

# Mpumalanga



AUDITOR - GENERAL  
SOUTH AFRICA

**General report**  
on the audit outcomes of provincial government  
PFMA 2012-13



## Our reputation promise/mission

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



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

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

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

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



**AUDITOR - GENERAL**  
**SOUTH AFRICA**

# Overview

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Message from the  
auditor-general

Three auditees maintained  
their clean audits  
(Section 2.1 and figure 4)

Audit outcomes improved at  
three auditees  
(Figure 4)

Twelve auditees could  
not achieve 20% or more  
of their planned targets  
(Section 2.2 and figure 7)



Persistent material non-  
compliance with legislation  
by 14 auditees  
(Section 2.3 and figure 9)



Irregular expenditure  
decreased  
(Section 2.3 and figure 12)

Quality of financial  
statements submitted for  
auditing continued to  
be a challenge  
(Section 3.1)

Some improvement in  
supply chain management  
(Section 3.2 and figure 17)



Regression in human resource management  
(Section 3.3 and figure 20)



Indicators of financial health risks at some auditees  
(Section 3.5 and figure 27)

Control environment weakened  
(Figure 30)



Assurance providers not having an impact on overall audit outcomes  
(Section 5)

Legislature committed to strengthening oversight  
(Section 5)



Executives committed to improving audit outcomes  
(Section 6)

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# MPUMALANGA CLEAN AUDITS 2012-13

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## DEPARTMENT

Finance  
Office of the Premier



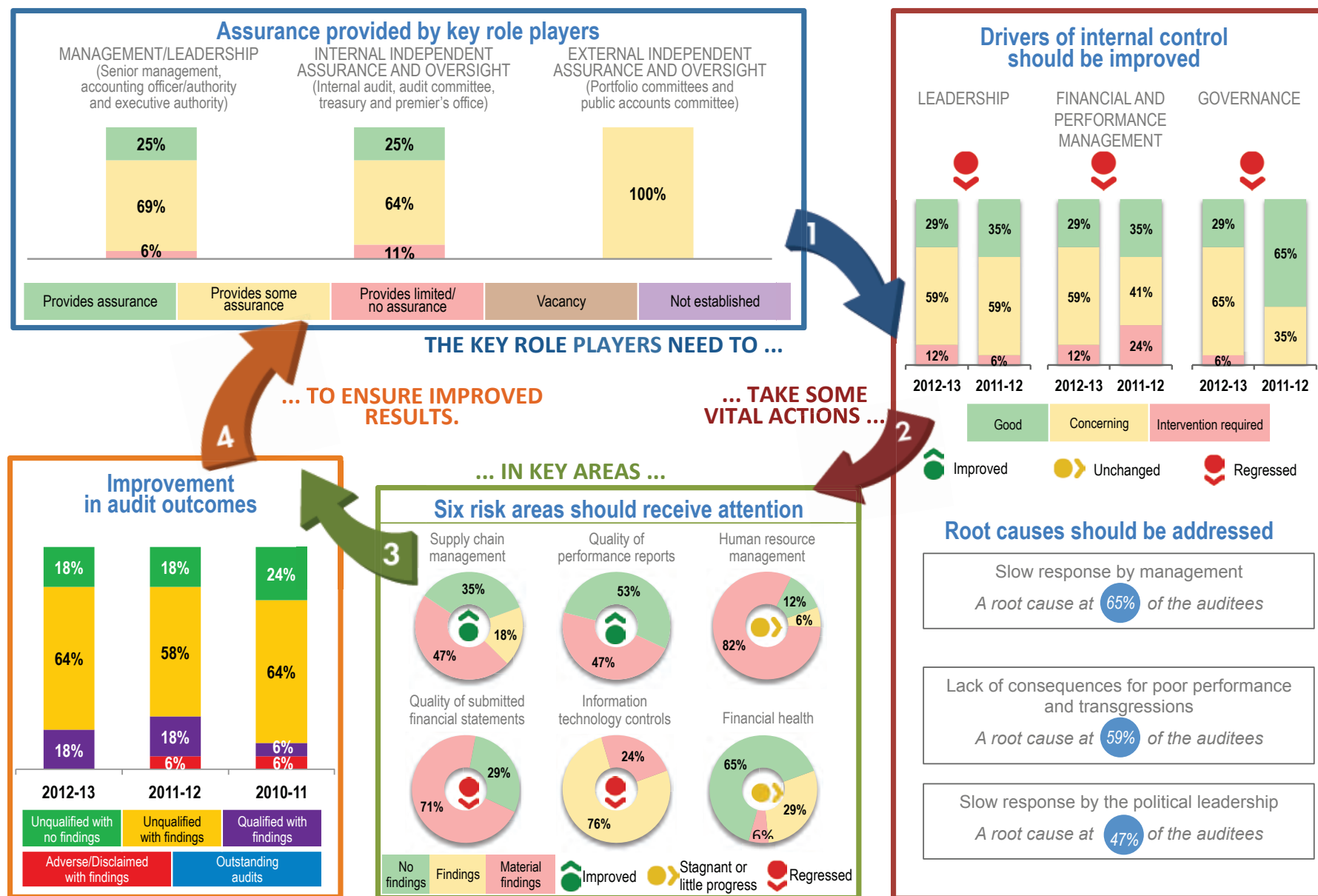
## PUBLIC ENTITY

Mpumalanga Gambling Board



# FOREWORD





# FOREWORD

It is a pleasure to present to the provincial legislature my 2012-13 general report on the audit outcomes of the Mpumalanga departments, legislature and public entities. The province has shown an overall net improvement in the audit outcomes, but continued to have findings on predetermined objectives and non-compliance with legislation.

Despite having established, stable and functioning internal and external independent key role players in the province, their contributions are yet to have a positive impact on the audit outcomes. Senior management has been very slow in implementing the recommendations and resolutions taken by these role players, which has lessened their effectiveness and impact on the audit outcomes. The internal control environment continued to worsen, which confirms that the leadership of the province did not adequately implement and timeously monitor the action plans and commitments made in response to the 2011-12 general report. The province should urgently consider ways to enforce the performance of basic key internal controls through legislation to stabilise the control environment at the auditees.

In my message over the past three years, I drew attention to the number of auditees with material findings on non-compliance with legislation. This report highlights that this situation has not changed, with 82% of the auditees continuing to have material findings on non-compliance with legislation. There has been a

noticeable improvement in the number of auditees with findings on supply chain management and those submitting useful and reliable performance reports. Such reports provide citizens with an opportunity to adequately assess the performance of auditees. However, a lack of consequences for poor performance and transgressions has resulted in the persistent poor quality of the financial statements submitted for auditing and findings on human resource management, which in turn contributed negatively to the overall non-compliance with legislation.

There has been an overall improvement in the design and implementation of information technology controls. Departments are implementing the Cabinet-approved information technology governance framework. Oversight of the effective design and implementation of information technology controls should also be intensified to strengthen the information technology control environment in the province.

Some auditees showed signs of poor financial management, especially in the areas of underspending of capital budgets, debt collection and cash flow management. Performance against planned service delivery targets should be monitored regularly to address the underspending of capital budgets and conditional grants as well as the poor management of cash flows, as this could have a negative impact on service delivery in the province.



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

To have a significant impact on the audit outcomes of the province, the accounting officers and executive authorities should improve senior management's turnaround time to address weaknesses identified by key role players. In addition, the provincial treasury should position itself to adequately respond to provincial challenges. The premier's office, in collaboration with the provincial treasury and the provincial legislature, should take a coordinated approach to actively monitor the implementation of recommendations as well as the house resolutions. A slow response in implementing these recommendations and resolutions, or a total lack of implementation, should be dealt with decisively.

In my 2011-12 report, I emphasised the importance of collaboration between the portfolio committees and the public accounts committee. This message continues to be relevant, as it will ensure ongoing interactions and follow-up with the auditees, thereby strengthening oversight.

I commend the executive for honouring its commitment to establish a culture of holding people accountable for their performance at the leadership level. This will establish a culture of consequences for poor performance and non-compliance with legislation in the province. Although this has not yet had a positive impact on the audit outcomes, the right tone has been set that would address the slow response by the political leadership and in turn result in improved outcomes. The accounting officers and executive authorities should also develop a mechanism to entrench the culture of consequences for poor performance in their portfolios.

My office remains committed to provide assistance to the leadership of the province. I wish to thank the audit teams from my office and the audit firms that assisted with the audits for their diligent effort in supporting the leadership of the province.

*Auditor-General*

**Auditor-General  
Pretoria  
November 2013**

## **SECTION 1: EXECUTIVE SUMMARY**



# 1.Executive summary

## Our audit and reporting process

We audit the legislature, every department and every public entity in the province, which we refer to as *auditees* in this report, so that we can report on the quality of their financial statements and annual performance reports and on their compliance with legislation. We also assess the root cause of any error or non-compliance, based on the internal control that had failed to prevent or detect it. We include these aspects in the following three types of reports:

- We report our findings, root causes and recommendations in **management reports** to the senior management and accounting officers or authorities of auditees, which are also shared with the members of the executive council and audit committees.
- Our opinion on the financial statements, material findings on the performance report and non-compliance with legislation as well as significant deficiencies in internal controls are included in an **audit report**, which is published with the auditee’s annual report and dealt with by the public accounts committee and relevant portfolio committees.
- Annually we report on the audit outcomes of all auditees in a provincial **general report** (such as this one), in which we also analyse the root causes that need to be addressed to improve audit outcomes in the province. Before the general reports are published, we share the outcomes and root causes with the provincial leadership, the legislature and key role players in national and provincial government.

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

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

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

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

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

## Audit outcomes have improved

There has been a slight improvement in the provincial audit outcomes. Significant aspects of the 2012-13 audit outcomes of 17 auditees are listed below:

- Overall, the results show a net improvement.
- More than 60% of the auditees have been receiving unqualified opinions with findings for the past five years.
- The only entity with a disclaimed and adverse opinion in the past five years has progressed to a qualified opinion.
- None of the three departments that spend the most (namely Public Works, Roads and Transport; Health; and Education) received a clean audit opinion for the current period.
- The quality of the annual reports has been fairly stable over the past three years.
- There has been an increase in the number of auditees that did not achieve their planned service delivery targets.
- Most auditees with findings on their performance reports struggled with the validity, accuracy and completeness of the reported information.
- Overall, compliance with legislation has regressed compared to the previous two years.

- The most common areas of non-compliance findings related to material adjustments in the submitted financial statements, human resource management, and procurement management.
- Unauthorised expenditure has significantly increased from the previous year.
- Auditees appear to be tackling irregular expenditure, as this has decreased from the previous year. However, most of the irregular expenditure was identified by the auditors.

## ***The six risk areas that should continue to receive attention***

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

### ***Quality of submitted financial statements***

The quality of the financial statements submitted for audit purposes regressed, with only 29% of the auditees submitting financial statements with no material misstatements. Nine auditees (53%) received a financially unqualified audit opinion because they corrected all the misstatements we had identified during the audit. The auditees that could not correct the misstatements received qualified audit opinions. The most common qualification areas were property, infrastructure, plant and equipment; commitments; and receivables.

### ***Supply chain management***

There has been an overall improvement in compliance with supply chain management legislation when compared to previous years. Awards to employees and suppliers who did not declare interests have decreased, but awards to employees have increased. The most significant findings on supply chain management related to a competitive bidding process not being followed; quotations not being invited; and the procurement processes not being fair, equitable, transparent and competitive.

### ***Human resource management***

There were more auditees with material findings on human resource management in the current period than in the past. The major weaknesses related to appointment processes; the management of leave, overtime and suspensions; and the management of vacancies.

Other common findings were that proper verification processes for new appointments did not always take place; the person in charge of a pay point did not certify the payroll; and leave taken was not accurately recorded.

### ***Information technology***

More than 53% of the auditees continued to experience challenges with the design of security management, user access policies and procedures, and appropriate disaster recovery plans. Most of these auditees also failed to implement the policies and procedures designed to lessen the risk of unauthorised access.

### ***Financial health***

Our audits included a high-level analysis of auditees' financial indicators to provide management with an overview of selected aspects of their current financial management and to enable timely remedial action where the auditees' operations and service delivery may be at risk. Two departments and one entity had issues in more than two of the selected indicators. The indicators where most of the auditees had a challenge were the underspending of the capital budget, the debt-collection period, and expenditure exceeding revenue (accrual adjusted).

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

As part of our audits, we assessed internal controls to determine the effectiveness of their design and implementation in ensuring reliable financial and performance reporting and compliance with legislation. The key control assessment of the auditees showed a regression, which resulted in the stagnation of audit outcomes in the province. The following control areas require attention:

- Processing and reconciling transactions
- Effective human resource practices
- Approving and monitoring the implementation of action plans

Many auditees did not get a clean audit outcome because their financial and performance reports were of a poor quality and they had high levels of non-compliance with legislation. The most common root causes of the audit outcomes that need to be addressed are the slow response by the political leadership, the slow response by management to instil a culture of performing the daily basic

accounting disciplines, and a lack of consequences for poor performance and transgressions.

## ***All role players should increase the level of assurance they provide***

The management and leadership of the auditees and those that perform an oversight or governance function should work towards improving the key controls, addressing the root causes, and ensuring that there is an improvement in the six key risk areas. In so doing, they will be providing assurance on the quality of the financial statements and performance reports as well as compliance with legislation. Based on our assessment, these role players are not providing the necessary assurance. However, the building blocks are in place for improvements in assurance levels, which should lead to improved audit outcomes.

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

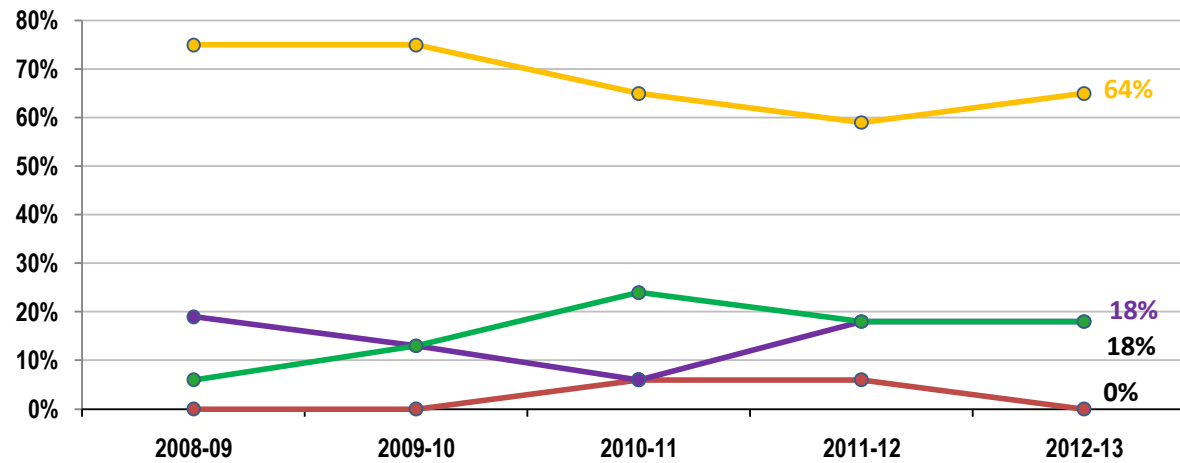
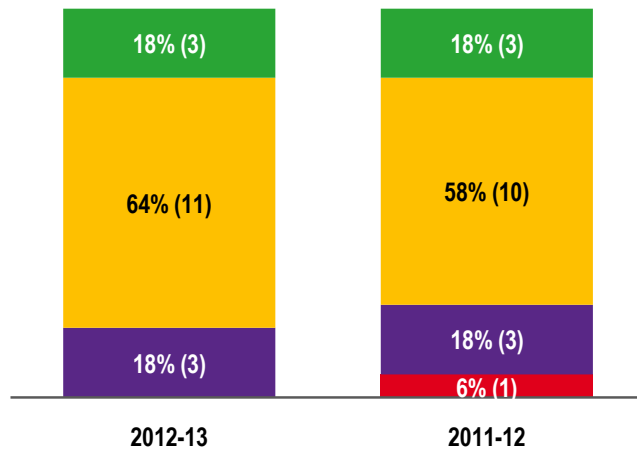
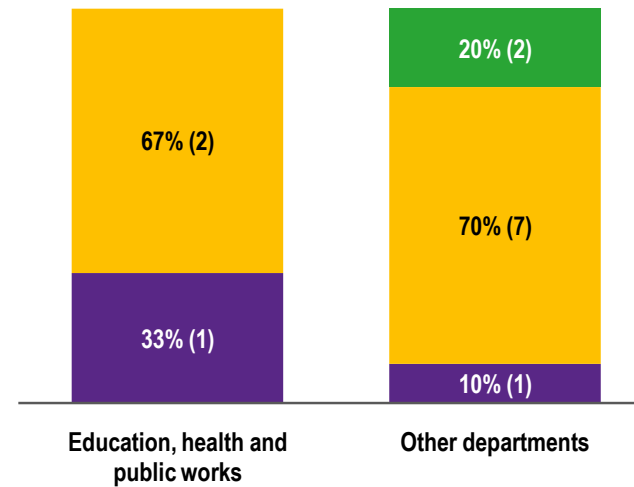
We have shared our key message on the actions needed to improve audit outcomes with every accounting officer or authority and member of the executive council through our reports and interactions with them. At the time of the interactions, it appeared as if the auditees would take steps to address our findings. However, the audit outcomes indicate that our interactions had a limited impact in the current year, as most of the findings raised were also highlighted in our quarterly interactions.

During our roadshow on audit outcomes in October 2013, we also shared our key messages with the legislature, the premier and members of the executive council. We confirmed the progress of the commitments made by all these role players in response to the previous year's audit outcomes. The commitments made by the different role players within the province had a limited impact, as some are still in progress while others have not yet been implemented.

Section 6 of this report provides the audit outcomes of the departments and public entities in the portfolios of the individual members of the executive council. It also includes details of the frequency and impact of our meetings with these members and the status of their prior year and new commitments. We shared these portfolio outcomes with them and include the outcomes in this general report to enable and encourage the ongoing oversight and monitoring of their portfolios.

## SECTION 2: OVERVIEW OF AUDIT OUTCOMES

Figure 1: Audit outcomes over past five years

Figure 2:  
Audit outcomes for past two yearsFigure 3:  
Education, health and public works vs other departments

Unqualified with no findings

Unqualified with findings

Qualified with findings

Adverse/Disclaimed with findings

Outstanding audits



## 2.1 Overall audit outcomes

Provincial government consists of 13 departments and four public entities. We analyse all 17 of these auditees in this report.

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

- Clean audits are achieved when the financial statements are unqualified and there are no reported audit findings in respect of either predetermined objectives (PDOs) or non-compliance with legislation.
- *With findings* refers to findings on either reporting on PDOs or non-compliance with legislation, or findings on both these aspects.
- A movement of more than 5% is regarded as an improvement or a regression.

### Audit outcomes

Figure 1 shows the five-year audit outcomes of the provincial government. Starting from 2008-09 to 2010-11, there was a steady improvement and an increase in the number of auditees with clean audit outcomes. This trend indicated that the province would achieve the goal of clean audits by 2014. During the 2010-11 financial year, the province saw an increase in the number of clean audit opinions, a decrease in the number of financially unqualified opinions with findings, and a slight decrease in qualified audit opinions, with the Department of Education attaining a financially unqualified audit opinion for the first time. With the merger of three public entities during 2010-11, the province saw its first adverse opinion.

It is pleasing that the Office of the Premier was able to sustain the clean audit outcome which they had achieved for the first time in 2011-12, setting the right tone for the province.

Disappointingly in 2011-12, the hard work of the Office of the Premier did not have a significant impact on the overall results, as the Department of Community Safety, Security and Liaison and the Mpumalanga Provincial Legislature regressed from clean audit opinions to a financially unqualified opinion with findings and a qualified opinion, respectively.

Figure 2 indicates that the progress towards achieving clean audit outcomes has been slow and improvements in audit outcomes have been cancelled out by regressions. The slow response to address root causes and weaknesses in internal controls have contributed to the slow progress to clean audits. Sections 4 and 5 analyse the status of key controls and the contribution of key role players in detail.

### Education, health and public works

The expenditure of the Department of Education, the Department of Health and the Department of Public Works, Roads and Transport represented 79% of the total spending by provincial departments in 2012-13. Figure 3 shows that these big spenders are facing serious challenges in achieving clean administration when compared to the other departments.

### Movement in audit outcomes

Figure 4 on the next page analyses the movement in the audit outcomes of the different auditees since the previous year that had resulted in the net improvement in the audit outcomes of the province.

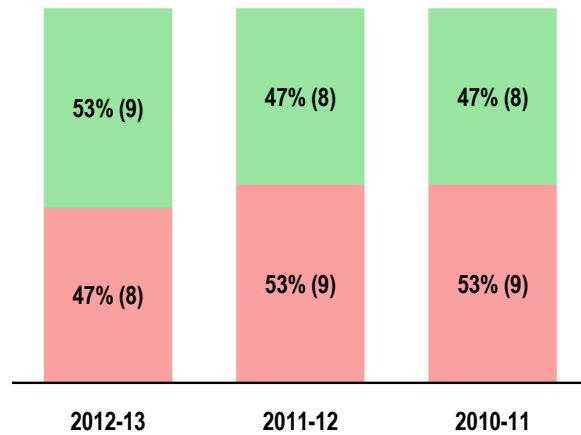
Annexure 1 lists all auditees with their current and prior year audit outcomes, while annexure 2 provides the audit outcomes for the past five years.

