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2010-11

GENERAL REPORT

on the provincial audit outcomes of **MPUMALANGA**



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence



100 YEARS
1911-2011



GENERAL REPORT
ON THE OUTCOMES OF THE
MPUMALANGA PROVINCIAL GOVERNMENT
2010-11

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

Auditor-General: Terence Nombembe

Our reputation promise/mission

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



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SECTION 1: FOREWORD

It is with pleasure that I present to the Mpumalanga Provincial Legislature my 2010-11 general report summarising the audit outcomes of the provincial legislature, revenue fund, departments and public entities for the financial year ended 31 March 2011.

Two departments, the Mpumalanga Provincial Legislature and the Mpumalanga Provincial Revenue Fund received clean audits. Nine departments received unqualified audit reports with findings on predetermined objectives and/or compliance with laws and regulations. One department received a qualified audit report, namely the Department of Health that was qualified mainly on capital assets. The department's failure to overturn the qualification resulted from asset registers that were not updated to reflect the physical assets and the movement of assets between hospitals, coupled with a lack of supervision of action plans. One public entity received a financially unqualified audit report with no findings (i.e. clean administration). Two public entities received financially unqualified audit reports with findings on predetermined objectives and/or compliance with laws and regulations. One public entity, namely the newly established Mpumalanga Economic Growth Agency, received an adverse audit report due to inadequate structures in the organisation. Overall, 16 (88%) of the 18 departments and public entities in the province either achieved a clean audit or obtained a financially unqualified with other findings audit report. It is imperative that the Department of Education sustains its unqualified opinion and clears its findings on predetermined objectives and compliance with laws and regulations, while the qualified Department of Health needs to improve its outcome, as these departments represent a significant portion of the budget of the province, yet have not attained the ideal situation of clean audit opinions.

Other important aspects of the audit outcomes of the 14 departments and four public entities reported on included three auditees improving their outcomes. The Department of Safety, Security and Liaison and the Mpumalanga Provincial Legislature improved their audit outcomes from unqualified with findings in 2009-10 to clean audit outcomes in 2010-11. The Department of Education is the most notable, as it improved its audit outcome from financially qualified to financially unqualified with other findings, as a result of the commitments of the accounting officer and the chief financial officer (CFO), the implementation and monitoring

of action plans, and the use of consultants and treasury assistance to provide capacity to compile the asset register. The other 11 departments and two public entities that achieved financially unqualified with findings audit reports, remained unchanged as they failed to implement basic accounting disciplines and were overly dependent on the auditors to point out adjustments to their financial statements. Their audit outcomes have therefore stagnated over the past three years. Furthermore, inadequate controls over information system user management required the provincial leadership to take decisive action to address the high level of exposure and vulnerability identified during the audit of information technology (IT) at departments. Generally, compliance with laws and regulations was poor, especially regarding supply chain management (SCM) and service delivery reporting (insufficient documentation). The new public entity, the Mpumalanga Economic Growth Agency, received an adverse audit report mainly due to structural and system integration challenges, which resulted in pervasive internal control weaknesses that were not addressed by the leadership. There was no regression of audit outcomes in the province.

The executive council has approved the provincial action plan championed by the provincial treasury. In addition to financial aspects, the plan also includes (i) regular monthly reporting and validation of financial information, service delivery information and compliance information, (ii) highly effective internal audit units and audit committees that will continuously verify the credibility of internal controls supporting these monthly reports, (iii) ensuring key positions remain staffed with personnel that possess the required skills, and that vacancies – particularly at senior management level – are filled as a matter of urgency, and (iv) regular interface between audit committees and the executive authority and the legislature.

The executive authority and oversight structures have committed to monitor and evaluate the status of key controls and commitments each quarter in order to achieve sustainable clean audit outcomes. At a minimum, this will require a commitment by the executive authority of one hour every 90 days. This can then be followed by the sharing of the consolidated picture with the premier and the legislature. It will require the enhancement of the oversight model, which will include effective coordination between the public accounts committee (PAC) and portfolio committees. If all these governance and oversight structures work collectively in monitoring internal controls on a quarterly basis, it will place provincial governance on a higher level and will contribute greatly to sustainable positive outcomes.

The leadership of the Auditor-General of South Africa (AGSA) in the province, as part of its contribution towards clean administration, will continue to enhance its visibility and thereby provide proactive insights on the root causes of the status of internal controls. These engagements will also include providing timely feedback and inputs on the adequacy of the guidance provided by the coordinating role players.

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

Auditor-General

Auditor-General
Pretoria
December 2011



SECTION 2: AUDIT OUTCOMES

The Mpumalanga Provincial Government comprises 12 provincial departments, the provincial legislature, the provincial revenue fund and four public entities. This report presents the 2010-11 audit outcomes of all 12 departments, the provincial legislature, the provincial revenue fund and four public entities.

2.1 Audit opinions on financial statements

2.1.1 Audit outcomes for the year ended 31 March 2011

The audits of all 12 departments, the provincial legislature, the provincial revenue fund and four public entities (2009-10: 19) that had submitted financial statements on time, were completed within the legislated time frame of two months from receipt of the financial statements by the AGSA. The audit outcomes for the 2010-11 financial year and those of the previous year are presented in table 1 below, while a three-year history of audit outcomes for the province is given in section 2.1.2 of this report.

Table 1: Summary of audit outcomes

Audit outcomes	Audits conducted by the AGSA			
	Departments*		Public entities**	
	2010-11	2009-10	2010-11	2009-10
Financially unqualified with no findings on predetermined objectives or compliance with laws and regulations	4	2	1	1
Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations	9	10	2	5
Financially unqualified financial statements	93%	86%	75%	100%
Qualified	1	2	0	0
Adverse	0	0	1	0
Disclaimer	0	0	0	0
Financially qualified financial statements	7%	14%	25%	0%
Total number of audits reported on	14	14	4	6
Number of audits not yet finalised at 31 August 2011	0	0	0	0
Total number of audits	14	14	4	6
Total number of auditees in which findings arose from the AGSA's other legal reporting responsibilities:				
Predetermined objectives findings only	0	5	0	2
Compliance with laws and regulations findings only	3	2	1	0
Findings on both predetermined objectives and compliance with laws and regulations	7	5	2	3

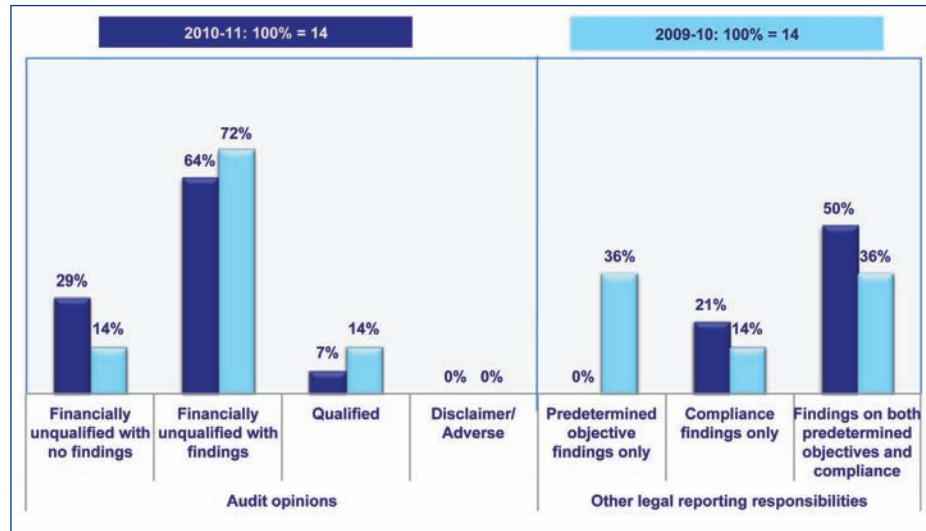
* Including legislature and provincial revenue fund ** Three public entities merged into one new entity

The financial statements of the department and the public entity that were financially qualified contained material misstatements that caused them not to fairly present the financial position at 31 March 2011 or the financial results for the year then ended in respect of one or more areas.

Figures 1 to 4 provide additional statistics relating to the three facets of audit outcomes, namely (i) audit opinions on financial statements, (ii) findings on predetermined objectives, and (iii) departments' and public entities' compliance with laws and regulations.

Figure 1 depicts the audit outcomes of departments for the current and prior year.

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

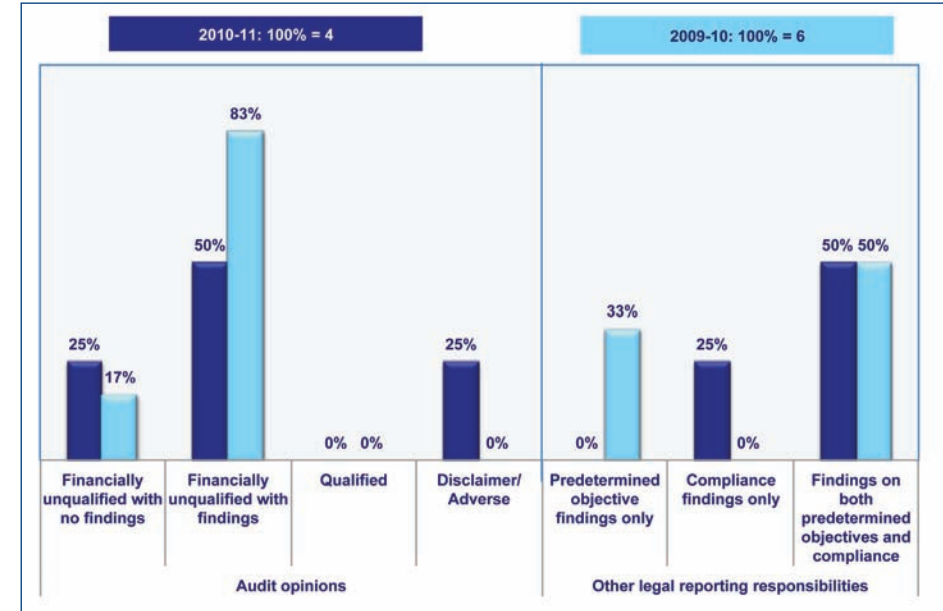


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* In this report, 'with findings' or 'with no findings' refers to findings on predetermined objectives and/or compliance with laws and regulations.

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

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



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



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

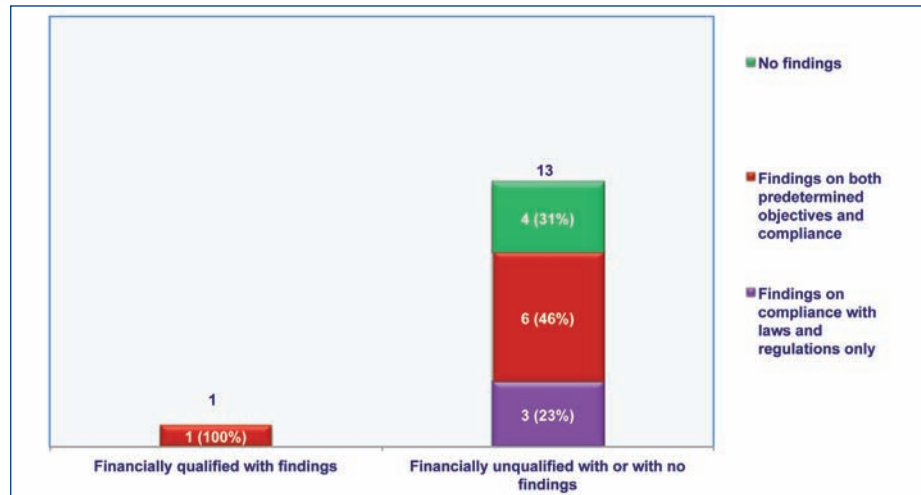
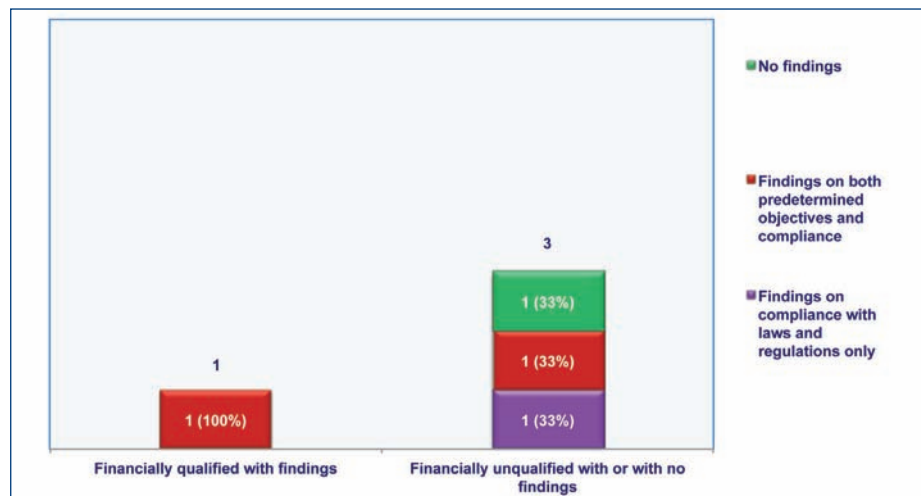


Figure 4: Public entities with findings on predetermined objectives and/or compliance with laws and regulations

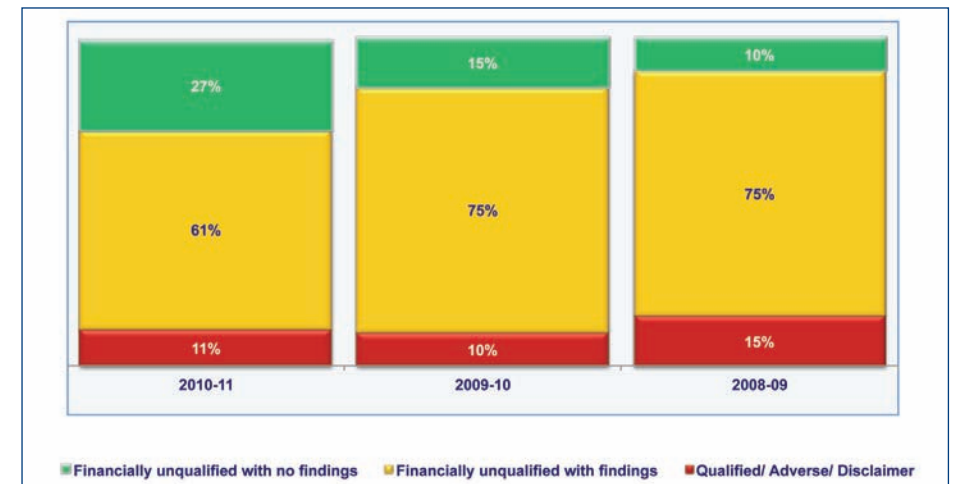


Findings on predetermined objectives are analysed in section 2.3, while an overview of auditees' compliance with laws and regulations is presented in section 2.4 of this report.

2.1.2 Three-year history of audit outcomes for the province

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

Figure 5: Three-year audit outcomes for the province



There has been a slight improvement in the audit outcomes of departments, as one department improved its audit outcome from qualified to financially unqualified with findings on predetermined objectives and compliance with laws and regulations. This improvement is offset by the audit outcome of the newly formed public entity that received an adverse audit outcome. The public entity currently does not have adequate resources to resolve the qualifications.

