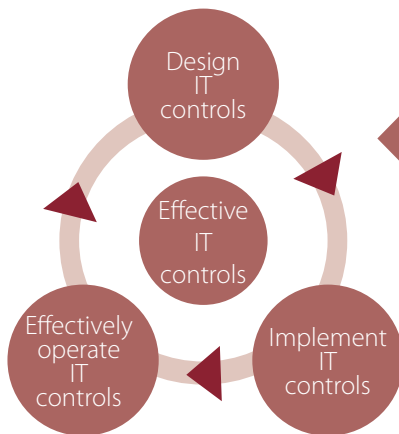
##### Key audit findings on IT controls:

- IT governance framework developed but not yet approved and implemented
- Security management controls inadequately designed and/ or implemented
- Lack of adequate design of IT service continuity controls
- User access management controls inadequately designed and/or implemented

##### Key root causes that impact negatively on the provincial IT environment

- IT governance: lack of necessary IT governance skills to adapt and implement the framework, training to GITOs regarding the implementation of the framework was not approved, delays with the DPSA rollout of the framework.
- IT not properly capacitated to adequately fulfill their IT control obligations due to shortages of skills (IT security officer, network technicians and database administrators)
- Lack of consequences for non-performance of tasks such as resolution of findings as well as the design and implementation of key controls (policies and procedures)
- Inadequate discipline in terms of tracking the progress made in addressing IT audit findings by management , audit committee clusters and internal audit
- User account management: Lack of allocation of tasks, management was not aware of all the control requirements and vacancies have also contributed to this issue.
- IT service continuity: The departments had approved the plan later in the financial year and this resulted in there being no time remaining to test the plan.
- AOPO
- Lack of accountability by the provincial management by not having provincial policies that require a regular review of user access.

Most auditees are still struggling to adequately design controls



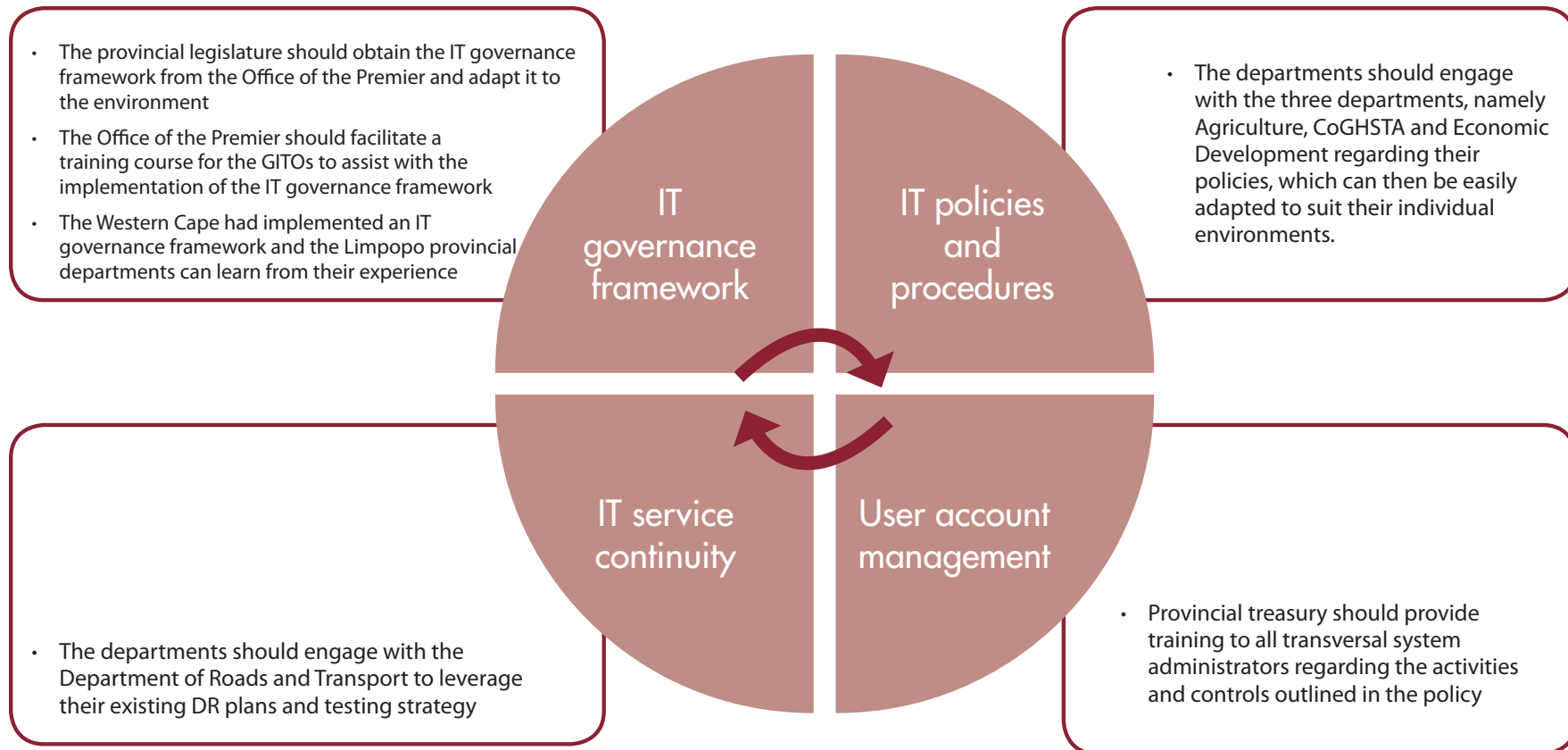


### 3.3.6 Good information technology control practices across the province

Good security practices were noted at the Department of Agriculture. Management, with the assistance of Microsoft and SITA, developed security policies and system security configurations. Personnel were equipped with the necessary skills and knowledge to implement processes in compliance with policies and consultants were used to assist where gaps were identified.

Good IT service continuity and user account management practices were noted at the Department of Roads and Transport. Management was able to retain staff and, combined with a renewed focus on governance practices, created an effective control environment.

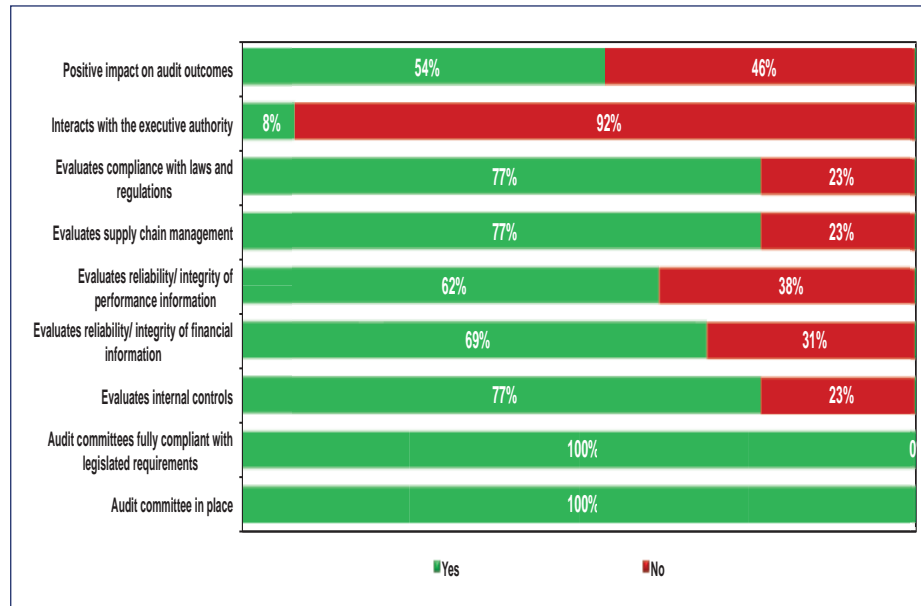
### 3.3.7 Quick wins in resolving information technology management weaknesses



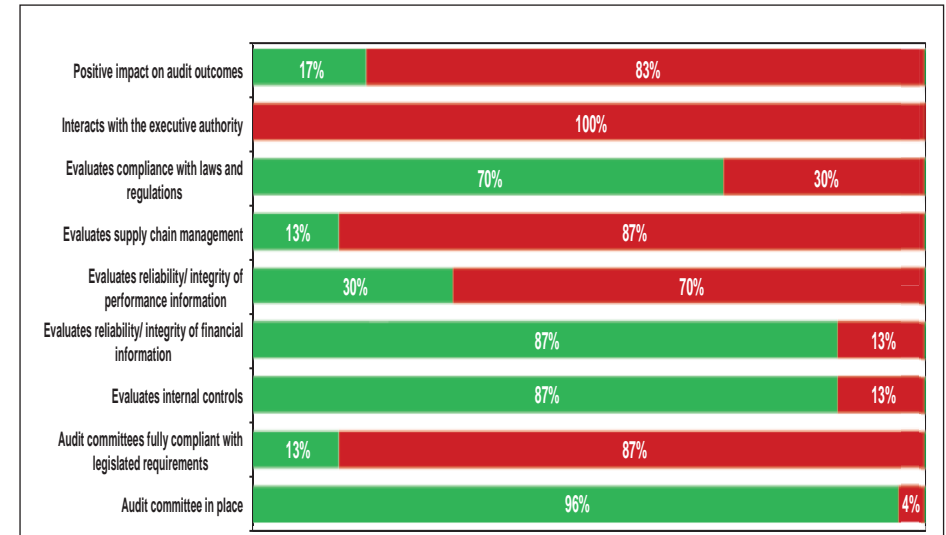
### 3.4. AUDIT COMMITTEES AND INTERNAL AUDIT UNITS

Effective governance is a driver of audit outcomes and audit committees and internal audit units are key elements of governance. In terms of legislation an audit committee and internal audit unit must be established by all auditees. An audit committee must serve as an independent governance structure whose function is to play an oversight role regarding the systems of internal control, compliance with legislation, risk management and governance. In executing its duties, the audit committee assists the accounting officer in the effective execution of his/her responsibilities, with the ultimate aim of achieving the organisation's objectives. Internal audit units should provide assurances on governance, risk management and control. The figures that follow show the assessed effectiveness of audit committees and internal audit units for the year under review.

