Limpopo

General report

on the audit outcomes of provincial government

PFMA 2012-13
Our reputation promise/mission

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

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

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

Terence Nombembe
Auditor-General

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

General report on the provincial audit outcomes of Limpopo 2012-13
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General report on the provincial audit outcomes of Limpopo 2012-13

Assurance provided by key role players

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<tr>
<th>MANAGEMENT/LEADERSHIP (Senior management, accounting officer/authority and executive authority)</th>
<th>INTERNAL INDEPENDENT ASSURANCE AND OVERSIGHT (Internal audit, audit committee, treasury and premier’s office)</th>
<th>EXTERNAL INDEPENDENT ASSURANCE AND OVERSIGHT (Portfolio committees and public accounts committee)</th>
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<tr>
<td>Provides assurance</td>
<td>Provides some assurance</td>
<td>Provides limited/no assurance</td>
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<td>68%</td>
<td>3%</td>
<td>6%</td>
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The key role players need to...

...to ensure improved results.

...take some vital actions...

Drivers of internal control should be improved

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<tr>
<th>LEADERSHIP</th>
<th>FINANCIAL AND PERFORMANCE MANAGEMENT</th>
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Drivers of internal control should be improved

1. Leadership
2. Financial and performance management
3. Governance

Regression in audit outcomes

<table>
<thead>
<tr>
<th>2012-13</th>
<th>2011-12</th>
<th>2010-11</th>
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<tr>
<td>58%</td>
<td>57%</td>
<td>48%</td>
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Six risk areas should receive attention

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

Root causes should be addressed

Key officials lack appropriate competencies
A root cause at 70% of the auditees

Slow response by political leadership
A root cause at 67% of the auditees

Lack of consequences for poor performance and transgressions
A root cause at 67% of the auditees
I have the pleasure to present to the Limpopo Provincial Legislature my 2012-13 general report, analysing the results of the audit outcomes of the provincial government of Limpopo for the financial year ended 31 March 2013.

The results reflect an overall regression for the second consecutive year. However, it is worth mentioning that the Department of Roads and Transport has successfully dealt with its previous year qualification. Unfortunately, the departments of Health, Education and Public Works again received disclaimed audit opinions.

In December 2011, the national executive placed five provincial departments under administration. The administration continued through the year under review with the affected national departments allocating teams to assist the province.

My 2011-12 report identified various areas that required intervention, which contributed to that year’s regression. Unfortunately, all those issues (root causes) prevailed in the year under review and contributed to further regression. These areas include the ongoing shortage of skills at finance units, specifically at the three largest departments which together take up 76% of the total provincial budget (Education, Health and Public Works). The reprioritised deadline of 31 March 2013 for completion of the exercise to address the shortage of skills has once again not been met. Due to the stability at the level of chief financial officer, some of the smaller departments managed to improve the quality of the financial statements submitted for auditing as no adjustments were required. The leadership endorsed its commitment to develop the province’s resources and find ways to retain skilled officials by developing and implementing retention mechanisms.

I observed a lack of consequences for poor performance and transgression of legislation at 67% of auditees, which is evidenced by an increase in the amount of unauthorised expenditure and a significant amount of irregular expenditure.

I noted that the political leadership was slow in dealing with issues and honouring commitments made. I also saw a continuation of the uncoordinated working relationship between the national intervention team and the provincial leadership, together with senior management. This had a weakening effect on the attempts to improve the situation, especially at the departments of Education, Health and Public Works. These departments also failed to address their finding on reporting on their performance against predetermined objectives.

These root causes are evident in the regression of the internal control environment in the province as there was a regression in the key controls on effective leadership, financial and performance management, as well as governance. The level of assurance provided by senior management and accounting officers that leadership oversight is implemented, that the daily and monthly disciplines are in place and that adequate
governance structures are in place, was very low. Very little progress was made to address the findings on information technology, which continues to be an area of risk in the province.

While the provincial legislature’s Standing Committee on Public Accounts was able to be up to date with its programme during the year, the oversight role played by the various portfolio committees of the legislature had limited impact on the outcomes. A strong working relationship between these committees is required so as to strengthen the oversight role of the legislature.

Subsequent to changes in the leadership in the province, I observed an increased commitment to deal with the problem areas. My office participated at various workshops and meetings with the leadership and senior management during which action plans were crafted on the way forward to ensure that the downward trend in audit outcomes is not only arrested but also reversed.

Going forward the political leadership needs to take ownership of these action plans and drive their implementation. My office remains committed to a collaborative working relationship with the executive leadership, the administrative leadership, the legislature and the national intervention team where we will share insights and recommendations to facilitate an improvement in audit outcomes.

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

Auditor-General
Auditor-General
Pretoria
November 2013
SECTION 1: EXECUTIVE SUMMARY
1. Executive summary

Our audit and reporting process

We audit every department and all 18 provincial public entities in Limpopo, also called auditees in this report, so that we can report on the quality of their financial statements and annual performance reports and on their compliance with legislation. We also assess the root cause of any error or non-compliance, based on the internal control that failed to prevent or detect it. We include these aspects in the following three types of reports:

- We report our findings, the root causes and recommendations in management reports to the senior management and accounting officers or authorities of auditees, which are also shared with the members of the executive council and audit committees.

- Our opinion on the financial statements, material findings on the performance report and non-compliance with legislation as well as significant deficiencies in internal controls are included in an audit report, which is published with the auditee’s annual report and dealt with by the public accounts committee and portfolio committees, as applicable.

- Annually we report on the audit outcomes of all auditees in a provincial general report (such as this one), in which we also analyse the root causes that need to be addressed to improve audit outcomes in the province. Before the general reports are published, we share the outcomes and root causes with the provincial leadership, the legislature and key role players in national and provincial government.

Over the past few years, we have intensified our efforts to assist provincial government to improve its audit outcomes by identifying the key controls that should be in place at auditees, assessing these on a quarterly basis and sharing the assessment with the members of the executive council, accounting officers or authorities and audit committees.

We further identified the following six key risk areas that need to be addressed to improve audit outcomes and financial and performance management, and we specifically audited these so that we could report on the status thereof:

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

In the audit process we work closely with the accounting officers, senior management, the audit committees and internal audit units as they are key role players in providing assurance on the credibility of the financial statements, performance report as well as the auditees’ compliance with legislation. We also continue to strengthen our relationships with the premier, members of the executive council, treasury and legislature as we are convinced that their involvement and oversight have played and will continue to play a crucial role in the performance of departments and public entities in the province. We share our messages on key controls, risk areas and root causes with them and obtain and monitor their commitments to implement initiatives that can improve audit outcomes.

The rest of this section summaries the audit outcomes for 2012-13 and our key recommendations for improvements.

Audit outcomes regressed

There has been an overall regression in the provincial audit outcomes. Due to quality issues on the audit, we had not finalised the audit of the Limpopo Roads Agency by 31 August 2013, which is the cut-off date for inclusion of audit outcomes in this general report. The financial statements of the Tribal and Trust Account have been in arrears for the past 14 years. An agreement was reached between traditional leaders and the provincial legislature to adopt opening balances of this account. However, the traditional leaders have since reconsidered this decision and negotiations have to start anew. Since this matter requires a political solution, there is no indication on when the provincial treasury will be in a process to start compiling financial statements for this account. The significant aspects of the 2012-13 audit outcomes of 31 auditees are listed below:
• Overall audit outcomes – movement since previous year and general trend over the past five years

The trend over the past five years has shown steady regression in the province. Overall, two auditees improved since the previous year. These auditees progressed from qualified audit opinions to unqualified with findings audit opinions.

Three auditees regressed from financially unqualified audit opinions in the previous year to qualified audit opinions in the year under review.

The majority of the auditees (22) received the same audit opinion as in the previous financial year. Thirteen auditees remained with financially unqualified audit opinions but had not addressed their findings on predetermined objectives and/or compliance with laws and regulations in order to obtain clean audits. Five auditees remained with qualified audit opinions and four auditees remained with a disclaimer.

The outcomes of two entities have not been included in this report, namely the Limpopo Roads Agency whose audit report was only issued after the cut-off for date of 31 August 2013 for inclusion in this report, and the Tribal and Trust Account whose financial statements are 14 years in arrears.

There were four new entities in the 2012-13 financial year.

No clean audit opinions were issued for the 2012-13 financial year.

This has been the second consecutive year where the departments of Education and Public Works have received a disclaimer of opinion and the third consecutive year where the Department of Health has received a disclaimer of opinion.

• Annual performance report – status and movement over three years

The quality of the annual performance reports submitted over the period of three years has been regressing. There were material findings on the performance reports of 71% (22) of auditees during the year compared to 63% (17) in 2011-2012 and 64% (16) in 2010-2011.

• Findings on the quality of the annual performance report (report on service delivery objectives)

Four departments had findings on the usefulness of information compared to two in the previous year and six departments had findings relating to reliability compared to four in the previous year. Eleven (58%) of the entities had findings on usefulness as against 12 in the previous year and 10 (53%) of the entities had findings on reliability compared to nine in the previous year. Overall, in the province we have not seen adequate attention being given to the reporting on performance information and, consequently, there has not been noticeable progress in enhancing the transparency of reporting against service delivery objectives.

• Other performance-related outcomes

Nine departments did not achieve 20% or more of their planned targets compared to five in the previous year. The downward trend from the previous year is of great concern as the achievement of planned targets is directly linked to services delivered by departments.

Sixteen entities had non-compliance findings on reported performance information. The majority of findings relate to the shareholder’s compact which excluded mandatory key performance measures and indicators that the entity should meet. As a consequence, we could not measure performance on predetermined objectives and no corrective actions were taken in cases of non-performance. The four new entities which were audited by the Auditor-General of South Africa for the first time in the year under review also failed to submit their annual performance reports.

• Compliance with legislation – status and movement over three years

All 31 auditees had findings on non-compliance with laws and regulations. This situation remains unchanged since the previous year when all 28 auditees had findings. The primary reasons for the consistent non-compliance with laws and regulations can be attributed to inadequate review and monitoring of compliance with laws and regulations and lack of consequences for poor performance and transgressions.

• Findings on compliance with legislation

The following were the most common findings at departments for the year under review:

○ Audit committees were not in place for the entire period under review and were not fully compliant with legislation.
○ Non-compliance with the supply chain management legislation during the procurement processes.

At the public entities the following was the most common finding:

○ Internal audit units were not fully compliant with legislative requirements.

Furthermore, we noted various instances of non-compliance with strategic planning and performance management, material misstatements or limitations in the financial statements submitted for auditing.

• Unauthorised expenditure – status and movement over three years

Unauthorised expenditure incurred in 2010-2011 was R774 million which decreased to R175 million in 2011-2012. However, in the current year unauthorised expenditure increased by 84% to R324 million. The
unauthorised expenditure of R324 million for the current year was mainly incurred by the departments of Education and Health. At both departments the unauthorised expenditure was in respect of overspending of the votes. Inadequate budgetary controls resulted in unauthorised expenditure at these departments.

- **Irregular expenditure – status and movement over three years**
  The total irregular expenditure incurred in the province for both the departments and entities amounted to R2 billion, which is a slight decrease from the previous year’s total of R2.2 billion. The departments of Education, Health and Social Development incurred the bulk of the irregular expenditure and were responsible for 93% of the total. The majority of the irregular expenditure incurred at these three departments pertained to non-compliance with supply chain management legislation.

- **Fruitless and wasteful expenditure – status and movement over three years**
  Overall, fruitless and wasteful expenditure increased by 192% since the previous year. The current year amount is also significantly higher than the 2010-11 figures. Of the total fruitless and wasteful expenditure of R356 million, R353 million was incurred by the departments and R3 million was incurred by the public entities.

The six risk areas should continue to receive attention

Our audit of the six risk areas shows that our recommendations to address these risks to financial and performance management have not yet been implemented. Significant aspects of five of the risk areas are listed below, while reflections on the quality of performance information have been included as part of the audit outcomes above.

Quality of submitted financial statements

The quality of the financial statements submitted for audit purposes has improved, with 48% of the auditees submitting financial statements with no material misstatements. Four auditees (13 %) received a financially unqualified audit opinion only because they corrected all the misstatements we had identified during the audit. The auditees that could not correct the misstatements received qualified and disclaimer audit opinions. The most common qualification areas were property, infrastructure, plant and equipment, fruitless and wasteful expenditure and irregular expenditure.

Supply chain management

We reported findings arising from the audit of supply chain management in the management reports of 17 (71%) of the auditees, while at 14 (58%) of these auditees the findings were material enough to be reported in the audit report. These figures are an improvement from the previous year when findings were reported in the management reports of 18 (79%) of the auditees and reported in the audit reports of 16 (70%) of the auditees.

The number of auditees with awards to employees has decreased and the number of auditees with awards to close family members of employees has increased.

We noted the following most significant findings:

- Three price quotations not obtained/deviations not approved or justified.
- Competitive bids not invited and/or deviations not justified.
- Bids advertised for shorter period and/or deviation not justified.

Human resource management

The average overall vacancy rate in the province was 22% at year-end, while that of senior management was 55% and that of the finance units 23%. Of particular concern is that despite the stability at the level of head of supply chain management, findings on procurement management still show a regression, which is an indication of the lack of the requisite skills and competencies of the incumbents appointed in this position.

The most common findings on the management of vacancies and acting positions were senior management positions that were vacant for longer than 12 months as well as employees acting in positions for more than 12 months. We found that in some cases senior managers did not have signed performance agreements, or managers were paid service bonuses without signed performance agreements in place. Competencies of key officials and consequences for poor performance are part of the root causes we identified, which prevents the provincial administration from improving its overall audit outcomes.

Information technology

All departments and entities are required to adopt and implement the information technology governance framework and guidelines within the next three financial years. In the 2013-14 financial year, the implementation of phase 1 should be prioritised. As the legislatures have opted to develop their own information technology governance framework, management should prioritise the implementation of the adopted governance framework.
While 25% of the auditees had information technology security controls that were embedded and functioning effectively, 62% of the auditees continued to experience challenges with design and 13% continued to experience challenges with the implementation of security management policies.

The transversal user access policy designed by the provincial treasury in 2011 was adopted by 6% of the auditees and their IT controls were embedded and functioning effectively. However, 50% of the auditees continued to experience challenges with adapting the policy to meet their requirements, while 44% of the auditees still experienced challenges with the implementation of appropriate user access policies and procedures.

While 13% of the auditees had information technology service continuity controls that were embedded and functioning effectively, 74% of the auditees continued to experience challenges with design and 13% continued to experience challenges with the implementation of appropriate disaster recovery plans, business continuity plans and backup processes to facilitate the recovery of the auditees’ data.

Financial health

Our audits included a high-level analysis of auditees’ financial indicators to provide management with an overview of selected aspects of their current financial management and to enable timely remedial action where the auditees’ operations and service delivery may be at risk. It excludes four auditees, namely the departments of Health, Education and Public Works, and Limpopo Tourism Agency that received disclaimed audit opinions, as their financial statements were not reliable enough to be analysed.

The overall status of financial health has slightly improved as compared to the previous year. During the current year, one department and six public entities had findings on more than two indicators, whereas during 2011-2012 four departments and four public entities had findings on more than two indicators. The departments have shown an improvement as compared to the previous year.

The following were the most significant indicators:

- Underspending by departments of capital budgets and conditional grants received.
- Expenditure for public entities exceeded the revenue.
- More than 10% of debts were irrecoverable at all auditees.

The significant deficiencies in internal controls and the root causes should be addressed to improve audit outcomes

As part of our audits, we assessed internal controls to determine the effectiveness of their design and implementation in ensuring reliable financial and performance reporting and compliance with legislation. Based on this assessment, we highlight the following:

- There was an increase in the number of auditees with internal control deficiencies in leadership and governance while the number of auditees with deficiencies in financial and performance management remained stagnant.
- There was some improvement in the quality of the financial statements submitted for auditing at both the departments and entities, however, the quality of performance reports submitted regressed since the previous year.
- Compliance with laws and regulations was a control weakness that required urgent intervention by the leadership.
- Due to the uncertain political climate in the province there was effectively limited or no oversight carried out by the leadership during the year, which resulted in poor audit outcomes.

None of the auditees received a clean audit outcome as their financial and performance reports were of a poor quality and they had high levels of non-compliance with legislation. The following were the most common root causes of the audit outcomes that should be addressed:

- Key officials lacking appropriate competencies.
- Lack of consequence for poor performance and transgressions.
- Slow response by political leadership.

All role players should increase the level of assurance they provide

The management and leadership of the auditee and those that perform an oversight or governance function should work towards improving the key controls, addressing the root causes and ensuring that there is an improvement in the six key risk areas, thereby providing assurance on the quality of the financial statements and performance reports as well as compliance with legislation.
Based on our assessment, these role players failed to provide the necessary assurance.

**First level of assurance**

Although none of the role players at the first level of assurance fully provided the required level of assurance, the senior management assurance needs the most improvement. The level of assurance provided by the accounting officers (heads) of departments and the accounting authorities of public entities is marginally better than that of senior management, but their impact on creating an effective control environment was not evident at many auditees.

**Second level of assurance**

Overall, the work performed by the internal audit units covered all the required aspects. However, we noted an exception where the internal audit unit did not pay much attention to the evaluation of information systems at 31% of departments. The internal audit units had a positive impact on audit outcomes at only 46% of departments. The operations of the internal audit units were not fully compliant with the requirements of the applicable regulations at 59% of public entities.

There were delays in the appointment of new audit committee members by the provincial treasury, which resulted in the central audit committee being operational for only nine months of the financial year.

Although the provincial treasury provided some level of assurance, capacity constraints prevented it from providing the required level of assurance to the province. The Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996) mandates the Office of the Premier to perform oversight functions. In the year under review, the Office of the Premier did not provide the required assurance.

**Third level of assurance**

The Standing Committee on Public Accounts followed up on the implementation of their recommendations on the 2011-12 audit reports and also met with some public entities during the current year.

The portfolio committees did not meet regularly during the year and when they did, the Auditor-General of South Africa was seldom involved at these meetings.

**National intervention in terms of section 100(1)(b) of the Constitution**

On 5 December 2011, the national executive announced its intervention in the Limpopo provincial government in terms of section 100(1)(b) of the Constitution by placing five departments under national administration. Through this intervention, the National Treasury had effectively taken oversight from provincial treasury. Since the national government is preparing to hand over the administration of the five departments to the province’s new premier and executive over a period of six months, it is critical that there are sufficiently skilled personnel at the point of exit.

**The initiatives and commitments of all role players should have a positive impact on future audit outcomes**

We have shared our key message on the actions needed to improve audit outcomes with every accounting officer or authority and member of the executive council through our reports and interactions with them.

The engagements were well received, but these interactions did not have a significant impact on the audit outcomes yet. Commitments made by the previous provincial leadership to address poor audit outcomes were also hampered due to the uncertainty over the imminent changes in the political leadership.

During our roadshow on audit outcomes in September, we also shared these with the legislature, premier and members of the executive council. We confirmed the progress of the commitments made by all these role players in response to the previous year’s audit outcomes.

In the previous year, the executive authority and oversight structures had committed to quarterly monitor and evaluate the status of key controls and commitments in order to achieve sustainable clean audit outcomes. This commitment was not honoured as evidenced by the overall regression in audit outcomes for the province.

During our meetings with the new leadership, the desire to improve on financial management practices and, subsequently, audit opinions for 2013-14 was evident.

Based on the commitment displayed by the new leadership, we expect improvements in future audit outcomes.

Section 6 of this report provides the audit outcomes of the departments and public entities in the portfolios of the individual members of the executive council. It also includes details of the frequency and impact of our meetings with these members and the status of their prior year and new commitments. We shared these portfolio outcomes with them and include the commitments in this general report to enable and encourage the ongoing oversight and monitoring of their portfolios.
SECTION 2: OVERVIEW OF AUDIT OUTCOMES
General report on the provincial audit outcomes of Limpopo 2012-13

Figure 1: Audit outcomes over past five years (all auditees)

Figure 2: Audit outcomes for past two years (all auditees)

Figure 3: Audit outcomes for past two years (departments)

Figure 4: Audit outcomes for past two years (public entities)

Figure 5: Education, Health and Public Works vs other departments


2.1 Overall audit outcomes

The provincial government consists of 13 departments and 20 public entities. The public entities include 19 provincial public entities and one other entity. The number of public entities has decreased from 23 to 20 since the previous year, due to four entities being dormant (Centennial Trading Company 145, Limpopo Housing Board, Mukumbani Tea Estate and Mutale Agricultural Estate). Furthermore, another four entities (Limpopo Agribusiness Development Company, Limpopo Business Support Agency, Mashashane Hatchery and Trade Investment Limpopo) were amalgamated into the Limpopo Economic Development Enterprise. During the year four new entities were added to the business unit’s portfolio, namely Capital Hill Investment Company, Kulunigisa (Pty) Ltd, Mapulaneng Investments and VDC Investments).

