PFMA 2013-14

General report on the provincial audit outcomes of LIMPOPO

AUDITOR-GENERAL
SOUTH AFRICA

General report on audit outcomes

LIMPOPO
PFMA 2013-14

Our reputation promise/mission

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

AUDITOR-GENERAL
SOUTH AFRICA

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

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

I wish to thank the audit teams from my office and the audit firms that assisted with the auditing of provincial government 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

Kimi Makwetu
Auditor-General

OVERVIEW

One auditee achieved a clean audit
(Executive summary)

Material non-compliance with legislation by 96% of the auditees
(Section 3.3)

Some progress in improving the reliability and usefulness of annual performance reports
(Section 3.2)

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(Executive summary)

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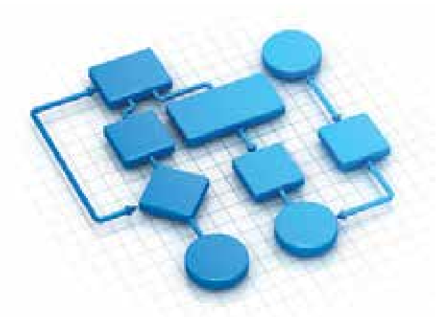
(Section 3.3.2)

43% of the auditees received financially unqualified audit opinions (Section 3.1)

No improvement in the quality of the financial statements submitted for auditing (Section 3.1)



No improvement with regard to supply chain management (Section 3.3.1)

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EXECUTIVE SUMMARY

Executive summary

This general report summarises the audit outcomes of the Limpopo provincial government for the 2013-14 financial year.

The total budgeted expenditure of the province was R49,7 billion in 2013-14. The following were the main areas of expenditure:

- Employee cost R34,3 billion
- Goods and services R7,9 billion
- Capital expenditure R2,1 billion
- Transfer payments R5,4 billion

It is important to note that our annual audits have once again examined the following three areas:

1. Fair presentation and absence of material misstatements in financial statements.
2. Reliable and credible performance information for purposes of reporting on predetermined performance objectives.
3. Compliance with all laws and regulations governing financial matters.

The province achieved a slight improvement in audit outcomes, but the regression in key controls, root causes and assurance providers as depicted in figure 2 indicates that the audit outcomes could again regress. The main drivers of improvements were very specific interventions, mainly by the section 100(1)(b) administration team. These interventions also had a positive impact on the level of assurance provided by internal audit units and audit committees. Unfortunately, basic key controls did not improve at departments.

During 2013-14, unauthorised as well as fruitless and wasteful expenditure decreased to only R231 million, due to the interventions implemented by the administration team. While this reduction is encouraging, the R1,6 billion increase in irregular expenditure in the year under review is concerning. Although five heads of department (HoDs) in the province were suspended due to maladministration, we are yet to see consequences for poor performance being enforced for officials across all levels.

It is critical that the administrative leadership, audit committees, Provincial Treasury and Office of the Premier work in collaboration and intensify their efforts to proactively identify risks and address prior year audit findings in the drive towards clean administration.

Financially unqualified audit opinion with no findings

Auditees that received a **financially unqualified audit opinion with no findings** (depicted in green in this report) are those that have passed the audit test in each of the above-mentioned aspects. This is commonly referred to as a 'clean audit'. After three years of successive regressions, there is a slight improvement in the overall audit outcomes for 2013-14. The Department of Cooperative Governance, Human Settlements and Traditional Affairs (CoGHSTA) was the only auditee that obtained a clean audit for the year under review. The best practices at this department should be replicated by the rest of the departments and entities in the province.

Financially unqualified audit opinion with findings

Nine auditees (40%) received **financially unqualified audit opinions with findings** on their performance information, compliance with legislation, or both these aspects (depicted in yellow in this report). These auditees have passed the critical test of fair presentation of financial statements, which means that they have accounted accurately for the financial transactions they have carried out. Included in these nine auditees are the Provincial Treasury and the Department of Roads and Transport who were among the five departments placed under section 100(1)(b) administration during December 2011.

Inadequate controls regarding performance information and compliance with key legislation continue to hinder these auditees from obtaining clean audit outcomes. Deviations from internal controls related mainly to non-compliance with key legislation. Auditees in this category were unable to fully apply best practices, leading to shortcomings in their control environment.

Furthermore, auditees in this category submitted financial statements and performance reports that were initially unreliable and incorrect. The accounting officers and authorities need to make sure that the basic disciplines of preparing and reviewing regular financial and performance reports are improved and sustained. Internal audit units and audit committees should continue to support the work of oversight committees by confirming the credibility of information used for accountability purposes. In turn, the committees of the Provincial Legislature should collaborate and coordinate their oversight initiatives to derive optimal benefit from their oversight work.

Qualified audit opinion

Ten auditees (43%) received a **qualified audit opinion** (depicted in purple in this report), which means that they were unable to adequately and accurately account for all the financial effects of the transactions and activities they conducted. In this regard, the financial statements they presented were unreliable in certain areas.

The Departments of Health and Public Works who had been placed under section 100(1)(b) administration managed to improve from disclaimed to qualified audit opinions. We are concerned that the improvement at Public Works was largely driven by the administration team and may be very difficult to sustain after the team's withdrawal, as there was inadequate transfer of skills and a lack of interaction between the team and officials. The improvement at Health was driven by a strong HoD who was proactive in implementing a turnaround strategy to address prior year audit findings.

Seven of the 10 auditees in this category submitted performance information that was not reliable, which compromised the ability to drive effective accountability. A number of rules and regulations that apply to financial management and reporting matters were also not observed as required in specific legislation.

The administrative leadership must be decisive and act in a timely manner to implement effective and sustainable internal controls and disciplines for provincial audit outcomes to improve further. These controls should support the preparation of reliable and credible financial and performance information, and prevent non-compliance with legislation. Some auditees had no, or incomplete, documentation to enable them to make the necessary changes to the financial statements to avoid qualifications. This concern is further confirmed by the regression in the level of assurance provided by senior management over the credibility of financial and non-financial information. The leadership should therefore implement the recommendations of the skills assessment process currently underway in the province without delay.

Disclaimed or adverse audit opinion

One public entity, namely Gateway Airports Authority Limited, regressed from a qualified opinion to a disclaimed opinion, while the Department of Education and the Limpopo Roads Agency again received a **disclaimed/adverse opinion** (depicted in red in this report). These auditees performed similarly to the ones in the qualified opinion category, with the exception that the conditions regarding unreliability were common in most areas of the financial statements. At auditees with qualified opinions, this was limited to only certain areas.

Auditees in this category did not decisively and timeously intervene to ensure that financial competencies and disciplines were applied to prepare accurate and reliable financial reports. There was also a deterioration in basic internal controls, and a disregard of internal and external audit findings. This increased the levels of financial exposure and multiplied the prospects of most service delivery and programme objectives not being achieved. Accounting officers and authorities need to make sure that the basic disciplines of preparing and reviewing regular financial reports are improved and sustained.

Auditees that have not yet progressed to clean audit outcomes need to take ownership and commit to implementing corrective action plans. This, together with continued guidance, support and monitoring by the Provincial Treasury and the Office of the Premier, will assist auditees in their move towards sustainable clean audit outcomes.

Other significant audit observations

Annual performance reports

Auditees are required to measure their actual service delivery against the performance indicators and targets set for each of their predetermined performance objectives, and to report on this in their annual performance reports.

It is commendable that all auditees submitted their annual performance reports for auditing on time. However, auditees that submitted annual performance reports that did not contain material misstatements regressed from eight (35%) in 2012-13 to three (13%) in the year under review. Auditees are still relying on the audit process to identify and correct misstatements in performance information. Regrettably, it appears that auditees have become complacent, as the same expected diligence exercised in the previous years was not applied when reporting on predetermined objectives in the year under review.

These auditees need to adopt the best practices in the province and implement proper record-keeping measures to ensure that complete, relevant and accurate information is accessible and available to support performance reporting. In addition, auditees need to continue implementing the recommendations of the performance audit on the readiness of auditees to report on their performance.

Compliance with key legislation

There has been almost no movement in the number of auditees with no material findings on their compliance with key legislation, from none in the previous year to one (4%) in the year under review. It is of concern that 22 auditees (96%) still had findings on non-compliance with laws and regulations, many of which related to the quality of the financial statements submitted for auditing and supply chain management (SCM). Irregular expenditure was reported at 19 auditees (83%), mainly due to a lack of basic controls and non-compliance with SCM legislation. The value of these controls cannot be emphasised enough, as they are an important mechanism to limit the widespread abuse of public resources that should be used to provide services to citizens.

Irregular expenditure

As a result of a breakdown in controls and the lack of proper systems to prevent, detect and record irregular expenditure, auditees entered into transactions that were not carried out in accordance with regulations and other prescripts. Irregular expenditure of R3,575 billion was incurred by 19 auditees (83%) during the period under review. The major contributors responsible for 94% of the total irregular expenditure were the Departments of Education and Health and the Limpopo Roads Agency. Especially concerning are the Departments of Education and Health, as they received the largest portion of the budget allocation (75%) in the province.

Of the irregular expenditure of R3,575 billion incurred in 2013-14, most (R3,486 billion, or 97%) was as a result of non-compliance with SCM legislation. We have determined through our normal audits that R3,478 billion of this amount represented goods and services that were received despite the normal processes governing procurement not having been followed. We could not determine whether goods and services had been received for R8 million of the irregular expenditure, due to a lack of supporting documents at two auditees.

The main reason for incurring irregular expenditure is that credible project and procurement plans were not developed. As a result, auditees did not follow transparent and competitive procurement processes in a bid to avoid surrendering unspent funds at year-end.

There is an increasing trend of auditees delegating their functions to other entities, by appointing them as implementing agents. Fair, equitable and transparent procurement processes are not always followed in appointing these implementing agents or to monitor them once payments have been made to ensure that value for money is received. In addition, management fees have to be paid although more than half (70%) of the provincial budget is already spent on employee costs associated with those that should perform the duties delegated to implementing agents.

The high occurrence of irregular expenditure year-on-year results from a general lack of consequences for officials responsible for incurring the irregular expenditure. At 70% of the auditees, no steps were taken to implement consequences for poor performance or non-compliance with legislation. The leadership should give serious attention to investigating irregular expenditure already incurred and to prevent further irregular expenditure. The substantial irregular expenditure incurred in the province caused by non-compliance with SCM requirements is one of the main reasons why auditees are unable to improve to clean audit outcomes. There is also an ongoing need for oversight role players to ensure that accounting officers or authorities and senior management are held accountable for providing the desired level of assurance to continue the momentum towards improved audit outcomes.

Financial health

The financial health of the province has improved slightly since the previous years. However, due to inadequate budgetary controls, four auditees (17%) encountered serious concerns relating to financial sustainability.

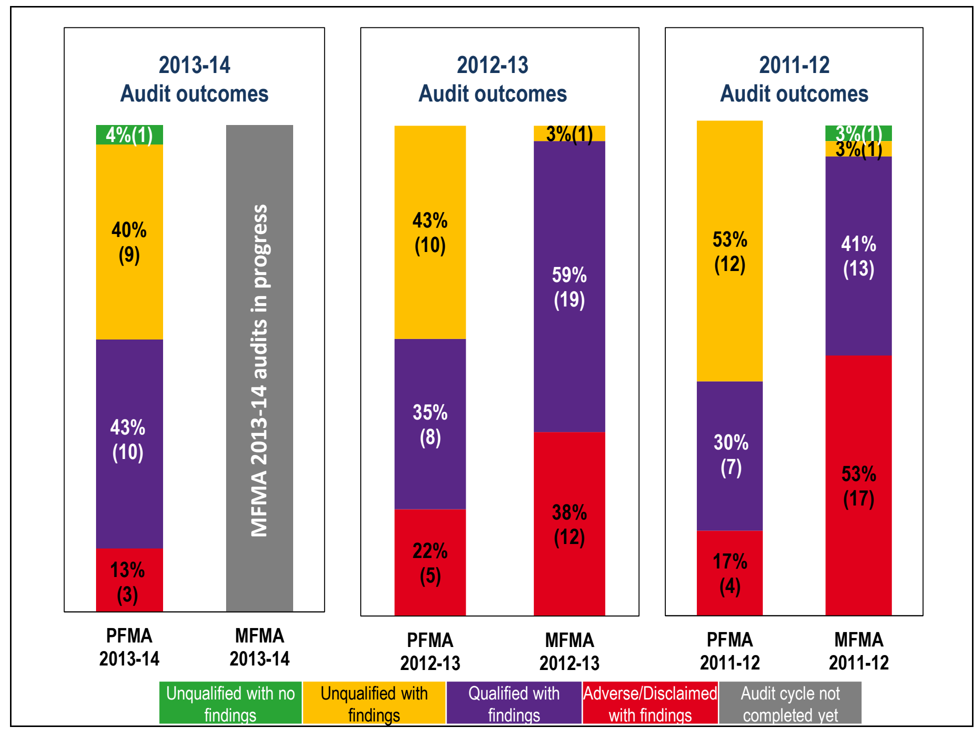
To address these shortcomings, the following controls should be implemented:

- All expenditure should be monitored to ensure that non-urgent and non-essential expenditure is prevented.
- All contracts should be revised to determine whether value for money is received.
- Contracts should be monitored rigorously, with penalty clauses for non-performance in terms of the agreement.
- The rigorous cash-flow mechanisms already implemented should be continued to ensure that critical projects and services are prioritised.
- The province should limit the use of implementing agents and should rather ensure that government employees perform the duties for which they are being paid. Where implementing agents are used, they should follow the procurement processes of government to ensure the fair, equitable and transparent procurement of goods and services.

Comparison of provincial and local government audit outcomes

The Limpopo provincial government, through coordinating departments and oversight structures, supports both provincial and local government by setting standards of accountability, transparency, clean government and integrity across all institutions of government in the province. Although these two spheres of government operate autonomously, improvement in the administration and audit outcomes will benefit the province as a whole. The figure below compares the results of the two spheres of government over the last three financial years.

Figure 1: Comparison of provincial and local government audit outcomes



Despite the province's emphasis on clean administration, neither the provincial nor the local government has shown any sustainable progress in the drive towards the achievement of clean audits.

On the whole, provincial government was able to improve and sustain the internal control environment, as denoted by fewer auditees in the disclaimed/adverse category and the number of auditees in the unqualified with findings category in comparison to the outcomes of local government.

The Provincial Treasury, CoGHSTA and the Office of the Premier have a direct role to play in supporting and monitoring local government, and thereby providing a level of assurance, while the Provincial Legislature provides oversight through its speaker forum and oversight committees. The premier agreed that action plans to address audit findings will be drawn up by each accounting officer in consultation with our audit teams. These action plans would then form an addendum to the performance contracts of accounting officers against which performance will be measured. We support this initiative since it will encourage accounting officers to take ownership of findings and prevent their recurrence, as most of this year's audit findings were also identified and reported in the previous year.

As assurance providers, CoGHSTA, the Provincial Treasury and the Office of the Premier have an important role to play by promoting integrated service delivery and implementing basic financial management disciplines. This includes developing and monitoring provincial policies and legislation to promote integration in government's development programmes and service delivery.

National intervention in terms of section 100(1)(b) of the Constitution

On 5 December 2011, the national executive announced its intervention in the Limpopo provincial government in terms of section 100(1)(b) of the Constitution by placing five departments under national administration. The intervention brought about various initiatives to improve, amongst others, the audit outcomes. Along with the initiatives and some successes, there were also a number of challenges.

Below are some of the notable successes of the intervention:

- The implementation of cash-control strategies helped to eliminate the overdraft position the province found itself in during 2011. The province was in a positive cash position at year-end.
- Unauthorised expenditure decreased from R175 million in 2011-12 to R16 million in 2013-14.
- The outcomes of three departments under administration (Health, Public Works as well as Roads and Transport) improved after the intervention
- Initiatives were implemented to address the historical challenges with regard to assets, such as the implementation of the national Logistical Information System (LOGIS) currently in progress and the introduction of the Baud system to facilitate the scanning of assets.

The lack of progress in some areas and the challenges experienced can be summarised as follows:

- At the time the administration was introduced, there were no regulations to guide the administration process by distinguishing and clarifying roles and responsibilities of officials between national and provincial government.
- Irregular expenditure remained high and increased significantly in 2013-14.
- There were delays in conducting the skills audit in the province. We cannot emphasise the need to address the capacity constraints enough if the fruits of the administration initiatives are to be realised.
- Skills were not adequately transferred, which raises concerns over the sustainability of the outcomes once the intervention team withdraws. The appointment of consultants to assist in the turnaround strategy will yield sustainable results only if there is internal capacity to enable the transfer of skills.
- Non-compliance with laws and regulations remained high, with the Departments of Education, Health and Public Works incurring the most non-compliance findings.
- The quality of performance reporting was still a challenge at the Departments of Education, Health and Public Works.

Provincial Department of Cooperative Governance, Human Settlements and Traditional Affairs

With CoGHSTA obtaining a clean audit, it now finds itself in a position to lead by example to facilitate an improvement in the local government sphere by supporting and monitoring the performance of municipalities in the province. The capacitation of municipal public accounts committees is an ongoing process with training provided by the Provincial Legislature, CoGHSTA and our office. CoGHSTA also implemented initiatives by hosting monthly operation clean audit forums and deploying consultants to municipalities to provide support as resident accountants. However, these initiatives have achieved mixed results and cannot be regarded as an overall success.

The absence of basic key controls, clearly specified daily and monthly activities and adequate supervision, contributed to the low level of assurance that senior management, accounting officers and mayors provided on the quality of the financial statements. It is critical that strategies are put in place to attract and retain staff with the necessary skills and competencies. Where positions are filled with incumbents that do not possess the required skills, efforts should be made to address the training needs of these staff members.

These initiatives need to be intensified and the progress adequately monitored, since the main goal of support initiatives is to ensure support and clean administration in the province. Furthermore, CoGHSTA should ensure that the annual consolidated report on the performance of municipalities in the province is submitted to the Provincial Legislature to enable oversight through the portfolio committee responsible for local government.

Key leadership actions

We continue to be hopeful that the province will remain committed to advancing towards clean administration in both the provincial and the local government spheres. The common characteristics of those auditees (in all three spheres of government) that have achieved a clean audit status included the following:

- Accounting officers and authorities were proactive in driving action plans to improve the financial control environment and to instil a culture of good financial governance and compliance with legislation.
- Executive authorities and accounting officers or authorities set a tone of zero tolerance for non-performance, and held staff accountable for keeping quality financial and performance information and complying with key legislation.
- Robust and proactive audit committee and internal audit functions dealt effectively with matters regarding the implementation and monitoring of action plans to address recurring findings and the commitments made.
- Accounting officers or authorities and senior management successfully implemented basic internal controls and accounting disciplines by preparing regular and accurate financial statements, which enabled governance structures to play an effective review role.
- Performance and consequence management were improved by incorporating the requirements of preparing credible and regular financial reports into senior management's performance agreements, and holding them accountable.
- Stability at senior management level and within finance units was achieved, with the required level of technical competence and experience.

Decisive leadership will be required to improve the internal control environment at auditees to ensure that the progress made by the province thus far does not lose momentum.

Key actions to be taken by the executive and oversight leadership to improve audit outcomes

The executive and oversight leadership should focus on the following to maintain the momentum and improve the audit outcomes even further:

- The portfolio committees must intensify their efforts in dealing with performance management and the monitoring of compliance with legislation, as they are key assurance providers in this regard. The engagement of the chairpersons of audit committees during portfolio committee meetings must be prioritised.
- The skills audit currently being conducted by the province should be used as a tool to strengthen critical positions, especially those of chief financial officer (CFO) and head of the SCM unit, to ensure that credible processes are followed and that reliable information is produced.
- The executive leadership together with accounting officers and authorities should implement effective and efficient performance management systems to attract and retain skilled officials as well as to hold officials accountable for poor performance and transgressions of laws and regulations.
- The accounting officers and authorities should perform their functions as stipulated in legislation.
- It is critical that the leadership becomes more involved in monitoring key governance matters and implementing daily internal control disciplines.

We remain firmly committed to making a positive contribution to overcoming the obstacles to clean administration in the province. We will continue to make ourselves available and to provide proactive insights into the root causes of weak internal control environments. These engagements will include timely feedback on, and inputs into, the adequacy of the assurance provided by all role players.

AUDIT OUTCOMES, RECOMMENDATIONS AND ROLE PLAYERS' COMMITMENTS

1. Our auditing and reporting process

We audit every department and public entity in the province, also called 'auditees' in this report, so that we can report on the **quality of their financial statements** and **annual performance reports** and on **their compliance with key legislation**.

We also assess the root cause of any error or non-compliance, based on the internal control that had failed to prevent or detect it. We report in the following three types of reports:

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

Over the past few years, we have intensified our efforts to assist with the improvement in audit outcomes by identifying the **key controls** that should be in place at auditees; assessing these on a regular basis; and sharing the assessment with members of the executive, accounting officers and authorities, as well as audit committees.

We further identified the following **key risk areas** that need to be addressed to improve audit outcomes as well as financial and performance management, and we specifically audit these so that we can report on the status thereof: ■ quality of submitted financial statements and performance reports ■ SCM ■ financial health ■ information technology (IT) controls ■ human resource (HR) management (including the use of consultants).

During the auditing process, we work closely with the accounting officer or authority, senior management, audit committee and internal audit unit, as they are **key role players** in providing assurance on the credibility of auditees' financial statements and performance report and on their compliance with legislation.

We also continue to strengthen our relationships with the MECs, the premier and the Provincial Treasury, as we are convinced that their involvement and oversight should play a crucial role in the performance of auditees in the province. We share our messages on key controls, risk areas and root causes with them, and obtain and monitor their commitments to implement initiatives that can improve audit outcomes.

Figure 2 that follows gives an overview of our message on the 2013-14 audit outcomes, which is a continuation of what we had reported and recommended in our last report on the audit outcomes in the province.

The overall audit outcome in figure 2 shows our opinion per auditee on their financial statements and whether we identified material audit findings on the quality of their annual performance report and compliance with key legislation. The overall audit outcomes fall into four categories:

1. Auditees that received a **financially unqualified opinion with no findings** are those that were able to:

- produce financial statements free from material misstatements (material misstatements means errors or omissions that are so significant that they affect the credibility and reliability of the financial statements)
- measure and report on their performance in accordance with the predetermined objectives in their annual performance plan in a manner that is useful and reliable
- comply with key legislation.

This audit outcome is also commonly referred to as a 'clean audit'.

2. Auditees that received a **financially unqualified opinion with findings** are those that were able to produce financial statements without material misstatements, but are struggling to:

- align their performance reports to the predetermined objectives they committed to in their annual performance plans
- set clear performance indicators and targets to measure their performance against their predetermined objectives
- report reliably on whether they achieved their performance targets
- determine which legislation they should comply with and implement the required policies, procedures and controls to ensure their compliance.

3. Auditees that received a **financially qualified opinion with findings** have the same challenges as those that were unqualified with findings but, in addition, they could not produce credible and reliable financial statements. There are material misstatements in their financial statements, which they could not correct before the financial statements were published.

4. The financial statements of auditees with an **adverse opinion** include so many material misstatements that we basically disagree with almost all the amounts and disclosures in the financial statements. Those auditees with a **disclaimed opinion** could not provide us with evidence for most of the account balances and disclosures presented in the financial statements. We were unable to conclude or express an opinion on the credibility of their financial statements. Auditees with adverse or disclaimed opinions are typically also:

- unable to provide sufficient supporting documentation for the achievements they report in their annual performance reports
- not complying with key legislation.

