



AUDITOR - GENERAL  
SOUTH AFRICA



**GENERAL REPORT**  
ON THE PROVINCIAL AUDIT OUTCOMES

**MPUMALANGA**  
**PFMA 2011-12**



AUDITOR - GENERAL  
SOUTH AFRICA

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

PR06/2013  
ISBN: 978-0-621-41515-5

# *Our reputation promise/mission*

2



**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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# MPUMALANGA CLEAN AUDITS 2011-12

## DEPARTMENT

**Finance**  
**Office of the Premier**  
**Mpumalanga Provincial Revenue Fund**

## PUBLIC ENTITY

**Mpumalanga Gambling Board**

# FOREWORD



AUDITOR - GENERAL  
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# FOREWORD

I hereby present to the legislature of the Mpumalanga province my 2011-12 general report summarising the results of the audit outcomes of provincial government for the financial year ended 31 March 2012.

This year the province showed a regression from the previous year as evidenced by the prevalence of findings on predetermined objectives, compliance with laws and regulations and material adjustments in the financial statements.

My message for the 2010-11 financial period confirmed the following commitments: The leadership across the board pledged intensified regular monthly reporting; validation of reported financial, service delivery and compliance information; and constant monitoring; as well as ensuring highly effective internal audit units and audit committees to continuously verify the credibility of internal controls supporting monthly reports. To give effect to these commitments, key vacant positions would need to be filled with staff that possess the required skills. In addition, the provincial treasury would play a coordinating role with emphasis on supply chain management, service delivery reporting, human resource management and information technology management. To sustain these efforts, the legislature committed to strengthen its oversight collaboration between portfolio committees, the public accounts committee and members of the executive council as well as regular interactions with heads of department to provide quarterly assurance on the status of internal controls at the level of root causes. Furthermore, the premier and the executive would review progress quarterly and take appropriate action against non-performance.



*I am equally disappointed with the results. The ball is now in our court to change the outcomes. Once more we want to promise that a few matters well attended to can change the outcomes. There will be consequences if we did not do what we agreed on.*

- Premier D D Mabuza

However, the lack of implementation of these clearly defined commitments in a timely manner led to the regression in the audit outcomes in the province. This was despite the efforts of my office to intensify interactions with the leadership at all levels on a quarterly basis to align the action plans to the findings raised in the management reports and to review and monitor progress towards institutionalising financial and performance management practices.

The Office of the Premier, the Mpumalanga Provincial Treasury, the Mpumalanga Gambling Board and the Department of Community Safety, Security and Liaison are good examples of what can be achieved if prior year findings are proactively and tightly monitored by the leadership in collaboration with internal auditors and the audit committee.

With improved internal controls, the province would also be better positioned to manage the reported cash flow and service delivery results, which indicate that 65% of the auditees had debtors' collection ageing of more than 60 days, while 77% of departments and 50% of public entities achieved less than 80% of their service delivery targets. On a positive note, the departments that receive the greater portion of the provincial budget were able to confine their liabilities within their available budgeted funds.

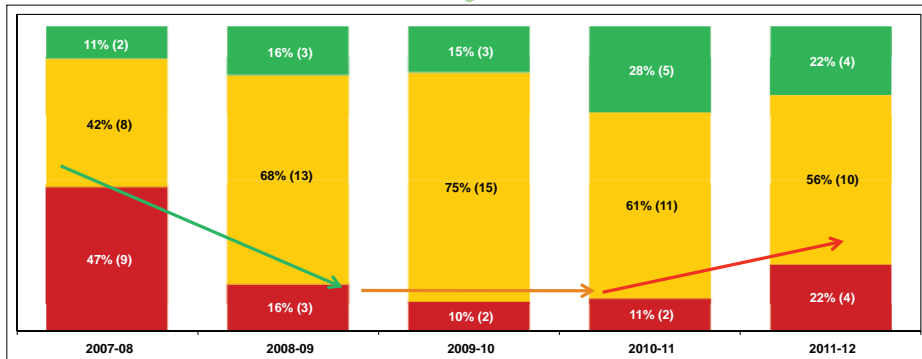
As committed in the previous year's general report, my office remains available to support the commitment made in that report and the renewed energy brought about by the provincial director-general to enhance the quality of the action plans aimed at institutionalising the sustainability of internal controls. This would complement the efforts of the legislature, which has started to implement the oversight model.

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

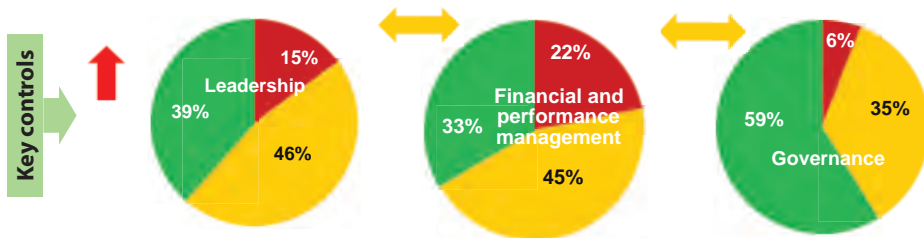
*Auditor-General*

**Auditor-General  
Pretoria  
March 2013**

The province was unable to build momentum on the increase in the clean audit outcomes reported over the past three financial years



Limited progress in addressing key controls



Root causes and interventions required to sustain clean administration

First level of assurance

Human resources capacity and productivity

Attention to key controls

Timeous filling of vacancies with right skills

Effective performance management

Maintaining leadership stability

Effective operation of daily controls (checks and balances)

Monthly reporting (financial, service delivery, compliance and IT controls)

Validating credibility of management information

Second and third levels of assurance: Oversight and audit (independent assurance)

Effectiveness of assurance providers

Management to implement action plans and report thereon

Effective monitoring of commitments by oversight

Strong independent assurance



# SECTION 1

## EXECUTIVE SUMMARY



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# SECTION 1




## EXECUTIVE SUMMARY




Analysed in this report are 18 provincial government auditees, which comprise 14 departments (including the provincial legislature and the provincial revenue fund) and four public entities.





The analysis of predetermined objectives (PDOs), compliance with laws and regulations as well as human resource (HR) management excludes the provincial revenue fund, as these areas are not applicable to the fund.






The table below summarises significant aspects of the audit outcomes, while sections 2 and 3 provide more detailed analysis of findings, trends and root causes. Section 4 outlines commitments received from role players.

**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>One (6%) auditee improved to clean administration.</li> </ul>
		<ul style="list-style-type: none"> <li>Three (17%) auditees (including the provincial revenue fund) maintained clean audit outcomes from the previous year.</li> <li>Nine (50%) auditees were unable to address prior year findings on PDOs and/or compliance in order to obtain clean audit outcomes.</li> </ul>
		<ul style="list-style-type: none"> <li>One (6%) auditee was unable to sustain the clean audit outcome from the previous year and regressed to financially unqualified with matters.</li> </ul>
		<ul style="list-style-type: none"> <li>Two (11%) auditees regressed from clean and financially unqualified audit outcomes with matters to qualified audit outcomes.</li> </ul>
		<ul style="list-style-type: none"> <li>Two (11%) auditees failed to address their 2010-11 qualification areas.</li> </ul>

Aspect	Indicator	Key outcomes and trends
<b>Submission of financial statements and annual performance reports for auditing</b>		<ul style="list-style-type: none"> <li>All auditees submitted their financial statements and annual performance reports within the legislated time frames.</li> </ul>
<b>Opinions on financial statements</b>		<ul style="list-style-type: none"> <li>The prevalence of material misstatements in the financial statements submitted for auditing decreased from 61% to 56%.</li> <li>Six (33%) auditees were able to achieve a financially unqualified audit opinion only because they used the opportunity provided by the Auditor-General of South Africa (AGSA) to correct all misstatements identified during the audit.</li> <li>Of the four (22%) auditees that received qualified and disclaimed audit opinions, two (11%) had regressed from the previous year.</li> </ul>
<b>Reporting on PDOs</b>		<ul style="list-style-type: none"> <li>Six (35%) auditees continued to have no material findings on PDOs.</li> <li>Two auditees (12%) addressed material findings reported in the previous year.</li> <li>Seven (41%) auditees were unable to address the material findings reported in the previous year.</li> <li>Two auditees (12%) regressed from having no material findings in the previous year.</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>Two (12%) auditees continued to have no material findings from the previous year.</li> <li>One (6%) entity addressed material instances of non-compliance reported in the previous year.</li> </ul>
	 	<ul style="list-style-type: none"> <li>The provincial legislature once again did not have non-compliance findings due to the non-availability of a legal framework governing financial management.</li> <li>Twelve (70%) auditees were unable to address material instances of non-compliance reported in the previous financial year.</li> <li>One (6%) entity regressed from the previous year and had material instances of non-compliance.</li> </ul>
<b>Supply chain management (SCM)</b>		<ul style="list-style-type: none"> <li>Procurement to the value of R147 million could not be audited because the required information was not made available by auditees.</li> <li>At 24% of the auditees, contracts were awarded to employees and public office-bearers.</li> <li>Unfair or uncompetitive procurement processes were followed at 71% of the auditees.</li> </ul>

Aspect	Indicator	Key outcomes and trends
<b>Internal controls</b>		<ul style="list-style-type: none"> <li>Hardly any progress has been made in addressing the previous year's internal control deficiencies. This is mainly due to the majority of auditees not fully honouring their commitments.</li> <li>Significant deficiencies in leadership, financial and performance management as well as governance remained unchanged.</li> <li>Without clearly formulated interventions and firm time frames overseen by the accounting officers and senior management, the situation will not improve.</li> </ul>
<b>HR management</b>		<ul style="list-style-type: none"> <li>Inadequate management of vacancies and acting positions was identified at 76% of the auditees.</li> <li>Performance management remained a concern at 29% of the auditees.</li> </ul>
<b>Management of information technology (IT)</b>		<ul style="list-style-type: none"> <li>Commitments were not adequately implemented. Management intervention is required to ensure that commitments are honoured.</li> </ul>
<b>Audit committees and internal audit units</b>		<ul style="list-style-type: none"> <li>Governance structures complied with the legislative requirements at 88% of the auditees.</li> </ul>
		<ul style="list-style-type: none"> <li>Management is ineffective in addressing the internal control weaknesses identified by audit committees and internal audit units, as many control weaknesses picked up by them, are again picked up during the external audit.</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



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# SECTION 2

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## OVERVIEW OF AUDIT OUTCOMES

This section provides the overall audit outcomes (section 2.1), followed by further details on findings arising from the audit of the financial statements (section 2.2), the reporting on PDOs (section 2.3), and compliance with laws and regulations (section 2.4).

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

## 2.1 OVERALL AUDIT OUTCOMES

Provincial government comprises 14 departments (which include the provincial legislature and the provincial revenue fund) and four public entities.

### 2.1.1 Summary of overall audit outcomes

The audits of 18 auditees that submitted financial statements on time were completed within the legislated time frames.

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 current and prior year**

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)	3	4	1	1	4	5
Financially unqualified with findings	8	9	2	2	10	11
Financially unqualified financial statements	79%	93%	75%	75%	78%	89%
Qualified opinion, with findings **	3	1	0	0	3	1
Adverse opinion, with findings **	0	0	0	1	0	1
Disclaimer of opinion, with findings **	0	0	1	0	1	0
Financially qualified financial statements	21%	7%	25%	25%	22%	11%
<b>Total number of audits in the province</b>	<b>14</b>	<b>14</b>	<b>4</b>	<b>4</b>	<b>18</b>	<b>18</b>
<b>Total number of auditees with other findings on predetermined objectives and compliance with laws and regulations</b>						
Findings on predetermined objectives only	0	0	0	0	0	0
Findings on compliance with laws and regulations only	3	3	1	1	4	4
Findings on both predetermined objectives and compliance with laws and regulations	7	7	2	2	9	9

\* Including legislature and revenue fund

\*\* 'With findings' denotes findings on predetermined objectives and/or compliance with laws and regulations

Annexure 1 to this report lists the current and prior year audit outcomes of all auditees.

## 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 year.

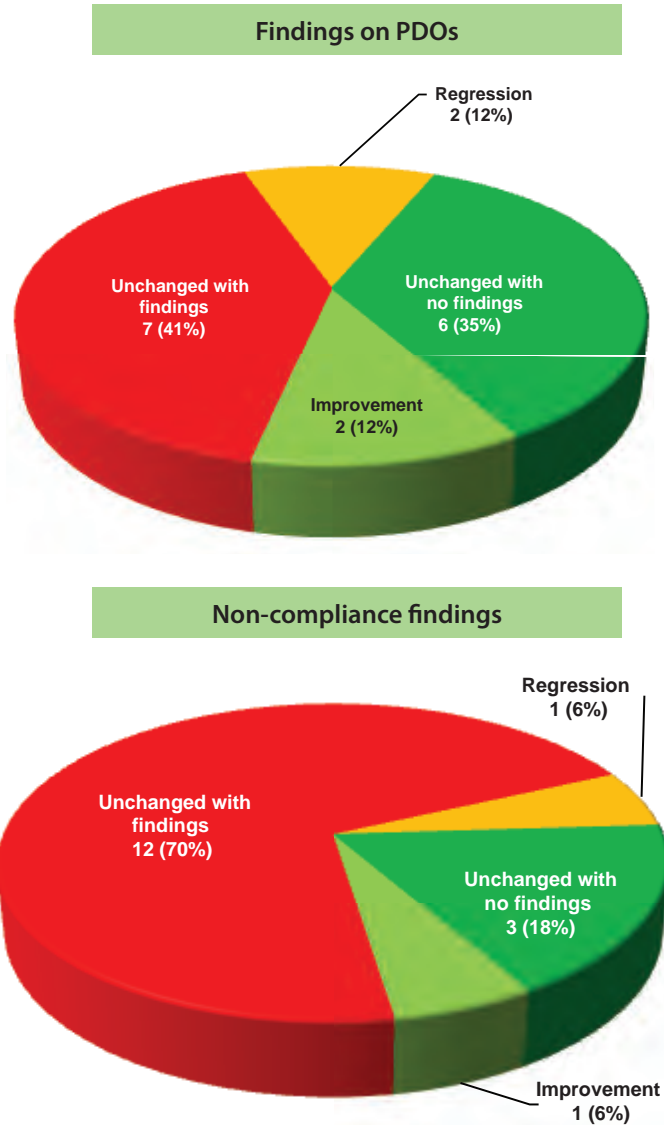
**Figure 1: Summarised movement in overall audit outcomes**

Audit opinion	Improvement	Unchanged	Regressed
Financially unqualified with no findings	Office of the Premier	Finance; Provincial Revenue Fund; Mpumalanga Gambling Board	
Financially unqualified with findings		Agriculture, Rural Development and Land Administration; Cooperative Governance and Traditional Affairs; Culture, Sport and Recreation; Education; Human Settlements; Public Works, Roads and Transport; Social Development; Mpumalanga Tourism Parks Agency; Mpumalanga Regional Training Trust	Safety, Security and Liaison Provincial Legislature
Qualified		Health	Economic Development, Environment and Tourism
Disclaimer/Adverse		Mpumalanga Economic Growth Agency	
<b>Total</b>	<b>1</b>	<b>14</b>	<b>3</b>



The following figure analyses findings on PDOs and compliance with laws and regulations.

**Figure 2: Summarised movement in findings on predetermined objectives and compliance with laws and regulations**

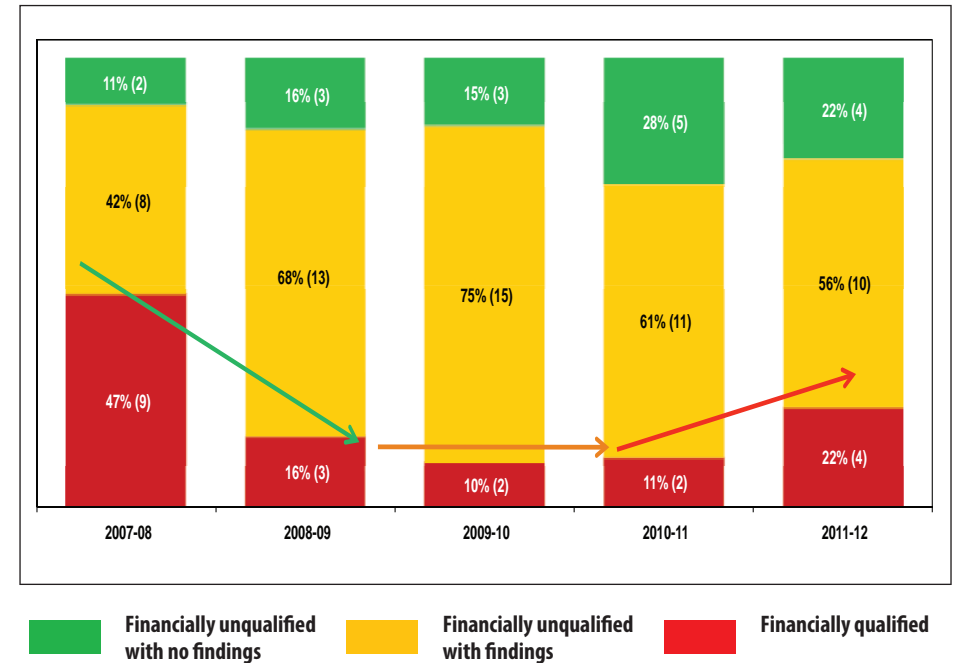


With the exception of the Office of the Premier, which moved to a clean audit outcome, no other auditees showed significant advancement in addressing material findings on PDOs and/or compliance. Inadequate action plans to address root causes, a lack of commitment, inadequate monitoring of own action plans and the late implementation of action plans were the biggest reasons for the repeat findings. Consequently, the 10 auditees with financially unqualified audit outcomes with matters were unable to tip the scales towards clean outcomes.

### 2.1.3 The province's progress towards producing unqualified financial statements

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

**Figure 3: Five-year progress towards financially unqualified audit reports**



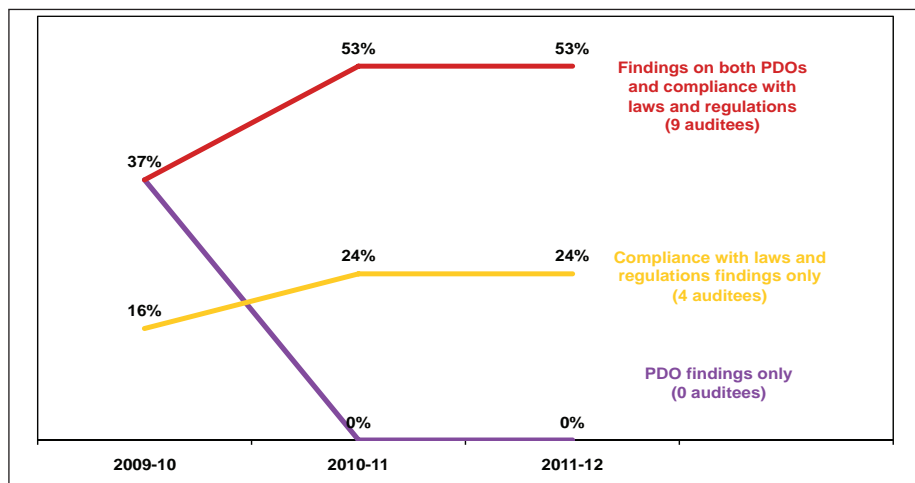
The 2008-09 to 2010-11 history of audit outcomes of the province showed marginal growth towards clean audits. These years reflected a conscious focus by the province on improving the outcomes by addressing the root causes identified in the 2007-08 audits. However, the province was unable to maintain the momentum of increasing the clean audit outcomes over the past three financial years. The three clean outcomes are unfortunately overshadowed by the stagnation and regression of the other auditees. This is evident from the marked deterioration in audit outcomes for the 2011-12 financial year.

The reality is that improved outcomes are not entrenched in practices that promote and enhance sustainability. The regressed and stagnated outcomes are attributable to a number of factors, involving both people and processes. Refer to sections 2.2.3 and 3.1 for a detailed analysis of the root causes and best practice recommendations regarding financial statements.

#### 2.1.4 The province's rate of addressing findings on 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 4: Three-year progress in addressing findings on predetermined objectives and compliance**



It is evident that the provincial administration still has a long road ahead towards achieving clean administration. The lack of movement of the financially unqualified outcomes with matters to that of clean audit outcomes is a concern. This is evidenced by the high prevalence of auditees with findings on PDOs and compliance with laws and regulations. The majority of the auditees have been in this category for a number of years.

Auditees appear to be satisfied with unqualified outcomes and do not address matters that give rise to findings on PDOs and compliance with laws and regulations. The leadership is not taking ownership and responsibility for sound financial and performance management disciplines. Emphasis is placed on audit outcomes during the audit process, rather than on clean administration throughout the financial year. This has an impact on the sustainability of outcomes. Refer to sections 2.3.3, 2.4.5 and 3.1 for a detailed analysis of the root causes and best practice recommendations regarding PDOs and compliance.

## 2.2 FINDINGS ARISING FROM THE AUDIT OF FINANCIAL STATEMENTS

The purpose of the annual audit of the financial statements is to provide users with an opinion on whether the financial statements fairly present, in all material respects, the financial position and results of an entity's operations and cash flows for the period, in accordance with the applicable accounting framework and the requirements of the applicable legislation. The audit provides users with assurance on the degree to which the financial statements are reliable and credible.

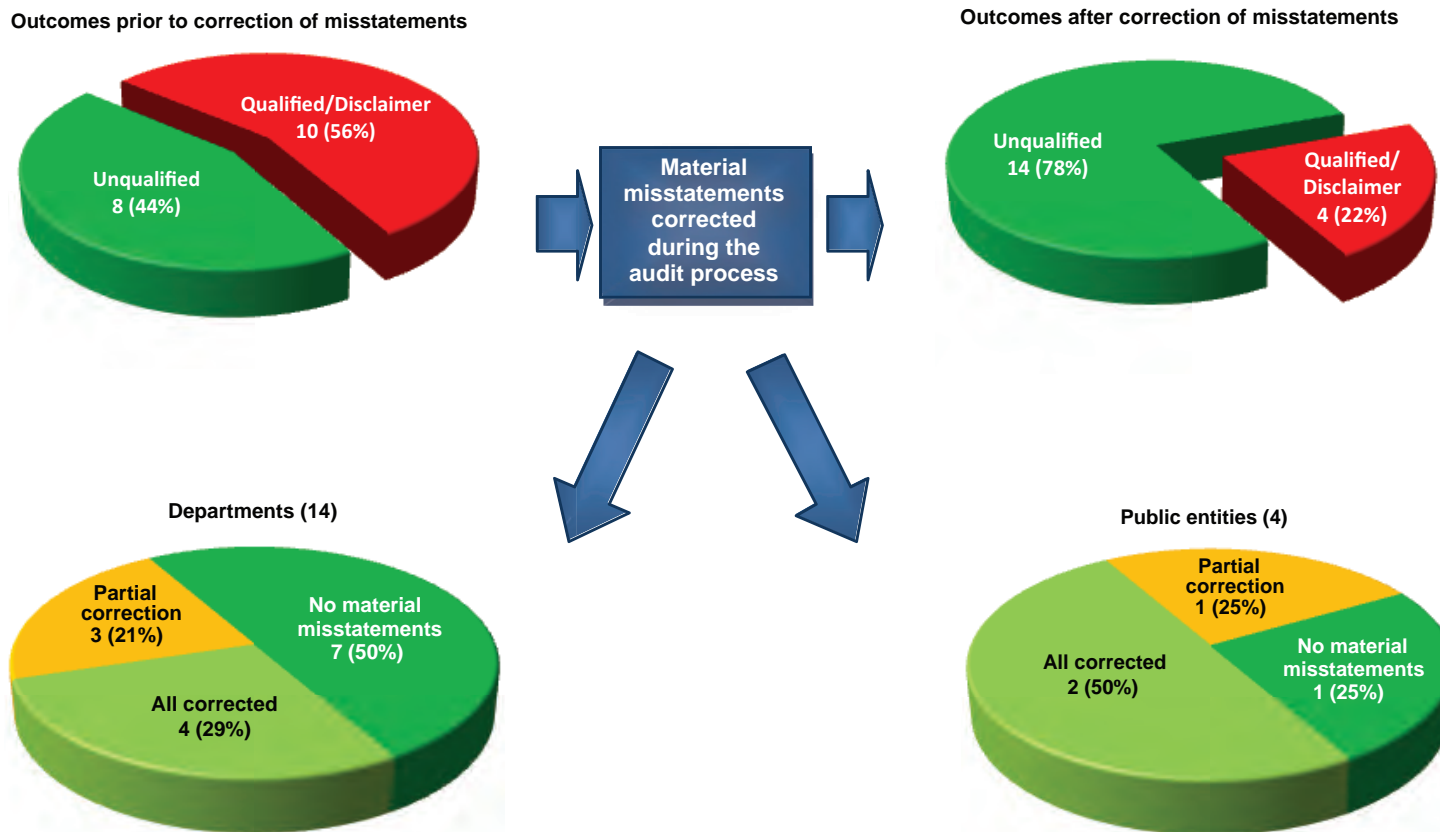
### 2.2.1 The quality of financial statements submitted for auditing

As in prior years, many auditees submitted financial statements that contained material misstatements in one or more areas. Only eight (44%) auditees submitted financial statements that required no material adjustments, compared to seven (39%) in the prior year.