Please note the following when reading the rest of the report:

• Clean audits are achieved when the financial statements are unqualified and there are no reported audit findings in respect of either predetermined objectives (PDOs) or non-compliance with legislation.

• With findings refers to findings on either reporting on PDOs or non-compliance with legislation, or findings on both these aspects.

• A movement of 5% or more is regarded as an improvement or a regression.

Audit outcomes

Figures 1 and 2 show the five-year audit outcomes of the provincial government. For the current year, two audits were outstanding, namely Limpopo Roads Agency and the Tribal and Trust Account. Due to internal quality issues, the audit report for the Limpopo Roads Agency was only completed after the cut-off date of 31 August 2013 for inclusion in this report. The Tribal and Trust Account’s financial statements were 14 years in arrears. The province showed almost no movement in the past two years, where financially qualified audits remained above 30%. When considering the audit outcomes over a five-year period, it is clear that, if the leadership had built on the promising results of the 2009-10 financial year where only 18% of auditees had received a qualification and financially unqualified with findings was at an all time high of 68%, the following years’ results could have taken the province much closer to the target of clean audits in 2014. No auditee managed to obtain a clean audit for the year under review. Figure 3 indicates that there has been a net regression in audit outcomes of departments since the previous year. The Department of Agriculture regressed from an unqualified with findings opinion to a qualified audit outcome.

Audit outcomes of public entities remained primarily stagnant, as reflected in figure 4 when compared to the previous year. The Limpopo Tourism Agency has been receiving a disclaimer opinion for all five years.

Education, health and public works

The departments of Education, Health and Public Works receive the bulk annual appropriation. In 2012-13, the expenditure of these departments contributed 76% of the total spending by provincial departments. Figure 5 shows that all three of these departments received disclaimer audit opinions during the year under review. These results are concerning as the departments of Health and Education are the main providers of essential services to citizens of the province and the Department of Public Works is responsible for the maintenance and safeguarding of government property. Inadequate controls over the availability and safeguarding of documentation remained the greatest challenge to the improvement of audit outcomes.

Movement in audit outcomes

Figures 6 analyses the movement in the audit outcomes of the different auditees since the previous year, which had resulted in the net regression in the audit outcomes of the province.

It further shows the previous year audit opinions of the audits that had not been completed by 31 August 2013, which is the cut-off date we set for inclusion of audit outcomes in this report. There are a number of auditees that have the ability to move into the clean audit category, provided that the leadership becomes more involved in key governance matters and addresses the skills and capacity constraints in the province.

Annexure 1 lists all auditees with their current and previous year audit outcomes, while annexure 2 provides the audit outcomes for the past five years.
### Figure 6: Movement of the 31 auditees reported on

<table>
<thead>
<tr>
<th>Improved</th>
<th>Unqualified with no findings</th>
<th>Unqualified with findings</th>
<th>Qualified with findings</th>
<th>Adverse/Disclaimed with findings</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Roads and Transport</td>
<td>Great North Transport</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

| Unchanged | Cooperative Governance, Human Settlements and Traditional Affairs | Economic Development, Environment and Tourism | Office of the Premier | Limpopo Provincial Legislature | Limpopo Provincial Treasury | Safety, Security and Liaison | Fumani Green Stone | Khumong Chrome Mine | Limpopo Gambling Board | Mokopane Kudumela Mining Investments | Risiman Housing | Sefateng Chrome Mine | Tshepong Chrome Mine | Sport, Arts and Culture | Corridor Mining Resources | Gateway Airport Authority Limited | Limpopo Economic Development Agency | Munumzwu Estate |
|-----------|------------------------------------------------------------------|------------------------------------------------|-----------------------|--------------------------------|-----------------------------|----------------------------|--------------------|----------------|------------------|------------------------|---------------------|----------------|------------------|----------------|-----------------|-----------------------------|----------------|----------------|----------------|----------------|----------------|
| 22        |                                                                  |                                              |                       |                                |                             |                            |                    |                |                  |                       |                     |                |                  |                 |                 |                             |

<table>
<thead>
<tr>
<th>Regressed</th>
<th>Agriculture</th>
<th>Social Development</th>
<th>Venteco</th>
</tr>
</thead>
<tbody>
<tr>
<td>3</td>
<td></td>
<td></td>
<td></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>New auditees</th>
<th>Capital Hill Investment Company</th>
<th>Kulungisa (Pty) Ltd</th>
<th>Mapulaneng Investments</th>
<th>VDC Investments</th>
<th>Roads Agency Limpopo</th>
</tr>
</thead>
<tbody>
<tr>
<td>4</td>
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<td></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Outstanding audits – previous year opinion **</th>
<th>Roads Agency Limpopo</th>
</tr>
</thead>
<tbody>
<tr>
<td>2</td>
<td></td>
</tr>
</tbody>
</table>

** Tribal and Trust account outstanding for 14 years, there are no prior audit opinions
Figure 7: Status of quality of annual performance reports (all auditees)

- 2012-13: 71% (22) with findings, 29% (9) without findings
- 2011-12: 63% (17) with findings, 37% (10) without findings
- 2010-11: 64% (16) with findings, 36% (9) without findings

Figure 8: Findings on quality of annual performance reports (departments)

- With no findings: 2012-13: 46% (6), 2011-12: 70% (9)

Figure 9: Other performance-related outcomes

- Non-compliance findings with legislation that regulates strategic planning and performance management: 2012-13: 15% (2), 2011-12: 89% (16)
- Material amendments to annual performance reports: 2012-13: 17% (3), 2011-12: 3% (3)
- 20% or more of planned targets not achieved: 2012-13: 55% (5), 2011-12: 14% (14)

Figure 10: Auditees with findings on quality of annual performance reports

2012-13: 68% (15) with findings, 32% (7) without findings
2011-12: 76% (13) with findings, 24% (4) without findings
2010-11: 63% (10) with findings, 37% (6) without findings

Figure 11: Findings on quality of annual performance reports (public entities)

- 2012-13: 37% (7) with findings, 6% (1) without findings
- 2011-12: 7% (1) with findings, 7% (1) without findings

Figure 12: Findings on annual performance reports – Education, Health and Public Works vs other departments

- Education, Health and Public Works: 100% (3) with findings, 10% (1) without findings
- Other departments: 60% (6) with findings, 10% (1) without findings, 30% (3) without findings

General report on the provincial audit outcomes of Limpopo 2012-13
2.2 Quality of annual performance reports

Auditees are required to measure their service delivery against the performance indicators and targets set for each of their predetermined performance objectives and report on it in the annual performance reports. We audit the annual performance reports to determine whether the information in these reports is useful and reliable. In the audit report, we report findings that were material enough to be brought to the attention of the persons who read and use the annual performance report.

Status of auditees with findings on annual performance reports

Figures 7 and 10 show the number of auditees with material findings on their annual performance report over the past three years, including those auditees that did not prepare an annual performance report or submitted the report too late for auditing. The number of departments with findings on either usefulness or reliability of information increased since the previous year, while those of the public entities showed a marginal improvement. The departments of Agriculture, Cooperative Governance, Human Settlements and Traditional Affairs (CoGHSTA), Sport, Arts and Culture and the provincial legislature regressed from no findings to findings on the annual performance report. The Capital Hill Investment, Kulungisa (Pty) Ltd, Mapulaneng Investments and VDC Investments failed to prepare the annual performance reports.

Findings on the quality of the annual performance reports

Figures 8 and 11 show the nature of the material findings in the current and previous years for departments and public entities.

We measured the usefulness of reported information against the criteria of presentation, consistency, relevance and measurability. The findings are mostly attributable to officials who lack the knowledge and skills to report on performance information. Overall, we have not seen adequate attention being paid to the reporting on performance information and, consequently, there has not been noticeable progress.

The most common findings on usefulness were the following:

- Indicators/measures not well defined.
- Reported information not consistent with planned objectives, indicators/measures and targets.
- Changes to planned performance information not approved.

Findings on reliability relate to whether the reported information could be traced back to the source data or documentation and whether the reported information was accurate, complete and valid when compared to the source. With proper training, officials can improve their record keeping systems and be more knowledgeable of what is expected when reporting on performance information.

Findings on all three areas, namely accuracy, completeness and validity were reported on average at 14 auditees that had findings on performance information.

As shown in figure 12, the departments of Education, Health and Public Works (100%) had material findings on their annual performance reports, in comparison with 40% at the other departments. The prevalence of annual performance reports containing information that is not useful or reliable is a sign of weakness in the ability of auditees to adequately plan, manage and report on their performance. If addressed, it will improve the transparency and accountability of the provincial government to contribute to improving the service delivery experience of citizens.

Annexure 1 details the auditees with material PDO findings and the nature of the findings.

Other performance-related outcomes

Figures 9 shows the number of auditees in the current and previous years that:

- had material findings, in their audit reports, on non-compliance with the legislation that regulates strategic planning, performance management and reporting
- made amendments to the annual performance report submitted for auditing to correct material misstatements identified during the audit process
- did not achieve 20% or more of the planned targets reported in their annual performance reports.

Nine departments did not achieve 20% or more of their planned targets. The downward trend from the previous year is of great concern as the achievement of planned targets is directly linked to services delivered by departments.

Sixteen entities had non-compliance findings on reported performance information. The majority of findings related to the shareholder’s compact which excluded mandated key performance measures and indicators that the entity should meet. As a consequence, we could not measure performance on PDOs and no corrective actions were taken in cases of non-performance.
General Report on the provincial audit outcomes of Limpopo 2012-13

Figure 15: Unauthorised expenditure

Figure 16: Auditees with findings on non-compliance

Figure 17: Findings on non-compliance with legislation (public entities)

Figure 18: Irregular expenditure

Figure 19: Fruitless and wasteful expenditure
2.3 Compliance with legislation

The Public Audit Act requires us to annually audit compliance with legislation applicable to financial matters, financial management and other related matters. We focused on the following areas in our compliance audit:
- Material misstatements in the submitted annual financial statements
- Asset and liability management
- Budget management
- Expenditure management
- Unauthorised, irregular as well as fruitless and wasteful expenditure
- Financial misconduct
- Internal audit
- Revenue management
- Strategic planning and performance management
- Annual financial statements and annual report
- Transfer of funds and conditional grants
- Procurement and contract management (in other words, supply chain management)
- Human resource management and compensation

Status of auditees with findings on non-compliance with legislation

Figure 13 shows the number of auditees in the province with material findings in this regard over the past three years. For the past two years, all auditees had findings on non-compliance with legislation. The number of findings per auditee also increased in the year under review.

Findings on non-compliance with legislation

Figures 14 (departments) and 17 (public entities) show the compliance areas with the most material findings in the current and previous years and the progress made by auditees in addressing the findings.

At both the departments and public entities, there is a serious lack of commitment to timely identify and continuously monitor non-compliance issues. Early detection can prevent the high incidence of findings.

The most common non-compliance findings across these compliance areas for departments were the following:
- Audit committees not exercising their oversight responsibility (refer to section 5 for more detail in this regard).
- Laws and regulations that are not adhered to in the management of procurement (refer to section 3.2 for more detail in this regard).
- Shortcomings in human resource management (refer to section 3.3 for more details in this regard).

The most common non-compliance findings across these compliance areas for public entities were the following:
- Strategic planning and performance management (refer section 2.2 for more detail in this regard).
- Material misstatements or limitations in the financial statements submitted for auditing (refer to section 3.1 for more detail in this regard).
- Non-compliance by the internal audit function not fulfilling their legislated mandate (refer to section 5 for more detail in this regard).

Annexure 1 details the auditees with material non-compliance findings and the nature of the findings.

Unauthorised expenditure

Unauthorised expenditure is expenditure that was not spent in accordance with the approved budget. Figure 15 reflects the three-year trend in unauthorised expenditure.

Unauthorised expenditure incurred in 2010-2011 was R774 million which decreased to R175 million in 2011-2012. However, in the current year unauthorised expenditure increased by 84% to R324 million. The unauthorised expenditure of R324 million for the current year was mainly incurred by the Department of Education and the Department of Health. At both departments the unauthorised expenditure was in respect of overspending of the votes. Inadequate budgetary controls resulted in unauthorised expenditure at these departments.

Irregular expenditure

Irregular expenditure is expenditure that was not incurred in the manner prescribed by legislation. Such expenditure does not necessarily mean that money had been wasted or that fraud had been committed. However, it is a measure of an auditee’s ability to comply with legislation relating to expenditure and procurement management. Figure 18 reflects the three-year trend in irregular expenditure.

The total irregular expenditure incurred in the province for both the departments and entities amounted to R2 billion, which is a slight decrease from the previous year’s total of R2,2 billion. The Department of Education (R1,2 billion), Department of Health (R571 million) and Department of Social Development (R68 million) incurred the bulk of the irregular expenditure and were responsible for 93% of the total instances. The majority of the irregular expenditure incurred at these three departments pertained to non-compliance with supply chain management (SCM) legislation.
Uncompetitive or unfair procurement processes remain an issue for all departments and entities. The main reasons for this are inadequate contract management, controls and monitoring of the entire process of inviting bids, assessing the bids according to the specific criteria and the awarding of tenders.

**Fruitless and wasteful expenditure**

Fruitless and wasteful expenditure is expenditure that was made in vain and that would have been avoided had reasonable care been taken. Figure 19 reflects the three-year trend in fruitless and wasteful expenditure.

Overall, fruitless and wasteful expenditure increased by 192% since the previous year. The current year amount is also significantly higher than the 2010-11 figures. Of the total fruitless and wasteful expenditure of R356 million, R353 million was incurred at departments and R3 million was incurred at public entities. The increase in fruitless and wasteful expenditure was mainly due to the Department of Education, which incurred R320.7 million (90%) of the total fruitless and wasteful expenditure in the province. This was primarily on account of poor work done on newly constructed schools and mobile classrooms not in use.
SECTION 3: RISK AREAS
### Figure 20: Status of submitted financial statements

<table>
<thead>
<tr>
<th>Year</th>
<th>All auditees</th>
<th>2012-13</th>
<th>2011-12</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>48% (15)</td>
<td>52% (16)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>7% (2)</td>
<td>93% (25)</td>
</tr>
</tbody>
</table>

### Figure 21: Quality of submitted financial statements

(A number of auditees were able to avoid qualifications due to the correction of material statements during the audit process)

<table>
<thead>
<tr>
<th>Outcome if NOT corrected</th>
<th>Outcome after corrections</th>
</tr>
</thead>
<tbody>
<tr>
<td>48% (15)</td>
<td>61% (19)</td>
</tr>
<tr>
<td>52% (16)</td>
<td>39% (12)</td>
</tr>
</tbody>
</table>

### Figure 22: Top three financial statement qualification areas

<table>
<thead>
<tr>
<th>Area</th>
<th>2012-13</th>
<th>2011-12</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property, plant and equipment</td>
<td>31% (4)</td>
<td>8%</td>
</tr>
<tr>
<td>Current assets</td>
<td>31% (4)</td>
<td>8%</td>
</tr>
<tr>
<td>Unauthorised, irregular as well as fruitless and wasteful expenditure</td>
<td>31% (4)</td>
<td>8%</td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>28% (5)</td>
<td>21%</td>
</tr>
<tr>
<td>Capital and reserves</td>
<td>17% (3)</td>
<td>3%</td>
</tr>
<tr>
<td>Current assets</td>
<td>11% (2)</td>
<td>4%</td>
</tr>
</tbody>
</table>

**With no material misstatements**

- **Financially unqualified**
  - **With material misstatements**
  - **Financially qualified**

**Outcome if NOT corrected**

- **Outcome after corrections**
  - **Improved**
  - **Stagnant or little progress**
  - **Regressed**
3. Risk areas

We identified six key risk areas that need to be addressed to improve audit outcomes and financial and performance management. Five risk areas are discussed in this section, while the quality of performance information is included in section 2.

3.1 Quality of submitted financial statements

The purpose of the annual audit of the financial statements is to provide the users thereof with an opinion on whether the financial statements fairly present, in all material respects, the financial position (statement of financial position) and results of an auditee’s financial performance (statement of financial results) and cash flows for the reporting period, in accordance with the applicable financial reporting framework and the requirements of the applicable legislation.

The audit provides the users with reasonable assurance on the degree to which the financial statements are reliable and credible, on the basis that the audit procedures performed did not identify any material errors or omissions in the financial statements. We use the term *material misstatements* to refer to such material errors or omissions.

The quality of the financial statements submitted for auditing

All auditees, except the Tribal and Trust Account, submitted financial statements for auditing by the legislated deadline of 31 May 2013. As can be seen in figure 20, only six departments (46%) and nine public entities (50%) submitted financial statements with no material misstatements.

Departments showed a positive trend with an improvement of 31% compared to the previous year. Public entities significantly improved the quality of financial statements they submitted. Nine entities had misstatements compared to all entities with misstatements in their financial statements in the previous year.

Figure 21 shows that one department and three public entities received a financially unqualified audit opinion only because they corrected all the misstatements we had identified during the audit process. While this represents an improvement, the continued reliance on the auditors to identify corrections to be made to the financial statements to obtain an unqualified audit opinion is not a sustainable practice. Furthermore, it places undue pressure on legislated deadlines and increases the audit fees.

Uncorrected material misstatements

Although we reported the material misstatements to management for correction, six departments and six public entities could not make the corrections to the financial statements, which resulted in qualified and disclaimed audit opinions. At both the departments and entities, corrections could not be made because the respective chief financial officers (CFOs) and their financial support staff lacked knowledge and skills. Furthermore, some auditees had no or incomplete documentation available to enable them to make the necessary changes.

Figure 22 indicates the three most common financial statement qualification areas and auditees’ progress in addressing these since the previous year. The reasons for the qualifications are as follows:

**Property, infrastructure, plant and equipment**

- The province has been without an asset management system for the past six years and as a result departments have been controlling and recording their assets manually on Excel spreadsheets. The use of a manual asset register poses numerous risks and is prone to errors and manipulation. A new asset management system (IFMS) had been introduced in the province in 2010 as a pilot project. There are still significant challenges with the system and as a result manual asset registers still had to be maintained. The use of manual asset registers is not a sustainable control and as part of the province’s turnaround strategy, the national intervention team is looking at the possibility of introducing the Logistical Information System (LOGIS) to manage assets and procurement at departments. This process must be expedited to avoid future qualifications and a further regression in audit outcomes for the province.

- Auditees included the value of assets that no longer existed or that we could not physically verify. This was caused by incorrect and incomplete asset registers that did not reconcile to the general ledger. We also identified assets belonging to auditees that were not included in the financial statements. There were also instances where there was no documentation to support the asset values recorded in the asset registers. The number of departments and public entities with this problem has increased since last year, which is an indication that these auditees did not perform regular asset counts and reconciliations.
Current assets

- Auditees did not have adequate controls in place to ensure that all monies due to them are accounted for in the accounting records, which resulted in the receivables balance in the financial statements being incomplete or understated.

- At Corridor Mining Resources, the recognition of a current asset was not done in accordance with the applicable financial reporting framework and as a result we could not determine the value of the adjustments that were required had the entity correctly applied the requirement of the accounting standard.

Unauthorised, irregular and wasteful expenditure

- Particulars of fruitless and wasteful expenditure incurred were not included in the disclosure notes, as required by the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA). Furthermore, auditees did not maintain adequate records and internal controls in order to make a determination of the full extent of the fruitless and wasteful expenditure that should have been disclosed in the financial statements.