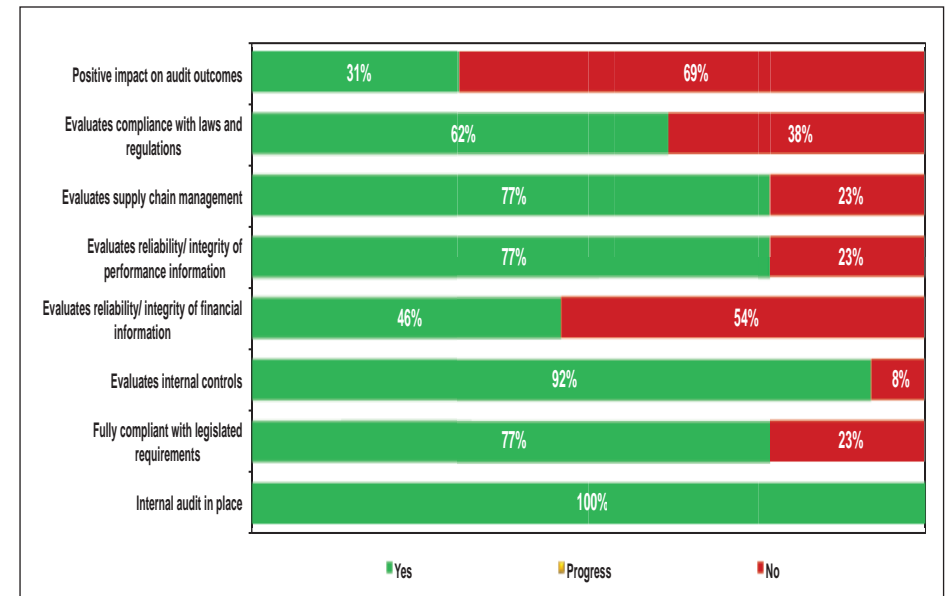
**Figure 27: Effectiveness of audit committees – departments**



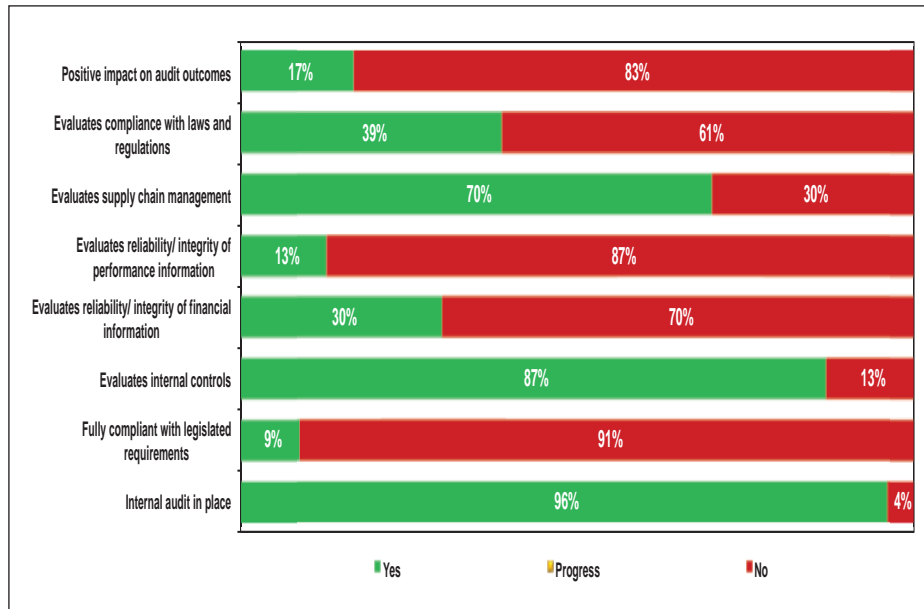
**Figure 28: Effectiveness of audit committees – public entities**



**Figure 29: Effectiveness of internal audit units – departments**



**Figure 30: Effectiveness of internal audit units – public entities**



The provincial treasury established a centralised or shared audit committee and internal audit unit for all the departments in the province, which were in place for the period under review. The provincial legislature and the public entities established their own audit committees which were also in place for the period under review. However, there is a difference between being compliant and being effective. None of the cluster audit committees in the province had a direct impact on the audit outcomes of their respective auditees.

Audit committee members understand that they need to devote appropriate time, both inside and outside of audit committee meetings, to gain an understanding of the organisation’s operational and financial reporting risks, but they must also be given access to the right information in a timely manner. Management should provide financial and other information well in advance of the meetings for the audit committee members to review them. Even though quarterly performance information reports were submitted to the audit committees, in the majority of cases these reports were submitted late, which restricted the audit committees from conducting a proper review and providing necessary recommendations.

In the case of most departments, the year-end performance information reports were not submitted to the audit committee members in time for review. The audit committees were thus rendered ineffective by the department or entity and not due to its own actions.

Even though departments and public entities submitted their financial statements to the audit committees for review prior to submission for auditing, the time in which to conduct these reviews and provide inputs was not in all instances sufficient to add value to the process. The audit committee also expressed its dissatisfaction over the content and quality of monthly and quarterly reports prepared and issued by the accounting officers of certain departments during the year under review.

Despite legislation making provision for interaction by audit committees with the executive, the audit committee’s engagement with the executive was very limited or did not occur at all at all the departments and public entities, except at the provincial legislature, where there was limited engagement.

It is encouraging to note that the central internal audit unit of the province stepped up its focus on predetermined objectives and included the review and audit of performance information in the scope of its internal audit plan. This also contributed to the improvement in findings on predetermined objectives at departments when compared to the previous year. There was also an improvement in addressing the historical capacity constraints within the central audit unit of the province. Unfortunately, subsequent to year-end there was an increase in the staff resignations which would further be worsened by complying with the instruction given by the national intervention team to not renew the contracts of about 20 interns employed at the internal audit unit of the province.

Findings raised by the central internal unit were also not receiving the attention they deserve. A significant number of internal audit findings remain unresolved, which makes the internal audit redundant. As with the audit committee, the internal audit function is also rendered ineffective by the department or entity and not due to its own actions.

## Conclusion

The implementation of recommendations is core to the distinction between an audit committee and internal audit unit being compliant or operational and being effective. Currently and in the absence of interaction with the executive and portfolio committees, there are no mechanisms to oversee and monitor the implementation and recommendations by the audit committees and internal audit units. It is the implementation of recommendations rather than the recommendation as such that drives improved systems of internal control, monitoring and supervision and, ultimately, improved outcomes.

The effectiveness of audit committees and internal audit units is dependent on the support and respect received from the leadership of the province. The leadership should ensure that the audit committees are afforded sufficient time as well as financial and other resources to effectively fulfil their responsibilities. An effective audit committee will, in turn, assist the province by ensuring, through appropriate interactions, that it is able to produce credible reports on performance and financial management. This will enhance oversight and transparency, thereby building public confidence.

In addition, the effectiveness of an audit committee is mostly dependent on a properly resourced and skilled internal audit unit that produces timely, relevant and quality reports focused on systems of internal control.

# SECTION 4

## IMPACT OF KEY ROLE PLAYERS ON AUDIT OUTCOMES

- 4.1 INITIATIVES AND COMMITMENTS MADE BY KEY ROLE PLAYERS TO IMPROVE AUDIT OUTCOMES
- 4.2 STATUS OF IMPLEMENTATION OF PUBLIC ACCOUNTS COMMITTEE OVERSIGHT RESOLUTIONS
- 4.3 ASSURANCE PROVIDED BY THE VARIOUS ROLE PLAYERS
- 4.4 THE AUDITOR-GENERAL OF SOUTH AFRICA'S INITIATIVES TO ENCOURAGE CLEAN AUDITS





# SECTION 4:

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## IMPACT OF KEY ROLE PLAYERS ON AUDIT OUTCOMES

This section provides details of the initiatives and commitments of key provincial role players to improve audit outcomes, the status of implementation of Public Accounts Committees' oversight resolutions and an overview of the AGSA's continuing initiatives to encourage clean audits.

### 4.1 INITIATIVES AND COMMITMENTS MADE BY KEY ROLE PLAYERS TO IMPROVE AUDIT OUTCOMES

The table that follows outlines the key initiatives of the provincial leadership and oversight to improve audit outcomes as well as further commitments made to the AGSA for actions to be taken. The commitments include those made in response to the previous year's audit outcomes and new commitments obtained through in-year interactions and engagements with them between October 2012 and the date of this report. An assessment of the impact of the initiatives and commitments is also provided. These are the specific measurable commitments that were received from the leadership. Additional commitments were also made with regard to future improvements, etc. but these are too general in nature to track.