Six (33%) auditees were able to achieve a financially unqualified audit outcome only because they used the opportunity provided by the AGSA to correct all misstatements identified during the audit. Four (22%) auditees were unable to correct all of the misstatements and therefore could not avoid the qualification of their financial statements.

The following figure depicts the extent of material misstatements in the financial statements submitted for auditing for the year under review.

**Figure 5: Material misstatements in financial statements submitted for auditing**



## 2.2.2 Financial statement qualification findings

The following figure depicts the areas that were materially misstated (qualified) in the financial statements of the four (23%) auditees (2010-11: two [11%]) that received modified opinions, one of which that was disclaimed and three of which that were qualified.

**Figure 6: Financial statement qualification areas**

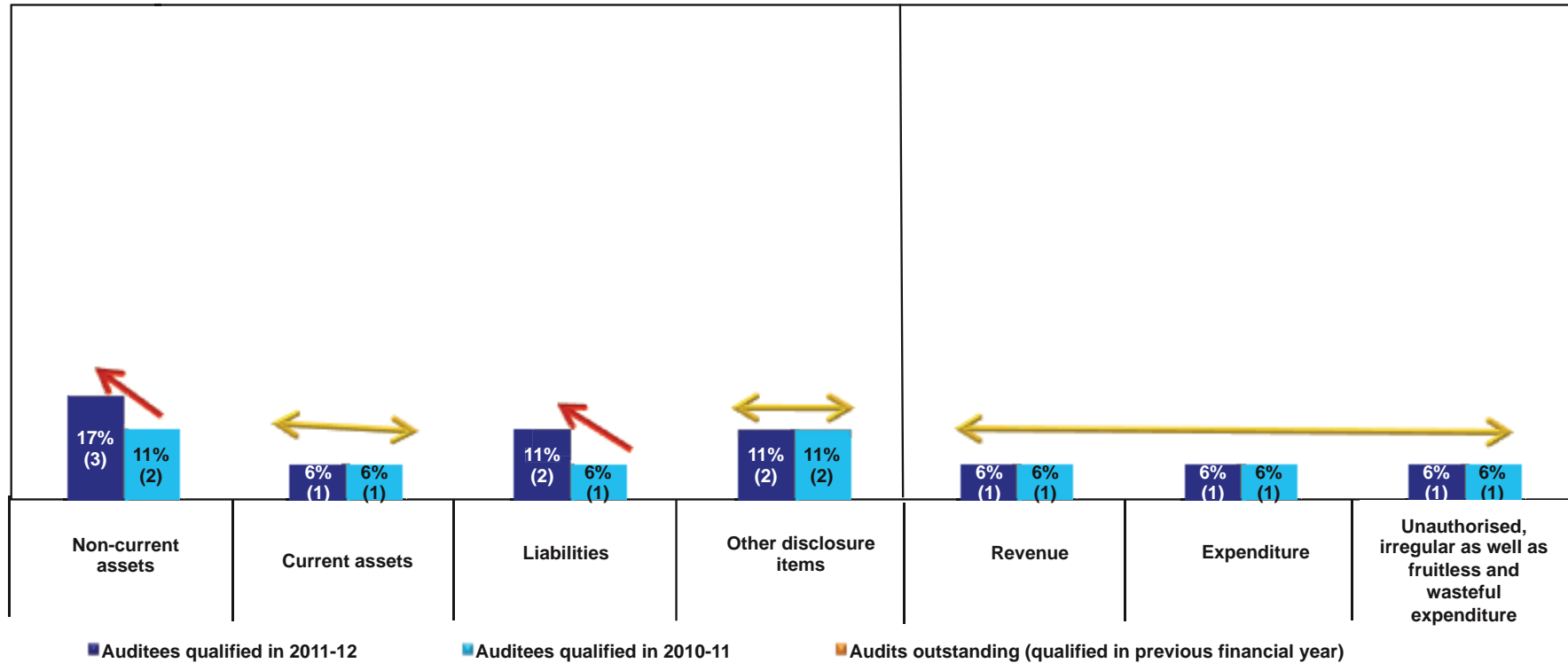


Table 3 depicts the movement in the financial statement qualification areas from the previous year.

**Table 3: Movement in the financial statement qualification areas from the prior year**

Auditee	2011-12 audit opinion	2010-11 audit opinion	Movement in financial statement qualification areas from the previous year							
			Non-current assets	Current assets	Liabilities	Other disclosure items	Revenue	Expenditure	Unauthorised, irregular as well as fruitless and wasteful expenditure	
<b>Departments</b>										
Economic Development, Environment and Tourism	Qualified	Financially unqualified with findings								
Health	Qualified	Qualified								
Provincial legislature	Qualified	Financially unqualified with no findings								
<b>Public entities</b>										
Mpumalanga Economic Growth Agency	Disclaimer	Adverse								
<b>Repeat</b>			2	1	1	2	1	1	1	
<b>New</b>			1	0	1	0	0	0	0	
<b>Addressed</b>			0	0	0	0	0	0	0	

Table 4 details each financial statement qualification area as well as the basis and the reason for the qualification.

**Table 4: Nature of qualifications**

Financial statement qualification area	Basis for qualification	Reason for qualification
<b>Non-current assets</b> <b>Property, plant and equipment</b> <b>Investment property</b>	Completeness of assets reflected in financial statements	<ul style="list-style-type: none"> <li>• Incomplete asset register</li> <li>• Register not updated on timely basis</li> <li>• Register did not reconcile to general ledger</li> </ul>
	Values at which assets are reflected	<ul style="list-style-type: none"> <li>• No or incorrect assessment of residual values or useful lives</li> <li>• No or inadequate supporting documentation</li> </ul>
	Existence of assets	<ul style="list-style-type: none"> <li>• Assets not identifiable or could not be physically verified</li> </ul>
	Rights and obligations relating to assets	<ul style="list-style-type: none"> <li>• No or inadequate supporting documentation</li> </ul>

Financial statement qualification area	Basis for qualification	Reason for qualification
	Presentation and disclosure of asset information with reference to accounting and legislative requirements	<ul style="list-style-type: none"> <li>• Occurrence and rights: Events and transactions disclosed in the financial statements did not occur or did not pertain to the entity</li> <li>• Completeness: Not all disclosures that should have been made, were made</li> <li>• Classification and understandability: Financial information was not appropriately presented and described and disclosures were not clearly expressed</li> <li>• Accuracy and valuation: Financial and other information was not disclosed fairly and at appropriate amounts</li> </ul>
<b>Liabilities</b> <b>Payables and accruals</b> <b>Provisions and guarantees</b> <b>Taxes and value-added tax</b> <b>Other liabilities</b>	Completeness	<ul style="list-style-type: none"> <li>• No or inadequate supporting documentation</li> <li>• Not all accruals were accounted for</li> </ul>
	Valuation	<ul style="list-style-type: none"> <li>• No or inadequate supporting documentation</li> </ul>
	Obligation	<ul style="list-style-type: none"> <li>• No or inadequate supporting documentation</li> </ul>

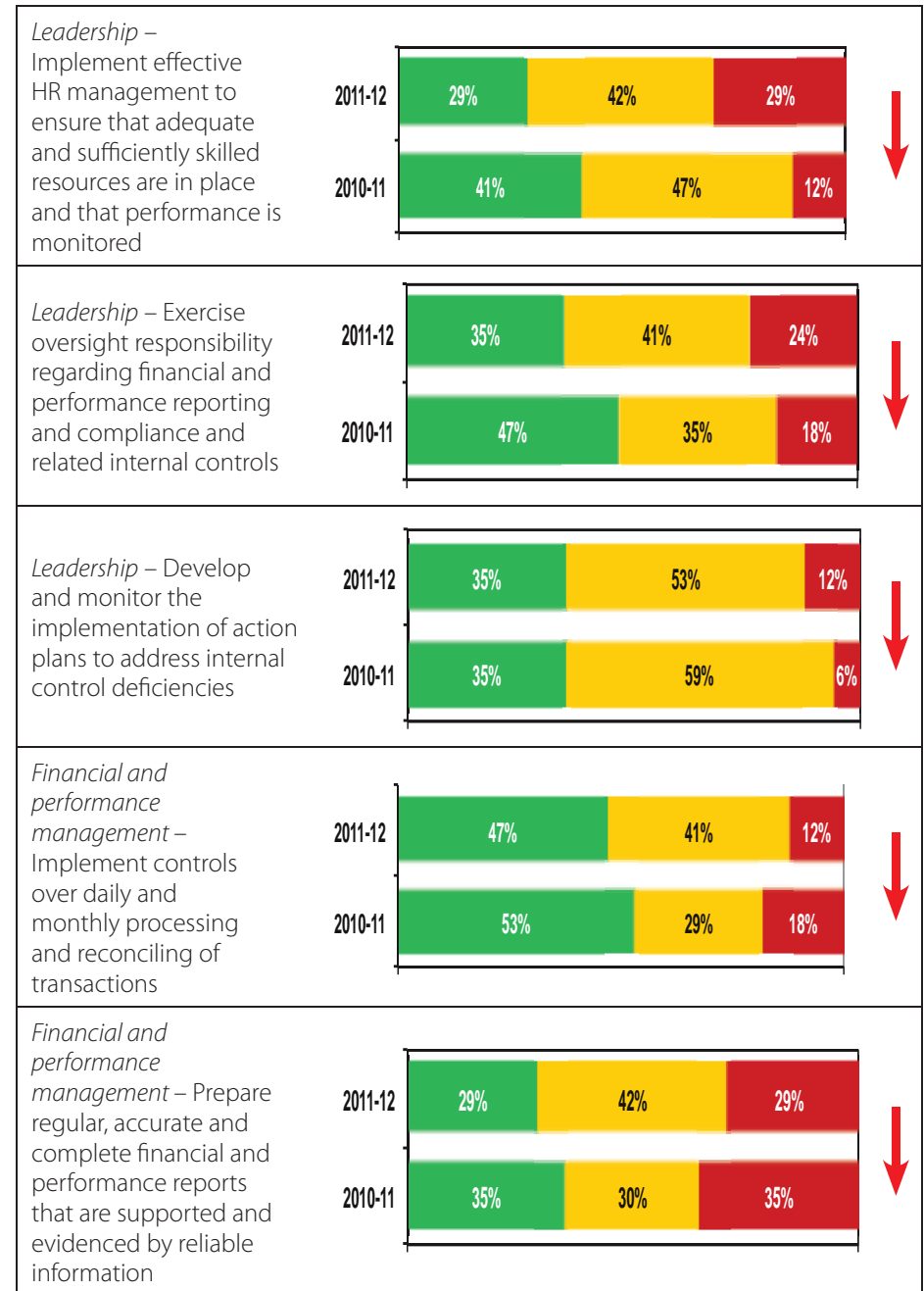
Financial statement qualification area	Basis for qualification	Reason for qualification
<b>Other disclosure items</b> <b>Contingent assets</b> <b>Contingent liabilities</b> <b>Commitments</b> <b>Fruitless and wasteful expenditure</b> <b>Irregular expenditure</b>	Completeness of disclosure items	<ul style="list-style-type: none"> <li>Not all required disclosures were made</li> </ul>
	Valuation and accuracy	<ul style="list-style-type: none"> <li>Financial and other information was not appropriately presented and described and disclosures were not clearly expressed</li> </ul>
	Rights and occurrence	<ul style="list-style-type: none"> <li>Disclosed events and transactions did not occur or did not pertain to the entity</li> </ul>
	Classification	<ul style="list-style-type: none"> <li>Financial information was not appropriately presented and described and disclosures were not clearly expressed</li> </ul>

### 2.2.3 Root causes and best practice recommendations

The ability of auditees to produce financial statements that are free from material misstatement is influenced by the existence of a sound system of internal control. The key drivers of this system of control are classified under the fundamental principles of leadership, financial and performance management, and governance. More information on the specific drivers of internal control, together with recommendations, is provided in section 3 of this report.

Figure 7 below indicates the significant deficiencies in internal control that require attention from the leadership to improve the audit outcomes.

**Figure 7: Assessment of key drivers of internal control over financial reporting**



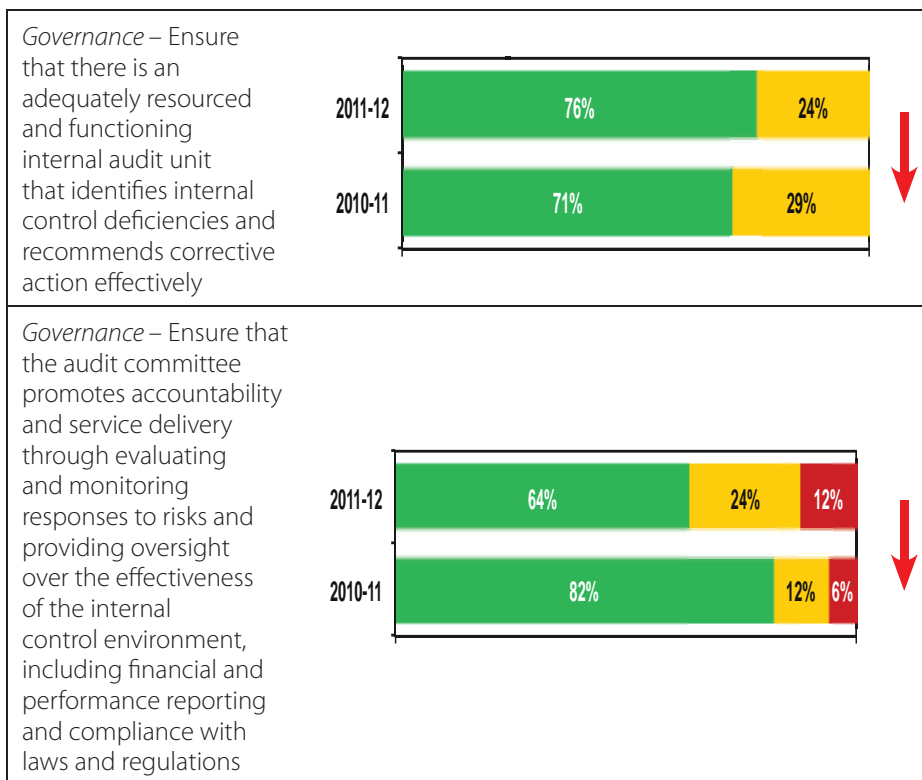


Table 5 summarises the identified root causes that gave rise to this assessment and the recommended way forward.

**Table 5: Identified root causes and way forward (good practices)**

Aspect	Identified root causes and way forward
<b>Information and processes relied on by the leadership</b>	<u>Root causes</u> <ul style="list-style-type: none"> <li>Persons in leadership positions, including members of the executive council (MECs), did not satisfy themselves that the processes implemented ensured the reliability and credibility of reported information.</li> </ul>
	<u>Way forward</u> <ul style="list-style-type: none"> <li>The leadership should be provided with credible monthly financial statements. The monthly financials should be supported by accurate accounting records and key reconciliations. The accuracy of the information should also be reviewed at the appropriate levels.</li> <li>The leadership should develop adequate controls that are understood by all staff and are monitored. Deviations should be timeously addressed.</li> </ul>
<b>Limitation of information systems used by auditees</b>	<u>Root causes</u> <ul style="list-style-type: none"> <li>The Mpumalanga Economic Growth Agency uses three different financial systems. These systems are no longer appropriate for the merged entity.</li> <li>The legislature uses an accrual accounting system that does not support the modified cash basis of accounting framework applied for reporting.</li> </ul>
	<u>Way forward</u> <ul style="list-style-type: none"> <li>A suitable system and procedures should be approved and developed for the Mpumalanga Economic Growth Agency. The system should allow for an integrated operation and financial consolidation.</li> <li>The limitation at the legislature should be addressed by implementing a system of monthly financial reporting. This will assist staff in getting acquainted with the conversion from the accrual to the modified cash basis for reporting.</li> <li>Additional training should also be provided on the conversion on SAP, as well as on how transactions are to be recorded on the system.</li> </ul>



Aspect	Identified root causes and way forward
<b>Commitment to own action plans</b>	<p><u>Root causes</u></p> <ul style="list-style-type: none"> <li>Although action plans are being developed, the plans do not specifically address root causes and are not time bound. They are also not executed with discipline. As a result, action plans are implemented too late in the financial year to have a direct impact on outcomes.</li> <li>Role players lose momentum at the end of the audit process and only give attention to areas of improvement once the next audit cycle starts. This, in turn, leads to situations where these auditees manage the audit process instead of managing the effective implementation of internal controls throughout the year.</li> </ul>
	<p><u>Way forward</u></p> <ul style="list-style-type: none"> <li>The leadership should create a control environment that is conducive to accountability and oversight.</li> <li>Action plans should be designed to address the root causes of audit qualifications and have clear time frames.</li> <li>The implementation of action plans should be monitored continuously.</li> </ul>
<b>Commitment to obtain clean audit reports</b>	<p><u>Root causes</u></p> <ul style="list-style-type: none"> <li>Adequate controls over daily and monthly processing and reconciling of transactions have not been implemented at most of the auditees.</li> <li>Financial reports are not supported by reliable supporting information.</li> <li>Financial information submitted with financial statements for auditing is not adequately reviewed for completeness and accuracy.</li> <li>It appears as if unqualified audit outcomes with matters have become acceptable to the leadership as being the norm.</li> </ul>
	<p><u>Way forward</u></p> <ul style="list-style-type: none"> <li>Persons in leadership positions should satisfy themselves that findings raised in audit reports receive timely and sufficient attention and that their target dates are met.</li> <li>Basic accounting disciplines should become the norm.</li> </ul>

Aspect	Identified root causes and way forward
<b>Monitoring by audit committees and internal audit units</b>	<p><u>Root causes</u></p> <ul style="list-style-type: none"> <li>Internal audit reports are not responded to at all or are responded to too late for appropriate actions to be implemented.</li> <li>Recommendations of internal audit units are not implemented, resulting in repeat findings during follow-up audits.</li> <li>Internal audit units and audit committees are rendered ineffective by the following: <ul style="list-style-type: none"> <li>The leadership does not support these governance structures in order to strengthen control environments.</li> <li>The internal control monitoring mechanisms of the audit committee and internal audit unit are not effective, as many control weaknesses are only uncovered during the audit of the financial statements.</li> </ul> </li> </ul>
	<p><u>Way forward</u></p> <ul style="list-style-type: none"> <li>Ongoing evaluations and monitoring should be performed by the leadership to ensure that controls are in place and are functioning.</li> <li>Any deficiencies identified by the internal audit unit or audit committee should be communicated to the relevant parties, while commitments to address these should be time bound and include specific responsibilities.</li> </ul>
<b>Performance management and skills acquisition</b>	<p><u>Root causes</u></p> <ul style="list-style-type: none"> <li>There is a lack of commitment and determination to address the deficiencies identified by the external audit process.</li> <li>Individuals are not held accountable for poor performance.</li> </ul>
	<p><u>Way forward</u></p> <ul style="list-style-type: none"> <li>The leadership should assess the essential skills and ensure that competent personnel are employed to perform the required activities.</li> <li>Policies and procedures, which reflect expectations and hold individuals accountable, should be implemented.</li> </ul>

## 2.2.4 Consolidated financial statements

For accountability purposes, the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA) requires each province to prepare and publish a consolidated financial report on the utilisation of its resources to achieve its objectives. To this end, the provincial treasury is required to prepare consolidated financial statements for each financial year in respect of departments, public entities under the ownership control of the provincial executive of the province, and the provincial legislature. The PFMA further requires the auditor-general to audit the consolidated financial statements and submit an audit report on the statements to the provincial treasury of the province concerned within three months of receipt of the financial statements.

However, this is not feasible due to the difference in the basis of accounting (modified cash vs accrual). At September 2012, the minister of finance had not approved a deviation from this requirement of the PFMA. This matter is therefore reported in the AGSA's audit reports as non-compliance with the PFMA.

Table 6 shows the status of the audit of the consolidated financial statements.

**Table 6: Status of the audit of consolidated financial statements for the province**

Departments		Public entities	
2011-12	2010-11	2011-12	2010-11
<b>Financially unqualified with findings</b>	No audit opinion expressed – only agreed upon procedures performed	<b>Disclaimer of opinion</b>	No audit opinion expressed – only agreed upon procedures performed

The consolidated financial statements of departments and public entities for the 2011-12 year were finalised by 30 September 2012.

In respect of the 2011-12 consolidated financial statements for departments, material non-compliance findings were reported regarding the consolidated financial statements submitted for auditing. The reported non-compliance

findings were due to material adjustments made to the financial statements submitted for auditing as well as the difference in the basis of accounting used to prepare separate consolidated financial statements for provincial departments and public entities. Approval by the minister of finance to deviate from submitting a set of consolidated financial statements for the province has not been provided.

The disclaimer of opinion on the 2011-12 provincial consolidated financial statements for public entities was mainly due to the disclaimer of the Mpumalanga Economic Growth Agency. The limitations of scope at this entity carried forward into the consolidated financial statements and were so material and pervasive to warrant an overall disclaimer.

## 2.2.5 The way forward on the auditing of financial statements

The minister of finance should approve a deviation for the province to prepare separate consolidated financial statement for departments and entities, until such time that both departments and entities are on the same basis of accounting.

The provincial treasury should assist the Department of Economic Development and the Mpumalanga Economic Growth Agency to develop action plans and commitments to overturn the current disclaimer at the public entity. These action plans should be specific, time bound and executed with discipline. The execution of the plans should be actively monitored, so that actions are taken early in the financial year and have a direct impact on outcomes.

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

The Public Audit Act, 2004 (Act No. 25 of 2004) (PAA) requires the AGSA to annually audit the reported information relating to the performance of the auditees against their PDOs.

The analysis in this section excludes the provincial revenue fund, as the fund is not required to report on PDOs.

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

Auditees are required to submit their performance reports for auditing by 31 May annually. All departments and public entities submitted their reports in time for auditing.

Auditees submitted performance reports that contained material misstatements. The performance reports of only five (29%) auditees required no material adjustments.

Two (12%) auditees were able to avoid audit report findings on PDOs only because they used the opportunity provided by the AGSA to correct all misstatements identified during the audit.

The movement in the number of auditees with findings on their reporting against PDOs is depicted in the following figure.

**Figure 8: Overall movement in the number of auditees with findings on predetermined objectives**



The lack of movement by auditees to address material findings on PDOs is a concern. Six auditees maintained their status of no material findings, while two auditees addressed material findings reported in the previous year. The improvement was again offset by two auditees regressing and having material findings. The reality is that improved outcomes are not entrenched in practices that promote and enhance sustainability.

### 2.3.2 Findings on predetermined objectives

PDO findings are classified under the main audit areas of usefulness and reliability of information, as detailed in the table below.

**Table 7: Audit criteria and classification of predetermined objective findings**

<b>Usefulness</b>	<p>The usefulness of reported information is measured against the criteria of presentation, consistency, measurability and relevance. Findings relate to:</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 being measurable and time bound.</li> </ul>
<b>Reliability</b>	<p>Findings relate to whether the reported information on performance against PDOs can be traced back to the source data or documentation and whether the reported information is 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 the overall movement in the different areas of PDO findings.

