



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



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



A U D I T O R - G E N E R A L  
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# **General Report**

**on the national audit outcomes  
of Mpumalanga 2009-10**

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## **Our reputation promise/mission**

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



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## SECTION 1: FOREWORD

It is with great pleasure that I present to the Mpumalanga Provincial Legislature the 2009-10 general report, summarising the audit outcomes of the provincial departments, including the provincial legislature, provincial revenue fund and provincial public entities, for the financial year ended 31 March 2010.

It is pleasing to note the positive outcomes in the province, which can be attributed to the commitment of the leadership:

- One department and two public entities received financially unqualified audit outcomes with no findings on predetermined objectives or compliance with laws and regulations, as a result of leadership involvement in resolving issues of asset management at the department and predetermined objectives and financial reporting at the public entities. This was brought about by the successful implementation and monitoring of the corrective action plans to achieve clean administration.
- No departments or public entities received a disclaimer or adverse audit opinion in this financial year.
- Ten departments and four public entities received financially unqualified audit outcomes with findings on predetermined objectives and/or compliance with laws and regulations, due to leadership not addressing weaknesses in document control for predetermined objectives, resulting in information not complying with regulatory requirements and not being useful and reliable. Furthermore, leadership and governance structures did not provide adequate oversight over compliance with laws and regulations, especially relating to supply chain management (SCM).
- Two departments received financially qualified audit outcomes, mainly on movable asset account disclosures that could not be verified and valued due to leadership not timeously filling vacancies at senior management level as well as a lack of monitoring the implementation of action plans to address weaknesses in basic accounting for movable assets.

The improvements, although visible, are being achieved at a slow pace and efforts to address findings on compliance with laws and regulations as well as predetermined objectives would have to be accelerated to make clean administration a reality by 2014. There were no regressions in audit outcomes in the province, due to the leadership being able to sustain good practices.

One department and two public entities recorded improvements in their audit outcomes through leadership intervention. This involved the regular monitoring of action plans to address prior year findings, which required daily, weekly and monthly control over transactions and financial reporting as well as the desire to achieve positive outcomes.

The attainment of financially unqualified audit reports with no findings on predetermined objectives or compliance with laws and regulations by all government departments and public entities is a milestone we encourage and support. In this respect the premier of Mpumalanga offered full cooperation to the Auditor-General of South Africa (AGSA) in support of sustainable clean administration and noted the comments on the findings on predetermined objectives and current challenges relating to systems of control and reporting, budgets aligned with service delivery requirements, weaknesses in controls around information technology (IT) systems, and ongoing oversight of the entire process. The premier also committed to paying attention to the challenges around asset management and SCM.



To address the 2009-10 audit outcomes, the premier expressed his commitment to taking ownership and responsibility to further focus attention on the following:

- Challenges relating to weaknesses in the control environment, including general, access, integrity and business continuity controls around IT systems.
- Accumulation of information for reporting on the achievement of predetermined objectives by ensuring appropriate documentation control.
- Compliance with laws and regulations and the premier's concern regarding non-compliance and high pricing relative to SCM as well as analysing deviations, which all departments need to address.
- Filling of vacant senior posts in the finance units of departments with suitably qualified staff.
- The commitment by the members of the executive council (MECs) of the departments with movable asset qualifications to resolve these matters through progress reports.
- Monitoring progress on key internal controls with an appropriate dashboard report from the executive to be reviewed at executive committee meetings to elevate the focus on MEC interventions.
- Acknowledgement by the speaker and provincial legislature that greater oversight through the various standing and portfolio committees is required to ensure improved audit outcomes.

Through our continued commitment to simpler, clearer and relevant reporting as well as the visibility of the leadership of our audit teams, we support the executive and the provincial legislature in their committed efforts to work towards achieving clean administration. In this regard we will continue with our quarterly engagement with the provincial leadership with the view to provide timely insights that are aimed at improving the internal control environment. We will also update the internal control dashboard with our assessment and evaluation of the leadership tone in influencing the adequacy of internal controls.

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

*Auditor-General*

**Auditor-General  
Pretoria  
December 2010**

## SECTION 2: EXECUTIVE SUMMARY

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

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

### 2.1 Audits conducted by the AGSA

- **Overview of audit outcomes (detailed report section 3.1 to 3.4)**

The financial statements of all 12 (2009: 13) provincial departments, six public entities and the legislature were submitted and the audits completed within the legislated timelines. The audit of the provincial revenue fund had not been finalised as at 31 August 2010.

The leadership and management of departments and public entities are commended for meeting the financial statement submission deadline and the auditors are complimented for completing the audits within the legislated deadlines.

A high-level review of the audit outcomes for the current and prior year is as follows:

**Table 1: Summary of audit outcomes**

Audit outcomes	Departments (including legislature and provincial revenue fund)		Public entities	
	2009-10	2008-09	2009-10	2008-09
<b>Opinion on financial statements</b>				
Disclaimer	0	0	0	0
Adverse	0	0	0	0
Qualified	2	3	0	0
Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations	10	11	4	6
Financially unqualified with no findings on predetermined objectives or compliance with laws and regulations	1	1	2	0
<b>Total number of audits reported on</b>	<b>13</b>	<b>15</b>	<b>6</b>	<b>6</b>
<b>Entities with findings arising from the AGSA's other legal reporting responsibilities</b>				
Predetermined objectives	10	7	4	4
Compliance with laws and regulations	7	11	2	3

\* The Department of Roads and Transport and the Department of Public Works merged to form the Department of Public Works, Roads and Transport.



The overall outcomes of the province improved marginally from the previous year. The province continued to achieve audit outcomes without disclaimers or adverse outcomes. It is also encouraging to note that no departments or entities in the province regressed in their audit outcomes.

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

- The Department of Social Development improved from qualified to financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations.
- The Department of Finance continued to attain a financially unqualified audit outcome with no findings on predetermined objectives or compliance with laws and regulations.
- There was no improvement at the Department of Education and the Department of Health, as they remained qualified. These two departments have been qualified for more than two successive years.
- The Mpumalanga Gambling Board and the Mpumalanga Economic Growth Agency improved their audit outcomes to financially unqualified with no findings on either predetermined objectives or compliance with laws and regulations.

### **Common issues that form the basis for the auditor's qualified opinion on the financial statements (detailed report section 3.1.3)**

The financial statement qualification areas at more than 40% of the departments audited are as follows:

*Capital assets: departments (100%)*

The two qualified departments were qualified in the area of movable and immovable assets (2008-09: three departments).

Other areas that resulted in a qualification are as follows:

- Current assets (50%) (2008-09: 33%)
- Liabilities (50%) (2008-09: 33%)
- Other disclosure items (50%) (2008-09: 67%)
- Expenditure (50%) (2008-09: 33%)

### **Funding of operations, financial sustainability and going concern (detailed report section 3.1.4)**

The Mpumalanga Housing Finance Corporation, Mpumalanga Agricultural Development Corporation and Mpumalanga Economic Growth Agency merged to form a new entity called the Mpumalanga Economic Growth Agency from 1 April 2010.

### **Unauthorised, irregular as well as fruitless and wasteful expenditure incurred during the year (detailed report section 3.1.5)**

*Unauthorised expenditure – R376 million (2008-09: R357 million)*

- Four of the 19 departments and public entities audited (2008-09: five out of 20) incurred unauthorised expenditure (Education; Agriculture, Rural Development and Land Administration; Cooperative Governance and Traditional Affairs; and Economic Development, Environment and Tourism).

*Irregular expenditure – R145 million (2008-09: R470 million)*

- Irregular expenditure was incurred by four departments due to non-compliance with proper SCM processes and overspending on compensation of employees. Corresponding figures for 2008-09 are nine departments (R469 million) and one public entity (R1,3 million).

*Fruitless and wasteful expenditure – R11,5 million (2008-09: R2,9 million)*

- Three departments (R5 million) (2008-09: three (R0,9 million)) and three public entities (R6,5 million) (2008-09: one (R2 million)) incurred fruitless and wasteful expenditure due to interest and penalties arising from the late payment of invoices, taxes to the South African Revenue Service, and the non-utilisation of rental properties.

**Material losses, material impairments of assets and material underspending of the vote or conditional grants (detailed report section 3.1.6)**

*Material losses through impairment*

- Material losses amounting to R75 million were incurred by the Mpumalanga Economic Development Agency as long-outstanding loan receivables were impaired.
- The Mpumalanga Agricultural Development Corporation also incurred material losses amounting to R75 million due to loan receivables that were impaired.

*Material underspending of budgets*

- The Department of Health underspent R195 million on programme 3 (emergency medical services), programme 6 (health science) and programme 8 (health and facility management).
- The Department of Cooperative Governance and Traditional Affairs underspent programme 1 (administration) by R9 million and programme 4 (traditional institutional management) by R12 million.
- The Mpumalanga Provincial Legislature materially underspent its budget on programme 1 (administration) by R20 million and on programme 3 (parliamentary operations) by R12 million.
- The Department of Human Settlements materially underspent its budget on all its programmes to a total amount of R51 million.

**Material misstatements corrected during the audit (detailed report section 3.1.7)**

Eighty-four per cent (2008-09: 80%) of the departments and public entities corrected material misstatements in the financial statements during the audit process. Significant adjustments made related to capital assets and other disclosure notes.

These material misstatements could have been detected by the entities had management adequately reviewed the financial statements throughout the year. Furthermore, had the audit committee adequately reviewed the financial statements, a significant number of errors would have been detected prior to the financial statements being submitted to the AGSA. Financial statements containing material misstatements could potentially misstate the financial statements as a whole.

## Findings on predetermined objectives (detailed report section 3.2)

Findings arising from audits of predetermined objectives of departments increased from 50% to 77% from the previous year. The number of public entities that had findings on predetermined objectives remained the same compared to the previous year.

**Table 2: Summary of findings arising from audits of predetermined objective**

Category of finding	Departments (including legislature)		Public entities (including trading and other types of entities)	
	2009-10	2008-09	2009-10	2008-09
Non-compliance with regulatory requirements	62%	43%	50%	67%
Information on performance against predetermined objectives not useful	46%	43%	50%	67%
Information on performance against predetermined objectives not reliable	62%	50%	50%	17%
Information on performance against predetermined objectives not submitted for auditing by 31 May 2010	0%	0%	0%	0%
<b>Total number of audits with findings</b>	<b>10</b>	<b>7</b>	<b>4</b>	<b>4</b>

The percentages in table 2 reflect those departments and public entities that had findings arising from the audit of performance against predetermined objectives, calculated as a percentage of the total number of entities audited.

### *Non-compliance with regulatory requirements*

Findings related mainly to no reporting on performance information on performance against predetermined objectives; lack of effective, efficient and transparent systems and internal controls regarding performance management; and no or inadequate quarterly reporting on performance against predetermined objectives. Eight out of 13 departments and three out of six public entities had a finding relating to non-compliance with sections of the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA) relating to performance information.

### *Information on performance against predetermined objectives not useful*

The usefulness of information refers to the reported information being consistent with the objectives and targets as well as the targets being clearly linked to the mandate and objectives of the institution, specific and clearly identifying the nature and required level of performance as well as measurable and time bound. The reported information on performance against predetermined objectives at six out of 13 departments and three out of six public entities was not useful.

### *Reported information on performance against predetermined objectives not reliable*

Reported information on performance against predetermined objectives is reliable if sufficient and appropriate evidence is available in relation to reported information; an appropriate system exists to generate the information; the evidence provided supports the reported information; and the reported information is accurate and complete. In the case of eight out of 13 departments and three out of six public entities the reported information on performance against predetermined objectives was not reliable.



*Information on performance against predetermined objectives not submitted for auditing*

All the information on performance against predetermined objectives was submitted on time.

Had conclusions been reported on predetermined objective reporting, two of the auditees would have had disclaimers, two would have had adverse outcomes and nine would have been qualified. It is therefore evident that significant deficiencies prevail in Mpumalanga that need to be addressed before the province can be ready for an audit conclusion to be included in the auditor's reports regarding performance against predetermined objectives.

**Findings on compliance with laws and regulations that do not impact on the financial statements (detailed report section 3.3)**

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

In total, seven out of 13 departments and two out of six public entities had findings on non-compliance with laws and regulations.

The highest incidence of compliance findings was as follows:

*Departments*

- Six out of 13 had findings relating to expenditure not being paid within 30 days from receipt of an invoice.
- Three out of 13 failed to perform general, fiduciary and reporting responsibilities as required by section 38(1) of the PFMA.
- Two of the 13 failed to manage their human resources (HR) as per the Public Service Regulations, 2001 (PSR) and the Treasury Regulations (TR).
- Two of the 13 incurred irregular expenditure because of non-compliance with SCM regulations.

*Public entities*

- Two of the six public entities had findings relating to expenditure not being paid within 30 days from receipt of an invoice.
- One of the six public entities failed to comply with specific legislation governing its mandate and operational activities.
- One of the six public entities failed to obtain approval for the corporate plan from the executing authority.

Departments and public entities should consider implementing self-assessment procedures through compliance checklists, together with ongoing review and monitoring by management, to prevent lapses in compliance with laws and regulations. Adequate training should be provided to officials who are involved in SCM. Furthermore, internal audit should review the adequacy of internal controls in this regard.

### **Information technology system matters (detailed report section 3.4)**

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

Audits of IT general controls were performed at 13 departments. Significant weaknesses were identified regarding the IT control environment and management of information systems relating to the following areas:

- User access controls: The controls through which the departments ensure that only valid and authorised users are allowed access to initiate and approve transactions on the system and that user access is adequately segregated when transactions are captured and approved.
- Security management: Controls that prevent unauthorised access to the application system that generates and prepares financial statements.
- IT service continuity: This ensures the availability of financial and performance information in instances of data loss or a disaster.
- IT governance: The structures, policies and processes through which the departments ensure that IT departments support and are in line with business requirements.

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

### **• Overview of actions taken or to be taken to address audit outcomes (detailed report section 4.1 to 4.4)**

#### **Drivers of audit outcomes (detailed report section 4.1)**

The leadership of the province has a significant challenge in ensuring that the audit outcomes improve in the coming year. Steps need to be taken actively to address the significant deficiencies reported on predetermined objectives and user access management.

The leadership should ensure that key drivers of audit outcomes are adopted at all the departments and public entities to ensure improved audit outcomes. An analysis of the implementation of these drivers revealed that although some of the drivers have been implemented by the departments, there is room for improvement. All the entities should adopt and implement the fundamental internal controls that are key to the success of any entity.

