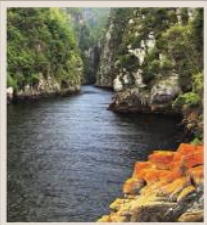


PFMA
2015-16



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence



Briefing to the Portfolio Committee: Mineral Resources

Audit outcomes of the portfolio for the 2015-16 financial year

1

The AGSA's promise and focus

1



AUDITOR - GENERAL
SOUTH AFRICA

Reputation promise

PFMA
2015-16

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

Role of AGSA in the BRRR process

- Our role is to reflect on the audit work performed to assist the portfolio committee in its oversight role of assessing the performance of the entities, taking into consideration the objective of the committee to produce a BRRR
- To provide the portfolio committee with applicable information and guidance on the Mineral Resources portfolio's 2015-16 audit outcomes so that they, the committee, can ensure effective oversight
- To enable oversight to focus on areas that will lead to good governance



AUDITOR - GENERAL
SOUTH AFRICA

Our annual audits examine three areas

PFMA
2015-16



1 FAIR PRESENTATION AND RELIABILITY OF FINANCIAL STATEMENTS

2 RELIABLE AND CREDIBLE PERFORMANCE INFORMATION FOR PREDETERMINED OBJECTIVES

3 COMPLIANCE WITH KEY LEGISLATION ON FINANCIAL AND PERFORMANCE MANAGEMENT



AUDITOR-GENERAL
SOUTH AFRICA

Unqualified opinion with no findings (clean audit)



Auditee:

- produced credible and reliable financial statements that are free of material misstatements
- reported in a useful and reliable manner on performance as measured against predetermined objectives in the annual performance plan (APP)
- observed/complied with key legislation in conducting their day-to-day to achieve on their mandate

Financially unqualified opinion with findings



Auditee produced financial statements without material misstatements but struggled, in one or more areas, to:

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

Qualified opinion



Auditee:

- had the same challenges as those with unqualified opinions with findings but, in addition, they could not produce credible and reliable financial statements
- had material misstatements on specific areas in their financial statements that could not be corrected before the financial statements were published
- did not comply with key legislation in certain instances

Adverse opinion



Auditee:

- had so many material misstatements in their financial statements that we disagree with almost all the amounts and disclosures in the financial statements
- was unable to provide sufficient supporting documentation for amounts in the financial statements and achievements reported in the annual performance report
- did not comply with key legislation

Disclaimed opinion



Auditee:

- could not provide us with evidence for most of the amounts and disclosures reported in the financial statements, and we were unable to conclude or express an opinion on the credibility of their financial statements
- was unable to provide sufficient supporting documentation for amounts in the financial statements and achievements reported in the annual performance report
- did not comply with key legislation