**Figure 9: Overall movement in predetermined objective findings (17 auditees reported on [2010-11: 17])**

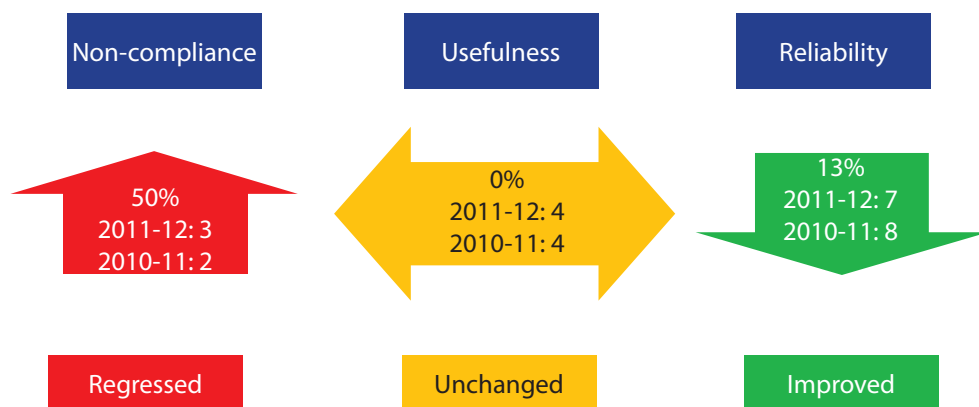


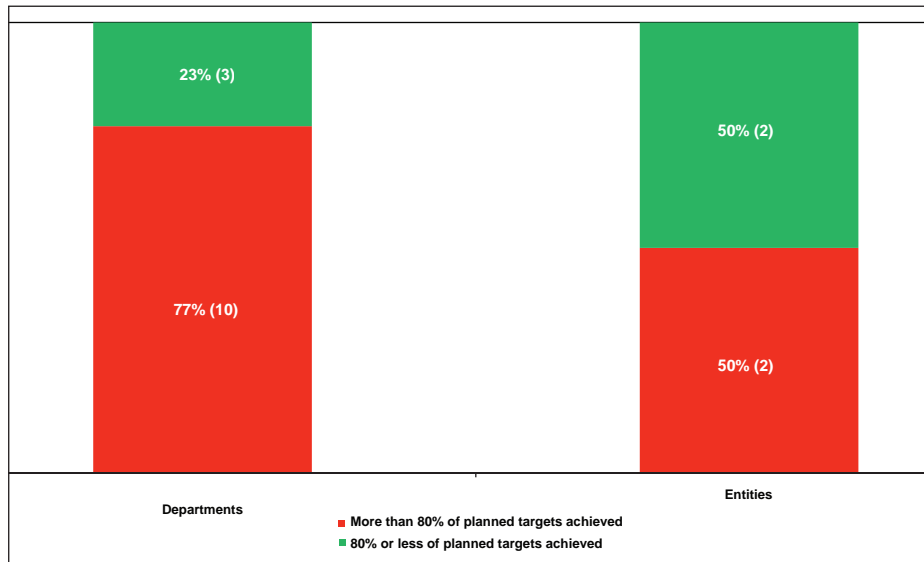
Table 8 below depicts the progress, or lack thereof, of auditees in addressing their prior year PDO findings. It does not include the non-compliance findings detailed in section 2.4.

**Table 8: Movement in predetermined objective findings from the previous year**

Auditee	Movement in predetermined objective findings from the previous year	
	Reported information not useful	Reported information not reliable
<b>Departments</b>		
Agriculture, Rural Development and Land Administration	Red	Red
Cooperative Governance and Traditional Affairs	White	Green
Culture, Sports and Recreation	Red	Red
Economic Development, Environment and Tourism	White	Yellow
Education	White	Green
Health	White	Red
Human Settlements	Yellow	White
Public Works, Roads and Transport	Yellow	Green
Social Development	White	Red
<b>Public entities</b>		
Mpumalanga Economic Growth Agency	Green	Red
Mpumalanga Regional Training Trust	Green	Yellow
<b>Repeat</b>	2	6
<b>New</b>	2	2
<b>Addressed</b>	2	2

The following figure shows the number of auditees that did not achieve their planned targets during the year under review.

**Figure 10: Planned targets not achieved**



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Only five auditees achieved all of their planned targets for the year under review, which means that 12 auditees did not achieve their total planned targets.

This was mainly due to the following:

- Indicators and targets were not suitably developed during the strategic planning process.
- Relevant systems and evidential requirements were not considered during the annual strategic planning process.
- The budget or conditional grant relevant to the programmes was underspent.

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

**Table 9: Nature of predetermined objective findings**

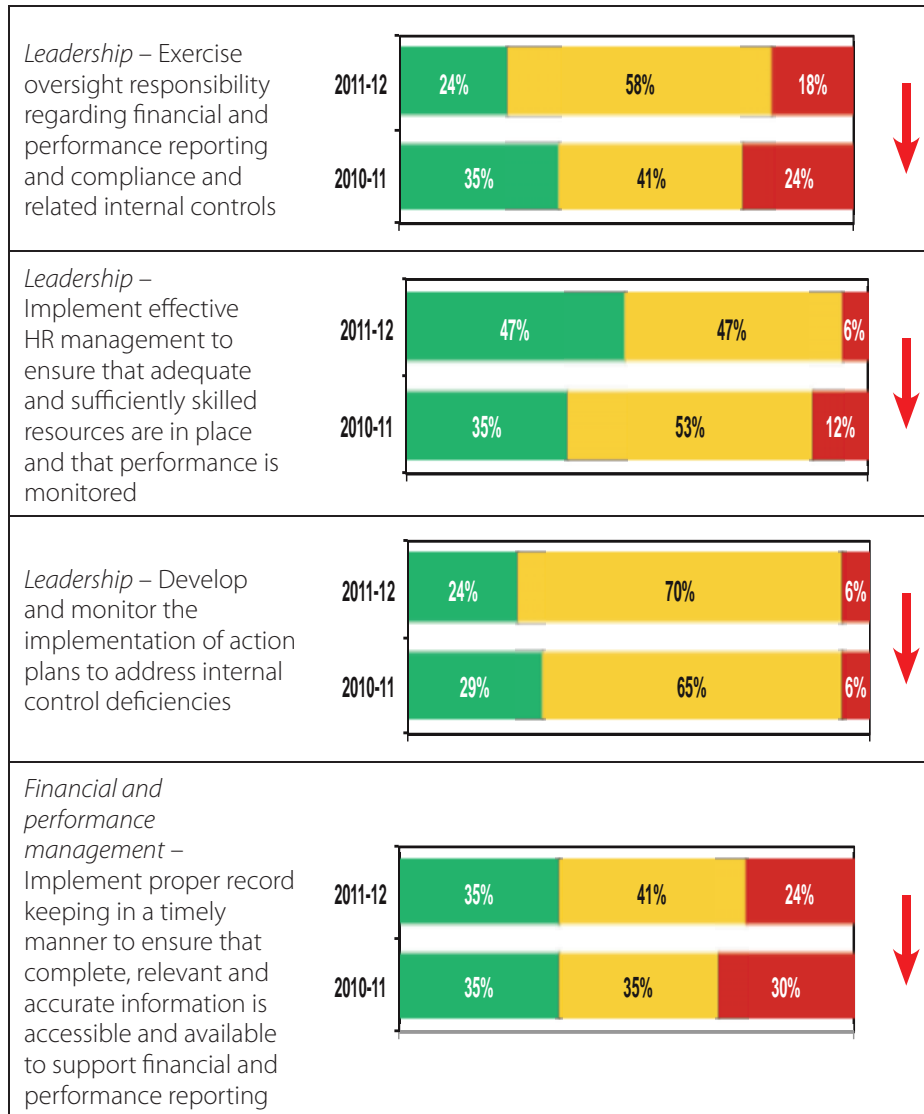
Category of PDO findings	Specific PDO findings	Nature of findings
<b>Reported information not useful</b>	<ul style="list-style-type: none"> <li>• Consistency</li> <li>• Relevance</li> <li>• Presentation</li> <li>• Measurability</li> </ul>	<ul style="list-style-type: none"> <li>• Reported information not consistent with planned objectives, indicators and targets</li> <li>• Changes to planned performance not disclosed in annual performance report</li> <li>• Indicators or measures do not have clear, unambiguous data definitions</li> <li>• Explanations for major variances between planned and reported (actual) targets not provided in all instances and/or not supported by adequate and reliable corroborating evidence</li> </ul>
<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 not accurate, complete and valid</li> <li>• No or inadequate supporting source information</li> </ul>

### 2.3.3 Root causes and best practice recommendations

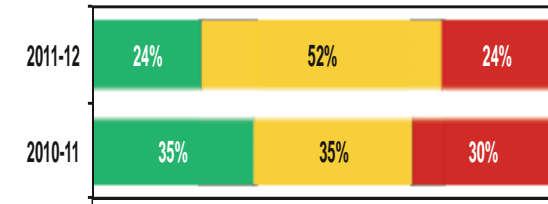
The ability of auditees to meet the legislated requirements and satisfy the prescribed criteria related to reporting on PDOs (service delivery) is influenced by the existence of a sound system of internal control. The key drivers of this system of internal control are classified under the fundamental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

Figure 11 indicates the significant deficiencies in internal control that require attention from the leadership to improve the audit outcomes.

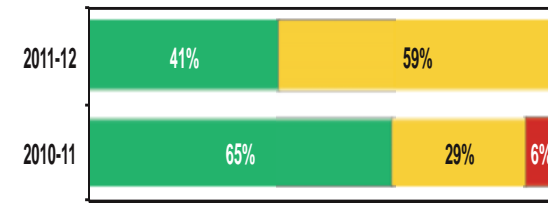
**Figure 11: Assessment of drivers of internal control – reporting on predetermined objectives**



*Financial and performance management* – Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information



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



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

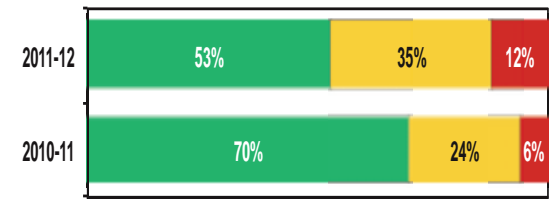


Table 10 summarises the identified root causes that gave rise to this assessment and the recommended way forward.

**Table 10: Identified root causes and way forward (good practices)**

Aspect	Identified root causes and way forward
<p><b>Formal planning for service delivery and performance reporting</b></p>	<p><u>Root causes</u></p> <ul style="list-style-type: none"> <li>• Organisational structures have not been aligned to meet the following requirements of PDO reporting:               <ul style="list-style-type: none"> <li>– Preparation of planning documents that contain useful performance measures that can be measured</li> <li>– Design and implementation of systems and processes to collect, summarise and collate information about actual performance</li> <li>– Preparation of accurate performance reports and monitoring of reported performance</li> </ul> </li> <li>• Mid-year budget and performance assessments are not performed, or the results of such assessments are not reported to the relevant parties.</li> </ul>
	<p><u>Way forward</u></p> <ul style="list-style-type: none"> <li>• Organisational structures should be aligned to ensure adequate performance planning, management and reporting.</li> <li>• The provincial treasury and oversight committees of the provincial legislature should perform rigorous reviews of the planning documents to ensure that the service delivery indicators and targets can be measured and reported on.</li> </ul>

Aspect	Identified root causes and way forward
<p><b>Systems and processes</b></p>	<p><u>Root causes</u></p> <ul style="list-style-type: none"> <li>• The processes required for collecting, collating and reporting actual performance results are not adequately considered during the planning process. Consequently, reported performance is not substantiated with supporting evidence.</li> <li>• Manual or computerised systems and processes do not exist to ensure that actual reported performance is reconciled to supporting documentation, and reviewed and approved by designated officials.</li> </ul>
	<p><u>Way forward</u></p> <ul style="list-style-type: none"> <li>• The requirements of performance management systems should be properly documented and communicated, including the roles and responsibilities of officials who collect, collate, compile, file, review and report PDO information.</li> <li>• Performance management systems should be reviewed and monitored to ensure that the performance information is valid, accurate and complete, and supported by credible documentation.</li> <li>• Centralised document management systems should be implemented to ensure that reports and other evidence to substantiate reported performance are appropriately filed and stored. These should be easily retrievable and readily available for audit purposes.</li> <li>• The provincial treasury, together with the relevant legislative oversight committees, should insist on regular and credible in-year reports in order to monitor service delivery and make recommendations where expectations are not being met.</li> </ul>

Aspect	Identified root causes and way forward
<b>Performance management and skills acquisition</b>	<u>Root causes</u> <ul style="list-style-type: none"> <li>Officials are not adequately trained in respect of performance management practices, systems and reporting on PDOs, to ensure a sound understanding of statutory requirements and relevant frameworks.</li> </ul>
	<u>Way forward</u> <ul style="list-style-type: none"> <li>The improvement of the skills and competence of those who occupy critical performance management positions should be prioritised.</li> <li>Training needs within the auditees should be determined and addressed through training interventions.</li> </ul>
<b>Monitoring by audit committees and internal audit units</b>	<u>Root causes</u> <ul style="list-style-type: none"> <li>The governance structures do not monitor the reported information. In many cases the relevant audit committees and internal audit units do not review the performance reports on a quarterly basis to verify that the submitted reports are credible and supported by valid, accurate and complete source documentation.</li> </ul>
	<u>Way forward</u> <ul style="list-style-type: none"> <li>Internal audit units should conduct quarterly reviews of the reported performance information and confirm the existence of supporting documentation.</li> <li>Risks relating to PDO reporting should be included in risk management strategies and annual internal audit coverage plans.</li> </ul>

Table 11 provides some insight on the readiness of the province to report on its performance.

**Table 11: Key findings on the readiness of the provincial government to report on its performance**

Aspect	Identified root causes
<b>Leadership</b>	<ul style="list-style-type: none"> <li>Due to capacity constraints, the departments had many high-level vacancies that had an impact on their ability to manage performance.</li> <li>Underperformance was not always addressed in a timely manner through the use of action plans that specified the desired outcomes, assigned responsibilities and set target dates.</li> <li>National oversight institutions did not provide timely guidance on the development of systems and training to enable staff to report on performance.</li> </ul>
<b>Financial and performance management</b>	<ul style="list-style-type: none"> <li>Performance targets of departments were not selected based on the results of research and programme evaluations for which evidence could be provided.</li> <li>Performance indicators did not measure whether outputs and outcomes were achieved economically and efficiently.</li> </ul>
<b>Governance</b>	<ul style="list-style-type: none"> <li>Departments did not develop action plans to address identified shortcomings, while audit committees and executive authorities did not evaluate the internal and external audit findings or monitor the implementation of recommendations.</li> <li>The Office of the Premier and national sector departments did not always assist departments to address underperformance through recommending corrective actions, assisting and guiding the departments to implement the recommendations, and monitoring the implementation of such recommendations.</li> </ul>



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

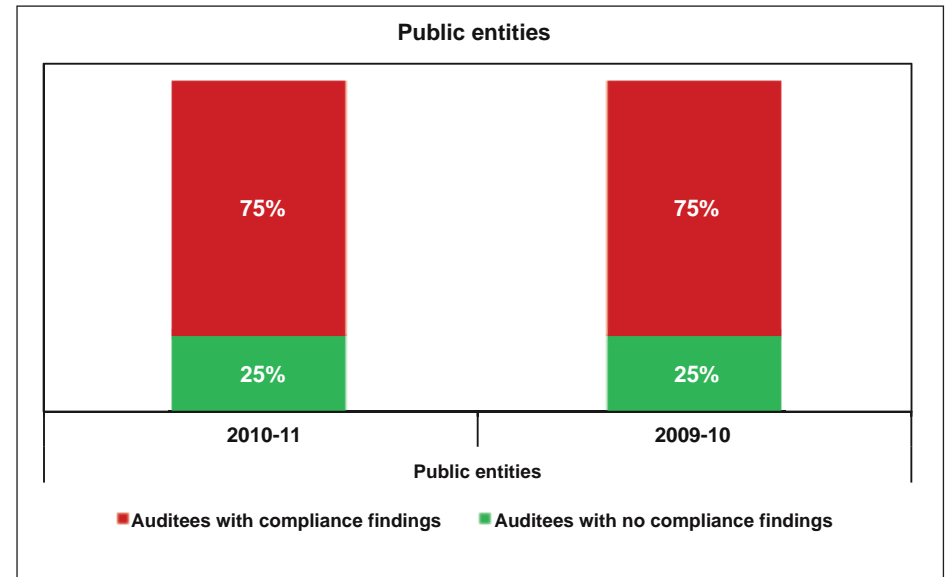
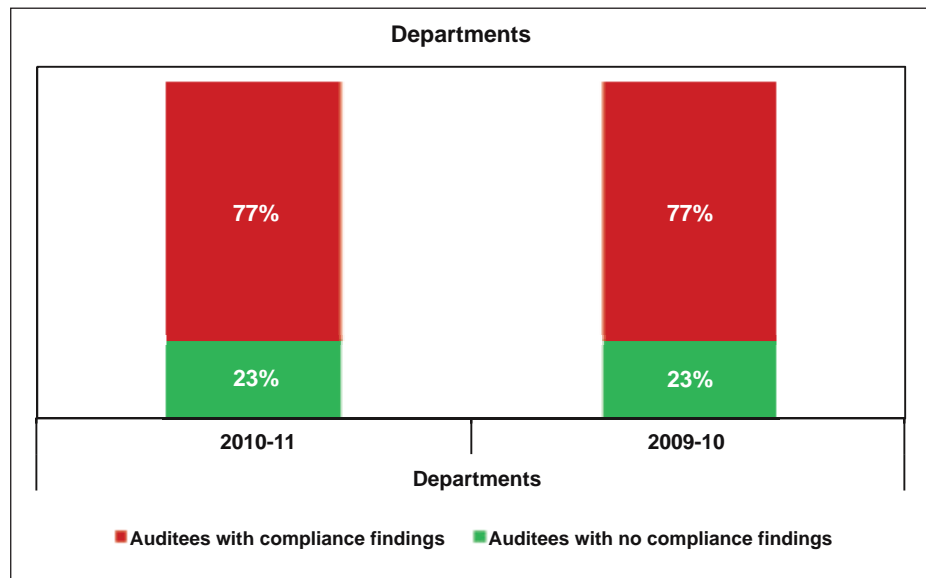
The PAA requires auditors of public sector auditees to audit, on an annual basis, compliance with laws and regulations applicable to financial matters, performance management and other related matters.

The compliance with laws and regulations analysed in this report excludes the provincial revenue fund, as these compliance focus areas are not applicable to the fund.

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

The movement in the number of auditees with findings on compliance with laws and regulations is depicted in the following figure.

**Figure 12: Overall movement in the number of auditees with compliance findings**



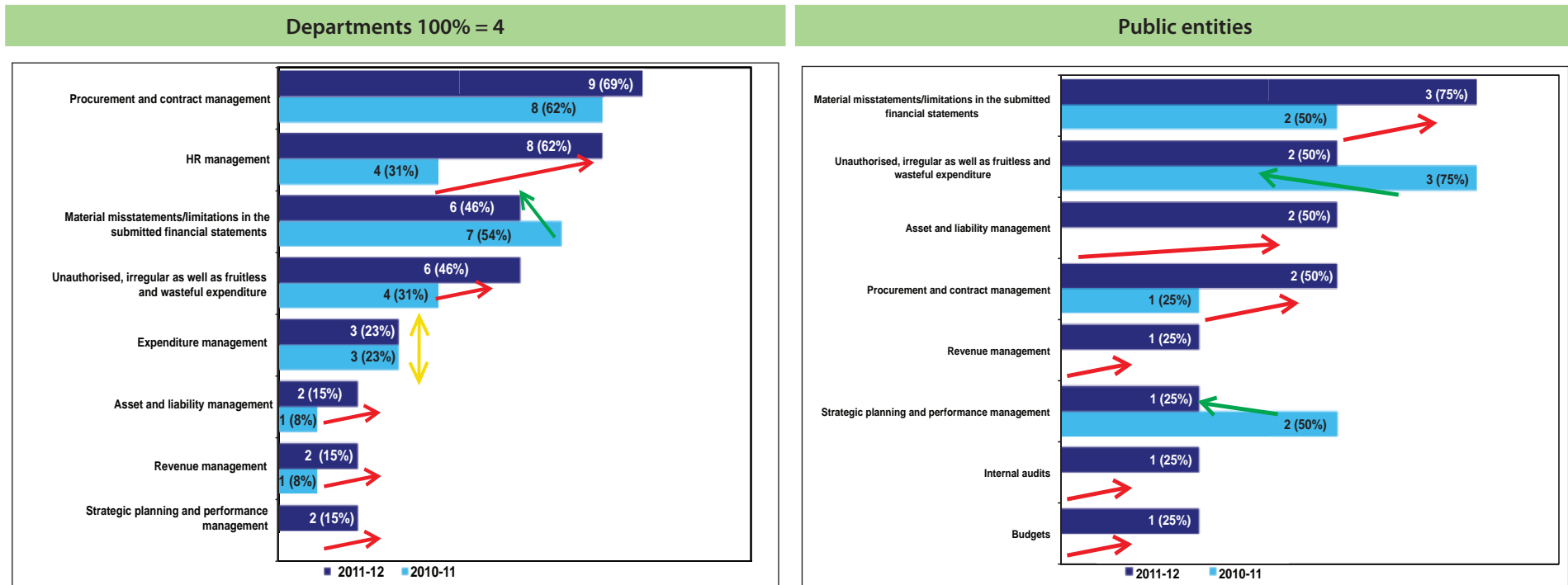
There has been a lack of movement in auditees addressing material findings on compliance with laws and regulations. Two auditees sustained outcomes with no material findings, while one entity addressed material findings reported in the previous year. The improvement was again offset by one entity regressing to having material findings. The reality is that improved outcomes are not entrenched in practices that promote and enhance sustainability.

### 2.4.2 Findings on compliance with laws and regulations

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 the submitted 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; ■ revenue management; ■ strategic planning and performance management; ■ transfer of funds and conditional grants; ■ procurement and contract management; and ■ HR management and compensation.

The following figure depicts the overall movement in the different focus areas.

**Figure 13: Overall movement in the findings on compliance with laws and regulations**



The table that follows depicts the progress, or lack thereof, of auditees in addressing their prior year compliance findings.

**Table 12: Movement in the findings on compliance with laws and regulations from the previous year**

Auditee	Movement in findings on compliance with laws and regulations from the previous year							
	Material misstatement/ limitations in submitted financial statements	Unauthorised, irregular as well as fruitless and wasteful expenditure	Asset and liability management	Expenditure management	Revenue management	Strategic planning and performance management	Procurement management	HR management
<b>Departments</b>								
Agriculture, Rural Development and Land Administration	Red			Green			Red	Yellow
Community Safety, Security and Liaison		Yellow					Yellow	Yellow
Cooperative Governance and Traditional Affairs	Green	Green					Red	
Culture, Sports and Recreation	Red	Red	Yellow	Yellow			Yellow	Red
Economic Development, Environment and Tourism	Yellow	Yellow					Red	Red
Education	Red	Red		Red		Yellow	Red	Red
Health	Red	Red	Yellow	Red	Yellow	Yellow	Red	Yellow
Human Settlements	Green							Yellow
Office of the Premier	Green		Green				Green	
Public Works, Roads and Transport	Red	Red			Yellow		Red	Red
Social Development							Red	

Auditee	Movement in findings on compliance with laws and regulations from the previous year							
	Material misstatement/ limitations in submitted financial statements	Unauthorised, irregular as well as fruitless and wasteful expenditure	Asset and liability management	Expenditure management	Revenue management	Strategic planning and performance management	Procurement management	HR management
<b>Public entities</b>								
Mpumalanga Economic Growth Agency								
Mpumalanga Regional Training Trust								
Mpumalanga Tourism Parks Agency								
Repeat	8	7	1	2	1	1	7	4
New	1	1	3	1	2	2	4	4
Addressed	3	2	1	2	0	1	2	0
Total	12	10	5	5	3	4	13	8

Table 13 details the nature of the most common findings on non-compliance with laws and regulations.

**Table 13: Nature of findings on non-compliance with laws and regulations**

Category of compliance findings	Nature of findings
<b>HR management</b>	<ul style="list-style-type: none"> <li>Senior managers did not sign performance agreements for the current performance period.</li> <li>Accounting officers did not ensure that leave taken was recorded accurately and in full.</li> <li>Employees received overtime compensation in excess of 30% of their monthly salaries.</li> <li>Funded vacant posts were not filled within 12 months.</li> <li>Employees acted in positions for more than 12 months.</li> </ul>
<b>Material misstatements</b>	<ul style="list-style-type: none"> <li>The financial statements submitted for auditing were subjected to material amendments.</li> </ul>
<b>Unauthorised, irregular as well as fruitless and wasteful expenditure and losses</b>	<ul style="list-style-type: none"> <li>Irregular expenditure was not prevented.</li> <li>Fruitless and wasteful expenditure was not prevented.</li> </ul>
<b>Expenditure management</b>	<ul style="list-style-type: none"> <li>Payments to creditors were not settled within 30 days from receipt of an invoice.</li> </ul>

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

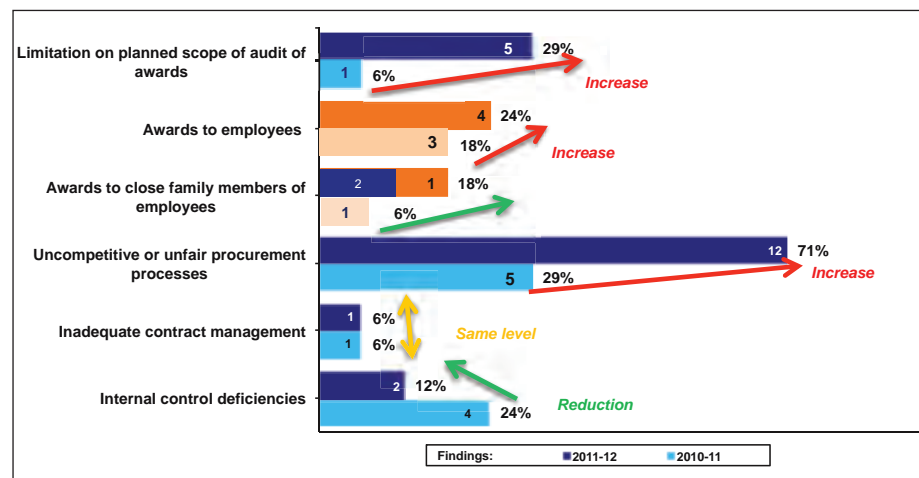
Audits conducted by the AGSA included an assessment of procurement processes, contract management and related controls. To ensure a fair, equitable, transparent, competitive and cost-effective SCM system, the processes and controls need to comply with legislation and must minimise the likelihood of fraud,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

Findings arising from the audit were reported in the management reports of 14 (82%) of the auditees. The findings were material enough to warrant inclusion in the audit report of 11 (65%) of these auditees.