The following drivers under leadership, financial and performance management as well as governance were measured and assessed for progress made since the previous year, while areas for improvement were noted:

### *Leadership*

- Commitments to improve the audit outcomes by those charged with governance at departments and public entities by setting the right tone from the top to create an environment conducive to sound financial management and improved service delivery.
- Review and monitor action plans to address all significant internal control deficiencies.
- Establish an effective organisational structure that places people with appropriate skills in appropriate positions, especially in the SCM environment, to ensure compliance with applicable laws and regulations.
- Ensure that all vacancies in finance, internal audit and other significant components are filled within a reasonable time.
- Leadership to implement action plans to address user access control deficiencies.

### *Financial and performance management*

- Proper record keeping and record management by ensuring that supporting documents are properly filed and easily retrievable.
- Ensure that the asset register reflects the assets owned and that this is agreed to the financial records and financial statements, and that suspense accounts are reconciled and cleared on a monthly basis.
- Produce accurate information and continuously monitor the quality thereof.
- Pay attention to application systems susceptible to compromised data integrity.

### *Governance*

- Improve the involvement by internal audit and audit committee in monitoring processes.
- Maintain effective risk management strategies, including fraud prevention plans.
- Monitor and evaluate risks in IT systems, including the implementation of an action plan to address audit outcomes.
- Focus on the lack of IT governance frameworks to direct the positioning of IT, resource requirements, risk and internal control management.

## **Actions taken or to be taken to address matters previously reported (detailed report section 4.2)**

At the Auditor-General's briefing on audit outcomes to the provincial legislature on 21 October 2009, the province made a commitment to ensure that adequate and credible action plans that will address all significant findings are designed, implemented and monitored. Actions plans were developed, but were not adequately implemented and monitored.

The CFO of the Department of Education was employed after the financial year-end. The result of filling the position will only be visible in the current year.

The leadership of departments and public entities generally set the right tone from the top to implement action plans that addressed all audit findings. This resulted in improvements at the Department of Social Development, the Mpumalanga Gambling Board and the Mpumalanga Economic Growth Agency.



All the departments developed actions plans to address findings previously reported, but at some of the departments the action plans and the monitoring thereof were not adequate to address the findings.

During the September 2010 quarterly meetings, all the MECs committed themselves to ensure that action plans aimed at addressing the key controls are designed, implemented and monitored.

The leadership of the province made commitments to address deficiencies reported during the Auditor-General's 2009-10 roadshow. The following commitments will be monitored by the AGSA in the year ahead:

- Ensure that the leadership is performing oversight and monitoring activities effectively, including monthly financial reporting.
- Improve the internal controls relating to user access management, including establishing, reviewing, disabling and removing user account privileges.
- Develop an organisational structure that places people with appropriate skills in appropriate positions, especially in the SCM environment.
- Improve record keeping and record management, ensuring that supporting documentation for service delivery information reported in the annual report is properly filed and easily retrievable.

### **Initiatives by the AGSA to encourage clean administration (detailed report section 4.3)**

As at 30 September 2010, AGSA staff in the province had met with the premier and the speaker of the legislature, the MECs for the departments as well as the accounting officers of all departments and public entities to discuss the audit outcomes and key controls to be addressed by the departments and public entities. The overall results of this initiative are very positive. The MECs pledged their commitment to ensure that audit outcomes improved and that all key controls are addressed and that the monitoring thereof is strengthened.

The AGSA continued to engage with stakeholders at various forums, such as the head of department (HOD) forum, the CFO forum and the extended premier's coordinating forum, to ensure that transversal challenges in the province are addressed.

### **Matters that may potentially impact the auditor's report in the coming year (detailed report section 4.4)**

Performance information continues to be a challenge for most of the departments and public entities. The impact of not addressing the deficiencies noted would be that the departments and public entities could possibly be qualified when the AGSA decides to express an opinion on performance information.

- **Overview of specific focus areas of the AGSA (detailed report section 5.1 to 5.3)**

### **Significant findings from audits of human resource management and compensation of employees (departments only) (detailed report section 5.1)**

The regularity audits of departments included an assessment of departments' compliance with legislation that supports effective HR management and controls over compensation of employees.

The audits revealed that 11 departments did not comply with all the requirements for an effective HR management system. These weaknesses had an impact on the departments' financial management as well as their ability to deliver services in accordance with their mandates.

Weaknesses were identified in the following areas:

- HR planning and organisation
- Job evaluation
- Management of vacancies
- Appointment process
- Acting positions
- Budget control
- Senior management performance agreements
- Suspensions

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

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

The findings from the assessment above indicated non-compliance that extended to various areas of HR management. Management should ensure that these weaknesses are addressed. The lack of an overall improvement in the vacancy rates is a serious concern. A lack of capacity at departments, particularly in the finance sections, will have a negative impact on service delivery and the 2014 goal of achieving clean administration, thereby impeding improved audit outcomes.

### **Significant findings from audits of procurement and contract management (detailed report section 5.2)**

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

Non-compliance with SCM legislation resulted in 15% of the irregular expenditure incurred in the year under review, details of which have been included under section 3.1.5 of this report.

The audits identified that employees or their close family members had interests in suppliers to the auditees. The legislation applicable to such interests was not always complied with. In addition, the findings from the report entitled *Performance audit of entities that are connected with government employees and doing business with departments* tabled on 29 May 2009 were found not to have been investigated and appropriately dealt with by all departments.

Non-compliance with SCM legislation in the procurement process was identified at seven departments. The most significant findings were the following:

- Three quotations were not always invited for procurement up to a value of R500 000 at one of the departments.
- Two departments did not follow the competitive bidding process for procurement above R500 000.
- The National Treasury’s code of conduct was not adopted for SCM at three of the 13 departments.

In conclusion, procurement and contract management is a challenge in most of the departments. The biggest challenge in Mpumalanga is employees doing business with government. The departments do not have adequate controls to identify conflicts of interest before the services or goods are procured.

This is also a focus area of the Standing Committee on Public Accounts (SCOPA), as departments were requested to report on the progress that has been made in this area. Unfortunately, the progress has been very slow. This challenge was discussed with the MECs during the stakeholder interactions and they have made a commitment to ensure that internal controls relating to SCM are improved.

### Investigations and transversal performance audits (detailed report section 5.3)

#### Investigations

Investigations were completed at three departments and two public entities during the year under review, while investigations were in progress at five departments.

Below is a summary of the nature of the investigations:

**Table 3: Summary of investigations**

Auditee	SCM issues	Fraud	Misconduct	Other
<b>Investigations in progress</b>				
Health	X			
Education	X	X		
Public Works, Roads and Transport	X	X		
Culture, Sports and Recreation			X	
Office of the Premier	X			
<b>Investigations completed during the year</b>				
Cooperative Governance and Traditional Affairs	X			
Office of the Premier			X	
Agriculture, Rural Development and Land Administration	X	X		
Mpumalanga Agricultural Development Corporation	X	X		
Mpumalanga Economic Growth Agency				X



### *Transversal performance audits*

The AGSA conducted performance audits of the infrastructure delivery process at the Departments of Health and Education as part of a transversal performance audit on infrastructure delivery. The audit focused on a high-level overview of the infrastructure delivery management processes. Broad conclusions in respect of audits conducted in Mpumalanga were as follows:

- Contracts were awarded to contractors that did not qualify in terms of the prescribed legislation and bids were disqualified for being outside the predetermined benchmark range.
- New hospitals did not have adequate capacity and were scaled down in certain instances. Building facilities were not properly maintained and roof leaks and cracked walls were observed at newly built facilities.
- **Overview of status of provincial consolidation and status of tabling of annual reports (detailed report sections 6 and 7)**

### **Consolidation of financial statements of departments and public entities (detailed report section 6) and status of tabling of annual reports (detailed report section 7)**

The consolidated financial statements of departments and public entities for the 2009-10 financial year were received and the audit of the consolidation was finalised on 30 September 2010. The consolidations continue to take the form of an aggregation of the financial information and do not constitute a consolidation in the normal accounting sense. An agreed-upon procedures audit is conducted. The province is urged to improve the status of the consolidation of departments and public entities to the stage where an audit opinion can be expressed.

## SECTION 3: OVERVIEW OF AUDIT OUTCOMES FOR 2009-10

### 3.1 Summary of audit outcomes

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

**Table 4: Summary of audit outcomes**

Audit outcomes	Departments (including legislature and provincial revenue fund)		Public entities (including trading and constitutional institutions and other types of entities)	
	2009-10	2008-09	2009-10	2008-09
<b>Opinion on financial statements</b>				
Disclaimer	0	0	0	0
Adverse	0	0	0	0
Qualified	2	3	0	0
Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations	10	11	4	6
Financially unqualified with no findings on predetermined objectives or compliance with laws and regulations	1	1	2	0
<b>Total number of audits reported on</b>	<b>13</b>	<b>15</b>	<b>6</b>	<b>6</b>
<b>Number of audits not finalised at 31 August 2010</b>	<b>1</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total number of audits</b>	<b>14*</b>	<b>15</b>	<b>6</b>	<b>6</b>
<b>Entities with findings arising from the AGSA's other legal reporting responsibilities</b>				
Predetermined objectives	10	7	4	4
Compliance with laws and regulations	7	11	2	3

\* The Department of Public Works and the Department of Roads and Transport merged.

Movements in audit outcomes of departments and public entities are reflected in the table below.

#### 3.1.1 Movements in audit outcomes

**Table 5: Movements in audit outcomes**

Type of auditee	Unchanged	Improvement	Regression	New entities or those no longer in existence	Total
Departments	12	1	0	0	13
Public entities	4	2	0	0	6
<b>Total number of audits reported on</b>	<b>16</b>	<b>3</b>	<b>0</b>	<b>0</b>	<b>19</b>

The province's overall audit outcomes improved marginally from 2008-09. Mpumalanga continued to have no disclaimed or adverse audit outcomes in the 2009-10 financial year.



## Departments

The net movement in the different audit outcomes for the 2009-10 financial year is as follows:

- Unchanged = 12
- Improvements = 1
- Regressions = 0
- Merged = 1

### Unchanged = 12

The Department of Education and the Department of Health remained qualified. The following departments remained financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations: Department of Agriculture, Rural Development and Land Administration; Department of Cooperative Governance and Traditional Affairs; Department of Human Settlements; Department of Culture, Sports and Recreation; Mpumalanga Provincial Legislature; Department of Economic Development, Environment and Tourism; Department of Public Works, Roads and Transport; Department of Safety and Security; and the Office of the Premier.

The Department of Finance remained financially unqualified with no findings on predetermined objectives or compliance with laws and regulations.

### Improvements = 1

The Department of Social Development moved from qualified to financially unqualified with findings on predetermined objectives.

### Regressions = 0

None of the departments regressed.

### Merged = 1

The Department of Public Works and the Department of Roads and Transport merged to form the Department of Public Works, Roads and Transport.

## Public entities

The net movement in the different audit outcomes for the 2009-10 financial year is as follows:

### Unchanged = 4

The Mpumalanga Housing Finance Corporation, Mpumalanga Agricultural Development Corporation, Mpumalanga Regional Training Trust and Mpumalanga Tourism and Parks Agency remained financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations.



## Improvements = 2

The Mpumalanga Economic Growth Agency and the Mpumalanga Gambling Board improved from financially unqualified with other matters to financially unqualified with no findings on predetermined objectives or compliance with laws and regulations.

## Regressions = 0

None of the public entities regressed.

The improvements in the outcomes can be attributed to the following:

- Leadership involvement ensured that action plans were developed to address prior year findings and that these were monitored regularly.
- Timely responses to audit findings and management commitment to resolve these.
- Availability and accessibility of key management and staff.
- A strong desire by the leadership to achieve a positive outcome.
- Involvement of internal audit in the financial reporting process.

The lack of movement in the audit outcomes was due to the following:

- Lack of appropriate action plans to address the previous year's findings. In cases where action plans were developed, they were not monitored regularly to ensure proper implementation.
- Lack of maintenance of supporting documentation relating to performance information.
- Lack of adequate systems to collect, record and report on performance against predetermined objectives.
- Expanded scope of audits of predetermined objectives as well as contract and procurement management, which resulted in additional findings.

### 3.1.2 Status of completion of the audits

The financial statements of all the departments and public entities were received and the audits completed within the legislated deadlines.

The following audit is excluded from the analysis:

**Table 6: Audits finalised late or outstanding**

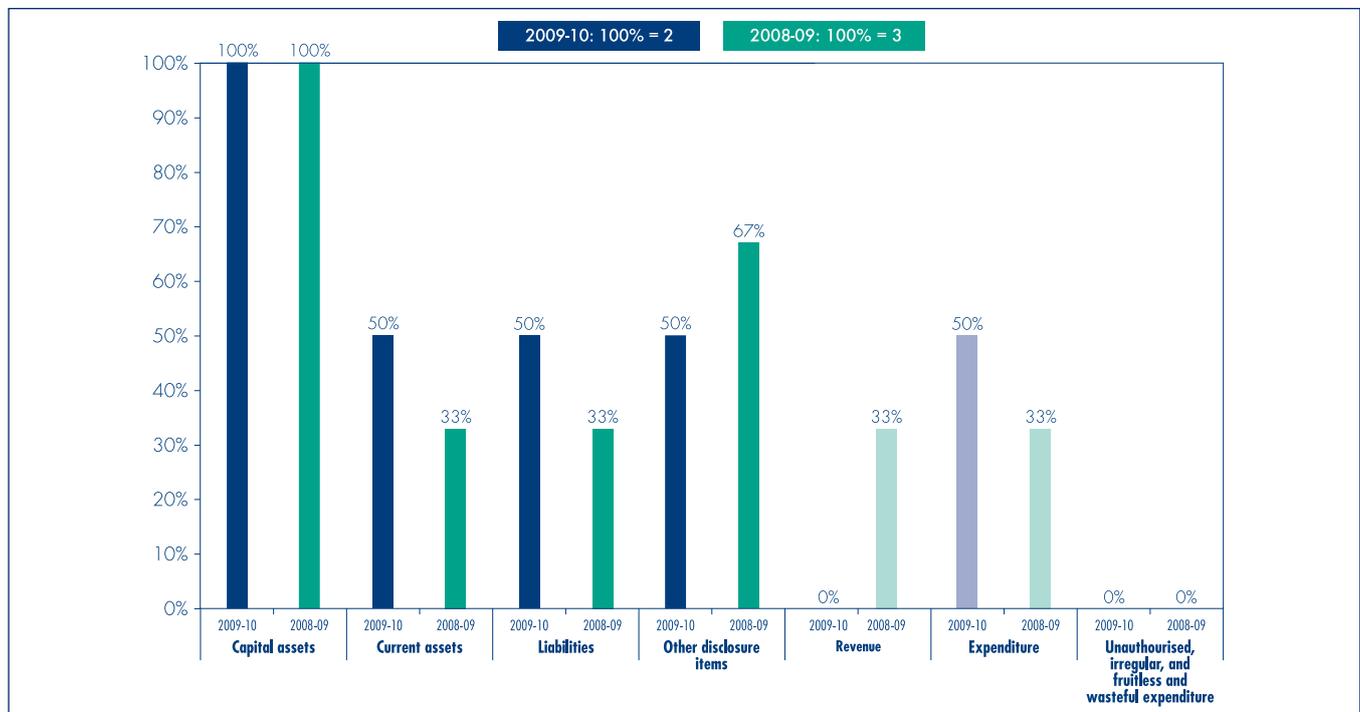
Entity not reported on	Financial statements received on	Reason not finalised	Date finalised
Mpumalanga Provincial Revenue Fund	31 July 2010	The financial statements were received late due to a delay by the treasury waiting for the completion of the annual audits	30 September 2010

## Conclusion

While there has been a marginal improvement in the audit outcomes of departments and public entities since the previous year, the challenge of improving outcomes still remains in the areas of movable assets, disclosure notes, non-compliance with legislation and predetermined objectives in order to achieve audits with clean administrations. Moreover, the sustainability of those departments and public entities with clean administrations is a formidable task, which can be maintained provided that the good practices are institutionalised in the systems of departments and public entities.