**Figure 4: Movement of the 17 auditees reported on**

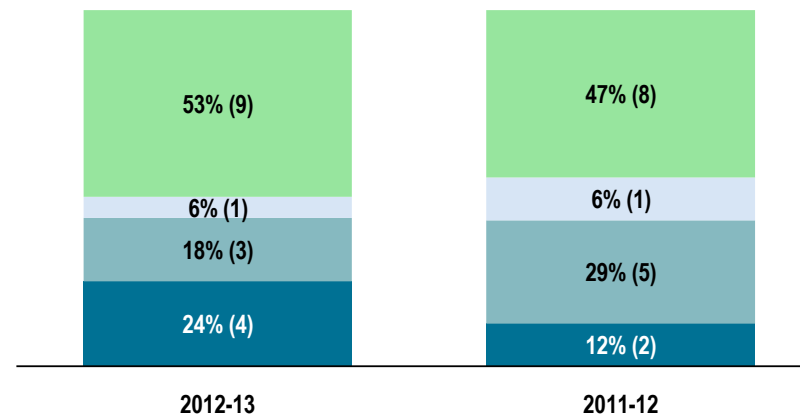
	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse/Disclaimed with findings
<b>3</b> Improved		Economic Development, Environment and Tourism; Mpumalanga Provincial Legislature	Mpumalanga Economic Growth Agency	
<b>13</b> Unchanged	Office of the Premier; Finance; Mpumalanga Gambling Board	Cooperative Governance and Traditional Affairs; Culture, Sport and Recreation; Human Settlements; Education; Public Works, Roads and Transport; Social Development; Community Safety, Security and Liaison; Mpumalanga Tourism and Parks Agency; Mpumalanga Regional Training Trust	Health	
<b>1</b> Regressed			Agriculture, Rural Development and Land Administration	



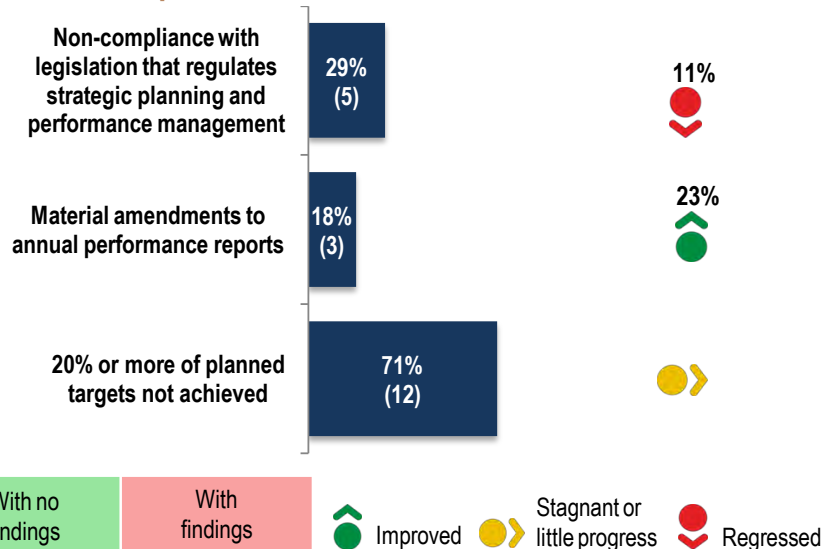
**Figure 5: Status of quality of annual performance reports**



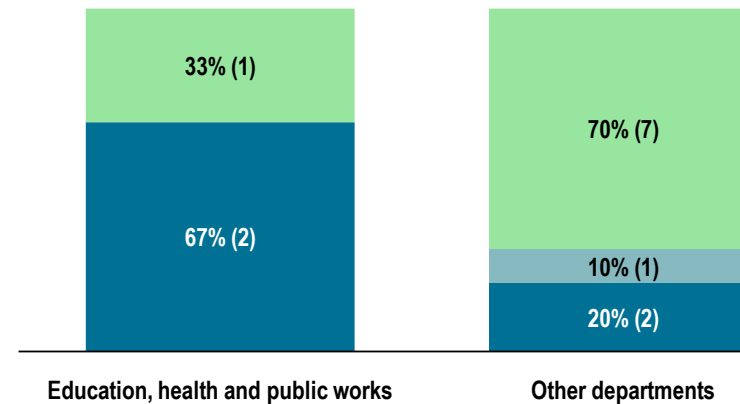
**Figure 6: Findings on quality of annual performance reports**



**Figure 7: Other performance-related outcomes**



**Figure 8: Findings on annual performance report – education, health and public works vs other departments**



## 2.2 Quality of annual performance reports

Annually, auditees report on their performance against PDOs in the annual performance reports. They are required to measure the service delivered against performance indicators and targets set for each objective.

The Public Audit Act requires the Auditor-General of South Africa (AGSA) to audit the annual performance reports to determine whether the information in these reports is reliable and useful. In the audit report, we report audit findings that are material enough to be brought to the attention of the persons who read and use the annual performance report.

### *Status of auditees with findings on annual performance reports*

We audited the annual performance reports of all the auditees in the current period. Figure 5 shows the number of auditees with material findings in this regard over the past three years.

There has been a slight improvement in the PDO outcomes over the past three years. Some auditees paid attention to previous findings on PDOs, resulting in improvements in their PDO outcomes. However, the slow improvement indicates the need for more focused attention on implementing internal and external audit recommendations. Auditees should also focus on regular processing and reconciliation of transactions relating to PDOs as well as the monthly preparation and review of performance reports.

### *Findings on the quality of the annual performance reports*

Figure 6 shows the nature of the material findings over the past two years and the progress made by auditees in addressing the findings.

The usefulness of reported information is measured against set criteria; namely presentation, consistency, relevance, and measurability. The increase in the number of auditees with findings is of special concern, as it indicates that not enough attention is paid to PDOs.

The most common findings on usefulness were the following:

- The annual performance report was not presented in accordance with the requirements of the National Treasury's framework for managing programme performance information.
- Performance targets were not specific and measurable to ensure that the required level of performance could be measured.

- Reported objectives were not consistent with the approved strategic and annual performance plan.

Findings on reliability relate to whether the reported information is valid, accurate and complete when compared to the source documents. Some auditees successfully addressed previous findings on the reliability of the reported information, but regressions by others overshadowed these successes. Adequate systems and processes to collect and report on performance information should be put in place to improve regressions and to sustain successes.

The most common findings on reliability were the following:

- Supporting documents for the reported performance information was not complete.
- Reported performance information was not accurate when compared to supporting documents.
- Reported performance information was not valid when compared to supporting documents.

Figure 8 shows that the three departments with the biggest budgets (namely Public Works, Roads and Transport; Health; and Education) were slow in addressing the challenges relating to the usefulness and reliability of PDOs compared to the other departments. The results indicate that these departments were not able to adequately plan, monitor and report on their performance. It is important for the province to increase the usefulness and reliability of the information reported to the public by addressing the weaknesses. In turn, this will allow the citizens to adequately assess the performance of the province.

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

### *Other performance-related outcomes*

Figure 7 shows the number of auditees in the current and previous year that:

- did not have adequate processes to regulate strategic planning, performance management and reporting
- made amendments to the annual performance reports submitted for audit purposes to correct material misstatements identified during the audit process
- did not achieve 20% or more of the planned targets reported in their annual performance reports.

Most departments continued to struggle with achieving their planned targets. Twelve auditees (71%) could not achieve 20% or more of their planned service delivery targets, which is the same number as in the previous year. Five auditees

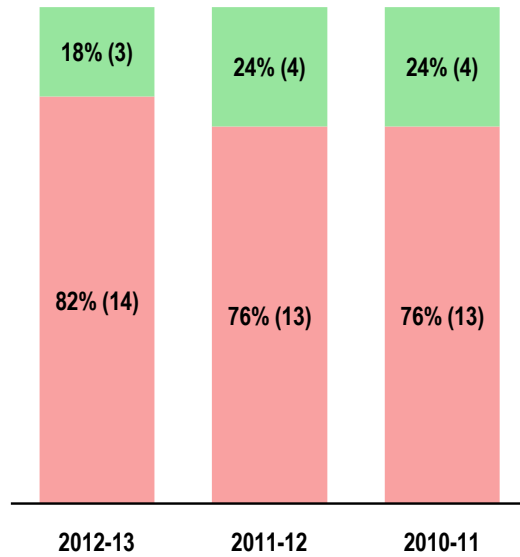


(29%) had findings on non-compliance with strategic planning and performance management legislation, compared to three (18%) in the previous year. These findings had a negative impact on the province's ability to deliver services. Targets that are not achieved are also likely to result in underspending.

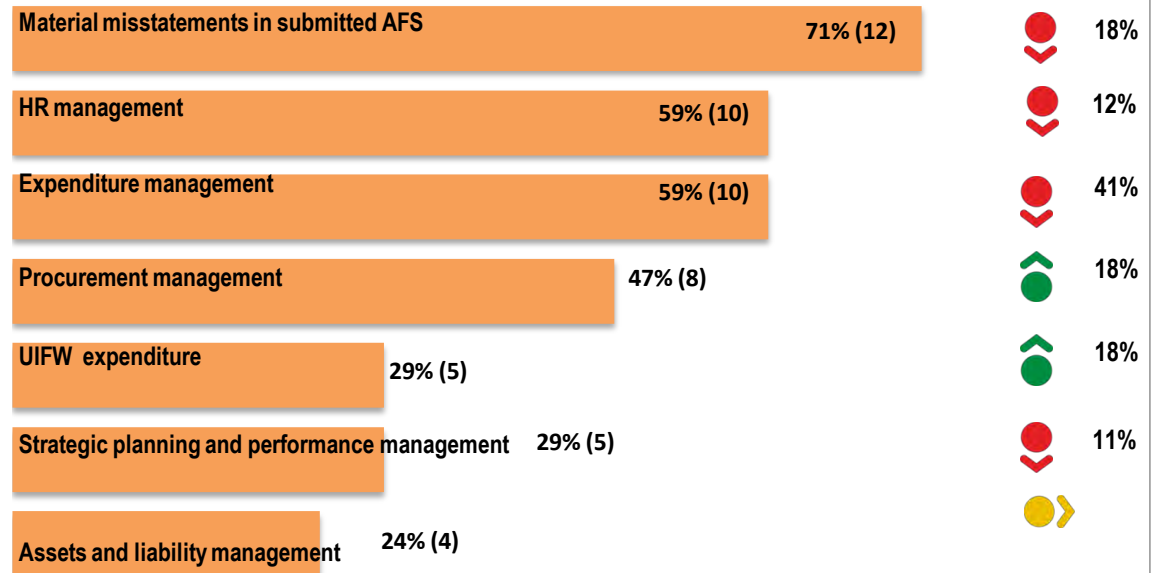
The Mpumalanga Provincial Legislature, the Department of Community Safety, Security and Liaison and the Department of Education were able to avoid findings on PDOs by making adjustments during the audit process.



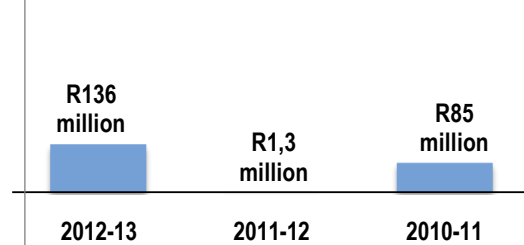
**Figure 9:**  
Status of compliance  
with legislation



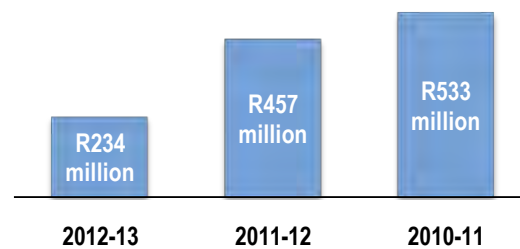
**Figure 10:**  
Findings on non-compliance with legislation



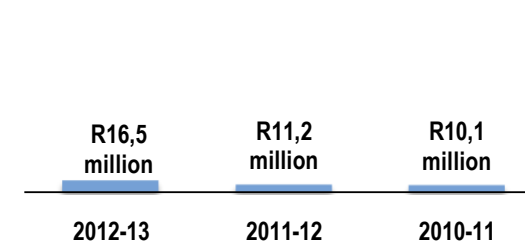
**Figure 11:**  
Unauthorised expenditure



**Figure 12:**  
Irregular expenditure



**Figure 13:**  
Fruitless and wasteful expenditure



With no findings

With findings

Improved

Stagnant or little progress

Regressed

## 2.3 Compliance with legislation

The Public Audit Act requires the AGSA to annually audit compliance with legislation applicable to financial matters, financial management and other related matters. We focused on the following areas in our compliance audits:

■ Material misstatements in the submitted annual financial statements ■ asset and liability management ■ audit committees ■ budget management ■ expenditure management ■ unauthorised, irregular as well as fruitless and wasteful expenditure ■ financial misconduct ■ internal audit ■ revenue management ■ strategic planning and performance management ■ annual financial statements and annual report ■ transfer of funds and conditional grants ■ procurement and contract management; in other words, supply chain management (SCM) ■ human resource (HR) management and compensation

We reported findings that were material enough to be brought to the attention of oversight and the public in the audit reports.

### *Status of auditees with findings on non-compliance with legislation*

Figure 9 shows the number of auditees in the province with material findings over the past three years. The 2012-13 outcomes showed that there has been a regression in compliance with legislation over the past three years. It is clear that most auditees failed to address the material findings previously reported, as they continued to have repeat findings. Auditees also did not have processes to monitor compliance with legislation. Furthermore, non-compliance findings were identified by internal and external auditors, but their recommendations were not implemented.

### *Findings on non-compliance with legislation*

Figure 10 shows the compliance areas with the most material findings in the current and previous year and the progress made by auditees in addressing the findings.

Material misstatements in the submitted annual financial statements as well as weaknesses in HR management and procurement management continued to be the focus areas with the most findings. An encouraging trend is that there were fewer findings on unauthorised, irregular as well as fruitless and wasteful expenditure. Auditees should focus on reviewing and monitoring compliance with legislation to address the common non-compliance findings.

The most common non-compliance findings across these focus areas were the following:

- There were material misstatements in the financial statements submitted for audit purposes (refer to section 3.1 for more detail in this regard).
- A proper verification process for new appointments did not take place (refer to section 3.3 for more detail in this regard).
- Payments to creditors were not settled within 30 days.
- Declarations of interest in suppliers were not made (refer to section 3.2 for more detail in this regard).

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

### *Unauthorised expenditure*

Unauthorised expenditure is expenditure that was not spent in accordance with the approved budget. Figure 11 reflects the three-year trend in unauthorised expenditure.

The unauthorised expenditure was incurred as a result of the overspending of the budget. This points to poor budget monitoring processes, as potential overspending identified in advance could have been corrected during the budget adjustment process to avoid unauthorised expenditure.

Some auditees improved their budget monitoring processes, resulting in a decrease in unauthorised expenditure from 2010-11 to 2011-12. Worryingly, there was a significant increase in the amount of this type of expenditure in 2012-13.

### *Irregular expenditure*

Irregular expenditure is expenditure that was not incurred in the manner prescribed by legislation. Such expenditure does not necessarily mean that money had been wasted or that fraud had been committed. However, it is a measure of the auditee's ability to comply with legislation relating to expenditure and procurement management. Figure 12 reflects the three-year trend in irregular expenditure.

Irregular expenditure decreased during 2012-13 compared to the previous year, while the number of auditees incurring irregular expenditure slightly increased. Of great concern is that approximately 75% of the irregular expenditure of R234 million incurred during the year was identified during the audit process, indicating that management had not implemented adequate processes and controls to prevent and detect irregular expenditure.

## *Fruitless and wasteful expenditure*

Fruitless and wasteful expenditure is expenditure that was made in vain and that would have been avoided had reasonable care been taken. Figure 13 reflects the three-year trend in fruitless and wasteful expenditure.

Overall, there has been an increase in fruitless and wasteful expenditure over the last three years. This increase was due to inadequate controls over the timely payment of service providers, resulting in interest and penalties on overdue accounts.

Refer to sections 3 and 4 for a detailed analysis of root causes, key controls and recommendations.



## SECTION 3: RISK AREAS

Figure 14: Status of submitted financial statements

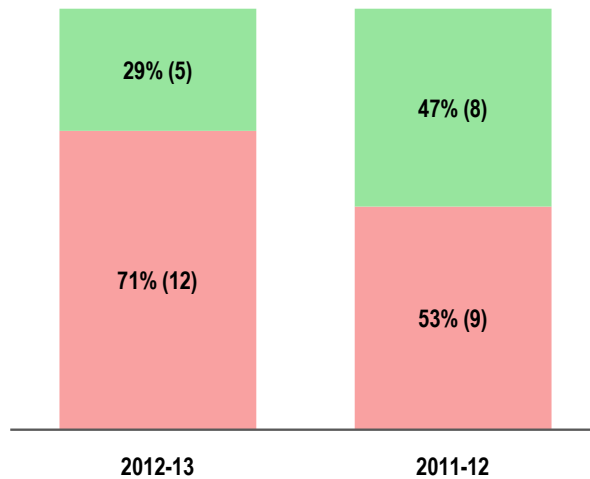


Figure 15: Quality of submitted financial statements

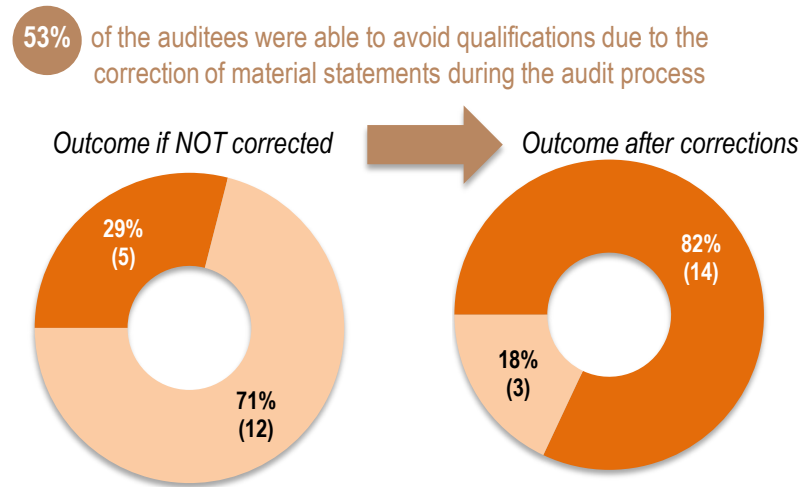
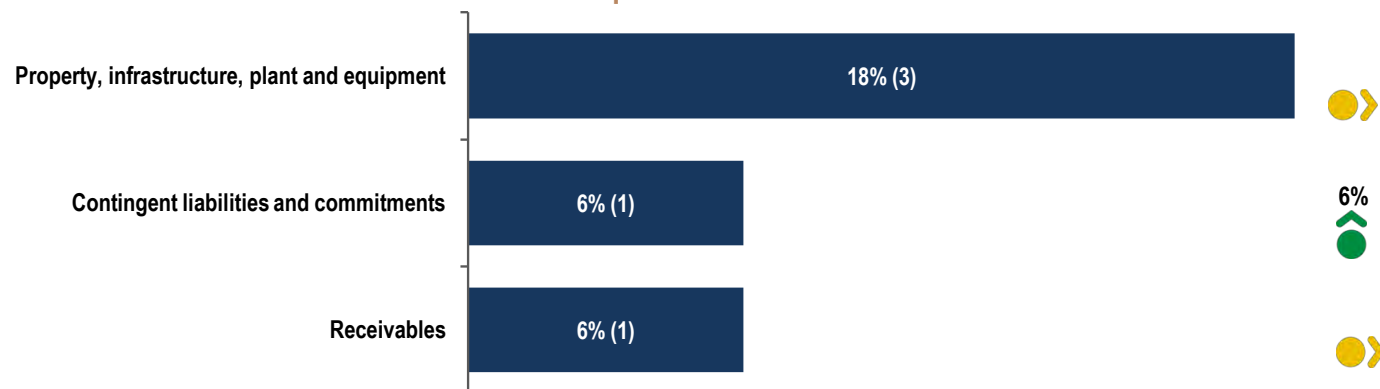


Figure 16: Top three financial statement qualification areas



With no material misstatements

With material misstatements

Financially unqualified

Financially qualified

Improved

Stagnant or little progress

Regressed

### 3. Risk areas

We identified six key risk areas that need to be addressed to improve audit outcomes as well as financial and performance management. Five risk areas are discussed in this section, while the quality of performance information is included in section 2.2.

#### 3.1 Quality of submitted financial statements

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

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

##### *The quality of the financial statements submitted for auditing*

All auditees submitted financial statements for auditing by the legislated deadline of 31 May 2013. Five auditees (29%) submitted financial statements with no material misstatements. This represents a significant decrease in the quality of the financial statements submitted for audit purposes when compared to the eight (47%) in the previous year.

Figure 15 shows that nine auditees (53%) received a financially unqualified audit opinion only because they corrected all the misstatements we had identified during the audit. The continued reliance on the auditors to identify corrections to be made to the financial statements to obtain an unqualified audit opinion is not a

sustainable practice. Furthermore, it places undue pressure on legislated deadlines and increases the audit fees.

##### *Uncorrected material misstatements*

Three auditees (18%) could not make the corrections reported to management, resulting in qualified audit opinions. The auditees could not make these corrections due to the magnitude of the work that had to be done to correct the entire population and the lack of skilled personnel to make such corrections.

Figure 16 indicates the three most common financial statement qualification areas and auditees' progress in addressing these since the previous year. The reasons for the qualifications are as follows:

##### *Property, infrastructure, plant and equipment*

- Auditees had assets on their fixed asset register that could not be physically verified, and they also had assets that could not be traced to the fixed asset register.
- The auditees did not perform regular reconciliations between the fixed asset register and the accounting records. This resulted in material differences between the balance per the fixed asset register and the financial statements.

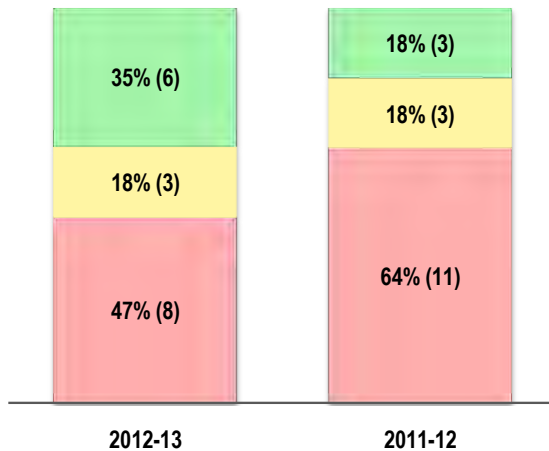
##### *Contingent liabilities and commitments*

- There was a lack of evidence and documents to support information reported under commitments.

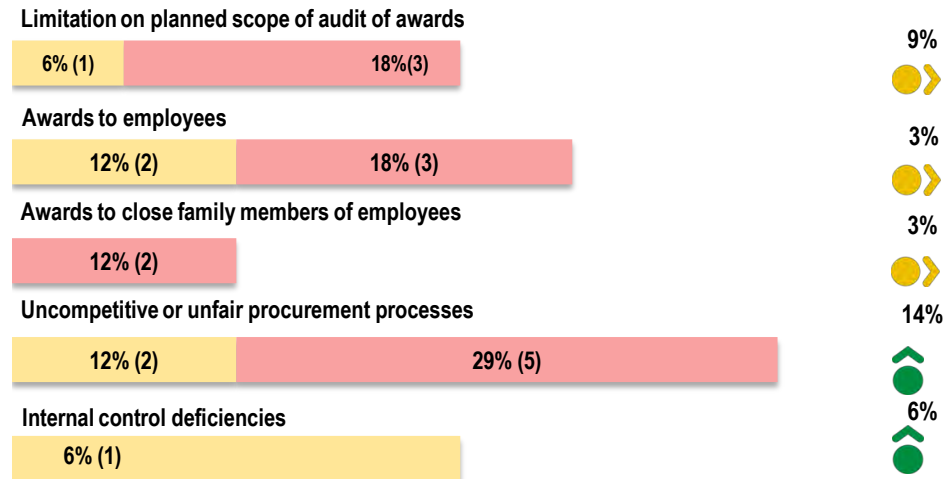
##### *Receivables*

- The provision for doubtful debt relating to the receivables disclosed was understated. This was due to the auditee not taking into account the indicators for impairment in assessing the value of the receivables at year-end.