**Table 24: Key initiatives and commitments by provincial role players**

Key role players	Outline of initiatives and commitments made	Focus area targeted by initiative / commitment	Progress made with implementing commitments given	Impact of initiatives and commitments on audit outcomes
<b>Provincial executive leadership</b>	<b>Initiatives to improve audit outcomes</b>			
	Consequences for regressions in audit outcomes for accounting officers as well as political heads including measures to curb irregular expenditure, to be added as a standing agenda item at Exco meetings (Premier)	Quality of AFS	Not implemented	Not yet able to assess
	Quarterly monitoring and evaluation of the key controls and commitments in order to achieve sustainable audit outcomes	SCM, PDO, HR, Quality of AFS	Not implemented	Not yet able to assess
	The Premier approved the establishment of the Operation Clean Audit 2014 Executive Coordinating Committee (OPCA-ECC) for the province	Turn around plans	In progress	Committee was established after year-end. Impact will be assessed in the 2012-13 audit cycle
	<b>Prior year commitments</b>			
	Address skills and capacity challenges in the province by conducting a skills audit by 31 March 2012	HR	Not implemented	No impact
	Sharing of best practices of departments	SCM, PDO, HR, Quality of AFS	In progress	Limited impact
	Pre-audit of SCM processes prior to awarding tenders	SCM	Not implemented	No impact

Key role players	Outline of initiatives and commitments made	Focus area targeted by initiative / commitment	Progress made with implementing commitments given	Impact of initiatives and commitments on audit outcomes
<b>Provincial executive leadership</b>	<b>New commitments</b>			
	Audit committee engaged by the MEC: Provincial Treasury to identify risks in a timely manner so that the political heads can "aggressively" follow-up on prevailing risks	SCM, PDO, HR	New	Not yet able to assess
	Skills audit to address capacity challenges to be conducted by 31 March 2013	HR	New	Not yet able to assess
	Inappropriate behaviour by officials will have consequences and that action will be taken in a timely manner	SCM, PDO, HR	New	Not yet able to assess
	Action to be taken against poor performance by the CFO of the Department of Health	HR	New	CFO suspended after year-end. Impact to be determined in the 2012-13 financial year
	Letters requesting adjustments to annual financial statements to be submitted to the AGSA for approval, signed by the MEC together with the root causes and action plans put in place to prevent a recurrence	Quality of AFS submitted for audit	New	Not yet able to assess. Action plans put in place to be assessed in 2012-13

Key role players	Outline of initiatives and commitments made	Focus area targeted by initiative / commitment	Progress made with implementing commitments given	Impact of initiatives and commitments on audit outcomes
<b>Provincial Treasury/ Office of the Premier</b>	<b>Initiatives to improve audit outcomes</b>			
	IT intervention plan to deal with weaknesses in the IT environment	IT	Not implemented	Not yet able to assess
	Monthly HOD forums where departments are required to report on the status of implementation of their action plans. Action plans to be monitored at a political level by means of submitting action plans to Exco meetings (MEC PT)	Turn around plans	In progress	Implemented in the 2012-13 financial year. No impact in the 2011-12 audit outcomes
	Monthly public entity CFO forums	Turn around plans	In progress	Impact has been minimal. Improved focus on non-compliance and performance information is required
	Monthly IT steering committee meetings with GITOs and other IT officials to improve on IT governance	IT	In progress	Implemented in the 2012-13 financial year. No impact in the 2011-12 audit outcomes
	Monthly Provincial Technical Committee on Finance (PTCF) meetings with the CFOs of departments	PDO, SCM, Quality of AFS	In progress	No significant impact on outcomes. There is generally poor attendance by the CFOs to these meetings

Key role players	Outline of initiatives and commitments made	Focus area targeted by initiative / commitment	Progress made with implementing commitments given	Impact of initiatives and commitments on audit outcomes
<b>Provincial Treasury/ Office of the Premier</b>	<b>Prior year commitments</b>			
	Monitor the existence and effectiveness of key controls at departments	PDO, SCM, Quality of AFS	In progress	No impact
	There should be consequences for entities that do not submit documentation. The provincial treasury will engage with Exco in the initiation of this process	Turn around plans	In progress	No impact
	To address skills and capacity issues at public entities by being involved in the appointment of CFOs	Quality of AFS	In progress	Limited impact
	<b>New commitments</b>			
	Implement processes to identify any conflict of interest such as officials conducting business with government	SCM	New	Not yet able to assess
	Facilitate the implementation of the Clean Audit Strategy to address the challenges of audit findings with the goal of achieving clean audit in the province in 2014	HR	New	Not yet able to assess
<b>Provincial Public Accounts Committee</b>	<b>New commitments</b>			
	SCOPA to table all 2011-12 resolutions, for which hearings were in progress at the time of writing this report, by December 2012	Turn around plans	New	Not yet able to assess
	Instruction to submit quarterly reports from the audit committee to SCOPA and the relevant portfolio committees for discussion and follow up	Turn around plans	New	Not yet able to assess

Key role players	Outline of initiatives and commitments made	Focus area targeted by initiative / commitment	Progress made with implementing commitments given	Impact of initiatives and commitments on audit outcomes
<b>Members of Provincial Executive Councils (MECs)</b>	<b>Prior year commitments</b>			
	Submit to the AGSA an asset register in September 2011 to conduct a preliminary audit on assets in order to resolve the qualifications issues in 2010-11 (Sport, Arts and Culture)	Turn around plans	Not implemented	No impact
	<b>New commitments</b>			
	Meet with the AGSA during December 2012 to assist with the implementation of a turnaround strategy to address the disclaimer of opinion (Public Works)	Turn around plans	New	Not yet able to assess
	Submit an updated asset register to the AGSA by 07 January 2013 to conduct a preliminary audit (Sport, Arts and Culture)	Turn around plans	New	Not yet able to assess
	To work closely with the AGSA to address and resolve challenges relating to assets and compliance (Roads and Transport)	Turn around plans	New	Not yet able to assess
	Submission of documentation to AGSA all documentation that was not submitted during the audit by 30 November 2012 (Education and Public Works)	Turn around plans SCM	New	Not yet able to assess
	Facilitate the development of a revenue generation strategy (Finance)	Turn around plans	New	Not yet able to assess

Key role players	Outline of initiatives and commitments made	Focus area targeted by initiative / commitment	Progress made with implementing commitments given	Impact of initiatives and commitments on audit outcomes
<b>Members of Provincial Executive Councils (MECs)</b>	Effectively monitor the implementation of the 2012-2013 provincial budget (Finance)	Turn around plans	New	Not yet able to assess
	Implement the bank overdraft strategy to mitigate the risks of unauthorised expenditure (Finance)	Turn around plans	New	Not yet able to assess
	Promote the effective and efficient management of physical and financial assets and liabilities (Finance)	Turn around plans	New	Not yet able to assess
	Ensure that departments develop cost containment and fiscal stabilisation plans in order to realise required budget outcomes include and realise the targeted surplus in the 2012-13 budget (Finance)	Turn around plans	New	Not yet able to assess
	Actions plans will be monitored at a political level and these plans will be submitted for discussion at Exco meetings (Finance)	Turn around plans	New	Not yet able to assess
	Enforce the implementation of national and provincial treasury norms and standards of the PFMA (Finance)	SCM	New	Not yet able to assess

As highlighted in the sections above, the turnaround strategies planned by the provincial executive leadership could not be fully implemented subsequent to the national executive intervention in December 2011. The national intervention team was tasked to implement recovery plans and turnaround strategies for the five departments under administration. The scope of the intervention comprises department-specific challenges as well as transversal issues affecting the province. The political and administrative leadership agreed to comply with the turnaround strategies of the national intervention team and as a result certain planned initiatives and commitments made were brought to a standstill, following the national intervention team's instruction to do so.

Although interactions between the AGSA and the portfolio committees have improved subsequent to year-end, the portfolio committees have not made any concrete commitments to address some of the critical challenges as outlined in this report.

Going forward there is reason to be optimistic that the provincial administration initiated a process which, if carried through, would contribute to improved outcomes in future. In his budget speech to give direction for the 2012-13 financial year, the MEC for the provincial treasury made clear commitments on how the challenges facing the province would be addressed. He said that the provincial treasury would:

- facilitate the development of a revenue generation strategy
- effectively monitor the implementation of the 2012-2013 provincial budget
- implement the bank overdraft strategy to mitigate the risks of unauthorised expenditure
- ensure that departments develop cost containment and fiscal stabilisation plans in order to realise required budget outcomes include and realise the targeted surplus in the 2012-13 budget
- increase financial management capacity to achieve operational efficiency and promote accountability in government
- enforce the implementation of national and provincial treasury norms

and standards of the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA)

- promote the effective and efficient management of physical and financial assets and liabilities
- facilitate the implementation of the clean audit strategy to address the challenges of audit findings with the goal of achieving clean audit in the province in 2014.

Subsequent to the tabling of the annual reports (which include my audit reports) in the provincial legislature on 2 October 2012, the administration formulated a provincial turnaround strategy aimed at addressing the root causes of my audit findings. The strategy would be driven by the Office of the Premier through the director-general of the province and the provincial treasury would use the shared internal audit function to test the credibility of reported progress. It is pleasing to see the Office of the Premier and provincial treasury take on their oversight responsibilities and take a leading role in guiding the administration as a whole to improved audit outcomes.

## 4.2 STATUS OF IMPLEMENTATION OF PUBLIC ACCOUNTS COMMITTEE OVERSIGHT RESOLUTIONS

I stated in the general report of the previous year that the Standing Committee on Public Accounts (SCOPA) was not adequately discharging its oversight role due to the backlog it experienced. During the year under review, SCOPA tabled the 2008-09 resolutions of all departments, except the Office of the Premier and the provincial legislature to the house. Unfortunately, the provincial SCOPA did not track the implementation of their 2008-09 resolutions, which were tabled in the provincial legislature during December 2011.

Hearings were held for the 2009-10 and 2010-11 financial years during February and March 2012. These resolutions, together with the outstanding resolutions for the Office of the Premier and the provincial legislature for the 2008-09 financial year, was tabled in the legislature on 2 October 2012. The committee indicated that they would request departments to give them an update of the status of implementation of the 2008-09 resolutions in "due course. The quality

of hearings held by SCOPA and the resulting resolutions tabled in the legislature was unfortunately undermined by the fact that the replies to SCOPA questions provided by certain heads of department with specific reference to preventative actions going forward, were sometimes found to have been fictitious during subsequent audits. There needs to be a consequence for such misrepresentations made to SCOPA and the legislature.

Public hearings had also not been held with regard to the activities of provincial and other public entities. This state of affairs is mainly due to the permanent backlog that SCOPA had since 1994. The committee put its main focus on provincial departments and although public hearings for entities were part of the annual work plan, there was never sufficient time to call public entities to account.

Of concern is the fact that SCOPA takes an inordinately long time before tabling its resolutions to the house, which hampers its oversight role significantly. Corrective action recommended for matters that occurred three years ago became difficult and officials responsible for wrongdoing had often moved on and could no longer be held accountable.