### 3.1.3 Audit of financial statements

**Figure 1: Financial statement areas qualified (departments only)**



### Discussion on qualification areas

Two (2008-09: three) of the departments were qualified during the year under review. The root causes of financial statement qualification areas where findings were greater than 40%, calculated as a percentage of the total number of departments that received a qualification in that area, are as follows:

#### Capital assets: Departments (100%) (2008-09: 100%)

Both the Departments of Health and Education were qualified in the area of movable assets. The immovable assets were transferred to the Department of Public Works, Roads and Transport during the year.

The qualifications were due to significant weaknesses in fixed asset management. The fixed asset registers submitted to the AGSA were not accurate and complete, leading to a limitation of scope on the audit of capital assets.

The challenges stemmed from the following:

- Lack of basic internal controls over the management of fixed assets. Departments did not ensure that monthly reconciliations and regular asset counts were performed.
- Lack of skilled employees in the asset management sections of the departments.
- Lack of action plans aimed at addressing the findings relating to fixed assets.
- Both the Departments of Health and Education operated without CFOs. The CFO position at Education was filled in April 2010. Health is currently operating without a permanent CFO.

### **Current assets: Departments (50%) (2008-09: 33%)**

The Department of Health has been qualified on receivables for more than two consecutive years. The qualification stemmed from inadequate systems to account for all patient fees received at the hospitals.

The challenges mainly resulted from deficiencies in the control environment, control activities and risk assessments, and can be summarised as follows:

- Inadequate supervision by management throughout the year.
- Ongoing monitoring of activities, such as reconciliations, did not take place.

### **Expenditure: Departments (50%) (2008-09: 33%)**

The Department of Education was qualified on expenditure, mainly due to a lack of supporting documentation. The supporting documentation related to scholar transport. The challenge was due to a lack of adequate controls over the handing over of documents to the commissioner appointed by the premier of the province to enquire into the management of scholar transport in the province dating back to its inception.

### **Other common qualification areas included the following:**

- Other disclosure items
- Liabilities

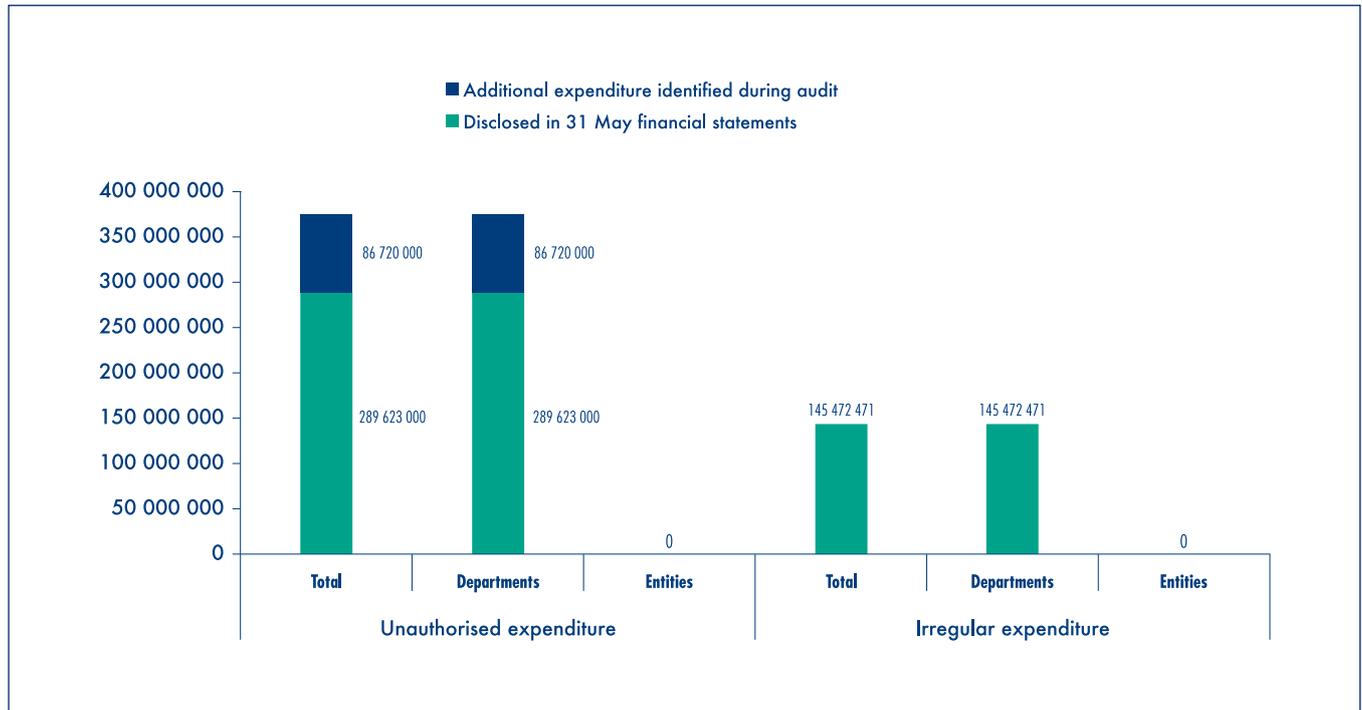
None of the public entities received a qualified audit opinion.

### **3.1.4 Funding of operations, financial sustainability and going concern**

In June 2009, the premier of the province announced the merger of the Mpumalanga Agricultural Development Corporation and the Mpumalanga Housing Finance Company with the Mpumalanga Economic Growth Agency into one public entity from 1 April 2010. This was with the view to enhancing economic growth that would result in job creation and development.

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

**Figure 2: Unauthorised, irregular as well as fruitless and wasteful expenditure incurred during the year**



#### Unauthorised expenditure – R376 million

**Table 7: Unauthorised expenditure (PFMA)**

Type of auditee	Nature and extent of unauthorised expenditure					
	Overspending of vote/main division of vote			Spending not in accordance with purpose of vote		
	Number	%	R'000	Number	%	R'000
Departments	4	31%	376 000	0	0%	0%
<b>Total</b>	<b>4</b>	<b>31%</b>	<b>376 000</b>	<b>0</b>	<b>0%</b>	<b>0</b>

Four of the 13 departments audited incurred unauthorised expenditure. Education; Agriculture, Rural Development and Land Administration; Cooperative Governance and Traditional Affairs; and Economic Development, Environment and Tourism overspent on their vote or main division of a vote.

## Irregular expenditure – R145 million

**Table 8: Irregular expenditure**

Type of auditee	Nature and extent of irregular expenditure					
	Related to supply chain management			Related to compensation of employees		
	Number	%	R'000	Number	%	R'000
Departments	2	15%	8 000	2	15%	137 599
<b>Total</b>	<b>2</b>	<b>15%</b>	<b>8 000</b>	<b>2</b>	<b>15%</b>	<b>137 599</b>

The breakdown of the four departments that incurred irregular expenditure is as follows:

- The Department of Cooperative Governance and Traditional Affairs and the Department of Public Works, Roads and Transport incurred irregular expenditure due to non-compliance with SCM regulations amounting to R3,7 million and R4,2 million, respectively.
- The Department of Education (R1 34,936 million) and the Department of Agriculture, Rural Development and Land Administration (R2,663 million) incurred irregular expenditure due to overspending on compensation of employees.

The root causes of the findings were that although SCM policies were in place, leadership did not adequately monitor and review transgressions of SCM policies and emergency procurement as well as the reasons behind such transgressions.

## Fruitless and wasteful expenditure – R11,5 million

Six of the 19 entities audited (three departments, namely Culture, Sports and Recreation; Education; and Public Works, Roads and Transport – R5 million – and three public entities, namely Mpumalanga Agricultural Development Cooperation; Mpumalanga Regional Training Trust and Mpumalanga Economic Growth Agency – R6,5 million) incurred fruitless and wasteful expenditure due to interest and penalties arising from the late payment of invoices, taxes to the South African Revenue Service, and non-utilisation of rental properties.

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

**Table 9: Material losses, material impairment of assets and material underspending of the vote or conditional grant**

Type of auditee	Extent of material losses, impairments and underspending								
	Material losses			Material impairment of assets			Material underspending of vote/ main division within the vote		
	Number	%	R'000	Number	%	R'000	Number	%	R'000
Departments	1	8%	1 382	0	0	0	4	31%	299 000
Public entities	1	17%	871	2	33%	150 000	0	0%	0
<b>Total</b>	<b>2</b>		<b>2 253</b>	<b>2</b>		<b>150 000</b>	<b>4</b>		<b>299 000</b>



Material losses

- The Department of Public Works, Roads and Transport incurred material losses amounting to R1,3 million due to criminal conduct.
- The Mpumalanga Economic Growth Agency incurred material losses amounting to R0,9 million due to fraudulent withdrawals from their bank account.

Material impairment of assets

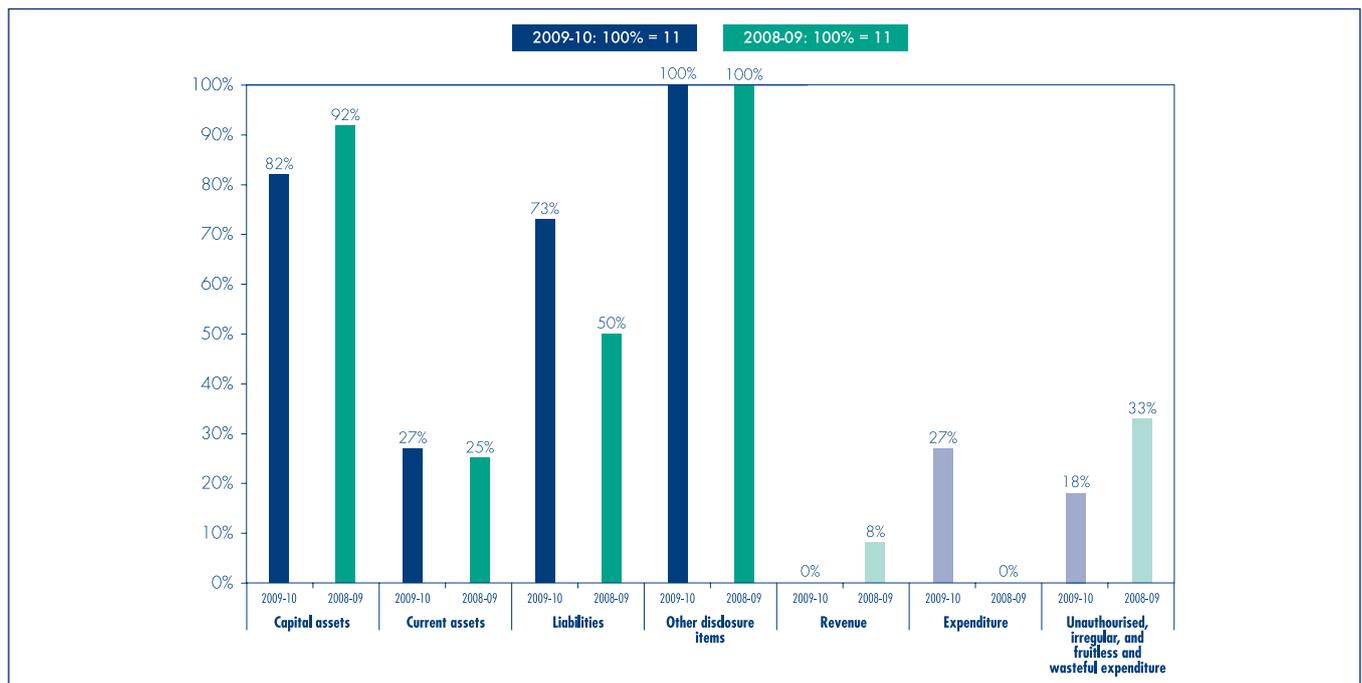
- The Mpumalanga Agricultural Development Corporation and the Mpumalanga Economic Growth Agency materially impaired their loan receivables, totalling R150 million.

Material underspending of the vote or main division within the vote

- The Department of Human Settlements materially underspent its budget on all of its programmes to the total amount of R51 million. Consequently, the department did not achieve all its objectives to deliver on human settlements.
- The Department of Health materially underspent the budget on programme 3 (R45 million), programme 6 (R22 million) and programme 8 (R128 million). As a consequence, the department did not achieve all its objectives for emergency medical services, health science, and training and health facility management.
- Programme 1 (administration) and programme 4 (traditional institutional management) were materially underspent by the Department of Cooperative Governance and Traditional Affairs to the total amount of R21 million.
- The Mpumalanga Provincial Legislature materially underspent the budget on programme 1 (administration) by R20 million and programme 3 (parliamentary operations) by R12 million.

