

Boabab Tree



100

2010-11

# GENERAL REPORT

on the provincial audit outcomes of **LIMPOPO**



AUDITOR-GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*



**100** YEARS  
1911-2011



**GENERAL REPORT**  
ON THE OUTCOMES OF THE  
LIMPOPO PROVINCIAL GOVERNMENT  
**2010-11**

PR 290/2011  
ISBN: 978-0-621-40443-2



*This flagship publication of my office is a tool that gives simple and handy insights. These insights empower users to focus on those issues that will lead to improved audit outcomes. This publication also captures the commitments that leaders have made to address audit outcomes.*

***Auditor-General: Terence Nombembe***

#### **Our reputation promise/mission**

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



## TABLE OF CONTENTS

SECTION 1: FOREWORD.....	5
SECTION 2: AUDIT OUTCOMES.....	7
<b>2.1 Audit opinions on financial statements.....</b>	<b>7</b>
2.1.1 Audit outcomes for the year ended March 2011.....	7
2.1.2 Three-year history of audit outcomes for the province.....	9
2.1.3 Improvements and regressions in audit opinions on financial statements for year under review.....	10
2.1.4 Audit outcomes history of auditees that obtained financially qualified audit opinions for the year ended March 2011.....	11
2.1.5 Timeliness of the submission and auditing of financial statements.....	11
<b>2.2 Findings on financial management, including defects in financial statements.....</b>	<b>12</b>
2.2.1 Auditees' progress in addressing prior year financial statement qualifications.....	12
2.2.2 Outline of corrective action taken by management to address 2009-10 qualification findings.....	13
2.2.3 Analysis of areas in financial statements containing material misstatements.....	14
2.2.4 Defects in current year financial statements of departments resulting in disclaimed, adverse or qualified audit opinions.....	14
2.2.5 Material misstatements in financial statements submitted for auditing.....	15
2.2.6 Impairment of assets and material underspending of votes or conditional grants.....	16
2.2.7 Auditees with issues regarding funding of operations, financial sustainability or going concern.....	17
2.2.8 Assessment of drivers of internal control over financial management and reporting.....	17
2.2.9 Best practices, root causes of findings and the way forward on financial statement qualifications and financial management.....	18

<b>2.3</b>	<b>Findings arising from the audit of auditees’ reporting on predetermined objectives .....</b>	<b>19</b>
2.3.1	<i>Overview of the AGSA’s approach to the audit of reporting on predetermined objectives .....</i>	<i>19</i>
2.3.2	<i>Overall findings arising from the audit of reporting on predetermined objectives .....</i>	<i>19</i>
2.3.3	<i>Summary of regulatory requirements or criteria not met by auditees as well as trends in findings .....</i>	<i>19</i>
2.3.4	<i>Assessment of drivers of internal control over reporting on predetermined objectives .....</i>	<i>20</i>
2.3.5	<i>Best practices, root causes of findings and the way forward on predetermined objective reporting by auditees .....</i>	<i>21</i>
<b>2.4</b>	<b>Findings on compliance with laws and regulations .....</b>	<b>22</b>
2.4.1	<i>Overview of the AGSA’s approach to auditing compliance with laws and regulations by auditees .....</i>	<i>22</i>
2.4.2	<i>Transversal findings on compliance with laws and regulations .....</i>	<i>22</i>
2.4.3	<i>Unauthorised, irregular as well as fruitless and wasteful expenditure incurred by auditees .....</i>	<i>24</i>
2.4.4	<i>Summary of findings arising from the supply chain management (SCM) audit conducted by the AGSA .....</i>	<i>25</i>
2.4.5	<i>Investigations into SCM irregularities, fraud or other financial misconduct .....</i>	<i>27</i>
2.4.6	<i>Assessment of drivers of internal control over compliance with laws and regulations .....</i>	<i>27</i>
2.4.7	<i>Best practices, root causes of findings and the way forward on compliance with laws and regulations by auditees .....</i>	<i>28</i>
<b>SECTION 3: DRIVERS OF AUDIT OUTCOMES – KEY CONTROLS .....</b>		<b>29</b>
<b>3.1</b>	<b>Overview of key controls as drivers of the three facets of audit outcomes .....</b>	<b>29</b>
<b>3.2</b>	<b>Effective human resource (HR) management as specific driver of audit outcomes .....</b>	<b>30</b>
3.2.1	<i>Overall findings arising from the assessment of HR management.....</i>	<i>31</i>
3.2.2	<i>Impact of staff vacancies on internal control.....</i>	<i>32</i>
3.2.3	<i>Root causes of findings and the way forward on HR management .....</i>	<i>33</i>



3.3	Information technology management as specific driver of audit outcomes.....	33
3.3.1	Computer systems in use and the management of information technology.....	33
3.3.2	Implementation of information technology management.....	34
3.3.3	Root causes of findings and the way forward on information technology management.....	37
SECTION 4: INITIATIVES AND COMMITMENTS BY KEY PROVINCIAL AND NATIONAL ROLE PLAYERS .....		39
4.1	The function of key provincial role players in audit outcomes .....	39
4.1.1	Assessment of monitoring capacity and focus areas of provincial role players at the time of the audit.....	39
4.1.2	Commitments and actions by provincial executive leadership and oversight.....	40
4.1.3	Status of Public Accounts Committee (PAC) oversight resolutions.....	41
4.2	Initiatives taken by the AGSA to encourage clean administration.....	41
4.3	Emerging matters that require attention to prevent a negative impact on future audit outcomes .....	42
SECTION 5: SIGNIFICANT FINDINGS FROM THE AUDIT OF SUPPLY CHAIN MANAGEMENT .....		42
5.1	Background .....	42
5.2	Limitations on planned scope of audit of awards.....	43
5.3	Awards to state officials and their close family members.....	43
5.4	Uncompetitive or unfair procurement processes.....	44
5.5	Inadequate contract management.....	45
5.6	Inadequate SCM controls .....	46
5.7	Overall conclusion on SCM matters.....	47

SECTION 6: CONSOLIDATED FINANCIAL STATEMENTS .....	48
SECTION 7: STATUS OF TABLING OF ANNUAL REPORTS .....	49
ANNEXURES TO THE GENERAL REPORT .....	52
Annexure 1: Auditees' audit outcomes, areas qualified and findings on predetermined objectives .....	52
Annexure 2: Auditees attracting findings related to compliance with laws and regulations .....	54
Annexure 3: Auditees with unauthorised, irregular, and fruitless and wasteful expenditure as well as material losses and impairment of assets .....	55
Annexure 4: Assessment of auditees' key controls at the time of the audit .....	56
Annexure 5: Auditees with key findings on supply chain management.....	57
Annexure 6: Auditees with key findings on information technology focus areas.....	58
Annexure 7: Auditees with key findings on human resources .....	59
Annexure 8: Auditees with material misstatements .....	60
Annexure 9: Audit committees.....	61



## SECTION 1: FOREWORD

It is with great pleasure that I present to the Limpopo Provincial Legislature my 2010-11 general report analysing the results of the audit outcomes of the Limpopo Provincial Government for the financial year ended 31 March 2011. The purpose of this general report is to provide an overview of the audit outcomes of the provincial government and to guide those charged with governance and oversight, including the executive and legislature, to work towards achieving clean audit outcomes.

The outcome of the province comprises the following: two departments and two public entities achieved clean audits while another five departments and two entities received unqualified audit opinions. Five departments and one public entity received qualified audit opinions. One department received a disclaimer of opinion and no disclaimers of opinion were issued to the entities for the year under review as the Limpopo Tourism and Parks Board, which received a disclaimer last year, did not submit annual financial statements by the time of compiling this report. Overall, 61% of the departments and entities received financially unqualified opinions in Limpopo for the 2010-11 year and although a big portion of the budget of the province is spent by the Departments of Education and Health, neither of these departments are achieving the desired good audit outcomes.

Two departments, the Department of Agriculture and the Department of Local Government and Housing, achieved clean audit outcomes due to the commitment by the leadership to address any internal control deficiencies noted in the previous year. The Department of Education also improved from a disclaimer to a qualified opinion due to leadership intervention and the appointment of a skilled chief financial officer (CFO). The Departments of Roads and Transport, and Sport, Arts and Culture regressed due to the tendency to leave issues to be resolved at year-end and to rely on the audit process to identify and correct errors in the financial statements. This is due to the lack of accounting discipline to compile reliable financial information on a monthly basis. The Department of Health has been in steady decline over the preceding three years and the continuous significant weaknesses in the internal control environment have resulted in a disclaimer of opinion. The fourth regression was in respect of the Limpopo Development Enterprise whose audit I had elected to take over for the first time. It is clear that the issues which continue to be reported are not new, but result from an

inadequate response to identified risks by the leadership. The regressions and/or lack of progress at the remaining 14 auditees can mainly be attributed to the fact that the CFOs are not performing their duties on a monthly basis and a lack of attention by the leadership to eliminate non-compliance findings, especially irregular expenditure. Workshops on service delivery reporting were held with all departments and resulted in reduced findings on the reliability of reported information. Ongoing leadership attention to service delivery reporting is still required. The performance of the centralised internal audit function and the benefit of having a centralised audit committee are also not optimised. An oversight backlog also exists as the Limpopo Legislature's Standing Committee on Public Accounts (SCOPA) is a year behind in its consideration of the annual reports for the province and two years behind in tabling resolutions to address prior findings.

The political leadership committed to address the critical challenges that still exist with regard to skills and capacity in finance units, specifically at CFO level, and committed to address this by March 2012. The leadership further committed to ensure that reliable financial reporting is done on a monthly basis. This information is to be verified by the internal audit unit and validated by the audit committees. The executive and the portfolio committees have also noted the benefit that could be derived from the interaction with the audit committee as the audit committees are to provide assurance on a quarterly basis regarding all in-year monitoring reports. The leadership has committed to implement a structured interaction with the audit committees. To enhance these commitments it is important that the provincial treasury plays a coordinating role with enabling national role players, in order to provide adequate guidance to departments and entities with emphasis on supply chain management, service delivery reporting, human resource management and information technology management.

The executive authority and oversight structures have committed to quarterly monitoring and evaluation of the status of the key controls and commitments in order to achieve sustainable clean audit outcomes. At a minimum, this will require the commitment of the executive authority of an hour once every 90 days. This can then be followed by the sharing of the consolidated picture with the premier and the legislature quarterly. It will also require the continued enhancement of the oversight model that will include effective coordination between the public accounts committee and portfolio committees. If these governance and oversight structures work collectively in monitoring internal controls on a quarterly basis, this will place

provincial governance at a higher level and it will contribute greatly to sustainable, positive outcomes.

As part of its contribution towards clean administration the leadership of the AGSA will continue to enhance its visibility and thereby provide proactive insights into the root causes of the status of internal controls. These engagements will also include timely feedback and inputs into the adequacy of the guidance provided by coordinating role players, such as the provincial treasuries.

In this centenary year of the AGSA, I wish to thank the audit teams from my office and the audit firms that assisted for their diligent efforts towards fulfilling our constitutional mandate and the manner in which they continue to strengthen cooperation with the leadership of the provinces. It is particularly pleasing to note that both audit groups have understood that, in addition to producing audit opinions and findings, our purpose is to provide useful and relevant information and insights that promote oversight and accountability in government, thereby strengthening public confidence in our democracy.

6

*Auditor-General*

Auditor-General  
Pretoria  
November 2011



## SECTION 2: AUDIT OUTCOMES

The Limpopo Provincial Government comprises 13 provincial departments (including the provincial legislature), the revenue fund, eight public entities and two other entities. This report presents the 2010-11 audit outcomes of 13 departments, four public entities and one other entity. The Urban Transport Fund, which was included in my prior report, was terminated at the end of the prior financial year.

### 2.1 Audit opinions on financial statements

#### 2.1.1 Audit outcomes for the year ended March 2011

The audits of all 13 departments, four public entities and one other entity (2009-10: 21 out of 24) that had submitted financial statements on time were completed by 31 July 2011, within the legislated time frame of two months from receipt of the financial statements by the AGSA. The audits of the Limpopo Agribusiness Development Corporation (LADC); Limpopo Business Support Agency (LIBSA); Limpopo Provincial Revenue Fund; Limpopo Tourism and Parks Board (LTPB); Limpopo Tribal and Trust Account and Trade and Investment Limpopo (TIL) had not been finalised as at 31 August 2011, the cut-off date set by the AGSA for inclusion of audit outcomes in this general report. The audit outcomes for the 2010-11 financial year and those of the previous year are presented in table 1 below, while a three-year history of audit outcomes for the province is provided in section 2.1.2 of this report.

Table 1: Summary of audit outcomes

Audit outcomes	Audits conducted by the AGSA				Audits not conducted by the AGSA	
	Departments*		Public entities **		Public entities	
	2010-11	2009-10	2010-11	2009-10	2010-11	2009-10
Financially unqualified with no findings on predetermined objectives or compliance with laws and regulations	2	0	2	2	0	0
Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations	5	9	2	3	0	1
<b>Financially unqualified financial statements</b>	<b>54%</b>	<b>69%</b>	<b>80%</b>	<b>83%</b>	<b>0%</b>	<b>100%</b>
Qualified opinion	5	3	1	0	0	0
Adverse opinion	0	0	0	0	0	0
Disclaimer of opinion	1	1	0	1	0	0
<b>Financially qualified financial statements</b>	<b>46%</b>	<b>31%</b>	<b>20%</b>	<b>17%</b>	<b>0%</b>	<b>0%</b>
<b>Total number of audits reported on</b>	<b>13</b>	<b>13</b>	<b>5</b>	<b>6</b>	<b>0</b>	<b>1</b>
<b>Number of audit reports not issued by 31 August 2011</b>	<b>1</b>	<b>1</b>	<b>5</b>	<b>1</b>	<b>0</b>	<b>3</b>
<b>Total number of audits</b>	<b>14</b>	<b>14</b>	<b>10</b>	<b>7</b>	<b>0</b>	<b>4</b>
<b>Total number of auditees where findings arose from the AGSA's other legal reporting responsibilities:</b>						
Predetermined objectives findings only	0	1	0	0	0	0
Compliance with laws and regulations findings only	5	3	0	1	0	0
Findings on both predetermined objectives and compliance with laws and regulations	6	9	3	3	0	1

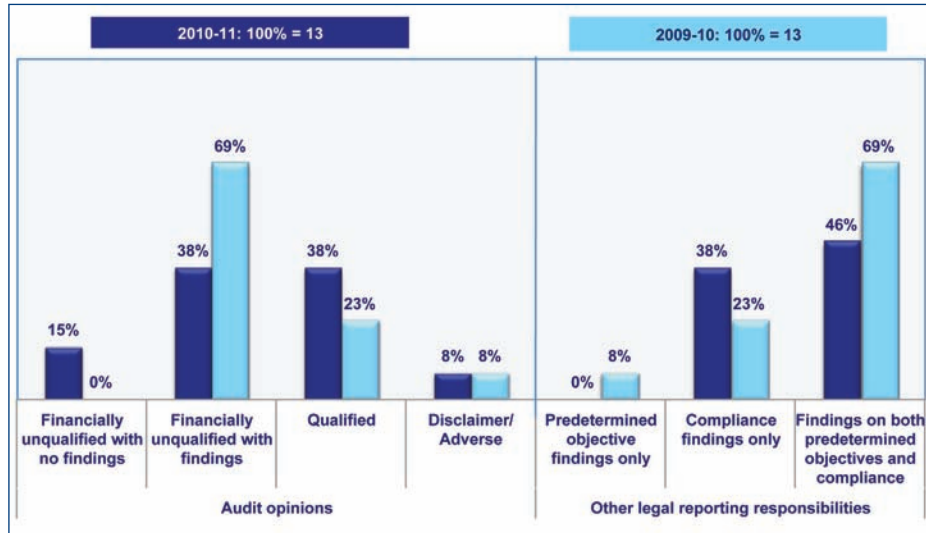
\* Including legislature and provincial revenue fund \*\* Including trading and other types of entities

The financial statements of departments and public entities that were financially qualified contained material misstatements that caused them to not fairly present the financial position at March 2011 or the financial results for the year then ended in respect of one or more areas. Financial statements were disclaimed when the information or documentation required by the auditors was not provided to enable them to reach an opinion on the financial statements.

Figures 1 to 4 reflect additional statistics relating to the three facets of audit outcomes, namely (i) audit opinions on financial statements, (ii) findings on

predetermined objectives, and (iii) departments' and public entities' compliance with laws and regulations.

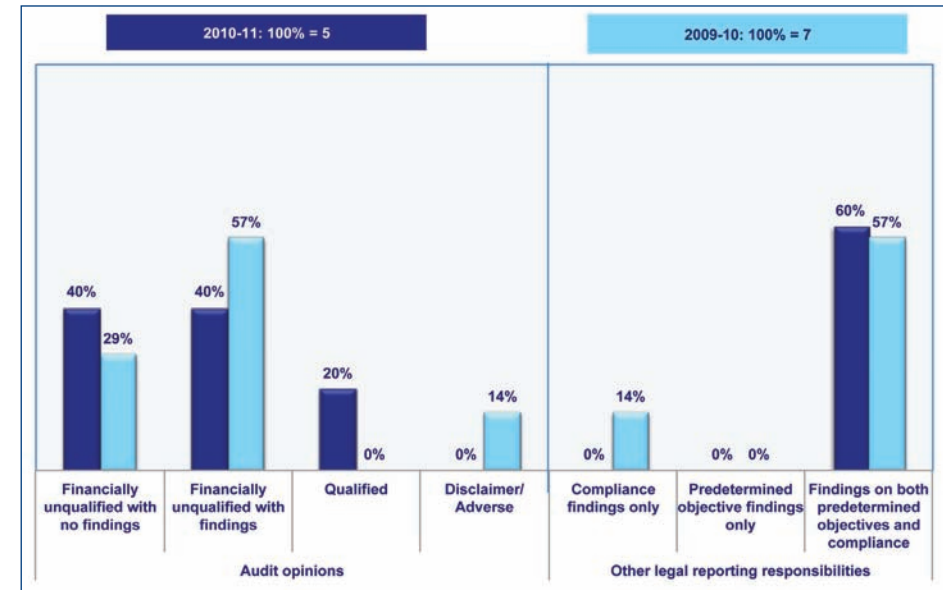
Figure 1: Audit outcomes of departments – Current year vs prior year



\* In this report, 'with findings' or 'with no findings' refers to findings on predetermined objectives and/or compliance with laws and regulations.

The extent to which the audit outcomes of public entities have changed since the previous financial year is depicted in figure 2 below.

Figure 2: Audit outcomes of public entities – Current year vs prior year



Figures 3 and 4 depict findings arising from the audit of reporting on predetermined objectives and compliance with laws and regulations for departments and public entities, respectively.



