



Auditor-general reports slightly improved audit results for national and provincial government, but cautions about the slow pace in addressing internal control deficiencies

PRETORIA – Were it not for the slow response in addressing audit recommendations aimed at improving internal control systems and eliminating governance risks and other concerns raised by his office, the national and provincial governments would have recorded much-improved audit results for the 2014-15 financial year, Auditor-General (AG) Kimi Makwetu said today.

Releasing this year’s audit outcomes of national and provincial government departments and public entities (auditees), Makwetu said he had observed that management at most auditees (73%) “have been slow to respond to the (audit) recommendations aimed at assisting them to improve key internal controls and addressing identified risk areas. This contributed to audit outcomes for 2014-15 that only improved slightly since 2013-14”.

Makwetu said that while the marginal improvement in audit outcomes is commendable, the government could have recorded a higher margin of improved results had leadership stepped up the pace in addressing internal control deficiencies identified in the previous audit. Stepping up the pace is about consistently narrowing the space for possible errors or abuse in handling public resources through leadership-driven efforts. This, the AG said, required auditees to perform the following basics properly and consistently:

- Implementing plans to address deficiencies in financial controls based on commitments already made
- Providing effective leadership and monitoring achievement of performance targets
- Reviewing and monitoring compliance with key laws and legislation over financial matters.

“Those auditees that have progressed, or maintained their previous year’s positive audit outcomes, have stuck to these basics of clean governance, practically showing that clean audits are easy to attain and maintain if these fundamentals are in place,” the AG said.

The AG’s latest report covers a total of 468 auditees, which include 167 national and provincial departments and 301 public entities with a total budget of R1 111 billion for the year under review.

Like all AGSA annual audits, this report examines:

- fair presentation and absence of material misstatements in financial statements (i.e. all transactions or events have been dealt with in accordance with accounting and financial reporting disciplines)
- reliable and credible performance information for purposes of reporting on predetermined performance objectives
- compliance with key legislation governing financial and performance matters.

The audit outcomes and analysis contained in these 2014-15 national and provincial general reports are based on our evaluation and assessment of the above criteria in all 468 audit reports.

A glimpse of the audit outcomes

A. Improvements in clean audits

Makwetu said the number of auditees that received a financially unqualified audit opinion with no findings (clean audit) had improved slightly from 118 (26%) in 2013-14 to 131 (28%) in 2014-15.

Departments made a significant contribution towards clean audit opinions in 2014-15, increasing their total from 40 to 47, while 84 public entities received clean audits.

Among the provinces, the biggest contributors to the total number of clean audits were the Free State (six – 32% of their auditees), KwaZulu-Natal (eight – 22% of their auditees), Gauteng (19 – 54% of their auditees), and the Western Cape (20 – 83% of their auditees), while 23 of the 35 ministerial portfolios (66%) contributed to the 65 clean audits in national government. Regressions in the number of auditees with clean audit opinions were noted in Mpumalanga, the Northern Cape and North West. Also noteworthy is that 70% of the auditees (85) with clean audits in the previous year were able to sustain their clean audit status.

The economic sectors, employment and infrastructure development cluster, performed the best of the five government clusters, with 19 financially unqualified audit opinions, which included five clean audits. None of the seven departments in the justice, crime prevention and security cluster obtained a clean audit, although four were financially unqualified.

B. Provinces register more improved audit results

Six provinces recorded net improvements (i.e. more improvements than regressions). Gauteng's audit outcomes showed little movement (although still with a high number of clean audits), while in Mpumalanga and the Northern Cape, the audit outcomes regressed. However, while acknowledging the net improvement in audit outcomes as a "good indicator that overall, audit outcomes are improving, albeit slightly", Makwetu voiced his concern that, with the exception of Gauteng and the Western Cape, the pace of auditees maintaining clean audit opinions had slowed or regressed across provinces. While (audit) outcomes remain stagnant in the other five provinces, the overall outcomes for both the Northern Cape and Mpumalanga have regressed when compared to 2013-14.

C. Legislatures led by example in showing that clean audits are attainable

Makwetu said he was encouraged by the legislative sector's positive audit results. "This significant improvement bodes well and sets a positive tone in the drive towards wholesale clean administration in the public sector."

The legislature sector consists of Parliament and the nine provincial legislatures. Of these 10, six received clean audit opinions, while the North West, Northern Cape and Limpopo legislatures received unqualified opinions with findings. Only the KwaZulu-Natal legislature received a qualified opinion.

D. Notable improvements in quality of submitted financial statements

The quality of financial statements submitted for audit improved from the 43% of auditees whose financial statements contained no material misstatements in 2013-14 to 51% (224) in 2014-15; however, the unqualified opinions on financial statements remained at 76%.

E. Summary of outcomes

Clean audits

The number of auditees that received unqualified audit opinions with no findings (clean audits) improved slightly from 118 (26%) in 2013-14 to 131 (28%) in 2014-15.

Financially unqualified opinion with findings

Auditees with financially unqualified audit opinions with findings declined by 2% from 237 (50%) in the previous year to 224 (48%) in 2014-15.

Qualified audit opinions

The auditees with qualified audit opinions decreased to 68 (14%) from the 74 (16%) reported last year. These auditees were unable to account adequately and accurately for all their financial transactions and activities. Their financial statements were therefore unreliable in certain areas.