Contracts awarded and price quotations accepted (referred to as 'awards' in the rest of this report) to the value of R7,4 billion were tested. Awards to the value of R147 million selected for auditing could not be audited, due to the required information or documentation not being made available by auditees.

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 14: Summary of findings on supply chain management**



**Awards not in compliance with legislation: 2011-12**

**Awards not in compliance with legislation: 2010-11**

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 five (29%) auditees, sufficient appropriate audit evidence could not be provided that all awards had been made in compliance with the requirements of SCM legislation. No alternative audit procedures could be performed to obtain reasonable assurance that the expenditure incurred in respect of these awards was not irregular. Details of the limitations are depicted in the table below.

**Table 14: Limitations experienced**

Auditee	Number of awards	Amount
<b>Departments</b>		
Community Safety, Security and Liaison	1	R7,3 million
Education	3	R3,8 million
Health	1	R134,0 million
<b>Public entities</b>		
Mpumalanga Tourism and Parks Agency	12	R1,6 million
Mpumalanga Regional Training Trust	1	R0,4 million
<b>Total</b>	<b>18</b>	<b>R147 million</b>

The reasons for these limitations were due to document management systems that did not ensure the filing, storing and easy retrieval of supporting documentation. Due to these limitations, the findings reported in the remainder of this section might not reflect the full extent of irregularities and SCM weaknesses based on the samples selected for auditing.

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

The audit included an assessment of the interests of officials of the auditee and their close family members in suppliers to the auditee.

Legislation does not prohibit such awards but policies and legislation exist to ensure that conflicts of interest do not result in the unfair awarding of contracts or the 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 the policies of the auditee was tested. The awards identified were also tested to identify possible non-compliance or irregularities that could indicate that decisions or recommendations were unlawfully and improperly influenced.

Details of the awards made and whether they complied with the legislated requirements are depicted in the table below. The name of the auditee is highlighted in red if awards to officials and close family members were also identified in the previous year.

**Table 15: Awards to officials in the employ of auditees and their close family members**

Auditee	Awards made to					Non-compliance with regard to awards made					
	Officials			Close family members of officials		Supplier did not declare interest		Official did not declare interest		Other remunerative work not approved	
	Number*	Amount	Positions	Number*	Amount	Number*	Amount	Number*	Amount	Number*	Amount
<b>Departments</b>											
Education	76	R26,4 million	Other employees	31	R7,4 million	85	R26,4 million				
Health	19	R1,6 million	Other employees	8	R0,3 million	23	R1,8 million	7	R0,2 million	19	R1,6 million
Community Safety, Security and Liaison	17	R0,9 million	Other employees			14	R0,8 million			3	R0,05 million
Public Works, Roads and Transport	4	R0,3 million	Other employees	1	R0,4 million	4	R0,3 million				
<b>Total</b>	<b>116</b>	<b>R29,2 million</b>		<b>40</b>	<b>R8,1 million</b>	<b>126</b>	<b>R29,3 million</b>	<b>7</b>	<b>R0,2 million</b>	<b>22</b>	<b>R1,605 million</b>

\* Other employees: Indicates number of instances

### 2.4.3.3 Uncompetitive or unfair procurement processes

The audits also focused on whether the 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 did 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 480 contracts (R6,9 billion) and 777 quotations (R144,2 million) were tested at 13 departments and four 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 also identified in the province in the prior year.

**Table 16: Summarised findings on uncompetitive or unfair procurement processes**

Finding	DP	PE	Nature of finding
<b>Three price quotations not obtained or deviations not approved or justified</b>	6 (46%)	2 (50%)	<ul style="list-style-type: none"> <li>A price quotation process is prescribed for procurement of goods and services valued at 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.</li> </ul>
<b>Competitive bids not invited or deviations not approved or justified</b>	3 (23%)	2 (50%)	<ul style="list-style-type: none"> <li>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.</li> </ul>

Finding	DP	PE	Nature of finding
<b>Preference points system not applied or not correctly applied</b>	3 (23%)	0 (0%)	<ul style="list-style-type: none"> <li>The preference point system was not applied for all procurement of goods and services above R30 000, as required by the Preferential Procurement Policy Framework Act.</li> </ul>
<b>Tax clearance not obtained from the South African Revenue Service</b>	3 (23%)	1 (25%)	<ul style="list-style-type: none"> <li>Awards were made to suppliers without proof from the South African Revenue Service that their tax matters were in order.</li> </ul>
<b>Other findings</b>	6 (46%)	1 (25%)	<ul style="list-style-type: none"> <li>Other findings included the following:</li> <li>Bid documents required for quotations did not include evaluation criteria.</li> <li>Bids were not evaluated by a properly constituted evaluation committee.</li> <li>Awards were made to contractors whose Construction Industry Development Board grading was not suitable for the value of the contract.</li> <li>Mandatory IT goods and services were not obtained through the State Information Technology Agency, as per the State Information Technology Agency Act.</li> <li>Prospective suppliers' lists were not administrated in accordance with the 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 – has a direct impact on service delivery.

Findings on inadequate contract management are listed in the following table; similar findings were also identified in the prior year.

**Table 17: Summarised findings on contract management**

Finding	DP	PE	Nature of finding
<b>Inadequate contract performance measures and monitoring</b>	0 (0%)	1 (25%)	<ul style="list-style-type: none"> <li>Measures applied in monitoring the performance of contractors were not sufficient to ensure that contractors delivered in accordance with the contract.</li> </ul>

DP = departments, PE = public entities

#### 2.4.3.5 Inadequate supply chain management controls

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

**Table 18: Summarised findings on supply chain management controls**

Finding	DP	PE	Nature of finding
<b>No controls to monitor performance of contractors</b>	0 (0%)	1 (25%)	<ul style="list-style-type: none"> <li>Measures applied in monitoring the performance of contractors were not sufficient to ensure that contractors delivered in accordance with the contract, as auditees did not have a system to record all the payments and monitor the budget of all the contracts they had entered into.</li> </ul>
<b>Other controls</b>	1 (8%)	0 (0%)	<ul style="list-style-type: none"> <li>Deviations above R1 million were not reported to the AGSA.</li> <li>Allegations were not investigated within a reasonable time.</li> </ul>

#### 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 the recovery of money from liable officials.

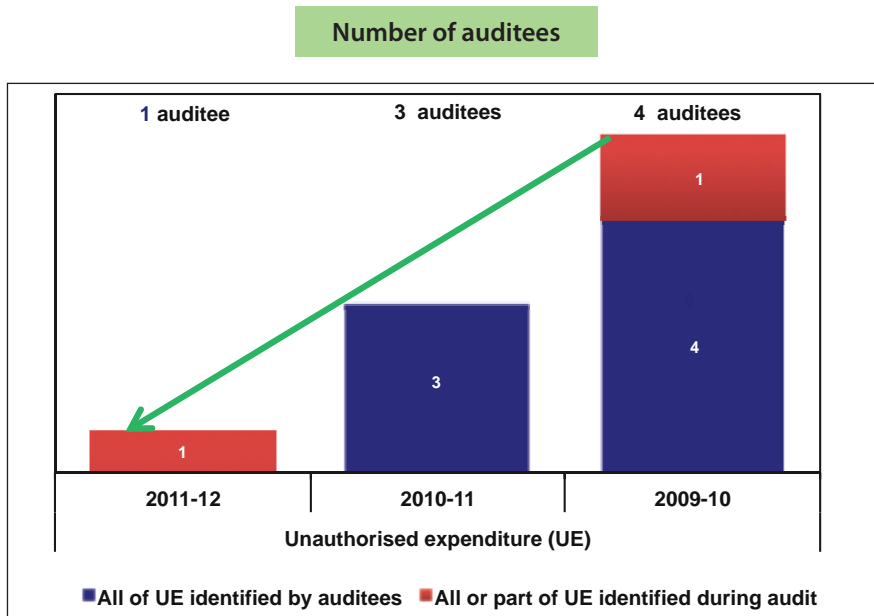
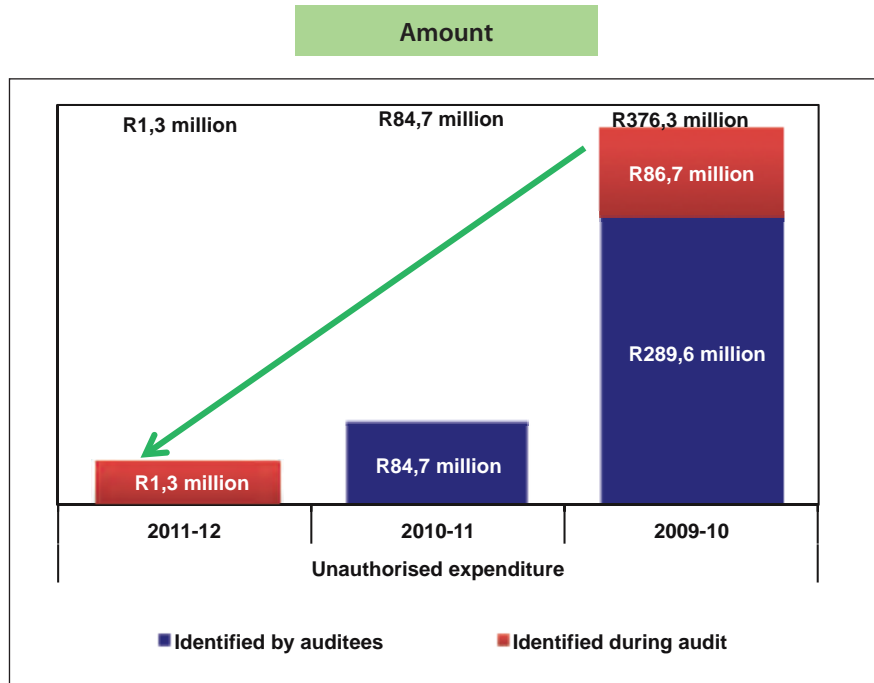
Unauthorised, irregular or fruitless and wasteful expenditure was incurred by eight (47%) of the auditees. The audits further revealed that the accounting officers of these auditees did not ensure that reasonable steps had been taken to prevent this type of expenditure. This was reported in the audit reports as material non-compliance.

The extent of this expenditure and non-compliance by 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 its occurrence is also not detected by auditees and is mostly identified by the AGSA's audit process.

##### 2.4.4.1 Nature of, and overall trends in, unauthorised expenditure (departments only)

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

**Figure 15: Three-year trend in unauthorised expenditure**



The following table analyses the nature of the unauthorised expenditure incurred.

**Table 19: Nature of, and current year movement in, unauthorised expenditure**

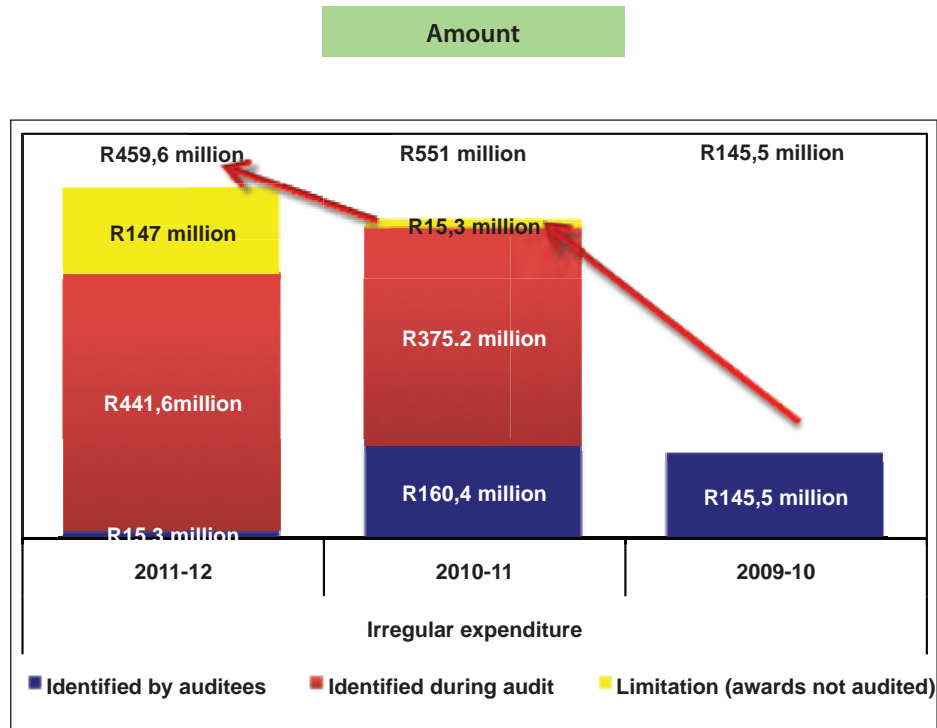
Nature	Number of auditees	Movement in number of auditees from 2010-11	Amount 2011-12	Movement in amount from 2010-11
Overspending of votes/main division within votes	0	↓ 100%	R0,0 million	↓ 100%
Expenditure not in accordance with votes	1	↑ 100%	R1,3 million	↑ 100%

The 2009-10 to 2011-12 history of unauthorised expenditure in the province shows a decline in both the number of auditees and the amount. These improvements reflect a conscious focus by the province on implementing controls to prevent and detect such instances of non-compliance before the expenditure is incurred. This was achieved by addressing the root causes identified in the 2009-10 audits. Refer to sections 2.4.5 and 3.1 for a detailed analysis of the root causes and best practice recommendations.

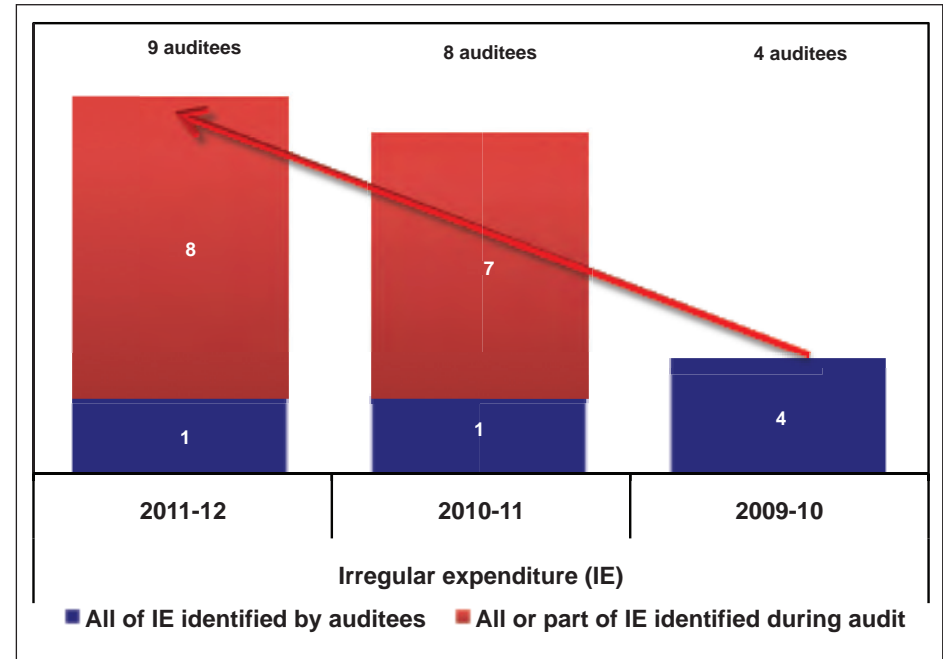
### 2.4.4.2 Nature of, and overall trends in, irregular expenditure

Figure 16 reflects the three-year trend in irregular expenditure.

**Figure 16: Three-year trend in irregular expenditure**

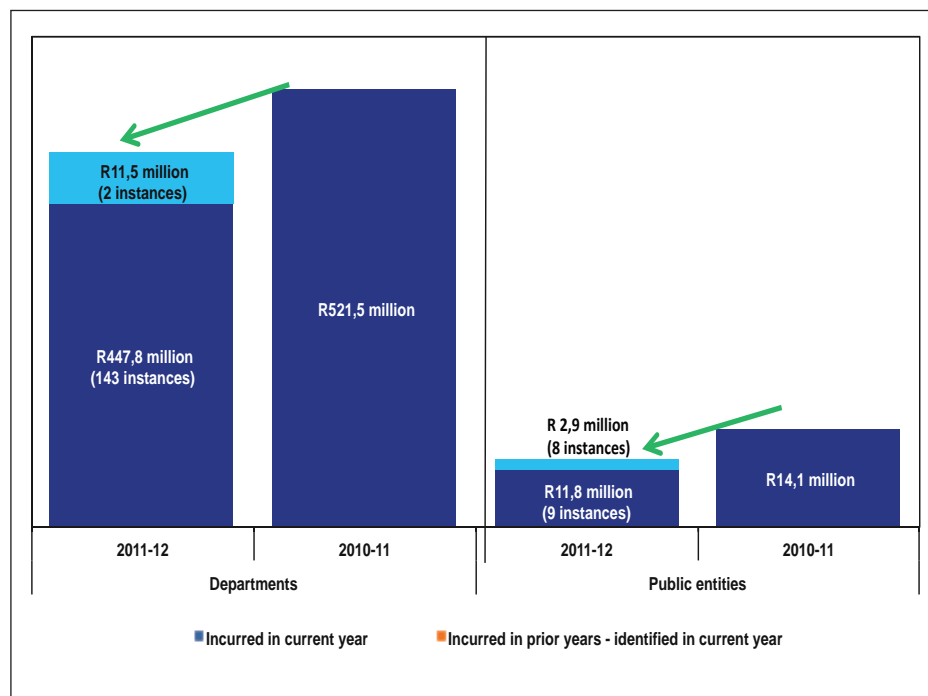


**Number of auditees**



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

**Figure 17: Irregular expenditure incurred – current and prior years**



The following table analyses the nature of the irregular expenditure incurred.

**Table 20: Nature of, and current year movement in, irregular expenditure**

Nature	Number of auditees	Movement in number of auditees from 2010-11	Amount	Movement in amount from 2010-11
SCM related	8	0%	R443,8 billion	13%
Compensation of employees related	2	50%	R1,00 million	89%
Other non-compliance	3	50%	R12,2 million	16%

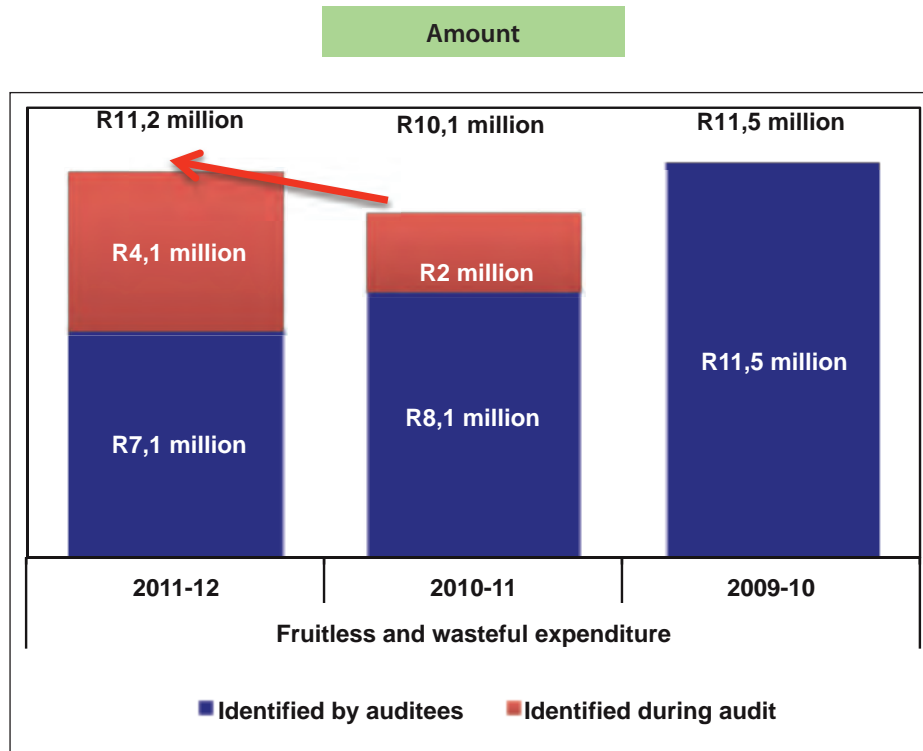
Note: "Unchanged" denotes an increase/decrease of 5% or less in the level of findings compared to the prior year.

Despite the decrease in the amount of irregular expenditure, there has been an increase in the number of auditees reporting irregular expenditure. This is particularly concerning, as it appears that non-adherence to SCM legislation is becoming more widespread. The increasing trend continued unabatedly despite SCM being a focus area reported on separately in the 2010-11 general report. Refer to sections 2.4.5 and 3.1 for a detailed analysis of the root causes and best practice recommendations.

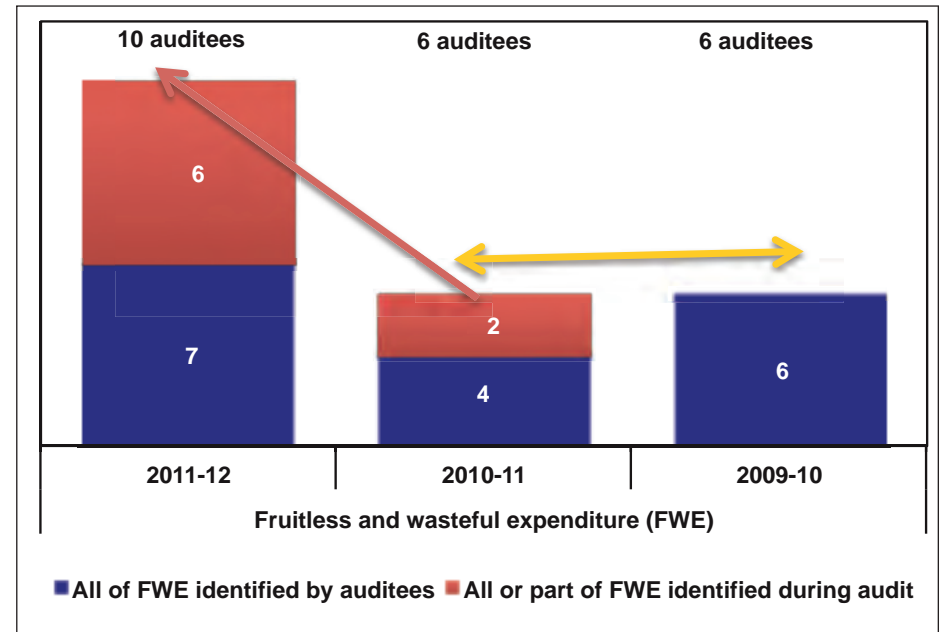
### 2.4.4.3 Nature of, and overall trends in, fruitless and wasteful expenditure

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

**Figure 18: Three-year trend in fruitless and wasteful expenditure**



**Number of auditees**



The following table analyses the nature of the fruitless and wasteful expenditure incurred.

**Table 21: Analysis of fruitless and wasteful expenditure**

Nature	Number of auditees (100% = 24)	Movement in number of auditees from 2010-11	Amount	Movement in amount from 2010-11
Incurred to prevent irregular/loss/further fruitless and wasteful expenditure	0	0%	R0,0 million	0%
Actual fruitless and wasteful expenditure	10	100%	R11,2 million	20%

Note: "Unchanged" denotes an increase/decrease of 5% or less in the level of findings compared to the prior year.

