

FOREWORD



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Auditor-General

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Auditor-General

It is my pleasure to present to Parliament the *2014-15 Consolidated general report*. My consolidated general report communicates the audit outcomes of national and provincial government departments, and public entities, referred to as auditees. The report covers a total of 468 auditees; this includes 167 national and provincial departments with a total budget of R1 111 billion, and 301 public entities.

In my previous consolidated general report for the 2013-14 audit outcomes, I highlighted the following positive movements in the three areas that I audit annually:

- Unqualified audit opinions on financial statements increased slightly from 338 to 357.
- The quality of annual performance reports improved, from 236 to 256 auditees with no findings.
- Non-compliance with legislation decreased slightly, but remained high at 72%.
- Auditees that attained clean audit opinions improved from 96 (22%) in 2012-13 to 119 (25%) in 2013-14.

Twenty-one audits (4%) were not completed by the date of the 2013-14 consolidated general report. The reports of 14 of these audits were subsequently finalised and their outcomes are included in this consolidated general report.

In 2013-14 I also reported that while there were improvements in the overall outcomes, there were still areas of great concern. Among these were key concerns regarding auditees' abilities to sustain clean audit outcomes; poor audit outcomes in the education, health and public works sectors as only one department in these key sectors attained clean audit outcomes; the inability to correct material misstatements in financial statements and performance reports was widespread, which was an indication that financial disciplines were not yet entrenched; and the non-compliance in supply chain management caused the high irregular expenditure of R62 730 million reported by auditees for the year ended 31 March 2014.

To address the concerns highlighted above, leadership was advised to address the root causes of poor audit outcomes by taking the following key actions:

- **Get the basics right** by filling vacancies with competent officials, responding to outcomes through action plans and well-coordinated initiatives, implementing basic controls and insisting on regular and credible reports.
- **Observe compliance with legislation** by enforcing and monitoring compliance, including it in daily disciplines and demonstrating ethical leadership.
- **Hold people accountable.**
- **Encourage and support proactive audit committees and internal audit functions.**

In this consolidated general report, I again observe that management at 73% of auditees have been slow to respond to the recommendations aimed at assisting them to improve key controls and addressing risk areas.

This contributed to audit outcomes for 2014-15 improving only slightly since 2013-14. The audit outcomes for each category of outcomes were as follows:

- The number of auditees that received a financially unqualified audit opinion with no findings (clean audit) improved slightly from 118 (26%) in 2013-14 to 131 (28%) in 2014-15.
- The number of auditees with financially unqualified audit opinions with findings declined by 2% from 237 (50%) in the previous year to 224 (48%) in 2014-15.
- The number of auditees with qualified audit opinions declined to 68 (14%) from the 74 (16%) reported last year.
- The number of auditees with adverse audit opinions remained the same (three) in both years.
- The number of auditees with disclaimed audit opinions declined from 22 (5%) last year to 14 (3%).
- Twenty-eight audit reports (6%) had not been finalised by the cut-off date of 14 August 2015 that I had set for the inclusion of audit outcomes in this consolidated general report.

Other significant audit observations

In addition to the overall audit outcomes, I would like to highlight the following audit observations that require attention from the coordinating/monitoring departments, executive authorities and oversight bodies:

- The education, health and public works sectors still have the worst outcomes; however, there has been some improvement as the number of auditees in this sector with clean audit opinions increased from one in 2013-14 to two in 2014-15. The Limpopo Department of Education needs particular attention as it has retained its disclaimed audit

opinion. My message from the previous consolidated general report is still relevant: there should be 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 human resource management, including enhancing personal accountability and consequence management.

- With the exception of Gauteng and the Western Cape, the pace of auditees attaining or maintaining clean audit opinions has slowed or regressed across the provinces. While outcomes remain stagnant in the other five provinces, the overall outcomes for both the Northern Cape and Mpumalanga have regressed since 2013-14.
- The quality of financial statements submitted for auditing improved from 43% that did not contain material misstatements in 2013-14, to 51% (224) in 2014-15. However, the unqualified opinions on financial statements remained at 76%.
- In spite of the slight improvement of 4% since the previous year, the number of auditees that were unable to submit quality annual performance reports remains high at 54%.
- There was a slight improvement from 27% of auditees that had no material findings on compliance with key legislation in 2013-14, to 30% in 2014-15. Of the 300 auditees that had material findings on compliance, 230 (77%) had material findings that could cause a negative financial impact or loss to the auditee or government.
- Instability or vacancies in key positions remained the second highest root cause (46% of auditees). Forty-two per cent of auditees had inadequate consequences for poor performance and transgressions as causes of the poor internal control environment. As reported in detail in section 5 of this consolidated general report (the resource management section), the status of human resource management remained poor at most provinces. Notable exceptions were Gauteng and the Western Cape, where 56% and 100% of the auditees respectively had good human resource controls. On the other hand, auditees in the Northern

Cape and North West had only 16% and 25% of human resource management controls respectively. Vacancies in the key positions of head of supply chain management and chief financial officer in particular, remained high.