**3.1.7 Transversal material misstatements corrected during the audit**

**Figure 3: Transversal material misstatements corrected during the audit (departments)**



Eleven of the 13 departments corrected material misstatements during the audit process. These findings are analysed per account area below.

### **Capital assets**

Nine out of the 13 departments (Premier; Health; Social Development; Education; Agriculture, Rural Development and Land Administration; Cooperative Governance and Traditional Affairs; Culture, Sports and Recreation; Public Works, Roads and Transport; and Economic Development, Environment and Tourism) had material misstatements.

### **Current assets**

Three departments (Public Works, Roads and Transport; Premier; and Health) had misstatements, compared to the previous year's one (Health).

### **Liabilities**

Of the 11 audited departments that had material amendments, eight departments (Public Works, Roads and Transport; Economic Development, Environment and Tourism; Premier; Health; Education; Agriculture, Rural Development and Land Administration; Culture, Sports and Recreation; and Mpumalanga Provincial Legislature) had misstatements compared to the previous year's seven (Economic Development, Environment and Tourism; Education; Agriculture, Rural Development and Land Administration; Human Settlements; Cooperative Governance and Traditional Affairs; Culture, Sports and Recreation; and Mpumalanga Provincial Legislature).

### **Other disclosure notes**

Eleven departments (Public Works, Roads and Transport; Economic Development, Environment and Tourism; Premier; Health; Social Development; Education; Agriculture, Rural Development and Land Administration; Human Settlements; Cooperative Governance and Traditional Affairs; Culture, Sports and Recreation; and Mpumalanga Provincial Legislature) made material adjustments to other disclosures.

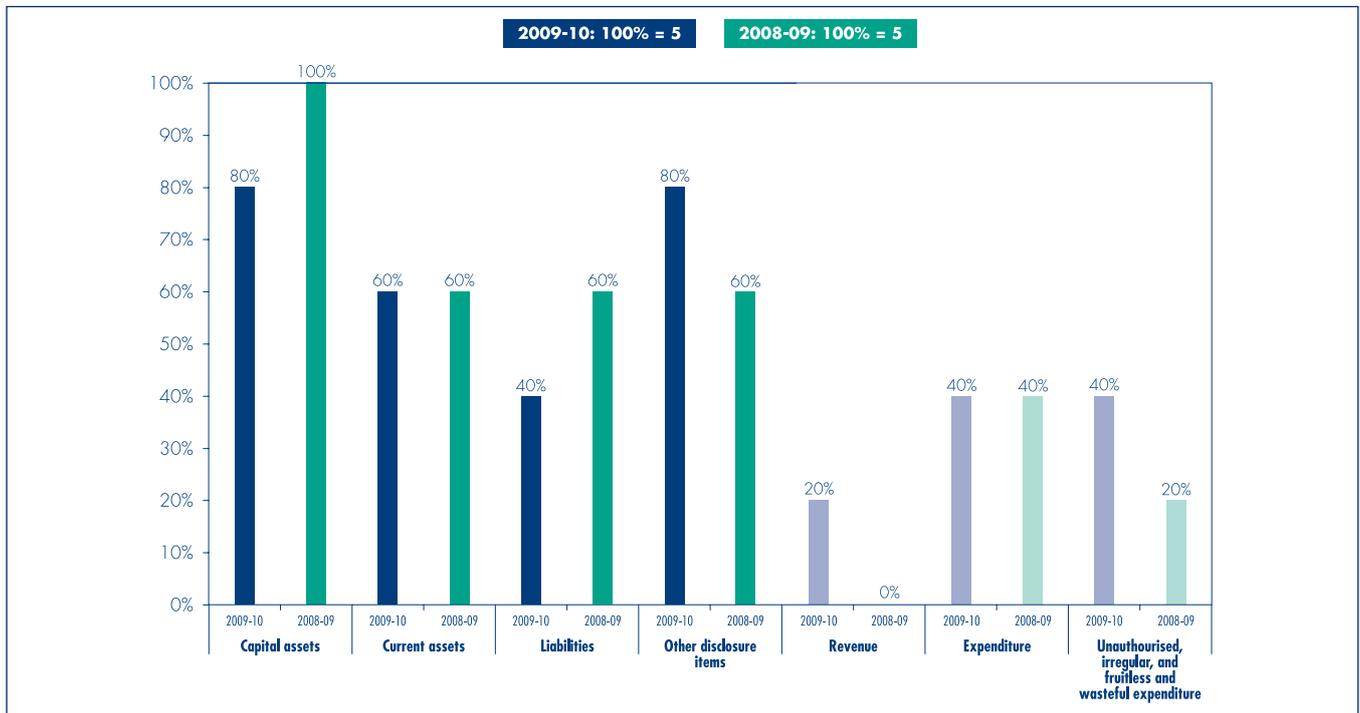
### **Expenditure**

Three departments (Public Works, Roads and Transport; Premier; and Health) had misstatements compared to the previous year's one department (Agriculture, Rural Development and Land Administration).

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

Two departments (Health and Education) had misstatements compared to the previous year's five (Premier; Health; Education; Agriculture, Rural Development and Land Administration; and Culture, Sports and Recreation).

**Figure 4: Transversal material misstatements corrected during the audit (public entities)**



Five of the six public entities corrected material misstatements during the audit process. These findings are analysed per account area below.

**Capital assets**

Four public entities (Mpumalanga Tourism and Parks Agency; Mpumalanga Regional Training Trust; Mpumalanga Housing Finance Cooperation; and Mpumalanga Agricultural Development Corporation) had material misstatements.

**Current assets**

Three out of five public entities (Mpumalanga Tourism and Parks Agency; Mpumalanga Housing Finance Cooperation; and Mpumalanga Agricultural Development Corporation) had misstatements compared to the previous year’s four (Mpumalanga Tourism and Parks Agency; Mpumalanga Housing Finance Corporation; Mpumalanga Economic Growth Agency; and Mpumalanga Agricultural Development Corporation).

**Liabilities**

Of the five audited public entities that had material amendments, two entities (Mpumalanga Housing Finance Cooperation and Mpumalanga Agricultural Development Corporation) had misstatements compared to the previous year’s three (Mpumalanga Housing Finance Cooperation; Mpumalanga Agricultural Development Corporation; and Mpumalanga Economic Growth Agency).



### **Other disclosure notes**

Four public entities (Mpumalanga Tourism and Parks Agency; Mpumalanga Agricultural Development Corporation; Mpumalanga Housing Finance Cooperation; and Mpumalanga Regional Training Trust) had misstatements relating to other disclosures compared to the previous year's two (Mpumalanga Tourism and Parks Agency and Mpumalanga Economic Growth Agency).

### **Revenue**

One public entity in the current year had misstatements relating to revenue (Mpumalanga Agricultural Development Cooperation).

### **Expenditure**

Two public entities (Mpumalanga Agricultural Development Corporation and Mpumalanga Housing Finance Cooperation) had misstatements.

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

Two out of the five public entities (Mpumalanga Economic Growth Agency and Mpumalanga Agricultural Development Corporation) had misstatements compared to the previous year's one (Mpumalanga Economic Growth Agency).

### **Causes of the material misstatements**

- Financial statements were not prepared throughout the year and there was minimum review of accounts throughout the year, resulting in errors not being detected and corrected early enough by management.
- There was a lack of skills to interpret and prepare annual financial statements in terms of the required framework, coupled with a lack of ongoing monitoring and supervision.
- Capacity in terms of the right skills and experience in the financial departments of the public entities is still a challenge, hence the use of consultants to prepare financial statements.
- Information and communication were not captured in a form and time frame to support financial reporting, while disclosure notes were not system-generated and were only produced once a year.
- Management provided poor guidance on financial reporting objectives to enable the identification of risks to reliable financial reporting, coupled with a lack of regular financial reports and inadequate review of annual financial statements by management and audit committees.

### **Recommendations**

Had management and audit committees adequately reviewed the financial statements, a significant number of errors would have been detected prior to the financial statements being submitted. The following measures should be considered:

- Training and recruiting skilled permanent staff to manage the financial process and prepare the financial statements. Those charged with governance should participate in the interview process of these accountants to ensure that the right calibre of person is employed to deal with the challenges of accounting frameworks and related changes.
- Intervention by those charged with governance to ensure that adequate support and capacity are made available to undertake the roles and responsibilities in financial reporting.

## 3.2 Findings on predetermined objectives

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

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

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

**Table 10: Summary of findings arising from audits of predetermined objectives**

Category of finding	Departments (including legislatures)		Public entities (including trading and constitutional institutions and other types of entities)	
	2009-10	2008-09	2009-10	2008-09
Non-compliance with regulatory requirements	62%	43%	50%	67%
Information on performance against predetermined objectives not useful	46%	43%	50%	67%
Information on performance against predetermined objectives not reliable	62%	50%	50%	17%
Information on performance against predetermined objectives not submitted for auditing by 31 May 2010	0%	0%	0%	0%
<b>Total number of audits reported on</b>	<b>10</b>	<b>7</b>	<b>4</b>	<b>4</b>

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

### 3.2.1 Explanation of the various audit finding categories

#### *Non-compliance with regulatory requirements*

All 13 departments, including the legislature, and the six public entities were subject to review in this area.



Non-compliance with regulatory requirements refers to the preparation of the strategic, corporate or annual performance plan, submission to those delegated for approval depending on the type of institution, the evaluation of the contents for achieving objectives and indicators, and the subsequent reporting. Findings mainly related to a lack of effective, efficient and transparent systems and internal controls regarding performance management as well as no or inadequate quarterly reporting on predetermined objectives.

Eight of the 13 departments, namely Education; Agriculture, Rural Development and Land Administration; Culture, Sports and Recreation; Mpumalanga Provincial Legislature; Cooperative Governance and Traditional Affairs; Human Settlements; Public Works, Roads and Transport; and Social Development, as well as three of the six public entities, namely Mpumalanga Housing Finance Corporation; Mpumalanga Agricultural Development Corporation; and Mpumalanga Regional Training Trust, had findings relating to non-compliance with sections 40(3)(a) or 55(2)(a) of the PFMA.

*Information on performance against predetermined objectives not useful*

The audit focused on the consistency, relevance and measurability of planned and reported predetermined objectives.

Useful reported performance information is consistent with objectives and targets, with targets that are clearly linked to the mandate and objective of the institution, specific, clearly identify the nature and required level of performance, measurable and time bound. The reported performance information was not useful at six of the 13 departments, namely Agriculture, Rural Development and Land Administration; Culture, Sports and Recreation; Mpumalanga Provincial Legislature; Cooperative Governance and Traditional Affairs; Human Settlements; and Economic Development, as well as three out the six public entities, namely Mpumalanga Housing Finance Corporation; Mpumalanga Agricultural Development Corporation; and Mpumalanga Tourism and Parks Board.

Findings were due to reported performance information not being consistent with the objectives, indicators and targets as per the approved strategic or annual performance plan; some targets not being specific in clearly identifying the nature and the required level of performance; some targets not being measurable in identifying the required performance; and some targets not being time bound in specifying the time period or deadline for delivery.

*Reported information on performance against predetermined objectives not reliable*

The audit focused on whether the reported performance information could be traced back to the source data or documentation and whether the reported information was accurate, complete and consistent in relation to the source data, evidence or documentation. Reported information not reliable refers to the availability of sufficient appropriate evidence in relation to reported performance information and an appropriate system to generate the information.

Reported performance information was not reliable at eight of the 13 departments, namely Education; Agriculture, Rural Development and Land Administration; Culture, Sports and Recreation; Mpumalanga Provincial Legislature; Cooperative Governance and Traditional Affairs; Human Settlements; Health; and Social

Development, as well as three of the six public entities, namely Mpumalanga Housing Finance Corporation; Mpumalanga Agricultural Development Corporation; and Mpumalanga Regional Training Trust. Findings were due to a lack of sufficient appropriate audit evidence in relation to the reported performance information, lack of appropriate systems generating performance information, and the source information or evidence provided to support the reported performance information not adequately supporting the accuracy and completeness of the facts throughout.

*Information on performance against predetermined objectives not submitted for auditing*

Performance information was received in time for review purposes in respect of all departments and all public entities.

### **3.2.2 Auditees that had no findings at all in the four categories considered as a whole**

Of the reports that have been analysed, the following two departments and two public entities had no findings resulting from the audit of performance against predetermined objectives:

Departments (two): Finance and Office of the Premier

Public entities (two): Mpumalanga Economic Growth Agency and Mpumalanga Gambling Board

### **3.2.3 Conclusion**

It is evident that Mpumalanga has some distance to go before being ready for an audit conclusion to be included in the auditor's reports regarding performance against predetermined objectives.

The auditing of performance objectives has been on the agenda of various committee meetings where management has been encouraged to comply with the legislated requirements. At our quarterly stakeholder interactions with the MECs and leadership of the departments, the importance of the quality, reliability and usefulness of the reported predetermined objectives has been stressed and this awareness has yielded positive commitments from the leadership. The results indicate that the departments and public entities are gearing up well to fully report on performance. However, the results also indicate that there is room for improvement, particularly with regard to effective, efficient and transparent systems and internal controls regarding performance objectives.

### 3.3 Findings on compliance with laws and regulations

**Table 11: Summary of findings relating to compliance with laws and regulations**

Top 3 categories of non-compliance and supply chain management	Number	Percentage
<b>Departments (including legislature and revenue fund)</b>		
Expenditure not paid within 30 days	6	46%
General, fiduciary and reporting responsibilities not performed – section 38(1) of the PFMA	3	23%
HR management – PSR and TR 4.3.4	2	15%
SCM issues that resulted in irregular expenditure (irregular expenditure relating to SCM at departments = R7,873 million)	2	15%
Transversal material misstatements corrected	11	84%
<b>Public entities (including trading and other types of entities)</b>		
Companies Act	1	17%
Expenditure not paid within 30 days	2	33%
Corporate plan	1	17%
SCM issues that resulted in irregular expenditure	0	0%
Transversal material misstatements corrected	5	83%

In total, seven out of 13 departments and two out of six public entities had findings on non-compliance with laws and regulations. The areas of non-adherence to laws and regulations related to the PFMA, including SCM regulations at two departments and the TR at two departments.