- Due to the non-submission of procurement documentation for auditing, we could not determine whether the auditees had complied with all the necessary SCM prescripts in the procurement of goods and services. As a result of this limitation on the scope of our audit, we could not confirm that the irregular expenditure disclosed in the financial statements was complete.
Figure 23: Status of supply chain management

All auditees

<table>
<thead>
<tr>
<th>Category</th>
<th>2012-13</th>
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</tr>
</thead>
<tbody>
<tr>
<td>29%</td>
<td>22%</td>
<td></td>
</tr>
<tr>
<td>13%</td>
<td>9%</td>
<td></td>
</tr>
<tr>
<td>58%</td>
<td>70%</td>
<td></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Category</th>
<th>2011-12</th>
</tr>
</thead>
<tbody>
<tr>
<td>15%</td>
<td></td>
</tr>
<tr>
<td>8%</td>
<td></td>
</tr>
<tr>
<td>11%</td>
<td></td>
</tr>
</tbody>
</table>

Figure 24: Findings on supply chain management (departments)

Limitation on planned scope of audit of awards

- 23% (3) 8% (1)
- 15% (2) 5% (1)
- 8% (1) 15% (2)

Awards to employees

- 23% (3) 62% (8)

Awards to close family members of employees

- 31% 23% (3)

Uncompetitive or unfair procurement processes

- 15% (2)

Inadequate contract management

- 70% (16)

Internal control deficiencies

- 8% (1)

Figure 25: Awards to employees and close family members (departments)

- Awards to employees
  - 20 instances / R4.9 million
- Awards to close family members of employees
  - 13 instances / R1.7 million
- Supplier did not declare interest
  - 2 instances / R31 thousand
- Employee did not declare interest
  - 20 instances / R2.9 million

Figure 26: Findings on supply chain management (public entities)

Limitation on planned scope of audit of awards

- 9% (1)

Awards to employees

- 0% (0)

Awards to close family members of employees

- 9% (1)

Uncompetitive or unfair procurement processes

- 9% (1) 27% (3)

Inadequate contract management

- 9% (1)

Internal control deficiencies

- 27% (3)

Figure 27: Awards to employees and close family members (public entities)

- Awards to employees
  - 0 instances / R0 million
- Awards to close family members of employees
  - 0 instances / R0 million
- Supplier did not declare interest
  - 0 instances / R0 million
- Employee did not declare interest
  - 0 instances / R0 million

General report on the provincial audit outcomes of Limpopo 2012-13
3.2 Supply chain management

We tested 384 contracts (with a value of R1.7 billion) and 1,816 quotations (with a value of R126.5 million) (referred to as awards in the rest of the report) to determine whether the prescribed procurement processes had been followed to ensure that all suppliers were given equal opportunity to compete and that some suppliers were not favoured above others. We also focused on contract management, as shortcomings in this area result in delays, wastage as well as fruitless and wasteful expenditure, which – in turn – have a direct impact on service delivery.

We further assessed the interests of employees of the auditee and their close family members in suppliers to the auditee. Legislation does not prohibit awards to suppliers in which employees or their close family members have an interest, but requires employees and prospective suppliers to declare the interest in order for safeguards to be put in place to prevent improper influence and an unfair procurement process. Lastly, we assessed whether sufficient internal controls had been implemented to prevent, detect or correct irregularities in the SCM processes.

We performed these audit procedures at 13 departments and 11 public entities. We reported all the audit findings to management in the management reports, while we reported the material non-compliance findings in the audit reports. Figure 23 shows the number of auditees that had audit findings and those where we reported material non-compliance findings in the current and previous years. We reported findings arising from the audit in the management reports of 17 (71%) of the auditees, while at 14 (58%) of these auditees the findings were material enough to be reported in the audit report. These figures are an improvement from the previous year where findings were reported in the management reports of 18 (79%) of the auditees and reported in the audit reports of 16 (70%) of the auditees.

Figures 24 (departments) and 26 (public entities) indicate the extent of findings in the areas we report on and the movement since the previous year. These findings are discussed in the rest of this section.

Limitations on planned scope of audit of awards

In total, we could not audit awards with a value of R491.5 million at the departments of Health, Education, Safety, Security and Liaison, and Social Development. The Limpopo Gambling Board could not provide us with evidence that awards had been made in accordance with the requirements of SCM legislation. We could also not perform any alternative audit procedures to obtain reasonable assurance that the expenditure incurred in respect of these awards was not irregular. The main reasons for the limitations were bidding and quotation documents that were missing or could not be produced timeously as a result of weak record and document management systems. Another factor was the lack of cooperation by the Department of Health in providing requested documentation and information timeously during the audit process.

Awards to employees and close family members

Figures 25 (departments) and 27 (public entities) show the extent of awards to employees and family members and whether the required declarations had been made. The number of departments with awards to employees remained unchanged; however, the number of departments with awards to close family members of employees has increased by 50%. Overall, the situation has shown a regression compared to the previous year.

Uncompetitive or unfair procurement processes

In the current year, we noted an increase of 31% in uncompetitive and unfair procurement processes at departments, while we noted a decrease of 34% at the public entities. We identified findings at 11 departments and four public entities.

The following were the most common findings:

- Three price quotations not obtained/deviations not approved or justified.
- Competitive bids not invited and/or deviations not justified.
- Bids advertised for shorter period and/or deviation not justified.

Inadequate contract management

Findings pertaining to inadequate contract management decreased by 23% at departments in the current year and increased by 7% at the entities. We identified findings at the departments of Health and Education and the Limpopo Economic Development Agency. The following were the most common findings:

- Project not registered with the Construction Industry Development Board (CIDB).
- Contracts amended or extended without approval by a delegated official.

Inadequate supply chain management controls

There was a significant reduction of 15% and 53% at departments and public entities, respectively, in the number of internal control deficiencies identified. However, findings in this regard have still been identified at eight departments and three public entities.
The following were the most common findings:

- Allegations were not appropriately dealt with after investigation.
- SCM policies/procedures/fraud prevention plan did not provide measures for prevention of abuse of the SCM system.
- SCM officials were not adequately trained.
- SCM officials were not aware of SCM policies/did not understand roles and responsibilities.

**Effective management of consultants**

Some of the departments and entities appoint consultants/contractors to execute certain projects. SCM regulations contain specific guidelines for the appointment and management of consultants. Our audits identified a number of deficiencies in the management of consultants and the need for decisive corrective actions.

Although most findings were identified with regard to the planning for and the appointment of consultants, shortcomings were also identified in the following areas:

- Transfer of skills
- Performance management and monitoring
- Closing and finalisation of projects.
General report on the provincial audit outcomes of Limpopo 2012-13

Figure 28: Human resource management findings (all auditees)

2012-13

- HR planning and organisation: 54% (7)
- Management of vacancies: 32% (10)
- Appointment processes: 23% (7)
- Performance management: 38% (5)
- Acting positions: 6% (1)
- Management of leave, overtime and suspensions: 8% (1)

2011-12

- HR planning and organisation: 45% (14)
- Management of vacancies: 48% (13)
- Appointment processes: 33% (9)
- Performance management: 33% (5)
- Acting positions: 23% (3)
- Management of leave, overtime and suspensions: 8% (1)

Figure 29: Stability in key positions (average number of months filled)

- Accounting officers and chief executive officers: 2012-13: 6% (1) 2011-12: 6% (1)
- Chief financial officers: 2012-13: 28% (5) 2011-12: 6% (1)
- Heads of SCM: 2012-13: 62% (8) 2011-12: 8% (1)

Figure 30: Human resource management findings

2012-13

- HR planning and organisation: 54% (7)
- Management of vacancies: 32% (10)
- Appointment processes: 23% (7)
- Performance management: 38% (5)
- Acting positions: 6% (1)
- Management of leave, overtime and suspensions: 8% (1)

2011-12

- HR planning and organisation: 45% (14)
- Management of vacancies: 48% (13)
- Appointment processes: 33% (9)
- Performance management: 33% (5)
- Acting positions: 23% (3)
- Management of leave, overtime and suspensions: 8% (1)

Figure 31: Weakness in focus areas

- HR planning and organisation
- Management of vacancies
- Appointment processes
- Performance management
- Acting positions
- Management of leave, overtime and suspensions

Figure 32: Vacancies in key positions

- Accounting officers and chief executive officers: 2012-13: 15% (2) 2011-12: 8% (1)
- Chief financial officers: 2012-13: 15% (2) 2011-12: 8% (1)
- Heads of SCM: 2012-13: 32% (10) 2011-12: 15% (2)
3.3 Human resource management

Human resource (HR) management is effective if adequate and sufficiently skilled resources (in other words, staff) are in place and if staff performance and productivity are properly managed. Our audits included an assessment of HR management that focused on the following areas:

- HR planning and organisation
- management of vacancies
- appointment processes
- performance management
- acting positions
- management of leave, overtime and suspensions

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

Figure 28 shows the number of auditees that had audit findings and those where we reported material non-compliance findings in the audit report in the current and previous years. Findings on HR management at departments showed very little movement from 2011-12, while they showed no movement at public entities.

Competencies of key officials/consequences for transgressions

Competencies of key officials and consequences for poor performance are part of the root causes that prevent the provincial administration to improve its overall audit outcomes. Both these issues are linked to the poor outcomes, in particular the high incidence of legislation not being adhered to and procurement processes not being monitored and controlled. Since there are virtually no consequences for transgressions, we see an increase in findings – particularly in these two areas.

Management of vacancies and acting positions

The average overall vacancy rate in the province was 22% at year-end, while that of senior management was 55% and that of the finance units 23%.
IT governance – the foundation for effective IT

Security management

User access management

IT service continuity

### Figure 34: Findings on information technology controls

- **IT governance**
  - 100% (16)
- **Security management**
  - 62% (10)
- **User access management**
  - 50% (8)
- **IT service continuity**
  - 74% (12)

### Figure 35: Status of information and controls

<table>
<thead>
<tr>
<th>Status of key enabling controls</th>
<th>Confidentiality</th>
<th>Integrity</th>
<th>Availability</th>
</tr>
</thead>
<tbody>
<tr>
<td>The necessary level of secrecy is enforced for all provincial government information. This was assessed by auditing the following focus areas:</td>
<td>All provincial government information is authentic, remains unaltered until authorised to change, and is complete. This was assessed by performing data analytics and auditing the following focus areas:</td>
<td>All provincial government information is ready for use when expected. This was assessed by auditing the following focus areas:</td>
<td></td>
</tr>
<tr>
<td>- Security management</td>
<td>- Security management</td>
<td>- Security management</td>
<td></td>
</tr>
<tr>
<td>- IT governance</td>
<td>- User access controls</td>
<td>- IT service continuity</td>
<td></td>
</tr>
<tr>
<td>- User access controls</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Status of provincial government information**

- **2012-13**
  - 69% (11)
  - 6% (1)
  - 31% (5)
- **2011-12**
  - 88% (11)
  - 6% (1)

**Status of key enabling controls**

- **Good governance**
- **Effective management**
- **Secure architecture or infrastructure**

**Confidentiality**

- With no findings
- With findings
- With material findings
- IT controls embedded and functioning effectively
- IT controls to be implemented
- IT controls to be designed
- Good
- Concerning
- Intervention required

**Integrity**

- Improved
- Stagnant or little progress
- Regressed
3.4 Information technology

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

In the assessment of the findings on IT controls (figure 33) the criteria are determined by the stage of development reached and are grouped into three categories:

Where IT controls are being designed, management should ensure that the controls would lessen risks and threats to IT systems.

Where IT controls are being implemented, management should ensure that the designed controls are implemented and embedded in IT processes and systems. Particular attention should be given to ensuring that staff are aware of, and understand, the IT controls being implemented as well as their roles and responsibilities in this regard.

Where IT controls have been embedded and are functioning effectively, management should ensure that the IT controls that have been designed and implemented are functioning effectively at all times. Management should sustain these IT controls through disciplined and consistently performed daily, monthly and quarterly IT operational practices.

The status of IT controls (figure 33) demonstrates that at four departments (Education, Health, Social Development and Sport, Arts and Culture) and one public entity (Gateway Airports Authority Limited) there has been a regression since the previous financial year. Some auditees still experience challenges in all areas, excluding IT governance. These challenges can be attributed to management’s lack of understanding of the policies or commitment to ensuring that the policies and procedures developed adequately respond to the risk profile of the auditees’ control environment.

Information technology governance

Effective IT governance ensures that the organisation’s IT control environment functions well and enables service delivery. Figure 34 shows that all auditees are in the process of implementing the IT governance framework.

All departments and entities are required to adopt and implement the IT governance framework and guidelines within the next three financial years. In the 2013-14 financial year, the implementation of phase 1 should be prioritised. As the legislatures have opted to develop their own IT governance framework, management should prioritise the implementation of the adopted governance framework.

Security management

A secure IT environment ensures the confidentiality, integrity and availability of critical IT systems and business processes.

While 25% of the auditees had IT controls that are embedded and functioning effectively, figure 34 shows that 62% of the auditees continue to experience challenges with design and 13% with the implementation of security management policies. IT security parameters had, consequently, not been adequately configured in a number of instances.

Management should prioritise the design and implementation of the security management policies to lessen the risk of unauthorised access and unavailability of IT systems.

User access management

User access controls are measures designed by management to prevent and detect the risk of unauthorised access to, creation or amendment of financial and performance information stored in, the application systems.

The transversal user access policy designed by the provincial treasury in 2011 was adopted by 6% of the auditees and their IT controls were embedded and functioning effectively. However, figure 34 shows that 50% of the auditees continued to experience challenges with adapting the policy to meet their requirements, while 44% of the auditees still experienced challenges with the implementation of user access policies and procedures. As a result, former users had, in certain instances, retained their access rights to departments’ IT networks.

Management should prioritise the design and implementation of the user access policies and procedures to lessen the risk of unauthorised access and transactions within the application systems.

Information technology service continuity

IT service continuity controls enable institutions to recover critical business operations and application systems affected by disasters or major system disruptions within reasonable time frames.

While 13% of the auditees had IT controls that were embedded and functioning effectively, figure 34 shows that 74% of the auditees continued to experience challenges with design and 13% with the implementation of appropriate disaster...
recovery plans, business continuity plans and backup processes to facilitate the recovery of the auditees’ data.

In the case of departments, the data hosted on their transversal systems is available at the disaster recovery (DR) site of the State Information Technology Agency (SITA). However, the risk of non-connectivity to SITA’s DR site remains due to certain departments’ lack of participation in SITA’s annual DR testing exercise and the challenges experienced by departments in connecting to the transversal systems to capture day-to-day operations, such as payment of suppliers. This resulted in certain provincial users having to travel to Centurion to capture their departments’ information from the SITA Centurion facility.

Management should prioritise the design and implementation of IT service continuity controls at entities to lessen the risk of unavailability or incompleteness of data in the event of major system disruptions or data loss.
Figure 36: Number of auditees with indicators of financial health risks (all auditees)

- 70% (16) in 2012-13
- 30% (7) in 2012-13
- 70% (16) in 2011-12
- 30% (7) in 2011-12

Figure 37: Number of auditees with indicators of financial health risks

- 90% (9) in Departments
- 10% (1) in Departments
- 54% (7) in Public entities
- 46% (6) in Public entities

Figure 38: Areas of financial health concerns

- Expenditure exceeded revenue (accrual-adjusted deficit) – 10% (1)
- More than 10% of next year’s budget used to fund current’s year expenditure – none
- Year-end bank balance in overdraft – none
- Capital budget underspent by more than 10% – 50% (5)
- Conditional grants underspent by more than 10% – 40% (4)
- Debt-collection period of more than 90 days – 20% (2)
- More than 10% of debt irrecoverable – 20% (2)
3.5 Financial health

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

Figure 36 indicates the number of auditees that had more than two of the indicators discussed in this section. It excludes four auditees, namely the departments of Health, Education and Public Works, and Limpopo Tourism Agency that had adverse or disclaimed audit opinions as their financial statements were not reliable enough to be analysed. It also does not include the analysis of four public entities as they were in the process of being deregistered.

The overall status of financial health has slightly improved as compared to the previous year. During the current year, one department and six public entities had findings on more than two indicators, whereas during 2011-2012 four departments and four public entities had findings on more than two indicators. The departments have shown an improvement as compared to the previous year.

Figure 37 shows the number of auditees with the indicators and the movement since the previous year.

Financial management by departments on the modified cash basis of accounting

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

The following indicators were analysed in order to assess the financial health of the auditees: accrual adjusted deficit, more than 10% of next year’s budget required to fund current year budget and year-end bank balances in overdraft. For the current year, the Department of Social Development had an accrual adjusted deficit as at the year-end. Five departments had this finding in the previous year. Only the Department of Social Development had this finding in the current and previous years. There were no auditees in the current year where more than 10% of the next year’s budget would be required to fund current year budget and which had an overdraft as at year-end. This is in contrast to 2011-12 where two auditees had findings relating to spending of more than 10% of next year’s budget to meet the current year expenditure and 11 auditees that had an overdraft as at the year-end. The strict expenditure and budgetary controls implemented by the administrators during the year resulted in auditees having positive bank balance as at year-end.

Underspending by departments of capital budgets and conditional grants received

Five departments (50%), namely the provincial legislature, departments of Agriculture, Roads and Transport, Economic Development, Environment and Tourism, and Office of the Premier underspent their capital budget. Furthermore, four departments (40%), namely, Sports, Arts and Culture, Agriculture, CoGHSTA and Roads and Transport underspent their conditional grants by more than 10% of their total budget. The underspending of capital budgets and conditional grants can have an effect on the ability of the province to deliver on programmes and services. This underspending is due to a lack of credible reporting to provincial treasury on the usage of conditional grants and capital budgets, a lack of monitoring by the leadership and governance structures and a lack of capacity to deliver on conditional grant and capital projects.

Debt management

Two departments and two public entities had debts outstanding for more than 90 days. This negatively impacts on the working capital requirements of the auditees. Furthermore, two departments and five public entities had more than 10% of their total debts that might be irrecoverable. This negatively impacted on the working capital requirements of the auditees. The primary reasons for outstanding debts were the lack of follow ups and commitment to implement the policies and procedures to effectively and timeously collect all monies due to them. The provincial leadership should ensure that the debt management policies of the departments and entities are updated, adequate capacity exists to implement them and their requirements are strictly enforced.

Financial health risks at public entities

Nine entities (69%) namely, Munumzwu Estate (Pty), Venteco (Pty), Limpopo Economic Development Agency, Mokopane Kodumela Mining Investments (Pty) Ltd, Tshepong Chrome Mine (Pty) Ltd, Corridor Mining Resources (Pty) Ltd, Great North Transport (Pty), Khumong Chrome Mine (Pty) Ltd and Fumani Green Stone (Pty) Ltd had expenditure in excess of their revenue as compared to five entities (38%) in 2011-2012. This might result in these entities using the following year’s
budget to fund the current year expenditure. The deficits should be monitored closely as continuous deficits can result in net liabilities. At eight entities (62%), namely Mokopane Kodumela Mining Investments (Pty) Ltd, Fumani Green Stone (Pty) Ltd, Tshepong Chrome Mine (Pty) Ltd, Corridor Mining Resources (Pty) Ltd, Great North Transport (Pty), Khumong Chrome Mine (Pty) Ltd, Sefateng Chrome Mine (Pty) Ltd and Gateway Airports Authority Limited the current liabilities exceeded the current assets and at four entities (31%) the total liabilities were in excess of their total assets.
SECTION 4: INTERNAL CONTROLS AND ROOT CAUSES OF AUDIT OUTCOMES
Figure 39: Movement in drivers of internal control

<table>
<thead>
<tr>
<th>Internal control drivers</th>
<th>Leadership</th>
<th>Financial and performance management</th>
<th>Governance</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012-13</td>
<td>16% (5)</td>
<td>16% (5)</td>
<td>32% (10)</td>
</tr>
<tr>
<td>2011-12</td>
<td>41% (11)</td>
<td>15% (4)</td>
<td>40% (11)</td>
</tr>
</tbody>
</table>

Figure 40: Objectives on which drivers of internal control have an impact

<table>
<thead>
<tr>
<th>Internal control drivers</th>
<th>Financial management and reporting</th>
<th>Performance planning and reporting</th>
<th>Compliance with legislation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Leadership</td>
<td>6% (2)</td>
<td>13% (4)</td>
<td>74% (23)</td>
</tr>
<tr>
<td>Financial and performance management</td>
<td>23% (7)</td>
<td>10% (3)</td>
<td>16% (5)</td>
</tr>
<tr>
<td>Governance</td>
<td>26% (8)</td>
<td>3% (1)</td>
<td>42% (13)</td>
</tr>
</tbody>
</table>
4.1 Significant deficiencies in internal controls

A key responsibility of accounting officers and authorities, senior managers and officials is to implement and maintain effective and efficient systems of internal control. As part of our audits, we assessed the internal controls to determine the effectiveness of their design and implementation in ensuring reliable financial and performance reporting and compliance with legislation. To make it easier to implement corrective action, we have categorised the principles of the different components of internal control under leadership, financial and performance management, and governance. We call these the drivers of internal control.

