



A U D I T O R - G E N E R A L



Provincial general report of the Auditor-General

ON THE AUDIT OUTCOMES OF THE
MPUMALANGA PROVINCIAL DEPARTMENTS,
PUBLIC ENTITIES AND OTHER ENTITIES
for the financial year 2007-08

PUBLISHED BY AUTHORITY

PR 310/2008

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FOREWORD

It gives me great pleasure to present my 2007-08 general report to the provincial legislature, summarising the results of the audit outcomes of the Mpumalanga provincial government departments, public entities and other entities for the financial year ended 31 March 2008.

The purpose of this general report is to provide an overview of the audit outcomes at provincial departments and public entities. The main body of this report covers financial reporting results, performance reporting results, results of information systems audit, issues leading to unqualified audit reports, standing committee on public accounts (SCOPA) resolutions not implemented, tabling of annual reports and results of other audits.

Considerable attention needs to be given to the issues of accountability and governance in the public sector. In this regard, the attainment of unqualified audit reports by all government entities is a vision we fully subscribe to in our efforts to strengthen South Africa's democracy, thereby building public confidence. The critical message we want to highlight to the legislatures and the executive is that it is possible to obtain an unqualified audit report if the following basic principles are observed and internal control systems are in place and constantly monitored by leadership:

- Close leadership involvement is required to address challenges such as human resource competency and capacity issues, among others, and to monitor the implementation of action plans appropriately designed to address the various audit issues.
- Monthly in-year monitoring should include financial statements.

We trust that the analyses contained in this general report will help guide the executive and the legislatures through the various portfolio committees and the standing committees on public accounts to work towards achieving unqualified audit opinions. Most of the problems that we identified in our audits relate to basic internal control issues that require effective monitoring by the leadership so that they can be addressed immediately. The analysis further makes specific reference to the areas where internal control shortcomings were identified, including their level of prevalence in each sphere of government.

The Mpumalanga public sector, excluding local government, comprised 13 departments, six public entities and one other entity.

Of the 13 provincial departments analysed:

- Five (38%) departments were financially qualified, namely Economic Development and Planning; Education; Health and Social Services (Health component); Health and Social Services (Social Component) and Local Government and Housing.
- Eight (62%) departments were unqualified financially but had concerns in areas of internal control, governance and legislative non-compliance, namely Agriculture and Land Administration; Culture, Sports and Recreation; Public Works; Roads and Transport; Safety and Security; Finance; Office of the Legislature and Office of the Premier.



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Of the six provincial public entities analysed:

- Three (50%) public entities, namely the Mpumalanga Economic Growth Agency; Mpumalanga Regional Training Trust and Mpumalanga Tourism and Parks Agency, received qualified reports.
- Two (33%) public entities, namely the Mpumalanga Housing Finance Company and Mpumalanga Agricultural Development Corporation, received unqualified opinions with other matters.
- One (17%) public entity, namely the Mpumalanga Gambling Board, received an unqualified opinion with no other matters.

The other entity received an unqualified opinion with other matters.

The findings leading to the financial qualifications and other matters are common to the Mpumalanga departments, public entities and other entity. The majority of audit findings in respect of provincial departments and public entities that were qualified centred on asset management. This affected five (100%) departments and two (67%) public entities.

In addition to the financial qualifications, the majority of departments had the following shortcomings:

- Non-compliance with applicable legislation (54%), relating mainly to compliance with the Public Finance Management Act and Treasury Regulations.
- Internal controls, relating to the areas of material adjustments to financial statements (77%) for errors that were initially not detected by the department's own internal controls.

Similarly, in addition to the financial qualifications, the majority of the public entities had shortcomings regarding:

- Non-compliance and governance concerns (50% of the entities).
- Internal controls, relating to the areas of material adjustments to financial statements (83%) during the audit for errors that were initially not detected by the entity's own internal controls.

The other entity had material adjustments to the financial statements for errors that were initially not detected by the entity's own internal controls. The other entity also failed to comply with its own enabling act.

With regard to performance information for both departments and public entities, there has generally been an improvement in this area of auditing due to an improved state of readiness. All auditees, except one public entity, submitted performance information on time.

Where there were improvements, the improved audit outcomes in Mpumalanga could be attributed inter alia to the following actions within the province:

- Ongoing interaction between the departments and the AG on audit progress and possible outcomes to identify transversal issues.
- Both audit committee members and internal audit staff who were specifically allocated to departments had attended most of the audit steering committee meetings held at the departments.



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- Annual PFMA preparation session with national and provincial treasury. The provincial treasury implemented a comprehensive action plan with continuous feedback to the National Treasury to address issues emanating from the session.
- Focused action plans, which were adequately monitored by senior management.

In conclusion, I wish to thank the AG's staff in Mpumalanga for their diligent efforts towards the fulfilment of our constitutional mandate. I would like to express my appreciation to the legislative members, as well as the executive, for their cooperation and input during the AG's visits to present the audit outcomes of the Mpumalanga Province. Together, we will continue to make every effort to collaborate in order to contribute towards strengthening our country's democracy.



Auditor-General

Pretoria

November 2008



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SECTION 1: FOLLOW-UP ON PRIOR YEAR GENERAL REPORT

1. IMPLEMENTATION OF ACTION PLANS BY LEADERSHIP

The majority of provincial departments and entities did not have visible and coordinated action plans. However, in the case of the Department of Public Works and Mpumalanga Tourism and Parks Agency, all action plans, which were prioritised and well structured, have been successfully implemented. This is evidenced by the improvement in the audit opinions of both.

Relevant and coordinated action plans are critical to the implementation of audit recommendations and in addressing PPAC resolutions.

2. ONGOING MONITORING AND EVALUATION OF INTERNAL CONTROLS BY AUDIT COMMITTEES AND INTERNAL AUDIT

The development of governance structures has been satisfactory, as all departments and entities have audit committees and internal audit functions in place although these do not have optimal impact in certain departments and entities. The effectiveness of internal audit departments has been hampered mainly by vacancies and a lack of skills. This situation will have to improve if these structures are to assist management in establishing sound internal control environments and ensure monitoring of the implementation of action plans.

In addition to this, it is critical that the findings of internal audit be incorporated into the departmental action plans and addressed.

3. COORDINATION BETWEEN PORTFOLIO AND STANDING COMMITTEES

There is good coordination between the PPAC and the various portfolio committees, as chairpersons of the various portfolio committees are generally also members of the PPAC.

4. PROVINCIAL TREASURY'S MONITORING ROLE

The provincial treasury coordinates forums, e.g. the CFO forum. At this forum, technical developments and current departmental challenges are discussed and tracked. To date, the focus has been on asset management challenges that featured prominently in the audit qualifications.

There is still an opportunity to further extend the role of treasury in assisting the departments and entities to deal with the qualifications and to strengthen capacity.

5. STRENGTHENING THE CAPACITY OF PROVINCIAL TREASURY

With reference to the above, the provincial treasury's capacity must be strengthened in order to increase the desired impact in the province, e.g. Public Works solicited specialists to ensure focused implementation of action plans.



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6. EVALUATION OF HUMAN RESOURCE STRATEGIC FRAMEWORK

The majority of departments do not have strategic plans that are informed by a critical evaluation of the human resource strategic framework to attract and retain suitable skills.

This needs to be an area of key focus if the capacity constraints are to be addressed.



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SECTION 2: PROVINCIAL DEPARTMENTS

1. FINANCIAL REPORTING RESULTS

1.1 Introduction

The Mpumalanga provincial government comprises 13 departments all of which have been included in our analysis.

The audits of the consolidated financial statements for the 2007-08 provincial departments were finalised on 20 September 2008.

1.2 Overview of audit opinions on provincial departments for 2007-08

Table 1 below provides details as to the actual audit outcomes of the Mpumalanga provincial departments.

Table 1: Audit opinions on provincial departments

Type of audit opinion	2007-08		2006-07	
	Number	%	Number	%
Adverse	0	0%	0	0%
Disclaimer	0	0%	0	0%
Qualified	5	38%	6	46%
Financially unqualified (with other matters)	8	62%	6	46%
Financially unqualified (with no other matters)	0	0%	1	8%
Total analysed	13	100%	13	100%

The status of five of the six departments previously qualified remained the same, while Public Works moved to a financially unqualified (with other matters) status, for the following reasons:

- Correct leadership tone and monitoring to improve systems and controls over debtors
- Asset registers were updated and reconciled to the financial statement disclosures
- The department also benefited from the exemption on immovable property.

The status of five departments previously qualified remained the same, for the following reasons:

- **Health and Social Services – Health component**

Qualification: Capital assets, receivables and commitments

The root causes of these qualifications relate mainly to inadequate resources and organisational structures for capital asset management, lack of leadership supervision and monitoring and lack of technical skills on the part of senior finance personnel.



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- **Health and Social Services – Social component**

Qualification: Capital assets and commitments

Inadequate structures and resources for the maintenance of adequate asset registers and lack of leadership supervision and technical skills on the part of senior financial personnel.

- **Local Government and Housing**

Qualification: Capital assets

This is due to lack of adequate supervision and monitoring in the capital asset management division.

- **Education**

Qualification: Capital assets

This is due to the lack of skills on the part of senior finance personnel and in the asset management section.

- **Economic Development and Planning**

Qualification: Capital assets

The department does not have sufficient control activities to ensure accuracy and completeness of information, resources and documentation on capital assets. Adequate supervision and monitoring by executive management could have addressed these matters.