#### Departments

At six of the 13 departments (Agriculture, Rural Development and Land Administration; Culture, Sports and Recreation; Education; Safety and Security; Health; and Public Works, Roads and Transport) findings related to payments not being made within 30 days from receipt of an invoice as required by TR 8.2.3.

Three of the 13 departments (Education; Health; and Premier) had findings regarding general, fiduciary and reporting responsibilities not having been performed (section 38(1) of the PFMA).

Non-compliance with HR management requirements was reported at two of the 13 departments (Health; and Culture, Sports and Recreation) (chapter 1, part iii of the PSR and TR 4.3.4).

Two of the 13 departments (Cooperative Governance and Traditional Affairs; and Public Works, Roads and Transport) had irregular expenditure arising from non-compliance with SCM regulations.

#### Public entities

Non-compliance with specific legislation (Companies Act) governing the mandate and operational activities of one out of six public entities was reported in respect of the Mpumalanga Regional Training Trust.

Two public entities (Mpumalanga Regional Training Trust as well as Mpumalanga Tourism and Parks Agency) had findings relating to payments not being made within 30 days from receipt of an invoice in terms of TR 8.2.3.

The corporate plan of the Mpumalanga Agricultural Development Corporation was not approved by the executive authority, contrary to TR 29.2.1.

### **Root causes/control deficiencies**

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

### **The way forward**

- The right leadership tone, together with the support of the audit committee and internal audit, is necessary to establish a strong control environment and ensure compliance.
- Internal audit should assist by providing assurance that the strategies to mitigate the risk of non-compliance are adequate.

## **3.4 Information technology systems matters**

### **Overall overview**

The public sector departments and public entities rely heavily on IT systems to perform their statutory financial management, reporting and administrative functions. Furthermore, these systems enable the automation of business processes and transaction processing, which contributes significantly to the effectiveness of the financial management of the departments and public entities. The information processed and stored on IT systems is therefore regarded as a strategic asset that is vital to the accuracy and reliability of the financial and performance information used by management during the planning, monitoring and reporting phases.

During the 2009-10 financial year, IT general control audits were performed at 13 provincial departments in Mpumalanga. IT general controls are those controls that relate to the IT infrastructure and are imbedded in information system management processes.

The following focus areas were included in the scope of the audits:

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



**Table 12: Summary of findings on information systems**

General controls	Departments (including legislature and provincial revenue fund)		Public entities (including trading and other types of entities)	
	Number	Percentage	Number	Percentage
Lack of IT governance framework to direct the positioning of IT, resource requirements, risk and internal control management	13	100%	1	17%
Inadequate security management controls to prevent unauthorised access to the operating systems (e.g. Windows, Linux) that grant access to the application systems	10	77%	2	33%
Inadequate user access controls to detect and prevent unauthorised access, capturing and approval of transactions on the application systems that are used to prepare the financial statements (BAS, Persal, Logis)	13	100%	2	33%
Lack of business continuity and disaster recovery plans that would ensure the availability of financial and performance information in instances of data loss or disaster	13	100%	1	17%

### 3.4.1 IT governance

IT governance is the responsibility of the executive management. It is an integral part of the organisation's governance and consists of the leadership as well as organisational structures and processes which should ensure that the organisation's IT sustains and extends the organisation's strategies and objectives. IT governance is important as it allows the organisation to manage IT risks, derive value from IT investments and also support the achievement of business objectives that are dependent on IT systems. The IT control framework is integral to IT governance and provides overall guidance on the implementation of IT governance within the organisation and also ensures the positioning of IT, resource requirements, risk and internal control management.

All 13 departments had findings relating to IT governance.

Key findings that were commonly identified during the audits included the following:

- No approved IT strategic plan or the IT strategic plan had not been implemented or was not monitored.
- An IT steering committee had not been established or was not functioning effectively.
- Lack of a formal IT risk register.
- Policies and procedures were either not in place or incomplete.
- Functions of the information security officer were either not allocated or not performed.
- No service level agreements were in place or monitored.

The following 12 departments did not have a permanently appointed government information technology officer (GITO):

- Agriculture, Rural Development and Land Administration
- Cooperative Governance and Traditional Affairs
- Economic Development, Environment and Tourism
- Education
- Finance
- Health
- Human Settlements

- Mpumalanga Provincial Legislature
- Public Works, Roads and Transport
- Community Safety, Security and Liaison
- Social Development
- Culture, Sports and Recreation

### **3.4.2 Security management**

SITA must ensure that security measures are in place to prevent unauthorised access to the departmental network and operating systems that grant access to the application systems (e.g. BAS, Persal and Logis) in instances where SITA controls are inadequate. Departments should have compensating controls for the network and operating systems to prevent unauthorised access.

The 10 departments that had findings regarding security management were the following:

- Cooperative Governance and Traditional Affairs
- Economic Development, Environment and Tourism
- Education
- Health
- Human Settlements
- Office of the Premier
- Public Works, Roads and Transport
- Community Safety, Security and Liaison
- Social Development
- Culture, Sports and Recreation

Key findings that were commonly identified during these audits included the following:

- Operating system standards and procedures had not been implemented.
- Security management and administration were inadequate to ensure the security of the network environment.
- Operating system security parameters had not been adequately set to provide optimal security.
- An excessive number of users had administrator access rights.
- Access and logon violation reports were not reviewed.
- Specialist skills are needed to implement and manage these functions and at a departmental level these controls were not strong enough, due to the lack of adequate skills and communication on roles and responsibilities between SITA and departments.

### **3.4.3 User access control**

User access control is the systematic process of managing the access of users to applications (e.g. BAS, Persal and Logis). The process includes the creation, reviewing, disabling and removing of user accounts. CFOs are responsible for these functions at the departments. These controls also act as compensating controls for ineffective security management controls at SITA and within the department.



All 13 departments had findings regarding user access controls in 2009-10.

Key findings that were commonly identified during the audits included the following:

- Lack of or incomplete user account management procedures.
- Access request forms were not completed.
- Users' access was not reviewed to ensure that it remained commensurate with their job responsibilities.
- Activities of the system administrators or controllers were not monitored.
- Inactive or unused user identifications were not timeously removed from the system or deactivated.
- Excessive access rights were assigned to some or a high number of users.

Departments could perform this function, as system controllers had been appointed to perform user access control functions, but due to the dual responsibility of system controllers, these controls also failed (i.e. inadequate segregation of duties).

A good practice guide on user account management was compiled and distributed to departments. Presentations were also made to departments on request.

#### **3.4.4 IT service continuity**

IT service continuity is the process of managing the availability of hardware, system software, application software and data to enable an organisation to recover or establish information system services in the event of a disaster. The process includes business continuity planning, disaster recovery plans and backups.

All 13 departments had findings relating to IT service continuity.

Key findings that were commonly identified during the audits included the following:

- Lack of formally documented and approved or incomplete business continuity and/or disaster recovery plans.
- Lack of or inadequate backup standards and procedures.
- Disaster recovery plans had not been fully implemented or were not regularly tested and updated.
- Backups were not kept off-site.

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

### 4.1 Drivers of audit outcomes

The drivers of audit outcomes are key fundamental controls that need to exist in every department and public entity to ensure good governance and adequate financial and performance management. Management's involvement is essential to ensure that the drivers of audit outcomes are implemented and adequately monitored.

The leadership of the province has a significant challenge in ensuring that the audit outcomes improve in the coming year. Active steps need to be taken to address the significant deficiencies reported, especially on predetermined objectives and user access management.

The leadership needs to ensure that key drivers of audit outcomes are adopted at all the departments and public entities to ensure improved audit outcomes. An analysis of the implementation of these drivers revealed that although some of the drivers have been implemented by the departments, there is room for improvement.

Departments should ensure that resources are made available to address the significant deficiencies identified regarding predetermined objectives, user access management, producing accurate information and asset management. Those charged with governance should ensure that adequate action plans are developed to address all the deficiencies identified.

Ensuring that people with appropriate skills are placed in appropriate positions is vital to achieving positive audit outcomes. The leadership of the province should ensure that key vacancies are filled with appropriately skilled personnel. This is imperative for the improvement of audit outcomes.

Adequate record keeping relating to predetermined objectives remains a huge challenge, as a number of departments do not have adequate systems to collect, record and report on predetermined objectives. A lack of adequate controls relating to record management and safekeeping of documents resulted in some of the departments receiving disclaimed audit outcomes on predetermined objectives.

Producing accurate information is yet another challenge for the entities. A lack of adequate reviewing processes resulted in incorrect information being used to make important decisions.

Asset management remains a challenge for big departments in the province. Management should ensure that basic internal controls (i.e. monthly reconciliations, regular asset counts and reviewing fixed asset registers) are implemented to ensure that this area is addressed.

The following drivers under leadership, financial and performance management as well as governance were measured and assessed for progress from the previous year, while areas for improvement were identified:



#### **4.1.1 Leadership (annexure 3)**

##### **Commitment to improve audit outcomes by those charged with governance at departments and entities by setting the right tone from the top to create an environment conducive to sound financial management and improved service delivery**

Those charged with oversight and governance became more active in fulfilling their monitoring roles and responsibilities by interrogating the reasons for matters included in the auditor's reports and passing resolutions that required action to address them. The leadership (political as well as management) of departments and entities set the right tone from the top to implement action plans to address audit findings. All the departments and public entities have fully functioning internal audit units and audit committees.

The improvements at departments and public entities are a result of the design and implementation of internal controls to address the findings previously reported. The implementation of these internal controls was regularly monitored by those charged with governance. Where the implementation of these action plans was not properly monitored, the desired results were not achieved by the entities that still require improvement.

The leadership's involvement in driving changes resulted in improved outcomes on predetermined objectives. A lack of adequate systems to collect, record and report on performance information and compliance with regulations relating to predetermined objectives; a lack of adequate monitoring of action plans; and a lack of proper supporting documentation still need to be addressed.

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

Proper review and monitoring, particularly of asset management, budgets and associated financial transactions, need to occur at departments and entities that were either qualified or had internal control deficiencies. The leadership should ensure that adequate action plans aimed at addressing all the significant internal control deficiencies are designed, implemented and monitored.

The action plans in respect of public entities showed improvement and were comprehensive and adequate to address the significant internal control deficiencies. The leadership was involved in monitoring the implementation of such action plans. The lack of improvement at the other entities was due to inadequate action plans and a lack of monitoring of such plans.

##### **Establish an effective organisational structure that places people with the appropriate skills in appropriate positions, especially in the SCM environment, to ensure compliance with applicable laws and regulations**

The leadership should ensure that people with appropriate skills are placed in the finance sections, including asset management units. SCM and equipping departments with appropriately skilled staff remain an enormous challenge in a number of departments and entities.



Departments do not comply with SCM legislation. In addition, their systems to prevent, detect and monitor non-compliance with these regulations are poor, as evidenced by the fact that some departments had findings on non-compliance with applicable laws and regulations.

At some entities, the leadership ensured that key financial staff had the appropriate skills to perform their duties. The other entities still have to fill vacancies, particularly those of CFOs and support staff in the asset management units.

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

At some entities, the leadership ensured that key financial staff had the appropriate skills to perform their duties. The other entities still have to fill vacancies, particularly those of CFOs and support staff in the asset management units.

### **Leadership's implementation of action plan to address user access control deficiencies**

Not all the departments had adequate action plans to address findings relating to user access control deficiencies.

## **4.1.2 Financial and performance management (annexure 4)**

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

Improvements in the maintenance and safekeeping of documentation resulted in the reduction of scope limitations included in the prior year auditor's report at the Department of Education.

Most departments and public entities had adequate controls relating to record keeping. Controls relating to the handing over of supporting documentation to investigators still require improvement at the Department of Education.

The departments and public entities that had improved managed to implement adequate controls relating to the safekeeping of supporting documentation. However, improvements are still required relating to the safekeeping of adequate supporting documentation for the performance information reported in the annual reports.

### **Ensure that the fixed asset register reflects the assets owned and that this is agreed to the financial records and financial statements as well as reconciling and clearing suspense accounts on a monthly basis**

Reconciliations need to be performed in respect of assets and suspense accounts. This would go a long way in identifying the assets owned by departments and entities. In addition, concealing theft and deliberate misallocations to these accounts will be prevented by this key control.

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

The production of quality performance information by departments and public entities is a priority and must be evaluated and monitored at appropriate leadership levels to enable quality decision-making and service delivery. These reports need to be reviewed by internal audit and audit committees.

The production of quality and accurate financial information is key to achieving clean administration. This is an ongoing process that needs to occur throughout the financial period. Monthly management reports need to be monitored and year-end financial statements should be reviewed by the leadership as well as internal audit and audit committees, prior to submission for auditing.

Improvements can be linked to the skills and experience of the CFOs who adequately monitored and reviewed the information submitted by their support staff. The lack of improvement is due to a lack of adequate systems to collect and report information relating to disclosure notes and also a lack of proper reviewing processes. The lack of adequate skills at CFO level also contributed to the lack of accurate information submitted to the auditors.

### **Application systems susceptible to compromised data integrity**

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

#### **4.1.3 Governance (annexure 5)**

### **Improved involvement by internal audit and audit committees in monitoring processes**

The increased effectiveness of internal audit in completing the annual audit plans for departments and the review of the annual financial statements before submission to the AGSA for auditing made a difference in the quality of the financials received from the Departments of Finance and Community Safety, Security and Liaison as well as the Mpumalanga Gambling Board.

All the departments and public entities had fully functioning audit committees that played an oversight role over the financial statements, management reports and auditor's reports.

The lack of improvement is due to insufficient involvement by internal audit and the audit committee in ensuring that the financial and performance information was adequately reviewed and that all the changes were effected.

### **Maintaining effective risk management strategies, including fraud prevention plans**

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

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

Some departments conducted risk assessments and formalised fraud prevention plans, but departments that require improvement did not formalise and approve fraud prevention plans.

### **Monitoring and evaluating risk in information technology systems, including the implementation of an action plan to address audit outcomes**

Effective governance arrangements must be in place and must ensure that proper risk management and adequate internal controls are maintained over the IT environment. These functions, together with action plans to address IT findings relating to the general control environment, must be strengthened through the appointment of appropriately qualified and competent persons to effectively discharge these responsibilities.

Improvements are still required at all the departments, as findings reported in the previous years have not been addressed.

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

This is a significant challenge for all the departments, as previously reported findings have not yet been addressed.

