



Auditing to build public confidence

MEDIA RELEASE

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

CAPE TOWN – Auditor-General (AG) Kimi Makwetu today announced steady improvements in this year's audit outcomes of national and provincial government departments and public entities (auditees).

Releasing his general report on the audit outcomes for the 2013-14 financial year, Makwetu said there was steady improvement in the overall audit outcomes and recognised encouraging trends in the core areas which his office audits on an annual basis. The three areas that the office of the AG audits annually are: the fair presentation and the absence of material misstatements in the financial statements; useful and credible performance information for purposes of reporting on predetermined performance objectives; and compliance with key legislation governing financial matters.

The AG's report covers the audit outcomes of all national and provincial departments and entities, with the total budgeted expenditure for departments being R1 trillion for the financial year under review (2013-14). The expenditure was made up of R256 billion for employment costs, R103 billion for goods and services, R29 billion for capital expenditure and R438 billion for transfer payments.

Makwetu announced that some national and provincial auditees had recorded good and solid performance, singling out the provinces of Gauteng and Western Cape as having led the charge and performed admirably. "The number of auditees with clean audit opinions improved by 25%, with the highest contributors being Gauteng and Western Cape," he said. "Regressions in the number of auditees with clean audit opinions were noted at both national and provincial auditees." The AG says these regressions were due to slippages in controls.

Makwetu says he is pleased with the presence of strong financial accounting capabilities although "a concern still exists on the stability of these disciplines as evidenced by material corrections to financial statements that are processed during the audit". He points out that 80% of the financial statements received a financially unqualified audit opinion but, most importantly, "37% received such an opinion only because they corrected all the misstatements that we identified during the audit". If these corrections had not been made, only 43% of the auditees, instead of the current 80%, would have received an unqualified audit opinion.

The AG says the quality of annual performance reports is improving every year. "Sixty-two per cent of auditees now report on their performance in a useful and reliable manner. However, only 42% of auditees submitted annual performance reports without material misstatements. This means that 20% of the auditees had good outcomes only because they corrected the misstatements identified during the audit."

He also highlights the fact that non-compliance with key legislation remains at high levels, with 72% of auditees not complying with key legislation relating to financial management. “If auditees improve the key controls that prevent material misstatements in submitted financial statements and non-compliance with supply chain management legislation, these outcomes will improve.”

According to Makwetu, irregular expenditure continues to be of particular concern. “This is expenditure that was not made in the manner prescribed by legislation. Such expenditure does not necessarily mean that money was wasted or that fraud was 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 is also an indicator of a significant breakdown in controls at some auditees.” In the financial year under review, this totalled R62,7 billion, of which R29,1 billion (47%) was as a result of prior year irregularities identified this year, especially by the Property Management Trading Entity.

“Almost 85% of the overall budgeted expenditure of departments is still managed in environments where there was failure to attain a clean audit opinion.” This, he added, requires decisive steps to be taken as it is within these environments that there is a concentration of irregular, unauthorised and fruitless and wasteful expenditure.

The AG points out that there is a need for accounting officers and their teams to elevate their focus on the basic disciplines of financial and performance management. He further highlights the importance of strong oversight work characterised by the consistent application of appropriate consequences when there are instances of poor performance or transgression.

The AG says government leadership must take actions, which include responding through plans and well-coordinated initiatives to the recommendations made by the AGSA in this report, in order to improve key controls and address the six risk areas of:

- a) quality of submitted financial statements
- b) quality of submitted performance reports
- c) supply chain management
- d) financial health
- e) information technology controls
- f) human resource management.

Audit outcomes at a glance

Unqualified opinion with no findings (clean audit)

The auditee achieves a financially unqualified opinion with no findings, commonly known as a clean audit opinion, when its financial statements are unqualified, with no reported audit findings in respect of either reporting on predetermined objectives or compliance with key legislation.

Of the 469 audits completed, 119 auditees (25%) achieved clean audits compared to 22% in the previous year.