- The legislatures' audit outcomes in 2014-15 were positive, with six of the ten legislatures receiving clean audit opinions. However, the Financial Management of Parliament and Legislatures Act was effective from 1 April 2015 and introduced a number of key requirements applicable to legislatures. The legislatures have to implement processes to ensure that they adhere to all the requirements of the new act to avoid their audit outcomes regressing from 2015-16 onwards.

Weaknesses in supply chain management as a cause of irregular expenditure

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There were some improvements in supply chain management, but the findings remained high. Only 43% of auditees (compared to 39% in 2013-14) had no findings on supply chain management compliance. The key source of these findings continued to be auditees not following competitive or fair procurement processes, as observed at 31% of the auditees that had material findings in this area. This largely contributed to the irregular expenditure of R25,7 billion for 2014-15. This expenditure does not necessarily mean that money was wasted or fraud committed, but is an indicator that legislation is not followed, including the legislation aimed at ensuring that procurement processes are competitive, transparent and fair. I did not investigate the irregular expenditure, as this is the role of the accounting officers and oversight bodies.

However, through my normal audits I observed that goods and services were received for almost 86% of the R23,9 billion in irregular expenditure relating to supply chain management non-compliance, despite the normal processes governing procurement not being followed. Two per cent of the expenditure could not be audited due to the lack of documentation, while 12% was not audited.

Outcomes of the audits of the key service delivery sectors

In this consolidated general report I have included the outcomes of my 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. This clearly demonstrates where the bulk of priority oversight work should be directed. If all the instruments of delivery and oversight in this area can be given much needed additional focus, it will produce the greatest impact.

In this consolidated general report, I highlight the necessity for appropriate policies and procedures to ensure efficient and effective service delivery, and the importance of sound and functional monitoring and evaluation systems to ensure relevant and continuous service delivery of good quality.

Key internal control recommendations

We categorise the different causes of internal control as leadership, financial and performance management, or governance to make it easier for auditees to implement corrective action. I encourage the leadership to strengthen the controls under each cause of internal controls as follows:

Leadership

The role of the accounting officer according to section 38 of the Public Finance Management Act includes:

- having effective systems of financial and risk management and internal controls
- taking effective and appropriate disciplinary steps
- managing working capital
- enforcing compliance.

In pursuing these requirements of the Public Finance Management Act, leadership needs to pay particular attention to effective governance structures and committee charters, stable leadership, adequate oversight of financial, compliance and performance reporting, adequate oversight of cash flow forecasts, an effective organisational structure, an effective and appropriate human resource training plan, an up-to-date policy register, action plans that are tracked and time frames that are met, a comprehensive and appropriate information technology strategy and accountability for non-performance.

Financial and performance management

The accounting officer should ensure that management provides these functions to support his role in addressing financial and administrative controls:

- proper record keeping
- entrench internal control disciplines
- processes to monitor compliance
- effective financial systems and an appropriately capacitated finance function.

Governance

Internal audit, audit committees and monitoring institutions should ensure that:

- adequate oversight is administered
- risk management is effective
- role of internal audit is elevated.

Combined assurance approach to oversight

In addition to the role senior management, accounting officers/authorities, internal audit and audit committees are required to play in strengthening the control environment of auditees, the following role players also need to:

- **Executive authority** – monitor the progress of performance and enforce accountability and consequences
- **The National Treasury/Department of Public Service and Administration** – monitor compliance with legislation and enforce appropriate action
- **Oversight bodies (portfolio committees)** – review and monitor quarterly progress on the implementation of action plans to address deficiencies
- **Public accounts committee** – exercise specific and regular oversight any report which it may deem necessary
- **National Assembly** – provide independent oversight on the reliability, accuracy and credibility of national and provincial government.

Commitments from key stakeholders

During my engagements with the key stakeholders during my roadshows in October and early November this year the following commitments were made to improve financial oversight:

- **Minister of Finance:** Will enhance monitoring and oversight mechanisms used by the National Treasury to ensure a value-adding impact on audit outcomes throughout the public sector.
- **Minister of Public Service and Administration:** Will create capacity and systems to consolidate, monitor and analyse government's audit outcomes to identify and address weaknesses in current legislation, regulations and guidance.
- **The speaker's forum** identified that the resolutions taken by various portfolios and public accounts committees were a critical element of oversight. Each legislature and parliament should enhance the tracking of these resolutions.
- The **committee of chairpersons** will enhance the combined assurance approach to oversight and the ministers will be required to assist in tracking resolutions that are not followed up.

Although I have always emphasised the role of leadership in strengthening the controls at departments and public entities, most of the large number of areas requiring attention can be fixed if leadership (political and administrative) takes firm steps to correct control deficiencies. I am 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.

My office remains committed to working with the leadership and management of auditees to further improve governance and accountability, so as to build public confidence in the government's ability to account for public resources in a transparent manner.

I wish to thank the audit teams from my office, and the audit firms that assisted in auditing national and provincial government, for their diligent efforts towards fulfilling our constitutional mandate of strengthening our democracy through auditing.



**Auditor-General
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