

PC BRIEFING NOTE



PFMA audit outcomes of the 2015-16 financial year

Mineral Resources portfolio
29 September 2016



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

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1. Introduction

1.1 Reputation promise of the Auditor-General of South Africa

The Auditor-General of South Africa (AGSA) 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.

1.2 Purpose of document

The purpose of this briefing document is for the AGSA to provide an overview of the audit outcomes and other findings in respect of the Department of Mineral Resources and its entities for the 2014-15 financial year.

1.3 Overview

The mandate of the department is to ensure that there is equitable access to, and sustainable development of, the nation’s mineral resources and to provide regulatory framework for the regulation of the mining sector. The department is organised into four branches as follows: Administration (Corporate Services and Financial Administration), Mine Health and Safety, Mineral Regulation and Mineral Policy and Promotion.

The mineral resources portfolio consists of the Department of Mineral Resources (DMR) and the following entities which report to the minister of mineral resources, i.e. the Council for Geoscience (CGS), the South African Diamond and Precious Metals Regulator (SADPMR), the State Diamond Trader (SDT), Mine Health and Safety Council (MHSC) and the Council for Mineral Technology Research (Mintek). These entities play a supporting role to the mandate of the department as follows:

Name of entity	Legislative mandate	Financial relationship	Nature of operations
MHSC	Established in terms of section 42(1) of the Mine Health and Safety Act, 1996 (Act No. 29 of 1996)	Co-funding in terms of establishing act	Research and advisory function to the minister in terms of mine health and safety, as well as promoting a culture of health and safety in the mining industry
Mintek	Established in terms of the Mineral Technology Act, 1989 (Act No. 30 of 1989)	Co-funding in terms of establishing act	Provides research, development and technology that foster the development of businesses in the mineral and mineral products industries
CGS	Established in terms of the Geoscience Act, 1993 (Act No. 100 of 1993)	Co-funding in terms of establishing act	Development and maintenance of the national geosciences knowledge infrastructure for both the onshore (land) and offshore (oceans) environment of South Africa
SADPMR	Established in terms	Co-funding	Regulation of the diamond,

Name of entity	Legislative mandate	Financial relationship	Nature of operations
	of the Diamonds Act 1986 as amended and the Precious Metals Act, 2005 (Act No.37 of 2005)	in terms of establishing act	platinum and gold sectors
SDT	Established in terms of the Diamond Act, 1986 (Act No. 56 of 1986)	Co-funding in terms of establishing act	Promote equitable access to, and beneficiation of, diamond resources, address distortions in the diamond industry and correct historical market failures to develop and grow South Africa’s diamond cutting and polishing industry

Legislative mandate

The principal acts driving the work of the Department are the Mineral and Petroleum Development Act, 2002 (Act No. 28 of 2002) (MPRAD) and the Mine Health and Safety Act, 1996 (Act No. 29 of 1996). The two acts provide the regulatory framework for the promotion and regulation of the mining, minerals and petroleum industry. They also provide a regulatory framework for ensuring the equitable access to, and the sustainable development of, the nation’s mineral resources and related matters.

Vision 2019

A globally competitive, sustainable and meaningfully transformed mining and minerals sector.

