



Auditing to build public confidence

MEDIA RELEASE

26 November 2014

Auditor-general announces slight improvements in national and provincial government audit outcomes, but emphasises that there are still areas of great concern

KwaZulu-Natal PFMA 2013-14 audit outcome highlights

The provincial government consists of 16 departments (including the provincial legislature) and 35 public entities, 13 of which we have opted not to audit. All auditees except for the provincial legislature and the Business Rehabilitation Trust Fund submitted their financial statements for auditing on time. The results therefore exclude these two auditees and only the 36 completed audits are reported on. Overall, Kwazulu-Natal's audit outcomes indicate little improvement when compared to the previous year. Financially unqualified opinions with no findings (clean audits) have decreased from 14 to nine, while financially unqualified opinions with findings have increased to 21 from 16 in the previous year. Qualified opinions remained stagnant with six auditees in this category. The most common qualification areas were assets, liabilities and expenditure. No auditees had disclaimed or adverse opinions for 2013-14.

The clean audit category consists of seven auditees that have sustained this result, as well as two that have improved from the previous year's status of unqualified opinions with findings. These auditees lead by example and signify that clean audits are attainable if the correct disciplines, ethics and ethos are instilled into the day-to-day processes and practices that are eventually reported annually for financial, performance and compliance purposes. Twenty-one auditees were stagnant in the category of unqualified with findings. Many of these auditees emphasised addressing financial reporting requirements, but neglected to address matters relevant to performance and compliance reporting, thus there was little movement from this space. The two key service delivery departments, namely Health and Education, again received qualified audit opinions due to issues that represented multi-year challenges. Although some progress had been made in addressing the prior year qualifications at these departments, the pace of progress is slow. It is therefore important for all key national and provincial role players to assist and support these departments as far as possible to address the challenges they are facing.

There has also been an increase in the number of auditees with compliance findings from 23 (66%) in 2012-13 to 27 (75%) in the current year. It is of concern that in the current year 21 auditees (58%) had findings relating to the quality of their financial statements submitted for auditing, as opposed to 15 (43%) in the prior year. Findings on supply chain management were reported at 12 auditees (33%), mainly due to a lack of basic controls and non-compliance with supply chain management legislation. There has been little movement in addressing non-compliance with supply chain management prescripts. Additionally, the quality of the submitted annual performance reports reflects a regression of 12%, as 16 auditees (52%) submitted performance reports that contained material misstatements. Auditees' daily systems and controls as well as monitoring and reviews are not being

effectively implemented to timeously close these gaps to address material misstatements in financial and performance reports.

Overall, there was an increase in irregular expenditure from R3,59 billion in the previous year to R4,33 billion in the current year. R4,32 billion of this amount represented goods and services that were received despite the normal processes governing procurement not having been followed. The balance of R11 million was not audited and we could therefore not specifically confirm that goods and services had been received. Education, Health, and Arts and Culture incurred most of the irregular expenditure (93%), with these departments incurring R2,68 billion, R1,12 billion and R145 million, respectively.

The key root causes hindering progress were the slow response by management (22 auditees, or 61%); instability and vacancies in key positions (14 auditees, or 39%); as well as key officials lacking appropriate competencies (13 auditees, or 36%). The incidence of these root causes has increased since the previous year and has resulted in reduced levels of assurance from the leadership as key internal leadership controls and financial management practices have not been institutionalised. The lower assurance levels and deteriorated controls have also contributed to increased findings in the six risk areas that we report on. The assurance provided by audit committees and internal audit units has improved due to their continuous monitoring and oversight. However, the success of their risk management and governance processes was marred by the slow response by management and the leadership's inability to implement their recommendations.

Legislature committees and coordinating departments in the province, namely the provincial treasury, provincial legislature and the Office of the Premier, need to intensify their oversight role and assurance to improve and sustain results. In our partnership with the provincial leadership, it is possible to swiftly and sustainably drive the outcomes in a positive direction. This requires the continued support and dedication of the political and administration leadership, with an ethos above reproach, displaying the highest standard of professional behaviour and ethics, strategic direction and commitment towards transparency and competence. The institutionalisation of this behaviour by the provincial leadership will set the province on a trajectory for improved public confidence in the administration.