Adverse opinions

The number of auditees with adverse audit opinions remained the same (three) as in the previous year.

Disclaimed audit opinions

Nationally, there was a decline in the number of auditees that received disclaimed opinions, from 22 (5% in the previous year) to 14 (3%).

Outstanding audit opinions

On the cut-off date for this analysis the opinions for 28 auditees were still outstanding. Of these, 16 opinions were subsequently finalised. Although this analysis does not comment on these, it is worth noting that three of these auditees obtained unqualified opinions without findings, namely:

- Ithala Ltd (KwaZulu-Natal),
- Agribank Creditors Settlement Trust (North-West), and
- Departments of Transport and Public Works (Western Cape).

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:

A. Outcomes of key delivery sectors

The AG's report includes the outcomes of his office's review of programme execution in the basic and higher education (with a combined budget allocation of R257 billion), health (R146 billion), public works (R32 billion) and human settlements (R28 billion) sectors. The combined budget allocated to these sectors is approximately half of the national budget. Makwetu said this "clearly demonstrates where the bulk of priority oversight work should be directed as the greatest impact will be felt in this area, if all the instruments of delivery and oversight can be given much needed additional focus".

The AG said the education, health and public works sectors still have the worst outcomes. However, there have been some promising prospects as the number of auditees in this sector with clean audit opinions has increased from one in 2013-14 to two in the current period. He cautioned that the Limpopo education department needs particular attention as it has retained its disclaimed audit opinion.

"My message from the previous year is still relevant. There should be a focus on these departments to ensure a meaningful movement towards accurate, accountable and transparent financial and performance reporting. This should be underpinned by sound internal controls and good human resource management, including enhancing personal accountability and consequence management," Makwetu advised.

B. Quality of annual performance reports

In spite of the slight improvement of 4% compared to the previous year, the number of auditees that were unable to submit quality annual performance reports remains high at 54%.

C. Compliance with legislation

There was a slight improvement from 27% of auditees with no material findings on compliance with key legislation in 2013-14, to 30% in the current year. Of the 300 auditees that had material findings on

compliance, 230 (77%) had material findings with a potential negative financial impact or loss to the auditee.

D. Weaknesses in supply chain management as a cause of irregular expenditure

Makwetu reported some improvements in supply chain management, but said the number of auditees with findings remains high. Only 43% of auditees (compared to 39% in 2013-14) had no findings in this area.

He said the key driver of these findings continues to be auditees that do not follow competitive or fair procurement processes, as observed at 31% of auditees that had material findings on supply chain management.

“This contributed largely to the irregular expenditure of R25,7 billion for this year. This expenditure does not necessarily mean that money was wasted or fraud committed in all instances. We will recall that no specific detailed investigations are conducted in an audit to establish the real substance and reasons for the deviations from prescribed controls. It is for this reason that we report these instances as required by the Public Finance Management Act (PFMA) so that those charged with governance can authorise the required investigations to determine whether they concur or otherwise with management actions associated with these transactions. The gravity and extent of these deviations from supply chain can only be firmly established once those investigations have been undertaken and reported on. This is the context in which we elevate irregular expenditure in this report.

“Once again, the absence of follow-up and real consequences around these transactions at a number of auditees creates more vulnerability for the control weaknesses to be taken advantage of, resulting in possible significant losses to the fiscus. Because of this, some losses are possibly already materialising through contracts that have been irregularly awarded or extensions to existing contracts being implemented with little regard for the supply chain prescripts that promote transparency and effective spending of public funds,” said the AG.

E. Decrease in fruitless and wasteful expenditure

The AG’s report indicates that there had been a reduction in the value of fruitless and wasteful expenditure since 2013-14, and that the number of auditees that incurred this kind of expenditure also decreased. Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been taken.

For the current and previous years, 197 auditees incurred fruitless and wasteful expenditure, of which 151 (auditees) have incurred such expenditure for the past three years. Of the R936 million in fruitless and wasteful expenditure incurred in the year under review, R32 million (3%) was incurred to prevent further fruitless and irregular expenditure or losses. This normally relates to the cost of cancelling irregular contracts or contracts of non-performers.

Makwetu said it was worth noting that 80% of this expenditure was identified by the auditees, “which shows an improvement in the detection and reporting thereof”.

F. Unauthorised expenditure decreases

The AG said there has been a notable decrease in unauthorised expenditure since 2013-14. This expenditure by auditees was not incurred in accordance with the approved budget. The overall decrease, Makwetu said, was largely due to a significant decrease in KwaZulu-Natal (79%) and Limpopo (69%), while national auditees reduced theirs by 55%. Fifteen auditees recorded unauthorised expenditure in the current and previous year, nine of which have incurred such expenditure for the past three years.

Makwetu said 99% of the unauthorised expenditure was identified by the departments themselves, while his office’s audit process identified the remaining 1%. Of the R1 641 million in unauthorised expenditure incurred in 2014-15, most (99%) was as a result of overspending of the approved budget or main division within the budget.