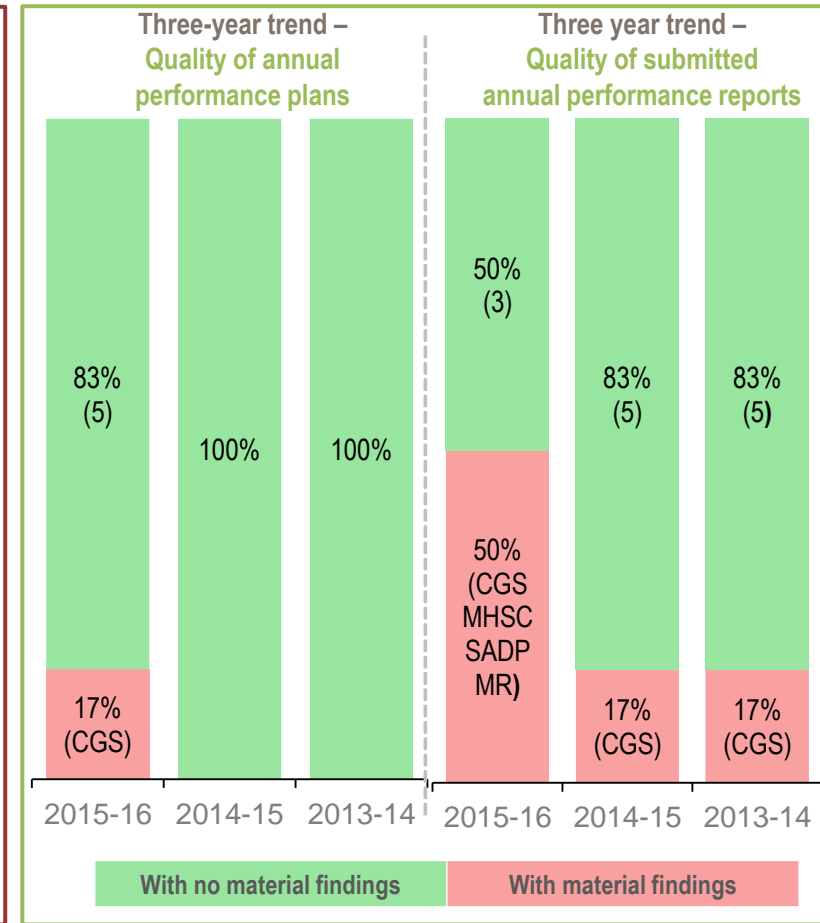
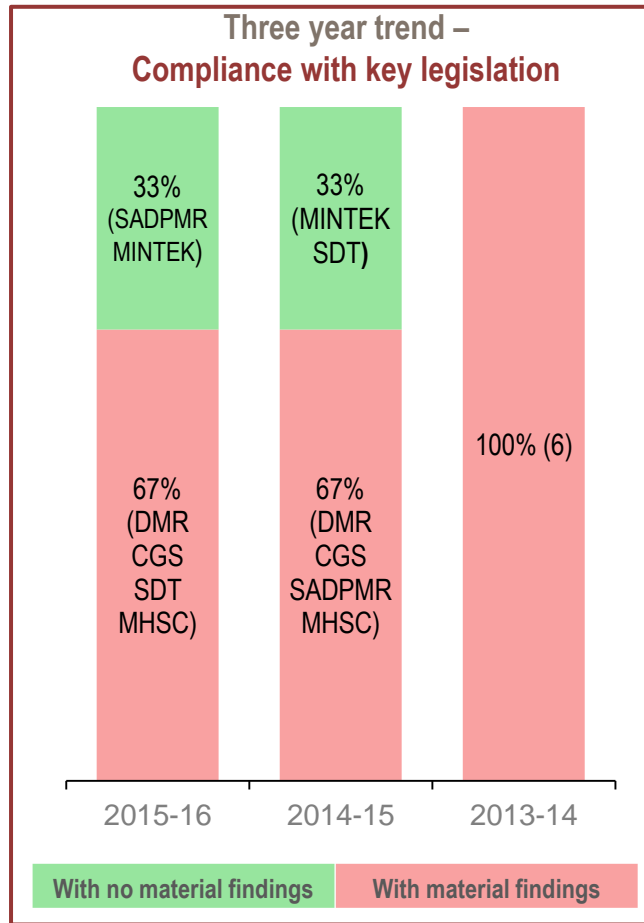
2

The 2015-16 audit outcomes and key messages

2



Audit outcomes over three years



1 To improve/maintain the **overall audit outcomes**, we must enhance ...

- The portfolio sustained the same number of clean audits (2) as the previous year
- The audit opinions of three auditees in the portfolio remained unchanged because of their failure to implement the designed controls that would ensure compliance with legislation, and to prepare financial statements that are free of material misstatements

2 ... the financial statement processes, **compliance** with key legislation and ...

- The portfolio can improve on key controls that impact the audit outcomes. The controls relating to the review of annual financial statements and compliance with legislation need to be improved so that the entity can improve its audit outcomes
- However, the number of compliance findings raised reduced when compared to the past two years

