



GENERAL REPORT
on the provincial audit outcomes of **LIMPOPO**
2009-10



AUDITOR-GENERAL
SOUTH AFRICA



A U D I T O R - G E N E R A L
S O U T H A F R I C A

Auditing to build public confidence

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Auditing to build public confidence

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The Auditor-General of South Africa has a constitutional mandate and, as the Supreme Audit Institution (SAI) of South Africa, it exists to strengthen our constitutional'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 the Limpopo Provincial Legislation with my 2009-10 general report, which summarises the results of the audit outcomes of the provincial departments, including the provincial legislature, the provincial revenue fund and provincial public entities as well as the schedule 3 public entities where the audits were not conducted by the Auditor-General of South Africa (AGSA) for the financial year ended 31 March 2010.

The Limpopo Province has come a long way in improving its audit outcomes since the stage when all departments were qualified due to issues surrounding asset management. Two departments improved from qualified to unqualified opinions with some findings on predetermined objectives and/or non-compliance. However, the one disclaimer for the Department of Education clouds this positive trend. No department managed to achieve a 'clean' audit outcome (financially unqualified with no findings on predetermined objectives or compliance with laws and regulations). All the public entities in the province received unqualified audit opinions with or without findings on predetermined objectives and/or compliance with laws and regulations.

Of concern are the errors or material misstatements in the annual financial statements of 11 departments and three entities that were submitted for auditing. Those charged with governance should intervene to ensure that adequate support and capacity are available to fulfil the roles and responsibilities in financial reporting. However, the province has been successful in addressing non-compliance with supply chain management (SCM) prescripts, as findings in this area were not significant. The audit outcomes highlight challenges that departments and public entities face in meeting reporting requirements on service delivery. Information included in the annual reports of departments was considered not to be useful at 77% of the departments, while 67% of the public entities reported information that was considered not to be reliable.

As part of the strategy to improve audit outcomes, the political leadership focused on the appointment of new accounting officers in all departments, except the Office of the Premier and the provincial legislature. Significant vacancies still exist at senior management level and in finance units which, if not addressed, will impede the province's ability to improve or maintain the progress made in addressing the audit outcomes. Many of the deficiencies in internal control that led to the prior year audit outcomes had not been fully addressed, with many being repeated. However, the premier is committed to ensuring that they will not recur in the current financial year.

During interactions with the leadership of the province, the premier made the following commitments that will be implemented to address the audit outcomes:

- Addressing issues relating to assets, SCM and disclosures in the financial statements
- Introducing monthly meetings between members of the executive council (MECs), heads of department (HoDs) and chief financial officers (CFOs)
- Encouraging portfolio committees to interact with the MECs to ensure adequate in-year monitoring
- Supporting the decision to fill all critical vacancies as a matter of urgency
- Introducing measures to protect systems to ensure that they are not easily accessible
- Reviewing all the issues raised in order to improve on the delivery of quality services to the people



Through our continued commitment to be proactive and to provide early warning signals to the leadership, by simple, clear and relevant reporting and increased visibility of our leadership, the AGSA will assess the implementation of basic key controls at regular intervals. We will continue to support the executive and the provincial legislature in their committed efforts to work towards achieving clean administrations.

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

Together, we will make every effort to collaborate in order to accelerate the implementation of actions and contribute towards strengthening our country's democracy.

Auditor-General

**Auditor-General
Pretoria
December 2010**

SECTION 2: EXECUTIVE SUMMARY

The purpose of this general report is to provide an overview of the audit outcomes of provincial government for the 2009-10 financial year as well as recommendations to those charged with governance and oversight on achieving financially unqualified audit opinions and eradicating findings on the reporting of performance against predetermined objectives and compliance with laws and regulations. An overview of these audit outcomes was presented to the provincial legislature during November 2010 to facilitate dialogue on the understanding of the key underlying issues driving these audit outcomes and possible solutions in this regard.

The summary that follows contains key issues and conclusions reached on the main sections in this report, while further details are contained in the body of the report.

Part A: Audits conducted by the AGSA

• Overview of audit outcomes

The financial statements of all 12 (2009: 12) provincial departments and the legislature were submitted by 31 May 2010 and all the audits were completed by 31 July 2010, within the legislated time frame of two months from receipt of the financial statements. The audit of the revenue fund had not been finalised as at 31 August 2010.

The financial statements of four (2009: five) public entities and funds were submitted by 31 May 2010 and the audits were completed by 31 July 2010, within the legislated time frame of two months from receipt of the financial statements. The audits of two public entities and a trust account had not been finalised as at 31 August 2010.

A high-level review of audit outcomes for the current and prior year is presented in the table below.

Table 1: Summary of audit outcomes

Audit outcomes	Departments (including legislature and revenue fund)		Public entities (including trading and constitutional institutions and other types of entities)	
	2009-10	2008-09	2009-10	2008-09
Opinion on financial statements				
Disclaimer	1	0	0	1
Adverse	0	0	0	0
Qualified	3	5	0	1
Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations	9	8	3	2
Financially unqualified with no findings on predetermined objectives or compliance with laws and regulations	0	0	1	1
Total number of audits reported on	13	13	4	5
Number of audits not finalised at legislated date for submission to the executive authority – 31 August 2010	1	1	3	2

Audit outcomes	Departments (including legislature and revenue fund)		Public entities (including trading and constitutional institutions and other types of entities)	
	2009-10	2008-09	2009-10	2008-09
Total number of audits	14	14	7	7
Entities with findings arising from the AGSA's other legal reporting responsibilities				
Predetermined objectives	10	11	2	3
Compliance with laws and regulations	12	6	3	1

Highlights of the audit outcomes for the year under review are as follows:

Departments

- The provincial legislature and the Department of Agriculture improved from a qualified audit opinion to a financially unqualified audit opinion with findings on predetermined objectives and/or compliance with laws and regulations.
- The financial statements of the Departments of Health and of Public Works were qualified for the third successive year.
- The Department of Education regressed from a qualified audit opinion to a disclaimer of audit opinion.
- The Department of Social Development regressed from a financially unqualified audit opinion with findings on predetermined objectives and/or compliance with laws and regulations to a qualified audit opinion.

Entities

- Gateway Airports Authority Limited improved from a qualified audit opinion to a financially unqualified audit opinion with findings on predetermined objectives and/or compliance with laws and regulations.
- The Roads Agency Limpopo and the Limpopo Gambling Board have maintained their financially unqualified audit opinions with findings on predetermined objectives and/or compliance with laws and regulations for three consecutive years.
- The Urban Transport Fund achieved a financially unqualified opinion with no findings on predetermined objectives or compliance with laws and regulations for the second consecutive year.

Status of completion of the audits

The financial statements of the provincial revenue fund for 2008-09 and 2009-10 were still outstanding as at 31 August 2010.

Regarding public entities, the financial statements of the Limpopo Tourism and Parks Board for the 2009-10 financial year were still outstanding. The audit of the Limpopo Housing Board for the 2008-09 financial year is still in progress and the expected completion date of the audits for both the 2008-09 and 2009-10 financial years is 15 December 2010.

The financial statements of the Tribal and Trust Account have been in arrears for the past 12 years.

Common issues that form the basis for the auditor's qualified opinion on the financial statements

No public entities were qualified during the year under review. The financial statement qualification areas that occurred at more than 40% of the four departments that were qualified are as follows:

Capital assets (100%)

Four of the departments were qualified in the area of movable and immovable assets (2008-09: four departments and one public entity).

Current assets (50%)

Two of the four departments were qualified on current assets (2008-09: one out of seven).

Disclosure (50%)

Two out of four departments were qualified on other disclosure items (2008-09: none).

Funding of operations, financial sustainability and going concern

No concerns were identified regarding the funding of operations, financial sustainability or going concern at any of the departments or public entities in the province.

Unauthorised, irregular as well as fruitless and wasteful expenditure incurred during the year*Unauthorised expenditure – R833,6 million (2008-09: R568 million)*

- Five of the 13 departments audited (2008-09: seven out of 13) incurred unauthorised expenditure.
- An amount of R808 million was identified and initially disclosed by departments, while a further R25,6 million was identified during the audit process and subsequently corrected by these departments.

Irregular expenditure – R6,5 million (2008-09: R42,1 million)

- Irregular expenditure was incurred by six departments (R5 million) and two public entities (R1,5 million) due to proper SCM processes not having been followed as well as non-compliance with the Public Service Act, 1994 (Act No. 103 of 1994) (PSA). The corresponding figures for 2008-09 are six departments (R42,1 million) and one public entity (R710 981).
- Sixty-two per cent of the irregular expenditure (R4 million) disclosed in the auditees' financial statements was attributable to misstatements identified during the audit process and subsequently corrected by the auditees.

Fruitless and wasteful expenditure – R5,9 million (2008-09: R9,9 million)

Six departments (R5,9 million) (2008-09: one (R9,9 million)) and no public entities (2008-09: one (R17 000)) incurred fruitless and wasteful expenditure. Fruitless and wasteful expenditure was incurred due to matters that included interest on the late payment of invoices, duplicate supplier payments, purchased assets not being used, and excess charges by suppliers that could have been avoided.

Material underspending of the vote or conditional grants

Material underspending of budgets

Six departments underspent R645,1 million on its programmes, the details of which are as follows:

- The Office of the Premier materially underspent its budget on administration, institutional development as well as policy and governance by R5,3 million, R15,9 million and R2,158 million, respectively.
- Economic Development, Environment and Tourism underspent its budget on the programmes for administration and environmental affairs by a total amount of R17,2 million.
- Health materially underspent its budget on district health services by R100,2 million and health facilities management by R90,2 million.
- Roads and Transport materially underspent its budget by R387,2 million.
- Local Government and Housing materially underspent the budget on the administration programme by an amount of R13,9 million.

Material underspending of conditional grants

- Sport, Arts and Culture materially underspent its budget on conditional grants for libraries and mass sport participation by an amount of R13 million.

Even though none of the departments had underspent on the entire vote or total budget, the underspending of a programme has a direct impact on the provision of service delivery.

Transversal pervasive misstatements corrected during the audit

- The financial statements submitted for audit purposes were subject to material corrections during the audit as follows:
 - Eleven departments (which include eight departments that also had findings in 2008-09)
 - Three public entities (which all had findings in 2008-09)
- Of the material misstatements corrected at the departments and public entities, 30% related to misclassification and 70% to disclosure.

Findings on predetermined objectives

Findings arising from the audits of predetermined objectives of departments decreased from 85% in the prior year to 77% in the current year. At public entities, findings were raised in two of the three audits completed, compared to two of the four audits completed during 2008-09. Three departments, namely the provincial treasury, Safety, Security and Liaison as well as Local Government and Housing, and one entity, namely the Limpopo Gambling Board, had no findings on predetermined objectives.

The table below summarises the findings on predetermined objectives.

Table 2: Summary of findings arising from the audits of predetermined objectives

Category of finding	Departments (including legislature)		Public entities (including trading and constitutional institutions and other types of entities)	
	2009-10	2008-09	2009-10	2008-09
Non-compliance with regulatory requirements	38%	62%	33%	50%
Reported information not useful	31%	54%	67%	25%
Reported information not reliable	77%	54%	0%	0%
Information not submitted for auditing by 31 May 2010	0%	0%	0%	0%
Total number of audits with findings	10	11	2**	3**

** Regarding 2009-10, the only outstanding report is that of the Limpopo Tourism and Parks Board.

The Limpopo Housing Board, the Tribal and Trust Account and the Urban Transport Fund are not required to prepare and submit a report on performance against predetermined objectives.

Non-compliance with regulatory requirements

Five of the 13 departments and one public entity had a finding on non-compliance with sections of the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA) relating to reporting on performance against predetermined objectives.

Reported information on performance against predetermined objectives not useful

The usefulness of information refers to the reported information being consistent with the institution's objectives and targets, which are clearly linked to its mandate and objective and are specific, clearly identifying the nature and required level of performance, as well as being measurable and time bound. The reported information on performance against predetermined objectives at four of the 13 departments and two out of three public entities was not useful in this context.

Reported information on performance against predetermined objectives not reliable

The reliability of reported information on performance against predetermined objectives refers to the existence of sufficient appropriate evidence and an appropriate system to generate the information. In the case of 10 of the 13 departments, this was not the case and the reported information on performance against predetermined objectives was consequently not regarded as reliable.

Information on performance against predetermined objectives not submitted for audit purposes

Information on performance against predetermined objectives was received in time for all the departments and entities.

Findings on compliance with laws and regulations that do not impact on the financial statements

Some of the compliance matters identified at departments and entities concerned entering into transactions prohibited by legislation, while others related to failure by accounting officers, CFOs and other officials to meet their legislated responsibilities, resulting in unauthorised, irregular or fruitless and wasteful expenditure, as highlighted in the auditor's reports of these departments and public entities.

In total, 12 of the 13 departments and three of the four public and other entities in Limpopo had findings on non-compliance with laws and regulations. The number of departments with findings has doubled compared to the previous year.

The highest incidence of non-compliance findings is as follows:

Departments

- Nine departments had findings relating to general, fiduciary and reporting responsibilities not having been met.
- At four departments, proper procurement procedures were not followed, which resulted in irregular expenditure.
- Three out of 13 departments had findings relating to payments not being made within 30 days from receipt of invoices.

Public entities

- At two entities, SCM policies and procedures were not complied with, which resulted in irregular expenditure.
- Non-compliance with specific or enabling legislation governing the mandate and operational activities of one of the four public entities was identified.
- One entity had a finding relating to payments not being made within 30 days from receipt of invoices.

Departments and public entities should consider implementing self-assessment procedures through compliance checklists, together with ongoing review and monitoring by management, to prevent lapses in compliance with laws and regulations. The right leadership tone, together with the support of the audit committee and internal audit, is necessary to establish a strong control environment and ensure compliance.

Significant findings relating to information technology systems

Departments and entities rely heavily on computerised information systems (e.g. the Basic Accounting System (BAS), Personnel Administration System (Persal) and Logistical Information System (Logis)) to perform their statutory financial management, reporting and administrative functions. These systems are centrally supported by the National Treasury, with the State Information Technology Agency (SITA) providing important computer networking infrastructure, data storage and retrieval services. The control environments of these systems are crucial as large amounts of critical financial data and transactions are recorded on, and processed through, these systems. Furthermore, the automation of business processes and transaction processing contributes significantly to efficient service delivery.

Audits of information technology (IT) general controls were performed at 13 departments (including the legislature) and three entities. Significant weaknesses were identified regarding the IT control environment and management of information systems.

- At 12 departments and one entity weaknesses regarding IT governance were identified.
- At 12 departments and two entities weaknesses regarding security management were identified.
- Twelve departments and two entities had findings relating to user access control.
- Thirteen departments and two entities had findings relating to IT service continuity.

Some of the identified weaknesses had been reported in the prior year but had not been addressed and the risks therefore remain. This was brought to the attention of the leadership to enable them to address internal control deficiencies where required.

• **Drivers of improved audit outcomes**

In order to improve audit outcomes, the following aspects of internal control should be addressed in the province:

Leadership

- Increase the commitment of those charged with governance at departments and entities to improve on the audit outcomes by creating an environment conducive to sound financial management and improved service delivery.
- Establish an effective organisational structure that places people with appropriate skills in appropriate positions to ensure compliance with applicable laws and regulations.
- Review and monitor action plans to address all significant internal control deficiencies.
- Ensure that all vacancies in finance and other significant components are filled within a reasonable time.
- Implement action plans to address user access control deficiencies (information systems).

Financial and performance management

- Implement proper record keeping and record management, ensuring that supporting documentation is properly filed and easily retrievable.
- Ensure that asset registers reflect the assets owned and that these registers are agreed to the financial records and financial statements as well as that suspense accounts are reconciled and cleared on a monthly basis.
- Produce accurate financial statements and performance information and continuously monitor the quality thereof and ensure that performance information is supported by relevant and reliable information.
- Focus on application systems susceptible to compromised data integrity (information systems).

Governance

- Increase involvement by internal audit and audit committees in monitoring processes.
- Maintain effective risk management strategies, including fraud prevention plans.
- Implement an IT governance framework that directs the positioning of IT, resource requirements, risk and internal control management.

As Limpopo still does not have any clean audits, all departments and entities should pay close attention to the mentioned fundamentals of internal control.

Action taken or to be taken to address matters previously reported

The premier committed himself and MECs to play a more active oversight role in the financial administration of departments and entities in the province. The premier also committed the political leadership to driving the implementation, maintenance and monitoring of key controls to prevent errors or at least detect them earlier in the process as well attending to and resolving findings identified by the AGSA relating to SCM, assets and

disclosures in the financial statements. Furthermore, the premier was adamant that the findings raised by the AGSA will be addressed and will not recur in the next financial year.

A commitment was made by the MEC for Finance to pay adequate attention to the lack of capacity (relating to both skills and vacancies) that is prevalent in the provincial administration. The leadership also committed the portfolio committees to address matters of financial management in their day-to-day activities.