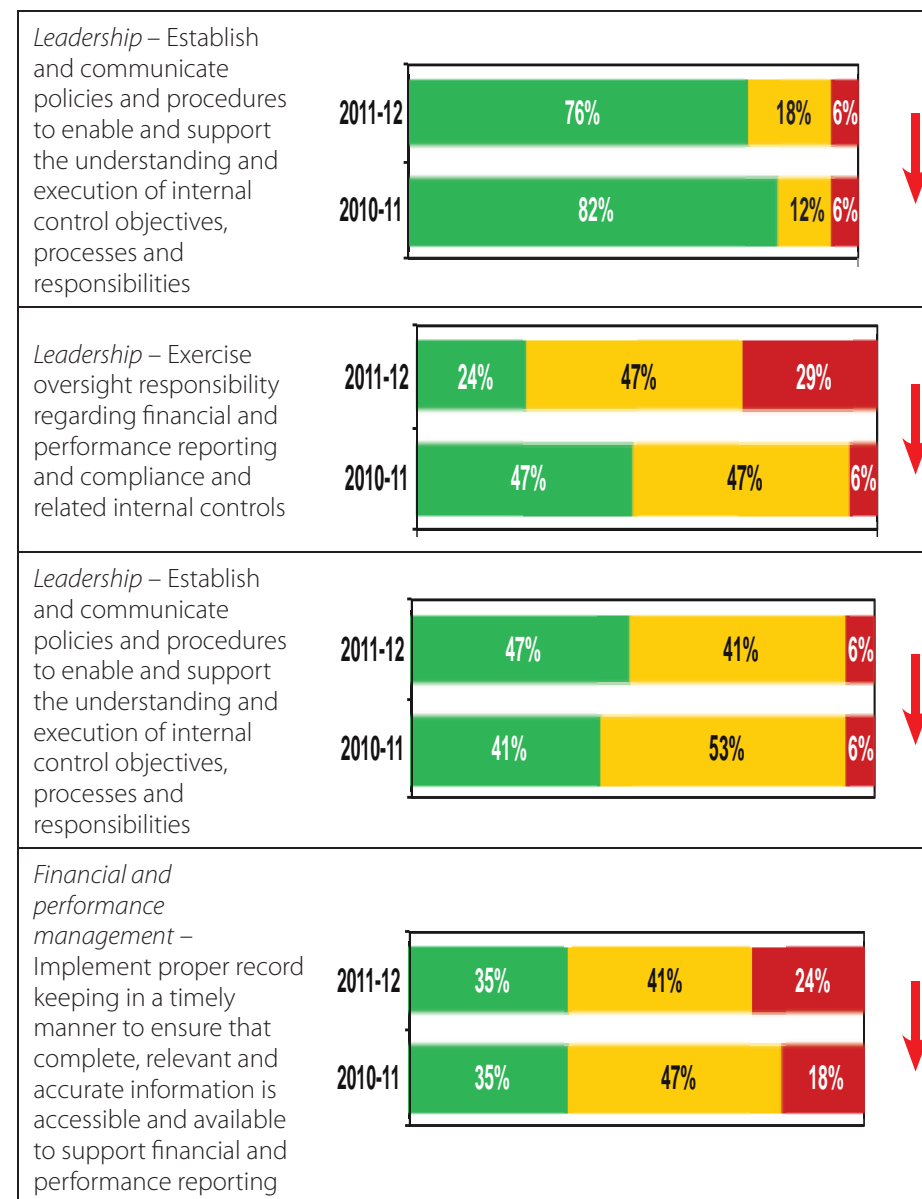
The increase from 2010-11 in the number of auditees reporting fruitless and wasteful expenditure as well as the amount is due to inadequate controls over payments, which resulted in interest and penalties on overdue accounts, overpayments to suppliers, and rental being paid for vacant buildings. Refer to sections 2.4.5 and 3.1 for a detailed analysis of the root causes and best practice recommendations.

### 2.4.5 Root causes and best practice recommendations

The ability of auditees to enforce adherence to legislation and to discharge their statutory responsibilities is influenced by the existence of a sound system of internal control. The key drivers of this system of internal control are classified under the fundamental principles of leadership, financial and performance management, and governance. More information on the specific drivers of internal control, together with recommendations, is provided in section 3 of this report.

Figure 19 indicates the significant deficiencies in internal control that require attention from the leadership to improve the audit outcomes.

**Figure 19: Assessment of drivers of internal control over reporting on compliance with laws and regulations**



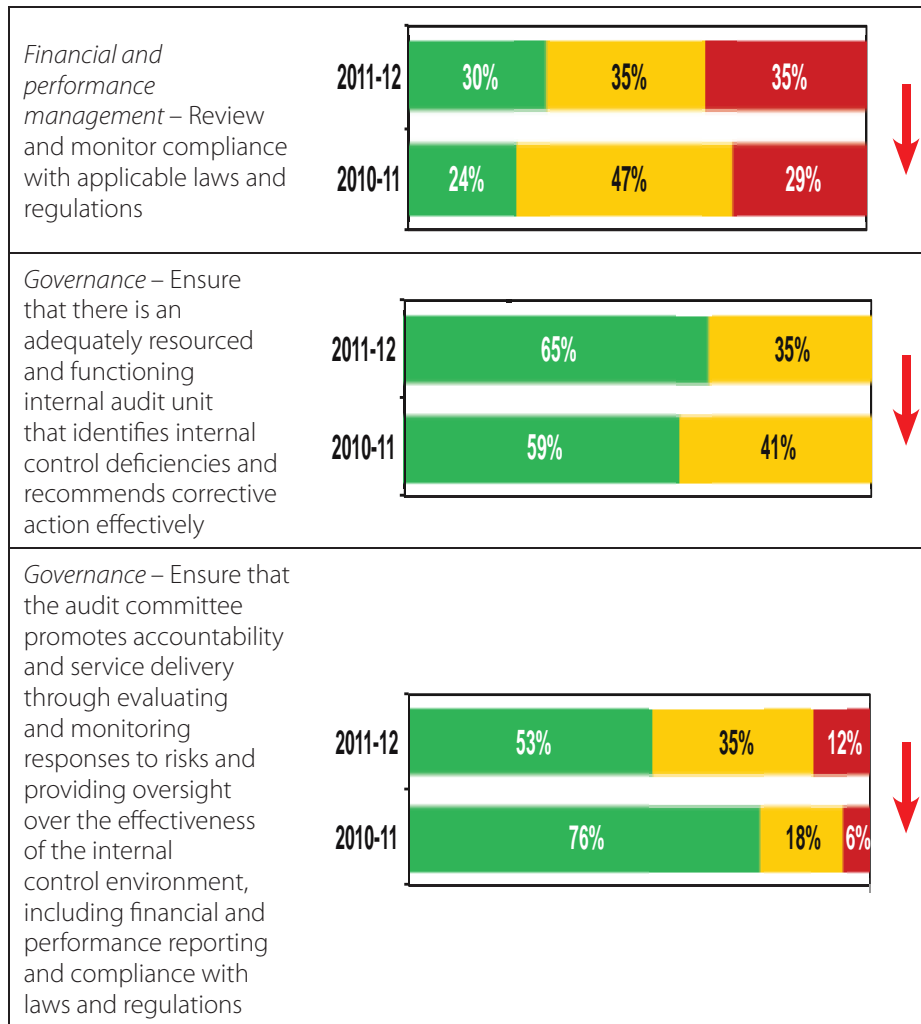


Table 22 summarises the identified root causes that gave rise to this assessment and the recommended way forward.

**Table 22: Identified root causes and way forward (good practices)**

Aspect	Identified root causes and way forward
<b>Leadership to set the tone</b>	<u>Root causes</u> <ul style="list-style-type: none"> <li>• The leadership does not pay sufficient attention to ensuring that auditees operate within the boundaries set by legislation.</li> <li>• The leadership does not set the tone for officials to adhere to all legislative prescripts.</li> </ul>
	<u>Way forward</u> <ul style="list-style-type: none"> <li>• The leadership should set the tone for a strong control environment. This will be achieved through:                             <ul style="list-style-type: none"> <li>– their actions and behaviour that demonstrate integrity and ethical values to support the functioning of an effective system of internal control</li> <li>– complying with the applicable legislation without compromise.</li> </ul> </li> <li>• The importance of legislation and a zero-tolerance approach to non-compliance should be emphasised when transgressions are dealt with. Officials should know that all instances of non-compliance have consequences.</li> </ul>

Aspect	Identified root causes and way forward
<b>Systems and processes</b>	<u>Root causes</u> <ul style="list-style-type: none"> <li>The internal control systems and processes are not completely aligned to the requirements of legislation.</li> <li>Officials are not fully aware of, or do not fully understand, all the requirements within the internal control systems and processes.</li> </ul>
	<u>Way forward</u> <ul style="list-style-type: none"> <li>Policies and procedures should be aligned to legislation.</li> <li>Officials should be trained on a continuous basis, not only on compliance with the policies and procedures, but also with regard to the intention and desired outcome of legislation and the practical implementation thereof.</li> <li>The implementation of proper record keeping systems, especially in the area of SCM, will enable compliance. This will also demonstrate transparency and accountability on the part of the auditees and not raise concerns about possible fraud or irregularities when documentation is missing.</li> <li>Compliance checklists should be used as an implementation tool for policies and procedures. These will enable officials, supervisors and monitoring units (e.g. internal audit units) to check whether all legislative requirements are met in the daily transactional and management processes, as well as with regard to SCM.</li> </ul>
<b>Oversight and monitoring</b>	<u>Root causes</u> <ul style="list-style-type: none"> <li>Management and the leadership do not pay sufficient attention to the monitoring of compliance.</li> </ul>
	<u>Way forward</u> <ul style="list-style-type: none"> <li>Regular reports should be submitted to MECs and accounting officers or authorities on compliance with key legislation, specifically in the area of SCM. This will promote awareness of, and compliance with, all legislative requirements.</li> <li>The provincial treasury should improve its monitoring and support activities to enable auditees to fully implement legislative requirements and instructions from the time they become effective.</li> </ul>

Aspect	Identified root causes and way forward
<b>Effective governance measures</b>	<u>Root causes</u> <ul style="list-style-type: none"> <li>In most instances the governance structures complied with the legislative requirements. However, the effectiveness of their monitoring mechanisms is not visible in the outcomes. This can be attributed to the following: <ul style="list-style-type: none"> <li>The leadership does not support the internal audit units and audit committees in order to strengthen their control environments.</li> <li>Internal audit reports are not responded to at all or are responded to too late for appropriate actions to be implemented, resulting in repeat findings during follow-up audits.</li> <li>Audits performed by internal audit units are not effective in identifying weaknesses, or the audit findings and recommendations are not appropriately addressed.</li> </ul> </li> </ul>
	<u>Way forward</u> <ul style="list-style-type: none"> <li>Risks relating to compliance with legislation should be included in risk management strategies and annual internal audit coverage plans.</li> <li>Audit committees should direct internal audit focus appropriately and monitor the implementation of recommendations made by both internal and external auditors.</li> <li>Persons in leadership positions will need to direct their attention to high-risk areas of compliance with legislation. In this regard, the risk identification and management process should be of great value to management, and should not just be an annual exercise that does not comprehensively address compliance objectives.</li> </ul>





# SECTION 3

## AUDITEES' SYSTEMS OF INTERNAL CONTROL

3.1 OVERALL STATUS OF INTERNAL CONTROL

3.2 HUMAN RESOURCE MANAGEMENT

3.3 INFORMATION TECHNOLOGY MANAGEMENT

3.4 ASSESSMENT OF THE EFFECTIVENESS OF GOVERNANCE STRUCTURES



AUDITOR - GENERAL  
SOUTH AFRICA



# SECTION 3

## AUDITEES' SYSTEMS OF INTERNAL CONTROL

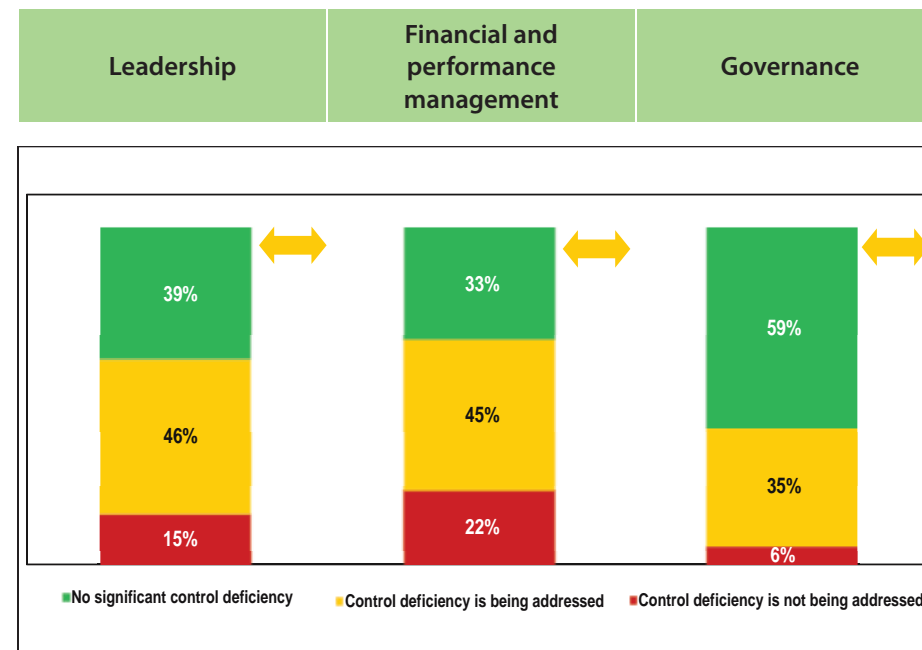
This section looks at the status of the systems of internal control at the auditees at the time of the audit. The overall status is presented in section 3.1, followed by a specific focus on HR management (section 3.2), IT management (section 3.3), and audit committees and internal audit (section 3.4).

### 3.1 OVERALL STATUS OF INTERNAL CONTROL

A key responsibility of accounting officers and authorities as well as other officials is to implement and maintain effective and efficient systems of internal control. As part of the audits, the auditees' 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 as well as governance. These are termed the drivers of internal control.

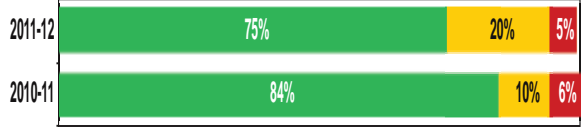
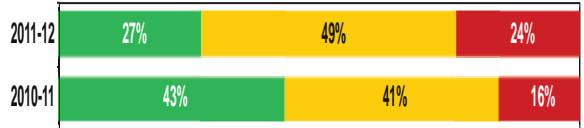
The figure below provides an overall assessment of these drivers at the time of the audit, based on significant deficiencies identified in internal control that resulted in material misstatements in financial and performance reports and findings on non-compliance with laws and regulations.

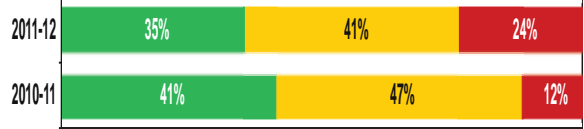


**Figure 20: Overall assessment of drivers of internal control**

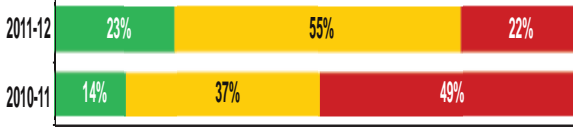
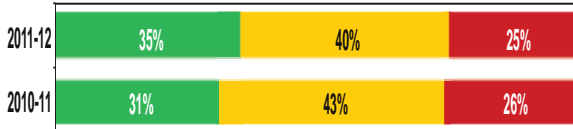



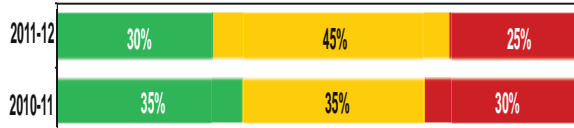

As can be seen in the above figure, there has hardly been any progress in addressing the previous year's internal control deficiencies. This is mainly due to the majority of auditees not fully honouring their commitments. The status of the internal control elements underlying leadership, financial and performance management as well as governance, and the movement in the implementation thereof, is presented in the following table.

**Table 23: 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"> <tr> <th>Year</th> <th>Green (%)</th> <th>Yellow (%)</th> <th>Red (%)</th> </tr> <tr> <td>2011-12</td> <td>75%</td> <td>20%</td> <td>5%</td> </tr> <tr> <td>2010-11</td> <td>84%</td> <td>10%</td> <td>6%</td> </tr> </table>	Year	Green (%)	Yellow (%)	Red (%)	2011-12	75%	20%	5%	2010-11	84%	10%	6%
Year	Green (%)	Yellow (%)	Red (%)										
2011-12	75%	20%	5%										
2010-11	84%	10%	6%										
<ul style="list-style-type: none"> <li>The net regression in the audit outcomes in the province is directly linked to the delays in honouring the commitments made by the leadership.</li> <li>It was not evident that the leadership had played an active role in the performance monitoring of key officials. The leadership further failed to take timely action when applicable legislation was contravened.</li> <li>MECs and accounting officers made themselves available to meet the AGSA on a quarterly basis to discuss the status of key controls and committed to take ownership of the control assessment. However, the leadership has to date failed to exercise the level of oversight committed to in response to the previous year's audit outcomes.</li> </ul>													
Exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.	 <table border="1"> <tr> <th>Year</th> <th>Green (%)</th> <th>Yellow (%)</th> <th>Red (%)</th> </tr> <tr> <td>2011-12</td> <td>27%</td> <td>49%</td> <td>24%</td> </tr> <tr> <td>2010-11</td> <td>43%</td> <td>41%</td> <td>16%</td> </tr> </table>	Year	Green (%)	Yellow (%)	Red (%)	2011-12	27%	49%	24%	2010-11	43%	41%	16%
Year	Green (%)	Yellow (%)	Red (%)										
2011-12	27%	49%	24%										
2010-11	43%	41%	16%										
<ul style="list-style-type: none"> <li>Persons in leadership positions have not satisfied themselves that the identified areas of internal control weaknesses were receiving the required level of attention. Regular financial and performance reports were not submitted to the leadership for intense interrogation.</li> <li>It was not evident that the leadership had periodically reviewed the progress made by key officials in addressing external audit findings.</li> <li>The findings and recommendations of the audit committees and internal audit units on internal control and risk management were not responded to at all, or were responded to too late for appropriate actions to be implemented.</li> </ul>													

Driver no. 1: Leadership													
Implement effective HR management to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored.	 <table border="1"> <tr> <th>Year</th> <th>Green (%)</th> <th>Yellow (%)</th> <th>Red (%)</th> </tr> <tr> <td>2011-12</td> <td>35%</td> <td>41%</td> <td>24%</td> </tr> <tr> <td>2010-11</td> <td>41%</td> <td>47%</td> <td>12%</td> </tr> </table>	Year	Green (%)	Yellow (%)	Red (%)	2011-12	35%	41%	24%	2010-11	41%	47%	12%
Year	Green (%)	Yellow (%)	Red (%)										
2011-12	35%	41%	24%										
2010-11	41%	47%	12%										
<b>Section 3.2. Provides an analysis of HR management</b>													
Establish and communicate policies and procedures to enable and support the understanding and execution of internal control objectives, processes and responsibilities.	 <table border="1"> <tr> <th>Year</th> <th>Green (%)</th> <th>Yellow (%)</th> <th>Red (%)</th> </tr> <tr> <td>2011-12</td> <td>47%</td> <td>43%</td> <td>10%</td> </tr> <tr> <td>2010-11</td> <td>49%</td> <td>43%</td> <td>8%</td> </tr> </table>	Year	Green (%)	Yellow (%)	Red (%)	2011-12	47%	43%	10%	2010-11	49%	43%	8%
Year	Green (%)	Yellow (%)	Red (%)										
2011-12	47%	43%	10%										
2010-11	49%	43%	8%										
<ul style="list-style-type: none"> <li>Policies and procedures to address areas of risk, achieve desired control objectives and guide operations still require improvement at 56% of the auditees.</li> <li>Current policies and procedures do not adequately cover reliable reporting of performance information and do not enable compliance with laws and regulations.</li> </ul>													
Develop and monitor the implementation of action plans to address internal control deficiencies.	 <table border="1"> <tr> <th>Year</th> <th>Green (%)</th> <th>Yellow (%)</th> <th>Red (%)</th> </tr> <tr> <td>2011-12</td> <td>25%</td> <td>67%</td> <td>8%</td> </tr> <tr> <td>2010-11</td> <td>29%</td> <td>65%</td> <td>6%</td> </tr> </table>	Year	Green (%)	Yellow (%)	Red (%)	2011-12	25%	67%	8%	2010-11	29%	65%	6%
Year	Green (%)	Yellow (%)	Red (%)										
2011-12	25%	67%	8%										
2010-11	29%	65%	6%										
<ul style="list-style-type: none"> <li>A number of auditees either had repeat qualifications or showed slow progress in addressing the prior year's audit findings on PDOs and compliance with laws and regulations. This is an indication that the leadership did not adequately monitor progress on the effective implementation of action plans to improve the audit outcomes.</li> <li>Although action plans were developed, the plans did not specifically address root causes and were not time bound. They were also not executed with discipline. As a result, actions were taken too late in the financial year to have a direct impact on outcomes.</li> </ul>													

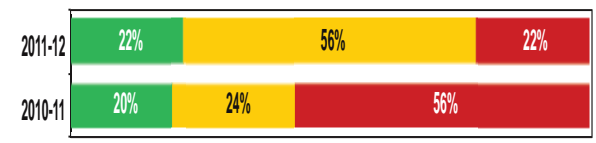
Driver no. 1: Leadership									
Develop and monitor the implementation of action plans to address internal control deficiencies in the IT environment.	 <table border="1"> <tr> <td>2011-12</td> <td>23%</td> <td>55%</td> <td>22%</td> </tr> <tr> <td>2010-11</td> <td>14%</td> <td>37%</td> <td>49%</td> </tr> </table>	2011-12	23%	55%	22%	2010-11	14%	37%	49%
2011-12		23%	55%	22%					
2010-11	14%	37%	49%						
Establish an IT governance framework that supports and enables the business, delivers value and improves performance.									
<b>Section 3.3 Provides an analysis of IT management</b>									
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.	 <table border="1"> <tr> <td>2011-12</td> <td>35%</td> <td>40%</td> <td>25%</td> </tr> <tr> <td>2010-11</td> <td>31%</td> <td>43%</td> <td>26%</td> </tr> </table>	2011-12	35%	40%	25%	2010-11	31%	43%	26%
2011-12		35%	40%	25%					
2010-11	31%	43%	26%						
<ul style="list-style-type: none"> <li>When documents supporting the financial statements and other information are requested during the audit process, many auditees produce these only after significant delays. Some auditees were not able to supply documentation that supports the information in the financial statements or adherence to procurement regulations, due to inadequate document management systems.</li> <li>This basic requirement for effective internal control systems remains an ongoing challenge at a number of auditees.</li> </ul>									

Driver no. 2: Financial and performance management									
Implement controls over daily and monthly processing and reconciling of transactions.	 <table border="1"> <tr> <td>2011-12</td> <td>39%</td> <td>49%</td> <td>12%</td> </tr> <tr> <td>2010-11</td> <td>55%</td> <td>31%</td> <td>14%</td> </tr> </table>	2011-12	39%	49%	12%	2010-11	55%	31%	14%
2011-12		39%	49%	12%					
2010-11	55%	31%	14%						
<ul style="list-style-type: none"> <li>Management at a number of auditees did not actively monitor adherence to basic financial controls throughout the financial year, i.e. the daily processing of transactions, the monthly reconciliation of accounts, and the continuous review thereof. This hampered improvements in the audit outcomes.</li> </ul>									
Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.	 <table border="1"> <tr> <td>2011-12</td> <td>30%</td> <td>45%</td> <td>25%</td> </tr> <tr> <td>2010-11</td> <td>35%</td> <td>35%</td> <td>30%</td> </tr> </table>	2011-12	30%	45%	25%	2010-11	35%	35%	30%
2011-12		30%	45%	25%					
2010-11	35%	35%	30%						
<ul style="list-style-type: none"> <li>The quality of a number of financial statements submitted for auditing was still not adequate, as evidenced by the material misstatements identified and corrected during the audit. This can be directly linked to the fact that financial information submitted with the financial statements was not adequately reviewed for completeness and accuracy.</li> <li>Similarly, a number of auditees still need to improve their performance reporting. The biggest shortcomings relate to inadequate systems used for collecting, recording and reporting on performance information and failure to monitor compliance with regulations relating to PDOs effectively and continuously.</li> </ul>									
Review and monitor compliance with applicable laws and regulations.	 <table border="1"> <tr> <td>2011-12</td> <td>41%</td> <td>31%</td> <td>28%</td> </tr> <tr> <td>2010-11</td> <td>40%</td> <td>35%</td> <td>25%</td> </tr> </table>	2011-12	41%	31%	28%	2010-11	40%	35%	25%
2011-12		41%	31%	28%					
2010-11	40%	35%	25%						

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

- Internal control procedures to prevent unauthorised, irregular as well as fruitless and wasteful expenditure require significant improvement at eight (44%) of the auditees.
- The leadership needs to pay urgent attention to procurement and contract management, to ensure that the internal control processes are completely aligned to the requirements of legislation. This remains a concern at 12 (67%) of the auditees.
- Although many auditees have policies and procedures to monitor compliance with laws and regulations, monitoring should take place at more frequent intervals, such as on a monthly basis, by dedicated staff members with a view to detect, or preferably prevent, non-compliance.
- The introduction of compliance checklists will give management some assurance that controls are achieving the required level of adherence.

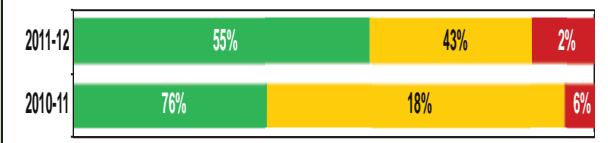
Design and implement formal controls over IT systems to ensure the reliability of the systems and the availability, accuracy and protection of information and to address application systems susceptible to compromised data integrity (information systems).



