



25 November 2015

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**