Vision 2030

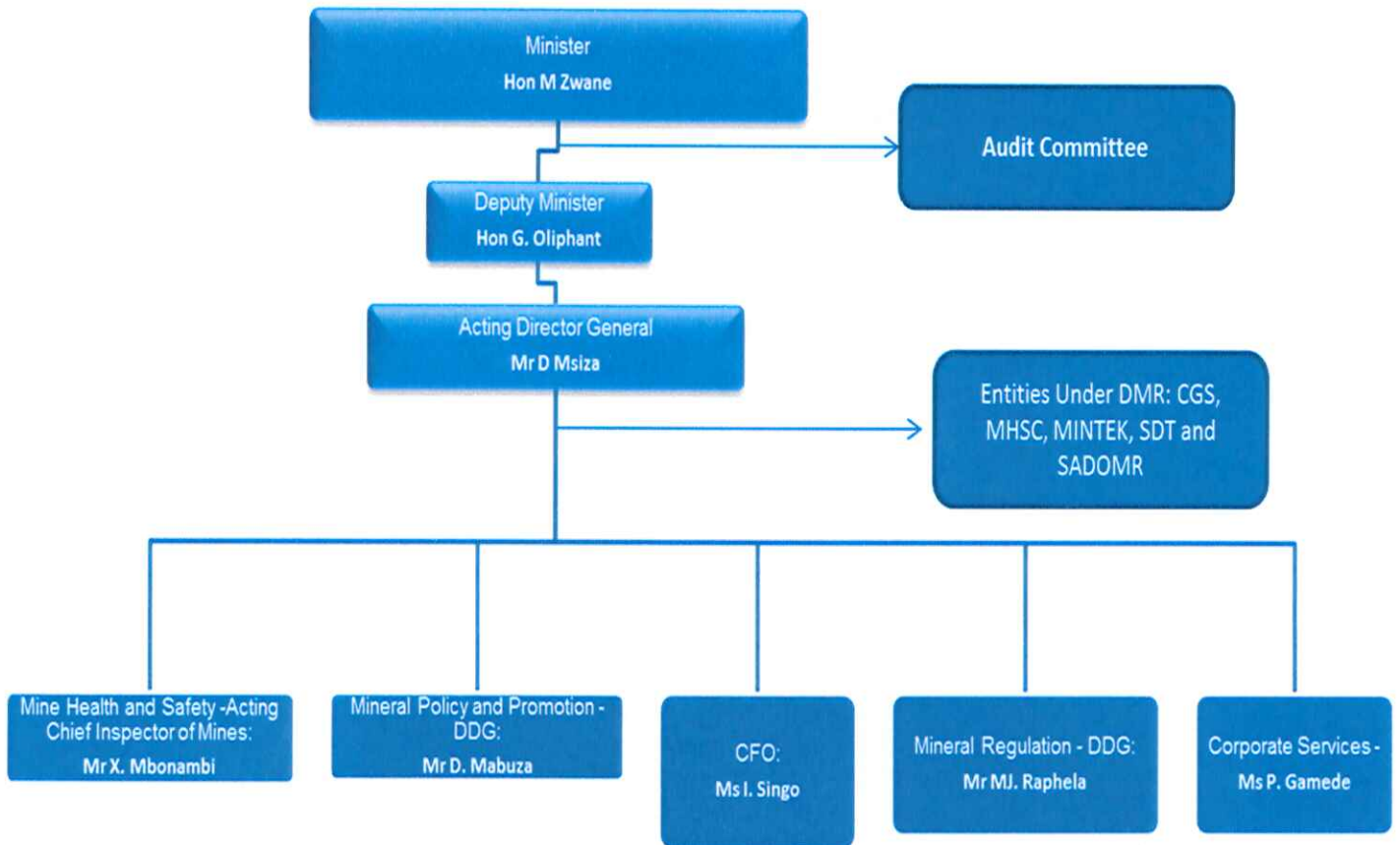
A leader in the transformation of South Africa through economic growth and sustainable development by 2030.

Mission

Promote and regulate the minerals and mining sector for transformation, growth and development, and ensure that all South Africans derive sustainable benefit from the country’s mineral wealth.

1.4 Organisational structure

Organisational structure



2. Audit opinion history

Audit opinions	2011-12	2012-13	2013-14	2014-15	2015-16
DMR					
CGS					
Mintek					
MHSC					
SDT					
SADPMR					
Qualification areas	2011-12	2012-13	2013-14	2014-15	2014-15
• Receivables, Revenue and Provisions – DMR		✓			
Predetermined objectives	2011-12	2012-13	2013-14	2014-15	2014-15
MHSC		✓			
Compliance with legislation	2011-12	2012-13	2013-14	2014-15	2014-15
DMR	✓	✓	✓	✓	✓
CGS	✓	✓	✓	✓	✓
Mintek			✓		
MHSC	✓	✓	✓	✓	✓
SDT			✓		✓
SADPMR			✓	✓	