Makwetu says the 40 departments and 79 public entities in this category have control environments characterised by strong leadership control, good governance as well as financial and performance management controls that prevent, or detect and correct, errors and non-compliance.

“Most importantly, these departments and entities have managers and leaders who understand their responsibilities and discharge their duties in an effective manner. These auditees were able to submit financial statements and annual performance reports for auditing that were of such quality that we did not identify any material misstatements. They were also able to comply with key legislation.”

Financially unqualified opinion with findings

A total of 238 auditees (51%) received financially unqualified audit opinions with findings on their performance information or compliance with key legislation, or both these aspects. These are auditees that have passed the critical test of fair presentation of financial statements, which means they have accounted fairly for their financial transactions.

Makwetu says inadequate controls regarding performance information and compliance with key legislation continue to prevent these auditees from obtaining clean audit outcomes. He adds that such deviations from internal controls were largely in respect of compliance with key legislation in the area of supply chain management. In this category there are a number of auditees that incurred unauthorised, irregular as well as fruitless and wasteful expenditure due to material deviations from the legislative requirements that govern these transactions. Also, this is a category of auditees that submitted financial statements and performance reports that were initially unreliable and incorrect.

“The accounting officers or authorities of these auditees 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 the information used for accountability purposes. In turn, the oversight committees should collaborate and coordinate their oversight initiatives to derive optimal benefit from their oversight work,” Makwetu cautioned.

Qualified opinion

Seventy-three auditees (16%) received a qualified audit opinion, which means they were unable to account adequately and accurately for all the financial effects of the transactions and activities they had conducted. In this regard, the financial statements they presented were unreliable in certain areas.

Many auditees in this category furnished the AGSA with performance information that either was not useful or was unreliable, which compromised their ability to drive effective accountability. In most cases, these auditees had instances of inadequate controls over compliance with key legislation.

Adverse opinion

The two public entities that received adverse opinions performed similarly to those that received qualified opinions, with the exception that the conditions regarding unreliable financial statements were common in most areas of their financial statements. This is unlike a qualified opinion where it is limited to certain areas.

The AG says that auditees in this category demonstrated an extreme lack of accountability for financial statements, and “this is a classic example of controls that have broken down everywhere”. He further cautions that this state of affairs increases the levels of financial exposure.

Disclaimed opinion

Sixteen auditees received disclaimed audit opinions. These auditees were unable to provide the required evidence to enable the auditors to perform tests to satisfy themselves regarding the fair presentation of the financial statements – therefore auditors were unable to conclude or express an opinion on the credibility of their financial statements. Also, auditees with adverse and disclaimed opinions are typically not complying with key legislation.

The AG expressed his concern that 15 departments in the education, health and public works sectors received a qualified or disclaimed opinion, as “these are key service delivery departments that

account for 37% of total spending by departments and must be able to adequately and accurately account for their financial transactions”.

Other key audit observations

In addition to the overall audit outcomes, the AG’s report highlights the following audit observations that require attention from the coordinating or monitoring departments, executive authorities and oversight structures:

- Eighty per cent of the financial statements audited received a financially unqualified audit opinion. However, 165 auditees (37%) received such an opinion only because they corrected all the misstatements the auditors had identified during the audit. Only 43% (and not 80%) of the auditees would have received an unqualified audit opinion had the auditors not identified the misstatements and allowed them to make the corrections.
- The quality of the annual performance reports is improving every year. Sixty-two per cent of the auditees now report on their performance in a useful and reliable manner. However, only 42% of the auditees submitted annual performance reports without material misstatements. The AG says this means that 20% of the auditees had good outcomes only because they corrected the misstatements identified during the audit. Furthermore, the main service delivery sectors are lagging behind, with only six departments in the education, health and public works sectors getting it right. “This is a red flag for the implementation and monitoring of the national development plan where performance in these sectors is key to its success,” he warned.
- Non-compliance with key legislation remains at high levels, with 72% of the auditees not complying. The AG says, “If auditees could address the material misstatements in the submitted financial statements, non-compliance with supply chain management legislation and recurring unauthorised, irregular as well as fruitless and wasteful expenditure, these outcomes will improve”.
- Makwetu says irregular expenditure continues to be of particular concern. This is expenditure that was not made in the manner prescribed by legislation. Such expenditure does not necessarily mean that money was wasted or that fraud was 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 is also an indicator of a significant breakdown in controls at some auditees. For the year under review, this kind of expenditure totalled R62,7 billion, R29,1 billion (47%) of which was as a result of prior year irregularities identified this year. Makwetu highlights the reasons for this high amount and provides some perspective on what it means in his report.