Action plans to address the qualification issues have not been communicated. In the Health component where implementation has started they appear to be uncoordinated and unstructured.

The issues raised on capital assets are not complex and require discipline in respect of the basic processes of recording, reconciliation and asset verification on an ongoing basis. The National Treasury together with the provincial treasury has a role to play in terms of training the key departmental staff and assessing the implementation of action plans.

All six departments, namely Agriculture and Land Administration, Culture, Sport and Recreation, Mpumalanga Provincial Legislature, Office of the Premier, Roads and Transport and Safety and Security, whose status was previously financially unqualified (with other matters) remained the same for the following reasons:

- Inadequate technical competence to enable submission of high-quality financial statements that are not subject to adjustments.
- Skills capacity not adequately geared for accrual accounting transition.

Finance failed to maintain its status of financially unqualified (with no other matters) due to material amendments to the financial statements submitted. Non-compliance with legislation in seven of the departments, mainly the PFMA, DoRA and Treasury Regulations, was the result of a lack of leadership supervision and monitoring. Matters of governance were raised in seven departments. The governance structures were in place and effective except for Health, Social Services, Education and Roads and Transport, where the internal audit departments had not fulfilled their mandates due to vacancies and lack of skills. The other governance issues relate to the availability of officials, the ease of availability of information, and audit recommendations not substantially implemented, mainly due to insufficient leadership tone as well as supervision.

- Table 2 below provides details of the actual audit outcomes of the Mpumalanga provincial departments for the previous five years.



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Table 2: Audit opinions on provincial departments for the previous five years

Department	2007-08	2006-07	2005-06	2004-05	2003-04
Office of the Premier	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)
Mpumalanga Provincial Legislature	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)
Finance	Financially unqualified (with other matters)	Financially unqualified (with no other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)
Local Government and Housing	Qualified	Qualified	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)
Agriculture and Land Administration	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)
Economic Development and Planning	Qualified	Qualified	Financially unqualified (with other matters)	Qualified	Financially unqualified (with other matters)
Education	Qualified	Qualified	Disclaimer	Disclaimer	Disclaimer
Public Works	Financially unqualified (with other matters)	Qualified	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)
Safety and Security	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)
Health and Social Services (Health component)	Qualified	Qualified	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)
Health and Social Services (Social component)	Qualified	Qualified	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)
Roads and Transport	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)
Culture, Sports and Recreation	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)

Referring to the table above, there are two trends that need attention as they are a cause for concern, namely the recurring qualifications and the recurring "other matters".



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With regard to the recurring qualifications, it is of concern that the Department of Education has continued to receive qualified audit opinions, with very little improvement.

As stated above, the challenge relates to capital assets and the inability of the executive to address these matters due to limitation of skills. Economic Development and Planning has received qualified audit opinions three times in the past four years.

As a result of ineffective monitoring, leadership has not adequately guided the development and implementation of action plans.

Three departments have received recurring qualifications in the last two years, whereas they were previously unqualified, namely Local Government and Housing and Health and Social Services. Reasons for the deterioration are dealt with in 1.2 above.

The Department of Public Works, on the other hand, has managed to address significant audit findings raised in the 2006-07 financial period, resulting in the current audit opinion being unqualified. This was the direct result of leadership's ability to monitor the implementation process to its conclusion. It should further be noted that the National Treasury exemption on immovable assets had assisted the department in dealing with capital assets. However, the action plan (a condition for exemption) needs to be strictly adhered to in order to avoid qualifications in the coming years.

The quality of financial statements submitted for audit needs significant improvement through prioritisation of action plans. This is evidenced by the number of departments which over the years have continued to receive unqualified audit opinions (with other matters).

Another area requiring attention is the effectiveness of internal audit and audit committees in ensuring that their mandate is carried out.

"Other matters" generally point to potential risks in the control environment which, if unattended to, could culminate in a breakdown of controls.

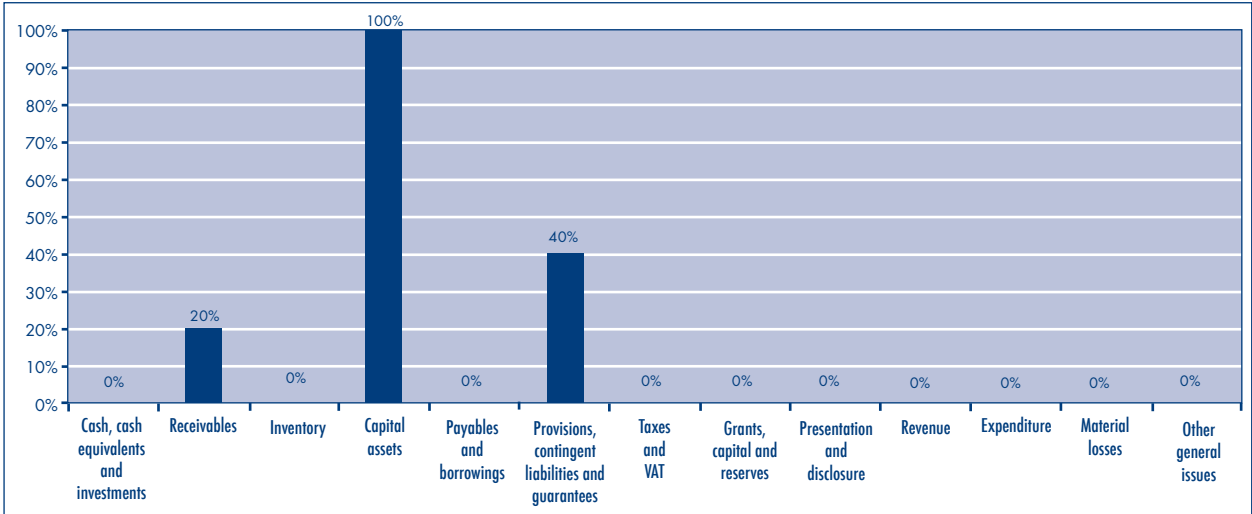
1.3 Qualification details

Figure 1 below provides a breakdown of all the audit findings which gave rise to the qualified audit opinions. It also provides an indication of the percentage of provincial departments that were qualified per audit finding. The audit findings are split between items on the balance sheet (statement of financial position) highlighted in blue bars and the income statement (statement of financial performance) highlighted in green bars.



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Figure 1: Provincial departments (five) that were qualified per audit finding



Overall conclusion

All five departments were qualified in respect of capital assets. This was as a result of deficiencies in the asset management systems.

Two departments (Health and Social Services) were qualified on provisions and capital commitments while Health was qualified on receivables.

Asset registers for four departments, namely Economic Development and Planning, Health, Education and Local Government, had not been updated and reconciled. In addition, Economic Development and Planning did not have properly valued assets.

The above was a result of:

- inadequate leadership, supervision and monitoring
- an inadequate level of skills in the departments.

1.4 Audit findings in respect of other matters

The audit findings reported under “other matters” draw attention to the matters that are ancillary to the AG’s responsibilities in the audit of the financial statements.

The number of departments with findings on other matters increased from six in 2006-07 to eight in the year under review (see table 1). Departments continue to experience difficulties, specifically in complying with legislative requirements.

Non-compliance with applicable legislation

Most instances of material non-compliance with relevant legislation were centred on the PFMA and Treasury



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Regulations. Non-compliance was reported in seven (54%) provincial departments. Inadequate supervision and monitoring by the leadership (accounting officers, chief financial officers and relevant managers) had in part contributed to the negative audit findings in this area. The right leadership tone, with the support of internal audit, is necessary to establish a strong control environment and ensure compliance.

Matters of governance

Fifty-four per cent of provincial departments had concerns raised on matters of governance, which included findings on internal audit functions.

Where good risk management and internal control practices were in place, including audit committees and internal audit functions, there was a greater probability of the department achieving an unqualified audit opinion. Internal audit and audit committees are essential elements in the management review process as they contribute to the design and maintenance of sound internal controls.

The audit committees and internal audit functions were in place throughout the financial year and operated in accordance with approved written terms of reference. The internal audit departments require support in terms of their effectiveness and desired impact. The implementation of internal audit findings should form part of the above-mentioned action plans going forward.

The majority of the prior year's external audit recommendations and SCOPA resolutions have been substantially implemented by departments.

Significant difficulties concerning delays in the submission of required information were experienced during the audit of three departments. Document retention is not a specialised skill and should be addressed as a matter of urgency, as the lack of this discipline significantly increases the risk of fraud.

Material misstatements

Further improvement is required in the quality of financial statements submitted for auditing. This is illustrated by the fact that material adjustments to the financial statements submitted for auditing had to be made by 10 of the 13 departments to avoid either qualification or further qualification. This was primarily due to a lack of adequately qualified accounting personnel.

2. PERFORMANCE REPORTING RESULTS

2.1 Introduction

The AG continued to report on the auditing of performance information in line with the relevant phasing-in approach. For 2006-07, the review was extended to the controls and systems used in generating and reporting on performance information, and for 2007-08 it was further extended to include the limited verification of supporting information.

2.2 Results of the audit of performance information

Two provincial departments (15%) were lacking in respect of reporting on all predetermined objectives in the



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annual performance report. Inconsistencies were found between the measurable objectives reported on in the annual report and the strategic/corporate/annual performance/budget at four departments (31%). Sufficient appropriate audit evidence supporting performance information could not be submitted at five departments (38%), while in the case of two departments (15%) the information submitted in support of the performance information was inconsistent with the performance information reported. In the case of three departments (23%) no findings were made.