There was an improvement in the interactions between the AGSA and the leadership during the 2009-10 financial year, in line with the commitment made by the premier. There was also an improvement in the involvement of most MECs in the audits.

The provincial treasury played a more active role during the audits. This was evident by the representatives of the provincial treasury attending weekly audit steering committee meetings.

Initiatives by the AGSA to encourage clean administration

As at 31 July 2010, the AGSA in the province had met with the premier, the speaker and the deputy speaker of the provincial legislature, the MECs for the departments and the accounting officers of all departments and public entities to discuss the 2009-10 audit outcomes and key controls required of the departments and public entities. The overall results of this initiative were very positive. The MECs were able to identify the root causes of the qualifications and findings for their portfolios. Moreover, they were able to understand the AGSA's initiative in requiring quarterly appraisals of identified key controls and their link to influencing clean administration.

Matters that may potentially impact the auditor's report in the coming year

Should the audit conclusion on the reporting on predetermined objectives be elevated for inclusion in the auditor's report next year, as opposed to it being included in the management report, audit findings relating to predetermined objectives raised in the current year, if not cleared, may have an impact on the audit outcomes next year.

In terms of the inventory reform programme of the National Treasury, departments will be required to include disclosures of its inventory in the 2010-11 financial year. The disclosure of inventory will be subject to auditing.

All schedule 3C public entities as per the PFMA that have to make use of the financial reporting framework, namely the SA Standards of Generally Recognised Accounting Practice (GRAP) issued by the Accounting Standards Board (ASB), should take note of new SA Standards of GRAP pronouncements and amendments to existing accounting standards that may have an impact on the preparation of future annual financial statements. Details of these amendments and pronouncements are provided in the report.

Gateway Airports Authority Limited, the only schedule 3D entity in the province, must take note of the amendments to the SA Standards of Generally Accepted Accounting Practice (GAAP) resulting from the April 2009 annual improvements to the International Financial Reporting Standards (IFRS), which may have an impact on the auditor's report in the coming year. Details of these amendments are provided in the report.

The complexity of the calculations for investment property, properties in possession and investment in subsidiaries in terms of Standards of GRAP and/or the International Accounting Standards may potentially have an impact on the auditor's report in the coming year at the Limpopo Tourism Parks Board and Gateway Airports Authority Limited.

- **Overview of audits of specific focus areas of the AGSA**

Significant findings from audits of human resource management and compensation of employees (departments only, excluding the legislature)

The regularity audits of departments included an assessment of their compliance with legislation that supports effective human resource (HR) management and controls over the compensation of employees.

The audits revealed that 10 departments did not comply with all the requirements for an effective HR management system. These weaknesses impacted on the departments' financial management as well as their ability to deliver services in accordance with their mandates. Weaknesses were identified in the following areas:

- HR planning and organisation
- Management of vacancies
- Appointment process
- Senior management acting allowances
- Acting positions
- Budget control
- Senior management performance agreements
- Management of suspensions

Of concern are overall vacancy rates exceeding 60% at the following departments:

- Education: 69%
- Safety, Security and Liaison: 65%
- Health: 62%

On average, 39% of these vacancies related to senior management positions.

Weaknesses in controls over compensation identified at 11 departments in the following areas are also of concern:

- Sick and incapacity leave
- Leave administration
- Management of overtime
- Service terminations
- Payroll controls

Conclusion

The management of vacancies has proved to be the biggest challenge relating to HR management, as 10 out of 12 departments had findings in this regard; followed by weaknesses in the administration of leave at six out

of 12 departments. Historically it has been difficult to attract suitably qualified personnel to fill the positions in the various departments in Limpopo. It appears as if not much attention is paid to addressing this issue by the leadership, which is evident from the fact that there has been no improvement in the overall vacancy rate in the province from the previous year. High vacancy rates also compromise the control environment, resulting in a lack of segregation of duties and thereby increasing the likelihood of fraud.

Significant findings from audits of procurement and contract management

The regularity audits included an assessment of the auditees' procurement processes and contract management as well as the controls implemented by them to ensure a fair, equitable, transparent, competitive and cost-effective SCM system that prevents and detects fraud, non-performance by suppliers, and non-compliance with SCM legislation.

Non-compliance with SCM legislation resulted in 31% of the irregular expenditure incurred in the year under review. This was identified at four departments and two public entities.

The most significant findings from the audits of procurement, which include weaknesses in SCM controls and mismanagement of contracts, were as follows:

- Employees did not declare interests in suppliers.
- Employees did not disclose a conflict of interest and were involved in awarding contracts to suppliers.
- Employees performed remunerative work without the required approval from the relevant executive authority.
- Three price quotations were not always invited for procurement up to a value of R500 000.
- Deviations from competitive bidding were not justified.
- Suppliers that did not have the highest points were awarded contracts.
- A prospective supplier list was not in place.
- The prohibited supplier list was not always checked before procuring goods and services.
- Duties in procurement were not adequately segregated.
- Risk assessments did not address procurement and contract management risks.

Weaknesses in the management of contracts and SCM controls were identified at 10 departments. These weaknesses did not specifically result in irregular expenditure, but if the findings reported below are not adequately addressed, there is a risk of irregular or fruitless and wasteful expenditure being incurred in the future.

- No action was taken against suppliers when goods and services were not provided in accordance with the requirements.
- Performance measures and methods were inadequate to monitor contract performance.
- Payments were made for goods and services not received.

Conclusion

The root cause of the weaknesses identified was that controls were not implemented to prevent and detect non-compliance and failures.

The right leadership tone, together with the support of the audit committee and internal audit, is necessary to establish a strong control environment to ensure compliance. Internal audit should also provide assurance that the control environment is adequate in order to mitigate risks of non-compliance. Furthermore, the leadership should manage and monitor the implementation of key controls on a quarterly basis.

Investigations and performance audits

Investigations in progress

The following investigations were being conducted:

Table 3: Investigations in progress

Department/Entity	SCM issues	Fraud	Misconduct	Other
Local Government and Housing		X		
Provincial treasury				X
Sport, Arts and Culture		X		
Roads Agency Limpopo (Pty) Ltd	X			

Investigations completed during the financial year

The following investigations had been completed:

Table 4: Investigations completed during the financial year

Department/Entity	SCM issues	Fraud	Misconduct	Other
Economic Development, Environment and Tourism			X	
Local Government and Housing				X
Health and Social Development			X	
Health	X			

Performance audits completed

No performance audits were completed or conducted during the financial year at any of the departments or entities in the province. The AGSA conducted a transversal performance audit of the infrastructure delivery process at the Departments of Health and of Education as part of a transversal performance audit on infrastructure delivery. The audit focused on a high-level overview of the infrastructure delivery management processes. Broad conclusions in respect of the audits conducted in Limpopo were as follows:

- Budgeting for infrastructure projects was not always done taking the specific circumstances into consideration.
- The applicable legislation and regulations were not applied during the evaluation and adjudication process for the appointment of contractors.
- Project management was not effective to ensure that projects were completed on time and at the required level of quality.

Special audits in progress

An agreed-upon procedures assignment was conducted at the Department of Health relating to alleged missing ambulances and vehicles. These findings will be reported on in a separate report which is yet to be finalised.

• Overview of status of provincial consolidation and status of tabling of annual reports

The consolidated financial statements for the departments and public entities have not been received for the 2008-09 and the 2009-10 financial years. The consolidated financial statements for departments for the 2007-08 financial year are also outstanding. A dedicated team with the necessary skills and competencies should be assigned by the provincial treasury to specifically address this backlog.

The 2008-09 annual reports of all the departments and entities in the province had been tabled. For the 2009-10 financial year, the annual reports of all the departments and one entity had been tabled by 30 September 2010. The annual reports of two public entities, namely the Limpopo Gambling Board and the Limpopo Tourism and Parks Board, had not been tabled as at 30 September 2010. The financial statements of the Limpopo Tourism and Parks Board were still outstanding as at 31 August 2010.

Part B: Audits not conducted by the AGSA

• Overview of audit outcomes

Table 5: Summary of audit outcomes of audits not conducted by the AGSA

Type of audit opinion	Schedule 3 and other public entities
Disclaimer	0
Adverse	0
Qualified	0
Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations	2
Financially unqualified with no findings on predetermined objectives or compliance with laws and regulations	1
Total number of audits reported on	3
Number of audits not finalised at legislated date for submission to executive authority – 31 August 2010	1
Total number of audits	4

Four schedule 3 entities were not audited by the AGSA.

Two schedule 3 entities, namely the Limpopo Agricultural Development Corporation (LADC) and the Limpopo Development Corporation Limited (LimDev), whose audits had been completed at the time of writing this report, received an audit opinion that was financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations. One entity, Trade Investment Limpopo (TIL), obtained a financially unqualified opinion with no findings on predetermined objectives or compliance with laws and regulations. The internal control findings related to non-compliance with the PFMA and the format and presentation of performance information.

Status of completion of the audits

The audit of the Limpopo Business Support Agency (LBISA) had not been completed as at 31 August 2010, due to the entity's failure to timeously furnish the auditors with the requested documentation to finalise the audit.

Findings on predetermined objectives

Table 6: Summary of findings arising from audits of predetermined objectives

Category of finding	Schedule 3 public entities
Non-compliance with regulatory requirements	33%
Reported information not useful	67%
Reported information not reliable	0%
Information not submitted for auditing by 31 May 2010	0%
Total number of audits with findings	2

All of the schedule 3 public entities in Limpopo submitted information on their performance against predetermined objectives for auditing as required by section 55(2)(a) of the PFMA.

Findings on compliance with laws and regulations that do not impact on the financial statements

Non-compliance with laws and regulations were reported at only one schedule 3 entity. The issues raised were the following:

- The entity had not implemented effective internal control measures to collect its outstanding debts as required by Treasury Regulation 31.1.1.2(a) and (e).
- The entity did not report on its cash management performance on a monthly basis as required by Treasury Regulation 31.1.1.2(f), (g), (h), (k), (l) and (m).
- The entity did not have a materiality and significance framework as required by Treasury Regulation 28.3.
- No terms of reference could be obtained for the entity's subsidiaries as required by Treasury Regulation 27.1.

Investigations and performance audits

No investigations or performance audits were conducted or were in progress at any of the schedule 3 public entities as at 31 August 2010.

- **Overview of status of tabling of annual reports**

The 2008-09 annual reports of all the schedule 3 entities had been tabled.

The 2009-10 annual reports of LimDev and LIBSA, whose audits were still in progress as at 31 August 2010, had not been tabled by 30 September 2010.

Part C: Concluding comments

Despite the one disclaimer of audit opinion, there has been an overall improvement in the audit outcomes of the province from the previous year.

The leadership will need to take decisive action to address the areas requiring improvement in order to sustain and prevent deterioration in audit outcomes in the future. The basic principles of financial accounting needs to be upheld and attention also needs to be paid to areas affecting compliance with laws and regulations and reporting on achievements against predetermined objectives. To this end, the province has some distance to go before realising the ultimate outcome of clean audits for all department and public entities.

PART A - AUDITS CONDUCTED BY THE AGSA

SECTION 3: OVERVIEW OF AUDIT OUTCOMES FOR 2009-10

3.1 Summary of audit outcomes

The table below provides details of the 2009-10 audit outcomes of departments and public entities. The table also reflects the status of completion of the 2009-10 audits as at 31 August 2010.

Table 7: Summary of audit outcomes

Audit outcomes	Departments (including legislature and revenue fund)		Public entities (including trading and constitutional institutions and other types of entities)	
	2009-10	2008-09	2009-10	2008-09
Opinion on financial statements				
Disclaimer	1	0	0	1
Adverse	0	0	0	0
Qualified	3	5	0	1
Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations	9	8	3	2
Financially unqualified with no findings on predetermined objectives or compliance with laws and regulations	0	0	1	1
Total number of audits reported on	13	13	4	5
Number of audits not finalised at legislated date for submission to the executive authority – 31 August 2010	1	1	3	2
Total number of audits	14	14	7	7
Entities with findings arising from the AGSA's other legal reporting responsibilities				
Predetermined objectives	10	11	2	3
Compliance with laws and regulations	12	6	2	1

Movements in audit outcomes of the departments and public entities for the year under review are reflected in the table below.

3.1.1 Movements in audit outcomes

Table 8: Movements in audit outcomes

Type of auditee	Unchanged	Improvement	Regression	New entities or those no longer in existence	Total
Departments	9	2	2	0	13
Public entities	3	1	0	0	4
Total number of audits reported on	12	3	2	0	17



Departments

Unchanged (nine)

Economic Development, Environment and Tourism, Local Government and Housing, Office of the Premier, provincial treasury, Roads and Transport, Safety, Security and Liaison, and Sport, Arts and Culture were again financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations, while Health and Public Works remained qualified.

Improvements (two)

Agriculture and the provincial legislature improved from a qualified audit opinion to financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations.

Regressions (two)

Education regressed from a qualified audit opinion to a disclaimer, while Social Development regressed from financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations to a qualified audit opinion.

Public entities

The overall audit outcomes of the public entities have improved. No public entities received a qualified audit opinion for the year under review. Three public entities were financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations, namely:

- Gateway Airports Authority Limited
- Roads Agency Limpopo (Pty) Ltd
- Limpopo Gambling Board

The Urban Transport Fund maintained its financially unqualified audit opinion with no findings on predetermined objectives or laws and regulations.

Unchanged (three)

Roads Agency Limpopo and the Limpopo Gambling Board were financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations. The Urban Transport Fund was financially unqualified with no findings on predetermined objectives or compliance with laws and regulations.

With regard to the Urban Transport Fund, this entity is funded by the National Urban Transport Fund and is under the control of the provincial Department of Roads and Transport. The provincial Department of Roads and Transport decided to close the Urban Transport Fund on 31 March 2010. This was therefore the last audit to be done on the financial statements of the fund.

Improvements (one)

Gateway Airports Authority Limited moved from a qualified opinion to financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations.

The improvements in the outcomes at both departments and entities can be attributed to the following:

- Leadership involvement ensured that action plans were put in place to address prior year findings and that these were monitored regularly.
- Timely responses to audit findings and management commitment to resolve these.
- Availability and accessibility of key management and staff.
- A strong desire by the leadership to achieve a positive outcome.
- Change in the HoDs in the province.

The regressions are due to the following:

- The leadership did not own and take responsibility for previous audit findings, which left Health and Public Works with a repetition of the prior year qualifications. While some work had been done, the progress is too slow. The CFO at Public Works poorly attended the weekly audit steering committee meetings. At both Health and Public Works action plans to address previous findings were not adequately implemented.
- The regression at Social Development can be attributed to a lack in discipline to maintain and update records during the year. Issues were left for year-end and the auditee attempted to resolve them while the audit was in progress.
- The disclaimer at Education can be attributed to vacancies in key positions in the finance section for most of the year and an action plan to address prior year audit findings not having been fully implemented. There is also a suspicion that documents were deliberately withheld in some cases and a special investigation has been recommended to the leadership.

3.1.2 Status of completion of the audits

Details of the outstanding audits are presented in the table below.