G. Root causes of audit outcomes

Slow responses by management in improving key controls and addressing risk areas (73% of auditees) represented the most important root cause of audit findings. Instability or vacancies in key positions remained the second highest root cause of findings (46% of auditees). At 42% of auditees, consequences for poor performance and transgressions, as the cause of a poor internal control environment, were inadequate. The status of human resource management remains poor in most provinces. Notable exceptions are Gauteng and the Western Cape, where 56% and 100% of the auditees, respectively, were reported as having good human resource controls. On the other hand, in the Northern Cape and North West only 16% and 25% of auditees had human resource management controls in place. Vacancies in key positions, the head of supply chain management and chief financial officer in particular remain high.

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, had 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:

Executive authority – monitors the progress of performance and enforces accountability and consequences for poor performance.

National Treasury/ Department of Public Service and Administration – monitors compliance with legislation and enforces appropriate action.

Oversight bodies (portfolio committees) – reviews and monitors quarterly progress of the action plans to address deficiencies.

Public accounts committee – regularly exercises specific oversight of any report as it may deem necessary.

National Assembly – provides independent oversight of the reliability, accuracy and credibility of national and provincial government.

“Although we have always emphasised the role of leadership towards strengthening the controls in departments and entities, the large number of areas requiring attention can be fixed when leadership (political and administrative) takes firm steps to correct control deficiencies. We are still convinced that with more firm, resolute action and ongoing support from leadership, these audit deficiencies could easily be addressed.

“In addition, an internal control environment will be qualitatively stronger when all actors in the system know and experience consequences for deviating from the prescribed rules and processes designed to protect finances and enhance transparent reporting over them. These are key ingredients for establishing strong accountability and a culture of good performance,” Makwetu concluded.

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Media note: The *Consolidated general report on the PFMA local audit outcomes* and all individual provincial reports are available on www.agsa.co.za. This media release and its translated versions, in seSotho, xiTsonga, isiXhosa, isiZulu and Afrikaans will also be available on our website.

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 – the organisation celebrated its 100-year public sector auditing legacy in 2011.

ADDITIONAL INFORMATION FOR THE MEDIA

Audit outcome meanings

a) Financially unqualified audit opinion with no findings (clean audit)

An auditee receives 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.

b) Financially unqualified opinion with findings

These are auditees that have passed the critical test of fair presentation of financial statements, which means that they have accounted fairly for their financial transactions. However, they had findings on their performance information or compliance with key legislation, or both of these aspects.

c) Qualified audit opinions

A number of auditees in this category furnished the AGSA with performance information that either was not useful or was unreliable, which compromised their ability to account effectively. In some cases, these auditees had inadequate controls over compliance with key legislation.

d) Adverse opinions

The entities that received adverse opinions performed similarly to those that received qualified opinions, except that information that was not useful or reliable was common in most areas of their financial statements rather than being limited to certain areas.

e) Disclaimed audit opinions

Nationally, there was a decline in the number of auditees that received disclaimed opinions, from 22 (5% in the previous year) to 14 (3%). These auditees were unable to provide the required evidence for the information presented in their 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 typically are not complying with key legislation.

Audit highlights of the various provinces

Eastern Cape's PFMA 2014-15 audit outcome highlights

The Eastern Cape Provincial Administration consists of 14 departments and 10 public entities, with total budgeted expenditure of R65 billion for 2014-15. All 24 auditees submitted financial statements and audits thereof were completed within the legislated timelines.

The province achieved a net improvement of one audit outcome during the year under review, recording four improvements and three regressions. While it is encouraging to note that three of the four improvements relate to auditees that progressed to the 'unqualified with no findings' category, it is concerning that only one of the four auditees with clean audits in the prior year managed to sustain this outcome.

At an overall level the quality of financial statements improved. Four audits (17%) received unqualified outcomes with no findings on reporting on predetermined objectives or compliance with legislation; 15 (62%) received unqualified outcomes with findings on reporting on predetermined objectives and/or compliance with legislation while five (21%) stagnated on qualified outcomes.

Seventy-seven per cent (77%) or R50 billion of the provincial budget relates to Education, Health and Roads and Public Works, which were once again unable to report transparently on how they had used the money allocated to them. All these departments received qualified audit outcomes and had findings on the reliability of their reporting on actual performance contained in their annual performance reports. They also had numerous findings on non-compliance with legislation, including legislation applicable to supply chain management. These auditees were also responsible for incurring 84% of the irregular expenditure reported by the province.

There has been an improvement in the usefulness of the objectives, indicators and targets contained in the planning documents of the provincial departments and public entities. The one notable exception, however, is the Department of Education whose budget of R28,2 billion makes up 43% of the total budget allocated to the province.

Compliance with legislation remains a challenge, as 83% of auditees still had findings in this area. The most common compliance areas reported on included the failure to prevent unauthorised, irregular as well as fruitless and wasteful expenditure (63% of auditees), procurement and contract management (54% of auditees), and the

submission of financial statements for audit that contained material errors (50% of auditee). The leadership of the province should set an appropriate tone by dealing decisively with those responsible for non-compliance with legislation and supply chain management prescripts in particular.

Although the amount of irregular expenditure reported on by the province has declined from R2,45 billion in the previous year to R1,43 billion during the year under review, it remains high. The supply chain management transgressions account for 94% of the irregular expenditure reported on in the province. These transgressions need urgent leadership attention if this type of expenditure is to be eliminated.

The challenge remains for the province to build a public service characterised by transparent financial and performance reporting. This should be led by accounting officers with the support of all governance structures. The accounting officers must appreciate and lead with ethical and professional behaviour, showing zero tolerance towards deliberate internal control breaches and deviation from applicable legislation.

