



Auditing to build public confidence

MEDIA RELEASE

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Auditor-General calls on Eastern Cape provincial leadership to take full ownership of the internal control environment as the province's audit outcomes stagnate

BHISHO – The Eastern Cape government should without delay implement and rigorously enforce action plans to arrest the tide which is currently sweeping the province further away from the goal of achieving clean administration by 2014.

These action plans, Auditor-General (AG) Terence Nombembe says, should include addressing leadership stability, ensuring adequate and vigorous monitoring of internal controls, proper resourcing and the production of monthly information that is credible.

In addition, it is important that all members of the executive council (MECs) and heads of departments (HoDs) align and streamline their working relationships to ensure effective leadership.

Nombembe says that his office was encouraged by Premier Noxolo Kieviet's recent mention during her State of the Province Address that the province was committed to achieving clean administration.

"My office is aware of some of the provincial government's efforts towards removing administrative/governance impediments that are standing between the Eastern Cape and overall clean administration, but we had hoped the Premier would use her 2013 address to articulate the internal control measures already put in place to eliminate the above obstacles, and rally public servants to improve governance systems in line with the audit recommendations the provincial leadership has committed to implementing," said Nombembe.

Overall audit outcomes for 2011-12

As the government's *Clean Audit 2014* deadline approaches, the Eastern Cape, as highlighted by the AGSA's latest (2011-12) audit results, has recorded a marginal regression in progress towards the desired position of clean audits required by government in less than two years. Of particular concern is the lack of movement by the two biggest departments in the province, namely Health and Education, indicating that the custodians of more than 70% of the provincial budget have received a disclaimer or qualified opinion.

Among notable audit concerns raised in the AGSA's general report on audit outcomes for the financial year ended 31 March 2012 is that the province has made little progress in human resource management and improving the status of its internal controls.

This, in turn, has resulted in minimal improvement being reported in the areas of supply chain management and the manner in which the provincial government reports its service delivery information.

Adjustment of financial statements still a concern

A lack of financial discipline, insufficient in-year financial monitoring and reporting and overreliance on the audit process to address management shortcomings resulted in most of the annual financial statements requiring material and pervasive adjustments. In effect 81% of the audit outcomes of the province would have been either qualified or disclaimed had the auditors not allowed year-end adjustments to be made to the financial statements during the audit process.

Examples of clean administration and enthusiastic leadership achieve sustainable positive results

The Provincial Revenue Fund is the only auditee that maintained a clean audit for the 2011-12 financial year, which makes it the province's only representative of clean administration.

The Department of Social Development stands out as a single example of how enthusiastic leadership can effect a move towards clean administration. Although the department did not move in terms of its audit opinion (unqualified with findings), it made significant strides in reducing non-compliance by almost 70% and had no material adjustments to its financial statements.

Leadership must take ownership and internalise the drive towards clean administration

At the heart of the province's regression in audit outcomes is a clear pattern of slow responses to the audit messages and concerns highlighted by the auditors in the previous year.

In the past few years, AGSA officials have held regular meetings with the Eastern Cape government leaders to highlight matters hampering the province's efforts towards clean administration. Nombembe says despite these focused efforts to help move the province towards clean administration, "it appears that this message has not been taken to heart and that the province once again finds itself with unchanged audit outcomes.

"It's a great concern that although my office had intensified its interactions by meeting with the (provincial) executive at least four times a year, the investment did not yield the required results. Although pockets of tangible impact are evident, progress has been hampered by a lack of commitment to change and the matters dealt with during the interactions not being viewed seriously.

"In addition, the commitments received from the legislature, provincial executive and provincial treasury relating to the previous year's audit results were generally not

implemented or were implemented too late to have an impact on the 2011-12 outcomes. Unfortunately, this creates the impression that the province does not 'walk the talk' when it comes to implementing the commitments required to address its audit outcomes and that the status quo has been accepted as the norm for the province," says Nombembe.

He says for the province to attain a clean and accountable government, the leadership and executive need to take full ownership of the internal control environment of the provincial administration. This can only happen when both the leadership and executive insist on daily disciplines that ensure excellence in financial management, service delivery execution as well as compliance with laws and regulations, thus setting a tone of credibility for all reports of the administration. This also implies a serious investment in appointing skilled staff and implementing performance management systems, with clear and decisive consequences for non-performance.