There has hardly been any movement within the public entities that received financially unqualified audit outcomes with findings, as they have not built the capacity to monitor compliance with laws and regulations and resolve problems relating to predetermined objectives.

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

Tables 2 and 3 depict the movements in audit opinions for departments and public entities, respectively, followed by highlights of audit outcomes for the year under review.

Table 2: Movements in audit outcomes of departments

Movement in audit outcome over 2009-10 - Departments						
Audit opinion	Improvement	Unchanged	Regressed	New departments	Total reported on	Prior year opinion on audits outstanding 2010-11
Financially unqualified with no findings	2	2			4	0
Financially unqualified with findings	1	8			9	0
Qualified		1			1	0
Disclaimer/Adverse					0	0
Total	3	11	0	0	14	0

Table 3: Movements in audit outcomes of public entities

Movement in audit outcome over 2009-10 - Public entities						
Audit opinion	Improvement	Unchanged	Regressed	New departments	Total reported on	Prior year opinion on audits outstanding 2010-11
Financially unqualified with no findings		1			1	0

Movement in audit outcome over 2009-10 - Public entities						
Audit opinion	Improvement	Unchanged	Regressed	New departments	Total reported on	Prior year opinion on audits outstanding 2010-11
Financially unqualified with findings		2			2	0
Qualified					0	0
Disclaimer/Adverse					1	0
Total	0	3	0	1	4	0

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

Overall trends	<ul style="list-style-type: none"> The province achieved an overall net improvement in audit outcomes for the 2010-11 year. The public entities showed a regression in audit outcomes as a result of the merger of three public entities into a new entity, which received an adverse audit opinion.
Financially unqualified audit opinions with no findings	<ul style="list-style-type: none"> Four departments (including the provincial legislature and the provincial revenue fund) and one public entity received financially unqualified opinions with no findings on predetermined objectives or compliance with laws and regulations. These audit outcomes are attributable to the following: <ul style="list-style-type: none"> Accounting officers actively participated in the audit process. Management and internal audit units thoroughly reviewed the financial statements and quarterly reports. Audit committees used the 2009-10 audit findings to determine the scope of the audit function. Audit committees were actively involved during the audit process, and participated in the review of the financial statements and report on predetermined objectives.



Notable improvements	<ul style="list-style-type: none"> Three departments improved their audit outcomes from the previous financial year. These improvements were the result of the following: <ul style="list-style-type: none"> Management's commitment and involvement in the implementation of action plans. The leadership ensured the implementation of systems to monitor compliance with laws and regulations. The thorough quarterly review of performance information. The availability of documents supporting the reported performance information.
Adverse and qualified audit opinions	<ul style="list-style-type: none"> Two entities were unqualified with findings. This resulted from the following: <ul style="list-style-type: none"> Fixed assets were not adequately managed. There was a lack of direction from the leadership due to vacancies at senior management level. The board was ineffective due to legal battles with the Department of Economic Development, Environment and Tourism. The finance section was not functioning effectively due to a lack of skilled personnel to ensure reporting in terms of the financial accounting framework. There was a lack of adequate systems to ensure the availability, accuracy, reliability and protection of information.
Prior year qualification findings	<ul style="list-style-type: none"> One department moved from qualified to financially unqualified with findings. This was attributable to the leadership's commitment to address the root causes of the qualification areas on capital assets and expenditure. There was also an improvement in the flow of documentation.
Repeatedly qualified auditees	<ul style="list-style-type: none"> One department failed to improve its qualified audit outcome from the previous financial year. Corrective actions to address this qualification finding focused on asset verifications and updating the asset register. All asset registers were not cleaned up, as not all hospitals were covered in this exercise due to a shortage of personnel.

Financially unqualified, with findings	<ul style="list-style-type: none"> Nine departments and two public entities maintained financially unqualified audit opinions with findings on predetermined objectives and/or compliance with laws and regulations. Failure to improve outcomes is mainly due to the following: <ul style="list-style-type: none"> No or inadequate processes were implemented to monitor compliance with laws and regulations, resulting in the high number of findings on irregular expenditure. Improper filing systems resulted in the unavailability of documentation to support predetermined objectives. There were inadequate skills in key areas such as procurement and contract management as well as planning, accumulation and reporting on predetermined objectives. Proper risk assessments were not performed and proper plans did not exist to address risks.
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2.1.4 History of audit outcomes of auditees who obtained financially modified audit opinions for the year ended 31 March 2011

The history of audit outcomes of those auditees whose financial statements were modified (i.e. adverse and qualified) for the year under review, is depicted in the table below.

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

Auditee	Audit outcomes				
	2010-11	2009-10	2008-09	2007-08	2006-07
Department of Health	Qualified	Qualified	Qualified	Qualified	Qualified
Mpumalanga Economic Growth Agency	Adverse	New entity	New entity	New entity	New entity

The Department of Health struggled mainly with capital assets, due to asset registers that were not updated to reflect the physical assets. Fixed asset registers were also not updated with the movement of assets between hospitals.

Although the department attempted to address the asset management issue by appointing interns to do the asset counts, a lack of supervision resulted in the failure to overturn the qualification.

The Mpumalanga Economic Growth Agency is a newly formed entity. The merger process was stalled due to disagreements between the board of directors and

the parent department on the legal standing of the board, resulting in inadequate structures in the organisation.

2.1.5 Timeliness of the submission and auditing of financial statements

The Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA) requires departments and public entities to submit their financial statements for auditing by 31 May each year. The AGSA is required to complete an audit within two months of receipt of the financial statements.

By the deadline of 31 May 2011, all departments (including the provincial legislature) and public entities had submitted their financial statements for auditing. All of the auditees were therefore able to meet the legislative requirement of timely submission.

2.2 Findings on financial management, including defects in financial statements

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

2.2.1 Auditees' progress in addressing prior year financial statement qualifications

Of the audits completed at 31 July 2011, one of the 13 (8%) departments had not addressed all of the 2009-10 qualification findings in order for the 2010-11 financial statements to be financially unqualified.

Figures 6 and 7 depict those financial statement areas attracting qualification findings at departments and public entities, respectively. Corrective action taken by management to address prior year qualification findings is outlined in section 2.2.2, while details of current year qualifications are provided in section 2.2.3 of this report.

Figure 6: Transversal financial statement qualification areas – departments

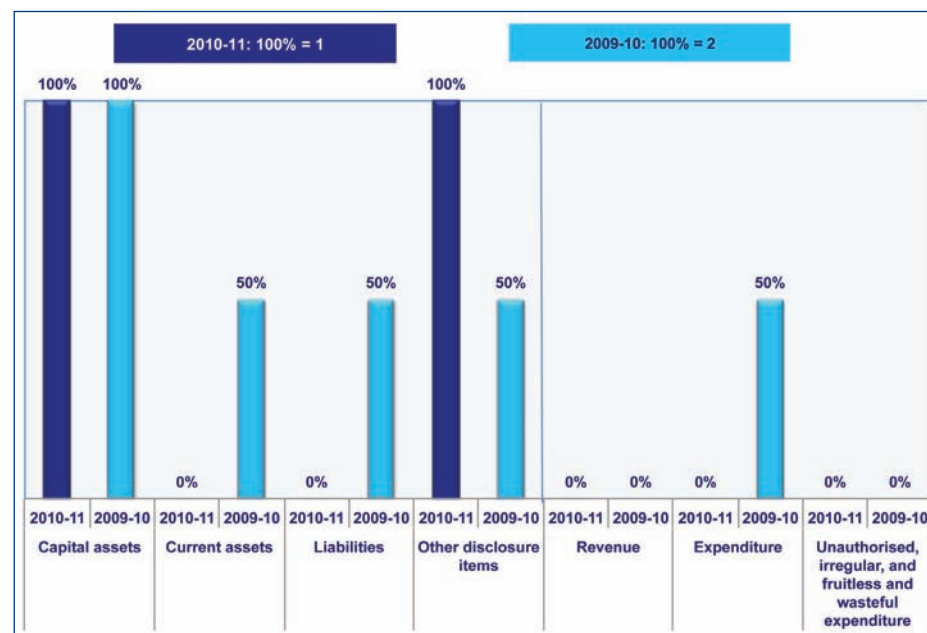




Figure 7: Transversal financial statement qualification areas – public entities

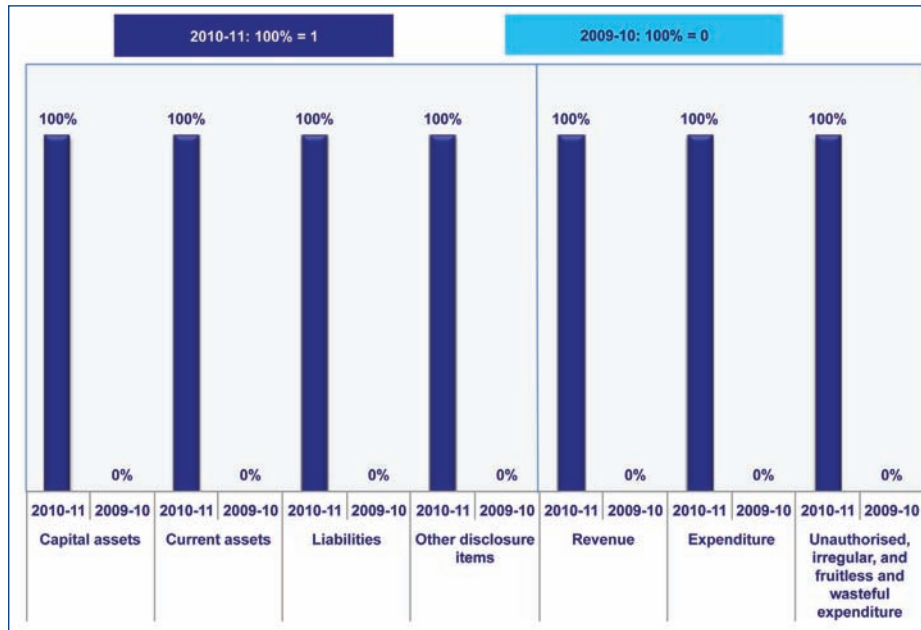


Table 5 depicts the movements in the financial statement qualification areas of those departments that obtained qualified audit reports in the previous year.

Table 5: Progress made by departments in addressing financial statement qualification findings

Department	Audit opinion 2010-11	Movement in addressing 2009-10 financial statement qualification findings				
		Capital assets	Current assets	Liabilities	Other disclosure items	Expenditure
Department of Health	Qualification	Repeat*	Addressed	Addressed	Repeat*	
Department of Education	Financially unqualified with findings	Addressed				Addressed

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

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

As can be seen in table 5, some progress has been made in addressing qualification areas. The initiatives taken by auditees that were able to successfully address the 2009-10 qualification findings with a view to highlighting good practices are indicated below. These good practices should be replicated by auditees that still need to address qualification areas in the current audit reports. Improvements in audit outcomes can be attributed to corrective action taken by the leadership and management, which included the following specific interventions:

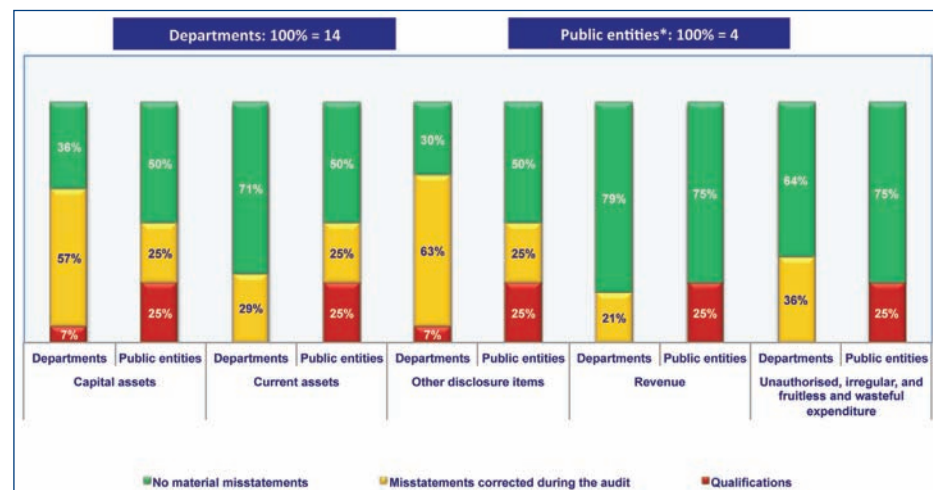
- Personnel with suitable skills were appointed in the areas of asset and expenditure management.
- Audit committee recommendations were included in action plans and monitored for progress.
- The implementation of action plans was actively monitored.
- Management cooperated with the audit teams throughout the audit to resolve queries.
- Policies and procedures were developed, documented and implemented.
- Adequate controls were implemented over the daily processing and reconciling of transactions, to prevent and detect errors before the preparation of financial statements.
- Misstatements identified during the audit were investigated and the necessary corrections were made by management.

Consultants were appointed to assist management with the qualification areas that required resources and skills not available within the department.

2.2.3 Analysis of areas in financial statements containing material misstatements

As in prior years, departments and public entities submitted financial statements that contained material misstatements in one or more area of their financial statements. The areas misstated in the year under review are depicted in figure 8 below.

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



Uncorrected material misstatements (defects) in financial statements attracted modified audit opinions, which are outlined in section 2.2.4, while the incidence of material misstatements is analysed in section 2.2.6 of this report.

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

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

Capital assets

Capital assets principally consist of movable and immovable assets as well as intangible and minor capital assets. Common matters attracting qualifications included the following:

- Assets in the asset register could not be physically verified (existence).
- Assets from the floor could not be traced to the asset registers (completeness).
- The financial statement disclosures did not reconcile to the asset registers.
- Valuations were flawed as a number of items had unrealistic values, indicative of the inadequate review of the asset registers.

Other disclosure items

Other disclosure items principally consist of contingent liabilities, contingent assets, accruals, employee benefits, lease commitments, receivables for departmental revenue, irregular, unauthorised as well as fruitless and wasteful expenditure, key management personnel, asset impairment, other provisions, and related party transactions. Common matters attracting qualifications included the following:

- Invalid commitments were included in the commitment listing.
- There was a lack of documents to support amounts included in other disclosure items.

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

2.2.5 Defects in current year financial statements of public entities resulting in disclaimed, adverse or qualified audit opinions

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

Capital assets

Capital assets principally consist of property, plant and equipment. Common matters attracting qualifications included the following:

- Residual values and the useful lives of property, plant and equipment were not reviewed.



- The entity did not account for the change in accounting policy and estimate with regard to property, plant and equipment.
- Non-current assets were incorrectly classified.
- Assets were not recorded correctly.

Current assets

Current assets principally consist of inventory, trade and other receivables, other financial assets, government grants receivable, and cash and cash equivalents. Common matters attracting qualifications included the following:

- Liabilities were incorrectly classified as cash and balances.
- Investments in associates and subsidiaries were not disclosed at fair value.
- Trade and other receivables were incorrectly valued, as they contained irrecoverable amounts and large credit balances. Trade and other receivables were also not disclosed at fair value.
- Monthly reconciliations were not performed, resulting in processing errors not being identified.
- The filing system was inadequate, resulting in the unavailability of loan agreements to support long-term loans.

Liabilities

Liabilities principally consist of trade and other payables, deferred income, provisions, and bank overdraft. Common matters attracting qualifications included the following:

- A system to record loan commitments did not exist.
- Documents were not available to support long-overdue accrued expenses and a portion of trade payables.
- The provision for leave had no supporting documentation.