More key actions that government leadership could take to further improve the results

The AG says leadership at auditee, executive and oversight level or at key departments, such as the treasuries and offices of the premier, has played and continues to play a crucial role in improved audit outcomes. He encouraged leaders to continuously enhance their assurance role through the following actions:

- ✓ Focus on getting the basics right – fill vacant positions with competent officials, implement basic internal controls, and insist on regular and credible reports on the state of auditees’ finances and their performance in accordance with their annual performance plan.
- ✓ Enforce compliance with legislation by implementing processes and procedures that will make them part of the daily disciplines and by monitoring auditees to determine whether they have complied. At all times demonstrate ethical leadership and a respect for the legislation enacted by Parliament on behalf of the citizens of this country.

- ✓ Hold people accountable for poor performance and transgressions. This will demonstrate that such behaviour is not tolerated and will encourage responsible, accountable and transparent administration.
- ✓ Encourage and support robust and proactive audit committees and internal audit units, and ensure that their recommendations and reports are responded to.

“Overall, the audit outcomes of national and provincial government are improving slightly but much work still needs to be done to bring all auditees to the level of clean audits. I also remain hopeful that the improvements in these tiers of government will transpire in local government, where the progress has been slower. We are encouraged that the oversight, executive and political leaders have recognised the importance of collectively working towards total good governance. The positive responses and commitment of these leaders to lead and set the correct leadership tone in this good governance drive have largely influenced the improved results we are reporting today. My office remains committed to continue working closely with these leaders and their administration teams to ensure that the developmental goal of wholesale good governance in the public sector is realised. As these improved audit results show, this is a goal within reach; ours is to double the efforts to improve these outcomes and sustain the audit gains already made,” concludes Makwetu.

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Media note: The consolidated general report on the PFMA audit outcomes and all individual provincial reports are available on www.agsa.co.za.

About the AGSA: The AGSA is the country’s supreme audit institution. It is the only institution that, by law, has to audit and report on how government is spending taxpayers’ money. This has been the focus of the AGSA since its inception in 1911.

End.

ADDITIONAL MEDIA INFORMATION (provincial highlights)

Eastern Cape PFMA 2013-14 audit outcome highlights

The province has shown a net improvement of five audit outcomes in the year under review. This is the first time since the dawn of democracy that no department in the province obtained an adverse or disclaimed audit outcome. While the number of improvements is encouraging, it is concerning that Education, Health, and Roads and Public Works, which represent 79% of the provincial budget, still received qualified opinions.

This report highlights the fact that the three provincial oversight departments (Office of the Premier, Local Government and Traditional Affairs and the provincial treasury) led by example and achieved unqualified opinions with no findings. These critical departments are now in a position to concentrate on and enhance their oversight and coordinating responsibilities so that they can make a sustainable impact on provincial and local government audit outcomes – and ultimately improve service delivery to the citizens of the province. The provincial legislature, as the only remaining oversight body in the province that did not receive an unqualified audit outcome with no findings, is encouraged to learn from the best practices of these departments and to strive towards achieving this important milestone.

Concern has been raised about those auditees that have achieved an unqualified audit outcome for a number of consecutive years but are still plagued by findings on the quality of their annual performance reports or compliance with key legislation, or both these aspects. The failure to address the internal control deficiencies underlying these findings poses a risk that a culture of tolerance towards these unacceptable practices is encouraged. Departments and entities do not need to look further than some of their peers in the province for guidance on how to address these challenges. There are many examples of departments and entities that have addressed these challenges through the leadership setting the correct tone at the top, a more focused approach towards accountability and governance, stability in leadership positions as well as fulfilment of the commitment to address vacant posts and skills of officials.