Status of drivers of internal control

Figure 39 provides an overall assessment of the drivers of internal control and the movement since the previous year, based on the significant internal control shortcomings identified during the audits that had resulted in material misstatements in the submitted financial statements, performance reports of a poor quality as well as findings on non-compliance with legislation. Figure 40 assesses financial management and reporting, performance planning and reporting, and compliance with legislation. Based on this assessment, we highlight the following:

- There was an increase in the number of auditees with internal control deficiencies in leadership and governance while the number of auditees with deficiencies in financial and performance management remained stagnant.
- There was some improvement in the quality of the financial statements submitted for auditing at both department and entities, however, the quality of performance reports submitted regressed since the previous year.
- Compliance with laws and regulations is a control weakness that requires urgent intervention by the leadership.
- Due to the uncertain political climate in the province there was limited or no oversight carried out by the leadership during the year, which resulted in poor audit outcomes.

Auditees should attend to the following elements of internal control underlying leadership and financial and performance management to improve their internal controls:

Lack of adequate oversight responsibility regarding financial and performance reporting and compliance and related internal controls

Only 16% of the auditees have successfully implemented this key control and there has been an overall regression since the previous year. There was no attention given by the leadership in providing oversight for most part of the financial year due to the political uncertainties in the province. The Office of the Premier and provincial treasury must intensify their oversight role in the province.

The provincial executive leadership and accounting officer/authorities did not take full ownership of the key controls and satisfied themselves that identified areas on non-compliance received the required level of attention. The lack of adequate oversight also impacts on the credibility of information and the quality of decisions made based on this information. This is evidenced by the regression in the quality of performance reports as well as the number of departments and entities that still submitted financial statements with material misstatements.

Audit committees can be very effective in aiding the leadership in discharging its responsibilities by overseeing all financial and performance reporting to ensure that it provides accurate and useful information for decision-making purposes, systems of internal control and compliance with laws and regulations. For audit committees to provide the required level of assurance, they depend on the reliability of the assurance provided by senior management and internal audit units. It is with concern to note that internal audit recommendations were not taken seriously and were not implemented timeously. This will be discussed separately under the portfolio of each member of the executive council (MEC) in section 6 below.
Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.

Management’s responsibility to account for auditees’ finances and performance is not limited to the annual financial statements and performance report. The preparation of financial statements and performance reports remains embedded in the culture that it is merely a year-end process rather than an ongoing process throughout the year. In-year reporting helps to prevent misstatements in the year-end reports and to detect non-compliance with legislation. It also ensures proper financial and performance management throughout the year.

Auditees had still not implemented controls over the most basic functions that are used in everyday tasks in financial and performance management as well as compliance with laws and regulations. The basic elements of internal controls such as clear segregation of duties, internal checks and monitoring, maintenance of continuous records, regular reconciliations and physical asset management activities must be effectively incorporated and implemented in the daily operations of all auditees.

Only 23% of the auditees had successfully implemented this key control and there has been a little improvement since the previous year. Even though the quality of the financial statements submitted for audit had improved when compared to the previous year, it is still with concern to note that the financial statement of seven departments (54%) and nine public entities (50%) contained material misstatements. There was overall regression in both the usefulness and reliability of performance reports at departments and a regression in the usefulness at public entities.

This is linked to the lack of skills and experience of support staff at the finance and performance management units as well as the lack of adequate systems for collecting, recording and reporting on performance information.

Inadequate review and monitoring of compliance with applicable laws and regulations

Only four auditees had successfully implemented this key control, which is a regression compared to the previous year.

There were no or very little consequences for officials who willfully or negligently transgress laws and regulations. This is evidenced by the number of procurement findings at departments and the fact that irregular expenditure incurred by the province remained almost stagnant. Failure to act swiftly against unethical practices results in offenders remaining in the system, thereby creating a perception that leadership is tolerant of such behaviour.

It is the responsibility of the accounting officers/authorities to implement internal control systems designed to provide reasonable assurance that compliance is achieved. Action plans must address findings on compliance identified by both internal and external audits and they must also include measures to prevent non-compliance from happening. Implementing and maintaining an effective internal control environment would only be possible by capacitating departments and entities with skilled and experienced officials.

Given the portfolio committees’ involvement in legislative and in-year monitoring processes, they are ideally placed to play a greater role in monitoring compliance with laws and regulations and holding departments accountable. However, as will be highlighted in section 5 below, the effectiveness of the portfolio committees in the province and the levels of assurance provided by them require attention in order for them to be able to have an influence in the reduction and elimination of instances of non-compliance.

Annexure 3 details the status of auditees’ key controls and the movement since the previous year.
4.2 Summary of root causes

Our audits included an assessment of the root causes of audit findings, based on identifying the internal controls that had failed to prevent or detect the error or non-compliance. We confirmed the root causes with management and reported on them in the management reports issued to the accounting officers and shared with the MECs. We also included the root causes of material findings reported in the audit report as internal control deficiencies in the audit report, classified under the key drivers of leadership, financial and performance management, or governance. Section 4.1 provides more information on the specific drivers of internal control.

As reported in section 2, auditees did not achieve clean audit outcomes as their financial and performance reports were of a poor quality and they had high levels of non-compliance with legislation. The information that follows summarises the three most common root causes of the audit outcomes, provides recommendations to address the root causes, and identifies the role players responsible for addressing such root causes.

Key officials lacking appropriate competencies

Detail of root cause

We identified key officials lacking appropriate competencies to be a root cause of poor audit outcomes at 70% of the auditees, which also made it difficult for almost half of the departments and public entities to produce financial statements without any material misstatements. We had also identified this as a root cause last year, but there has been little or no improvement in this regard.

Recommendations

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

- The MEC of treasury should implement initiatives to develop and enhance the skills of officials by introducing continuous development programmes.
- The political leadership, together with the heads of department (HoDs) and executive authorities, should implement effective and efficient performance management systems to attract and retain skilled officials. Rewards and remuneration must be linked to performance.
- The MEC of treasury must prioritise the finalisation of the skills audit in the province, which would assist in identifying critical learning and development and training needs.

The leadership had committed to addressing the skills and capacity challenges in the province by conducting a skills audit by 31 March 2012. The leadership had put into place processes for procuring these services but this process was subsequently cancelled by the national intervention team and the province was unable to meet the deadline. However, in April 2013 the process had once again commenced and was piloted at the provincial treasury. At the time of writing this report, the results of the skills audit had been submitted to the provincial treasury for review and recommendations before rolling it out at the departments of Health and Education.

Lack of consequence for poor performance and transgressions

Detail of root cause

The focus on accountability and lack of consequences for poor performance and transgressions by the legislature and executive was neglected at 67% of auditees. This is also a root cause that we identified in the previous year, which has once again contributed to the poor audit outcomes.

As highlighted in sections 2 and 3 above, all departments and entities had findings on non-compliance with laws and regulations and 85% of departments had one or more findings on transgression of SCM regulations. As long as there are no consequences for inappropriate behaviour, auditees will continue to have findings on non-compliance with laws and regulations. This is evidenced by the poor audit outcomes and the fact that the total irregular expenditure incurred by the province in the 2012-13 financial year remained stagnant. This poses a serious threat to the achievement of clean administration by 2014 and beyond.

Recommendations

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

- Accounting officers and staff must be held accountable through an effective employee performance management system and corrective action (where required) must be agreed upon and adequately monitored.
- The political leadership needs to enhance their oversight responsibilities to ensure that action is taken against transgressors and that action plans to improve internal control weaknesses are implemented and monitored.
- Those charged with governance and oversight should ensure that accountability is enforced and appropriate consequences are implemented when officials do not comply with the requirements of applicable prescripts (especially with regard to SCM).
• The political leadership should introduce a culture of discipline and set the right tone where poor performance will not be tolerated.

Very little action was taken by the leadership against officials for poor performance related to poor audit outcomes. The newly appointed premier has made a firm commitment in dealing decisively with poor performance. Subsequent to the appointment of the new political leadership in July 2013, two HoDs were suspended for poor performance.

**Slow response by political leadership**

**Detail of root cause**

At 67% of auditees we identified slow response by the political leadership to our messages and not taking ownership of key controls.

In the previous year, the executive authority and oversight structures had committed to quarterly monitoring and evaluating the status of key controls and commitments in order to achieve sustainable clean audit outcomes. This commitment was not honoured as evidenced by the overall regression in the key controls for the province, specifically on leadership and governance. Financial and performance management showed no improvement and remained stagnant since the previous year.

Commitments made by the previous provincial leadership to address poor audit outcomes were also hampered due to the uncertainty over the imminent changes in the political leadership, which was officially confirmed in July 2013 when a new premier and executive committee (Exco) were appointed. Internal control deficiencies identified by internal audit units were not taken seriously. At some departments, it is with concern to note that recommendations provided by internal audit units have not been implemented as far back as 2008-09. The benefits of an internal audit report are reduced and risks remain if recommendations are not implemented within the agreed time frame.

**Recommendations**

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

- It is critical that the leadership becomes more involved in the monitoring of key governance matters and embraces responsibility for guiding and directing the development and performance of the system of internal controls.

- MECs should engage with the cluster committee chairpersons on a quarterly basis to determine the progress of the departments in addressing key control deficiencies and recommendations provided by external and internal audit.

- The portfolio committees should intensify their oversight role by holding those departments with recurrent findings accountable.

- The leadership should hold officials accountable for not timeously addressing recommendations provided by internal audit units.

During our meetings with the new leadership, we noted the desire to improve on financial management practices, and subsequently audit opinions for 2013-14. We also experienced a high level of urgency from them to start the process to address the 2012-13 audit outcomes. The new leadership is keen to meet with the AGSA. These meetings are interactive with pertinent questions to determine the actual root causes linked to audit outcomes. During these meetings, it was agreed to have regular meetings with the AGSA to identify risks timeously so that they can be addressed immediately.
SECTION 5: IMPACT OF KEY ROLE PLAYERS ON AUDIT OUTCOMES
### Figure 41: Assurance provided by key role players

| First level of assurance | Management/leadership | Senior management | 59% (18) | 6% (2) | 3% (1) |
| Second level of assurance | Internal independent assurance and oversight | Accounting officer/authority | 68% (21) | 6% (2) | 3% (1) |
| | Executive authority | 78% (24) | 6% (2) | 3% (1) |

| Third level of assurance | Portfolio committees | 100% (31) |
| | Public accounts committee | 52% (16) |

### Figure 42: Interactions with MECs and assessed impact thereof

**Number of meetings**
- No meetings, 10% (3)
- One or two meetings, 71% (22)
- Three or more meetings, 19% (6)

**Assessed impact on audit outcomes**
- No impact, 23% (7)
- Some impact – improvement in key controls, 32% (10)
- Minimal impact – improvement expected in next financial year, 45% (14)
- Improved
- Stagnant or little progress
- Regressed
5. Initiatives and impact of key role players on audit outcomes

MECs and accounting officers use the annual report to report on the financial position of auditees, their performance against PDOs, and overall governance, while one of the important oversight functions of legislatures is to consider auditees' annual reports. To perform their oversight function, they need assurance that the information in the annual report is credible. To this end, the annual report also includes our audit report, which provides assurance on the credibility of the financial statements and the annual performance report as well as the auditee's compliance with legislation.

In addition to the AGSA, other role players also contribute to the credibility of financial and performance information and compliance with legislation, by ensuring that adequate internal controls are implemented. These role players are discussed in the rest of this section and have been categorised as follows: (1) those directly involved with the management of the auditee (management/leadership assurance); (2) those that perform an oversight or governance function, either as an internal governance function or an external monitoring function (internal independent assurance and oversight); and (3) the independent assurance providers that give an objective assessment of the auditee's reporting (external independent assurance and oversight).

We assessed the level of assurance provided by the role players based on the status of internal controls of auditees and the impact of the different role players on these controls. In the current environment, which is characterised by inadequate internal controls, corrected and uncorrected material misstatements in financial and performance information, and widespread non-compliance with legislation, all role players should provide an extensive level of assurance.

Figure 41 shows the assessed level of assurance provided by key role players. An overview of the assurance provided by each of the three levels of assurance providers follows.

First level of assurance: Management/leadership

Senior management

Although none of the role players at the first level of assurance had fully provided the required level of assurance, the senior management assurance needs the most improvement. Accounting officers and MECs are relying on senior management, which includes the CEO, CFO, chief information officer (CIO) and head of the SCM unit, for implementing basic financial and performance management controls. These controls include the following:

- Ensure proper record keeping so that complete, relevant and accurate information is accessible and available to support financial and performance reporting.
- Implement controls over daily and monthly processing and reconciling of transactions.
- Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.
- Review and monitor compliance with applicable laws and regulations.
- Design and implement formal controls over IT systems.

The poor status of these internal controls, as reported in section 4.2, shows that inadequate assurance was provided. It is concerning that senior management's representations to us at the start of each audit, including those relating to the quality of the financial statements and performance information submitted for auditing, continue to be unreliable. It highlights the risk that decisions taken by accounting officers and MECs could be based on incomplete and incorrect information provided by senior management.

The HR management challenges outlined in section 3.3 should be addressed to strengthen the assurance provided by senior management. Vacancies need to be filled and senior management members should be held accountable for the execution of their responsibilities through a strict system of performance management.

Accounting officer or accounting authority

The level of assurance provided by the accounting officers (heads) of departments and the accounting authorities of public entities was marginally better than that of senior management, but their impact on creating an effective control environment was not evident at many auditees. As reported in section 4.2, there was a regression in the status of those internal controls for which accounting officers and authorities are responsible, as their leadership, planning, risk management, oversight and monitoring did not result in sustainable practices that translated into improved audit outcomes.

Although accounting officers and authorities depend on senior management for designing and implementing the required financial and performance management controls, they should create an environment that helps to improve such controls by focusing on the following:
• Provide effective and ethical leadership, and exercise oversight of financial and performance reporting and compliance with legislation.
• Implement effective HR management to ensure that adequate and sufficiently skilled staff are employed and that performance is monitored.
• Establish policies and procedures to enable sustainable internal control practices, and monitor the implementation of action plans to address internal control deficiencies.
• 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.
• Ensure that an adequately resourced and functioning internal audit unit is in place and that internal audit reports are responded to.
• Support the audit committee and ensure that its reports are responded to.
• Ensure that internal audit recommendations are implemented without delay.

Executive authority

The executive authorities in the province are the MECs. They have a monitoring and oversight role in their portfolios and play a direct role at departments, as they have specific oversight responsibilities in terms of the PFMA and the Public Service Act. They therefore need to ensure that strategies and budgets are aligned to the mandate and that objectives are achieved. They can bring about improvements in the audit outcomes by becoming more actively involved in key governance matters and by managing the performance of the accounting officers and authorities. Our assessment that most MECs at the time prior to the change in leadership in the province were not providing the required level of assurance, is based on the poor status of the leadership controls (as detailed in section 4.2) and the impact of MECs on audit outcomes as observed through our interactions with them.

In the past three years, we have increasingly engaged with MECs on how they can bring about improvements in the audit outcomes of their portfolios. At these interactions, we discuss the status of key controls and MECs’ commitments to improve audit outcomes, while also sharing identified risks. The meetings improve MECs’ understanding of the audit outcomes and messages and also address the progress of interventions to ensure a positive impact on these audit outcomes.

As shown in figure 42, most of the MECs met with us. The engagements were well received, but these interactions have not yet had a significant impact on the audit outcomes. The limited meetings we were able to secure and the low impact of our interactions with some MECs were due to the continuous instability of the political environment in the province and the threat of imminent changes in the political leadership which was announced in July 2013, resulting in the lack of willingness by the political leadership to implement initiatives to improve on the audit outcomes. (Section 6 provides more detail on the interactions with the MECs.) However, the building blocks for the new leadership are now in place for improvements in key controls, which should lead to improved outcomes.

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

Second level of assurance: Internal independent assurance and oversight

Internal audit

Internal audit units assist accounting officers and authorities in the execution of their duties by providing independent assurance on internal controls, financial information, risk management, performance management and compliance with legislation. Except for the legislature that has its own internal audit unit, the province makes use of a shared internal audit unit for departments. The shared internal audit unit was in place and operational for the whole financial year.

Assessment of the shared internal audit unit for provincial departments and the legislature

It was only at the Department of Health where the operations of the internal audit unit were not fully compliant with the requirements of the applicable regulations as no evaluation was carried out on the reliability and integrity of the financial and operational information. Overall, the work performed by the internal audit unit covered all the required aspects. However, we noted an exception where the internal audit unit did not pay much attention to the evaluation of information systems at 31% of departments.

The effectiveness of the internal audit unit and the level of assurance that they are capable of providing are largely dependent on the cooperation from the accounting officers and senior management in the implementation of its advice and recommendations. A significant number of internal audit findings remain unresolved at the majority of departments, which makes the internal audit unit effectively redundant and ineffective.
Internal audit units can also only be effective if they are adequately resourced. There was an improvement in addressing the historical capacity constraints within the central audit unit of the province. The vacancy rate of the internal audit unit at the time of writing this report was 21%.

The internal audit unit was able to have a positive impact on audit outcomes at only 46% of departments (including the legislature). As long as the departments do not take the internal audit unit seriously, the functioning of the internal audit unit is rendered ineffective by the department and not due to its own actions.

**Assessment of the internal audit units at public entities**

It was only at the Gateway Airports Authority Limited where the internal audit unit was in existence for three months of the financial year. All other public entities had functional internal audit units for the whole financial year.

The operations of the internal audit unit were not fully compliant with the requirements of the applicable regulations at 59% of public entities. At 65% of public entities, the internal audit units did not evaluate the reliability of the performance information reports and at 12% of public entities the reliability of financial information was not evaluated. Four public entities also did not submit their performance information reports in the year under review. At the Limpopo Tourism and Parks Board, the internal audit unit did not evaluate the entity’s compliance with SCM regulations.

Nevertheless, the internal audit units were able to influence positive audit outcomes at 82% of the public entities by focusing their evaluation on the internal controls and compliance with laws and regulations. The internal audit units also played a role in the improvement of the quality of financial statements.

**Audit committee**

**Assessment of the shared audit committee, including the legislature**

An audit committee is an independent body that advises the accounting officer or authority, senior management and the MEC on matters such as internal controls, risk management, performance management as well as the evaluation of, and compliance with, legislation. The committee is further required to provide assurance on the adequacy, reliability and accuracy of financial reporting and information.

As with the internal audit, the provincial treasury also established a centralised audit committee for all the departments. A new audit committee was appointed after expiry of the term of the previous audit committee. There were delays in appointment of new audit committee members by the provincial treasury, which resulted in the central audit committee being operational for only nine months of the financial year. The legislature established its own audit committee which was in place for the entire period under review. The central audit committee was not fully compliant with legislation because it was not operational for the full financial year and the fact that the audit committee did not have an approved written terms of reference.

The audit committee did not conduct an evaluation on the information systems at the departments of Agriculture and Social Development. At the Department of Agriculture no evaluation could be conducted on the reliability of the financial and performance information as the department did not submit this information to the audit committee prior to submission to the AGSA for audit. Compliance with SCM regulations was also not evaluated at this department. Overall, the audit committee had a positive impact on the audit outcomes at 54% of departments (including the legislature). Despite legislation making provision for interaction with the audit committees and the executive, cluster audit committee chairpersons did not have any interactions with the MECs in their cluster to share information and risks. The chairperson of the audit committee for the legislature had interactions with the speaker during the year under review.

For audit committees to provide the required level of assurance as second-level assurance providers, they depend a lot on the reliability of the assurance provided by senior management and internal audit units. The lower the assurance level provided by these two role players, the more difficult it is for audit committees to accurately assess the control environment of the auditee, including being assured that all significant risks are being reduced.

**Assessment of the audit committees at public entities**

Except at the Gateway Airports Authority Limited, all public entities had audit committees in place for the year under review.

It was only at the Great North Transport (SOC) Ltd where the operations of the audit committee were not fully in compliance with the requirement of the applicable regulations.

The audit committee did not conduct an evaluation on the adequacy of the information systems and the reliability of the financial and performance information at the Great North Transport (SOC) Ltd and the Limpopo Tourism and Parks Board. In addition, no evaluation was conducted on the SCM processes and compliance with laws and regulations at both these entities.

The audit committees were able to influence positive audit outcomes at 71% of the public entities by focusing their evaluation on the internal controls and compliance with laws and regulations, which included evaluating the quality of the financial statements submitted for audit.