Please note when looking at figure 2 and other figures in this report as well as when reading the rest of the report that only a movement of more than 5% is regarded as an improvement or a regression. Movement is depicted as follows:

Improved Stagnant or little progress Regressed

The rest of the report summarises the audit outcomes and our key recommendations for improvement, followed by a summary of the audit outcomes of the auditees in each portfolio of the MECs. The report also includes three annexures that detail the audit outcomes and findings per auditee, the status of the drivers of internal controls at the auditees, and a five-year view of the audit outcomes. The glossary of terms included after the annexures defines the terminology used in this report.

Figure 2: Overview of audit outcomes and key recommendations for improvement

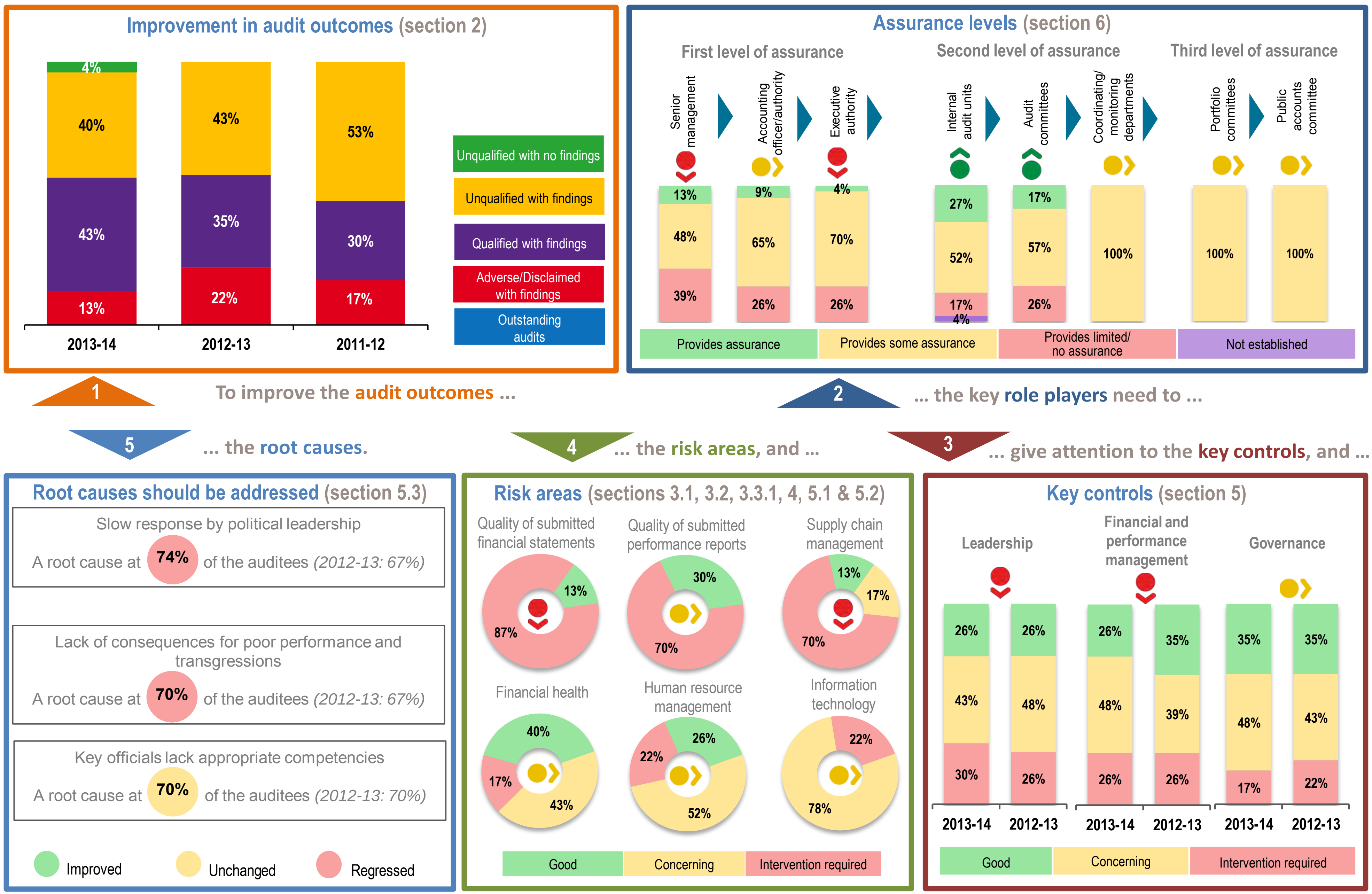


Figure 3: Movement in audit outcomes

Audit outcome / Movement	5 Improved	16 Unchanged	2 Regressed	0 New auditee	0 Outstanding
Unqualified with no findings = 1	Cooperative Governance, Human Settlements & Traditional Affairs				
Unqualified with findings = 9	Limpopo Economic Development Agency	Office of the Premier; Provincial Legislature; Provincial Treasury; Roads & Transport; Safety, Security & Liaison; Great North Transport; Limpopo Gambling Board; Risima Housing Finance Corporation			
Qualified with findings = 10	Health; Public Works; Limpopo Tourism Agency	Agriculture; Social Development; Sport, Arts & Culture; Corridor Mining Resources; Mununzwu Estate; Venteco	Economic Development, Environment &Tourism		
Adverse or disclaimed with findings = 3		Limpopo Roads Agency; Education	Gateway Airport Authority Limpopo		

The colour of the auditee's name indicates the audit opinion from where the auditee has moved.

2. Overall audit outcomes

The provincial government in Limpopo consists of 13 departments and 10 public entities.

During December 2011, the following departments were placed under administration as per section 100(b) of the Constitution:

- Health
- Education
- Provincial Treasury
- Public Works
- Roads and Transport

The total budgeted expenditure of the province was R49,7 billion in 2013-14. The following were the main areas of expenditure:

- Employee cost R34,3 billion
- Goods and services R7,9 billion
- Capital expenditure R2,1 billion
- Transfer payments R5,4 billion

Figure 2 indicates that there has been an improvement in the overall audit outcomes when compared to the previous year. Figure 3 analyses the movement in the audit outcomes of the different auditees since the previous year that had resulted in the net improvement in the audit outcomes of the province.

Section 3 analyses the status of financial statements, annual performance reports and compliance with legislation that contributed to the overall audit outcomes.

3. Status of the three areas that we audit and report on

3.1 Financial statements

The purpose of the annual audit of the financial statements is to provide the users thereof with an opinion on whether the financial statements fairly present, in all material respects, the key financial information for the reporting period in accordance with the financial framework and applicable legislation. The audit provides the users with reasonable assurance on the degree to which the financial statements are reliable and credible, on the basis that the audit procedures performed did not identify any material errors or omissions in the financial statements. We use the term 'material misstatement' to refer to such material errors or omissions.

Figure 4: Three-year trend – financial statements

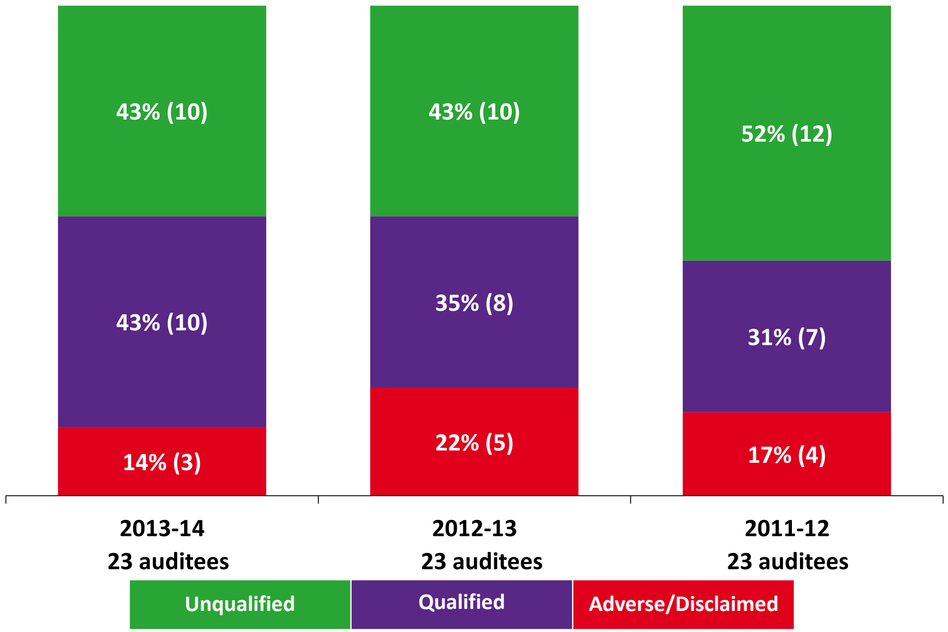


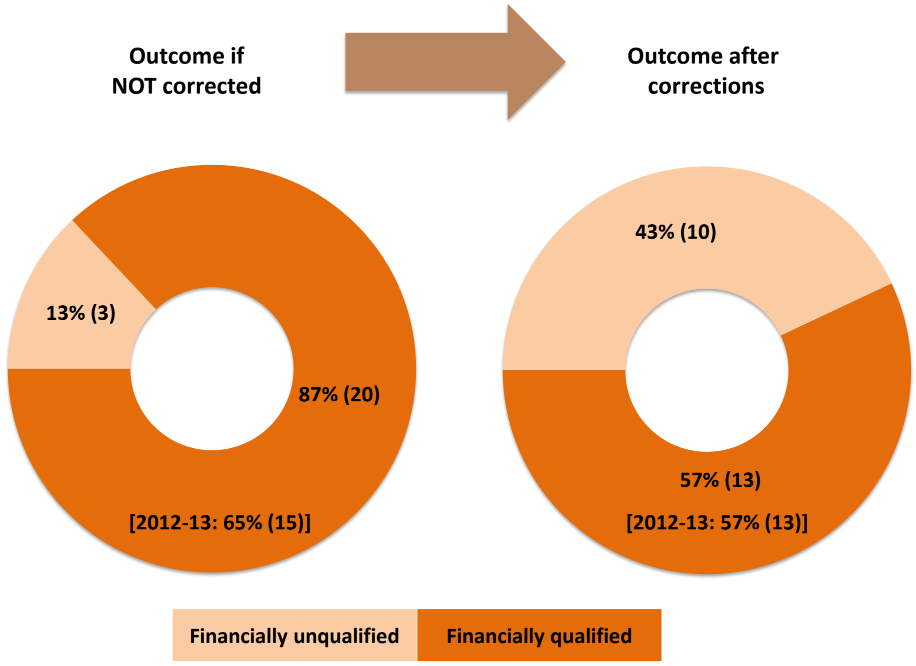
Figure 4 shows that there has been an improvement in the audit opinions on financial statements when compared to the previous year.

In 2013-14, the budgeted expenditure of the Departments of Education, Health and Public Works contributed 78% to the total expenditure in the province. The Departments of Health and Public Works improved from a disclaimed to a qualified opinion. These two departments were among the six departments that obtained a qualified opinion in the year under review. The Department of Education remained on a disclaimer for the third consecutive year. The number of matters reported in their audit report had also increased from the previous year. This department was the only one that did not improve while under administration in terms of section 100(1)(b) of the Constitution. The Department of Economic Development, Environment and Tourism regressed from an unqualified opinion with findings to a qualified opinion.

Regarding the 10 public entities, there were two improvements but one regression. The Limpopo Tourism Agency moved from a disclaimed to a qualified opinion, and the Limpopo Economic Development Agency moved from a qualified to an unqualified opinion with findings. Gateway Airports Authority Limited regressed from a qualified to a disclaimed opinion.

The quality of the financial statements submitted for auditing

Figure 5: Quality of financial statements submitted for auditing



While most auditees submitted their financial statements for auditing on time, figure 5 shows that only three auditees (13%) submitted financial statements that did not contain material misstatements. These auditees were CoGHSTA, the Provincial Treasury and the Office of the Premier

Figure 5 also shows that seven auditees (30%) received a financially unqualified audit opinion only because they corrected all the misstatements we had identified during the audit. The continued reliance on the auditors to identify corrections to be made to the financial statements to obtain an unqualified audit opinion is not a sustainable practice. Furthermore, it places undue pressure on legislated deadlines and increases the audit fees.

We report the poor quality of the financial statements we receive in the audit reports of auditees as a material non-compliance finding, as it also constitutes non-compliance with the Public Finance Management Act (PFMA) (refer to section 3.3 for more information on compliance issues). The finding is only reported if the financial statements we received for auditing included material misstatements that could have been prevented or detected if the auditee had an effective internal control system and review processes. It is not reported if the misstatement resulted from an isolated incident or if it relates to the disclosure of unauthorised, irregular or fruitless and wasteful expenditure identified after the financial statements had been submitted.

The overall quality of the financial statements submitted by auditees regressed from the previous year. The most common areas that auditees corrected to achieve unqualified audit opinions were disclosures and current assets.

One of the contributing factors to these areas was the general lack of resources in the IT units of auditees. IT policies and procedures had also not been implemented, or were irrelevant.

The IT systems in the province must be improved as they cannot integrate data, which requires manual records to be maintained. There were also no IT functionalities relating to the recording of accruals and commitments. The current lack of skills in the finance support units to perform these functions manually and carry out regular reconciliations further contributed to the poor quality of financial information. In addition, the departments in the province did not use LOGIS.

The province also did not have an asset management system, while the procurement system (FINEST) did not have functionalities to record transactions that form part of the disclosure notes in the financial statements. Departmental assets were manually recorded and maintained on Excel spreadsheets, making it prone to errors since regular reconciliations were not performed and asset counts and reconciliations were only conducted at year-end during the preparation of the annual financial statements.

The value of having reliable information systems should not be underestimated, considering that the financial reporting requirements are set to intensify over the next few years to make way for full accrual accounting. The initiative implemented by the national intervention team to roll out the national LOGIS financial system to replace the FINEST system will continue in the 2014-15 financial year. The State Information Technology Agency has been requested to assist the Provincial Treasury with technical and project management skills in this regard.

As previously mentioned, the province did not have a functioning IT system to maintain and record it assets. Limpopo was identified as the first province where the Integrated Financial Management System (IFMS) asset module was to be piloted. However, due to challenges in the implementation phase of the project, the National Treasury in consultation with Cabinet decided to withdraw the implementation of IFMS in the province. The Baud system, which the national intervention team recommended for the scanning and recording of departmental assets, was procured too late in the financial year to have an impact. The benefits of this system will most likely be seen in the 2014-15 financial year.

Financial statement areas qualified

Even though we reported the material misstatements to management for correction, 13 auditees (2012-13: 13) could not make the necessary corrections to the financial statements, which resulted in qualified, adverse and disclaimed audit opinions. The major reason for not making the corrections was a lack of the required competencies and skills at senior management level.

The Department of Public Works, Limpopo Tourism Agency and Great North Transport employed consultants to assist with the preparation of annual financial statements. The latter again received an unqualified opinion. The first two auditees improved their audit outcome from disclaimed to qualified, but we are concerned about the sustainability of these improvements.

The officials of the Department of Public Works resisted cooperating with the administrator from the time the department was placed under section 100(1)(b) administration in 2011. Due to the lack of ownership and willingness by officials to understand the work being performed by the consultants, virtually no skills were transferred during the preparation of the financial statements. The improvement at the department was therefore driven by the consultants.

At the Limpopo Tourism Agency, the consultants' work method in the preparation of the financial statements did not encourage the efficient transfer of skills, as consultants worked offsite with limited interaction with officials.

Figure 6: Three most common financial statement qualification areas

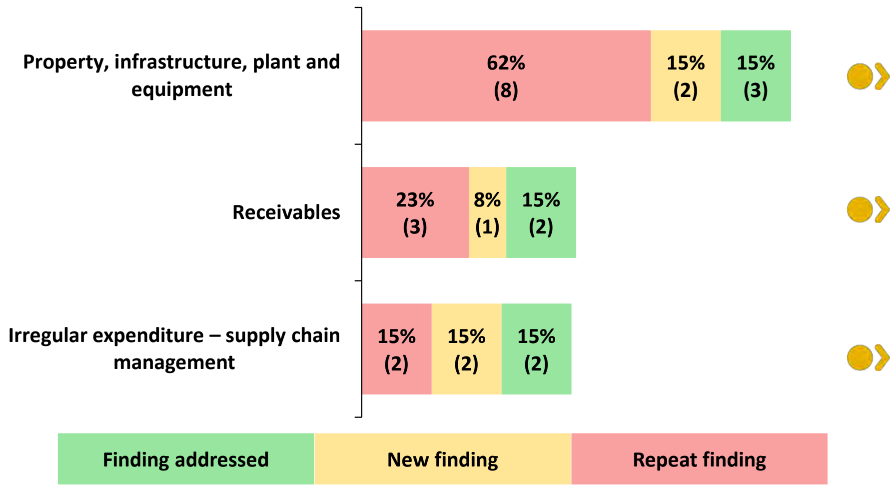


Figure 6 indicates the three most common financial statement qualification areas and auditees' progress in addressing these since the previous year. The reasons for these qualifications and the auditees qualified are discussed below.

Property, infrastructure, plant and equipment

- The Department of Economic Development, Environment and Tourism; Limpopo Roads Agency; and Limpopo Tourism Agency did not include all properties belonging to them in their financial statements, due to a dispute between them about the ownership of certain properties. This is a long-standing matter that the department and its entities must resolve to avoid future qualifications.
- The Departments of Public Works; Sport, Arts and Culture; Social Development; and Education as well as Gateway Airports Authority Limited included the value of assets that no longer existed or that we could not physically verify. This was caused by incorrect and incomplete asset registers that did not reconcile to the general ledger. The number of auditees with this problem remained the same as in the previous year. The province has been without an asset management system for the past seven years, which means that manual asset registers are maintained to record assets. The national intervention team is trying to introduce LOGIS to manage the province's assets.

Receivables

- At the Department of Education, we were unable to verify the accuracy of the amount estimated for bad debts due to inadequate record keeping.
- Accounting records at the Departments of Public Works and Health and at Gateway Airports Authority Limited were incomplete, which placed a limitation on the scope of the audit to verify the actual amounts.

Irregular expenditure – supply chain management

- The Departments of Education; Public Works; and Sport, Arts and Culture as well as the Limpopo Roads Agency did not have proper systems for the procurement of goods and services. This resulted in uncompetitive and unfair procurement processes and an inability to submit documentation relating to procurement. Shortcomings in the SCM process should be prioritised, as the same findings are recurring each year.

Recommendations

Auditees that received qualified, adverse or disclaimed opinions and those that submitted poor quality financial statements for auditing should strengthen their processes and controls to create a control environment that supports reliable reporting. These auditees should implement at least the following key controls and best practices that are in place at CoGHSTA, the Office of the Premier and the Provincial Treasury:

- Proper record keeping to make sure that reliable financial information is readily accessible and available.
- Daily and monthly reconciliations and updating of financial information; for example, performing regular asset counts and reconciling them to the asset register.
- Drawing up action plans to address external audit findings immediately after the audit is concluded, and implementing and regularly monitoring these plans.

We are encouraged by the Department of Health that managed to clear its legacy issues from previous years. The department took the initiative to find alternative solutions to address these matters rather than waiting for a solution from the Provincial Treasury. Officials of the department were performing incompatible functions and were placed in positions where they lacked the required skills and competence to effectively discharge their roles and responsibilities. The department embarked on a restructuring process where such officials were identified and later placed in positions for which they were suited. This was a key driver in the improvement of the audit outcome and we encourage other departments and entities to undertake a similar exercise.

The Department of Education was the only department in the province to remain on a disclaimed audit opinion. Unfortunately, the number of matters reported in the year under review also increased from the previous year. It is unlikely that the outcome will change if management does not start taking ownership of the challenges. The audit committee could also not thoroughly review the draft financial statements, as they were only submitted to the committee on the day of the meeting. The audit committee thus had to rely on the high-level review performed by the Provincial Treasury in this regard.

Notwithstanding the fact that the department was under administration, the involvement of the MECs to address the financial management weaknesses was not sufficient, as changes were made to the political leadership in quick succession.

3.2 Annual performance reports

To enable transparency, responsiveness and accountability, government should have an effective performance reporting system. The public should have access to performance information indicating whether taxpayer's money had been well spent and what has been achieved. Legislators also use performance information to track progress of government departments and institutions, identify scope for improvement, and better understand the underlying issues experienced by institutions.

Based on this, auditees are required to measure their actual service delivery against the performance indicators and targets set for each of their predetermined performance objectives, and to report on this in their annual performance reports. When auditing reporting on predetermined objectives, we do not evaluate if the auditees delivered on their mandate in an economical, efficient and effective way. The purpose is simply to evaluate the process auditees followed to set objectives and how they reported on these objectives.

In previous years, the results of our annual regularity audits of how government reports on predetermined objectives, highlighted the concern that many government institutions were not ready to report on their performance. The extent of the shortcomings prompted us to conduct a performance audit, in addition to our annual regularity audit, to determine the underlying causes of shortcomings in reporting on performance. The aim was to assist government in accelerating its readiness and effectiveness to report on its performance.

Performance audit of the readiness of government to report on its performance

We performed this audit transversally across the provinces and focused on the following:

- The performance reporting guidance and oversight that government departments have received.
- The systems and processes that government departments have put in place to report on their performance.

The audit identified the root causes for departments continuing to produce annual performance reports that were not useful and reliable. In Limpopo, we performed the audit at the following oversight institutions:

- Office of the Premier
- Provincial Treasury

The audit indicated that the provincial oversight institutions provided performance management and reporting guidance and oversight.

We performed the audit at the following departments in the province:

- Education
- Health
- Public Works
- Social Development

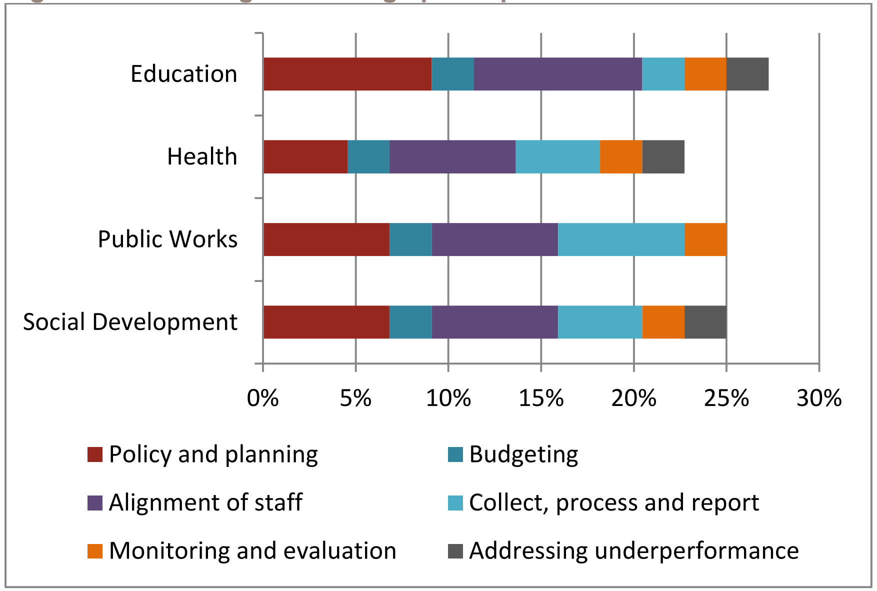
The most common findings identified at the departments were the following:

- Departments did not have approved or comprehensive policies and procedures for reporting on performance.
- Some performance indicators were not well defined or verifiable, or did not measure whether resources had been used efficiently, effectively and economically to produce the desired outputs and outcomes.
- Performance targets did not always comply with the SMART criteria, or were not realistic as they were not selected based on accurate baseline information or research and evaluation.
- Staff were not sufficiently skilled to manage and report on performance.
- At some departments, approved processes and system documentation for collecting, collating, verifying, storing and reporting on actual performance did not exist.