Based on the above, it is evident that performance audit committees must play a critical role in ensuring that the departments' measurable objectives are regularly monitored, reported and supported by adequate supporting documents that will facilitate the tracking of service delivery.

3. INFORMATION SYSTEMS AUDIT

3.1 Introduction

Information systems (IS) controls are significant in determining the effectiveness of internal controls. Weak IS controls severely diminish the reliability of other internal controls associated with an application. Without effective IS controls, other controls may be rendered ineffective by override, circumvention or modification.

3.2 Results of the information systems audits

During the year under review the IS controls relating to the management of user accounts were evaluated. User account management is the systematic process of managing the access of users to the network and applications and includes the establishment, review, disabling and removal of user accounts.

The user account management process was audited at two provincial departments. The following key findings were made:

USER ACCOUNT MANAGEMENT PROCESS	% of departments with findings
User account management standards and procedures	
Incomplete user account management procedures	100
Access request authorisation	
Access request forms not consistently completed	100
Application security	
Lack of segregation of duties	50
Excessive access rights assigned to users	50
Inactive accounts not timeously deactivated	100
User access levels not periodically reviewed	100
User identifications not uniquely assigned	0



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4. ISSUES DRIVING AUDIT RESULTS

4.1 Introduction

In the AG's view, the following benchmark information can be considered as basic good practice indicators which are relevant in achieving financially unqualified audit opinions as well as for reporting performance results:

- Clear trail of supporting documentation
- Quality of financial statements and management information
- Timeliness of financial statements and management information
- Availability of key officials during audits
- Development of and compliance with risk management and good internal control practices
- Supervision and monitoring (leadership effectiveness)

4.2 Achievement against good practice indicators

Table 3 below presents the results of the 13 Mpumalanga departments achieving the above good practice indicators.

Table 3: Results of good practice indicators for the 13 Mpumalanga provincial departments for 2007-08

No.	Good practices	Percentage of total departments achieving good practice indicator
1	Clear trail of supporting documentation that is easily available and provided timeously	77%
2	Quality of financial statements and management information	23%
3	Timeliness of financial statements and management information	100%
4	Availability of key officials during audits	92%
5	Development of and compliance with risk management and good internal control and governance practices	46%
6	Supervision / monitoring	69%

• Clear trail of supporting documentation

While the majority (77%) of departments' supporting documentation was easily accessible, a few (23%) have to do more to ensure that sufficient appropriate audit evidence is available to support the transactions and balances in the financial statements. Significant difficulties were experienced during the audits of three departments concerning delays in providing or the unavailability of expected information. The management of documentation requires improvement to ensure that it is readily available and furnished in a timely manner.



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The discipline of document retention significantly reduces the risk of fraud in the environment.

- **Quality annual financial statements and management information**

Material corrections to the financial statements of 10 departments mainly relate to issues of disclosure associated with the ongoing transition to accrual accounting. In this regard, processes need to be further refined in order to accurately collate information for the preparation and presentation of the financial statements. The reason for this was a lack of adequate skills capacity. In addition, a discipline of more regular financial statement reporting should be introduced, e.g. monthly.

- **Timeliness of annual financial statements**

While the timeliness of financial statements is important, the submission of quality financial statements is equally important. It is evident that although the submissions were made on time, the quality of these financial statements was found to be inadequate.

- **Availability of key officials**

There has been a notable improvement in the availability of key officials (heads of departments and chief financial officers) during the audit to deal with audit-related matters and to clear these in a timely manner. This assisted certain departments in dealing with matters arising, because officials received earlier notice of audit findings and took corrective action before the final conclusions leading to an audit opinion.

- **Development of and compliance with risk management and good internal control and governance practices**

Effective risk management and internal control practices continue to be a challenge for some of the departments. Six of the departments had substantially fulfilled their responsibility as required by the Treasury Regulations. The shortcomings have been adequately dealt with in 1.4 above.

- **Leadership, supervision and monitoring**

Leadership sets a proper "tone at the top" to create a sound control environment. The leadership must ensure that competent and skilled staff are employed, particularly in the finance and accounting division. Effective leadership and oversight are needed to monitor performance, especially insofar as financial management is concerned. Public Works and the Parks Agency achieved an improved audit opinion, mainly as a result of leadership involvement in the implementation of action plans.

The practice of supervision and monitoring, while still needing improvement, is evident at nine (69%) of the 13 departments audited.



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5. PROVINCIAL PUBLIC ACCOUNTS COMMITTEE (PPAC) RESOLUTIONS

5.1 Introduction

As part of the International Standards on Auditing, ISA 720, *Other information contained in documents containing audited financial statements*, I am expected to include the review of SCOPA resolutions included in the accounting officer's report. The table below indicates, where applicable, the status of the implementation of such resolutions.

5.2 PPAC resolutions not yet implemented

No.	Department	No. of resolutions	Resolutions not yet implemented
1	Agriculture and Land Administration	None	N/A
2	Culture, Sports and Recreation	None	N/A
3	Economic Development and Planning	15	1
4	Education	None	N/A
5	Finance	6	1
6	Health and Social Services (Health component)	35	7
7	Health and Social Services (Social Services)	17	8
8	Local Government and Housing	8	1
9	Public Works	None	N/A
10	Roads and Transport	None	N/A
11	Safety and Security	6	0
12	Provincial Legislature	19	0
13	Office of the Premier	1	0

The resolutions not yet implemented by Health and Social Services relate mainly to administrative and financial issues. This implies a lack of leadership to ensure that action plans are in place and that such plans are supervised and monitored.

Implementation by the other departments is a commendable practice.

6. TABLING OF ANNUAL REPORTS

6.1 Introduction

In accordance with section 65 of the PFMA, the executive authority responsible for a department must table in the provincial legislature the annual report and financial statements, as well as the audit report on those financial statements, within one month of receipt of the audit report.



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6.2 Status of annual reports tabled

No.	Department	Tabled (Y/N)
1	Agriculture and Land Administration	Y
2	Culture, Sports and Recreation	Y
3	Economic Development and Planning	Y
4	Education	Y
5	Finance	Y
6	Health and Social Services (Health component)	Y
7	Health and Social Services (Social Services)	Y
8	Local Government and Housing	Y
9	Public Works	Y
10	Roads and Transport	Y
11	Safety and Security	Y
12	Provincial Legislature	Y
13	Office of the Premier	Y

7. OTHER AUDITS**7.1 Performance auditing**

A performance audit is described as an independent auditing process to evaluate the measures instituted by management to ensure that resources have been procured economically and are used efficiently and effectively.

Performance auditing is concerned with the auditing of economy, efficiency and effectiveness and embraces:

- auditing of **economy** in relation to the acquisition of resources in the right quantity, of the right quality, at the right time and place at the lowest possible cost
- auditing of the **efficiency** of utilisation of human, financial and other resources and the optimal relationship between the output of goods, services or other results and the resources used to produce them
- auditing of the **effectiveness** of performance in relation to achievement of the policy objectives, operational goals and other intended effects of the audited entity.

7.2 Results of performance auditing

The following performance audits had been completed at the date of this report or were work-in-progress as at 31 July 2008:

Department	Report issued	Report description	Date of report
Transversal	Yes	Conflict of interest	August 2008



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7.3 Investigations

"Investigation" as contemplated in section 5(1)(d) of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA) is defined as an independent and objective process where procedures are performed in accordance with guidelines issued by the AG to facilitate the investigation of financial misconduct, maladministration and impropriety, which may result in legal proceedings for adjudication, and ensure probity in the accounts, financial statements and financial management of an institution referred to in section 4(1) and section 4(3) of the PAA, and which may result in legal proceedings for adjudication. An investigation may be performed where the AG –

- considers it to be in the public interest,
- receives a complaint relating to such institution or its affairs, or
- receives a request relating to such institution or its affairs, and
- deems it appropriate. This will result in a report (as contemplated in section 20 of the PAA) or a special report (as contemplated in section 29 of the PAA).

7.4 Results of investigations

No investigations were performed at any of the departments.



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SECTION 3: PROVINCIAL ENTITIES

1. FINANCIAL REPORTING RESULTS

1.1 Introduction

The Mpumalanga provincial government comprises six provincial entities.

1.2 Overview of audit opinions on provincial entities for 2007-08

Table 1 below provides details as to the actual audit outcomes of the Mpumalanga provincial public entities.

Table 1: Audit opinions on provincial entities

Type of audit opinion	2007-08		2006-07	
	Number	%	Number	%
Adverse	0	0%	0	0%
Disclaimer	0	0%	1	17%
Qualified	3	50%	2	33%
Financially unqualified (with other matters)	2	33%	3	50%
Financially unqualified (with no other matters)	1	17%	0	0%
Total analysed	6	100%	6	100%

The Mpumalanga Tourism and Parks Agency has moved from a disclaimer to a qualification. The improvement was due to the involvement of top management in addressing the previous year's disclaimer.

Leadership prioritised the follow-up of audit recommendations. All areas were improved on during the 2007-08 financial period.

Overall the improvement was so significant that the only qualification was due to the disclosure of corresponding figures, which will fall away in the next audit.

Of the two entities qualified previously, the status of the Mpumalanga Economic Growth Agency (MEGA) remained the same due to the following:

- Inadequate control systems on property, plant and equipment in relation to existence and completeness.
- The entity had also not properly disclosed investment properties.
- A material VAT assessment liability was not disclosed. This was as a result of lack of monitoring and adequate supervision.