Other disclosure items

Other disclosure items principally consist of biological assets, investment properties, property, plant and equipment, intangible assets, investment in subsidiaries, investment in associates, other financial assets and liabilities, and provisions.

Common matters attracting qualifications included the following:

- Irregular expenditure was not disclosed in the financial statements.

Expenditure

Expenditure principally consists of trade receivable impairments, penalties, employee costs as well as depreciation of property, plant and equipment. Common matters attracting qualifications included the following:

- There was a misclassification between cost of sales and cost of services.
- Payroll expenditure could not be confirmed due to a lack of supporting documentation. The payroll could not be presented for auditing.

Revenue

Revenue principally consists of sale of goods, rendering of services, and interest received. Common matters attracting qualifications included the following:

- The calculation of interest on debtors was not aligned to the requirements of International Financial Reporting Standard (IFRS) 7.

Unauthorised, irregular as well as fruitless and wasteful expenditure

The findings leading to the qualification mainly resulted from the following:

- Commitments were overstated as they included programmes that had been completed in prior years.

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

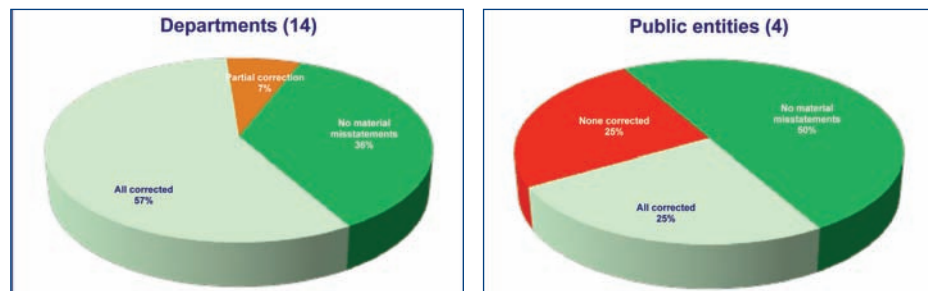
2.2.6 Material misstatements in financial statements submitted for auditing

The PFMA directs that departments and public entities must submit, for auditing, annual financial statements that fairly present their state of affairs and their financial position as at the end of the financial year. Financial statements submitted for auditing are therefore required to be free from material misstatements (that is, contain no material errors or omissions).

As in previous financial years, the financial statements submitted for auditing were of a poor quality and had to be materially adjusted during the audit process. Auditees had significant deficiencies in the design and implementation of internal control in respect of financial reporting, which resulted in material corrections to the financial statements during the audit in the case of nine departments (64%) and one public entity (25%). The corresponding level of pervasive material misstatements for 2009-10 was 85% for departments and 83% for public entities.

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

Figure 9: Material misstatements in the financial statements submitted for auditing



Internal control deficiencies that failed to prevent or timeously detect material misstatements in the financial statements included the following:

Leadership

- The departments did not have skilled personnel in key positions due to a moratorium on the filling of vacancies.
- The implementation of action plans was not adequately monitored and supervised.

Financial and performance management

- Daily and monthly processing and reconciling of transactions were not performed.
- Regular, accurate and complete financial and performance reports supported and evidenced by reliable information were not prepared.
- The financial statements submitted for auditing were not adequately reviewed for accuracy and completeness.
- The financial statements submitted for auditing were not supported and evidenced by reliable information.

Governance

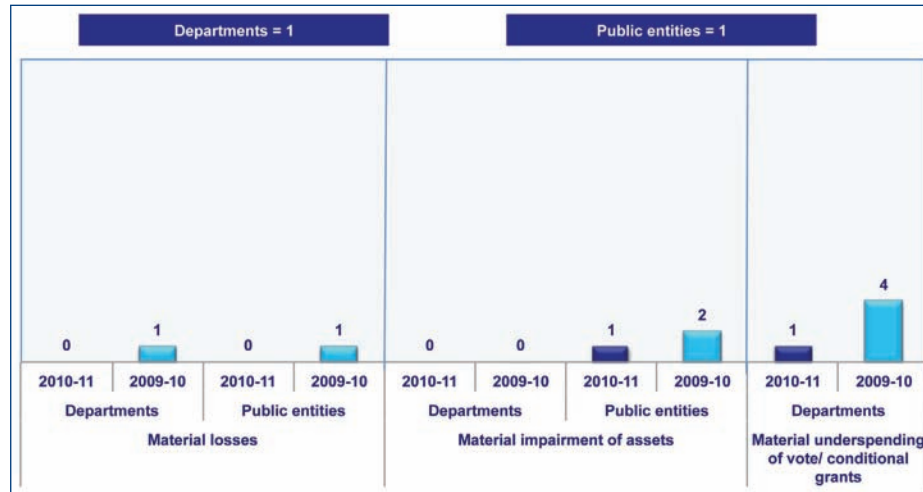
- A risk assessment was not performed.
- The internal audit plans did not include all high-risk areas.
- The financial statements submitted for auditing were not reviewed by the internal audit unit and the audit committee.

2.2.7 Material losses, impairment of assets and material underspending of votes or conditional grants

Details of material losses, asset impairments and underspending of the vote or conditional grant as disclosed in the financial statements of departments and public entities for the year ended 31 March 2011 are depicted below.



Figure 10: Material losses, asset impairments and underspending



The Mpumalanga Economic Growth Agency had material impairments of assets amounting to R145 million relating to loan debts that had not been collected for long periods. There were inadequate systems to follow up and collect debts. The entity was not able to put structures in place to address the deficiencies relating to the collecting of debts, due to vacancies at senior management level.

The Department of Health materially underspent its vote by R62 million due to the operational and capital expenditure incurred during the financial year being below the appropriated amount, which had a negative impact on service delivery. Furthermore, conditional grants were underspent by R34 million. The main reasons for the underspending of both the vote and conditional grants included a lack of capacity to execute projects, delays in the procurement processes and the slow performance of contractors.

2.2.8 Auditees with concerns regarding funding of operations, financial sustainability or going concern

Concerns regarding the funding of operations or financial sustainability were identified at one auditee in the province (6%) (2009-10: 0%). Table 6 depicts the main reasons for such concerns.

Table 6: Reasons for funding and financial sustainability concerns at auditees

Auditee	Liquidation/ Disestablishment	Incorporation with another entity	High reliance on grants/ Own revenue generated not sufficient to cover operating costs	Current liabilities exceed current assets	Significant financial challenges	Number of concerns per auditee
Mpumalanga Tourism Parks Agency			1			1
Total	0	0	1	0	0	1

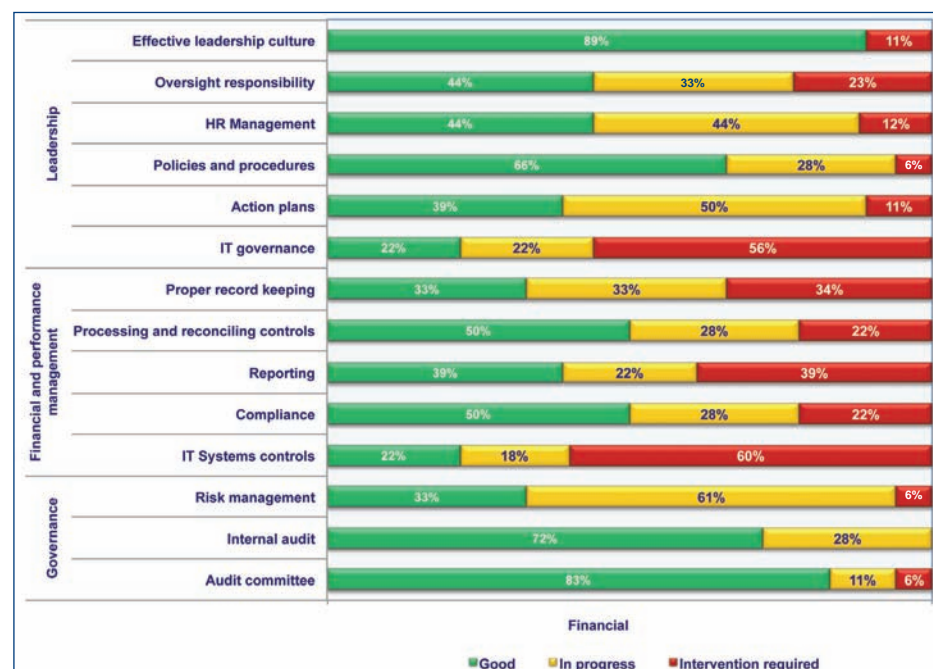
The Mpumalanga Tourism and Parks Agency was tasked to improve the status of the provincial nature reserves and parks and to convert them into income-generating sites in order to increase own income. However, with the movement of borders, new parks with worn-out infrastructure were allocated to the agency. Funding was provided for the salaries of staff taken over, but no funding was received to improve infrastructure. This had a negative impact on the financial status of the agency, as the infrastructure needed to be maintained without income to fund the maintenance.

The agency devised plans to improve infrastructure in the parks and presented the plans to the Department of Economic Development, Environment and Tourism, with numerous engagements being held with the department. The MEC provided a letter of support to the agency, indicating the department's willingness to discuss and implement measures to improve the grants.

2.2.9 Assessment of drivers of internal control over financial management and reporting

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

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



The entities that had improved or maintained positive audit outcomes can attribute this to the implementation and effective monitoring of the three fundamentals of internal control (i.e. leadership, financial and performance management as well as governance). These controls are three-dimensional and deficiencies in any or all of them can be directly linked to the audit opinions on the financial statements. Increased visibility and involvement of the leadership and senior management during the entire audit process resulted in a few entities being assessed as 'good'. However, there is much room for improvement to effectively influence all MECs and heads of department (HoDs) to get them more actively involved in the audit process.

2.2.10 Best practices, root causes of findings and way forward on financial statement qualifications and financial management

Best practices that can be replicated by those attracting findings

- All the assets were fully verified at least annually.
- Auditees were committed to adjust financial statements with errors identified by the auditors.
- Financial statements submitted for auditing had adequate and reliable supporting documentation and schedules to support the amounts reported.
- The audit committee reviewed the financial statements prior to submission to the auditors.
- Suitably skilled personnel were appointment in critical positions.
- Audit committee recommendations were implemented.
- Filing systems were improved to ensure that documents were easily retrievable.
- Transactions and balances were reconciled monthly.

Root causes of matters reported

- Corrective actions to address capital asset qualification findings at the Department of Health focused on asset verification exercises and updating the asset registers. Not all asset registers were cleaned up, as not all hospitals were covered in this exercise due to personnel shortages. Valuation concerns and reconciliations were still not attended to. The department lacked capacity due to senior level vacancies and a lack of skills to ensure the full implementation of action plans designed to overturn qualifications.
- The Mpumalanga Economic Growth Agency relied on the old individual systems used by the entities before the merger. These systems were no longer appropriate to support the integrated operations and produce accurate and



complete financial information to facilitate the compilation of annual financial statements that complied with the reporting framework.

- Monthly reconciliations were also not performed throughout the period.

Measures to be taken to improve audit outcomes

Leadership

The leadership should implement an effective HR management system to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored on a regular basis. They should thus follow up on their commitment to capacitate the departments and public entities through the following initiatives:

- Appoint officials with the appropriate skills in the area of financial management.
- Facilitate the availability of IT skills.
- Conduct ongoing monitoring and supervision, to enable an assessment of the effectiveness of internal control.
- Perform management reviews at the appropriate level to provide credibility of monthly reporting.
- Train officials on all policies and procedures.

Financial and performance management

- Implement adequate controls over daily and monthly processing and reconciling of transactions, to prevent or detect errors before the preparation of financial statements.
- Improve document management systems, to ensure that financial reports are supported and evidenced by reliable information.

Governance

A risk assessment should be properly performed in order to understand the risks facing the auditee and, consequently, to adequately address the risks relating to financial reporting as well as compliance with laws and regulations.

The internal audit function should be actively involved in the following:

- Monitor the institution's compliance with laws and regulations relating to financial reporting.
- Review financial information submitted with the financial statements for auditing.

Way forward, including commitments received from the provincial leadership

The leadership committed to implement action plans or follow through on the implemented action plans to address qualification findings and financial management findings. The following specific commitments were made:

- The evaluation and monitoring unit facilitated training for staff in the planning unit of all the departments to ensure that staff understand the expectations.
- Steps will be taken against officials who transgress SCM regulations.
- A progress report on AGSA findings will be discussed with responsibility managers during departments' top management meetings.
- MECs will sign a memorandum of understanding with the IT unit. Activity and access violation logs will be signed by senior managers.
- Document management systems will be implemented to support the filing and retrieval of supporting documentation.
- Financial and performance reports will be presented to the programme managers' forum on a monthly basis and all supporting evidence should be made available.
- When the moratorium on filling vacancies is lifted, MECs will ensure that key positions are filled to drive clean administration.
- The IT memorandum of understanding will be reviewed by departments to clearly indicate the respective responsibilities.
- A compliance checklist will be developed and implemented.

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

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

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

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

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

Auditees' progress, or the lack thereof, by auditees in addressing prior year findings on predetermined objectives is depicted in figure 12 below. A summary of the regulatory requirements or criteria not met by auditees is provided in section 2.3.3.

Figure 12: Movements in findings on reporting on predetermined objectives

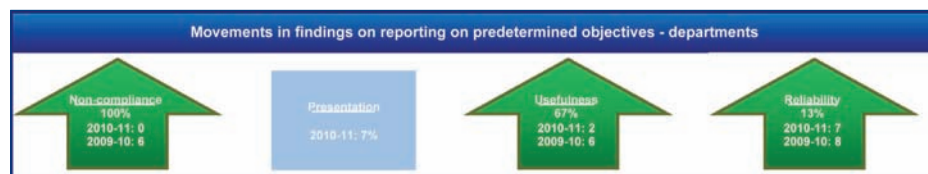
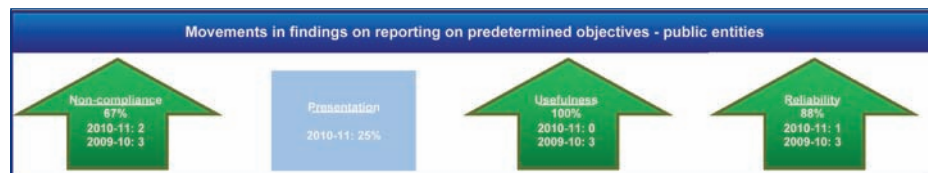


Figure 13: Movements in findings on reporting on predetermined objectives



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

Key trends in findings related to the reporting of predetermined objectives are discussed below.

Annual performance report

All annual performance reports for the current and prior year were received in time for audit purposes.

Non-compliance

- All six departments (43%) addressed non-compliance findings reported in the previous year.
- One public entity (25%) had two repeat findings. Findings mainly related to a lack of effective and efficient systems and internal controls to support the recording and reporting of performance information.
- The reduction of entities with non-compliance findings compared to the previous year is due to the merger of three entities into one new entity. The new entity had non-compliance findings.

Usefulness

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

- Four departments (29%) and one public entity (25%) addressed the usefulness findings reported in the previous financial year.
- Two departments (14%) had repeat findings on this criterion. The findings related to indicators not being well defined, and no logical link existing between objectives, indicators and targets.

Reliability

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

- Two departments (14%) and one public entity (25%) addressed the reliability findings reported in the previous year.

