



Auditing to build public confidence

AUDITOR-GENERAL
SOUTH AFRICA

pcmin 12016

PORTFOLIO COMMITTEE BRIEFING

**The Department of Mineral
Resources**

**PFMA audit outcomes for
the 2011/12 financial year**



AUDITOR-GENERAL
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Portfolio Committee Briefing 2011/12

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1. Introduction

This document contains a brief summary of the audit outcomes for the department of Mineral Resources.

The department was last at a SCOPA hearing in 09 May 2012 for the year end of 31 March 2011.





2. Vote: 32

2.1 Audit opinion history

Audit opinions	08/09	09/10	10/11	11/12
Department of Mineral Resources	n/a*	n/a*		
Mine Health and Safety Council (MHSC)				
Council for Mineral Technology (MINTEK)				
South African Diamond and Precious Metal Regulator (SADPMR)				
State Diamond Trader (SDT)				
Council of Geoscience				
<ul style="list-style-type: none"> Qualification 				
Department of Mineral Resources Payables, Departmental Revenue, Receivables for Departmental Revenue and Provisions			X	
<ul style="list-style-type: none"> Predetermined objectives 				
Department of Mineral Resources			X	
Mine Health and Safety Council (MHSC)				
Council for Mineral Technology (MINTEK)				
South African Diamond and Precious Metal Regulator (SADPMR)				
State Diamond Trader (SDT)				
Council of Geoscience				
<ul style="list-style-type: none"> Compliance with laws and regulations 				
Department of Mineral Resources			X	X
Mine Health and Safety Council (MHSC)			X	X
Council for Mineral Technology (MINTEK)				
South African Diamond and Precious Metal Regulator (SADPMR)			X	
State Diamond Trader (SDT)				
Council of Geoscience				X

n/a* – The department was only established during the 2010-11 financial year.

AUDIT OPINION

-  CLEAN AUDIT OPINION: No findings on PDO and Compliance
-  UNQUALIFIED with findings on PDO and Compliance
-  QUALIFIED AUDIT OPINION (with/without findings)
-  DISCLAIMER/ADVERSE AUDIT OPINION

2.2 KEY FOCUS AREAS:

Mineral Resources Portfolio	Supply Chain Management	Predetermined objectives	HR Management	IT controls	Material errors in AFS submitted for audit
Department of Mineral Resources	No matters	No Matters	No Improvement	No Matters	No Improvement
Mine Health and Safety Council (MHSC)	No Improvement	No Matters	No Matters	No Matters	
Council for Mineral Technology (MINTEK)	No matters	No Matters	No Matters	No Matters	Material errors in AFS submitted for audit No Matters
South African Diamond and Precious Metal Regulator (SADPLIR)	No matters	No Matters	No Matters	No Matters	Material errors in AFS submitted for audit No Matters
State Diamond Trader (SDT)	No matters	No Matters	No Matters	No Matters	Material errors in AFS submitted for audit No Matters
Council of Geoscience		No Matters	No Matters	No Matters	

2.2.1 Supply Chain Management

Entity	Finding	Root Cause	Recommendation
Department of mineral resources (DMR)	No material findings identified		
Mine Health and Safety Council (MHSC)	<p>1. The evaluation criteria to be used in awarding preference points, the criteria for functionality nor the minimum scores that needs to be obtained for functionality and the maximum points to be awarded for equity ownership by Highly Disadvantaged Individuals (HDI) as well as per category of HDI specified in the request for quotations between R30 000 and R500 000.</p> <p>Sufficient appropriate audit evidence could not be obtained that the award</p>	<p>Leadership – Exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls</p> <p>Financial and performance management - Management did not review and monitoring of</p>	<p>All staff involved in the procurement process should attend the necessary training in order to carry out the procurement process with the necessary knowledge, as required by National Treasury Regulation.</p>