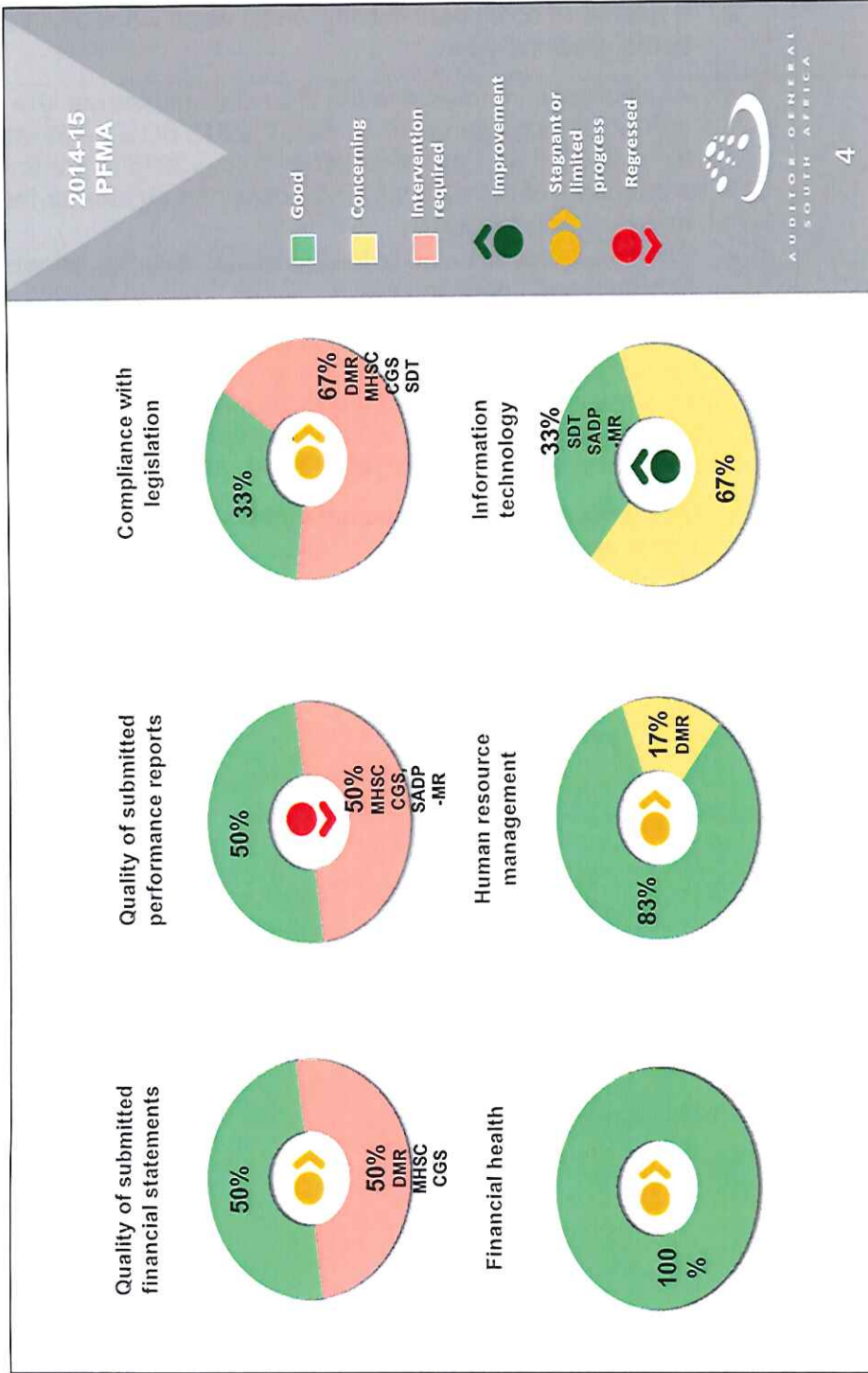
Audit opinion legend

	Clean audit opinion: no findings on PDOs and compliance
	Unqualified with findings on PDOs and compliance
	Qualified audit opinion (with/without findings)
	Disclaimer / adverse audit opinion
	Entity not yet established
✓	Department / entity had findings (in the related matter)