Figure 3: Departments with findings on predetermined objectives and/or compliance with laws and regulations

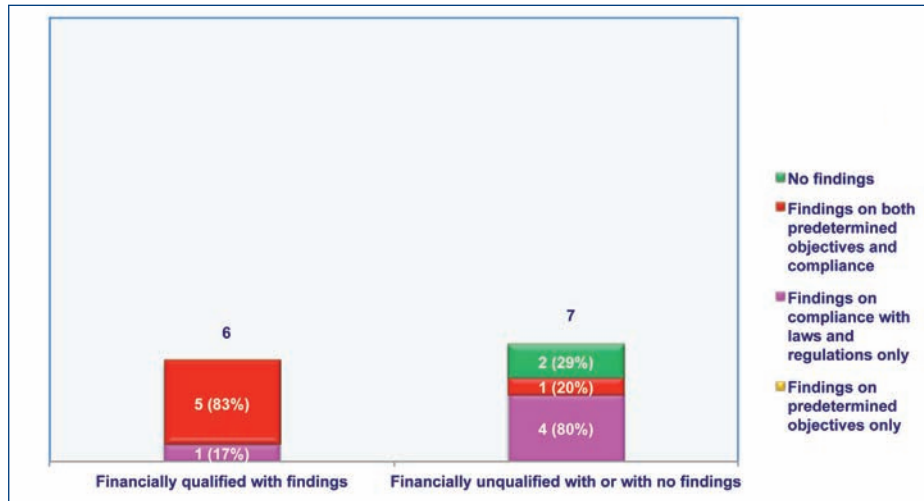
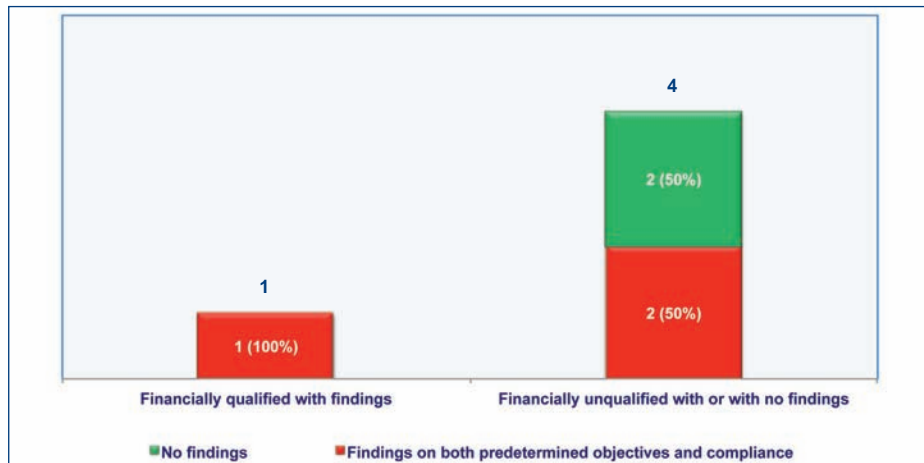


Figure 4: Public entities with findings on predetermined objectives and/or compliance with laws and regulations

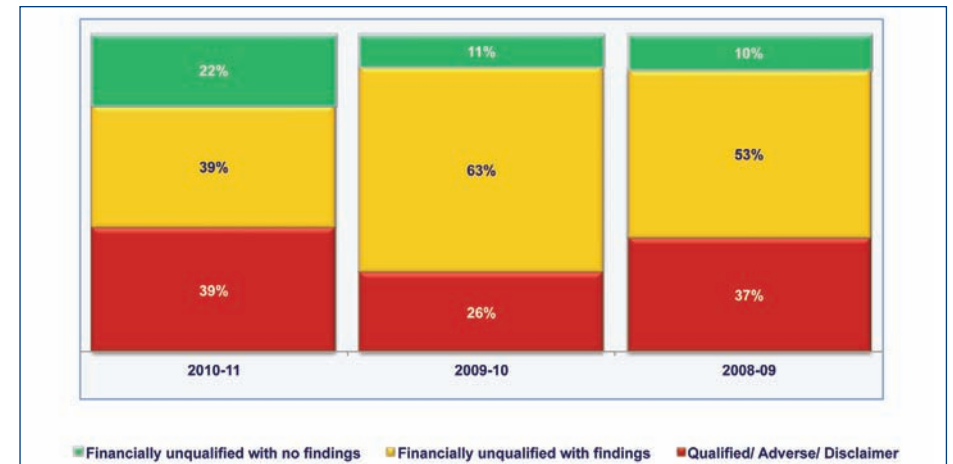


Findings on predetermined objectives are broadly analysed in section 2.3, while an overview of auditees' compliance with laws and regulations is presented in section 2.4 of this report.

### 2.1.2 Three-year history of audit outcomes for the province

The audit outcomes for the province over the past three years are depicted below.

Figure 5: Three-year audit outcomes for the province







The increase in the number of entities in the 'financially unqualified audits with no findings' category compared to the previous two years is encouraging. However, the pace at which the outcomes are improving will have to be intensified if *Operation clean audit 2014* is to become a reality. The oversight role by the political leadership, including the portfolio committees and the Standing Committee on Public Accounts (SCOPA), will have to be intensified to ensure that all actions are adequately supervised and monitored and that corrective action is taken when required.



### 2.1.3 Improvements and regressions in audit opinions on financial statements for the year under review

Tables 2 and 3 depict the movements in audit opinions for departments and public entities, respectively. Highlights of audit outcomes for the year under review are presented thereafter.

**Table 2: Movements in audit outcomes of departments**

Movement in audit outcome over 2009-10 – Departments						
Audit opinion	Improvement	Unchanged	Regressed	New departments	Total reported on	Prior year opinion on audits outstanding 2010-11
Financially unqualified with no findings	 2				2	0
Financially unqualified with findings		5			5	0
Qualified	 1	2	 2		5	0
Disclaimer/Adverse			 1		1	0
<b>Total</b>	<b>3</b>	<b>7</b>	<b>3</b>	<b>0</b>	<b>13</b>	<b>0</b>

**Table 3: Movements in audit outcomes of public entities**

Movement in audit outcome over 2009-10 – Public entities						
Audit opinion	Improvement	Unchanged	Regressed	New public entities	Total reported on	Prior year opinion on audits outstanding 2010-11
Financially unqualified with no findings	 1	1			2	0
Financially unqualified with findings		2			2	0
Qualified			 1		1	0
Disclaimer/Adverse					0	1
<b>Total</b>	<b>1</b>	<b>3</b>	<b>1</b>	<b>0</b>	<b>5</b>	<b>1</b>

Highlights and major trends in audit opinions on the financial statements for the year under review, with comparisons to the previous financial year, are presented below. Annexure 1 to this report lists the auditees together with their 2010-11 audit outcomes and those of the previous financial year.

Overall trends	Despite the increase in the number of financially unqualified opinions with no findings, the overall audit outcomes for the province have remained static from the previous year. The number of entities that improved also equated to the same number of entities that regressed from the prior year.
Financially unqualified audit opinions with no findings	Two departments (Agriculture and Local Government and Housing), one public entity (Roads Agency Limpopo (Pty) Ltd) and one other entity (Limpopo Housing Development Fund) obtained a financially unqualified audit opinion with no findings.
Notable improvements	The Department of Education managed to improve from a disclaimer to a qualified audit opinion



Disclaimed, adverse or qualified audit opinions	The Department of Health regressed from a qualified audit opinion to a disclaimer. The Departments of Public Works and Social Development maintained their qualified audit opinions of the previous year. There were two departments (Roads and Transport and Sport, Arts and Culture) which regressed from financially unqualified with findings on predetermined objectives and/or laws and regulations to a qualified audit opinion. One public entity, namely the Limpopo Development Enterprise (LimDev), also regressed from a financially unqualified with findings on predetermined objectives and/or laws and regulations to a qualified audit opinion.
Prior year qualification findings	Four of the five departments (80%) that were qualified in the current year had a repeat qualification on capital assets from the prior year. Two of the five departments (40%) also had repeat qualifications on current assets and other disclosure items.
Further qualification findings	For departments, there were two additional financial statement qualification areas in the year under review, namely revenue and unauthorised, irregular, and fruitless and wasteful expenditure at the Department of Health. The qualifications for the one public entity (LimDev) that regressed were in the areas of capital assets, current assets, other disclosure items and revenue.
Repeatedly qualified auditees	The Departments of Education, Health and Public Works obtained qualified audit opinions for the past three financial years. The Department of Social Development obtained a qualification for the second year in a row.
Financially unqualified, with findings	Five departments maintained financially unqualified opinions with findings on predetermined objectives and/or laws and regulations from the prior year. Two public entities maintained financially unqualified opinions with findings on predetermined objectives and/or laws and regulations from the prior year.
No further progress towards clean administration	It is of concern that the Department of Health has regressed from a qualified opinion to a disclaimer. It would appear that the leadership is reluctant to improve the knowledge and skills level in the financial unit of the department. Furthermore, the Department of Public Works has maintained its qualification of assets for a number of consecutive years and it would appear that the department is not progressing in resolving issues around asset management. The quality of the financial statements submitted to my office is not improving, with the majority of departments and entities still requiring corrections of material misstatements in the financial statements.

#### 2.1.4 Audit outcomes history of auditees that obtained financially qualified audit opinions for the year ended March 2011

The history of audit outcomes of those auditees whose financial statements were disclaimed or attracted adverse or qualified audit opinions for the year under review is depicted in the table below.

**Table 4: History of audit opinions of auditees with modified audit opinions**

Auditee	Audit outcomes				
	2010-11	2009-10	2008-09	2007-08	2006-07
Education	Qualified	Disclaimer	Qualified	Qualified	Qualified
Health	Disclaimer	Qualified	Qualified	Qualified	Qualified
Public Works	Qualified	Qualified	Qualified	Qualified	Qualified
Roads & Transport	Qualified	Financially unqualified with findings	Financially unqualified with findings	Qualified	Qualified
Social Development	Qualified	Qualified	Financially unqualified with findings	Financially unqualified with findings	Qualified
Sports, Arts & Culture	Qualified	Financially unqualified with findings	Financially unqualified with findings	Financially unqualified with findings	Qualified

I am concerned that many of the issues which ultimately resulted in qualified audit opinions were identified as potential risks and brought to the attention of the executive by AGSA representatives early in 2011 and yet little or no effort was made to deal with these issues.

#### 2.1.5 Timeliness of the submission and auditing of financial statements

Departments and public entities are required by the PFMA to submit their financial statements for auditing by 31 May annually. The AGSA is required to complete an audit within two months of receipt of the financial statements.

By the deadline of 31 May 2011, 13 (100%) departments and five public and other entities (50%) (2009-10: 13 (100%) departments and nine (82%) public and other entities) had submitted their financial statements for auditing. All departments and half of the entities managed to meet the legislative requirement of timely submission.

The reasons why six audits were not completed by the due date are as follows:

- Financial statements submitted after legislated deadline: 3
- Financial statements not yet submitted for auditing: 3

Table 5 below provides details of audits that had not been finalised by the cut-off date of this general report.

**Table 5: Audits not finalised by general report cut-off date**

Auditee	Latest financial year audit finalised	Reason for audit outstanding or not finalised at GR cut-off date			Actual/ Expected date of finalisation
		Financial statements not yet received	Late receipt of financial statements	Audit still in progress due to other reasons	
Limpopo Tourism & Parks Board	2009-10				30-Nov-11
Limpopo Tribal & Trust Account	1997-98				Unknown
Limpopo Provincial Revenue Fund	2007-08				31-Jan-12
Limpopo Business Support Agency	2009-10**				31-Oct-11
Trade Investment Limpopo	2009-10**				31-Oct-11
Limpopo Agribusiness Development Corporation	2009-10**				21-Dec-11

These outcomes are not included in trend analyses or comparisons presented in this general report.

\*\* Section 4(3) entity in the 2009-10 financial year: The entity was taken over for auditing by the AGSA during the 2010-11 financial year. In the prior year, the financial statements were prepared and audited based on the incorrect accounting framework prescribed by legislation. The audit report and the financial statements for 2009-10 had to be subsequently withdrawn and resubmitted. Review of the revised audit reports and adjusted financial statements was still in progress at the time of writing this report.

## 2.2 Findings on financial management, including defects in financial statements

Matters relating to financial management presented in this analysis include the progress (or lack thereof) by departments and public entities in addressing prior year financial statement qualification findings, material errors and omissions in financial statements submitted for auditing and underspending by auditees against their votes or conditional grants.

### 2.2.1 Auditees' progress in addressing prior year financial statement qualifications

With regard to audits completed at 31 August 2011, four of the four (100%) departments had not addressed all their 2009-10 qualification findings in order for their 2010-11 financial statements to be financially unqualified.

Figures 6 and 7 depict those financial statement areas that attracted qualifications at departments and public entities, respectively. Corrective action taken by management to address prior year qualification findings is outlined in section 2.2.2, while details of current year qualifications are provided in section 2.2.4 of this report.

**Figure 6: Transversal financial statement qualification areas – Departments**

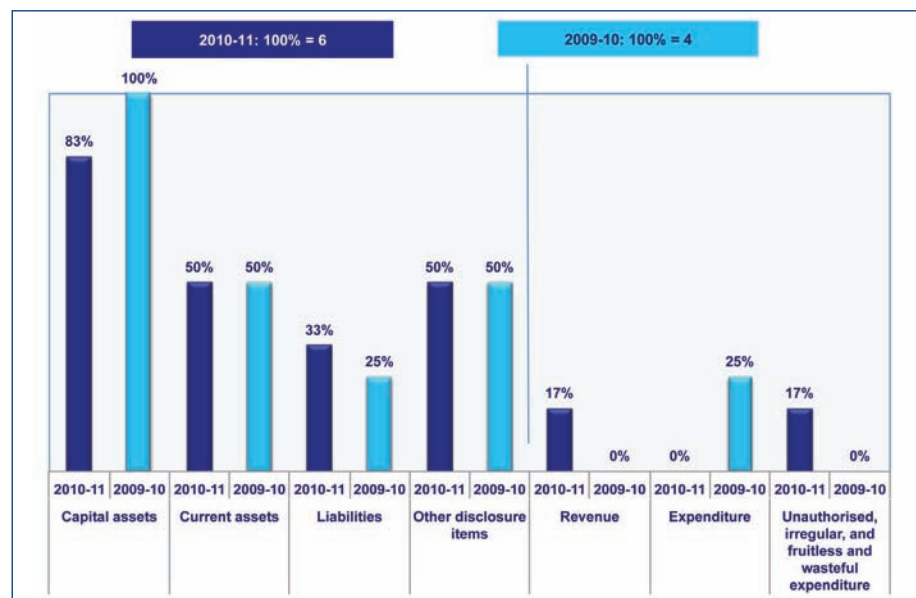
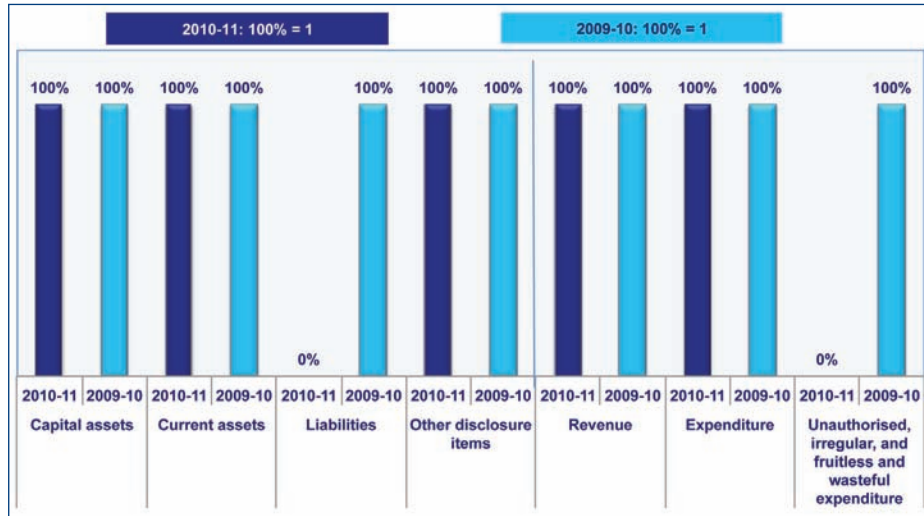




Figure 7: Transversal financial statement qualification areas – Public entities



Tables 6 and 7 depict the movements in the financial statement qualification areas of those departments and public entities that obtained disclaimed, adverse or qualified auditor's reports.

According to the 2010-11 analysis in table 7 below, only the Limpopo Development Corporation obtained a qualified opinion, while in the 2009-10 financial year, only the Limpopo Tourism and Parks Board obtained a disclaimer.

Table 6: Progress made by departments in addressing financial statement qualification findings

Department	Audit opinion 2010-11	Movement in addressing 2009-10 financial statement qualification findings						
		Capital assets	Current assets	Liabilities	Other disclosure items	Revenue	Expenditure	UIF*
Education	Qualified	Repeat**	Repeat	Addressed	Repeat		Addressed	
Health	Disclaimer	Repeat**	Repeat	New	Repeat	New		New
Public Works	Qualified	Repeat**	New	New				
Roads & Transport	Qualified				New			
Social Development	Qualified	Repeat						
Sport, Arts & Culture	Qualified	New						

\*\* Denotes area also qualified in years prior to 2009-10, i.e. qualification not addressed for three years or longer.

Table 7: Progress made by public entities in addressing financial statement qualification findings

Public entity	Audit opinion 2010-11	Movement in addressing 2009-10 financial statement qualification findings						
		Capital assets	Current assets	Liabilities	Other disclosure items	Revenue	Expenditure	UIF*
Limpopo Development Enterprise	Qualified	New	New		New	New		

\* Unauthorised, irregular as well as fruitless and wasteful expenditure.

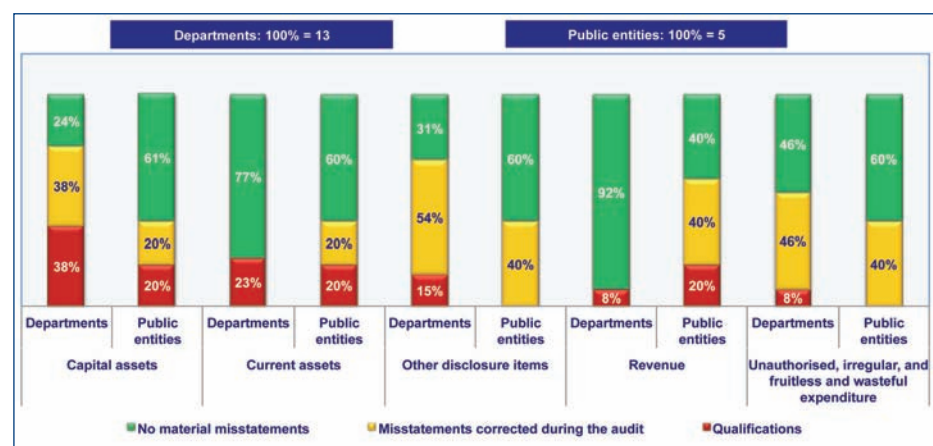
### 2.2.2 Outline of corrective action taken by management to address 2009-10 qualification findings

As can be seen in tables 6 and 7, it was only at the Department of Education where progress had been made in addressing two of the five qualification areas from 2009-10. The improvement was largely due to the appointment of a CFO with the necessary skills, as well as filling critical positions in the finance unit.

### 2.2.3 Analysis of areas in financial statement containing material misstatements

As in prior years, departments and public entities submitted for auditing financial statements that contained material misstatements. The areas misstated for the year under review are depicted in figure 8 below.

**Figure 8: Areas of material misstatements in financial statements (corrected and uncorrected)**



Uncorrected material misstatements (defects) in financial statements attracted modified audit opinions, which are outlined in section 2.2.4, while the incidence of material misstatement corrected by management during the audit is analysed in section 2.2.3 of this report.