Although challenges to raise the overall quality of reporting by departments and entities on their service delivery to an appropriate level remain, the province should be commended for achieving a marked improvement in this area of its work. The number of auditees with no findings on the usefulness and reliability of their annual performance reports has grown to 17. Performance reporting at the big-spending departments like Health, Education as well as Roads and Public Works remains an area of concern.

Compliance with legislation, particularly laws and regulations dealing with supply chain management, remains a challenge and requires focused leadership intervention. Of particular concern is the ever-increasing amount of irregular expenditure relating to supply chain management, which totalled R2,6 billion in the financial year under review. Seventy-three per cent of this amount can be attributed to Roads and Public Works – the department responsible for all infrastructure development in the province. As much as we were able to confirm that goods and services had been received for at least 67% of this amount, risks remain regarding the competence of staff dealing with supply chain management transactions or an incentive to award contracts to related parties where the benefit of the goods and services may not be fully realised.

We are encouraged by the commitment and spirit of cooperation of the newly elected office bearers and the public commitment to accountability and consequence management. A strong foundation has been laid by the premier in his state of the province address on these matters, and his commitments have already been operationalised into signed performance agreements with members of the executive council. This is further enhanced by the development of the provincial audit intervention plan that will be monitored by the provincial executive.

Free State PFMA 2013-14 audit outcome highlights

The provincial government consists of 13 departments (including the legislature) and eight public entities. The Free State Housing Fund and the Nature Conservation Trust Fund are not included in the general report as they are dormant. Both funds received unqualified audit opinions with no findings. The Provincial Revenue Fund was also excluded from the general report.

The total adjusted budgeted expenditure of the province was R27,7 billion in 2013-14. The budget figure only includes voted departmental funds (in other words, public entities are not included). The following were the main areas of expenditure:

- Employee cost – R15,9 billion
- Goods and services – R4,6 billion
- Transfer payments – R2,9 billion
- Capital expenditure – R4,3 billion

Overall, there has been a slight year-on-year improvement in the audit outcomes. The progress towards better outcomes has been slowed down by the lack of improvement in basic key internal controls in day-to-day operations, which casts doubt on the sustainability of the progress made; however, the number of clean audit opinions remained unchanged.

The provincial treasury, Department of Sports, Arts, Culture and Recreation as well as the Fleet Management Trading Entity managed to retain clean audit opinions. The provincial legislature reclaimed its clean audit status from an unqualified audit opinion with findings, while the Department of the Premier regressed from a clean audit to a qualified audit opinion. The Department of Education also regressed from an unqualified audit opinion with findings to a qualified audit opinion.

Four auditees were able to improve from a qualified opinion to an unqualified opinion on their financial statements, namely Economic Development, Tourism and Environmental Affairs; Public Works; Free State Development Corporation; and Free State Tourism Authority.

Human Settlements and Health remained unchanged with a qualified audit opinion.

Where improvements were noted, the progress can be attributed to members of the executive council enhancing oversight and management responding timeously, whereas regressions and stagnations were the result of a slow response by management to address prior year matters at 78% of the auditees.

The majority of auditees managed to obtain unqualified audit opinions with findings. This is the audit outcome that showed the most improvements but it is also where most auditees stagnate after they had managed to improve to an unqualified audit opinion with findings. This is an indication that there is a greater focus by auditees to obtain an unqualified audit opinion, but not the same drive to address findings on the annual performance report and compliance with legislation. This is one of the main reasons why auditees are unable to improve to clean audit outcomes. Findings on the quality of the financial statements and annual performance reports are not addressed due to a lack of competencies and systems to support the collation and reporting of financial and performance information.

Only six auditees (33%) submitted financial statements that did not require material adjustments to avoid qualification.