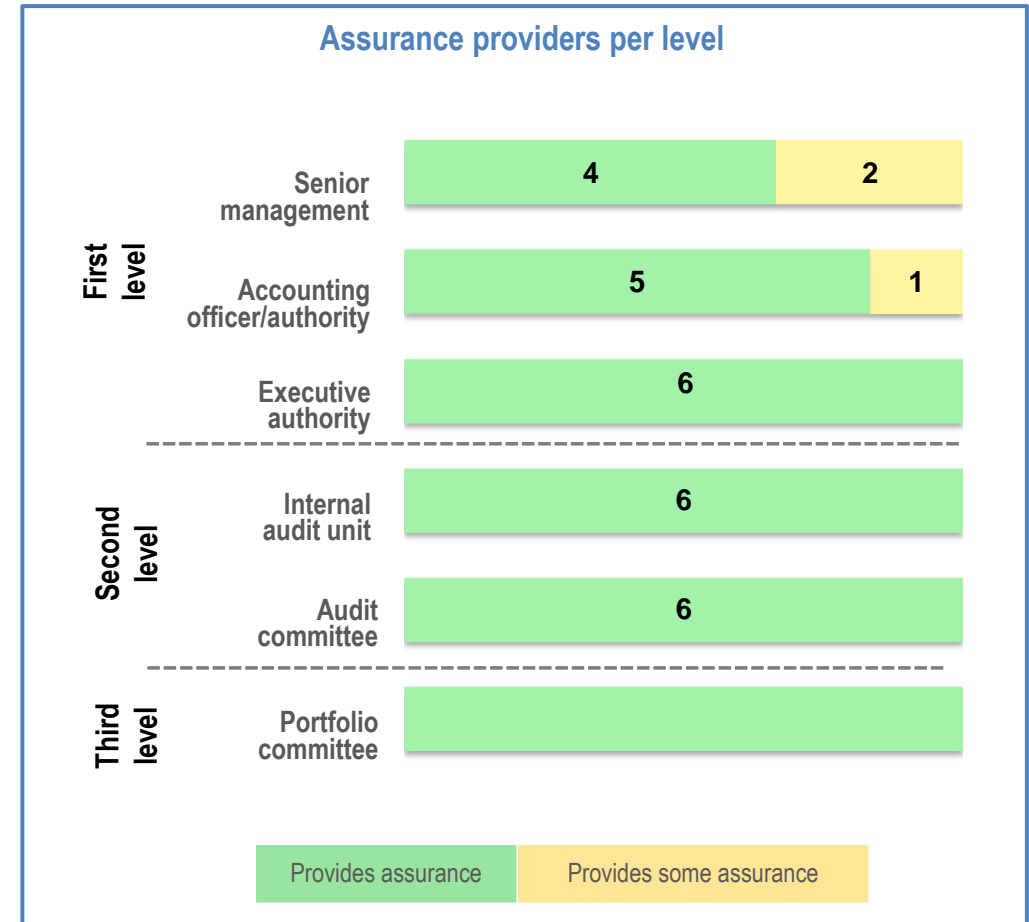
3 ... **performance planning and reporting** by ...

- Although 50% (3) of the entities submitted for auditing annual performance reports that contained material misstatements, they avoided material findings on their audit reports as they corrected all the misstatements we identified during the audit
- Management should verify all the information included in the annual performance report to ensure that all information is supported by valid evidence

Status of internal control and assurance providers

Status of key controls						
	DMR	SDT	CGS	MHSC	SADPMR	MINTEK
LEADERSHIP	↑	→	↑	→	↑	→
- Effective leadership	Good	Of concern	Good	Of concern	Good	Of concern
- Oversight responsibility	Of concern	Good	Of concern	Good	Good	Good
- Effective HR management	↑	Good	Good	Good	Good	Good
- Policies and procedures	Good	Good	Good	Good	Good	Good
- Audit Action plans	Good	Good	Good	Good	Good	Good
- ICT governance	Good	Good	Good	Good	Good	Good
FINANCIAL AND PERFORMANCE MANAGEMENT	↑	↓	↑	↓	↑	→
- Proper record keeping	Good	Of concern	Of concern	Of concern	Good	Of concern
- Daily and monthly controls	Of concern	Good	Of concern	Of concern	Good	Of concern
- Regular, accurate & complete financial and performance	Of concern	Of concern	Of concern	Of concern	Of concern	Of concern
- Review and monitor compliance	Of concern	Of concern	Of concern	Of concern	Of concern	Of concern
- Design and Implement IT controls	Of concern	Of concern	Of concern	Of concern	Of concern	Of concern
GOVERNANCE	→	→	→	→	→	→
- Risk management	Good	Good	Good	Good	Good	Good
- Internal Audit	Good	Good	Good	Good	Good	Good
- Audit committee	Good	Good	Good	Good	Good	Good

↑ Improved → Stagnant ↓ Regressed Good Of concern



4

...the key role players providing attention to the **key controls** ...