In response to the outcomes, the provincial role players have undertaken to implement processes that enforce accountability, enhance compliance with legislation and improve the quality and credibility of in-year reporting and monitoring. If enforced, this will create a foundation for the province to move forward. **End**

Free State's PFMA 2014-15 audit outcome highlights

The Free State provincial government consists of 13 departments (including the legislature) and eight public entities. The Free State Housing Fund and 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 Political Party Fund was also excluded from the analysis in this report, as they have not yet submitted their annual financial statements.

The total adjusted budgeted expenditure of the province was R28,546 billion in 2014-15. 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 - R17,359 billion
- Goods and services - R5,253 billion
- Transfer payments - R3,897 billion
- Capital expenditure - R2,037 billion.

Overall there has been a year-on-year improvement in the audit outcomes over the past three years with six auditees (32%) attaining clean audit outcomes. Two departments, namely the department of the Premier and Public Works and Infrastructure, improved to a clean audit opinion, while Education improved to an unqualified

audit opinion with findings. The progress made at these auditees was due to leadership's commitment and dedication to address prior year audit findings.

The provincial treasury, the department of Sports, Arts, Culture and Recreation, provincial legislature as well as the Fleet Management Trading Entity managed to retain their clean audit opinions.

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

It is commendable that no audit outcomes had regressed in the current year.

The majority of auditees managed to obtain unqualified audit opinions with findings. Although this is the audit outcome where most auditees stagnate, there was a visible improvement in their key control environment.

The overall improvement in the key control environment of the province can be attributed to the increase in the assurance provided by leadership, senior management, internal audit and audit committees.

Eight auditees (44%) submitted financial statements that did not require material adjustments to avoid qualification.

Although compliance with laws and regulations had improved, it was still evident at 67% of auditees. There was an improvement in the number of auditees with no material supply chain management findings.

The province made slow progress in the area of reporting on predetermined objectives to ensure transparent reporting on the status of their service delivery objectives. Although 50% of auditees had no findings on performance information, the quality of submitted annual performance reports regressed as material adjustments had to be made to the annual performance reports of 25% of auditees to avoid findings.

Irregular expenditure has decreased by 30% since the previous year, but remained high at R1,569 billion which was incurred by 14 auditees (78%). The major contributors responsible for 99% of the irregular expenditure were the departments of Health, Human Settlements and Education. Adequate steps were not taken to implement consequences for poor performance and transgressions at these departments. Six auditees disclosed that they still had to review the procurement process undertaken to determine the possibility or full extent of irregular expenditure, which could result in a significant increase in irregular expenditure in the coming year.

Unauthorised expenditure has increased by 28% since the previous year. Unauthorised expenditure of R601 million incurred by three departments (23%) in 2014-15 was due to overspending of the budget. Education was responsible for 98% of the unauthorised expenditure. Unauthorised expenditure would have been higher if accruals older than 30 days of R1,1 billion had been settled before year-end.

The financial health of the province has deteriorated since the previous year as serious concerns relating to financial sustainability were raised at 10 auditees (56%). The 28% increase in unauthorised expenditure, mainly incurred by the department of Education, puts further pressure on the severe cash flow constraints experienced by the province. If the current situation is not addressed, this will have a significant impact on service delivery in future. **End**

Gauteng's PFMA 2014-15 audit outcome highlights

The Gauteng provincial government (GPG) consists of 16 departments, including the Office of the Premier, provincial legislature and the provincial revenue fund, and 20 entities. The general report excludes the information of the Gauteng Enterprise Propeller (GEP) and provincial revenue fund, as these audits had not been completed by 14 August 2015, which is the cut-off date we had set for the inclusion of audit outcomes in this report.

The GPG has sustained the good overall audit outcomes of the previous year in 2014-15, with 19 auditees (54%) (2013-14: 19 [54%]) attaining clean audit outcomes. It is encouraging to see that 16 auditees (46%) had sustained their clean audit status of the previous year, while the Gauteng departments of Economic Development and Finance, as well as the Gauteng Gambling Board, progressed to clean audit outcomes.

Similar to the previous year, 13 auditees (37%) received financially unqualified audit opinions with findings on their performance information, compliance with legislation or both of these aspects. Human Settlements had dealt with the prior year qualification areas and received a financially unqualified opinion with findings.

Strict cost containment and budget monitoring activities at departments contributed to zero unauthorised expenditure in the year under review.

The above good audit outcomes and improvements were as a result of the premier, MEC for Finance and the provincial legislature's continued commitment to achieving clean administration and their insistence on a culture of accountability, ethical conduct and sound financial management practices. Furthermore, stability at accounting officer and senior management levels resulted in some improvement in the implementation and monitoring of action plans to address recurring findings and maintain good practices. This was complemented by the role played by the various assurance providers and oversight structures, including audit committees and coordinating departments such as the Gauteng Provincial Treasury.

The Gauteng department of Sports, Arts, Culture and Recreation, Gauteng Funding Agency and Gauteng Growth and Development Agency regressed from a clean audit outcome to a financially unqualified audit opinion with findings. These auditees failed to institutionalise an internal control environment that was mature and responsive enough to promptly prevent and detect internal control breaches.

g-Fleet Management Trading Entity further regressed from an adverse opinion in the previous year to a disclaimed opinion in the year under review. This was mainly due to the administrative leadership not accepting accountability and not acting with the urgency and due care required to ensure that the previous year's internal and external audit findings were adequately addressed.