- The internal audit units of some departments did not annually review performance information, or their reviews did not focus on the usefulness and reliability of reported performance information.
- Material deviations between planned and actual performance were not explained. In addition, evidence to support explanations was not maintained, or management did not review these explanations.
- Action plans were not always developed to ensure prompt corrective action where underperformance occurred or where performance reporting shortcomings were identified.

Figure 7 shows the distribution of findings in the province.

Figure 7: Percentage of findings per department



2013-14 regularity audit on the quality of annual performance reports

We audit selected material programmes of departments and objectives of public entities to determine whether the information in the annual performance reports is useful and reliable for oversight bodies, the public and other users of the reports to assess the performance of the auditee. In the audit report, we reported findings from the audits that were material enough to be brought to the attention of these users. The programmes and objectives we select are those that are important for the delivery by the auditee on its mandate.

We audited the **usefulness of the reported performance information** by determining whether it was presented in the annual report in the prescribed manner and was consistent with the auditees' planned objectives as defined in their strategic plans and annual performance plans. We also assessed whether the performance indicators and targets that were set to measure the achievement of the objectives were well defined, verifiable, specific, time bound, measurable and relevant.

We audited the **reliability of the reported information** by determining whether it could be traced back to the source data or documentation and was accurate, complete and valid.

Figure 8: Three-year trend – annual performance reports

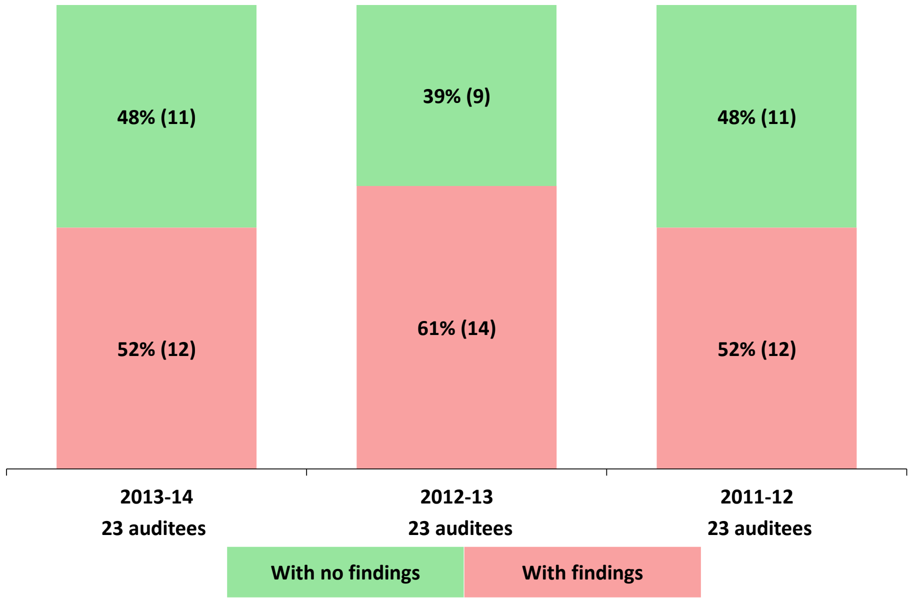


Figure 8 shows that there has been an increase in auditees with no material findings on the quality of their annual performance reports when compared to the previous year. Most departments managed to submit performance information that was both useful and reliable. CoGHSTA, the Department of Sport, Arts and Culture and the Provincial Legislature cleared their prior year findings, but the Departments of Health, Education and Public Works all had recurring findings. Most public entities had findings on performance information, due to officials not fully understanding the requirements for reporting on performance.

The quality of the annual performance reports submitted for auditing

While all auditees submitted their annual performance reports for auditing on time, figure 9 shows that only seven auditees (30%) submitted annual performance reports that did not contain material misstatements. They were CoGHSTA; Provincial Treasury; Provincial Legislature; Department of Safety, Security and Liaison; Department of Social Development; Limpopo Gambling Board; and Venteco. Provincial departments showed a significant improvement in the quality of their performance reports, as officials at departments were more familiar with the requirements for credible performance reporting than their counterparts at public entities.

Figure 9: Quality of submitted annual performance report

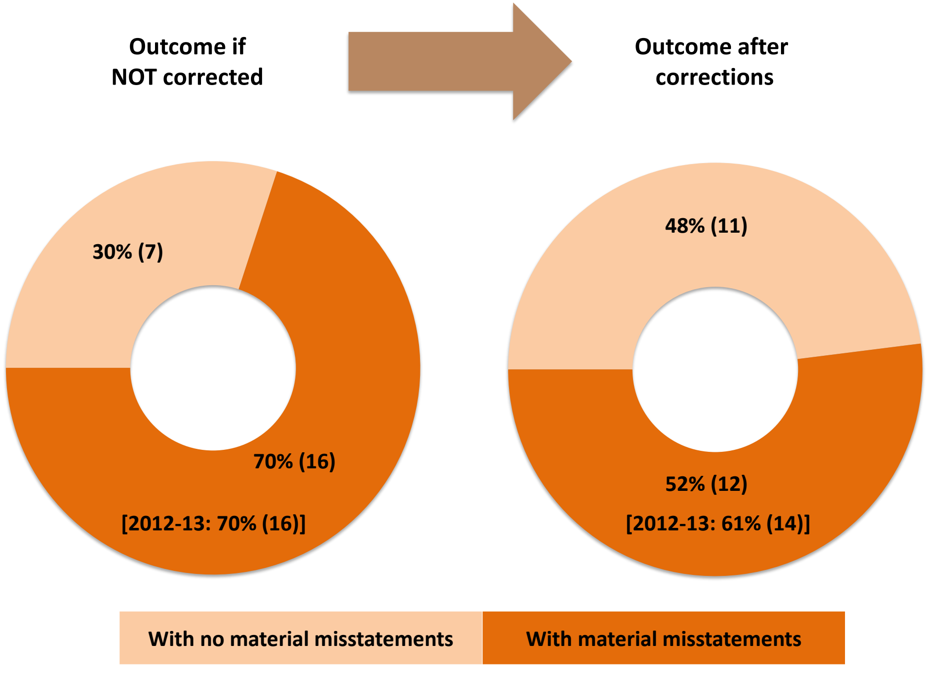


Figure 9 shows that 11 auditees (48%) did not have any material findings on the quality of their annual performance reports, of which seven submitted performance reports with no material misstatements and four corrected the material misstatements we had identified during the audit. Although slow, there has been some progress in submitting useful and reliable performance information for auditing. The Provincial Treasury should intensify their efforts to train and empower officials at public entities so that they clearly understand what is required from them when reporting on their entities' performance.

Findings on usefulness and reliability of annual performance reports

Some main programmes or objectives of auditees are material in relation to their budget and mandate. The following are the programmes and objectives we selected for auditing and for which we reported material findings on usefulness and reliability:

Auditee	Programme/Objective	Not useful	Not reliable
Agriculture	Veterinary services		x
Education	Public ordinary schools	x	x
	Infrastructure	x	x
Health	District health services	x	x
	Regional and specialized hospitals	x	x
	Tertiary hospitals		x
Economic Development, Environment and Tourism	Economic development	x	x
	Environmental affairs	x	
	Tourism	x	x
Public Works	Public works	x	x
	Extended public works programme	x	x
Corridor Mining Resources	Mobilisation of investment to promote growth and empowerment	x	
Gateway Airports Authority Limited	Office of the CEO	x	x
	Company secretary	x	x

Auditee	Programme/Objective	Not useful	Not reliable
	Corporate affairs	x	x
	Operations		x
	Financial management	x	x
	Human resources	x	x
	Audit and risk	x	
Great North Transport	A visible, reputable and well governed transport company		x
Limpopo Economic Development Agency	Enterprise development and finance	x	x
	Trade and investment promotions	x	x
Mununzwu Estate	Mununzwu Estate	x	x
Risima Housing Finance Corporation	Home loan finance	x	
Limpopo Tourism Agency	Limpopo wildlife resorts	x	x
	Tourism and marketing	x	x
	Provincial convention bureau (office of the chief conventions bureau)	x	x

The most common findings on the **usefulness** of information were the following:

- The annual performance reports included objectives, indicators or targets that were different from those in the performance plans.
- The performance indicators were not well defined in that targets were not specific enough to ensure that the required performance could be measured and reported in a useful manner.

The most common finding on the **reliability** of information was that reported information could not be traced back to the source data or documentation to determine if the reported information was accurate, complete and valid when compared to the source.

The prevalence of annual performance reports containing information that is neither useful nor reliable points to the inability of auditees to adequately plan, manage and report on their performance.

Findings on compliance with key legislation on strategic planning and performance management

The PFMA prescribes the manner in which strategic planning and performance management should be performed. We report material non-compliance with this legislation in the audit reports of auditees (refer to section 3.3 for more information on compliance issues). The following were the most common findings in this regard:

- There was a lack of an effective, efficient and transparent system of internal control regarding performance management. This affected the ability of auditees to plan, monitor and review performance.
- Great North Transport, Corridor Mining Resources and Gateway Airports Authority Limited did not conclude a shareholders' compact in consultation with the MEC for economic development, environment and tourism, which could have had an impact on the relevance of targets set in the planning stage.

Recommendations

Auditees that had material findings and those that submitted poor quality annual performance reports for auditing should strengthen their processes and controls to create and then sustain a control environment that supports useful and reliable reporting on performance. These auditees should implement at least the following key controls and best practices that are in place at the Office of the Premier, Provincial Treasury, CoGHSTA and Department of Roads and Transport:

- Regular, accurate and complete performance reports that are supported and evidenced by reliable information should be prepared. Dedicated officials should be appointed to collect, collate and verify performance information.
- Quarterly meetings should be held to discuss and review performance information reporting with all senior managers.
- The lack of appropriate capacity to manage performance information should receive attention, while the IT governance structures for predetermined objectives require intervention. Currently, performance information reports are

prepared on manual spreadsheets, making them prone to human error. At three departments and two public entities, we did not have sufficient information to come to any conclusion on the quality of such reports.

If these recommendations are implemented, it will increase the transparency and accountability of provincial government and contribute to improving service delivery to the citizens in the province.

3.3 Compliance with key legislation

We annually audit and report on compliance with key legislation applicable to financial matters, financial management and other related matters.

We focused on the following areas in our compliance audits: ■ material misstatements in the submitted annual financial statements ■ asset and liability management ■ audit committee ■ budget management ■ expenditure management ■ unauthorised, irregular as well as fruitless and wasteful expenditure ■ consequence management ■ internal audit unit ■ revenue management ■ strategic planning and performance management ■ annual financial statements and annual report ■ transfer of funds and conditional grants ■ procurement and contract management (in other words, SCM) ■ HR management and compensation.

In the audit report, we reported findings from the audits that were material enough to be brought to the attention of oversight bodies and the public.

Status and findings on compliance with key legislation

Figure 10: Three-year trend – compliance with key legislation

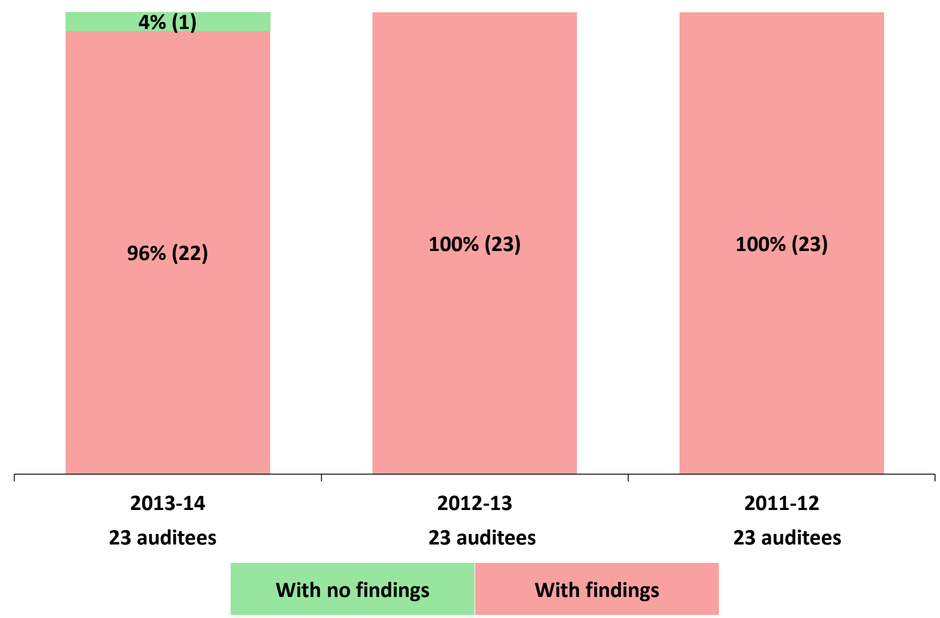


Figure 10 shows that there has been almost no movement in auditees that did not have material findings on compliance with key legislation when compared to the previous year. Except for CoGHSTA, no other auditee managed to comply with all legislation that governs provincial government. Some departments addressed material instances of non-compliance with legislation but almost all had new findings. The non-compliance issues identified at audit committees in the previous year had all been cleared. Areas where findings were addressed show that auditees are beginning to close the gaps but further improvements are still needed.

Figure 11: Trends in findings on compliance with legislation

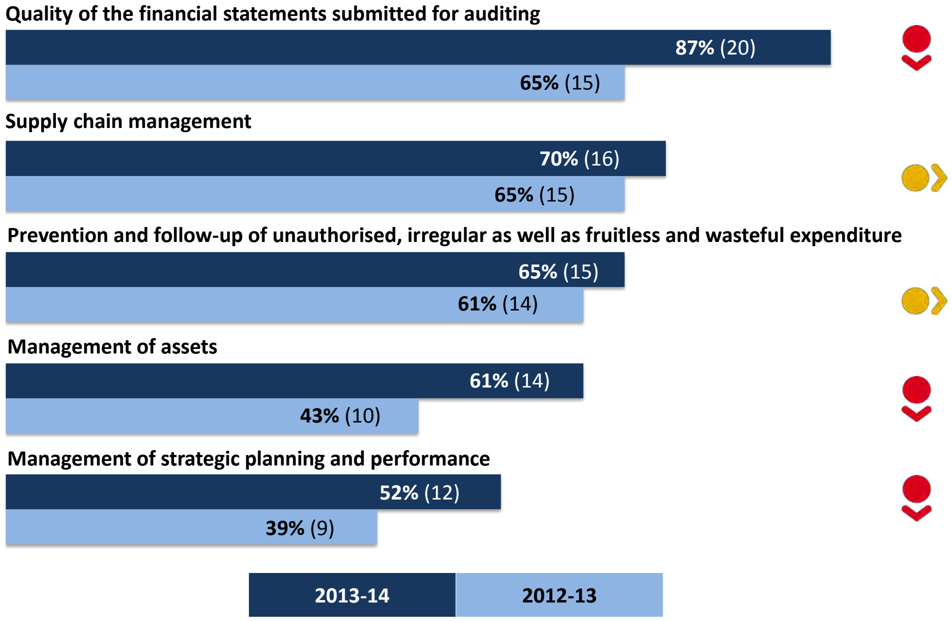


Figure 11 shows the compliance areas with the most material findings and the progress made by auditees in addressing these findings. There has been no improvement from the previous year, with a number of regressions in certain focus areas.

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

- There were material misstatements or limitations in the financial statements submitted for auditing, as mentioned in section 3.1.
- SCM legislation was not complied with, as detailed in section 3.3.1.
- Unauthorised, irregular as well as fruitless and wasteful expenditure was not prevented or adequately dealt with, as discussed in section 3.3.2.
- There were no proper control systems for the safeguarding and maintenance of assets.

Sections 3.3.1 and 3.3.2 that follow provide more information on SCM and unauthorised, irregular as well as fruitless and wasteful expenditure, followed by recommendations and best practices to improve compliance in section 3.3.3.

3.3.1 Supply chain management

As part of our audits of SCM, we tested 307 contracts (with an approximate value of R2 billion) and 2 254 quotations (with an approximate value of R192 million), also referred to as 'awards' in this report.

We tested whether the prescribed procurement processes had been followed, which would have ensured that all suppliers were given equal opportunity to compete and that some suppliers were not favoured above others. We also focused on contract management, as shortcomings in this area can result in delays, wastage as well as fruitless and wasteful expenditure, which in turn have a direct impact on service delivery.

We further assessed the interests of employees of the auditee and their close family members in suppliers of the auditee. Legislation does not prohibit awards to suppliers in which employees or their close family members have an interest, but requires employees and prospective suppliers to declare the interest in order for safeguards to be put in place to prevent improper influence and an unfair procurement process.

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

Figure 12: Status of supply chain management

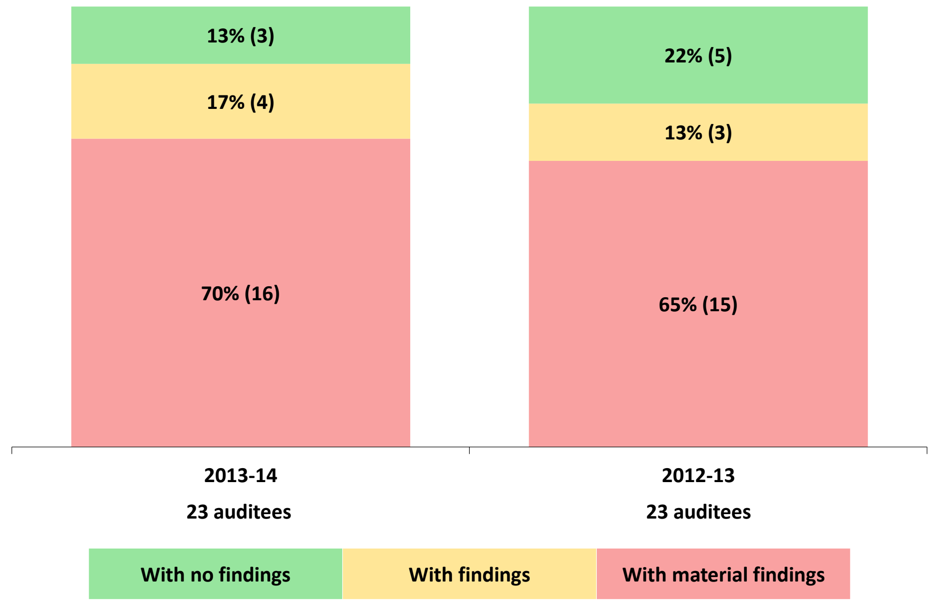


Figure 13: Findings on supply chain management

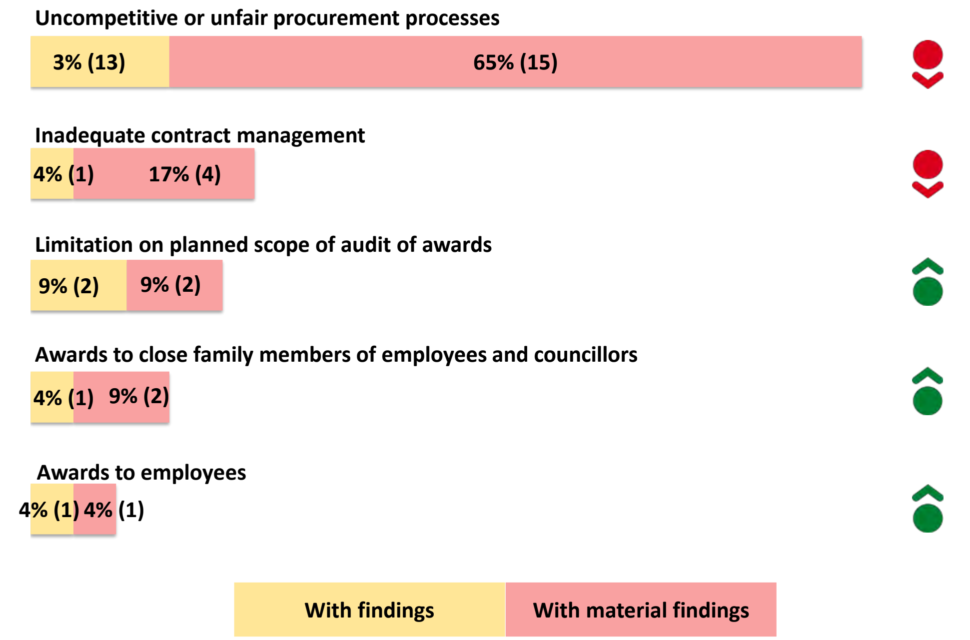


Figure 12 shows the number of auditees that had audit findings on SCM and those where we reported material compliance findings in the audit report in the current and previous year. Material findings are those findings that we considered sufficiently important to include in the audit report. Non-material findings are those findings that were reported only in the management report; but if not addressed, could result in material findings in future.

Unfortunately, there has been a regression since the previous year, with only the Provincial Treasury, Department of Safety, Security and Liaison and Mununzwu Estate having no findings on procurement management. We reported findings arising from the audit in the management reports of 20 (87%) of the auditees, while at 16 (70%) of these auditees the findings were material enough to be reported in the audit report. In the previous year, we reported findings in the management reports of 18 (78%) of the auditees and material findings in the audit reports of 15 (65%) of the auditees. It is therefore clear that SCM remains an area of concern.

Figure 13 indicates the extent of findings in the areas we report on and the movement since the previous year. The following were the most common findings:

- This year we again experienced **limitations** in auditing SCM. We could not audit awards with a value of R451,8 million at four auditees, as they could not provide us with evidence that awards had been made in accordance with the requirements of SCM legislation. We could also not perform any alternative audit procedures to obtain assurance that the expenditure incurred in this regard was not irregular. The main reason for the limitations was bidding and quotation documents that were missing or could not be produced timeously, as a result of weak record and document management systems. This may also point to fraud or other irregularities at the auditees.
- The following were the most common findings on **uncompetitive and unfair procurement processes**:
  - Three price quotations were not obtained, or deviations were not approved or justified (43% of the auditees).
  - Competitive bids were not invited or deviations were not justified, or both these matters (30% of the auditees).

- Procurement took place from suppliers who did not have tax clearance from the South African Revenue Service (26% of the auditees).

- The following were the most common findings on **contract management**:
  - Projects were not registered with the Construction Industry Development Board (13% of the auditees).
  - Contracts were amended or extended without approval by a delegated official (13% of the auditees).

The following internal control deficiencies identified at auditees should be addressed to improve the status of SCM in the province:

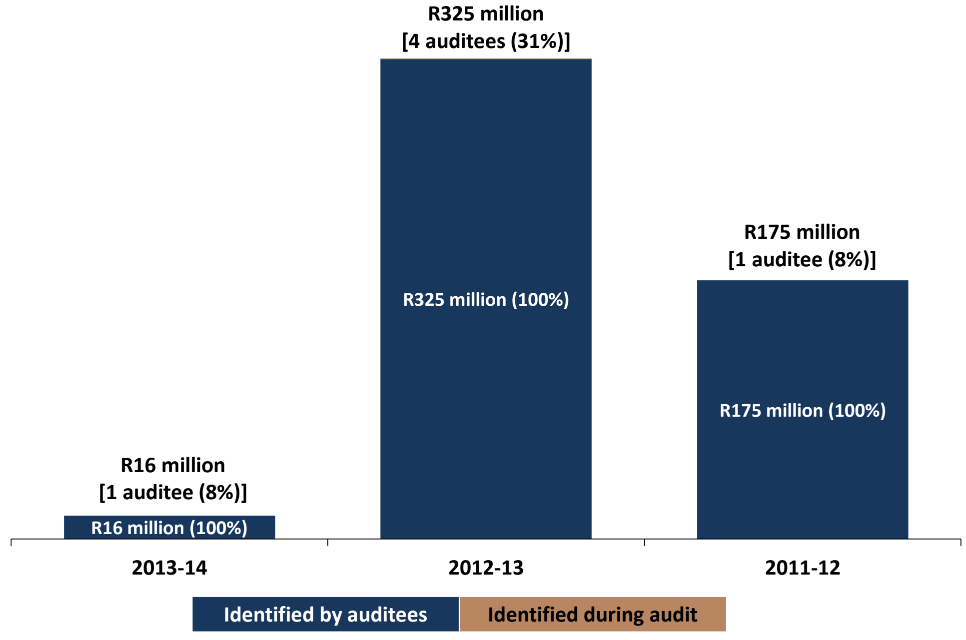
- SCM officials were not adequately trained.
- SCM officials were not aware of SCM policies or did not understand their roles and responsibilities.
- Record keeping was not adequate.
- Controls were inadequate to ensure that interests were declared.
- Deviations due to poor planning were approved.