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The Mpumalanga Agricultural Development Corporation (MADC) moved to financially unqualified (with other matters). The improvement can be attributed to effective monitoring by senior management and oversight bodies. Prior year issues raised were also dealt with.

Of the three entities that were previously financially unqualified (with other matters), the Mpumalanga Regional Training Trust (MRTT) had moved to a qualification on capital assets (control over assets deteriorated where the asset register did not reconcile to the AFS). The MRTT did not have a full-time CFO for the year under review and the entity lacked leadership in this regard.

The status of the Mpumalanga Housing Finance Company remained the same. This was as a result of limited skills capacity, as evidenced by the late submission of financial statements which were also subject to amendment.

The status of the Mpumalanga Gambling Board improved from financially unqualified (with other matters) to financially unqualified (with no other matters). The improvement was due to systems that were put in place to ensure the accuracy of the financial statements submitted. Overall the involvement of top management ensured implementation of all audit recommendations. The CEO set a good leadership tone at the top and exercised good supervision and monitoring.

Of the three entities that had findings relating to non-compliance, MEGA had a finding in respect of the National Credit Act, the MHFC in respect of the PFMA and the MADC in respect of Treasury Regulations as a result of lack of leadership supervision and monitoring.

Governance issues at three public entities related to unavailability of senior officials at MEGA, an audit committee not in operation throughout the year at the MADC, and the delay in submitting financial statements by the MHFC. This situation can improve with proper support from the oversight structures, e.g. the prioritisation of internal audit findings.

Five provincial entities required material corrections to their financial statements due to errors, omissions and inconsistencies that were identified by the auditors, mainly as a result of the following:

- Skills capacity not adequately geared for the implementation of the accounting framework
- Lack of leadership supervision and monitoring

Table 2 below provides details of the actual audit outcomes of the Mpumalanga provincial entities for the previous three years.



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Table 2: Audit opinions on provincial public entities for the previous three years

Provincial entity	2007-08	2006-07	2005-06
Mpumalanga Agricultural Development Corporation	Financially unqualified (with other matters)	Qualified	Financially unqualified (with no other matters)
Mpumalanga Economic Growth Agency	Qualified	Qualified	No comparative
Mpumalanga Gambling Board	Financially unqualified (with no other matters)	Financially unqualified (with no other matters)	Financially unqualified (with no other matters)
Mpumalanga Housing Finance Company	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)
Mpumalanga Regional Training Trust	Qualified	Financially unqualified (with other matters)	Financially unqualified (with no other matters)
Mpumalanga Tourism and Parks Agency	Qualified	Disclaimer	No comparative

Referring to the table above, the two entities that have shown recurring qualifications are MEGA and the MTPA. The MTPA has already shown some improvement by moving from a disclaimer to a qualification that resulted from corresponding figures. Through focused leadership monitoring, the conditions for a qualification seem to have been removed and the entity may be on course to an improved report if current good practices are sustained.

MEGA still has to show some progress towards improving its qualified situation through leadership monitoring of specific action plans focused on turning the situation around.

The MRTT has regressed from previously unqualified opinions to a qualified opinion because of a lack of capacity due to unfilled vacancies, especially the CFO position. The entity can ensure a turnaround by timeously addressing vacancies and through continuous supervision and monitoring.

The quality of financial statements submitted by all entities for audit needs significant improvement, which can be done through prioritisation of action plans.

The unqualified entities (except the Gambling Board) had other matters raised, which has been the case for years. "Other matters" generally point to risks in the control environment which, if not attended to, could lead to future qualifications. These should also be addressed through monitored action plans.

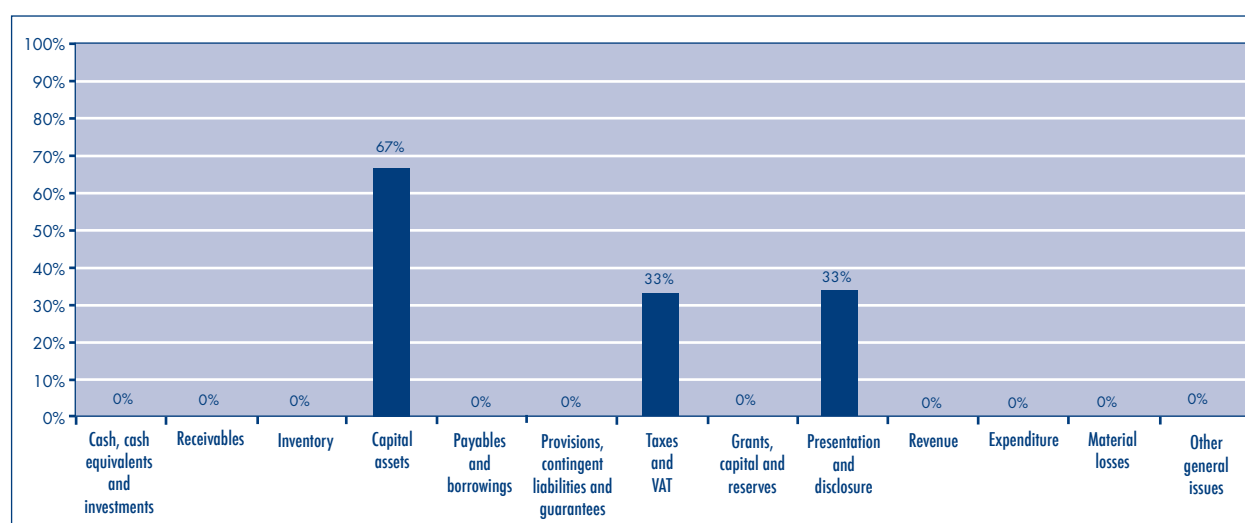


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1.3 Qualification details

Figure 1 below provides a breakdown of all the audit findings which gave rise to the qualified audit opinions. It also provides an indication of the percentage of provincial entities that were qualified per audit finding. The audit findings are split between items on the balance sheet (statement of financial position) highlighted in blue bars and the income statement (statement of financial performance) highlighted in green bars.

Figure 1: Provincial entities (three) that were qualified per audit finding



Overall conclusion

The three provincial entities received qualified opinions as a result of property, plant and equipment, provisions and corresponding figures.

Property, plant and equipment

The qualified opinions of two of the three provincial entities (MEGA and MRTT) were in respect of capital assets. The main issue for both entities relates to the maintenance of up-to-date asset registers. Rights and obligations to land and buildings are in doubt in the case of MEGA, which has also not disclosed the value of investment properties.

Taxes and VAT

A material VAT assessment liability was not disclosed by MEGA.

Presentation and disclosure

Corresponding figures were misstated due to the previous year's disclaimer of opinion. The qualifications, with the exception of presentation and disclosure, were as a result of:



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- inadequate leadership supervision and monitoring
- unfilled vacancies leading to capacity constraints at the MRTT
- inadequate asset management system at MEGA.

1.4 Audit findings in respect of other matters

The audit findings reported under “other matters” draw attention to the matters that are ancillary to the AG’s responsibilities in the audit of the financial statements.

Non-compliance with relevant legislation

Material non-compliance with relevant legislation not affecting the financial statements related to non-compliance with the PFMA and Treasury Regulations in the case of three of the six provincial entities. Inadequate supervision and monitoring by the leadership (accounting authorities, chief financial officers and relevant managers) had in part contributed to the negative audit findings in this area. The right leadership tone, with the support of internal audit, is necessary to establish a strong control environment and ensure compliance.

Audit findings in respect of matters of governance

Except for one audit committee, the audit committees and internal audit functions were in place throughout the financial year and operated in accordance with approved written terms of reference. The internal audit functions require support in terms of their effectiveness and their desired impact. The implementation of internal audit findings should form part of the action plans referred to above.

Difficulties were experienced during the audit concerning delays in providing or the unavailability of expected information and the unavailability of senior management at two public entities. Document retention is not a specialised skill, and should be addressed as a matter of urgency, as the lack of this discipline significantly increases the risk of fraud. Unavailability of senior officials sets a negative leadership tone, leading to an environment that is vulnerable to risks.

The majority of the prior year’s external audit recommendations have been substantially implemented.

Material misstatements

The quality of financial statements submitted for auditing should be further improved. This is illustrated by the fact that material adjustments to the financial statements submitted for auditing had to be made at five of the six entities to avoid either qualification or further qualification. The reason for this was primarily a lack of adequate skills and focused action plans to deal with the applicable accounting statements.

2. PERFORMANCE REPORTING RESULTS

2.1 Introduction

The AG continued to report on the auditing of performance information in line with the relevant phasing-in approach. For 2006-07, the review was extended to the controls and systems used in generating



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and reporting on performance information, and for 2007-08 the review included limited verification of documentation supporting disclosures in the annual reports.

2.2 Results of the audit of performance information

Two entities (14%) were lacking in respect of reporting on all predetermined objectives in the annual performance report. Inconsistencies were found between the measurable objectives reported on in the annual report and the strategic/corporate/annual performance/budget at two entities (14%). Sufficient appropriate audit evidence supporting performance information could not be submitted at two entities (14%). Two entities (23%) had no findings.

Based on the above, it is evident that audit committees need to play a critical role in ensuring that the entities' measurable objectives are regularly monitored, reported and supported by adequate supporting documents that will facilitate the tracking of service delivery.

3. INFORMATION SYSTEMS AUDIT

No information systems audits were performed at the Mpumalanga provincial entities for 2007-08.