2.1 Significant emphasis of matters

Department entity	Emphasis of matter raised
DMR	<ul style="list-style-type: none"> As disclosed in note 32 to the financial statements, the corresponding figures for 31 March 2015 have been restated as a result of an error discovered during 31 March 2016 in the financial statements of the Department of Mineral Resources at, and for the year ended, 31 March 2015 It related to contingent liability which was incorrectly disclosed in the previous year
CGS	<ul style="list-style-type: none"> As disclosed in note 24 to the financial statements, the corresponding figures for 31 March 2015 have been restated as a result of an error discovered during 2016 in the financial statements of the Council for Geoscience at, and for the year ended, 31 March 2015 The error related to the following items: revenue, assets accruals and commitments
SADPMR	<ul style="list-style-type: none"> As disclosed in note 22 to the financial statements, the corresponding figures for 31 March 2015 have been restated as a result of an error discovered during 2016 in the financial statements of the South African Diamond and Precious metals Regulator at, and for the year ended, 31 March 2015 The error related to an accrual that was not raised in the previous year

2.2. Auditor – general six key focus areas



3.1 Material errors or omissions in submitted annual financial statements

Department / entity	Finding	Root cause	Recommendation
DMR	<p>The financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework as required by section 40(1)(a) of the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA)</p> <p>Material misstatements of contingent liabilities, lease commitments, leave entitlement and accruals identified by the auditors in the submitted financial statement were subsequently corrected resulting in the financial statements receiving an unqualified audit opinion</p>	<p>Management did not adequately review the annual financial statements and supporting schedules prior to submission for auditing</p>	<p>Management must ensure that information submitted for auditing is reviewed by the responsible officials prior to submission for audit purpose</p> <p>The requirements of the relevant accounting framework must be correctly applied</p>
CGS	<p>The financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework, as required by section 55(1)(a) of the PFMA</p> <p>Material misstatements of revenue, assets, accruals and commitments identified by the auditors in the submitted financial statement were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion</p>	<p>Management did not adequately review and monitor compliance with the Generally Recognised Accounting Practice (GRAP) during the financial reporting process</p>	<p>Management should adequately review and monitor compliance with GRAP during the financial reporting process</p>
MHSC	<p>The financial statements submitted for auditing were not prepared, in all material respects in accordance with the requirements of section 55(1)(a) of the PFMA</p> <p>Material misstatements of revenue, expenditure and</p>	<p>Management did not adequately review and monitor compliance with GRAP during the financial reporting process</p>	<p>Management should adequately review and monitor compliance with GRAP during the financial reporting process</p>

Department / entity	Finding	Root cause	Recommendation
	disclosure identified by auditors in the submitted financial statements were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion		

3.2 Predetermined objectives

Department / entity	Finding	Root cause	Recommendation
No issues were identified			

3.3 Supply chain management (SCM)

Department / entity	Finding	Root cause	Recommendation
SDT	Contracts were awarded to bidders based on points given for functionality that was not stipulated in the original request for quotations, in contravention of the Preferential Procurement Regulations	Management did not review and monitor compliance with applicable legislation	Management must implement controls to ensure that the requirements of the Preferential Procurement Regulations (PPR) are complied with when contracts are awarded

3.4 Financial health

Department / entity	finding	Root cause	Recommendation
No findings identified			

3.5 Human resource management and consequence management

Department / entity	Finding	Root cause	Recommendation
DMR	Critical senior manager positions were vacant for	The department has been struggling to	Management should ensure that vacancies are filled timeously so as

Department / entity	Finding	Root cause	Recommendation
	more than 12 months Vacancy rate at the department is more than 10%	obtain suitable resources who are willing to accept and fill the vacant senior management posts	to reduce the vacancy rate. Management must also ensure that the requirements of the Public Service Regulations (PSR) and Public Service Act (PSA) are complied with

4. Other matters of interest

(a) Irregular expenditure: Expenditure incurred in contravention of key legislation

Department / entity		Irregular expenditure				
		Movement	Amount 2015-16	Amount 2014-15	Root cause	Recommendation
1	DMR	↑	R480 000	R260 000	Management did not review and monitor compliance with applicable legislation	Management must implement controls to ensure that the requirements of the PPPFA and PPR are complied with when contracts are evaluated
2	SDT	↑	R75 137	0	Management did not review and monitor compliance with applicable legislation	Management must implement controls to ensure that the requirements of the PPR are complied with when contracts are evaluated
3	SADPMR	↔	0	0		
4	Mintek	↓	R294 742	R9 772 923	Management did not review and monitor compliance with applicable	Management should implement a check list which they will use prior to them awarding any tenders. The check list should