3.3.2 Unauthorised, irregular as well as fruitless and wasteful expenditure

Unauthorised expenditure

Unauthorised expenditure is expenditure that was not spent in accordance with the approved budget. The PFMA requires accounting officers to take all reasonable steps to prevent this type of expenditure. Auditees should have processes in place to identify any unauthorised expenditure incurred and to disclose the amounts in the financial statements. The PFMA also includes steps that accounting officers and oversight bodies should take to investigate unauthorised expenditure to determine whether any officials are liable for the expenditure and to recover the money if liability is proven.

Figure 14: Three-year trend – unauthorised expenditure



Unauthorised expenditure of R175 million was incurred in 2011-12, which increased to R325 million in 2012-13. Encouragingly, unauthorised expenditure decreased by 95% to R16 million in 2013-14, mainly due to the impact of the section 100 administration on the implementation of strict budget-control measures in the province.

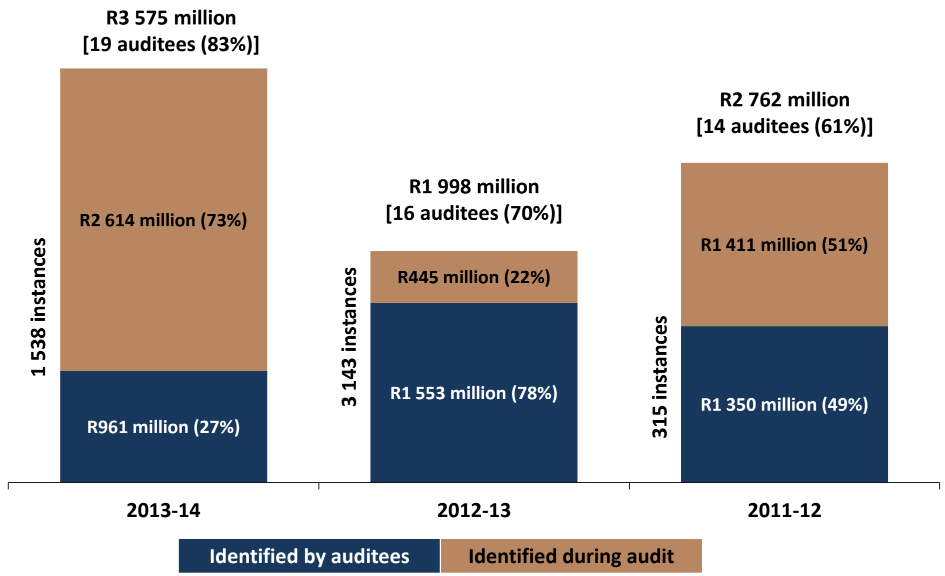
The current year's unauthorised expenditure of R16 million was incurred at the Department of Education, which also had unauthorised expenditure in the previous year. Over the three-year period, auditees have consistently demonstrated their ability to identify the unauthorised expenditure.

Irregular expenditure

Irregular expenditure is expenditure that was not incurred in the manner prescribed by legislation. Such expenditure does not necessarily mean that money had been wasted or that fraud had been committed, but is an indicator that legislation is not being adhered to, including legislation aimed at ensuring that procurement processes are competitive and fair. It also points to a significant breakdown in controls at some auditees.

The PFMA requires accounting officers to take all reasonable steps to prevent irregular expenditure. Auditees should have processes in place to detect non-compliance with legislation that results in irregular expenditure and, if incurred, must disclose the amounts in the financial statements. Irregular expenditure must be reported when it is identified – even if such expenditure was from a previous financial year.

Figure 15: Three-year trend – irregular expenditure



The total irregular expenditure incurred in the province by both departments and public entities amounted to R3,6 billion, which is a significant increase from the previous year's total of R2 billion and the 2011-12 amount of R2,7 billion. The Department of Education (R2,2 billion), Department of Health (R870 million) and Limpopo Roads Agency (R290 million) incurred the bulk of the irregular expenditure and were responsible for 94% of the total instances.

The matters that give rise to the irregular expenditure mainly stemmed from poor planning. For example, contracts were extended at the Department of Education without following a proper tender process although the expiry dates of contracts were known well in advance, while deviations from the competitive bidding process were approved on the basis of it being an emergency. In addition, awards were made to prohibited suppliers or without inviting at least three quotations, while deviations from the procurement process also occurred.

Officials not being held accountable for transgressing laws and regulations as well as the lack of adequate skills in SCM units contributed to the irregular expenditure. We could also not audit contracts to the value of R385 673 609 at the Department of Education, as an adequate document management system did not exist to safeguard and maintain supporting documentation. This amount is included in the total amount of irregular expenditure of R2,2 billion incurred by the Department of Education. Furthermore, the department was qualified on the irregular expenditure, as we could not confirm the completeness thereof.

Most of the irregular expenditure incurred at these three auditees pertained to non-compliance with SCM legislation. Uncompetitive or unfair procurement processes remained an issue at all auditees, due to inadequate contract management as well as a lack of control and monitoring of the entire process of inviting bids, assessing the bids according to specific criteria, and awarding tenders.

Three auditees disclosed in their financial statements that they still had to investigate the whole population to determine the full extent of their irregular expenditure. Three departments (Education; Public Works; and Sport, Arts and Culture) and one entity (Limpopo Roads Agency) were qualified on irregular expenditure in the year under review.

A large portion (73%) of the irregular expenditure was identified during the audit process and not by the auditees, indicating that the systems to prevent and detect irregular expenditure were still not adequate. This was especially the case at the Department of Education and the Limpopo Roads Agency, where there was a significant lapse in controls in the year under review. Poor planning and a lack of skills in the finance and SCM units made it impossible for these two auditees to prevent and detect irregular expenditure.

After year-end, the Provincial Treasury conducted SCM roll-out intervention workshops in the five districts of the province. These workshops focused on the implementation of the provincial SCM instruction notes to prevent further non-compliance. The impact of this intervention will be measured in the 2014-15 financial year.

Figure 16: Previous years' irregular expenditure identified in current year

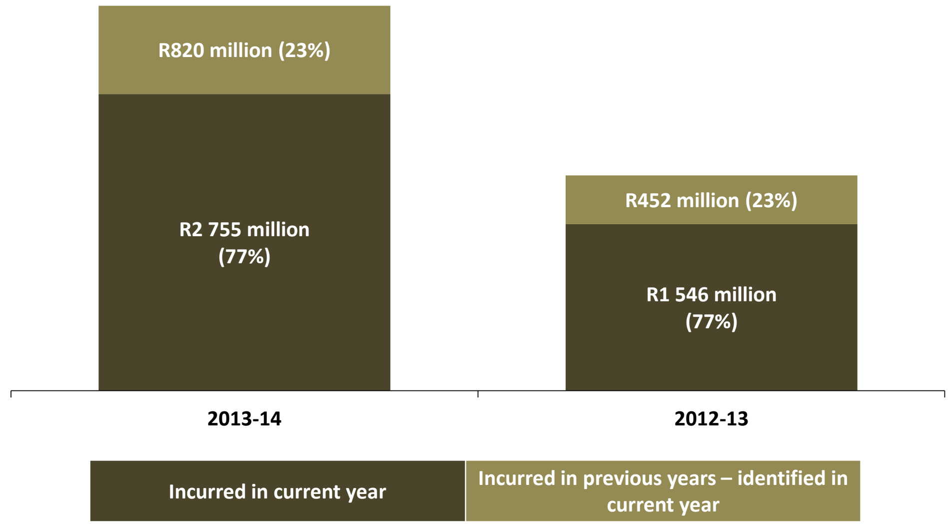


Figure 16 shows that 77% of the expenditure was the result of acts of non-compliance in 2013-14; the remainder was expenditure resulting from transgressions in previous years. This is consistent with the situation in 2012-13, when 77% of the irregular expenditure was incurred in that year.

Of the irregular expenditure of R3,6 billion incurred in 2013-14, most (97%) was as a result of non-compliance with SCM legislation, as previously mentioned. The following were the main areas of non-compliance as disclosed by the auditees in their financial statements, with an indication of the estimated value of the expenditure:

- Procurement without a competitive bidding or quotation process – R370 million (11 %).
- Non-compliance with procurement process requirements – R2 104 million (60%).
- Non-compliance with legislation on contract management (for example, where contracts were extended or amended without the adequate approval) – R1 012 million (29%).

The PFMA provides steps that accounting officers should take to investigate irregular expenditure to determine whether any officials are liable for the expenditure and to recover the money if liability is proven. The investigation should also confirm whether fraud had been committed or money had been wasted through goods and services that were not received or that were not procured at the best price. Irregular expenditure remains in the auditee's financial statements until it is recovered if liability is proven, or written off as not recoverable or condoned by a relevant authority (mostly the National Treasury).

At 31 March 2013, the auditees' financial statements showed that the balance of irregular expenditure that required action to be taken was R2,3 billion. In 2013-14, only a portion (R770 million or 33%) of this balance was dealt with as required by legislation, leaving a balance of R2,6 billion at the end of the 2013-14 financial year.

Our audits also identified that at the Limpopo Roads Agency and the Department of Social Development, the accounting officer or oversight body had not investigated the irregular expenditure of the previous year to determine if any person was liable for the expenditure. Consequently, auditees did not determine whether the irregularities constituted fraud or whether any money had been wasted.

We did not investigate the irregular expenditure, as that is the responsibility of the accounting officer and oversight body. However, through our normal audits we determined that goods and services were received for R3 478 million of the irregular expenditure despite the normal processes governing procurement not having been followed. We could not determine whether goods and services were received for R8 million of the irregular expenditure, due to a lack of supporting documents at the Departments of Public Works and Sport, Arts and Culture. There is a risk though that not all the irregular expenditure had been recorded in the financial statements at four of the auditees where we qualified the irregular expenditure amount shown in their financial statements.

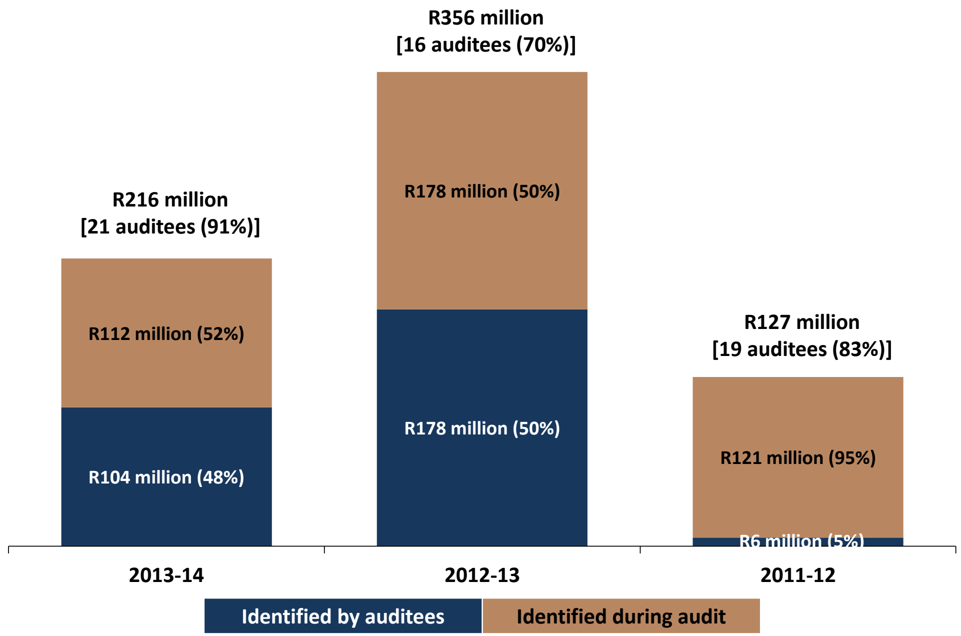
There is an increasing trend of auditees delegating their functions to another entity, by appointing them as implementing agents. Fair, equitable and transparent procurement processes are not always followed to appoint these implementing agents or to monitor them once payments have been made to ensure that value for money is received. In addition, management fees have to be paid although more than half (70%) of the provincial budget is already spent on employee cost. One would therefore expect that government employees should be performing the duties delegated to implementing agents.

Fruitless and wasteful expenditure

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

The PFMA requires accounting officers to take all reasonable steps to prevent fruitless and wasteful expenditure. Auditees should have processes in place to detect fruitless and wasteful expenditure and, if incurred, to disclose the amounts in the financial statements. Fruitless and wasteful expenditure must be reported when it is identified – even if the expenditure was from a previous financial year.

Figure 17: Three-year trend – fruitless and wasteful expenditure



Overall, fruitless and wasteful expenditure decreased by 40% since the previous year, but the amount is still higher than in 2011-12. The Department of Education and the Department of Health were responsible for R202 million (94%) of the total fruitless and wasteful expenditure in the province.

There has been no improvement in the ability of auditees to identify and disclose the fruitless and wasteful expenditure, as 52% of the total expenditure was identified during the audit process. One department (Education) and two public entities (Limpopo Roads Agency and Limpopo Tourism Agency) were qualified on fruitless and wasteful expenditure.

The nature of the fruitless and wasteful expenditure was the following:

- Penalties: R3,6 million (2%)
- Interest: R7,3 million (3%)
- Litigation and claims: R29,3 million (14%)
- Substandard work on newly constructed schools and mobile classrooms not being used at the Department of Education: R168 million (78%)
- Other: R6,7million (3%)

The amount of fruitless and wasteful expenditure disclosed by auditees amounted to R45 million, whereas the total incurred amount was R215 million. The Department of Education incurred most of the undisclosed fruitless and wasteful expenditure (R168 million).

A total of R177 million (82%) of the fruitless and wasteful expenditure was incurred to prevent further fruitless and wasteful expenditure, irregular expenditure or losses, of which 95% was incurred by the Department of Education for the reasons mentioned above.

The PFMA provides steps that accounting officers should take to investigate the fruitless and wasteful expenditure to determine whether any officials are liable for the expenditure and to recover the money if liability is proven. Our audits identified that the accounting officer or oversight body at two auditees (9%), namely the Department of Social Development and the Limpopo Roads Agency did not investigate the fruitless and wasteful expenditure of the previous year to determine if any person was liable for the expenditure.

3.3.3 Recommendations – compliance

Auditees that had findings on compliance with key legislation and SCM and those that incurred unauthorised, irregular as well as fruitless and wasteful expenditure should strengthen their processes and controls to create a control environment that supports compliance. These auditees should implement at least the following key controls and best practices that are in place at CoGHSTA and the Provincial Treasury:

- The leadership should introduce a culture of discipline and set the right tone at the top. Consequences for deliberate non-compliance with legislation must be instituted.
- The involvement of the leadership in the day-to-day operations and the audit process should become standard practice in the province.
- Policies and procedures should be introduced to monitor compliance with legislation and ensure that frequent monitoring takes place.
- The control environment should be strengthened by addressing the high vacancy rates in SCM units at some auditees.

All auditees, except one, had recurring findings on material non-compliance. This indicates that the internal controls of most auditees not only failed to prevent non-compliance with legislation, but also failed to detect the deviations.

4. Financial health

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

We also performed procedures to assess whether there are any events or conditions that may cast significant doubt on a public entity's ability to continue as a going concern.

Figure 18: Status of financial health

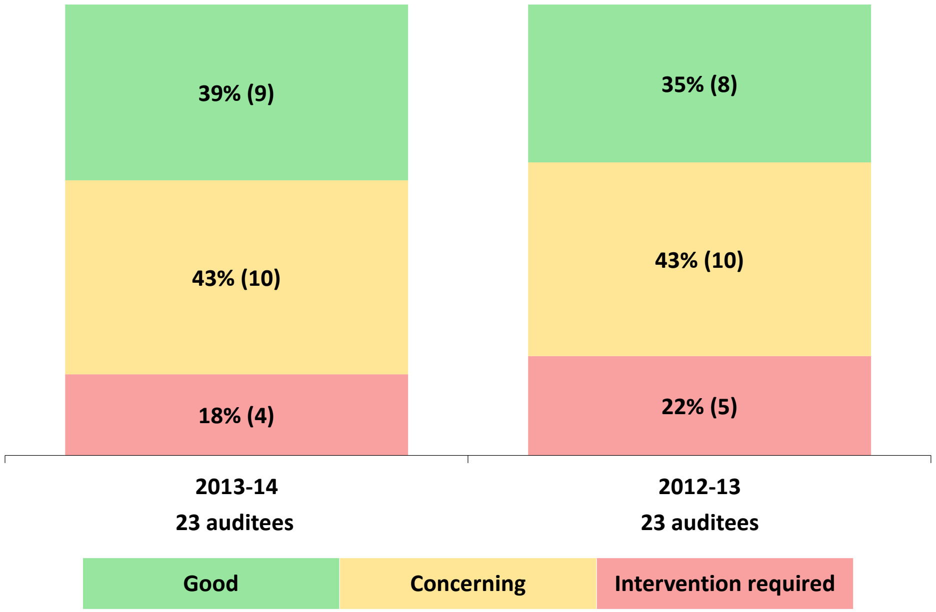


Figure 18 indicates the number of auditees that had more than two of the financial risk indicators (shown as 'concerning') and auditees with material going concern uncertainties or adverse or disclaimed audit opinions, which resulted in their financial statements not being reliable enough to analyse (shown as 'intervention required'). There has been a slight reduction in the number of auditees that had financial risk indicators when compared to the previous year.

During the year under review, nine auditees had findings on two or less indicators, whereas eight auditees had findings on two or less indicators during 2012-13.

Figure 19: Areas of financial health concerns – departments

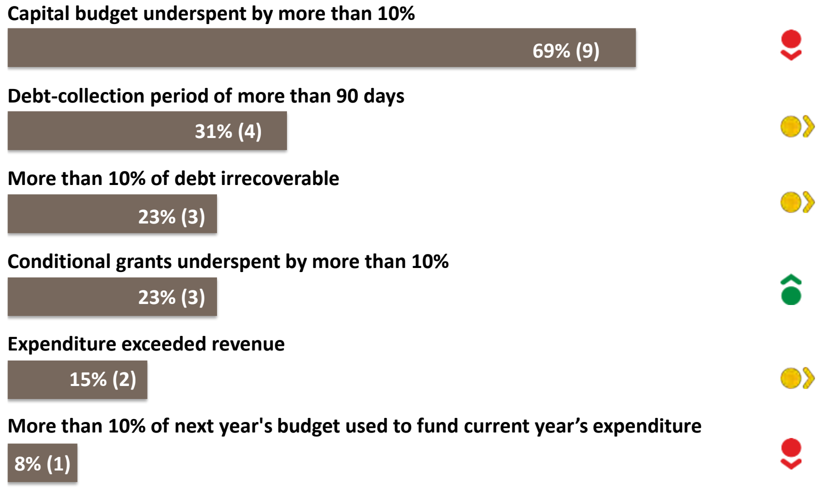
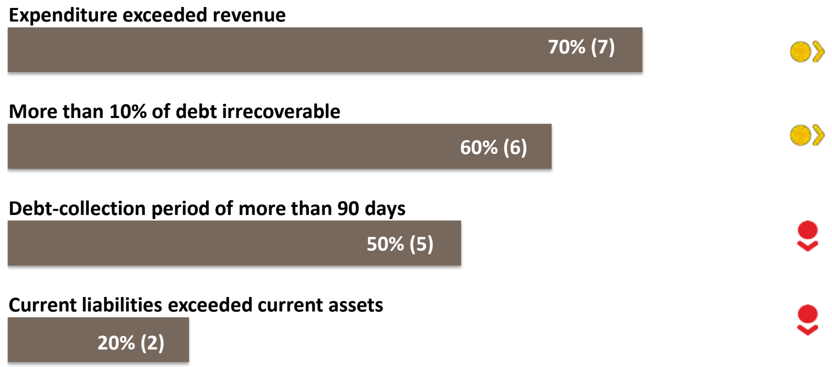


Figure 20: Areas of financial health concerns – public entities



Figures 19 and 20 depict the different financial health indicators and the percentage of auditees that had findings on these indicators. It also analyses the movement from the previous year. These indicators are discussed in the rest of this section.

Financial management by departments

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

We analysed the following indicators to assess the financial health of departments: accrual adjusted deficit, more than 10% of next year's budget required to fund the current's year budget, and year-end bank balances in overdraft.

The outcome of our analysis is as follows:

- Two departments (Agriculture and Provincial Legislature) had an accrual adjusted deficit (R173 million and R19 million, respectively) at year-end. Two departments (Education and Social Development) had this finding in the previous year, but managed to address it in the year under review.
- One auditee (CoGHSTA) would have to use 11% of the next year's budget to fund the current year's budgeted expenditure. No department had an overdraft at year-end. The total accruals for departments at year-end amounted to R468 million, which would be funded from the next year's budget.

The intervention team implemented cash-control strategies that helped to eliminate the overdraft position the province found itself in during 2011. The province was in positive cash position at year-end. The province could also table a surplus budget to generate a reserve to deal with unauthorised expenditure and possible unfunded mandates in future.

Underspending by departments of capital budgets and conditional grants

Our analysis indicated the following:

- Nine departments (69%) underspent their capital budget in the year under review, compared to eight departments (62%) in the previous year. The total underspending by these nine departments (Agriculture; CoGHSTA; Economic Development, Environment and Tourism; Health; Provincial Legislature; Provincial Treasury; Public Works; Roads and Transport; and Sport, Arts and Culture) amounted to R286 million in 2013-14.
- Three departments (23%) underspent their conditional grants by more than 10% of their total budget, while five departments (38%) had a similar finding in the previous year. The underspending by these three departments (CoGHSTA; Health; and Sport, Arts and Culture) amounted to R704 million.

The underspending of capital budgets and conditional grants can affect the ability of the province to deliver on programmes and services. The following two auditees had the highest underspending:

- Health: The underspending was mainly as a result of delays due to contractual disputes between the department and implementing agents, which led to the delay in spending.
- CoGHSTA: The National Treasury withheld the conditional grant due to irregularities identified in the awarding of housing contracts. The contracts were cancelled and the procurement process had to be restarted very late in the year.

Debt management

Overall, there has been very little movement with regard to the debt-management indicators at departments and public entities. The details are the following:

- Four departments and five public entities had debts outstanding for more than 90 days. This had a negative impact on the working capital requirements of these auditees.
- More than 10% of the total debt of three departments and six public entities might be irrecoverable. This also had a negative impact on the working capital requirements of the auditees.

The primary reasons for poor debt management were auditees not following up outstanding debt and a lack of commitment to implement policies and procedures to effectively and timeously collect all money due. The provincial leadership should ensure that the debt-management policies of departments and entities are updated, adequate capacity exists to implement such policies, and the requirements of the policies are strictly enforced.