- Despite the portfolio receiving no modified financial audit outcomes, focused interventions and commitments are still required to improve the current status of the overall audit outcomes. Entities within the portfolio still submit financial statements with errors and rely on auditors to correct the errors, resulting in significant adjustments to the AFS
- Controls on the preparation and review of AFS need to be strengthened

5

... as part of their role in **combined assurance**

- The level of assurance was stagnant because compliance with legislation was not adequately monitored and AFS were not adequately reviewed
- Senior management's efforts to develop and implement post-audit plans and audit recommendations are, however, commended
- The internal audit, the audit committee and the minister have provided assurance and contributed to sustained key controls, particularly those relating to financial and performance management. However, the focus of these governance structures must be intensified in the area of compliance with legislation

3







Performance management linked to programmes/objectives tested

3



Quality of submitted annual performance reports regressed slightly as three had to be adjusted to result in no material findings as shown below

Outcomes of programmes/objectives selected for testing:

Auditee	Movement	Programmes/objectives	Usefulness	Reliability
MHSC		Delivery against MHSC mandate inclusive of MHSC summit action plans on OHS to ensure stakeholder satisfaction Promote and communicate MHSC programme to improve OHS awareness	No material findings reported	No material findings reported
DMR		Mineral policy and promotion	No material findings reported	No material findings reported
SDT		Increase the sale of rough diamonds to HDSA beneficiators contribute to the growth of the local diamond beneficiation industry contribute to youth skills development	No material findings reported	No material findings reported
CGS		To address stakeholder needs To generate revenue To attract and retain skilled workforce To enhance present levels of excellence To reflect and embrace RSA diversity	No material findings reported	No material findings reported
MINTEK		Research and develop efficient mineral processing technologies and value added products Promote the mineral based economics of rural marginalised communities	No material findings reported	No material findings reported
SADPMR		Diamond trade, regulatory compliance	No material findings reported	No material findings reported