Table 9: Status of completion of audits

Reason	Departments (including legislature and revenue fund)	Public entities (including trading and constitutional institutions and other types of entities)
Financial statements not yet received	1	2
Audit not yet completed due to late receipt of financial statements	0	0
Audit still in progress for other reasons	0	1
Total number of audits not yet completed by 31 August 2010	1	3

The following audits are excluded from the analysis:

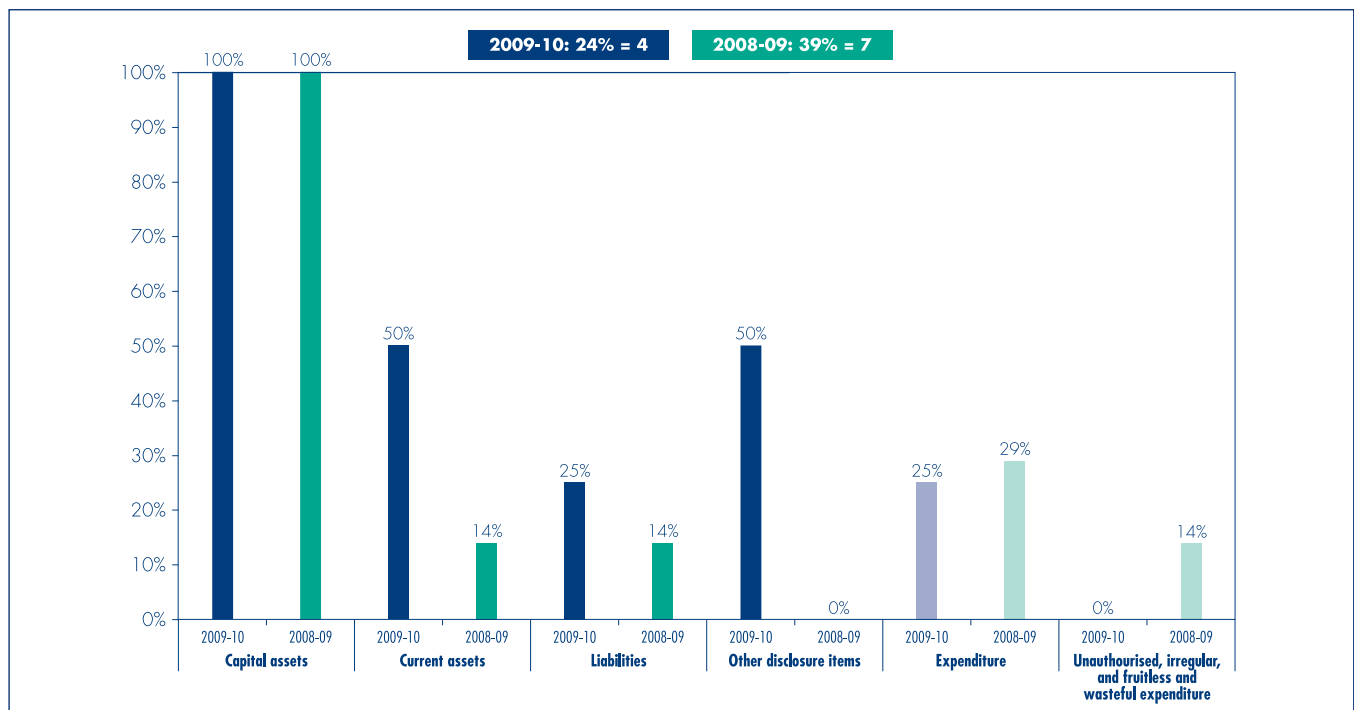
Table 10: Audits finalised late or outstanding

Entity not reported on	AFS received date	Reason not finalised	Expected signing date
Limpopo Housing Board	31 May 2009	The 2008-09 audit is still in progress.	15 December 2010 for the 2008-09 and the 2009-10 financial years
Limpopo Parks and Tourism Board	Outstanding	The entity is experiencing problems with preparing consolidated financial statements due to a lack of documentation and adequate skills and resources. A new chief executive officer was appointed during the 2009-10 financial year.	31 January 2010
Limpopo Tribal and Trust Account	Outstanding	The submission of annual financial statements is 12 years in arrears.	Uncertain
Limpopo Provincial Revenue Fund	Outstanding for the 2008-09 and 2009-10 financial years	The provincial treasury had to correct and amend figures in the financial statements for the 2007-08 financial year. The risk related to the revenue fund is mainly the accurate and timely surrendering of funds from departments to the revenue fund.	Uncertain

3.1.3 Qualification areas

There has been an overall improvement in the audit outcomes for the province during the financial year under review. For 2009-10, four departments obtained a qualified or disclaimer of audit opinion while no public entities were qualified, whereas five departments and two public entities obtained qualified or disclaimer of audit opinions in the 2008-09 financial year.

This section analyses the outcomes of the 2009-10 audit cycle and details specific areas that attracted qualified audit opinions.

Figure 1: Financial statement areas qualified

Discussion on qualification areas

The root causes of financial statement qualification areas where findings were greater than 40%, calculated as a percentage of the total number of departments and public entities that received a qualification in that area, are as follows:

Capital assets: Departments (100%)

All four of the departments, namely Health, Social Development, Education and Public Works, were qualified in the area of movable and immovable assets (2008-09: five).

The root causes for each department are highlighted below:

- Education – The qualification on assets recurred from the prior year due to the lack of an adequate action plan and the leadership not monitoring its progress. There was a lack of control over the awarding of contracts on infrastructure projects and over the recording and updating of assets in the accounting records. An adequate records management system had not been designed and implemented, resulting in significant delays or non-submission of documents requested for audit purposes. The high vacancy rate in the department was also a contributing factor to the qualification on capital assets and the overall disclaimer on the financial statements. The department had an overall vacancy rate of 69%, which is the highest in the province.
- Public Works – Due to a lack of coordination between the asset management and finance units, there was no regular monitoring and supervision of the manual asset register. The implementation of the Government Immovable Asset Management Act, 2007 (Act No. 19 of 2007) (GIAMA) at the department could not be substantiated, due to a general lack of commitment to address prior year audit findings timeously and a lack of monitoring by the leadership. Furthermore, the CFO did not take any ownership of the audit process and attended very few audit steering committee meetings between the department and the AGSA. Action plans to address prior year audit findings were also not adequately implemented.
- Social Development – Movable asset disposals were not updated in the asset register and could not be substantiated with appropriate evidence.
- Health – The department had no action plan to adequately address prior year audit findings, due to inadequate leadership oversight and a lack of coordination between the asset management and finance units. Regular reconciliations were not performed and physical asset counts were not conducted, which resulted in numerous discrepancies between the accounting records and the financial statements. The department had an overall vacancy rate of 62%, which is the second highest in the province. This high vacancy rate and the lack of adequate and appropriate skills in the asset division of the department resulted in the recurring qualification on capital assets.

Current assets: Departments (50%)

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

Disclosure: Departments (50%)

Two of the four departments were qualified on disclosure, namely Health and Education. In the case of the Department of Health, the qualification stemmed from the inadequate disclosure and recognition of minor assets as required by the National Treasury. The qualification on the disclosure requirements of the Department of Education stemmed from documentation that could not be provided to support the balances in the financial statements.

Under the category of disclosure, the following subcategories were noted at the departments:

Table 11: Subcategories of disclosure

Name of department	Contingent liabilities	Accruals	Commitments	Gifts and donations	Minor assets
Education	x	x	x	x	
Health					x

Suggestions on the way forward to address transversal issues

- Sustained leadership and oversight are required throughout the year.
- It is important that CFOs understand and fulfil their roles and responsibilities in ensuring accurate financial reporting.
- The financial management units should be adequately staffed with the appropriate skills, and an urgent effort should be made to fill the high number of vacancies at departments.
- A system to collate and safeguard documentation should be implemented.
- The roll-out of the asset management system in the province should be expedited.
- The provincial accountant general should improve its interactions with the CFOs and promptly address any areas of concern.

3.1.4 Funding of operations, financial sustainability and going concern

No cases of funding of operations, financial sustainability or going concern came to light during the audits.

3.1.5 Unauthorised, irregular as well as fruitless and wasteful expenditure incurred during the year

Unauthorised expenditure – R833,6 million

Figure 2: Unauthorised expenditure

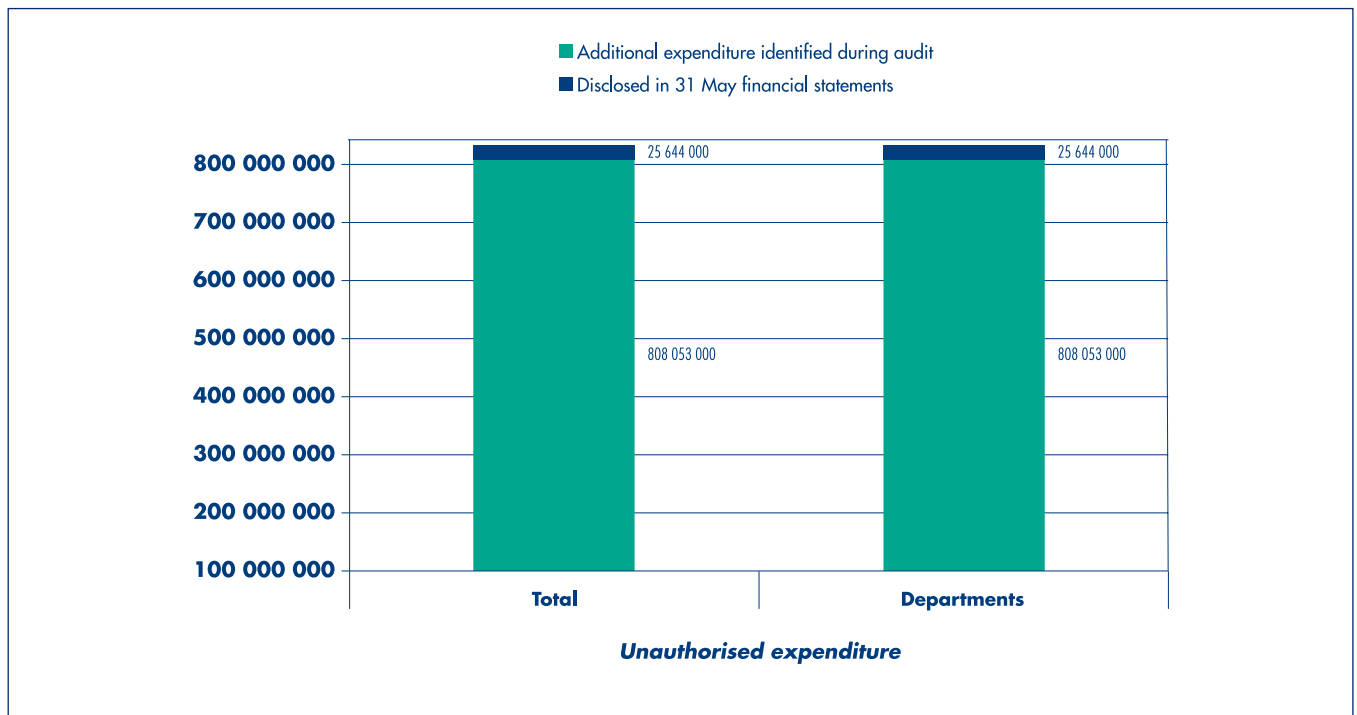


Table 12: Unauthorised expenditure (PFMA)

Auditee	Nature and extent of unauthorised expenditure		
	Overspending of vote or main division of vote		
	Number	%	R'000
Provincial legislature	1	0,2%	1 953
Education	1	96,4%	803 591
Health	1	2,2%	18 544
Safety, Security and Liaison	1	0,3%	2 509
Sport, Arts and Culture	1	0,9%	7 100
Total	5	100%	833 697

The unauthorised expenditure incurred at the Departments of Education and of Health accounted for 99% of the total unauthorised expenditure incurred in the province. The reasons are as follows:

Department of Health – The unauthorised expenditure incurred was a result of misallocations made in the 2008-09 financial year that were identified in the 2009-10 financial year. These misallocations resulted in expenses being reallocated to programmes that, in turn, exceeded the budget, resulting in the unauthorised expenditure.

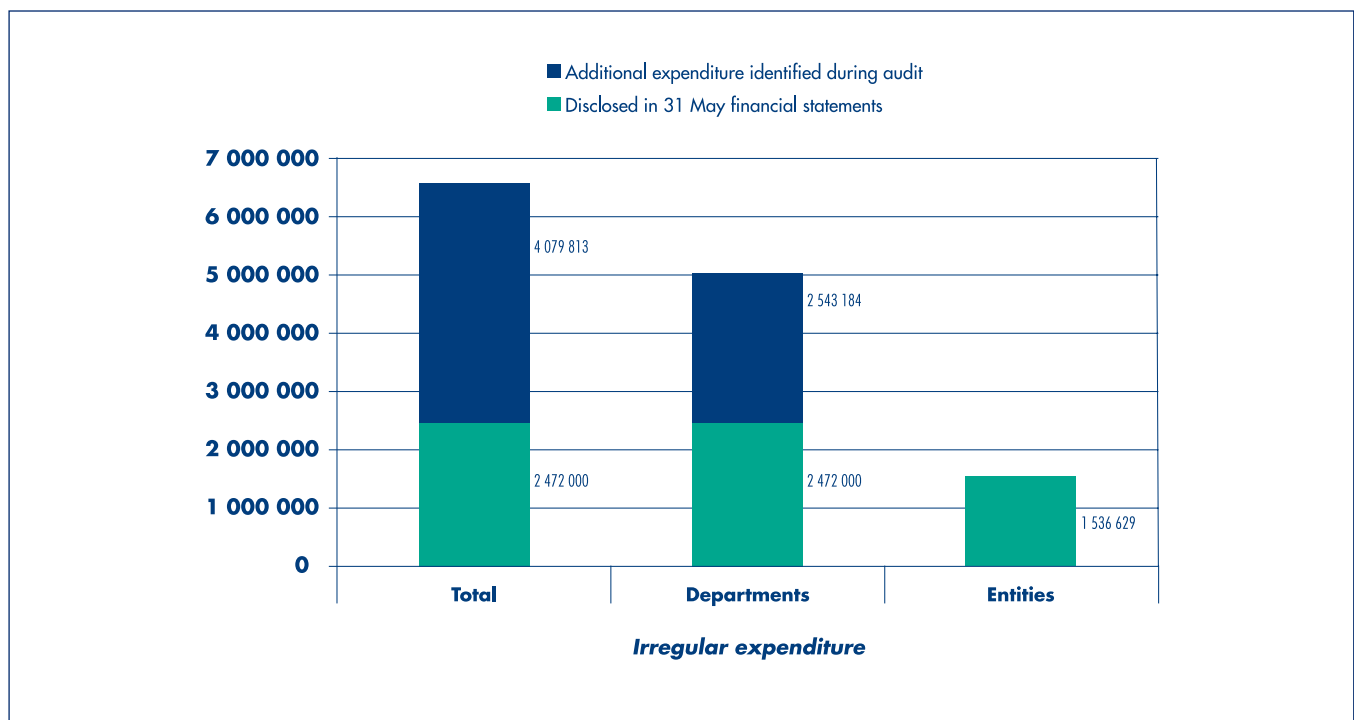
Department of Education – The unauthorised expenditure was a result of the overspending of the vote. Of the R803 591 000, 80% emanated from occupation-specific dispensation (OSD) payments that were not adequately provided for, while 20% related to the overspending on goods and services, which included repairs to schools that were damaged during a storm in 2008.

An additional amount of R25,644 million was identified during the audit process and subsequently corrected by the auditees.

No unauthorised expenditure was disclosed and none came to our attention in respect of public entities.

Irregular expenditure – R6,5 million

Figure 3: Irregular expenditure



Eight out of the 17 departments and entities audited incurred irregular expenditure due to proper SCM processes not having been followed or non-compliance with laws and regulations pertaining to employee-related expenditure.

Table 13: Irregular expenditure

Auditee	Nature and extent of irregular expenditure					
	Related to SCM			Related to compensation of employees		
	Number	%	R'000	Number	%	R'000
Economic Development, Environment and Tourism	1	25,1%	1 600			
Health	1	2,5%	159			
Safety, Security and Liaison	1	9,4%	597			
Social Development	1	38,8%	2 472			
Education				1	91%	171
Public Works				1	9%	16
Roads Agency Limpopo	1	22,1%	1 402			
Gateway Airports Authority Limited	1	2,1%	135			
Total	6	100%	6 365	2	100%	187

The breakdown of the six departments and public entities that incurred irregular expenditure due to proper SCM processes not having been followed is as follows:

- The total irregular expenditure incurred at the four departments due to proper SCM processes not having been followed amounted to R4,8 million, of which R2,3 million was as a result of misstatements identified during the audit.
- The total irregular expenditure incurred at the two public entities due to proper SCM processes not having been followed amounted to R1,5 million. This amount was as a result of misstatements identified during our audit process.

The Departments of Education and of Public Works incurred irregular expenditure as a result of non-compliance with the PSA. The irregular expenditure amounted to R187 184, which was identified during the audit.

In total, 62% of the irregular expenditure (R4 million) disclosed in the auditees' financial statements is attributable to misstatements identified during the audit process and subsequently corrected by the auditees.

The root cause of the transgressions was that although SCM policies were in place, there were instances of deliberate disregard of these policies. Furthermore, there was inadequate monitoring and reviewing by the leadership with regard to non-compliance with SCM prescripts as well as the reasons behind it.

3.1.5.3 Fruitless and wasteful expenditure – R5,9 million

Six of the 13 departments audited (Office of the Premier (R284 000), Education (R5,3 million), Health (R59 946), Public Works (R243 996), Safety, Security and Liaison (R59 000) and Local Government and Housing (R4 787)) incurred fruitless and wasteful expenditure, due to interest on late payments, duplicate supplier payments, purchased assets not being used, and excess charges by suppliers that could have been avoided.

No fruitless and wasteful expenditure was disclosed or came to our attention in respect of public entities.

3.1.6 Material losses, material impairment of assets and material underspending of the vote or conditional grant

Table 14: Material losses, material impairment of assets and material underspending of the vote or conditional grant

Type of auditee	Extent of material losses, impairments and underspending											
	Material losses			Material impairment of assets			Material underspending of vote			Material underspending of conditional grant		
	Number	%	R'000	Number	%	R'000	Number	%	R'000	Number	%	R'000
Departments	0	0%	0	0	0%	0	5	38%	632 058	1	8%	13 000
Public entities	0	0%	0	0	0%	0	0	0%	0	0	0	0
Total	0	0%	0	0	0 %	0	5	29%	632 058	1	6%	13 000

Material underspending of the vote

- The Office of the Premier materially underspent its budget on administration, institutional development as well as policy and governance by R5,3 million, R15,9 million and R2,158 million, respectively.
- Economic Development, Environment and Tourism underspent its budget on the programmes for administration and environmental affairs by an amount of R17,2 million.
- Health materially underspent its budget on district health services to the amount of R100,2 million and health facilities management to the amount of R90,2 million.
- Roads and Transport materially underspent its budget by R387,2 million.
- Local Government and Housing materially underspent the budget on the administration programme by an amount of R13,9 million.