Financial health risks at public entities

Our analysis indicated the following:

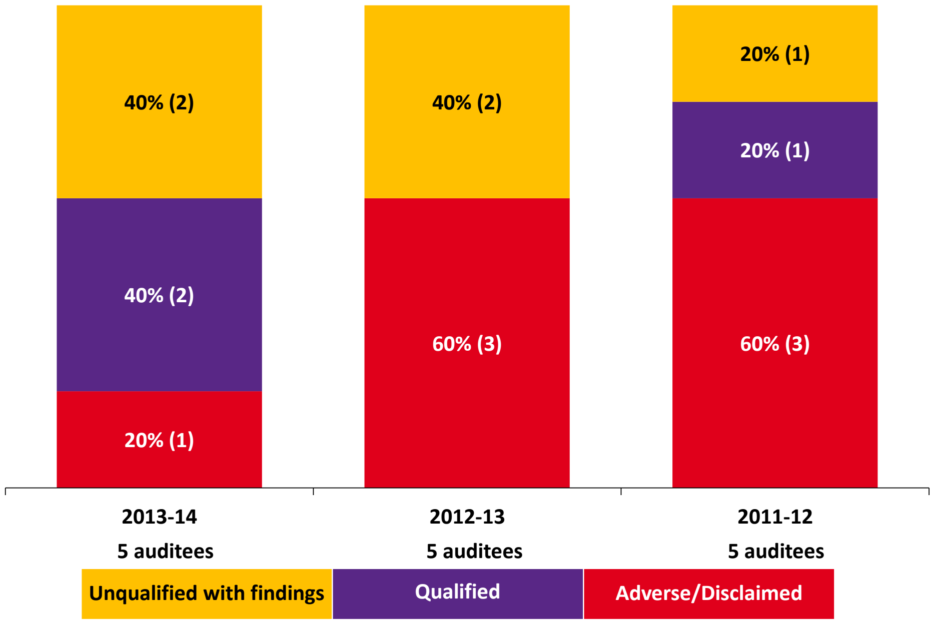
- Seven entities (70%) had expenditure in excess of their revenue, which is unchanged from the situation in 2012-13. This might result in these entities using the following year's budget to fund the current year's expenditure. The deficits should be monitored closely as continuous deficits can result in net liabilities.
- At two entities (20%), namely Great North Transport and Corridor Mining Resources, the current liabilities exceeded the current assets. This is a

slight improvement from 2012-13 when this was the case at four entities (40%). We identified no entities in the current or previous year where the total liabilities exceeded the total assets or where the bank balance was in overdraft at year-end.

National intervention in terms of section 100(1)(b) of the Constitution

Figure 21 shows the audit outcomes of the five departments (Education, Health, Provincial Treasury, Public Works as well as Roads and Transport) that were put under administration in December 2011.

Figure 21: Three-year trend – financial statements of departments under administration



There has been an improvement since 2011 with both the Departments of Health and Public Works obtaining a qualified opinion after their previous disclaimers. We are very concerned about the Department of Education that is showing no improvement despite the efforts of the administration team. The Provincial Treasury and the Department of Roads and Transport again obtained an unqualified opinion with findings.

Unauthorised, irregular as well as fruitless expenditure has also shown an improvement at these departments, as discussed in the rest of this section.

Unauthorised expenditure

Auditee	2013-14	2012-13	2011-12
Education	R16 million	R99,7 million	R175 million

The accumulated unauthorised expenditure incurred in 2011-12 for the entire province was R175 million, which increased to R325 million in 2012-13. In the year under review, however, unauthorised expenditure decreased by 95% to R16 million – incurred by only the Department of Education. The decreasing trend in unauthorised expenditure in the province will not be sustainable if there are still deficiencies in the SCM and expenditure management processes, as evident from the growing trend in irregular expenditure highlighted below. The risk of incurring additional unauthorised expenditure in future remains high.

Irregular expenditure

Auditee	2013-14	2012-13	2011-12
Education	R2,2 billion	R1,2 billion	R162,7 million
Health	R870 million	R571,2 million	R625,6 million
Public Works	R22,6 million	R21,9 million	R30,7 million
Total	**R3,1 billion**	**R1,8 billion**	**R819 million**

Weaknesses in the SCM processes were among the challenges in the province that prompted the minister of finance to place the five departments under section 100(1)(b) administration in 2011. We are concerned about the increase in irregular expenditure at the Departments of Education and Health, despite the various interventions implemented by the national intervention team to address weaknesses in this area. The systematic challenges relating to implementing and monitoring competitive procurement processes have not been adequately addressed and still require urgent attention. The appointment of skilled officials in the SCM units and the implementation of consequences for any transgressions must be intensified to ensure improvement going forward.

Fruitless and wasteful expenditure

Auditee	2013-14	2012-13	2011-12
Education	R168,6 million	R320,7 million	R96 million
Health	R33,7 million	R18,4 million	R8 million
Provincial Treasury	R0,002 million	R0	R0,27 million
Public Works	R0,06 million	R0	R4 million
Roads and Transport	R0,03 million	R0,06 million	R0,06 million
Total	**R202,4 million**	**R339,2 million**	**R108,3 million**

Although the fruitless and wasteful expenditure in the province as a whole is less than in the previous year, the fruitless and wasteful expenditure incurred by the Departments of Education and Health remained unacceptably high. The implementation of austerity measures by the intervention team must be strictly enforced, while officials should be held accountable for any fruitless and wasteful expenditure incurred.

We are further concerned about the lack of improvement of the basic internal controls at the Departments of Health and Public Works, as the improvements achieved by the intervention team might not be sustainable once the administration ends.

5. Internal controls and root causes

As part of our audits, we assessed auditees' internal controls to determine the effectiveness of their design and implementation in ensuring reliable financial and performance reporting and compliance with key legislation.

Figure 2 shows the status of the different areas of internal control and the overall movement since the previous year. Unfortunately, there has been no movement in leadership and governance, and a regression in financial and performance management.

In sections 3.1 (financial statements), 3.2 (annual performance reports) and 3.3 (compliance with key legislation) we commented broadly on those key controls that should receive attention to improve poor outcomes or sustain good outcomes.

Figure 22 shows the status of the controls requiring the most attention.

Figure 22: Key controls requiring the most attention

	Audit areas								
	Financial statements			Performance reports			Compliance with legislation		
	Good	Concerning	Intervention required	Good	Concerning	Intervention required	Good	Concerning	Intervention required
Effective leadership	5	12	6	8	9	6	3	12	8
Human resource controls	4	14	5	9	10	4	4	14	5
ICT governance and controls	2	17	4	10	10	3	9	11	3
Audit action plans	6	8	9	9	5	9	5	6	12
Proper record keeping	6	10	7	6	10	7	8	8	7
Daily and monthly controls	6	10	7	10	8	5	10	8	5
Review and monitor compliance	6	12	5	9	9	5	3	13	7

Good | Concerning | Intervention required

Proper record keeping, daily and monthly controls, and the reviewing and monitoring of compliance require more attention. It is evident in the number of repeat non-compliance, performance reporting and qualification findings that these key controls are not in place or are not functioning as they should.

The culture of implementing daily and monthly controls will go a long way in addressing other internal control deficiencies at departments and entities. The basic elements of internal control, such as clear segregation of duties, internal checks and monitoring, maintenance of continuous records, regular reconciliations as well as physical asset management activities, must be effectively incorporated and implemented in the daily operations of all auditees.

Sections 5.1 and 5.2 provide further information on the status of HR controls and information and communication technology (ICT) governance and controls. To effectively improve internal controls, it is important to understand the root causes underlying the weaknesses. Section 5.3 therefore describes the most common root causes that should be addressed.

5.1 Human resource management

HR management is effective if adequate and sufficiently skilled staff members are in place and if their performance and productivity are properly managed.

Our audits included an assessment of HR management that focused on the following areas: ■ HR planning and organisation ■ management of vacancies ■ appointment processes ■ performance management ■ acting positions ■ management of leave, overtime and suspensions.

Our audits further looked at the management of vacancies and stability in key positions, competencies of key officials as well as performance management and consequences for transgressions, as these matters have a direct bearing on the quality of auditees' financial and performance reports and their compliance with legislation.

Based on the results of these audits, we assessed the status of HR management controls as indicated in figure 23.

Figure 23: Status of human resource management

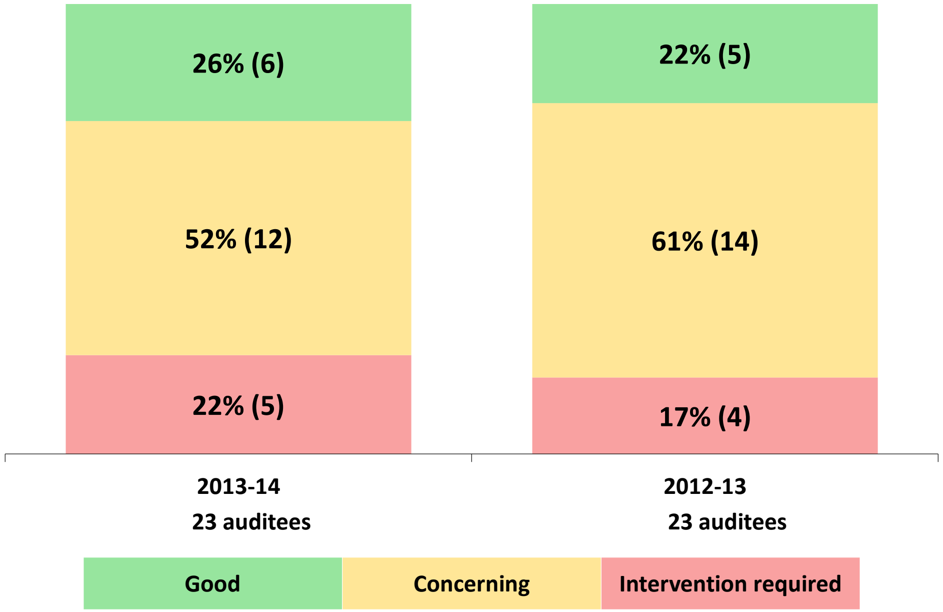


Figure 23 shows that there has been little improvement in the status of HR management when compared to the previous year. The management of vacancies as well as HR planning and organisation remains areas of concern that had showed no improvement since the previous year.

Management of vacancies and acting positions

Figure 24: Vacancies in key positions

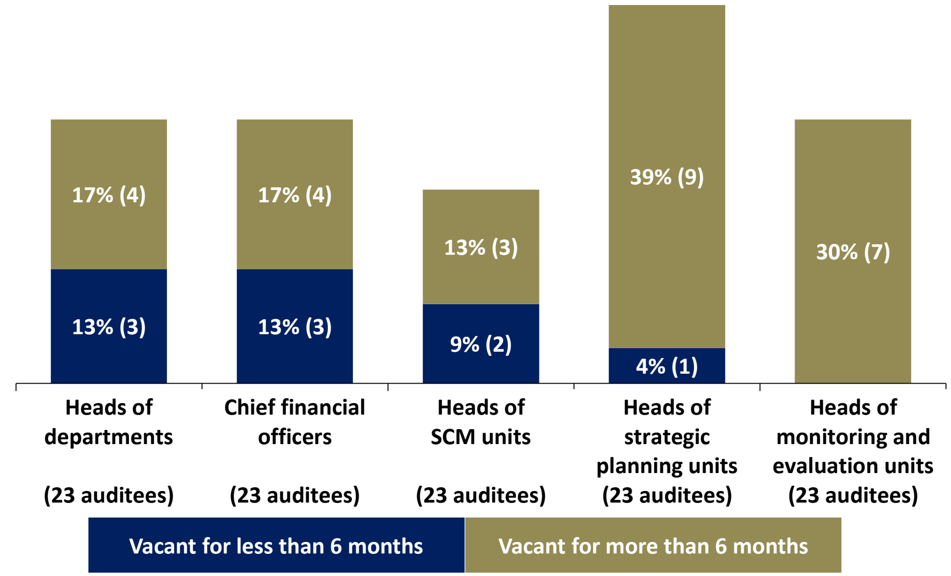


Figure 25: Stability in key positions (average number of months in position at 31 March 2014)

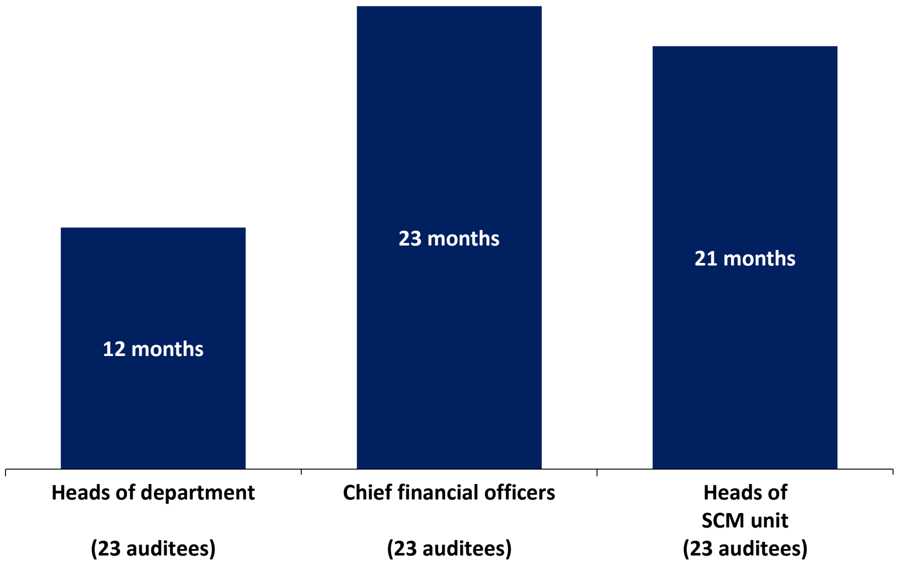


Figure 24 shows the number of auditees where the positions of the accounting officer (HoD or chief executive officer – CEO), CFO and heads of the SCM, strategic planning as well as monitoring and evaluation units were vacant at year-end. It also indicates the period that the positions had been vacant. These five positions are key to the achievement of a strong internal control environment, as these employees are directly involved in driving the quality of the financial statements, strategic plans and annual performance reports as well as ensuring that auditees comply with legislation. Figure 25 shows the average number of months key officials had been in their positions.

The overall vacancy rate has increased from the previous year, with the vacancy rate increasing at CoGHSTA; the Office of the Premier; Public Works; Roads and Transport; Sport, Arts and Culture; and Mununzwu Estate. Stability in the key positions of HoDs, CFOs and heads of SCM units remained the same as in the previous year. However, we are still concerned that despite the stability in these positions, the number of findings on the financial statements and on procurement management remained high, indicating that the required skills and competencies are still lacking at these levels. Training and development initiatives should be implemented to address the gaps in the competency levels of officials already appointed in key positions. Furthermore, the expectations and requirements of a position should be discussed at the beginning of each performance cycle so that officials know what is expected from them.

Political and administrative instability had a further impact, as HoDs and CFOs were suspended or replaced, either due to the outcome of investigations or political interference.

The most common findings on the management of vacancies and acting positions were that positions were vacant for more than 12 months and that officials acted in positions for longer than six months. One of the biggest challenges remained the ability of the province to attract and retain qualified and competent persons.

Performance management

To improve the performance and productivity of staff, the leadership should set the correct tone by implementing sound performance management processes, evaluating and monitoring performance, and consistently demonstrating that poor performance has consequences.

At CoGHSTA as well as the Departments of Education, Health and Social Development, senior management did not in all instances have signed performance agreements, while at Corridor Mining Resources, a performance management system existed for senior managers only. At most auditees, performance agreements were linked to audit outcomes.

By implementing sound performance management processes, regularly evaluating and monitoring performance, and demonstrating that poor performance has consequences, the performance and productivity of staff will improve. It appears that performance agreements are signed for compliance purposes only, as there were no consequences for poor performance or rewards for good performance.

Competencies of key officials and consequences for poor performance and transgressions

A lack of competencies of key officials and no consequences for poor performance and transgressions are two of the root causes that are preventing the provincial administration from improving the overall audit outcomes. Both these causes are linked to poor outcomes, as evidenced by almost all auditees having non-compliance findings and not adhering to procurement processes.

Other common human resource findings

The other most common HR findings were the following:

- Proper verification processes for new appointments did not always take place.
- Employees received more special leave than what they were entitled to.
- Employees received overtime for more than the maximum hours allocated.
- Written authorisation for overtime was not submitted in advance.

Effective use of consultants by departments

Provincial departments spent an estimated R177 million on consultancy services in 2013-14 to supplement their human resources. Consultancy services can be of an intellectual or advisory nature. The Department of Social Development (R69 million), Provincial Treasury (R68 million) and Department of Health (R32 million) incurred the most in this regard. The amount was spent on the following areas:

- Financial reporting: R67,3 million (38%)
- IT-related services: R32,7 million (18%)
- Other services: R77 million (43%)

The most common reasons for departments appointing consultants were a lack of skills by departmental officials and vacancies within the department. The national intervention team, through the Provincial Treasury, appointed consultants as part of its capacity-building initiatives in the province. The Provincial Treasury appointed and paid these consultants. Consultants were appointed at the five departments under administration as well as the Departments of Social Development and Sport, Arts and Culture to render technical support in the finance units and to provide support in the SCM units through, for example, on-the-job training and reviewing the SCM structure to align it to the National Treasury's model.

Our audits included an assessment of the management of the consultants at these seven departments.

We identified shortcomings in the **planning and appointment processes**. As with all other procurement, consultants should be contracted based on a needs assessment. Such assessment should consider the cost, type and extent of service; the deliverables; and whether internal capacity exists and whether there is an opportunity to transfer skills. At the Department of Health, the need for appointing consultants to collect debt in respect of patient fees was not adequately documented and motivated before appointing the consultant.

We also identified shortcomings in the **management and monitoring of the performance** of consultants. The measures to monitor the performance of the consultants were either not defined or implemented at two auditees (29%), namely Health and Social Development. Furthermore, the consultancy project implemented by the intervention team was not evaluated at its conclusion to determine whether skills and knowledge had been transferred as per the terms of reference and the contract. The consultants, more often than not, worked separate from officials in finance units, especially at the Department of Public Works where we are concerned about the sustainability of the improved audit outcome.

Although the most common reason for appointing consultants was a lack of skills, we found that the contracts at one auditee (14%) did not include any conditions or objectives in terms of the **transfer of skills** from the consultants to the employees. Consequently, the transfer of skills was not evaluated at the end of the consultancy project. At one auditee (14%), the transfer of skills was a requirement but we could not obtain evidence that the transfer of skills had been evaluated at the end of the consultancy project. In addition to poor project management, the root cause of these findings was the lack of policies or strategies on the use of consultants, identified at one auditee (14%). A policy or strategy should be in place that defines the main purpose and objectives of appointing consultants, including measures to prevent over-reliance on consultants.

5.2 Information technology controls

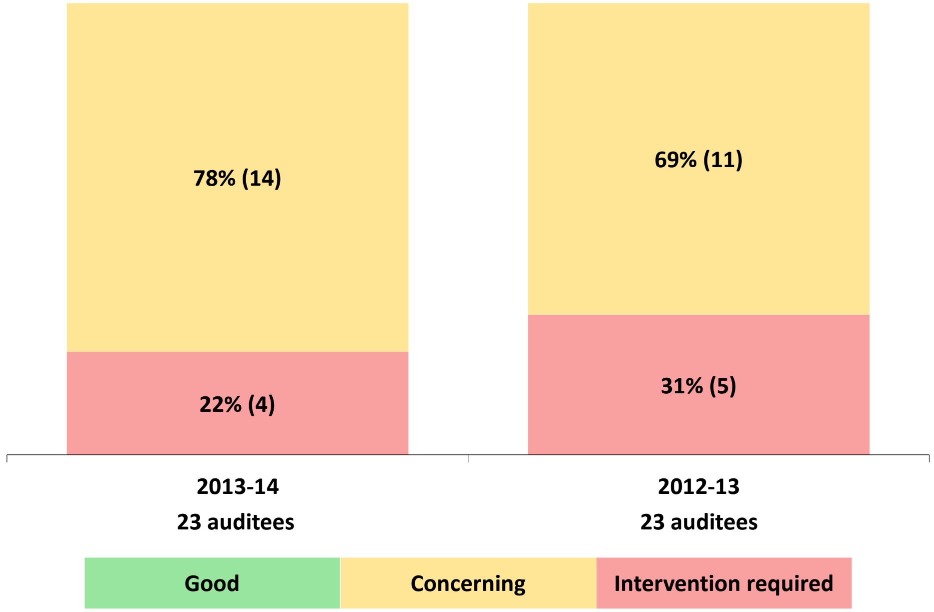
IT controls ensure the confidentiality, integrity and availability of state information, enable service delivery, and promote national security. It is thus essential for good IT governance, effective IT management and a secure IT infrastructure to be in place.

Effective **IT governance** is essential for the overall well-being of an auditee's IT function, and ensures that the auditee's IT control environment functions well and enables service delivery. All state departments and public entities are therefore required to adopt and implement good IT governance principles.

For this purpose, the national Department of Public Service and Administration developed an IT governance framework and guidelines for implementation in phases over three years. Phase 1 was due for implementation by the end of the 2013-14 financial year and the department moderated the self-assessment results of the management performance assessment tool to monitor implementation progress. We will evaluate the implementation of phase 1 in the following audit cycle to determine whether good IT governance principles have been implemented. In the 2014-15 financial year, accounting officers and governance structures should prioritise the implementation of phase 2.

As the legislatures have opted to develop their own IT governance frameworks, management should prioritise the implementation of these customised governance frameworks. Management has developed and approved an IT governance framework for the legislature in the province. Although we acknowledge that certain elements of the framework had been implemented, the framework had not been fully implemented due to management still aligning their business process to the Control Objectives for Information and Related Technology.

Figure 26: Status of information technology



Our audit also included an assessment of the IT controls that focus on security management, user account management and IT service continuity. We assessed IT controls at 13 departments and five entities. Figure 26 shows that there has been little improvement since the previous year in terms of the number of auditees that had audit findings on IT controls, with approximately 42% of the departments and entities still experiencing challenges with the design of IT controls.

Figure 27: Status of information technology controls

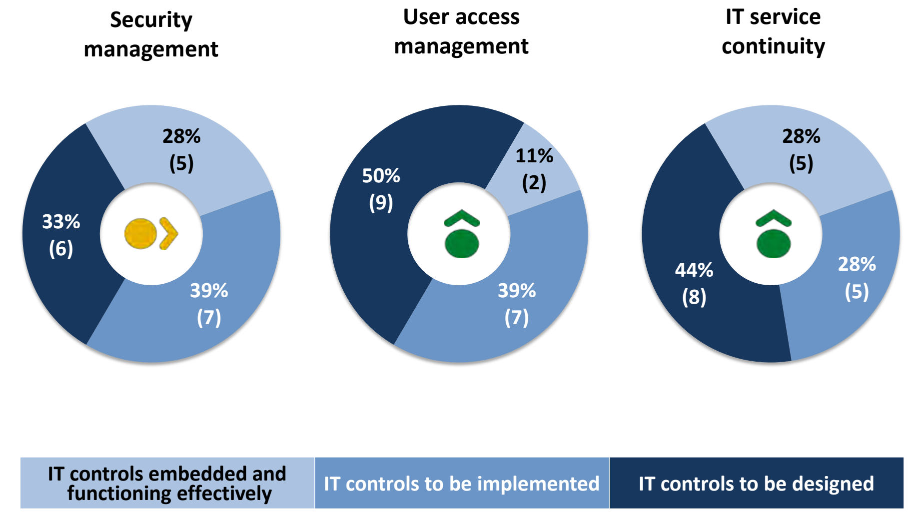


Figure 27 indicates the status of the controls in the areas we audited and the movement since the previous year. It shows the number of auditees where the IT controls are functioning effectively, have not been implemented, or are not in place (in other words, have not been designed).