 Stagnant

 No material findings reported

4

Financial management

4



Slight improvement in compliance with legislation

Figure 1: Findings on compliance with key legislation – all auditees

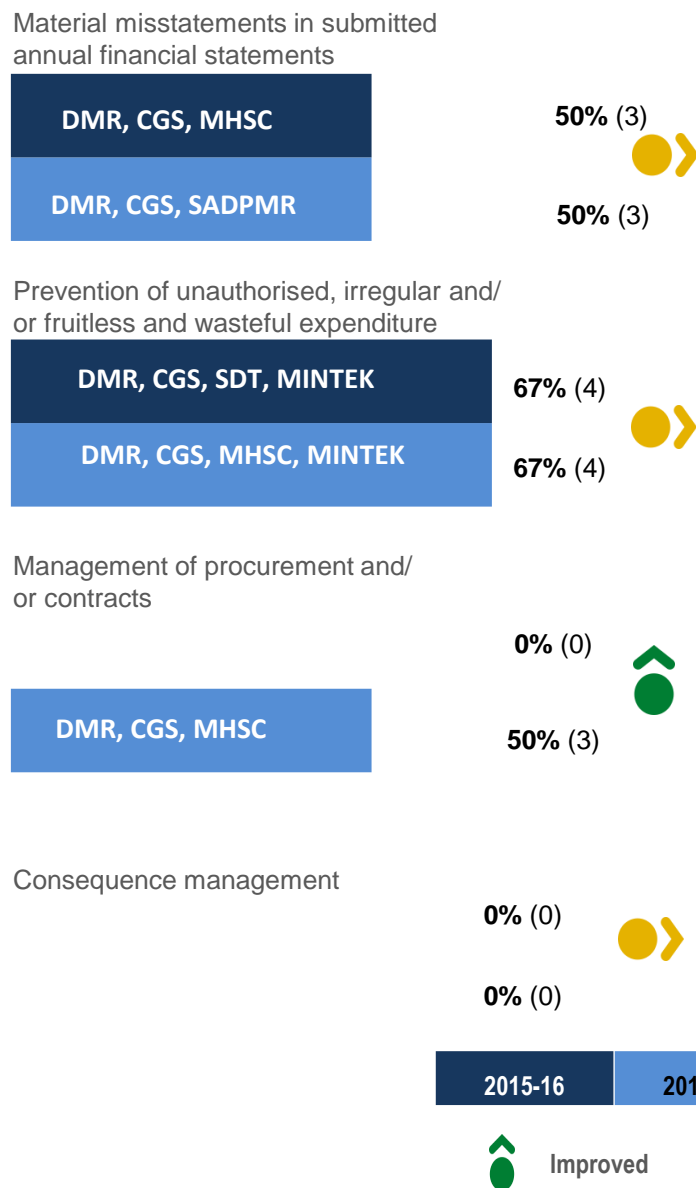