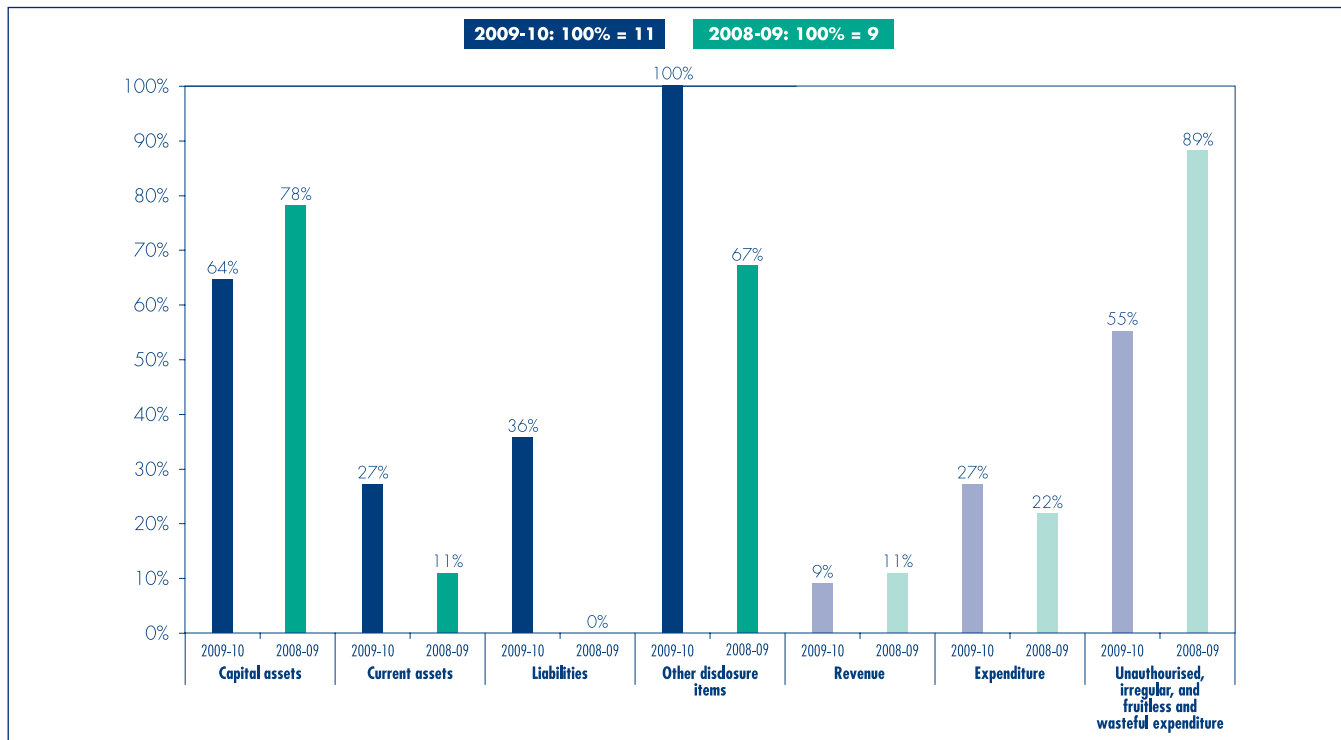
Material underspending of conditional grants

- Sport, Arts and Culture materially underspent its budget on conditional grants for libraries and mass sport participation to the amount of R13 million.

The programmes at each department are directly linked to the attainment of service delivery objectives contained in its strategic or annual performance plan. Even though none of the departments underspent on the entire vote or total budget, the underspending of a programme has a direct impact on the provision of service delivery.

3.1.7 Transversal pervasive misstatements corrected during the audit

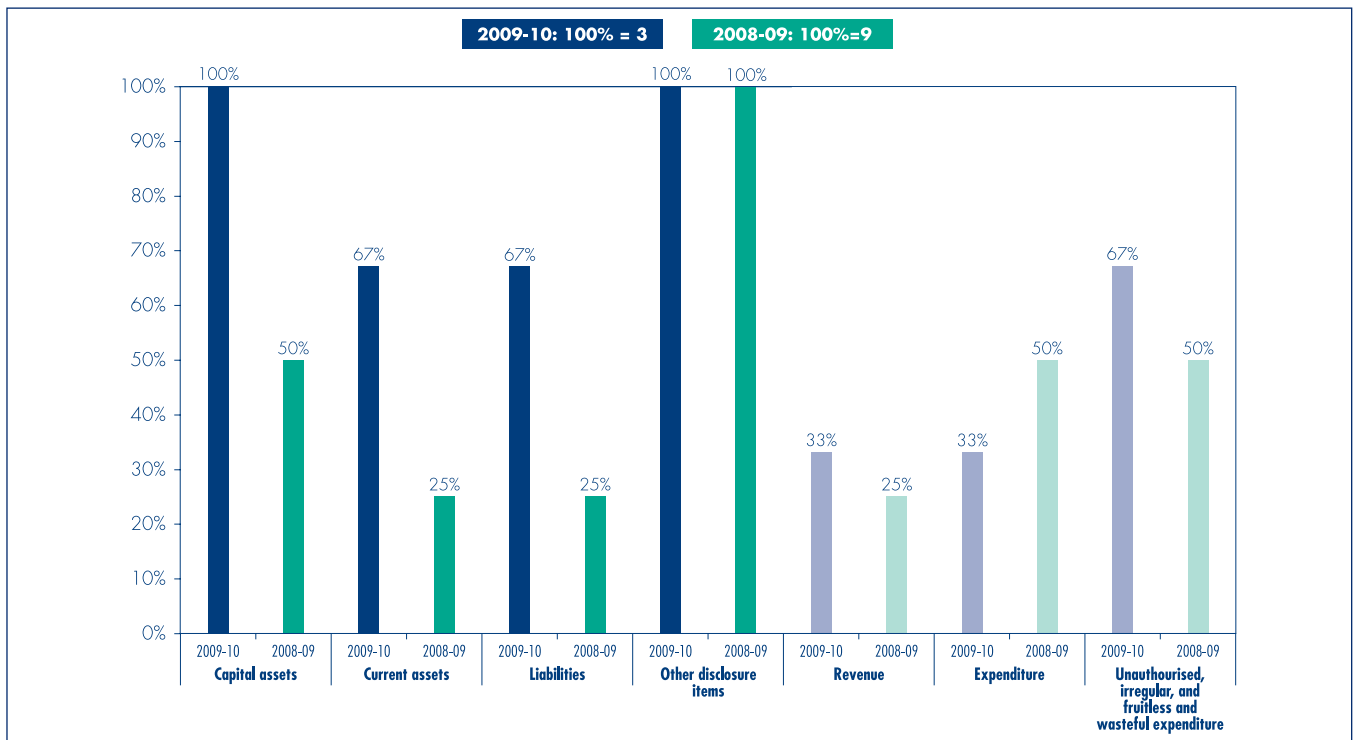
Figure 4: Transversal pervasive misstatements corrected during the audit: Departments



An analysis of these findings per account area is summarised in the table below.

Table 15: Findings per account area: Departments

Department	Category						
	Capital assets	Current assets	Liabilities	Other disclosure items	Revenue	Expenditure	Unauthorised, irregular as well as fruitless and wasteful expenditure
Agriculture	x			x			
Economic Development, Environment and Tourism	x	x		x			x
Education				x			
Health				x			x
Office of the Premier	x			x			x
Public Works			x	x	x	x	x
Roads and Transport	x	x	x	x		x	
Safety, Security and Liaison				x			x
Social Development	x	x		x			
Sport, Arts and Culture	x		x	x		x	x
Provincial legislature	x		x	x			
Total findings per category	7	3	4	11	1	3	6

Figure 5: Transversal pervasive misstatements corrected during the audit: Public entities

An analysis of these findings per account area is summarised in the table below.

Table 16: Findings per account area: Public entities

Entity	Category						
	Capital assets	Current assets	Liabilities	Other disclosure items	Revenue	Expenditure	Unauthorised, irregular as well as fruitless and wasteful expenditure
Limpopo Gambling Board	x	x	x	x		x	
Limpopo Roads Agency (Pty) Ltd	x			x			x
Gateway Airports Authority Limited	x	x	x	x	x		x
Total findings per category	3	2	2	3	1	1	2

The reasons for the misstatements were largely the same as for the previous year and were again as follows:

- Auditees tended to react to requirements late in the financial process.
- Financial statements were not prepared throughout the year and there was minimum review of accounts throughout the year, which resulted in errors not being detected and corrected early enough by management. There were also inadequate reviews of annual financial statements by audit committees.
- Annual financial statements were often submitted simply to comply with the legislated deadline. The financial statements of the four departments that were qualified were not reviewed by the CFO before submission to the AGSA for auditing.

- There was a lack of skills to interpret and prepare annual financial statements in terms of the required framework, coupled with a lack of ongoing monitoring and supervision.
- The National Treasury's financial statements preparation guideline for departments was not understood or read before the financial statements were prepared.
- There was a lack of visibility by the provincial treasury at the public entities in the province.

Recommendations

- Accounting is a process that should begin on commencement of the financial year and management accounts should be produced on a monthly basis.
- Those charged with governance should intervene to ensure that adequate support and capacity are made available to fulfil the roles and responsibilities in financial reporting.
- The provincial treasury should brief all the departments on the requirements of reporting in terms of the National Treasury's financial statements preparation guideline and any changes thereto. A dedicated session for this discussion should be held on an annual basis.
- Disclosure items in the financial statements should be prepared and reviewed at least on a quarterly basis so that material misstatements can be identified timeously before the financial statements are submitted for audit purposes.

3.2 Findings on predetermined objectives

The objective of an audit of performance information is to enable the auditor to conclude whether the reported performance against predetermined objectives is reliable, accurate and complete, in all material respects, based on predetermined criteria.

All departments and provincial public and other public entities subject to an audit of performance against predetermined objective information in terms of *General Notice 1570 of 2009*, issued in *Government Gazette No. 32758 of 27 November 2009*, are required to submit their annual performance reports for auditing together with the annual financial statements.

Based on an assessment of audit readiness, it was decided that for the 2009-10 audit cycles, while all audit work will focus on the expression of an opinion on the performance information of national and provincial departments, their public entities and metropolitan councils and their public entities, such opinions will not yet be lifted to the level of the individual auditor's report. An opinion will thus be prepared but not expressed publicly beyond being annexed to the management report as part of the readiness strategy.

Table 17: Summary of findings arising from audits of predetermined objectives

Category of finding	Departments (including legislature)		Public entities (including trading and constitutional institutions and other types of entities)	
	2009-10	2008-09	2009-10	2008-09
Non-compliance with regulatory requirements	38%	62%	33%	50%
Information on performance against predetermined objectives not useful	31%	54%	67%	25%
Information on performance against predetermined objectives not reliable	77%	54%	0%	0%
Information on performance against predetermined objectives not submitted for auditing by 31 May 2010	0%	0%	0%	0%
Total number of audits reported on	10	11	2**	3**

** The Limpopo Housing Board does not require a separate annual report to be prepared in terms of the sector-specific guide on human settlement departments. The Tribal and Trust Account and the Urban Transport Fund are also not required to prepare or submit a report on performance information in terms of the PFMA.

The percentages relate to those departments and public entities that had findings on the audit of performance against predetermined objective information, calculated as a percentage of the total number of entities audited.

Explanation of the various audit finding categories

Non-compliance with regulatory requirements

All 13 departments and three of the four public entities were subject to auditing in this area.

Non-compliance with regulatory requirements refers to the preparation of the integrated development plan and the strategic, corporate or annual performance plan, submission to those delegated for approval depending on the type of institution, evaluation of the contents for achieving objectives and indicators, and the subsequent reporting.

Five out of 13 departments, namely Office of the Premier, Education, Agriculture, Health and Social Development, and one public entity, namely Gateway Airports Authority Limited, had a finding relating to non-compliance with section 40(3)(a) or 55(2)(a) of the PFMA.

Reported information on performance against predetermined objectives not useful

Our audit focused on the consistency, relevance and measurability of planned and reported information on performance against predetermined objectives.

The usefulness of information on performance against predetermined objectives refers to the reported information being consistent with the objectives and targets. The targets should also be clearly linked to the mandate and objective of the institution, specific and clearly identify the nature and required level of performance, measurable and time bound. The reported information on performance against predetermined

objectives at four out of 13 departments, namely the provincial legislature, Public Works, Sport, Arts and Culture and Economic Development, Environment and Tourism, and two out of three public entities, namely Roads Agency Limpopo (Pty) Ltd and Gateway Airports Authority Limited, was not useful.

Reported information on performance against predetermined objectives not reliable

The audit focused on whether the reported information on performance against predetermined objectives could be traced back to the source data or documentation and whether the reported information was accurate, complete and consistent in relation to the source data, evidence or documentation. In the case of 10 out of 13 departments, namely the provincial legislature, Public Works, Sport, Arts and Culture, Economic Development, Environment and Tourism, Office of the Premier, Education, Agriculture, Health, Roads and Transport and Social Development, the reported information on performance against predetermined objectives was not reliable. No such findings were identified or reported at the public entities analysed.

Information on performance against predetermined objectives not submitted for audit purposes

Information on performance against predetermined objectives was received in time for review purposes in the case of all the departments and entities.

Findings are due to the following:

- The leadership did not take responsibility for reporting on predetermined objectives.
- There was a lack of integration of performance information structures and systems within existing management processes and systems.
- Processes, systems and documentation were inadequate for identifying, collecting, collating, verifying and storing performance information.
- Internal audit did not review performance management processes and reporting.
- The National Treasury did not provide sufficient, coordinated and comprehensive training and guidance to departments and public entities regarding the requirements for performance management, monitoring and reporting.
- There was a lack of appropriate capacity to manage performance information.

Auditees with no findings at all in the four categories considered as a whole

Of the reports that have been analysed, the following three departments and one public entity had no findings resulting from the audit of performance against predetermined objective information:

Departments (three): provincial treasury, Safety, Security and Liaison as well as Local Government and Housing

Public entities (one): Limpopo Gambling Board

Conclusion

Considering the number of auditees with findings (10 departments and two public entities) and especially the high percentage of unreliable information, coupled with the reported information not being useful (67%) at public entities, it is evident that reporting against predetermined objectives is not receiving the required attention.

3.3 Findings on compliance with laws and regulations

Some of the compliance matters identified at departments and entities concerned entering into transactions prohibited by legislation, while others related to failure by accounting officers, CFOs and other officials to meet their legislated responsibilities, resulting in unauthorised, irregular or fruitless and wasteful expenditure.

Table 18: Summary of findings relating to compliance with laws and regulations

Top 3 categories of non-compliance and SCM issues	Number	Percentage
Departments (including legislature and provincial revenue fund)		
General, fiduciary and reporting responsibilities not fulfilled	9	69%
SCM issues that resulted in irregular expenditure	4	31%
Payments not made within 30 days	3	23%
Public entities (including trading and constitutional institutions and other types of entities)		
SCM issues that resulted in irregular expenditure	2	50%
Payments not made within 30 days	1	25%
Entity-specific legislation	1	25%

In total, 12 out of 13 departments and three out of four public entities had findings on non-compliance with laws and regulations.

Departments

Nine out of 13 departments, namely Office of the Premier, Education, Health, Public Works, Safety, Security and Liaison, Local Government and Housing, Agriculture, Economic Development, Environment and Tourism and provincial treasury, had findings relating to general, fiduciary and reporting responsibilities not having been met (section 38(1) of the PFMA). Details are as follows:

- Fruitless and wasteful expenditure was incurred where expenditure made in vain could have been prevented had reasonable care been exercised (section 38(1) of the PFMA – R5 959 475). Six of the 13 departments audited incurred fruitless and wasteful expenditure. This was due to interest on late payments, duplicate supplier payments, purchased assets not being used, and excess charges by suppliers that could have been avoided. The departments and amounts incurred are as follows:
 - o Office of the Premier – R284 000
 - o Education – R5 307 746
 - o Health – R59 946
 - o Public Works – R243 996

- o Safety, Security and Liaison – R59 000
 - o Local Government and Housing – R4 787
- Unspent voted funds were not surrendered to the provincial revenue fund (Treasury Regulation 15.8.1):
 - o Agriculture
 - o Economic Development, Environment and Tourism
- Administration of tribal levies and trust account (Treasury Regulation 14.3.1(d)):
 - o Provincial treasury – R1 953 000
- Non-adherence to section 7(4) of the Income Tax Act (whereby fringe benefits were not deducted from employees renting state residences at lower than market-related rentals):
 - o Public Works
- Internal audit did not adequately assist the accounting officer in terms of section 38(1)(a)(i) of the PFMA by evaluating internal controls related to compliance with laws, regulations and controls, and by developing recommendations for their enhancement and improvement:
 - o Office of the Premier

The province established a central internal audit unit whose services are shared amongst all the departments in the province (except the legislature). The administration and monitoring of this internal audit unit are the responsibility of the Office of the Premier. This finding stems from the high vacancy rate in the internal audit unit, which in turn had a ripple effect at all the departments in the province.