4. ISSUES DRIVING AUDIT RESULTS

4.1 Introduction

In the AG's view, the following benchmark information can be considered as basic good practice indicators which are relevant in achieving financially unqualified audit opinions as well as for reporting performance results:

- Clear trail of supporting documentation
- Quality of financial statements and management information
- Timeliness of financial statements and management information
- Availability of key officials during audits
- Development of and compliance with risk management and good internal control practices
- Supervision and monitoring (leadership effectiveness)

4.2 Achievement against good practice indicators

Table 3 below presents the results of the Mpumalanga provincial entities achieving the above good practice indicators.



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Table 3: Results of good practice indicators for Mpumalanga provincial entities for 2007-08

No.	Good practices	Percentage of total public entities achieving good practice indicator
1	Clear trail of supporting documentation that is easily available and provided timeously	67%
2	Quality of financial statements and management information	17%
3	Timeliness of financial statements and management information	83%
4	Availability of key officials during audits	67%
5	Development of and compliance with risk management and good internal control and governance practices	50%
6	Supervision / monitoring	50%

- **Clear trail of supporting documentation**

Some 67% (four of six) of public entities demonstrated this good practice. This needs to be improved, because the availability of supporting documentation contributes significantly to the efficiency of the audit. Significant difficulties were experienced during the audits of two entities concerning delays in providing or the unavailability of expected information. Management of documentation requires improvement to ensure that it is readily available and furnished in a timely manner. The discipline of document retention significantly reduces the risk of fraud in the environment.

- **Quality annual financial statements**

Public entities need to drastically improve in this respect. Only one of the six entities submitted quality financial statements. Material corrections to the financial statements mainly relate to issues of disclosure associated with compliance with the reporting framework. In this regard, processes need to be further refined in order to accurately collate information for the preparation and presentation of the financial statements. The reason for this was the lack of adequate skills capacity and leadership. In addition, a discipline of more regular financial statement reporting should be introduced, e.g. monthly.

- **Timeliness of annual financial statements**

As in the case of departments, good planning for the financial statement preparation process ensured that only one entity had not submitted its financial statements by the legislated deadline of 31 May. While the timeliness of financial statements is important, the submission of quality financial statements is equally important. It is evident that although the submissions were made on time, the quality of these financial statements was found to be inadequate at five of the entities.

- **Availability of key officials**

Sixty-seven per cent (four of six) of public entities' key officials were available during the audit of public



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entities, which went a long way towards clearing audit findings in a timely manner. There is room for improvement in this area as it sets a tone of good discipline which is conducive to a good control environment.

- **Development of and compliance with risk management and good internal control and governance practices**

Effective risk management and internal control practices continue to pose a challenge for three of the public entities. The shortcomings have been adequately dealt with in 1.4 above.

- **Leadership, supervision and monitoring**

Greater supervision and monitoring have resulted in improved results for two entities, with one achieving a clean report and the other overturning a disclaimer. Where the supervision and monitoring have not been strong and the officials were generally not available, the results have not improved significantly.

5. PROVINCIAL PUBLIC ACCOUNTS COMMITTEE (PPAC) RESOLUTIONS

5.1 Introduction

5.2 PPAC resolutions not yet implemented

Provincial entity	No. of resolutions	Resolutions not yet implemented
Mpumalanga Agricultural and Development Corporation	None received	0
Mpumalanga Economic Growth Agency	None received	0
Mpumalanga Gambling Board	None received	0
Mpumalanga Housing Finance Company	None received	0
Mpumalanga Regional Training Trust	None received	0
Mpumalanga Tourism and Parks Agency	None received	0

6. STATUS OF TABLING OF ANNUAL REPORTS

6.1 Introduction

In accordance with section 65 of the PFMA, the executive authority responsible for a public entity must table in the provincial legislature the annual report and financial statements, as well as the audit report on those financial statements, within one month of receipt of the audit report.



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6.2 Annual reports tabled

No.	Public entity	Tabled
1	Mpumalanga Agricultural and Development Corporation	Y
2	Mpumalanga Economic Growth Agency	Y
3	Mpumalanga Gambling Board	Y
4	Mpumalanga Housing Finance Company	Y
5	Mpumalanga Regional Training Trust	Y
6	Mpumalanga Tourism and Parks Agency	Y

7. SUMMARY OF OTHER AUDITS

7.1 Performance auditing

No performance audits were conducted

7.2 Investigations

No investigations were conducted.



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SECTION 4: OTHER ENTITIES

1. FINANCIAL REPORTING RESULTS

1.1 Introduction

The Mpumalanga provincial government has one "other entity", namely the Mpumalanga Housing Fund, as the entity is not listed as a public entity.

1.2 Audit opinion on the other entity for 2007-08

The audit opinion was financially unqualified (with other matters) for the 2005-06, 2006-07 and 2007-08 financial years. The other matters, mainly related to amendments to financial statements submitted, are indicative of an inadequate internal control environment which, if not addressed, may lead to future qualifications.

Except that the financial statements submitted were subject to material amendments and the entity had not complied with its own enabling legislation, no other matters of governance were observed.

A further improvement is required in the quality of financial statements submitted for auditing. The reasons for this were primarily the lack of adequate skills and focused action plans to deal with the applicable accounting statements. Processes need to be further refined in order to accurately collate information for the preparation and presentation of the financial statements. In addition, a discipline of more regular financial statement reporting should be introduced, e.g. monthly, where considered practical and effective.

The entity has not complied with the Mpumalanga Housing Fund Act because of a lack of leadership and monitoring in respect of this issue. A decision to dissolve the fund was taken more than five years ago. This has not been implemented.

1.3 Qualification details

Addressed under 1.2 above.

1.4 Audit findings in respect of other matters

Addressed under 1.2 above.

2. PERFORMANCE REPORTING RESULTS

2.1 Introduction

The AG continued to report on the auditing of performance information in line with the relevant phasing-in approach. For 2006-07, the review was extended to the controls and systems used in generating and reporting on performance information, and for 2007-08 the review included limited verification of documentation supporting disclosures in the annual reports.



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2.2 Results of the audit of performance information

There were no audit findings on performance information.

3. INFORMATION SYSTEMS AUDIT

No information systems audits were performed at the other entity for 2007-08.

4. ISSUES DRIVING AUDIT RESULTS

4.1 Introduction

The following benchmark information can be considered as basic good practice indicators which are relevant in achieving financially unqualified audit opinions as well as for reporting performance results:

- Clear trail of supporting documentation
- Quality of financial statements and management information
- Timeliness of financial statements and management information
- Availability of key officials during audits
- Development of and compliance with risk management and good internal control practices
- Supervision and monitoring (leadership effectiveness)

4.2 Achievement against good practice indicators

Discussed in section 1.2 above.

5. PROVINCIAL PUBLIC ACCOUNTS COMMITTEE (PPAC) RESOLUTIONS

5.1 Introduction

As part of the International Standards on Auditing, ISA 720, *Other information contained in documents containing audited financial statements*, I am expected to include the review of PPAC resolutions included in the accounting officer's report.

5.2 PPAC resolutions not yet implemented

No PPAC resolutions to date.

6. STATUS OF TABLING OF ANNUAL REPORTS

6.1 Introduction

In accordance with section 65 of the PFMA, the executive authority responsible for a public entity must table in the provincial legislature the annual report and financial statements, as well as the audit report on those financial statements, within one month of receipt of the audit report.



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6.2 Annual report tabled

No.	Other entity	Tabled (Y/N)
7	Mpumalanga Housing Fund	Y

7. SUMMARY OF OTHER AUDITS

7.1 Performance auditing

No performance audits were conducted.

7.2 Investigations

No investigations were conducted.



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SECTION 5: CONCLUSION

The Mpumalanga Province faces a number of challenges as highlighted in this report which will require continued effort by the leadership of the province as reflected in section 1 above.

A major challenge is the lack of skills to adequately address the qualification issues relating primarily to asset management.

Other areas of focus should be around:

- the strengthening of governance arrangements, e.g. the proper functioning of audit committees and internal audit, particularly the implementation of internal audit recommendations
- enhanced leadership supervision and monitoring
- appropriate prioritisation of matters requiring attention.

A good example of the above practices was the turnaround of the Public Works qualifications.

The critical message we are leaving with the legislators and the executive in this report is that it is possible to obtain an unqualified audit report if the good practice indicators are in place and constantly monitored by the leadership.

We are 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.