**Section 3.3 Provides an analysis of IT management**

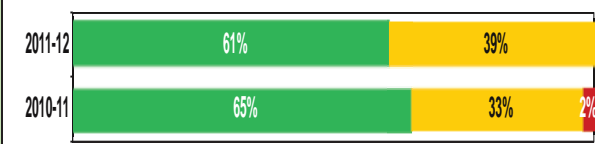
**Driver no. 3: Governance**

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



- For a number of auditees, the risk assessment processes did not inform the work plans of internal audit units and the agendas of audit committees. 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 and performance reporting.

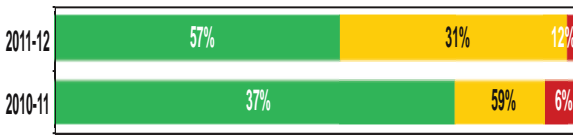
Ensure that there is an adequately resourced and functioning internal audit unit that identifies internal control deficiencies and recommends corrective action effectively.



**Section 3.4. Provides an analysis of internal audit units**

**Driver no. 3: Governance**

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.



Year	Green (%)	Yellow (%)	Red (%)
2011-12	57%	31%	12%
2010-11	37%	59%	6%

**Section 3.4 Provides an analysis of audit committees**

### 3.2 HUMAN RESOURCE MANAGEMENT

Effective 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 analysis in this section of the report excludes the provincial revenue fund.

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

**Figure 21: Summary of human resource management findings and weaknesses**

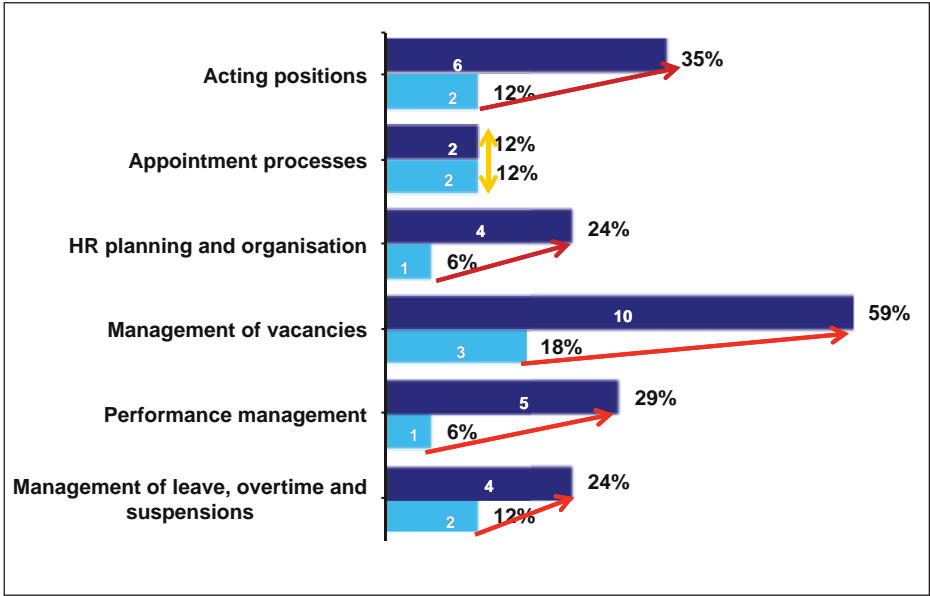




Table 24 lists the key findings under the different categories of HR management that were audited.

**Table 24: Nature of key findings and weaknesses**

Category of HR management	Key findings and weaknesses
<b>Management of vacancies and acting positions</b>	<ul style="list-style-type: none"> <li>• Attracting and retaining qualified, competent persons across all areas of administration remain a challenge.</li> <li>• Officials are directed to act in vacant positions until the vacancies are filled, but at six (35%) of the auditees the acting periods lasted longer than the stipulated 12 months.</li> <li>• When people act in a position, they tend not to take on the full responsibility, functions and powers of the post. This results in a lower commitment to the deliverables as a result of the temporary nature of the position.</li> <li>• The challenges in the management of vacancies and acting positions have a negative impact on financial and performance management, as well as on turnaround initiatives and commitments.</li> </ul>
<b>Management of leave, overtime and suspensions</b>	<ul style="list-style-type: none"> <li>• Due to inadequate internal control procedures to monitor compliance with laws and regulations, the leadership failed to prevent and detect the following: <ul style="list-style-type: none"> <li>– Paying overtime for more than the maximum hours allowed.</li> <li>– Awarding more than the entitled special leave.</li> <li>– Employees on suspension with pay for more than 30 days.</li> <li>– Awarding more than the entitled sick and incapacity leave.</li> <li>– Unauthorised paid overtime.</li> </ul> </li> </ul>

Category of HR management	Key findings and weaknesses
<b>Performance management</b>	<ul style="list-style-type: none"> <li>• Inadequate performance management of accounting officers and employees, and a lack of consequences for poor performance, have a negative impact on the implementation of sound internal control. Consequently, auditees do not achieve good governance and accountability in respect of financial and performance reporting.</li> <li>• When officials are not held accountable for their actions, a perception can be created that non-accountability is acceptable and tolerated. This could make those officials that are giving their best under trying circumstances despondent.</li> <li>• In order to improve the performance and productivity of officials, the leadership should set the tone by implementing sound performance management processes, evaluating and monitoring performance, and consistently demonstrating that poor performance has consequences.</li> </ul>

All the HR weaknesses reflected in the above table can be attributed to an inappropriate leadership tone, a lack of performance management systems and processes, and a lack of consequences for poor performance. These weaknesses promote an environment of non-accountability, which is not conducive to driving clean administration.

The right leadership tone, together with the support of the audit committee and internal audit function, is required to establish a strong control environment and ensure compliance with the requirements of the Public Service Regulations. The leadership should capacitate the auditees through appointing skilled people in the area of HR management.

Without clearly formulated interventions and firm time frames enforced by accounting officers and senior management, the situation will not improve.

### 3.3 INFORMATION TECHNOLOGY MANAGEMENT

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

As can be seen in figure 22, IT in the province is important to ensure the operational integrity of financial statements and performance information reports and to enable the facilitation and monitoring of service delivery.

**Figure 22: Link between information technology and financial and performance information**



The following figure highlights the areas focused on during IT audits.

**Figure 23: Required information technology processes**

	<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>• Security management</li> <li>• User access controls</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 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>		

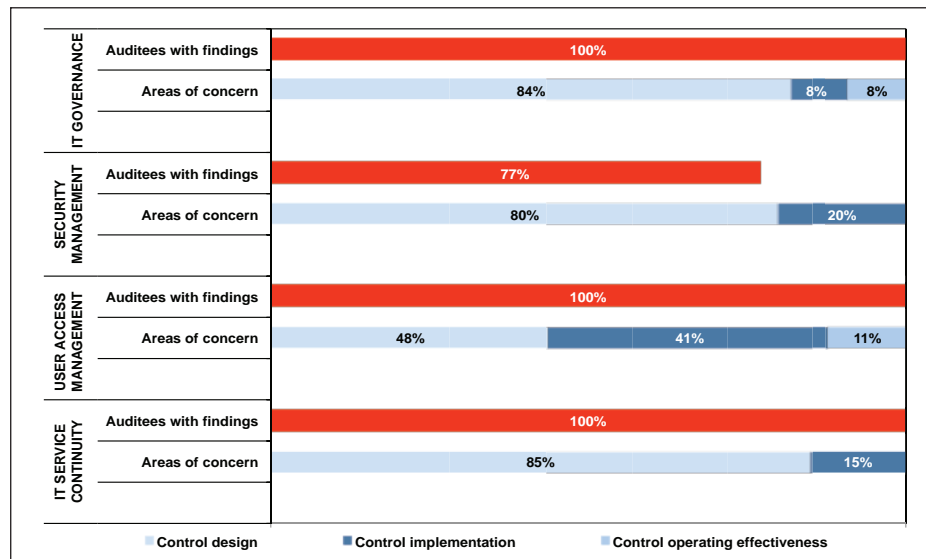
IT controls relating to financial systems were evaluated at 13 departments, while IT controls relating to performance information were evaluated at three sectoral

departments, namely Health, Education and Human Settlements.

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

The figure below summarises the IT control weaknesses at auditees, which are then discussed in the paragraphs that follow.

**Figure 24: Summary of information technology control weaknesses**



#### Information technology governance

There was no IT governance framework, which resulted in a lack of adequate IT policies and procedures. IT strategic plans were not in place, IT steering committees did not exist and IT performance was not reviewed.

#### Security management

With the exception of the Office of the Premier, Economic Development, Environment and Tourism as well as Cooperative Governance and Traditional Affairs, IT security policies had not been adequately designed. This resulted in security parameter settings not having been configured to prevent unauthorised access and access to powerful profiles not being adequately restricted and

reviewed.

#### User access control

User access management guidelines provided by the Department of Finance were not implemented. As a result, the appropriateness of users' access rights was not periodically reviewed, access request documentation was not adequately completed, and access and logon violations were not reviewed. Due to a lack of staff, system controllers were also performing normal user functions, resulting in inadequate segregation of duties. This risk was increased by the lack of periodic reviews.

#### Information technology service continuity

Business continuity plans were not designed for the resumption of normal business operations in the event of a disaster, which could affect the availability of information and systems.

### 3.3.3 Audit of performance information systems

The audit focused on compliance with Framework 86 of 2007 relating to the managing of programme performance information, compiled by the National Treasury. According to this framework, the national departments have the overall responsibility for designing IT controls to govern the systems used by provincial departments for performance information. Three departments, namely Human Settlements, Health and Education, were reviewed for compliance. At the Department of Health, eight elements that are critical to the achievement of compliance were reviewed. At the Department of Education, the review focused on the existence of, and compliance with, a national policy. At the Department of Human Settlements, a national guideline for controls had already been implemented in all the provinces and the review therefore focused on provincial compliance with the policy. Drivers of the weaknesses and a summary of the findings are depicted below.

**Figure 25: Comparison between national and provincial implementation of information technology controls over performance information systems**

	Human Settlements			Education			Health		
Development of controls by national	Good			In progress			Intervention required		
Implementation of controls by provincial	Good			In progress			Intervention required		
IT weaknesses at provincial level	Security management	User access control	IT service continuity	Security management	User access control	IT service continuity	Security management	User access control	IT service continuity

Good	In progress	Intervention required
------	-------------	-----------------------

### Human Settlements

Good progress has been made with complying with the national guidance for implementing controls. The provincial department had also fully implemented the designed controls around user access, IT security and IT service continuity for the Housing Subsidy System.

### Education

There was a lack of national department guidelines for the implementation of IT controls for the Education Management Information System. The risk was increased by the province not proactively developing and implementing

controls to ensure the integrity and availability of performance information.

### Health

The national department had developed guidance for the implementation of all the systems used for PDOs, namely the District Health Information System, the Electronic Tuberculosis Register and the Electronic Drug-resistant Tuberculosis Register. However, the province did not comply with the guidance.

### 3.3.4 Status of addressing management commitments

Table 25 below indicates the status of management commitments.

**Table 25: Progress in addressing management commitments**

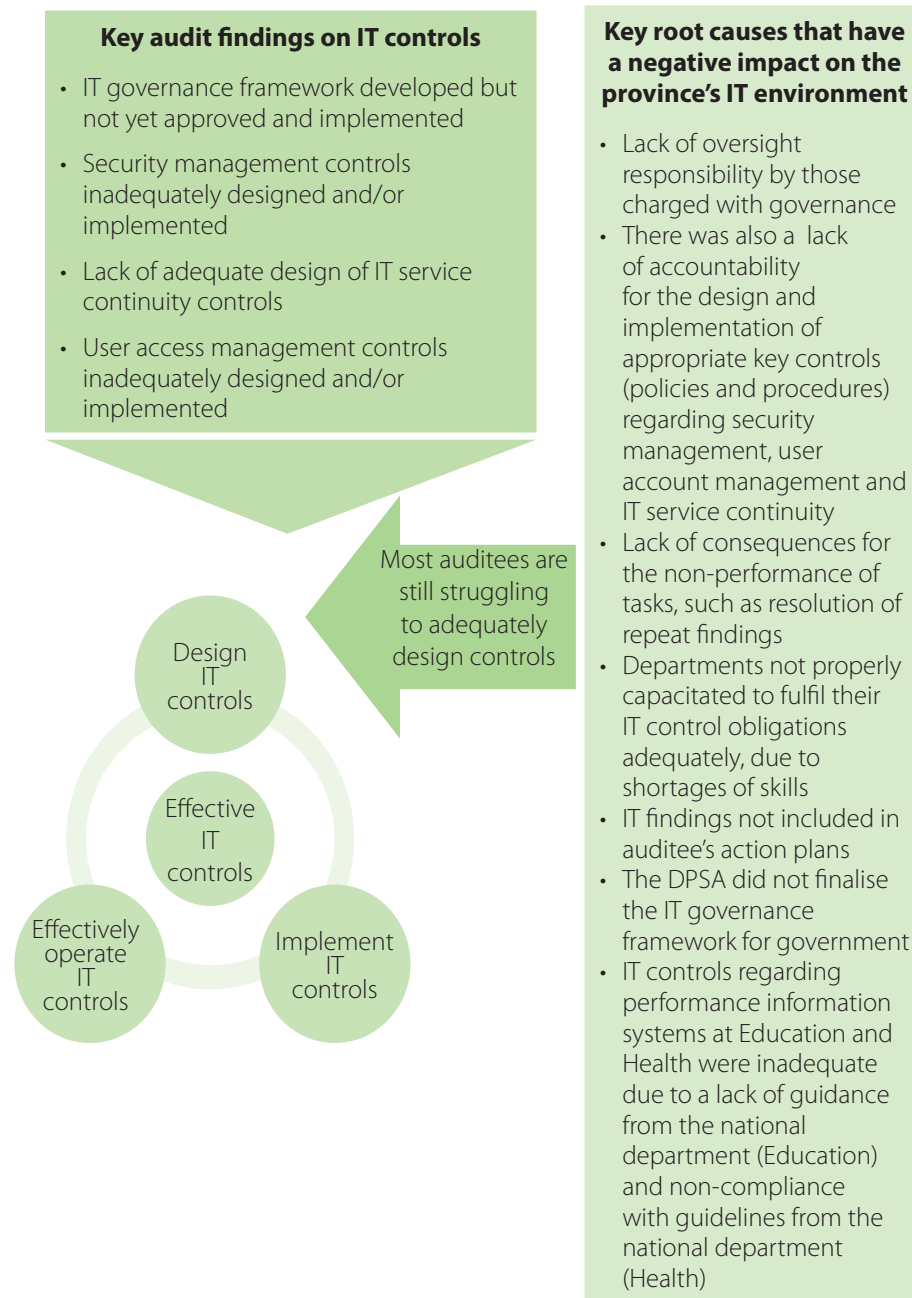
Auditee	IT governance	Security management	User access controls	IT service continuity
Agriculture, Rural Development and Land Administration	In progress	In progress	In progress	In progress
Community Safety, Security and Liaison	In progress	In progress	In progress	In progress
Cooperative Governance and Traditional Affairs	In progress	Good	In progress	In progress
Culture, Sports and Recreation	In progress	In progress	In progress	In progress
Economic Development, Environment and Tourism	In progress	Good	In progress	In progress
Education	In progress	In progress	In progress	In progress
Finance	In progress	In progress	In progress	In progress
Health	In progress	In progress	In progress	In progress
Human Settlements	In progress	In progress	In progress	In progress
Office of the Premier	In progress	Good	In progress	In progress
Provincial legislature	In progress	In progress	In progress	In progress
Public Works, Roads and Transport	In progress	In progress	In progress	In progress
Social Development	In progress	In progress	In progress	In progress
<b>Total</b>	<b>13</b>	<b>13</b>	<b>13</b>	<b>13</b>
<b>Not addressed</b>	<b>13</b>	<b>10</b>	<b>13</b>	<b>13</b>
<b>Addressed</b>		<b>3</b>		

As reflected in the table above, adequate progress had not been made in addressing previous findings and the risks still remained in all of the focus areas, even though some corrective measures had been taken. This was due to a lack of consequences for non-performance in terms of resolving repeat findings, IT findings not always being included in the auditees' action plans, internal audit units and audit committees not continuously monitoring the progress made with the implementation of management commitments, and inadequate oversight responsibility by those charged with governance.

### 3.3.5 Key information technology concerns

The following figure outlines the key audit findings in the province and the root causes of these findings.

**Figure 26: Information technology findings and root causes**

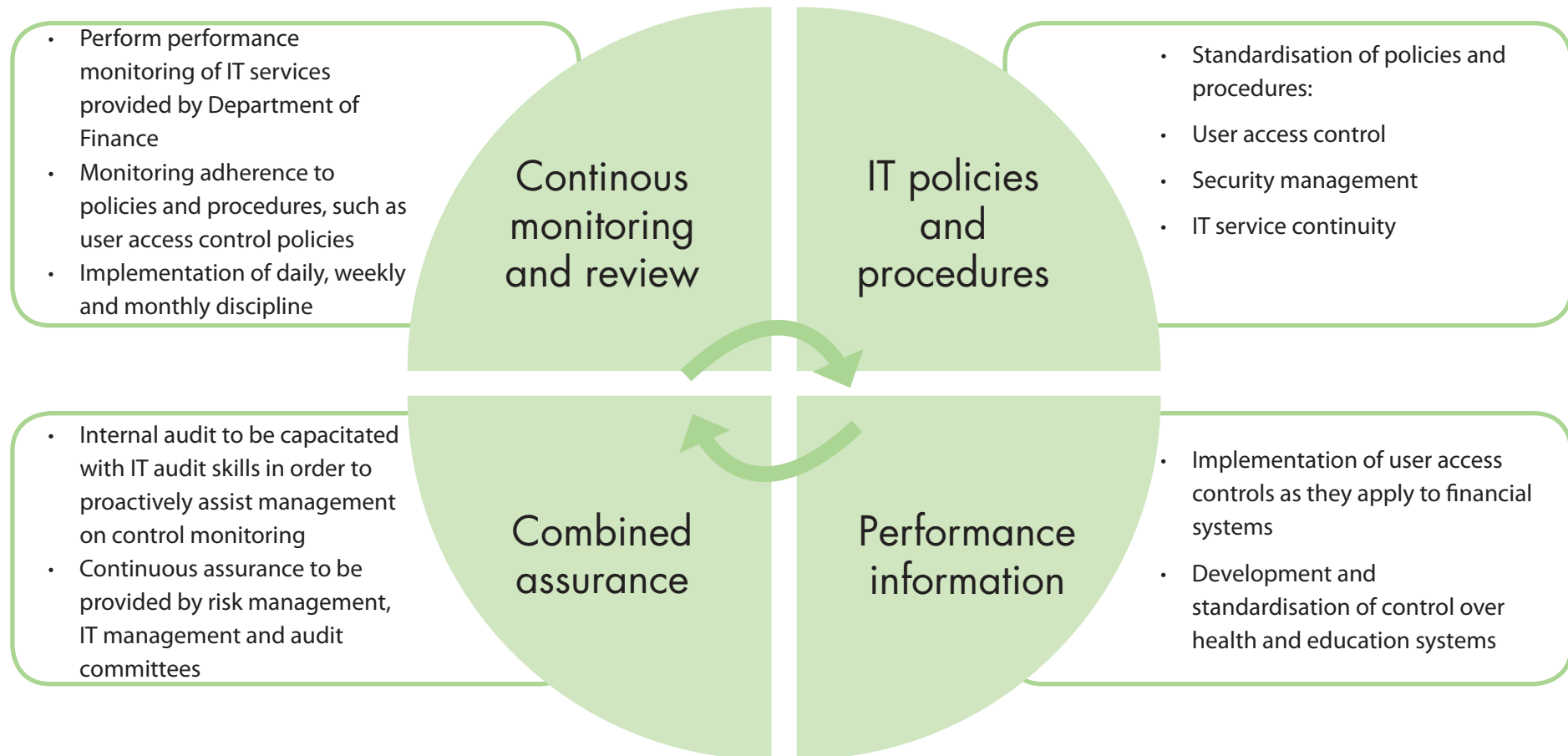


### 3.3.6 Quick wins in resolving information technology management weaknesses

The IT governance framework should be approved and implemented in the province. The provincial Department of Finance's user account management guidelines for the Personnel and Salary System, Basic Accounting System and Logistical Information System should be implemented and adhered to by all departments. Departments should liaise with the Office of the Premier and the Department of Finance for assistance regarding IT controls and knowledge sharing between departments.

Auditees should also focus on the actions as outlined in the figure below.

**Figure 27: Actions to be taken to address information technology findings**

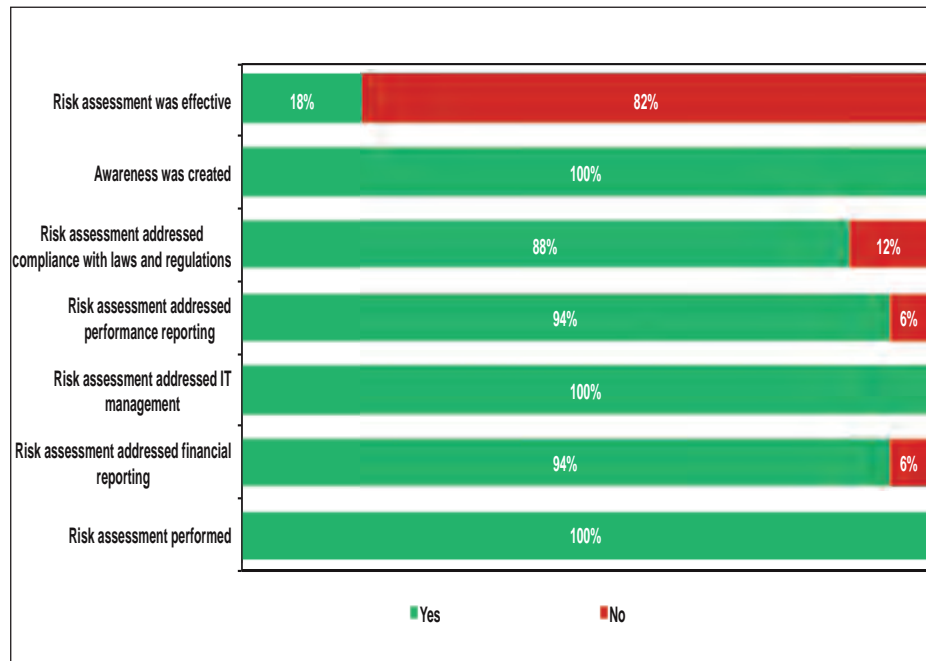


### 3.4 ASSESSMENT OF THE EFFECTIVENESS OF GOVERNANCE STRUCTURES

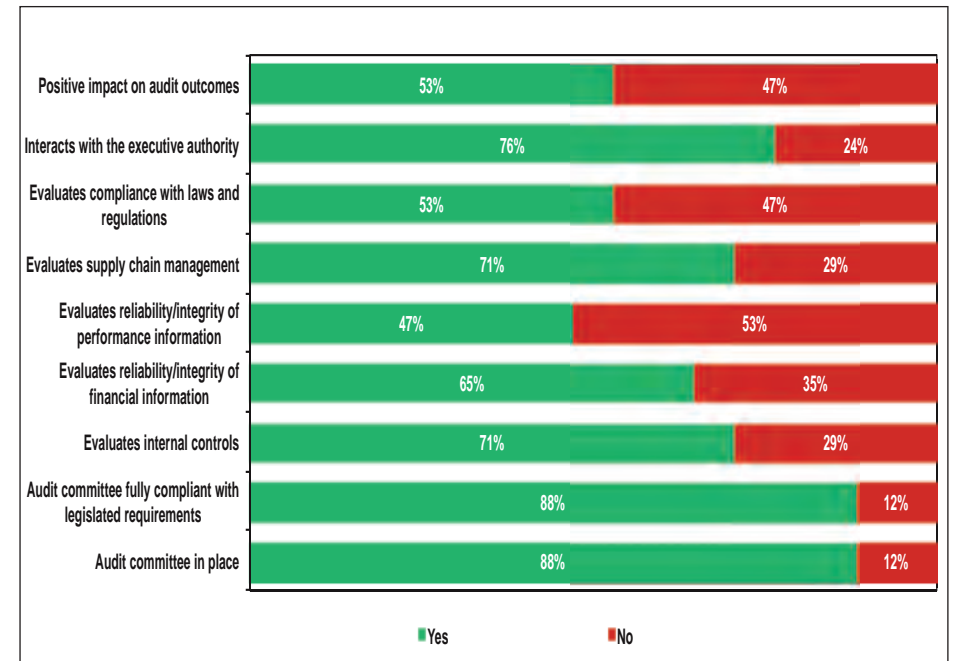
Effective governance is a driver of audit outcomes, with risk management, audit committees and internal audit units being key elements of governance. In terms of legislation, all auditees must establish an audit committee and internal audit unit. Audit committees must serve as an independent governance structure whose function it 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 or her responsibilities, with the ultimate aim of achieving the organisation’s objectives. Internal audit units should provide assurance on governance, risk management and control.