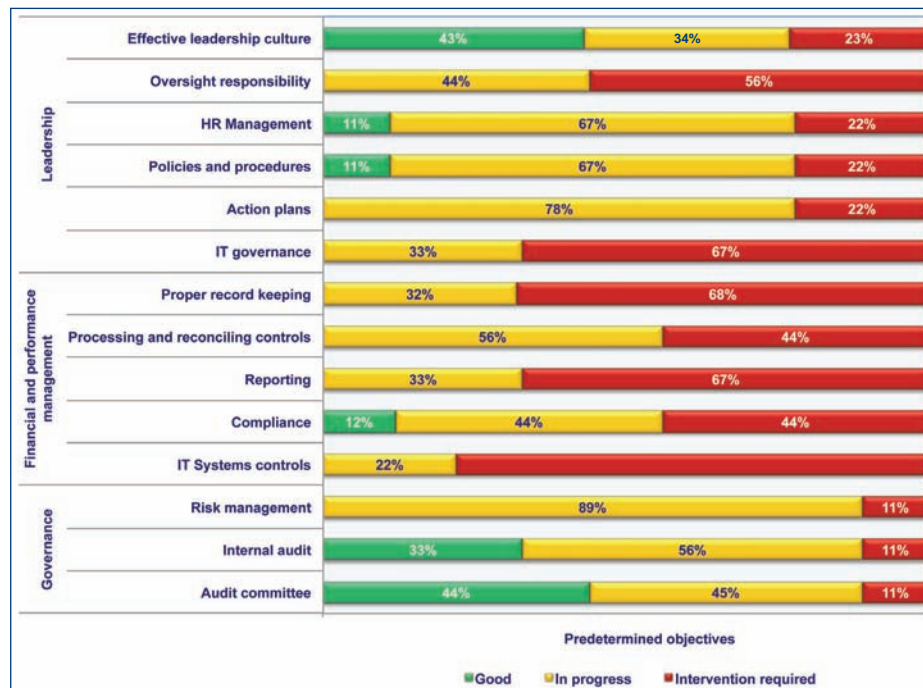


- Six departments (43%) had repeat findings on this criterion. The findings related to the accuracy of reported information when compared to source documentation, and the unavailability of supporting documentation.
- One department (7%) and one public entity (25%) reported a new finding on this criterion.

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

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

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



The departments and public entities with findings on predetermined objectives did not have effective plans for the implementation or monitoring of the three fundamentals of internal control (i.e. leadership, financial and performance management as well as governance). These controls are three-dimensional and deficiencies in any or all of them can be directly linked to the conclusion on the performance report. The leadership should become actively involved in the audit process to drive improvements in audit outcomes.

Best practices by departments and entities with no findings

- Officials were available with the necessary skills to understand the process behind clear and well-defined planned and reported indicators and measures.
- Evidence supporting reported information was available. This was due to the involvement of senior management responsible for performance information.
- Evidence was properly captured and presented to allow easy verification during the audit.
- Management and internal audit units adequately reviewed reports before submission for auditing.

Root causes of matters reported

- There was a lack of skills and capacity to understand and interpret the framework.
- Proper systems were not available to accumulate information for reporting.
- There was a lack of proper reviews during the year to ensure that performance was tracked.
- The risk assessment process and the alignment of the internal audit function were inadequate to address the risks relating to predetermined objectives.
- Audit committees and the executive authority did not enforce the implementation of internal audit recommendations regarding performance management.

Measures to be taken to reduce predetermined objective findings

- The performance management systems should be reviewed to ensure that they can accumulate the information and facilitate its retrieval.
- The leadership should ensure that reported information submitted by programmes is reviewed on submission by management and/or internal audit units.
- The reported information should be reviewed against supporting schedules and documentation.

- The leadership should ensure the appointment of sufficiently skilled management members in the area of predetermined objectives.
- The risk assessment exercise should include risks on reporting on predetermined objectives so that these are incorporated into the internal audit plans.

2.4 Findings on compliance with laws and regulations

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

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

- the activities auditees are charged with carrying out for the citizens
- any limits or restrictions on such activities
- the overall objectives to be achieved
- how due process rights of individual citizens are protected.

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

The audit of compliance is being phased in by the AGSA and details of identified instances of material non-compliance are included in the audit reports. The AGSA specifically focused on legislative requirements relating to the following areas for the financial year ended 31 March 2011:

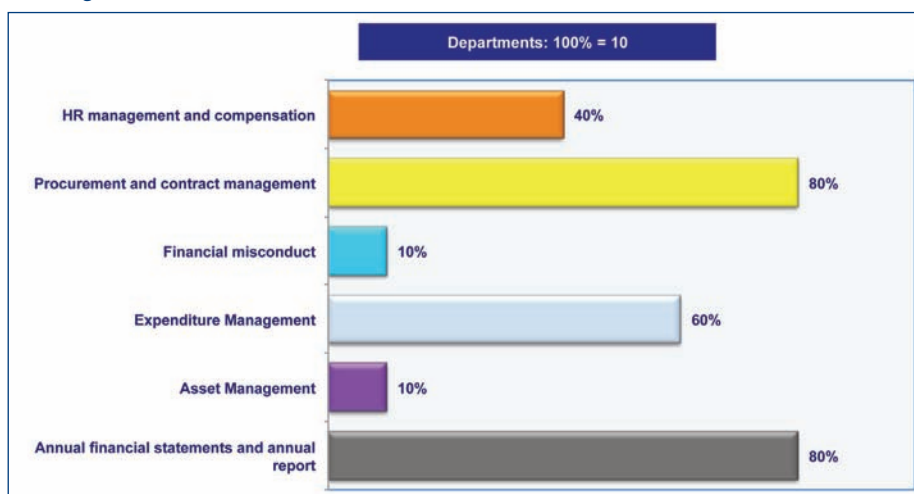
- Annual financial statements, performance report and annual report
- Asset management
- Audit committees
- Budgets and budgetary processes
- Expenditure management
- Financial misconduct
- Internal audit
- Revenue management
- Strategic planning and performance management
- Transfer of funds and conditional grants

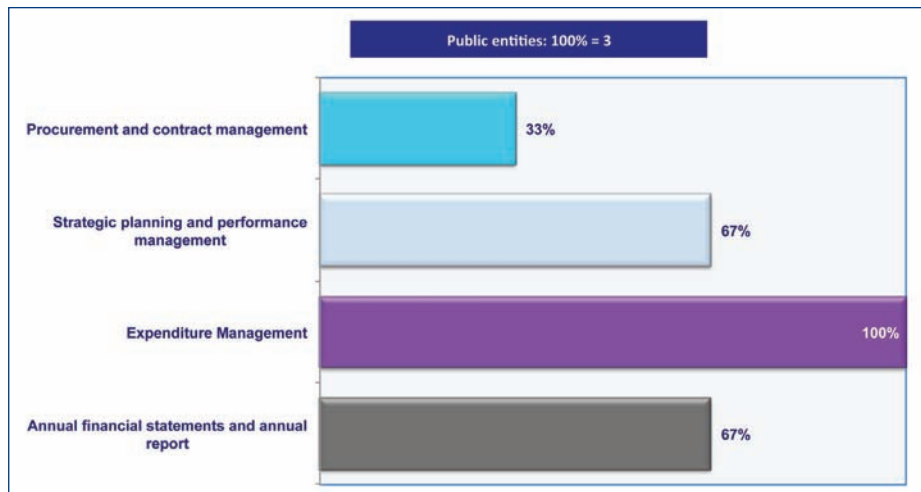
- Procurement and contract management
- HR management and compensation

2.4.2 Transversal findings on compliance with laws and regulations

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

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





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

Table 7: Common non-compliance findings relating to the AGSA's focus areas

Focus area	Summary of common findings	Departments	Public entities
Prevalent non-compliance areas: All auditees			
Annual Financial Statements	Submitted AFS not prepared in accordance with prescribed generally recognised accounting practices	60%	67%
Expenditure management	Irregular expenditure not prevented	30%	67%
Procurement and contract management	Three written quotations not invited, no deviation approved.	30%	33%
Prevalent non-compliance areas: Departments only			
Asset management	Assets transferred - copy of signed inventory not filed with relevant treasury	10%	
Financial misconduct	Annual schedule of outcome of disciplinary proceedings and/or criminal charges not submitted to treasuries.	10%	
Expenditure management	Payments to creditors not settled within 30 days from receipt of an invoice	40%	

Focus area	Summary of common findings	Departments	Public entities
Procurement and contract management	Other employees - additional remunerative work not approved	30%	
	Competitive bids not invited - no deviation approved/ approved deviations based on reasons not justified	30%	
Human resource management and compensation	Overall vacancy rate increased from the previous year	20%	
	Senior management - vacancy rate increased from the previous year	10%	
	Senior management - positions vacant for longer than 12 months	10%	
Prevalent non-compliance areas: Public entities only			
Strategic planning and performance management	Lack of effective, efficient and transparent systems and internal controls.		67%
	No quarterly reporting on performance information		33%

Annexure 2 to this report lists all auditees where non-compliance was identified relating to the AGSA's focus areas.

Section 2.2.4 of this report provides details on the financial statements submitted by accounting officers for auditing that had not been prepared, in all material aspects, in accordance with generally recognised accounting practice (and were supported by full and proper records), as required by the PFMA.

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

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

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

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

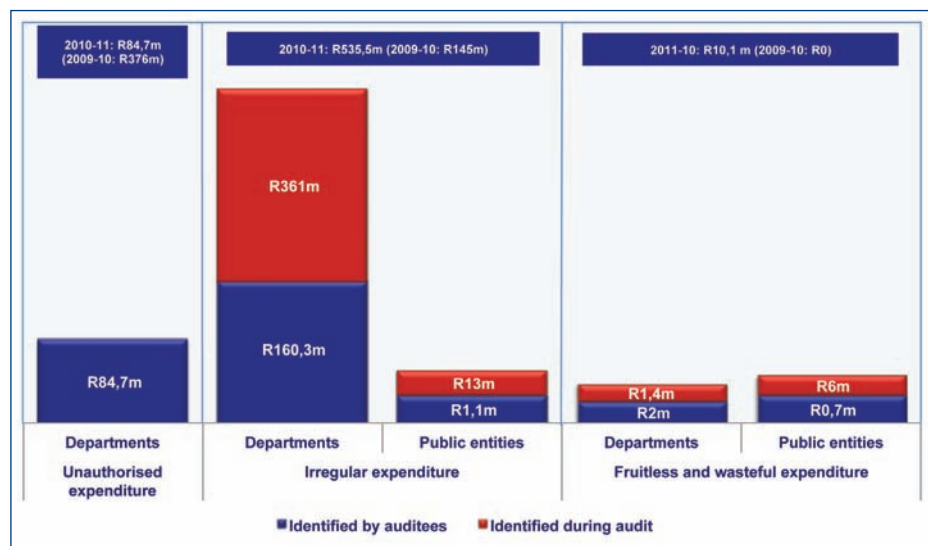
Unauthorised expenditure results from overspending a vote or a main division within a vote, or is expenditure that is not in accordance with the purpose of a vote or main division.

Irregular expenditure is expenditure, other than unauthorised expenditure, incurred in contravention of, or that is not in accordance with, a requirement of any applicable legislation, including the PFMA, the State Tender Board Act, 1968 (Act No. 86 of 1968) and any provincial legislation providing for procurement procedures in a provincial department.

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised.

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

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



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

Table 8: Movements in unauthorised, irregular as well as fruitless and wasteful expenditure

Nature of movements	Departments			Public entities		
	Number of auditees	Amount	Movement over 2009-10	Number of auditees	Amount	Movement over 2009-10
Unauthorised expenditure (applicable to departments only)						
Number of departments incurring	3	R84,7m	25%			
Identified during the audit - not detected by auditee	0	R0	0%			
Incurred for two or more successive financial years	1					
Nature of unauthorised expenditure incurred						
Overspending of votes/main division within votes	3	R84,7m	100%			
Expenditure not in accordance with votes	0	R0	100%			
Irregular expenditure						
Number of auditees incurring	6	R521,4m	50%	2	R14,1m	100%
Identified during the audit - not detected by auditee	5	R45m	25%	2	R14,1m	100%
Incurred for two or more successive financial years	2			0		
Nature of irregular expenditure incurred						
Supply chain management	4	R497,5m	200%	2	R14,1m	100%
Compensation of employees	4	R9,4m	100%	0	R0	0%
Other non-compliance	2	R14,5m	100%	0	R0	0%



Nature of movements	Departments			Public entities		
	Number of auditees	Amount	Movement over 2009-10	Number of auditees	Amount	Movement over 2009-10
Fruitless and wasteful expenditure						
Number of auditees incurring	3	R3,4m	100%	3	R6,7m	100%
Identified during the audit - not detected by auditee	1	R1,4m	100%	2	R6m	100%
Incurred for two or more successive financial years	0			0		

Annexure 3 to this report lists the auditees that incurred the expenditure summarised in the above table.

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

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

Findings were raised during the audit of SCM at eight (47%) of the auditees relating to contracts that had been awarded and quotations that had been accepted (referred to as 'awards' in the rest of this report).

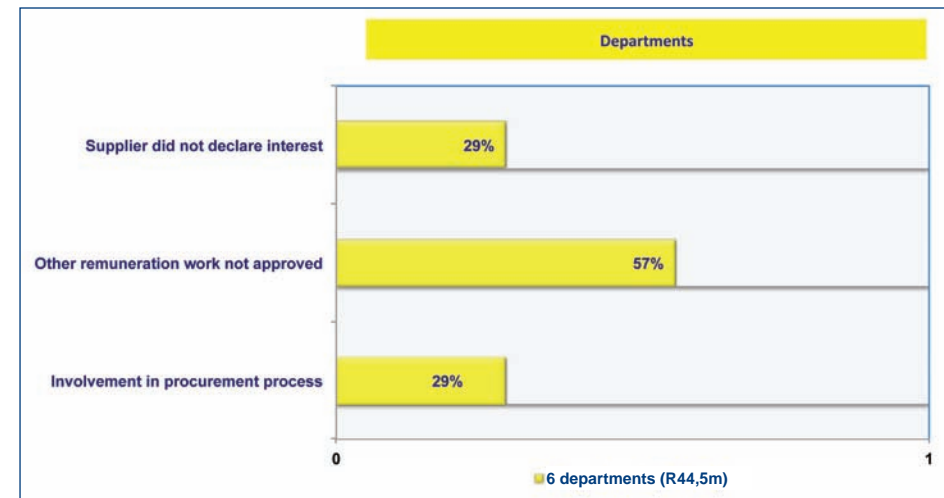
Significant findings relating to SCM are depicted in figure 17 below.

Figure 17: Summary of findings on SCM



Figure 18 shows the awards made to state officials or their close family members.

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



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

Aspect audited	Summarised findings
Limitations on planned scope of audit of awards	One department had findings in this regard. This was as a result of sufficient appropriate evidence not being provided for contracts awarded to the value of R15 532 311. It could therefore not be determined if these payments had been made in accordance with the requirements of SCM legislation.
Awards to state officials and their close family members	Four departments had findings on awards made to state officials and their close family members. This was as a result of employees or their close family members and other state officials who could possibly influence the SCM process who had interests in suppliers relating to awards to the value of R44 093 955.
Uncompetitive or unfair procurement processes	Six departments and one public entity had findings relating to this aspect. This was as a result of competitive bids being invited without approved deviations, quotation processes that were not compliant with legislation, procurement from suppliers without South African Revenue Service (SARS) tax clearance certificates, and awards to suppliers who committed fraudulent acts to be awarded contracts and quotations.
Inadequate contract management	One department had findings on inadequate contract management. This was as a result of inadequate SCM procedures, as SBD forms were not completed as required by the Treasury Regulations.
Inadequate controls	One department had findings on inadequate SCM controls. This was as a result of the department not having an approved SCM policy.