Figure 2: Findings on compliance with key SCM legislation – all auditees

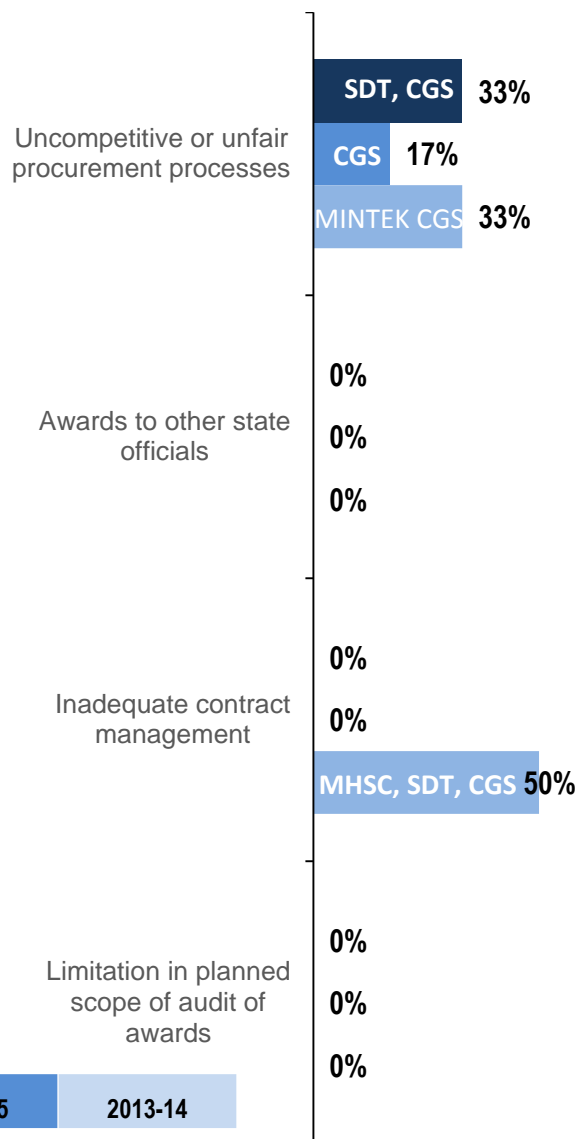
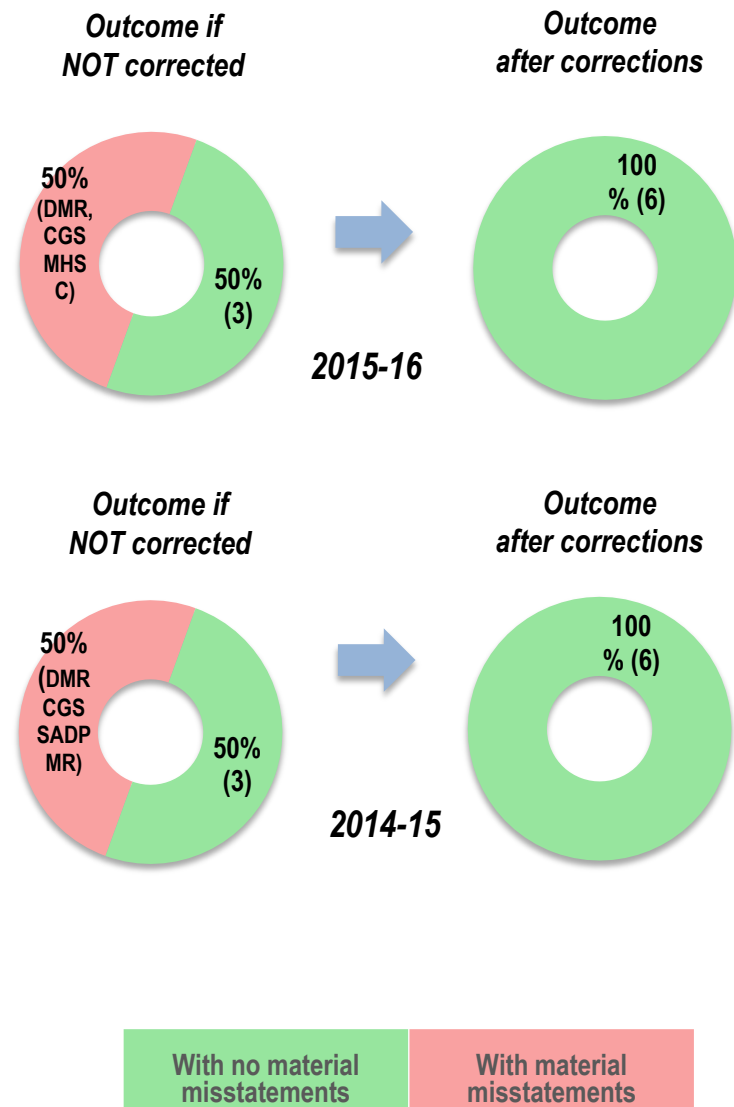
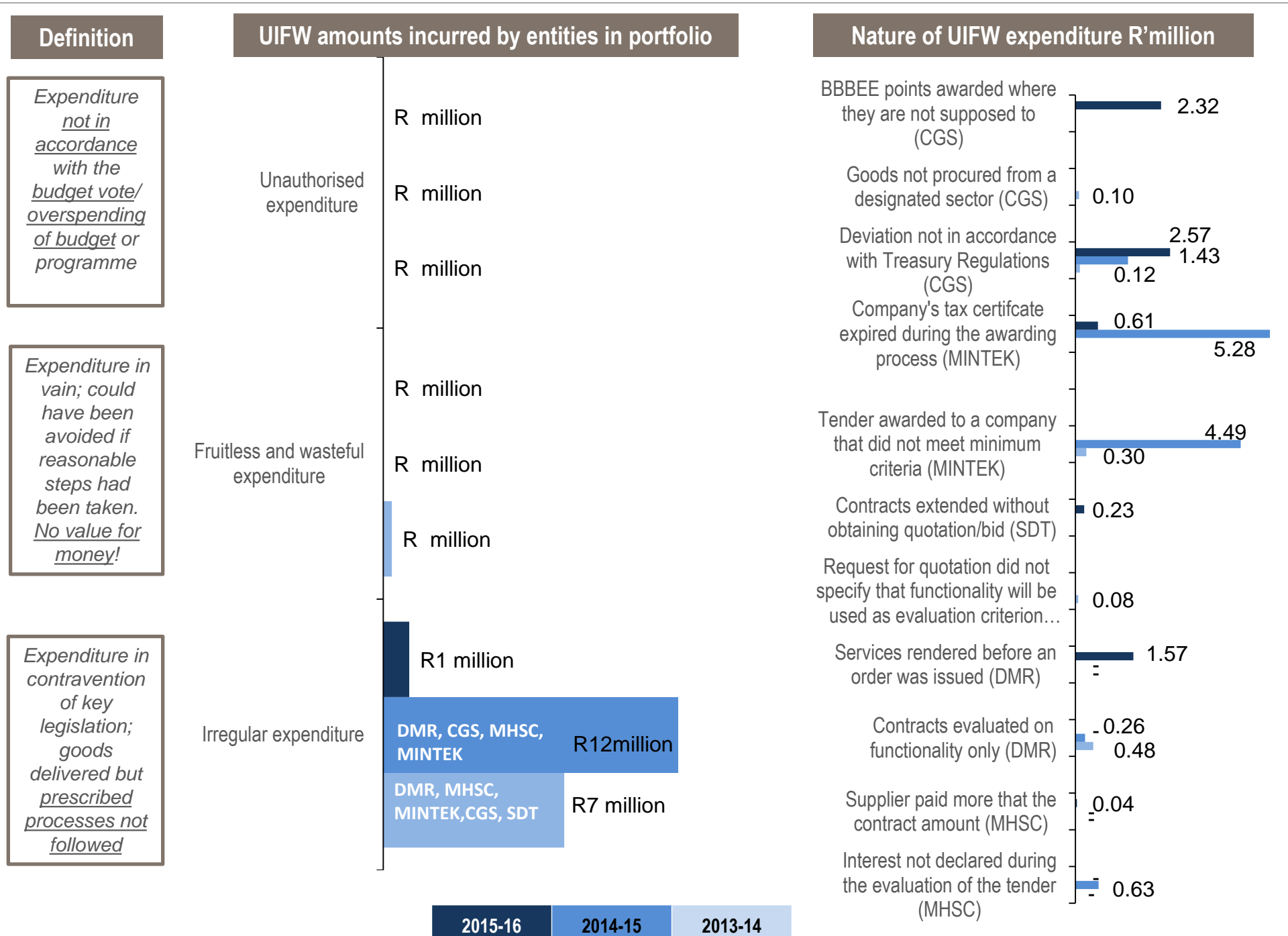