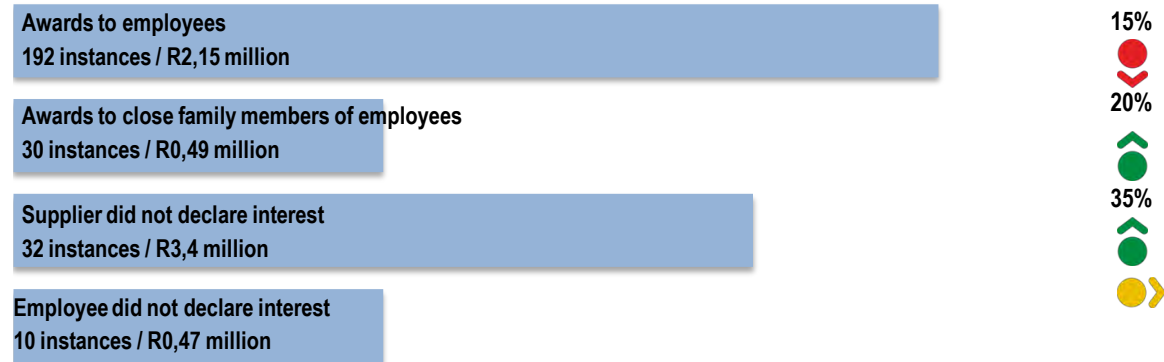
**Figure 17: Status of supply chain management**



**Figure 18: Findings on supply chain management**



**Figure 19: Awards to employees and close family members**



With no findings    With findings    With material findings    Improved    Stagnant or little progress    Regressed

## 3.2 Supply chain management

We tested 395 contracts (with a value of R4,1 billion) and 831 quotations (with a value of R370 million) (referred to as *awards* in the rest of the report), to determine whether the prescribed procurement processes had been followed to ensure that all suppliers were given equal opportunity to compete and that some suppliers were not favoured above others. We also focused on contract management, as shortcomings in this area result in delays, wastage as well as fruitless and wasteful expenditure, which in turn have a direct impact on service delivery.

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

We reported all the findings from the audits to management in a management report, while material non-compliance findings were reported in the audit report.

Figure 17 shows the number of auditees that had audit findings and those where we reported material non-compliance findings in the audit report in the current and previous year. Significant progress has been made in this area. Three auditees (18%) addressed their previous findings on SCM, while one auditee managed to address only the material findings. Non-compliance with SCM legislation remains a challenge, however, as the three departments that spend the most continued to have material non-compliance findings in this regard.

Figure 18 indicates the extent of findings in the areas we report on and the movement since the previous year. These findings are discussed in the rest of this section.

### *Limitation on planned scope of audit of awards*

We could not audit awards of R203 million selected for auditing at four auditees (24%), due to these auditees not making the required information or documentation available that could provide us with evidence that awards had been made in accordance with the requirements of SCM legislation. We could also not perform any alternative audit procedures to obtain reasonable assurance that the expenditure incurred in respect of these awards was made in accordance with SCM legislation. The auditees with the highest value of awards that we could not audit were the Department of Health (R194,5 million), the Mpumalanga Economic Growth Agency (R7 million), and the Mpumalanga Tourism and Parks

Agency (R1 million). These limitations deny the auditees an opportunity to address possible weaknesses in the SCM internal control environment.

### *Awards to employees and close family members*

Figure 19 shows the extent of awards to employees and family members and whether the required declarations had been made. Awards to the value of R2,15 million identified at five auditees were made to suppliers in which officials had an interest. This marks a significant decrease in value as compared to the R29,2 million identified in the previous year, but the number of auditees has increased.

There has been an encouraging decrease since the previous year in the number of awards made to close family members, both in value and number of auditees. Despite this, the number of suppliers and employees who fail to declare their interests remains a challenge. Auditees therefore continue to be exposed to the risk of improper influence and unfair procurement processes in the adjudication and evaluation of awards. Accounting officers should pay specific attention to the monitoring of compliance with SCM legislation.

### *Uncompetitive or unfair procurement processes*

Six auditees (35%) had findings on unfair procurement processes, of which five (29%) had material findings. The province achieved a significant improvement in the number of auditees with material findings. However, auditees with findings that are not material are encouraged to address the weaknesses in this area, as they could become material.

The following were the most common findings:

- Awards were made to providers in the service of the auditee that did not declare the interest.
- Awards were made to providers in the service of other state institutions that did not declare the interest.
- Competitive bids were not invited and/or deviations were not justified.
- Three written quotations were not invited and/or deviations were not justified.

## *Effective management of consultants*

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

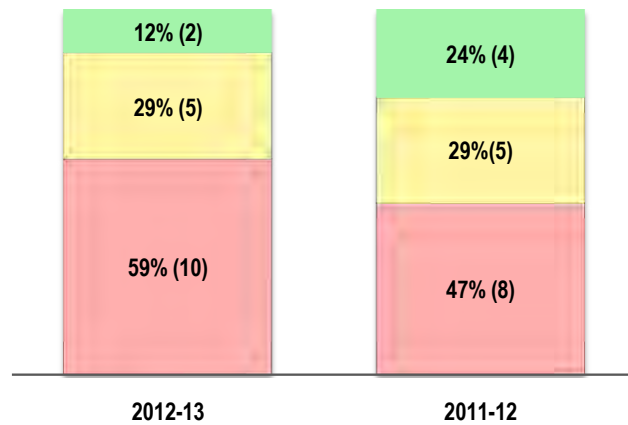
Although most findings related to the planning for, and the appointment of, consultants, shortcomings were also identified in the following areas:

- Transfer of skills
- Performance management and monitoring

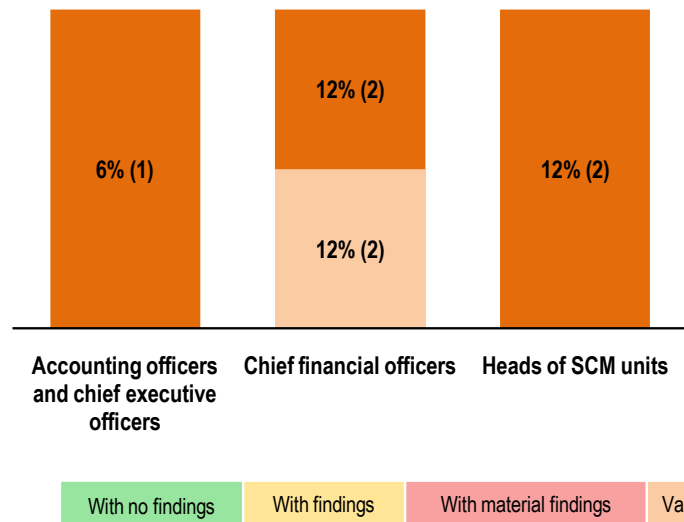




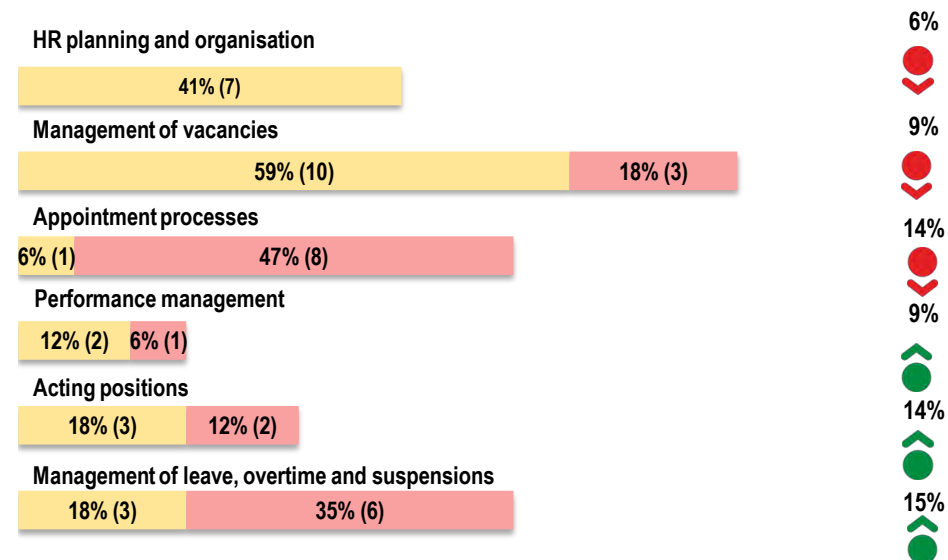
**Figure 20: Human resource management findings**



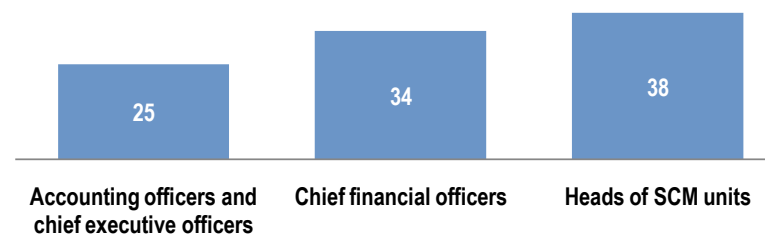
**Figure 22: Vacancies in key positions**



**Figure 21: Weakness in human resource focus areas**



**Figure 23: Stability in key positions**  
(Average number of months filled)



Improved
 Stagnant or little progress
 Regressed

### 3.3 Human resource management

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

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

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

Figure 20 shows the number of auditees that had audit findings and those where we reported material non-compliance findings in the audit report in the current and previous year. The province saw a regression in this regard, as auditees that previously did not have findings, now had findings. Most auditees failed to monitor compliance with legislation. (Refer to section 4 for a detailed analysis of root causes and internal controls.)

Figure 21 indicates the extent of findings in the areas we report on and the movement since the previous year. Some auditees managed to address findings in performance management; acting positions; and the management of leave, overtime and suspensions, which resulted in an improvement. However, the management of vacancies and appointment processes proved to be a major challenge for the province. The adequate management of vacancies and full adherence to appointment processes are important to attain clean audits, as these aspects ensure that competent and skilled people are appointed in key positions at the right time.

#### *Management of vacancies and acting positions*

The effective management of vacancies and acting positions is a key driver of audit outcomes. The average overall vacancy rate in the province was 12% at year-end, while that of senior management was 19% and that of finance units 16%. Figure 22 shows the vacancy rate at the level of accounting officer or chief executive officer, chief financial officer and head of the SCM unit at year-end, and indicates the period that the positions were vacant. Figure 23 indicates the average number of months these key officials have been in their positions.

The overall vacancy rate for accounting officers, chief financial officers and heads of SCM units was not significant, as only four auditees (24%) had vacancies at this level. However, it took more than six months on average for the auditees to fill these vacancies.

Figure 23 illustrates that most of the accounting officers have been with the auditees for just over two years, while chief financial officers have been in their positions closer to three years. The stability in these positions is a step in the right direction. This also indicates that the individuals in these positions have gained an understanding of the challenges faced by, as well as the strategic direction of, the auditees. This should ultimately lead to improved audit outcomes. The political leadership is encouraged to strengthen performance monitoring at these levels to ensure that the expected improvements in audit outcomes are realised.

On the other hand, it is worrying to note the high vacancy rate at senior management level and in finance units. Senior management and finance units are central to effective financial and performance management. Vacancies at these levels delay the implementation and effective monitoring of key controls. The absence of the right people to direct and supervise the strategic objectives of the auditee has a negative impact on service delivery and on audit outcomes.

Officials were directed to act in vacant positions, but at two auditees (12%) the acting period was longer than the acceptable benchmark of six months. When people act in positions, they tend not to take on the full responsibility, functions and powers of the post and are likely to show less commitment to the deliverables as a result of the temporary nature of the position.

The most common findings relating to this focus area were that funded vacant posts were not filled within 12 months and that employees acted in positions for more than 12 months.

#### *Appointment processes*

Eight auditees (47%) did not properly verify claims in the employment applications of recommended candidates before the appointments were finalised. This can lead to the appointment of employees who are not properly qualified for the positions, which in turn will have a negative impact on the audit outcomes.

#### *Performance management*

To improve the performance and productivity of staff, the leadership should set the correct tone by implementing sound performance management processes to evaluate and monitor performance. The leadership should also consistently demonstrate that poor performance has consequences.

It is concerning that not all senior managers had signed their performance agreements for the current period.

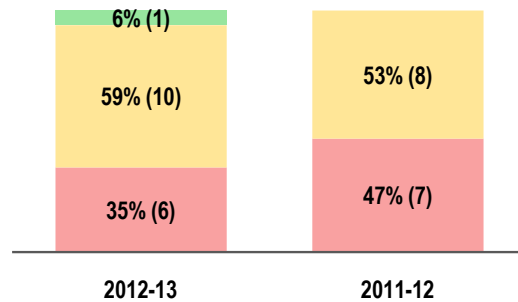
## *Other most common human resource findings*

The other most common findings were the following:

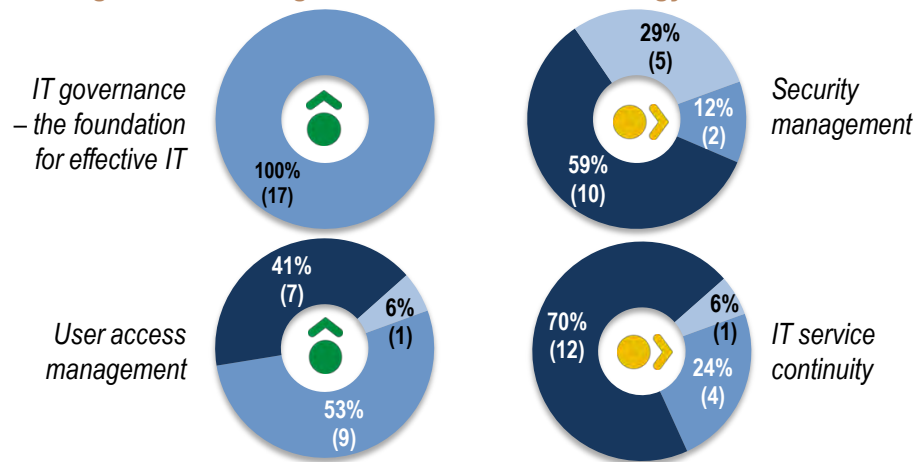
- A proper verification process for new appointments did not always take place.
- Persons in charge of pay points did not certify the payroll.
- Leave taken by employees was not properly managed.



**Figure 24:**  
Status of information  
technology controls



**Figure 25: Findings on information technology controls**



**Figure 26: Status of information technology controls**

	Confidentiality	Integrity	Availability
Status of provincial government information	<p>The necessary level of secrecy is enforced for all provincial government information. This was assessed by auditing the following focus areas:</p> <ul style="list-style-type: none"> <li>Security management</li> <li>IT governance</li> <li>User access controls</li> </ul>	<p>All provincial government information is authentic, remains unaltered until authorised to change, and is complete. This was assessed by performing data analytics and auditing the following focus areas:</p> <ul style="list-style-type: none"> <li>Security management</li> <li>User access controls</li> </ul>	<p>All provincial government information is ready for use when expected. This was assessed by auditing the following focus areas:</p> <ul style="list-style-type: none"> <li>Security management</li> <li>IT service continuity</li> </ul>
Status of key enabling controls	Good governance		
	Effective management		
	Secure architecture or infrastructure		

With no findings	With findings	With material findings	IT controls embedded and functioning effectively	IT controls to be implemented	IT controls to be designed	Good	Concerning	Intervention required	Improved            Stagnant or little progress            Regressed
------------------	---------------	------------------------	--	-------------------------------	----------------------------	------	------------	-----------------------	--



## 3.4 Information technology controls

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

In the assessment of the findings on IT controls in figure 25, the criteria are determined by the stage of development reached, which can be grouped into three categories:

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

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

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

The status of IT controls, as reflected in figure 24, demonstrates that there have been improvements since the previous financial year. However, some auditees are still experiencing challenges in all areas, excluding IT governance, and they should therefore prioritise the design and implementation of the required controls.

### *IT governance*

Effective IT governance ensures that the auditee's IT control environment functions well and enables service delivery. Figure 25 shows that all auditees are implementing the Cabinet-approved IT governance framework.

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

### *Security management*

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

While 29% of the auditees had IT controls that were embedded and functioning effectively, figure 25 shows that 59% of the auditees continued to experience challenges with the design and 12% with the implementation of security management policies. Management should prioritise the design and implementation of the security management policies to lessen the risk of unauthorised access to, and the unavailability of, IT systems.

### *User access management*

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

While 6% of the auditees had IT controls that were embedded and functioning effectively, figure 25 shows that 41% of the auditees still experienced challenges with the design of user access policies and procedures, in that the required policies and procedures had not been approved or did not include key controls. Furthermore, 53% of the auditees continued to experience challenges with the implementation of user access policies and procedures. Management should prioritise the design and implementation of the user access policies and procedures to lessen the risk of unauthorised access and transactions within the application systems.

### *IT service continuity*

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

While 6% of the auditees had IT controls that were embedded and functioning effectively, figure 25 shows that 70% of the auditees continued to experience challenges with the design and 24% with the implementation of appropriate disaster recovery plans. In the case of departments, the data hosted on their transversal systems is available at the disaster recovery site of the State Information Technology Agency (SITA). However, the risk of non-connectivity to SITA's disaster recovery site remained, due to departments' lack of participation in SITA's annual disaster recovery testing exercise. At the entities, management should prioritise the design and implementation of IT service continuity controls to lessen the risk of the unavailability of systems or incomplete data in the event of major system disruptions or data loss.

Figure 27:  
Number of auditees  
with indicators of  
financial health risks  
(all auditees)

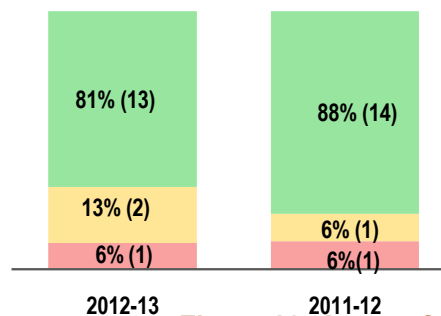
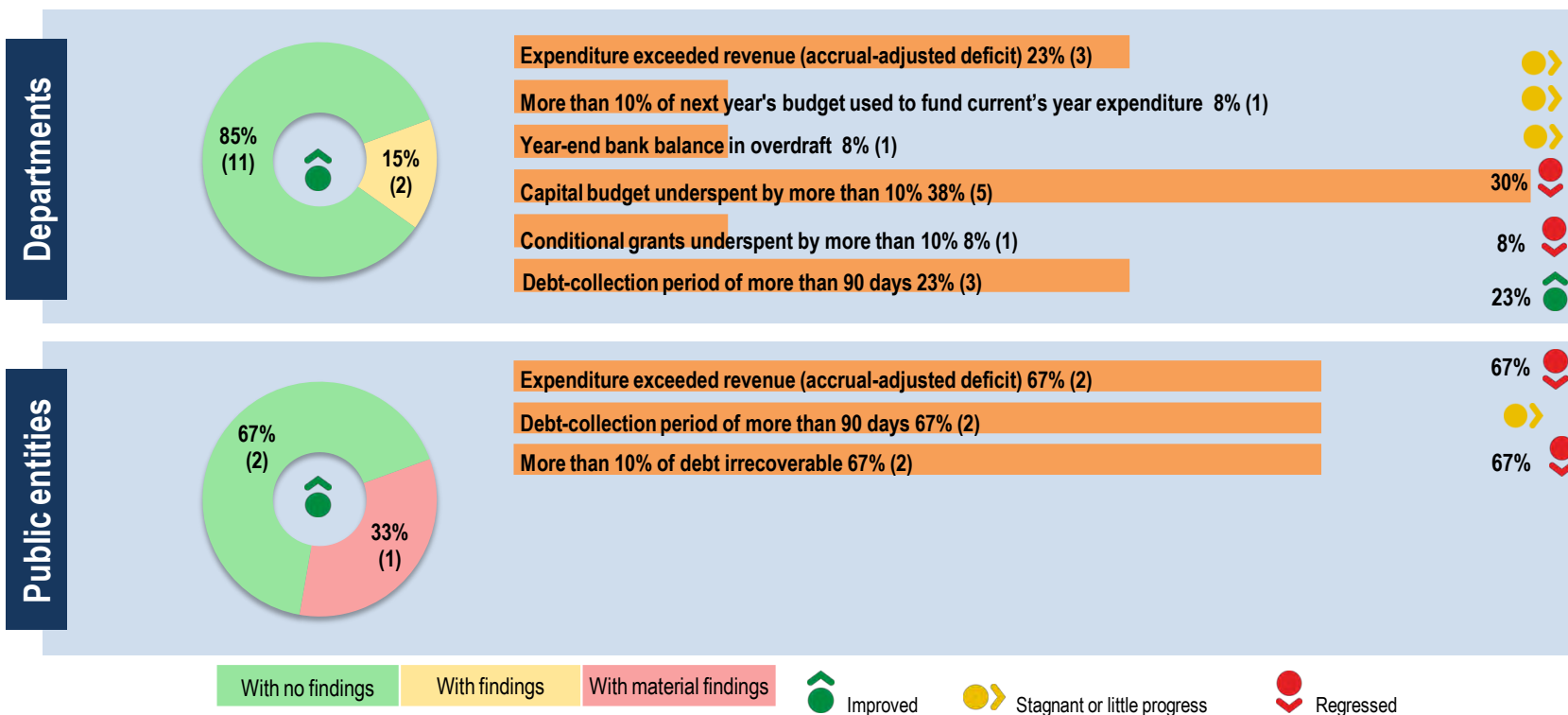


Figure 28: Number of auditees with  
indicators of financial health risks

Figure 29: Areas of financial health concerns



### 3.5 Financial health

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

Figure 27 indicates the number of auditees that had more than two of the indicators discussed in this section and the movement since the previous year. It excludes one auditee that had a disclaimed audit opinion in the previous period, as the auditee's financial statements were not reliable enough to be analysed.