The leadership did not pay adequate attention to the management of SCM, resulting in procurement processes not being followed. The findings related mainly to inadequate planning of procurement and a lack of structured monitoring and reviewing, to ensure that deviations were identified timeously.

The leadership committed to implement action plans or follow through on the implemented action plans to address SCM findings in the following ways:

- SCM policies will be developed and implemented.
- Suppliers linked to officials will be deactivated and a new database will become effective on 15 September 2011.
- New contracts for scholar transport and cleaning services will be implemented.

- The Office of the Premier issued an instruction that no official will be allowed to do business with government.

The AGSA will follow up on the progress of these commitments during our quarterly stakeholder interactions.

2.4.5 Investigations into SCM irregularities, fraud or other financial misconduct

There has been a 56% increase in the number of investigations commissioned by departments and public entities from the previous financial year. Table 9 lists the investigations in progress or completed by 31 March 2011. Not all of the investigations were conducted by the AGSA.

Table 9: Investigations completed or in progress as at 31 March 2011

Auditee	SCM-related	Fraud	Other financial misconduct	Number of investigations per auditee
Department of Culture, Sports and Recreation	1			1
Department of Cooperative Governance and Traditional Affairs	1			1
Department of Economic Environment and Tourism		1		1
Department of Education	3	13	7	23
Department of Health	4			4
Office of the Premier	4	1		5
Provincial Legislature	1			1
Department of Public Works Roads and Transport		2		2
Department of Social Development		1		1
Mpumalanga Economic Growth Agency	2			2

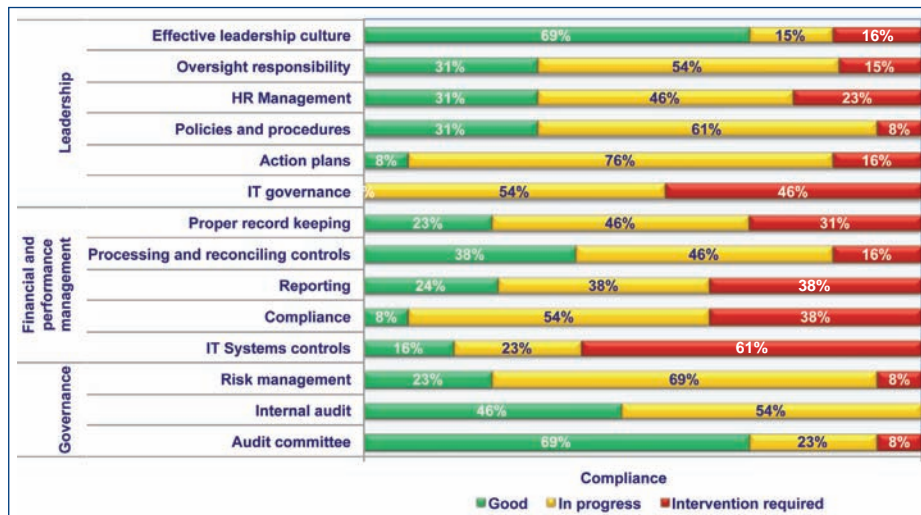
These investigations found that the control environment was weak and not capable of detecting transgressions before the completion of transactions. Adequate controls were also not in place to ensure that procedures were followed within the SCM environment. This was attributable to the high vacancy rate, which resulted in a breakdown of controls.



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

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

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



The findings on compliance with laws and regulations are due to the three fundamentals of internal control (i.e. leadership, financial and performance management as well as governance) not having been implemented or effectively monitored by departments and public entities. These controls are three-dimensional and deficiencies in any or all of them can be directly linked to the findings raised. The leadership should become actively involved in the audit process to drive improvements in audit outcomes.

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

Best practices and measures to be taken to reduce compliance findings

- The internal audit functions should include compliance with laws and regulations in their audit plans.
- Appropriately skilled personnel should be appointed to oversee the compliance function.
- Management should focus on risk assessment and risk management in its operations, relating to the risk of non-compliance.
- Management should identify and define tasks required to ensure compliance with the applicable legislation.
- Management should perform legislative monitoring to identify new legislation applicable to the institution.
- With regard to legislation that requires a significant amount of interpretation, management should consult with the National Treasury and the provincial legislature to ensure that legislation is implemented in accordance with the intentions of the legislator.

Root causes of matters reported

- The leadership did not review and monitor compliance with applicable legislation.
- The leadership did not exercise oversight responsibility regarding financial and performance management, compliance with laws and regulations, and related internal controls.
- There was a lack of skilled personnel to review and monitor compliance with laws and regulations.

The provincial treasury committed to develop an action plan to assist the departments and entities to address non-compliance findings raised by the AGSA and to monitor remedial actions taken. The provincial treasury facilitated a workshop in April 2011 with all chief financial officers (CFOs) to develop action plans to address shortcomings identified during the analysis of the financial management capability maturity model. The provincial treasury requested HoDs to sign off the action plan, but to date they have failed to do so.

2.5 Outline of the way forward to improve audit outcomes

As is evident from the analysis of the audit outcomes presented in this section of the report, there are a number of areas that require focus and, in some instances, intervention to achieve clean administration. Such intensified focus and intervention are required principally from the following parties:

- Accounting authorities, accounting officers, CFOs and auditee management
- Provincial executive leadership (analysed in section 4.1)
- National role players

The AGSA's continuing initiatives to encourage clean administration are discussed in section 4.2 of this report, while other emerging matters that require attention to prevent a negative impact on future audit outcomes are detailed in section 4.3.

SECTION 3: DRIVERS OF AUDIT OUTCOMES – KEY CONTROLS

3.1 Overview of key controls as drivers of audit outcomes

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

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

- Leadership
- Financial and performance management
- Governance

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

- audit opinions on the financial statements
- findings on predetermined objectives
- findings on compliance with laws and regulations.

Auditees that had improved their audit outcomes or maintained positive audit outcomes can attribute this to the implementation and effective monitoring of the three fundamentals of internal control. Similarly, auditees that had regressed or received negative audit outcomes can attribute this to not implementing and monitoring these fundamentals of internal control.

Annexure 4 to this report assesses the adequacy of key controls at auditees at the time of the audit. An assessment of these drivers over financial reporting, reporting on predetermined objectives as well as compliance with laws and regulations is provided in sections 2.2.9, 2.3.4 and 2.4.6, respectively. Sections 3.2 and 3.3 provide an assessment of HR management and IT management as specific drivers of audit outcomes.



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

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



The reasons why auditees were assessed as 'good' or 'intervention required' are outlined below.

Leadership

- The leadership played an active role to ensure that the problems from previous years in terms of predetermined objectives were addressed.
- Focused action plans were implemented and dealt with root causes of findings, such as filling of key vacancies.
- Policies and procedures relating to performance information were understood and implemented.
- There was a lack of IT governance across all departments.
- The leadership did not exercise adequate oversight over reporting on performance information by ensuring that targets and indicators were well defined, that there were adequate systems to accumulate and report on predetermined objectives, and that reported performance information was supported by reliable evidence.

- There was inadequate oversight over financial reporting to ensure that financial statements were free from material errors.
- Skilled management members were not appointed to develop and maintain an adequate system for managing and reporting on predetermined objectives.
- Processes to review compliance with laws and regulations were inadequate.
- Governance structures were inadequate to ensure oversight and the establishment of an appropriate control environment.

Financial and performance management

- Regular, accurate and complete financial and performance reports were prepared and were supported and evidenced by reliable information.
- Inadequate skills and a lack of regular review by the leadership resulted in non-compliance with laws and regulations on procurement and contract management.
- Processes to identify irregular expenditure were not adequate, resulting in numerous adjustments to the financial statements.
- Management did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information was accessible and available to support financial and performance reporting.
- Management did not design and implement formal controls over IT systems to ensure the reliability of the systems and the availability, accuracy and protection of information.

Governance

- Risk assessments were inadequate.
- Internal audit units did not compile quarterly reports and followed up findings.
- Departments' compliance with legislation was not included in audit plans and adequately followed up.
- There was a lack of skilled staff in finance sections.
- Guidance and monitoring by audit committees were inadequate to ensure that the internal audit function operated effectively.

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

3.2 Effective HR management as specific driver of audit outcomes

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

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

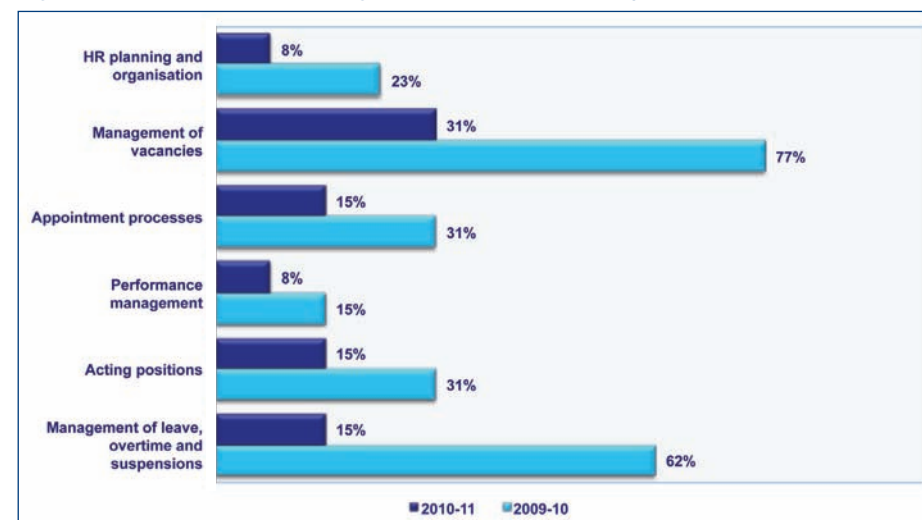
- HR planning and organisation
- Management of vacancies
- Appointment processes
- Performance management
- Acting positions
- Management of leave, overtime and suspensions

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

3.2.1 Overall findings arising from the assessment of HR management

The figure below depicts the extent of weaknesses in each focus area for departments, with a comparison to the previous year.

Figure 21: Identified HR management weaknesses – departments



Common findings relating to the AGSA's focus areas are summarised below. Prior year statistics are also provided.

Table 10: Common findings arising from the AGSA's focus areas

Focus area	Summary of common findings	Departments	
		2010-11	2009-10
HR planning and organisation	HR plan based on strategic plan not in place	13%	9%
	Approved organisational structure not in place	13%	9%
Management of vacancies	Overall vacancy rate increased from previous year	25%	36%
	Senior management - vacancy rate increased from previous year	13%	36%
	Senior management - positions vacant for more than 12 months	13%	82%
Appointment processes	Verification process for new appointments did not always take place	13%	18%
	Verification process for new appointments did not cover all verifications prescribed	13%	18%
	Appointments made in posts that had not been advertised	13%	0%



Focus area	Summary of common findings	Departments	
		2010-11	2009-10
Performance management	Senior managers did not sign performance agreements for current performance period	13%	9%
Acting positions	Employees acted in positions for more than 12 months	25%	9%
	Senior managers acted in positions for more than 6 months	13%	36%
Management of leave, overtime and suspensions	Employees received more than entitled annual leave	13%	0%
	Employees received more than entitled family responsibility leave	13%	0%
	Medical certificates not submitted for sick leave	13%	9%

3.2.2 Impact of staff vacancies on internal control

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

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

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

- Maintaining sound financial management, maintaining adequate records and preparing financial statements.
- Setting performance targets and indicators, monitoring, recording and validating performance against predetermined objectives, investigating variances from set targets, and taking corrective action for deviations identified.
- Enforcing compliance by officials with laws and regulations and ensuring obligations imposed by legalisation on the organisation are timeously and fully discharged.

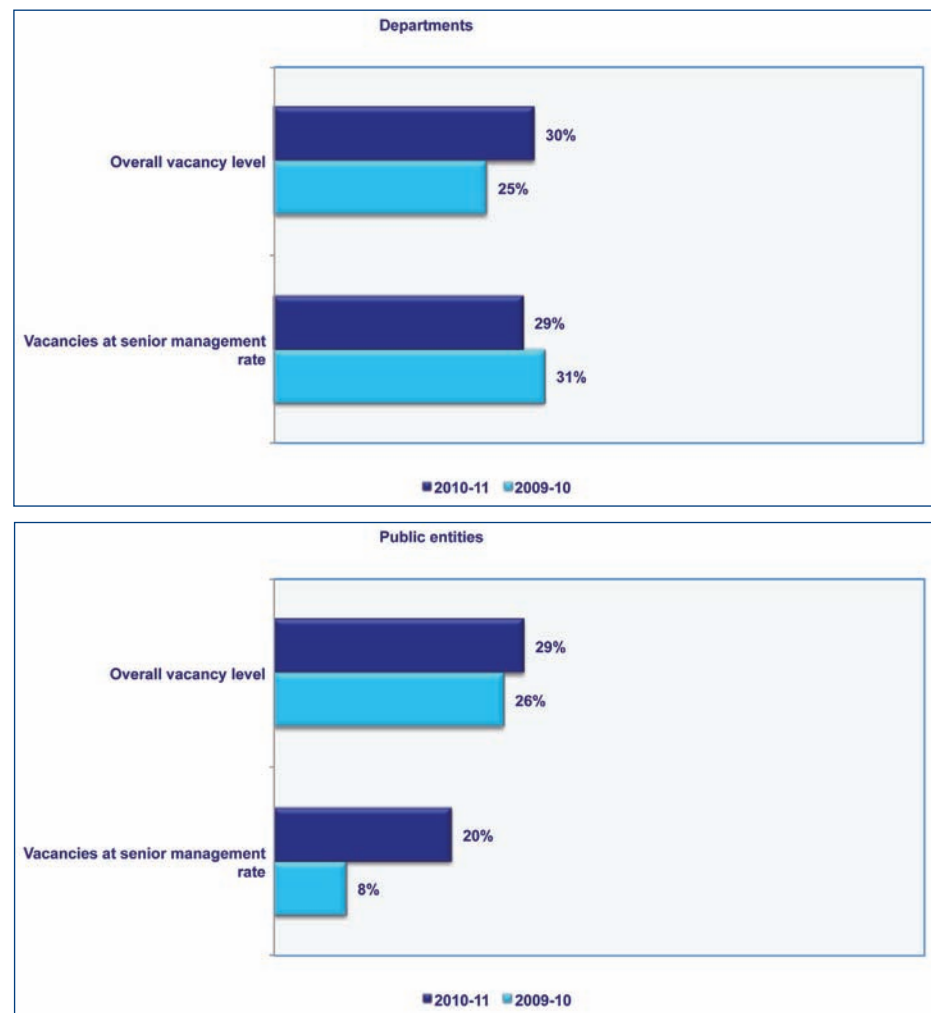
Such activities include, but are not limited to, approvals, authorisations, verifications, reconciliations, performance reviews, maintenance of security as well as creating and maintaining records and appropriate documentation.