The term of the members of the central audit committee expired on 31 August 2013. The appointment of the new audit committee members had been
finalised and pending the approval of the minister of finance, the term of the new central audit committee was anticipated to commence on 1 October 2013.

**Provincial treasury and premier’s office**

Although the provincial treasury provides some level of assurance, capacity constraints are preventing it from providing the required level of assurance to the province. The post of the provincial accountant-general (PAG) had been vacant since January 2013 and that of the chief audit executive (CAE) for more than a year. The administration of the shared internal audit function is also the responsibility of the provincial treasury and the departments are relying on the provincial treasury to provide effective and efficient internal audit services. The leadership must expedite the filling of these positions with suitable candidates that have the required skills and competencies.

We performed additional procedures in the year under review to determine whether appropriate processes and measures were in place at provincial treasuries to enable the execution of their relevant powers/functions. The findings revealed the following shortcomings:

- No evidence that the budget documents received from the departments were reviewed by the treasury to identify any shortcomings or errors on the documents.
- No evidence that the monthly reports received from the departments in terms of section 40(4)(c) of the PFMA were reviewed to identify unexplained variances on budget implementation by the departments and that feedback and recommendation noted were provided to the respective departments. Our own analysis of the in-year monitoring reports revealed that there were matters that needed to be addressed by the treasury with regard to both over- and underspending during the year and where remedial action should have been taken by the provincial treasury.
- Policies and procedures had not been adopted on how the compliance monitoring and enforcement function would be performed. Even though the province operated in accordance with the guidelines from the National Treasury, there were no province-specific policies and procedures for transversal compliance and monitoring.

The Constitution mandates the Office of the Premier to perform oversight functions. As an oversight institution, the Office of the Premier did not provide assurance. The Office of the Premier, in collaboration with the treasury, must play a more intensive role in 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 the credibility of financial and non-financial information.

The Office of the Premier should formulate policies and procedures that will assist in holding the executive authorities and accounting officers of reporting institutions accountable where reporting institutions underperform and where shortcomings in the management of performance information are identified.

**National intervention in terms of section 100(1)(b) of the Constitution**

On 5 December 2011, the national executive announced its intervention in the Limpopo provincial government in terms of section 100(1)(b) of the Constitution by placing five departments under national administration. Through this intervention, the National Treasury had effectively taken oversight from the provincial treasury.

The challenges with the implementation of national intervention and the absence of national legislation as intended by section 100(3) of the Constitution were highlighted in our previous year’s general report for the province.

While the national administration team had reduced the unauthorised expenditure from the levels observed in 2010-11, there was no improvement in the total irregular and fruitless and wasteful expenditure incurred. Of concern is the substantial increase in the fruitless and wasteful expenditure for the province since the previous year.

As the national government prepares to handover the administration of the five departments to the province’s new premier and executive over a period of six months, it is critical that there are sufficiently skilled personnel at the point of exit. The need to address the severe capacity constraints cannot be overemphasised if the fruit or gain from the various initiatives implemented by the administration is to be realised.

The administration team appointed consultants to assist in the turnaround strategies of the five departments as well as Social Development and Sport, Arts and Culture. The appointment of consultants will only be able to yield sustainable results if there is an internal capacity to enable transfer of skills. This should be regarded as a key component of the turnaround strategy.

The consultants were also appointed too late in the financial year (January 2013) to have had an impact on the audit outcomes in the year under review. The improvement in the audit outcome at the Department of Roads and Transport was largely driven by the newly appointed HoD. The national intervention team was also unsuccessful in turning around the audit outcomes of the departments of Education, Health and Public Works that received a disclaimer.
for a second consecutive year. This was also due to the lack of cooperation between the officials and the administrators.

As the national intervention team is continuing with its exit strategy, it is critical that they work closely with all the key role players and that inputs are also sought from the central audit committee unit and the AGSA.

**Third level of assurance: External independent assurance and oversight**

**Portfolio committees and the Standing Committee on Public Accounts**

In terms of the Constitution, the provincial legislatures must maintain oversight of all executive organs of state. Oversight entails proactive interactions with the executive authorities and the departments and public entities within their portfolios to encourage compliance with their constitutional obligations with a view to delivery on agreed-to-objectives for the achievement of government priorities. The mechanism used to conduct oversight is generally through committees. The Standing Committee on Public Accounts (SCOPA) and portfolio committees deal with financial and performance management and the implementation of legislation by auditees, and they are key assurance providers in this regard.

The impact of SCOPA and the portfolio committees, as independent assurance providers on the internal controls of the auditees, was assessed on the basis of the AGSA’s interactions with the committees and the impact of their resolutions, actions and initiatives. The portfolio committees failed to provide any assurance and there was an urgent need for them to intensify their efforts in dealing with performance management and the implementation of legislation as they are key assurance providers in this regard.

During the year, SCOPA built on their momentum of the previous year by following up on the implementation of their recommendations in the 2011-12 audit reports. SCOPA also met with some public entities during the current year. Since the AGSA has now finally taken over the audits of all the public entities in the province, it becomes imperative that SCOPA prioritise hearings on the public entities.

The operations of portfolio committees during the year under review were uncertain with very little involvement of the AGSA. It is critical that the AGSA becomes a part of their briefings to inform the portfolio committees on matters that require their attention, since we are in a position to be able to exchange valuable information on in-year progress and monitoring controls as well as timely identification of risk areas that need to be addressed.

The legislature, through the chair of chairs, has, during a meeting with the auditor-general in September 2013, committed itself to include the AGSA at all future meetings.
SECTION 6: AUDIT OUTCOMES OF INDIVIDUAL PORTFOLIOS
6.1 Agriculture

Regression in audit outcome

2012-13
Qualified with findings

2011-12
Unqualified with findings

2010-11
Unqualified with no findings

Drivers of key controls not improving

Leadership 100%
Financial and performance management 40%
Governance 67%

Assurance levels should be improved

Senior management
Provides limited/no assurance

Accounting officer
Provides limited/no assurance

MEC
Provides limited/no assurance

Internal audit
Provides some assurance

Audit committee
Provides some assurance

Portfolio committee
Provides limited/no assurance

Status of key commitments by MEC

Root causes to be addressed

Slow response by political leadership

Lack of consequences for poor performance and transgressions

Key officials lack appropriate competencies

Implemented

In progress

Not implemented

New

No progress made in addressing risk areas

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

No findings
Findings
Material findings

The current audit outcomes are the result of the attention given to the six key risk areas,

the drivers of the key controls and the root causes as well as the level of assurance that was provided by the key role players and the progress made on their commitments.

Lack of consequences for poor performance and transgressions

Implemented proper record keeping mechanisms to ensure that documentation is easily available and retrievable

General report on the provincial audit outcomes of Limpopo 2012-13
Regression in audit outcome

The regression in the audit outcome of the department was caused by the loss of key competent personnel (HoD and CFO) who were responsible for driving the 2010-11 clean audit opinion. The department showed a gradual decline from an unqualified audit opinion with findings on non-compliance with laws and regulations in 2011-12 to a qualified audit opinion in 2012-13.

Six key risk areas

There were concerns over the financial health of the department as it underspent its capital budget and conditional grants by more than 10% and more than 10% of its debts were irrecoverable.

The best practices in the 2010-11 and 2011-12 financial years could not be sustained in the year under review as financial statements submitted for auditing contained material misstatements and there were material findings on the reliability of its performance report. In addition, the department failed to submit its financial statements for review to the audit committee prior to submission to the AGSA. There was also an increase in the number of non-compliance findings compared to the previous year, with recurring findings on procurement and contract management. Non-compliance with SCM regulations, such as the failure to invite competitive bids for transactions over R500 000, not obtaining three price quotations for goods and service procured for below R500 000 and invitations for bidding were not always advertised for a minimum period of 21 days, resulted in the department incurring irregular expenditure amounting to R37.3 million.

The regression in HR management is attributable to the department’s inability to fill vacant posts within 12 months.

Even though the department had implemented adequate IT security management and IT service continuity controls (business continuity and disaster recovery plans), it was struggling with the implementation of the controls designed over user access management.

Key controls and root causes

The regression in the key controls was caused by the loss of the HoD and CFO, as well as vacancies at the monitoring and evaluation unit. The department should strengthen the following controls to create a control environment that supports reliable financial and performance reporting and compliance with legislation:

- Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.
- Implement effective HR management to ensure that adequate and skilled resources are in place and that performance is monitored.

The accounting officer and MEC should address the root causes of poor audit outcomes and inadequate controls as follows:

- Fill vacancies with skilled officials at the monitoring and evaluation and finance units.
- Ensure that monthly and daily reconciliations are performed.
- The MEC must meet with the audit committee on a quarterly basis to engage on the risks and status of internal controls.
- The MEC must conduct an investigation into the non-compliance with the SCM regulations and hold officials accountable.

Impact of key role players on audit outcomes

Inadequate skills, coupled with the high vacancy rate on senior management level (including the CFO) and HoD, contributed to the poor level of assurance as indicated above. The HoD resigned at the beginning of the audit process and there was an acting HoD during that period. There was also an acting CFO for most part of the financial year.

The level of assurance that the audit committee and internal audit unit can provide is dependent on the reliability of the assurance provided by senior management. The department’s failure to take the recommendations provided by the internal audit unit and audit committee also impacts on the level of assurance that these two critical governance structures are capable of providing. At year-end, a number of findings and recommendations provided by the internal audit unit were not implemented or addressed.

We met with the MEC three times in the past year and these interactions had no impact on the audit outcomes.

The following commitments were, however, made by the previous MEC:

- Appoint sufficiently skilled officials in vacant positions and implement proper record keeping mechanisms.
### 6.2 Cooperative governance, human settlements and traditional affairs

#### Stagnation in audit outcome

<table>
<thead>
<tr>
<th>Year</th>
<th>Audit Outcome</th>
<th>Findings</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012-13</td>
<td>Unqualified with findings</td>
<td></td>
</tr>
<tr>
<td>2011-12</td>
<td>Unqualified with findings</td>
<td></td>
</tr>
<tr>
<td>2010-11</td>
<td>Unqualified with no findings</td>
<td></td>
</tr>
</tbody>
</table>

#### Drivers of key controls not improving

<table>
<thead>
<tr>
<th>Area</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Leadership</td>
<td>83%</td>
</tr>
<tr>
<td>Financial and performance management</td>
<td>80%</td>
</tr>
<tr>
<td>Governance</td>
<td>67%</td>
</tr>
<tr>
<td>Status</td>
<td></td>
</tr>
<tr>
<td>Improved</td>
<td>Stagnant or little progress</td>
</tr>
<tr>
<td>Regressed</td>
<td></td>
</tr>
</tbody>
</table>

#### Assurance levels should be improved

<table>
<thead>
<tr>
<th>Role</th>
<th>Assurance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Senior management</td>
<td>Provides some assurance</td>
</tr>
<tr>
<td>Accounting officer</td>
<td>Provides some assurance</td>
</tr>
<tr>
<td>MEC</td>
<td>Provides some assurance</td>
</tr>
<tr>
<td>Internal audit</td>
<td>Provides some assurance</td>
</tr>
<tr>
<td>Audit committee</td>
<td>Provides some assurance</td>
</tr>
<tr>
<td>Portfolio committee</td>
<td>Provides limited/no assurance</td>
</tr>
</tbody>
</table>

#### Progress made in addressing risk areas

<table>
<thead>
<tr>
<th>Risk Area</th>
<th>Findings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Supply chain management</td>
<td></td>
</tr>
<tr>
<td>Quality of performance reports</td>
<td></td>
</tr>
<tr>
<td>Human resource management</td>
<td></td>
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<tr>
<td>Information technology controls</td>
<td></td>
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<tr>
<td>Financial health</td>
<td></td>
</tr>
<tr>
<td>Quality of submitted financial statements</td>
<td></td>
</tr>
</tbody>
</table>

#### Root causes to be addressed

- Instability or vacancies in key positions
- Lack of consequences for poor performance and transgressions
- Slow response by oversight (portfolio committee)

#### Status of key commitments by minister/MEC

- Take action against officials who continue to perform remunerative work outside their employment without obtaining written permission

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**General report** on the provincial audit outcomes of Limpopo 2012-13
No movement in audit outcome

Even though the department maintained its unqualified audit opinion, there was a regression in the quality of its performance information report in the year under review. This regression in this area is even more concerning as the department was unable to sustain the controls it had implemented in the 2010-11 and 2011-12 financial years, where no findings on the quality of its performance information were identified.

Six key risk areas

Progress was made in addressing quality of the submitted financial statements. There was a regression in the quality of the performance information report as highlighted above. In addition, the department did not achieve 25% of its total planned targets in the year under review. We did not identify significant financial health concerns. As far as the department’s IT environment is concerned, it could not maintain the security management controls it had implemented in the previous year. The department was also struggling in the implementation of adequate user access management controls and it had still not designed adequate IT service continuity controls (business continuity and disaster recovery plans).

There was an increase in the number of non-compliance findings compared to the previous year with recurring findings on procurement and contract management. We still identified instances where officials of the department performed remunerative work outside their employment in the department without written permission. The vacancy rate for senior management has also increased significantly since the previous years and requires urgent attention.

Key controls and root causes

The department has the potential to achieve clean audit outcomes again in the future. The following controls to create a control environment that supports reliable performance reporting and compliance with legislation require attention:

- Officials did not adhere to the requirements of the formal code of conduct, resulting in recurring findings on procurement and contract management.
- Compliance with applicable laws and regulations relating to strategic planning matters had not been adequately monitored throughout the year.
- Internal audit findings were not resolved timeously and risk management processes required attention.

Impact of key role players on audit outcomes

Due to the high vacancy rate at senior management level, the desired level of assurance could not be achieved, which also impacted on the assurance that the HoD and MEC could provide. The level of assurance that the audit committee and internal audit can provide is dependent on the reliability of the assurance provided by senior management. If the recommendations provided by the internal audit unit and audit committee are not taken seriously by the department also impacts on the level of assurance that these two critical governance structures are capable of providing. By year-end, the department only resolved 30% of internal audit findings.

We met with the previous MEC twice in the past year and these interactions had a minimal impact on the audit outcomes. Improvements are expected in the next financial year.

The following commitment was made by the previous MEC:

- Take action against officials who continue to perform remunerative work outside their employment in the department.
6.3 Economic development, environment and tourism

The current audit outcomes are the result of the attention given to the six key risk areas, the drivers of the key controls and the root causes as well as the level of assurance that was provided by the key role players and the progress made on their commitments.

Status of key commitments by MEC

- Implemented
- In progress
- Not implemented
- New

Senior management: 28% Good, 33% Concerning, 39% Intervention required
Accounting officer/authority: 11% Good, 83% Concerning, 6% Intervention required
MEC: 100% Provides assurance
Internal audit: 22% Provides assurance, 56% Provides some assurance, 22% Vacancy
Audit committee: 11% Provides assurance, 83% Provides some assurance, 6% Vacancy
Portfolio committee: 100% Provides assurance

Progress made in addressing risk areas:
- Supply chain management: 72% Good, 11% Concerning, 17% Intervention required
- Quality of performance reports: 78% Good, 22% Concerning, 6% Intervention required
- Human resource management: 72% Good, 28% Concerning, 6% Intervention required
- Information technology controls: 56% Good, 44% Concerning, 6% Intervention required
- Financial health: 67% Good, 6% Concerning, 28% Intervention required
- Quality of submitted financial statements: 94% Good, 6% Concerning, 33% Intervention required

Root causes to be addressed:
- Key officials lack appropriate competencies: A root cause at 67% of auditees
- Lack of consequences for poor performance and transgressions: A root cause at 50% of auditees
- Slow response by political leadership: A root cause at 82% of auditees

The current audit outcomes are the result of the attention given to the six key risk areas.
Auditees included in the portfolio [audited by the AGSA]

- Capital Hill Investment Company
- Corridor Mining Resources
- Fumani Green Stone
- Great North Transport (SOC) Ltd (GNT)
- Khumong Chrome Mine
- Kulungisa (Pty) Ltd
- Limpopo Economic Development Agency (LEDA)
- Limpopo Gambling Board
- Limpopo Tourism Agency (LTA)
- Mapulaneng Investments
- Mokopane Kodumela Mining Investments
- Munumzwu Estate
- Risima Housing Finance Corporation
- Sefateng Chrome Mine
- Tshepong Chrome Mine
- VDC Investments
- Venteco

No movement in audit outcome

The department remained with an unqualified opinion with findings on non-compliance with laws and regulations. As far as the public entities are concerned there was one improvement and one regression. The GNT improved from a qualification to an unqualified opinion with findings on non-compliance with laws and regulations and PDOs. The entity successfully managed to address the qualification on assets, liabilities and the controls over the completeness of irregular expenditure. Venteco regressed from an unqualified opinion with findings to a qualified opinion in the year under review due to concerns over the presentation of its financial statements. The Limpopo Tourism Agency remained with a disclaimer.

Six key risk areas

There was some improvement in key risk areas in the year under review compared to the previous year. We did not analyse the financial health of the Limpopo Tourism Agency as its financial statements were not reliable.

Although the total irregular expenditure of R57 million for the portfolio remains high, there was an improvement compared to the previous year. The GNT and the Limpopo Tourism and Parks Board had repeat findings on procurement and contract management due to non-compliance with SCM prescripts in the procurement of goods and services, while we identified deviations with SCM prescripts as a new finding at the Limpopo Gambling Board.

The department did not have any findings on the quality of the performance reports for two consecutive years and the quality of its financial statements had also improved since the previous year. Seven public entities in the portfolio also managed to successfully address the previous year’s concerns over the quality of their financial statements. The quality of the performance reports submitted for audit, however, still remained a concern at the majority of the public entities as only two public entities (12%) managed to improve on the quality of their performance information reports, while four public entities did not prepare an annual performance report.

The IT controls at the department and entities require attention. The department could not maintain its previous year’s security management controls and regressed in this area. It was also struggling in the implementation of user access management controls and it had not designed adequate IT service continuity controls (business continuity and disaster recovery plans). The GNT had control weaknesses in IT service continuity, user access controls and security management, while LEDA had adequate policies and procedures in place over security management controls.

However, the position of HoD was vacant for most part of the financial year. The vacancy rate at senior management level at the department was also high and requires attention. The department should evaluate the skills and competency gaps at the public entities, in particular the Limpopo Tourism Agency.

Some of the functions performed by the department and the Limpopo Tourism Agency were overlapping and there was currently no agreement in place guiding the functions that should be performed by the entity and the department, in particular the management of the various reserves in the province. Furthermore, there was uncertainty regarding ownership of movable and immovable assets between the entity and the department. If this uncertainty is not addressed, the department is at a risk of regressing in its audit outcome.
Key controls and root causes

There was a regression in the key controls for leadership and governance, while financial and performance management remained the same. The department should strengthen the following controls to create a control environment that supports reliable financial and performance reporting and compliance with legislation.

- Exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls, including effective risk management processes.
- Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.
- Implement effective HR management to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored.

The accounting officer, accounting authorities and MEC should address the root causes of poor audit outcomes and inadequate controls as follows:

- Capacitate the finance units with adequately skilled and competent officials. The vacancy rate at senior management must be prioritised.
- Regular reconciliations are performed between the physical assets and financial records. At the department, in particular, adequate monitoring of the quality and frequency of these reconciliations cannot be overemphasised considering that the province still did not have an electronic asset management system in place which necessitates the use of Excel spreadsheets that is prone to manipulation and human error.
- The accounting authorities should ensure that there are effective internal audit units at all entities.
- The MEC must ensure that there are consequences for poor performance at both the department and its public entities.
- The MEC must meet with the audit committee on a quarterly basis to engage on the risks and status of internal controls.

Impact of key role players on audit outcomes

There is a need to improve on the level of assurance currently being provided by all role players in order to improve on the portfolio’s audit outcomes in the next financial year. The high vacancy rate, coupled with the skills and competency challenges within the portfolio, prevented senior management from providing the desired level of assurance, which also impacted on the assurance that the HoD/accounting authorities and MEC could provide. There was also an acting HoD at the department for most part of the financial year.

The level of assurance that the audit committee and internal audit unit can provide is dependent on the reliability of the assurance provided by senior management. The department’s failure to take the recommendations provided by the internal audit unit and audit committee also impacts on the level of assurance that these two critical governance structures are capable of providing.

At year-end, 61% of the internal audit findings and recommendations were not addressed by the department. The internal audit units at 59% of the public entities did not evaluate the reliability and integrity of the financial and operational information. No assurance was therefore provided on the credibility of these reports.