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ANNEXURE 1: MPUMALANGA

Classification	Department	Portfolio	Audit opinion 2007/08	Audit opinion 2006/07	Cash, cash equivalents and investments	Receivables	Inventory	Capital assets	Payables and borrowings	Provisions, contingent liabilities and guarantees	Taxes and VAT	Grants, capital and reserves	Presentation and disclosure	Revenue	Expenditure	Material losses	Other general issues	Non-compliance	Governance findings	Material misstatements	Clear trail of supporting documentation that is easily available and provided in time	Quality of financial statements and management information	Timeliness of financial statements and management information	Availability of key officials during audits	Development of, and compliance with, risk management and good internal control and governance practices	Leadership / supervision / monitoring
PD	Economic Development and Planning	MP	Qualification	Qualification				1											1	1	1	1	1	1	1	1
PD	Education	MP	Qualification	Qualification				1										1	1	1	1	1	1	1	1	1
PD	Health and Social Services - Health component	MP	Qualification	Qualification				1		1								1	1	1	1	1	1	1	1	1
PD	Health and Social Services: Social Services	MP	Qualification	Qualification				1		1								1	1	1	1	1	1	1	1	1
PD	Local Government and Housing	MP	Qualification	Qualification				1		1								1	1	1	1	1	1	1	1	1
PD	Agriculture and Land Administration	MP	Financially unqualified (with other matters)	Financially unqualified (with other matters)														1	1	1	1	1	1	1	1	1
PD	Culture, Sport and Recreation	MP	Financially unqualified (with other matters)	Financially unqualified (with other matters)														1	1	1	1	1	1	1	1	1
PD	Finance	MP	Financially unqualified (with other matters)	Financially unqualified (with other matters)														1	1	1	1	1	1	1	1	1
PD	Mpumalanga Provincial Legislature	MP	Financially unqualified (with other matters)	Financially unqualified (with other matters)														1	1	1	1	1	1	1	1	1
PD	Office of the Premier	MP	Financially unqualified (with other matters)	Financially unqualified (with other matters)														1	1	1	1	1	1	1	1	1
PD	Public Works	MP	Financially unqualified (with other matters)	Financially unqualified (with other matters)														1	1	1	1	1	1	1	1	1
PD	Roads and Transport	MP	Financially unqualified (with other matters)	Financially unqualified (with other matters)														1	1	1	1	1	1	1	1	1
PD	Safety and Security	MP	Financially unqualified (with other matters)	Financially unqualified (with other matters)														1	1	1	1	1	1	1	1	1
PE	Mpumalanga Economic Growth Agency	MP	Qualification	Qualification				1		1								1	1	1	1	1	1	1	1	1
PE	Mpumalanga Regional Training Trust	MP	Qualification	Qualification				1												1	1	1	1	1	1	1
PE	Mpumalanga Tourism and Parks Board	MP	Qualification	Qualification									1							1	1	1	1	1	1	1



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ANNEXURE 1: MPUMALANGA (continued)

Classification	Department	Portfolio	Audit opinion 2007/08	Audit opinion 2008/09	Cash, cash equivalents and investments	Receivables	Inventory	Capital assets	Payables and borrowings	Provisions, contingent liabilities and guarantees	Taxes and VAT	Grants, capital and reserves	Presentation and disclosure	Revenue	Expenditure	Material losses	Other general issues	Non-compliance	Governance findings	Material misstatements	Clear trail of supporting documentation that is easily available and provided in time	Quality of financial statements and management information	Timeliness of financial statements and management information	Availability of key officials during audits	Development of, and compliance with, risk management and good internal control and governance practices	Leadership / supervision / monitoring
PE	Mpumalanga Agricultural Development Corporation	MP	Financially unqualified (with other matters)	Qualification														1	1	1	1	1	1	1	1	1
PE	Mpumalanga Housing Finance Company	MP	Financially unqualified (with other matters)	Financially unqualified (with other matters)														1	1	1					1	1
PE	Mpumalanga Gambling Board	MP	Financially unqualified (with no other matters)	Financially unqualified (with other matters)																		1	1	1	1	1
OE	Mpumalanga Housing Development Fund	MP	Financially unqualified (with other matters)	Financially unqualified (with other matters)														1			1	1	1	1	1	1

ABBREVIATIONS

PD – Provincial department

PE – Provincial public entity

OE – Other entity

SUMMARY

Totals

Departments existing	13
Departments analysed	13
Departments qualified	5

Public entities existing	6
Public entities analysed	6
Public entities qualified	3

Other entities existing	1
Other entities analysed	1
Other entities qualified	0

Departments	0	1	0	5	0	2	0	0	0	0	0	0	0	0	0	0	0	7	7	10	10	3	13	12	6	9
Public entities	0	0	0	2	0	0	1	0	1	0	0	0	0	0	0	0	0	3	3	5	4	1	5	4	3	3
Other entities	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	0	1	1	0	1	1	1	1

AUDIT FINDINGS IN RESPECT OF QUALIFICATIONS

Departments	0%	20%	0%	100%	0%	40%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Public entities	0%	0%	0%	67%	0%	0%	33%	0%	0%	0%	33%	0%	0%	0%	0%	0%	0%	3	3	5	4	1	5	4	3	3
Other entities	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	1	0	1	1	0	1	1	1	1

AUDIT FINDINGS IN RESPECT OF OTHER MATTERS

Departments	54%	54%	77%
Public entities	50%	50%	83%
Other entities	100%	0%	100%

GOOD PRACTICES

Departments	17%	23%	100%	92%	46%	69%
Public entities	67%	17%	83%	67%	50%	50%
Other entities	100%	0%	100%	100%	100%	100%



A U D I T O R - G E N E R A L

ANNEXURE 2: SUMMARY OF AUDIT REPORTS OF THE MPUMALANGA DEPARTMENTS

1. AGRICULTURE AND LAND ADMINISTRATION

Financially unqualified (with other matters)

Emphasis of matters

- Material underspending of the budget
 - As disclosed in the appropriation statement, the department materially underspent its budget on the following programmes:
 - Programme 6: Current payments R37 215 000,00 (74,5% of final programme appropriation)
 - Programme 11: Current payments R3 447 000,00 (18,6% of final programme appropriation)

Other matters

- Non-compliance with applicable legislation
- Treasury Regulations
 - The accounting officer did not ensure that a risk management strategy was formulated and communicated to all officials, to ensure that it was incorporated into the language and culture of the department, as required in terms of Treasury Regulation 3.2.1.

Matters of governance

- The financial statements submitted for audit were subject to material amendments resulting from the audit.

Report on performance information

- Non-compliance with regulatory requirements
 - Monitoring and evaluation
 - The department did not comply with the legislative requirements pertaining to the planning, monitoring, managing and reporting of performance information.
 - Policies and procedures
 - The department did not have approved policies and procedures regarding the collection, recording, processing and reporting of performance information.
 - Measures not verifiable, specific or time bound
 - Outputs of listed objectives evaluated as recorded in the annual report were not measurable, specific or time bound.
 - Targeted outputs not achieved
 - Insufficient reasons or explanations and corrective actions were given in the annual report for unachieved targeted outputs as per the strategic plan.



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- Lack of sufficient appropriate audit evidence
 - Sufficient appropriate audit evidence to support the actual achievements reported in the annual report could not be provided.

2. CULTURE, SPORTS AND RECREATION

Financially unqualified (with other matters)

Emphasis of matters

- Unauthorised expenditure
 - As disclosed in the financial statements, unauthorised expenditure of R1 018 000 reported on in the prior year had not yet been resolved.
- Amendments to the applicable basis of accounting
 - Included in a disclosure note to the financial statements were improvements/additions to buildings at a cost/value of R30 893 000, which were not registered in the name of the department. The cost of these improvements/additions should have been transferred to the Department of Public Works. However, this was not done due to the approval by the National Treasury on 16 May 2008 of a deviation from the basis of accounting applicable to departments in this regard.
 - As disclosed in the financial statements, the department had capital assets that were included in the asset register at a value of R1 each, as the actual cost or fair value of these assets had not been determined and had thus been excluded from the value of assets disclosed in the closing balance of R38 315 000.

Other matters

Matters of governance

- The financial statements submitted for audit were subject to material amendments resulting from the audit.

Report on performance information

- Lack of sufficient appropriate audit evidence
 - The manual system of collecting data was not properly monitored and the correctness and accuracy of these records were not confirmed.
 - There was no documentation as described in the system description to support the actual results reported in the annual report.



A U D I T O R - G E N E R A L

3. ECONOMIC DEVELOPMENT AND PLANNING

Qualified

- Capital assets
 - Capital assets in the previous year were transferred from the Limpopo Province to the department and fairly valued at R2,3 million, as disclosed in the annual financial statements. The department did not provide sufficient supporting documentation for the determination of this value.

Emphasis of matters

- Highlighting critically important matters presented or disclosed in the financial statements
 - As disclosed in the financial statements, irregular expenditure to the amount of R13 479 000 was incurred, as the budget for compensation of employees was overspent.
 - As disclosed in the financial statements, fruitless expenditure to the amount of R51 000 was incurred, as a tender was advertised but no consultants were appointed.
 - As disclosed in the financial statements, irregular expenditure to the amount of R325 000 was incurred, as a service provider was appointed without following the proper supply chain management procedures.
 - As disclosed in the financial statements, fruitless expenditure to the amount of R397 000 was incurred, as indicated in the forensic report prepared by the Office of the Premier.
 - Material underspending of the budget
 - As disclosed in the appropriation statement, the department materially underspent the budget on Programme 1: Administration by R6 371 000 (12% of the programme budget), Programme 4: Business regulation by R4 006 000 (6,5% of the programme budget), and Programme 5: Economic planning by R9 806 000 (45,3% of the programme budget).

Other matters

- Matters of governance
 - The financial statements submitted for audit were subject to material amendments resulting from the audit.
 - Significant difficulties were experienced during the audit concerning delays and unavailability of required information.

4. EDUCATION

Qualified opinion

- Capital assets

No reconciliation was performed between the fixed asset register and the financial statements, which resulted in the following differences:



AUDITOR - GENERAL

- The opening balance as per the fixed asset register did not agree to the opening balance as per the financial statements to the value of R433 384 000.
- The closing balance as per the fixed asset register did not agree to the closing balance as per the financial statements to the value of R769 826 000.
- The additions as per the fixed asset register in respect of tangible assets differed from the additions as disclosed in the financial statements to the value of R166 996 000.
- The department had not made disclosure of investment property on the annual financial statements but rental income of R600 207 was received in respect of the lease of residential buildings and a further R1 000 was received in respect of the lease of office buildings. The value of the buildings by which the tangible capital assets were understated could not be determined.
- The National Treasury required that the payments made during the current reporting period on projects that had not been completed at year-end, should be deducted from the calculation of total additions to the buildings and other fixed structures.
The disclosure figure of additions to buildings and other fixed structures to the value of R246 211 000 included payments made for capital work in progress. The amount of capital work in progress to be excluded from this disclosure could not be determined.