### 4.3 ASSURANCE PROVIDED BY THE VARIOUS ROLE PLAYERS

The table below is an assessment of the level of assurance provided by each role player in the provincial government in respect of the production of credible financial and PDO reports, and compliance with relevant laws and regulations. Essentially this measures the extent to which the various role players can guarantee that information produced and used for monitoring, oversight and decision making is accurate and reliable.

Those role players who provided the required level of assurance expected of them are highlighted in green, thereby indicating that there are adequate processes in place to produce information that is credible. Those who provided some but not all of the required assurances are highlighted in orange, while those highlighted in red provided significantly lower assurance than expected.

At an overall level significant strides will have to be made by all role players if the required level of assurance is to be provided for credible decision-making.

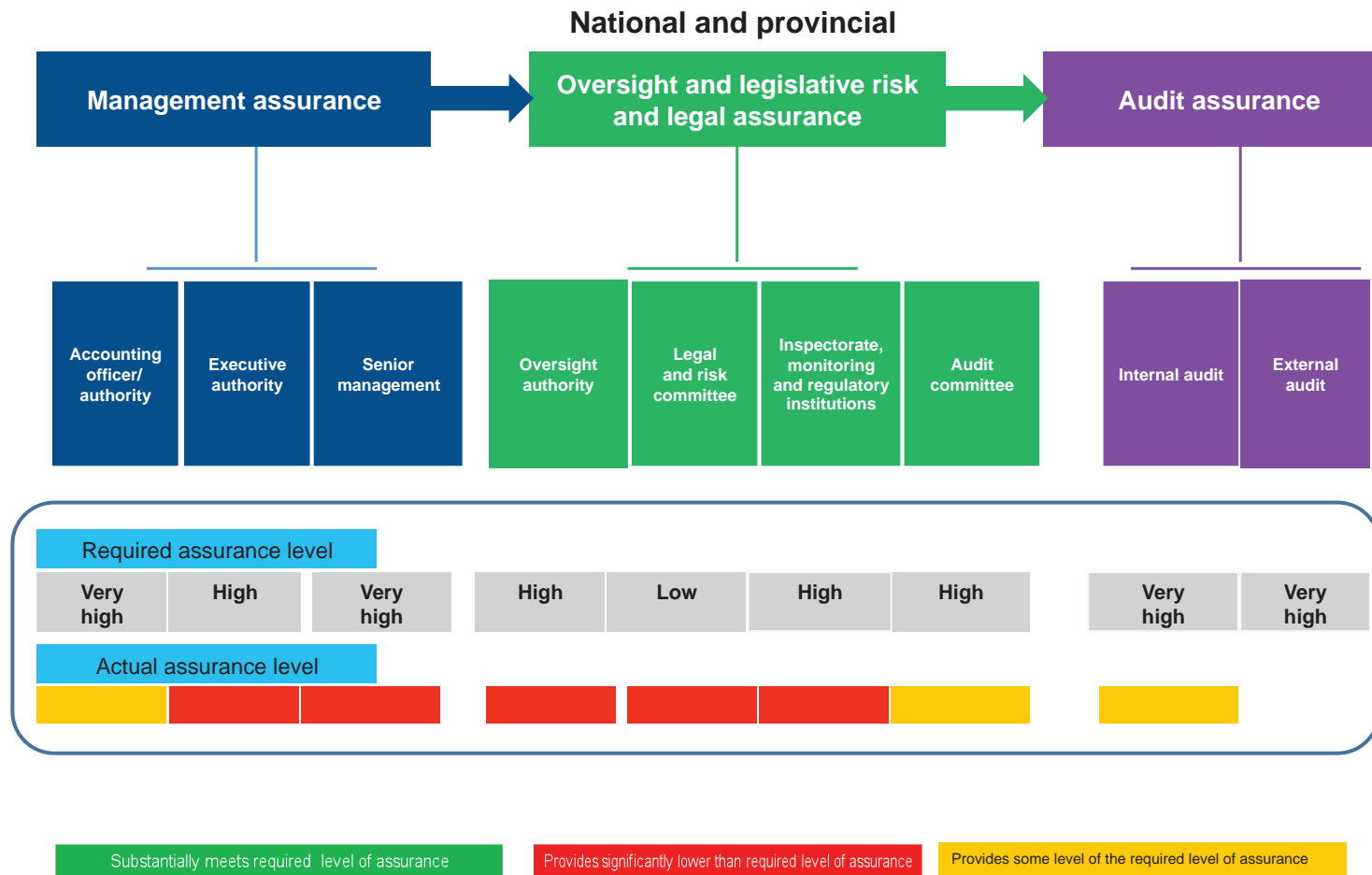
The foundation that is critical in setting up processes to provide assurance is skills, competence and ethics, embedded systems of controls and an understanding of the roles and responsibilities by all role players together with a strictly enforced performance management system. The establishment of this foundation within the province is hampered by the root causes analysed in section 2 of this report.

The assurance provided by senior management, accounting officers, internal audit, audit committees and the executive authorities is linked directly to the implementation of controls. Internal controls that are properly designed and implemented as intended will assist in ensuring compliance with laws and regulations and the production of credible performance reports and financial statements ensuring that decisions are based on information that is accurate and reliable.

Similarly the assurance given by the portfolio committee and coordinating role players is impacted by the quality and credibility of information supplied to them. Currently, the quality of information is not at the required level which impacts on the effectiveness of these monitoring and oversight bodies.

It is thus imperative that all role players take ownership of the implementation and monitoring of key controls in order to ensure that all information produced for oversight and decision making is accurate and reliable thereby enhancing credibility and accountability.

Figure 31: Combined assurance providers



**Table 25: Limpopo Provincial Government combined assurance assessment**

No.	Auditee	Senior management	Accounting officer/ authority	Executive authority	Audit committee	Oversight - Portfolio committees (not applicable at auditee level)	Internal audit	Public accounts committees (not applicable at auditee level)	Coordinating/ monitoring institutions (not applicable at auditee level)
<b>Required assurance levels:</b>		Extensive	Extensive	Extensive	Moderate	Moderate	Extensive	Moderate	Moderate
<b>Auditee level</b>									
1	Agriculture	Yellow	Yellow	Red	Yellow	White	Yellow	White	White
2	Cooperative Governance, Human Settlements and Traditional Affairs	Green	Green	Green	Green	White	Yellow	White	White
3	Economic Development, Environment and Tourism	Yellow	Yellow	Yellow	Yellow	White	Yellow	White	White
4	Education	Red	Red	Red	Yellow	White	Red	White	White
5	Health	Red	Yellow	Red	Yellow	White	Yellow	White	White
6	Office of the Premier	Yellow	Yellow	Yellow	Yellow	White	Yellow	White	White
7	Provincial Legislature	Yellow	Yellow	Green	Green	White	Green	White	White
8	Provincial Revenue Fund	Red	Red	Red	Red	White	Red	White	White
9	Provincial Treasury	Yellow	Red	Yellow	Yellow	White	Yellow	White	White
10	Public Works	Red	Yellow	Red	Yellow	White	Yellow	White	White
11	Roads and Transport	Yellow	Red	Red	Yellow	White	Yellow	White	White
12	Safety, Security and Liaison	Yellow	Yellow	Yellow	Yellow	White	Yellow	White	White
13	Social Development	Green	Yellow	Yellow	Green	White	Yellow	White	White
14	Sport, Arts and Culture	Red	Red	Red	Yellow	White	Yellow	White	White
15	Centennial Trading Company 145 (dormant)	White	White	White	White	White	White	White	White
16	Corridor Mining Resources	Red	Yellow	Yellow	Yellow	White	Yellow	White	White
17	Fumani Green Stone	Red	Yellow	Yellow	Yellow	White	Yellow	White	White
18	Gateway Airport Authority Limited	Red	Red	Red	Red	White	Red	White	White
19	Great North Transport	Green	Green	Yellow	Yellow	White	Yellow	White	White

No.	Auditee	Senior management	Accounting officer/ authority	Executive authority	Audit committee	Oversight - Portfolio committees (not applicable at auditee level)	Internal audit	Public accounts committees (not applicable at auditee level)	Coordinating/ monitoring institutions (not applicable at auditee level)
Required assurance levels:		Extensive	Extensive	Extensive	Moderate	Moderate	Extensive	Moderate	Moderate
20	Khumong Chrome Mine								
21	Limpopo Agribusiness Development Corporation								
22	Limpopo Business Support Agency								
23	Limpopo Development Enterprise								
24	Limpopo Gambling Board								
25	Limpopo Housing Board (dormant)								
26	Limpopo Roads Agency								
27	Limpopo Tourism Agency								
28	Mashashane Hatchery								
29	Mokopane Kodumela Mining Investments								
30	Mukumbani Tea Estate (dormant)								
31	Munumzvu Estate								
32	Mutale Agric Estate (dormant)								
33	Risima Housing Finance Corportion								
34	Sefateng Chrome Mine								
35	Trade & Investment Limpopo								
36	Tribal and Trust Account								
37	Tshepong Chrome Mine								
38	Ventico								



No.	Auditee	Senior management	Accounting officer/ authority	Executive authority	Audit committee	Oversight - Portfolio committees (not applicable at auditee level)	Internal audit	Public accounts committees (not applicable at auditee level)	Coordinating/ monitoring institutions (not applicable at auditee level)
<b>Required assurance levels:</b>		Extensive	Extensive	Extensive	Moderate	Moderate	Extensive	Moderate	Moderate
<b>Oversight level - Portfolio committees and public accounts committee</b>									
1	Agriculture					Yellow			
2	Cooperative Governance, Human Settlements and Traditional Affairs					Yellow			
3	Economic Development, Environment and Tourism					Yellow			
4	Education					Red			
5	Health					Red			
6	Provincial Treasury					Yellow			
7	Public Works					Red			
8	Roads and Transport					Yellow			
9	Safety, Security and Liaison					Yellow			
10	Social Development					Yellow			
11	Sport, Arts and Culture					Yellow			
12	SCOPA							Red	
<b>Coordinating/ monitoring institutions</b>									
1	National Administrators								Red
2	Office of the Premier								Red
3	Provincial Treasury								Red
<b>Overall provincial assessment</b>									
1	Assess assurance providers overall for the province	Red	Yellow	Red	Yellow	Yellow	Yellow	Red	Red

## 4.4 THE AUDITOR-GENERAL OF SOUTH AFRICA'S INITIATIVES TO ENCOURAGE CLEAN AUDITS

Summarised below are some of the key initiatives the AGSA embarked on to promote public sector accountability and to encourage the process of improving audit outcomes and attaining clean audits.