Irregular expenditure of R2,429 billion was incurred by 17 auditees (94%) for the period under review, with the major contributors responsible for 92% of this expenditure being Health, Human Settlements and Education. The significant irregular expenditure incurred in the province was caused mainly by non-compliance with supply chain management requirements. This was due to a lack of credible procurement plans, which hampered the fairness, transparency and competitiveness of procurement processes.

Unauthorised expenditure of R470 million incurred in 2013-14 was due to overspending the budget. There was a significant year-on-year upward trend in unauthorised expenditure, which increased by 87% in the current year when compared to the previous year. Health and Education were responsible for 98% of the unauthorised expenditure.

The financial health of the province has deteriorated since previous years. Due to inadequate budgetary controls, nine auditees (50%) encountered serious concerns relating to their financial sustainability. This can put pressure on the allocated budget for service delivery priorities in future years.

Gauteng PFMA 2013-14 audit outcome highlights

Gauteng has 15 departments and 20 public entities. All 35 auditees submitted their financial statements for the 2013-14 financial year for auditing within the prescribed timelines.

Overall, Gauteng's audit outcomes have improved significantly compared to the previous year, recording 19 clean audits (54%) [2012-13: eight (23%)]. The quality of the submitted annual financial statements also improved to 63% from 31%.

Ten public entities improved to clean audit outcomes, while five departments and three public entities sustained their clean audit outcomes, and one newly formed department attained a clean audit outcome.

Thirteen auditees (37%) received financially unqualified audit opinions with findings on their performance information or compliance with key legislation, or both these aspects.

There has been a notable decrease in non-compliance with legislation (54% of the auditees) over the past three years. This was achieved by enhanced in-year monitoring of compliance with laws and regulations.

Health and Human Settlements remained qualified. Only G-fleet regressed to an adverse audit opinion from an unqualified audit opinion with findings.

The clean audit outcomes and improvements are the result of the concentrated effort and responsiveness of the political and administrative leadership, audit committees and the provincial treasury. Accounting officers and senior management, as a first line of defence, successfully implemented basic internal controls and accounting disciplines, which ensured that an effective control environment was maintained, and provided rigorous oversight and support in driving clean audit outcomes.

There was a significant reduction in the reported unauthorised as well as fruitless and wasteful expenditure from R1,6 billion to R228 million over the past three years.

For auditees that have not progressed to clean audit outcomes, the accounting officer or authority needs to ensure that the basic disciplines of preparing and reviewing regular financial and performance reports are improved and sustained.

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. Stability in the administrative leadership and key senior management through succession planning remains critical to ensuring that institutional knowledge is not lost.

The 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.

With the commitment of the administrative leadership, audit committees, the provincial treasury and the Office of the Premier, we see the golden prospect of a public service characterised by transparent financial and performance reporting.

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.

Limpopo 2013-14 PFMA audit outcome highlights

Limpopo has 13 departments (including the legislature) and 10 public entities. The Provincial Revenue Fund and the Tribal and Trust Account were excluded from the general report as their financial statements for the 2013-14 financial year were still outstanding.

The total adjusted budgeted expenditure of the province was R49,7 billion in 2013-14. The budget figure only includes voted departmental funds (in other words, public entities are not included). The following were the main areas of expenditure:

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

Overall, there has been a slight improvement in the audit outcomes compared to the prior year. The regression in the basic key internal controls in day-to-day operations indicates that the province is at risk of regressing in the future.

Cooperative Governance, Human Settlements and Traditional Affairs achieved an unqualified audit opinion with no findings. The best practices employed by this department should be replicated by the rest of the departments and entities in the province.

The majority of auditees (56%) received modified audit opinions. However, three auditees (Health, Public Works and Limpopo Tourism Agency) managed to move from disclaimed to qualified opinions, while the Limpopo Development Agency improved from a qualified audit opinion to an unqualified opinion with findings.

Economic Development, Environment and Tourism regressed from an unqualified audit opinion with findings to a qualification, while the Gateway Airports Authority Limited regressed from a qualified opinion to an adverse opinion.