We met with the MEC three times in the past year and these interactions had no impact on the audit outcomes.

The following commitment was made by the newly appointed MEC:

- Considering that the LTA has been the worst performing entity in the portfolio and the province with five consecutive disclaimers, the MEC has committed to focus his attention in providing the necessary support and keeping track of the commitments made by the leadership of this public entity in addressing their poor audit outcomes.
6.4 Education

Stagnation in audit outcome

- 2012-13: Disclaimed with findings
- 2011-12: Disclaimed with findings
- 2010-11: Qualified with findings

Drivers of key controls not improving

- Leadership: 100%
- Financial and performance management: 100%
- Governance: 66%

Assurance levels should be improved

- Senior management: Provides limited/no assurance
- Accounting officer: Provides limited/no assurance
- MEC: Provides some assurance
- Internal audit: Provides some assurance
- Audit committee: Provides some assurance
- Portfolio committee: Provides limited/no assurance

The current audit outcomes are the result of the attention given to the six key risk areas.

No progress made in addressing risk areas

- Supply chain management
- Quality of performance reports
- Human resource management
- Quality of submitted financial statements
- Information technology controls
- Financial health
- Not analysed

Root causes to be addressed

- Slow response by political leadership
- Lack of consequences for poor performance and transgressions
- Key officials lack appropriate competencies

Status of key commitments by MEC

- Implemented
- In progress
- Not implemented
- New

Monitor the department's progress in addressing external audit findings through the implementation of an effective action plan and capacitating the department with skilled people.

General report on the provincial audit outcomes of Limpopo 2012-13
No movement in audit outcome

The department was under administration in terms of section 100(1)(b) of the Constitution. The department remained with a disclaimer for two consecutive years and there had been minimal progress by the department in addressing previous year issues.

Six key risk areas

There was no improvement by the department in the six key risk areas. The financial health was not analysed at the department as their financial statements were not reliable. It also does not include the analysis of four public entities as they were in the process of being deregistered. The financial statements and performance information submitted for auditing were of poor quality and documentation to support amounts reported in the financial statements and the annual performance could not be provided, resulting in a limitation of scope.

The status of SCM remained unsatisfactory, mostly as a result of the department not complying with the requirement to obtain three quotations in many instances as well as not adhering to regulations in the awarding of tenders. The irregular expenditure incurred amounts to R1,22 billion, which accounts for more than half of the total irregular expenditure in the province. It is also with concern to note that 94% (R321 million) of the total fruitless and expenditure for the province was incurred by this department.

There were a number of concerns over HR management. The department did not have adequate controls over leave administration and the recording thereof. Vacant posts were also not filled within 12 months, resulting in officials having to act in higher vacant posts for more than 12 months which is contravention of the Public Service Regulation. There were also instances where no evidence could be provided that appointments were made in posts that had been advertised.

The CFO did not have the necessary support due to the lack of skills and competencies at the finance unit. The lack of adequate asset management controls remained a concern due to recurring findings since the 2010-11 financial year on both immovable and movable assets.

As far as the department’s IT control environment is concerned, it could not maintain its previous year’s security management controls and regressed in this area. The department had still not designed controls over user access management and IT service continuity (business continuity and disaster recovery plans).

Key controls and root causes

There has been no improvement in the key controls for leadership and financial and performance management, while governance regressed since the previous year. The department should strengthen the following controls to create a control environment that supports reliable financial and performance reporting and compliance with legislation:

- Exercise oversight responsibility regarding financial and performance reporting, and compliance and related internal controls.
- Develop and monitor the implementation of action plans to address internal control deficiencies.
- 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.

The accounting officer and MEC should address the root causes of poor audit outcomes and inadequate controls as follows:

- The MEC and accounting officer must ensure that the finance unit is capacitated with adequately skilled and competent officials. The vacancy rate at senior management level also requires attention.
- The MEC must meet with the audit committee on a quarterly basis to engage on the risks and status of internal controls.
- Ensure that regular reconciliations are performed between the physical assets and financial records. Adequate monitoring over the quality and frequency of these reconciliations cannot be overemphasised considering that the province still did not have an electronic asset management system in place which necessitates the use of Excel spreadsheets that is prone to manipulation and human error.
- Hold officials accountable for poor performance and transgression of laws and regulations.
- Prepare a comprehensive action plan taking into account the root causes that have given rise to the findings. The control environment is also compromised if recommendations provided by the internal audit unit are not implemented in time.
• Implement an efficient recording keeping system to ensure that documentation is easily retrievable and available at all times.

**Impact of key role players on audit outcomes**

The skills and capacity constraints at the department prevented senior management from providing the desired level of assurance, which also impacted on the assurance that the HoD and MEC could provide. In addition, the HoD was not actively involved in the administration of the department after the section 100(1)(b) intervention in December 2011. The audit steering committee meetings were also not prioritised and taken seriously as evidenced by the non-attendance of the HoD and the section 100(1)(b) administrator. The MEC became involved too late in the audit process to have an impact.

The level of assurance that the audit committee and internal audit unit can provide is dependent on the reliability of the assurance provided by senior management. The department’s failure to take the recommendations provided by the internal audit unit and audit committee also impacts on the level of assurance that these two critical governance structures are capable of providing. At year-end, a number of findings and recommendations provided by the internal audit unit had not been implemented or addressed.

As part of its turnaround strategy, the national intervention team appointed consultants to assist the department in addressing findings raised by the AGSA and the implementation of sound financial and SCM practices. However, the consultants were appointed too late during the financial year to have had an impact on the outcomes for the year under review.

We met with the previous MEC twice and these interactions had a minimal impact on the audit outcomes. Improvements are expected in the next financial year. No key commitments were given to turn the department around with a view to improving the poor audit outcome.

The following commitment was made by the new MEC:

• Monitor the department’s progress in addressing external audit findings through the implementation of an effective action plan and capacitating the department with skilled people.
6.5 Health

Stagnation in audit outcome

- 2012-13 Disclaimed with findings
- 2011-12 Disclaimed with findings
- 2010-11 Disclaimed with findings

Drivers of key controls not improving

- Leadership: 100% (Good)
- Financial and performance management: 100% (Good)
- Governance: 67% (Intervention required)

Assurance levels should be improved

- Senior management: Provides limited/no assurance
- Accounting officer: Provides limited/no assurance
- MEC: Provides some assurance
- Internal audit: Provides some assurance
- Audit committee: Provides some assurance
- Portfolio committee: Provides limited/no assurance

Status of key commitments by MEC

- Strengthen internal control environment, risk management processes and the asset management unit
- Arrange a workshop with the National Department of Health and the ASGA to assist the department with a turnaround strategy in addressing the audit outcomes

The current audit outcomes are the result of the attention given to the six key risk areas.

No progress made in addressing risk areas

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

No findings Findings Material findings

Root causes to be addressed

- Slow response by political leadership
- Lack of consequences for poor performance and transgressions
- Key officials lack appropriate competencies

Status of key commitments by MEC

Implemented In progress Not implemented New
No movement in audit outcome

The department was under administration in terms of section 100(1)(b) of the Constitution. The department remained with a disclaimer for three consecutive years. Very little progress was made to address the previous year audit findings. The department managed to address only one qualification finding from the previous year.

Six key risk areas

There was improvement by the department in the five of the six key risk areas. We did not analyse the financial health of the department as its financial statements were not reliable. Non-compliance with SCM regulations was not receiving adequate attention as goods and services were still procured in contravention of SCM regulations, resulting in the department having incurred irregular expenditure to the amount of R571 million. There was also a lack of policies and operating procedures governing SCM prescripts. The quality of the financial statements and performance information did not improve. In fact, there was a regression in the performance information where findings were identified on both the usefulness and reliability of the reported information compared to the previous year where there were findings only on the usefulness thereof. In addition, the department did not achieve 56% of its planned targets in the year under review. The poor quality of the financial statements and performance information was also due to the high vacancy rates at senior management level and the lack of competencies and skills.

Findings on HR management revealed that there were poor controls over leave administration and the recording thereof. Vacant posts were also not filled within 12 months.

Little or no progress was made on the design and implementation of IT controls for user access and security management. Even though the department had designed IT service continuity controls (business continuity and disaster recovery plans), they were not tested and implemented during the year under review.

Key controls and root causes

There was no improvement in the key controls for leadership and financial and performance management, while governance regressed since the previous year. The department should strengthen the following controls to create a control environment that supports reliable financial and performance reporting and compliance with legislation:

- Exercise oversight responsibility regarding financial and performance reporting, and compliance and related internal controls, including effective risk management processes.
- Implement controls over daily and monthly processing and reconciling of transactions.
- 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.

The accounting officer and MEC should address the root causes of poor audit outcomes and inadequate controls as follows:

- Capacitate the finance unit with adequately skilled and competent officials. The vacancy rate at senior management level requires urgent attention.
- The accounting officer must ensure that regular reconciliations are performed between the physical assets and financial records. Adequate monitoring over the quality and frequency of these reconciliations cannot be overemphasised considering that the province still did not have an electronic asset management system in place which necessitates the use of Excel spreadsheets that is prone to manipulation and human error.
- Hold officials accountable for poor performance and transgression of laws and regulations.
- The MEC must meet with the audit committee on a quarterly basis to engage on the risks and status of internal controls.
- Prepare a comprehensive action plan taking into account the root causes that have given rise to the findings.
- Implement an efficient record keeping system to ensure that documentation is easily retrievable and available at all times.
- Ensure that internal audit findings and recommendations are implemented without delay. The control environment is compromised if recommendations provided by the internal audit unit are not implemented timeously.
- The department has a shared risk management unit with the Department of Social Development. This shared approach is not conducive and reduces the effectiveness of the risk management unit as the focus is split between the two departments with the added risk of not identifying and mitigating department-specific risks in a timely manner. The MEC must ensure that the function of the risk management officer is segregated.
between the two departments to improve the effectiveness of the unit. The high vacancy rate at the risk management unit is also a concern that must be prioritised.

**Impact of key role players on audit outcomes**

The skills and capacity constraints at the department prevented senior management from providing the desired level of assurance, which also impacted on the assurance that the HoD and MEC could provide. The level of assurance that the audit committee and internal audit unit can provide is dependent on the reliability of the assurance provided by senior management. The department’s failure to take the recommendations provided by the internal audit unit and audit committee also impacts on the level of assurance that these two critical governance structures are capable of providing. At year-end, a number of findings and recommendations provided by the internal audit unit were not implemented or addressed.

The department has been under section 100(1)(b) administration since December 2011. As part of its turnaround strategy, the national intervention team appointed consultants to assist the department in addressing findings raised by the AGSA and the implementation of sound financial and supply chain management. However, the consultants were appointed too late during the financial year to have had an impact on the outcomes for the year under review.

The portfolio committee failed to provide any assurance and there remains an urgent need for them to intensify their efforts in dealing with performance management and the implementation of legislation as they are key assurance providers in this regard.

We met with the MEC four times in the past year and these interactions had a minimal impact on the audit outcomes. Improvements are expected in the next financial year.

The following commitment was made by the previous MEC:

- Strengthen the internal control environment, risk management processes and the asset management unit.

The following commitment was made by the new MEC:

- Arrange a workshop for the provincial and national departments and the AGSA to assist the department in a turnaround strategy to address the audit outcomes. The senior management of the department and the hospitals will also be in attendance.
6.6 Office of the premier

The current audit outcomes are the result of the attention given to the six key risk areas.

- **Leadership**
  - 2012-13: Unqualified with findings
  - 2011-12: Unqualified with findings
  - 2010-12: Unqualified with findings

- **Financial and performance management**
  - 2012-13: 78%
  - 2011-12: 60%
  - 2010-12: 33%

- **Governance**
  - 2012-13: 22%
  - 2011-12: 40%
  - 2010-12: 67%

- **Drivers of key controls not improving**
  - Improved
  - Regressed

- **Status of key commitments by the Premier**
  - Progress made in addressing risk areas
  - Root causes to be addressed
  - Status of key commitments by the Premier

- **Assurance levels should be improved**
  - Senior management: Provides some assurance
  - Director General: Provides some assurance
  - Internal audit: Provides some assurance
  - Audit committee: Provides some assurance
  - Portfolio committee: Not applicable

- **Supply chain management**
  - Quality of performance reports
  - Human resource management

- **Quality of submitted financial statements**
  - Information technology controls
  - Financial health

- **Findings**
  - No findings
  - Findings
  - Material findings

- **Root causes to be addressed**
  - Slow response by political leadership
  - Lack of consequences for poor performance and transgressions
  - Key officials lack appropriate competencies

- **Status of key commitments by the Premier**
  - Implemented
  - In progress
  - Not implemented
  - New
No movement in audit outcome

The department received a financially unqualified opinion with findings. There were no findings on the performance information report in the previous year and the department managed to maintain this good practice in the year under review.

Six key risk areas

The quality of the financial statements improved compared to the previous year as there were no material misstatements identified. We did not identify any significant financial health concerns. Findings on procurement and contract management were recurring. The department should implement controls to identify and prevent awards being made to service providers who are persons in service of other state institutions or whose directors are persons in service of other state institutions.

Even though there were no material findings on the quality of the performance information submitted, the department did not achieve 39% of its planned targets for the year under review.

The regression in HR management was due to funded vacant posts not filled within 12 months.

The department had designed and implemented adequate security management controls; however, there were challenges in the design and implementation of controls governing user access and IT service continuity (business continuity and disaster recovery plans).

Key controls and root causes

Although there was room for improvement, the key controls for leadership and financial and performance management remained positive, while governance regressed since the previous year. The department should strengthen the following controls to create a control environment that supports compliance with legislation:

- Improve on the oversight role played by the director-general and senior management to ensure compliance with laws and regulations.
- Inadequate checks and balances.

The director-general should address the root causes of recurring non-compliance findings as follows:

- Appoint skilled officials who would be in a position to advise the department on the interpretation and implementation of laws and regulations.
- Hold officials accountable for poor performance and transgression of laws and regulations.
- Establish a central procurement system for the province with the assistance of the national and provincial treasuries to proactively identify officials who are in service of other state institutions and officials who perform remunerative work outside their employment.

Impact of key role players on audit outcomes

There is a need for an improvement on the levels of assurance provided across all levels. The post of the CFO was vacant during the financial year, which also had an impact on the level of assurance that was provided by the key role players. The level of assurance that the audit committee and internal audit unit can provide is dependent on the reliability of the assurance provided by senior management. The department’s failure to take the recommendations provided by the internal audit unit and audit committee also impacts on the level of assurance that these two critical governance structures are capable of providing. Findings and recommendations provided by the internal audit unit should be prioritised and addressed timeously.

We met with the premier three times in the past year and these interactions had a minimal impact on the audit outcomes. Improvements are expected in the next financial year.

The following commitments were made by the new premier:

- Enforce the consequences for poor performance.
- Ensure that the province is adequately capacitated with skilled people.
6.7 Legislature

Stagnation in audit outcome

- 2012-13: Unqualified with findings
- 2011-12: Unqualified with findings
- 2010-11: Unqualified with findings

Drivers of key controls not improving

- Leadership: 33%
- Financial and performance management: 100%
- Governance: 100%

Status of key commitments by Speaker

- No progress made in addressing risk areas
- Supply chain management
- Quality of performance reports
- Human resource management
- Quality of submitted financial statements
- Information technology controls
- Financial health

No findings: 2011-12, 2010-11
Findings: 2012-13
Material findings: 2012-13

Root causes to be addressed

- Instabilities or vacancies in key positions

Assurance levels should be improved

- Senior management: Provides some assurance
- Accounting officer: Provides some assurance
- Speaker: Provides assurance
- Internal audit: Provides assurance
- Audit committee: Provides assurance
- Portfolio committee: Not applicable

The current audit outcomes are the result of the attention given to the six key risk areas.

The drivers of the key controls and the root causes as well as the level of assurance that was provided by the key role players and the progress made on their commitments.

Status of key commitments by Speaker

- Ensure that compliance with laws and regulations receives attention
- Implement proper filing mechanisms to ensure that documentation is available
General report on the provincial audit outcomes of Limpopo 2012-13

No movement in audit outcome

The legislature received a financially unqualified opinion with findings. There was however a regression on the performance information where findings were identified on the reliability of the reported information.

Six key risk areas

There was a regression in both the quality of the financial statements and the performance information report since the previous year. Material corrections were required to be made to the financial statements during the audit. The legislature could not provide supporting documentation for the information reported in its annual performance report and as a result we could not obtain comfort over the reliability of the reported information. The poor quality of the financial statements and performance information can also be attributable to the high vacancy rate at senior management level.

There were no concerns raised over the financial health of the legislature. It is encouraging to note that there were no instances of non-compliance with SCM regulations resulting in irregular expenditure.

There were concerns over the IT environment of the legislature. There were no improvements in the controls governing security management, user access and IT service continuity (business continuity and disaster recovery plans).

Key controls and root causes

There was a regression in the key controls for leadership and financial and performance management, while governance improved since the previous year. The department should strengthen the following controls to create a control environment that supports reliable financial and performance reporting and compliance with legislation.

- Implement proper record keeping, thereby ensuring that complete, relevant and accurate information is accessible and available to support performance reporting.
- Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.
- Exercise oversight responsibility regarding the compliance with laws and regulations.

The accounting officer and speaker should address the root causes of non-compliance with laws and regulations and reporting as follows:

- Pay urgent attention to the vacancy rate at senior management level.
- Implement an efficient recording keeping system to ensure that documentation is easily retrievable and available at all times.
- Address internal findings and implement recommendations without delay.
- Understand the legislative requirements of the Limpopo Political Party Fund Act and monitor adherence thereto.

Impact of key role players on audit outcomes

The assurance level at senior management should be improved by addressing the high vacancy rate. The speaker had provided the desired level of assurance; however, there is a risk that the level of assurance would not be sustainable if the vacancy rate is not addressed. The level of assurance provided by the audit committee and internal audit unit should be maintained by continuing to timely address and implement findings and recommendations.

Oversight and accountability are constitutionally mandated functions of the legislature. In essence the portfolio committees, through the legislature, should exercise oversight as to whether departments and public entities have delivered on the service delivery promises they made in their strategic plans or annual performance plans. Consideration must also be given to the entities’ financial performance. The legislature had not efficiently discharged its oversight functions due to the poor performance of the portfolio committees as highlighted in section 5 above. The legislature must play a role in ensuring that there is proper planning, continuous capacity development of the members of the various portfolio committees and support staff to enhance their oversight capacity.

We met with the speaker four times in the past year and these interactions had some impact on the audit outcomes.

The following commitments were made by the previous speaker:

- Ensure that compliance with laws and regulations receives attention and that it is regularly monitored.
- Implement proper recording keeping mechanisms.
6.8 Provincial treasury

Stagnation in audit outcome

- 2012-13 Unqualified with findings
- 2011-12 Unqualified with findings
- 2010-11 Unqualified with findings

Drivers of key controls not improving

- Leadership
  - 2012-13: 67% Good, 33% Concerning
  - 2011-12: 67% Good, 33% Concerning
  - 2010-11: 67% Good, 33% Concerning

- Financial and performance management
  - 2012-13: 100% Improved
  - 2011-12: 100% Improved
  - 2010-11: 100% Improved

- Governance
  - 2012-13: 67% Good, 33% Concerning
  - 2011-12: 67% Good, 33% Concerning
  - 2010-11: 67% Good, 33% Concerning

Assurance levels should be improved

- Senior management: Provides some assurance
- Accounting officer/authority: Provides some assurance
- MEC: Provides limited/no assurance
- Internal audit: Provides some assurance
- Audit committee: Provides some assurance
- Portfolio committee: Provides limited/no assurance

Progress made in addressing risk areas

- Supply chain management
  - 2012-13: No findings
  - 2011-12: Findings
  - 2010-11: Material findings

- Quality of performance reports
  - 2012-13: Findings
  - 2011-12: Material findings
  - 2010-11: Material findings

- Human resource management
  - 2012-13: Findings
  - 2011-12: Material findings
  - 2010-11: Material findings

- Quality of submitted financial statements
  - 2012-13: Findings
  - 2011-12: Material findings
  - 2010-11: Findings

- Information technology controls
  - 2012-13: Findings
  - 2011-12: Material findings
  - 2010-11: Findings

- Financial health
  - 2012-13: Findings
  - 2011-12: Material findings
  - 2010-11: Findings

Root causes to be addressed

- Instability or vacancies in key positions
- Slow response by political leadership
- Slow response by political oversight (portfolio committee)

Status of key commitments by MEC

- No key commitments were made by the previous MEC

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No movement in audit outcome

The department was under administration in terms of section 100(1)(b) of the Constitution. The provincial treasury received a financially unqualified opinion with findings. There was an improvement in the quality of the financial statements and the performance information report submitted for auditing.