**Table 26: The Auditor-General of South Africa's key initiatives to encourage clean audits**

Nature	Outline of AGSA initiatives
<b>Interactions with the political and administrative leadership</b>	<p>The AGSA conducted extensive engagements with the political and administrative leadership during the course of the audit.</p> <p>Debrief sessions and presentations were conducted on the audit outcomes, including the root causes of poor audit outcomes. These sessions were held with the political and administrative leadership.</p> <p>The AGSA was appointed by the premier as an ex-officio member providing advisory services to the operation clean audit 2014 executive coordinating committee. The AGSA was invited to interact and present at the committee's inauguration meeting.</p> <p>Several meetings were held with the provincial accountant-general during the course of the year. Audit-related issues, audit outcomes, root causes and recommendations were shared during these meetings. These meetings also aimed to achieve on fostering a better working relationship between the AGSA and provincial treasury.</p>
<b>Quarterly interactions on status of key controls</b>	<p>The key control assessments were conducted by the provincial treasury. The AGSA was involved in discussions with the political and administrative leadership on the results of the key control assessments. These debrief sessions included recommendations by the AGSA on the way forward, including obtaining commitments from the leadership to improve on the status of its internal control environment.</p>

Nature	Outline of AGSA initiatives
<b>Promoting understanding of PDO requirements</b>	<p>The AGSA delivered a presentation on PDOs at the provincial technical consultation forum (PTCF) meeting hosted by the provincial treasury. This session was attended by the CFOs of various departments. The discussions centred on the purpose of the audit, what the process entails and the measures that need to be implemented going forward.</p>
<b>Involvement at forums and meetings related to provincial government financial affairs</b>	<p>The AGSA was represented at the monthly public entity CFO forums hosted by the provincial treasury. Technical-related issues were discussed and clarified including drawing awareness to the AGSA's audit focus areas.</p>
<b>Promoting an understanding of IT risks and controls</b>	<p>The AGSA attended the monthly IT steering committee meetings in the province whereby insights and recommendations were shared with a view to improve on IT governance challenges, advise in formulating action plans with key IT deliverables and time frames in pursuit of clean audit from an IT perspective.</p> <p>The AGSA delivered a presentation to all the GITOs in the province, which covered audit risks emanating from transversal information systems, key control assessment of information systems in the province and the way forward to address weaknesses identified in the IT control environment.</p>
<b>Contributing to the effectiveness of oversight structures</b>	<p>Although the AGSA had the opportunity to address the portfolio committees during the year, there were very limited interactions subsequent to the national executive intervention in December 2011.</p>
<b>National intervention team</b>	<p>The AGSA had several interactions with the national intervention team, including the Minister of Finance, to discuss the administrative challenges in the province. Inputs were also given into the recovery project and implementation plan for the intervention to ensure that the root causes and key challenges affecting the relevant departments were included.</p> <p>At the time of writing this report, a workshop between the AGSA and the national intervention team was in the process of being arranged.</p>

**Table 27: Analysis of impact of interactions with the executive**

Auditee	Total number of interactions	Audit outcome 2011-12	Audit outcome 2010-11	Misstatement	Material SCM findings	Material PDO findings
		Opinion	Opinion	Evaluation	Evaluation	Evaluation
Agriculture		Financially unqualified with findings	Financially unqualified with no findings	Remain no misstatement	Regressed	Remain with no findings
Economic Development, Environment and Tourism		Financially unqualified with findings	Financially unqualified with findings	Unchanged	Improved	Remain with no findings
Education		Disclaimer	Qualified	Regressed	Unchanged	Regressed
Health		Disclaimer	Disclaimer	Unchanged	Unchanged	Improved
Cooperative Governance, Human Settlements and Traditional Affairs		Financially unqualified with findings	Financially unqualified with no findings	Regressed	Regressed	Remain with no findings
Office of the Premier		Financially unqualified with findings	Financially unqualified with findings	Unchanged	Unchanged	Improved
Provincial Legislature		Financially unqualified with findings	Financially unqualified with findings	Improved	Remain with no findings	Remain with no findings
Provincial Treasury		Financially unqualified with findings	Financially unqualified with findings	Regressed	Remain with no findings	Regressed
Public Works		Disclaimer	Qualified	Regressed	Unchanged	Unchanged
Roads and Transport		Qualified	Qualified	Unchanged	Regressed	Improved
Safety, Security and Liaison		Financially unqualified with findings	Financially unqualified with findings	Unchanged	Regressed	Remain with no findings
Social Development		Financially unqualified with findings	Qualified	Improved	Unchanged	Improved
Sport, Arts and Culture		Qualified	Qualified	Unchanged	Regressed	Remain with no findings

The graphic above details the interactions held with the MECs of departments. The graphic does not include the many additional interactions that were held with HoDs and CFOs. Also excluded are escalations which were made to the speaker of the legislature, portfolio committees and the premier.

As can be seen from the graphic, the number of interactions were fairly intensive. The main driver behind the interactions being the quarterly key controls visits as well as additional escalation interactions to highlight areas requiring the intervention of the executive authorities in trying to improve or at the very least maintain the audit outcomes of the departments.

Although we had intensified our interactions the return on that time investment did not yield the required results, which ultimately resulted in outcomes which either regressed or remained unchanged from the prior year's audit. Departments tend to rely on year-end effort to address internal control deficiencies and ignore any significant control deficiencies identified and communicated during these quarterly interactions.

It is imperative that the AGSA quarterly interactions are prioritised and attended by the relevant MEC, HoD/CEO, CFO, internal audit and chairpersons of the audit committee in order to foster a common understanding of the matters requiring attention to move the relevant department/entity swiftly towards the goal of clean administration by 2014. This would enhance the alignment of political and administrative leadership which is imperative in enforcing accountability and effective financial and performance management.



# SECTION 5

## EMERGING MATTERS AND AUDITEES' FINANCIAL HEALTH INDICATORS

5.1 OTHER CURRENT AND EMERGING MATTERS THAT REQUIRE ATTENTION

5.2 FINANCIAL HEALTH INDICATORS



AUDITOR - GENERAL  
SOUTH AFRICA



# SECTION 5:

## EMERGING MATTERS AND AUDITEES' FINANCIAL HEALTH INDICATORS

This section provides information on emerging matters that may impact on future audit outcomes as well as an analysis of auditees' financial health indicators.

### 5.1 OTHER CURRENT AND EMERGING MATTERS THAT REQUIRE ATTENTION

The following matters are expected to have an impact on provincial government audit requirements/outcomes in the 2012-13 financial year. Appropriate measures should therefore be timeously implemented to ensure that these do not negatively impact on audit outcomes.

**Table 28: Current and emerging matters that require attention**

Area of change		Summary of expected changes
<b>Matters affecting auditees in all provinces</b>		
<b>Accounting matters</b>	Readiness of departments for the eventual inclusion of inventory in the financial statement disclosures	<p>Departments are not yet required to include inventory in the disclosure notes to the financial statements and, consequently, no audit findings were raised in the auditor's report in this regard.</p> <p>A review conducted of departments' inventory management processes requiring to be addressed included the following:</p> <ul style="list-style-type: none"> <li>• The province did not have an inventory management system in place</li> <li>• No written procedure/instruction for inventory counts</li> <li>• Inventory records were not regularly reconciled to general ledger</li> </ul>

Area of change		Summary of expected changes
<b>Predetermined objectives</b>	Implementation of the Framework for strategic plans and annual performance plans	<p>In terms of the <i>Framework for strategic plans and annual performance plans</i> and National Treasury Instruction Note No. 33, all strategic and annual performance plans (tabled during February 2012) for all departments, constitutional institutions and public entities listed in schedules 3A and 3C to the PFMA, must be compiled in accordance with the principles as per the framework.</p> <p>Audits of predetermined objectives (for the 2012-13 PFMA audit cycle and going forward) would thus be conducted considering the principles of the <i>Framework for strategic plans and annual performance plans</i> in addition to the applicable laws and regulations (as per the AG Directive) for the said auditees.</p>

### 5.2 FINANCIAL HEALTH INDICATORS

Management is responsible for the sound and sustainable management of the affairs of the departments or public entities to which they are appointed and to implement an efficient, effective and transparent financial management system for this purpose, as regulated by legislation. AGSA audits included a high-level analysis of auditees' financial health indicators in order to provide management with an overview of selected aspects of auditees' current financial health and enable timely remedial action where financial health and service delivery may be at risk.

Certain aspects of matters related to the management of budgets, expenditure, conditional grants (applicable only to departments), revenue, assets and liabilities.