The province's financial health appears to be stable with a slight regression from the previous year.

#### *Financial management by departments on the modified cash basis of accounting*

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

Three departments (23%) had an accrual-adjusted deficit, while one department (8%) had used more than 10% of its next year's allocation for current operational expenditure. For both these indicators, the number of auditees is still stable compared to previous years.

One department (8%) continued to have an overdraft during the current period, which is the same as in the previous year.

Weaknesses in this area indicate poor budget monitoring, expenditure not being incurred in accordance with the approved budget, and poor cash flow management. Poor cash flow management results in delays in settling debts owed to creditors, which leads to non-compliance with legislation.

#### *Underspending by departments of capital budgets and conditional grants*

The underspending of capital budgets and conditional grants is a major challenge for the province. Six auditees (46%) underspent their budget by more than 10%, while one of these six auditees underspent their conditional grants as well.

The underspending of the budget is of special concern, as it has a direct impact on the assets and infrastructure used for service delivery. It points to poor capital budgeting, poor financial management, and delays in implementing capital projects, mainly due to a lack of suitable skills and adequate planning.

Most of the departments that had underspent their budget were not able to achieve 20% or more of their planned service delivery targets. Therefore, the strategic objectives and mandate of the auditees as well as service delivery to the people of the province were negatively influenced.

#### *Debt management*

Three departments and two public entities experienced challenges in collecting their debts on time, with their collection period being more than 90 days. More than 10% of the debts of the two entities were irrecoverable. The average days' collection status of departments has improved from the previous year, while that of public entities has regressed.

The slow collection period and high provision for the impairment rate have a direct impact on the profitability and effective management of public entities.

The extended collection period may result in cash flow problems, adversely affecting operational management. The excessive write-off of debts highlights the culture of non-payment for services by consumers.

The collection of debts also has an impact on the ability of an auditee to meet its monthly payments and the payment of its creditors within 30 days, which could result in non-compliance with legislation.

## *Financial health risks at public entities*

Even though none of the three public entities analysed had going concern uncertainties, two (67%) had a net deficit during the current period, showing a regression compared to the previous year.

The might be due to the following:

- Revenue and expenditure were not adjusted to allow for the undercollection of revenue during the year.
- Expenditure was not incurred in accordance with the approved budget.
- There was an ineffective revenue collection system to give effect to the budget.

## **SECTION 4: INTERNAL CONTROLS AND ROOT CAUSES OF AUDIT OUTCOMES**

Figure 30: Movement in drivers of internal control

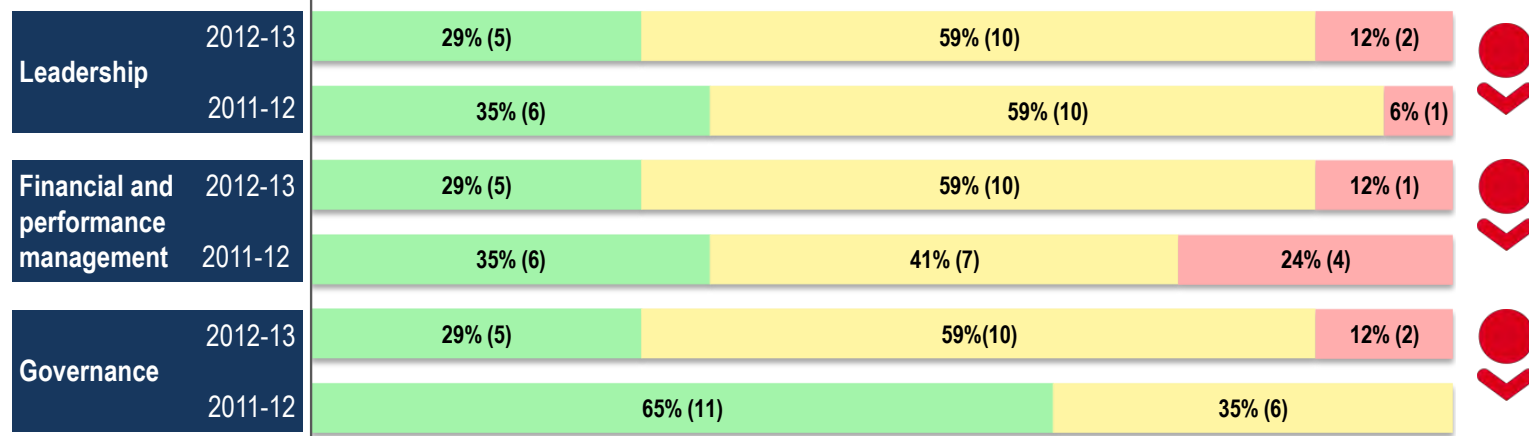
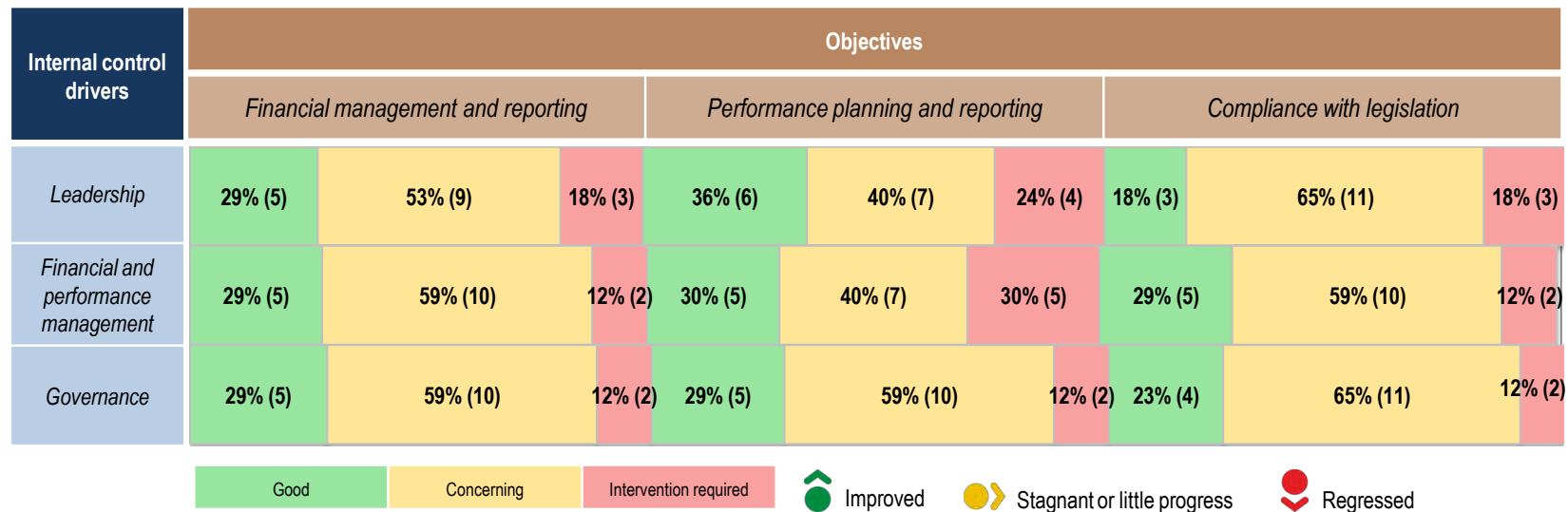


Figure 31: Objectives on which drivers of internal control have an impact





## 4.1 Significant deficiencies in internal control

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

### Status of drivers of internal control

Figure 30 provides an overall assessment of the drivers of internal control and the movement since the previous year, based on the significant internal control shortcomings identified during the audits that had resulted in material misstatements in the submitted financial statements, performance reports of a poor quality as well as findings on non-compliance with legislation.

Figure 31 separately assesses financial management and reporting, performance planning and reporting, and compliance with legislation.

Based on this assessment, we highlight the following:

- Overall, there has not been a noticeable improvement in the effectiveness of key controls in any of the different components.
- On a positive note, vacancies in key positions have decreased and leadership stability was maintained.
- However, basic accounting disciplines were not effectively implemented. Regular financial statements were not prepared, resulting in material misstatements identified during the audit process.
- We noted a slow response by management to address weaknesses during the key control discussions, which had a negative impact on the effectiveness of internal controls.
- A culture of implementing policies, procedures and action plans for compliance purposes continued to prevail, which delayed a positive impact on key controls.
- Although governance structures were in place at all the auditees, management was slow in implementing their recommendations.
- Not enough attention was paid to IT findings.

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

### Processing and reconciling of transactions

2012-13

29% (5)

47% (8)

24% (4)



Management's responsibility to account for auditees' finances and performance is not limited to the annual financial statements and performance reports.

Regular processing and reconciling of transactions to source documents and other information will ensure accurate and complete financial statements and performance reports. The effective and consistent implementation of the internal control activity has decreased when compared to the previous year, which is worrying as this internal control is key to the accuracy and completeness of information.

Management should also prepare regular (monthly and quarterly), accurate and complete financial and performance reports for review by the internal audit unit and monitoring institutions, such as the treasury. In-year reporting helps to prevent misstatements in the year-end reports and to detect non-compliance with legislation. It also ensures proper financial and performance management throughout the year.

Auditees should have checklists to monitor and report on compliance with legislation. Five auditees (29%) effectively implemented this key control and they did not have to make material changes to their financial statements. The auditees that had not effectively designed and implemented this key control either made material adjustments to their financial statements or received qualified audit opinions.

### Effective human resource practices

2012-13

35% (6)

41% (7)

24% (4)



The performance of an auditee depends on the availability of the right people, occupying the right positions and with the right attitude. Currently this is missing at most of the auditees.

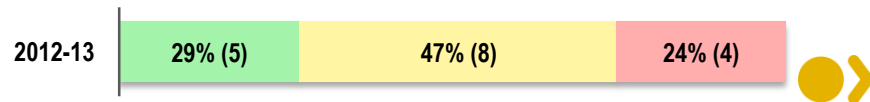
We assessed that about 67% of the controls within this element were either in progress or required intervention at year-end. The concerning fact is that the

2012-13 financial year's assessment shows that no progress has been made in addressing this control element since the previous years.

The weaknesses in HR practices are evidenced by the fact that most auditees had repeat findings, especially relating to non-compliance and reporting against PDOs. Neither the quality of the financial statements and performance reports nor the state of compliance with legislation has improved compared to previous years.

Monitoring employees' performance is part of the effective management of HR. This enables an understanding and execution of internal control objectives, processes and responsibilities, which would lead to positive audit outcomes.

### *Approve and monitor the implementation of action plans*



The audit outcomes of the province have not been moving at the pace expected for auditees to achieve clean administration. Most auditees have stagnated on qualified opinions and financially unqualified opinions with findings for the past five years. The 2012-13 outcomes showed that only two auditees were close to achieving clean administration.

Management should take the lead in addressing the findings raised by both the internal and external auditors for auditees to be able to move towards clean audits. This means that auditees must properly assess the root causes of audit outcomes and develop action plans in response. These action plans must not only be developed, but also implemented and regularly monitored to ensure that the assessed root causes and matters raised by the different assurance providers are addressed.

The current practice is that an action plan is based on the symptom (in other words, the finding raised), and not on the root cause. This is further worsened by management's slow response in monitoring the action plans to assess if they are achieving the desired outcomes.

We assessed this key control as good at less than 30% of the auditees, indicating that action plans were not effective at more than 70% of the auditees. It could be a challenge for the province to move forward until this has been properly addressed. The assessment of this control element remained the same as in the previous year.

## 4.2 Summary of root causes

Our audits included an assessment of the root causes of audit findings, based on identifying the internal controls that had failed to prevent or detect the error or non-compliance. The root causes were confirmed with management and reported in the management report issued to the accounting officer and shared with the member of the executive council (MEC). We also included the root causes of material findings reported in the audit report as internal control deficiencies in the audit report, classified under the key drivers of leadership, financial and performance management, or governance. This section provides more information on the specific drivers of internal control.

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

### *Slow response by management*

#### *Detail of root cause*

We identified the slow response by management in addressing weaknesses in internal controls as a root cause of poor audit outcomes at 11 (65%) of the auditees. The stagnation in the overall audit outcomes is a direct result of the tone set from the top.

Management did not take accountability for addressing weaknesses identified in key controls to satisfy themselves that the identified weaknesses were receiving the required attention.

Management was also slow in implementing recommendations from internal and external auditors, audit committees as well resolutions of the legislature. Management did furthermore not play an active role in the performance monitoring of key officials.

### *Recommendations*

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

- Management should properly assess the root causes and develop action plans to address these.

- Management should effectively review and monitor the implementation of action plans to assess whether they are achieving the desired outcomes.
- Management should timeously fill key vacancies with competent personnel.
- Management should continuously deal with poor performance, investigate transgressions of legislation, and take appropriate action in this regard.
- Management should regularly report progress on the implementation of action plans to the executive authority, relevant portfolio committee and legislature to help them to play an effective oversight role.

## **Lack of consequences for poor performance and transgressions**

### *Detail of root cause*

We identified a lack of consequences for poor performance and transgressions as one of the key root causes of poor audit outcomes at 10 (59%) of the auditees.

Staff members were not held accountable for poor performance, as performance management systems did not work effectively. If officials are not held accountable for their actions, the perception is created that poor performance is acceptable and tolerated.

This root cause was evidenced by the fact that non-compliance with legislation as well as poor reporting on service delivery and financial matters was still the norm in the province, while auditees had still not addressed the poor achievement of planned service delivery targets.

### *Recommendations*

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

- Management should design and effectively implement a credible performance management system and regularly evaluate the performance of staff.
- Management should take decisive action against poor performers and transgressors.

The following recommendations made in the previous year have still not been implemented decisively by auditees:

- The leadership should assess the essential skills and ensure that competent personnel are employed to perform the required activities.
- Policies and procedures, which reflect expectations and hold individuals accountable, should be implemented.

## **Slow response by the political leadership**

### *Detail of root cause*

We identified the slow response by the political leadership to be a root cause of poor audit outcomes at eight (47%) of the auditees.

Our engagements with the political leadership were well received, but these have not yet had a significant impact on the audit outcomes, as clear commitments to address the identified internal control deficiencies were not always obtained from the political leadership. There has also been a slow response in holding officials accountable for poor performance and transgressions.

### *Recommendations*

The executive authorities should take the following actions to address the root cause:

- Insist on receiving a credible action plan, reviewed by the internal audit unit, audit committee and treasury; and regularly discuss progress on the action plan with management.
- Regularly interact with other assurance providers, such as audit committees and internal audit units, on the state of affairs of their departments and the status of the implementation of action plans.
- Involve other coordinating departments in their areas of competence and responsibility.

## 4.3 Formal control over information technology systems

### *Most widespread root causes*

There was still a lack of skills to appropriately design and implement controls over IT systems to regulate security management, user access management and IT service continuity. This challenge was made worse by the following inefficiencies:

- Vacant key posts, such as those of IT managers, system controllers and information security officers, were not filled.
- Staff did not fulfil the responsibilities of ensuring compliance with existing user access policies and procedures.
- Controls were not designed based on department-wide risks identified for all systems.
- Management did not fulfil the responsibility of addressing previously raised audit findings.
- There was a lack of management commitment, an insufficient understanding of the associated risks, and inadequate communication, resulting in departments not participating in the annual mainframe disaster recovery tests undertaken by SITA.

### *Actions already taken to address root causes*

The following actions have been taken to address the root causes:

- The Office of the Premier aligned the provincial IT governance framework to the Department of Public Service and Administration's corporate governance of information and communication technology policy framework. The provincial cabinet approved the provincial IT governance framework.

- The government information technology officer (GITO) in the Office of the Premier established a GITO forum that meets regularly with other GITOs and IT managers to provide guidance and knowledge sharing regarding IT governance matters.
- The internal audit units at some departments are becoming more involved in IT audits, as well as in following up the progress made in addressing previously raised audit findings.
- The Department of Finance developed guidelines for the management of user access on the transversal systems.

### *Recommendations*

The following further actions should be taken to address the root causes:

- Where there is a lack of skills, staff should be given the required training to design and implement business continuity plans, disaster recovery plans and IT security management controls.
- Vacant positions that have been approved should be filled.
- Compliance with all approved policies, standards and procedures should be enforced. There should be consequences for non-compliance with approved policies, standards and procedures.
- The controls designed by management should be based on comprehensive risk assessments that include all departmental systems and business processes.
- There should be consequences for not resolving repeat audit findings. Internal audit units should regularly monitor the progress made in addressing previously raised findings and should be capacitated with information systems auditing skills.
- The annual SITA mainframe disaster recovery tests for transversal systems should be properly communicated and there should be consequences for not participating in these tests.

## **SECTION 5: IMPACT OF KEY ROLE PLAYERS ON AUDIT OUTCOMES**

Figure 32: Assurance provided by key role players

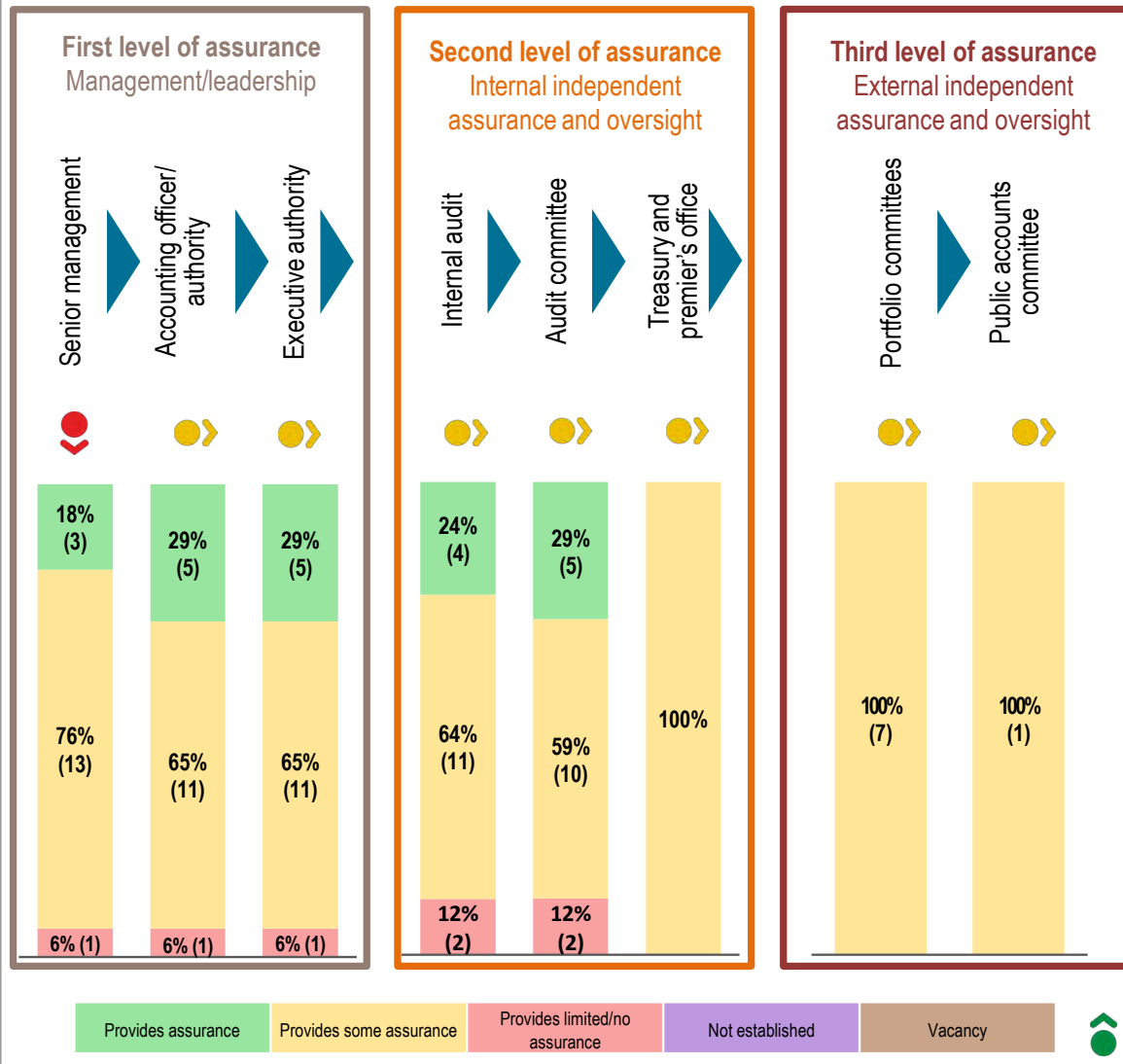
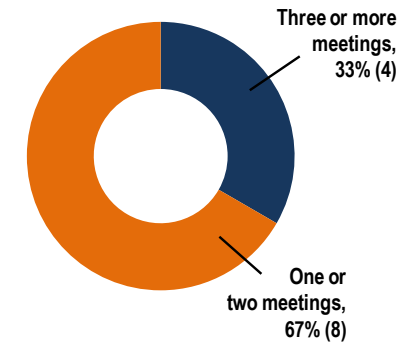
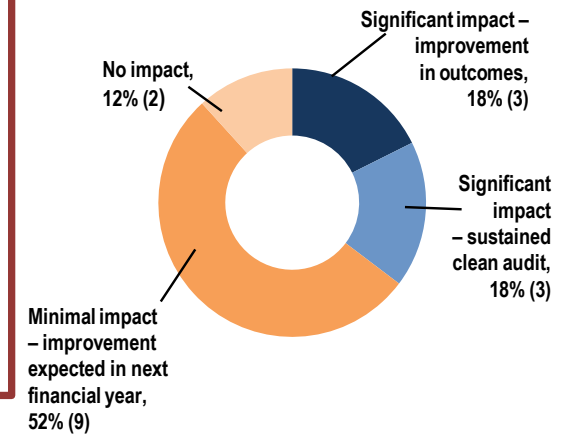


Figure 33:  
Interactions with MECs and  
assessed impact thereof

Number of meetings



Assessed impact on audit outcomes



## 5. Initiatives and impact of key role players on audit outcomes

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

In addition to the AGSA, other role players also contribute to the credibility of financial and performance information and compliance with legislation, by ensuring that adequate internal controls are implemented.

These role players are discussed in the rest of this section, and have been categorised as follows: (1) those directly involved with the management of the auditee (management/leadership assurance); (2) those that perform an oversight or governance function, either as an internal governance function or an external monitoring function (internal independent assurance and oversight); and (3) the independent assurance providers that give an objective assessment of the auditee's reporting (external independent assurance and oversight).

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

Figure 32 shows the assessed level of assurance provided by key role players. An overview of the assurance provided by each of the three levels of assurance providers is discussed below.