Figure 3: Auditees who avoided qualifications by correcting material misstatements during the audit



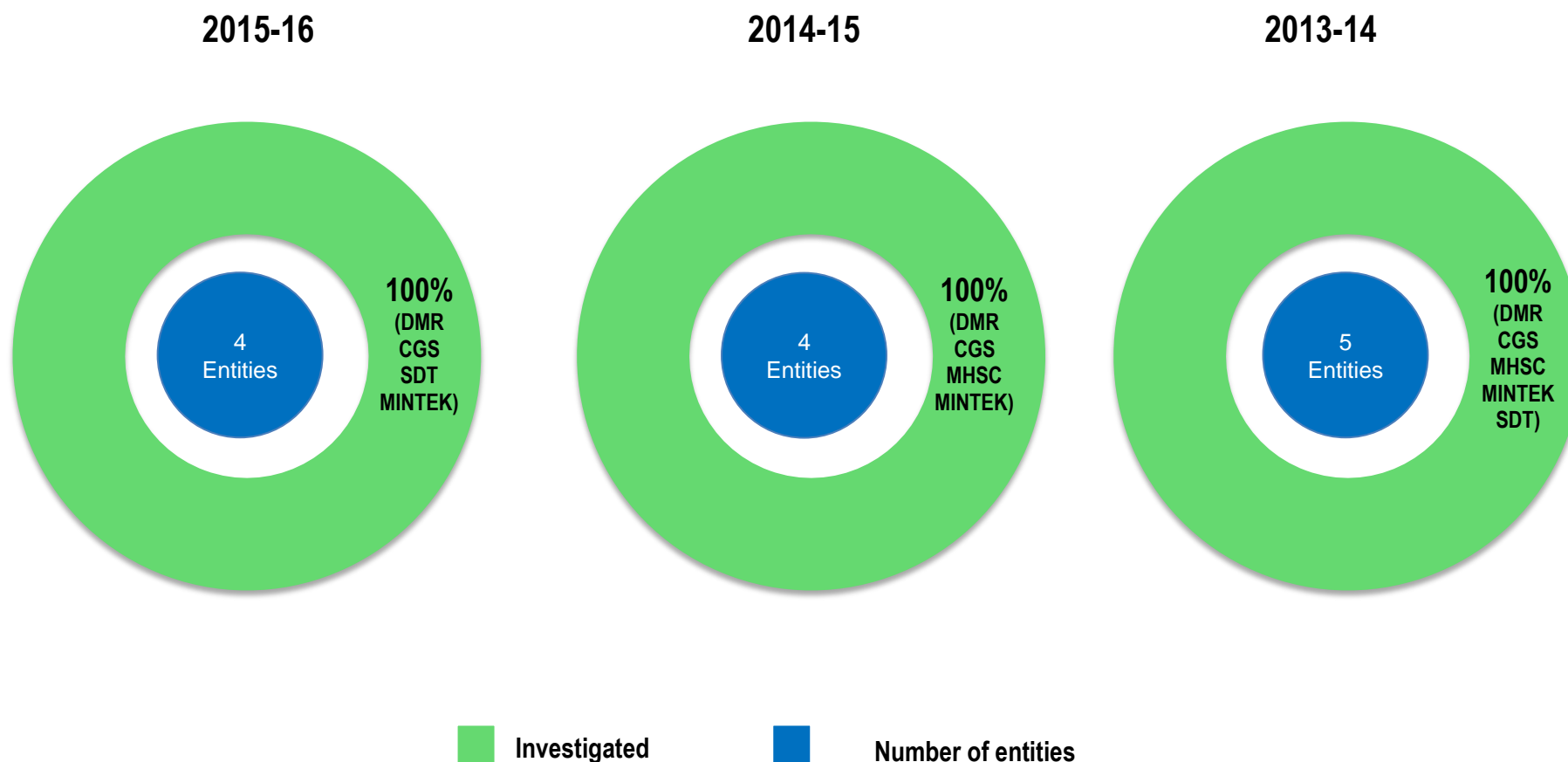
Unauthorised, irregular, and fruitless and wasteful expenditure over three years