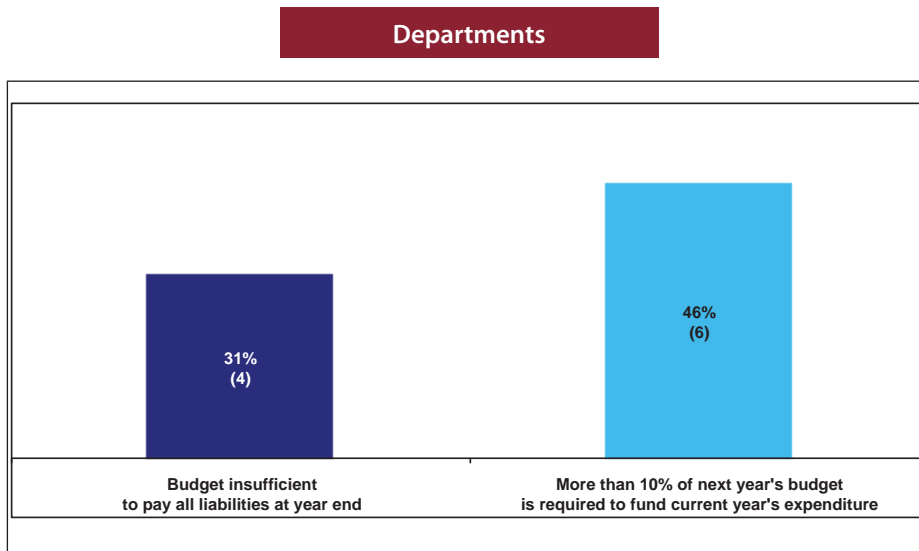
The results of the analyses that follow should be considered as indicators of possible risks to the financial health and service delivery within the province.



### 5.2.1 Budget management and conditional grants

The spending of 12 (92%) departments was within the approved budget. However, the annual financial statements of departments are prepared on the modified cash basis of accounting, which means that the expenditure disclosed in the annual financial statements, and used to assess actual expenditure versus budget is only what was paid during the year and does not include the liabilities for unpaid expenses at year-end. Effectively these liabilities are paid from the following year's budget, which reduces the amount available for those year's activities. The following figure shows the impact in the province:

**Figure 32: Budget management by departments**



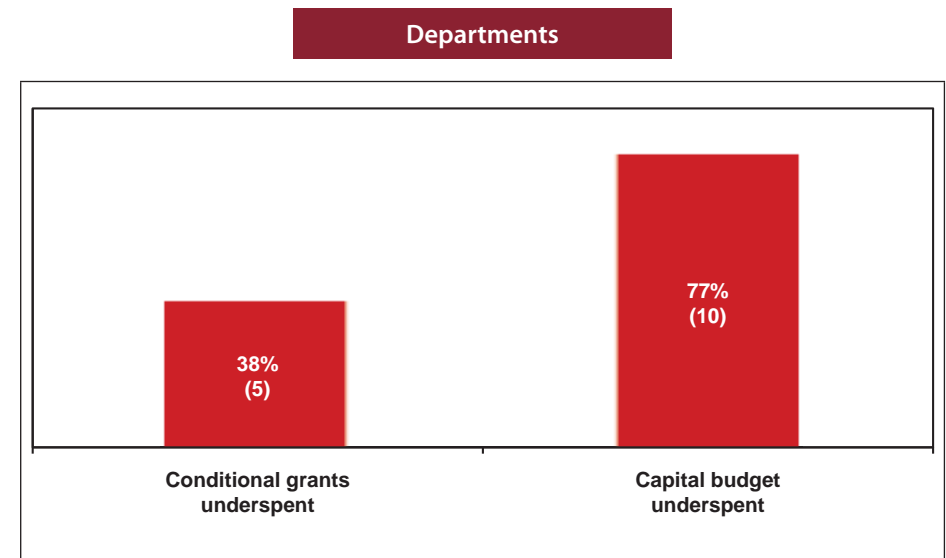
Four departments (31%), namely Agriculture, Education, Health and Social Development did not have sufficient funds to pay for all their goods or service received at year-end. At six departments (46%), namely CoGHSTA, Education, Health, Roads and Transport, Social Development and Sports, Arts and Culture more than 10% of the next year's budget would be required to fund current year's expenditure. These departments would effectively commence the 2012-13 financial year with a deficit and run the risk of incurring unauthorised expenditure. This also poses possible risks on their deliverables, considering the

following as examples:

- i. Financial problems impact directly on service delivery
- ii. Contractors and suppliers not paid timeously, resulting in goods and services not being delivered
- iii. Deficient execution of capital projects

The underspending of capital budgets and conditional grants can have an effect on the ability of the province to deliver on programmes and services. The approved budget (voted funds) of departments is requested from the provincial revenue funds only as required. The figure below shows the number of departments that underspent on capital budgets and conditional grants.

**Figure 33: Underspending by departments**



**Budget underspent by more than 10%**

Five departments (38%) underspent their conditional grants by more than 10% of their total budget. Furthermore, 10 departments (77%) underspent their capital budget. Underspending of conditional grants and capital budgets adversely affects service delivery.

This underspending is due to a lack of credible reporting to provincial treasury on the usage of conditional grants and capital budgets, a lack of monitoring by the leadership and governance structures, and a lack of capacity to deliver on conditional grant and capital projects. To some extent, the austerity measures implemented by the national intervention team also had an impact on the underspending of conditional grants and capital budgets.

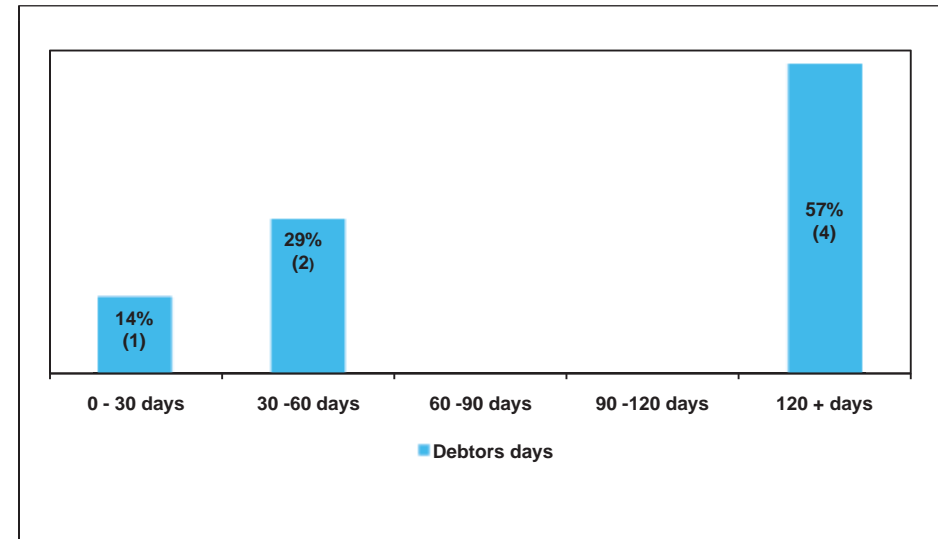
The provincial leadership should implement processes to ensure that departments produce credible monthly reports which measure actual expenditure against budget and service delivery. The challenges in the province to produce credible reports and the way forward are discussed in the above sections. The actual expenditure (capital and current) reported should be properly reconciled and should include amounts owing to suppliers for goods and services which have not been paid at reporting date. These reports should be monitored on a regular basis and corrective actions taken where deemed necessary.

In addition to this, the province should identify the human resource capacity it has to manage and implement major capital projects and should measure the existing capacity against the number and value of budgeted capital projects. Where shortfalls in capacity are identified, it should be enhanced by appropriate appointments and/or reliable service providers.

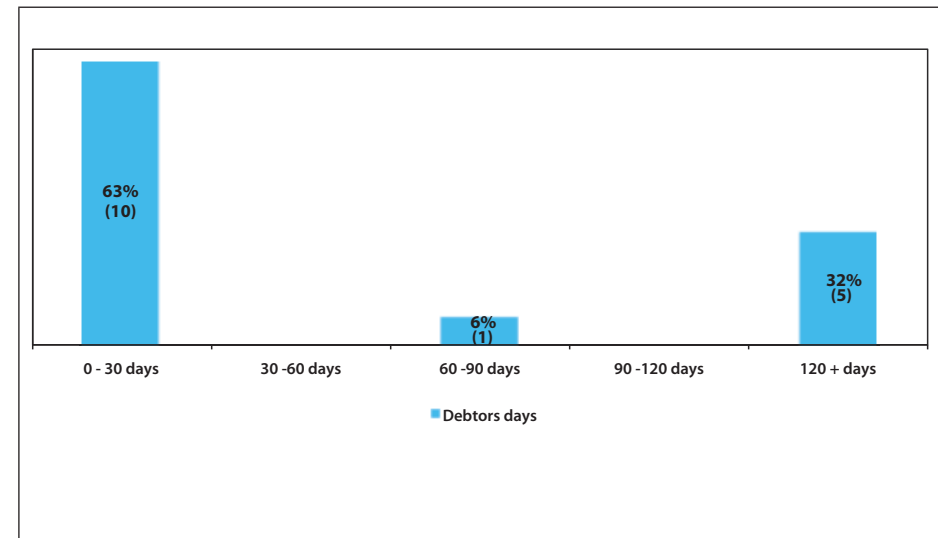
### 5.2.2 Revenue and expenditure management

The figure below shows the average debtors' and creditors' days. Debtors' days refer to the number of days it takes for the auditee to recover the money owed to them by persons/institutions. Creditors' days are the number of days on average it takes for an auditee to pay its creditors.

**Figure 34: Collection from debtors – departments**



**Figure 35: Collection from debtors – public entities**

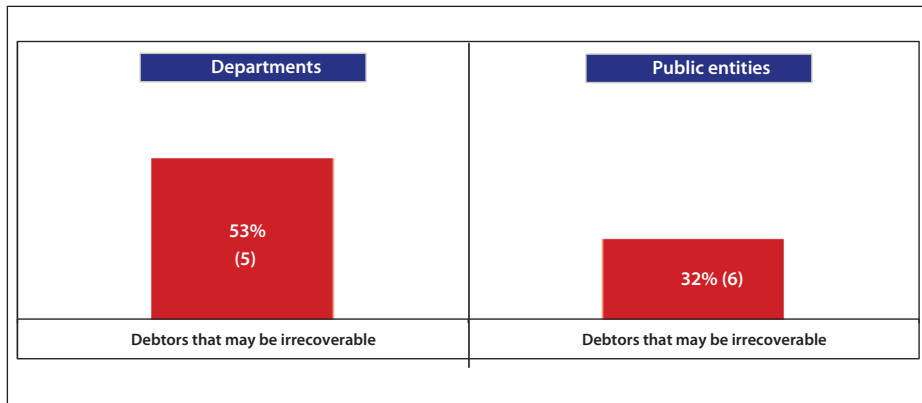


As evidenced by the figure above, four departments (57%) and six entities (32%) had debtors outstanding for more than 120 days. This negatively impacts on the working capital requirements of the department. It is evident from the table above that the working capital management of departments needs serious attention.