### *First level of assurance: Management/leadership*

#### *Senior management*

Senior management, which includes the chief financial officer, chief information officer and head of the SCM unit, is responsible for the implementation of detailed financial and performance management controls. Our assessment demonstrates

that senior management has not effectively implemented internal controls. The assurance at this level has decreased from the previous years.

We assessed that the senior management of three auditees (18%) provided the expected level of assurance, with the rest providing either some or limited assurance. This was due to senior management failing to implement the recommendations of various key role players and monitoring subordinates' performance.

Although none of the first-level role players are fully providing the required assurance yet, the assurance of senior management needs the most improvement. Accounting officers and MECs are relying on senior management to implement basic financial and performance management controls.

The following recommendations should be implemented to improve the level of assurance provided by senior management:

- Appropriate tools, such as compliance checklists, should be developed to track compliance with legislation.
- Controls over daily and monthly processing and reconciling of transactions should be implemented, the reconciliations should be thoroughly reviewed, and discrepancies should be properly followed up.
- Regular, accurate and complete financial and performance reports, which are supported and evidenced by reliable information, should be prepared.
- The skills and competencies needed at the auditees should be properly assessed. This can be compared to the current capacity to address gaps in competencies through other means, such as training.

The weaknesses in internal control and the inadequate assurance provided by senior management highlight the risk that decisions taken by accounting officers and MECs could be based on incomplete or incorrect information provided by senior management.

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



## Accounting officer/authority

The level of assurance provided by the accounting officers of departments and the accounting authorities of public entities is slightly better than that of senior management, as indicated in figure 32, but their impact on creating an effective control environment is not yet evident at most auditees.

The slow response by management to the audit outcomes and our messages has contributed significantly to the stagnated results in the province. In turn, accounting officers or authorities have been slow in taking decisive action against poor performance by senior management, resulting in weaknesses in internal controls and repeat findings. The effective monitoring of the work performed by senior management should be strengthened.

Although accounting officers and authorities depend on senior management for designing and implementing the required financial and performance management controls, they should create an environment that helps to improve such controls by focusing on the following:

- Exercise oversight of financial and performance reporting and compliance with legislation.
- Implement effective HR management to ensure that adequate and sufficiently skilled staff members are employed and that performance is monitored.
- Monitor the implementation of action plans to address internal control deficiencies.
- Ensure that internal audit reports are responded to.
- Support the audit committee and ensure that its reports are responded to.

## Executive authority

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

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

As shown in figure 33, most of the MECs met with us. The engagements were well received, but these interactions have not yet had a significant impact on the audit outcomes. However, the building blocks are now in place for improvements in key controls, which should lead to improved outcomes. The limited meetings we were able to secure and the low impact of our interactions with some MECs were due to a lack of commitment from some MECs. Where commitments were received, these were also not always fully honoured. (Section 6 provides more detail on the interactions with MECs.)

## Second level of assurance: Internal independent assurance and oversight

### Internal audit

Internal audit units assist accounting officers and authorities in the execution of their duties by providing independent assurance on internal controls, financial information, risk management, performance management and compliance with legislation.

Internal audit units were in place at all auditees. There has been a slight decrease in the assurance provided by internal auditors since the previous year. The operations of only 12% of the internal audit units were not fully compliant with the requirements of the Public Finance Management Act, while the work of most of the units covered all the required aspects.

In some instances, well-resourced and effective internal audit units have helped to improve internal controls, but overall the impact of these units on audit outcomes was fairly limited. Only 24% had a positive impact on audit outcomes, while 76% had no impact as their recommendations were not always implemented by senior management. Internal audit units can only be effective if they are adequately resourced, audit committees oversee and support their operations, and accounting officers and senior management cooperate and respond to their advice and recommendations.

## Audit committee

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

Audit committees were in place at all auditees and the work of most of the committees covered all the required aspects. However, 12% did not evaluate controls and the reliability of financial and performance information. Overall, audit committees did not have a significant impact on the results of the province.

Some audit committees were not effective yet because of shortcomings in the assurance provided by senior management and accounting officers. For audit committees to provide the required level of assurance as second-level assurance providers, they depend a lot on the reliability of the assurance provided by senior management and internal audit units. The lower the assurance level provided by these two role players, the more difficult it is for audit committees to accurately assess the control environment of the auditee, including being assured that all significant risks are being reduced. Improved communication between the audit committees and MECs would strengthen oversight and accountability, which would in turn translate into good results.

## Treasury and premier's office

These coordinating departments provided some assurance. They executed their responsibilities in terms of the Public Finance Management Act and continually introduced initiatives to assist auditees to improve their audit outcomes.

Financial statements were submitted to the treasury for review before submission for audit purposes. Auditees were also required to submit their action plans to the treasury for assessment before implementation. However, the impact of these initiatives is not yet visible in the audit outcomes of the province.

The coordinating departments have honoured most of the commitments made in the previous year, but sadly these have also not had a positive impact on the audit outcomes.

The ineffectiveness of the role of the coordinating departments is largely due to these departments not adequately monitoring the implementation of the commitments and initiatives as well as a lack of consequences for failing to implement recommendations.

The following recommendations should be implemented to improve the impact of the coordinating departments:

- Clear expectations should be set for each unit responsible for supporting the auditee and the unit's performance should be regularly monitored against the expectations.
- Continuous training should be provided to the various units in the treasury to ensure that they become experts in their fields. This would improve the credibility of the units.
- The monitoring of initiatives and commitments should be improved.
- The implementation of action plans should be monitored to address the root causes of internal and external audit findings, the resolutions of the house as well as recommendations from other key role players. Progress on the implementation of action plans should be included as a standing agenda item at quarterly meetings of the premier's coordinating forum and quarterly briefings to the portfolio committees.

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

The following commitments were received from the Office of the Premier to improve the audit outcomes of the province:

- Regularly monitor the performance of auditees, and take decisive action against accounting officers who fail to improve audit outcomes.
- Improve financial management controls at auditees to eliminate wastage in accruals that should be used for programme implementation.
- Implement measures to improve efficiencies in SCM processes, and improve efficiencies and drive strong value for money in procurement practices.
- Fill key vacancies with skilled personnel.

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

#### **Portfolio committees and public accounts committee**

The role of portfolio committees is to maintain oversight of the auditees assigned to them. Portfolio committees can monitor, enquire into and make recommendations on the budget, functioning, structure, staff and policies of auditees. On the other hand, the public accounts committee must consider the financial statements of auditees and any audit reports issued on those financial statements.

The portfolio committees met with all the auditees to review their annual performance plan, organogram and budget to determine whether they would be able to meet their strategic objectives. During the year, the portfolio committees held quarterly interactions with the auditees to review the progress made on implementing the performance plan as well as the actual spending against the budgets. Oversight visits were conducted at selected projects and municipalities to assess the implementation and expenditure of projects, determine if value for money was received when compared to actual improvements in the beneficiaries' quality of life, and provide communities with a platform to raise their views and concerns. The public accounts committee held briefings with all the departments and public entities in the province to consider the financial statements of the previous years. The committee also followed up previous house resolutions during some of the briefings.

Unfortunately, the impact of these committees is not yet visible in the audit outcomes. The assurance provided by them is not at the required level and remained the same as in the previous year. Although the committees are complying with their legislative mandate, the portfolio committees need to intensify their oversight of the implementation of action plans to improve the weaknesses in the internal control environment of auditees. The committees should also improve the mechanism to follow up the resolutions of the house. A lack of cooperation by auditees should not be tolerated, as this weakens the effectiveness of the

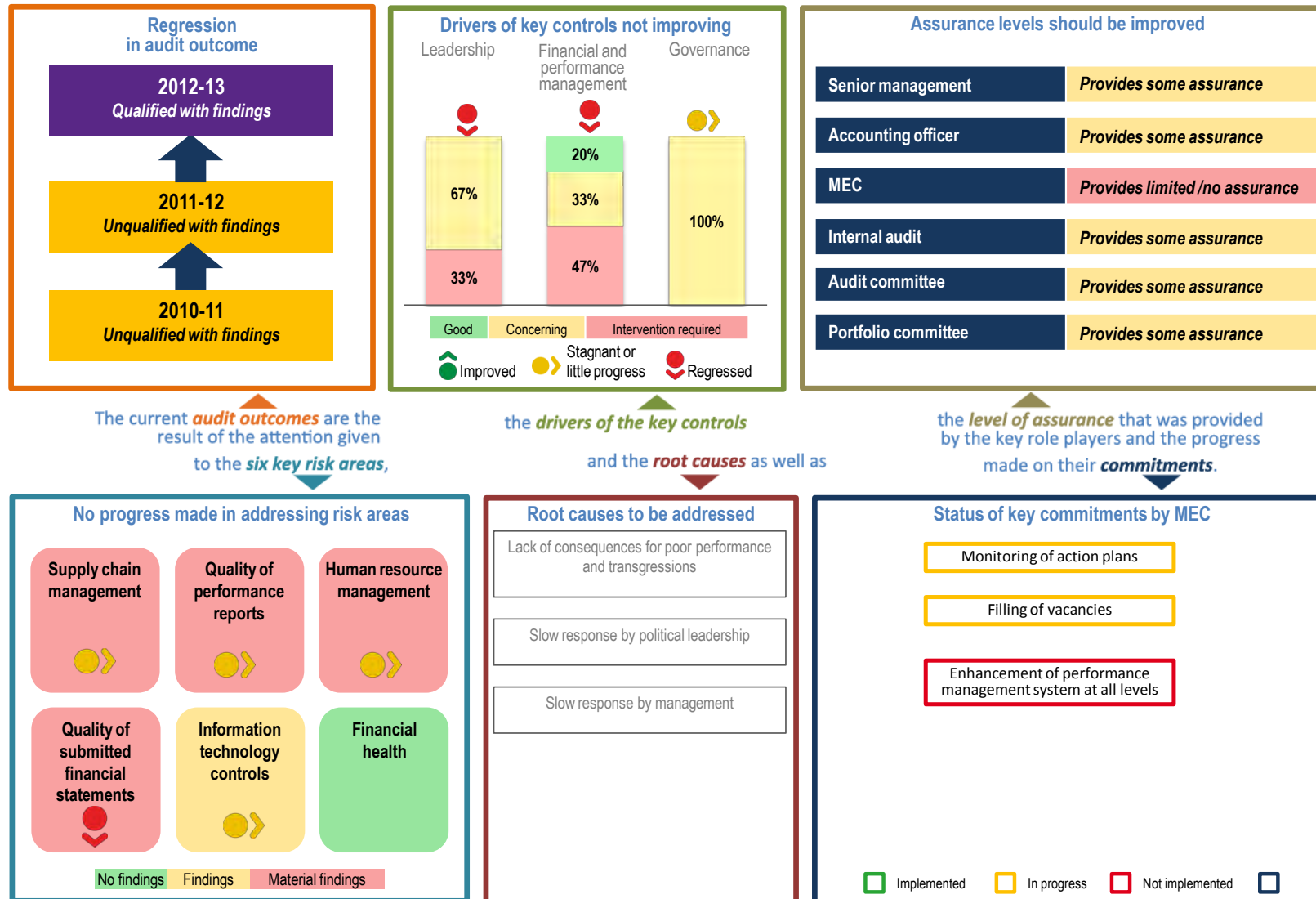
committees and the legislature. The portfolio committees should collaborate with the public accounts committee to ensure regular engagement with the auditees on the progress made in implementing house resolutions. The portfolio committees should also hold the coordinating departments responsible for their role in supporting auditees.

The following commitments were received from the legislature to improve the audit outcomes:

- The public sector oversight model will be fully implemented.
- The resolutions taken by the portfolio committees and the public accounts committee will be followed up.
- Capacity-building programmes will be continuously implemented for researchers and other staff members supporting the committees.
- The speaker will request all departments to table audit action plans in the legislature and refer them to the relevant portfolio committee.
- Portfolio committees will integrate the monitoring of audit action plans with the review of quarterly reports of departments, and conduct joint meetings with the public accounts committee.
- The public accounts committee will track the implementation of house resolutions relating to the 2011-12 audit findings on a quarterly basis. The progress made by departments will be reviewed before engaging on new matters (2012-13).
- During the 2012-13 public accounts committee hearings, the involvement of MECs, audit committees and internal audit units will be maximised. Leadership awareness of internal control deficiencies will also be improved.

## **SECTION 6: AUDIT OUTCOMES OF INDIVIDUAL PORTFOLIOS**

## 6.1 Agriculture, rural development and land administration



## *Auditees included in the portfolio*

### ■ Department of Agriculture, Rural Development and Land Affairs

## *Significant movement in audit outcome*

The department regressed from an unqualified audit opinion with findings to a qualified audit opinion in the 2012-13 financial year. This regression was caused by the department not addressing the weaknesses on assets identified and communicated by the auditors in previous years, which resulted in a qualification on assets. The department did also not improve the reliability of its performance information, due to a lack of effective reviews throughout the year.

## *Six key risk areas*

The department made no significant progress in addressing the key risk areas, most notably HR management, the quality of the submitted financial statements, and the quality of performance reports. The status of SCM remained unsatisfactory, mostly as a result of the department not complying with the requirement of not awarding contracts and quotations to bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state. The department had a significant amount of unpaid invoices at year-end. These unpaid invoices exceeded the unspent allocation of the department, which means that the unpaid invoices will have to be funded from the 2013-14 budget.

## *Key controls and root causes*

The department should strengthen the following controls to create a control environment that supports reliable financial and performance reporting and compliance with legislation:

- Implement a properly designed action plan that addresses the root causes of all areas of financial and performance reporting and compliance with legislation. The plan should be monitored regularly and any gaps identified should be addressed immediately.
- Adhere to the disciplines of financial accounting and reporting, including checks and balances as well as regular reviews.

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

- Ensure that there is an effective performance management system for staff at all levels; and monitor this system for it to have a positive impact on the audit outcomes.
- Respond quickly to weaknesses identified and recommendations made by governance units and external auditors by monitoring the action plans to address the weaknesses.

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

The risk unit should be used effectively to continuously assess risks faced by the department. The internal audit unit should recommend controls to address the identified risks, which senior management should then implement.

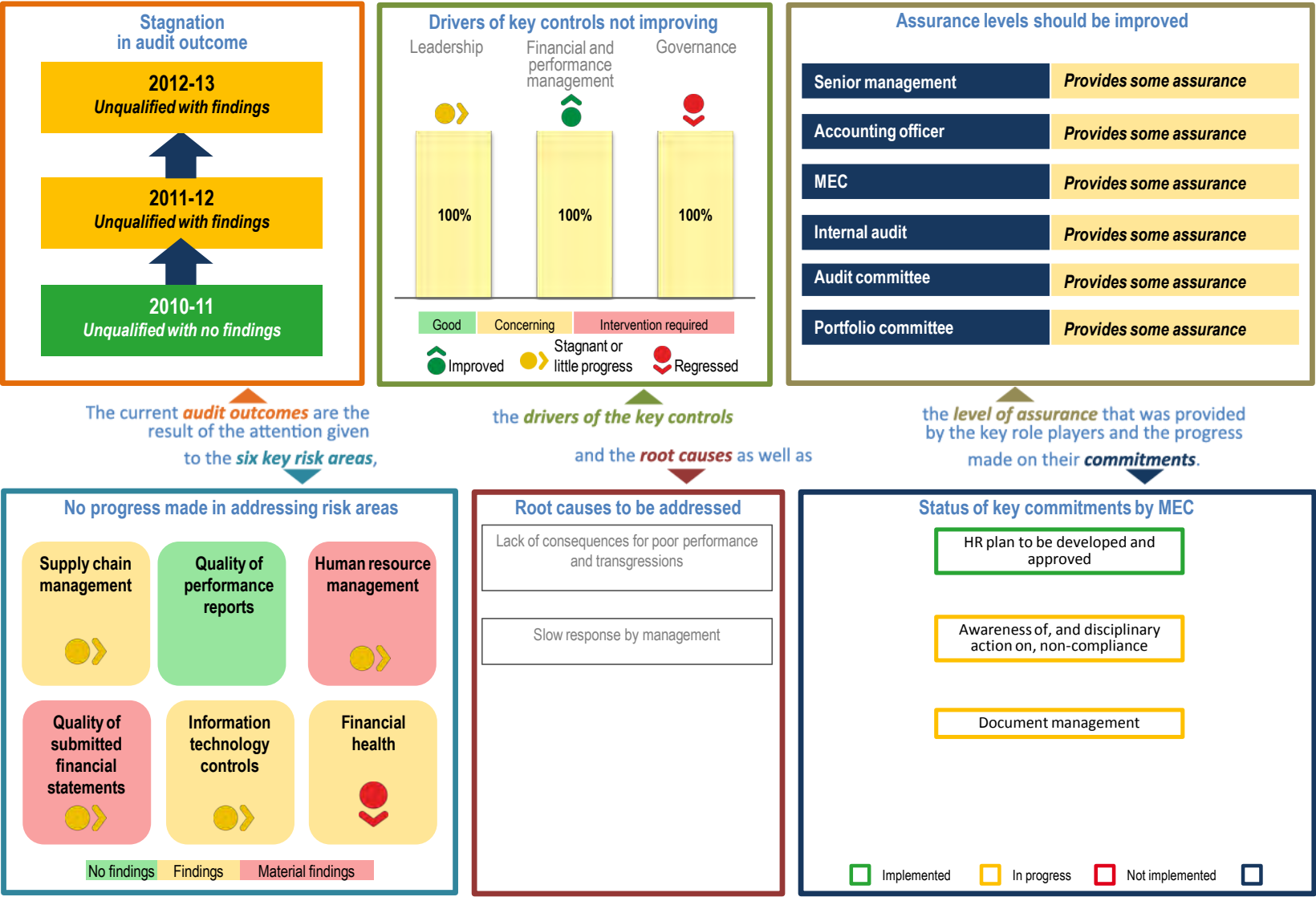
We met with the MEC twice in the past year. These interactions did not have a significant impact on the department's audit outcome, due to management's slow response to our recommendations.

The assurance provided through the oversight of the portfolio committee should be improved to make sure that the department implements governance controls.

The following new commitments were also made:

- An action plan to address all findings of the internal and external auditors has been developed and implemented.
- The action plan will be monitored on a quarterly basis and its progress will be a standing agenda item at management committee meetings.
- The leadership will conduct oversight of the implementation of the action plan on a quarterly basis.
- The department will review the HR plan in line with the strategic and operational mandate. All critical vacant funded posts at mainly senior management level will be filled to ensure that performance is monitored.
- The department will continue to physically verify all assets at all sites and update the asset register.
- The portfolio of evidence for quarterly performance information will be reviewed on a quarterly basis.

# 6. 2 Community safety, security and liaison





## Auditees included in the portfolio

### ■ Department of Community Safety, Security and Liaison

## Significant movement in audit outcome

During 2010-11, the department received a clean audit opinion. In the two years since then, the department has struggled to maintain clean administration. This was caused by the department not responding quickly enough to weaknesses identified and recommendations made by governance units, external auditors and oversight.

## Six key risk areas

With material adjustments to both the performance report and the financial statements, the department managed to get a financially unqualified opinion with findings on non-compliance. The extent of the adjustments made during the current period indicates that the controls within the department are getting weaker.

Although the department had findings on SCM, these were not material enough to be reported in the audit report. This area has improved since the previous year. No strides have been made in addressing HR management, as there were material findings in this focus area. The status of IT remained unsatisfactory, mostly as a result of weaknesses in the controls around IT security management, IT service continuity and user access controls. The department had a significant amount of unpaid invoices at year-end. These unpaid invoices exceeded the unspent allocation of the department, which means that the unpaid invoices will have to be funded from the 2013-14 budget. These weaknesses need to be addressed urgently.

## Key controls and root causes

The key controls remained stagnant, as both management and the leadership were slow to respond to implementing and monitoring action plans recommended by governance units and external auditors.

The department should strengthen the following controls to create a control environment that supports reliable financial and performance reporting and compliance with legislation:

- Implement an action plan to specifically address the quality of the financial statements and compliance with legislation.

- Implement and monitor transaction controls, such as checks and balances.
- Improve compliance monitoring and review by, for example, using compliance checklists.

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

- Quickly respond to the recommendations of governance units and external auditors.
- Develop an action plan in response to the audit findings based on the root causes. The audit committee should review and monitor the plan to assess its implementation and impact.
- Implement an effective performance management system for staff at all levels, and monitor this system for it to have a positive impact on the audit outcomes.

## Impact of key role players on audit outcomes

The assurance levels should be improved by ensuring stability at senior management level. The risk unit should be used effectively to continuously assess risks faced by the department. The internal audit unit should focus more on assessing the controls to address the identified risks and recommend controls that senior management must implement. These controls should include monitoring and review procedures.

We met with the MEC twice in the past year. These interactions had no significant impact on the audit outcome, as the department did not manage to implement our recommendations.

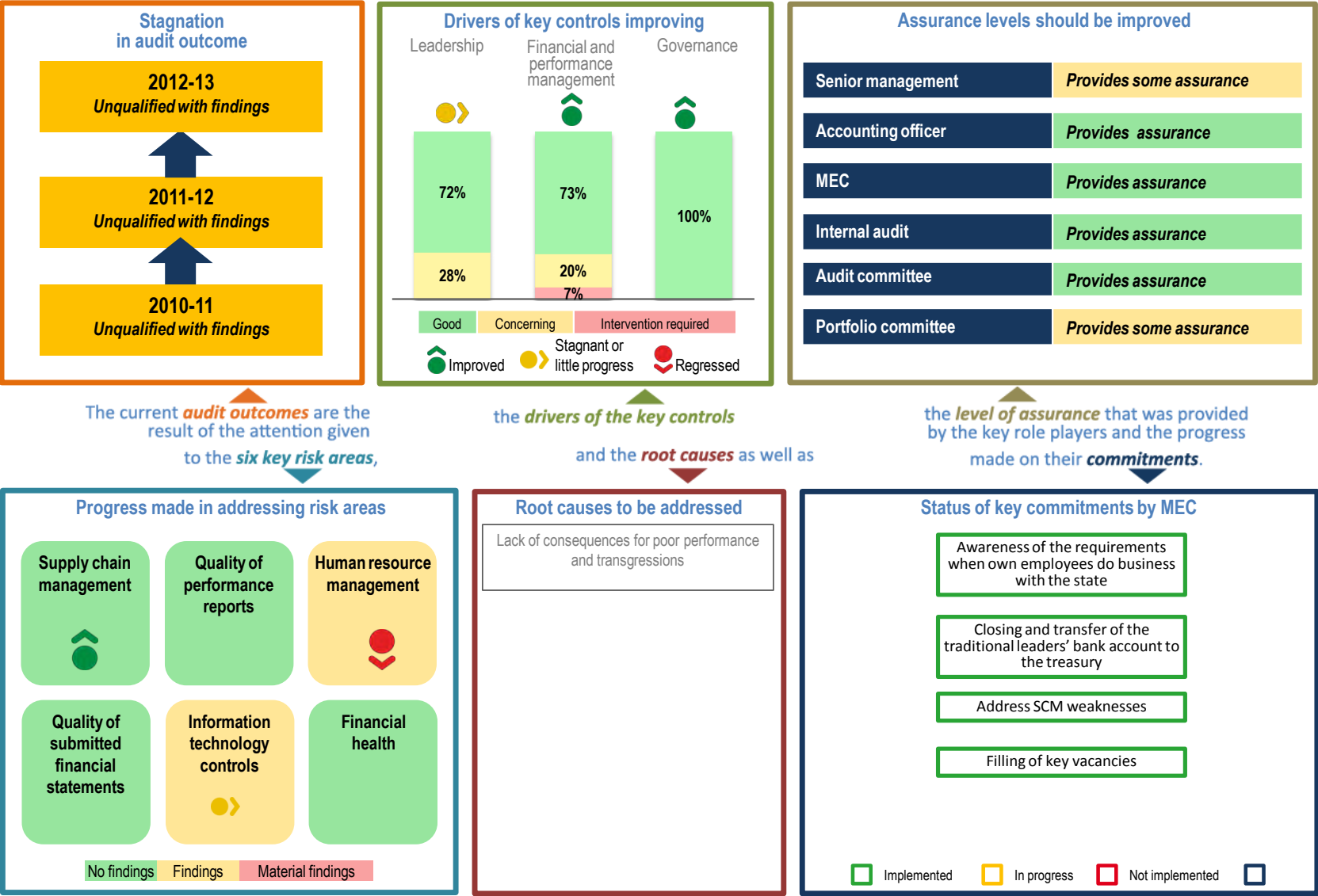
The assurance provided through the oversight of the portfolio committee should be improved to make sure that the department returns to clean administration.