Health was again qualified on accrued departmental revenue (receivables) due to material weaknesses identified in the receivable management system.

Non-compliance with key legislation continued to prevent 43% of auditees from attaining clean audit outcomes. Supply chain management transgressions and irregular expenditure remained high. The amount of reported irregular expenditure remained at R5,6 billion. Senior management, political leadership and oversight structures should continue to pay close attention to the prevalence of irregular expenditure and supply chain management transgression. Furthermore, it is critical that oversight structures investigate instances of non-compliance and/or irregular expenditure, take appropriate corrective steps, and implement consequence management.

There has been a regression in the quality of performance information as auditees continued to rely on the auditing process to detect and correct misstatements. Accounting officers and accounting authorities should hold heads of monitoring and evaluation units accountable for not having sound processes in place to ensure that performance information is supported by sufficient and credible evidence.

There was a slight regression in the status of the financial health of some auditees. The impacted auditees were unable to adequately manage their debtors, collect monies due to them and manage their spending against the budgets, which in turn put pressure on their ability to pay their creditors and liabilities. Lawsuits and legal claims contributed R407 million to the total R418 million in fruitless and wasteful expenditure incurred in the current year.

It is important that the administrative and political leadership continue meeting their commitments to ensure that all auditees attain clean audit outcomes.

On 16 October 2015, the premier and the MEC for Finance met with all the MECs and leadership of the departments and entities that had not achieved clean audit outcomes and those that had regressed. "We are encouraged by the premier, Gauteng Provincial Treasury and the MEC's consistent efforts in achieving accountability and effective oversight in the province through implementing and operationalising initiatives that will bring to light the desired impact."

Status of financial and performance reporting: The quality of financial statements submitted for auditing improved slightly when compared to the previous year. Seventeen auditees (50%) submitted financial statements that contained material misstatements compared to 21 auditees (66%) in the previous year. Findings on the usefulness and reliability on reporting against predetermined objectives remained stagnant at 32% of auditees compared to 36% in the previous year. The three largest service delivery departments in the province, namely Education, Health and Transport, which manage 82% of the provincial budget, had material findings on predetermined objectives.

Status of compliance: There has been a slight improvement of 5% compared to the previous year's 19% where no material findings were reported on compliance with legislation. Compliance findings relating to procurement and human resource management declined, while compliance findings on the prevention of unauthorised, irregular and fruitless and wasteful expenditure have remained stagnant since the previous year.

Irregular expenditure decreased significantly by 60%, from R4,3 billion in the previous year to R1,7 billion in current year. Education contributed largely to the decline as its irregular expenditure dropped from R2 680 million in 2013-14 to R448 million in 2014-15. This was due to the dedication of leadership and management to improve supply chain management controls as well interventions by the provincial treasury to reduce the excessive irregular expenditure pertaining to the nutrition school programme conditional grant. Health, Education and Arts and Culture contributed 87% (R1,474 billion) to this expenditure. The irregular expenditure incurred in the province was caused mainly by non-compliance with supply chain management requirements. R600 million (35%) of the R1,7 billion in irregular expenditure incurred was audited and it was confirmed that goods were received for 100% of the irregular expenditure audited, despite the normal processes governing procurement not having been followed.

Unauthorised expenditure of R143 million incurred in 2014-15 was due to overspending the budget. There was a significant decline of 79% in unauthorised expenditure in the current year when compared to the previous year's amount of R685 million. Health was responsible for 90% of this expenditure.

Key controls and assurance: The analysis of key controls indicates that leadership controls had improved and financial and performance management controls had been maintained, while governance deteriorated compared to the previous year. Leadership controls improved due to the improved level of assurance provided by political and administrative leadership, as commitments were honoured and action plans were taken seriously in many instances. Financial and performance management controls were stagnant as daily and monthly processes and record keeping remained deficient. Governance controls deteriorated due to the provincial audit committee being appointed late in the financial year. Therefore, they were unable to provide the expected assurance and

affirmation that controls and risks were acceptably managed throughout the year and that the shared internal audit function had effectively discharged its mandate. The assurance provided by portfolio and public accounts committees also improved. These committees are gaining momentum in the province with a better understanding of the audit process and the importance of oversight.

Our analysis indicated that the political and administrative leadership has the will and zest to improve the provincial landscape by promoting accountability and good governance, and by holding officials in positions of stewardship to account. With this being said, the province is destined to realise better audit outcomes in the year ahead. **End**

Limpopo's PFMA 2014-15 audit outcome highlights

Provincial government consists of the legislature, 12 departments and 10 public entities. Of the 23 auditees, only one (Gateway Airports Authority Limited (GAAL)) did not submit their annual financial statements for the 2014-15 financial year within the legislated time frame.

The province has made progress in improving its audit outcomes over the last five years and has recorded an improvement at seven auditees, while the department of Cooperative Governance, Human Settlements and Traditional Affairs regressed. The quality of the submitted annual financial is still a cause of concern as only two auditees submitted financial statements which were free of material misstatements.