Oversight structures need to monitor implementation of internal control systems

The 2010-11 Eastern Cape general report on the PFMA outcomes highlighted that the effectiveness of the Standing Committee on Public Accounts (SCOPA) was hampered by the lack of timeliness of the hearings and the subsequent tabling of resolutions. In response the committee focused on enhancing its effectiveness in the drive towards accountability and good governance. As a result history was made when the committee, for the first time since its inception, started its hearings in the same calendar year as the tabling of the annual reports.

The AGSA is confident that should the committee continue with the standard set during October 2012 and ensure that resolutions are tabled timeously and monitored throughout the year, the committee will not only deliver on its oversight mandate but will also have a direct and positive impact on future audit outcomes.

Internal audit functions, audit committees and oversight committees of the provincial legislature similarly need to ensure that all their activities contribute to the credibility of information that will inform strategic thinking, decision-making and monitoring in the province. To complement these requirements, the Office of the Premier and the provincial treasury must enhance their coordinating and support functions to ensure ongoing capacity-building in the areas of concern. Ongoing elevated cooperation between the provincial public accounts committee and the portfolio committees would improve oversight in dealing with the challenges faced by the provincial administration, Nombembe concluded.

The AG reiterated his office's commitment to assisting auditees, highlighting that following the launch of government's *Operation Clean Audit* in July 2009, he had introduced regular engagements with municipal, provincial and national political leaders to share his office's assessment of key controls in the areas mentioned above and to identify threats to clean audits. These engagements helped to create greater awareness of matters that require urgent attention to realise clean administration in all spheres of government.

Issued by:

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Media note:

The complete *General Report on the PFMA audit outcomes of the Eastern Cape* is 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 – the organisation celebrated its 100-year public sector auditing legacy in 2011.

End.

ADDITIONAL INFORMATION FOR THE MEDIA

About the provincial government

The Eastern Cape government consists of 27 auditees – 15 departments (which include the provincial legislature and the provincial revenue fund) and 12 public entities.

The public entities consist of 11 provincial public entities and one trading entity. The number of public entities has increased from 11 to 12 since the 2010-11 financial year, due to the establishment of the Government Fleet Management Services (GFMS), a trading entity under the control of the Department of Transport.

Highlights

Over and above the highlighted internal control weaknesses, the following key statistics were reported in the province:









- 86% of the departments and 60% of the public entities only achieved 80% or less of their service delivery targets.
- Only 33% of all the unqualified audit outcomes are sustainable. Therefore, further regressions and only limited improvements are expected should drastic action not be taken.
- Ninety-three per cent of departments and 100% of public entities had findings on non-compliance with laws and regulations.
- R1,7 billion of irregular expenditure was incurred in 2011-12.
- Although the Department of Economic Development, Environmental Affairs and Tourism improved to an unqualified opinion, the improvement was mainly due to audit adjustments and not as a result of improved internal controls. The sustainability of this improvement is thus uncertain.
- Fifteen (56%) auditees retained their financially unqualified audit opinions but had not addressed their findings on predetermined objectives (PDOs) and/or compliance.
- Five (19%) auditees failed to address their 2010-11 qualification findings and retained a qualified opinion, while one (4%), namely Education, retained its disclaimer of opinion.
- Two (7%) auditees, namely the provincial legislature and Accelerated Shared Growth Initiative (AsgiSA), regressed from being financially unqualified with no findings to being financially unqualified with findings on PDOs and/or compliance. The Department of Roads and Public Works regressed from unqualified to qualified.

Summary of audit outcomes for current and prior year

Audit outcomes	Departments*		Public entities		Total	
	2011-12	2010-11	2011-12	2010-11	2011-12	2010-11
Financially unqualified with no findings (clean audits)	1	2	0	1	1	3
Financially unqualified with findings	8	7	11	9	19	16
Financially unqualified financial statements	60%	60%	92%	91%	74%	73%
Qualified opinion, with findings	5	5	1	1	6	6
Adverse opinion, with findings	0	0	0	0	0	0
Disclaimer of opinion, with findings	1	1	0	0	1	1
Financially qualified financial statements	40%	40%	8%	9%	26%	27%
Total number of audits in the province	15	15	12	11	27	26

* Including legislature and provincial revenue fund

Summarised movement in overall audit outcomes

Movement in audit outcomes from 2010-11					
Audit opinion	Improvement	Unchanged	Regressed	New auditees	Total auditees reported on
Financially unqualified with no findings					1
Financially unqualified with findings				1	19
Qualified, with findings					6
Adverse/ Disclaimer, with findings					1
Total	1	22	3	1	27

End