### 2.2.4 Defects in current year financial statements of departments and public entities resulting in disclaimed, adverse or qualified audit opinions

Some auditees did not or were unable to correct all the identified material misstatements in their financial statements. Below is a summary of the areas that resulted in financial statements receiving disclaimers or qualified audit opinions for not fairly presenting, in all material respects, the financial position as at 31 March 2011 or the financial results for the year then ended.

#### Capital assets

The qualification on capital assets was in the areas of property, plant and equipment, investment property and investments as disclosed in the financial statements. Common matters attracting qualifications included the following:

- Assets not accounted for in the accounting records at all four departments that were qualified.
- Lack of documentation to support adjustments to the balances was identified at the Departments of Public Works and Health.
- Lack of leadership in dealing with recurring problems, especially at the Departments of Education, Health, Public Works and Social Development. There was a lack of discipline to count and reconcile assets on a monthly basis and lack of coordination between the asset management and finance units.
- The Department of Sport, Arts and Culture did not maintain a culture of performing regular or monthly asset counts, resulting in the regression.
- LimDev did not review the useful lives and residual values, as required by the accounting standards, and documentation to support adjustments to the investments in joint ventures, associates and subsidiaries was not provided.

#### Current assets

The qualification on current assets was in respect of the receivable balance in the financial statements. Common matters attracting qualifications included the following:

- Three departments were qualified on receivables, namely Education, Health and Public Works. The qualification arose from inadequate filing systems, which resulted in documentation not being provided to support the accounts receivable balance in the financial statements and accounting records. In the case of the Department of Health, material uncollected receipts were included in the receivables balance, which could not be reconciled with the specific debtors. There was also a lack of communication between the Department of Health and the various regions regarding the collection of receivables and allocation of deposits.



- In the case of the LimDev, the impairment loss recognised in respect of doubtful debts was not adequate. Furthermore, the entity could not provide loan agreements to support loan and receivables accounted for in the financial statements.

#### *Liabilities*

Two departments were qualified on payables and accruals, namely Health and Public Works. The qualification stemmed from inadequate filing systems, which resulted in documentation not being provided to support the accruals balance in the financial statements and accounting records.

#### *Other disclosure items*

The qualification on other disclosure items was in the areas of contingent liabilities and commitments and other disclosures. Common matters attracting qualifications included the following:

#### **Mandatory PFMA disclosures**

##### *Contingent liabilities and commitments*

Two departments were qualified on disclosure for contingent liabilities and commitments, namely Education and Health. The qualification on the disclosure requirements of the Department of Education stemmed from documentation that could not be provided to support the balances in the financial statements. In the case of the Department of Health, the qualification stemmed from absence of a contract management system for the identification and recognition of contracts.

##### *Leases*

LimDev was qualified due to non-compliance with the disclosure requirements of the Statements of Generally Accepted Accounting Practice (GRAP). The entity did not disclose the reconciliation between the total of future minimum lease payments at the end of the reporting period and their present values.

#### *Revenue*

Revenue principally consists of revenue and transfer payments and grants. Common matters attracting qualifications included the following:

The Department of Health had no system of control over departmental revenue to support the amounts disclosed in the accounting records and the financial statements. In the case of the LimDev, the qualification stemmed from inadequate documentation provided to support the rental income recorded in the accounting records and financial statements.

##### *Unauthorised, irregular as well as fruitless and wasteful expenditure*

The qualification finding at the Department of Health stemmed mainly from an inability to verify the accuracy and completeness of amounts disclosed in the financial statements.

Annexure 1 to this report lists the audit outcomes of all auditees in the province, together with their financial statement qualification areas.

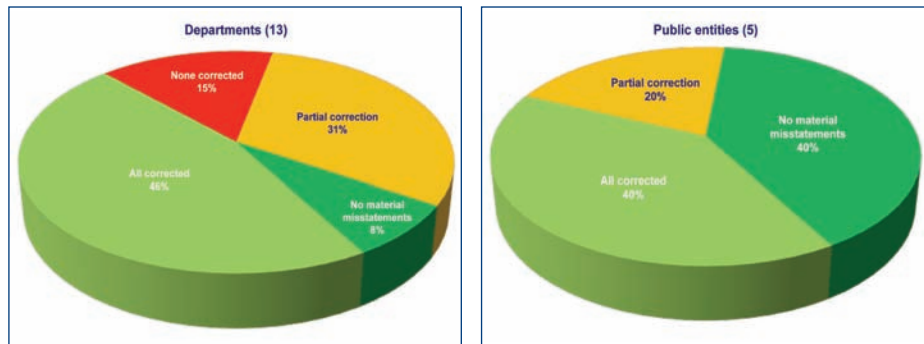
#### **2.2.5 Material misstatements in financial statements submitted for auditing**

The PFMA directs that departments and public entities must submit for auditing annual financial statements that fairly present their state of affairs and their financial position as at the end of the financial year. Financial statements submitted for auditing are therefore required to be free from material misstatements (that is, without material errors or omissions).

As in previous financial years, the financial statements submitted for auditing by most auditees were of poor quality and had to be materially adjusted during the audit process. Auditees had significant deficiencies in the design and implementation of internal control in respect of financial reporting, which resulted in material corrections to the financial statements during the audit in the case of 12 departments (92%) and three public entities (60%). The corresponding level of pervasive material misstatements for 2009-10 was 85% for departments and 57% for public entities. The deterioration in the quality of the financial statements presented for auditing is a source of concern.

Areas misstated in financial statements submitted for auditing are analysed in section 2.2.3. The figure below indicates the extent of pervasive material misstatements in the financial statements submitted for auditing, some of which were subsequently corrected by management as a result of audit findings. Where material misstatements were not corrected, the financial statements were qualified.

Figure 9: Material misstatements in financial statements submitted for auditing



In evaluating whether the misstatements corrected should constitute non-compliance in the audit report, the AGSA considers the nature of the misstatements corrected as well the history of the entity in submitting generally accurate financial statements. After evaluating all entities against these criteria, it was only at the Department of Agriculture and the Limpopo Provincial Treasury where it was not considered necessary to escalate the corrections made to the audit report. The Department of Local Government and Housing, Roads Agency Limpopo (Pty) Ltd and the Housing Development Fund required no material corrections to the financial statements submitted for auditing.

Internal control deficiencies, where material misstatements in the financial statements were not timeously prevented or detected, included the following:

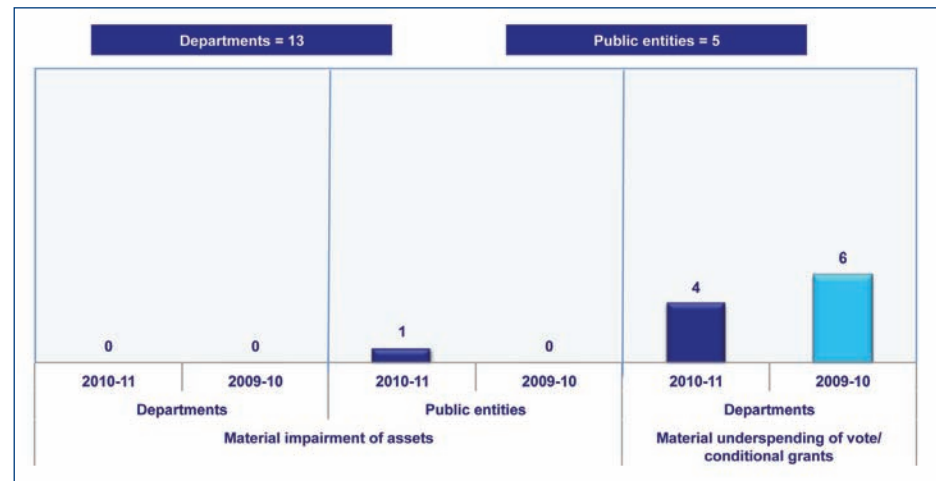
- The leadership's failure to exercise its oversight responsibility regarding financial and performance reporting and compliance with related internal controls
- A lack of financial and performance management to ensure adequate control over daily and monthly processing and reconciling of transactions
- Failure of financial and performance management to prepare regular, accurate and complete financial and performance management reports that are supported and evidenced by reliable information

- Failure by the audit committee to adequately review the entities' financial statements for adequacy, reliability and accuracy of the financial information provided to management and other users.

### 2.2.6 Impairment of assets and material underspending of votes or conditional grants

Details of asset impairments and underspending of the vote or conditional grant, as disclosed in the financial statements of departments and public entities for the year ended March 2011, are depicted below.

Figure 10: Material losses, asset impairments and underspending



Material impairments amounting to R21 099 526 were incurred by the LimDev as a result of impairment of loans to subsidiaries and associates, while the Departments of Education, Health and Sport, Arts and Culture materially underspent their conditional grants.

At Education, the grants for infrastructure, HIV and Aids and technical secondary school recapitalisation were underspent by R89 579 000. Such underspending was caused by ineffective budgetary control and monitoring, with the result that the department had to use conditional grants to finance normal operating expenditure, specifically with regard to Occupation Specific Dispensation (OSD) payments



(personnel expenditure). The use of conditional grants for purposes other than those intended resulted in the department incurring unauthorised expenditure as defined in the PFMA.

Material underspending of the vote and conditional grants amounting to R4,8 million and R133,2 million, respectively, were identified at Health. The most significant cases relate to the cholera grant budget which was underspent by R40 million, and the hospital revitalisation grant which was underspent by R88 million. Due to poor project management and planning, significant delays occurred on the completion of certain projects, while other projects were initiated very late in the financial year. This was also evident from the audit of predetermined objectives where significant deviations were noted between the initial targets and the actual results achieved. The department has submitted a request to the provincial treasury to have these funds rolled over to the 2011-12 financial year.

At Sport, Arts and Culture the grants for library and information services were underspent R22 264 000. The underspending can be attributed to poor planning and stemmed from delays in the procurement process when appointing service providers for the building of libraries. The department has also submitted a request to the provincial treasury to have these funds rolled over to the 2011-12 financial year.

Material underspending of the vote by R24 million was identified at the Office of the Premier. The entity commenced the 2010-11 financial year with a bank overdraft of R32 million as a result of unauthorised expenditure incurred in previous financial years. This had an impact on cash flow due to the department having underspent on compensation of employees, goods and services, transfer payments and capital assets. The matter has been referred to the provincial legislature.

Details relating to the unauthorised expenditure are further highlighted in section 2.4.3 below.

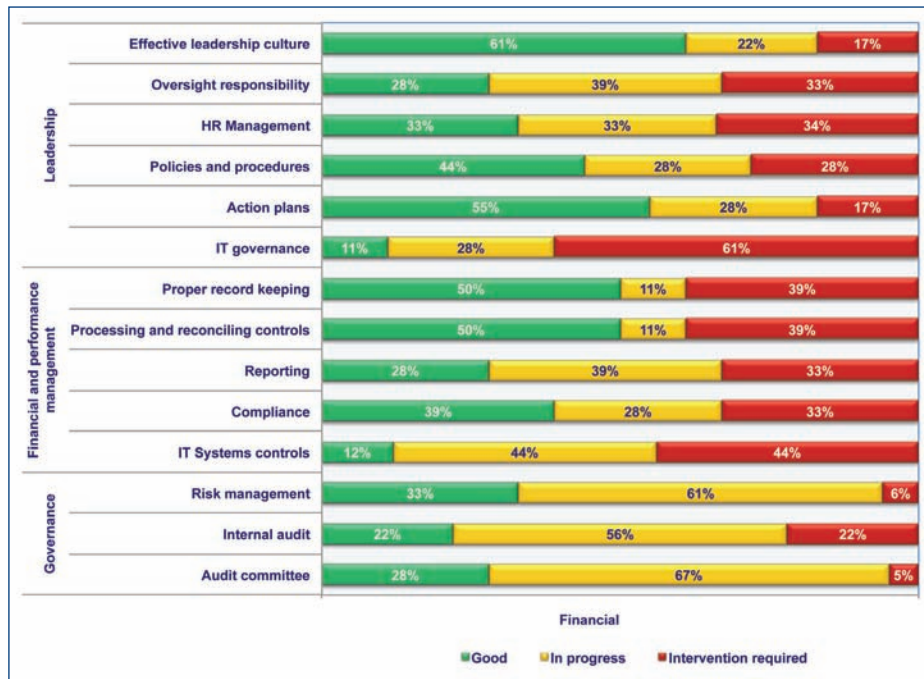
### **2.2.7 Auditees with issues regarding funding of operations, financial sustainability or going concern**

During the audit of departments as well as public entities, no issues pertaining to concerns regarding the funding of operations, financial sustainability or going concern was identified.

### **2.2.8 Assessment of drivers of internal control over financial management and reporting**

The ability of auditees to produce financially unqualified financial statements is determined by the operation of key drivers of internal control. These drivers are classified under leadership, financial and performance management and governance. Figure 11 provides an assessment, at the time of the 2010-11 audits, of the key drivers of internal control that should be in place at auditees to achieve their financial management and financial reporting objectives and to meet their legislated obligations.

Figure 11: Assessment of auditees' key controls over financial management and reporting



Overall, there are a number of areas where the implementation of key controls on financial management is still in progress. The leadership will have to intensify their efforts in the next three years to address these areas, including areas requiring intervention in view of the *Operation clean audit 2014* target.

### 2.2.9 Best practices, root causes of findings and the way forward on financial statement qualifications and financial management

The departments and entities that have achieved the goal of clean audit outcomes (unqualified opinion with no findings) are characterised by sound internal financial management and control systems that function effectively throughout the financial year. We also noted a high incidence of leadership involvement in monitoring these in-year processes.

On the other hand, the departments and entities that are still struggling to achieve clean audit outcomes do not have effective continuous processes to ensure that information on financial performance is maintained and monitored throughout the period. Such information is only compiled at year-end and areas that need corrective action can consequently not be identified and addressed during the year. The financial information on which decisions are based must be credible and verified by the audit committee and internal audit on a quarterly basis.

Since these auditees do not have their own systems to ensure the quality of their financial information, they rely on the audit process to identify errors and attempt to correct them at this late stage. This proves costly when errors are significant and are detected too late in the audit process to be corrected. This was the cause of three of the four regressions in audit opinions highlighted in tables 2 and 3 above. Furthermore, while all departments and entities have action plans to address prior period findings, the quality of leadership monitoring of progress against these plans is mostly inadequate.

Audit committees can also improve on their monitoring of action plans and need to play a greater role in ensuring the quality of annual financial statements prior to their submission for audit purposes. Currently, there is insufficient time between the annual financial statements being completed by auditees and the legislated submission date to the AGSA for either the audit committees or internal audit to contribute significantly to the quality of the financial statements.

At an oversight level, the monitoring of action plans by portfolio committees can still be improved. The province's SCOPA is a year behind with the review of annual reports and two years behind with the tabling of resolutions regarding corrective action. This breakdown in the accountability cycle undermines the focus on achieving clean audit outcomes. During the discussion of the prior year audit outcomes, the Premier undertook to ensure that SCOPA decisions are implemented without intimidation. This commitment, however, becomes meaningless if no decisions are taken. At a SCOPA briefing session on 18 August 2011, the committee committed to eliminating the backlog in its review of annual reports by the end of the calendar year.

Post-audit meetings were held with the Premier on 2 August and 14 September 2011 during which the Premier agreed to:



- ensure that good practices implemented at the successful departments (Agriculture and Local Government and Housing) are shared with the other departments
- attend to the skills level in finance sections at the struggling departments.

On 2 August 2011 the MEC in the Limpopo Legislature for the Limpopo Provincial Treasury requested the AGSA management to meet with the treasury team assigned to provide support to provincial departments on issues of financial management for the purpose of identifying focus areas. At a subsequent meeting with the head of the provincial treasury and the provincial Accountant General on 12 September 2011 it was agreed that a workshop be scheduled between the treasury and the AGSA for this purpose. It was also agreed that the treasury, together with the internal audit unit, would take over the quarterly monitoring of key controls in departments, a task which had been performed by the AGSA in the preceding 15 months. The AGSA would continue to be present at sessions where the leadership receives feedback on the status of key controls and would also continue to monitor these controls at a high level.

### 2.3 Findings arising from the audit of auditees' reporting on predetermined objectives

#### 2.3.1 Overview of the AGSA's approach to the audit of reporting on predetermined objectives

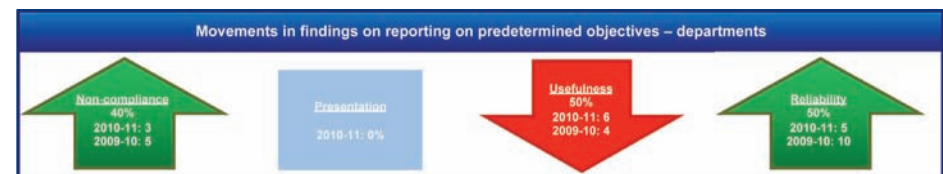
Departments and public entities are required to report against their predetermined objectives (service delivery) and to submit such annual performance reports for auditing, together with the annual financial statements. The objective of an audit of predetermined objectives is to enable the auditor to conclude whether the reported performance against those predetermined objectives is reliable, accurate and complete, in all material respects, based on predetermined criteria.

The AGSA has since the 2005-06 financial year gradually been phasing in the auditing of predetermined objectives and explaining to leaders within all spheres of government the importance of lending credibility to published service delivery information through the auditing thereof. Since the 2009-10 financial year, a separate audit conclusion, based on the results of the audit of predetermined objectives, has been included in the management report. However, these conclusions have not yet been elevated to the level of the auditor's report.

#### 2.3.2 Overall findings arising from the audit of reporting on predetermined objectives

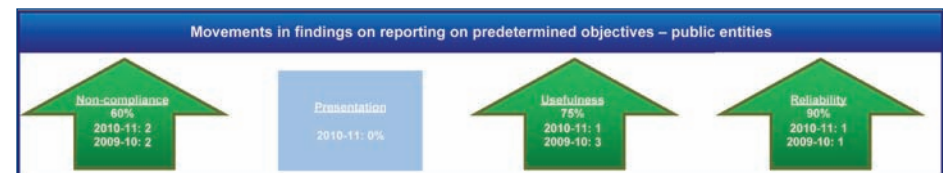
Progress made by auditees in addressing prior year findings on predetermined objectives is depicted in figure 12 below. A summary of the regulatory requirements or criteria not met by auditees is provided in section 2.3.3.

Figure 12: Movements in findings on reporting on predetermined objectives



The extent of findings on usefulness and reliability of information is depicted in figure 13.

Figure 13: Predetermined objectives – Extent of findings on usefulness and reliability



#### 2.3.3 Summary of regulatory requirements or criteria not met by auditees as well as trends in findings

Key trends in findings related to predetermined objectives reporting are as follows:

##### Annual performance report submission

The annual performance reports for both departments and public entities were submitted in time for audit purposes.

### *Non-compliance*

The reduction in the number of non-compliance findings for departments is attributable to the strengthening of quarterly reporting processes on predetermined objectives. This is a recurring finding at the Department of Health. Non-compliance findings were raised at the public entities for the first time in the 2010-11 financial year.