The following new commitments were also made:

- An action plan to address all findings of the internal and external auditors has been developed and implemented.
- The implementation of the plan will be monitored regularly.



6.3 Cooperative governance and traditional affairs



## *Auditees included in the portfolio*

### ■ Department of Cooperative Governance and Traditional Affairs

## *Significant movement in audit outcome*

The department's audit outcome has remained the same for the past three years. However, there has been an improvement in terms of the nature and number of findings. This improvement was due to the department developing an action plan to address the root causes of audit findings and monitoring the implementation thereof. The action plan covers monthly checks and balances as well as quality processes for performance information. The department is one of the auditees that can easily move to clean administration if they strengthen compliance procedures.

## *Six key risk areas*

The department has made progress in addressing the key risk areas, most notably PDOs, SCM and the quality of the submitted financial statements. Although findings on HR management have decreased, the department should focus on enhancing the vetting procedures. The status of IT remained unsatisfactory, mostly as a result of weaknesses in the controls around IT security management, IT service continuity and user access controls. These weaknesses need to be addressed urgently.

## *Key controls and root causes*

The improvement in the key controls was brought about by the involvement of the leadership, including senior management, who responded quickly to governance findings and the auditors' recommendations.

The department should strengthen the following controls to create a control environment that supports reliable performance reporting and compliance with legislation:

- Adequately monitor and review compliance procedures. This will ensure that the department achieves clean administration.
- Strengthen the performance management system to address non- or poor performance.

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

- Monitor the performance of individuals and ensure that there are consequences for non- or poor performance.

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

The assurance levels should be maintained by utilising the risk unit to continuously assess risks faced by the department. The internal audit unit should recommend controls to address the identified risks, which senior management should then implement. These measures will ensure sustainable clean audit outcomes.

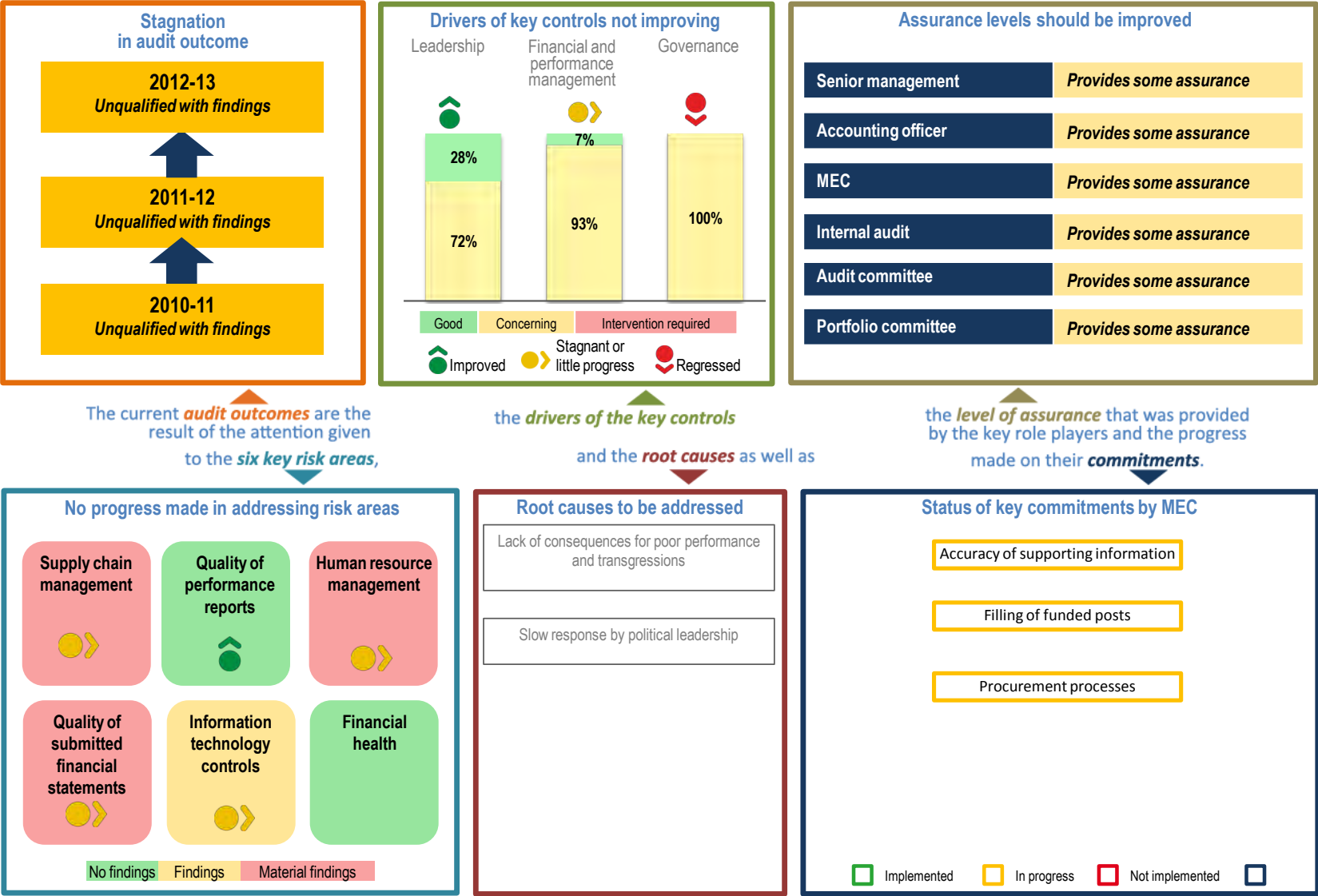
We met with the MEC twice in the past year to discuss issues affecting the department itself as well as those affecting the department as a coordinating institution. These interactions had a significant impact on the department's own outcome, but have not yet had a significant impact on the department's role as coordinating institution.

The assurance provided through the oversight of the portfolio committee should be improved, especially by focusing on the department's role as a coordinating institution.

The following new commitment was also made:

- The department will continue to ensure compliance with all SCM procedures.

6.4 Culture, sport and recreation



## *Auditees included in the portfolio*

### ■ Department of Culture, Sport and Recreation

## *Significant movement in audit outcome*

Although the department's audit outcome has remained the same for the past three years, there has been an improvement in terms of the nature and number of findings in 2012-13. The involvement of senior management, especially the accounting officer during the audit, largely contributed to the improvement.

However, the stagnation in the audit outcome was caused by the department not responding quickly enough to weaknesses identified and recommendations made by governance units, external auditors and oversight. On a positive note, the extent of adjustments to the financial statements submitted for audit purposes and findings on PDOs have decreased since the previous year.

## *Six key risk areas*

The department has made progress in addressing the findings on both the usefulness and the reliability of performance information. However, HR management and the quality of the submitted financial statements still proved to be a challenge for the department. The department continued to rely on the audit process to identify misstatements in the financial statements. The department also needs to tighten the procedures around the vetting of appointees. The status of IT remained unsatisfactory, mostly as a result of weaknesses in the controls around IT security management, IT service continuity and user access controls. These weaknesses need to be addressed urgently.

## *Key controls and root causes*

The key controls remained stagnant, as both management and the leadership were slow to respond to implementing and monitoring action plans recommended by governance units and external auditors.

The department should strengthen the following controls to create a control environment that supports reliable financial and performance reporting and compliance with legislation:

- Implement an action plan to specifically address the quality of the financial statements and compliance with legislation.
- Implement and monitor transaction controls, such as checks and balances.

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

- Develop an action plan in response to the audit findings based on the root causes. The audit committee should review and monitor this plan to assess its implementation and impact.
- Properly and regularly review compliance with legislation by the appropriate level of management.

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

The assurance levels should be improved by ensuring stability at senior management level. The internal audit unit should focus more on assessing the controls to address the identified risks and recommend controls that senior management must implement. These controls should include monitoring and review procedures.

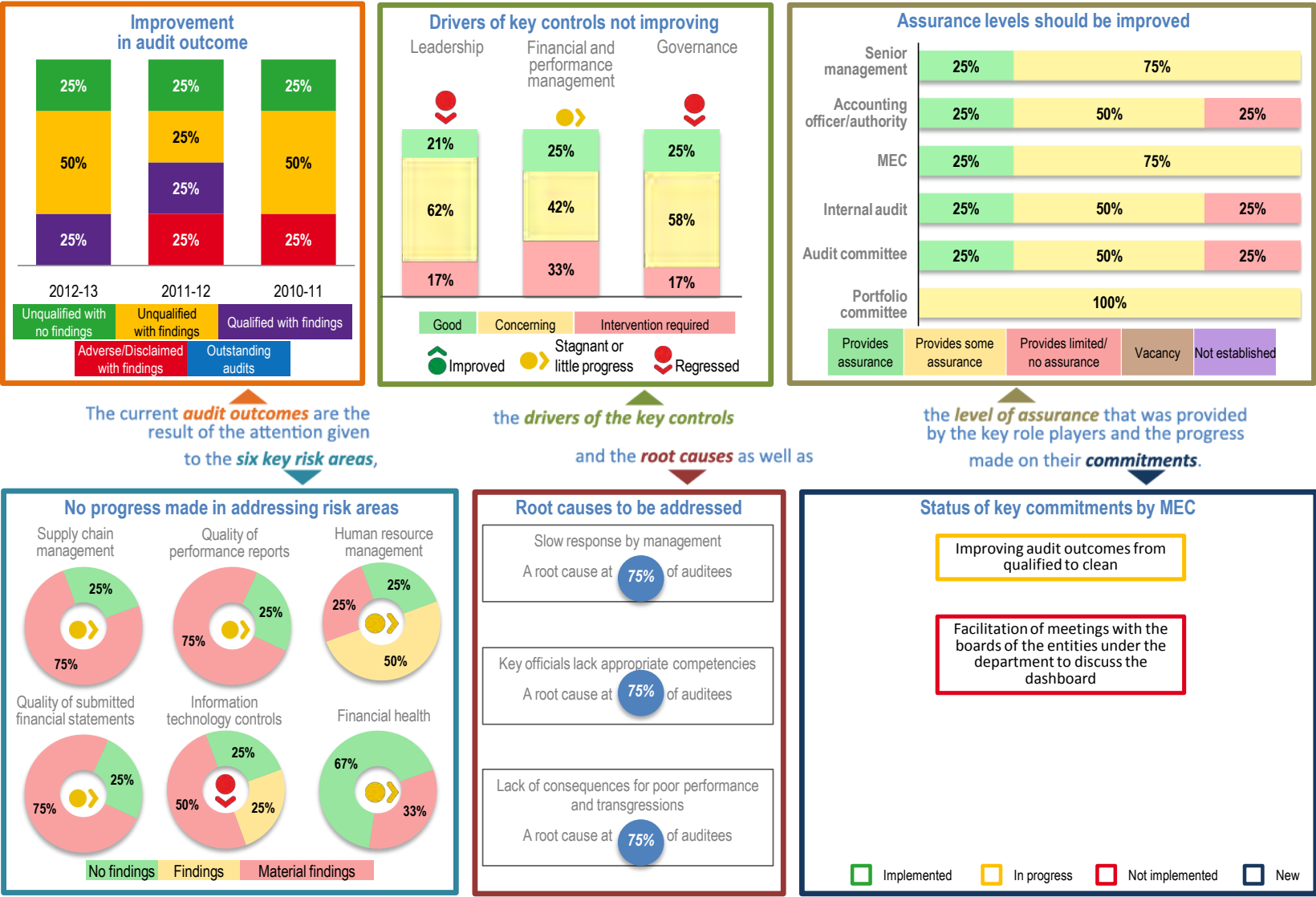
We met with the MEC twice in the past year and these interactions had some impact on the audit outcome.

The assurance provided through the oversight of the portfolio committee should be improved to make sure that the department moves to clean administration.

The following new commitments were also made:

- The finance unit will prepare regular reconciliations of all accounts.
- The department will ensure compliance with all procurement requirements.

# 6.5 Economic development, environment and tourism



## Auditees included in the portfolio

■ Mpumalanga Gambling Board (MGB) ■ Department of Economic Development, Environment and Tourism ■ Mpumalanga Tourism and Parks Agency (MTPA) ■ Mpumalanga Economic Growth Agency (MEGA)

## Significant movement in audit outcome

The improvement in the audit outcome of the portfolio was due to the department and MEGA moving from a qualified and an adverse opinion in 2011-12 to an unqualified opinion with findings and a qualified opinion in 2012-13, respectively. Unfortunately, neither of these auditees showed any improvement regarding PDOs and compliance with legislation. The MTPA regressed on PDOs. On the positive side, the MGB sustained its clean audit opinion.

## Six key risk areas

The auditees did not make any significant progress in addressing weaknesses in SCM, performance information, HR management, IT controls and the quality of the submitted financial statements.

With the exception of the MGB, auditees in this portfolio still could not ensure that procurement processes were followed, that HR management processes like vetting of candidates were adhered to, that leave was properly managed, and that vacant positions were adequately filled. The status of IT remained unsatisfactory, mostly as a result of weaknesses in the controls around IT security management, IT service continuity and user access controls. The auditees in the portfolio need to address these weaknesses urgently.

## Key controls and root causes

The improvement in the key controls was brought about by improved leadership controls in ensuring that action plans were implemented to address the previous years' findings. The department improved financial reporting procedures to address qualification areas, while MEGA partly addressed the key controls and the root causes relating to financial reporting procedures, namely checks and balances as well as proper reviews throughout the year. The MTPA regressed on PDOs due to a lack of adequate reviews of evidence supporting the reported

targets as well as non-compliance with the framework on the presentation of performance information in the annual performance plan.

Auditees should strengthen the following controls to create a control environment that supports reliable financial and performance reporting and compliance with legislation:

- The department, MEGA and the MTPA should implement and maintain a proper record management system to ensure the availability of financial and performance information; make sure that financial statements are prepared regularly to identify errors in time; and monitor compliance with legislation.

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

- Respond quickly to weaknesses identified and recommendations made by governance units and external auditors by monitoring the action plans to address the weaknesses.
- Implement an effective performance management system and enforce consequences for poor performance.

## Impact of key role players on audit outcomes

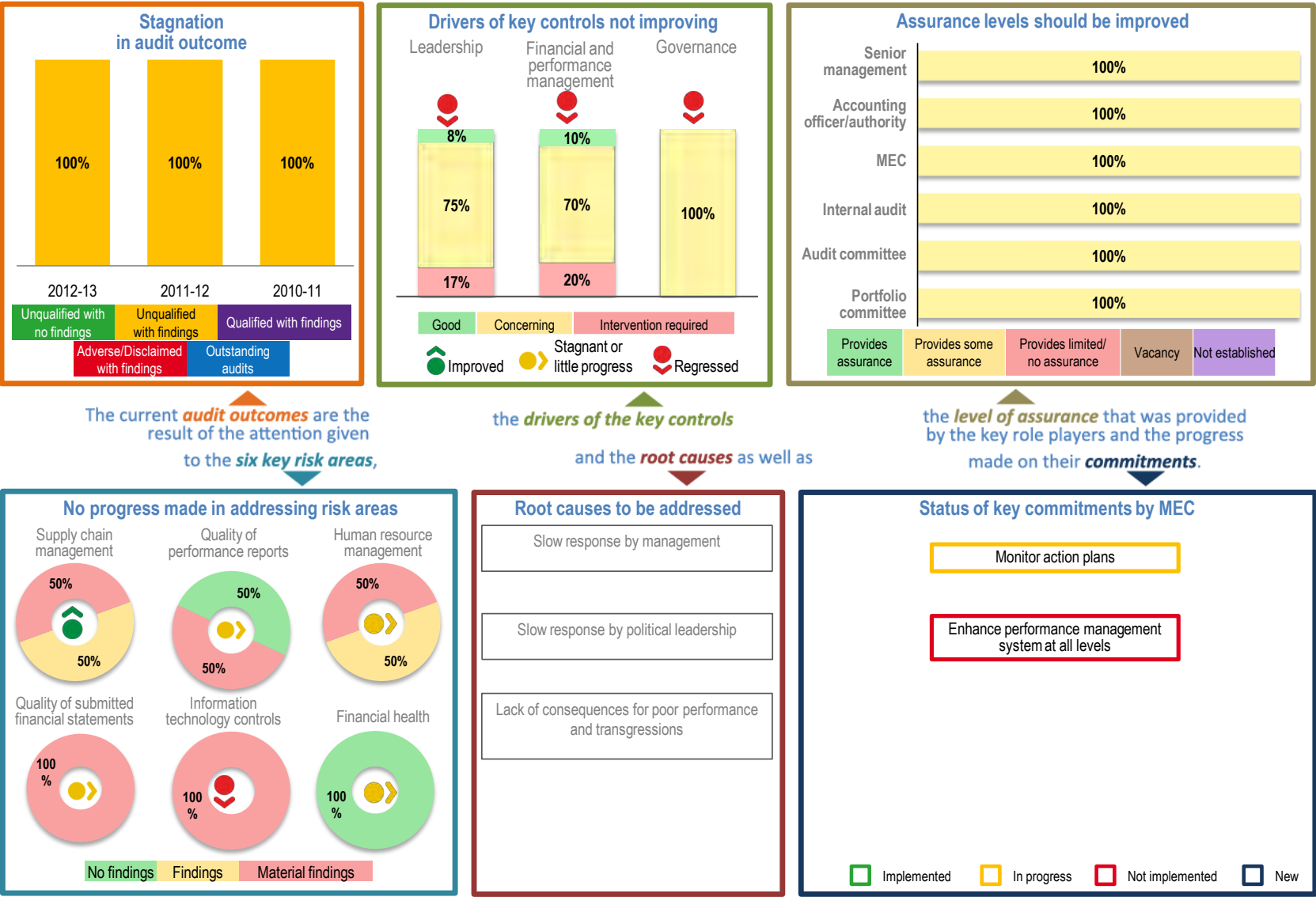
The assurance levels should be improved by ensuring stability at the level of the accounting officer and senior management, especially at the public entities.

We met with the MEC twice in the past year. These interactions have not yet had any significant impact on the audit outcomes, due to both management and the leadership being slow to respond to addressing the key risk areas. The assurance provided through the oversight of the portfolio committee should be improved.

The following new commitments were also made:

- Financial statements will be compiled and reviewed on a quarterly basis.
- The filling of key positions will be prioritised.
- Compliance checklists will be developed to assist in monitoring compliance.

# 6.6 Education





## *Auditees included in the portfolio*

■ Department of Education ■ Mpumalanga Regional Training Trust (MRTT)

### *Significant movement in audit outcome*

The auditees in this portfolio have not improved their audit outcomes, as both have received an unqualified audit opinion with findings for the past three years. This was caused by the auditees not addressing the weaknesses relating to the quality of the submitted financial statements, compliance with legislation and the quality of the performance report.

### *Six key risk areas*

Neither auditee has made any significant progress in addressing the key risk areas, most notably the quality of the submitted financial statements. Auditees relied on the audit process to identify misstatements in the financial statements.

The quality of the department's performance report has improved. However, the department should focus on the reliability of the evidence supporting the reported targets, as this aspect could cause a regression. On the other hand, the MRTT had material findings relating to the reliability of reported targets.

The department should also address the persistent weaknesses around HR management, specifically those relating to leave management, vacancies and the vetting process. The status of SCM remained unsatisfactory at the department, mostly as a result of the department not complying with procurement requirements. IT also remained a challenge for the auditees, and they should urgently address weaknesses in the controls around IT service continuity and user account management.

### *Key controls and root causes*

The auditees should strengthen the following controls to create a control environment that supports reliable financial and performance reporting and compliance with legislation:

- The action plans developed should be implemented and effectively monitored.
- Auditees should adhere to the disciplines of financial accounting and reporting, including checks and balances as well as regular reviews.
- Auditees should develop procedures to monitor and review compliance with all applicable legislation.

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

- Respond quickly to weaknesses identified and recommendations made by governance units and external auditors by monitoring the action plans to address the weaknesses.
- Ensure that vacancies are filled with people who have the right skills and competencies.
- Ensure that there is an effective performance management system for staff at all levels; and monitor this system for it to have a positive impact on the audit outcomes.

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

The assurance levels should be improved. The risk units should be used effectively to continuously assess risks faced by the auditees. The internal audit units should focus more on assessing the controls to address the identified risks and recommend controls that senior management must implement. These controls should include monitoring and review procedures.

We met with the MEC three times in the past year. However, these interactions have not yet had any significant impact on the auditees' audit outcomes. This was due to the slow response by both management and the leadership to effectively implement our recommendations.