One auditee (the Office of the Premier) achieved a clean audit outcome, while 14 received financially unqualified audit opinions with findings on their performance information and/or compliance with key legislation. The department of Education received a disclaimer for the fourth consecutive year.

There has been some improvement in the area of consequence management where the provincial leadership took action against poor performance, which led to officials bearing consequences for poor performance and transgressions. Auditees focus on addressing qualification matters in the financial statements without making the same effort in the case of findings on performance reporting and compliance with legislation. Until such time as the same amount of attention is given to all three areas, the move towards more clean audits will be slow.

There was a notable reduction in reported irregular as well as fruitless and wasteful expenditure of 41% and 34%, respectively. However, irregular expenditure is still higher than the reported amount in the 2012-13 financial year.

The intervention in the province as per section 100(1)(b) of the Constitution was lifted in January 2015. The administration team had laid the foundation for addressing some of the historical challenges on assets and expenditure management that plagued the province in the recent past.

The accounting officers or authorities need to ensure that in-year monitoring processes over financial and performance reporting are improved and maintained for the audit outcomes to improve.

The provincial treasury and the Office of the Premier play a critical role in the drive towards clean administration and must work together to strengthen financial management practices in the province.

The public accounts committee and the portfolio committees should enhance their oversight role as this will ensure that root causes of poor audit outcomes are addressed by management and that decisive actions are taken against poor performance and transgressions. **End**

Mpumalanga PFMA 2014-15 audit outcome highlights

The provincial government consists of 12 departments, the legislature and four public entities. All 17 auditees submitted their financial statements for the 2014-15 financial years for auditing within the legislated time lines.

The total budgeted expenditure for the departments and the legislature in the province was R37 billion in the 2014-15 financial year. The budget figure only includes voted departmental funds (in other words, public entities are not included). The following were the main areas of expenditure:

- Employees costs –R22 billion
- Goods and services – R7 billion
- Capital expenditure- R3 billion
- Transfer payments – R5 billion.

Overall, there has been a regression in the audit outcomes. Although two auditees have improved their audit outcomes since the previous year, the regression at four other auditees had a negative impact on the overall audit outcomes of the province.

The department of Finance, Mpumalanga Gambling board and Cooperative Governance and Traditional Affairs managed to retain clean audit opinions. The provincial legislature reclaimed its clean audit status from an unqualified audit opinion with findings, while Social Development and Mpumalanga Regional Training Trust regressed from a clean audit to an unqualified and qualified audit opinion, respectively. Education and Mpumalanga Tourism and Parks Agency also regressed from an unqualified audit opinion with findings to a qualified audit opinion.

Human Settlements, Culture, Sports and Recreations, Economic Development and Tourism the Office of the Premier and Public Works, Roads and Transport remained unqualified with findings either on predetermined

objectives or on compliance with legislation, while Health, Mpumalanga Economic Growth Agency and Community Safety, Security and Liaison remained unchanged with a qualified audit opinion.

The introduction of the fifth administration brought about changes in the political leadership as more than 60% of the MECs were new. There were also changes in the administrative leadership due to resignations and the expiry of employment contracts of heads of departments (HoDs) during the year. All of this contributed to the delay in the implementation of our recommendations and those of other role players aimed at addressing weaknesses in the internal control environment that had resulted in poor audit outcomes.

Only seven auditees (41%) submitted financial statements that did not require material adjustments to avoid qualification.

Of concern is that over the three years since 2012-13, non-compliance with key legislation has remained high, with 13 auditees (76%) reported as having material findings on compliance with key legislation in the 2014-15 year.

Irregular expenditure of R2,339 billion was incurred by 12 auditees (71%) for the period under review, with the Health and Education being responsible for 89% of this expenditure. The significant irregular expenditure incurred in the province was largely due to failure by the auditees to follow a competitive bidding or quotation process when procuring goods and services.

The irregular expenditure incurred in the province was also attributed to the establishment of the Rapid Implementation Unit (RIU) in the Office of the Premier. The executive in the province took a decision to establish this unit to clear the bottleneck in the completion of service delivery projects. None of the projects procured through RIU had followed all the SCM prescripts, and this led to irregular expenditure of R300 million being incurred by the user departments

The financial health of the province has deteriorated since the previous year. Four auditees had a cash shortfall of more than 10% of next year's appropriation (budget), two of which are service delivery departments (Education and Health) which account for 68% of the provincial budget. These departments may not be able to meet their service delivery targets for the next year (2015-16) because of these cash shortfalls. Two auditees were in an overdraft position, namely the department of Public works, Roads and Transport and, for the first time, the Social Development. The identified shortfall is an indication of serious cash flow management challenges at these departments which need serious intervention by the administration and political leadership.

In order for the provincial government to improve the audit outcomes, administrative and political leaders need to strengthen their relationship and ensure better collaboration. We further believe that should the

administrative and political leadership begin to implement the recommendations of the different assurance providers and apply consequences for transgressions, there would be an improvement in the outcomes. **End**

Northern Cape's PFMA 2014-15 audit outcomes highlights

The provincial government consists of 13 departments (including the legislature), six listed public entities and one trading entity. The audit outcomes of the four unlisted entities (Northern Cape Housing Fund, Ngwao Boswa Kapa Bokone, Northern Cape Arts and Culture Council and Northern Cape Political Party Fund) audited by us are excluded from this report as they are considered too insignificant for inclusion. The revenue fund is also excluded as the audit only commenced after the audit outcomes of the departments were finalised.