Four out of 13 departments, namely Economic Development, Environment and Tourism, Health, Social Development and Safety, Security and Liaison failed to comply with SCM requirements, which also resulted in irregular expenditure (Treasury Regulations 16A 8.3 and 16A 6.4 and section 38(1) of the PFMA).

Furthermore, three out of 13 departments, namely Education, Office of the Premier and Public Works, had findings relating to expenditure not being paid within 30 days from receipt of invoices (Treasury Regulation 8.2.3).

Public entities

One out of four public entities, namely the Limpopo Gambling Board, had a finding relating to expenditure not being paid within 30 days from receipt of invoices (Treasury Regulation 8.2.3).

Non-compliance with specific or enabling legislation governing the mandate and operational activities of one public entity was reported in respect of Gateway Airports Authority Limited (sections 105, 215 and 240 of the Companies Act of South Africa, 1973 (Act No. 61 of 1973)).

At two out of four public entities, namely Roads Agency Limpopo (Pty) Ltd and Gateway Airports Authority Limited, SCM policies and procedures were not complied with (Treasury Regulations 16A 8.3 and 16A 6.4 and section 38(1) of the PFMA), which also resulted in irregular expenditure.

Root causes or control deficiencies

- Lack of monitoring the controls over compliance with legislative requirements by all levels in the departments and public entities throughout the period.
- Ineffective or inadequate internal audit coverage of compliance.
- The leadership not setting the right tone at the top.

The way forward

- Departments and public entities should consider implementing self-assessment procedures through compliance checklists, together with ongoing review and monitoring by management, to prevent lapses in compliance with laws and regulations.
- The right leadership tone, together with the support of the audit committee and internal audit, is necessary to establish a strong control environment and ensure compliance.

3.4 Information technology system matters

IT general controls are controls relating to the IT infrastructure and are imbedded in information system management processes. The objective of audits that evaluate the effectiveness of IT controls is to determine whether:

- financial and sensitive computer systems are only accessed by authorised officials
- systems are developed, enhanced, configured and implemented so that they are effective, functional and secure
- critical information is recoverable and usable in the event of disasters and disruptions
- financial information processes stored in the computer systems are reliable for financial reporting purposes.

Departments and entities rely heavily on computerised information systems (e.g. BAS, Persal and Logis) to perform their statutory financial management, reporting and administrative functions. These transversal systems are centrally supported by the National Treasury. SITA provides important computer networking infrastructure, data storage and retrieval services in this regard, but there are certain controls that remain the responsibility of the departments, such as user access management, security management and IT service continuity.

IT general control audits were performed at 13 departments and three entities. The following table indicates the number of common focus area findings raised during those audits:

Table 19: Audit findings raised on common IT focus areas

IT focus area finding	Percentage of audited departments with finding	Percentage of audited entities with finding *
IT governance	92%	33%
Security management	92%	67%
User access control	92%	67%
IT service continuity	100%	67%

* An IT audit was not performed at the Urban Transport Fund after considering the size and associated risks of this entity.



The detailed findings related to the audited focus areas include the following:

- IT governance structures, policies and processes were inadequate to ensure that IT supported and extended the departments' strategies and objectives at all departments except the legislature and at two public entities, namely the Limpopo Gambling Board and Roads Agency Limpopo (Pty) Ltd.
- Security management controls did not prevent unauthorised access to application systems that generated and prepared financial statements at all departments and public entities except Public Works and the Limpopo Gambling Board.
- User access controls were inadequate to ensure that only valid and authorised users were allowed access to initiate and approve transactions on the system and also that user access was adequately segregated when transactions were captured and approved. This finding was identified at all departments and public entities except the legislature and the Limpopo Gambling Board.
- IT service continuity controls could not ensure the availability of financial and performance information in instances of data loss or a disaster at all departments and entities except the Limpopo Gambling Board.

Fundamentals of internal control to be addressed

- Government information technology officers (GITO) in consultation with SITA and chief information officers (CIOs) have to clearly define security roles and responsibilities and implement network and operating system security controls that would detect and prevent unauthorised access to the application systems that generate financial information.
- CFOs have to develop, monitor and enforce user access controls, such as user creation procedures and periodic reviews of the activities of system controllers and users on the applications that generate the financial statements.
- Departments and entities have to implement business continuity plans that would enable SITA, GITO and CIOs to develop disaster recovery plans that are aligned to business requirements.
- Accounting officers have to be involved in the oversight of IT governance processes and should capacitate IT departments with resources that will ensure the adequate implementation of an IT plan.

3.5 Investigations and performance audits

3.5.1 Investigations in progress

Departments

Local Government and Housing

- An investigation is being conducted to determine whether any fraudulent actions took place during the awarding of houses to beneficiaries and, if so, to determine accountability for such fraudulent actions.

Provincial treasury

- An investigation into the vulnerability of BAS was instituted in the 2008-09 financial year. This investigation was still ongoing as at 31 August 2010.

Sport, Arts and Culture

- An investigation is being conducted based on an allegation of fraud and theft by an employee of the department.

Public entities

Roads Agency Limpopo

- An investigation is being performed by external parties to probe allegations of abuse of SCM practices (procurement and contract management).

3.5.2 Investigations completed during the financial year

Departments

Economic Development, Environment and Tourism

- An investigation was completed into the alleged utilisation of departmental resources by a senior environmental official for private purposes. The official was subsequently arrested.

Local Government and Housing

- An investigation was completed into the settlement and subsequent payment of R15 million as reported in the 2005-06 financial year's auditor's report for an out-of-court settlement in a dispute with a developer. The department is assessing the feasibility of recovering the amount.

Health and Social Development

- An investigation was conducted based on allegations that officials have business interests in companies that have traded with the Departments of Health and of Social Development. At the date of this report, management was evaluating the findings reported and pursuing legal action. The disclosure of irregular expenditure or fruitless and wasteful expenditure, if any, will be made in the year in which the evaluation is completed or final judgement in the legal proceedings is passed.

Health

- An investigation was conducted into alleged transgressions of the SCM policy relating to the procurement of goods and services. At the date of this report, management was evaluating the findings reported and pursuing legal action. The disclosure of irregular expenditure or fruitless and wasteful expenditure, if any, will be made in the year in which the evaluation is completed or final judgement in the legal proceedings is passed.

3.5.3 Performance audits completed during the financial year

No performance audits were completed or conducted during the financial year at any of the departments or entities in the province. The AGSA conducted a transversal performance audit on infrastructure delivery, which is discussed under section 5.3 below.

3.5.4 Special audits in progress

An agreed-upon procedures assignment was conducted at the Department of Health relating to alleged missing ambulances and vehicles. A physical verification was conducted by the AGSA to determine the extent of the alleged missing ambulances and vehicles in the province, if any. These findings will be reported on in a separate report which is yet to be finalised.

SECTION 4: ACTION TAKEN OR TO BE TAKEN TO ADDRESS AUDIT OUTCOMES

4.1 Drivers of audit outcomes

The reported internal control deficiencies cover matters relating to the basis for the qualified, adverse or disclaimer of opinions on the financial statements and the findings on predetermined objectives and compliance with applicable laws and regulations. The matters are analysed under the three fundamentals of internal control listed below.

4.1.1 Leadership

Commitment by those charged with governance at departments and entities to improve on the audit outcomes by creating an environment conducive to sound financial management and improved service delivery

At four out of 12 departments, there is a need for management to set the right tone from the top to create an environment conducive to good financial management and service delivery. This was evidenced by the fact that significant audit findings from prior years had not been addressed and that material misstatements in the financial statements and findings on the report on predetermined objectives were identified during the audit process. This all resulted in qualified opinions or disclaimers of opinion in the year under review. Furthermore, information and communication were not captured in a form and time frame that would support financial reporting, while disclosure notes were not system generated and were only produced once a year.

New HoDs were appointed in all departments except the Office of the Premier and the legislature. The leadership of the newly appointed HoDs was already evident during the recent audit cycle. Where the leadership tone is not yet strong enough, it will need urgent attention (Education).

Improvements at departments and public entities are a result of internal controls that were designed and implemented to address the findings reported previously. The implementation of these internal controls was regularly monitored by those charged with governance. The lack of proper monitoring of the implementation of these action plans resulted in the desired results not being achieved at the entities that still require improvement.

There was also a lack of adequate systems to collect, record and report on performance information and compliance with regulations relating to predetermined objectives.

Review and monitoring of action plans to address all significant internal control deficiencies

Proper review and monitoring, particularly of asset management, budgets and associated financial transactions, need to occur at departments and entities that were either qualified or had internal control deficiencies.

The leadership should ensure that adequate action plans aimed at addressing all the significant internal control deficiencies are designed, implemented and monitored.

The action plans of the entities that showed improvement were comprehensive and adequate to address the significant internal control deficiencies. The leadership was involved in monitoring the implementation of these action plans.

Establish an effective organisational structure that places people with the appropriate skills in appropriate positions to ensure compliance with applicable laws and regulations

The leadership should ensure that people with appropriate skills are placed in the finance sections, including the asset management sections.

Departments and entities did not in all instances comply with SCM regulations and other applicable legislation. In addition, their systems to prevent, detect and monitor non-compliance with these regulations were poor, as evidenced by the fact that some departments had findings on non-compliance with applicable laws and regulations as well as SCM prescripts, which resulted in irregular expenditure.

The leadership ensured that key financial staff had the appropriate skills to perform their duties in those departments where an improvement was noted. The Departments of Health, Education and Public Works still have to fill vacancies in their finance units, more specifically their asset management units.

Ensure that all vacancies in finance, internal audit and other significant components are filled within a reasonable time

At nine out of 12 departments, positions in the finance unit were vacant for more than 12 months. Only at the Departments of Sport, Arts and Culture, Safety, Security and Liaison and the provincial treasury did vacancies in the finance unit not exceed 12 months. The filling of overall vacancies, especially in the finance unit, requires urgent attention. The two departments with serious vacancy challenges are Education (69% vacancies) and Health (62% vacancies).

The province would find it difficult to improve future audit outcomes if these vacancies are not filled.

The province's shared internal audit unit is also currently facing numerous challenges in capacitating and filling vacancies. This ongoing challenge is affecting all the departments in the province.

Leadership's implementation of action plans to address user access control deficiencies

Except for the legislature, none of the departments and two public entities had adequate action plans to address findings relating to user access control deficiencies.

Table 20: Drivers of audit outcomes: Leadership

No.	Auditee	Province	Maintained or improved previous good practices					Improvements required								
			Commitment by those charged with governance to improve on the audit outcomes by creating an environment conducive to sound financial management and improved service delivery	Predetermined objectives	Establish an effective organisational structure that places people with appropriate skills in appropriate positions, especially in SCM, to ensure compliance with applicable laws and regulations	Review and monitor action plans to address all significant internal control deficiencies	Ensure that all vacancies in finance and other significant components are filled within a reasonable time	Leadership's implementation of action plans to address user access control deficiencies (information systems)	Commitment by those charged with governance to improve on the audit outcomes by creating an environment conducive to sound financial management and improved service delivery	Predetermined objectives	Establish an effective organisational structure that places people with appropriate skills in appropriate positions, especially in SCM, to ensure compliance with applicable laws and regulations	Review and monitor action plans to address all significant internal control deficiencies	Ensure that all vacancies in finance and other significant components are filled within a reasonable time	Leadership's implementation of action plans to address user access control deficiencies (information systems)		
	Department															
1	Agriculture	LP														
2	Economic Development, Environment and Tourism	LP														
3	Education	LP														
4	Health	LP														
5	Local Government and Housing	LP														
6	Office of the Premier	LP														
7	Provincial legislature	LP														
8	Provincial treasury	LP														
9	Public Works	LP														
10	Roads and Transport	LP														
11	Safety, Security and Liaison	LP														
12	Social Development	LP														
13	Sport, Arts and Culture	LP														
			3	3	1	2	3	1	1	10	10	12	11	10	12	
	Entity															
14	Gateway Airports Authority Limited	LP														
15	Limpopo Gambling Board	LP														
16	Roads Agency Limpopo (Pty) Ltd	LP														
17	Urban Transport Fund	LP														
			4	1	2	4	3	1	1	0	2	2	0	1	2	

4.1.2 Financial and performance management

Proper record keeping and record management, ensuring that supporting documents are properly filed and easily retrievable

Except at the Departments of Education, Health, Public Works and Social Development, improvements in the maintenance and safekeeping of documentation resulted in the reduction of scope limitations that were included in the prior year auditor's reports. There was a significant regression in this control at the Department of Education, which resulted in the disclaimer of audit opinion.

Ensure that the fixed asset register reflects the assets owned and that this is agreed to the financial records and financial statements as well as that reconciliations and clearing of suspense accounts are done on a monthly basis

The departments and entities should ensure that the asset registers reflect the assets owned and that the registers agree to the financial records and the financial statements. This can be achieved through regularly reconciling assets.

The provincial administration has adopted the use of manual spreadsheets to account for and record immovable and movable assets, which has resulted in the lack of proper or regular reconciliations. The implementation of an electronic asset management system requires urgent attention by the leadership of the province.

Producing accurate financial statements and performance information and continuously monitoring quality as well as ensuring that performance information is supported by relevant and reliable information

The production of quality and accurate financial information is a key control that needs to occur at 14 out of 17 departments and entities. This should be an ongoing process throughout the financial period. Basic financial controls were not adequately adhered to throughout the financial year, i.e. the daily processing of transactions, the monthly reconciliation of accounts and the continuous review thereof need to be actively monitored by the leadership. This would also prevent or limit the number of pervasive material misstatements identified and corrected during the audit process.

Monthly management reports need to be monitored and year-end financial statements should be reviewed by the leadership as well as internal audit and audit committees, prior to submission for auditing.

Application systems susceptible to compromised data integrity

The main cause for the lack of improvement in this area is a lack of adequate action plans to address the findings previously reported to management.

Table 21: Drivers of audit outcomes: Financial and performance management

No.	Auditee	Maintained or improved previous good practices										Improvements required																
		Proper record keeping and record management, ensuring that supporting documents are properly filed and easily retrievable			Ensuring the asset register reflects the assets owned and that this is agreed to the financial records and accounts on a monthly basis			Producing accurate financial statements and continuously monitoring the quality thereof; ensuring that performance information is supported by relevant and reliable information		User access control		Security management		Application systems susceptible to compromised data integrity (information systems)		Financial statements		Producing accurate financial statements and continuously monitoring the quality thereof; ensuring that performance information is supported by relevant and reliable information		User access control		Security management		Business continuity				
	Department																											
1	Agriculture	LP																										
2	Economic Development, Environment and Tourism	LP																										
3	Education	LP																										
4	Health	LP																										
5	Local Government and Housing	LP																										
6	Office of the Premier	LP																										
7	Provincial legislature	LP																										
8	Provincial treasury	LP																										
9	Public Works	LP																										
10	Roads and Transport	LP																										
11	Safety, Security and Liaison	LP																										
12	Social Development	LP																										
13	Sport, Arts and Culture	LP																										
	Entity																											
14	Gateway Airports Authority Limited	LP																										
15	Limpopo Gambling Board	LP																										
16	Roads Agency Limpopo (Pty) Ltd	LP																										
17	Urban Transport Fund	LP																										
			4	1	4	1	1	1	1	1	0	2	2	0	3	2	2	2	2	2	2	2	2	2	2	2	2	2

4.1.3 Governance

Improved involvement by internal audit and audit committees in monitoring processes

The vacancies in the internal audit divisions at departments need to be addressed and an increase in internal audit coverage of financial and service delivery matters is required. The internal audit units of all three public entities analysed were outsourced to external service providers.

Internal audit plays a vital role in ensuring sound internal controls and meeting financial reporting objectives. The province utilises a shared internal audit service, with the exception of the legislature. The leadership should ensure that the internal audit division is adequately capacitated to enhance the identification of key risks and key controls. This will ensure that the leadership is empowered to effectively monitor results and set the correct tone for the financial performance of the province.

All the departments and public entities had fully functioning audit committees that played an oversight role over the financial statements, management reports and auditor's reports. However, the oversight role over the financial statements and performance information needs to be strengthened to ensure that the financial statements and performance information are of the appropriate quality.

Maintaining effective risk management strategies, including fraud prevention plans

Effective risk assessment management strategies, including fraud prevention, must be established.