Non-compliance findings raised at departments and entities were mainly due to inadequate management processes and systems in place to collate the reporting on performance against predetermined objectives and the lack of or inadequate quarterly reporting. Two departments were unable to maintain this good practice of the prior year.

### *Usefulness*

Findings relate to objectives not being measurable against indicators and targets and the absence of clear and logical links between the objectives, outcomes, outputs, indicators and performance targets.

There was an increase in the number of findings in this area for departments and a reduction for public entities from the prior year. This was a recurring finding at two out of the six departments and was primarily attributable to the lack of appropriate capacity to manage performance information. Four departments had findings only in the 2010-11 financial year and were therefore unable to maintain the good practices of the prior year. Quarterly monitoring processes over the reports on predetermined objectives were found to be less stringent in the current year than in the prior year.

### *Reliability*

Findings on reliability included instances where the actual reported performance could not be verified.

There has been a significant improvement in this area, compared to the prior year. This is attributable to departments implementing adequate internal monitoring and review processes and procedures to ensure the accuracy and completeness of

reported service delivery achievements. However, this is a recurring finding from the prior year at all five departments. This is the first year that a finding in this category was raised at a public entity. There is a lack of internal monitoring and review processes and procedures to ensure the accuracy and completeness of service delivery achievements.

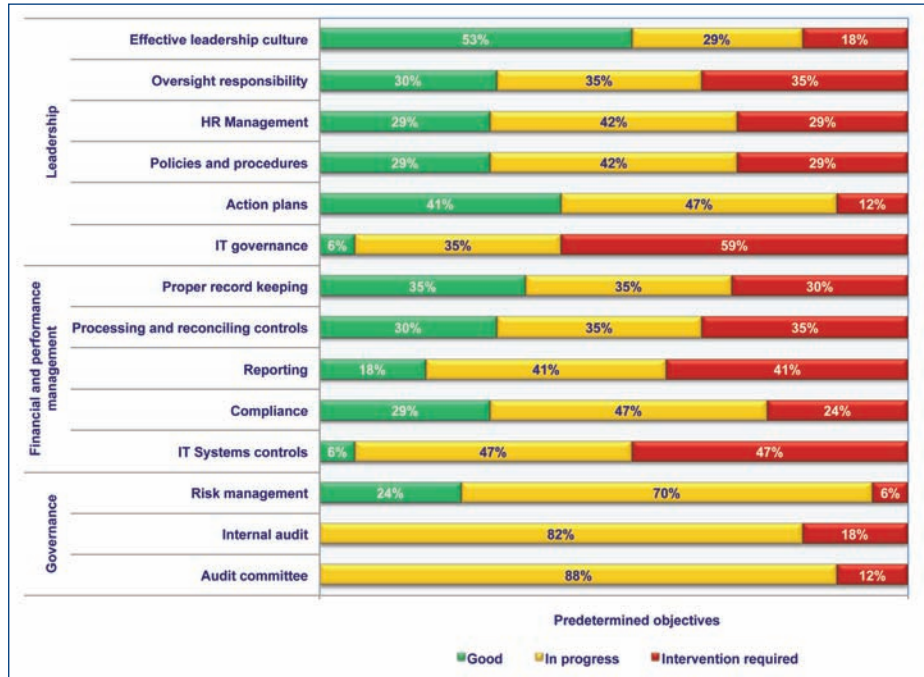
In general, the overall improvement in reporting in predetermined objectives in the province is also attributable to the performance information workshops that were conducted by the AGSA at all departments and public entities during the year.

### **2.3.4 Assessment of drivers of internal control over reporting on predetermined objectives**

Figure 14 provides an assessment, at the time of the audits, of the key drivers of internal control that should be in place to ensure that auditees produce performance reports that are useful, reliable and meet the regulatory requirements, including that of presentation.



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



The improvement in reporting on predetermined objectives in the province is encouraging. At more than half of the departments in the province, controls were implemented in respect of preparing regular, accurate and complete performance reports that were supported and evidenced by reliable information. However, if the results are to be sustainable, intervention is required on the general IT governance and system controls over the collating and safeguarding of information pertaining to reporting on predetermined objectives.

### 2.3.5 Best practices, root causes of findings and the way forward on predetermined objective reporting by auditees

In order to sustain these results and to improve on them in future, it is imperative that best practices be shared with entities in the provincial administration. The Department of Agriculture, for example, hosts special in-house committee meetings on performance information on a monthly basis to closely monitor the progress with their performance reports. This enables the department to be proactive in responding to risks identified in the reports on predetermined objectives. This process ensures that the quarterly reports for monitoring purposes are compiled from source data or documentation that is complete and accurate, resulting in the department making more informed decisions on service delivery objectives. During a briefing of the Premier on the PFMA outcomes on 14 September 2011, he agreed that this practice should be shared with other departments and implemented transversally. This should be done as soon as possible.

The provincial treasury, on a monthly basis, hosts a meeting of the Portfolio Technical Committee on Finance (PTCF) which is attended by the CFOs of all departments, including finance staff. The provincial treasury has committed to sharing these practices identified at the Department of Agriculture during the technical meetings. The AGSA is also invited to attend and provide guidance where necessary.

Where departments and entities continue to have findings on predetermined objectives this can be attributed to the following:

- Processes, systems and documentation were inadequate for identifying, collecting, collating, verifying and storing performance information. The IT governance structures on predetermined objectives as a whole requires intervention if improvements are to be sustainable.
- There was a lack of appropriate capacity to manage performance information.
- Best practices at various departments are not being shared. It is important that the province instil a culture of knowledge sharing and team work to eliminate repeat findings and strengthen good governance in the province.

Attention to the following aspects will also contribute towards improved reporting on actual performance against predetermined objectives:

- The leadership must take responsibility for reporting on predetermined objectives.
- Integration of performance information structures and systems within existing management processes and systems must be explored. Adequate IT systems would enable the leadership to be proactive in monitoring progress on service delivery and to take decisive action when necessary.
- The audit committee should step up their focus on and attention to the review of performance information during the quarterly meetings.
- Internal audit should focus on the requirements of reporting on predetermined objectives and provide the necessary assurance to the departments and entities.

## 2.4 Findings on compliance with laws and regulations

### 2.4.1 Overview of the AGSA's approach to auditing compliance with laws and regulations by auditees

As part of the annual audit of the financial statements, the AGSA audits and reports on compliance with laws and regulations by auditees. Broadly, such laws and regulations relate to the following:

- The activities that auditees undertake for the citizens
- Any limits to or restrictions on such activities
- The overall objectives to be achieved
- How due process rights of individual citizens are protected

Compliance refers to adherence by auditees to the laws and regulations to which they are subject. Conversely, non-compliance refers to acts of omission or commission by auditees, either intentional or unintentional, which are contrary to such laws and regulations.

The audit of compliance is being phased in by the AGSA and details of identified instances of material non-compliance are included in the auditor's reports. The AGSA specifically focused on legislative requirements relating to the following areas for the financial year ended March 2011:

- Annual financial statements, performance report and annual report

- Asset management
- Audit committees
- Budgets and budgetary processes
- Expenditure management
- Financial misconduct
- Internal audit
- Revenue management
- Strategic planning and performance management
- Transfer of funds and conditional grants
- Procurement and contract management
- HR management and compensation.

### 2.4.2 Transversal findings on compliance with laws and regulations

The figure below depicts areas of material non-compliance that were most prevalent at departments and public entities. As the focus areas and legislative requirements audited differed from the previous year, the figure does not include comparisons to the previous year.



Figure 15: Summary of findings arising from the audit of compliance with laws and regulations



The most prevalent findings on non-compliance with laws and regulations relate to annual financial statements and expenditure management. Departments and entities continue to submit financial statements that are subject to material misstatements.

There is a lack of commitment by departments and entities to ensure that annual financial statements are of a high standard and free from material misstatements. Furthermore, misstatements are only identified during the audit as no controls are in place to ensure that financial statements are free from material misstatements.

Inadequate expenditure management in the province is of concern and is reflected in the significant increase in irregular expenditure identified during the year under review. Irregular expenditure increased from R6 million during the 2009-10 financial year to R1,1 billion in the 2010-11 financial year.

Asset management remains an area which shows little improvement as the audit revealed inadequate controls for the safeguarding and maintenance of assets to prevent theft, losses, wastage and misuse. There is also a lack of monthly asset counts, as recommended by the AGSA during the quarterly key control visits. This has resulted in repeat findings over a number of years for certain departments.

Common non-compliance findings relating to the AGSA's focus areas are summarised below.

Table 8: Common non-compliance findings relating to the AGSA's focus areas

Focus area	Summary of common findings	Departments	Public entities
<b>Prevalent non-compliance areas: All auditees</b>			
Expenditure management	Irregular expenditure not prevented	69%	40%
	Fruitless and wasteful expenditure not prevented	31%	20%
Annual financial statements and annual report	Submitted annual financial statements not prepared in accordance with prescribed generally recognised accounting practices	46%	20%
<b>Prevalent non-compliance areas: Departments only</b>			
Asset management	Proper controls systems not implemented for safeguarding and maintenance of assets	31%	
Expenditure management	Payments to creditors not settled within 30 days from receipt of invoice	23%	
<b>Prevalent non-compliance areas: Public entities only</b>			
Internal audit	No evaluation and/or recommendations on reliability and integrity of financial and operational information		50%

Annexure 2 to this report lists all auditees where non-compliance was identified through the AGSA focus area audits.

Section 2.2.3 of this report provides details on the financial statements submitted for auditing by accounting officers which had not been prepared, in all material aspects, in accordance with generally recognised accounting practice (and supported by full and proper records), as required by the PFMA.

Details of non-compliance findings relating to auditees' performance reports are provided in section 2.3.2, while section 2.4.3 further details findings related to unauthorised, irregular as well as fruitless and wasteful expenditure.

Findings arising from the audit of procurement and contract management are analysed in section 2.4.4, while section 3.2 provides further details on non-compliance findings related to HR management at departments.

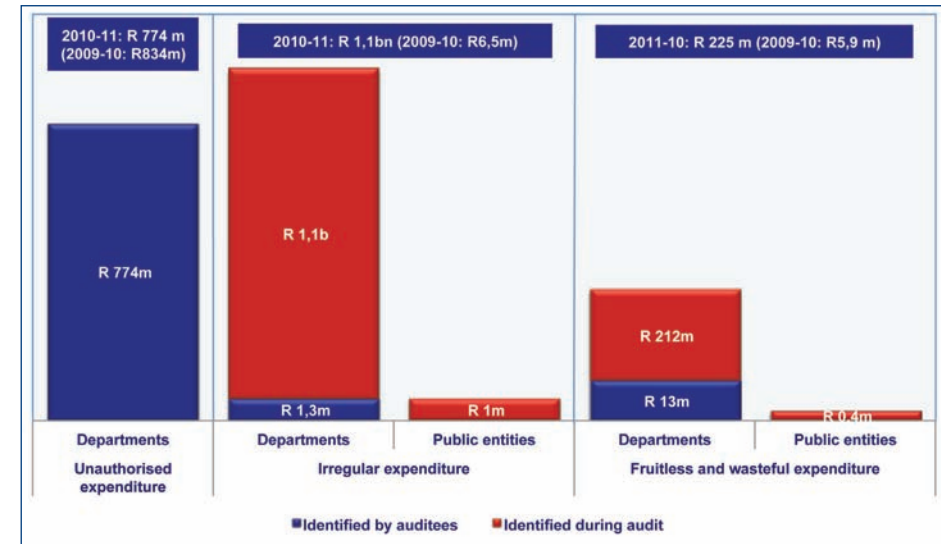
### 2.4.3 Unauthorised, irregular as well as fruitless and wasteful expenditure incurred by auditees

The PFMA requires accounting officers or authorities to take reasonable steps to ensure that unauthorised, irregular as well as fruitless and wasteful expenditure is prevented and detected.

- Unauthorised expenditure results from overspending on a vote or a main division within a vote or constitutes expenditure that is not in accordance with the purpose of a vote or main division within a vote.
- Irregular expenditure is expenditure, other than unauthorised expenditure, incurred in contravention of, or not in accordance with, a requirement of any applicable legislation, including the PFMA, the State Tender Board Act, 1968 (Act No. 86 of 1968) and any provincial legislation providing for procurement procedures in a provincial department.
- Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised.

It is compulsory for departments and public entities to disclose such expenditure in their financial statements. The figure below depicts the extent of such expenditure and the portion thereof that was identified during the audit and not detected by the auditees.

Figure 16: Unauthorised, irregular as well as fruitless and wasteful expenditure incurred by departments and public entities



The bulk of the unauthorised amount (R773 million or 99%) was incurred by the Department of Education and was in respect of personnel expenditure relating to OSD.

The total irregular expenditure incurred in the province for both departments and entities amounted to R1,1 billion, which is a substantial increase over the prior year total of R6,5 million. The Departments of Education (R696 million) and Health (R401 million) incurred the bulk of the irregular expenditure and were responsible for 96% of the total.

These two departments are also responsible for most (98%) of the fruitless and wasteful expenditure identified in the province, with Education contributing R60 million and Health R161 million.



Both departments suffer from a poor internal control culture with inadequate emphasis placed on the prevention and detection of unauthorised, irregular and fruitless and wasteful expenditure.

The nature of the expenditure and significant trends are presented in the table below.

**Table 9: Movements in unauthorised, irregular as well as fruitless and wasteful expenditure**

Nature of movements	Departments			Public entities		
	Number of auditees	Amount	Movement over 2009-10	Number of auditees	Amount	Movement over 2009-10
<b>Unauthorised expenditure (applicable to departments only)</b>						
Number of departments incurring	2	R774m	↓ 3			
Identified during the audit - not detected by auditee						
Incurring for two or more successive financial years	1					
<b>Nature of unauthorised expenditure incurred</b>						
Overspending of votes/main division within votes	2	R684m	↓ 3			
Expenditure not in accordance with votes	1	R90m	↑ 1			
<b>Irregular expenditure</b>						
Number of auditees incurring	9	R1,1b	↑ 1	2	R1m	↔
Identified during the audit - not detected by auditee	9	R1,1b	↑ 1	2	R1m	↔
Incurring for two or more successive financial years	5					
<b>Nature of irregular expenditure incurred</b>						
Supply chain management	9	R1,1b	↑ 3	2	R1m	↔
Compensation of employees	1	R170 530	↓ 1			
Other non-compliance	1	R9m	↑ 1			

Nature of movements	Departments			Public entities		
	Number of auditees	Amount	Movement over 2009-10	Number of auditees	Amount	Movement over 2009-10
<b>Fruitless and wasteful expenditure</b>						
Number of auditees incurring	9	R225m	↑ 3	1	R419 370	↑ 1
Identified during the audit - not detected by auditee	7	R213m	↑ 1	1	R419 370	↑ 1
Incurring for two or more successive financial years	5					

Annexure 3 to this report provides a full listing of auditees that incurred the expenditure summarised by the above table.

#### 2.4.4 Summary of findings from the audit of SCM conducted by the AGSA

The audits conducted by the AGSA included an assessment of procurement processes, contract management and the controls in place to ensure a fair, equitable, transparent, competitive and cost-effective SCM system that complies with legislation and minimises the likelihood of fraud, corruption, favouritism as well as unfair and irregular practices.

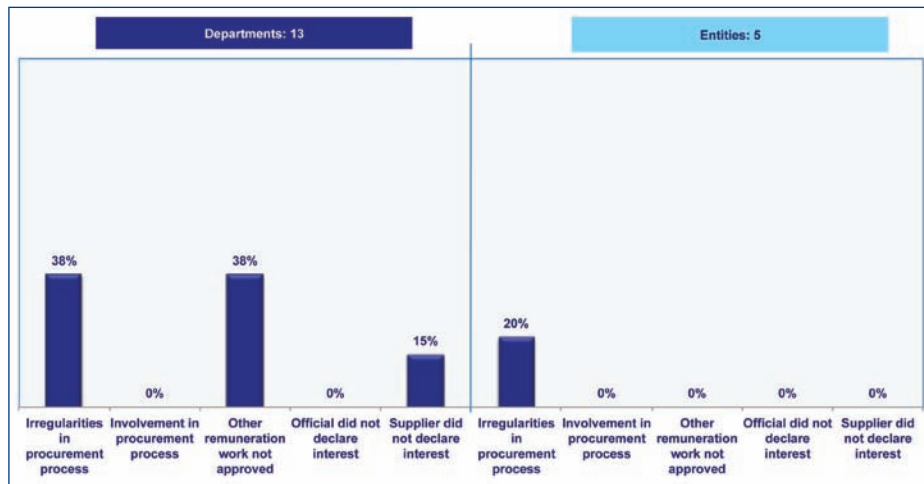
Findings were raised during the audit of SCM at 11 (61%) of the auditees relating to contracts that had been awarded and quotations that had been accepted (referred to as 'awards' in the rest of this report).

Significant findings relating to SCM are depicted in the figures that follow.

Figure 17: Summary of findings on SCM



Figure 18: Awards to state officials and/or their close family members



A summary of the significant findings is provided below. Detailed findings are presented under section 5 of this report. The names of auditees with SCM findings are listed in annexure 5 to this report.

Aspect audited	Summarised findings
Limitations on planned scope of audit of awards	Limitations on the planned scope of the audit of awards were identified at four out of 13 departments. No such instances were identified at the public entities. Documentation supporting SCM transactions was not provided, resulting in irregular expenditure at the affected departments.
Awards to state officials and their close family members	Five of the 13 departments had given awards to state officials and/or their related family members. The findings included awards to suppliers where the employee/political office-bearer/member of accounting authority had interests and where suppliers did not declare their interest.
Uncompetitive or unfair procurement processes	Four of the 13 departments had findings pertaining to uncompetitive or unfair procurement processes. The findings include criteria different from the ones originally specified being applied in evaluating bids; deviations above R1 million not reported to the AGSA; competitive bids not invited; and required information and declarations for the bids not submitted.
Inadequate contract management	Three departments and one public entity did not have an adequate contract management system in place. The findings in this respect included payments made in excess of the approved contract price, inadequate contract performance measures and contracts amended or extended without approval by a delegated official.
Inadequate controls	Five departments and one public entity had findings on inadequate controls. The findings on this aspect included the absence of an SCM policy, inadequate controls to ensure interest is declared and inadequate actions to address the SCM risks identified.

Non-compliance with SCM legislation can largely be attributed to irregular expenditure incurred by the departments and public entities. It is also important to note that almost 100% of the irregular expenditure incurred and/or disclosed was identified by the external auditors, indicating that the internal controls of departments and public entities failed to detect these deviations.

The Premier's commitment to implement a pre-audit on the SCM processes prior to awarding the tender is an initiative that would to a large extent address the shortcomings identified in the control environment. The challenge, however, is to ensure that this commitment is actioned without delay.

Active governance and involvement by internal audit and audit committees can also go a long way in meeting the tender process challenges, thus helping the province



move faster towards clean administration by 2014 and beyond. Non-compliance must have consequences and accountability must be enforced at all levels.

Continued non-adherence to SCM regulations therefore defers restoration of the public's confidence in the ability of state officials to systematically take care of their interests – and deprives citizens of much needed services in all areas of service delivery, including the health, education or housing sectors.

#### 2.4.5 Investigations into SCM irregularities, fraud or other financial misconduct

There has been a 25% increase in the number of investigations commissioned by departments and public entities, compared to the previous financial year. Table 10 lists the investigations in progress or completed by March 2011. Not all of the investigations were conducted by the AGSA.