Most auditees did not have adequately designed and implemented IT controls for security management, user access management and IT service continuity. The most significant findings in each of these areas are listed below.

Security management

Management had not established network and operating system security policies and procedures.

Some of the network management controls and operating system security settings had not been configured to provide maximum security on the network environments.

User access management

Management activities such as reviewing users' access rights and the activities of system controllers and administrators were not performed. As a result, some users had excessive access rights on the system.

Access to, or the administration of users on, the system was not always based on authorised and completed documentation.

IT service continuity

Management had not established IT continuity plans based on a risk assessment performed by business and incorporating IT.

Where management had established IT continuity plans, the plans had not been tested, or had not been adequately tested, to enable auditees to recover their operations in the event of a disaster. In the case of departments, the data hosted on their transversal systems is available at the disaster recovery site of the State Information Technology Agency.

Management should prioritise the design and implementation of the security management, user access management and IT service continuity controls to lessen the risk of unauthorised access to, and the unavailability of, IT systems as well as the incompleteness of data in the event of major system disruptions or data loss.

5.3 Summary of root causes

Our audits included an assessment of the root causes of audit findings, based on identifying the internal controls that had failed to prevent or detect the error or non-compliance. These root causes were confirmed with management and shared in the management report with accounting officers and executive authorities.

As reported in section 3, many auditees produced financial statements and annual performance reports of a poor quality and did not comply with key legislation. The information that follows summarises the three most common root causes of poor audit outcomes and inadequate controls, and provides recommendations to address the root causes.

Key officials lack appropriate competencies

We identified key officials lacking appropriate competencies to be a root cause of poor audit outcomes at 16 (70%) of the auditees. Due to the lack of appropriate skills and competencies, auditees were unable to implement controls over the most basic functions used in everyday tasks relating to financial and performance management as well as compliance with legislation. This is evident in the number of material misstatements in the submitted financial statements and non-compliance findings as well as the status of the control environment highlighted earlier in this section. There has been no improvement in this regard, as we had also identified this as a root cause at 70% of the auditees in the previous year.

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

- Executive authorities and accounting officers should implement initiatives to develop and enhance the skills of officials by introducing continuous development programmes. The MEC for finance has made a commitment that the Provincial Treasury will coordinate various short financial management skills courses in the province to address this deficiency.
- The political leadership, together with the HoDs and executive authorities, should implement effective and efficient performance management systems to attract and retain skilled officials. Rewards and remuneration must be linked to performance.
- The Office of the Premier and the Provincial Treasury should be proactive in identifying auditees with a skills deficit, and should provide support to empower them.

The national intervention team appointed a service provider to conduct a skills audit to be piloted at the five departments under administration. The planning phase of the audit was concluded on 30 September 2014 and at the time of writing this report the service provider had commenced with the execution of the audit. We will report on the results and actions taken by the leadership to address findings in the 2014-15 general report.

Lack of consequences for poor performance and transgressions

Accountability and consequences for poor performance and transgressions by the legislature and the executive were neglected at 16 (70%) of the auditees. It has once again contributed to the poor audit outcomes, as we had also identified this root cause at 67% of the auditees in the previous year.

The commitment by the premier to deal with poor performance was translated into action when the director-general and four HoDs in the province were suspended for maladministration. However, it is critical that action also be taken against officials at senior management level and lower who were negligent in carrying out their roles and responsibilities.

As highlighted in section 3.3 of this report, 96% of the auditees had findings on non-compliance with legislation and 87% of the auditees had one or more findings on transgressing SCM regulations. As long as there are insufficient consequences for inappropriate behaviour, auditees will continue to have findings in this regard, as evident in the number of repeat non-compliance findings. This is also preventing the province from making significant strides in improving the overall audit outcomes.

Furthermore, allegations of financial misconduct or investigations into unauthorised, irregular as well as fruitless and wasteful expenditure were not appropriately dealt with, as emphasised earlier in figure 11. Officials who negligently perform their duties and deliberately disobey legislation should be dealt with through performance management and by enforcing the legislated consequences for transgressions. Where officials are not held accountable for their actions, the perception is created that such behaviour and its results are acceptable and tolerated. This could make even those that are giving their best under trying circumstances feel hopeless.

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

- Accounting officers and staff must be held accountable through an effective performance management system, while corrective action must be agreed upon and adequately monitored.
- The political leadership should enhance their oversight responsibilities to ensure that action is taken against transgressors and that action plans to improve internal control weaknesses are implemented and monitored.
- All unauthorised, irregular as well as fruitless and wasteful expenditure should be investigated timeously to determine whether such expenditure should be recovered from the responsible officials. Such investigations often take too long, and the officials responsible for the non-compliance could since have resigned from the public service, meaning that no action can be taken against them.
- Accounting officers and authorities, executive authorities and senior managers should demonstrate the importance of integrity and ethical values through their actions and behaviour, and establish expectations for standards of conduct.

Slow response by the political leadership

At 74% of the auditees we identified that the political leadership was slow to respond to our messages and did not take ownership of key controls. There was a change in the political leadership in July 2013 when a new premier and executive committee were appointed.

The rate of responses to our messages is expected to improve due to the current political stability in the province and the commitment by the premier to improve the audit outcomes.

In our previous general reports we noted that at some departments, internal audit recommendations had not been implemented from as far back as 2008-09. Unfortunately, very little progress has been made in this regard and the recommendations provided by internal audit units are not taken seriously. The benefits of an internal audit report are reduced and the risks remain if recommendations are not implemented within the agreed time.

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

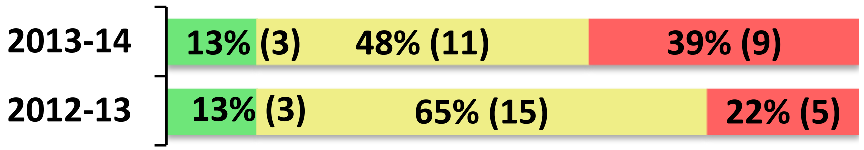
- Accounting officers and authorities should view our office, internal audit units, audit committees and risk management functions as important partners in fulfilling their legislated responsibilities. Attention should be paid to the reports of these assurance providers and there should be regular interactions with them.
- MECs should engage with cluster committee chairpersons on a quarterly basis to determine the progress of the departments in addressing key control deficiencies and recommendations provided by the external and internal auditors.
- The portfolio committees should intensify their oversight role by holding those departments with recurring findings accountable.
- Executive authorities should hold accounting officers responsible for control weaknesses that are not addressed, as this indicates that they are neglecting their legislated duty to ensure that there are effective, efficient and transparent systems of financial and risk management and internal control. In turn, accounting officers should ensure that senior managers fulfil their duties and address any negligence in this regard.

6. Impact of key role players

The management and leadership of the auditee and those that perform an oversight or governance function should work towards improving the key controls, addressing the root causes and ensuring that there is an improvement in the key risk areas, thereby providing assurance on the quality of the financial statements and performance reports as well as compliance with legislation.

Based on our assessment as shown in figure 2, not all role players are yet providing the necessary assurance. Below is an overview of the assurance provided by each of the assurance providers.

Senior management



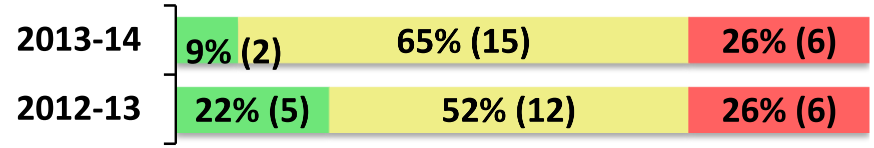
Accounting officers and MECs rely on senior management, which includes the CEO, CFO, chief information officer and head of the SCM unit, for providing assurance by implementing basic financial and performance controls. These controls include the following:

- Ensure proper record keeping so that complete, relevant and accurate information is accessible and available to support financial and performance reporting.
- Implement controls over daily and monthly processing and reconciling of transactions.
- Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.
- Review and monitor compliance with applicable legislation.
- Design and implement formal controls over IT systems.

The poor status of these internal controls, as reported in section 5, shows that inadequate assurance was provided. Senior management provided the required level of assurance at only three auditees. It is concerning that senior management's representations to us at the start of each audit, including those relating to the quality of the financial statements and performance information submitted for auditing, continued to be unreliable. It highlights the risk that decisions taken by accounting officers and MECs could be based on incomplete and incorrect information provided by senior management.

The HR management challenges outlined in section 5.1 should be addressed to strengthen the assurance provided by senior management. Vacancies need to be filled and senior managers should be held accountable for the execution of their responsibilities through a strict system of performance management.

Accounting officer or accounting authority



Accounting officers and authorities are responsible for auditees' internal controls, including leadership, planning, risk management as well as oversight and monitoring. While accounting officers and authorities depend on senior management for designing and implementing the required financial and performance management controls, they should create an environment that helps to improve such controls.

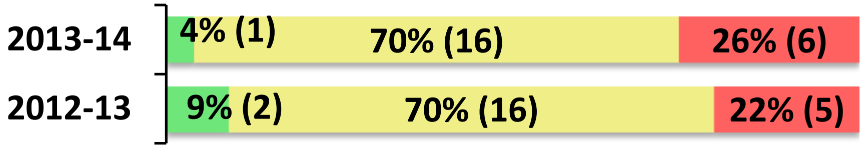
The provision of an adequate level of assurance by the accounting officers (heads) of departments and the accounting authorities of public entities and their impact on creating an effective control environment were not evident at many auditees. As reported in section 5, there was very little movement in the status of those internal controls for which accounting officers and authorities are responsible, as their leadership, planning, risk management, oversight and monitoring did not result in sustainable practices that translated into improved audit outcomes.

Accounting officers and authorities should focus on the following to improve the level of assurance they provide:

- Provide effective and ethical leadership, and oversee financial and performance reporting and compliance with legislation.
- Implement effective HR management to ensure that adequate and sufficiently skilled staff are employed and that performance is monitored.
- Establish policies and procedures to enable sustainable internal control practices, and monitor the implementation of action plans to address internal control deficiencies.
- Implement appropriate risk management activities to ensure that regular risk assessments, including the consideration of IT risks and fraud prevention, are conducted and that a risk strategy to address the risks is developed and monitored.
- Ensure that an adequately resourced and functioning internal audit unit is in place and that internal audit reports are responded to.
- Support the audit committee and ensure that its reports are responded to.

- Ensure that internal audit recommendations are implemented without delay.

Member of executive council



MECs have a monitoring and oversight role at both departments and public entities. They have specific oversight responsibilities in terms of the PFMA and the Public Service Act. They therefore need to ensure that strategies and budgets are aligned to the mandate and that objectives are achieved.

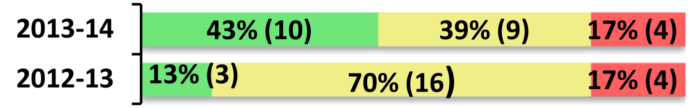
In the past four years, we have increasingly engaged with MECs on how they can bring about improvements in the audit outcomes of their portfolios. At these interactions, we discuss the status of key controls and MECs' commitments to improve audit outcomes, while also sharing identified risks. The meetings improve MECs' understanding of the audit outcomes and messages, while also addressing the progress of interventions to ensure a positive impact on these audit outcomes. The engagements were well received at most auditees, but these interactions have not yet had a significant impact on the audit outcomes.

The limited meetings we were able to secure and the low impact of our interactions with some MECs were due to the continuous instability of the political environment in the province, where changes to the political leadership were made before and after the national elections. However, the building blocks are now in place for the new leadership to improve the key controls, which should lead to improved outcomes.

MECs can bring about improvements in the audit outcomes of their auditees by being actively involved in key governance matters and managing the performance of the HoDs. We are convinced that the oversight and monitoring role of the executive strengthens the assurance processes significantly. We therefore undertake to continue with the quarterly engagements with the new leadership, but with greater emphasis on quality conversations with an increased impact.

A key deliverable that will be implemented in the 2014-15 financial year by the Provincial Treasury is the development of a provincial risk profile. This will guide MECs and HoDs on key risks and provide mitigation strategies to minimise the possibility of risks becoming a reality.

Internal audit unit



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

Assessment of the shared internal audit unit of provincial departments and the legislature

The Provincial Treasury established a centralised internal audit unit for all departments in the province. It was only at the Department of Health where the operations of the internal audit unit did not fully comply with the requirements of the applicable regulations, as the reliability and integrity of the financial and operational information were not evaluated. Overall, the work performed by the internal audit unit covered all the required aspects.

Internal audit units can only be effective if they are adequately resourced, if audit committees oversee and support their operations, and if accounting officers and senior management cooperate and respond to their advice and recommendations. There was very little progress in addressing the historical capacity constraints within the central audit unit of the province, which had a vacancy rate of 20% at the time of writing this report. The post of chief audit executive was filled after being vacant for more than two years, but only very late in the financial year. Furthermore, a significant number of internal audit findings remained unresolved at almost all of the departments, which lessened the effectiveness of the internal audit unit considerably.

Despite this, the internal audit unit had a positive impact on the audit outcomes of 62% of the departments (including the legislature).

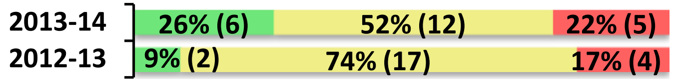
Assessment of the internal audit units at public entities

Only Gateway Airports Authority Limited had not established an internal audit unit, while all other public entities had functional internal audit units for the whole financial year.

The operations of the internal audit units did not fully comply with the requirements of applicable regulations at 33% of the public entities. At 56% of the public entities, the internal audit units did not evaluate the reliability of performance information reports and at 44% they did not evaluate the reliability of financial information. At the Limpopo Roads Agency, the internal audit unit did not evaluate the entity's compliance with SCM regulations.

Nevertheless, the internal audit units were able to influence positive audit outcomes at 33% of the public entities by focusing their evaluation on internal controls and compliance with legislation. The internal audit units also played a role in the improvement of the quality of the financial statements.

Audit committee



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

Assessment of the shared audit committee of provincial departments and the audit committee of the legislature

As with the internal audit unit, the Provincial Treasury also established a centralised audit committee for all departments. A new audit committee was appointed after the term of the previous audit committee had expired. There were delays in the appointment of new audit committee members by the Provincial Treasury, which resulted in the central audit committee being operational for only nine months of the financial year. The legislature established its own audit committee, which was in place for the entire period under review.

The central audit committee fully complied with legislation, as they were able to perform their functions as required by legislation. However, the audit committee did not evaluate the information systems at the Department of Roads and Transport, Department of Sport, Arts and Culture and Provincial Treasury. Overall, the audit committee had a positive impact on the audit outcomes of 85% of the departments (including the legislature).

For audit committees to provide the required level of assurance as second-level assurance providers, they depend a lot on the reliability of the assurance provided by senior management and internal audit units. The lower the assurance level provided by these two role players, the more difficult it is for audit committees to accurately assess the control environment of the auditee, including being assured that all significant risks are being reduced.

Assessment of the audit committees at public entities

All public entities had audit committees for the year under review. At four entities, the operations of the audit committee did not fully comply with the requirements of the applicable regulations.

The audit committee did not evaluate the reliability of financial information and performance information at 20% and 40% of the entities, respectively. In addition, the committee did not evaluate compliance with legislation at 40% of the entities.

The audit committees were able to influence positive audit outcomes at 70% of the public entities by focusing their evaluation on internal controls and compliance with legislation, which included evaluating the quality of the financial statements submitted for auditing.

Specific areas where internal audit units and audit committees can jointly make significant contributions to the audit outcomes include the following:

- Encourage their auditees to submit regular financial and performance information.
- Monitor the implementation of auditees' action plans in respect of prior year audit findings.
- With a view to detecting material misstatements, thoroughly review financial statements before submission for auditing.
- Monitor actions taken in cases of known transgressions.
- Thoroughly review auditees' quarterly reports, satisfying themselves that the information contained therein is credible.

Provincial Treasury

Although the Provincial Treasury provided some level of assurance, capacity constraints prevented it from providing the required level of assurance to the province. The post of the provincial accountant-general had been vacant since January 2013. The leadership must speed up the filling of this position with a suitable candidate that has the required skills and competencies.

We performed additional procedures in the year under review to determine whether appropriate processes and measures were in place at provincial treasuries to enable the execution of their relevant powers and functions. The findings revealed the following shortcomings:

- The unit or directorate responsible for budget processes had a vacancy rate of 22%.
- The Provincial Treasury did not provide feedback and recommendations on discrepancies noted in monthly reports to the respective departments.
- The Provincial Treasury did not monitor the spending of each provincial department and did not ensure that corrective actions were implemented by those departments where forecasts indicated that the budget would be exceeded or underspent.

- The Provincial Treasury did not perform compliance monitoring functions at provincial departments relating to the enforcement of the PFMA and any prescribed national and provincial norms and standards, including any prescribed standards of Generally Recognised Accounting Practice and uniform classification systems.
- The Provincial Treasury did not monitor and assess the implementation of national and provincial norms and standards at provincial public entities.
- In instances where there was a serious or persistent material breach of the PFMA by a provincial department or a provincial public entity, the Provincial Treasury did not intervene.
- The Provincial Treasury did not take remedial action to address the non-compliance of departments.
- Key positions in the unit responsible for compliance monitoring and enforcement were left vacant for more than six months during the year.
- Policies and procedures did not exist regarding how the compliance monitoring and enforcement function would be performed.
- The Provincial Treasury had not adopted policies and procedures on how the municipal support function would be performed.
- The Provincial Treasury had not adopted policies and procedures to ensure compliance with section 71 of the Municipal Finance Management Act.
- The Provincial Treasury did not monitor section 71 reports.
- The monthly consolidated statement of municipalities' budgets, per municipality and per municipal entity, was not submitted to the National Treasury.
- The quarterly consolidated statement of municipalities' budgets, per municipality and per municipal entity, was not submitted to the Provincial Legislature.

The MEC for finance made the following commitments on the role that the Provincial Treasury would play in the drive towards clean administration in the province:

- Continue to focus on the implementation and monitoring of the provincial inventory and asset management policies.
- Implement the section 100(1)(b) intervention projects, especially the asset management and supply chain reforms, such as scanning all provincial departments' assets to facilitate the migration to the LOGIS financial system and the continued monitoring and improvement of the recently introduced SCM standard operating procedures.
- Ensure that all departments and public entities have implemented effective risk management and internal control processes.
- Monitor the skills audit in the finance units of the five departments under section 100(1)(b) administration.
- Support departments and public entities in strengthening their internal control environment and facilitate the establishment of internal control units at departments and public entities.
- Improve support to the public entities and increase support to their governance structures.

Office of the Premier

The Constitution mandates the Office of the Premier to perform oversight functions. As an oversight institution, the Office of the Premier provided some assurance but, in collaboration with the Provincial Treasury, must play a more intensive role in the implementation and monitoring of key controls to ensure that all information produced for oversight and decision-making is accurate and reliable, thereby enhancing the credibility of financial and non-financial information.

We also performed additional procedures in the year under review at offices of the premier to determine whether appropriate processes and measures were in place to enable the execution of their relevant powers and functions. The findings revealed the following shortcomings:

- The premier's intergovernmental forum did not report annually to the President's coordinating council on progress with the implementation of national policy and legislation within the province. The intergovernmental forum did not consider appropriate actions to assist with operation clean audit in the province.
- The Office of the Premier did not submit timeous or complete information on presidential priority projects to the national Department of Performance Monitoring and Evaluation.
- There were no processes in place to ensure that information relating to presidential priority projects was complete, accurate and valid before submitting it to the national Department of Performance Monitoring and Evaluation.
- The Office of the Premier did not monitor the quality of provincial performance information.
- The Office of the Premier had not built the national school of government curriculum for monitoring and evaluation training into the province's capacity-building strategy.
- There was no evidence that the Office of the Premier assisted provincial departments that underperformed.

The Office of the Premier should focus on the following to improve the level of assurance they provide:

- Ensure that adequately skilled and empowered staff are in place.
- Develop appropriate action plans to address all shortcomings identified.
- Ensure effective monitoring and oversight of action plans.

Department of Cooperative Governance, Human Settlements and Traditional Affairs

We did not assess CoGHSTA as an assurance provider in its capacity as a coordinating and monitoring department for the PFMA cycle. However, sector procedures were performed as part of our regularity audit to assess the effectiveness of the support provided by this department to local government. The department has a responsibility to ensure an effective, efficient and responsive local government system. This necessitates increased government accountability and transparency at all levels, together with improved coordination and cooperation across all levels in the province. The department provides financial, HR and consultancy assistance to municipalities. In addition, their own staff assist municipalities in the areas of financial management, administrative challenges and poor performance.

The oversight role of the department can be strengthened by addressing the following weaknesses:

- Planned outputs and targets for the municipal infrastructure grant were not supported by sufficient and appropriate audit evidence.
- All customised sector indicators were not included in the annual performance plan of the department.

Portfolio committees and public accounts committee

In terms of the Constitution, provincial legislatures must maintain oversight of all executive organs of state. Oversight entails proactive interactions with the executive authorities and the departments and public entities within their portfolios to encourage compliance with their constitutional obligations to deliver on agreed objectives for the achievement of government priorities. The mechanism generally used to conduct oversight is through committees. The Standing Committee on Public Accounts (SCOPA) and portfolio committees deal with financial and performance management and the implementation of legislation by auditees, and they are key assurance providers in this regard.

We assessed the impact of SCOPA and the portfolio committees, as independent assurance providers on the internal controls of auditees, on the basis of our interactions with them and the impact of their resolutions, actions and initiatives. The portfolio committees provided some assurance, but they should still urgently intensify their efforts in dealing with performance management and the implementation of legislation. The newly elected SCOPA chairperson has committed that the committee will intensify its focus on action plans implemented by departments and public entities and on value-for-money matters.

During and after the year under review, the operations of portfolio committees with the newly elected portfolio committee members improved with our increased involvement. We also conducted a training session with all new members of the portfolio committees on the audit process and the critical role they play in the accountability cycle. Portfolio committee members committed to interact with us more regularly. However, it is very important that the portfolio committees also involve and engage internal audit units and chairpersons of audit committees during their quarterly meetings. The internal audit units and audit committee members are in a position to provide first-hand information on the status of the key controls and the progress made by departments in addressing internal and external audit findings. Going forward, the deputy speaker committed to arrange for the chairpersons of the cluster committees to be part of the portfolio committee meetings.

We are further concerned that the accounting officers' representations to portfolio committees on positive progress in addressing audit findings are often misleading, as evidenced by the number of repeat audit findings in the year under review. The involvement of the external and internal auditors in providing comments on the progress made on departments' action plans will reduce this risk.

As highlighted earlier in this report, the findings on the quality and credibility of financial and performance information pose a serious risk to the portfolio committees in making incorrect decisions. The risk of incorrect decisions based on the reports produced by the various departments for discussion during the quarterly meetings can be lessened if the Provincial Treasury and internal audit units check the quality of the financial and non-financial information presented. This will give the portfolio committees additional assurance that the information on which they base decisions is credible.

7. Initiatives and commitments of key role players

We shared our key message on the actions needed to improve audit outcomes with accounting officers and authorities, MECs, the premier and the legislature through our reports and interactions with them.

We had meetings with most of the MECs and the premier during 2013-14. The impact of these interactions was minimal due to the political instability in the province and the rapid changes in the political leadership. Due to the political uncertainty in the province before the 2014 national elections, MECs were not in a position to make concrete commitments to facilitate improved audit outcomes.