Emphasis of matters

- Amendments to the applicable basis of accounting
 - The department recognised certain immovable assets which might have been required to be recognised by the Department of Public Works. The Department of Public Works did not recognise these assets, due to the approval by the National Treasury on 16 May 2008 of a deviation from the basis of accounting applicable to departments in this regard.

- Irregular expenditure

The following irregular expenditures were incurred:

- R44 578 000 was incurred due to the overspending on compensation of employees.
- R6 340 000 was incurred due to the overspending of transfers and subsidies under programme 7.

- Material underspending of the budget

As disclosed in the appropriation statement, the department materially underspent its budget on the following programmes:

- Programme 1: Payment for capital assets R9 964 000 (28% of the final programme appropriation)
- Programme 2: Payment for capital assets R140 201 000 (35% of the final programme appropriation)
- Programme 3: Transfers and subsidies R1 580 000 (14% of the final programme appropriation)
- Programme 6: Current payments R14 333 000 (16% of the final programme appropriation)
- Programme 7: Current payments R10 509 000 (34% of the final programme appropriation)



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Other matters

- Non-compliance with applicable legislation
 - Division of Revenue Act
 - Monthly reports by the receiving officer to the provincial treasury and the national transferring officer were not made within 15 days of each month-end, in terms of DoRA & the PFMA.

Matters of governance

- Internal audit
 - The internal audit function did not operate in terms of an approved internal audit plan.
 - The internal audit function did not substantially fulfil its responsibilities for the year, as set out in the Treasury Regulations.
- Other matters of governance
 - The financial statements submitted for audit were subject to material amendments resulting from the audit.
 - Significant difficulties were experienced during the audit concerning delays and the unavailability of expected information and the unavailability of senior management.

Report on performance information

- Measurable objectives not consistent
 - The measurable objectives were neither consistently stated, nor aligned in the manner that they were set out in the strategic plan, the budget and the annual report, with the result that the measurable objectives in one of the three documents could not be reviewed in relation to the other two documents.
- Objectives predetermined as per strategic plan and/or not budgeted for not reported in annual report
 - The predetermined measurable objectives stated in the strategic plan were on some programmes not budgeted for, as the measurable objective on the budget was not aligned with the objective in the strategic plan. The extent of achievement of the measurable objectives stated in the strategic plan was not always reported in the annual report.
- Lack of sufficient appropriate audit evidence
 - Sufficient appropriate audit evidence in relation to the performance information could not be provided for all sub-programmes.
- Evidence materially inconsistent with reported performance information



AUDITOR - GENERAL

- The evidence provided to support the performance information was inconsistent with the performance information reported.

5. FINANCE

Financially unqualified (with other matters)

Other matters

- Matters of governance
 - The financial statements submitted for audit were subject to material amendments resulting from the audit.

6. HEALTH

Qualified

- Capital assets
 - Capital asset balances in the financial statements could not be agreed to asset registers and there were no reconciliations between asset registers and BAS amounts which appeared in the financial statements. There was a difference of R613,3 million. The asset registers had also not been updated for current year additions.
- Commitments and accruals
 - The financial statements and supporting BAS information differed by R116, 7 million.
- Receivables
 - R59 million in patient debtors seems irrecoverable and should be written off.

Emphasis of matter

- Amendments to the applicable basis of accounting
 - The department recognised certain immovable assets which might have been required to be recognised by the Department of Public Works. The Department of Public Works did not recognise these assets, due to the approval by the National Treasury on 16 May 2008 of a deviation from the basis of accounting applicable to departments in this regard.
- Irregular expenditure of R8,9 million – compensation of employees
- Fruitless expenditure of R4,8 million – funds erroneously transferred to a municipality



A U D I T O R - G E N E R A L

- Unauthorised expenditure of R87,3 million – overspending on programme 2 (R31,2 million on compensation of employees and R58,3 million on goods and services)
- Underspending of budget
 - Programme 7: Health care support R38,4 million (36,5%)
 - Programme 8: Health facility management R97,5 million (36%)

Other matters

- Matters of governance
 - Financial statements subject to material amendments
 - Prior year's external audit recommendations not substantially implemented
 - There was no approved internal audit plan and internal audit did not substantially fulfil its responsibilities.
- Non-compliance with applicable legislation
 - Minor asset register not maintained
 - No written delegations of authority e.g. to the CFO

Performance information

- Lack of sufficient appropriate audit evidence
 - Lack of supporting evidence for reported performance information for some sub-programmes
- Evidence materially inconsistent with reported performance information
 - Evidence submitted was materially inconsistent with reported performance information for some sub-programmes.

7. LOCAL GOVERNMENT AND HOUSING

Qualified

- Capital assets
 - Some amounts in the fixed asset register were overstated. The most likely difference was estimated to have an effect on the financial statements in excess of R14 000 000. Also included were items in the fixed asset register with values of R8 000 000, R6 990 000 and R6 990 000. Each of these items consisted of a number of smaller assets grouped into one, which had been sent to the stores for auction. These items could not be separately identified.



A U D I T O R - G E N E R A L

Emphasis of matters

- Amendment to the applicable basis of accounting
 - As disclosed in the financial statements, the department recognised certain immovable assets which might have been required to be recognised by the Department of Public Works. However, the Department of Public Works did not recognise these assets, due to the approval by the National Treasury on 16 May 2008 of a deviation from the basis of accounting applicable to departments in this regard.
- Material underspending of the budget
 - As disclosed in the appropriation statement, the department materially underspent its budget by an amount of R85 152 000 of the voted funds.
 - Programme 1: Current payments R14 126 000 (18% of final programme appropriation)
 - Programme 1: Payment for capital assets R1 118 000 (16,2% of final programme appropriation)
 - Programme 2: Current payments R3 531 000 (11% of final programme appropriation)
 - Programme 3: Current payments R6 738 000 (10% of final programme appropriation)
 - Programme 4: Current payments R5 297 000 (13% of final programme appropriation)
 - Programme 4: Payment for capital assets R29 957 000 (76% of final programme appropriation)
- Revision of the previously issued financial statements
 - The comparative figure in the financial statements regarding the leave entitlement was adjusted to include the cumulative accrued leave entitlement until the financial year ended 31 March 2007. The amount was changed by R3 246 744 to R4 914 000. The prior year figure in note 22 regarding the year-end receivables for departmental revenue was also restated as R398 000. Furthermore, the prior year figure for expenditure on capital assets was restated as R35 046 000.

Other matters

- Non-compliance with applicable legislation
 - Treasury Regulations
 - Traditional leaders are supposed to be paid on the 31st of the month, but were paid on the 15th of each month, contrary to the Treasury Regulations.
 - Pay point certificates were not always returned on time, as required in terms of the Treasury Regulations.
 - Matters of governance
 - The financial statements submitted for audit were subject to material amendments resulting from the audit.



A U D I T O R - G E N E R A L

8. OFFICE OF THE PREMIER

Unqualified (with other matters)

Emphasis of matters

- Highlighting critically important matters presented or disclosed in the financial statements
 - Irregular expenditure
 - Irregular expenditure to the amount of R1 949 000 was incurred, as the proper procurement process had not been followed.
- Restatement of corresponding figures
 - The comparative figure for employee benefits as at 31 March 2007 was restated. A balance of R6 996 000 relating to capped leave which existed at 31 March 2007 was not disclosed in the prior year published financial statements. The comparative figure was corrected and appropriately disclosed in the 2007-08 financial statements.

9. PROVINCIAL LEGISLATURE

Financially unqualified (with other matters)

Emphasis of matters

- Amendments to applicable basis of accounting
 - The department recognised certain immovable assets which might have been required to be recognised by the Department of Public Works. However, the Department of Public Works did not recognise these assets, due to the approval by the National Treasury on 16 May 2008 of a deviation from the basis of accounting applicable to departments in this regard.
- Irregular expenditure
 - Irregular expenditure to the amount of R6 138 392 was incurred as a result of using a saving in capital expenditure in programme 1 to defray an overspending of current expenditure in the same programme without obtaining the necessary approval.

Other matters

Matters of governance

- The financial statements submitted for audit were subject to material amendments resulting from the audit.
- Significant difficulties were experienced during the audit concerning delays in providing required information.



A U D I T O R - G E N E R A L

10. PUBLIC WORKS

Financially unqualified (with other matters)

Emphasis of matters

- Basis of accounting
 - The National Treasury's approval to deviate from the basis of accounting was applicable.

Other matters

- Matters of governance
 - Difficulties were experienced during the audit concerning delays or unavailability of information.

Performance information

- Non-compliance with regulatory requirements
 - Certain targets in the programme: Building and property management were not specific and therefore not measurable.
 - The bulk of targets in the strategic plan did not have specific time frames that stated the level of performance.
- Measurable objectives not consistent
 - Certain objectives were not consistent, for example, radio coverage was dealt with differently in different programmes.
- Objectives reported in annual report, but not predetermined as per strategic plan
 - Certain objectives in terms of the strategic plan were not reported on in the annual report, for example, "Provision of accommodation for MPLs and MECs in terms of the ministerial handbook". The objective was included in the strategic plan of the department, but was not reported on in the performance management information in the annual report.