**Table 10: Investigations completed or in progress as at 31 March 2011**

Auditee	SCM-related	Fraud	Other financial misconduct	Number of investigations per auditee
Education	4	3		7
Health	2		1	2
Social Development	1			1
<b>Total</b>	<b>6</b>	<b>3</b>	<b>1</b>	<b>10</b>

Details of the investigations in progress:

##### Education

Investigations are being conducted into the following aspects:

- Allegations of fraud and forgery
- Procurement irregularities related to learner-teacher support materials
- Irregularities in the registration of companies in the department's supply chain database
- Irregularities in the procurement of ICT equipment
- Corrupt activities with regard to procurement procedures at the SCM unit

- Irregular appointment of personnel at SCM and national school nutrition programme units
- Corruption in the awarding of tissue paper tender

##### Health

Investigations are being conducted to determine whether there was any irregularity in the appointment of suppliers at the pharmaceutical depot and whether there are any officials doing business with the companies trading with the department.

An investigation is also being conducted into the Provincial Health Information System (PHIS), which has still not been implemented in the province despite payments of R265 million having been made to the service provider from 21 November 2006 to July 2010.

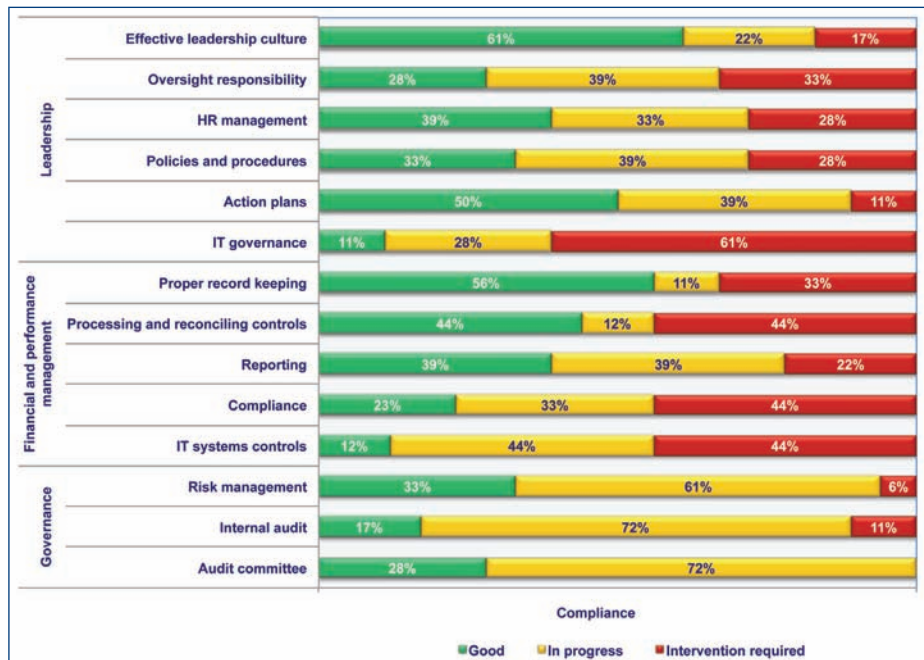
##### Social Development

An investigation is being conducted based on the allegations that officials with business interests in companies traded with the department.

#### 2.4.6 Assessment of drivers of internal control over compliance with laws and regulations

Figure 19 provides an assessment of the key drivers of internal control that should be in place to ensure compliance with laws and regulations.

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



It is evident from the above analysis that a significant amount of effort is still required by the leadership to address non-compliance with laws and regulations. The right leadership tone, with the support of the audit committee and internal audit, is necessary to establish a strong control environment and ensure compliance. As the *Operation clean audit 2014* target draws closer, there is a need for leadership to collectively intensify their efforts in addressing the various non-compliance issues.

#### 2.4.7 Best practices, root causes of findings and the way forward on compliance with laws and regulations by auditees

Only two departments, one public entity and one other entity had no findings on compliance with laws and regulations. A common observation at these entities was the involvement of leadership in the day-to-day operations, including involvement in the audit process.

Of particular concern in the province was the number of departments that did not comply with SCM prescripts and which resulted in the significant increase in irregular expenditure compared to the prior year. The control deficiencies at the Departments of Education and Health contributed to the bulk of the irregular expenditure identified in the province.

The outcome of the investigations currently in progress at the three departments above should be used by the leadership to set the correct tone at the top and serve as an example by taking the necessary corrective action against those departments that are not complying with laws and regulations. The SCM processes in the province can be improved if there is an increase in monitoring of compliance with legislative requirements by all levels throughout the period. Internal audit can play a pivotal role in this area by increasing its internal audit coverage of compliance and assisting with the implementation of the pre-audit process committed to by the Premier.

During a post-audit meeting held with the Premier on 14 September 2011, it was agreed that a pre-audit process would be implemented with immediate effect whereby the SCM processes would be audited prior to awarding the contract. The commitment made by the provincial political leadership in the prior year to address issues relating to SCM was not adequately implemented or monitored, which also contributed to the increase in irregular expenditure. Departments, with the assistance of the provincial treasury, should consider implementing self-assessment procedures through compliance checklists, together with ongoing review and monitoring by management, to prevent lapses in compliance with laws and regulations.



## SECTION 3: DRIVERS OF AUDIT OUTCOMES – KEY CONTROLS

### 3.1 Overview of key controls as drivers of the three facets of audit outcomes

The AGSA has identified three categories of drivers of improved audit outcomes through interactions with auditees regarding audit outcomes over the past several years. These categories have been used to formally document the results of quarterly key control visits by the AGSA to the provincial leadership.

These drivers (key controls) are categorised according to the fundamental areas of internal control, namely:

- Leadership
- Financial and performance management
- Governance

Deficiencies in some or all of these controls can be directly linked to the following:

- Audit opinions on the financial statements
- Findings on predetermined objectives
- Findings on compliance with laws and regulations

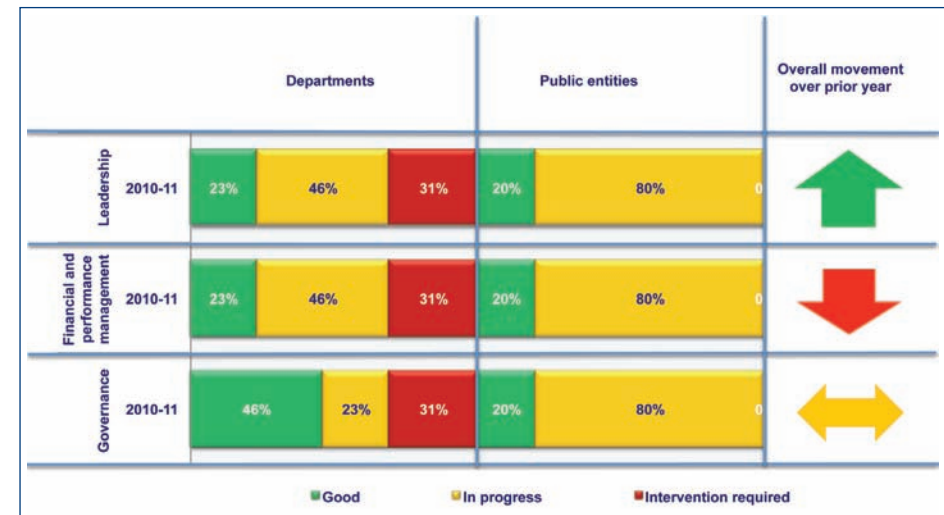
Auditees that had improved their audit outcomes or maintained positive audit outcomes can attribute this to the implementation and effective monitoring of the three fundamentals of internal control. Similarly, auditees that had regressed or received negative audit outcomes can attribute this to a failure to implement and monitor these fundamentals of internal control.

Annexure 4 to this report assesses the adequacy of key controls at auditees at the time of the audit. An assessment of these drivers with regard to financial reporting, reporting on predetermined objectives and compliance with laws and regulations is provided in sections 2.2.8, 2.3.4 and 2.4.6, respectively.

Sections 3.2 and 3.3 provide an assessment of human resource management and information technology management as specific drivers of audit outcomes.

An overall assessment of progress made by departments and public entities in implementing key controls is depicted in figure 20.

Figure 20: Progress made in implementing key controls (all auditees)



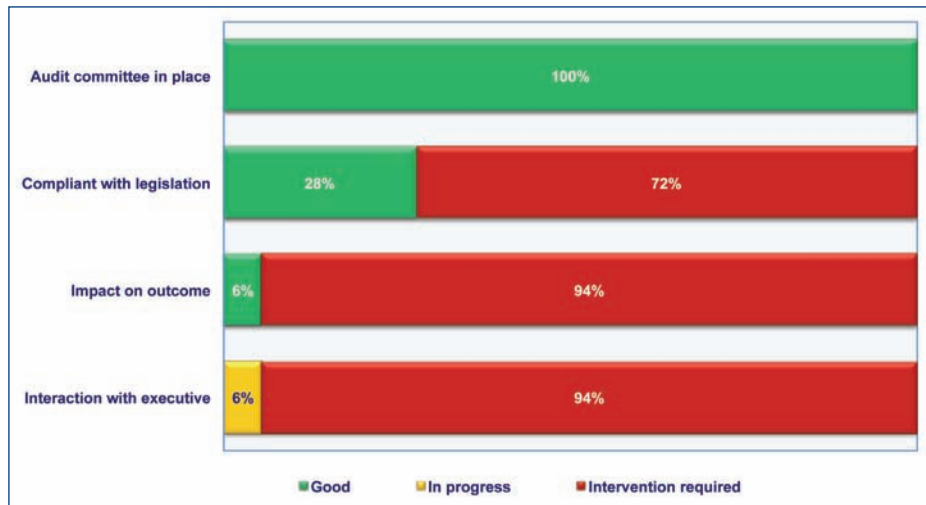
The assessment above illustrates the progress made by the province with the implementation of key controls to drive and improve on the audit outcomes in the province. During the audit the implementation and effective monitoring of the three fundamentals of internal controls by departments and entities were assessed. The assessment shows that while the majority of departments and entities were in the process of addressing the three fundamentals of key controls, some level of intervention was still required at departments. As long as the above picture does not improve significantly, clean audit outcomes will not be attained by the majority of the departments and entities in the foreseeable future.

Going forward it has been agreed that the provincial treasury would take over the quarterly monitoring of detailed key controls at departments, while the AGSA would continue with a high-level assessment. This will empower the provincial treasury with the insights it needs to provide effective support to departments and ensure that ownership of the drive to attain clean audit outcomes rests with the provincial administration and not with the AGSA.

The status of auditees' key controls is listed in annexure 4 to this report.

### Audit committees

Figure 21: Effectiveness of audit committees



The provincial treasury has established a centralised or shared audit committee for all the departments in the province which was in place for the period under review. The provincial legislature and the public entities have each established their own audit committees which were also in place for the period under review. However, there is a very distinct difference between being compliant and being effective. It is evident that the audit committee of only one entity (4%) had a direct impact on the audit outcomes. The evaluation of audit committees for the province is contained in annexure 9 of this report.

Audit committees exist mainly for compliance with legislation and the potential value they have is not fully utilised. However, while the audit committees often owe their existence to an effort at compliance, they do not in all cases perform the functions required by the same legislation. For instance in the case of all departments the financial statements and performance information were not submitted or reviewed by the audit committee prior to submission to the AGSA. The audit committee was thus rendered ineffective by the departments and not due to its own actions.

Furthermore, despite legislation making provision for interaction by audit committees with the executive, the audit committees' engagement with the executive is very limited or does not occur at all in most cases. Only the MEC for the provincial treasury has limited engagement with them.

### Conclusion

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

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

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

Currently, the appointed audit committee members bring a wealth of knowledge and experience to the provincial administration. Sadly, this resource is, to a large extent, not being utilised to its full potential.

### 3.2 Effective HR management as specific driver of audit outcomes

Effective HR management is a key driver of all three facets of audit outcomes. In this context, HR management is deemed effective if adequate and sufficiently skilled resources are in place and performance is monitored.



The AGSA's assessment of HR management focuses on the following areas:

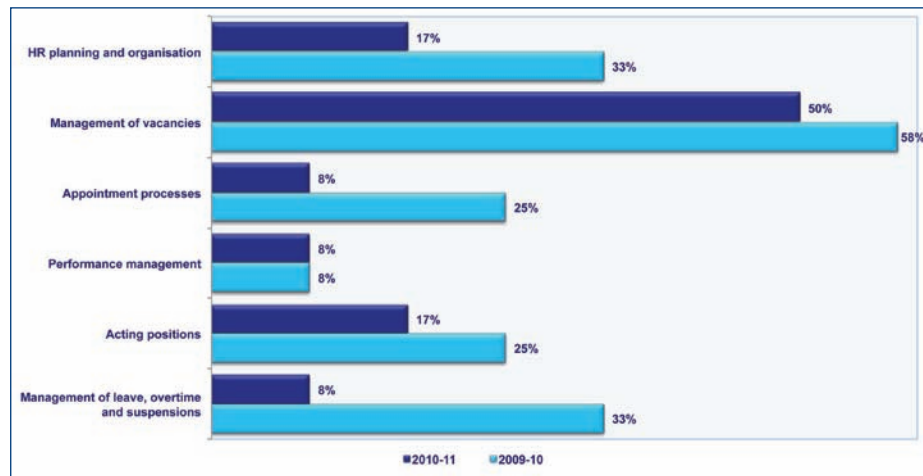
- HR planning and organisation
- Management of vacancies
- Appointment processes
- Performance management
- Acting positions
- Management of leave, overtime and suspensions

This assessment was performed at departments in the previous year and was introduced at some public entities for the year under review.

### 3.2.1 Overall findings from the assessment of HR management

The figures below depict the extent of weaknesses in each focus area for departments (with a comparison to the previous year).

Figure 22: Identified HR management weaknesses – Departments



In total, seven of 12 departments (excluding the legislature) (54%) attracted findings in one or more of the above focus areas, compared to 11 of 12 departments

(excluding the legislature) (92%) in the prior year. No findings were raised in HR focus areas at any of the public entities in the 2010-11 financial year.

With reference to page 50 of last year's general report of the province, 11 of 12 (92%) of departments had findings under management of vacancies. For this year we focused only on the key vacant positions and not on all vacancies on the organisational structure, since these structures need to be updated. The prior year figure has been restated accordingly for comparative purposes.

Also with reference to page 50 of last year's general report, there was an improvement in the overall vacancy rate at the Department of Education. Critical positions in the finance unit, as well as positions of educators in the various regions around the province, were filled. However, there was no improvement in the overall vacancy rate at the Department of Health with 60% of senior management positions and 66% of key positions overall remaining vacant.

Health is adamant that the vacancies are critical for proper service delivery, yet despite having 66% vacancies, the department overspent by 4% on employees' compensation for the financial year. This would imply that available funds are inappropriately prioritised in the annual budget.

Common findings arising from the AGSA's focus areas are summarised below. Seven departments had findings in the HR focus areas and 11 in the prior year. Prior year statistics are given for departments.

**Table 11: Common findings arising from the AGSA's focus areas**

Focus area	Summary of common findings	Departments		Public entities
		2010-11	2009-10	2010-11
HR planning and organisation	HR plan did not adequately determine gap between existing and required HR and actions necessary to address the gap	57%	36%	0%
	Organisational structure not aligned to strategic plan	14%	0%	0%
Management of vacancies	Positions vacant for more than 12 months	86%	64%	0%
Appointment processes	Appointments made in posts that had not been advertised	14%	0%	0%
	Verification checks not performed	29%	18%	0%
Performance management	Performance bonuses incorrectly calculated	57%	0%	0%
Acting positions	Employees acted in positions for more than 12 months	71%	27%	0%
Management of leave, overtime and suspensions	Processes/procedures not in place to monitor sick leave and overtime	57%	55%	0%
Capacity of key personnel	Appointment of staff without the necessary required qualifications	43%	0%	0%

### 3.2.2 Impact of staff vacancies on internal control

Positions should be filled timeously with staff who have and maintain a level of competence that allows them to accomplish their assigned duties, as well as understand the importance of developing and implementing sound internal control.

Control activities performed by staff at all levels form an integral part of planning, implementing, reviewing and accounting for stewardship of government resources managed by auditees and for achieving results.

Such control activities include a wide range of diverse tasks related to the three facets of audit outcomes, such as:

- Maintaining sound financial management, keeping adequate records and preparing financial statements

- Setting performance targets and indicators; monitoring, recording and validating performance against predetermined objectives; investigating variances from set targets, and taking corrective action for deviations identified
- Enforcing compliance by officials with laws and regulations and ensuring that obligations imposed by legalisation on the organisation are discharged timeously and fully.

Such activities include but are not limited to approvals, authorisations, verifications, reconciliations, performance reviews, maintenance of security, and creating and maintaining records and appropriate documentation.

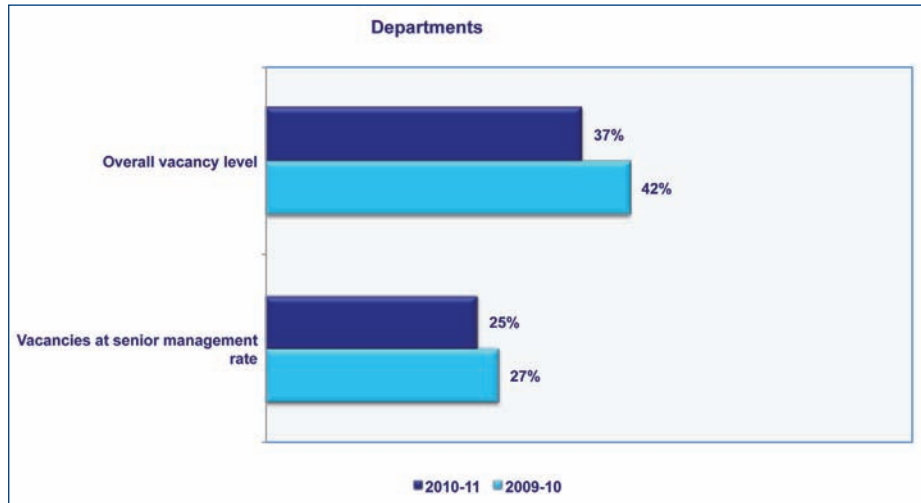
Control activities that may be neglected should key positions not be filled timeously with the required levels of qualifications and experience include the following:

- Top-level reviews of actual versus planned performance
- Lack of day-to-day supervision
- Controls over information processing
- Physical control over vulnerable assets
- Establishing and reviewing performance measures and indicators
- Segregating incompatible duties, including the initiation, processing and approval of transactions
- Proper execution of transactions
- Accurate and timely recording of transactions and events
- Access restrictions to, and accountability for, resources and records
- Maintaining appropriate documentation of transactions
- Enforcing compliance with policies, procedures, laws and regulations
- Maintaining internal control

Progress made by auditees in filling vacancies since the audit of their 2009-10 financial statements is depicted below. The vacancy rate depicted is an average rate based on the year-end vacancy rates at the auditees.