The risk assessments performed by departments and entities must inform the risk-based audit plans of internal audit to allow them to function effectively in advising the accounting officer and the audit committee on matters relating to internal controls, accounting procedures and practices, risk and risk management. The risk assessment process must inform the work plans of internal audit and the agendas of audit committees, which are essential elements in the review of the design and implementation of sound internal controls to achieve good governance and accountability over financial reporting and performance information or service delivery.

Monitoring and evaluating risk in IT systems, including implementing action plans to address audit outcomes

Information systems have become an integral part of organisations. Effective governance arrangements must be in place and must ensure that proper risk management and adequate internal controls are maintained over the IT environment. These functions, together with action plans to address IT findings relating to the general control environment, must be strengthened through the appointment of appropriately qualified and competent persons to effectively discharge their responsibilities. Findings on general control weaknesses were identified at all the departments in the province, including the legislature, and two public entities.

Lack of IT governance framework to direct the positioning of IT, resource requirements, risk and internal control management

This is a significant challenge for all the departments (except the legislature) and one public entity (Gateway Airports Authority Limited), as previously reported findings have not yet been addressed.

Table 22: Drivers of audit outcomes: Governance

No.	Auditee	Province	Maintained or improved previous good practices				Improvements required			
			Greater involvement by internal audit and audit committee in monitoring processes		Maintaining effective risk management strategies, including fraud prevention plans	An IT governance framework that directs the positioning of IT, resource requirements, risk and internal control management	Greater involvement by internal audit and audit committee in monitoring processes		Maintaining effective risk management strategies, including fraud prevention plans	An IT governance framework that directs the positioning of IT, resource requirements, risk and internal control management
			Financial statements	Predetermined objectives			Financial statements	Predetermined objectives		
	Department									
1	Agriculture	LP								
2	Economic Development, Environment and Tourism	LP								
3	Education	LP								
4	Health	LP								
5	Local Government and Housing	LP								
6	Office of the Premier	LP								
7	Provincial legislature	LP								
8	Provincial treasury	LP								
9	Public Works	LP								
10	Roads and Transport	LP								
11	Safety, Security and Liaison	LP								
12	Social Development	LP								
13	Sport, Arts and Culture	LP								
	Entity									
14	Gateway Airports Authority Limited	LP								
15	Limpopo Gambling Board	LP								
16	Roads Agency Limpopo (Pty) Ltd	LP								
17	Urban Transport Fund	LP								
			3	0	3	2	0	3	1	1

4.2 Action taken or to be taken to address matters previously reported

The impact of MEC stakeholder interactions and provincial oversight and interventions in response to audit outcomes has maintained the performance and resulted in a minor improvement in the overall audit outcomes since the 2008-09 financial year. There is much room for improvement in respect of audit outcomes as well as findings on reporting of performance against predetermined objectives and compliance with laws and regulations included in the auditor's reports of most departments and public entities.

The reason for these entities still having qualifications or findings on predetermined objectives and compliance with legislation is the non-adherence of departments and entities to sound financial management and service delivery practices in effective financial and performance management systems and in effective governance arrangements.

During the 2008-09 financial year, the leadership committed itself to improving oversight over financial administration at the departments. All departments, except the Office of the Premier and the legislature, appointed new accounting officers. Some accounting officers were appointed in June and have assisted a great deal in resolving audit-related issues. During this time, it also became very clear that the province has a challenge regarding its CFOs taking responsibility and performing their duties.

Management and those charged with governance developed action plans to address matters previously reported. These action plans included the implementation of controls relating to expenditure and the safeguarding of assets, reconciliation of suspense accounts and reconciliation of discrepancies between the asset register and financial statements. Three departments, namely Health, Public Works and Education, did not adequately implement action plans to address matters previously reported.

At the appointment of the new provincial audit committee, the MEC for the provincial treasury stated, 'It is important that you become vigorous in your interactions with the departments. We want all round clean audits by 2012, before the onset of the 2014 deadline', stressing that his own interaction with the committee will increase (*Polokwane Observer*, 5-6 November 2009). There was an improvement in the interactions between the audit committee and those charged with governance (political and management) in the 2009-10 financial year.

MECs who participated in the public hearings of the provincial public accounts committee for their departments pledged their support to resolving negative audit findings. The premier furthermore indicated to the Standing Committee on Public Accounts that all decisions the committee took, including to suspend officials accused of violating the PSA, would be implemented without intimidation.

The premier committed himself and MECs to play a more active oversight role in the financial administration of departments and entities in the province in the 2010-11 financial year and onwards. The premier also committed the political leadership to drive the implementation, maintenance and monitoring of key controls to prevent errors or at least detect them earlier in the process as well as to attend to and resolve findings identified by the AGSA relating to SCM, assets and disclosures in the financial statements. Furthermore, the premier was adamant that the findings raised by the AGSA will be addressed and will not recur in the next financial year.

A commitment was made by the MEC for Finance to pay adequate attention to the lack of capacity (in terms of both skills and vacancies) that is prevalent in the provincial administration. The leadership also committed the portfolio committees to address matters of financial management in their day-to-day activities.

The provincial treasury provided support to assist departments to improve their financial management practices with regard to maintaining a complete and accurate asset register. The initiatives taken and the support provided by the treasury did not have an impact on the audit outcomes at the Departments of Health, Education and Public Works, due to the lack of commitment and involvement by the leadership to address audit issues.

During the 2009-10 financial year, the premier committed to improving interactions and engagement between the leadership and the AGSA. In this regard, there were ongoing interactions between the MECs, the HoD of the provincial treasury, the provincial accountant general, the chief audit executive and the AGSA on the issue of asset management and other audit-related issues. The outcome of these discussions was communicated by the provincial treasury to all the CFOs of departments during the monthly provincial technical committee on finance (PTCF) forums, which are hosted by the provincial treasury and chaired by the provincial accountant general.

Representatives of the provincial treasury attending the weekly audit steering committee meetings enabled the treasury to identify specific problems pertaining to the departments in order to provide further assistance. There was also an improvement in the involvement of most MECs in the audits.

The provincial treasury also assigned a task team to deal with the issue of BAS functionality on segment types and classification that leads to incorrect economic classification in the financial statements and provided year-end accounting guidelines to all departments in the province. This intervention by the provincial treasury led to a much smoother year-end closing process than in previous years.

4.3 Initiatives taken by the AGSA to encourage clean administration

In support of an ultimate audit outcome of unqualified audit opinions with no reported findings on predetermined objectives or compliance with laws and regulations, the AGSA leadership in the province embarked on an intensified programme to enhance its visibility with the objective of improving the effectiveness of the audit process and to engage with all role players who could influence clean administration. To this end, the audit teams paid regular visits during the audits and meetings were held with those charged with governance. The engagements focused on simplicity, clarity and relevance of the message to gain an understanding, secure buy-in and seek commitment that would influence clean administration.

As at 31 July 2010, AGSA staff in the province had met with the premier, the speaker and the deputy speaker of the legislature, the MECs for the departments and the accounting officers of all departments and public entities to discuss the 2009-10 audit outcomes and key controls required of the departments and public entities concerned. The overall results of this initiative were very positive. The MECs were able to identify the root causes of the qualifications and findings for their portfolios. Moreover, they were able to understand the AGSA's initiative in requiring quarterly appraisals of identified key controls and their link to influencing clean administration.

The AGSA presented a summary of the main issues concerning financial reports that required those charged with governance to effect continuous oversight and monitoring of internal controls for the departments that attained an unqualified audit opinion with no findings on predetermined objectives or non-compliance, so that they are able to sustain this position.

Furthermore, the AGSA engaged with the Limpopo centralised audit committee to discuss matters raised in the draft auditor's reports prior to the auditor's reports of all departments being signed off. As a result of this interaction, it was resolved that all departments would prepare a detailed turnaround strategy on audit findings, identifying responsibilities, expected outcomes and measurable target dates, with a commitment to direct internal audit to focus its audit plan on monitoring achievement against these plans. A workshop for newly appointed provincial audit committee members was also conducted by the AGSA during the year. The purpose of this workshop was to clarify the roles and responsibilities of the audit committee and the AGSA as well as the AGSA's expectations from the audit committee. The HoDs and CFOs were also invited to attend.

4.4 Matters that may potentially impact the auditor's report in the coming year

4.4.1 Accounting and compliance matters

4.4.1.1 New pronouncements or requirements

Predetermined objectives

Should the audit conclusion on the reporting on predetermined objectives be elevated for inclusion in the auditor's report next year, as opposed to it being included in the management report, the audit findings relating to predetermined objectives raised in the current year, if not cleared, may have an impact on the audit outcomes.

Inventory – Departments

In terms of the inventory reform programme of the National Treasury, departments will be required to include disclosures on its inventory in the 2010-11 financial year. A transversal policy on consumable materials will be developed by the National Treasury for application in the 2010-11 financial year and onwards. The disclosure of inventory will be subject to auditing.

SA Standards of GRAP – Public entities

All schedule 3C public entities as per the PFMA that have to make use of the financial reporting framework, namely the SA Standards of GRAP issued by the ASB, should take note of the new SA Standards of GRAP pronouncements and amendments to existing accounting standards that may have an impact on the preparation of future annual financial statements.

SA Standards of GAAP – Public entities

Gateway Airports Authority Limited, the only schedule 3D entity in the province, must take note of the following amendments to the SA Standards of GAAP resulting from the April 2009 annual improvements to the IFRS, which may have an impact on the auditor's report in the coming year:

- IAS 1 *Presentation of Financial Statements*
- IAS 7 *Statement of Cash Flows*
- IAS 17 *Leases*
- IAS 36 *Impairment of Assets*
- IAS 39 *Financial Instruments: Recognition and Measurement*

4.4.1.2 Susceptibility and subjectivity of complex accounting estimates and fair values

Matters affecting the Limpopo Tourism and Parks Board and Gateway Airports Authority Limited

The complexity of the calculations for investment property, properties in possession and investment in subsidiaries in terms of Standards of GRAP and/or the International Accounting Standards may potentially have an impact on the auditor's report in the coming year.

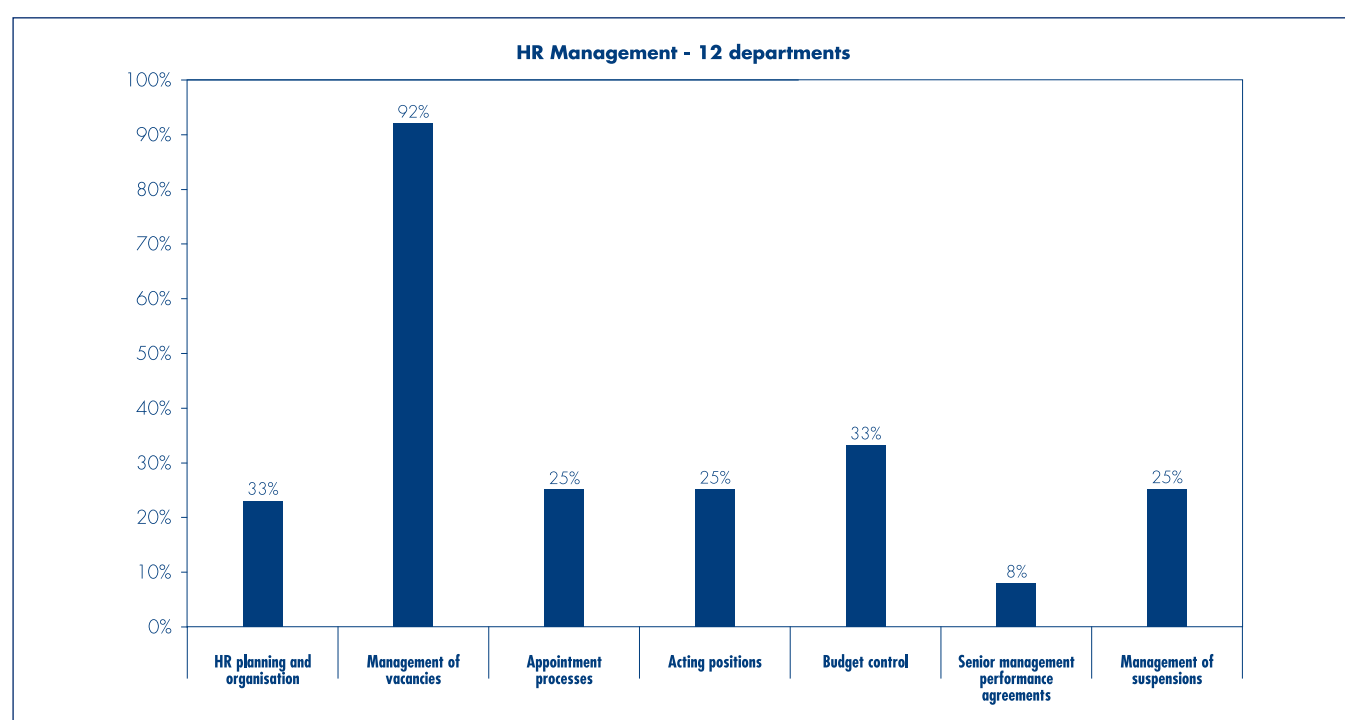
SECTION 5: FINDINGS ARISING FROM AUDITS OF SPECIFIC FOCUS AREAS OF THE AGSA

5.1 Significant findings from audits of human resource management and compensation of employees

The regularity audits of departments included an assessment of departments' compliance with the PFMA, Treasury Regulations, the PSA, Public Service Regulations, 2001 (PSR) and directives/determinations issued by the Minister of Public Service and Administration (MPSA) that support effective HR management and controls over compensation of employees. The audit of HR management and compensation of employees was not conducted at the legislature.

The figure below depicts the incidence of findings in the different areas of HR management.

Figure 6: Findings on human resource management



Eleven departments did not comply with all the requirements for effective HR management. These weaknesses impacted on the departments' financial management and ability to deliver services in accordance with their mandates. The highest incidence of non-compliance was noted at the following departments:

- Four departments out of 12, namely Education, Health, Public Works and Social Development, had findings relating to HR planning and organisation. The Department of Public Works did not have an approved and updated HR plan.

- Eleven out of 12 departments had findings relating to the management of vacancies, namely Agriculture, Economic Development, Environment and Tourism, Education, Health, Local Government and Housing, Office of the Premier, Public Works, Roads and Transport, Safety, Security and Liaison, Social Development and Sport, Arts and Culture.
- At three out of 12 departments (Education, Health and Safety, Security and Liaison), non-compliance with appointment processes was noted.
- At three out of 12 departments, findings were recorded relating to acting in higher positions, namely Education, Public Works and Safety, Security and Liaison.
- Four out of 12 departments had findings relating to budget control. These departments were Agriculture, Safety, Security and Liaison, Social Development and Sport, Arts and Culture.
- At the Department of Education, senior management performance agreements had not been signed by 31 July.
- Three out of 12 departments, namely Agriculture, Education and Public Works, had findings relating to the management of suspensions.

The detailed findings on HR management and compensation of employees are presented below.

5.1.1 Management of vacancies

The HoD should address the gaps between the HR required to perform the department's functions and the existing HR by means of recruitment and retention strategies.

The average vacancy rate across all departments was 42% at year-end, with an average of 27% senior manager positions being vacant. The highest overall vacancy rate was at the Department of Education at 69% and the highest senior manager vacancy rate was at the Department of Health at 60%.

Lack of improvement in vacancy rates

At the following departments the overall vacancy rates had not improved from the previous year:

Table 23: Lack of improvement of vacancy rate

Department	No improvement in overall vacancy rate	No improvement in vacancy rate of senior managers
Education	x	x
Health	x	x
Local Government and Housing	x	x
Roads and Transport	x	x
Safety, Security and Liaison	x	
Social Development	x	x
Sport, Arts and Culture	x	x

Non-compliance with recruitment time frames

In terms of PSR 1/VII/C.1A.2, a funded vacant post should be advertised within six months after becoming vacant and should be filled within 12 months. PSR 1/VII/C.1A.3 requires that if a department does not comply with the regulation, the reasons for such non-compliance should be recorded in writing.

The recruitment time frames were tested for senior management as well as posts in finance, internal audit and a service delivery component where the vacancy rate was above 5%. The following table provides details on departments that have not complied with the recruitment time frames and where the reasons for non-compliance were not recorded:

Table 24: Non-compliance with recruitment time frames

Department	Component				Reasons for non-compliance not recorded
	Senior management	Finance	Internal audit	Other service delivery component	
Agriculture	x	x			x
Economic Development, Environment and Tourism		x			
Education	x	x		x	
Health	x	x			
Local Government and Housing	x	x		x	
Office of the Premier		x	x		
Public Works	x	x	x	x	x
Roads and Transport	x	x			
Safety, Security and Liaison					x

5.1.2 Appointment processes

The recruitment and selection processes should ensure that candidates with the appropriate qualifications and experience to meet the requirements of the specific post are appointed.

Verification checks not performed

A directive was issued by the Department of Public Service and Administration (DPSA) (effective 1 January 2008) which states that a process should be followed to check criminal and financial or asset records and to verify citizenship, financial status, qualifications and previous employment for all new appointments.