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

### **4.2.1 Actions taken or to be taken by the executive authority**

At the Auditor-General's briefing on audit outcomes to the provincial legislature on 21 October 2009, the province made a commitment to ensure that adequate and credible action plans that will address all significant findings are designed, implemented and monitored. Action plans were developed but were not adequately implemented and monitored.

The executive honoured its commitment to employ a CFO for the Department of Education. The CFO joined the department in April 2010 and therefore the impact of filling the vacancy will manifest itself in the coming year. The executive was successful in ensuring that all the immovable assets belonging to the provincial government were transferred to the Department of Public Works, Roads and Transport. This has assisted in ensuring that qualifications relating to immovable assets were resolved mainly at the Departments of Health and Education. However, movable assets still remain a challenge at these two departments.

Those charged with oversight and governance at Agriculture, Rural Development and Land Administration; Community Safety, Security and Liaison; Culture, Sports and Recreation; Cooperative Governance and Traditional Affairs; Human Settlements; Mpumalanga Provincial Legislature; Economic Development, Environment and Tourism; Education; Health; and Public Works, Roads and Transport did not play an active enough role in ensuring that the action plans aimed at addressing the findings relating to predetermined objectives and compliance with laws and regulations were adequately implemented and that progress on the implementation was monitored.

Management and those charged with governance should ensure that adequate action plans are implemented to address the findings relating to predetermined objectives and compliance with laws and regulations, including SCM regulations. The implementation of these action plans should be adequately monitored and supervised.

Management at the Departments of Health and Education did not play an active role in ensuring that findings that led to qualifications in prior years were adequately addressed.

Management of Health; Education; Agriculture, Rural Development and Land Administration; and the Office of the Premier should ensure that basic internal controls relating to asset management are implemented. These include quarterly asset counts and monthly fixed asset reconciliations.

Material amendments were made to the financial statements of the Department of Agriculture, Rural Development and Land Administration and the Office of the Premier in order to avoid the qualification relating to capital assets. These departments need to take adequate actions to address weaknesses relating to asset management.

#### **4.2.2 Actions and initiatives taken by the provincial treasury to improve audit outcomes**

The executive, in conjunction with the provincial treasury, has undertaken initiatives to improve the overall audit outcomes within the province, as outlined below.

In addition to its core function, the provincial treasury embarked on the following initiatives to assist in improving the audit outcomes in the province:

- Facilitated training of SCM officials and asset management practitioners from departments, public entities and municipalities by the University of Pretoria.
- Issued guidelines on supporting documents for the audit process for implementation.
- Developed an action plan and strategy to address non-compliance issues raised by the AGSA for departments and public entities, and monitored remedial actions taken.
- Reviewed, rolled out and implemented a risk management framework and tools in departments and public entities in order to standardise risk processes.

- Established the Mpumalanga provincial coordinating committee dealing with Operation Clean Audit 2014 and submitted the draft terms of reference to the Office of the Premier for perusal and approval. The committee also developed an operational plan and a progress report framework (for monitoring purposes) on 4 February 2010.
- Assisted the departments to compile interim financial statements for the six months ended 30 September 2009. These financial statements were audited by the internal audit units of departments. The findings and recommendations were submitted to the HoDs.

The remedial action plans were developed during March 2010 and most activities only started during April 2010, which consequently would not have had an impact on the 2009-10 financial year.

### **4.2.3 Action taken or to be taken by oversight bodies**

The portfolio committees became actively involved in monitoring improvements in the audit outcomes by taking note of the auditor's reports and monitoring progress on improvements through regular meetings with those charged with governance at the departments and public entities.

A large number of the SCOPA resolutions made during 2009 had not yet been resolved by 31 March 2010. The implementation of these resolutions was in progress at most of the departments and public entities. As at 30 September 2010, SCOPA had monitored the progress made by departments and public entities in resolving the resolutions through regular feedback sessions.

The role played by the legislature in ensuring that the departments and public entities actively monitored the progress made in resolving the findings included in the auditor's reports and the SCOPA resolutions has been instrumental in ensuring that management takes full responsibility for resolving these challenges. The importance and urgency placed on issues, the follow-up on SCOPA resolutions and SCOPA's unwavering support for the AGSA's recommendations and audit process have resulted in departments and public entities respecting the oversight role and ultimately taking accountability and responsibility for audit outcomes.

### **4.2.4 Commitments arising from the Auditor-General's 2009-10 roadshow**

The Auditor-General's roadshow on the Mpumalanga audit outcomes was held on 5 October 2010. The leadership committed to address the significant findings noted during the presentation. Going forward, the leadership will focus on the following:

- Ensure that the leadership is performing oversight and monitoring activities effectively, which includes monthly financial reporting.
- Improve the internal controls relating to user access management, including the establishment, review, disabling and removal of user account privileges.
- Develop an organisational structure that places people with appropriate skills in appropriate positions, especially in the SCM environment.
- Improve record keeping and record management, ensuring that supporting documentation for service delivery information reported in the annual report is properly filed and easily retrievable.



During the September 2010 quarterly interactions, all MECs committed to ensuring that adequate action plans aimed at addressing the deficiencies reported are developed and implemented. The MECs will monitor the progress of the implementation of these action plans through regular discussions with the HoDs and the CFOs. Adequate monitoring of the implementation of the action plans will play a significant role to ensure that the audit outcomes of the province substantially improve.

The AGSA will continue to monitor the progress of the commitments made by the leadership through regular interactions.

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

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

As at 30 September 2010, AGSA staff in the province had met with the MECs for all departments as well as the speaker of the provincial legislature to discuss the 2010 PFMA outcomes and to conduct a review of the stakeholder key controls. This initiative by the AGSA served to enlighten the MECs of their portfolios and to discuss the outcomes and key controls required of the departments and public entities under their jurisdiction. The results of this interaction were positive in more way than one, as the MECs were able to assess the root causes of the qualifications and findings for their portfolios. Moreover, they were able to understand the initiative of the AGSA behind the quarterly key control appraisals and the link to clean administrations, and that this would be followed up by the AGSA.

Furthermore, the AGSA drew up a summarised checklist of the main issues around financial statements that required follow-up and sustainability by the departments to ensure that those departments that managed to attain unqualified reports with no findings on predetermined objectives or non-compliance were able to sustain this through the effective oversight of the MEC and leadership within the department.

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

#### **4.4.1 Predetermined objectives**

Nine of the 13 departments and four of the six public entities had modified audit outcomes on predetermined objectives. Actions should be taken to address the modified audit outcomes and other significant deficiencies relating to the audit of predetermined objectives. Should actions not be taken and regularly monitored and reviewed for completeness and implementation, the audit outcomes of the relevant departments and public entities might be modified once the decision is made to elevate the conclusion on predetermined objectives to the auditor's report.

#### **4.4.2 Inventory**

Inventory was included in the financial statements as annexures during the 2009-10 year. There is a possibility that the National Treasury will include inventory in the disclosure notes next year. Certain departments that carry a large quantity of inventory might be qualified, as they currently do not have adequate controls to ensure the accuracy and completeness of the inventory at hand.

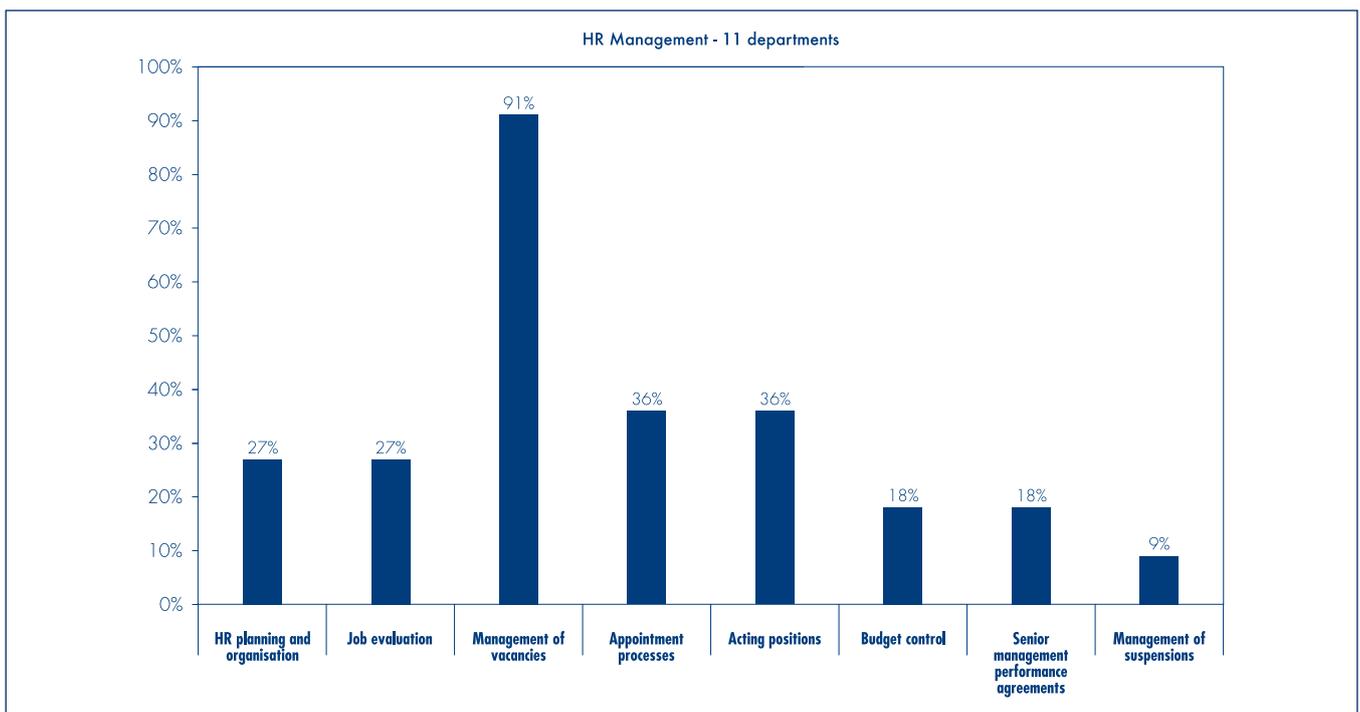
## SECTION 5: FINDINGS ARISING FROM AUDITS OF SPECIFIC FOCUS AREAS OF THE AGSA

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

The regularity audits of departments included an assessment of departments' compliance with the PFMA, the TR, the Public Service Act, 1994 (PSA), the PSR and directives/determinations issued by the Minister of Public Service and Administration (MPSA) that support effective HR management and controls over compensation of employees.

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

**Figure 5: Findings on human resource management**

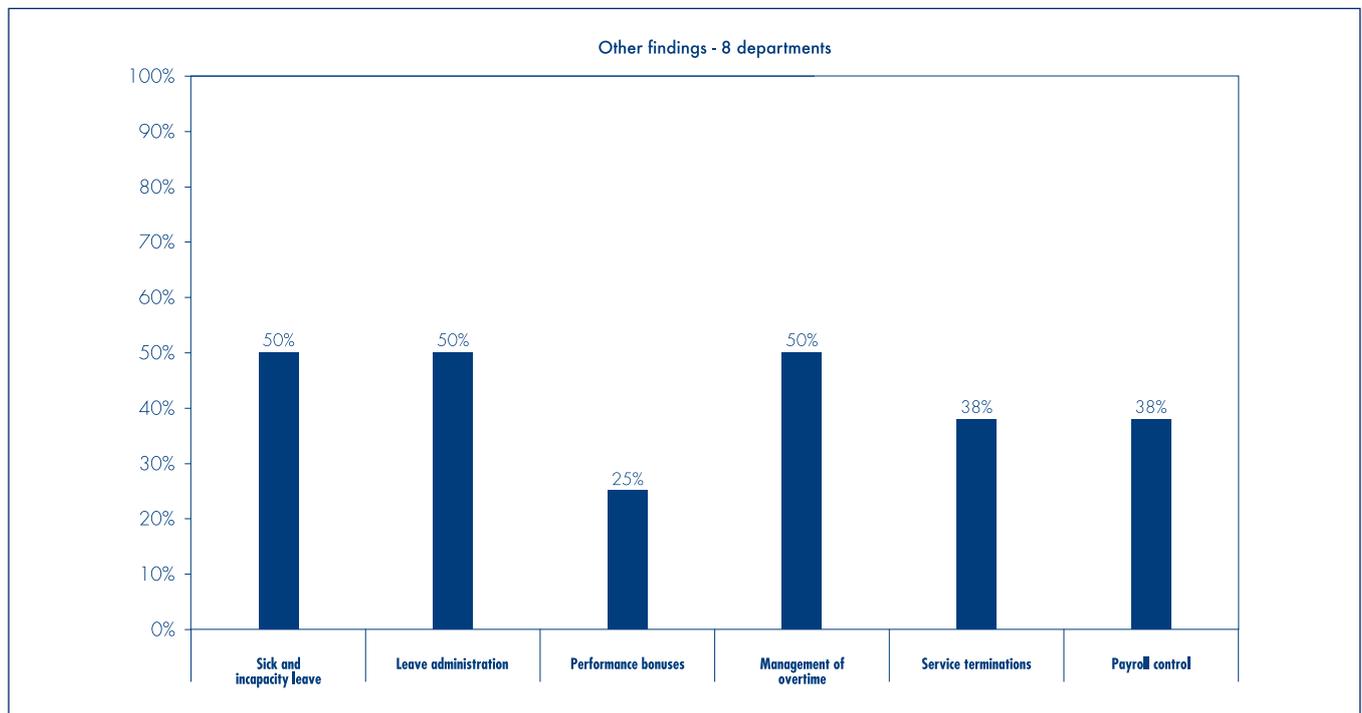


Eleven departments did not meet all the requirements for effective HR management. These weaknesses impacted on the departments' financial management and ability to deliver services in accordance with their mandates. The highest incidences of non-compliance were at the following departments.

- Department of Education (qualified)
- Department of Agriculture, Rural Development and Traditional Affairs (unqualified)

The figure below depicts the incidence of weaknesses in control over compensation of employees.



**Figure 6: Findings on compensation of employees**

In general, compensation of employees is not an area of high risk as remuneration and conditions of service are determined and managed centrally by the Department of Public Service and Administration (DPSA). Furthermore, it is implemented and controlled by the National Treasury via Persal, which is used by all departments.