Figure 23: Progress in filling vacancies



### 3.2.3 Root causes of findings and the way forward on HR management

It is encouraging to note that 58% of departments had findings on HR management, compared to 92% in the prior year. However, very little has been done by the leadership to address the overall vacancy rates in the province despite the commitment given by the provincial leadership in the prior year to address the high vacancy rates and to fill positions with suitably qualified personnel. High vacancy rates also compromise the control environment, resulting in a lack of segregation of duties and an increase in the likelihood of fraud.

An action plan to address the critical vacant positions in the province as a whole should be sanctioned and implemented by the leadership in the province with immediate effect.

Controls should be implemented to ensure that identified weaknesses are corrected through the implementation of actions plans, which should be monitored on a regular basis by the leadership of the departments.

During a post-audit meeting with the Premier on 14 September 2011, a commitment was made to attend to the problem of having acting CFOs at struggling departments (Health, Public Works and Social Development). This is a step in the right direction in ensuring that the finance units are equipped with the necessary skills and expertise to influence positive audit outcomes.

## 3.3 Information technology management as specific driver of audit outcomes

### 3.3.1 Computer systems in use and the management of information technology

As in all other provinces, departments and public entities are heavily reliant on IT systems to perform their statutory financial management, reporting and administrative functions. Furthermore, these systems enable the automation of business processes and transaction processing, which contributes to effective internal control. The information processed and stored on IT systems is vital to the accuracy and reliability of the financial information used by management for planning, monitoring and reporting.

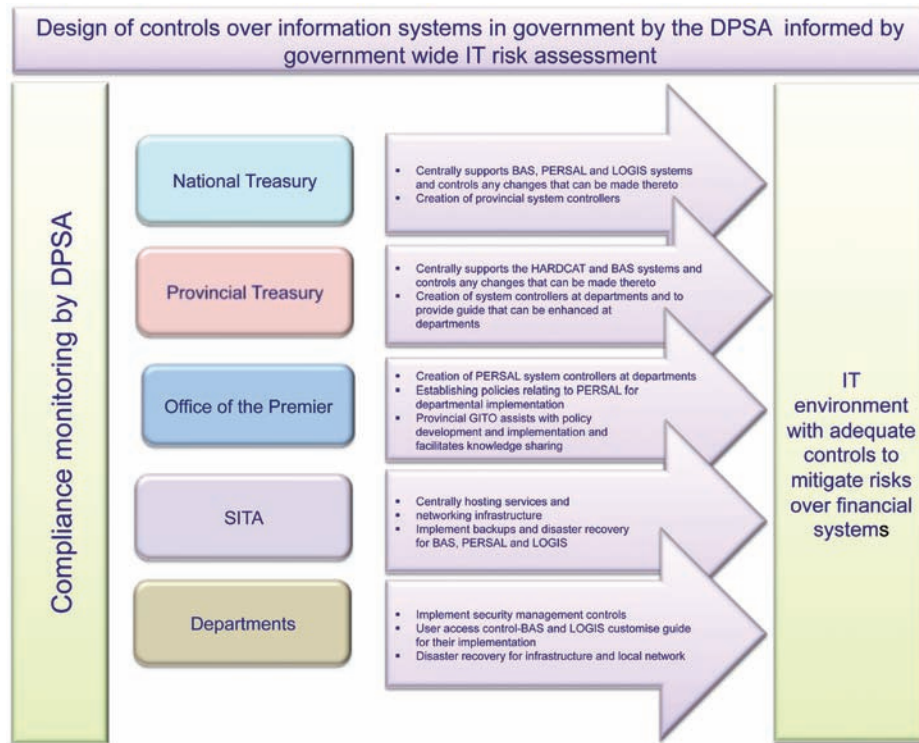
#### Departments

All 13 departments in the Limpopo Province use transversal systems, e.g. the Basic Accounting System (BAS) and Personnel Administration System (Persal) to perform functions for managing financial information. The FINESSE system is used for procurement, while assets are managed using Excel spreadsheets. The Limpopo Province, however, has now started to pilot the asset management module of the Integrated Financial Management System (IFMS).

#### Design of IT management

Roles and responsibilities in terms of support and usage of systems to ensure a controlled environment are depicted below:

Table 12: DPSA's design of controls over information systems in government



In view of the roles and responsibilities outlined above, the following focus areas were set for audit of IT in the province:

- IT governance
- Security management
- User access control
- IT service continuity

The following focus areas are transversally performed and were audited at the National Treasury and the State Information Technology Agency (SITA). Please refer to the national general report for an overview of the findings, root causes and the way forward for national departments and entities.

- Program change management
- Facilities management
- Data centre

### Public entities

Although the IT environment was formally reviewed at only three public entities, the IT environments at the remaining public entities were assessed during the key control assessment which is performed on a quarterly basis. The three public entities that were audited in the Limpopo Province use Pastel for processing their financial information. These are off-the-shelf packages with little to no customisation. Maintenance of these systems is managed independently from the National Treasury or the State Information Technology Agency (SITA). Public entities are not subjected to the implementation of the policies and procedures developed by the Department of Public and Service and Administration (DPSA) around the usage of IT systems to support government objectives.

In view of the roles and responsibilities outlined above, the following focus areas were set for the audit of IT in the provincial public entities:

- IT governance
- Security management
- User access control
- Program change management
- IT service continuity

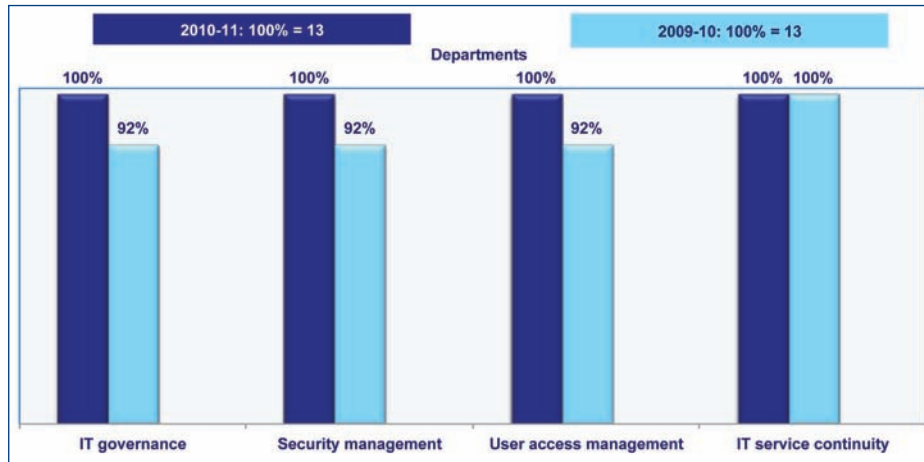
### 3.3.2 Implementation of information technology management

Information technology management for financial systems was evaluated at 13 departments and three public entities in the province.

Key areas in the management of IT where deficiencies were identified are summarised in table 1 below.



Figure 24: Identified control deficiencies identified in management of information technology



In 2009-10, the Limpopo Provincial Legislature attracted no findings on IT governance and user access control, while the Department of Public Works had no findings on security management issues. At the Department of Public Works the position of the Government Information Technology Officer (GITO) was vacant for the biggest part of the year under review. It was therefore a challenge for the department to maintain the user access management controls that were in place in the prior year.

At the legislature the IT policies and procedures that were in place were not adequately implemented or monitored throughout the year, resulting in a regression.

Table 13: Outline of IT aspects audited

Focus area	Outline of aspects audited	Incidence of control weaknesses identified	
		Departments	
		Number audited	Percentage
IT governance	The structures, policies and process through which the departments ensure that IT departments and public entities support and are in line with the business requirements	13	100%
Security management	Controls that prevent unauthorised access to the networks, operating systems and application systems that generate and prepare financial information	13	100%
User access management	Procedures through which the departments and public entities ensure that only valid, authorised users are allowed segregated access to initiate and approve transactions on the system	13	100%
IT service continuity	Processes of managing the availability of hardware, system software, application software and data to enable departments to recover or establish information system services in the event of a disaster	13	100%

Key issues at departments within the Limpopo Province are summarised as follows:

### IT governance

IT governance concerns were highlighted in all departments within the province. An IT governance framework serves as a good step towards driving good governance. In the absence of a government-wide IT governance framework, which should be developed and rolled out by the DPSA, the Office of the Premier has developed a provincial IT governance framework. However, the framework has not yet been approved and implemented. The Department of Agriculture has developed their own governance framework, which was approved and rolled out for implementation in March 2011. Although the framework was approved, inadequacies were noted in other areas of governance, namely a lack of IT risk assessments performed, incomplete service level agreements and inappropriately assigned information security officer responsibilities.

The other 11 departments had not implemented an IT governance framework, with the result that the following governance-related risks were noted: inconsistent implementation of risk assessments, a lack of formally and appropriately delegated functions to the information systems officer and inadequate service level agreements (SLA) or monitoring of SLAs at some departments.

### Security management

All departments displayed either inadequate design or a lack of implementation of security management controls that set requirements in line with generally accepted good practice security principles. This has resulted in the inadequate security configuration and security management concerns on the Windows network system, which include inadequate password settings and lack of review security of audit trails.

### User access management

There is a general concern around the implementation of user management policies and procedures at the departments. The Department of Safety, Security and Liaison is the only department that has developed and approved a user management policy that sets requirements in line with generally accepted good practice principles. Fifty-four per cent of departments exhibited inadequacies in review processes around the system controller activities and user access rights on financial application systems, practices that should be stipulated in policies and enforced by good compliance management procedures. Departments better managed the processes of new user authorisation, user termination and password resets as such concerns were noted at only 31% of departments.

### IT service continuity

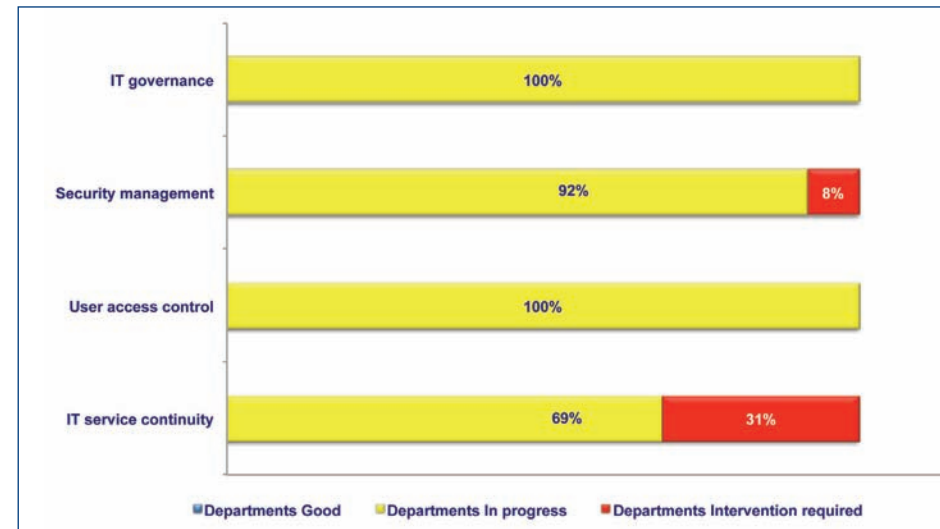
Adequate and approved disaster recovery plans (DRPs) have not been established at 12 of the 13 departments (92%). The remaining department, namely Office of the Premier, has documented a DRP, but has not adequately tested it to provide reasonable assurance that the DRP will meet the requirements of the organisation in the event of a disaster.

### Public entities

Public entities are not subjected to the IT governance framework developed by the DPSA, nor are they subject to the IT governance framework developed by the Office of the Premier. None of the entities have fully developed and implemented an IT governance framework. Only one of the three entities audited has developed and approved a security policy that sets requirements in line with generally accepted good practice security principles. No entities have developed and approved user access management policies and procedures and only one out of the three entities audited has developed and approved a DRP. However, this entity has not adequately tested the DRP to provide reasonable assurance that it will meet the requirements of the organisation in the event of a disaster.

Some of the audit focus areas were also assessed in the 2009-10 financial year. The following figure depicts progress made by departments in addressing the issues raised.

Figure 25: Progress in addressing prior year IT findings





Although progress has been made, there is room for improvement. In all departments there are at least one or two findings per focus area. Findings that require immediate management intervention as sufficient progress has not been made are as follows:

- IT governance – Although all departments have displayed very limited progress within the IT governance focus area, the key concern evident at all but one of the departments is the adoption of an IT governance framework. Such a framework should provide guidance on consistently implementing controls across departments. However, all departments displayed weaknesses within IT governance, indicating that more progress could be made.
- User access management – Although limited progress was made regarding the design of user access management controls throughout all departments, only the Department of Safety, Security and Liaison has fully documented and approved the user access management policy and procedure. The outcome or impact of implementation of these controls at the department is yet to be determined.
- Security management – Progress was made with addressing IT security policy concerns at departments in the form of IT security policies being designed (documented). However, as policies were not approved, findings were noted as being “in progress”. Such controls drive the consistent implementation of key security management configuration and security management processes. Sufficient progress has not been made with addressing IT security management configuration concerns as password configuration concerns were prominent at department level and significant progress needs to be made in this area.
- IT service continuity – Progress has been made as some departments have documented DRPs. However, progress was not apparent at all departments, and no departments had fully implemented and tested their DRPs.

### Public entities

Two out of the three entities audited had not been audited in the previous financial year. Progress within the user access management and IT governance focus areas for the one entity audited in the previous financial year was not sufficient, and immediate management intervention is required here. Significant progress was made within the security management focus area.

### 3.3.3 Root causes of findings and the way forward on information technology management

The overall root cause is the lack of implementation of commitments by the leadership. In addition, there is no system of monitoring the implementation of commitments.

- IT governance – The key root cause of findings within IT governance is the absence of an IT governance framework, which has not been developed and rolled out by the DPSA. This has led to the development of a provincial framework by Limpopo’s Office of the Premier, which is pending approval by the director-general due to the late submission thereof.
- Security management – The key root cause was a lack of formal delegation of IT security responsibilities to individuals at departments.
- User access management – Lack of adequate implementation by the departments of the guidelines developed by the provincial treasury. In addition, roles and responsibilities between provincial departments and the provincial treasury were not clarified. Departments were under the impression that important monitoring functions over the activities of departmental system controllers were the responsibility of the provincial treasury and not of the department.
- IT service continuity – The primary contributing factors were a lack of funding and inadequate skills or assignment of responsibility to develop and implement adequate IT service continuity.

### Public entities

The key root cause of findings raised at public entities is the absence of an overarching IT governance framework, coupled with resource constraints in implementing controls within the respective environments. One of the three public entities’ managements was aware of the full requirements for and within an IT security policy, but no departments had formally adopted user access management policies and procedure controls. This lack of consistency points to the need for a consistent overarching governance framework. Public entities are not subject to the DPSA regulations, therefore they are not required to adhere to any centrally managed governance frameworks.

### Way forward

- The director-general at the Office of the Premier should approve the IT governance framework without further delay and communicate this to all departments for adoption. Where departments have adopted their own framework, they should ensure alignment to the province-wide framework. Such frameworks should provide adequate guidance on best practice requirements, including user management, security management and IT service continuity.
- IT security and user access management policies and procedures should be documented and approved across all departments. The provincial treasury should provide guidance and clarity on the responsibilities of the departments and those of the provincial treasury in user access management so that each organisation is clear on their role in the process.
- Accounting officers should ensure that DRPs are established for each department. All departments should consult on cost-effective approaches to implementing a DRP, such as a shared service model.

Public entities should consult with either the Office of the Premier or the DPSA in developing an IT governance framework. Frameworks should be considered in view of the IT maturity of the public entities and resource challenges the public entities might be facing. As public entities do not have transversal systems, guidelines from the provincial treasury may not always apply. However, as public entities use similar financial packages, they should consider consulting with each other on efficient best practice methods within user access management.

### Overall assessment of the design and implementation of IT management controls at provincial level

BAS and Persal control environments displayed inadequate controls at a departmental level and findings were raised in this regard. Key concerns were raised within user access management. The provincial treasury has provided user management guidelines, but these guidelines were not consistently adhered to by all departments. Furthermore, the Office of the Premier is responsible for implementing the province-wide IT governance framework. However, due to the recent completion of the framework and the late submission thereof to the director-general for approval, it is yet to be distributed to the departments for adoption and

implementation. This may have resulted in the province's current failure to implement adequate IT governance practices, which also had an impact on the design of security management and IT continuity.

Key IT controls were not designed within the public entities due to a lack of guidance as well as the fact the public entities are not subject to the DPSA regulations.

Overall IT controls across departments within the Limpopo Province have not been designed and implemented by management, resulting in the findings raised across all focus areas audited. Urgent intervention is required by the leadership to address these findings.

### Implementation of the IFMS asset management system

Four departments (Limpopo Provincial Treasury, Agriculture, Public Works and Education) in the province were identified as pilot sites for the implementation of the IFMS asset management system in the province. The system was rolled out and implemented at the provincial treasury in the 2010-11 financial year, while it will be implemented at the other three departments as from the 2011-12 financial year onwards.

The following issues and weaknesses were identified on the IFMS system during the audit at the provincial treasury:

- The system was too slow and time consuming to capture one transaction
- The system was unable to print an asset register with details such as asset or bar-code numbers in one document. Instead, two asset registers had to be printed for this purpose.
- Asset disposals are not reflected in the IFMS asset register.

As result of the above issues, migration from the manual asset register to the IFMS asset management system could not take place. Consequently, the manual asset register was still used as a source for the audit of assets at the provincial treasury in the 2010-11 financial year.



To ensure that the province has a credible and reliable asset management system in place to manage its assets, the leadership should urgently address these weaknesses prior to implementation at other departments in the province. It is imperative that the provincial treasury take ownership of this process in ensuring a smooth transition from the manual asset register to the IFMS asset management system.

## SECTION 4: INITIATIVES AND COMMITMENTS BY KEY PROVINCIAL AND NATIONAL ROLE PLAYERS

### 4.1 The function of key provincial role players in audit outcomes

#### 4.1.1 Assessment of monitoring capacity and focus areas of provincial role players at the time of the audit

The AGSA continuously engages with provincial role players on seven specific focus areas where their contributions to improve audit outcomes can be further enhanced. An assessment of the monitoring capacity and effectiveness of role players in relation to these focus areas at the time of the audit is depicted in the table below.

*Table 14: Assessment of monitoring capacity of key provincial role players to address audit outcomes at the time of the audit*

	Role players	Supply chain management	Predetermined objectives	Financial management	Turnaround plans	IT controls	HR management	Governance structures
Oversight accountability	Provincial executive leadership (Premier and MEC for Finance)	Red	Red	Red	Yellow	Red	Yellow	Yellow
	Coordinated provincial oversight (provincial SCOPA and portfolio committees)	Red	Yellow	Yellow	Yellow	Red	Yellow	Red
	Accounting officers, accounting authorities, CFOs and senior officials							
	Administrative accountability							
		Green	Yellow	Red				
		Good progress	In progress	Intervention required				

At the time of the audit, intervention was required by all role players to address the capacity and effectiveness of the core areas reflected in the table above. During

our interactions with the portfolio committees of the provincial legislature it was noted that they had attended to issues of HR management (specifically HR planning and vacancy management) and I believe that this focus has contributed to the positive trend displayed in figure 21 under paragraph 3.2.1 above. The portfolio committees also paid attention to the action plans compiled by management to address prior audit findings. This effort had less impact, however, since the progress reports submitted to the portfolio committees by management had not been independently reviewed for accuracy. Internal audit and the audit committee could play a meaningful role in addressing this weakness.