The process was not effectively implemented at the departments depicted in the table below.

Table 25: Verification checks not performed

Department	Appointments without verification checks	Appointments with incomplete verification checks
Health	x	
Education		x

5.1.3 Acting positions

Departments have the option to temporarily direct an employee to act in a higher vacant position for which the employee is then paid an acting allowance. However, PSR 1/VII/B5.3 restricts the acting period to 12 months to ensure that the permanent appointment of a suitably qualified and experienced person is not delayed.

The DPSA's determination on acting allowances for the senior management service (SMS) further restricts the period for acting in an SMS position to six months unless prior approval is obtained from the minister or MEC.

Prolonged acting periods can be an indication of ineffective processes to appoint or recruit suitable permanent staff. Instances were found at Education, Public Works and Safety, Security and Liaison where employees received acting allowances for more than 12 months.

Instances were found at the Department of Education where SMS members received acting allowances for more than six months without the necessary prior approval.

5.1.4 Budgetary control

In terms of Treasury Regulation 8.3.2, the accounting officer of an institution must ensure that the costs related to the compensation of employees, as well as promotion and salary increases, are met within the budgetary allocation of the institution.

The following departments overspent their compensation budgets by the amounts indicated:

- Agriculture – R11 000
- Safety, Security and Liaison – R2 500 000
- Social Development – R8 074 000
- Sport, Arts and Culture – R7 100 000

5.1.5 Senior management performance agreements

In terms of PSR 4/III/B1 and chapter 4 of the SMS handbook, senior management must enter into performance agreements. The performance agreements with the SMS at the Department of Education had not been signed by 31 July 2009.

5.1.6 Management of suspensions

Based on the annual reports, 39 employees were suspended across five departments. The average number of days on suspension was 76, with 77% of the employees being suspended for more than 30 days. The total cost of the suspensions was estimated at R3 817 076.

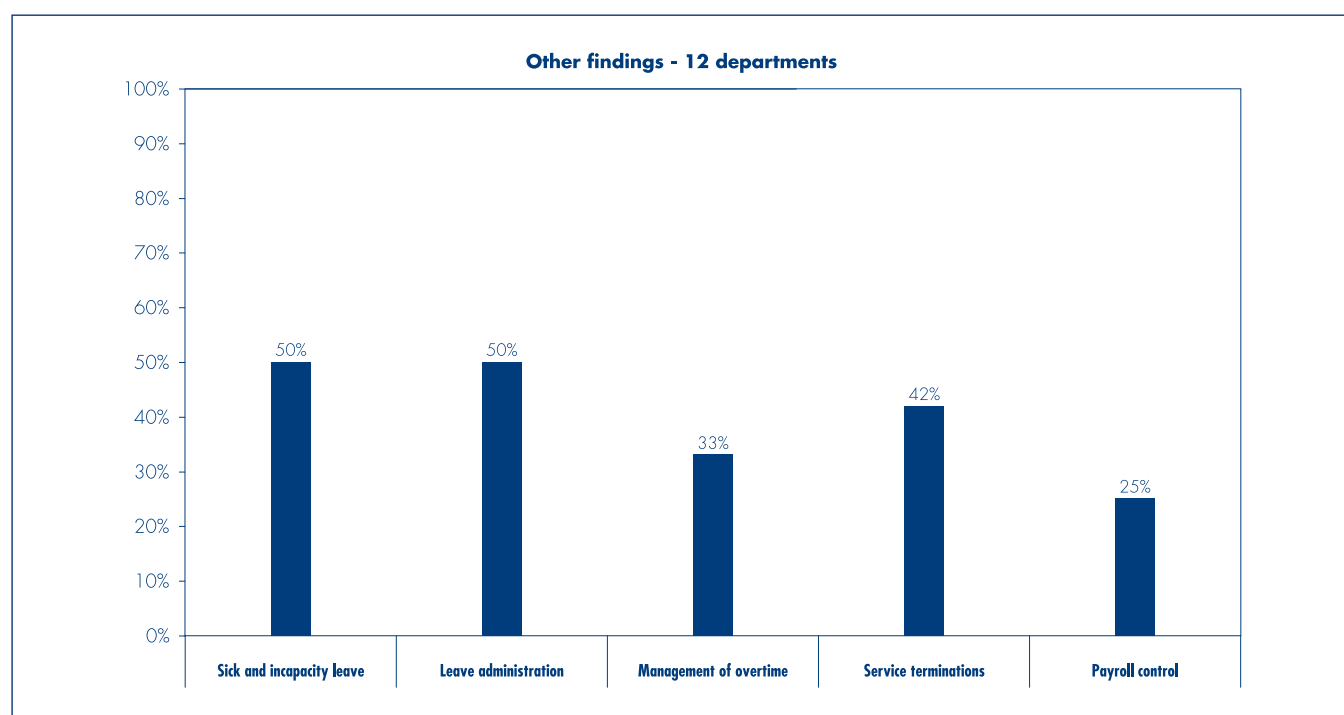
Departments should ensure that disciplinary processes are concluded timeously, as prolonged suspension periods impact on service delivery and have cost implications.

Lack of suspension policy or procedures

Agriculture and Public Works had no policies or procedures to deal with suspensions.

Other HR management findings

The figure below depicts the incidence of findings relating to weaknesses in controls over the compensation of employees.

Figure 7: Other human resource management findings

In general, we have established that compensation of employees is not an area of high risk, as remuneration and conditions of service are determined and managed centrally by the DPSA. Furthermore, such compensation is implemented and controlled by the National Treasury via Persal, which is used by all departments.

It is of concern, however, that the weaknesses identified were in respect of those controls prescribed by legislation for implementation by the departments themselves.

Eleven departments did not comply with all the requirements for control over compensation of employees. These weaknesses could lead to employees receiving compensation and benefits that they are not entitled to. The highest incidences of non-compliance were identified at the following departments:

- Agriculture
- Education
- Office of the Premier

5.1.7 Sick and incapacity leave

Sick leave – non-compliance and lack of monitoring

In terms of PSR 1/V/F(c), the HoD should ensure that sick leave is not abused.

The table below identifies departments that did not comply with the DPSA's determination on leave of absence in the public service (leave determination), which requires that medical certificates be submitted, and/or departments that did not implement processes and procedures to monitor sick leave in order to prevent the abuse thereof.

Table 26: Sick leave – non-compliance and lack of monitoring

Department	Medical certificates not submitted		No processes and procedures to monitor sick leave	Sick leave monitoring processes and procedures not implemented
	Sick leave of more than three days	Sick leave that was third incident in an eight-week cycle		
Agriculture			X	
Health	X			X
Local Government and Housing	X			

Incapacity leave incorrectly granted

In terms of the leave determination, incapacity leave is additional sick leave granted conditionally at the employer's discretion, read with the DPSA's policy and procedure on incapacity leave for ill-health retirement.

The table below identifies departments where more temporary or permanent incapacity leave was granted than the employee was entitled to and/or where the requirements of the leave determination and the policy were not met.

Table 27: Incapacity leave incorrectly granted

Department	More temporary or permanent incapacity leave granted than employee was entitled to	Non-compliance with determination and policy
Agriculture	X	X
Public Works	X	

5.1.9 Leave administration**Overstated leave credits**

In terms of PSR 1/V/F(b), the HoD should record all leave taken by an employee accurately and in full.

No or inadequate controls were implemented at the following departments to ensure that all leave taken by employees was captured and that it was done timeously:

- Agriculture, Education and Public Works: the annual or capped leave credits were overstated.

Negative capped leave

In terms of the leave determination, an employee may not be granted annual leave with full pay in excess of the annual leave that the employee is entitled to, plus capped leave in respect of persons who had been in service prior to 1 July 2000. If, due to a bona fide error, an employee had been granted annual leave with full pay in excess of the days to his/her credit at that time, such excess must be deducted from the subsequent leave cycle.

Employees at the following departments had negative capped leave credits that were not deducted from their annual leave and were not recovered via unpaid leave:

- Agriculture – the monetary value as disclosed in the financial statements was R239 198.
- Education – the monetary value as disclosed in the financial statements was R1,3 million.
- Provincial treasury – the monetary value as disclosed in the financial statements was R261 555.



- Public Works – the monetary value as disclosed in the financial statements was R518 912.
- Roads and Transport – the monetary value as disclosed in the financial statements was R47 504.
- Social Development – the monetary value as disclosed in the financial statements was R44 259.

5.1.10 Management of overtime

PSR 1/V/D2 determines the circumstances under which employees may be compensated for overtime worked. The table below identifies departments where non-compliance with the regulation occurred and overtime was incorrectly calculated.

Table 28: Management of overtime

Department	No written policy on overtime	Overtime not approved in advance	Overtime not limited to 30% of employee's monthly salary	Overtime incorrectly calculated
Agriculture		X	X	
Education		X		X
Office of the Premier		X		
Safety, Security and Liaison			X	

5.1.11 Service terminations

In terms of section 38 of the PSA, overpayments should be recovered from an employee by way of a deduction from moneys owing to him/her, except if the amount is written off. The table below identifies departments where employees whose services had been terminated or who were deceased were not timeously removed from the payroll, resulting in overpayments. At year-end, a number of the departments had not recovered the overpayment or reclassified it as debt.

Table 29: Service terminations

Department	Overpayments made to terminated or deceased employees	Overpayments not recovered or reclassified at year-end
Office of the Premier	X	X
Provincial treasury	X	X
Roads and Transport	X	X
Social Development	X	X
Sport, Arts and Culture	X	X

5.1.12 Payroll control

In terms of Treasury Regulation 8.3.4, the person in charge at a pay point must certify that all persons listed on the payroll report are entitled to payment. Treasury Regulation 8.3.5 requires that the payroll report must be returned to the CFO within 10 days of being certified, and that the accounting officer must ensure that all pay-point certificates are received on a monthly basis.

Instances were found at the following departments indicating that the prescribed control had not been fully implemented:

Table 30: Payroll control

Department	Monthly payroll reports not certified	Certified payrolls not returned within 10 days to finance department	Completeness of certified payroll reports not checked	Corrective action not taken timeously where discrepancies were noted
Agriculture	x			
Health	x	x		
Office of the Premier	x	x	x	

Overall conclusion

The overall negative results of HR management detailed above are primarily due to inadequate monitoring and supervision by the leadership of the departments. There was also a lack of proper communication of HR management matters to all employees in the departments.

Furthermore, due to the location of the province, it has proved to be difficult to attract suitably qualified personnel to fill the positions at the various departments. The leadership also does not pay much attention to addressing this issue. This is evident from the fact that there has been no improvement in the overall vacancy rate in the province compared to the previous year. High vacancy rates also compromise the control environment, resulting in a lack of segregation of duties and an increase in the likelihood of fraud.

Way forward

- Meeting the strategic and service delivery objectives could be severely hampered if the vacancy rates are not addressed by the leadership of the province.
- An action plan should be implemented at all departments in the province, with the assistance of the provincial treasury, to address the vacancies.
- Regular reporting on the progress made on the vacancy rates should be reviewed and monitored by the leadership of the province.
- Controls should be implemented to ensure that identified weaknesses are corrected through the implementation of actions plans.
- Action plans must be monitored on a regular basis by the leadership of the departments.

5.2 Significant findings from the audit of procurement and contract management

The regularity audits included an assessment of the procurement processes and contract management of the auditees as well as the controls to ensure a fair, equitable, transparent, competitive and cost-effective SCM system that prevents and detects fraud, non-performance by suppliers, and non-compliance with SCM legislation.

As is evident from the analysis of irregular expenditure under section 2.5, most of the irregular expenditure incurred by the departments and entities resulted from non-compliance with SCM legislation.

The detailed findings are presented below.

5.2.1 Interest in suppliers

The performance audit report tabled on 18 June 2009 entitled *Performance audit of entities that are connected with government employees and doing business with national/provincial departments* disclosed that employees and spouses of employees were doing business with their own departments through companies and close corporations in which they were directors or members.

Legislation does not prohibit such practices 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 also requires employees to obtain approval for performing remunerative work outside their employment. The report disclosed non-compliance with this legislation and a number of other irregularities in the SCM processes at departments.

The 2009-10 regularity audits included a similar assessment of the interest of employees and their close family members in entities that are suppliers to the auditee. Where interest in suppliers was identified, a sample was tested to determine whether there was compliance with the legislation applicable to departments, trading entities, constitutional institutions and schedule 3A and 3C public entities. The table below lists the auditees where interests were identified and details the resultant findings.

Table 31: Interest in suppliers

Auditee	Interest in supplier not declared	Employee involved in awarding contract to supplier	Employee did not disclose conflict of interest	No approval for employee to perform remunerative work outside employment (departments only)
Education	x		x	x
Public Works				x
Safety, Security and Liaison	x	x	x	x
Health	x			
Social Development	x			

5.2.2 Procurement process

Three price quotations not invited

In terms of Practice Note (PN) 8 of 2007-08, accounting officers or authorities should invite and accept written price quotations for requirements up to an estimated value of R500 000 from as many suppliers as possible. If it is not possible to obtain at least three written price quotations, the reasons should be recorded and approved by the accounting officer or authority or his/her delegate.

At the following auditees, irregular expenditure was incurred as goods or services were procured without inviting at least three price quotations and the deviation was not approved, or the deviation was approved although it was possible to obtain three price quotations:

Table 32: Procurement process

Auditee	Deviation not approved	Irregular expenditure incurred
Social Development	X	X
Health	X	X
Gateway Airports Authority Limited	X	X

Deviation from competitive bidding not justified

PN 6 of 2007-08 states that the provision in Treasury Regulation 16 A6.4 should be utilised strictly to procure goods and services of critical importance and only in specific cases where it is impractical to invite competitive bids and where immediate action is necessary, or if the goods and services required are produced by, or available from, sole service providers.

At the Roads Agency Limpopo (Pty) Ltd, irregular expenditure amounting to R1 401 931 was incurred as deviations from competitive bidding were approved in accordance with Treasury Regulation 16 A6.4 on the basis of the goods and services only being produced by, or available from, a sole service provider. However, evidence did not exist that a thorough market analysis had been performed or that other suitable suppliers were not available in the market.

Contracts awarded to suppliers that did not have highest points

In terms of section 2(f) of the Preferential Procurement Policy Framework Act, 2000 (Act No. 5 of 2000) (PPPFA), the contract must be awarded to the tenderer that scores the highest points based on price, functionality (if applicable) and preference points, unless objective criteria justify awarding the contract to another tenderer.

At the Department of Economic Development, Environment and Tourism, irregular expenditure amounting to R772 016 was incurred, as contracts were awarded to suppliers that did not score the highest points while no objective criteria justified such award.

No prospective supplier list

In terms of PN 8 of 2007-08, accounting officers or authorities should compile a list of prospective suppliers per commodity and type of service to be used for inviting price quotations. The prospective supplier list should provide a fair opportunity to entities to also be invited to provide price quotations.

The Department of Public Works did not have a list of prospective suppliers.

5.2.3 Other findings

The Department of Economic Development, Environment and Tourism incurred irregular expenditure amounting to R861 010, due to criteria used in the evaluation and adjudication of bids differing from the original bid specifications.

5.2.4 Contract management

Non-performance by suppliers

In terms of the general conditions of contract, as promulgated by PN 1 of 2003 and issued in terms of Treasury Regulation 16 A6.3(a), the delivery of goods and performance of services shall be made by the supplier in accordance with the time schedule prescribed by the purchaser in the contract. If the supplier fails to deliver any or all of the goods or to perform the services within the period(s) specified in the contract, the purchaser should deduct a penalty from the contract price or terminate the contract.

Furthermore, all accepted price quotations should be delivered on in accordance with the agreed-upon quality and timelines.

At the Department of Education no action was taken against suppliers when goods and services were not provided in accordance with the requirements of the contract or the accepted quotation.

Inadequate performance measures and methods to monitor contract performance

At the Department of Economic Development, Environment and Tourism the performance measures and methods whereby some contracts were monitored were found to be inadequate.

Payments made for goods and services not received

At the Office of the Premier payments were made for goods and services that were not received.

5.3 Transversal performance audits

Infrastructure audit

Background

The AGSA conducted performance audits of the infrastructure delivery process at the Departments of Health and of Education as part of a transversal performance audit on infrastructure delivery at all the provinces except the Northern Cape.

High-level overview of the infrastructure delivery process

- Demand management (needs determination, budgeting, planning)
- Acquisition management (tender process, appointment of contractors)
- Project management and information
- Commissioning and utilisation

Overall conclusion

- The construction of schools, hospitals and clinics were not completed on time within the allocated budget and at the required standard of quality.
- Schools, hospitals and clinics were not always commissioned as planned and in some instances the facilities were not fully utilised after commissioning.