The figures that follow depict the assessed effectiveness of risk management, audit committees and internal audit units for the year under review.

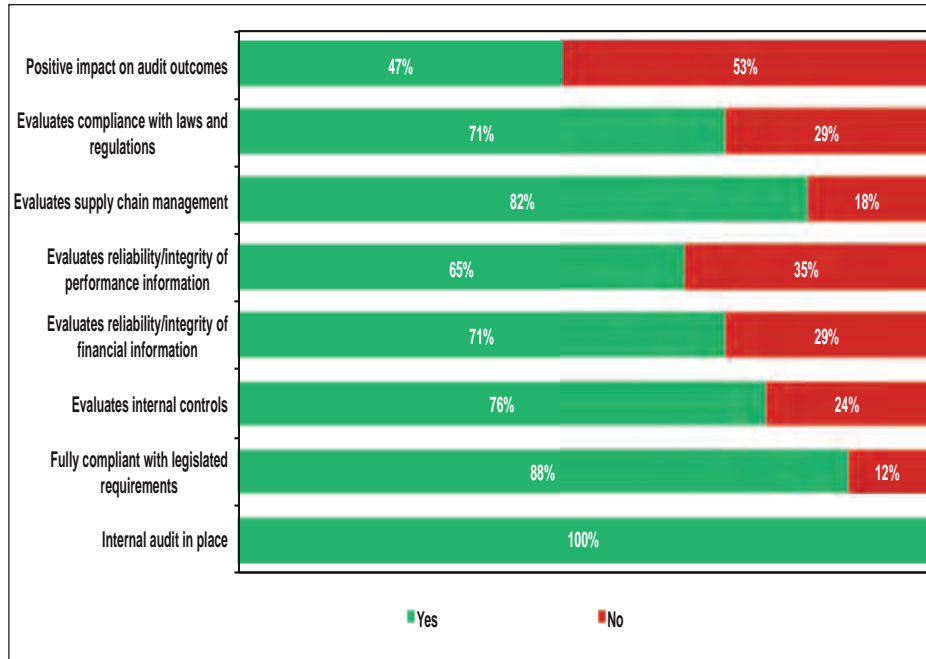
**Figure 28: Effectiveness of risk management**



**Figure 29: Effectiveness of audit committees**



**Figure 30: Effectiveness of internal audit units**



In most instances, these governance structures complied with the legislative requirements. However, it is clear from the above figures that audit committees and internal audit units are not yet operating at the desired level of effectiveness. The leadership needs to promote effective interaction and exchange of reporting and information related to internal control between themselves, the internal audit units and audit committees.

The responsibilities of the audit committee include providing assurance on the credibility of various reports produced for purposes of oversight, decision-making and accountability. Should the audit committee fail to execute this responsibility effectively, vital decisions relating to funding, accountability and service delivery will be based on information that may be inaccurate, incomplete and unreliable.

A well-functioning and resourced internal audit unit is crucial for maintaining internal control over financial reporting, reporting against PDOs and adherence to laws and regulations. Although internal audit units existed at 100% of the auditees, annual internal audit coverage plans did not assign adequate priority

to confirming the integrity of performance information and auditing compliance by their organisations with applicable laws and regulations.

To improve audit outcomes, audit committees and internal audit units need to review financial statements submitted for auditing, ensure that measures have been implemented to correct the previous year’s audit findings, and monitor action plans to correct audit findings.

Internal audit units and audit committees should focus, in particular, on confirming the credibility of information and ratings in quarterly dashboard reports.





# SECTION 4

## IMPACT OF KEY ROLE PLAYERS ON AUDIT OUTCOMES

4.1 ASSURANCE PROVIDED BY ROLE PLAYERS

4.2 INITIATIVES AND COMMITMENTS BY KEY ROLE PLAYERS TO IMPROVE AUDIT OUTCOMES

4.3 STATUS OF IMPLEMENTATION OF PUBLIC ACCOUNTS COMMITTEE OVERSIGHT RESOLUTIONS



AUDITOR - GENERAL  
SOUTH AFRICA



# SECTION 4

## IMPACT OF KEY ROLE PLAYERS ON AUDIT OUTCOMES

This section details the initiatives and commitments of key provincial role players to improve audit outcomes, the status of the implementation of the oversight resolutions of the public accounts committee, and the AGSA's continuing initiatives to encourage clean audits.

**Table 26: Assessment of combined assurance by role players**

No.	Auditee	Senior management	Accounting officer/authority	Executive authority	Audit committee	Oversight – portfolio committees (not applicable at auditee level)	Internal audit	Public accounts committee (not applicable at auditee level)	Coordinating/monitoring institutions (not applicable at auditee level)
<b>Required assurance levels:</b>		Extensive	Extensive	Extensive	Extensive	Extensive	Extensive	Extensive	Extensive
<b>Auditee level</b>									
1	Agriculture, Rural Development and Land Administration	Yellow	Yellow	Yellow	Yellow	White	Yellow	White	White
2	Community Safety, Security and Liaison	Yellow	Yellow	Yellow	Yellow	White	Yellow	White	White
3	Cooperative Governance and Traditional Affairs	Yellow	Green	Green	Green	White	Green	White	White
4	Culture, Sport and Recreation	Red	Red	Red	Red	White	Red	White	White
5	Economic Development, Environment and Tourism	Red	Red	Red	Red	White	Red	White	White

### 4.1 ASSURANCE PROVIDED BY ROLE PLAYERS

Table 26 assesses the level of assurance provided by each role player in the provincial government in respect of the production of credible financial and PDO reports as well as 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.

No.	Auditee	Senior management	Accounting officer/authority	Executive authority	Audit committee	Oversight – portfolio committees (not applicable at auditee level)	Internal audit	Public accounts committee (not applicable at auditee level)	Coordinating/monitoring institutions (not applicable at auditee level)
Required assurance levels:		Extensive	Extensive	Extensive	Extensive	Extensive	Extensive	Extensive	Extensive
6	Education								
7	Finance								
8	Health								
9	Human Settlements								
10	Office of the Premier								
11	Provincial legislature								
12	Provincial Revenue Fund								
13	Public Works, Roads and Transport								
14	Social Development								
15	Mpumalanga Economic Growth Agency								
16	Mpumalanga Gambling Board								
17	Mpumalanga Regional Training Trust								
18	Mpumalanga Tourism and Parks Agency								

No.	Auditee	Senior management	Accounting officer/authority	Executive authority	Audit committee	Oversight – portfolio committees (not applicable at auditee level)	Internal audit	Public accounts committee (not applicable at auditee level)	Coordinating/monitoring institutions (not applicable at auditee level)
<b>Required assurance levels:</b>		Extensive	Extensive	Extensive	Extensive	Extensive	Extensive	Extensive	Extensive
<b>Oversight level</b>									
19	Portfolio committee: social cluster								
20	Portfolio committee: economic cluster								
21	SCOPA								
22	Provincial executive leadership (premier and MEC for finance)								
23	Audit committee chairpersons' forum								
<b>Coordinating/monitoring institutions</b>									
24	Provincial treasury								
25	DPSA								
26	CoGTA								
27	Office of the Premier								
28	Assess assurance providers overall for the business unit/province								



At an overall level, the key role players in the province are providing some assurance. However, significant strides will have to be made if the required level of assurance is to be provided for credible decision-making.

The foundation for setting up processes to provide assurance involves skills, competence, ethics, embedded systems of control, and an understanding of the roles and responsibilities by all role players, together with a strictly enforced performance management system.

The assurance provided by senior management, accounting officers, internal audit units, audit committees and 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.

Similarly, the quality and the credibility of information supplied to portfolio committees and coordinating role players have an impact on the assurance given by them. Currently the quality of information is not at the required level, which influences 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.

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

Table 27 below 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 between October 2012 and the date of this report. An assessment of the impact of the initiatives and commitments is also provided.

**Table 27: Key initiatives and commitments by provincial role players**

Key role players	Outline of initiatives and commitments made	Focus areas targeted by commitments	Progress made with implementing additional commitments given	Impact of initiatives and commitments on 2011-12 audit outcomes
<b>Provincial executive leadership</b>	<b>Prior year commitments</b>			
	Development of action plans to address audit findings, and the implementation and monitoring thereof.	SCM, PDOs, HR management, IT management, governance structures, financial management	In progress	Limited impact
	Revision and strengthening of policies, procedures, systems and plans (e.g. fraud prevention) to ensure compliance with legislation and other requirements, and to establish effective controls.	SCM, governance structures	In progress	No impact
	Filling of key vacant positions with competent, professional and qualified incumbents. This will be achieved through lifting the moratorium on filling vacancies.	SCM, PDOs, HR management, IT management, governance structures, financial management	In progress	Limited impact
	Addressing IT weaknesses by improving controls and clearly defining responsibilities of officials and service providers. This includes review of IT MoU between Department of Finance and departments.	IT management	In progress	No impact
	Implementation of improved record and document management processes to support filing and easy retrieval.	Financial management	In progress	No impact
	Drafting and issuing of guidance/instructions by the Office of the Premier to address interest of employees in contracts with government.	SCM	In progress	No impact
	Deactivation of suppliers linked to officials and the activation of a new database by 15 September 2011.	SCM	In progress	No impact
	Implementation of a new contract for scholar transport and cleaning services.		Complete	Significant impact
	Enforcing accountability by implementing corrective action against officials that transgressed SCM legislation.		In progress	No impact



Key role players	Outline of initiatives and commitments made	Focus areas targeted by commitments	Progress made with implementing additional commitments given	Impact of initiatives and commitments on 2011-12 audit outcomes	
	Presenting financial and performance reports and supporting evidence to the programme managers' forum on a monthly basis.	Financial management, quality of financial statements	In progress	Limited impact	
	Implementation and monitoring of monthly/quarterly reporting on financial and performance information, and compliance with legislation.		In progress	Limited impact	
	<b>New commitments</b>				
	Enforcing accountability by implementing corrective action against officials that transgressed SCM legislation.	SCM, PDOs, HR management, IT management, governance structures, financial management	New	Not yet able to assess	
	In strengthening oversight and accountability, the leadership committed to adopt a more consistent approach towards monitoring. The credibility of management information will be validated by internal audit units and audit committees. Each MEC will provide monthly feedback on his or her department's performance at the monthly Exco meetings.	Financial management, governance structures	New	Not yet able to assess	
	Monitoring through Exco meetings will be improved. Exco will also instil a culture of high performance and commitment.	SCM, PDOs, HR management, IT management, governance structures, financial management	New	Not yet able to assess	
	Strengthening IT skills to drive good IT management and governance within the province.	IT management	New	Not yet able to assess	
More attention will be given to the capacity and skill of staff to perform their duties and the length of time employees act in critical positions within departments and public entities.	SCM, PDOs, HR management, IT management, governance structures, financial management	New	Not yet able to assess		

Key role players	Outline of initiatives and commitments made	Focus areas targeted by commitments	Progress made with implementing additional commitments given	Impact of initiatives and commitments on 2011-12 audit outcomes
<b>Provincial treasury &amp; Office of the Premier</b>	<b>Prior year commitments</b>			
	Develop action plans to address transversal audit findings for the province.	SCM, PDOs, HR management, IT management, governance structures, financial management	In progress	Limited impact
	Provide increased and improved support to entities in the form of technical support on the applicable accounting standards, legislation and drafting of annual financial statements.	Financial management, quality of financial statements	In progress	Limited impact
	Conduct training, workshops and/or roadshows to improve skills, raise awareness, and provide support.	SCM, PDOs, financial management	In progress	Limited impact
	Develop a proper record management system for the province to ensure supporting documentation is easily retrievable.		In progress	Limited impact
	Assist with the roll-out and implementation of a fraud prevention system.	SCM, financial management	In progress	Limited impact
	Assist with the development, implementation and maintenance of IT governance frameworks.	IT management	In progress	No impact
	Assist departments and entities with high-risk areas identified in terms of the financial management capability maturity model results.	Financial management	In progress	Limited impact
	Facilitate training sessions and workshops to assist departments with the development and implementation of the enterprise risk management framework.	SCM, PDOs, IT management, governance structures, financial management	In progress	Limited impact
	<b>New commitments</b>			
	The action plans of departments and entities to address audit findings will be assessed and the implementation thereof will be monitored on a quarterly basis.	SCM, PDOs, HR management, IT management, governance structures, financial management	New	Not yet able to assess
Facilitate the strengthening of roles and responsibilities within the chief financial officers' forum and ensure that regular meetings are held. This will enable monitoring of the Operation clean audit strategy.	SCM, financial management	New	Not yet able to assess	

Key role players	Outline of initiatives and commitments made	Focus areas targeted by commitments	Progress made with implementing additional commitments given	Impact of initiatives and commitments on 2011-12 audit outcomes
	Increase interaction with MECs on issues of concern to strengthen oversight. This will include escalating issues of concern and non-compliance to MECs to allow them to take action.	SCM, PDOs, HR management, IT management, governance structures, financial management	New	Not yet able to assess
<b>Provincial Public Accounts Committee</b>	<b>Prior year commitments</b>			
	Review of the departments' quarterly updates on the SCOPA resolutions.	SCM, PDOs, IT management, governance structures, financial management	Complete	Limited impact
	Follow-up exercise on all SCOPA resolutions dating back to 2007.	SCM, PDOs, IT management, governance structures, financial management	Complete	Limited impact
	<b>New commitments</b>			
	SCOPA will engage with the chairs of audit committees.	SCM, PDOs, IT management, governance structures, financial management	New	Not yet able to assess
	SCOPA will monitor the implementation of action plans by the entities and the provincial executive leadership to improve audit outcomes.	SCM, PDOs, IT management, governance structures, financial management	New	Not yet able to assess
<b>Provincial legislature &amp; portfolio committees</b>	<b>Prior year commitments</b>			
	The speaker has committed to enhance accountability and strengthen oversight through revision of the oversight functions and processes within the legislature.	Governance structures	Complete	Limited impact
	The legislature will engage with the AGSA on a regular basis to follow up on SCOPA resolutions.	SCM, PDOs, IT management, governance structures, financial management	Complete	Limited impact

Key role players	Outline of initiatives and commitments made	Focus areas targeted by commitments	Progress made with implementing additional commitments given	Impact of initiatives and commitments on 2011-12 audit outcomes
	<b>New commitments</b>			
	Training and workshops will be conducted to improve the understanding of oversight responsibilities, IT management, SCM, annual reports and audit reports.	SCM, PDOs, HR management, IT management, governance structures, financial management	New	Not yet able to assess
	The working relationship between portfolio committees and the executive will be strengthened.		New	Not yet able to assess
	Improve coordination and collaboration with SCOPA.		New	Not yet able to assess
	Assist the Office of the Premier and the provincial treasury with monitoring the progress on implementation of commitments made by departments.		New	Not yet able to assess
<b>Senior management</b>	<b>Prior year commitments</b>			
	Instilling a culture of accountability by taking action against those employees who do not perform in line with their responsibilities. In addition, stringent action will be taken against employees who are suspected of being involved in fraud and corruption.	SCM, PDOs, HR management, financial management	In progress	Limited impact
	More effective and efficient use of information systems already in use by the departments.	IT management,	In progress	Limited impact
	Ensuring that each employee has a job description.	SCM, PDOs, HR management, financial management	In progress	Limited impact
	<b>New commitments</b>			
	Monitoring of oversight will be strengthened by the MECs having regular meetings with the HoDs.	SCM, PDOs, HR management, IT management, governance structures, financial management	New	Not yet able to assess
	In order to improve and monitor the implementation of action plans, the MECs and HoDs will have monthly meetings with the senior leadership of departments and entities.		New	Not yet able to assess
Finalise an action plan for implementation. To get the maximum impact, the departments have committed to focus on the root causes.	New		Not yet able to assess	

Since August 2011, the AGSA has engaged with provincial role players on the four focus areas where their contributions to improve audit outcomes can be further enhanced. During these engagements, the executive authority and oversight structures committed to monitor and evaluate the status of key controls and commitments each quarter in order to achieve sustainable clean audit outcomes. At a minimum, this required 60 minutes every 90 days. The coordinated effort between the executive authority and oversight structures to ensure the ultimate aim of clean administration has not been successful. The impact of prior year initiatives and commitments is not visible in the current year outcomes.

The role players should embrace the commitments and initiatives outlined above as part of their strategic goals in order to help auditees realise clean administration. The provincial leadership and the provincial treasury should ensure that action plans are timeously implemented and monitored. This strategy will have the benefit of demanding output and results from management and officials. The provincial treasury should hold regular meetings with audit committees and internal audit units on reported matters, follow up the action plans set to address reported findings, and liaise with the provincial leadership where further interventions are required.

This should then be followed by sharing the consolidated picture with the premier and the legislature. It will require the enhancement of the oversight model, which includes effective coordination between the public accounts committee and portfolio committees.

If all the governance and oversight structures work collectively in monitoring internal controls on a quarterly basis, it will place the Mpumalanga provincial government on a higher level. This, in turn, will ensure that the leadership owns and proactively manages *Operation clean audit* to shape the overall outcome of the province.

The table below details the number of quarterly key control interactions held with the MECs of departments. Other interactions with the executive, accounting officers and chief financial officers or the escalation of matters to the speaker or the premier has not been included in the analysis.

**Table 28: Analysis of impact of interactions with the executive**

Auditee	Total number of interactions	Impact on interactions with the Executive				
		Audit outcome 2011-12	Audit outcome 2010-11	Misstatement	Material SCM findings	Material PDO findings
		Opinion	Opinion	Evaluation	Evaluation	Evaluation
Agriculture, Rural Development and Land Administration	3	Financially unqualified with findings	Financially unqualified with findings	Improved	Unchanged	Improved
Culture, Sport & Recreation	3	Financially unqualified with findings	Financially unqualified with findings	Unchanged	Regressed	Unchanged
Economic Development, Environment and Tourism	3	Qualified	Financially unqualified with findings	Regressed	Regressed	Regressed
Education	3	Financially unqualified with findings	Financially unqualified with findings	Unchanged	Unchanged	Improved
Finance	3	Financially unqualified with no findings	Financially unqualified with no findings	Remain no misstatement	Remain with no findings	Remain with no findings
Health	3	Qualified	Qualified	Regressed	Regressed	Unchanged
Office of the Premier	3	Financially unqualified with no findings	Financially unqualified with findings	Remain no misstatement	Improved	Remain with no findings
Provincial legislature	3	Qualified	Financially unqualified with no findings	Regressed	Remain no misstatement	Remain with no findings
Public Works, Roads and Transport	3	Financially unqualified with findings	Financially unqualified with findings	Unchanged	Regressed	Regressed
Community Safety, Security & Liaison	3	Financially unqualified with findings	Financially unqualified with no findings	Regressed	Regressed	Regressed

Impact on 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
Social Development	3	Financially unqualified with findings	Financially unqualified with findings	Unchanged	Improved	Improved
Cooperative Governance and Traditional Affairs	3	Financially unqualified with findings	Financially unqualified with findings	Improved	Improved	Improved
Human Settlements	3	Financially unqualified with findings	Financially unqualified with findings	Improved	Remain with no findings	Regressed
Mpumalanga Gambling Board	3	Financially unqualified with no findings	Financially unqualified with no findings	Remain with no findings	Remain with no findings	Remain with no findings
Mpumalanga Regional Training Trust	1	Financially unqualified with findings	Financially unqualified with findings	Unchanged	Unchanged	Unchanged
Mpumalanga Tourism and Parks Agency	3	Financially unqualified with findings	Financially unqualified with findings	Unchanged	Regressed	Unchanged
Mpumalanga Economic Growth Agency	3	Disclaimer	Adverse	Unchanged	Unchanged	Unchanged

As can be seen in the table above, the intensive interactions of the AGSA have not yielded the desired results, as there is no clear link between the number of interactions and its impact on the audit outcomes. Commitments to address the key control weaknesses are at times not submitted or not implemented on time.

The executive needs to ensure that the administration implements the commitments made. This can be achieved through regular follow-up during the monthly management meetings. Challenges in implementing the commitments can then be identified and rectified in time to achieve the desired outcomes.

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

The status of the implementation of the public accounts committee's resolutions by auditees in the province at March 2012 is reflected in the next table.

**Table 29: Status of implementation of public accounts committee resolutions**

Auditee	Number of resolutions				Target area of resolutions			
	Passed	Implemented	In progress	Not actioned	Financial management	PDOs	Compliance	Other
<b>Departments</b>								
Agriculture, Rural Development and Land Administration	7	1	6				■	
Culture, Sports and Recreation	2	2					■	
Cooperative Governance and Traditional Affairs	6	3	3			■	■	
Human Settlements	1	1			■			
Economic Development, Environment and Tourism	5	5			■		■	■

Auditee	Number of resolutions				Target area of resolutions			
	Passed	Implemented	In progress	Not actioned	Financial management	PDOs	Compliance	Other
Education	21	6	13	2	■	■	■	■
Finance	4	4					■	■
Health	18	5	10	3	■	■	■	■
Office of the Premier	4	3	1		■		■	■
Provincial Legislature	5	5			■	■		■
Public Works, Roads and Transport	10	5	5		■	■	■	
Safety, Security and Liaison	3	2	1		■	■	■	■
Social Development	2	1	1	0		■		
<b>Public entities</b>								
Mpumalanga Economic Growth Agency	6			6	■	■	■	
Mpumalanga Gambling Board	0							
Mpumalanga Regional Training Trust	4	1	3		■		■	
Mpumalanga Tourism Parks Agency	5	2	3		■		■	■
<b>Total</b>	<b>103</b>	<b>34</b>	<b>52</b>	<b>17</b>				

All of the resolutions directly or indirectly relate to financial management, PDOs and compliance with laws and regulations. The resolutions taken by the public accounts committee relate only to matters reported in the audit reports.



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

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

**Table 30: Key initiatives of the Auditor-General of South Africa to encourage clean audits**

Nature	Outline of AGSA's initiatives
<b>Interactions with the political and the administrative leadership</b>	<ul style="list-style-type: none"> <li>The AGSA leadership in the province interacts at least on a quarterly basis with the political leadership, i.e. the MECs, and the administrative leadership, i.e. the heads of department (HoDs). These interactions are used to share insights relating to risks and controls, with a view of creating an understanding of the audit outcomes and messages.</li> <li>Interactions are also extended to provincial legislative oversight and portfolio committees to share insights and enable improved oversight of provincial government.</li> </ul>
<b>Stakeholder interactions and audit outcome roadshows</b>	<ul style="list-style-type: none"> <li>During August to October 2012, the AGSA leadership of the province met with the MECs and speaker of the provincial legislature to discuss the 2011-12 PFMA audit outcomes and key controls. This afforded MECs the opportunity to assess the root causes of the qualifications and findings.</li> </ul>
<b>Quarterly interactions on status of key controls</b>	<ul style="list-style-type: none"> <li>Auditees have been sensitised to the importance of implementing and maintaining key controls around financial and performance management as well as compliance with laws and regulations.</li> <li>Key controls are assessed on a quarterly basis and their status is also shared with the MECs and HoDs as part of the quarterly interactions. During these key control visits, the AGSA teams secure commitments on improvements and these commitments are then monitored. The message was conveyed that the leadership should take ownership of the key controls and monitor them on a continuous basis. It was further relayed that the impact of the initiatives and commitments is not visible in the audit outcomes.</li> </ul>

Nature	Outline of AGSA's initiatives
<b>Promoting understanding of PDO requirements</b>	<ul style="list-style-type: none"> <li>A number of awareness sessions with auditees were held on the requirements of reporting on PDOs.</li> </ul>
<b>Involvement in forums and meetings related to provincial government financial affairs</b>	<ul style="list-style-type: none"> <li>The AGSA regularly participates in a number of forums and committees to raise pertinent issues that may affect audit outcomes and to enable the forums to execute their oversight role. These include: <ul style="list-style-type: none"> <li>Provincial coordinating committee overseeing the implementation of <i>Operation clean audit</i></li> <li>Provincial risk management forum</li> <li>Research, policy and knowledge management unit</li> </ul> </li> </ul>
<b>Collaboration with the provincial treasury</b>	<ul style="list-style-type: none"> <li>Regular meetings take place between the AGSA provincial leadership and the provincial treasury to highlight and address any emerging matters that could affect audit outcomes.</li> </ul>
<b>Quality of financial statements</b>	<ul style="list-style-type: none"> <li>During recent interactions, the AGSA identified the need for enhanced communication with the leadership on matters identified during the quarterly visits and audit process that have an impact on the quality of the financial statements. The following communication tools are used to inform the leadership in advance on matters that will have an impact on the audit opinion: <ul style="list-style-type: none"> <li>Lapses letters are used to inform the leadership of instances where reliable supporting information is not available to validate classes of transactions, account balances or disclosure notes presented in the financial statements, or where no progress has been made to implement commitments.</li> <li>Early warning letters are used to alert the leadership well in advance of possible material misstatements identified during the audit process and the impact thereof on the audit opinion.</li> </ul> </li> <li>The relevance and impact of the concerns relayed in these communication tools are further enhanced by a detailed analysis of root causes and best practices.</li> </ul>

# 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  
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# SECTION 5

## EMERGING MATTERS AND AUDITEES' FINANCIAL HEALTH INDICATORS

This section of the report provides information on emerging matters that may have an impact on future audit outcomes and analyses auditees' financial health indicators.