It is disappointing to note that commitments made by the provincial leadership in the prior year were not in all instances implemented or followed through, specifically in the areas of financial management and supply chain management.

Subsequent to year-end and under the guidance of the new MEC for the provincial treasury, a new provincial Accountant-General was appointed and various initiatives were implemented which I believe will result in improvements if carried through. These initiatives related to added support in financial management where departments are struggling, as well as guidance on the reporting of predetermined objectives.

A concerted effort is required by all relevant role players to address these focus areas and to make sure that all commitments are implemented if better audit outcomes and service delivery to the citizens of the province are to be realised.

#### 4.1.2 Commitments and actions by provincial executive leadership and oversight

Responses and commitments emanating from the September/October 2011 interactions and roadshows are outlined below.

Table 15: Responses and commitments by the provincial executive leadership

Outline of role player commitment/ proposed action plans October 2011		Focus areas targeted by commitments and action plans					
		Supply chain management	Predetermined objectives	Financial management	Turnaround plans	IT controls	HR management
<b>Provincial executive leadership</b>							
1	A provincial workshop to discuss the challenges and agree on a way forward to achieve at least financially unqualified opinions in all departments by 31 March 2012						
2	Pre-audit of SCM processes prior to awarding tenders						
3	Sharing of best practices of departments						
4	The leadership would be accessible to and interact with AGSA personnel, the audit committee and internal audit						
5	Corrective action would be taken where action plans to address shortcomings are not compiled or adhered to						
6	Attention to be given to a skills audit of incumbent CFOs and the appointment of CFOs with the necessary skills						
<b>Provincial treasury</b>							
1	To address skills and capacity issues at public entities by being involved in the appointment process of CFOs						
2	Monitor the existence and effectiveness of key controls at departments						
3	There should be consequences for entities that do not submit documentation. The provincial treasury will be engaging with Exco in the initiation of this process						

■ Post-audit commitment/initiative (new) ■ Commitment/initiative from prior year

It should be noted that the leadership of the Department of Sport, Arts and Culture has made a commitment to address their finding on assets and promised an



updated asset register by the end of September 2011. This commitment was, however, not met and at date of this report the asset register of the department was still not up to date.

I am concerned that at the date of compiling this report, no specific commitments had been received from any of the role players with regard to planned interventions to address IT shortcomings.

#### **4.1.3 Status of PAC oversight resolutions**

The last public hearing was held in 2010 for the 2008-09 financial outcomes. At the date of this report these resolutions had yet been tabled in the legislature.

Due to the backlog of audit reports to be considered, SCOPA is not adequately discharging its oversight role, which is evident from the number of departments with repeat audit findings.

The backlog was brought to the attention of the Premier, the Speaker and the chairperson of committees. During a SCOPA briefing session on 18 August 2011, the committee undertook to eliminate the backlog regarding its review of annual reports by the end of the calendar year. It is the intention of the committee to hold simultaneous hearings for the 2009-10 and 2010-11 financial years.

#### **4.2 Initiatives taken by the AGSA to encourage clean administration**

The AGSA continued with the programme of increased stakeholder interaction with those charged with governance to conduct quarterly assessments of key controls and provide focused feedback in order to share the assessment results with a view to enhancing and strengthening leadership involvement in the operations of the municipalities. These interactions included identifying key controls per entity, influencing the implementation of these key controls and performing quarterly assessments of management's implemented actions to address the audit recommendations and to serve as the way forward in addressing poor audit outcomes.

With regard to the 2010-11 audit process, regular audit steering committee meetings were held with auditees, which were attended by senior members of management and the audit team. There were also regular interactions with the various MECs and the Premier during the

audit process and prior to finalisation of the audits. AGSA representatives attended meetings of the portfolio committees of the legislature to brief and update them on the status within their respective areas of jurisdiction.

Workshops on the audit of reported performance against predetermined objectives were conducted with each department and public entity in the province before year-end. During these workshops AGSA representatives discussed the purpose of the audit, what the process entails and the measures that need to be implemented going forward. These workshops had a positive impact on audit outcomes, as the number of departments with findings on predetermined objectives declined to six, compared to 10 in the prior year.

Subsequent to year-end, the AGSA engaged with the provincial GITO during April 2011 to discuss the recurring IT findings in the province and the way forward in addressing these findings. A presentation on IT was made to the provincial audit committees. The purpose of the presentation was to provide audit committee members with an understanding of the audit approach to IT as well as transversal findings and internal control deficiencies that were identified.

The AGSA's future interactions with the political oversight as well as legislative oversight will focus primarily on the following:

- Follow up on the implementation of supervisory and monitoring actions
- Early identification of risks in order to improve audit outcomes
- The status of key controls in the province will be discussed. If the basic principles of accounting are not observed, the sustainability and improvement of audit outcomes will not be realised.

### 4.3 Emerging matters that require attention to prevent a negative impact on future audit outcomes

In terms of the National Treasury's inventory reform programme, departments will be required to include disclosures on their inventory in the future, which will be subject to auditing. Currently, the province does not have adequate systems and processes in place to adequately account for inventory, which in turn may have impact on future audit outcomes.

All schedule 3C public entities, as per the PFMA, which have to make use of the financial reporting framework, namely the SA Standards of Generally Recognised Accounting Practice (GRAP) issued by the Accounting Standards Board (ASB), should take note of new SA Standards of GRAP pronouncements that have been approved and will become effective in the near future, including any amendments to existing accounting standards that may have an impact on the preparation of future annual financial statements.

## SECTION 5: SIGNIFICANT FINDINGS ARISING FROM THE AUDIT OF SUPPLY CHAIN MANAGEMENT

### 5.1 Background

The audits conducted by the AGSA at departments (including Parliament and legislatures), trading entities, constitutional institutions and listed public entities included an assessment of procurement processes, contract management and the controls in place to ensure a fair, equitable, transparent, competitive and cost-effective SCM system that complies with legislation and minimises the likelihood of fraud, corruption, favouritism as well as unfair and irregular practices.

This assessment was not performed at the following auditees: Trade and Investment Limpopo, Limpopo Business Support Agency, Limpopo Agribusiness Development Corporation and Limpopo Tourism and Parks Board, due to the fact that the audits were not completed.

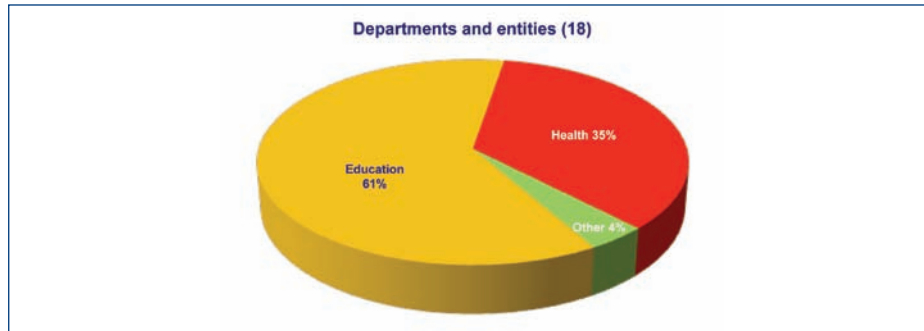
As is evident from the analysis of irregular expenditure (section 2.4.3), R1,1 billion (99,97%) of the irregular expenditure incurred by auditees was as a result of the contravention of SCM legislation and almost the entire amount was identified during the audit process. At the majority of the auditees, the incomplete identification of SCM irregular expenditure was as a result of:

- lack of understanding of applicable legislation
- lack of adequate monitoring processes to detect contravention of legislation

The figure below indicates the departments and/or entities that incurred irregular expenditure in the province:



Figure 26: Irregular expenditure due to non-compliance with SCM



The figure below presents a summary of SCM findings. Details of the most prevalent findings are provided further down under the headings as depicted in the figure. The percentages are based on the number of auditees where findings were identified. The SCM findings are included in annexure 5.

Figure 27: Summary of findings on SCM



## 5.2 Limitations on planned scope of audit of awards

Sufficient appropriate audit evidence could not be provided at all the auditees that awards had been made in accordance with the requirements of SCM legislation. No alternative audit procedures could be performed to obtain reasonable assurance that the expenditure incurred on these awards was not irregular. Table 16 depicts the limitations experienced.

Table 16: Limitations experienced

Auditee	Number of awards	Value of awards R'000	Reason for limitation
<b>Departments</b>			
Education	638	155 739	Documentation pertaining to the awarding of contracts to officials of the department could not be provided
Health	21	32 544	Audit evidence could not be provided that contracts awarded were made in accordance with the requirements of SCM legislation
Public Works	27	Unknown*	Evidence could not be provided to confirm that 27 contracts awarded to consultants were made in accordance with SCM legislation
Social Development	2	52 215	Evidence could not be provided to confirm that two out of nine selected contracts awarded were made in accordance with SCM legislation
<b>Total</b>		<b>275 744</b>	

\* The contracts awarded at the Department of Public Works, as the procuring agency, are based on hourly tariffs and the expenditure is captured against the vote of the user department, hence it was not possible to quantify the amount.

As a result of the limitations experienced, the findings reported in the rest of this section might not reflect the true extent of irregularities and SCM weaknesses at the auditees where the limitations were identified.

## 5.3 Awards to state officials and their close family members

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

Legislation does not prohibit such awards but there is legislation that endeavours to ensure that conflicts of interest do not result in the unfair awarding of contracts

or acceptance of unfavourable price quotations, and requires employees to obtain approval for performing remunerative work outside their employment.

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

The table below details audit findings relating to awards to state officials and their close family members.

**Table 17: Awards to state officials and their close family members**

Auditee	Awards made to		Non-compliance with regard to awards made					
	Officials		Supplier did not declare interest		Other remunerative work not approved		Non-compliance/irregularity in procurement process	
	Number	R'000	Number	R'000	Number	R'000	Number	R'000
<b>Departments</b>								
Agriculture	3	348			1	532		
Education	1	4 495						
Health	11	25 589			15	696	21	295 186
Social Development			1	11 760	16	1 468	30	1 317
Public Works	2	36	3	168	7	404	14	77 822
Local Government and Housing	2	10			10	290		
<b>Total</b>	<b>19</b>	<b>30 478</b>	<b>4</b>	<b>11 928</b>	<b>49</b>	<b>3 390</b>	<b>73</b>	<b>296 186</b>
<b>Percentage of auditees tested</b>	<b>100%</b>		<b>100%</b>		<b>100%</b>		<b>100%</b>	

## 5.4 Uncompetitive or unfair procurement processes

The principles of contracting for goods and services in a manner that is fair, equitable, transparent, competitive and cost-effective come from our Constitution. Legislation, most notably the PFMA and Treasury Regulations prescribes the processes and rules to be followed by departments and public entities in order to consistently and correctly apply the constitutional principles and to safeguard

the process against abuse. The preferential procurement framework further gives effect to the constitutional principle of providing preference to the previously disadvantaged in the allocation of work by the public sector.

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

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

The procurement processes of 432 contracts valued at R2 621 billion and 13 854 quotations valued at R4 779 billion were tested. The most prevalent findings on non-compliance with SCM legislation that resulted in uncompetitive or unfair procurement processes are summarised in the table below.

**Table 18: Findings on uncompetitive or unfair procurement processes**

Auditee	Three price quotations not obtained		Competitive bidding		Other findings	
	Number	R'000	Number	R'000	Number	R'000
<b>Departments</b>						
Economic Development, Environment and Tourism	36	3 485	25	2 478		
Health	46	34 926	3	5 258	7	29 717
Office of the Premier	13	319	1	1 294		
Public Works			27	10 137		
<b>Public entities</b>						
Limpopo Gambling Board					1	18
<b>Total</b>	<b>95</b>	<b>38 730</b>	<b>56</b>	<b>19 167</b>	<b>8</b>	<b>29 735</b>
<b>Percentage of auditees tested</b>	<b>100%</b>		<b>100%</b>		<b>100%</b>	



Further details on the legislation not complied with are as follows:

Finding	Detail
<i>Written price quotations not invited – no deviation approved</i>	The required number of price quotations was not always obtained and the deviations were not approved by a properly delegated official or committee.
<i>Written price quotations not invited – approved deviation not reasonable or justifiable</i>	Instances were identified where deviations were approved where fewer than the required number of price quotations were obtained, even though it was not impractical or impossible to obtain the required number of quotations.
<i>No prospective supplier list for inviting price quotations and/or prospective supplier list was not administered in accordance with requirements</i>	In order to provide prospective suppliers with an opportunity to take part in this process, a prospective supplier list should be kept by the auditee and administered in a fair and competitive manner in accordance with prescribed requirements. Some auditees did not have a prospective supplier list and/or the list was not administered in accordance with the requirements.
<i>Competitive bids not invited – no deviation approved</i>	A competitive bidding process should be followed for the procurement of goods and services above a prescribed value. Competitive bids were not always invited and the deviations were not approved by a properly delegated official or committee.
<i>Competitive bids not invited – deviations not reasonable or justifiable</i>	A competitive bidding process should be followed for the procurement of goods and services above a prescribed value. Instances were identified where deviations from the competitive bidding process were approved, even though it was not impractical or impossible to follow such a process.
<i>Bids advertised for shorter period – no justification for deviation</i>	Inviting competitive bids through advertising provides prospective suppliers with an equal opportunity to bid for a public sector contract. Competitive bids were identified that were advertised for a shorter period than the required number of days and the deviation was approved, even though it was practical to advertise for the required number of days.
<i>Procurement from suppliers without SARS tax clearance</i>	Awards were made to suppliers who failed to provide written proof from SARS that their tax matters were in order.
<i>No declaration of interest submitted</i>	Specific measures are necessary to ensure that officials do not abuse the system in order to favour their own businesses or those of their family members or associates. In this regard, prospective suppliers are required to declare whether they are in the service of the state or connected to a person in the service of the state. Awards were made to suppliers that did not submit the required declaration.
<i>No declaration of past SCM practices</i>	As a measure to prevent the abuse of the SCM system, prospective suppliers are required to declare their past SCM practices, including previous fraud convictions or under-performance on state contracts. Awards were made to suppliers who failed to declare their past SCM practices.

Finding	Detail
<i>Awards to suppliers who committed fraudulent acts in competing for the contract</i>	Awards were made to bidders who are known to have committed a corrupt or fraudulent act in competing for the contract.
<i>Preference point system not applied in the procurement of goods and services</i>	The preference point system was not applied in all procurements of goods and services above R30 000, as required by section 2(a) of the Preferential Procurement Policy Framework Act.
<i>Other findings</i>	The other findings identified were as follows: Invitation not kept open for 10 days before awarding the tender, and no action taken to address SCM risks identified.

## 5.5 Inadequate contract management

Shortcomings in the manner that contracts are managed result in delays, wastage and fruitless expenditure, which impact directly on service delivery to the citizens. Findings on contract management are summarised in the table below.

Table 19: Findings on contract management

Auditee	Inadequate contract performance monitoring		Payment in excess of approved amount		Contract not signed by delegated official/ no signed contract		Irregularities regarding extension/ amendment of contracts	
	Number	R'000	Number	R'000	Number	R'000	Number	R'000
<b>Departments</b>								
Health			28	78 020				
Social Development	6	76 483						
Public Works							27	10 137
<b>Public entities</b>								
Limpopo Development Corporation				549		145		458
<b>Total</b>	<b>6</b>	<b>76 483</b>	<b>28</b>	<b>78 569</b>		<b>145</b>	<b>27</b>	<b>10 595</b>
<b>Percentage of auditees tested</b>	<b>100%</b>		<b>100%</b>		<b>100%</b>		<b>100%</b>	

Further details on the findings are as follows:

Finding	Detail
<i>Contracts amended or extended without approval by a delegated official</i>	Instances were identified of contracts that were amended or extended in favour of the supplier without the approval of a properly delegated official or committee.
<i>Contracts extended or renewed to circumvent competitive bidding processes</i>	It is normal business practice to extend or renew contracts, but at some auditees it was done to the extent that competitive bidding processes were being circumvented, resulting in a procurement practice that was unfair, uncompetitive or not transparent.
<i>Inadequate contract performance measures and monitoring</i>	Measures applied in monitoring the performance of contractors were not always sufficient to ensure that contractors delivered in accordance with the contract.
<i>No action taken against non-performing contractors</i>	Strong and decisive actions were not always taken against contractors that did not deliver in the manner agreed in the contract.
<i>Payments made in excess of approved contract price (with further approved extensions)</i>	A contract prescribes the prices, terms and maximum values, which can be increased through approved extensions and variations. Instances were identified of payments being made to suppliers in excess of these approved contract prices.
<i>No signed contract or contract not signed by delegated official</i>	Goods and services were received and payment was made to suppliers without written, signed contracts.
<i>Contract price more than tendered price</i>	Suppliers were contracted for the delivery of goods and services at prices that were higher than the prices submitted with their tenders and no justification was provided for the increase.
<i>Contracts not prepared in accordance with the standard conditions of contract prescribed by the National Treasury</i>	Contracts were drafted and signed in formats that were not in line with the prescribed requirements.

## 5.6 Inadequate SCM controls

Findings on deficiencies in fundamental SCM controls are summarised in the table below.

Table 20: Findings on SCM controls

Auditee	No SCM policy	No action to address SCM risks	Interest not declared	Other controls
<b>Departments</b>				
Health				
Social Development				
Public Works				
Education				
Sport, Arts and Culture				
<b>Public entities</b>				
Limpopo Gambling Board				
<b>Total</b>	<b>1</b>	<b>4</b>	<b>2</b>	
<b>Percentage of auditees tested</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	

Further details on the findings are as follows:

Finding	Detail
<i>No SCM policy</i>	The Department of Health did not implement an SCM policy for the procurement of goods and services.
<i>Inadequate controls to ensure that interest is declared</i>	The controls at some auditees were inadequate to ensure that officials declare whether they or their close family members, partners and associates have interests in suppliers or in a contract to be awarded and that they withdraw from the process involving such contract.
<i>Inadequate controls for vendor acceptance and maintenance</i>	The controls at some auditees were inadequate to ensure that only valid and authorised changes were made to the suppliers' database in order to prevent payments to fictitious suppliers.
<i>Inadequate segregation of duties in procurement</i>	Inadequate segregation of duties in the SCM systems was identified, which may result in failure to detect irregular conduct in the procurement and payment process.
<i>Fraud prevention plan – no measures for preventing and detecting fraud in procurement</i>	SCM is an area that is highly susceptible to fraud. However, the fraud prevention plans did not always include measures for the prevention and detection of fraud in SCM.
<i>SCM officials not adequately trained</i>	Some officials involved in the implementation of the SCM policy were not adequately trained to perform their duties effectively.