Entity	Finding	Root Cause	Recommendation
	<p>was made based on criteria that was consistent with the original invitations for bids as per the requirement of Treasury Regulation (TR) 16A3.2.</p> <p>2. The preference point system was incorrectly applied in procurement of goods and services between R30 000 and R500 000 and as required by section 2(a) of the Preferential Procurement Policy Framework Act.</p> <p>3. The terms of reference were not clearly stated on the request for quotations as required by Preferential Procurement Policy Framework Act (PPR 7).</p> <p>4. Goods and services with a transaction value between R30 000 and R500 000 were procured without inviting at least three written price quotations from prospective suppliers as per the requirements of section 76(4)(c) of the PFMA and National Treasury Practice Note 8 of 2007/08.</p> <p>5. For goods and services with a transaction value of between R30 000 and R500 000, quotations were not evaluated in two stages which is firstly the assessment of functionality and there-after the suppliers that qualified were evaluated in terms of the 80/20 preference system. The 80 points were used for price only, instead functionality was included in the final decision and 80 points were not allocated for price only as functionality was given a portion of the points as required by the Preferential Procurement Policy Framework Act.</p>	<p>compliance with applicable laws and regulations are not conducted.</p>	<p>Council needs to relook at their controls over monitoring compliance with laws and regulations.</p> <p>Compile a list of legislations that council has to comply with and monitor compliance with those laws and regulations</p>
Council for Mineral Technology (MINTEK)	No material findings identified		
South African Diamond and Precious Metal Regulator (SADPMR)	No material findings identified		
State Diamond Trader (SDT)	No material findings identified		
Council of Geoscience (GCS)	R825 890.10 (100%) of irregular expenditure incurred in the current year was as a result of contravention of SCM legislation.	The council did review and monitor compliance with laws and regulations.	Council needs to relook at their controls over monitoring compliance with laws and regulations

Entity	Finding	Root Cause	Recommendation
	<p>Suppliers were not afforded an opportunity to submit quotations.</p> <p>Suppliers did not declare if any of their members are employed by the state.</p> <p>Suppliers did not submit SBD 9 declaration forms.</p>		

2.2.2 Predetermined Objectives

Entity	Finding	Root Cause	Recommendation
Department of mineral resources (DMR)	<p>Although no material findings concerning the usefulness and reliability of the performance information were identified in the Department of Mineral Resources performance report, attention was drawn to the level of non-achievement of the planned targets:</p> <p>Of the total number of planned targets, 42 targets were not achieved during the year under review. This represents 28% of total planned targets that were not achieved during the year under review.</p>	The entity formulated some target whose achievement is beyond the department's controls.	The department must formulate targets in line with their mandate and these the achievement of such targets must be within the control of the department.
Mine Health and Safety Council (MHSC)	<p>Although no material findings concerning the usefulness and reliability of the performance information were identified in MHSC performance report, attention was drawn to the level of non-achievement of the planned targets:</p> <p>Of the total number of planned targets, only 20 targets were achieved during the year under review. This represents 33% of total planned targets that were not achieved during the year under review.</p> <p>Non achievement of a significant number of planned targets will have a negative impact on MHSC's ability to achieve its mandate.</p>	Leadership -The implementation of action plans to address internal control deficiencies which resulted in the non achievement of targets has not been developed and monitored.	The root cause for MHSC not achieving its planned targets should be investigated and followed up. A plan should be implemented that address all shortcomings that have been identified.
Council for Mineral Technology (MINTEK)	No material findings identified		
South African Diamond and Precious Metal Regulator (SADPMR)	Although no material findings concerning the usefulness and reliability of the performance information were identified in the SADPMR performance report, attention	Indicators and targets were not suitably developed during the strategic planning process.	Indicators and targets should be suitably developed during the strategic planning process.

Entity	Finding	Root Cause	Recommendation
	<p>was drawn to the level of non-achievement of the planned targets:</p> <p><i>Of the total number of planned targets, only 78 were achieved during the year under review. This represents 22%(>20%) of total planned targets that were not achieved during the year under review. This was mainly due to the fact that indicators and targets were not suitably developed during the strategic planning process</i></p>		
State Diamond Trader (SDT)	No material findings identified		
Council of Geoscience (GCS)	<p>Although no material findings concerning the usefulness and reliability of the performance information were identified in the GCS performance report, attention was drawn to the level of non-achievement of the planned targets:</p> <p><i>Of the total number of planned targets, only 24 were achieved during the year under review. This represents 32%(>20%) of total planned targets that were not achieved during the year under review. This was as a result of the institution not considering relevant systems and evidential requirements during the annual strategic planning process.</i></p>	<p><i>Leadership - Exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls. The institution did not consider relevant systems and evidential requirements during the annual strategic planning process.</i></p>	<p><i>The institution should consider relevant systems and evidential requirements during the annual strategic planning process.</i></p>