Systemic issues

- Budgeting for infrastructure projects was not always done taking the specific circumstances into consideration.
- The applicable legislation and regulations were not applied during the evaluation and adjudication process for the appointment of contractors.
- Project management was not effective to ensure that projects were completed on time and at the required level of quality.
- Service delivery was delayed due to poor project management and coordination between role players.
 - o Budgets for the projects were not always accurate and did not take all factors impacting on the projects into account.
 - o Bids were disqualified for being outside the predetermined benchmark range and for other reasons that could not be justified.
 - o Not all instances of irregular expenditure due to deviations from the SCM process were identified and reported by the auditees.
 - o Contractors were awarded multiple contracts without taking their capacity into account, which led to the failure by contractors to complete some or all of the projects within the contract period and at the required level of quality.
 - o Projects were not effectively monitored by staff from the departments and the implementing agents. Variation orders were approved for work that did not form part of the original specifications.
 - o Service delivery was delayed due to late payments by the departments, which contributed to cash-flow problems at the contractors.
 - o Departments paid for the correction of defects in the contractors' work, as the defects were not communicated in time to be corrected by the contractors during the retention period.

Moving forward

The accounting officer of the Department of Education responded positively, while the responses from the Department of Health are still outstanding. The corrective actions from Education included the following:

- The evaluation and adjudication of tenders will be improved to ensure the appointment of competent contractors.
- Improved project management.
- Improved record-keeping system.
- Approval of variations to the contract at the correct level.

To follow up on the implementation of the corrective actions, the AGSA will:

- audit infrastructure as part of annual regularity audits
- evaluate the implementation of corrective actions and conduct a follow-up performance audit if necessary.

In an effort to obtain comments from the heads of the respective departments, they were visited during August 2010 to explain and discuss the findings. During these meetings the importance of corrective measures and actions was emphasised.

SECTION 6: CONSOLIDATED FINANCIAL STATEMENTS

In terms of sections 8 and 19 of the PFMA, the National Treasury is required to prepare consolidated financial statements in accordance with GAAP for each financial year in respect of departments and/or constitutional entities, public entities and other entities. The Auditor-General issues separate audit reports for consolidated departments and entities. Agreed-upon procedures are performed on the consolidated national entities. An audit opinion is expressed on the consolidated national departments.

The status of the preparation of consolidated financial statements as at 31 August 2010 is reflected in the table below.

Table 33: Status of consolidated audits

Province	Departments - audit completed		Public entities - audit completed	
	2009-10	2008-09	2009-10	2008-09
	Y / N	Y / N	Y / N	Y / N
Limpopo	N	N	N	N

The consolidated financial statements for the departments and public entities have not been received for the 2008-09 and 2009-10 financial years. The consolidated financial statements for departments for the 2007-08 financial year are also outstanding.

The provincial treasury should address this backlog as a matter of urgency. A dedicated team with the necessary skills and competencies should be assigned by the provincial treasury to specifically address this backlog.

SECTION 7: STATUS OF TABLING OF ANNUAL REPORTS

7.1 Summary of annual reports tabled

Table 34: Annual reports tabled by departments and public entities

Type of auditee	Percentage of reports tabled at 31 August 2010	
	2009-10	2008-09
Departments	100%	100%
Public entities	50%	100%
Other entities	100%	100%
Total	83%	100%

The 2009-10 annual reports in respect of the Limpopo Gambling Board (not submitted) and the Limpopo Parks and Tourism Board (annual financial statements not submitted as at 31 August 2010) have not been tabled.

7.2 List of departments and public entities whose annual reports were not tabled, together with reasons

Table 35: Annual reports not tabled

Auditee	Reason(s)
Limpopo Parks and Tourism Board	Annual financial statements had not been submitted as at 31 August 2010
Limpopo Gambling Board	No reasons provided

PART B - AUDITS NOT CONDUCTED BY THE AGSA

SECTION 8: OVERVIEW OF AUDIT OUTCOMES FOR 2009-10

8.1 Summary of audit outcomes

Table 36: Summary of audit outcomes of audits not conducted by the AGSA

Audit outcomes	Schedule 3 and other entities
Opinion on financial statements	
Disclaimer	0
Adverse	0
Qualified	0
Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations	2
Financially unqualified with no findings on predetermined objectives or compliance with laws and regulations	1
Total number of audits reported on	3
Number of audits not finalised at legislated date for submission to executive authority – 31 August 2010	1
Total number of audits	4
Entities with findings arising from the AGSA's other legal reporting responsibilities	
Predetermined objectives	2
Compliance with laws and regulations	1

Four schedule 3 public entities were not audited by the AGSA. These public entities are Limpopo Agricultural Development Corporation (LADC), Limpopo Business Support Agency (LIBSA), Limpopo Development Corporation Limited (LimDev), and Trade and Investment Limpopo (TIL).

The audits of three entities have been completed, namely those of LADC, LimDev and TIL. LADC and LimDev both obtained a financially unqualified opinion with findings on predetermined objectives and/or compliance with laws and regulations. TIL obtained a financially unqualified opinion with no findings on predetermined objectives or compliance with laws and regulations.

8.1.1 Status of completion of the audits

Table 37: Status of completion of audits

Reason	Schedule 3 and other public entities
Financial statements not yet received	0
Audit not yet completed due to late receipt of financial statements	0
Audit still in progress due to other reasons	1
Total number of audits not yet completed at 31 August 2010	1

Limpopo does not have any schedule 2 entities.

The audit of LIBSA had not been completed as at 31 August 2010 due to the failure by the entity to timeously furnish the auditors with the requested documentation to finalise the audit.

It can be seen from the table above that all the entities submitted their financial statements to the audit firms by the prescribed deadline of 31 May 2010 in terms of section 55(1)(c) of the PFMA.

8.1.2 Audit of financial statements

None of the three schedule 3 public entities analysed obtained a qualified audit opinion. There were also no matters that came to the auditor's attention pertaining to issues concerning financial sustainability or irregular or fruitless and wasteful expenditure.

8.1.3 Material losses and material impairments of assets

None of the schedule 3 public entities incurred material losses or impairment of assets.

8.2 Findings on predetermined objectives

All the schedule 3 public entities submitted their information on predetermined objectives as required by section 55(2)(a) of the PFMA.

8.2.1 Findings as per subheadings in auditor's report

Table 38: Summary of findings arising from audits of predetermined objectives

Category of finding	Schedule 3 public entities
Non-compliance with regulatory requirements	33%
Reported information not useful	67%
Reported information not reliable	0%
Information not submitted for auditing by 31 May 2010	0%
Total number of audits with findings	2

Details of findings

LADC – The strategic plan or annual performance plan did not include measurable objectives, expected outcomes, objective outputs, indicators (measures) and targets for all the entity's objectives, as required by Treasury Regulation 5.2.3(d). Furthermore, the entity did not report on all its predetermined objectives, as required by section 55(2)(a) of the PFMA and Treasury Regulation 28.2.2.

LimDev – Four subsidiaries did not prepare a report on predetermined objectives and therefore the objectives of these subsidiaries were not included in the annual performance report of the holding company (LimDev). This is in contravention of section 55(2)(a) of the PFMA and Treasury Regulation 28.2.2, as the entity did not report on all its predetermined objectives.

TIL – The entity obtained a financially unqualified audit opinion with no findings on predetermined objectives or compliance with laws and regulations.

8.3 Findings on compliance with laws and regulations

Public Finance Management Act

Non-compliance with laws and regulations was only identified or reported on in the auditor's report of LimDev. The non-compliance related to general or fiduciary and reporting responsibilities of accounting authorities in terms of the PFMA and Treasury Regulations:

- The entity had not implemented effective internal control measures to collect its outstanding debts as required by Treasury Regulation 31.1.1.2(a) and (e).
- The entity did not report on its cash management performance on a monthly basis as required by Treasury Regulation 31.1.1.2(f), (g), (h), (k), (l) and (m).
- The entity did not have a materiality and significance framework as required by Treasury Regulation 28.3.
- No terms of reference could be obtained for the entity's subsidiaries as required by Treasury Regulation 27.1

8.4 Investigations and performance audits

No investigations or performance audits were conducted at any of the schedule 3 public entities during the 2009-10 financial year.

SECTION 9: STATUS OF TABLING OF ANNUAL REPORTS

9.1 Summary of annual reports tabled

Table 39: Annual reports tabled by public entities

Type of auditee	Percentage of reports tabled as at 30 September 2010
	2009-10
Schedule 2 public entities	N/A
Schedule 3 public entities	50%
Other public entities	N/A
Total	50%

The 2009-10 annual reports in respect of LIBSA (audit not completed) and LimDev (financial statements not submitted) had not been tabled.

9.1.1 List of schedule 3 entities whose annual reports were not tabled, together with reasons

Table 40: Annual reports not tabled

Auditee	Reason(s)
Limpopo Business Support Agency (LIBSA)	Audit not completed as at 31 August 2010
Limpopo Development Corporation Limited (LimDev)	No reasons provided

PART C - CONCLUDING COMMENTS

As highlighted in this report, the Limpopo Province faces a number of challenges that will require a coordinated effort by the leadership of the province, with the support of the National Treasury and the provincial treasury, to sustain its good performance and to improve in those areas of concern.

With the appointment of new HoDs in the province, the leadership will need to play a closer and timelier monitoring role to ensure that effective and appropriate steps are taken to improve on financial management practices and prevent a regression in audit outcomes. The leadership must also urgently prioritise actions to address the alarming vacancy rates at most of the departments in the province, including vacancies in the internal audit divisions. Capacitating departments and entities with the right skills, particularly in the finance and asset management units, will go a long way in addressing financial administration weaknesses and preventing further qualified opinions. Furthermore, the focus by the leadership on adherence to essential key daily and monthly financial controls and proper record keeping is essential in ensuring that sound internal controls are maintained, leading to positive audit outcomes.

The repetitive audit findings on non-compliance with legislation and the poor quality of financial statements are cause for concern. Senior management should ensure efficient monitoring and ongoing supervision to address areas of non-compliance with legislation. Internal audit is a crucial function in assisting management to establish a sound internal control environment and perform ongoing evaluation and monitoring of management's compliance with predefined controls and progress in implementing action plans.

Attention is also drawn to the importance of the departments, provincial public and other public entities needing to ensure that the necessary systems and controls are in place that will result in accurate reporting, continuous monitoring of achievements of the measurable objectives, and overall compliance with the reporting requirements in respect of predetermined objectives.

We wish to reiterate our critical message to the legislators and the executive that it is possible to obtain an unqualified auditor's report with clean administrations if key controls are institutionalised and constantly monitored by the leadership.

We are, however, confident that the challenges are not insurmountable and remain committed to working with the legislature and executive to assist in the process of identifying and disseminating good practices to improve governance and accountability, so as to build public confidence in government's ability to account for public resources in a transparent manner.

ANNEXURES TO THE GENERAL REPORT

Annexure 1: Listing of audit outcomes, areas qualified and findings on predetermined objectives

Annexure 2: Listing of key non-financial statement findings related to compliance with laws and regulations

Annexure 3: Listing of entities with dates on which annual reports were tabled

Annexure 4: Listing of audit findings raised on common information technology focus areas

ANNEXURE 1: Listing of audit outcomes, areas qualified and findings on predetermined objectives

Number	Auditee	Audit outcome 2009-10	Audit outcome 2008-09	Financial statement qualification areas								Findings on predetermined objectives			
				Capital assets	Current assets	Liabilities	Capital and reserves	Other disclosure items	Revenue	Expenditure	Unauthorised, irregular as well as fruitless and wasteful expenditure	Non-compliance with regulatory requirements	Reported information not useful	Reported information not reliable	Information not submitted for auditing by 31 May 2010
Audits conducted by the AGSA															
Departments															
1	Office of the Premier	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations	Financially unqualified (with other matters)												
2	Provincial legislature	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations	Qualified												
3	Education	Disclaimer	Qualified												
4	Agriculture	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations	Qualified												
5	Provincial treasury	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations	Financially unqualified (with other matters)												
6	Economic Development, Environment and Tourism	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations	Financially unqualified (with other matters)												
7	Health	Qualified	Qualified												
8	Roads and Transport	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations	Financially unqualified (with other matters)												
9	Public Works	Qualified	Qualified												
10	Safety, Security and Liaison	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations	Financially unqualified (with other matters)												
11	Local Government	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations	Financially unqualified (with other matters)												
12	Social Development	Qualified	Financially unqualified (with other matters)												
13	Sport, Arts and Culture	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations	Financially unqualified (with other matters)												

ANNEXURE 1: Listing of audit outcomes, areas qualified and findings on predetermined objectives

Number	Auditee	Audit outcome 2009-10	Audit outcome 2008-09	Financial statement qualification areas								Findings on predetermined objectives			
				Capital assets	Current assets	Liabilities	Capital and reserves	Other disclosure items	Revenue	Expenditure	Unauthorised, irregular as well as fruitless and wasteful expenditure	Non-compliance with regulatory requirements	Reported information not useful	Reported information not reliable	Information not submitted for auditing by 31 May 2010
Public entities															
1	Roads Agency Limpopo (Pty) Ltd	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations	Financially unqualified (with other matters)												
2	Gateway Airports Authority Limited	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations	Qualified												
3	Limpopo Gambling Board	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations	Financially unqualified (with other matters)												
4	Urban Transport Fund	Financially unqualified with no findings on predetermined objectives or compliance with laws and regulations	Financially unqualified (with no other matters)												
Audits not conducted by the AGSA															
Schedule 3 and other entities															
1	Limpopo Agribusiness Development Corporation (LADC)	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations	Financially unqualified with laws												
2	Limpopo Development Corporation Limited (LimDev)	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations	Financially unqualified with laws												
3	Trade & Investment Limpopo (TIL)	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations	Financially unqualified with laws												

ANNEXURE 2: Listing of key non-financial statement findings related to compliance with laws and regulations

No.	Auditee	Prohibited action/Non-adherence														SCM issue that resulted in irregular expenditure
		Annual budget	Responsibilities	Delegation of responsibilities	Audit committee	Internal audit unit	Payments	Transfer of funds and subsidies	Misconduct or disciplinary or criminal proceedings	Plans (strategic, corporate, integrated development)	Management of losses and claims	Conditional allocations	Companies Act requirements	Entity-specific legislation	HR management	
Audits conducted by the AGSA																
Departments																
1	Office of the Premier															
2	Provincial legislature															
3	Education															
4	Agriculture															
5	Provincial treasury															
6	Economic Development, Environment and Tourism															
7	Health															
8	Roads and Transport															
9	Public Works															
10	Safety, Security and Liaison															
11	Local Government and Housing															
12	Social Development															
13	Sport, Arts and Culture															
Public entities																
1	Roads Agency Limpopo (Pty) Ltd															
2	Gateway Airports Authority Limited															
3	Limpopo Gambling Board															
4	Urban Transport Fund															
Audits not conducted by the AGSA																
Schedule 3 and other entities																
1	Limpopo Agribusiness Development Corporation (LADC)															
2	Limpopo Development Corporation Limited (LimDev)															
3	Trade and Investment Limpopo (LimDev)															

ANNEXURE 3: Listing of entities with dates on which annual reports were tabled

No.	Auditee	Date of tabling of annual report
Audits conducted by the AGSA		
Departments		
1	Office of the Premier	28 September 2010
2	Provincial legislature	28 September 2010
3	Education	28 September 2010
4	Agriculture	28 September 2010
5	Economic Development, Environment and Tourism	28 September 2010
6	Provincial treasury	28 September 2010
7	Health	28 September 2010
8	Roads and Transport	28 September 2010
9	Public Works	28 September 2010
10	Safety, Security and Liaison	28 September 2010
11	Local Government and Housing	28 September 2010
12	Social Development	28 September 2010
13	Sport, Arts and Culture	28 September 2010
Public entities		
1	Roads Agency Limpopo (Pty) Ltd	28 September 2010
2	Gateway Airports Authority Limited	28 September 2010
3	Limpopo Gambling Board	28 September 2010
4	Urban Transport Fund	28 September 2010
Audits not conducted by the AGSA		
Schedule 3 and other entities		
1	Limpopo Agribusiness Development Corporation (LADC)	28 September 2010
2	Limpopo Development Corporation Limited (LimDev)	28 September 2010
3	Trade and Investment Limpopo (TIL)	28 September 2010
4	Limpopo Business Support Agency (LIBSA)	Outstanding

ANNEXURE 4: Listing of audit findings raised on common information technology focus areas

No.	Auditee	Focus areas			
		IT governance	Security management	User access control	IT service continuity
Audits conducted by the AGSA					
Departments					
1	Agriculture				
2	Economic Development, Environment and Tourism				
3	Education				
4	Health				
5	Local Government and Housing				
6	Office of the Premier				
7	Public Works				
8	Provincial legislature				
9	Provincial treasury				
10	Roads and Transport				
11	Safety, Security and Liaison				
12	Social Development				
13	Sport, Arts and Culture				
Public entities					
1	Limpopo Gambling Board				
2	Gateway Airport Authority Limited				
3	Roads Agency Limpopo (Pty) Ltd				

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