Control activities that may be neglected should key positions not be timeously filled with people who have the requisite level of qualifications and experience include the following:

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

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

Figure 22: Progress in filling vacancies



3.2.3 Root causes of findings and way forward on HR management

Root causes

- HR plans based on a strategic plan were not in place.
- Approved organisational structures were not in place.
- The leadership established policies, procedures and action plans to enable and support the understanding and execution of internal control objectives, processes and responsibilities. However, the implementation of these policies and procedures is still a challenge for departments.
- The vacancy rate did not improve due to the moratorium on the appointment of staff.
- Compliance with laws and regulations was not adequately reviewed.
- Vacancies were not timeously filled with suitably skilled people.

Way forward to address HR management findings

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

3.3 IT management as specific driver of audit outcomes

3.3.1 Computer systems in use and the management of IT

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

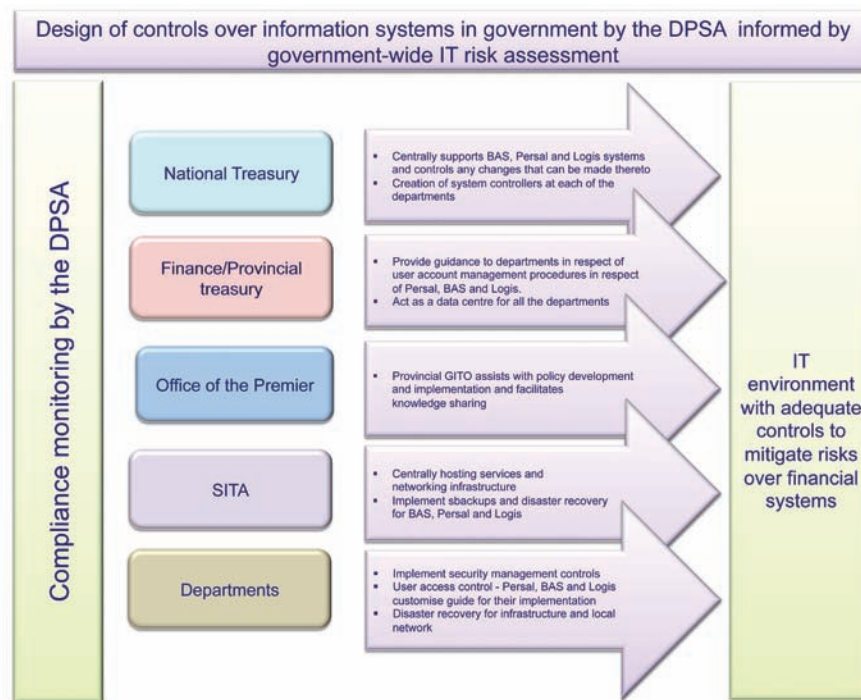
Thirteen departments in the province utilise the transversal systems, namely the Basic Accounting System (BAS), the Personnel Administration System (PERSAL) and the Logistical Information System (LOGIS), to manage financial information.



The public entities use off-the-shelf packages and in-house developed systems. Transactions processed on these systems include procurement, supply payments, payroll, assets, and debtor accounts. The only significant deficiency identified related to the Mpumalanga Economic Growth Agency where backup procedures were not performed.

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

Figure 23: Design of IT management



It is against the roles and responsibilities outlined above that the following focus areas were selected for IT audits in the province:

- IT governance

- Security management
- User access control
- IT service continuity

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

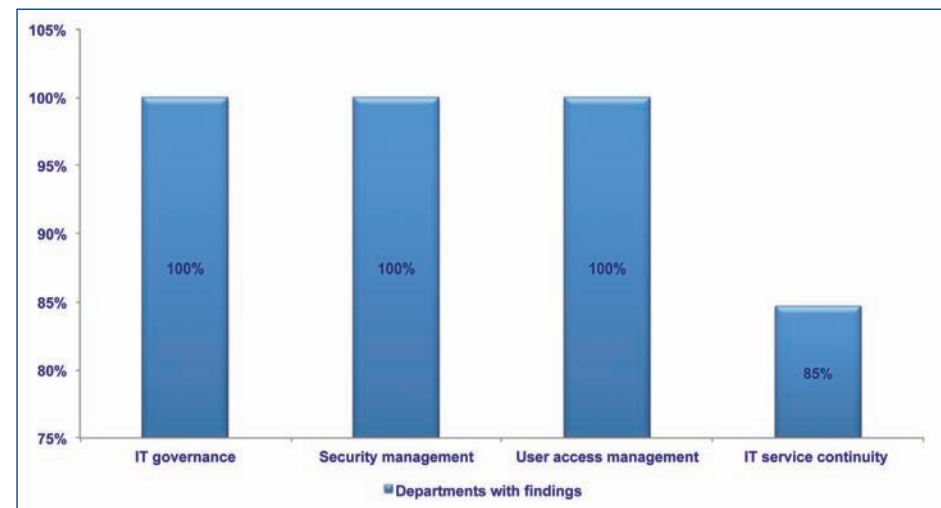
- Program change management
- Facilities management
- Data centre

3.3.2 Deficiencies identified in IT management

The IT management of financial systems was evaluated at 13 departments in the province.

Key areas in the management of IT in which deficiencies were identified are summarised in the figure below.

Figure 24: Identified control deficiencies in the management of IT



Based on the above, it is evident that management did not design adequate controls. Furthermore, management and internal audit units did not monitor the implementation of controls and report progress to those charged with governance.

Key issues within the province are summarised in table 11.

Table 11: Control weaknesses identified in IT management

Focus area	Outline of aspects audited	Incidence of control weaknesses identified	
		Departments	
		Number audited	Percentage
IT governance	The structures, policies and process through which the departments ensure that IT departments and public entities support and are in line with the business requirements	13	100%
Security management	Controls that prevent unauthorised access to the networks, operating systems and application systems that generates and prepares financial information	13	100%
User access management	Procedures through which the departments and public entities ensure that only valid, authorised users are allowed segregated access to initiate and approve transactions on the system	13	100%
IT service continuity	Processes of managing the availability of hardware, system software, application software and data to enable departments to recover or establish information system services in the event of a disaster	13	85%

In the absence of a government-wide IT governance framework, which must be developed and rolled out by the Department of Public Service and Administration (DPSA), the Office of the Premier did not develop and implement a provincial IT governance framework. The following governance processes were therefore not addressed in all departments:

- IT strategic plans were not developed.
- Risk management processes were inadequate.
- There was a lack of IT risk registers.
- Responsibilities for key IT positions had not been delegated.

- IT policies and procedures were not formally established.
- Service level agreements were not formalised.
- Performance monitoring was not performed.

Security management at the data centre (Department of Finance) revealed that the IT security policy was inadequate, security standards and procedures were lacking, operating system security settings were not appropriately set and the activities of the administrator were not reviewed. At eight other departments a security policy was either not in place or inadequate.

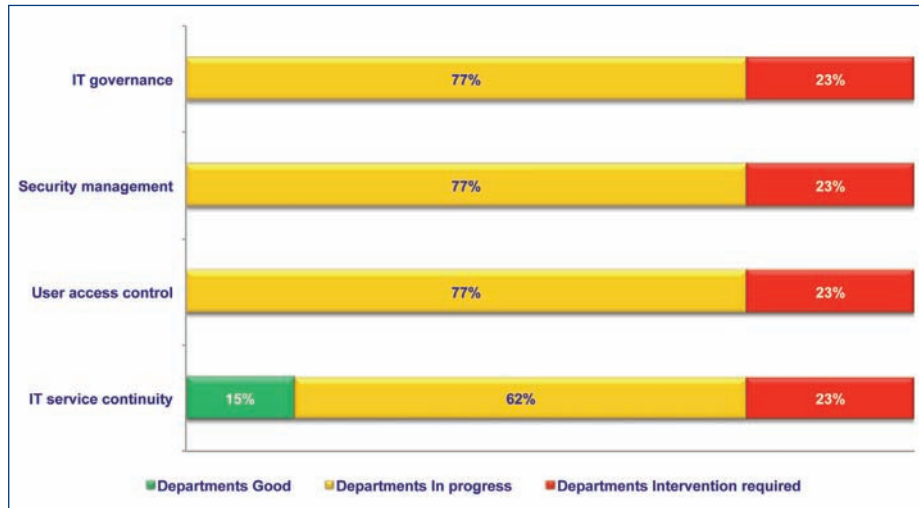
Guidelines for user access management were issued by the provincial treasury for PERSAL, BAS and LOGIS. These guidelines and policies were not adequately implemented, resulting in a lack of review and monitoring of system controller activities, while users' access rights were not periodically reviewed at all departments. There was inadequate segregation of duties (i.e. system controllers also performed normal user functions) at 84% of the departments, while inappropriate access had been granted to the systems due to a lack of supporting documentation at 30% of the departments.

Business continuity plans (BCPs) and disaster recovery plans had not been established at 11 (85%) of the departments to enable a connection to SITA for the resumption of business operations in the event of a disaster.

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



Figure 25: Progress in addressing prior year IT findings



Some progress has been made in addressing previous year audit findings but at the majority of departments the previous audit findings had not yet been fully addressed, as the corrective measures were still in progress. During follow-up audits, management provided new commitments to address these findings.

The following recommendations require immediate management intervention as they relate to repeat findings:

- IT governance – The provincial government information technology officer (GITO) at the Office of the Premier should consult with the DPSA to ensure alignment with the draft government-wide IT governance framework.
- Security management – The Department of Finance should ensure that adequate policies and procedures are developed and implemented within the data centre environment. The operating system security settings should also be set in accordance with best practices.
- User access management – The guidelines for user access management issued by the provincial treasury for PERSAL, BAS and LOGIS should be updated and implemented by departments to ensure the monitoring and review of system controller activities and users' access rights, segregation

of duties, and adequate supporting documentation for access granted.

- IT service continuity – The provincial GITO at the Office of the Premier should provide guidance to the departments in order for all departments to establish BCPs.

3.3.3 Root causes of findings and way forward on IT management

Root causes

The overall root cause is the leadership not implementing commitments as evidenced by the management commitments made in last year's management responses that have still not been fully implemented. However, departments were busy addressing the audit findings. In addition, there was no system for monitoring the implementation of commitments. The following are more specific root causes:

- IT governance –A government-wide IT governance framework had not been developed and rolled out by the DPSA.
- Security management – Formal IT security policies did not exist and security settings were not appropriately set.
- User access management – Departments did not adequately implement the guidelines developed by the provincial treasury.
- IT service continuity – The leadership did not take responsibility for developing BCPs.

Way forward to address IT management findings

- The provincial internal audit function should be more involved in tracking the progress of the implementation of IT management commitments, proactively and continuously.
- The DPSA should obtain Cabinet approval for the implementation and roll-out of a government-wide IT governance framework within all the departments.
- The Department of Finance should establish an adequate security policy and ensure that security settings are implemented within the data centre environment. The provincial GITO within the Office of the Premier should ensure that security policies within all departments are aligned with the DPSA security policy. These policies should be presented at the HoD forum for adoption and implementation within all departments.

- Departments should establish service level agreements with the Department of Finance to enable performance monitoring. Accounting officers should ensure that BCPs are established for each department and that the user access management guidelines and policies developed by the provincial treasury are implemented.

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

Controls were not adequate to mitigate the financial risks. Although the Department of Finance and the provincial treasury developed user access management guidelines and policies, departments did not adequately implement PERSAL, BAS and LOGIS procedures and certain key monitoring controls. Furthermore, an IT governance framework for the province had not been formally developed, approved and implemented. This contributed to the province's failure to implement adequate IT governance practices, which also had an impact on the design of security management and IT continuity controls.

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

4.1 The function of key provincial role players in audit outcomes

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

The provincial role players honoured their previous commitment to ensure that adequate and credible action plans were designed and implemented. However, the inadequate implementation and the insufficient monitoring of these plans were some of the obstacles that limited their effectiveness, as they failed to significantly improve the outcomes in the province.

The executive did not take decisive steps to address the shortcomings relating to SCM, information systems and service delivery reporting, as they continue to be areas of concern. The efforts of the executive leadership were hampered by the high vacancy rate, particularly at senior management level, due to the moratorium on the filling of vacancies in the province.

The absence of cooperation and coordination among the key role players in the province also contributed to the ineffectiveness of action plans. Coordination among the key role players will certainly ensure that all focus areas are addressed.

The PAC intensified its efforts by conducting regular meetings to follow up on the progress made by departments in implementing the house resolutions. The impact of these robust interactions is not yet reflected in the audit outcomes, as the resolutions are still being implemented.

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



Table 12: Assessment of the monitoring capacity of key provincial role players to address audit outcomes at the time of the audit

	Role players	Supply chain management	Predetermined objectives	Financial management	Turnaround plans	IT controls	HR management	Governance structures
Oversight accountability	Provincial executive leadership (Premier and MEC Finance)							
	Coordinated provincial oversight (provincial standing committees and provincial speaker's forum)							
	Accounting officers, accounting authorities, CFOs and senior officials							
	Administrative accountability							

■ Good progress
 ■ In progress
 ■ Intervention required

Note: Responsibility for these focus areas varies amongst the role players

4.1.2 Commitments and actions by the provincial executive leadership and oversight

The AGSA held various interactions with the executive council and the legislature during October and November 2011. The interactions were aimed at engaging the key role players on the outcomes of the audits. The executive council was extremely concerned about the lack of progress, as the issues raised were not new and were clearly understood by all parties.

The executive council emphasised that the time has come for the province to take the next step when consequences for non-performance would be severe. The premier took overall responsibility for ensuring the improvement in the audit outcomes and committed to improving the number of clean audit outcomes in the province.

The executive council pointed out that the province analysed the outcomes and agreed on what steps need to be taken to improve the outcomes. The provincial treasury presented these steps during the roadshow. Salient features of the action plans are summarised below.

Table 13: Responses and commitments by the provincial executive leadership

Outline of role player commitment/ proposed action plans October 2011		Focus areas targeted by commitments and action plans						
		Supply chain management	Predetermined objectives	Financial management	Turnaround plans	IT Controls	HR management	Governance structures
Provincial executive leadership								
1	Operation clean audit is a standing item on the PMC agenda. HODs will be expected to discuss the progress of the departments.							
2	Evaluation and monitoring unit facilitated training for the staff in the planning unit of all the departments to ensure that staff understands the expectations.							
3	Development and implementation of SCM policy.							
4	Suppliers linked to officials will be deactivated and a new database will take effect 15 September 2011.							
5	Implementation of a new contract for scholar transport and cleaning services.							
6	Steps will be taken against officials that transgressed SCM regulations.							
7	Progress report on AGSA findings will be discussed with Responsibility Managers during departments top management meetings.							
8	MECs will sign Memorandum of Understanding (MOU) with IT unit. Activity and access violation logs will be signed by senior managers.							
9	Implementation of document management systems to support filing and retrieval of supporting documentation.							
10	Financial and performance reports to be presented to the Programme Managers Forum on a monthly basis and all supporting evidence should be made available							

Outline of role player commitment/ proposed action plans October 2011		Focus areas targeted by commitments and action plans						
		Supply chain management	Predetermined objectives	Financial management	Turnaround plans	IT Controls	HR management	Governance structures
12	Risk management unit to review fraud prevention plan for an update. Implementation October 2011							
13	With the Lifting of moratorium on filling vacancies, MECs will ensure that key positions are filled to drive clean administration.							
14	Implementation of a contract management system to manage lease contracts.							
15	Office of the Premier issued guidance that no official will enter into contracts with government							
16	Review of IT MOU between finance and departments to ensure clear indication of respective responsibilities.							
17	Development and implementation of a compliance checklist.							
Provincial treasury								
1	Facilitate training sessions and workshops on SCM practices.							
2	Conduct a SCM roadshow to raise awareness and provide support.							
3	Assist with the roll out and implementation of fraud prevention systems.							
4	Assist with the development, implementation and maintenance of IT governance frameworks.							
5	Develop an action plan and strategy to address issues raised by the AGSA for departments and public entities, and monitor remedial action taken.							
6	Facilitate training to officials on accounting standards, legislation and annual financial statements.							
7	Issue best practice notes on occurring high risk issues							
8	Develop generic good practice guidelines for filing and storage of documents compiled, reviewed, updated and issued.							