Education remained disclaimed, while the Limpopo Roads Agency moved from a disclaimed to an adverse opinion in the current year.

Five departments have been under section 100(1)(b) administration since 2011. The national intervention team has successfully implemented strategies to eliminate the overdraft position that the province found itself in 2011. The administration has not had a significant impact on the internal control environment of the province. Despite an improvement in the audit outcomes of Roads and Transport, Public Works and Health, the sustainability of the outcomes is in question once the intervention team withdraws from the province, as skills were not transferred.

Only three auditees (13%) submitted financial statements that did not require material adjustments to avoid a qualification. There has been some improvement in the reporting of performance against

predetermined objectives, as no significant findings were raised at 48% of the auditees. However, only 30% of the auditees could produce quality performance reports without relying on the audit process to identify errors to be corrected. Of the 23 auditees, 22 had findings on non-compliance with laws and regulations.

Unauthorised expenditure was reduced from R325 million in the prior year to R16 million in the current year. This expenditure was incurred by the Department of Education.

Irregular expenditure increased to R3,5 billion from R2 billion in the prior year, with the Department of Education, Department of Health and the Limpopo Roads Agency contributing 94% of this irregular expenditure. The significant irregular expenditure incurred in the province was mainly due to non-compliance with supply chain management requirements.

Mpumalanga 2013-14 PFMA audit outcome highlights

Net improvement in audit outcomes

Five auditees achieved clean administration in 2013-14, an improvement from three in the 2012-13 financial year. Eight were unqualified with findings, while four were qualified. The most common qualifications related to capital assets, contingent liabilities and commitments as well as irregular expenditure due to supply chain management weaknesses.

Areas with most challenges

Quality of submitted annual financial statements

All auditees submitted their financial statements for auditing on time, but only six (35%) of the 17 auditees submitted financial statements that did not contain material misstatements.

Quality of submitted annual performance reports

There has been no improvement in this area since 2012-13. Nine auditees did not have material findings on their reported performance information. Six auditees had findings on the reliability of their reported information, while two had findings on both usefulness and reliability. Of the three biggest spending departments in the province, only Education produced a reliable annual performance report, while Health as well as Public Works, Roads and Transport had not fully addressed their previous findings.

Supply chain management

The following were the most common findings:

- Limitations in auditing supply chain management
- Awards to suppliers in which employees of the auditees had a financial interest
- Awards to suppliers in which close family members of employees of the auditees had an interest
- Uncompetitive and unfair procurement processes.

Human resource management

Attention has not been given to filling vacancies and ensuring stability in key positions.

Unauthorised, irregular as well as fruitless and wasteful expenditure

- Unauthorised expenditure decreased from R136 million to R18,2 million in the current year.
- Irregular expenditure increased from R234 million to R1 008 billion in the current year. Overall, 95% of the irregular expenditure was as a result of non-compliance with supply chain management legislation. The Department of Public Works, Roads and Transport as implementing department contributed the highest amount.
- Fruitless and wasteful expenditure decreased from R16,5 million to R7,4 million in the current year.

Root causes

The following contributed to the outcomes:

- Instability or vacancies in key positions
- Slow response by management and the political leadership in addressing the internal control weaknesses that had been highlighted by internal audit units, audit committees, portfolio committees and the public accounts committee.

Impact of key role players in improving outcomes

Although we noted a slight improvement in the assurance provided by key role players, we are concerned that most of the practices leading to the improvement had not been institutionalised and are therefore not sustainable.

Northern Cape PFMA 2013-14 audit outcome highlights

The Northern Cape has 13 departments as well as six listed and six unlisted entities that are audited by the AGSA.

The overall expenditure of the provincial government amounted to R12,9 billion for the 2013-14 financial period. This amount is made up of R6,8 billion for employee costs, R3 billion for goods and services, R1,4 billion for capital expenditure and R1,7 billion for transfer payments.

We are pleased to report that the audit outcomes have shown a commendable improvement with five of the 19 auditees attaining clean audit outcomes compared to one in 2012-13.