Throughout the year, we monitor the commitments and initiatives of MECs, the premier, SCOPA and the portfolio committees to implement initiatives that can improve audit outcomes. The progress of such commitments and the initiatives of the MECs in response to the previous year's audit outcomes as well as new commitments are included in the portfolio summaries following this section of the report.

The building blocks for the new leadership are now in place for improvements in key controls, which should lead to improved outcomes. The premier has also made the following commitments in the drive towards clean administration:

- Consequences will be enforced for poor performance and transgressions of laws and regulations.
- Action plans will form an addendum to the performance contracts of accounting officers, against which performance will be measured once the subsequent outcomes are known.

AUDIT OUTCOMES OF INDIVIDUAL PORTFOLIOS

Agriculture

Overall stagnation in audit outcomes

Audit area	Audit outcome
Financial statements (F)	Qualified
Performance reports (P)	Material findings
Compliance with legislation (C)	Material findings

Assurance levels

First level	Senior management	Provides limited/no assurance
First level	Accounting officer/authority	Provides limited/no assurance
First level	Executive authority	Provides limited/no assurance
Second level	Internal audit unit	Provides assurance
Second level	Audit committee	Provides some assurance
Third level	Portfolio committee	Provides some assurance

Key controls

Key controls	F	P	C
Effective leadership	Concerning	Concerning	Concerning
Human resource controls	Concerning	Concerning	Concerning
ICT governance and controls	Concerning	Concerning	Concerning
Action plans	Concerning	Concerning	Concerning
Proper record keeping	Concerning	Concerning	Concerning
Daily and monthly controls	Intervention required	Concerning	Concerning
Review and monitor compliance	Concerning	Concerning	Concerning

F = Financial P = Performance C = Compliance

Good | Concerning | Intervention required

1 To improve the **audit outcomes** …

2 … the key role players need to **assure** that …

3 … attention is given to the **key controls** and …

4 … the **risk areas** and …

5 … that the **root causes** are addressed …

6 … and the **commitments** are honoured.

Risk areas

Supply chain management	Intervention required
Quality of submitted performance reports	Intervention required
Human resource management	Concerning
Quality of submitted financial statements	Intervention required
Information technology	Concerning
Financial health	Good

Good | Concerning | Intervention required

Most common root causes

- Instability or vacancies in key positions.
- Slow response by management and the political leadership.
- Key officials lack appropriate competencies.

Status of key commitments by MEC

No key commitments were made by the MEC.

Not implemented | In progress | Implemented | New

Cooperative Governance, Human Settlements and Traditional Affairs

Overall improvement in audit outcomes

Audit area	Audit outcome
Financial statements (F)	Unqualified
Performance reports (P)	No material findings
Compliance with legislation (C)	No material findings

Assurance levels

First level	Senior management	*Provides assurance*
	Accounting officer/authority	*Provides assurance*
	Executive authority	*Provides assurance*
Second level	Internal audit unit	*Provides assurance*
	Audit committee	*Provides assurance*
Third level	Portfolio committee	*Provides some assurance*

Key controls

	Audit area F	P	C
Effective leadership			
Human resource controls			
ICT governance and controls			
Action plans			
Proper record keeping			
Daily and monthly controls			
Review and monitor compliance			

F = Financial P = Performance C = Compliance

Good | Concerning | Intervention required

1 To maintain the **audit outcomes** …

2 … the key role players need to **assure** that …

3 … attention is given to the **key controls** and …

… the **risk areas** and … 4

… that the **root causes** are addressed … 5

… and the **commitments** are honoured. 6

Risk areas

- Supply chain management
- Quality of submitted performance reports
- Human resource management
- Quality of submitted financial statements
- Information technology
- Financial health

Good | Concerning | Intervention required

Most common root causes

Instability or vacancies in key positions.

Status of key commitments by MEC

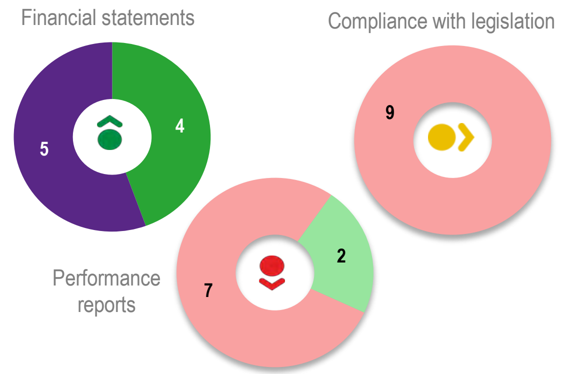
Take action against officials who continue to perform remunerative work outside their employment without obtaining written permission.

Not implemented | In progress | Implemented | New

Economic Development, Environment and Tourism

Overall stagnation in audit outcomes

Outcomes per audit area



Unqualified	Qualified	Adverse/Disclaimed
Audits outstanding	With no findings	With findings

Assurance levels

Level	Role player	Provides assurance	Provides some assurance	Provides limited/ no assurance
First level	Senior management	2	6	1
First level	Accounting officer/authority	1	7	1
First level	Executive authority	2	7	
Second level	Internal audit unit	2	5	2
Second level	Audit committee	2	5	2
Third level	Portfolio committee		1	

Provides assurance | Provides some assurance | Provides limited/ no assurance | Vacancy | Not established

Key controls

Audit areas

Key controls	Financial statements			Performance reports			Compliance with legislation		
Effective leadership	1	8		2	6	1	2	5	2
Human resource controls	2	5	2	3	4	2		7	2
ICT governance and controls	3	6		6	3		6	3	
Audit action plans	4	5		5	2	2	4	4	1
Proper record keeping	3	3	3	2	4	3	2	4	3
Daily and monthly controls	3	4	2	6	1	2	5	2	2
Review and monitor compliance	1	6	2	3	4	2		6	3

Good | Concerning | Intervention required

1 To improve the **audit outcomes** …

2 … the key role players need to **assure** that …

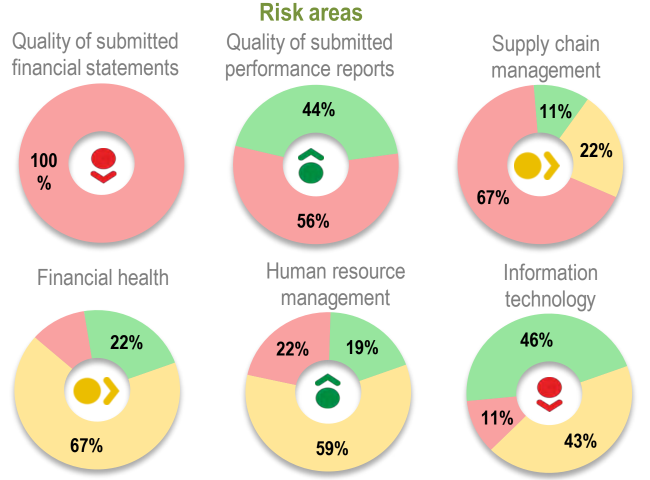
3 … attention is given to the **key controls** and …

4 … the **risk areas** and …

5 … that the **root causes** are addressed …

6 … and the **commitments** are honoured.

Risk areas



Good | Concerning | Intervention required

Most common root causes

Key officials lack appropriate competencies.

A root cause at 5 auditees.

Lack of consequences for poor performance and transgressions.

A root cause at 5 auditees.

Instability or vacancies in key positions.

A root cause at 5 auditees.

Improved | Unchanged | Regressed

Status of key commitments by MEC

The MEC for Economic Development made a commitment that the transfer of assets between the Department of Economic Development, Environment and Tourism and the Limpopo Tourism Agency would be finalised before the financial statements were submitted. This commitment was not fully implemented, mainly due to officials not following the external audit recommendations.

Not implemented | In progress | Implemented | New

Education

Overall stagnation in audit outcomes

Audit area	Audit outcome
Financial statements (F)	Disclaimed
Performance reports (P)	Material findings
Compliance with legislation (C)	Material findings

Assurance levels

First level	Senior management	Provides limited/no assurance
	Accounting officer/authority	Provides limited/no assurance
	Executive authority	Provides limited/no assurance
Second level	Internal audit unit	Provides some assurance
	Audit committee	Provides some assurance
Third level	Portfolio committee	Provides some assurance

Key controls

Key controls	F	P	C
Effective leadership			
Human resource controls			
ICT governance and controls			
Action plans			
Proper record keeping			
Daily and monthly controls			
Review and monitor compliance			

Audit area: F = Financial P = Performance C = Compliance

Good | Concerning | Intervention required

1 To improve the **audit outcomes** …

2 … the key role players need to **assure** that …

3 … attention is given to the **key controls** and …

4 … the **risk areas** and …

5 … that the **root causes** are addressed …

6 … and the **commitments** are honoured.

Risk areas

- Supply chain management
- Quality of submitted performance reports
- Human resource management
- Quality of submitted financial statements
- Information technology
- Financial health

Good | Concerning | Intervention required

Most common root causes

- Key officials lack appropriate competencies.
- Slow response by management and the political leadership.
- Lack of consequences for poor performance and transgressions.

Status of key commitments by MEC

- Implement proper record-keeping mechanisms to ensure that documentation is easily available and retrievable.
- Monitor the department's progress in addressing external audit findings through the implementation of an effective action plan and capacitating the department with skilled people.

Not implemented | In progress | Implemented | New

Health

Overall improvement in audit outcomes

Audit area	Audit outcome
Financial statements (F)	Qualified
Performance reports (P)	Material findings
Compliance with legislation (C)	Material findings

Assurance levels

First level	Senior management	*Provides some assurance*
	Accounting officer/authority	*Provides limited/no assurance*
	Executive authority	*Provides some assurance*
Second level	Internal audit unit	*Provides some assurance*
	Audit committee	*Provides some assurance*
Third level	Portfolio committee	*Provides some assurance*

Key controls

	Audit area F	P	C
Effective leadership			
Human resource controls			
ICT governance and controls			
Action plans			
Proper record keeping			
Daily and monthly controls			
Review and monitor compliance			

F = Financial P = Performance C = Compliance

Good | Concerning | Intervention required

1 To improve the **audit outcomes** …

2 … the key role players need to **assure** that …

3 … attention is given to the **key controls** and …

4 … the **risk areas** and …

5 … that the **root causes** are addressed …

6 … and the **commitments** are honoured.

Risk areas

- Supply chain management
- Quality of submitted performance reports
- Human resource management
- Quality of submitted financial statements
- Information technology
- Financial health

Good | Concerning | Intervention required

Most common root causes

- Lack of consequences for poor performance and transgressions.
- Slow response by management and the political leadership.
- Instability or vacancies in key positions.

Status of key commitments by MEC

- Establish (1) an inter-ministerial committee to provide advice and political support to the department; and (2) a support team to oversee and manage a change process for stabilisation and long-term transformation.
- Establish (1) an inter-ministerial committee to provide advice and political support to the department; and (2) a support team to oversee and manage a change process for stabilisation and long-term transformation.
- Establish (1) an inter-ministerial committee to provide advice and political support to the department; and (2) a support team to oversee and manage a change process for stabilisation and long-term transformation.
- Establish (1) an inter-ministerial committee to provide advice and political support to the department; and (2) a support team to oversee and manage a change process for stabilisation and long-term transformation.

Not implemented | In progress | Implemented | New

Office of the Premier

Overall stagnation in audit outcomes

Audit area	Audit outcome
Financial statements (F)	Unqualified
Performance reports (P)	No material findings
Compliance with legislation (C)	Material findings

Assurance levels

First level	Senior management	Provides assurance
	Accounting officer/authority	Provides assurance
	Executive authority	Provides assurance
Second level	Internal audit unit	Provides assurance
	Audit committee	Provides assurance
Third level	Portfolio committee	Provides some assurance

Key controls

Key controls	Audit area F	P	C
Effective leadership	Good	Good	Concerning
Human resource controls	Concerning	Good	Good
ICT governance and controls	Concerning	Concerning	Concerning
Action plans	Good	Concerning	Good
Proper record keeping	Good	Concerning	Good
Daily and monthly controls	Good	Concerning	Good
Review and monitor compliance	Good	Good	Concerning

F = Financial P = Performance C = Compliance

Good | Concerning | Intervention required

1 To improve the **audit outcomes** …

2 … the key role players need to **assure** that …

3 … attention is given to the **key controls** and …

… the **risk areas** and … 4

… that the **root causes** are addressed … 5

… and the **commitments** are honoured. 6

Risk areas

Supply chain management	Intervention required
Quality of submitted performance reports	Intervention required
Human resource management	Concerning
Quality of submitted financial statements	Good
Information technology	Concerning
Financial health	Good

Good | Concerning | Intervention required

Most common root causes

Key officials lack appropriate competencies.

Status of key commitments by premier

Enforce consequences for poor performance.

Ensure that the province is adequately capacitated with skilled people.

Not implemented | In progress | Implemented | New

Provincial Legislature

Overall improvement in audit outcomes

Audit area	Audit outcome
Financial statements (F)	Unqualified
Performance reports (P)	No material findings
Compliance with legislation (C)	Material findings

Assurance levels

First level	Senior management	Provides assurance
	Accounting officer/authority	Provides assurance
	Executive authority	Provides some assurance
Second level	Internal audit unit	Provides some assurance
	Audit committee	Provides limited/no assurance
Third level	Portfolio committee	Provides some assurance

Key controls

Key controls	Audit area F	P	C
Effective leadership	Intervention required	Good	Intervention required
Human resource controls	Concerning	Good	Concerning
ICT governance and controls	Concerning	Good	Concerning
Action plans	Concerning	Good	Concerning
Proper record keeping	Concerning	Good	Good
Daily and monthly controls	Concerning	Good	Good
Review and monitor compliance	Concerning	Concerning	Concerning

F = Financial P = Performance C = Compliance

Good | Concerning | Intervention required

1 To improve the **audit outcomes** …

2 … the key role players need to **assure** that …

3 … attention is given to the **key controls** and …

4 … the **risk areas** and …

5 … that the **root causes** are addressed …

6 … and the **commitments** are honoured.

Risk areas

Supply chain management	Intervention required
Quality of submitted performance reports	Good
Human resource management	Concerning
Quality of submitted financial statements	Intervention required
Information technology	Concerning
Financial health	Good

Good | Concerning | Intervention required

Most common root causes

- Instability or vacancies in key positions.
- Key officials lack appropriate competencies.
- Slow response by management and the political leadership.

Status of key commitments by speaker

No new commitments were given.

Not implemented | In progress | Implemented | New

Provincial Treasury

Overall stagnation in audit outcomes

Audit area	Audit outcome
Financial statements (F)	Unqualified
Performance reports (P)	No material findings
Compliance with legislation (C)	Material findings

Assurance levels

First level	Senior management	Provides assurance
	Accounting officer/authority	Provides assurance
	Executive authority	Provides assurance
Second level	Internal audit unit	Provides assurance
	Audit committee	Provides assurance
Third level	Portfolio committee	Provides some assurance

Key controls

Key controls	F	P	C
Effective leadership	Good	Good	Good
Human resource controls	Good	Good	Intervention required
ICT governance and controls	Concerning	Good	Good
Action plans	Good	Good	Good
Proper record keeping	Good	Good	Good
Daily and monthly controls	Good	Good	Good
Review and monitor compliance	Good	Good	Good

F = Financial P = Performance C = Compliance

Good | Concerning | Intervention required

1 To improve the **audit outcomes** …

2 … the key role players need to **assure** that …

3 … attention is given to the **key controls** and …

… the **risk areas** and … 4

… that the **root causes** are addressed … 5

… and the **commitments** are honoured. 6

Risk areas

Supply chain management	Good
Quality of submitted performance reports	Good
Human resource management	Concerning
Quality of submitted financial statements	Good
Information technology	Concerning
Financial health	Good

Good | Concerning | Intervention required

Most common root causes

Instability or vacancies in key positions.

Status of key commitments by MEC

The MEC could not make any commitments, as the department was under administration.

Not implemented | In progress | Implemented | New

Public Works

Overall improvement in audit outcomes

Audit area	Audit outcome
Financial statements (F)	Qualified
Performance reports (P)	Material findings
Compliance with legislation (C)	Material findings

Assurance levels

Level	Role player	Assurance
First level	Senior management	Provides some assurance
	Accounting officer/authority	Provides some assurance
	Executive authority	Provides some assurance
Second level	Internal audit unit	Provides some assurance
	Audit committee	Provides some assurance
Third level	Portfolio committee	Provides some assurance

Key controls

Key controls	F	P	C
Effective leadership			
Human resource controls			
ICT governance and controls			
Action plans			
Proper record keeping			
Daily and monthly controls			
Review and monitor compliance			

Audit area: F = Financial P = Performance C = Compliance

Good | Concerning | Intervention required

1 To improve the **audit outcomes** …

2 … the key role players need to **assure** that …

3 … attention is given to the **key controls** and …

… the **risk areas** and … 4

… that the **root causes** are addressed … 5

… and the **commitments** are honoured. 6

Risk areas

- Supply chain management
- Quality of submitted performance reports
- Human resource management
- Quality of submitted financial statements
- Information technology
- Financial health

Good | Concerning | Intervention required

Most common root causes

Lack of consequences for poor performance and transgressions.

Key officials lack appropriate competencies.

Slow response by management and the political leadership.

Status of key commitments by MEC

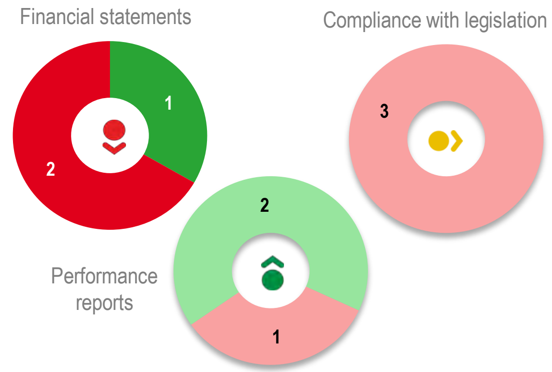
We did not obtain any commitments from the MEC.

Not implemented | In progress | Implemented | New

Roads and Transport

Overall stagnation in audit outcomes

Outcomes per audit area



Unqualified	Qualified	Adverse/Disclaimed
Audits outstanding	With no findings	With findings

Assurance levels

Level	Role player	Provides assurance	Provides some assurance	Provides limited/ no assurance	Vacancy	Not established
First level	Senior management		2	1		
First level	Accounting officer/authority		3			
First level	Executive authority		2	1		
Second level	Internal audit unit	1		1		1
Second level	Audit committee		1	2		
Third level	Portfolio committee		1			

Key controls

Audit areas

Key controls	Financial statements			Performance reports			Compliance with legislation		
	Good	Concerning	Intervention required	Good	Concerning	Intervention required	Good	Concerning	Intervention required
Effective leadership	1	1	1	1	1	1		2	1
Human resource controls		2	1	1	2		1	1	1
ICT governance and controls		3		1	2		1	2	
Audit action plans		2	1	1	1	1	1	1	1
Proper record keeping		1	2		1	2	1		2
Daily and monthly controls		1	2		2	1	1	1	1
Review and monitor compliance	1	1	1	1	1	1		1	2

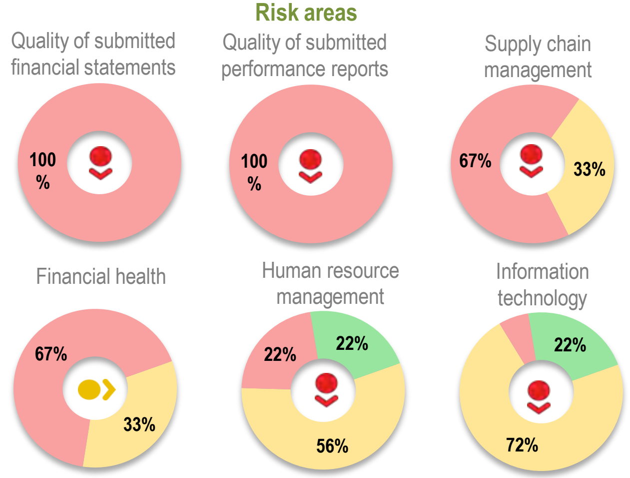
Good | Concerning | Intervention required

1 To improve the **audit outcomes** …
… the **risk areas** and … 4

2 … the key role players need to **assure** that …
… that the **root causes** are addressed … 5

3 … attention is given to the **key controls** and …
… and the **commitments** are honoured. 6

Risk areas



Good | Concerning | Intervention required

Most common root causes

Slow response by management (accounting officer and senior management).
A root cause at 3 auditees.

Key officials lack appropriate competencies.
A root cause at 2 auditees.

Lack of consequences for poor performance and transgressions.
A root cause at 2 auditees.

Improved | Unchanged | Regressed

Status of key commitments by MEC

The previous year's commitment to work closely with us to address challenges relating to assets and compliance was not implemented.

Not implemented | In progress | Implemented | New

Safety, Security and Liaison

Overall stagnation in audit outcome

Audit area	Audit outcome
Financial statements (F)	Unqualified
Performance reports (P)	No material findings
Compliance with legislation (C)	Material findings

Assurance levels

First level	Senior management	*Provides assurance*
	Accounting officer/authority	*Provides assurance*
	Executive authority	*Provides limited/no assurance*
Second level	Internal audit unit	*Provides assurance*
	Audit committee	*Provides assurance*
Third level	Portfolio committee	*Provides some assurance*

Key controls

	Audit area F	P	C
Effective leadership			
Human resource controls			
ICT governance and controls			
Action plans			
Proper record keeping			
Daily and monthly controls			
Review and monitor compliance			

F = Financial P = Performance C = Compliance

Good | Concerning | Intervention required

1 To improve the **audit outcomes** …

2 … the key role players need to **assure** that …

3 … attention is given to the **key controls** and …

… the **risk areas** and … 4

… that the **root causes** are addressed … 5

… and the **commitments** are honoured. 6

Risk areas

- Supply chain management
- Quality of submitted performance reports
- Human resource management
- Quality of submitted financial statements
- Information technology
- Financial health

Good | Concerning | Intervention required

Most common root causes

Instability or vacancies in key positions.

Status of key commitments by MEC

Identify gaps in the skills and competencies of officials in the finance unit.
Improve the monitoring of compliance with laws and regulations.

Not implemented | In progress | Implemented | New

Social Development

Overall stagnation in audit outcomes

Audit area	Audit outcome
Financial statements (F)	Qualified
Performance reports (P)	No material findings
Compliance with legislation (C)	Material findings

Assurance levels

First level	Senior management	Provides some assurance
	Accounting officer/authority	Provides some assurance
	Executive authority	Provides some assurance
Second level	Internal audit unit	Provides assurance
	Audit committee	Provides some assurance
Third level	Portfolio committee	Provides some assurance

Key controls

Key controls	Audit area F	P	C
Effective leadership			
Human resource controls			
ICT governance and controls			
Action plans			
Proper record keeping			
Daily and monthly controls			
Review and monitor compliance			

F = Financial P = Performance C = Compliance

Good | Concerning | Intervention required

1 To improve the **audit outcomes** …

2 … the key role players need to **assure** that …

3 … attention is given to the **key controls** and …

… the **risk areas** and … 4

… that the **root causes** are addressed … 5

… and the **commitments** are honoured. 6

Risk areas

- Supply chain management
- Quality of submitted performance reports
- Human resource management
- Quality of submitted financial statements
- Information technology
- Financial health

Good | Concerning | Intervention required

Most common root causes

Key officials lack appropriate competencies.

Status of key commitments by MEC

No key commitments were made by the MEC.