Outline of role player commitment/ proposed action plans October 2011		Focus areas targeted by commitments and action plans						
		Supply chain management	Predetermined objectives	Financial management	Turnaround plans	IT Controls	HR management	Governance structures
9	Assist departments and entities with high risk areas identified in terms of the Financial Management Capability Maturity Model (FMCMM) results.							
10	Facilitate training sessions and workshops to assist departments developing and implementing Enterprise Risk Management Frameworks.							
Provincial public accounts committee								
1	Review of departments quarterly updates on SCOPA resolutions.							
2	Follow up exercise on all SCOPA resolutions dated back to 2007.							
Other								
1	Provincial Legislature appointed an EOH Registered Accountants and Auditors to perform a system and data migration audit to ensure that information has been correctly transferred from BAS and captured into the new financial system SAP.							
2	National Treasury appointed consultants to assist with 100% asset verification process for the Department of Health							

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

The executive council gave assurances that the action plan will be revisited to ensure that it is based on the root causes and clearly states how the plan will be monitored. The council also welcomed the AG's advice to include the MECs, HoDs, CFOs, internal auditors and audit committees as monitors of the action plan. In conclusion, the executive council pledged its commitment to intensify its monitoring efforts through effective and continuous monitoring.

The legislature committed to improve its oversight by having regular interactions with auditees. The regular monitoring of departments and entities will be included as



part of the legislature's programme. The legislature will continue to look for ways to strengthen the collaboration between portfolio committees, the PAC and executives.

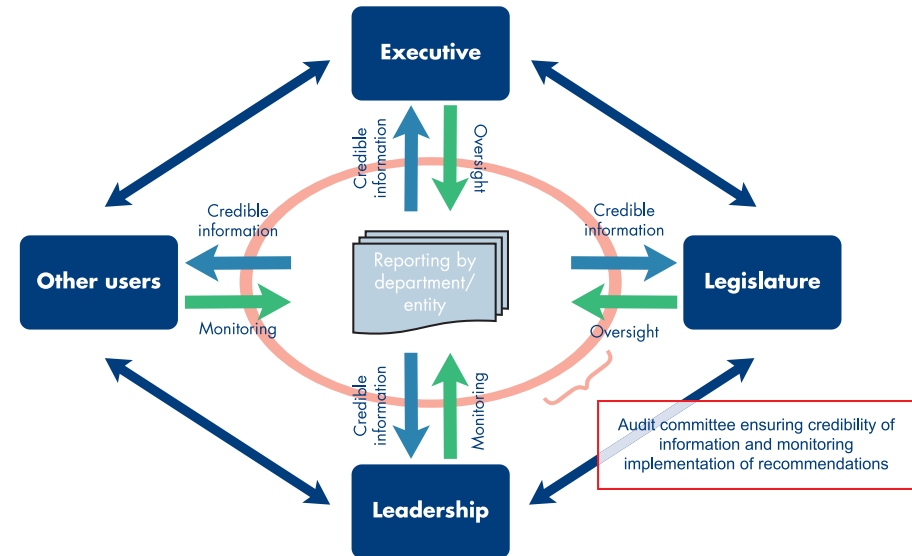
The plans to improve oversight will be discussed and formalised during the upcoming strategic retreat, with the intention of implementing the plans in January 2012.

4.1.3 Audit committees

An audit committee is established in terms of the PFMA legal framework to serve as an independent governance structure whose function it is to provide an oversight role on the systems of internal control, compliance with legislation, risk management and governance. In performing its duties, the audit committee assists the accounting officer in the effective execution of his or her responsibilities, with the ultimate aim of achieving the organisation's objectives. The role of the audit committee worldwide is evolving and audit committees need to look wider than the actual prescribed duties and focus on the intent of legislation rather than the written word. In the public sector this means that audit committees need a level of maturity in order to serve society as a whole.

Figure 26 depicts the role of the audit committee in reporting.

Figure 26: Role of the audit committee in reporting



The responsibilities of the audit committee include providing assurance on the credibility of various reports produced for purposes of oversight, decision-making and accountability. Should the audit committee fail to execute this responsibility effectively, vital decisions relating to funding, accountability and service delivery will be based on information that may be inaccurate, incomplete and unreliable. Figure 27 below depicts the current status and effectiveness of audit committees within the Mpumalanga Provincial Administration, while the status per auditee is indicated in annexure 7 to this report.

Figure 27: Effectiveness of audit committees



All 13 departments (including the provincial legislature) and four public entities had audit committees and complied with the legislated requirements of the PFMA and related Treasury Regulations for the period reported on. Even though the audit committees complied with all the legislative requirements, the impact of their effectiveness did not reflect in the audit outcomes of 11 (65%) of the auditees.

The audit committees at all 13 departments (including the provincial legislature) and four public entities met at least quarterly to advise the auditees on issues ranging from the effectiveness of internal control systems and functions, the reliability and accuracy of financial information, accounting concerns, compliance with legislation and reporting.

For the 2010-11 financial year, a decision was taken at the forum for audit committee chairs, that all chairs would also meet with the executives on an ad hoc basis to update the MECs and inform them of any intervention required. Some of the issues communicated to the MECs were the programme of internal audit and progress made on the implementation of action plans. At three (23%) departments and one (25%) public entity the chairs did to have these interactions with the executives. At these four entities, amongst others, the impact of the audit committee was not reflected in the audit outcomes.

The impact of the effectiveness of the audit committees is evidenced by the improvement in the audit outcomes. Where the effectiveness of the audit committees did not have an impact on the outcomes, the interactions with the executives might not have been effective or the entities possibly did not take action on the advice of the audit committees.

4.1.4 Status of PAC oversight resolutions

At year-end, 33 PAC resolutions out of a total of 113 had been resolved and 69 were in progress. The resolutions listed below as being outstanding are based on the evaluation by the PAC on feedback received from departments and public entities. The efficient and effective implementation of resolutions has not been evaluated and will only be followed up during the next audit cycle.

Table 14: Status of implementation of PAC resolutions

Auditee	Total number of resolutions	In progress from prior year	Number of resolutions resolved during 2010-11	Number of resolutions in progress	Number of resolutions not actioned
Departments					
Public Works Roads and Transport	16	0	1	15	0
Economic Development Environment and Tourism	4	1	4	0	0
Health	3	3	0	3	0
Social Development	16	1	12	4	0
Cooperative Governance and Traditional Affairs	5	4	0	4	1
Agricultural Rural Development and Land Administration	9	3	2	3	4
Education	19	11	8	11	0
Culture Sports and Recreation	12	10	0	10	2
Human Settlements	2	2	0	2	0
Provincial Legislature	9	6	3	6	0
Public entities					
Mpumalanga Regional Training Trust	3	3	0	3	0
Mpumalanga Economic Growth Agency	8	8	0	8	0
Mpumalanga Tourism Parks Agency	7	2	3	0	4
Total	57	18	20	33	4



An estimated 100% of these resolutions directly or indirectly related to financial management, predetermined objective reporting or compliance with laws and regulations. The resolutions taken by the PAC relate only to issues reported in the audit reports.

4.2 Initiatives taken by the AGSA to encourage clean administration

Key elements of the AGSA's initiatives to encourage clean administration include the following:

- Conduct quarterly visits to the MECs and HoDs to discuss the status of key controls and commitments.
- Attend PAC hearings and provide support to the oversight process.
- Discuss the status of the key controls with audit committees, portfolio committees and the PAC.
- Capacitate the portfolio committees through regular interactions to ensure that they focus on key issues.
- Frequently engage with the provincial treasury to discuss contentious accounting and legal matters.
- On invitation, attend *Operation clean audit 2014* meetings and provide guidance on key issues.
- Engage the key role players on predetermined objectives to ensure that all parties have the same understanding.

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

This section deals with matters that did not have an impact in the current year but could result in misstatements in the ensuing year if they do not receive attention.

Accounting and compliance matters

- For 2011-12, inventory will be audited in full and findings will be reported in the management report. Certain departments that carry a large quantity of inventory might have findings, should they fail to implement adequate controls to ensure the valuation, existence and completeness of inventory at hand.

- The provincial legislature changed from BAS to the SAP accounting system on 1 April 2011. SAP facilitates the principles of accrual accounting; however, the provincial legislature will be accounting and reporting on a modified cash basis. This might result in qualification findings should the provincial legislature fail to monitor the migration process.

New legislation

- The Financial Management of the Mpumalanga Provincial Legislature Act, 2010 (Act No. 3 of 2010) was fully implemented on 1 April 2011. This might result in qualifications should the provincial legislature fail to implement processes to drive compliance with the legislative requirements.

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

5.1 Background

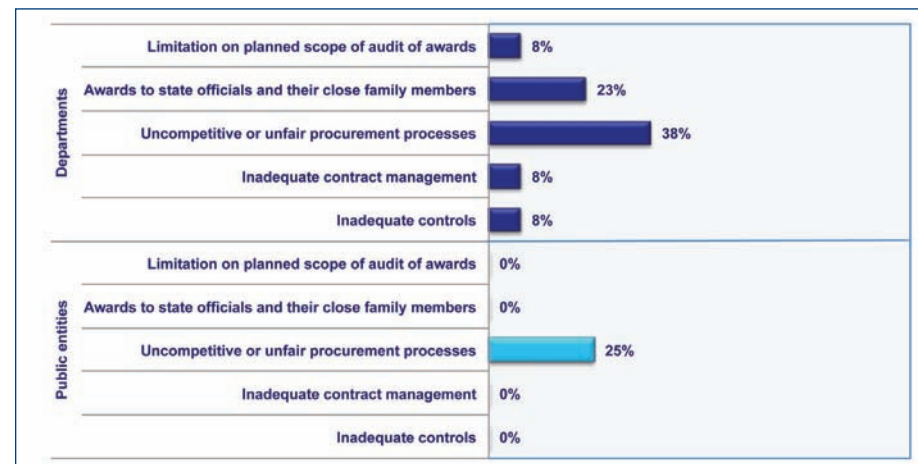
The audits conducted by the AGSA at departments (including the provincial legislature) and listed public entities included an assessment of procurement processes, contract management and the controls in place to ensure a fair, equitable, transparent, competitive and cost-effective SCM system that complies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

As is evident from the analysis of irregular expenditure (section 2.4.3), R511 million (96%) of the irregular expenditure incurred by auditees was as a result of the contravention of SCM legislation. Seventy per cent of the irregular expenditure was identified during the audit process. At the majority of auditees, the incomplete identification of SCM irregular expenditure was the result of the following:

- Key officials did not understand SCM requirements.
- There was a lack of proper planning for operations to allow for timely procurement.
- No comprehensive checklist existed to monitor compliance during the procurement process.
- Policies and procedures were rolled out, but they were not implemented.
- Condonement or follow-up of prior year irregular expenditure remained a concern as the process to be followed was not understood.

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

Figure 28: Summary of findings on SCM



5.2 Limitations on the planned scope of the audit of awards

Sufficient appropriate audit evidence could not be provided at all the auditees that awards had been made in accordance with the requirements of SCM legislation. No alternative audit procedures could be performed to obtain reasonable assurance that the expenditure incurred on these awards was not irregular. Table 15 depicts the limitations experienced.

Table 15: Limitations experienced

Auditee	Number of awards	Value of awards R'000	Reason for limitation
Departments			
Public Works Road and Transport	8	15 532	Inadequate filling system
Total	8	15 532	

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



5.3 Awards to state officials and their close family members

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

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

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

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

Table 16: Awards to state officials and their close family members

Auditee	Awards made to				Non-compliance with regard to awards made					
	Officials		Close family members of officials		Supplier did not declare interest		Official did not declare interest		Other remunerative work not approved	
	Number	R'000	Number	R'000	Number	R'000	Number	R'000	Number	R'000
Departments										
Agriculture Rural Development and Land Administration	97	4,676			97	4,676				
Cooperative Governance and Traditional Affairs	35	1,466			35	1,466				
Education	92	4,271					43	2,091	49	2,180
Health	28	1,362					28	1,362		
Public Works Roads and Transport	115	40,238	4	401	108	39,556	11	1,083		
Total	367	52,013	4	401	240	45,698	82	4,536	49	2,180
Percentage of auditees tested	29%		6%		18%		18%		6%	

The declarations for 28 awards (R1 361 547) could not be provided for audit purposes.

5.4 Uncompetitive or unfair procurement processes

The principles of contracting for goods and services in a manner that is fair, equitable, transparent, competitive and cost-effective comes from our Constitution. Legislation, most notably the PFMA and Treasury Regulations, prescribes the processes and rules to be followed by departments and public entities in order to consistently and correctly apply the constitutional principles and to safeguard the process against abuse. The preferential procurement framework further gives effect to the constitutional principle of providing preference to the previously disadvantaged in the allocation of work by the public sector.

The AGSA's audits also focus on whether the procurement processes followed were fair and competitive in that it provided all suppliers equal opportunity to compete for public sector contracts and that the process did not favour some suppliers above others.

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

The procurement processes of 217 contracts worth R1,6 billion and 338 quotations worth R885 million were tested. The most prevalent findings on non-compliance with SCM legislation that resulted in uncompetitive or unfair procurement processes are summarised in the table below.

Table 17: Findings on uncompetitive or unfair procurement processes

Auditee	Competitive bids not invited		Quotation process not compliant with SCM legislation		Three written quotations not invited		Procurement from suppliers without tax clearance certificates		No declaration of interest submitted		Other findings	
	Number	R'000	Number	R'000	Number	R'000	Number	R'000	Number	R'000	Number	R'000
Departments												
Cooperative Governance and Traditional Affairs	1	6 127										
Culture Sports and Recreation			1	59								
Economic Development Environment and Tourism	1	601			1	301						
Education					3	551	3	205				
Public Works Roads Transport	8	341 911			2	380			119	40 641	1	1 794
Public entities												
Mpumalanga Economic Growth Agency					8	1 233						
Total	10	348 639	1	59	14	2 465	3	205	119	40 641	1	1 794
Percentage of auditees tested	18%		6%		24%		6%		6%		6%	

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

Finding	Detail
Written price quotations not invited – no deviation approved	A price quotation process should be followed for the procurement of goods and services of a lower value. The required number of price quotations was not always obtained and the deviations were not approved by a properly delegated official or committee.
Written price quotations not invited – approved deviation not reasonable or justifiable	A price quotation process should be followed for the procurement of goods and services of a lower value. Instances were identified of deviations being approved for obtaining less than the required number of price quotations even though it was not impractical or impossible to obtain the required number of quotations.
Competitive bids not invited – no deviation approved	A competitive bidding process should be followed for the procurement of goods and services above a prescribed value. Competitive bids were not always invited and the deviations were not approved by a properly delegated official or committee.