Six key risk areas

There was improvement in both the quality of the financial statements and performance information where findings identified on the reliability of the reported information in the previous year were addressed in the year under review. However, the department did not achieve 23% of its planned targets in the year under review. There were no significant financial health concerns identified. We did not identify any instances of unauthorised, fruitless and wasteful and irregular expenditure at the department. However, there were non-compliance findings on procurement and contract management where officials performed remunerative work outside of their employment in the department without obtaining written permission from the executive authority. There has been no improvement in HR management. Certain senior managers did not have signed performance contracts in place and vacant posts were not filled within 12 months.

The department had designed and implemented adequate security management controls; however, there were challenges in the design and implementation of controls governing user access and IT service continuity (business continuity and disaster recovery plans).

Key controls and root causes

There was a regression in the key controls for leadership and governance, while financial and performance management improved since the previous year. The department should improve its controls over the monitoring of compliance with laws and regulations.

The accounting officer and MEC should address the root causes of non-compliance with laws and regulations as follows:

- Address the backlog on the tribal and trust account as well as the consolidated financial statements and provincial revenue fund.
- Improve performance management practices by ensuring that all officials have signed performance contracts.
- The MEC must meet with the audit committee on a quarterly basis to engage on the risks and status of internal controls.

Impact of key role players on audit outcomes

The high vacancy rate at the department prevented senior management from providing the desired level of assurance, which also impacted on the assurance that the HoD and MEC could provide. The department was also under section 100(1)(b) administration where the National Treasury had effectively taken over the oversight role from the provincial treasury, which impacted on the assurance levels provided and, in particular, the level of assurance that could be provided by the MEC. The level of assurance that the audit committee and internal audit unit can provide is dependent on the reliability of the assurance provided by senior management. The department’s failure to take the recommendations provided by the internal audit unit and audit committee also impacts on the level of assurance that these two critical governance structures are capable of providing. At year-end, a number of findings and recommendations provided by the internal audit unit were not implemented or addressed.

As part of the turnaround strategy, the section 100(1)(b) national intervention team appointed consultants to assist the department in improving its oversight and monitoring role as outlined in section 18 of the PFMA. The consultants were appointed at the beginning of the year and the impact of this initiative would be evaluated in the next financial year.

We met with the MEC once in the past year and this interaction had no impact on the audit outcomes. As highlighted above, the National Treasury had effectively taken over the oversight role from the provincial treasury, which restricted the influence the MEC could have over the audit outcomes. There were also no commitments made by the previous MEC.
6.9 Public works

**Stagnation in audit outcome**

- **2012-13**: Disclaimed with findings
- **2011-12**: Disclaimed with findings
- **2010-11**: Qualified with findings

**Drivers of key controls not improving**

- Leadership: 17% Improved, 33% Regressed
- Financial and performance management: 50% Good, 50% Concerning
- Governance: 100% Intervention required

**Assurance levels should be improved**

- Senior management: Provides limited/no assurance
- Accounting officer: Provides limited/no assurance
- MEC: Provides limited/no assurance
- Internal audit: Provides some assurance
- Audit committee: Provides some assurance
- Portfolio committee: Provides limited/no assurance

**Root causes to be addressed**

- Slow response by political leadership
- Lack of consequences for poor performance and transgressions
- Key officials lack appropriate competencies

**Status of key commitments by MEC**

- Prioritise the filling of vacant positions at senior management level

**Supply chain management**: Quality of performance reports, Human resource management, Quality of submitted financial statements, Information technology controls, Financial health

**No progress made in addressing risk areas**: Not analysed

**The level of assurance** that was provided by the key role players and the progress made on their commitments.

**The current audit outcomes** are the result of the attention given to the six key risk areas.

**General report** on the provincial audit outcomes of Limpopo 2012-13
No movement in audit outcome

The department was under administration in terms of section 100(1)(b) of the Constitution. The department remained with a disclaimer for two consecutive years. Very limited progress was made to address the previous year audit findings. The department managed to address only one qualification finding from the previous year.

Six key risk areas

There was no improvement by the department in five of the six key risk areas. The financial health was not analysed at the department as their financial statements were not reliable. Non-compliance with SCM regulations was not receiving adequate attention as goods and services were still procured in contravention of SCM regulations, resulting in the department incurring irregular expenditure to the amount of R21.9 million. The department did not comply with the requirement to procure goods and services above R500 000 by inviting competitive bids and advertising bids for a period less than a required minimum period of 21 days. The quality of the financial statements and performance information remained poor and can also be attributable to the high vacancy rate at senior management level, finance and SCM units as well as the lack of competencies and skills.

There was no improvement in the IT security management controls and the department had not designed adequate controls over IT service continuity (business continuity and disaster recovery plans). However, the department successfully managed to design and implement adequate controls over user access management, which is an improvement compared to the previous year.

Key controls and root causes

There was no improvement in the key controls for leadership and governance, while financial and performance management regressed since the previous year. The department should strengthen the following controls to create a control environment that supports reliable financial and performance reporting and compliance with legislation:

- Implement effective financial management practices such as daily/monthly reconciliations that should be reviewed by senior 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.
- Exercise oversight responsibility regarding compliance with laws and regulations.

The accounting officer and MEC should address the root causes of poor audit outcomes and inadequate controls as follows:

- Capacitate the finance unit with adequately skilled and competent officials. The high vacancy rate at senior management level at the finance and SCM units requires urgent attention.
- Ensure that regular reconciliations are performed between the physical assets and financial records. Adequate monitoring over the quality and frequency of these reconciliations cannot be over emphasised considering that the province still did not have an electronic asset management system in place which necessitates the use of Excel spreadsheets that is prone to manipulation and human error.
- The MEC should ensure that officials are held accountable for poor performance and transgression of laws and regulations.
- Prepare a comprehensive action plan taking into account the root causes that have given rise to the findings. The control environment is also compromised if recommendations provided by the internal audit unit are not implemented timeously.
- Ensure that an efficient recording keeping system is implemented so that documentation is easily retrievable and available at all times.
- As the national intervention team prepares its exit and handing over, it is critical that the MEC ensures that the working relationship between the administrator, officials and HoD is improved.
- The MEC must meet with the audit committee on a quarterly basis to engage on the risks and status of internal controls.

Impact of key role players on audit outcomes

The skills and capacity constraints at the department prevented senior management from providing the desired level of assurance, which also impacted on the assurance that the HoD and MEC could provide. The poor working relationship between the section 100(1)(b) administrator and the HoD also contributed negatively to the assessment of the assurance providers. The level of assurance that the audit committee and internal audit unit can provide is dependent on the reliability of the assurance provided by senior management. The department’s failure to take the recommendations provided by the internal audit unit and audit committee also impacts on the level of assurance that these two critical governance structures are capable of providing. The progress in resolving internal audit findings and recommendations is slow and not receiving adequate attention.
As part of its turnaround strategy, the national intervention team appointed consultants to assist the department in addressing findings raised by the AGSA and the implementation of sound financial and SCM practices. However, the consultants were appointed too late during the financial year to have had an impact on the outcomes for the year under review.

We met with the MEC two times in the past year and these interactions had some impact on the audit outcomes. Improvements are expected in the next financial year.

The following commitment was made by the previous MEC:

- Prioritise the filling of vacant positions at senior management level.
6.10 Roads and transport

The current audit outcomes are the result of the attention given to the six key risk areas, the drivers of the key controls and the root causes as well as the level of assurance that was provided by the key role players and the progress made on their commitments.

Progress made in addressing risk areas:
- Supply chain management: 50%
- Quality of performance reports: 50%
- Human resource management: 50%
- Quality of submitted financial statements: 50%
- Information technology controls: 50%
- Financial health: 50%

No findings: 50%
Findings: 33%
Material findings: 17%

Root causes to be addressed:
- Slow response by political leadership
- Lack of consequences for poor performance and transgressions
- Slow response by political oversight (portfolio committee)

Status of key commitments by MEC:
- Work closely with the AGSA to address challenges relating to assets and compliance

General report on the provincial audit outcomes of Limpopo 2012-13
Auditees included in the portfolio

- Gateway Airports Authority Limited (GAAL)
- Limpopo Roads Agency

The audit of Limpopo Roads Agency was not finalised by 31 August 2013, which is the cut-off date for inclusion of audit outcomes in this report.

Improvement in audit outcome

The department was under administration in terms of section 100(1)(b) of the Constitution. The department improved from a qualified opinion in the 2010-11 and 2011-12 financial years to an unqualified opinion with findings and GAAL remained with a qualified opinion.

Six key risk areas

There was an overall improvement by the department in the key risk areas. We did not identify any significant financial health concerns. There was also a reduction in irregular expenditure since the previous year. However, our audit of procurement and contract management revealed that there were instances where officials of the department performed remunerative work outside their employment in the department without obtaining permission from the relevant executive authority. This is a recurring finding from the previous year. The department maintained its good practices by providing a quality performance information report for two consecutive years. However, we noted that the department did not achieve 35% of its total planned targets during the year under review. The financial statements were submitted without any material misstatements, which is an improvement since the previous year.

GAAL managed to address all its previous year qualification findings except for assets. The usefulness of the reported performance information and the quality of the financial statements submitted for auditing still require attention. Non-compliance with SCM regulations was still common in the year under review, which resulted in the incurrence of irregular expenditure. Attention to the IT environment and related controls should also be prioritised.

The department had adequately designed and implemented controls over IT security management and IT service continuity (business continuity and disaster recovery plans). As far as user access management is concerned, the department had still not designed and implemented controls.

GAAL on the other hand did not implement and design controls over all three IT focus areas, i.e. security management, user access and IT service continuity.

Key controls and root causes

Although the key controls for the department had improved, the assessment for the portfolio remained unchanged due to the key control deficiencies identified at the public entity. The department, including the entities under its control, should strengthen the following controls to create a control environment that supports reliable financial and performance reporting and compliance with legislation:

- Exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls at the entities.
- Strict monitoring of compliance with laws and regulations and taking action against officials who do not comply.
- Address poor governance and risk management activities.

The accounting officer, accounting authority and MEC should address the root causes of poor audit outcomes and inadequate controls as follows:

- Capacitate the finance unit with adequately skilled and competent officials. The vacancy rate at senior management level at GAAL must be prioritised.
- Regular reconciliations are performed between the physical assets and financial records. At the department, adequate monitoring over the quality and frequency of these reconciliations cannot be overemphasised considering that the province still did not have an electronic asset management system in place which necessitates the use of Excel spreadsheets that is prone to manipulation and human error. This was evident in 2010-11 where the department, with year-end effort, corrected the discrepancies in the Excel asset register and avoided a qualification on assets. However, this practice proved to be unsustainable as the department received a qualification on its assets in the following financial year.
- The MEC should ensure that an audit committee and internal audit unit are established at GAAL without further delay.
- The MEC and HoD must meet with the audit committees of both the department and entity on a quarterly basis to engage on the risks and status of internal controls.
- The HoD should make resources available to train and support officials at GAAL on the reporting of performance information as well as strengthening its IT control environment.
- The MEC should hold officials accountable for poor performance at the department and entity and there must be consequences.
Impact of key role players on audit outcomes

Senior management at the department did provide some level of assurance. However, significant improvement is required at GAAL. The improvement in audit outcome was largely driven by the new HoD who was appointed late in the financial year. With stability having been achieved at the department we expect the level of assurance provided by the key role players to improve in the next financial year. The level of assurance that the audit committee and internal audit unit can provide is dependent on the reliability of the assurance provided by senior management. Failure to take the recommendations provided by the internal audit unit and audit committee also impacts on the level of assurance that these two critical governance structures are capable of providing. GAAL did not have an audit committee and internal audit unit in place and the department should ensure that these two critical governance structures are in place and established without any further delays.

The department has also been under administration in terms of section 100(1)(b) of the Constitution since December 2011. As part of its turnaround strategy, the national intervention team appointed consultants to assist the department in addressing findings raised by the AGSA and the implementation of sound financial and supply chain management practices. However, the consultants were appointed only in January 2013 and the impact of this initiative would be measured in the next financial year.

The portfolio committee failed to provide any assurance and there was an urgent need for them to intensify their efforts in dealing with performance management and the implementation of legislation as they are key assurance providers in this regard.

We met with the MEC once in the past year and this interaction had a minimal impact on the audit outcomes.

The following commitment was made by the previous MEC:

- Work closely with the AGSA to address challenges relating to assets and compliance.
6.11 Safety, security and liaison

The current audit outcomes are the result of the attention given to the six key risk areas, and the drivers of the key controls as well as the root causes as addresses.

The level of assurance that was provided by the key role players and the progress made on their commitments.

<table>
<thead>
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<th>Assurance levels should be improved</th>
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<td>Senior management</td>
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<tr>
<td>Portfolio committee</td>
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Status of key commitments by MEC

- Identify gaps in the skills and competencies of officials at the finance unit
- Improve in the monitoring of compliance with laws and regulations
No movement in audit outcome

The department received a financially unqualified opinion with findings. While some prior year non-compliance findings had been addressed, new findings were identified in the year under review.

Six key risk areas

There was some improvement by the department in the six key risk areas. There were no significant financial health concerns identified. Findings on SCM regulations are recurring from the previous year where instances were again identified in the procurement of goods and service from suppliers who submitted incomplete declarations on whether they are employed by the state or connected to any person employed by the state. There was some improvement in the management of vacancies since the previous year. The department maintained its good practices by providing quality performance information for two consecutive years. The financial statements were submitted without any material misstatements, which is an improvement since the previous year.

Although the department had designed security management controls, it did not implement them in the year under review. As far as user access management and IT service continuity (business continuity and disaster recovery plans) are concerned, the department had still not designed and implemented any controls.

Key controls and root causes

There was an improvement in the key controls for leadership and governance, while financial and performance management remained unchanged. The department should strengthen the following controls to create a control environment that continuously supports reliable financial and performance reporting and compliance with legislation:

• Improve controls over the monitoring of compliance with laws and regulations.

The accounting officer and MEC should address the root causes of poor audit outcomes and inadequate controls as follows:

• Capacitate the department with adequately skilled staff to ensure that policies and procedures that guide the operations of the department are complied with to prevent recurring findings on non-compliance with laws and regulations.

• Prepare a comprehensive action plan taking into account the root causes that have given rise to the findings. The control environment is also compromised if recommendations provided by the internal audit unit are not implemented timeously.

• Implement a checklist to monitor compliance with laws and regulations and hold officials accountable for non-compliance.

• The MEC must meet with the audit committee on a quarterly basis to engage on the risks and status of internal controls.

Impact of key role players on audit outcomes

There was some level of assurance provided by all key role players except for the portfolio committee where no assurance was provided. The newly appointed HoD, who was acting for most part of the financial year, was hands on and played a critical role in maintaining the unqualified audit opinion. However, considering the size of the department and the limited number of transactions, it is disappointing to note that the department is unable to make progress towards a clean audit opinion. The level of assurance must be improved if clean audit for this department is to become a reality. There is also an urgent need to evaluate the extent of the lack of skills at the finance unit to enable the department to proactively address the gaps identified and to sustain the improvement in the quality of the financial statements.

Furthermore, the level of assurance that the audit committee and internal audit unit can provide is dependent on the reliability of the assurance provided by senior management. The department’s failure to take the recommendations provided by the internal audit unit and audit committee also impacts on the level of assurance that these two critical governance structures are capable of providing.

We met with the MEC once in the past year and this interaction had a minimal impact on the audit outcomes. Improvements are expected in the next financial year.

The following commitments were made by the previous MEC:

• Address identified gaps in the skills and competencies of officials at the department.

• Improve in the monitoring of compliance with laws and regulations.
6.12 Social development

Regression in audit outcome

2012-13 Qualified with findings
2011-12 Unqualified with findings
2010-11 Qualified with findings

Drivers of key controls not improving
Leadership 83% 17%
Financial and performance management 20% 80%
Governance 67% 33%

Assurance levels should be improved/maintained
Senior management Provides some assurance
Accounting officer Provides some assurance
MEC Provides some assurance
Internal audit Provides some assurance
Audit committee Provides some assurance
Portfolio committee Provides limited/no assurance

No key commitments were made by the MEC

Status of key commitments by MEC
No key commitments were made by the MEC

Root causes to be addressed
Slow response by political leadership
Lack of consequences for poor performance and transgressions
Key officials lack appropriate competencies

The current audit outcomes are the result of the attention given to the six key risk areas.

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

No progress made in addressing risk areas

The drivers of the key controls and the root causes as well as the level of assurance that was provided by the key role players and the progress made on their commitments.
Regression in audit outcome

The department regressed from a financially unqualified opinion with findings to a qualified audit opinion. There were, however, no findings on the quality of the performance information submitted for two consecutive financial years.

Six key risk areas

We did not identify any significant financial health concerns. The financial statements submitted for audit contained material misstatements and this was recurring since the previous year. There were no quality concerns raised on the usefulness and reliability of the performance information submitted. However, the department did not achieve 37% of its planned targets in the year under review. Non-compliance with SCM regulations was not receiving adequate attention as goods and services were still procured in contravention of SCM regulations, such as the procurement of goods and services above R500 000 without inviting competitive bids. The non-compliance with SCM regulations resulted in irregular expenditure of R20 million. Regarding HR management, the controls over the management of leave and the recording thereof were found to be deficient, which is recurring since the previous year. The high vacancy rate at senior management level also needs attention.

There was no improvement in the control design over IT security management controls and the department had still not designed and implemented controls over user access management. Even though the department had designed IT service continuity controls (business continuity and disaster recovery plans), it had not tested and implemented them in the year under review.

Key controls and root causes

There was a regression in the key controls for leadership and financial and performance management, while there was no improvement in governance. The department should strengthen the following controls to create a control environment that supports reliable financial and performance reporting and compliance with legislation.

- Exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.
- Implement controls over daily and monthly processing and reconciling of transactions, which must include regular asset counts.

- Establish an effective risk management unit which focuses in addressing and mitigating departmental specific risks.
- The accounting officer and MEC should address the root causes of poor audit outcomes and inadequate controls as follows:
  - Capacitate the finance unit with adequately skilled and competent officials.
  - Perform regular reconciliations between the physical assets and financial records.
  - Hold officials accountable for poor performance and transgression of laws and regulations.
  - Prepare a comprehensive action plan taking into account the root causes that have given rise to the findings.
  - Implement an efficient recording keeping system.
  - The MEC must meet with the audit committee on a quarterly basis to engage on the risks and status of internal controls.
  - The department has a shared risk management unit with the Department of Health. This shared approach is not conducive and reduces the effectiveness of the risk management unit. The MEC must ensure that the function of the risk management officer is segregated between both departments to improve on the effectiveness of this unit.

Impact of key role players on audit outcomes

There was some level of assurance provided by all key role players except for the portfolio committee where no assurance was provided. The level of assurance must be improved if clean audit for this department is to become a reality. The appointment of a CFO late in the financial year and the vacancy rate at senior management level also contributed to less than the desired level of assurance.

Despite numerous attempts, we did not have the opportunity to engage with the MEC on the key controls and audit outcomes.

As part of its turnaround strategy for the province, the national intervention team also appointed consultants to assist the department in addressing findings raised by the AGSA and the implementation of sound financial and SCM practices. However, the consultants were appointed only in January 2013 and the impact of this initiative would be measured in the next financial year.
6.13 Sport, arts and culture

Stagnation in audit outcome

- 2012-13 Qualified with findings
- 2011-12 Qualified with findings
- 2010-11 Qualified with findings

Drivers of key controls not improving

- Leadership
  - 100% Good
- Financial and performance management
  - 62% Concerning
  - 38% Intervention required
- Governance
  - 100% Improved

Assurance levels should be improved

- Senior management: Provides limited/no assurance
- Accounting officer: Provides limited/no assurance
- MMEC: Provides some assurance
- Internal audit: Provides some assurance
- Audit committee: Provides some assurance
- Portfolio committee: Provides limited/no assurance

Status of key commitments by Minister/MEC

- Root causes to be addressed
  - Slow response by political oversight (portfolio committee)
  - Lack of consequences for poor performance and transgressions
  - Key officials lack appropriate competencies

- Status of key commitments
  - Implemented
  - In progress
  - Not implemented
  - New

The current audit outcomes are the result of the attention given to the six key risk areas, and the drivers of the key controls as well as the root causes as well as the level of assurance that was provided by the key role players and the progress made on their commitments.
No movement in audit outcome

The department obtained a qualified audit opinion. There were two additional qualifications in the year under review and the quality of the performance information also regressed since the previous year.