11. ROADS AND TRANSPORT

Financially unqualified (with other matters)

Emphasis of matters

- Highlighting critically important matters presented or disclosed in the financial statements



A U D I T O R - G E N E R A L

- As disclosed in the appropriation statement, the department had materially underspent the budget in Programme 3: Public transport by R14 976 000 (15,6%) of the programme's budget.

Other matters

- Matters of governance
 - The internal audit function did not operate in terms of an approved internal audit plan.
 - The internal audit function did not substantially fulfil its responsibilities for the year, as set out in Treasury Regulation 3.2.

Performance information

- Non-compliance with regulatory requirements
 - The department did not have policies and procedures in place for managing performance information issued by the National Treasury in May 2007.
- Performance information not received in time
 - The performance information was not delivered to the Auditor-General within the prescribed time frame. The performance information, which was supposed to have been delivered together with the annual financial statements by 15 June 2008, was only delivered on 2 July 2008.

12. SAFETY AND SECURITY

Unqualified (with other matters)

Other matters

Non-compliance with applicable legislation

- Senior management did not declare their interests in contracts.
- The supply chain management policy implemented by the department did not incorporate the requirements of the Broad-Based Black Economic Empowerment Act.

Performance information

- Measurable objectives inconsistent
 - The measurable objectives reported in the annual performance plan of the department were inconsistent when compared to the approved budget and the annual report.



AUDITOR - GENERAL

OTHER MATTERS

- Non-compliance with applicable legislation
 - Particulars of unauthorised, irregular or fruitless and wasteful expenditure were not submitted to the relevant treasury.
 - The accounting officer did not ensure that a risk management strategy was formulated and communicated to all officials to ensure it was incorporated into the language and culture of the institution.

Matters of governance

- The financial statements submitted for audit were subject to material amendments resulting from the audit.

Performance information

- Non-compliance with regulatory requirements
 - The entity did not report performance against predetermined objectives, as required by section 40(3)(a) of the PFMA.
- Measurable objectives not consistent
 - Measurable objectives reported in the annual report of the Office of the Premier were materially inconsistent when compared with the predetermined objectives as per the annual performance plan and the budget.
- Objectives reported in annual report, but not predetermined as per annual performance plan and budget
 - Objectives were reported in the annual report of the Office of the Premier although they were not included as predetermined objectives in the annual performance plan and the budget.
- Changes to planned performance information not approved
 - Changes to the measures in the current year's annual performance plan were not approved.

13. SOCIAL SERVICES

Qualified

- Capital assets
 - Capital asset balances could not be agreed to asset registers and there were no reconciliations between asset registers and BAS amounts which appeared in the financial statements.



A U D I T O R - G E N E R A L

- The asset registers did not support R61,9 million in opening balances.
- Commitments and accruals
 - The financial statements differed from supporting BAS information by R1,8 million.

Emphasis of matters

- Highlighting critically important matters presented or disclosed in the financial statements
 - Unauthorised expenditure of R1,8 million – administration, goods and services
 - Fruitless expenditure of R69 000 not yet condoned from prior years
 - Underspending of budget
 - Programme 2: Social welfare services R38,2 million (11,8%)

Other matters

- Non-compliance with applicable legislation
 - Minor asset register not maintained
 - No written delegations of authority e.g. to the CFO
- Governance
 - Financial statements were subject to material amendments resulting from the audit.
 - Prior year external audit recommendations were not substantially implemented.
 - There was no approved internal audit plan and internal audit did not substantially fulfil its responsibilities.

Performance information

- Lack of sufficient appropriate audit evidence
 - Lack of supporting evidence for reported performance information for some sub-programmes
- Measurable objectives not consistent
 - Not all planned outputs in the strategic plan were reported on in the annual report.



A U D I T O R - G E N E R A L

ANNEXURE 3: SUMMARY OF AUDIT REPORTS OF THE MPUMALANGA PUBLIC ENTITIES

1. MPUMALANGA AGRICULTURAL AND DEVELOPMENT CORPORATION

Financially unqualified (with other matters)

Emphasis of matters

- Significant uncertainty
 - The MADC did not apply the conditions of the VAT Act when accounting for VAT on grants received from government and related expenses. Therefore, the ultimate tax claim on interests and penalties by SARS in this regard is not yet known.
 - As presented in the financial statements, the MADC recognised land and buildings to the amount of R11 384 495 at year-end, of which it did not have legal ownership. I was therefore unable to confirm ownership of these capital assets as at 31 March 2008, since there was a land claim issue that was still in progress on these capital assets and it was not known whether or not the outcome would be against the MADC.

Other matters

- Non-compliance with applicable legislation
 - Treasury Regulations
 - Contrary to Treasury Regulations, the MADC did not have a written risk management strategy.
 - The MADC did not have a formal audit charter that was consistent with the Institute of Internal Auditors' definition of internal auditing.
- Matters of governance
 - The MADC did not have an audit committee in operation throughout the financial year.
 - The financial statements submitted for audit were subject to material amendments resulting from the audit.

2. MPUMALANGA GAMBLING BOARD

Financially unqualified (with no other matters)

3. MPUMALANGA ECONOMIC GROWTH AGENCY

Qualification

- Property, plant and equipment



A U D I T O R - G E N E R A L

- Rights and obligations relating to land and buildings of R31,6 million could not be proved and the fair value of investment properties was not disclosed.
- VAT liabilities
 - Non-compliance with the provisions of the VAT Act and VAT liabilities was not disclosed.

Other matters

- Matters of governance
 - Financial statements were subject to material amendments due to the audit.
- Non-compliance with legislation
 - Non-compliance with the National Credit Act

Performance information

- Measurable objectives not consistent
- Information on some objectives of the administration programme inconsistent between annual performance plan and annual report

4. MPUMALANGA REGIONAL TRAINING TRUST

Qualification

- Capital assets
 - The company did maintain a fixed asset register; however, this register did not reconcile to the fixed asset accounts in the general ledger by an amount of R2 628 370. The register contained numerous logical formula errors. Items that had been included in the general ledger account were not always included in the fixed asset register and vice versa. Fixed assets were not reviewed for impairment at year-end. Large quantities of assets were not physically marked to allow identification with the fixed asset register.

Emphasis of matters

- Significant uncertainty
 - Included in land and buildings, as disclosed in the note to the financial statements, were properties to the value of R40 699 042, which the MRTT recognised as own properties for which no legal ownership had been passed at year-end. I was therefore unable to confirm ownership of these properties as at 31 March 2008, since the transfer process of these properties in the name of the MRTT was still in progress and the outcome not yet known.



AUDITOR - GENERAL

- Restatement of corresponding figures
 - In prior years, income that was previously received as a grant from the Mpumalanga Education Department was recorded as liabilities under the heading "Deferred income". There was no obligation on the company to repay this amount to the Mpumalanga Education Department. The prior year comparative figures were restated to reflect the economic reality of this transaction.

Other matters

- Matters of governance
 - The financial statements submitted for audit were subject to material amendments resulting from the audit.

Report on performance information

- Non-compliance with regulatory requirements
 - The strategic plan was not updated annually on a rolling basis as required by the Treasury Regulations.
 - The strategic plan did not form part of the basis for the annual report as required by the Treasury Regulations.
 - The company had not established adequate procedures for quarterly reporting as required by the Treasury Regulations.

5. MPUMALANGA HOUSING FINANCE COMPANY

Financially unqualified (with other matters)

Emphasis of matters

- Significant uncertainty
 - The MHFC did not apply the conditions of the VAT Act when accounting for VAT on grants received from government and related expenses. Therefore, the ultimate tax claim on interests and penalties by SARS in this regard is not yet known.

Other matter

- Non-compliance with applicable legislation
 - Public Finance Management Act
 - Management had no investment policy in place as required by the PFMA.
 - Companies Act No. 61 of 1973
 - Management did not implement a conflict of interests register as required by the Companies Act No. 61 of 1973.



A U D I T O R - G E N E R A L

- Matters of governance
 - The annual financial statements were not submitted for audit as per the legislated deadlines.
 - The financial statements submitted for audit were subject to material amendments resulting from the audit.
 - Significant difficulties were experienced during the audit concerning delays or the unavailability of required information and/or the unavailability of senior management.

6. MPUMALANGA TOURISM AND PARKS AGENCY

Qualification

- Corresponding balances
 - Because of a disclaimer of opinion that was issued in the 2006-07 financial year due to a breakdown in accounting controls, I was unable to determine the effect of adjustments made to the opening balances that were necessary for the corresponding figures in the financial statements.

Other matters

- Matters of governance
 - The financial statements submitted for audit were subject to material amendments resulting from the audit.



A U D I T O R - G E N E R A L

ANNEXURE 4: SUMMARY OF AUDIT REPORT OF THE MPUMALANGA OTHER ENTITY

1. MPUMALANGA HOUSING FUND

Financially unqualified (with other matters)

Other matters

- Non-compliance with applicable legislation
 - Housing Act
 - Section 16(3) of the Housing Act, 1998 requires the MHF to have a separate bank account. During the current financial year, the MHF processed all transactions through the bank account of the Department of Local Government and Housing, since the fund did not maintain a separate bank account.
- Matters of governance
 - The financial statements submitted for audit were subject to material amendments resulting from the audit.



Accountability

Integrity

Independence

Impartiality