Finding	Detail
Competitive bids not invited – deviations not reasonable or justifiable	A competitive bidding process should be followed for the procurement of goods and services above a prescribed value. Instances were identified of deviations from the competitive bidding process being approved even though it was not impractical or impossible to follow such a process.
Procurement from suppliers without SARS tax clearance	Awards were made to suppliers who failed to provide written proof from SARS that their tax matters were in order.
No declaration of interest submitted	Specific measures are necessary to ensure that officials do not abuse the system in order to favour their own businesses or those of their family members or associates. In this regard, prospective suppliers are required to declare whether they are in the service of the state or connected to a person in the service of the state. Awards were made to suppliers that did not submit the required declaration.
Other findings	The other findings identified were as follows: <ul style="list-style-type: none"> An award was made to a supplier not listed on the database of prospective suppliers. Companies with the same owner were used, which did not promote fair competition.

5.5 Inadequate contract management

Shortcomings in the manner in which contracts are managed result in delays, wastage and fruitless expenditure, which have a direct impact on service delivery to the citizens.

Findings on contract management are summarised in the table below.

Table 18: Findings on contract management

Auditee	Standard form of contract not used	
	Number	R'000
Departments		
Social Development	8	822
Total	8	822
Percentage of auditees tested	6%	



Further details on the findings are as follows:

Finding	Detail
Contracts not prepared in accordance with the standard conditions of contract prescribed by the National Treasury	Contracts were drafted and signed in formats that were not in line with the prescribed requirements.

5.6 Inadequate SCM controls

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

Table 19: Findings on SCM controls

Auditee	No SCM policy
Departments	
Public Works Roads and Transport	
Total	1
Percentage of auditees tested	100%

Further details on the findings are as follows:

Finding	Detail
No SCM policy	The auditee did not implement an SCM policy for the procurement of goods and services.

5.7 Overall conclusion on SCM matters

The irregular expenditure incurred in the province resulted mostly from awards made to persons in the service of the state or their family members at 23% of the departments, and unfair procurement processes at 38% of the departments and 25% of the public entities, valued at R44 million.

The findings on uncompetitive or unfair procurement processes mostly related to quotations not being obtained and competitive bidding not being followed due to poor planning. Inadequate controls and systems, and a lack of specific monitoring of SCM regulations by using a compliance checklist, remain a problem.

The leadership was not always aware of the SCM requirements and their specific oversight focus, for example, on the composition and competence of bid evaluation committees and bid adjudication committees. The leadership simply followed the poor recommendations made by these committees even where they were ineffective.

Overall there has been no improvement in the SCM findings compared to the prior year.

The provincial treasury facilitated training on SCM practices to officials, including the leadership. The effect of the initiatives is not reflected in the audit outcomes. With the closure of the State Tender Board all powers have moved to the various HoDs. HoDs deviate from the SCM regulations against the recommendations of the provincial treasury. The provincial treasury regularly sends circulars to the leadership to raise awareness of compliance with SCM regulations.

The following commitments are required from the leadership to address the significant SCM findings noted in this report:

- Implement a document management system, and conduct post-implementation reviews of the filing and retrieval of documentation.
- Improve processes to identify officials doing business with government, and ensure that all documentation required by law is completed.
- Implement guidance issued by the provincial treasury on SCM regulations, and put processes in place to deal with transgressions accordingly.
- Develop a compliance checklist to ensure that all the legislative requirements are adhered to before approving awards.
- Develop policies and procedures that are aligned to the SCM regulations.

SECTION 6: CONSOLIDATED FINANCIAL STATEMENTS

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

Due to the above, the AGSA is not able to issue an audit report on the fair presentation of the financial statements but instead separate factual finding audit reports are issued for the departments and the provincial legislature, and for the public entities. The status of the agreed-upon procedure engagements as at 31 March 2011 is reflected in table 20 below.

Table 20: Status of the audit of consolidated financial statements

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

The consolidated financial statements of departments and public entities for the 2010-11 year were received on 31 August 2011. The audit is currently in progress and the anticipated reporting date is 30 September 2011.

SECTION 7: STATUS OF TABLING OF ANNUAL REPORTS

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

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

Table 21: Annual reports tabled by departments, public entities and other entities

Auditee type	Percentage of reports tabled at 31 August 2011	
	2010-11	2009-10
Departments	39%	46%
Public entities	75%	38%
Total		

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

Table 22: Annual reports not tabled

Auditee	Reason (s)	Expected tabling date
Departments		
Office of the Premier	Annual report not finalised	No date given for submission
Agriculture, Rural Development and Land Administration	The planning department did not secure the time for printers.	No date given for submission
Public entities		
Mpumalanga Economic Growth Agency	Annual report not finalised	30 September

The Office of the Premier, the Department of Agriculture, Rural Development and Land Administration and the Mpumalanga Economic Growth Agency have not tabled their annual reports.



The Department of Agriculture, Rural Development and Land Administration failed to secure time with the printers, resulting in the report not having been tabled yet. Neither the Office of the Premier nor the Mpumalanga Economic Growth Agency provided reasons for not tabling their reports timeously.

CONCLUSION TO THE 2010-11 GENERAL REPORT

As highlighted in this general report, Mpumalanga has achieved a slight improvement in its overall audit outcomes. However, the province does face a number of challenges relating to reporting on service delivery objectives, transversal material misstatements in the financial statements submitted for auditing, information system controls as well as compliance with laws and regulations.

The outcomes presented in this report should be read with the view of understanding the root causes of the challenges faced by the province. The focus should not be on what has happened but rather on what is going to be done to build momentum and implant a culture of excellence in the province.

The leadership of the province should take decisive, accurate, clear and specific steps to address all the challenges noted in this report. These steps should be aimed at strengthening the internal controls of departments and public entities. The emphasis should be on leadership's effective and continuous monitoring and supervision.

Overdependence on the auditors to correct the financial statements submitted for auditing remains an area of concern. This gives the departments a false sense of achievement, which is not sustainable. CFOs should get into the habit of performing daily and monthly basic accounting functions. Financial statements should be prepared each month, which will assist departments in producing accurate and credible financial and performance information that will help them in their decision-making.

There is an urgent need to strengthen the collaboration between all parties involved in the monitoring process, to ensure that all the focus areas are given equal attention. The governance structures should have regular engagements on the progress that auditees are making towards clean audits.

All stakeholders should engage more often on the challenges regarding service delivery reporting, to ensure a consistent understanding of messages and expectations. These engagements will also be instrumental in achieving a common goal and establishing mechanisms to address this challenge.

The leadership of the province should consult with experts to find a solution to the weaknesses regarding IT and access controls.

The tone that the leadership in the province has taken is reassuring, as the leadership has made it clear that not improving the outcomes will no longer be tolerated. Stringent steps will be taken to ensure an increase in the number of clean audits in the province.

The AGSA will continue its interactions with the executive council and the legislature. The attention given to the legislature will be intensified through quarterly interactions with the PAC and portfolio committees to ensure that the legislature is capacitated to perform its oversight function.



ANNEXURES TO THE GENERAL REPORT

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

No.	Auditee	2010-11 Audit Year			2009-10 Audit Year			Financial statement qualification areas								Findings on predetermined objectives			
		Audit outcome 2010-11	Predetermined objectives	Compliance with laws and regulations	Audit outcome 2009-10	Predetermined objectives	Compliance with laws and regulations	Capital assets	Current assets	Liabilities	Capital and reserves	Other disclosure items	Revenue	Expenditure	Unauthorised, irregular, and fruitless and wasteful expenditure	Non-compliance with regulatory requirements	Presentation	Reported information not useful	Reported information not reliable
Departments																			
1	Agriculture, Rurual Development and Land Administration	Financially unqualified with findings			Financially unqualified with findings														
2	Culture, Sport & Recreation	Financially unqualified with findings			Financially unqualified with findings														
3	Cooperative Governance and Traditional Affairs	Financially unqualified with findings			Financially unqualified with findings														
4	Human Settlements	Financially unqualified with findings			Financially unqualified with findings														
5	Economic Development, Environment and Tourism	Financially unqualified with findings			Financially unqualified with findings														
6	Education	Financially unqualified with findings			Qualified														
7	Finance	Financially unqualified with no findings			Financially unqualified with no findings														
8	Health	Qualified			Qualified														
9	Office of the Premier	Financially unqualified with findings			Financially unqualified with findings														

No.	Auditee	2010-11 Audit Year			2009-10 Audit Year			Financial statement qualification areas								Findings on predetermined objectives			
		Audit outcome 2010-11	Predetermined objectives	Compliance with laws and regulations	Audit outcome 2009-10	Predetermined objectives	Compliance with laws and regulations	Capital assets	Current assets	Liabilities	Capital and reserves	Other disclosure items	Revenue	Expenditure	Unauthorised, irregular, and fruitless and wasteful expenditure	Non-compliance with regulatory requirements	Presentation	Reported information not useful	Reported information not reliable
10	Provincial Legislature	Financially unqualified with no findings			Financially unqualified with findings														
11	Provincial Revenue Fund	Financially unqualified with no findings			Financially unqualified with no findings														
12	Public Works, Roads and Transport	Financially unqualified with findings			Financially unqualified with findings														
13	Safety, Security & Liaison	Financially unqualified with no findings			Financially unqualified with findings														
14	Social Development	Financially unqualified with findings			Financially unqualified with findings														
Public entities																			
15	Mpumalanga Economic Growth Agency	Adverse			New public entity														
16	Mpumalanga Gambling Board	Financially unqualified with no findings			Financially unqualified with no findings														
17	Mpumalanga Regional Training Trust	Financially unqualified with findings			Financially unqualified with findings														
18	Mpumalanga Tourism and Parks Agency	Financially unqualified with findings			Financially unqualified with findings														



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

No.	Auditee	Areas of non-compliance												
		Annual financial statements and annual report	Asset management	Audit committees	Budgets	Expenditure management	Financial misconduct	Internal audit	Revenue management	Strategic planning and performance management	Transfer and conditional grants	Other	Procurement and contract management	HR management and compensation
Departments														
1	Agriculture, Rurual Development and Land Administration													
2	Culture, Sport & Recreation													
3	Cooperative Governance and Traditional Affairs													
4	Human Settlements													
5	Economic Development, Environment and Tourism													
6	Education													
7	Finance													
8	Health													
9	Office of the Premier													
10	Provincial Legislature													
11	Provincial Revenue Fund													
12	Public Works, Roads and Transport													
13	Safety, Security & Liaison													
14	Social Development													
Public entities														
15	Mpumalanga Economic Growth Agency													
16	Mpumalanga Gambling Board													
17	Mpumalanga Regional Training Trust													
18	Mpumalanga Tourism and Parks Agency													

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

No.	Auditee	Nature and extent of unauthorised expenditure				Nature and extent of irregular expenditure				Fruitless and wasteful expenditure	Material losses	Material impairment of assets	Material under-spending of vote/ conditional grant (finding only)
		Overspending	Expenditure unrelated to functional area	Spending not in accordance with conditions of allocation	Total	Supply chain management related	Compensation of employees related	Other	Total				
Departments													
1	Agriculture, Rural Development and Land Administration												
2	Culture, Sport & Recreation	814,000			814,000	1,305,608	3,195,000	622,879	5,123,487	803,000			
3	Cooperative Governance and Traditional Affairs					6,127,000	836,000		6,963,000				
4	Human Settlements												
5	Economic Development, Environment and Tourism	4,833,000			4,833,000	903,902	201,771		1,105,673				
6	Education					134,808,000	5,220,000		140,028,000				
7	Finance												
8	Health	79,083,000			79,083,000	1,453,000		13,828,000	15,281,000	1,215,000			
9	Office of the Premier												
10	Provincial Legislature												
11	Provincial Revenue Fund												
12	Public Works, Roads and Transport					352,958,000			352,958,000	1,456,000			
13	Safety, Security & Liaison												
14	Social Development												
Public entities													
15	Mpumalanga Economic Growth Agency					13,034,676			13,034,676	5,453,441		145,109,877	
16	Mpumalanga Gambling Board												
17	Mpumalanga Regional Training Trust					1,095,000			1,095,000	657,874			
18	Mpumalanga Tourism and Parks Agency									563,234			



ANNEXURE 4: Assessment of auditees' key controls at the time of the audit

No.	Auditee	Leadership															Financial and performance															Governance																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																									
		Effective leadership culture			Oversight responsibility			HR Management			Policies & procedures			Action plans			IT governance			Proper record keeping			Processing and reconciling controls			Reporting			Compliance			IT Systems controls			Risk management			Internal audit			Audit committee																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																
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Good		In progress		Intervention required	
Financial	F	Performance	P	Compliance	C

ANNEXURE 5: Auditees with key findings on supply chain management

No.	Auditee	Limitation on planned scope of audit of awards	Awards to state officials and their close family members	Uncompetitive or unfair procurement processes	Inadequate contract management	Inadequate SCM controls
Departments						
1	Agriculture, Rural Development and Land Administration					
2	Culture, Sport & Recreation					
3	Cooperative Governance and Traditional Affairs					
4	Human Settlements					
5	Economic Development, Environment and Tourism					
6	Education					
7	Finance					
8	Health					
9	Office of the Premier					
10	Provincial Legislature					
11	Provincial Revenue Fund					
12	Public Works, Roads and Transport					
13	Safety, Security & Liaison					
14	Social Development					
Public entities						
15	Mpumalanga Economic Growth Agency					
16	Mpumalanga Gambling Board					
17	Mpumalanga Regional Training Trust					
18	Mpumalanga Tourism and Parks Agency					



ANNEXURE 6: Auditees with key findings on IT Focus Areas

No.	Auditee	Focus Areas			
		IT governance	Security management	User access management	IT service continuity
Departments					
1	Agriculture, Rurual Development and Land Administration				
2	Culture, Sport & Recreation				
3	Cooperative Governance and Traditional Affairs				
4	Human Settlements				
5	Economic Development, Environment and Tourism				
6	Education				
7	Finance				
8	Health				
9	Office of the Premier				
10	Mpumalanga Provincial Legislature				
11	Public Works, Roads and Transport				
12	Safety, Security & Liaison				
13	Social Development				
Public entities					
14	Mpumalanga Tourism and Parks Agency				

ANNEXURE 7: Effectiveness of audit committees

No.	Auditee	Audit committees				
		Audit committee in place	New audit committee appointed during the year (disbanding of shared service)	Compliant with legislation	Impact on outcome	Interaction with executive
Departments						
1	Agriculture, Rural Development and Land Administration		NA			
2	Culture, Sport and Recreation		NA			
3	Cooperative Governance and Traditional Affairs		NA			
4	Human Settlements		NA			
5	Economic Development, Environment and Tourism		NA			
6	Education		NA			
7	Finance		NA			
8	Health		NA			
9	Office of the Premier		NA			
10	Mpumalanga Provincial Legislature		NA			
11	Public Works, Roads and Transport		NA			
12	Safety, Security and Liaison		NA			
13	Social Development		NA			
Public entities						
14	Mpumalanga Economic Growth Agency		NA			
15	Mpumalanga Gambling Board		NA			
16	Mpumalanga Regional Training Trust		NA			
17	Mpumalanga Tourism and Parks Agency		NA			
No separate audit committee exist for the Provincial Revenue Fund. The responsibility for the fund vests with Provincial Treasury. The audit committee of provincial treasury also executed its responsibilities over the revenue fund.						

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