2.2.3 Human Resources

Entity	Finding	Root Cause	Recommendation
Department of mineral resources (DMR)	<p><i>Employees received overtime compensation in excess of 30% of their monthly salaries, in contravention of Public Service Regulation IV/D.2(d).</i></p>	<p><i>Financial and performance management: Lack of review and monitoring of the controls over the daily and monthly processing and reconciling of transactions</i></p>	<p><i>Internal controls should be implemented to review the overtime hours worked by employees on a monthly basis to ensure that the compensation they receive for their overtime does not exceed their monthly salaries by more than 30%.</i></p>
	<p><i>Employees acted in higher vacant posts for</i></p>	<p><i>Financial and performance</i></p>	<p><i>Internal controls should</i></p>

Entity	Finding	Root Cause	Recommendation
	<p>an uninterrupted period exceeding 12 months, in contravention of the Public Service Regulation 1/VII/B.5.3.</p>	<p>management: Management did not review and monitor compliance with applicable laws and regulations</p> <p>There was a lack of review and monitoring of the controls to ensure compliance with applicable laws and regulations.</p>	<p>be implemented to review the period remaining for employees who are acting in vacant posts to ensure that the necessary steps are timeously taken to advertise for the vacant positions and appoint the employees to ensure employees who act in higher positions don't do so for an uninterrupted period exceeding 12months.</p>
<p>Mine Health and Safety Council (MHSC)</p>	<p>The following vacancies were not filled:</p> <ul style="list-style-type: none"> • Commit Admin. • IT Controller • IT Specialist • Safety Research Programme Manager <p>Furthermore, it was noted that there is no HR plan in place, even though this is not a requirement it is a good form of internal control and good practice as this will assist with the tracking and filling of vacancies.</p>	<p>Leadership- Action plans have not been developed and implemented to address internal control deficiencies.</p>	<p>Management should ensure that all gaps within the entity are filled so as to achieve the organizations goals that have been set out. A Human Resource Plan should be prepared that aligns MHSC's human resource requirements to the organizations goals.</p>
	<p>it was noted that the bonus paid to an employee was not pro-rated even though the employee was not in the employ of the entity for the full year to which the bonus related</p>	<p>Financial and performance management: Controls over daily and monthly processing and reconciling of transactions are not being implemented.</p>	<p>Management must thoroughly review performance bonus calculation before approval and payment. Recover the money from the employee concerned.</p>
	<p>It was noted that for technical experts engaged by the MHSC no deductions were made for PAYE and no exemption certificates were submitted by these experts. It was further noted that in procuring the services of these experts the minimum number of price quotations were not obtained and approval of the delegated official was not obtained.</p>	<p>Financial and performance management - inadequate controls over compliance with laws and regulations.</p>	<p>Disclose expenditure incurred to date as irregular</p> <p>Council needs to relook at their controls over monitoring compliance with laws and regulations.</p> <p>Compile a list of legislations that council has to comply with and monitor compliance with those laws and regulations.</p>

<i>Entity</i>	<i>Finding</i>	<i>Root Cause</i>	<i>Recommendation</i>
Council for Mineral Technology (MINTEK)	No material findings identified		
South African Diamond and Precious Metal Regulator (SADPMR)	No material findings identified		
State Diamond Trader (SDT)	No material findings identified		
Council of Geoscience (GCS)	No material findings identified		

2.2.4 Information Technology Controls

<i>Entity</i>	<i>Finding</i>	<i>Root Cause</i>	<i>Recommendation</i>
Department of mineral resources (DMR)	No material findings identified		
Mine Health and Safety Council (MHSC)	No material findings identified		
Council for Mineral Technology (MINTEK)	No material findings identified		
South African Diamond and Precious Metal Regulator (SADPMR)	No material findings identified		
State Diamond Trader (SDT)	No material findings identified		
Council of Geoscience (GCS)	No material findings identified		