Nine auditees received financially unqualified audit opinions with findings on their performance information or compliance with legislation, or both of these aspects. These are auditees that have passed the critical test of fair presentation of their financial statements, which means that they have accounted accurately for their financial transactions.

Although the qualified audit opinions have decreased from six to five in the current year, it is of concern that the two largest departments, namely Education and Health (making up 62% of the provincial budget), have remained in the same position as last year by again obtaining qualified opinions. These departments remained the largest contributors to unauthorised and irregular expenditure in the province, which indicates that the concerns raised around basic controls at these departments in the previous year had still not been addressed.

Of the R1 743 million in irregular expenditure incurred in 2013-14, 97% (R1 691 million) was as a result of non-compliance with supply chain management legislation.

It is commendable that 89% of the auditees submitted their annual performance reports for auditing on time, compared to 84% in the prior year. However, auditees that submitted annual performance reports that did not contain material misstatements regressed from eight in 2012-13 to six in the current year.

There has been a significant improvement in compliance with key legislation, from one auditee to five with no material findings on compliance with key legislation when compared to the previous year. It is of concern, however, that 14 auditees still had findings on compliance with laws and regulations, 13 of which related to the quality of the financial statements and the absence of steps to prevent and deal with unauthorised, irregular as well as fruitless and wasteful expenditure. Irregular expenditure was reported at 16 auditees, mainly due to the lack of basic controls and non-compliance with supply chain management legislation.

The overall improvement in the province's audit outcomes can be attributed to progress made with the commitments received from the political and administrative leadership in the previous year, such as the filling of key vacancies. The clean audit outcomes and improvements are the result of management's efforts to proactively address risks and to implement consequence management where performance was not at the required level. In addition, these auditees implemented best

practices to ensure ongoing progress in maintaining clean audit opinions. To ensure sustainable and further improvements, robust, informed and decisive efforts are required of the political and administrative leadership. The provincial leadership and oversight bodies need to refocus and intensify their efforts to ensure that more auditees follow the example set by the five that obtained clean audit opinions in 2013-14.

North West PFMA 2013-14 audit outcome highlights

There has been an improvement in the provincial outcomes, in particular by the departments, as only two departments (15%) received qualified opinions with findings and 10 (77%) were unqualified with findings.

The provincial treasury has led by example and is the first department in the province to obtain a financially unqualified audit opinion with no findings (in other words, a clean audit).

Sixteen auditees (46%) received financially unqualified audit opinions with findings on their performance information or compliance with legislation, or both these aspects. Eight auditees (23%) received a qualified audit opinion. Four auditees (11%) received disclaimed audit opinions.

There has been a small improvement in that 49% of the auditees now have financially unqualified opinions. However, 12 auditees (42%) received a financially unqualified audit opinion only because they corrected all the misstatements we had identified during the audit. Only 17% of the auditees would still have received an unqualified audit opinion had they not made any corrections.

Most auditees (77%) had material findings on the usefulness and reliability of their reported performance information. The three largest service delivery departments in the province (Health, Education and Public Works) all had material findings on their reporting against predetermined objectives.

All auditees, with the exception of the provincial treasury, had material findings on compliance with key legislation. There has also been an increase in the number of auditees with findings on supply chain management (84%) when compared to the previous year (74%).

We could not audit awards with a value of R506 million at four auditees (2013: R1 846 million at eight auditees), as they could not provide us with evidence that awards had been made in accordance with the requirements of supply chain management legislation. Nineteen (76%) of the auditees had findings on uncompetitive or unfair procurement processes. This was mainly as a result of failure to obtain three written quotations or not inviting competitive bids without these deviations being approved.

The increased unauthorised expenditure of R343,6 million was as a result of departments overspending their approved budgets. Education was responsible for incurring 74% of this amount.