The Fleet Management Trading Entity submitted their financial statements on time, but the execution of the audit was delayed due to a revaluing process that involved the use of a management expert. The revaluation process was initiated after year-end and resulted in the auditors accepting an updated asset register. The audit team could not audit all the adjustments in time and was unable to conclude their audit by the legislated deadline. The audit outcomes of this auditee were therefore also excluded from this report.

The total adjusted budgeted expenditure of the province was R13 390 million in 2014-15. 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 – R7 267 million
- Goods and services – R3 246 million
- Capital expenditure – R1 411 million
- Transfer payments – R1 464 million.

The regression in the overall audit outcomes of the year under review follows two years of improvements. The six regressions include two departments (provincial treasury and Economic Development and Tourism) that received clean audit opinions in the previous year, but were not able to maintain this status due to a regression in their compliance with legislation. The management of the four auditees that had regressed to a qualified audit opinion was not able to respond to concerns that in most instances were highlighted as risk factors during the previous audit (the departments of Agriculture, Land Reform and Rural Development; Cooperative Governance, Human Settlements and Traditional Affairs (CoGHSTA); Transport, Safety and Liaison; and the McGregor Museum).

Six auditees remained unchanged with an unqualified audit opinion and four auditees with a qualified opinion. Education was able to improve from a qualified opinion to an unqualified opinion with findings.

The fact that three auditees (the departments of Environment and Nature Conservation and Social Development; and the Northern Cape Tourism Authority) received a clean audit opinion for the past two consecutive years indicates that a culture of proper internal control and compliance with prescripts and legislation was instilled at these auditees. This can be attributed to leadership identifying and responding to risk in a proactive way.

Only seven auditees (37%) submitted financial statements that did not require material adjustments to avoid a qualification.

Audit reports of 16 auditees (84%) contain significant compliance findings. This is a cause for concern and capacity needs to be built within departments and public entities to ensure compliance with legislation.

Irregular expenditure of R1 472 million was incurred by 14 auditees (84%) for the 2014-15 financial year, with the major contributors responsible for R1 191 million (81%) of this expenditure being the departments of Health, Education and CoGHSTA. The significant irregular expenditure incurred in the province was caused mainly by non-compliance with supply chain management regulations.

Unauthorised expenditure of R97 million incurred in 2014-15 was due to overspending the budget. Although only three departments incurred this unauthorised expenditure, the amount increased by R19 million since 2013-14. Health was responsible for R91 million (94%) of this expenditure.

A strong tone and a committed leadership are required from the executive to deal decisively with the following:

- The quality of financial statements submitted by 63% of auditees contained material misstatements
- The big-spending departments (Education, Health, Public Works and CoGHSTA) are unable to produce quality performance reports
- Eighty-four percent (84%) of auditees have significant compliance findings requiring urgent intervention. focusing in particular on SCM-related non-compliance
- A proper performance contracting and performance management structure must be put in place to improve the audit outcomes
- Previous commitments were either not implemented or are at various levels of progress – leadership needs to keep a commitment register for implementation and tracking purposes

- The shared internal audit unit and audit committee should be capacitated to extend their services to the public entities. **End**

North West's 2014-15 audit outcome highlights

The provincial government consists of 13 departments (including the provincial legislature) and 20 public entities. The number of public entities has decreased from 22 to 20 since the previous year due to Invest North West and Mafikeng Industrial Development Zone closing down and both merging with the North West Development Corporation. The mandates of most departments were also reconfigured, with the departments of Local Government and Human Settlements merging and one department, namely Tourism, being newly formed.

The audit outcomes of five public entities are not included in this report, because they had not submitted financial statements on time and their audits were not finalised at the cut-off date for inclusion in the general report, which was 14 August 2015. One of these – Agribank Creditors Settlement Trust – subsequently obtained an unqualified audit opinion without findings. The high number of outstanding audits may potentially affect the total outcomes of the province once these audits are finalised.

Overall, the audit outcomes reflect a slight improvement when compared to the previous two years, with close to 50% of the auditees receiving modified opinions or having financial statements outstanding at the date of this report. The department of Finance maintained its status as the only clean audit in the province.

Two auditees improved from qualified to unqualified with findings, while one improved from a disclaimer to qualified. One department regressed to qualified and one entity from qualified to a disclaimer.

The quality of submitted financial statement remains poor, with only four auditees that would have received a financially unqualified opinion had misstatements identified during the audit not been corrected. Findings on reporting against predetermined objectives remain unchanged since the previous year, with 77% of auditees having findings on the usefulness and/or reliability, including 19% that did not prepare annual performance reports at all. The auditees with no findings on their predetermined objectives only managed R3 billion of the provincial budget of R34 billion (9%). The four largest service delivery departments in the province, namely Education and Sports Development, Health, Public Works and Roads, and Local Government and Human Settlements, which manage 76% of the provincial budget, had material findings on predetermined objectives.

A high prevalence of non-compliance with supply chain management legislation led to irregular expenditure increasing to R2,1 billion from R1,2 billion last year. The risk drivers linked to irregular expenditure are heightened in environments with weak controls and may result in financial loss through fraudulent activities, lack of accountability for how public resources are managed and goods and services being procured at higher prices than

the value received by auditees. The increase in irregular expenditure is due to the lack of investigations into irregular expenditure incurred as well as lack of consequences for officials who transgress supply chain management prescripts and regulations.