Department / entity		Irregular expenditure				
		Movement	Amount 2015-16	Amount 2014-15	Root cause	Recommendation
					legislation	also be thoroughly reviewed during the evaluation process
5	MHSC	↓	0	R626 000		
6	CGS	↓	R217 000	R1 428 000	Management did not review and monitor compliance with applicable legislation as the issues of non-compliance with PPPFA were not identified by management	Management must implement controls to ensure that the requirements of the PPPFA
Total		↓	R1 066 879	R12 086 923		

Irregular expenditure legend:

-  - Regressed
-  - Improved
-  - Unchanged

(b) Fruitless and wasteful expenditure: Expenditure that should not have been incurred (incurred in vain that could have been avoided and no value for money received)

Department / entity		Fruitless and wasteful expenditure				
		Movement	Amount 2015-16	Amount 2014-15	Root cause	Recommendation
1	MHSC	↑	R13 000	0	Management did not review and	Management must implement controls to ensure

					<p>monitor compliance with applicable legislation (Vat Act). Errors in the calculated amount paid for bonus</p>	<p>compliance with the applicable legislation. Where payments are made based on the results of calculations, such calculations should be thoroughly reviewed before any payments are approved</p>
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Fruitless and wasteful legend:

-  - Regressed
-  - Improved
-  - Unchanged

5. Drivers of internal controls

Drivers of internal control														
Department & entities	Leadership						Financial & performance management				Governance			
	Effective leadership culture	Oversight responsibility	HR management	Policies and procedures	Action plans	IT governance	Proper record keeping	Processing and reconciling controls	Reporting	Compliance	IT system controls	Risk management	Internal audit unit	Audit committee
DMR	Green	Yellow	Yellow	Green	Green	Green	Green	Yellow	Yellow	Yellow	Yellow	Green	Green	Green
CGS	Green	Yellow	Green	Green	Green	Green	Yellow	Yellow	Yellow	Green	Yellow	Green	Green	Green
Mintek	Green	Green	Green	Green	Green	Green	Green	Green	Yellow	Green	Yellow	Green	Green	Green
MHSC	Green	Green	Green	Green	Green	Green	Yellow	Yellow	Yellow	Yellow	Yellow	Green	Green	Green
SADPMR	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
SDT	Green	Green	Green	Green	Green	Green	Green	Green	Green	Yellow	Green	Green	Green	Green

6. Other AGSA reports

6.1 Investigations

CGS

- The public protector has performed an investigation during the previous financial year on a contract awarded by the CGS. A report from the public protector has not been issued.

7. Combined assurance on risk management in the public sector



- Management's assurance role**
- **Senior management** – take immediate action to address specific recommendations and adhere to financial management and internal control systems
 - **Accounting officers/ authority** – hold officials accountable on implementation of internal controls and report progress quarterly and annually
 - **Executive authority** – monitor the progress of performance and enforce accountability and consequences



- Oversight's assurance role**
- **National Treasury/DPISA** – monitor compliance with laws and regulations and enforce appropriate action
 - **Internal audit** – follow up on management's actions to address specific recommendations and conduct own audits on the key focus areas in the internal control environment and report on quarterly progress
 - **Audit committee** – monitor risks and the implementation of commitments on corrective action made by management as well as quarterly progress on the action plans



- Role of independent assurance**
- **Oversight (portfolio committees)** – review and monitor quarterly progress on the implementation of action plans to address deficiencies
 - **Public accounts committee** – exercise specific oversight on a regular basis
 - **External audit** – provide independent assurance on the reliability, accuracy and credibility of reported financial and performance information and identify instances non-compliance

8. Minister commitments and progress on these commitments

The following includes prior year commitments and new commitments made

Focus area	Commitment	Due date	Status
Annual financial statements	Improve the quality of information and daily disciplines of junior staff	Implemented	
Human resources and annual financial statements	Relook at the structure of support provided to the DG	Implemented	
Human resources	The filling of key vacancies to facilitate effective monthly reporting	March 2017	
Human resources	The governance structure (internal audit) to review all financial information produced	March 2017	
Compliance	Management should monitor compliance with legislation including SCM processes	March 2017	

Status legend

	Commitment has been implemented
	Commitment in progress
	Commitment has not been implemented
	New commitment made in current year

9. Commitments from the portfolio committee or Scopa

There are no Scopa or portfolio committee resolutions for the DMR and its entities.