Not implemented | In progress | Implemented | New

Sport, Arts and Culture

Overall improvement in audit outcomes

Audit area	Audit outcome
Financial statements (F)	Qualified
Performance reports (P)	No material findings
Compliance with legislation (C)	Material findings

Assurance levels

First level	Senior management	Provides some assurance
First level	Accounting officer/authority	Provides some assurance
First level	Executive authority	Provides some assurance
Second level	Internal audit unit	Provides assurance
Second level	Audit committee	Provides some assurance
Third level	Portfolio committee	Provides some assurance

Key controls

Key controls	F	P	C
Effective leadership	Intervention required	Concerning	Concerning
Human resource controls	Intervention required	Concerning	Concerning
ICT governance and controls	Concerning	Concerning	Concerning
Action plans	Intervention required	Concerning	Concerning
Proper record keeping	Concerning	Concerning	Concerning
Daily and monthly controls	Intervention required	Concerning	Concerning
Review and monitor compliance	Concerning	Good	Concerning

Audit area: F = Financial P = Performance C = Compliance

Good | Concerning | Intervention required

1 To improve the **audit outcomes** …

2 … the key role players need to **assure** that …

3 … attention is given to the **key controls** and …

… the **risk areas** and … 4

… that the **root causes** are addressed … 5

… and the **commitments** are honoured. 6

Risk areas

Supply chain management	Intervention required
Quality of submitted performance reports	Intervention required
Human resource management	Concerning
Quality of submitted financial statements	Intervention required
Information technology	Concerning
Financial health	Good

Good | Concerning | Intervention required

Most common root causes

- Lack of consequences for poor performance and transgressions.
- Key officials lack appropriate competencies.
- Slow response by management.

Status of key commitments by MEC

None

Not implemented | In progress | Implemented | New

ANNEXURES

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

Auditee	2013-14 audit outcomes			2012-13 audit outcomes			Financial statement qualification areas									Findings on predetermined objectives			
	Audit opinion	Predetermined objectives	Compliance with legislation	Audit opinion	Predetermined objectives	Compliance with legislation	Non-current assets	Current assets	Liabilities	Capital and reserves	Other disclosure items	Revenue	Expenditure	Unauthorised, irregular as well as fruitless and wasteful expenditure	Aggregate misstatements	Reported information not useful	Reported information not reliable	Information not submitted in time for auditing	No annual performance report
Departments																			
Agriculture		R	R		N	R	R		N		R			A			R		
Cooperative Governance, Human Settlements and Traditional Affairs		A	A		N	R										A			
Economic Development, Environment and Tourism		N	R			R	N									N	N		
Education		R	R		R	R	R	R	N		R		R	R	N	R	R		
Health		R	R		R	R	A	R	A		A			A		R	R		
Office of the Premier			R			R													
Provincial Legislature		A	R		N	R											A		
Provincial Treasury			R		A	R													
Public Works		R	R		R	R	R	R	A					N		R	R		
Roads and Transport			R			R													
Safety, Security and Liaison			R			R													
Social Development			R			R	R	A					A						
Sport, Arts and Culture		A	R		N	R	R				R			R			A		
Public entities																			
Corridor Mining Resources		R	R		R	R	A				N					R	A		
Gateway Airports Authority Limited		R	R		R	R	R	N	N	N	N	N	N		N	R	N		
Great North Transport		R	R		R	R										A	R		
Limpopo Economic Development Agency		R	R		R	R	A	A		A				A		R	R		
Limpopo Gambling Board			R			R													
Limpopo Roads Agency		A	R		N	R	R						R	R		A	A		
Limpopo Tourism Agency		R	R		R	R	R	A			R	A	N	N		R	R		
Mununzwu Estate (Pty) Ltd		N	R		A	R				A		N				N	N		
Risima Housing Finance Corporation		R	R		R	R										R	A		
Venteco			R		A	R	N			A									

Auditee	Findings on non-compliance															
	Material misstatement or limitations in submitted AFS	Unauthorised, irregular as well as fruitless and wasteful expenditure	Annual financial statements and annual report	Asset management	Liability management	Budgets	Expenditure management	Consequence management	Audit committee	Internal audit	Revenue management	Strategic planning and performance management	Transfers and conditional grants	Procurement management	Human resource management	Other
Departments																
Agriculture	R	R	A	R			A	A	A					R	A	
Cooperative Governance, Human Settlements and Traditional Affairs							A		A					A		
Economic Development, Environment and Tourism	N	R	N	N			N	N	A		R	N	N		N	
Education	R	N	R	R	R	R	R	R	A	N	R	R	R	R	R	
Health	R	R		R		A	R	N	A	A	R	N		R	A	A
Office of the Premier		R							A			A		R	A	
Provincial Legislature	R	N											A	N		
Provincial Treasury									A					A	R	
Public Works	R	R	N	R			R	N	A		R			R	N	
Roads and Transport	N			N			R		A			N		A		
Safety, Security and Liaison	N	A							A					A		
Social Development	R	R		R			A	R	A		R		N	R	R	
Sport, Arts and Culture	R	R		R		A	R	N	A			N		R	R	
Public entities																
Corridor Mining Resources	R	N	R					N	N	R		R		N		
Gateway Airports Authority Limited	R	R	R	R	N		N	N	R	R	N	R		N		
Great North Transport	N	R	R						R	R	A	R		R		
Limpopo Economic Development Agency	R	A	N	R			N	N		A	R	R		N		
Limpopo Gambling Board	R	R		N			A							R		
Limpopo Roads Agency	R	R	R	R		A	A		R	R	R	N		R		
Limpopo Tourism Agency	R	R	R	R		A		N		A	R	N		R		
Mununzwu Estate (Pty) Ltd	R								N	N	N	R				
Risima Housing Finance Corporation	N								N	R		A				
Venteco	R			N			N		N	N	N	A		N		

Auditee	Findings on specific risk areas					Unauthorised, irregular as well as fruitless and wasteful expenditure		
	Quality of submitted performance reports	Supply chain management	Financial health	Human resource management	Information technology	Unauthorised expenditure Amount R	Irregular expenditure Amount R	Fruitless and wasteful expenditure Amount R
Departments								
Agriculture	R	R		R	R	0.00	63.00	0.12
Cooperative Governance, Human Settlements and Traditional Affairs	A	R	F	R	R	0.00	0.19	0.01
Economic Development, Environment and Tourism	N	R	F	R	R	0.00	0.38	0.10
Education	R	R	M	R	R	15.60	2209.40	168.60
Health	R	R	F	A	R	0.00	870.00	33.80
Office of the Premier	N	R		R	R	0.00	0.18	0.01
Provincial Legislature	A	R		R	R	0.00	2.20	0.00
Provincial Treasury		A		R	R	0.00	0.00	0.00
Public Works	R	R	F	R	R	0.00	22.60	0.06
Roads and Transport	N	R	F	R	R	0.00	0.00	0.28
Safety, Security and Liaison		A			R	0.00	0.00	0.00
Social Development		R		R	R	0.00	26.20	2.50
Sport, Arts and Culture	R	R		R	R	0.00	8.50	0.00
Public entities								
Corridor Mining Resources	R	N	M	R		0.00	0.84	1.50
Gateway Airports Authority Limited	R	N	M	N	R	0.00	2.10	0.12
Great North Transport	R	R	F	R	R	0.00	49.70	1.90
Limpopo Economic Development Agency	R	R	F	A	R	0.00	6.20	3.30
Limpopo Gambling Board		R				0.00	3.40	0.11
Limpopo Roads Agency	R	R	M	R	N	0.00	290.50	1.40
Limpopo Tourism Agency	R	R		R	N	0.00	18.40	0.79
Mununzwu Estate (Pty) Ltd	R		F	N		0.00	0.00	0.16
Risima Housing Finance Corporation	R	N	F	R		0.00	0.34	0.01
Venteco	A	N	F			0.00	0.71	0.13

Legend (Audit outcomes): Unqualified with no findings | Unqualified with findings | Qualified with findings | Adverse with findings | Disclaimer with findings | Audit not finalised at legislated date | New auditee

Legend (Findings): Addressed (A) | New (N) | Repeat (R) | Not reported (NR)

Financial health findings: No unfavourable indicators | Unfavourable indicators | Material unfavourable indicators

Controls (human resource and information technology management): Good | Concerning | Intervention required

Legend (expenditure): Improved | Regressed

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Annexure 2: Auditees' five-year audit opinions

Auditee	Audit outcome 2013-14			Audit outcome 2012-13			Audit outcome 2011-12			Audit outcome 2010-11			Audit outcome 2009-10		
		Findings			Findings			Findings			Findings			Findings	
	Audit opinion	PDO	Compliance	Audit opinion	PDO	Compliance	Audit opinion	PDO	Compliance	Audit opinion	PDO	Compliance	Audit opinion	PDO	Compliance
Departments															
Agriculture	Qualified			Qualified			Unqualified with findings			Unqualified with no findings			Unqualified with findings		
Cooperative Governance, Human Settlements and Traditional Affairs	Unqualified with no findings			Unqualified with findings			Unqualified with findings			Unqualified with no findings			Unqualified with findings		
Economic Development, Environment and Tourism	Qualified			Unqualified with findings			Unqualified with findings			Unqualified with findings			Unqualified with findings		
Education	Disclaimed			Disclaimed			Disclaimed			Qualified			Disclaimed		
Health	Qualified			Disclaimed			Disclaimed			Disclaimed			Qualified		
Office of the Premier	Unqualified with findings			Unqualified with findings			Unqualified with findings			Unqualified with findings			Unqualified with findings		
Provincial Legislature	Unqualified with findings			Unqualified with findings			Unqualified with findings			Unqualified with findings			Unqualified with findings		
Provincial Treasury	Unqualified with findings			Unqualified with findings			Unqualified with findings			Unqualified with findings			Unqualified with findings		
Public Works	Qualified			Disclaimed			Disclaimed			Qualified			Qualified		
Roads and Transport	Unqualified with findings			Unqualified with findings			Qualified			Qualified			Unqualified with findings		
Safety, Security and Liaison	Unqualified with findings			Unqualified with findings			Unqualified with findings			Unqualified with findings			Unqualified with findings		
Social Development	Qualified			Qualified			Unqualified with findings			Qualified			Qualified		
Sport, Arts and Culture	Qualified			Qualified			Qualified			Qualified			Unqualified with findings		
Public entities															
Corridor Mining Resources	Qualified			Qualified			Qualified			Unqualified with findings			New auditee		
Gateway Airports Authority Limited	Disclaimed			Qualified			Qualified			Unqualified with findings			Unqualified with findings		
Great North Transport	Unqualified with findings			Unqualified with findings			Qualified			New auditee			New auditee		
Limpopo Economic Development Agency	Unqualified with findings			Qualified			Qualified			Qualified			Unqualified with findings		
Limpopo Gambling Board	Unqualified with findings			Unqualified with findings			Unqualified with findings			Unqualified with findings			Unqualified with findings		
Limpopo Roads Agency	Adverse			Disclaimed			Unqualified with findings			Unqualified with no findings			Unqualified with findings		
Limpopo Tourism Agency	Qualified			Disclaimed			Disclaimed			Disclaimed			Disclaimed		
Mununzwu Estate (Pty) Ltd	Qualified			Qualified			Qualified			Qualified			New auditee		
Risima Housing Finance Corporation	Unqualified with findings			Unqualified with findings			Unqualified with findings			New auditee			New auditee		
Venteco	Qualified			Qualified			Unqualified with findings			Qualified			New auditee		

Annexure 3: Assessment of auditees' key controls at the time of the audit

Legend					
Good		In progress		Intervention required	
Improved	↑	Unchanged	↔	Regressed	↓
Financial	F	Performance	P	Compliance	C

Auditees	Leadership																				
	Movement			Effective leadership culture			Oversight responsi-bility			HR management			Policies & procedures			Action plans			IT governance		
	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C
Departments																					
Agriculture	↔	↑	↑																		
Cooperative Governance, Human Settlements and Traditional Affairs	↑	↔	↑																		
Economic Development, Environment and Tourism	↓	↓	↓																		
Education	↓	↔	↔																		
Health	↑	↔	↔																		
Office of the Premier	↔	↓	↔																		
Provincial Legislature	↓	↑	↓																		
Provincial Treasury	↑	↔	↔																		
Public Works	↑	↑	↑																		
Roads and Transport	↓	↓	↓																		
Safety, Security and Liaison	↔	↑	↑																		
Social Development	↑	↑	↔																		
Sport, Arts and Culture	↓	↑	↔																		
Public entities																					
Corridor Mining Resources	↔	↓	↓																		
Gateway Airports Authority Limited	↓	↓	↓																		
Great North Transport	↔	↔	↓																		
Limpopo Economic Development Agency	↑	↑	↓																		
Limpopo Gambling Board	↓	↔	↔																		
Limpopo Roads Agency	↔	↔	↔																		
Limpopo Tourism Agency	↔	↔	↔																		
Mununzwu Estate (Pty) Ltd	↓	↓	↓																		
Risima Housing Finance Corporation	↓	↑	↓																		
Venteco	↓	↑	↓																		

Auditees	Financial and performance management																	
	Movement			Proper record keeping			Processing and reconciling			Reporting			Compliance			IT system controls		
	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C
Departments																		
Agriculture	↑	↑	↑															
Cooperative Governance, Human Settlements and Traditional Affairs	↔	↑	↑															
Economic Development, Environment and Tourism	↓	↓	↓															
Education	↓	↔	↔															
Health	↑	↔	↔															
Office of the Premier	↔	↓	↔															
Provincial Legislature	↓	↑	↓															
Provincial Treasury	↓	↔	↑															
Public Works	↑	↑	↑															
Roads and Transport	↓	↓	↔															
Safety, Security and Liaison	↓	↑	↓															
Social Development	↓	↔	↔															
Sport, Arts and Culture	↔	↑	↔															
Public entities																		
Corridor Mining Resources	↔	↓	↓															
Gateway Airports Authority Limited	↓	↓	↓															
Great North Transport	↔	↔	↔															
Limpopo Economic Development Agency	↔	↑	↔															
Limpopo Gambling Board	↓	↔	↔															
Limpopo Roads Agency	↔	↑	↔															
Limpopo Tourism Agency	↑	↑	↑															
Mununzwu Estate (Pty) Ltd	↓	↓	↓															
Risima Housing Finance Corporation	↓	↑	↓															
Venteco	↓	↑	↑															

Auditees	Governance											
	Movement			Risk management			Internal audit			Audit committee		
	F	P	C	F	P	C	F	P	C	F	P	C
Departments												
Agriculture	↔	↑	↔									
Cooperative Governance, Human Settlements and Traditional Affairs	↓	↓	↓									
Economic Development, Environment and Tourism	↑	↑	↑									
Education	↔	↔	↔									
Health	↑	↔	↔									
Office of the Premier	↑	↑	↑									
Provincial Legislature	↔	↑	↔									
Provincial Treasury	↓	↑	↑									
Public Works	↑	↑	↑									
Roads and Transport	↓	↓	↓									
Safety, Security and Liaison	↑	↑	↑									
Social Development	↔	↔	↔									
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Limpopo Economic Development Agency	↔	↔	↓									
Limpopo Gambling Board	↔	↔	↔									
Limpopo Roads Agency	↓	↓	↓									
Limpopo Tourism Agency	↔	↔	↔									
Mununzwu Estate (Pty) Ltd	↓	↓	↓									
Risima Housing Finance Corporation	↓	↑	↔									
Venteco	↓	↑	↓									

GLOSSARY OF TERMS, ACRONYMS AND ABBREVIATIONS

Glossary of key terminology used in this report

Adverse audit opinion (on financial statements)	The financial statements contain material misstatements (see 'misstatement') that are not confined to specific amounts, or the misstatements represent a substantial portion of the financial statements.
Asset (in financial statements)	Any item belonging to the auditee, including property, infrastructure, equipment, cash, and debt due to the auditee.
Assurance & assurance provider	As used in this report, assurance is a positive declaration that is intended to give confidence in the credibility of financial and performance reports tabled by auditees and in the extent to which auditees have adhered to legislation to which they are subject. Through the audit report issued to auditees, we provide assurance on the credibility of auditees' financial and performance information as well as auditees' compliance with key legislation. There are role players ('assurance providers') in national and provincial government, other than external auditors, that are also required to contribute to assurance and confidence by ensuring that adequate internal controls are implemented to achieve auditees' financial, service delivery and compliance objectives. Such assurance providers include senior auditee officials (heads of departments, accounting officers, and chief executive officers), various committees (risk management and audit committees), and internal audit units. Other role players further include national and provincial oversight structures and coordinating or monitoring departments, as discussed in this report.
Capital budget	The estimated amount planned to be spent by auditees on capital items in a particular financial period; for example, fixed assets such as property, infrastructure and equipment with long-expected lives and that are required to provide services, produce income or support operations.
Cash flow (in financial statements)	The flow of money from operations: incoming funds are revenue (cash inflow) and outgoing funds are expenses (cash outflow).
Clean audit	The financial statements receive a financially unqualified audit opinion and there are no material findings on the quality of the annual performance report or non-compliance with key legislation.
Commitments from role players	Initiatives and courses of action communicated to us by role players in national and provincial government aimed at improving the audit outcomes.
Conditional grants	Money transferred from national government to auditees, subject to certain services being delivered or on compliance with specified requirements.
Contingent liability	A potential liability, the amount of which will depend on the outcome of a future event.

Creditors	Persons, companies or organisations that auditees owe money to for goods and services procured from them.
Current assets (in financial statements)	These assets are made up of cash and other assets, such as inventory or debt for credit extended, which will be traded, used or converted into cash in less than 12 months. All other assets are classified as non-current, and typically include property, plant and equipment as well as long-term investments.
Disclaimed audit opinion (on financial statements)	The auditee provided insufficient evidence in the form of documentation on which we could base an audit opinion. The lack of sufficient evidence is not confined to specific amounts, or represents a substantial portion of the information contained in the financial statements.
Financial and performance management	
(as one of the drivers of internal control)	The performance of tasks relating to internal control and monitoring by management and other employees to achieve the financial management, reporting and service delivery objectives of the auditee. These controls include the basic daily and monthly controls for the processing and reconciliation of transactions, the preparation of regular and credible financial and performance reports, and the review and monitoring of compliance with legislation.
Financially unqualified audit opinion (on financial statements)	The financial statements contain no material misstatements (see 'material misstatement'). Unless we express a clean audit opinion, findings have been raised on either the annual performance report or non-compliance with legislation, or both these aspects.
Fruitless and wasteful expenditure	Expenditure that was made in vain and could have been avoided had reasonable care been taken. This includes penalties and interest on late payments to creditors or statutory obligations as well as payments made for services not utilised or goods not received.
Going concern	The presumption that an auditee will continue to operate in the foreseeable future, and will not go out of business and liquidate its assets. For the going concern presumption to be reasonable, the auditee must have the capacity and prospect to raise enough financial resources to stay operational.
Governance (as one of the drivers of internal control)	The governance structures (audit committees) and processes (internal audit and risk management) of an auditee.
Human resource management	The management of an auditee's employees, or human resources, which involves adequate and sufficiently skilled people as well as the adequate management of the performance of staff and their productivity.
Information technology (IT)	The computer systems used for capturing and reporting financial and non-financial transactions.

IT controls	Computer-related controls ensure the confidentiality, integrity and availability of state information, enable service delivery and promote national security.
IT governance	The leadership, organisational structures and processes which ensure that the auditee's IT resources will sustain its strategies and objectives.
IT security management	The controls preventing unauthorised access to auditee networks, operating systems and application systems that generate financial information.
IT service continuity	The processes managing the availability of hardware, system software, application software and data to enable auditees to recover or re-establish information system services in the event of a disaster.
IT user access management	The procedures through which auditees ensure that only valid, authorised users are allowed segregated access to initiate and approve transactions on the information systems.
Internal control / key controls	The process designed and implemented by those charged with governance, management and other personnel to provide reasonable assurance about the achievement of the auditee's objectives with regard to the reliability of financial reporting, the effectiveness and efficiency of operations, and compliance with key legislation. It consists of all the policies and procedures implemented by auditee management to assist in achieving the orderly and efficient conduct of business, including adhering to policies, safeguarding assets, preventing and detecting fraud and error, ensuring the accuracy and completeness of accounting records, and timeously preparing reliable financial and service delivery information.
Irregular expenditure	Expenditure incurred without complying with applicable legislation.
Key drivers of internal control	The three components of internal control that should be addressed to improve audit outcomes, namely leadership, financial and performance management, and governance. (These three components are also defined individually in this glossary.)
Leadership *(as one of the drivers of internal control)*	The administrative leaders of an auditee, such as heads of departments, chief executive officers and senior management. It can also refer to the political leadership or the leadership in the province, such as the premier.
Liability	Short-term and long-term debt owed by the auditee.
Material finding *(from the audit)*	An audit finding on the quality of the annual performance report or non-compliance with legislation that is significant enough in terms of its amount, its nature, or both its amount and its nature, to be reported in the audit report.

Material misstatement

(in the financial statements or annual performance report)
An error or omission that is significant enough to influence the opinions or decisions of users of the reported information. Materiality is considered in terms of either its rand value or the nature and cause of the misstatement, or both these aspects.

Misstatement *(in the financial statements or annual performance report)*
Incorrect or omitted information in the financial statements or annual performance report.

Net deficit *(incurred by auditee)*
The amount by which an auditee's spending exceeds its income during a period or financial year.

Operational budget / operating budget
A short-term budget, usually prepared annually, based on estimates of income and expenses associated with the auditee's operations, such as service delivery costs, administration and salaries.

Oversight structures & coordinating and monitoring departments
National and provincial role players (1) that are directly involved with the management of the auditee (management/leadership assurance) – in other words, the first line of defence; (2) that perform an oversight or governance function, either as an internal governance function or an external monitoring function (internal independent assurance and oversight); and (3) that give an objective assessment of the auditee's reporting (external independent assurance and oversight).

Property, infrastructure and equipment *(in financial statements)*
Assets that physically exist and are expected to be used for more than one year, including land, buildings, leasehold improvements, equipment, furniture, fixtures and vehicles.

Qualified audit opinion *(on financial statements)*
The financial statements contain material misstatements in specific amounts, or there is insufficient evidence for us to conclude that specific amounts included in the financial statements are not materially misstated.

Receivables / debtors *(in financial statements)*
Money owed to the auditee by companies, organisations or persons who have procured goods or services from the auditee.

Reconciliation *(of accounting records)*
The process of matching one set of data to another; for example, the bank statement to the cheque register, or the accounts payable journal to the general ledger.

Root causes *(of audit outcomes being poor or not improving)*
The underlying causes or drivers of audit findings; in other words, why the problem occurred. Addressing the root cause helps ensure that the actions address the real issue, thus preventing or reducing the incidents of recurrence, rather than simply providing a one-time or short-term solution.

Supply chain management
Procuring goods and services through a tender or quotation process and monitoring the quality and timeliness of the goods and services provided.

Acronyms and abbreviations

AGSA	*Auditor-General of South Africa*
BAS	*Basic Accounting System*
bn (after an amount)	*R'billion (rand)*
CEO	*chief executive officer*
CFO	*chief financial officer*
CIO	*chief information officer*
CoGTA	*Department of Cooperative Governance and Traditional Affairs*
DPSA	*Department of Public Service and Administration*
GRAP	*Generally Recognised Accounting Practice*
HoD	*head of department*
HR	*human resources*
ICT	*information and communication technology*
IFMS	*Integrated Financial Management System*
IT	*information technology*
K (after an amount)	*R'thousand (rand)*
LOGIS	*Logistical Information System*
m (after an amount)	*R'million (rand)*
MEC	*member of the executive council of a province*
PERSAL	*Personnel and Salary System*
PFMA	*Public Finance Management Act, 1999 (Act No. 1 of 1999)*
PPAC	*provincial public accounts committee*
SAP	*Systems, Applications and Products System*
SCM	*supply chain management*
SCOPA	*standing committee on public accounts*

AUDITOR-GENERAL
SOUTH AFRICA

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