Follow-up action on unauthorised, irregular, and fruitless and wasteful expenditure over three years

Investigations of UIFW expenditure

- 4 auditees (100%) [2014-15: 4 (100%)] lodged investigations to determine the root cause and consequences of UIFW incurred
- The investigations did not result in the dismissal of any official
- An official who was involved in incurring irregular expenditure by MHSC in the 2014-15 financial year resigned from the entity



6

Top three root causes, follow-up on commitments and proposed recommendations

6



Root causes, commitments and recommendations

1

The following **root causes** must be addressed ...

Root causes

Inadequate reviews of the annual financial statements before submission for audit

DMR, CGS, MHSC	50% (3/6)
DMR, CGS, SADPMR	50% (3/6)



Insufficient review of compliance with legislation

DMR, CGS, MHSC, SDT	67% (4/6)
DMR, CGS, MHSC, SADPMR	67% (4/6)



Slow response by management to findings raised thus resulting in issues raised in the prior year recurring

MHSC, SDT	33% (2/6)
DMR, MHSC, SADPMR	50% (3/6)



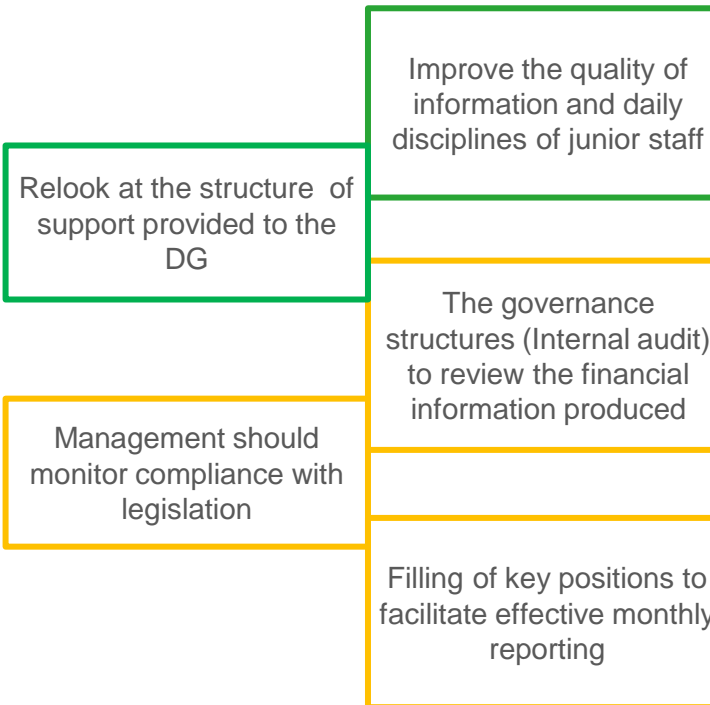
■ 2015-16 ■ 2014-15

- The department's vacancy at accounting officer position and vacancies in key positions, necessitates continuous intervention to stabilise the internal control environment to ensure basic accounting disciplines are enforced.

2

... by honouring the following **commitments** made by the executive authority and ...

Status of key commitments by minister



Not implemented In progress Implemented New

- We met with the previous minister once in the past year and this interaction had a significant impact on the audit outcome of the DMR. We have noted a slight improvement in the minister implementing the previous year's commitments. We are very encouraged by the commitment and spirit of cooperation that the minister has displayed. We recommend that the leadership strive towards fully implementing the remaining commitments by the end of the 2016-17 financial year

3

... implementing the following **proposed commitments** by the portfolio committee and management

Proposed commitments

- PC to obtain feedback from management on commitments made to address audit findings and monitor progress quarterly on audit action plans implemented.

Questions