However, it is of concern that the weaknesses identified were those controls that are prescribed by legislation for implementation by the departments themselves.

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

- Department of Education (qualified)
- Department of Health (qualified)

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

### **5.1.1 Human resource planning and work organisation**

#### ***No updated and approved human resource plan***

HR planning is required in terms of PSR 1/III/B2(d) and PSR 1/III/D to ensure that a department obtains the quantity and quality of staff required to meet its strategic objectives. The following departments did not have an approved and updated HR plan:

- Department of Agriculture, Rural Development and Land Affairs
- Department of Cooperative Governance and Traditional Affairs
- Department of Public Works, Roads and Transport

#### ***Lack of approved organisational structure***

In terms of PSR 1/III/B2(a), the executing authority should determine the department's organisational structure in terms of its core and support functions based on the strategic plan of the department. The Department of Cooperative Governance and Traditional Affairs did not have an approved organisational structure.

#### ***Differences between Persal establishment and approved organisational structure***

The organisational structure of the department is maintained on Persal as the establishment of the department for purposes of management information planning and budgeting and to ensure that appointments are made in posts that are approved and funded.

The establishment on Persal did not correspond to the approved organisational structure at the following departments:

- Department of Agriculture, Rural Development and Land Administration (25% difference)
- Department of Cooperative Governance and Traditional Affairs (10% difference)
- Department of Culture, Sports and Recreation (3% difference)
- Department of Education (10% difference)
- Department of Human Settlements (14% difference)

### **5.1.2 Job evaluation**

#### ***No or inadequate job evaluation policy***

In accordance with the DPSA guide on job evaluations, each department should determine a detailed policy on job evaluation and grading, bearing in mind the requirements of the PSR. This will assist in ensuring that job evaluation is used to determine the grade of a post and thus that the salary thereof is applied transparently and consistently in the department.

A job evaluation policy was not in place at the following departments:

- Department of Cooperative Governance and Traditional Affairs
- Department of Human Settlements
- Department of Economic Development, Environment and Tourism

### **No job evaluation process for new and upgraded posts**

In terms of PSR 1/III/F(b), any newly defined job should be evaluated to determine its grading before creating a post for the job. Posts were created at the Department of Culture, Sports and Recreation without performing a job evaluation.

### **5.1.3 Management of vacancies**

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

The average vacancy rate across all departments was 27% at year-end, with an average of 31% of the positions for senior managers being vacant.

The highest overall vacancy rate was at the Department of Human Settlements at 51% and the highest senior manager vacancy rate was at the Department of Social Development at 56%.

**Table 13: Vacancy rates at department**

Department	Overall vacancy rate
Department of Education	6%
Department of Agriculture, Rural Development and Land Administration	19%
Department of Cooperative Governance and Traditional Affairs	17%
Department of Human Settlements	51%
Department of Culture, Sports and Recreation	50%
Department of Health	33%
Department of Economic Development, Environment and Tourism	21%
Department of Public Works, Roads and Transport	24%
Department of Social Development	34%
Department of Finance	25%
Office of the Premier	7%
Department of Safety and Security	34%

**Lack of improvement in vacancy rates**

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

- Department of Agriculture, Rural Development and Land Administration
- Department of Community Safety, Security and Liaison
- Department of Culture, Sports and Recreation
- Department of Human Settlements

The vacancy rate for senior managers had not shown an improvement from the previous year at the following departments:

- Department of Community Safety, Security and Liaison
- Department of Culture, Sports and Recreation
- Department of Education
- Office of the Premier

**Non-compliant recruitment time frames**

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

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

**Table 14: Departments that did not comply with recruitment time frames**

Department	Component				Reasons for non-compliance not recorded
	Senior management	Finance	Internal audit	Other service delivery component	
Agriculture, Rural Development and Land Administration	x	x			
Education	x	x	x	x	x
Health	x	x	x	x	x
Cooperative Governance and Traditional Affairs	x	x			
Culture, Sports and Recreation	x	x			
Social Development	x	x			
Human Settlements	x				
Office of the Premier	x		x	x	
Economic Development, Environment and Tourism	x	x		x	



### 5.1.4 Appointment processes

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

#### **Verification checks not performed**

A directive was issued by the MPSA effective from 1 January 2008 which determined that criminal and financial or asset records should be checked and citizenship, financial status, qualifications and previous employment should be verified for all new appointments.

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

**Table 15: Departments that did adequately not perform verification checks**

Department	Appointments with no verification checks	Appointments with incomplete verification checks
Culture, Sports and Recreation	x	
Economic Development, Environment and Tourism		x
Education	x	
Public Works, Roads and Transport		x

### 5.1.5 Acting by officials in higher posts

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

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

Prolonged acting periods can be an indication of ineffective processes to appoint or recruit suitable permanent staff. Instances were found at the following departments where employees received acting allowances for more than 12 months:

- Department of Human Settlements
- Department of Agriculture, Rural Development and Land Administration
- Department of Cooperative Governance and Traditional Affairs
- Department of Economic Development, Environment and Tourism

Instances were found at the Department of Economic Development, Environment and Tourism where SMS members received acting allowances for more than six months without the necessary prior approval.

### **5.1.6 Budgetary control**

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

The following departments overspent their compensation budgets, resulting in irregular expenditure to the amounts indicated:

- Department of Education (R158 million)
- Department of Agriculture, Rural Development and Land Administration (R6,5 million)

The cause for the overspending was inadequate budgeting and insufficient funding received from the provincial treasury.

### **5.1.7 Performance agreements of senior managers**

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

The determination of whether a performance bonus should be paid to senior managers is based on their performance as per the agreement. Bonuses were paid to senior managers at the Department of Agriculture, Rural Development and Land Administration in the current year without performance agreements having been signed.

### **5.1.8 Suspensions**

Based on the annual reports, 60 employees were suspended across eight departments. The average number of days on suspension was 101, with 40% of the employees being suspended for more than 30 days. The total cost of the suspensions was estimated to be R3 million.

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

### **5.1.9 Sick and incapacity leave**

#### ***Sick leave – Non-compliance and lack of monitoring***

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

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

**Table 16: Departments with shortcomings relating to sick leave**

Department	Sick leave > 36 days	Medical certificates not submitted	
		Sick leave of more than three days	Sick leave that was third incident in an eight-week cycle
Culture, Sports and Recreation	x		
Education			x
Health		x	

### ***Incapacity leave incorrectly granted***

In terms of the leave determination, incapacity leave is additional sick leave granted conditionally at the employer's discretion, read with the DPSA's policy and procedure on incapacity leave for ill-health retirement. The determination and the policy provide clear and specific requirements on how incapacity leave should be dealt with and the number of days that can be granted.

The Department of Agriculture, Rural Development and Land Administration did not comply with the policy and determination on incapacity leave.

## **5.1.10 Leave administration**

### ***Negative capped leave***

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

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

- Department of Agriculture, Rural Development and Land Administration – R328 889
- Department of Culture, Sports and Recreation – R21 791
- Department of Education – R2 042 896

### **5.1.11 Management of overtime**

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



**Table 17: Shortcomings in the management of overtime**

Department	No written policy on overtime	Overtime not approved in advance	Overtime not limited to 30% of employee's monthly salary	Overtime not worked
Agriculture, Rural Development and Land Administration	x			
Education			x	
Health			x	x
Office of the Premier			x	

### 5.1.12 Service terminations

In terms of section 38 of the PSA, overpayments should be recovered from an employee by deducting moneys owing by him/her, except if the amount is written off.

The table below identifies departments where employees whose services had been terminated or who were deceased were not timeously removed from the payroll, resulting in overpayments. At year-end, a number of the departments had not recovered the overpayment or reclassified it as debt.

**Table 18: Non-recovery of overpayments**

Department	Overpayments made to terminated/deceased employees	Overpayments not recovered/reclassified at year-end
Education	x	x
Culture, Sports and Recreation	x	
Economic Development, Environment and Tourism	x	x

### 5.1.13 Payroll control

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

Instances were found at the following departments that indicate that the prescribed controls had not been fully implemented:

**Table 19: Lack of payroll controls**

Department	Monthly payroll reports not certified	Certified payrolls not returned within 10 days to finance department	Completeness of certified payroll reports not checked	Corrective action not taken timeously where discrepancies were noted
Cooperative Governance and Traditional Affairs	x	x	x	
Culture, Sports and Recreation		x		
Economic Development, Environment and Tourism	x	x		



### 5.1.14 Overall conclusion

The findings from the assessment above indicate non-compliance that extends to various areas of HR management. Management should ensure that these weaknesses are addressed. The lack of an overall improvement in the vacancy rates is a serious concern and the lack of capacity at departments, particularly in the finance sections, will have a negative impact on service delivery and the 2014 goal of achieving clean administration, thereby impeding improved audit outcomes.

## 5.2 Significant findings from the audit of procurement and contract management

The regularity audits included an assessment of the procurement processes and contract management of the auditees and the controls to ensure a fair, equitable, transparent, competitive and cost-effective SCM system that prevents and detects fraud, non-performance by suppliers, and non-compliance with SCM legislation. As is evident from the analysis of irregular expenditure (section 3.1.5), two of the departments incurred irregular expenditure resulting from non-compliance with SCM legislation.

The detailed findings are presented below.

### 5.2.1 Interest in suppliers

The performance audit report tabled on 29 May 2009 entitled *Performance audit of entities that are connected with government employees and doing business with provincial departments* disclosed that employees and spouses of employees were doing business with their own departments through companies and close corporations in which they were directors or members.

Legislation does not prohibit such practices but endeavours to ensure that conflicts of interest do not result in the unfair awarding of contracts or acceptance of unfavourable price quotations, and requires employees to obtain approval for performing remunerative work outside their employment. The report also disclosed non-compliance with this legislation and a number of other irregularities in the SCM process at departments.

The allegations in the report of corruption, improper conduct and failure to comply with the SCM system were not investigated by all the departments within a reasonable time or were not appropriately dealt with after being investigated.

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

The table below lists the auditees where interests were identified and details the resultant findings.

**Table 20: Findings relating to interest in suppliers**

Department	Interest not declared by supplier	Employee involved in awarding contracts to suppliers	Employee did not disclose conflict of interest	No approval for employee to perform remunerative work outside employment (departments only)
Education	x		x	x
Health	x			x
Public Works, Roads and Transport	x			x
Agriculture, Rural Development and Land Administration	x			

### 5.2.2 Procurement process

#### **Three price quotations not invited**

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

The Department of Economic Development, Environment and Tourism incurred irregular expenditure amounting to R390 027, as goods or services were procured without inviting at least three price quotations and the deviation was either not approved or was approved although it was possible to obtain three price quotations.

#### **Deviation from competitive bidding without approval**

In terms of TR 16A6.4, if in a specific case it is impractical to invite competitive bids, the accounting officer or authority may procure the required goods or services by other means, provided that the reasons for deviating from inviting competitive bids are recorded and approved by the accounting officer or authority.

At the following auditees irregular expenditure was incurred, as the deviation from competitive bidding was not approved:

- Department of Cooperative Governance and Traditional Affairs
- Department of Public Works, Roads and Transport

### 5.2.3 Supply chain management controls

#### **National Treasury's code of conduct not adopted for supply chain management**

In terms of TR 16A8.2, the National Treasury's code of conduct for SCM practitioners must be adhered to by all officials and other role players involved in SCM.

At the following auditees the code of conduct was not signed by officials and other role players involved in



SCM as evidence that it had been adopted:

- Department of Health
- Department of Community Safety, Security and Liaison
- Department of Economic Development, Environment and Tourism
- Mpumalanga Regional Training Trust
- Mpumalanga Economic Growth Agency

### **No internal audit evaluation of SCM compliance**

In terms of TR 3.2.11 and TR 27.2.10, the internal audit function must assist the accounting officer or authority by evaluating controls to determine their effectiveness and efficiency, and by developing recommendations for enhancement or improvement.

The controls subject to evaluation should encompass the safeguarding of assets and compliance with laws and regulations.

At the Department of Economic Development, Environment and Tourism, a high volume of goods and services were procured and non-compliance was identified by the AGSA or fraud had been identified in the past, but internal audit did not evaluate the controls, processes and compliance with laws and regulations with regard to SCM.

### **5.2.4 Overall conclusion**

The analysis above indicates that procurement and contract management is a challenge at most departments. The biggest challenge for Mpumalanga is employees doing business with government. The departments do not have adequate controls to identify conflicts of interest before the services or goods are procured.

This is also a focus area of SCOPA, as departments were requested to report on the progress that has been made in this area. Unfortunately, the progress has been very slow. This challenge was discussed with the MECs during the stakeholder interactions and they have made a commitment to ensure that internal controls relating to SCM are improved.

## **5.3 Investigations and transversal performance audits**

### **5.3.1 Investigations**

#### **5.3.1.1 Investigations in progress**

#### **Departments**

Health

- Three investigations were conducted based on allegations of irregularities in the upgrading of a hospital and renovations as well as allegations of fraud and other irregularities in respect of procurement processes.



#### Public Works, Roads and Transport

- Six investigations were conducted. The investigations ranged from the unauthorised changing of bank accounts, alleged irregular awarding of tenders, irregular appointment of employees, fraudulent taxi permits being issued, traffic officials receiving bribes for issuing learner's and driver's licences, and allegations relating to outstanding payments.

#### Education

- A commission of enquiry was appointed to investigate and report on the management of scholar transport in the province.
- An investigation is being conducted to probe the unauthorised transfer of funds from the department's bank account.

#### Culture, Sports and Recreation

- An investigation is being conducted to probe the misuse of a password used to gain access to the department's procurement system.

#### Office of the Premier

- An internal investigation is being conducted to establish the reasonability of payments to a specific service provider.

### **5.3.1.2 Investigations completed during the financial year**

#### **Departments**

##### Cooperative Governance and Traditional Affairs

- An investigation was conducted during the year by an independent consulting firm on the request of the entity. The investigation was initiated to investigate the management of one of the department's projects.

##### Agriculture, Rural Development and Land Administration

- An independent consulting firm conducted an investigation on request of the entity. The investigation resulted in the dismissal of certain employees.

##### Office of the Premier

- An internal investigation was conducted to probe allegations of the improper signing of a contract on behalf of other departments. Disciplinary actions were initiated and no monetary loss was incurred by the Office of the Premier.