Although there has been a decrease in irregular expenditure compared to the previous year, most of the R1 193 million (96%) in irregular expenditure was a result of auditees not complying with supply chain management prescripts. Although we did not investigate the irregular expenditure as this is the role of the accounting officer and oversight body, we determined through our normal audit procedures that goods and services were received for R1 192 million (99%) of the irregular expenditure despite the correct processes governing procurement not having been followed.

The financial health concerns in the province have improved slightly since previous years, with nine auditees (34%) (2012-13: 43%) having serious concerns relating to their financial sustainability.

Key messages

- Most executives displayed a positive attitude when engaging with the AGSA in identifying and understanding underlying root causes of outcomes and progress made by departments and entities in addressing root causes.
- There is a strong commitment by and alignment between the departments making up TROIKA. Good communication and a common purpose are evident as a result of the strong tone adopted by the premier.
- To sustain the improvement in departmental outcomes, TROIKA should ensure that the reconfiguration of departments and mandates in 2014-15 does not negate the positive outcomes achieved by the province.
- The executive authorities should be actively involved in monitoring the implementation of action plans and commitments. They should also investigate the reasons for a lack of response by management at the public entities in their portfolios as well as the reasons for the late or non-submission of financial statements. The establishment and effective operation of internal audit units and audit committees at public entities should be prioritised.
- Vacant positions on the board of directors at some public entities and in audit committees should be addressed with immediate effect with the intervention of the provincial leadership.

Key issues that drove the audit outcomes

- Lack of consequences for poor performance and transgressions (83%)
- Key positions vacant or key officials lacking appropriate competencies (55%)
- Slow response by management in addressing the root causes of poor audit outcomes (41%).

Western Cape PFMA 2013-14 audit outcome highlights

The provincial government consists of 14 departments and 10 public entities. The public entities include seven public entities, one trading entity and two other entities. As provided for in the Public Audit Act, the AGSA has opted not to audit one of the public entities (CASIDRA), which is excluded from the outcomes. All auditees submitted their financial statements for the 2013-14 financial year for auditing within the prescribed timelines.

The total budgeted expenditure of the province was R44 billion in 2013-14. The following were the main areas of expenditure:

- Employee cost R23,7 billion
- Goods and services R9,1 billion
- Transfer payments R7,3 billion
- Capital expenditure R3,9 billion

Overall, the province's audit outcomes have improved significantly since the previous year. Eighteen (78%) of the 23 auditees attained clean audit outcomes, compared to 48% in 2012-13.

Seven auditees (30%) moved from financially unqualified opinions with findings to clean audit outcomes, while 10 auditees (43%) maintained their clean audit outcomes of 2013. One auditee (Western Cape Nature Conservation Board) improved from a qualified audit opinion in 2012-13 to a clean audit outcome.

Five auditees received a financially unqualified audit opinion with findings on their performance information or compliance with legislation, or both these aspects. These include Education and Health, which together account for 72% of the provincial budget. It is encouraging that there were no qualified, adverse or disclaimed opinions in the province for 2013-14.

Overall, irregular expenditure was reduced from R221 million in 2012-13 to R170 million in the financial year under review. A total of 90% of the irregular expenditure incurred in 2013-14 related to non-compliance with supply chain management legislation. This includes procurement without a

competitive bidding or quotation process and non-compliance with legislation relating to contract management. We determined that goods and services were received, despite the normal provisions of the legislation aimed at ensuring that procurement processes are fair, equitable, transparent, competitive and cost-effective not having been followed.

The improvement and sustainability of audit outcomes were achieved due the political and administrative leadership setting the tone at the top and including clean audit outcomes as a standing agenda item at all cabinet meetings. The commitment to, and ownership of, the corporate governance and review outlook process by all stakeholders, as well as the provincial treasury's involvement through budgetary control, monitoring of monthly reports and enforcement of financial management principles by issuing provincial instruction notes, were also key drivers of the improved audit outcomes. Accounting officers or authorities and senior management, as a first line of defence, improved the implementation of basic internal controls and accounting disciplines, which ensured that an effective control environment was maintained, and provided rigorous oversight and support in driving clean audit outcomes.

End.