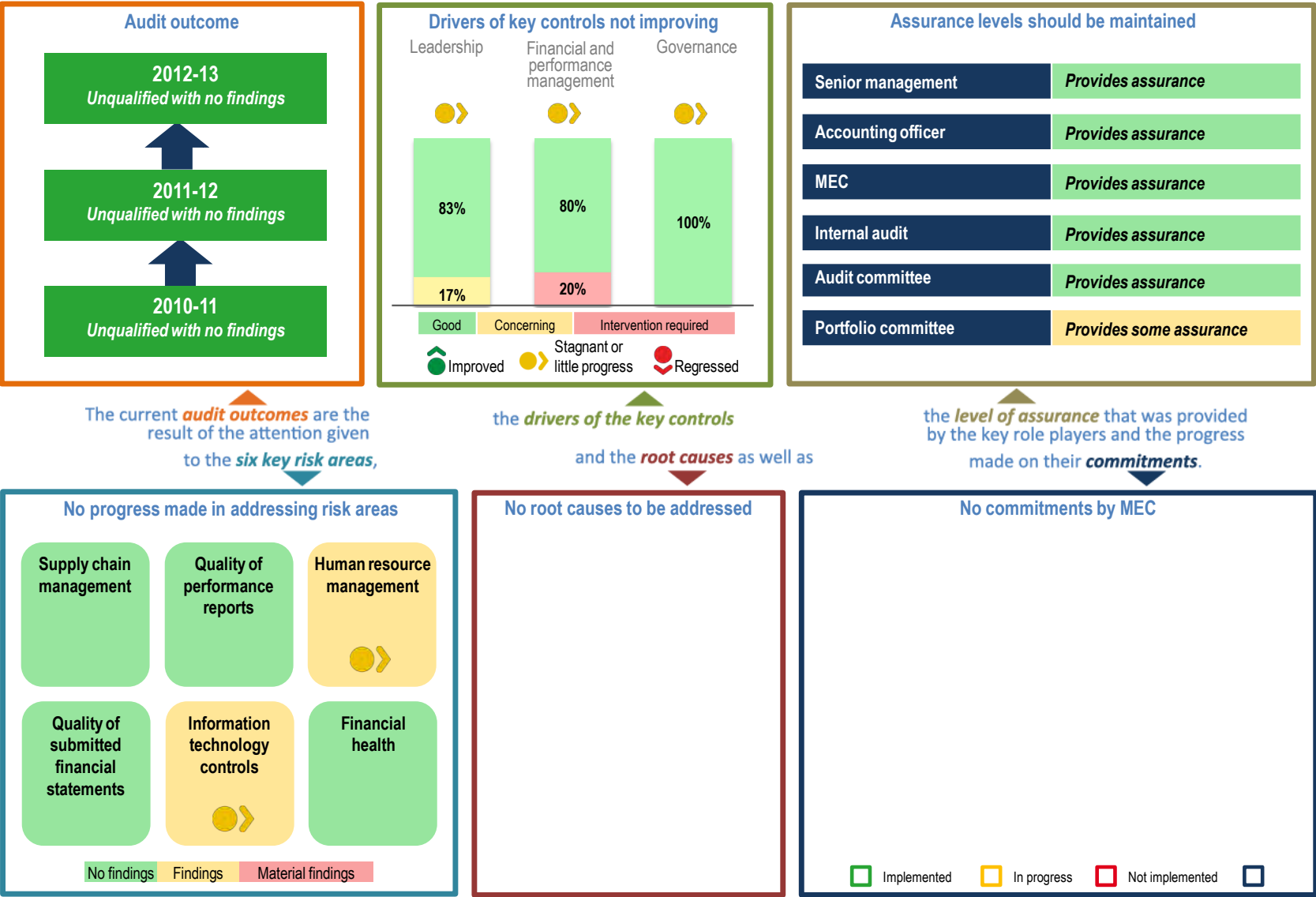
The assurance provided through the oversight of the portfolio committee should be improved to make sure that the auditees move to clean administration.

The following new commitments were also made:

- The leadership will monitor the recruitment and appointment processes, as well as strengthen the performance management systems at senior management level.
- The internal audit unit, audit committee and budget advisory committee will be used as a monitoring tool to review the monthly, interim and final reports.
- The department will introduce a system to ensure that suspense and control accounts are reconciled daily and monthly.



6.7 Finance



## *Auditees included in the portfolio*

### ■ Department of Finance

## *Significant movement in audit outcome*

The department has maintained clean administration for more than three years, as it monitored the action plan that addressed the root causes. The action plan covered monthly checks and balances, processes for measuring performance as well as the monitoring and review of compliance with legislation.

## *Six key risk areas*

The status of IT remained unsatisfactory, mostly as a result of weaknesses in the controls around IT security management, IT service continuity and user access controls that need to be addressed urgently. As the department has to run the IT environment of the provincial government, it should also develop a plan to assist the departments through the adoption and implementation of an IT framework.

## *Key controls and root causes*

The department continued to have a sound internal control environment and no material findings were identified.

However, the executive authority, accounting officer, senior management and audit committee should focus on the following:

- Respond quickly to weaknesses identified and recommendations made by governance units and external auditors by monitoring the action plan to address the weaknesses.
- The MEC should strengthen his support to other auditees in the province. The finance team needs to be fully empowered to give effective financial support to the various auditees.

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

The assurance levels should be maintained by utilising the risk unit to continuously assess risks faced by the department. The internal audit unit should recommend controls to address the identified risks, which senior management should then implement. These measures will ensure sustainable clean audit outcomes.

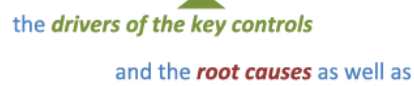
We met with the MEC twice in the past year. These interactions had a significant impact on the auditee's own outcomes. However, they have not yet had a significant impact on the audit outcomes of the province.

The assurance provided through the oversight of the portfolio committee should be maintained.

The following new commitments were also made:

- Provide increased and improved support to entities in the form of technical support on the applicable accounting standards, legislation and drafting of annual financial statements.
- Facilitate training sessions and workshops to assist departments with the development and implementation of the enterprise risk management framework.
- Assist with the compilation of action plans for internal audit and risk management on the issues identified through the financial management capability maturity model.
- Facilitate the strengthening of roles and responsibilities of the chief financial officers' forum and ensure that regular meetings are held.

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## *Auditees included in the portfolio*

■ Department of Health ■ Department of Social Development

## *Significant movement in audit outcome*

There has been no improvement in the audit outcome of the portfolio, due to the Department of Health not addressing the qualification on assets; not improving the reliability of the performance information; and getting non-compliance findings on SCM, HR management, performance reporting and the quality of the submitted financial statements.

## *Six key risk areas*

The Department of Social Development has made progress in addressing the key risk areas, most notably the quality of both performance reports and the submitted financial statements. On the other hand, the Department of Health still has challenges in these areas. Both departments must address weaknesses around HR, specifically the vetting procedures. The status of SCM remained unsatisfactory at the Department of Health, mostly as a result of the department not complying with the procurement requirements of obtaining three quotations as well as awarding contracts to suppliers who have not made the required declarations. IT also remained a challenge, and weaknesses in the controls around IT service continuity and user account management need to be addressed urgently. The Department of Health underspent on conditional grants, which had an impact on service delivery. The department is also struggling to collect its debt.

## *Key controls and root causes*

The leadership controls at the Department of Health did not improve and the leadership did not respond effectively to the identified risks.

Auditees should strengthen the following controls to create a control environment that supports reliable financial and performance reporting and compliance with legislation:

- Adhere to the financial accounting and reporting disciplines, including checks and balances as well as regular reviews.
- Implement procedures to monitor and review compliance with legislation.

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

- Ensure that there is an effective performance management system; and monitor this system for it to have a positive impact on the audit outcomes.
- Respond quickly to weaknesses identified and recommendations made by governance units and external auditors by monitoring the action plans to address the weaknesses.

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

The risk units should be used effectively to continuously assess risks faced by the departments. The internal audit units should recommend controls to address the identified risks, which senior management should then implement.

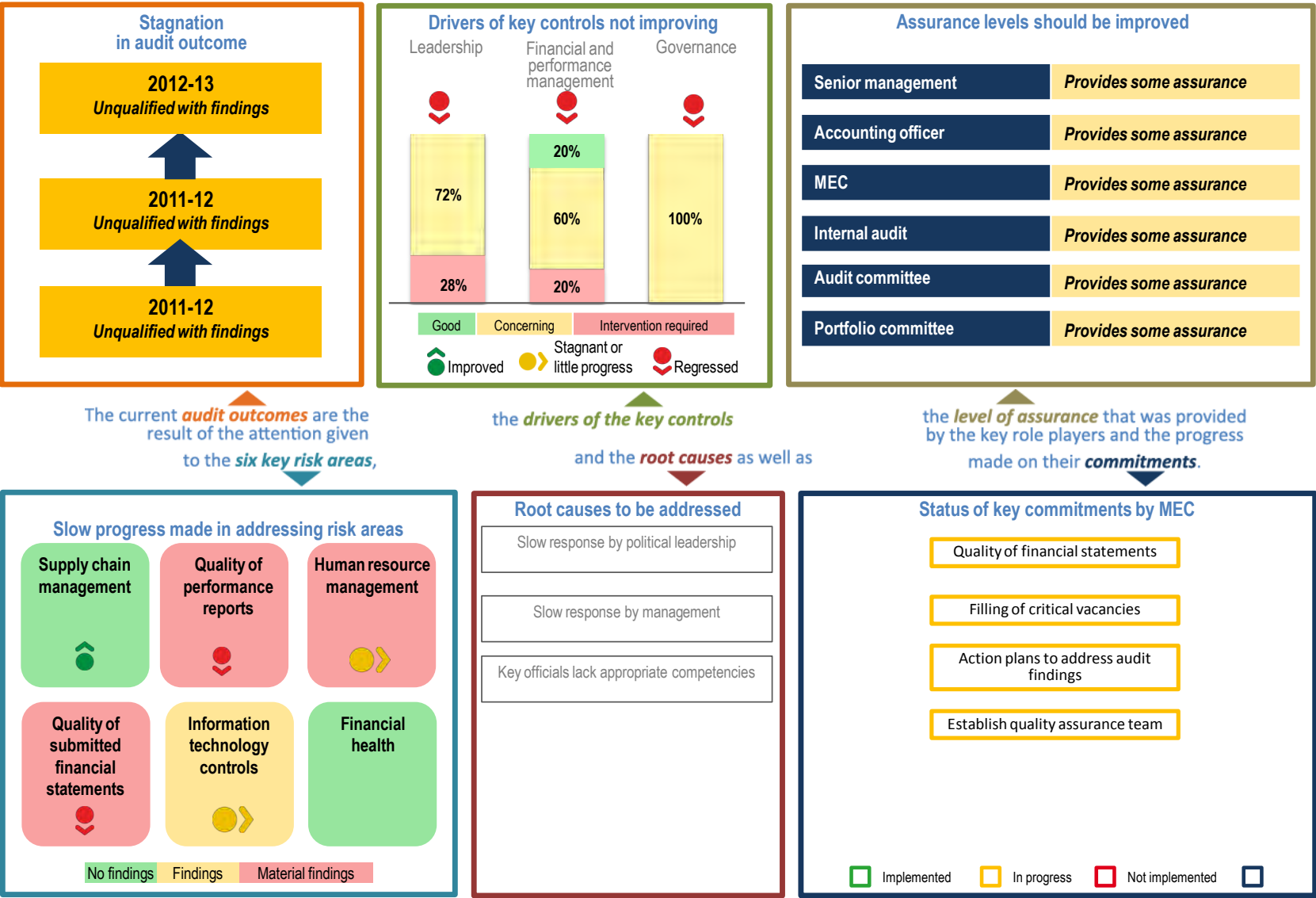
We met with the MEC seven times in the past year. These interactions did not have any significant impact on the auditees' outcomes, due to management and the leadership being slow to respond to our recommendations.

The assurance provided through the oversight of the portfolio committee should be improved to make sure that the departments implement governance controls.

The following new commitments were also made:

- Departments will continue to clear suspense accounts and prepare reconciliation reports on a monthly and quarterly basis to ensure accurate year-end reporting of all items.
- Monthly and quarterly performance and financial reports will be prepared and signed off by the responsible managers.
- Checklists and a tracking system will be developed and implemented to follow up matters affecting compliance with procurement and payment processes as well as HR management.
- Vacant posts will be prioritised by maintaining a database of prioritised posts for tracking.
- The proper implementation of the planned actions will be monitored through quarterly reporting and review.

# 6.9 Human settlements



## *Auditees included in the portfolio*

### ■ Department of Human Settlements

## *Significant movement in audit outcome*

The department did not make progress towards clean administration and has been financially unqualified for the past five years. In the current period, the department had findings on non-compliance with legislation and on reported performance.

## *Six key risk areas*

The department had findings on SCM, HR management and reported performance. The quality of the financial statements submitted for audit purposes has also regressed since the previous year. The regression in reported performance was due to management not addressing the previous year's findings and not attending to the basic disciplines. The status of IT remained unsatisfactory, mostly as a result of weaknesses in the controls around IT security management, IT service continuity and user access controls. These weaknesses need to be addressed urgently.

## *Key controls and root causes*

The key controls remained stagnant, as management and the leadership were slow to respond to implementing and monitoring action plans recommended by governance units and external auditors.

The department should strengthen the following controls to create a control environment that supports reliable financial and performance reporting and compliance with legislation:

- Implement an action plan to specifically address the quality of the financial statements and compliance with legislation.
- Implement and monitor transaction controls, such as checks and balances.
- Improve compliance monitoring and review by, for example, using compliance checklists.

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

- Quickly respond to the recommendations of governance units and external auditors.
- Develop action plans in response to the audit findings based on the root causes. The audit committee should review and monitor these plans to assess their implementation and impact.
- Keep staff up to date about changes, especially in their roles and responsibilities through, for example, training.
- Implement an effective performance management system for staff at all levels; and monitor this system for it to have a positive impact on the audit outcomes.

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

The assurance levels should be improved by ensuring stability at senior management level. The risk unit should be used effectively to continuously assess risks faced by the department. The internal audit unit should focus more on assessing the controls to address the identified risks and recommend controls that senior management must implement. These controls should include monitoring and review procedures.

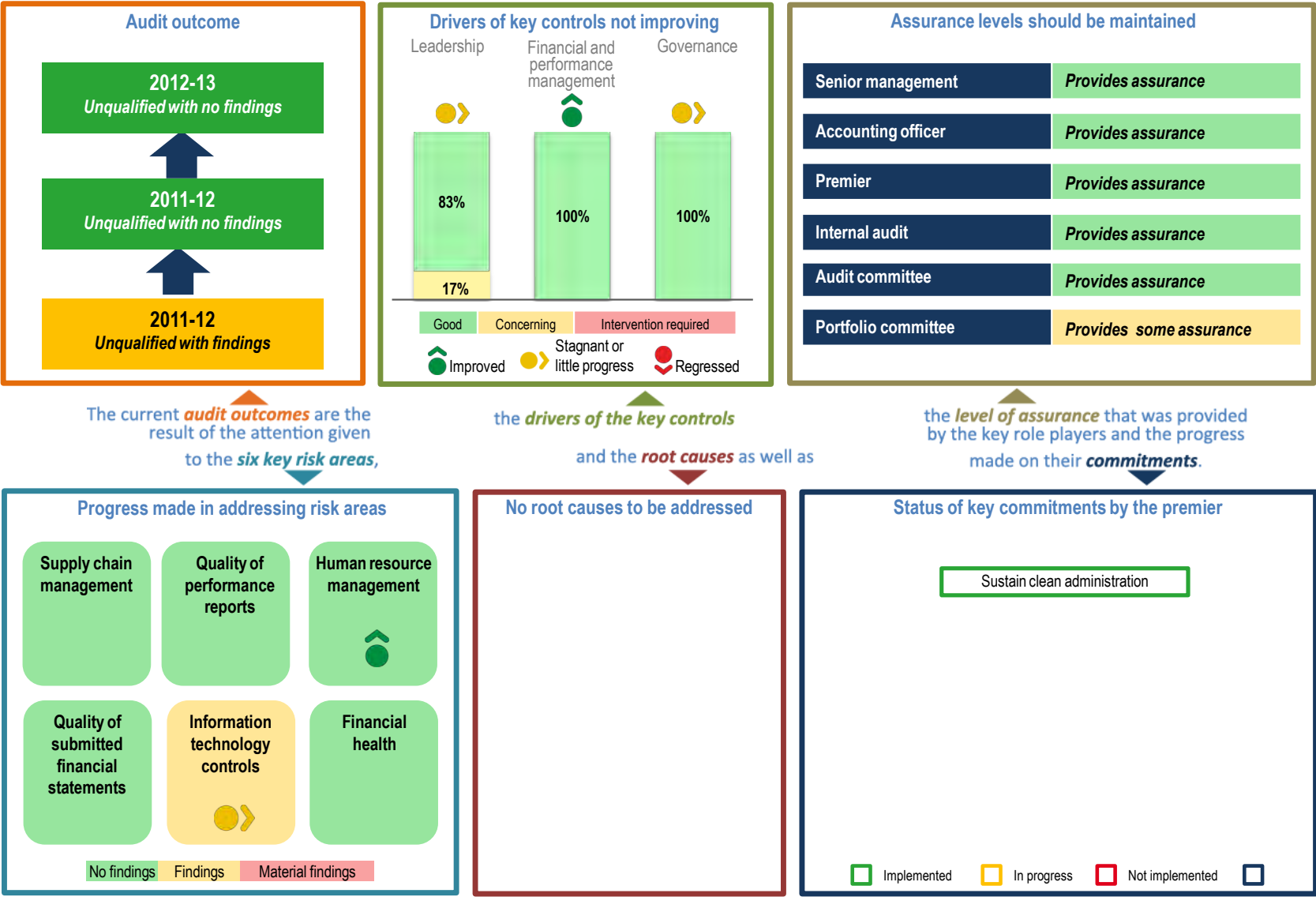
We met with the MEC five times in the past year. These interactions had no significant impact on the audit outcomes, as the department has not yet implemented our recommendations.

The assurance provided through the oversight of the portfolio committee should be improved to make sure that the department moves to clean administration.

The following new commitments were also made:

- The department has developed and implemented an action plan to address the quality of financial statements and compliance with legislation. This will be monitored monthly.
- The department will prepare and review reconciliation reports on financial information on a monthly basis.
- The department will continue to develop and implement checklists for compliance and contract management.

# 6.10 Premier's office





## *Auditees included in the portfolio*

### ■ Office of the Premier

## *Significant movement in audit outcome*

The Office of the Premier has maintained a clean audit opinion over the past two years. This was due to the auditee monitoring the action plan that addressed the root causes. The action plan covered monthly checks and balances, processes for measuring performance as well as the monitoring and review of compliance with legislation.

## *Six key risk areas*

There were no material findings on non-compliance with legislation. However, the Office of the Premier needs to strengthen the monitoring and review of compliance with all applicable legislation, as the immaterial non-compliance findings identified during the audit indicate a control weakness. This procedure, if performed properly, will sustain the clean audit outcome.

The status of IT remained unsatisfactory, mostly as a result of weaknesses in the controls around IT service continuity and user account management, which need to be addressed urgently. In addition to addressing its own IT control weaknesses, the Office of the Premier should develop a plan to monitor the phasing in of the implementation of the IT framework in the province. The implementation of this IT framework will have compliance implications if auditees do not properly execute it.

## *Key controls and root causes*

The Office of the Premier has set the tone by sustaining a clean audit outcome. However, the premier should strengthen his oversight mechanism in the province by ensuring stability at senior management level. The process of filling vacancies with people that have the appropriate skills is one of the key things that need to be addressed.

The provincial government should have an effective performance management system that must be applicable to staff at all levels in the various auditees. The premier should use an effective monitoring tool for this system to have an impact on the audit outcomes. The implementation of the departments' action plans, commitments made by the executive council as well as resolutions of the public accounts committee need to be monitored regularly.

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

The assurance levels should be maintained by utilising the risk unit to continuously assess risks faced by the Office of the Premier. The internal audit unit should recommend controls to address the identified risks, which senior management should then implement. These measures will ensure sustainable clean audit outcomes.

We met with the premier's office four times in the past year. These interactions had a significant impact on the auditee's own outcomes. However, they have not yet had a significant impact on the audit outcomes of the province.

The assurance provided through the oversight of the portfolio committee should be maintained.

The Office of the Premier committed to sustain its clean administration.



## 6.11 Public works, roads and transport



## *Auditees included in the portfolio*

### ■ Department of Public Works, Roads and Transport

## *Significant movement in audit outcome*

The department has stagnated on a financially unqualified opinion with findings on PDOs and non-compliance. The department would have been qualified should they not have adjusted the material errors identified by the auditors in the financial statements. This was caused by senior management and the leadership not responding effectively to weaknesses identified and recommendations made by governance units and external auditors.

## *Six key risk areas*

The financial statements submitted by the department contained material errors that were identified during the audit process. Furthermore, the department had findings on both the reliability and the usefulness of the performance report. Consequently, the credibility of information on reported projects is a concern.

The department was also unable to address material findings identified in the previous years, which resulted in similar findings being raised in the current period. The extent of non-compliance with SCM is of serious concern, as the department is the implementing agent of the provincial infrastructure projects. Poor document management relating to the procurement process and non-compliance with SCM legislation had a negative impact on the audit outcomes of other departments. This needs to be addressed urgently at a provincial level.

The status of IT remained unsatisfactory, mostly as a result of weaknesses in the controls around IT security management, IT service continuity and user access controls. These weaknesses also need to be addressed urgently.

## *Key controls and root causes*

The key controls remained stagnant, as both management and the leadership were slow to respond to implementing and monitoring action plans recommended by governance units and external auditors.

The department should strengthen the following controls to create a control environment that supports reliable financial and performance reporting and compliance with legislation:

- Implement an action plan to specifically address the quality of the financial statements and compliance with legislation.

- Implement and monitor transaction controls, such as checks and balances.
- Improve compliance monitoring and review by, for example, using compliance checklists.

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

- Quickly respond to the recommendations of governance units and external auditors.
- Keep staff up to date about changes, especially in their roles and responsibilities through, for example, training.
- Implement an effective performance management system for staff at all levels; and monitor this system for it to have a positive impact on the audit outcomes.

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

The assurance levels should be improved by ensuring stability at the level of senior management. The risk unit should be used effectively to continuously assess risks faced by the auditee. The internal audit unit should focus more on assessing the controls to address the identified risks and recommend controls that management needs to put in place. These controls should include monitoring and review procedures. Senior management should implement the recommendations of the internal audit unit.