To address these issues the entities should develop and implement adequate policies and procedures to effectively, appropriately and timeously collect all monies due to them. The late collection of amounts due by these departments has a significant impact on the revenue fund. Accounting officers/authorities should also consider writing off these debtors, after they have exhausted all reasonable steps.

The weakness in recovering revenue owed by debtors is further highlighted in the following figure, which shows the extent of bad debts that were written off or provisions made for such write-offs:

**Figure 36: Status of state debtors**



**Budget underspent by more than 10%**

Seven departments and six public entities had more than 10% of their total debtors which may be irrecoverable.

The provincial leadership should ensure that the debt management policies of the departments and entities are updated, adequate capacity exists to implement them, and their requirements are strictly enforced. The systems and processes in place to record and follow up on outstanding debtors were found to be inadequate, e.g. at the Department of Health, the recovery of debt is hampered by the fact that some of the patients do not provide sufficient information (i.e. patient details, addresses) which will enable the recovery of the debt.

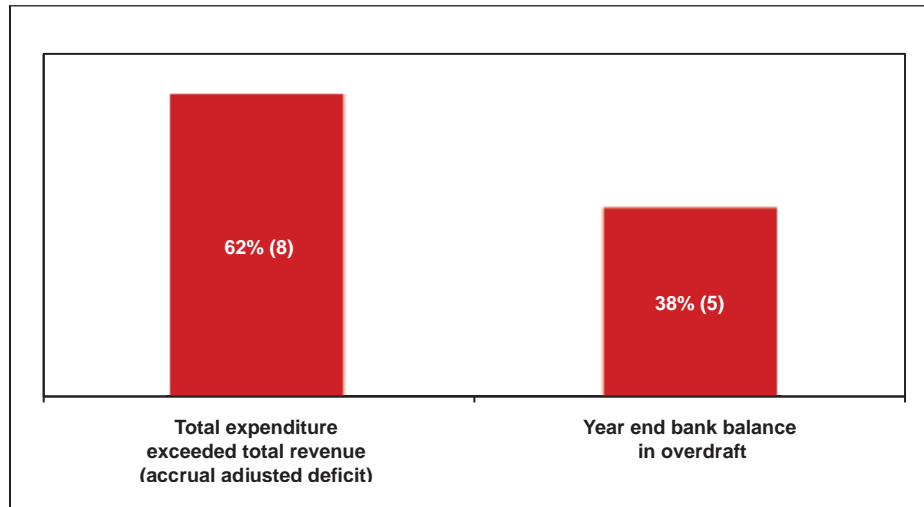
It's recommended that the accounting officers/authorities should also consider writing off these debtors, after they have exhausted all reasonable steps. Accounting officers/authorities must ensure that all debt written off is done in accordance with the write off policy.

**5.2.3 Asset and liability management**

The analysis shown below would, in the private sector, be indicators of a possible going concern problem at an entity, i.e. that the entity would not have sufficient funds to continue in business. It is, however, uncommon for the operational existence of a public sector auditee to cease as a result of an inability to finance its operations as these departments normally constitute the delivery of service to the public. In these instances additional funding from central government is normally required to enable the auditee to continue its operations.

The following figure shows the number of departments that incurred deficits in the current year and had bank overdrafts at year-end. To determine whether a surplus or deficit was realised at departments the amounts on the annual financial statements were reconstructed taking into consideration the accrual-related disclosure notes.

**Figure 37: Deficits and overdrafts**

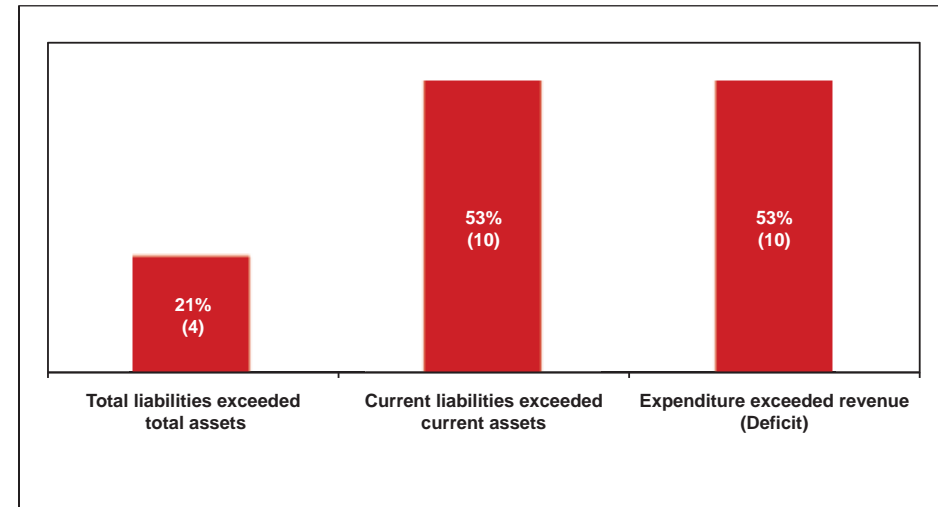


Eight departments (62%), namely Health, Public Works, Agriculture, Education, Provincial Treasury, Economic Development, Environment and Tourism, Safety, Security and Liaison and Social Development had expenditure in excess of their revenue, whereas five departments (38%), namely Health, Safety, Security and Liaison, Education, Social Development, and Provincial Legislature had bank overdrafts at year-end. This is primarily due to inadequate budget management processes.

This will result in these entities using next year's budget to fund the current year expenditure. This could have a negative impact on their service delivery for 2012-13.

The next figure shows the number of public entities that had negative indicators as it relates to the funding of their continued operations.

**Figure 38: Funding of continued operations – public entities**



Four entities (21%) had total liabilities in excess of their total assets and at 10 entities the current liabilities exceeded the current assets.

At 10 (53%) of the public entities the expenditure exceeded the revenue and were in a net deficit position at year-end. The deficits should be monitored closely as continuous deficits will result in net current liabilities and net liabilities.

**Overall conclusion**

On 5 December 2011, the South African cabinet announced its intervention in the Limpopo provincial government according to section 100(1)(b) of the Constitution. This effectively placed five Limpopo provincial departments, namely the Provincial Treasury, Education, Roads and Transport, Health and Public Works under national executive administration. The key issues identified as problematic in the province were broadly described as underspending, overspending, cash flow challenges and challenges with SCM.

The province had an overdraft of R757,62 million with the Corporation of Public Deposits. It had a cash shortfall of R1,3 billion to meet its commitments at December 2011. Cash management measures were put in place since December 2011 to reduce the overdraft and cash shortfall. Due to these measures the provincial cash position improved to a positive balance of

R231 million as at 31 March 2012. The cash surplus was used to redeem the unauthorised expenditure to improve the status as of year-end.

The national 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 (R2,8 billion), the province is in fact starting the 2012-13 financial year with a deficit of R3,7 billion. As of year-end four departments did not have sufficient funds to pay off all their liabilities and at six departments, more than 10% of their next year's budget would be used to pay off current expenditure.

Overall, the financial management practices in the province are generally not adequate and require significant attention. Weak control environments which incorporate accounting disciplines and budget management are significant contributors to the findings on financial health of the province which resulted in the national intervention to assist the province in alleviating its cash flow challenges.

It is imperative that the provincial leadership, together with their governance structures, take effective steps to address the control environments at all departments and entities in order to improve the overall provincial financial health.

# GLOSSARY OF TERMS

## ANNEXURE



AUDITOR - GENERAL  
SOUTH AFRICA









# GLOSSARY OF TERMS

<b>Accounts payable/ accruals/ liabilities</b>	Money owed by the entity to those who have supplied goods and services.
<b>Accounts receivable (debtor)</b>	Money owed to the entity by those who have received goods or services from the entity.
<b>Accruals</b>	List of expenses that have been incurred and expensed but not, paid or services rendered but not yet billed.
<b>Adverse audit opinion</b>	The financial statements contain misstatements that are not confined to specific amounts or the misstatements represent a substantial portion of the financial statements.
<b>Asset</b>	Any item belonging to the entity, which may constitute property, plant, cash or debtors.
<b>Asset impairment</b>	The reduction in value of an asset below its normal realisable value.
<b>Balance sheet</b>	Summary of an entity's financial status, including assets, liabilities and equity.
<b>Carrying value</b>	Also referred to as book value - the cost of a plant asset less the accumulated depreciation since the asset was acquired and less any impairment.
<b>Cash flow</b>	The flow of monies from operations: incomings funds are revenue and outgoing funds are expenses.
<b>Clean audit outcome</b>	The financial statements of the auditee are free of material misstatements (financially unqualified audit opinion) and there are no material findings on the report on performance against predetermined objectives or compliance with key laws and regulations.
<b>Commitments (financial)</b>	This represents the cost of goods and services to be received in the next year in respect of which the entity has already entered into an agreement to purchase.