Failure to implement basic key controls throughout the year remains a concern. This includes inadequate record management, lack of daily and monthly processes that guides generation of financial and performance reporting and related reconciliation controls, and poor in-year monitoring of compliance with laws and regulations.

To improve the audit outcomes senior management at the auditees, provincial leadership and oversight structures should take our messages seriously and implement the recommendations made in the past and once again emphasised. These include the following:

- Appointment of competent and experienced staff in key vacant positions.
- Urgent attention given to the appointment of board of directors at all public entities and ensuring stability within these boards.
- The audit committees, with internal audit, should assist the accounting officers to address internal control deficiencies and ensure that internal and external audit recommendations are implemented.
- Establishment of audit committees and internal audit functions at all public entities.
- The executive authorities should continue to be actively involved, specifically with the monitoring of audit actions plans to address prior year findings.
- The provincial public accounts committee and the provincial legislature should hold accounting officers who continue to underperform and contravene laws and regulations accountable for their actions. This specifically includes investigation of previous years' unauthorised, irregular as well as fruitless and wasteful expenditure and taking the necessary disciplinary steps against transgressors.

The leadership of the AGSA remains committed to monitoring the continuous assessment of the functioning of the key controls to build public confidence in the province's ability to account for public resources in a transparent manner. **End**

Western Cape PFMA 2014-15 audit outcome highlights

The provincial government consists of 14 departments (including the provincial parliament) and 11 public entities. The number of public entities has increased from 10 to 11 since the previous year, due to the establishment of the Saldanha Bay Industrial Development Zone.

The total adjusted budgeted expenditure of the province was R49 billion in 2014-15. The budgeted figure only includes voted departmental funds (in other words, public entities are not included). The following were the main areas of expenditure:

- Employee cost: R26 billion
- Goods and services: R10 billion
- Capital expenditure: R5 billion
- Transfer payments: R8 billion.

The positive trend towards clean administration in the province, which started gaining momentum in 2012, continued through to 2015 with 20 (83%) of the 24 auditees (2013-14: 18 of 23 ([78%]) in the province achieving clean audit outcomes.

Two departments and one entity improved to clean audit outcomes; 10 departments and seven entities maintained a clean audit outcome, and the one newly formed entity attained a clean audit outcome. Two auditees (9%) received a financially unqualified opinion with findings, while one auditee (4%) regressed from a financially unqualified opinion with findings to a qualified opinion.

At the cut-off date for inclusion of audit outcomes in the general report, the audit of the Department of Transport and Public Works had not been finalised. The audit has since been completed, with the department maintaining a clean audit status. Had the audit outcome of this auditee been included in our analysis of the audit outcomes, the auditees with clean audit outcomes would have increased to 87%.

The continued improvement in audit outcomes is as a result of the continuing commitment by the executives to the corporate governance and review outlook (CGRO) process as well as the proactive approach followed by accounting officers, accounting authorities and senior management in driving action plans to instil a culture of good financial management and governance. The accounting officers and authorities adhered to good human resource management practices, which ensured stability at senior management level and the availability of adequately and sufficiently skilled resources, specifically within finance units, while the performance of officials was regularly monitored.

The Western Cape Housing Development Fund regressed to a qualified opinion due to errors in the financial information on assets. The leadership should embark on a clean-up process of the asset register to ensure that all properties included in the register belong to the entity. They should also confirm the categories and sizes of the properties to enable the accurate valuation thereof.

Two auditees (9%) submitted financial statements that required material adjustments to avoid a qualification, and four auditees (19%) submitted annual performance reports that required material adjustment to avoid material findings. The improvement in the audit outcomes since the prior year is due to the implementation of improved reviewing and reconciling controls before information is reported and submitted for auditing. Even though there has been an overall improvement in the quality of the submitted annual performance reports, there is a need to institutionalise internal controls through guidance and standard operating procedures across all performance information areas, in particular when new indicators are introduced.

Budgetary control and the monitoring of monthly reports by the provincial treasury contributed to the province not incurring any unauthorised expenditure for the third consecutive year.

Irregular expenditure decreased by 52% when compared to the previous year due to senior management taking accountability to monitor compliance with legislation, in particular in relation to procurement processes. This expenditure does not necessarily mean that money was wasted or that fraud was committed, based on the fact that we have not done specific work to ascertain this. However, the essence of the matters giving rise to irregular expenditure still requires the leadership to investigate these matters further to determine the underlying causes of transgressions to enable appropriate steps to be taken to prevent a recurrence and to hold accountable those who may be systematically circumventing controls. In the financial year under review, irregular expenditure amounted to R79 million, of which R57 million (72%) related to non-compliance with legislation aimed at ensuring that procurement processes are competitive and fair. Through our normal audits we determined, however, that goods and services had been received.

The continued commitment by the provincial executive leadership to ensure the sustainability and further improvement of audit outcomes is crucial in sustaining the good audit outcomes through the institutionalisation of budgetary control, monitoring of monthly reports as well as enforcement of financial and performance management principles, including compliance with legislation. This is done through the CGRO process and the ongoing coordination of this process by the department of the Premier and the provincial treasury.

End