## Entities

Mpumalanga Economic Growth Agency

- An investigation was conducted to confirm the recoverability of long-outstanding loan debtors. The investigation concluded that the loan amounts were irrecoverable.

Mpumalanga Agricultural Development Cooperation

- An independent consulting firm conducted an investigation on the request of the Department of Agriculture, Rural Development and Land Administration. The investigation was initiated based on allegations of the possible misappropriation of funds by employees. The investigation resulted in criminal proceedings being instituted against two employees.

### 5.3.2 Transversal performance audits

#### Infrastructure audit

##### Background of infrastructure audit

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

##### High-level overview of the infrastructure delivery process

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

##### Overview of key risks

- Risks are any undesirable events, factors or problems that have a negative impact on the achievement of the objectives of the public sector.
- Lost opportunities can also be regarded as risks. These include opportunities to improve operational performance and policy effectiveness. Risk analysis seeks to determine the probability of negative impacts and their effect.

##### Key risks and the infrastructure delivery process

- Various insufficient management processes (policy making, planning, organising, coordination and monitoring) were identified.
- There is a need in the public sector for management to respond to key risks in a more timely manner.

### **Key risks – demand management**

- No written needs determination policy existed at the Department of Education. At the Department of Health projects were not always properly planned to ensure that the needs of hospital staff and patients were addressed. For example, substantial changes in the scope of projects were made during the budgetary process and the project implementation phase.

### **Key risks – acquisition management**

- The applicable legislation and regulations were not consistently applied by bid adjudication committees during the tender evaluation process. For example, contracts were awarded to contractors that did not qualify in terms of the prescribed legislation such as the Preferential Procurement Policy Framework Act and the Construction Industry Development Board Act; and bids were disqualified for being outside the predetermined benchmark range and other reasons that could not be justified.

### **Key risks – project management and information**

- Projects were not effectively monitored by staff from the relevant departments and the implementing agents. Corrective actions were not instituted timeously against the contractors concerned. Delays were experienced in the completion of the projects and penalties were not always charged for the late completion of projects. For example, although the construction contracts provided for penalties for the late completion of projects, it was either not enforced or proof could not be provided that steps had been taken against contractors to recover losses.
- The quality of the construction work was unsatisfactory and the completion of the facilities was delayed. For example, schools were identified where construction was stopped during 2007 due to quality issues. The structures are still standing abandoned on the building site with no plan for completing or utilising them. This was mainly due to a lack of site inspections and follow-up of work being done on construction sites.

### **Key risks – commissioning and utilisation**

- Scaled down, incomplete and/or substandard work was identified after commissioning and the work was not corrected by the contractors. Departments consequently incurred additional costs to correct problems. For example, new hospitals did not have adequate capacity and were scaled down in certain instances. Building facilities were not properly maintained and roof leaks and cracked walls were observed at newly built facilities.

## SECTION 6: CONSOLIDATED FINANCIAL STATEMENTS

In terms of sections 8 and 9 of the PFMA, the National Treasury and provincial treasuries, respectively, are required to prepare consolidated financial statements in accordance with generally recognised accounting practice for each financial year in respect of departments and/or constitutional entities, public entities and other entities. The Auditor-General issues a separate audit report for consolidated departments and entities. Agreed-upon procedures are performed on the provincial consolidated financial statements and the consolidated public entities.

The status of the preparation of consolidated financial statements as at 30 September 2010 is reflected in the table below.

**Table 21: Status of consolidated audit**

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

The auditor's report on the consolidated financial statements was issued on 30 September 2010 in accordance with legislative requirements.

The table below provides information on key figures contained in the consolidated financial information of the legislature and 12 departments.

**Table 22: Key figures contained in the consolidated financial information of the legislature and 12 departments**

Key figures	2009-10 R'000	2008-09 R'000
Total revenue	24 283 641	20 794 883
Total expenditure	23 839 102	20 160 441
Surplus/(Deficit)	444 539	634 442
Total assets	2 464 717	1 889 990
Total liabilities	3 125 514	2 126 942
Net assets	(660 797)	(236 952)
Unauthorised expenditure	886 595	510 724
Cash and cash equivalents/(Net overdraft)	(79 375)	369 665

## SECTION 7: STATUS OF TABLING OF ANNUAL REPORTS

### 7.1 Summary of annual reports tabled

**Table 23: Annual reports tabled by departments and public entities**

Type of auditee	Percentage of reports tabled at 31 August 2010	
	2009-10	2008-09
Departments	46%	100%
Public entities	33%	100%
<b>Total</b>	<b>42%</b>	<b>88%</b>

### 7.2 Departments and public entities whose annual reports were not tabled, together with reasons

**Table 24: Annual reports not tabled**

Auditee	Reason(s)
Department of Agriculture, Rural Development and Land Administration	Annual report not finalised
Community Safety, Security and Liaison	Annual report not finalised
Office of the Premier	Annual report not finalised
Economic Development, Environment and Planning	Annual report not finalised
Education	Annual report not finalised
Social Development	Annual report not finalised
Culture, Sports and Recreation	Annual report not finalised
Mpumalanga Economic Growth Agency	Annual report not finalised
Mpumalanga Tourism and Parks Agency	Annual report not finalised
Mpumalanga Agricultural Development Corporation	Annual report not finalised
Mpumalanga Housing Finance Corporation	Annual report not finalised



## CONCLUSION

The Mpumalanga Province faces a number of challenges as highlighted in this report, which will require a coordinated effort by the leadership of the province, with the support of the National Treasury and the provincial treasury, to quicken the pace to improve its financial and management performance.

Departments should focus on addressing shortcomings relating to predetermined objectives, user access management, SCM and movable assets. The repetitive audit findings on non-compliance with legislation and the quality of financial statements are cause for concern. Senior management should ensure efficient monitoring and ongoing supervision to address areas of non-compliance with legislation. Internal audit is a crucial function in assisting management to establish a sound internal control environment and perform ongoing evaluation and monitoring of management's compliance with predefined controls and progress in implementing action plans.

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

We wish to reiterate our critical message to the legislators and the executive that it is possible to obtain a financially unqualified auditor's report with clean administration if key controls are designed, implemented and constantly monitored by the leadership.

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

## ANNEXURES TO THE GENERAL REPORT

- ANNEXURE 1:** Listing of names with audit outcomes, areas qualified and findings on predetermined objectives
- ANNEXURE 2:** Listing of names with findings related to compliance with laws and regulations
- ANNEXURE 3:** Listing of departments and entities – leadership
- ANNEXURE 4:** Listing of departments and entities – financial and performance management
- ANNEXURE 5:** Listing of departments and entities – governance
- ANNEXURE 6:** Summary of IT findings

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

Number	Auditee	Audit outcome 2009-10	Audit outcome 2008-09	Financial statement qualification areas								Findings on predetermined objectives									
				Capital assets	Current assets	Liabilities	Capital and reserves	Other disclosure items	Revenue	Expenditure	Unauthorised, irregular as well as fruitless and wasteful expenditure	Non-compliance with regulatory requirements	Reported information not useful	Reported information not reliable	Information not submitted for auditing by 31 May 2010						
<b>Audits conducted by the AGSA</b>																					
<b>Departments</b>																					
1	Agriculture, Rural Development and Land Administration	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations																		
2	Culture, Sports and Recreation	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations																		
3	Community Safety, Security and Liaison	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations																		
4	Cooperative Governance and Traditional Affairs	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations																		
5	Economic Development, Environment and Tourism	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations																		
6	Education	Qualified	Qualified																		
7	Health	Qualified	Qualified																		
8	Human Settlements	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations																		
9	Office of the Premier	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations																		
10	Provincial Legislature	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations																		



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

Number	Auditee	Audit outcome 2009-10	Audit outcome 2008-09	Financial statement qualification areas								Findings on predetermined objectives					
				Capital assets	Current assets	Liabilities	Capital and reserves	Other disclosure items	Revenue	Expenditure	Unauthorised, irregular as well as fruitless and wasteful expenditure	Non-compliance with regulatory requirements	Reported information not useful	Reported information not reliable	Information not submitted for auditing by 31 May 2010		
11	Public Works, Roads and Transport	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations														
12	Social Development	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations	Qualified														
13	Finance	Financially unqualified with no findings on predetermined objectives or compliance with laws and regulations	Financially unqualified with no findings on predetermined objectives or compliance with laws and regulations														
<b>Public entities</b>																	
14	Mpumalanga Housing Finance Corporation	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations														
15	Mpumalanga Agricultural Development Corporation	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations														
16	Mpumalanga Economic Growth Agency	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations	Financially unqualified with no findings on predetermined objectives or compliance with laws and regulations														
17	Mpumalanga Regional Training Trust	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations														
18	Mpumalanga Gambling Board	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations	Financially unqualified with no findings on predetermined objectives or compliance with laws and regulations														
19	Mpumalanga Tourism and Parks Agency	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations														



**ANNEXURE 2: Listing of names with findings related to compliance with laws and regulations**

Number	Auditee Annual budget	Prohibited action/non-adherence														
		Responsibilities	Delegation of responsibilities	Audit committee	Internal audit unit	Payments	Transfer of funds and subsidies	Misconduct/disciplinary or criminal proceedings	Plans (strategic/corporate/integrated development/claims)	Management of losses and claims	Conditional allocations	Companies Act requirements	Entity-specific legislation	HR management	Procurement (SCM)	SCM issue that resulted in irregular expenditure
<b>Audits conducted by the AGSA</b>																
<b>Departments</b>																
1	Agriculture, Rural Development and Land Administration															
2	Culture, Sports and Recreation															
3	Community Safety, Security and Liaison															
4	Cooperative Governance and Traditional Affairs															
5	Economic Development, Environment and Tourism															
6	Education															
7	Health															
8	Human Settlements															
9	Office of the Premier															
10	Public Works, Roads and Transport															
11	Social Development															
12	Provincial Legislature															
13	Finance															
<b>Public entities</b>																
14	Mpumalanga Housing Finance Corporation															
15	Mpumalanga Agricultural Development Corporation															
16	Mpumalanga Economic Growth Agency															
17	Mpumalanga Regional Training Trust															
18	Mpumalanga Gambling Board															
19	Mpumalanga Tourism and Parks Agency															





**ANNEXURE 4: Listing of departments and entities – financial and performance management (note: full definitions of good practices are provided under section 4.1.2 of the detailed report)**

No.	Department	Maintained/improved previous good practices						Improvements required										
		Record keeping and management		Monitoring of financial and performance information		Data integrity (IT systems)		Record keeping and management		Assets registered and suspense accounts clearing		Monitoring of financial and performance information		Data integrity (IT systems)				
		Financial statements	Predefined objectives	Assets registered and suspense accounts clearing	Financial statements	Predefined objectives	User access control	Security management	Business continuity	Financial statements	Predefined objectives	Assets registered and suspense accounts clearing	Monitoring of financial and performance information	Financial statements	Predefined objectives	User access control	Security management	Business continuity
1	Department of Agriculture, Rural Development and Land Administration	Green						Green				Red	Red		Red	Red		
2	Department of Culture, Sports and Recreation		Green								Red							
3	Department of Cooperative Governance and Traditional Affairs		Green										Red					
4	Department of Education											Red						
5	Department of Economic Development, Environmental Affairs and Tourism																	
6	Department of Health																	
7	Department of Human Settlements																	
8	Department of Public Works, Roads and Transport																	
9	Department of Social Development																	
10	Mpumalanga Provincial Legislature																	
11	Department of Community Safety, Security and Liaison																	
12	Department of Finance																	
13	Office of the Premier																	
14	Mpumalanga Economic Growth Agency																	
15	Mpumalanga Agricultural Development Corporation																	
16	Mpumalanga Housing Finance Corporation																	
17	Mpumalanga Tourism and Parks Agency																	
18	Mpumalanga Regional Training Trust																	
19	Mpumalanga Gaming Board																	





**ANNEXURE 6: SUMMARY OF IT FINDINGS**

Department audited	Audit scope			
	IT governance	Security management	User access controls	IT service continuity
Agriculture, Rural Development and Land Administration	Findings in respect of IT governance, user access control and IT service continuity. No findings in respect of security management. Comments were received committing management to specific dates to address the IT governance, user access control and IT service continuity findings.			
Cooperative Governance and Traditional Affairs	Findings in respect of IT governance, security management, user access control and IT service continuity. Comments were received committing management to specific dates to address the IT governance, security management, user access control and IT service continuity findings.			
Economic Development, Environmental Affairs and Tourism	Findings in respect of IT governance, security management, user access control and IT service continuity. No comments were received that committed management to specific dates to address the IT governance, security management and user access control and IT service continuity findings.			
Education	Findings in respect of IT governance, security management, user access control and IT service continuity. Comments were received committing management to specific dates to address the IT governance, security management, user access control and IT service continuity findings.			
Finance	Findings in respect of IT governance, user access control and IT service continuity. No findings in respect of security management. Comments were received committing management to specific dates to address the IT governance, user access control and IT service continuity findings.			
Health	Findings in respect of IT governance, security management, user access control and IT service continuity. No comments were received committing management to specific dates to address the IT governance, security management, user access control and IT service continuity findings.			
Human Settlements	Findings in respect of IT governance, security management, user access control and IT service continuity. No comments were received committing management to specific dates to address the IT governance, security management, user access control and IT service continuity findings.			
Office of the Premier	Findings in respect of IT governance, security management, user access control and IT service continuity. Comments were received committing management to specific dates to address the IT governance, security management, user access control and IT service continuity findings.			
Provincial Legislature	Findings in respect of IT governance, user access control and IT service continuity. No findings in respect of security management. Comments were received committing management to specific dates to address the IT governance, user access control and IT service continuity findings.			
Public Works, Roads and Transport	Findings in respect of IT governance, security management, user access control and IT service continuity. Comments were received committing management to specific dates to address the IT governance, security management, user access control and IT service continuity findings.			
Community Safety, Security and Liaison	Findings in respect of IT governance, security management, user access control and IT service continuity. Comments were received committing management to specific dates to address the IT governance, security management, user access control and IT service continuity findings.			
Social Development	Findings in respect of IT governance, security management, user access control and IT service continuity. Comments were received committing management to specific dates to address the IT governance, security management, user access control and IT service continuity findings.			
Culture, Sports and Recreation	Findings in respect of IT governance, security management, user access control and IT service continuity. Comments were received committing management to specific dates to address the IT governance, security management, user access control and IT service continuity findings.			



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