<b>Comparative figures</b>	The figures recorded in the previous year which correspond to the figures for the same item in the current year.
<b>Consolidated financial statements</b>	Financial statements that reflect the combined financial position and results of a department and those of public entities under its control.
<b>Contingent liability</b>	A potential liability, the amount of which will depend on a future event.
<b>Current assets</b>	Current assets comprise cash and other assets, such as inventory or debtors, which will be traded or consumed or converted to cash in a period not exceeding 12 months. All other assets are classified as non-current and typically include property, plant and equipment and long-term investments.
<b>Disclaimer of audit opinion</b>	There was insufficient appropriate evidence (documentation) on which the auditor could base an opinion concerning the items reported in the financial statements. The lack of sufficient evidence is not confined to specific amounts or represents a substantial portion of the information contained in the financial statements.
<b>Financial and performance management</b>	Management of resources in order to achieve the financial and services delivery objectives of the auditee. This is one of the three key overall drivers of internal control which should be addressed to improve audit outcomes.
<b>Financially unqualified audit opinion</b>	The financial statements contain no material misstatements.
<b>Fruitless and wasteful expenditure</b>	Expenditure that was made in vain and could have been avoided had reasonable care been exercised. This includes penalties and interest on late payments, as well as payments for services not utilised or goods not received.
<b>General ledger</b>	A record of all financial transactions undertaken by an entity.

<b>Governance</b>	In the context of this general report it refers to the governance structures (audit committees) and processes (internal audit and risk management) as one of the three key overall drivers of internal control that should be addressed to improve audit outcomes.
<b>Information technology (IT)</b>	Computer systems used for recording and reporting financial and non-financial transactions.
<b>IT service continuity</b>	Processes of managing the availability of hardware, system software, application software and data to enable auditees to recover/establish information system services in the event of a disaster.
<b>IT security management</b>	Controls preventing unauthorised access to the networks, operating systems and application systems that generate and prepare financial information.
<b>IT user access management</b>	Procedures through which the auditees ensure that only valid, authorised users are allowed segregated access to initiate and approve transactions on the system.
<b>Internal control (key controls)</b>	Internal control is 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, effectiveness and efficiency of operations, and compliance with the applicable laws and regulations. Internal controls consist of all the policies and procedures implemented by auditee management to assist in achieving the orderly and efficient conduct of business, including adherence to policies, safeguarding of assets, prevention and detection of fraud and error, the accuracy and completeness of the accounting records and the timely preparation of reliable financial and service delivery information.
<b>Inventory</b>	Goods held for resale or for internal use.
<b>Irregular expenditure</b>	Expenditure incurred without complying with applicable laws and regulations.

<b>Leadership</b>	Leadership refers to the administrative leaders. This is also one of the three key overall drivers of internal control that should be addressed to improve audit outcomes.
<b>Leading department</b>	Leading departments are those auditees that monitor and set an example for other auditees in national and provincial government. Leading departments comprise Parliament, the nine provincial legislatures, the nine Offices of the Premier, National Treasury and the nine provincial treasuries.
<b>Material finding</b>	An audit finding on reporting on predetermined objectives or non-compliance with laws and regulations which is significant enough in terms of value and/or nature to influence the understanding of the reported information.
<b>Material misstatement</b>	Misstatements which are significant enough to influence the opinions of users of the reported information. Materiality is considered in terms of the rand value and/or the nature and cause of the misstatement.
<b>Misstatement</b>	Incorrect information in or information omitted information from the financial statements or annual performance report.
<b>Modified opinion</b>	Qualified, adverse or disclaimer of opinion.
<b>Payroll</b>	A list of employees and their wages.
<b>Pervasive findings</b>	Findings that are not confined to specific items in the reported information or that represent a substantial proportion of the reported information.
<b>Property, plant and equipment</b>	Includes land, buildings, leasehold improvements, equipment, furniture, fixtures, delivery trucks, vehicles, etc. that are owned by the entity.
<b>Qualified audit opinion</b>	The financial statements contain material misstatements in specific amounts or there is insufficient evidence for the auditor to conclude that specific amounts included in the financial statements are not materially misstated.

<b>Reconciliation</b>	The process of matching one set of data to another, i.e. the bank statement to the cheque register, the accounts payable journal to the general ledger, etc.
<b>Reporting against predetermined</b>	Reporting by auditees on their actual service delivery achievements against their annual objectives performance plans.
<b>Residual value</b>	The estimated scrap or salvage value at the end of the asset's useful life.
<b>Root causes</b>	The underlying causes or drivers of audit findings, i.e. why the problem occurred. Addressing the root cause helps to ensure that the actions address the real issue or opportunity, thus preventing or reducing incidents of recurrence as opposed to simply providing a one-time or short-term fix.
<b>Supply chain management</b>	Procurement by auditees of goods and services through a tender or quotation process and monitoring the quality and timeliness of goods and services provided.
<b>Transversal findings</b>	Findings that are cross-cutting or occurring in a number of entities.
<b>Unauthorised expenditure</b>	Expenditure that was in excess of the amount budgeted or allocated by government to the entity or that was not incurred in accordance with the purpose for which it was intended.
<b>Useful lives</b>	This is the period of time that it will be economically feasible to use an asset. Useful life is used in calculating the depreciation of an asset.







**ANNEXURE 1: Auditees' audit outcomes, areas qualified, findings on predetermined objectives, non-compliance, specific focus areas, audit committees and root cause**

Number	Auditee	2011-12		2010-11		Financial statement qualification areas							Findings on predetermined objectives				Findings on areas of non-compliance													
		Audit opinion	Predetermined objectives	Audit opinion	Predetermined objectives	Non-current assets	Current assets	Capital and reserves	Liabilities	Other disclosure items	Revenue	Expenditure	Unauthorised, irregular and fruitless and wasteful expenditure	Reported information not useful	Reported information not reliable	Information not submitted in time for audit	No annual performance report	Material misstatements/limitations in submitted annual financial statements	Unauthorised, irregular and fruitless and wasteful expenditure	Procurement management	HR management	Expenditure management	Asset and liability management	Budgets	Internal audit	Audit committee	Revenue management	Other		
<b>Public entities</b>																														
1	Centennial Trading Company 145	Green	Green	Red	Blue	A	A	A	A	A	A	A						A										A		
2	Corridor Mining Resources	Purple	Blue	Yellow	Blue	N							R	N				N												A
3	Fumani Greenstone	Yellow	Blue	Yellow	Blue								N	N		A		N				N								
4	Gateway Airport Authority Limited	Purple	Blue	Yellow	Blue	N	N	N	N	N			N	N	A			R		N		N	N		R	N				
5	Great North Transport	Purple	Blue	Green		N			N				N		N			N	N	N			N		N		N			
6	Khumong Chrome Mine	Yellow	Blue	Yellow	Blue								N	N		A		N												
7	Limpopo Agribusiness Development Corporation	Purple	Blue	Pink	Blue	A	A		A		A		R	N		A	R	R	R		R				R					
8	Limpopo Business Support Agency	Purple	Blue	Purple	Blue	R	R	N	N	R	A		R	R	A			R	R	R		R	R	N	N	N				
9	Limpopo Development Enterprise	Purple	Blue	Purple	Blue	R	A		N	A	R		N	R	N			R	R	R		R	R				R			
10	Limpopo Gambling Board	Yellow	Blue	Yellow	Blue									A				R	A	A		A			A	A				
11	Limpopo Housing Board	Green	Black	Green																										
12	Limpopo Roads Agency	Yellow	Blue	Green														N	N	N		N		N						
13	Limpopo Tourism Agency	Red	Blue	Red	Blue	R	A	R	R	A	N		R	R	R			R	R	R		A	R	N					R	

Legend (Audit outcomes)	Financially unqualified with no findings	Disclaimer	Qualified	Adverse	Legend (Drivers)	Good	Significant control deficiency	S	Legend (Findings)	Addressed	A	Legend (Movements)	Reduction	↑	Unchanged	Legend (Root cause)	No significant root cause	Legend (Root cause)	A contributing root cause	Legend (Root cause)	A major root cause
	Financially unqualified with findings	Audit outstanding	Closed	Finding		Causing concern	Intervention required			New	N	Repeat	R	Increase	↓						





**ANNEXURE 1: Auditees' audit outcomes, areas qualified, findings on predetermined objectives, non-compliance, specific focus areas, audit committees and root cause**

Number	Auditee	2011-12			2010-11			Financial statement qualification areas							Findings on predetermined objectives				Findings on areas of non-compliance												
		Audit opinion	Predetermined objectives	Compliance with laws and regulations	Audit opinion	Predetermined objectives	Compliance with laws and regulations	Non-current assets	Current assets	Capital and reserves	Liabilities	Other disclosure items	Revenue	Expenditure	Unauthorised, irregular and fruitless and wasteful expenditure	Reported information not useful	Reported information not reliable	Information not submitted in time for audit	No annual performance report	Material misstatements/limitations in submitted annual financial statements	Unauthorised, irregular and fruitless and wasteful expenditure	Procurement management	HR management	Expenditure management	Asset and liability management	Budgets	Internal audit	Audit committee	Revenue management	Other	
14	Mashashane Hatchery						A	A		A		A		R	N			A	R	R	R		A	A				R		A	
15	Mokopane Kodumela Investments														N	N		A	N												
16	Mukumbani Tea Estate									A		A						A	A									A			
17	Munumzvu Estate						A	A		A		A		R	N			A	R	R	R		A			R		A			
18	Mutale Agricultural Estate						A		A	A								A	A							A					
19	Risima Housing Finance Corporation														N	N			N	N						N	N				
20	Sefateng Chrome Mine														N	N		A	N	N			N							A	
21	Trade Investment Limpopo									A				R	R	A			R	R	R		R	N	R	R	N				
22	Tshepong Chrome Mine														N	N		A	N												
23	Ventico						A		A					A	N			A	R	N	R						R		A		

Legend (Audit outcomes)	Financially unqualified with no findings	Disclaimer	Qualified	Adverse		Legend (Drivers)	Good	Significant control deficiency	S	Legend (Findings)	Addressed	A	Legend (Movements)	Reduction	↑	Unchanged	Legend (Root cause)	No significant root cause	
	Financially unqualified with findings	Audit outstanding	Closed	Finding			Causing concern	Intervention required			New	N		Repeat	R	Increase		↓	