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

The matters highlighted in table 31 are expected to have an impact on provincial government audit requirements and outcomes in the 2012-13 financial year. Appropriate measures should therefore be implemented timeously to ensure that these do not have a negative impact on audit outcomes.

**Table 31: Current and emerging matters that require attention**

Area of change	Summary of expected changes
<b>Matters affecting government auditees in all provinces</b>	
<p><b>Accounting matters</b></p> <p>Readiness of departments for the eventual inclusion of inventory in the financial statement disclosures</p>	<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 audit report in this regard.</p> <p>However, a review conducted of departments' inventory management processes indicated that the following need to be addressed:</p> <ul style="list-style-type: none"> <li>• Performing annual stock counts.</li> <li>• Recording stock issues and receipts.</li> <li>• Regularly reconciling inventory records to the general ledger.</li> <li>• Stock count procedures.</li> <li>• Availability of stock cards for audit purposes.</li> <li>• Reviewing inventory count sheets.</li> </ul>
<p><b>PDOs</b></p> <p>Implementation of the Framework for strategic plans and annual performance plans</p>	<p>In terms of the <i>Framework for strategic plans and annual performance plans</i> and the National Treasury's Instruction Note No. 33, all strategic and annual performance plans (tabled during February 2012) of all departments, constitutional institutions and public entities listed in schedules 3A and 3C to the PFMA must be compiled in accordance with the principles of the framework.</p> <p>Audits of PDOs (for the 2012-13 PFMA audit cycle and going forward) will 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 and the <i>Framework for managing programme performance information</i> (as per the AG Directive) for the said auditees.</p>

Area of change		Summary of expected changes
<b>Matters specific to Mpumalanga</b>		
<b>Accounting matters</b>	<b>Additional Standards of GRAP issued by the Accounting Standards Board</b>	<p>The Accounting Standards Board has issued the following additional Standards of GRAP, for which the minister of finance has prescribed an effective date of 1 April 2012 in the <i>Government Gazette</i>:</p> <ul style="list-style-type: none"> <li>• GRAP 21 <i>Impairment of Non-Cash Generating Assets</i></li> <li>• GRAP 23 <i>Revenue from Non-Exchange Transactions</i></li> <li>• GRAP 24 <i>Presentation of Budget Information</i></li> <li>• GRAP 26 <i>Impairment of Cash-Generating Assets</i></li> <li>• GRAP 103 <i>Heritage Assets</i></li> <li>• GRAP 104 <i>Financial Instruments</i></li> </ul> <p>These additional standards will have an impact on the Mpumalanga Gambling Board, the Mpumalanga Tourism and Parks Agency and the Mpumalanga Regional Training Trust when reporting for the 2012-13 financial year.</p>
	<b>Withdrawal of the SA Statements of GAAP by the Financial Reporting Standards Council and the Accounting Practices Board</b>	<p>The Financial Reporting Standards Council and the Accounting Practices Board issued a joint statement in March 2012, indicating that the SA Statements of GAAP will no longer apply in respect of financial years commencing on or after 1 December 2012.</p> <p>In respect of the subsequent financial years, the Accounting Standards Board has initiated a research project to determine the most appropriate framework to be used by these auditees in preparing financial statements.</p> <p>This will have an impact on the Mpumalanga Economic Growth Agency when reporting for the 2013-14 financial year.</p>

Area of change		Summary of expected changes
	<b>Provisional accounting framework for the provincial legislature</b>	<p>With the Financial Management Act for the Mpumalanga Provincial Legislature being declared unconstitutional, the legislature continued to apply the departmental financial reporting framework prescribed by the National Treasury in preparing its 31 March 2012 financial statements.</p> <p>It is anticipated that this will apply for the 31 March 2013 financial statements, subject to the legislative provisions made by Parliament to substitute the unconstitutional and invalid provincial financial management legislation.</p>
<b>Compliance with laws and regulations</b>	<b>Revised Preferential Procurement Regulations</b>	<p>The revised Preferential Procurement Regulations came into effect on 7 December 2011. The most significant changes are the following:</p> <ul style="list-style-type: none"> <li>• The regulations will be applicable to schedule 2, 3B and 3D public entities from 7 December 2012.</li> <li>• The introduction of broad-based black economic empowerment certificates and requirements for evaluation and functionality.</li> </ul> <p>This had an impact on all departments in the 2011-12 financial year, and will further have an impact on the Mpumalanga Economic Growth Agency for the 2012-13 financial year. Management should ensure that the agency's policies and procedures comply with these regulations to avoid further compliance findings.</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. The AGSA's 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 to enable timely remedial action where financial health and service delivery may be at risk.

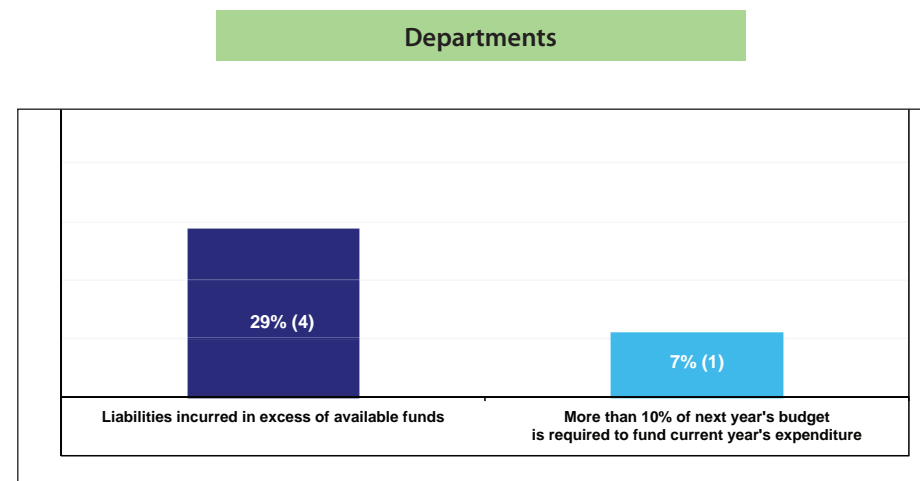
Certain aspects relating to the management of budgets, expenditure, conditional grants (applicable to departments only), revenue, assets and liabilities were analysed.

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 overall.

### 5.2.1 Budget management and conditional grants

The spending of nine (69%) departments was within the approved budget. However, the financial statements of departments are prepared on the modified cash basis of accounting, which means that the expenditure disclosed in the financial statements, and used to assess actual expenditure versus the 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 of this in the province.

**Figure 31: Budget management (departments only)**



At four (29%) departments, the liabilities incurred were in excess of the available funds at year-end. This can be attributed to the following factors:

- Poor current and capital expenditure planning and budgeting.
- Poor cash flow management.
- Weak expenditure and project management.
- Approved budget spent for unintended purposes, evidenced by the unauthorised expenditure incurred and reported.

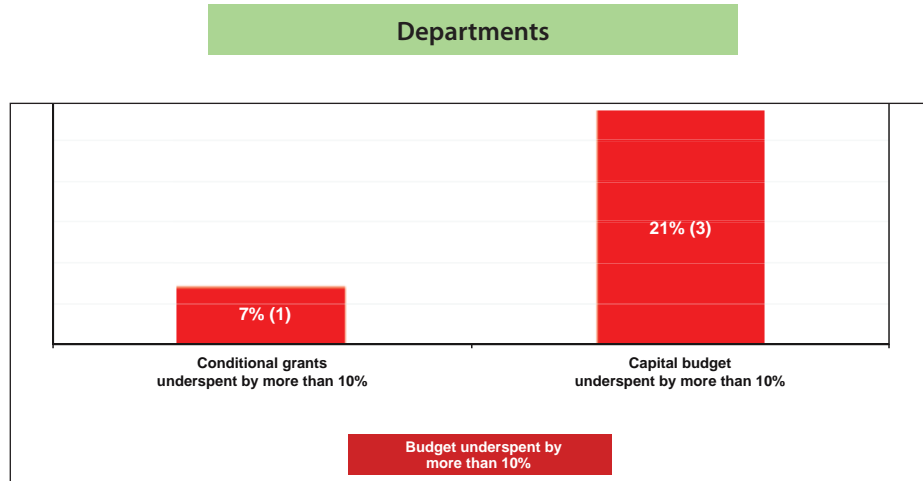
Furthermore, two of these departments will use more than 10% of next year's budget to fund current year expenditure. This poses possible risks to their deliverables, considering the following as examples:

- Financial problems have a direct impact on service delivery.
- Contractors and suppliers are not paid timeously, resulting in goods and services not being delivered.
- Capital projects are not executed efficiently.

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 fund only as required. The figure below shows the number of departments that underspent on capital budgets and conditional grants, which led to these being surrendered back to the revenue fund.

**Figure 32: Underspending by departments**



One (7%) and four (29%) departments reported underspending of more than 10% on their conditional grants and capital budgets, respectively. This can be attributed to the following factors:

- Delays in the appointment of service providers, resulting in appointments towards the end of the financial year.
- Delays in the supply chain processes.
- Inadequate monitoring as per the requirements of the Division of Revenue Act and the PFMA.
- Inadequate cash flow management.

One (25%) public entity also underspent on its capital budget.

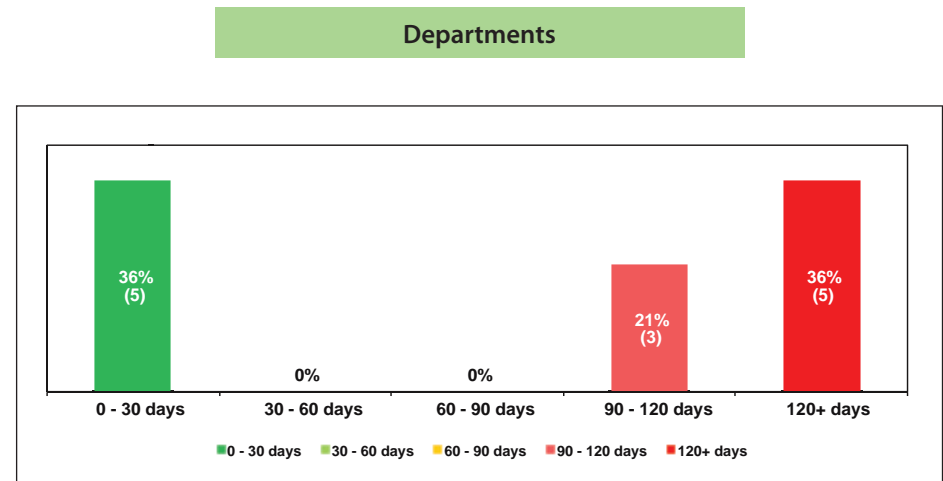
## The way forward

To address these issues, auditees will have to ensure that all activities involving supply chain processes are conducted early in the year. Furthermore, auditees need to manage their spending to improve their cash flow shortfalls and strengthen the monitoring of activities at regional levels.

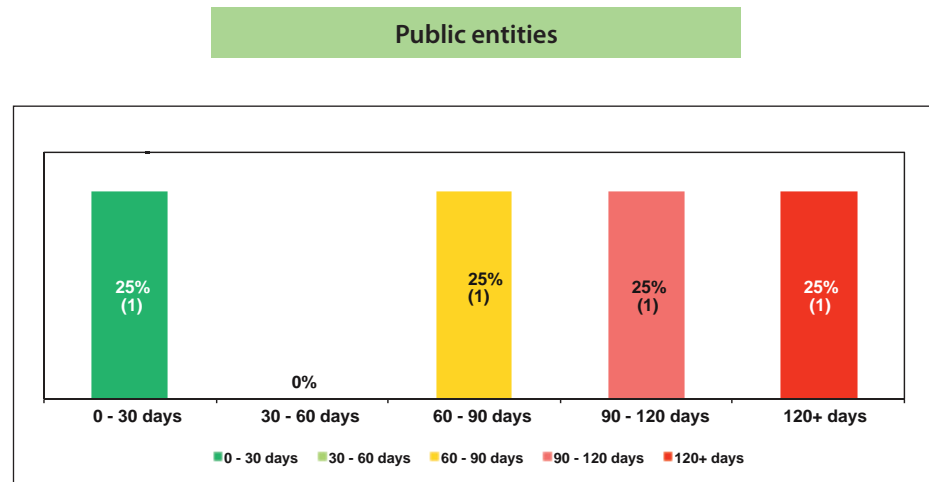
### 5.2.2 Revenue and expenditure management

The figure below shows the average debtors' and creditors' days. Debtors' days refer to the number of days it takes auditees to recover the money owed to them by persons or institutions. Creditors' days are the number of days on average it takes auditees to pay those they owe money to.

**Figure 33: Debtors' days (departments only)**



**Figure 34: Debtors' days (public entities only)**



Eleven (65%) auditees were unable to successfully collect all their debts in a timely manner, considering the generally accepted debtor collection period of 30 to 60 days. This can be attributed to the following factors:

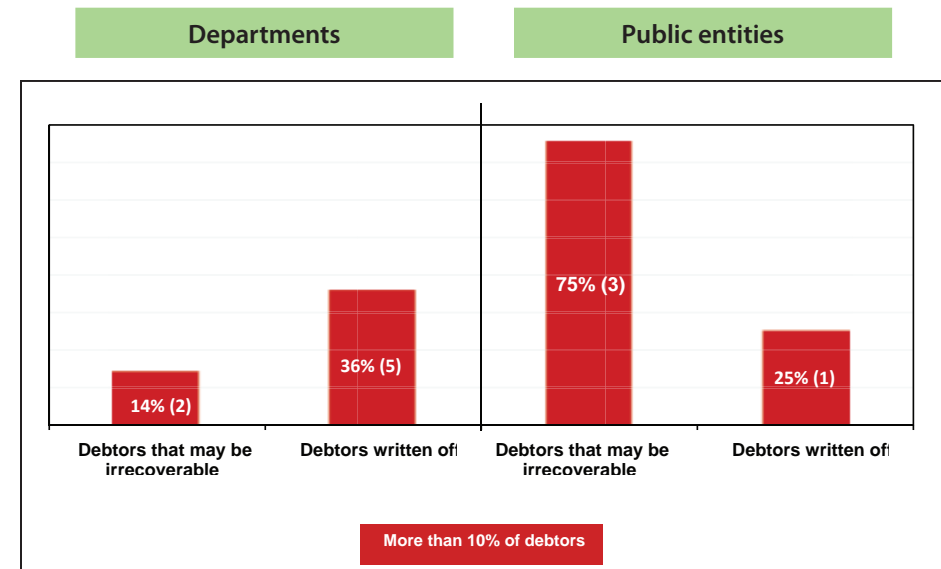
- Inadequate maintenance of proper accounting records for all debtors.
- Failure to refer matters to the state attorney to process legal demand and recovery.
- Inadequate policies and procedures for the management of debtors.

**The way forward**

To address these issues, auditees should develop and implement adequate policies and procedures to effectively, appropriately and timeously collect all money due to them. Accounting officers and authorities should also consider writing off these debts, after they have exhausted all reasonable steps to collect the money owed.

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

**Figure 35: Status of state debtors**



Three (75%) auditees had a significant number of debtors considered to be irrecoverable. However, accounting officers or authorities failed to write off these debts even though they were considered to be irrecoverable, considering the following:

- The period for which the debt had been outstanding.
- The recovery of the debt would be uneconomical.

**The way forward**

Accounting officers and authorities should also consider writing off these debts, after they have exhausted all reasonable steps to collect the money owed. Accounting officers and authorities must also ensure that debt is written off in accordance with the write-off policy.

**5.2.3 Asset and liability management**

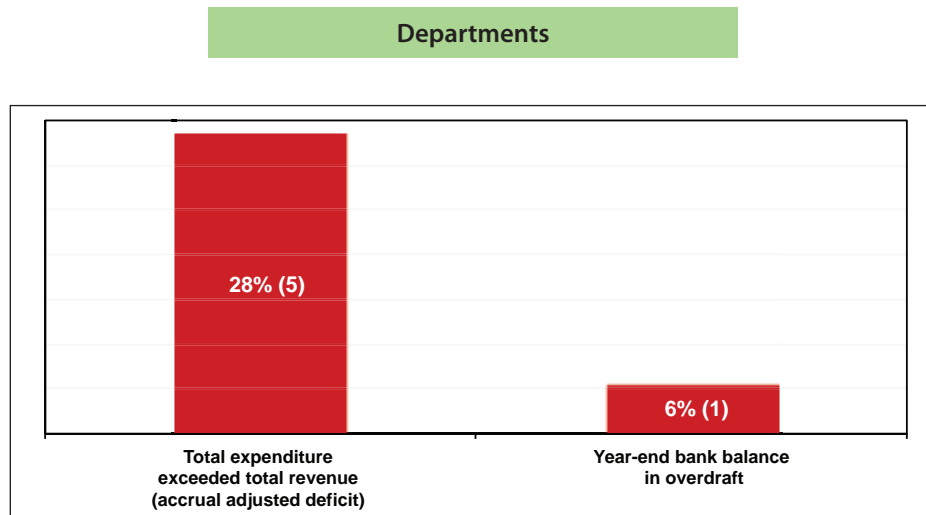
The analysis in this section is indicative of a possible going concern problem at an entity, meaning that the entity might not have sufficient funds to continue in business. However, it is uncommon for the operational existence of a public



sector auditee to cease as a result of an inability to finance its operations, as these auditees normally deliver services 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 auditees 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 in the financial statements were reconstructed taking into consideration the accrual-related disclosure notes.

**Figure 36: Deficits and overdrafts**



At five (28%) auditees, the total reconstructed expenditure exceeded the total revenue for the year. This can be attributed to the following factors:

Poor planning and budgeting for current and capital expenditure.

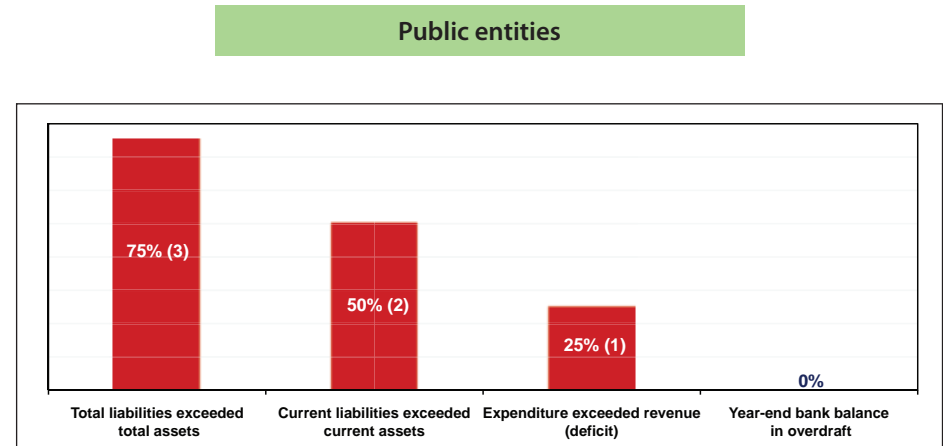
Weak expenditure and project management.

Approved budget spent for unintended purposes, evidenced by the unauthorised expenditure incurred and reported.

This will result in these auditees using the following year’s budget to fund the current year’s expenditure. This could have a negative impact on their service delivery in 2012-13.

Figure 37 shows the number of public entities that had negative indicators relating to the funding of their continued operations.

**Figure 37: Funding of continued operations of public entities**



Only one (25%) public entity’s total expenditure exceeded the total revenue for the year. This was mainly due to inadequate expenditure planning, budgeting and management.

**Conclusion**

Based on the high-level analysis, the budget planning and management processes are not effective at a number of auditees. With budgets being a government’s most important economic tool, and considering the indicators of possible risks to the financial health, the leadership will struggle to translate all its policies, commitments and goals into deliverables. This will consequently have an impact on service delivery within the province overall.

It is important that the leadership develops and implements sound budget planning and management processes for the province. The effective functioning of the budget processes will contribute significantly to developing and sustaining fiscal health in the province.

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 <i>objectives</i> 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 causes

Number	Auditee	Abbreviation	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	Liabilities	Other disclosure	Other	Reported information not useful	Reported information not reliable	Information not submitted in time for auditing	No annual performance report	Material misstatements/limitations in submitted financial statements	Unauthorised, irregular as well as fruitless and wasteful expenditure	Asset and liability management	Procurement	HR management	Other				
<b>Departments</b>																						
1	Agriculture, Rural Development and Land Administration	DARDLA										R	R			R			R	N	R	
2	Community Safety, Security and Liaison	DSSL															N			N	N	
3	Cooperative Governance and Traditional Affairs	COGTA											A			A	A		R			
4	Culture, Sport and Recreation	DCSR										R	R			R	R	N	N	R	R	
5	Economic Development, Environment and Tourism	DEDET							N				N			N	N		R	R		
6	Education	DOE											A			R	R		R	R	R	
7	Finance	DOF																				
8	Health	DOH							R		R		R			R	N	N	R	N	R	
9	Human Settlements	DHS											N			A					N	
10	Office of the Premier	OTP														A		A	A			
11	Provincial Legislature	MPL								N												
12	Provincial Revenue Fund	PRF																				
13	Public Works, Roads and Transport	DPWRT											N	A			N	R		R	R	R
14	Social Development	DSD												R						R		

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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	A contributing root cause	A major root cause
	Financially unqualified with findings	Audit outstanding	New/Closed	Finding		Causing concern	Intervention required			New	N	Repeat	Increase	↑						

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

Unauthorised, irregular as well as fruitless and wasteful expenditure incurred						Procurement and contract management (management and audit report)						Drivers of internal control										Human resource management				Information technology management				Root causes						
Unauthorised expenditure		Irregular expenditure		Fruitless and wasteful expenditure		Limitation on planned scope of audit of awards	Awards to employees	Awards to close family members of employees	Uncompetitive or unfair procurement processes	Inadequate contract management	Internal control deficiencies	Leadership				Financial and performance management				Governance		Management of vacancies	Performance management	Acting positions	Other	IT governance	Security management	User access management	IT service management	HR capacity and productivity	Attention to key controls	Effectiveness of assurance providers				
Movement	Amount R	Movement	Amount R	Movement	Amount R							Effective leadership culture	Oversight responsibility	HR management	Policies and procedures	Action plans	IT governance	Proper record keeping	Processing and reconciling controls	Reporting	Compliance												IT system controls	Risk management	Internal audit	Audit committee
				↑	R0,651 m				N			A	N	N	N	N	R	N	N	N	R	N	N	A					R	R	R	R				
		↑	R9,902 m			N	N		N			A	A	N	A	A	A	A	A	A	N	N	A	A					R	R	R	R				
		↓	R0 m	↑	R0,087 m				R			A	N	N	N	N	R	N	N	N	N	N	N	A				A	A	R	R					
↑	R1,283 m	↔	R5,012 m	↑	R4,536 m				N			A	R	N	N	N	R	R	R	R	N	N	N	A	A			R	R	A	R					
↓	R0 m	↑	R25,835 m	↑	R2,833 m				R			A	N	N	N	N	R	A	A	A	N	R	N	A	A			R	A	R	R					
		↓	R71,988 m	↑	R1,258 m	N	R	N	R			A	A	N	R	A	N	R	N	N	N	N	R	N	A	A			R	R	R	R				
		↑	R0,651 m									A	A	A	A	A	N	A	A	A	A	N	A	A	A			A	R	R	N					
	R0 m	↑	R285,061 m	↓	R1,096 m	N	R	N	N			A	N	N	N	N	R	R	R	R	R	R	N	N	N			R	R	R	R					
									N			A	N	N	N	N	R	N	A	N	A	R	A	A	A			R	R	R	R					
												A	A	A	A	A	N	A	A	A	A	N	A	A	A											
		↓	R61,052 m	↓	R0,043 m	A	R	R	A			R	A	A	A	N	N	N	N	A	N	R	R	N	A	A			R	R	R	R				
										A		A	A	A	A	A	N	A	A	A	A	R	N	N	A			R	R	R	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	A contributing root cause	A major root cause
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<b>Public entities</b>																			
15	Mpumalanga Economic Growth Agency	MEGA					R	R	R	R	A	R			R	R	N	A	R
16	Mpumalanga Gambling Board	MGB																	
17	Mpumalanga Regional Training Trust	MRTT									A	N		R	A	N	N		R
18	Mpumalanga Tourism and Parks Agency	MTPA												N	R		N		A

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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	A major root cause
	Financially unqualified with findings	Audit outstanding	New/Closed	Finding		Causing concern	Intervention required			New	N	Repeat	Increase	↑							