Six key risk areas

There were no significant financial health concerns identified. Non-compliance with SCM regulations was not receiving adequate attention as goods and services were still procured in contravention of SCM regulations, such as bids were not always advertised for the required minimum period of 21 days, and as a result the department incurred irregular expenditure to the amount of R16.9 million. There were also instances identified where officials of the department performed remunerative work outside their employment without written permission from the executive authority. In addition to the regression in the quality of the performance information report, the department did not achieve 40% of its planned targets for the year under review. We could not obtain comfort over the reliability of the performance information due to the lack of supporting documentation. Even though the financial statements submitted for auditing contained material misstatements and is recurring since the previous year, we noted some improvement in the overall quality thereof. The vacancy rate at senior management level still remained high and should be attended to. There was no improvement in the IT security management controls and the department had still not designed and implemented controls over user access management and IT service continuity (business continuity and disaster recovery plans).

Key controls and root causes

There was no improvement in the key controls for leadership and financial and performance management and governance since the previous year. The department should strengthen the following controls to create a control environment that supports reliable financial and performance reporting and compliance with legislation:

- Financial disciplines should be implemented (i.e. daily/monthly reconciliations which should be reviewed by senior officials).
- Stringent monitoring over compliance with laws and regulations.
- Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available.

The accounting officer and MEC should address the root causes of poor audit outcomes and inadequate controls as follows:

- Capacitate the finance and SCM units with adequately skilled and competent officials.
- Perform regular reconciliations between the physical assets and financial records considering that there is no electronic asset management system in place which necessitates the use of Excel spreadsheets that is prone to manipulation and human error.
- Officials should be held accountable for poor performance.
- Prepare a comprehensive action plan, taking into account the root causes that have given rise to the findings. The control environment is also compromised if recommendations provided by the internal audit unit are not implemented timeously.
- Implement an efficient recording keeping system.
- The MEC must meet with the audit committee on a quarterly basis to engage on the risks and status of internal controls.

Impact of key role players on audit outcomes

The level of assurance provided by senior management and the accounting officer requires immediate attention. The vacancy rate at senior management level also contributed to poor assurance levels. The CFO was unable to implement effective controls to steer the department towards an improvement. A new CFO was subsequently appointed in the new financial year.

The national intervention team also appointed consultants to assist the department in addressing findings raised by the AGSA and the implementation of sound financial and SCM practices. However, the consultants were appointed only in January 2013 and the impact of this initiative would be measured in the next financial year.

We met with the MEC three times in the year under review and these interactions had a minimal impact on the audit outcomes. Improvements are expected in the next financial year.

The following commitment was made by the previous MEC:

- Implement proper financial management disciplines and improve on recording keeping.
## Annexure 1: Auditees' audit outcomes, areas qualified and findings on predetermined objectives, non-compliance and specific focus areas

<table>
<thead>
<tr>
<th>Auditee</th>
<th>2012-13 audit outcomes</th>
<th>2011-12 audit outcomes</th>
<th>Financial statement qualification areas</th>
<th>Findings on predetermined objectives</th>
<th>Findings on non-compliance</th>
<th>Findings on specific focus areas</th>
<th>Unauthorised, irregular as well as fruitless and wasteful expenditure</th>
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### Legend (audit outcomes)
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- **Unqualified with findings**
- **Qualified with findings**
- **Adverse with findings**
- **Disclaimer with findings**
- **Audit not finalised at legislated date**
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- **Addressed**
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### Legend (expenditure)
- **Improved**
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<td>VDC Investments</td>
<td>N</td>
<td>N</td>
<td>R</td>
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Legend (audit outcomes): Unqualified with no findings, Unqualified with findings, Qualified with findings, Adverse with findings, Disclaimer with findings, Audit not finalised at legislated date, New auditee

Legend (findings): Addressed (A), New (N), Repeat (R), Not analysed (X)

Legend (expenditure): Improved, Regressed

Legend (financial misconduct): Information technology controls, Financial health, Financial expenditure, Unauthorised expenditure, Amount R
Annexure 2: Auditees' five-year audit opinions

<table>
<thead>
<tr>
<th>Auditee</th>
<th>2012-13</th>
<th>2011-12</th>
<th>2010-11</th>
<th>2009-10</th>
<th>2008-09</th>
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<tr>
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<tr>
<td>Cooperative Governance, Human Settlements and Traditional Affairs</td>
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<tr>
<td>Economic Development, Environment and Tourism</td>
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<tr>
<td>Education</td>
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<tr>
<td>Health</td>
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<tr>
<td>Office of the Premier</td>
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<td>Limpopo Provincial Legislature</td>
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<tr>
<td>Limpopo Provincial Treasury</td>
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<tr>
<td>Public Works</td>
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<td>Roads and Transport</td>
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<tr>
<td>Safety, Security and Liaison</td>
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<tr>
<td>Social Development</td>
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<tr>
<td>Sport, Arts and Culture</td>
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Legend:
- **Unqualified with no findings**
- **Unqualified with findings**
- **Qualified with findings**
- **Adverse with findings**
- **Disclaimer with findings**
- **Audit not finalised at legislated date**
- **New auditee**
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<th>Auditee</th>
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<th>2011-12</th>
<th>2010-11</th>
<th>2009-10</th>
<th>2008-09</th>
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<tbody>
<tr>
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<tr>
<td>Fumani Green Stone</td>
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<tr>
<td>Gateway Airport Authority Limited</td>
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<tr>
<td>Great North Transport</td>
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<td>Khumong Chrome Mine</td>
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<td>Kulungisa (Pty) Ltd</td>
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<td>Limpopo Economic Development Agency</td>
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<td>Limpopo Gambling Board</td>
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<td>Limpopo Roads Agency</td>
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</tr>
<tr>
<td>Limpopo Tourism and Parks Board</td>
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<tr>
<td>Tribal and Trust Account</td>
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<tr>
<td>Mapulaneng Investments</td>
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<tr>
<td>Mokopane Kodumela Mining Investments</td>
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<tr>
<td>Munumzwu Estate</td>
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<tr>
<td>Risima Housing Finance Corporation</td>
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<tr>
<td>Sefateng Chrome Mine</td>
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<td>Tshepong Chrome Mine</td>
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<tr>
<td>VDC Investments</td>
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<tr>
<td>Venteco</td>
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</table>

**Legend**
- **Unqualified with no findings**
- **Unqualified with findings**
- **Qualified with findings**
- **Adverse with findings**
- **Disclaimer with findings**
- **Audit not finalised at legislated date**
- **New auditee**
Annexure 3: Assessment of auditees’ key controls at the time of the audit

<table>
<thead>
<tr>
<th>Auditee</th>
<th>Leadership</th>
<th>Financial and performance management</th>
<th>Governance</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Effective leadership culture</td>
<td>Oversight responsibility</td>
<td>HR management</td>
</tr>
<tr>
<td>F</td>
<td>P</td>
<td>C</td>
<td>F</td>
</tr>
</tbody>
</table>

**Departments**
- Agriculture
- Cooperative Governance, Human Settlements and Traditional Economic Development, Environment and Tourism
- Education
- Health
- Office of the Premier
- Limpopo Provincial Legislature
- Limpopo Provincial Treasury
- Public Works
- Roads and Transport
- Safety, Security and Liaison
- Social Development
- Sport, Arts and Culture

**Public entities**
- Capital Hill Investment Company
- Corridor Mining Resources
- Fumani Green Stone
- Gateway Airport Authority Limited
- Great North Transport
- Khumong Chrome Mine
- Kulungisa (Pty) Ltd
- Limpopo Economic Development Agency
- Limpopo Gambling Board
- Limpopo Tourism and Parks Board
- Mapulaneng Investments
- Mokopane Kodumela Mining Investments
- Munumzwu Estate
- Risima Housing Finance Corporation
- Sefateng Chrome Mine
- Tahepong Chrome Mine
- VDC Investments
- Venleco
GLOSSARY OF TERMS, ACRONYMS AND ABBREVIATIONS
## Glossary of terms

<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Accounts payable (also referred to as creditors)</strong></td>
<td>Money owed by the auditee to companies, organisations or persons who have supplied goods and services.</td>
</tr>
<tr>
<td><strong>Accounts receivable (also referred to as debtors)</strong></td>
<td>Money owed to the auditee by companies, organisations or persons who have received goods or services from the auditee.</td>
</tr>
<tr>
<td><strong>Adverse audit opinion</strong></td>
<td>The financial statements contain misstatements that are not confined to specific amounts, or the misstatements represent a substantial portion of the financial statements.</td>
</tr>
<tr>
<td><strong>Asset</strong></td>
<td>Any item belonging to the auditee, including property, plant, cash, and debt.</td>
</tr>
<tr>
<td><strong>Asset impairment</strong></td>
<td>The reduction in value of an asset below its normal value at which it can be converted into cash through sale or other means.</td>
</tr>
<tr>
<td><strong>Assurance</strong></td>
<td>A positive declaration that is intended to give confidence. Through the audit report, we provide assurance on the credibility of auditees’ financial and performance information as well as auditees’ compliance with legislation. Other role players in the public sector also contribute to assurance and confidence by ensuring that internal controls are implemented. Such assurance providers include various auditee officials, committees and internal audit units, oversight structures as well as coordinating or monitoring departments.</td>
</tr>
<tr>
<td><strong>Audit outcome</strong></td>
<td>The audit opinion on an auditee’s financial statements, together with any material findings on that auditee’s annual performance report and/or material findings on non-compliance by the auditee with applicable legislation.</td>
</tr>
<tr>
<td><strong>Capital budget</strong></td>
<td>The estimated amount planned to be spent on capital items in a particular financial period; for example, fixed assets such as land and buildings with long expected lives and that produce income or support operations.</td>
</tr>
<tr>
<td><strong>Cash flow</strong></td>
<td>The flow of money from operations: incoming funds are revenue and outgoing funds are expenses.</td>
</tr>
<tr>
<td><strong>Clean audit outcome</strong></td>
<td>The financial statements of the auditee are free of material misstatements (in other words, a financially unqualified audit opinion) and there are no material findings on reporting on performance objectives or non-compliance with legislation.</td>
</tr>
<tr>
<td><strong>Commitments (from role players)</strong></td>
<td>Initiatives communicated to us by role players to improve audit outcomes.</td>
</tr>
<tr>
<td><strong>Commitments (in financial statements)</strong></td>
<td>The cost of goods and services to be received in the following year, which the auditee has already contractually agreed to purchase in the current year.</td>
</tr>
<tr>
<td><strong>Conditional grants</strong></td>
<td>Money transferred from one sphere of government to another, subject to certain services being delivered or on compliance with specified requirements.</td>
</tr>
<tr>
<td>-----------------------</td>
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</tr>
<tr>
<td><strong>Consolidated financial statements</strong></td>
<td>Financial statements that reflect the combined financial position and results of a department and those of the entities under its control.</td>
</tr>
<tr>
<td><strong>Contingent liability</strong></td>
<td>A potential liability, the amount of which will depend on the outcome of a future event.</td>
</tr>
<tr>
<td><strong>Current assets</strong></td>
<td>These assets are made up of cash and other assets, such as inventory or debt, which will be traded, used or converted into cash in less than 12 months. All other assets are classified as non-current, and typically include property, plant and equipment as well as long-term investments.</td>
</tr>
<tr>
<td><strong>Disclaimer of audit opinion</strong></td>
<td>The auditee provided insufficient evidence in the form of documentation on which to base an audit opinion. The lack of sufficient evidence is not confined to specific amounts, or represents a substantial portion of the information contained in the financial statements.</td>
</tr>
<tr>
<td><strong>Financial and performance management</strong></td>
<td>The management of resources to achieve the financial and service delivery objectives of the auditee. (This is one of the three key overall drivers of internal control that should be addressed to improve audit outcomes or to sustain good audit outcomes.)</td>
</tr>
<tr>
<td><strong>Financially unqualified audit opinion</strong></td>
<td>The financial statements contain no material misstatements. Unless we express a clean audit opinion, material findings have been raised on either reporting on predetermined objectives or non-compliance with legislation, or both these aspects.</td>
</tr>
<tr>
<td><strong>Fruitless and wasteful expenditure</strong></td>
<td>Expenditure that was made in vain and could have been avoided had reasonable care been taken. This includes penalties and interest on late payments as well as payments for services not utilised or goods not received.</td>
</tr>
<tr>
<td><strong>General ledger</strong></td>
<td>A record of all the financial transactions of the auditee.</td>
</tr>
<tr>
<td><strong>Going concern</strong></td>
<td>The presumption that an auditee will continue to operate in the foreseeable future, and will not go out of business and liquidate its assets. For this to happen, the auditee must be able to raise enough resources to stay operational.</td>
</tr>
<tr>
<td><strong>Governance</strong></td>
<td>The governance structures (audit committees) and processes (internal audit and risk management) of an auditee. (This is one of the three key overall drivers of internal control that is required to improve audit outcomes or to sustain good audit outcomes.)</td>
</tr>
<tr>
<td><strong>Human resource (HR) management</strong></td>
<td>The management of an auditee’s employees, or human resources, which involves adequate and sufficiently skilled resources as well as the adequate management of employee performance and productivity.</td>
</tr>
<tr>
<td><strong>Information technology (IT)</strong></td>
<td>The computer systems used for recording, processing and reporting financial and non-financial transactions.</td>
</tr>
</tbody>
</table>
**IT governance**
The leadership, organisational structures and processes which ensure that the auditee’s IT resources will sustain its business strategies and objectives.

**IT security management**
The controls preventing unauthorised access to the computer networks, computer operating systems and application systems that generate and prepare financial information.

**IT service continuity**
The processes of managing the availability of computer hardware, system software, application software (computer programmes) and data to enable auditees to recover or establish information system services in the event of a disaster.

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

**Internal control (also referred to as key controls)**
The process designed and implemented by those charged with governance, management and other employees to provide reasonable assurance about the achievement of the auditee’s objectives with regard to the reliability of financial reporting, the effectiveness and efficiency of operations, and compliance with applicable legislation. It consists of all the policies and procedures implemented by auditee management to assist in achieving the orderly and efficient conduct of business, including adhering to policies, safeguarding assets, preventing and detecting fraud and error, ensuring the accuracy and completeness of accounting records, and timeously preparing reliable financial and service delivery information.

**Inventory**
Goods held for resale or for internal use.

**Irregular expenditure**
Expenditure incurred without complying with applicable legislation.

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

**Leadership**
The administrative leaders of an auditee, such as accounting officers and senior management. (This is one of the three key overall drivers of internal control required to improve audit outcomes and to sustain good audit outcomes.) It can also refer to the political leadership (including the members of the executive council) or the leadership in the province (such as the premier).

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

**Material finding**
An audit finding on reporting on predetermined objectives or non-compliance with legislation that is significant enough in terms of its value, its nature or both its value and its nature that it requires to be reported in the audit report.
Material misstatement
A misstatement that is significant enough to influence the opinions of users of the reported information. Materiality is considered in terms of either the rand value or the nature and cause of the misstatement, or both these aspects.

Misstatement
Incorrect or omitted information in the financial statements or annual performance report.

Modified opinion
A qualified, adverse or disclaimer of opinion.

Net current liability
The amount by which the sum of all money owed by an auditee and due within one year exceeds amounts due to the auditee within the same year.

Net deficit
The amount by which an auditee’s spending exceeds its income.

Operational budget
A short-term budget, usually prepared annually, based on estimates of income and expenses associated with the auditee’s operations, such as administration and salaries.

Payroll
Data relating to employees’ earnings.

Property, plant and equipment
Assets that physically exist and are expected to be used for more than one year, including land, buildings, leasehold improvements, equipment, furniture, fixtures and vehicles.

Qualified audit opinion
The financial statements contain material misstatements in specific amounts, or there is insufficient evidence for us to conclude that specific amounts included in the financial statements are not materially misstated.

Reconciliation
The process of matching one set of data to another; for example, the bank statement to the cash book or the accounts payable balances to the corresponding general ledger account balance.

Reporting against predetermined objectives (PDOs)
Reporting by auditees in their annual performance plans on their actual achievements against the performance objectives they had set at the beginning of the period. The performance objectives relate mostly to service delivery.

Root causes
The underlying causes or drivers of audit findings; in other words, why the problem had occurred. Addressing the root cause helps to ensure that the actions address the real issue, thus preventing or reducing the incidents of recurrence, as opposed to simply providing a temporary or short-term fix.

Supply chain management (SCM)
Procuring goods and services through a tender or quotation process and monitoring the quality and timeliness of the goods and services provided.

Unauthorised expenditure
Expenditure that was in excess of the amount budgeted or allocated by government to the auditee, or that was not incurred in accordance with the purpose for which it was intended.
## Acronyms and abbreviations

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
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<tbody>
<tr>
<td>AFS</td>
<td>annual financial statements</td>
</tr>
<tr>
<td>AG</td>
<td>auditor-general (the person)</td>
</tr>
<tr>
<td>AGSA</td>
<td>Auditor-General of South Africa (the institution)</td>
</tr>
<tr>
<td>APAC</td>
<td>Association of Public Accounts Committees</td>
</tr>
<tr>
<td>bn</td>
<td>R‘billion (rand)</td>
</tr>
<tr>
<td>BAS</td>
<td>Basic Accounting System</td>
</tr>
<tr>
<td>BCP</td>
<td>business continuity plan</td>
</tr>
<tr>
<td>CEO</td>
<td>chief executive officer</td>
</tr>
<tr>
<td>CFO</td>
<td>chief financial officer</td>
</tr>
<tr>
<td>CIDB</td>
<td>Construction Industry Development Board</td>
</tr>
<tr>
<td>CIO</td>
<td>chief information officer</td>
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<tr>
<td>CoGHSTA</td>
<td>Department of Cooperative Governance, Human Settlements and Traditional Affairs</td>
</tr>
<tr>
<td>DoRA</td>
<td>Division of Revenue Act</td>
</tr>
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<td>DPSA</td>
<td>Department of Public Service and Administration</td>
</tr>
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<td>DRP</td>
<td>disaster recovery plan</td>
</tr>
<tr>
<td>FMS</td>
<td>Financial Management System</td>
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<td>GAAP</td>
<td>Generally Accepted Accounting Practice</td>
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<tr>
<td>GITO</td>
<td>government information technology officer</td>
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<tr>
<td>GRAP</td>
<td>Generally Recognised Accounting Practice</td>
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<td>HoD</td>
<td>head of department</td>
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<tr>
<td>HR</td>
<td>human resources</td>
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<tr>
<td>Acronym</td>
<td>Description</td>
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<tr>
<td>IDP</td>
<td>integrated development plan</td>
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<tr>
<td>IT</td>
<td>information technology</td>
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<td>K</td>
<td>R'thousand (rand)</td>
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<tr>
<td>Logis</td>
<td>Logistical Information System</td>
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<tr>
<td>m</td>
<td>R'million (rand)</td>
</tr>
<tr>
<td>MEC</td>
<td>member of the executive council of a province</td>
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<tr>
<td>NCOP</td>
<td>National Council of Provinces</td>
</tr>
<tr>
<td>NT</td>
<td>National Treasury</td>
</tr>
<tr>
<td>PAA</td>
<td>Public Audit Act, 2004 (Act No. 25 of 2004)</td>
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<tr>
<td>PDO</td>
<td>predetermined objective</td>
</tr>
<tr>
<td>Persal</td>
<td>Personnel and Salary System</td>
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<tr>
<td>PFMA</td>
<td>Public Finance Management Act, 1999 (Act No. 1 of 1999)</td>
</tr>
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<td>PPPFA</td>
<td>Preferential Procurement Policy Framework Act, 2000 (Act No. 5 of 2000)</td>
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<td>South African Local Government Association</td>
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<td>SARS</td>
<td>South African Revenue Service</td>
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<tr>
<td>SCM</td>
<td>supply chain management</td>
</tr>
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<td>SCOPA</td>
<td>Standing Committee on Public Accounts</td>
</tr>
<tr>
<td>SITA</td>
<td>State Information Technology Agency</td>
</tr>
<tr>
<td>SLA</td>
<td>service level agreement</td>
</tr>
<tr>
<td>VAT</td>
<td>value-added tax</td>
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