2.2.5 Material Errors/Omissions in AFS submitted for Audit

<i>Entity</i>	<i>Finding</i>	<i>Root Cause</i>	<i>Recommendation</i>

<p>Department of mineral resources (DMR)</p>	<p>The financial statements submitted for auditing were not prepared in certain aspects in accordance with the prescribed financial reporting framework or supported by full and proper records as required by section 40(1)(a) and (b) of the Public Finance Management Act which led to material adjustments to the financial statements submitted for audit.</p>	<p><i>Financial and performance management</i></p> <ul style="list-style-type: none"> <i>Lack of review and monitoring of the controls over the proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting</i> <i>Lack of review and monitoring of the controls over the preparation of regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.</i> 	<p><i>Review and monitoring controls should be implemented whereby all schedules and information supporting the financial statements are reviewed prior to the financial statements submitted for audit to ensure they are valid, accurate and complete and the financial statements reflect these schedules accurately.</i></p>
<p>Mine Health and Safety Council (MHSC)</p>	<p>Annual financial statements submitted for audit purposes were not prepared in all material respects in accordance with the requirements of section 55(1)(b) of the PFMA. Material misstatements identified by the auditors were subsequently corrected.</p>	<p><i>Financial and performance management- Controls over daily and monthly processing and reconciling of transactions are not being implemented.</i></p>	<p><i>A retrospective adjustment as required by the GRAP 3 should be made in the financial statements. Internal controls need to be implemented to ensure that the commitments schedule is up to date.</i></p>
<p>Council for Mineral Technology (MINTEK)</p>	<p>No material findings identified</p>		
<p>South African Diamond and Precious Metal Regulator (SADPMR)</p>	<p>No material findings identified</p>		
<p>State Diamond Trader (SDT)</p>	<p>No material findings identified</p>		
<p>Council of Geoscience (GCS)</p>	<p>The financial statements submitted for auditing were not prepared in some material respects in accordance with the requirements of section 55(1) of the PFMA. Material misstatements of irregular</p>		

	expenditure, capital and current assets identified by the auditors were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion
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2.2.6 Other Non-compliance matters

<i>Entity</i>	<i>Finding</i>
Department of mineral resources (DMR)	Expenditure management Money owing by the department was not always paid within 30 days of receiving an invoice or statement
	The accounting officer did not take reasonable steps to prevent irregular expenditure
	Revenue management The accounting officer did not ensure that appropriate processes were developed and implemented to provide for the identification
	The accounting officer did not take effective and appropriate steps to collect all money due
Mine Health and Safety Council (MHSC)	Expenditure management The accounting authority did not take effective and appropriate steps to prevent irregular expenditure as per the requirements of section 51 (1) (b) of the PFMA as disclosed in the notes to the financial statements
Council for Mineral Technology (MINTEK)	No material findings identified
South African Diamond and Precious Metal Regulator (SADPMR)	No material findings identified
State Diamond Trader (SDT)	No material findings identified
Council of Geoscience (GCS)	No material findings identified

3. Other Matters of interest

(a) Unauthorised expenditure:

No unauthorised expenditure incurred by any of the entities

(b) Fruitless and wasteful expenditure:

Auditee		Fruitless and wasteful expenditure		
		Movement	Amount R 2012	Amount R 2011
1	Department of mineral resources (DMR)	↓	0	R17,5
2	Mine Health and Safety Council (MHSC)	↔	0	0
3	Council for Mineral Technology (MINTEK)	↔	0	0
4	South African Diamond and Precious Metal Regulator (SADPMR)	↓	0	R250
5	State Diamond Trader (SDT)	↔	0	0
6	Council of Geoscience (GCS)			

(c) Irregular expenditure:

Auditee		Irregular expenditure		
		Movement	Amount R 2012	Amount R 2011
1	Department of mineral resources (DMR)	↔	R7,96 m	R7,23 m
2	Mine Health and Safety Council (MHSC)	↓	R5,93 m	R197,1
3	Council for Mineral Technology (MINTEK)	↔	0	0
4	South African Diamond and Precious Metal Regulator (SADPMR)	↓	R1,63 m	R3,20 m
5	State Diamond Trader (SDT)	↔	0	0
6	Council of Geoscience (GCS)	↑	R623k	0

4. Other AG Reports

- Investigation:

No investigations are currently underway as undertaken by the AGSA.

- Performance Audits:

No performance audits are currently underway as undertaken by the AGSA.