<i>SCM policies, procedures or fraud prevention plan did not provide measures for preventing the abuse of SCM system</i>	The SCM policies, procedures and/or fraud prevention plan did not always provide for measures to prevent the abuse of the SCM system.
<i>Code of conduct for ethical behaviour in SCM process not adopted</i>	A code of conduct to regulate ethical behaviour in the SCM process was not adopted at all auditees.
<i>Risk assessment did not address SCM</i>	SCM is generally an area of considerable risk at most of the auditees. However, the risk was not recognised in the risk assessments performed at these auditees.
<i>SCM officials not aware of SCM policies or do not understand roles and responsibilities</i>	Officials involved in the implementation of the SCM policy were not always aware of, or did not understand, the SCM policy and their roles and responsibilities in connection with the SCM system.
<i>SCM policy or procedures in conflict with applicable legislation</i>	Some SCM policies and procedures were not in line with the prescripts of the applicable laws and regulations, resulting in a system that was potentially in conflict with legislation.
<i>Internal audit did not evaluate SCM controls, processes and compliance</i>	Even though SCM is generally a high-risk area and directly affects the objectives of most auditees, the internal audit sections at some auditees did not evaluate the controls, processes and compliance with laws and regulations with regard to SCM.
<i>SCM allegations not investigated within a reasonable time</i>	Allegations of improper conduct in the SCM system were not investigated within a reasonable time.

## 5.7 Overall conclusion on SCM matters

The alarming increase in irregular expenditure in relation to the prior year should be a major concern for the leadership. The custodians of the majority of the public funds in the province, namely the Departments of Education and Health, incurred almost 100% of the R1,1 irregular expenditure identified.

Non-compliance with SCM legislation can largely be attributed to irregular expenditure incurred by the departments and public entities. It is also important to note that almost 100% of the irregular expenditure incurred and/or disclosed was identified by the external auditors, indicating that the departments' and public entities' internal controls failed to detect these deviations. The shortcomings in the compliance environment are evident from figure 19 above, which indicates that a number of key control areas are still in the process of being addressed or require urgent intervention. The systems of internal control of departments and public entities should be enhanced to prevent and detect these matters. The commitment by the provincial leadership in the prior year to attend to and resolve findings identified by the AGSA relating to SCM was not fully implemented or adequately monitored.

The Premier's commitment to implement a pre-audit on the SCM processes prior to awarding a tender is an initiative that would to a large extent address the shortcomings identified within the control environment. The challenge, however, is to ensure that this commitment is carried out without delay.

Active governance and involvement by internal audit and audit committees can also go a long way in meeting the tender process challenges, thus helping the province move faster towards clean administration by 2014 and beyond. Non-compliance must have consequences and accountability must be enforced at all levels. For example, there should be severe consequences for those who intentionally ignore regulations that govern strategic areas such as SCM. My audit reports, as well as the outcome of the SCM investigations being carried out at the various departments, should be used as a source to implement this initiative. There must be a conscious decision by the political and administrative leadership to take action against transgressors. Only when the provincial leadership has set a tone of decisively dealing with such malpractices will the citizenry have confidence in the provincial procurement and financial management systems.

To conclude, SCM is the area where the bulk of the activities are concentrated in all three spheres of government. Continued non-adherence to SCM regulations therefore defers restoration of the public's confidence in the ability of state officials to systematically take care of their interests – and deprives citizens of much needed services in all areas of service delivery, including the health, education or housing sectors.

## SECTION 6: CONSOLIDATED FINANCIAL STATEMENTS

In terms of section 19 of the PFMA, the provincial treasury is required to prepare consolidated financial statements for each financial year in respect of departments, public entities and the provincial legislature. To date the provincial treasury has not been able to prepare the required consolidation. The provincial treasury continues to prepare separate financial statements which aggregate the financial results of the departments and the provincial legislature, and another set which aggregates the financial results of the public entities. This practice does not conform to the PFMA and the provincial treasury is urged to ensure that processes are put in place to rectify such non-compliance.

Given the above, the AGSA is not able to issue an auditor's report on the fair presentation of the financial statements but instead separate factual finding auditor's reports are issued for the departments and the legislature, and for the public entities. The status of the agreed-upon procedure engagements as at 31 March 2011 is reflected in table 21 below.

*Table 21: Status of the audit of consolidated financial statements*

Departments - audits completed		Public entities - audits completed	
2010-11	2009-10	2010-11	2009-10
Y / N	Y / N	Y / N	Y / N
N	N	N	N

At the date of writing this report, the consolidated financial statements for departments for 2008-09 had not yet been submitted for audit purposes. The audit of the 2008-09 consolidated financial statements for public entities had been completed; however, the 2009-10 consolidated financial statements had not yet been submitted for audit purposes.



## SECTION 7: STATUS OF TABLING OF ANNUAL REPORTS

The PFMA requires executive authorities responsible for departments or public entities to table in the National Assembly an annual report, annual financial statements and auditor's report relating to the financial statements. Such reports must be tabled within one month of the auditor's report having been received by the executive authorities.

A summary of the tabling of annual reports is provided below.

*Table 22: Annual reports tabled by departments, public entities and other entities*

Auditee type	Percentage of reports tabled at 30-09-2011	
	2010-11	2009-10
Departments	93%	93%
Public entities	50%	57%
Other entities	50%	67%
Provincial consolidations	0%	0%
<b>Total</b>	<b>18</b>	<b>23</b>

Details of the annual reports not tabled are listed in the table below.

*Table 23: Annual reports not tabled*

Auditee	Reason (s)	Actual/ Expected tabling date
<b>Departments</b>		
Provincial Revenue Fund	The financial statements for 2009-10 and 2010-11 is yet to be submitted for audit purposes	31 Jan. 2012
<b>Public entities</b>		
Limpopo Tourism and Parks Board	The audit of the 2010-11 financial statements is still in progress and the 2009-10 audit had not yet been tabled at the date of this report. The 2009-10 audit was completed on 23 August 2011 and the draft annual report has not yet been submitted to the AGSA for review	30 Nov. 2011
Trade and Investment Limpopo	The audit of the 2010-11 financial statements is still in progress	31 Oct. 2011
Limpopo Business Support Agency	The audit of the 2010-11 financial statements is still in progress	31 Oct. 2011
Limpopo Agribusiness Development Corporation	The audit of the 2010-11 financial statements is still in progress	21 Dec. 2011
Limpopo Tribal and Trust Account	The financial statements have been in arrears for the past 13 years	Unknown

## CONCLUSION TO THE 2010-11 GENERAL REPORT

The AGSA has embarked on a drive to positively influence the audit outcomes of departments and public entities by promoting the practice of institutionalising on a daily basis decisive leadership, quality financial and performance management and strong governance.

The matters highlighted throughout this report relate to the three fundamentals which should be addressed to achieve sustained clean administration.

### *Leadership*

Improving the adequacy of leadership oversight is critical to prevent a regression of audit outcomes in the province. The Premier and his leadership team must act decisively to implement corrective measures and address non-performance. Much more monitoring and concentrated oversight are required to improve the audit outcomes of those five auditees with unqualified financial statements but reported findings on predetermined objectives and/or compliance with laws and regulations, which prevent them from improving to the desirable position of clean administration and without findings in any of the three reporting areas in the AGSA's audit report.

Departments should focus on addressing shortcomings in controls over capital assets, both movable and immovable, and compliance with legislation and on eradicating the trend in the occurrence of irregular expenditure. The province, which has been without an asset management system for the past four years, faces a significant risk to not be able to sustain positive audit outcomes, specifically around asset management, due to the maintenance and record keeping of departmental assets on manual asset registers. This was already evident in the 2010-11 financial year when the Department of Sport, Arts and Culture regressed due to deficiencies identified around asset management, which stemmed from the use of a manual asset register. The leadership should focus on dealing with and resolving the weaknesses identified in the implementation of the IFMS asset management system at the provincial treasury in order to cascade the implementation to all departments in the province without delay.

Departments with repeat qualification findings need to take committed steps to improve their financial administration to avoid qualified opinions. The immediate focus should be on addressing shortcomings concerning issues around SCM, the accuracy of current assets, liabilities and also the completeness of capital assets and disclosure notes. Attention should be given to the state of readiness of the province to fully comply with the disclosure on inventory in the financial statements on expiry of the exemption granted by the National Treasury. In addition, a concerted effort should be made to ensure that matters concerning the measurement of, and reporting on, predetermined objectives and compliance with laws and regulations are given attention to prevent recurring findings on these matters.

### *Financial and performance management*

The credibility of monthly financial information requires urgent attention and the leadership is expected to implement measures to ensure that resources, especially human resources, are in place, that performance is acceptable and that adequate policies and procedures are implemented and monitored. The quality and completeness of financial information depend on well-designed and secure computerised systems. Immediate intervention by the leadership is required to attend to matters relating to the information systems, with focus on the user access controls, security management and other IT governance matters. This area should not be undermined as it could have a direct impact on audit outcomes in the future.

The financial management systems should be enhanced to enable management to produce regular financial statements, including disclosure notes, to ensure that possible material misstatements are detected before the audit commences. Monthly reconciliations should become an embedded discipline for all account balances and this should be monitored at the appropriate level. This will also contribute to the accuracy of in-year financial information on which decisions are based.

It is also important that departments and public entities ensure that the necessary systems and controls are in place, which will result in accurate service delivery reporting, continuous monitoring of achievements of the measurable objectives and overall compliance with the reporting requirements in respect of predetermined objectives.



## *Governance*

Regular risk assessments should be conducted and strategies put in place to address the risks identified. A fully operational internal audit function is crucial in assisting management to establish a sound internal control environment, to perform ongoing evaluation and to monitor management's compliance with pre-defined controls and progress in implementing the action plans. These governance structures should be critically questioned and monitored by the audit committee to ensure their objectivity. The audit committee should meet at least on a quarterly basis at departments and public entities to successfully execute their oversight role.

## *Summation*

To reiterate the underlying message of this report to oversight bodies, those charged with governance and management: it is possible to obtain an unqualified audit report and achieve clean administration if the fundamentals of internal control are institutionalised and constantly monitored by the leadership. Clean audit reports can be achieved provided that:

- the leadership sets the right tone at the top, carries out effective oversight and acts in a timely manner to mitigate risks
- the right people with the right skills and competencies are placed in key positions
- the provincial leadership, as well as the provincial treasury, plays an active role in supporting the administration in key activities
- deviations from the SCM prescripts receive urgent attention and the pre-audit process of SCM transactions is implemented throughout the provincial administration without delay
- deficiencies in IT systems are addressed.

The challenges are not insurmountable and AGSA staff remain committed to assisting in the process of identifying and communicating good practices to improve governance and accountability so as to build public confidence in government's ability to account for public resources in a transparent manner.

## ANNEXURES TO THE GENERAL REPORT

### ANNEXURE 1: Auditees' audit outcomes, areas qualified and findings on predetermined objectives

No.	Auditee	Audit opinion 2010-11	Predetermined objectives Compliance with laws and regulations		Audit opinion 2009-10	Predetermined objectives Compliance with laws and regulations		Financial statement qualification areas							Findings on predetermined objectives		
								Capital assets	Current assets	Liabilities	Other disclosure items	Revenue	Expenditure	Unauthorised, irregular, and wasteful expenditure	Non-compliance with legislation on annual performance report	Presentation	Reported information not useful
<b>Departments</b>																	
1	Agriculture	Financially unqualified with no findings			Financially unqualified with findings												
2	Economic Development, Environment and Tourism	Financially unqualified with findings			Financially unqualified with findings												
3	Education	Qualified			Disclaimer												
4	Health	Disclaimer			Qualified												
5	Local Government and Housing	Financially unqualified with no findings			Financially unqualified with findings												
6	Office of the Premier	Financially unqualified with findings			Financially unqualified with findings												
7	Provincial Legislature	Financially unqualified with findings			Financially unqualified with findings												
8	Provincial Treasury	Financially unqualified with findings			Financially unqualified with findings												
9	Public Works	Qualified			Qualified												
10	Roads and Transport	Qualified			Financially unqualified with findings												



No.	Auditee	Audit opinion 2010-11	Predetermined objectives	Compliance with laws and regulations	Audit opinion 2009-10	Predetermined objectives	Compliance with laws and regulations	Financial statement qualification areas							Findings on predetermined objectives			
								Capital assets	Current assets	Liabilities	Other disclosure items	Revenue	Expenditure	Unauthorised, irregular, and fruitless and wasteful expenditure	Non-compliance with legislation on annual performance report	Presentation	Reported information not useful	Reported information not reliable
11	Safety, Security and Liaison	Financially unqualified with findings			Financially unqualified with findings													
12	Social Development	Qualified			Qualified													
13	Sport, Arts and Culture	Qualified			Financially unqualified with findings													
<b>Public entities</b>																		
1	Gateway Airport Authority Limited	Financially unqualified with findings			Financially unqualified with findings													
2	Limpopo Development Enterprise	Qualified			Financially unqualified with findings													
3	Limpopo Gambling Board	Financially unqualified with findings			Financially unqualified with findings													
4	Limpopo Housing Development Fund	Financially unqualified with no findings			Financially unqualified with no findings													
5	Roads Agency Limpopo	Financially unqualified with no findings			Financially unqualified with findings													

## ANNEXURE 2: Auditees with findings related to compliance with laws and regulations

No.	Auditee	Areas of non-compliance										
		Annual financial statements and annual report	Asset management	Audit committees	Expenditure management	Internal audit	Revenue management	Strategic planning and performance management	Transfer and conditional grants	Other	Procurement and contract management	HR management and compensation
<b>Departments</b>												
1	Agriculture											
2	Economic Development, Environment and Tourism											
3	Education											
4	Health											
5	Local Government and Housing											
6	Office of the Premier											
7	Provincial Legislature											
8	Provincial Treasury											
9	Public Works											
10	Roads and Transport											
11	Safety, Security and Liaison											
12	Social Development											
13	Sport, Arts and Culture											
<b>Public entities</b>												
1	Gateway Airport Authority Limited											
2	Limpopo Development Enterprise											
3	Limpopo Gambling Board											
4	Limpopo Housing Development Fund											
5	Roads Agency Limpopo											



### ANNEXURE 3: Auditees with unauthorised, irregular, and fruitless and wasteful expenditure as well as material losses and impairment of assets

No.	Auditee	Nature and extent of unauthorised expenditure			Nature and extent of irregular expenditure				Fruitless and wasteful expenditure (R)	Material impairment of assets (R)	Material underspending of conditional grants (finding only) (R)
		Overspending of vote/ main division of vote (R)	Spending not in accordance with purpose of vote (R)	Total (R)	Supply chain management related (R)	Compensation of employees related (R)	Other (R)	Total (R)			
<b>Departments</b>											
1	Agriculture				347 919			347 919	2 608 000		
2	Economic Development, Environment and Tourism				3 485 361		9 035 169	12 520 530			
3	Education	683 421 000	89 579 000	773 000 000	696 349 519	170 530		696 520 049	60 307 096		
4	Health				401 476 917			401 476 917	160 837 571		
5	Local Government and Housing				9 930			9 930	5 000		
6	Office of the Premier				1 600 000			1 600 000	152 000		
7	Provincial Legislature								7 000		
8	Provincial Treasury										
9	Public Works				10 305 000			10 305 000	219 000		
10	Roads and Transport								860 647		
11	Safety, Security and Liaison	770 534		770 534							
12	Social Development				11 759 961			11 759 961	30 312		
13	Sport, Arts and Culture						92 880	92 880			
<b>Total</b>		<b>684 191 534</b>	<b>89 579 000</b>	<b>773 770 534</b>	<b>1 139 734 607</b>	<b>170 530</b>	<b>9 128 049</b>	<b>1 149 033 186</b>	<b>225 026 626</b>		
<b>Public entities</b>											
1	Gateway Airport Authority Limited										
2	Limpopo Development Enterprise				1 152 295			1 152 295	419 370		
3	Limpopo Gambling Board				18 320			18 320			
4	Limpopo Housing Development Fund										
5	Roads Agency Limpopo										
<b>Total</b>					<b>1 170 615</b>			<b>1 170 615</b>	<b>419 370</b>		





## ANNEXURE 5: Auditees with key findings on supply chain management

No.	Auditee	Limitation on planned scope of audit of awards	Awards to state officials	Uncompetitive or unfair procurement processes	Inadequate contract management	Inadequate SCM controls
<b>Departments</b>						
1	Agriculture					
2	Economic Development, Environment and Tourism					
3	Education					
4	Health					
5	Local Government and Housing					
6	Office of the Premier					
7	Provincial Legislature					
8	Provincial Treasury					
9	Public Works					
10	Roads and Transport					
11	Safety, Security and Liaison					
12	Social Development					
13	Sport, Arts and Culture					
<b>Public entities</b>						
1	Gateway Airport Authority Limited					
2	Limpopo Development Enterprise					
3	Limpopo Gambling Board					
4	Limpopo Housing Development Fund					
5	Roads Agency Limpopo					

## ANNEXURE 6: Auditees with key findings on IT Focus Areas

No.	Auditee	Focus areas			
		IT governance	Security management	User access management	IT service continuity
<b>Departments</b>					
1	Agriculture				
2	Economic Development, Environment and Tourism				
3	Education				
4	Health				
5	Local Government and Housing				
6	Office of the Premier				
7	Provincial Legislature				
8	Provincial Treasury				
9	Public Works				
10	Roads and Transport				
11	Safety, Security and Liaison				
12	Social Development				
13	Sport, Arts and Culture				



## ANNEXURE 7: Auditees with key findings on human resource management

No.	Auditee	HR planning and organisation	Management of vacancies	Appointment processes	Acting positions	Performance management	Management of leave, overtime and suspensions
<b>Departments</b>							
1	Agriculture						
2	Economic Development, Environment and Tourism						
3	Education						
4	Health						
5	Local Government and Housing						
6	Office of the Premier						
7	Provincial Legislature						
8	Provincial Treasury						
9	Public Works						
10	Roads and Transport						
11	Safety, Security and Liaison						
12	Social Development						
13	Sport, Arts and Culture						

## ANNEXURE 8: Material misstatements corrected/not corrected

No.	Auditee	No material misstatements	All corrected	Partially corrected	None corrected
<b>Departments</b>					
1	Agriculture				
2	Economic Development, Environment and Tourism				
3	Education				
4	Health				
5	Local Government and Housing				
6	Office of the Premier				
7	Provincial Legislature				
8	Provincial Treasury				
9	Public Works				
10	Roads and Transport				
11	Safety, Security and Liaison				
12	Social Development				
13	Sport, Arts and Culture				
<b>Public entities</b>					
1	Gateway Airport Authority Limited				
2	Limpopo Development Enterprise				
3	Limpopo Gambling Board				
4	Limpopo Housing Development Fund				
5	Roads Agency Limpopo				



## ANNEXURE 9: Audit committees

No.	Auditee	Province	Audit committees			
			Audit committee in place	Compliant with legislation	Impact on outcome	Interaction with executive
<b>Departments</b>						
1	Agriculture	LP				
2	Economic Development, Environment and Tourism	LP				
3	Education	LP				
4	Health	LP				
5	Local Government and Housing	LP				
6	Office of the Premier	LP				
7	Provincial Legislature	LP				
8	Provincial Treasury	LP				
9	Public Works	LP				
10	Roads and Transport	LP				
11	Safety, Security and Liaison	LP				
12	Social Development	LP				
13	Sport, Arts and Culture	LP				
<b>Public entities</b>						
14	Gateway Airport Authority Limited	LP				
15	Limpopo Development Enterprise	LP				
16	Limpopo Gambling Board	LP				
17	Limpopo Housing Development Fund	LP				
18	Roads Agency Limpopo	LP				

PR 290/2011  
ISBN: 978-0-621-40443-2