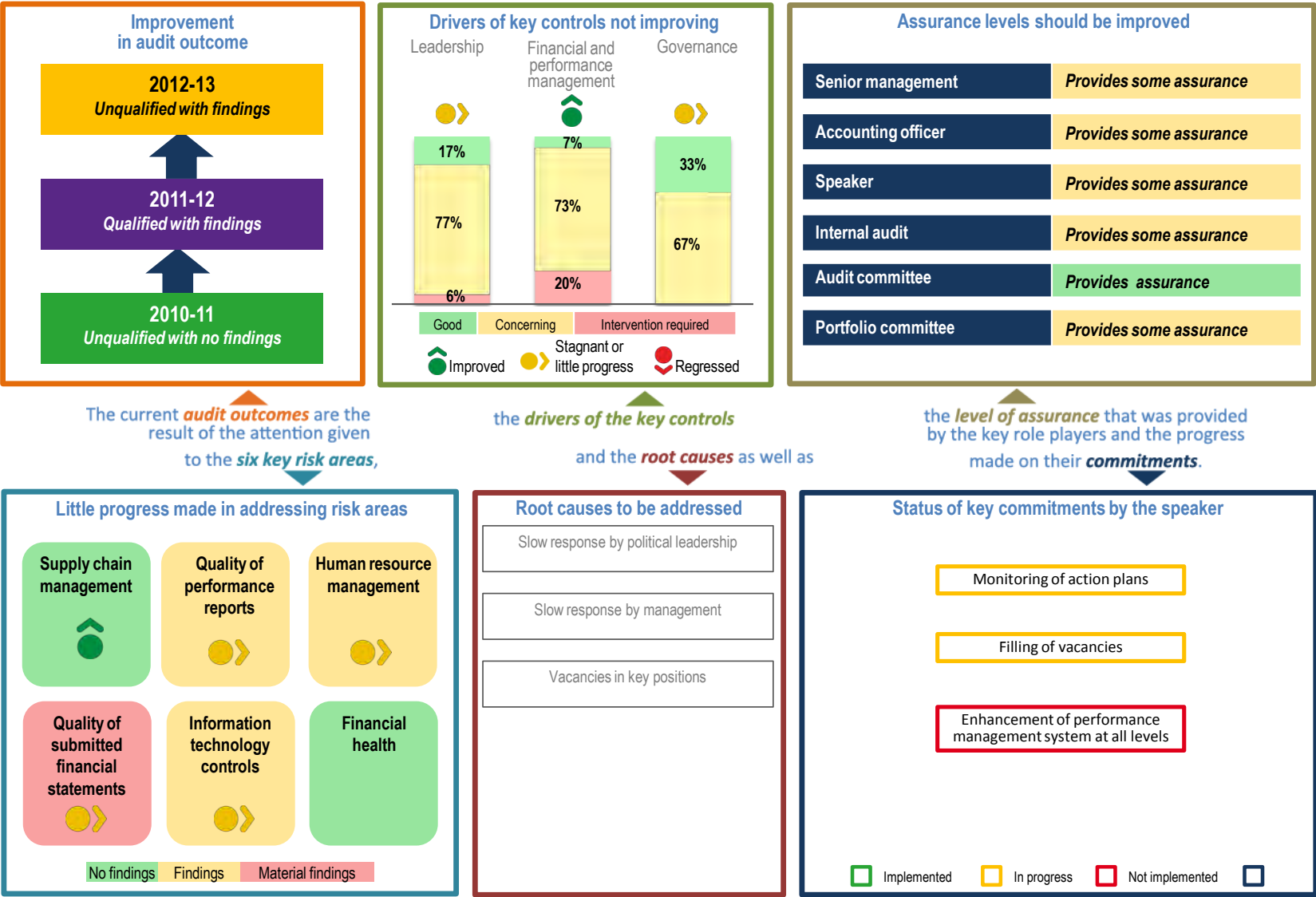
We met with the MEC once in the past year and this interaction had no significant impact on the audit outcomes, as the department has not managed to implement our recommendations.

The assurance provided through the oversight of the portfolio committee should be improved to make sure that the department moves to clean administration.

The following new commitments were also made:

- Management will ensure that sufficient controls are implemented to reconcile transactions and record invoices in a timely manner.
- Management will implement sufficient controls regarding proper record keeping to ensure the timely submission of information.

6.12 Legislature



## Auditees included in the portfolio

### ■ Mpumalanga Provincial Legislature

## Significant movement in audit outcome

The legislature improved from a qualification in 2011-12 to an unqualified opinion with findings in 2012-13. This was due to the auditee addressing the challenges with accruals and the aggregated findings on other items in the financial statements. Senior management was also more involved in the audit process in the current year to ensure that all material misstatements identified during the audit were addressed appropriately.

## Six key risk areas

The legislature has made progress in addressing the key risk areas, most notably IT controls, SCM and reporting on PDOs. Although the quality of the annual performance report has improved, the legislature should properly maintain and track the portfolio of evidence to support the reported targets. The quality of the submitted financial statements remained unsatisfactory, mostly as a result of management not adhering to the basic disciplines of financial accounting and reporting, including checks and balances as well as regular reviews.

## Key controls and root causes

The legislature should strengthen the following controls to create a control environment that supports reliable financial and performance reporting and compliance with legislation:

- Implement a properly designed action plan that addresses the root causes of findings on financial and performance reporting as well as non-compliance with legislation. The plan should be monitored regularly and any gaps identified should be addressed immediately.
- Adhere to the disciplines of financial accounting and reporting, including checks and balances as well as regular reviews.

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

- Ensure that vacancies are filled with people who have the right skills and competencies.

- Respond quickly to weaknesses identified and recommendations made by governance units and external auditors by monitoring the action plans to address the weaknesses.
- Although the PDOs are aligned to the constitutional mandate of the legislature, there is a need to revisit the performance measures to ensure that they have an impact on the outputs.

## Impact of key role players on audit outcomes

The assurance levels should be improved by ensuring stability at the level of the accounting officer and senior management. The risk unit should be used effectively to continuously assess risks faced by the legislature. The internal audit unit should recommend controls to address the identified risks, which senior management should then implement.

We met with the speaker's office twice in the past year. These interactions had only some impact on the auditee's own outcomes, as management was slow to respond to our recommendations.

The assurance provided through the oversight of the portfolio committee should be improved to make sure that the legislature sets the tone for clean public administration.

The following new commitments were also made:

- The implementation of action plans to address internal and external audit findings will be monitored more closely through the secretariat receiving and reviewing progress reports on a monthly basis.
- The compliance recommendations, following the compliance review by the internal audit unit, will continue to be implemented by management.
- Accurate monthly and quarterly reconciliations will be performed and reviewed by the relevant level of management, consolidated for the first six months of the 2013-14 financial year, and monthly and quarterly thereafter.
- Interim financial statements that comply with Generally Recognised Accounting Practice and a comprehensive audit file will be compiled by 30 November 2013, and then monthly thereafter.
- Management, the internal audit unit and the audit committee will review quarterly performance reports to identify and correct misstatements.



## ANNEXURES

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## Annexure 1: Auditees' audit outcomes, areas qualified as well as findings on predetermined objectives, non-compliance and specific focus areas

Auditee	2012-13 audit outcomes			2011-12 audit outcomes			Financial statement qualification areas							Findings on predetermined objectives			Findings on non-compliance															Findings on specific focus areas			Unauthorised, irregular as well as fruitless and wasteful expenditure									
	Audit opinion	Predetermined objectives	Compliance with legislation	Audit opinion	Predetermined objectives	Compliance with legislation	Non-current assets	Current assets	Liabilities	Capital and reserves	Other disclosure items	Revenue	Expenditure	Unauthorised, irregular as well as fruitless and wasteful expenditure	Aggregate misstatements	Reported information not useful	Reported information not reliable	Information not submitted in time for auditing	No annual performance report	Material misstatements or limitations in submitted AFS	Unauthorised, irregular as well as fruitless and wasteful expenditure	Annual financial statements and annual report	Asset management	Liability management	Budgets	Expenditure management	Financial misconduct	Audit committee	Internal audit	Revenue management	Strategic planning and performance management	Transfers and conditional grants	Procurement management	HR management	Other	Procurement and contract management	Human resource management and compensation	Information technology controls	Financial health	Unauthorised expenditure Amount R	Irregular expenditure Amount R	Fruitless and wasteful expenditure Amount R		
Departments																																												
Agriculture, Rural Development and Land Administration		R	R		R	R	N									R	R			R		A	N			N		A			N		R	R		R	R	R			-		-	0.86m
Community Safety, Security and Liaison			R			N														N	A					N							A	R		R	R	R	N		-		-	0.04m
Cooperative Governance and Traditional Affairs			R		A	R																										A	N		A	N	R		-		-	-		
Culture, Sport and Recreation		A	R		R	R										A	A			R	A			A		A			A		A	R	R		R	R	R	A		-		-	5.2m	
Economic Development, Environment and Tourism		R	R		N	R	A										R			R	R					N				N	N		R	R		R	R	R			-	4.0m	1.1m	
Education			R		A	R														R	R					R	A				A	A	R	R		R	R	R		135.2m	40.0m	3.0m		
Finance																																				N	R			-	0.23m	-		
Health		R	R		R	R	R				A					N	R			R	A	R	R			R		A		A	R	A	R	R		R	R	R	R		-	123.1m	2.0m	
Human Settlements		R	R		N	R										R	N			N											N			R		A	R	R	A		-	0.77m	-	
Office of the Premier						A																														A	R			-	0.05m	-		
Provincial Legislature			N						A							A				N					N	N				N					A	R	R		1.1m	-	0.1m			
Public Works, Roads and Transport		R	R		R	R										R	N			R	R					N				A	N		R	R	N	R	R	R		-	23.0m	0.04m		
Social Development		A	R		R	R											A								N								A	N		R	N	R		-		-	0.07m	
Public entities																																												
Mpumalanga Economic Growth Agency		R	R		R	R	R	R	N	R	R	A	A	A		R				R	R		R						A	N			N			R	R	N			-	36.8m	2.8m	
Mpumalanga Gambling Board																																					R		-		-	-		
Mpumalanga Regional Training Trust		R	R		R	R											R			R		A	R		A	N			A	A		A			R	R	N			-		-	-	
Mpumalanga Tourism and Parks Agency		N	R			R										N				R	R	N			N	N		N	N				R			R	R	R	R		-	6.0m	1.3m	
Legend (Audit outcomes)	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimer with findings	Audit not finalised at legislated date	New auditee																Legend (Findings)	Addressed (A)	New (N)	Repeat (R)	Not analysed (X)								Legend (Expenditure)	Improved	Regressed							

## Annexure 2: Auditees' five-year audit opinions

Auditee		Audit opinions				
		2012-13	2011-12	2010-11	2009-10	2008-09
<b>Departments</b>						
1	Agriculture, Rural Development and Land Administration					
2	Community Safety, Security and Liaison					
3	Cooperative Governance and Traditional Affairs					
4	Culture, Sport and Recreation					
5	Economic Development, Environment and Tourism					
6	Education					
7	Finance					
8	Health					
9	Human Settlements					
10	Office of the Premier					
11	Provincial Legislature					
12	Public Works, Roads and Transport					
13	Social Development					
<b>Public entities</b>						
14	Mpumalanga Economic Growth Agency					
15	Mpumalanga Gambling Board					
16	Mpumalanga Regional Training Trust					
17	Mpumalanga Tourism and Parks Agency					

Legend (Audit opinions)	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimer with findings	Audit not finalised at legislated date	New auditee
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### Annexure 3: Assessment of auditees' key controls at the time of the audit

Auditee	Leadership																								Financial and performance management																								Governance											
	Movement			Effective leadership culture			Oversight responsibility			HR management			Policies and procedures			Action plans			IT governance			Movement			Proper record keeping			Processing and reconciling controls			Reporting			Compliance			IT system controls			Movement			Risk management			Internal audit			Audit committee											
	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C																		
Departments																																																												
Agriculture, Rural Development and Land Administration	↓	↓	↑																				↓	↓	↑																																			
Community Safety, Security and Liaison	↓	↓	↓																				↑	↓	↓																																			
Cooperative Governance and Traditional Affairs	↔	↑	↓																				↑	↑	↓																																			
Culture, Sport and Recreation	↔	↑	↑																				↓	↑	↔																																			
Economic Development, Environment and Tourism	↑	↓	↑																				↑	↑	↑																																			
Education	↑	↓	↓																				↑	↓	↔																																			
Finance	↔	↔	↔																				↓	↓	↓																																			
Health	↓	↓	↓																				↓	↓	↔																																			
Human Settlements	↓	↓	↓																				↓	↓	↔																																			
Office of the Premier	↑	↑	↑																				↑	↑	↑																																			
Provincial Legislature	↓	↑	↓																				↑	↓	↓																																			
Public Works, Roads and Transport	↓	↓	↓																				↑	↓	↑																																			
Social Development	↔	↑	↓																				↑	↑	↔																																			
Public entities																																																												
Mpumalanga Economic Growth Agency	↑	↑	↑																				↔	↔	↔																																			
Mpumalanga Gambling Board	↓	↓	↓																				↓	↔	↔																																			
Mpumalanga Regional Training Trust	↓	↓	↓																				↓	↓	↓																																			
Mpumalanga Tourism and Parks Agency	↓	↓	↑																				↑	↓	↑																																			

Legend (root causes)	Good	Concerning	Intervention required	Not assessed
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Legend (root causes)	Improved	Unchanged	Regressed
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F = Financial P = Performance C = Compliance

## **GLOSSARY OF TERMS, ACRONYMS AND ABBREVIATIONS**

## Glossary of terms

### *Accounts payable (also referred to as creditors)*

Money owed by the auditee to companies, organisations or persons who have supplied goods and services.

### *Accounts receivable (also referred to as debtors)*

Money owed to the auditee by companies, organisations or persons who have received goods or services from the auditee.

### *Adverse audit opinion*

The financial statements contain misstatements that are not confined to specific amounts, or the misstatements represent a substantial portion of the financial statements.

### *Asset*

Any item belonging to the auditee, including property, plant, cash, and debt.

### *Asset impairment*

The reduction in value of an asset below its normal value at which it can be converted into cash through sale or other means.

### *Assurance*

A positive declaration that is intended to give confidence. Through the audit report, we provide assurance on the credibility of auditees' financial and performance information as well as auditees' compliance with legislation. Other role players in the public sector also contribute to assurance and confidence by ensuring that internal controls are implemented. Such assurance providers include various auditee officials, committees and internal audit units, oversight structures as well as coordinating or monitoring departments.

### *Audit outcome*

The audit opinion on an auditee's financial statements, together with any material findings on that auditee's annual performance report and/or material findings on non-compliance by the auditee with applicable legislation.

### *Capital budget*

The estimated amount planned to be spent on capital items in a particular financial period; for example, fixed assets such as land and buildings with long expected lives and that produce income or support operations.

### *Cash flow*

The flow of money from operations: incoming funds are revenue and outgoing funds are expenses.

### *Clean audit outcome*

The financial statements of the auditee are free of material misstatements (in other words, a financially unqualified audit opinion) and there are no material findings on reporting on performance objectives or non-compliance with legislation.

### *Commitments (from role players)*

Initiatives communicated to us by role players to improve audit outcomes.

### *Commitments (in financial statements)*

The cost of goods and services to be received in the following year, which the auditee has already contractually agreed to purchase in the current year.

<i>Conditional grants</i>	Money transferred from one sphere of government to another, subject to certain services being delivered or on compliance with specified requirements.
<i>Consolidated financial statements</i>	Financial statements that reflect the combined financial position and results of a department and those of the entities under its control.
<i>Contingent liability</i>	A potential liability, the amount of which will depend on the outcome of a future event.
<i>Current assets</i>	These assets are made up of cash and other assets, such as inventory or debt, which will be traded, used or converted into cash in less than 12 months. All other assets are classified as non-current, and typically include property, plant and equipment as well as long-term investments.
<i>Disclaimer of audit opinion</i>	The auditee provided insufficient evidence in the form of documentation on which to base an audit opinion. The lack of sufficient evidence is not confined to specific amounts, or represents a substantial portion of the information contained in the financial statements.
<i>Financial and performance management</i>	The management of resources to achieve the financial and service delivery objectives of the auditee. (This is one of the three key overall drivers of internal control that should be addressed to improve audit outcomes or to sustain good audit outcomes.)
<i>Financially unqualified audit opinion</i>	The financial statements contain no material misstatements. Unless we express a clean audit opinion, material findings have been raised on either reporting on predetermined objectives or non-compliance with legislation, or both these aspects.
<i>Fruitless and wasteful expenditure</i>	Expenditure that was made in vain and could have been avoided had reasonable care been taken. This includes penalties and interest on late payments as well as payments for services not utilised or goods not received.
<i>General ledger</i>	A record of all the financial transactions of the auditee.
<i>Going concern</i>	The presumption that an auditee will continue to operate in the foreseeable future, and will not go out of business and liquidate its assets. For this to happen, the auditee must be able to raise enough resources to stay operational.
<i>Governance</i>	The governance structures (audit committees) and processes (internal audit and risk management) of an auditee. (This is one of the three key overall drivers of internal control that is required to improve audit outcomes or to sustain good audit outcomes.)
<i>Human resource (HR) management</i>	The management of an auditee's employees, or human resources, which involves adequate and sufficiently skilled resources as well as the adequate management of employee performance and productivity.
<i>Information technology (IT)</i>	The computer systems used for recording, processing and reporting financial and non-financial transactions.

*IT governance*

The leadership, organisational structures and processes which ensure that the auditee's IT resources will sustain its business strategies and objectives.

*IT security management*

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

*IT service continuity*

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

*IT user access management*

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

*Internal control (also referred to as key controls)*

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

*Inventory*

Goods held for resale or for internal use.

*Irregular expenditure*

Expenditure incurred without complying with applicable legislation.

*Key drivers of internal control*

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

*Leadership*

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

*Liability*

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

*Material finding*

An audit finding on reporting on predetermined objectives or non-compliance with legislation that is significant enough in terms of its value, its nature or both its value and its nature that it requires to be reported in the audit report.

<i>Material misstatement</i>	A misstatement that is significant enough to influence the opinions of users of the reported information. Materiality is considered in terms of either the rand value or the nature and cause of the misstatement, or both these aspects.
<i>Misstatement</i>	Incorrect or omitted information in the financial statements or annual performance report.
<i>Modified opinion</i>	A qualified, adverse or disclaimer of opinion.
<i>Net current liability</i>	The amount by which the sum of all money owed by an auditee and due within one year exceeds amounts due to the auditee within the same year.
<i>Net deficit</i>	The amount by which an auditee's spending exceeds its income.
<i>Operational budget</i>	A short-term budget, usually prepared annually, based on estimates of income and expenses associated with the auditee's operations, such as administration and salaries.
<i>Payroll</i>	Data relating to employees' earnings.
<i>Property, plant and equipment</i>	Assets that physically exist and are expected to be used for more than one year, including land, buildings, leasehold improvements, equipment, furniture, fixtures and vehicles.
<i>Qualified audit opinion</i>	The financial statements contain material misstatements in specific amounts, or there is insufficient evidence for us to conclude that specific amounts included in the financial statements are not materially misstated.
<i>Reconciliation</i>	The process of matching one set of data to another; for example, the bank statement to the cash book or the accounts payable balances to the corresponding general ledger account balance.
<i>Reporting against predetermined objectives (PDOs)</i>	Reporting by auditees in their annual performance plans on their actual achievements against the performance objectives they had set at the beginning of the period. The performance objectives relate mostly to service delivery.
<i>Root causes</i>	The underlying causes or drivers of audit findings; in other words, why the problem had occurred. Addressing the root cause helps to ensure that the actions address the real issue, thus preventing or reducing the incidents of recurrence, as opposed to simply providing a temporary or short-term fix.
<i>Supply chain management (SCM)</i>	Procuring goods and services through a tender or quotation process and monitoring the quality and timeliness of the goods and services provided.
<i>Unauthorised expenditure</i>	Expenditure that was in excess of the amount budgeted or allocated by government to the auditee, or that was not incurred in accordance with the purpose for which it was intended.

## Acronyms and abbreviations

<b>AFS</b>	<i>annual financial statements</i>
<b>AG</b>	<i>auditor-general (the person)</i>
<b>AGSA</b>	<i>Auditor-General of South Africa (the institution)</i>
<b>APAC</b>	<i>Association of Public Accounts Committees</i>
<b>bn (after an amount)</b>	<i>R'billion (rand)</i>
<b>BAS</b>	<i>Basic Accounting System</i>
<b>BCP</b>	<i>business continuity plan</i>
<b>CEO</b>	<i>chief executive officer</i>
<b>CFO</b>	<i>chief financial officer</i>
<b>CIDB</b>	<i>Construction Industry Development Board</i>
<b>CIO</b>	<i>chief information officer</i>
<b>CoGTA</b>	<i>Department of Cooperative Governance and Traditional Affairs</i>
<b>DoRA</b>	<i>Division of Revenue Act</i>
<b>DPSA</b>	<i>Department of Public Service and Administration</i>
<b>DRP</b>	<i>disaster recovery plan</i>
<b>FMS</b>	<i>Financial Management System</i>
<b>GAAP</b>	<i>Generally Accepted Accounting Practice</i>
<b>GITO</b>	<i>government information technology officer</i>
<b>GRAP</b>	<i>Generally Recognised Accounting Practice</i>
<b>HoD</b>	<i>head of department</i>
<b>HR</b>	<i>human resources</i>

<b>IDP</b>	<i>integrated development plan</i>
<b>IT</b>	<i>information technology</i>
<b>K (after an amount)</b>	<i>R'thousand (rand)</i>
<b>Logis</b>	<i>Logistical Information System</i>
<b>m (after an amount)</b>	<i>R'million (rand)</i>
<b>MEC</b>	<i>member of the executive council of a province</i>
<b>NCOP</b>	<i>National Council of Provinces</i>
<b>NT</b>	<i>National Treasury</i>
<b>PAA</b>	<i>Public Audit Act, 2004 (Act No. 25 of 2004)</i>
<b>PDO</b>	<i>predetermined objective</i>
<b>Persal</b>	<i>Personnel and Salary System</i>
<b>PFMA</b>	<i>Public Finance Management Act, 1999 (Act No. 1 of 1999)</i>
<b>PPPFA</b>	<i>Preferential Procurement Policy Framework Act, 2000 (Act No. 5 of 2000)</i>
<b>PSA</b>	<i>Public Service Act, 1994 (Act No. 103 of 1994)</i>
<b>SALGA</b>	<i>South African Local Government Association</i>
<b>SARS</b>	<i>South African Revenue Service</i>
<b>SCM</b>	<i>supply chain management</i>
<b>SCOPA</b>	<i>Standing Committee on Public Accounts</i>
<b>SITA</b>	<i>State Information Technology Agency</i>
<b>SLA</b>	<i>service level agreement</i>
<b>VAT</b>	<i>value-added tax</i>









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