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**Provincial overview**

## 9.1 Eastern Cape

### Three-year audit outcome



In the previous general report, we expressed a concern that Education, Health and Roads and Public Works, which then represented 79% of the provincial budget, were unable to provide credible financial and performance reports. The level of irregular expenditure caused by SCM transgressions that were not prevented by the control environment was also highlighted as an area of concern. These SCM transgressions increased the risk that goods and services are acquired at higher prices and/or rates without additional value being received. In addition, we cautioned the leadership of the province that until the entire provincial leadership starts holding people accountable for their actions by implementing consequence management for non-compliance with legislation, the desired movement towards accountable, accurate and transparent financial and performance reporting would not take place.

In response to the 2014-15 outcomes, the provincial role players undertook to implement processes that enforce accountability, enhance compliance with legislation, as well as improve and enhance the credibility of in-year reporting and monitoring.

The 2015-16 audit outcomes indicate that the province has made strides in dealing with qualifications and increasing the number of unqualified opinions with no findings (clean audits). All the provincial departments and entities received unqualified audit opinions with the exception of the Department of Education. There were no disclaimers or adverse opinions for the third year in a row. We commend the provincial leadership for this achievement.

The improved audit outcomes and sustained clean audit outcomes are attributed to:

- the achievement of a sound leadership tone that promotes a culture of accountability and good governance practices
- stability of both political and administrative leadership
- enhanced oversight performed by coordinating departments and oversight bodies
- the appointment or development of competent key finance personnel, including the strategic use of consultants.

The Provincial Treasury played a significant role in the improved outcomes experienced by the province. It was visible at auditees during the audit process and proactively engaged our office on matters relating to transversal audit issues, technical issues and specific auditee matters. These engagements assisted in resolving findings that may have ended up in the audit report.

Education was the only provincial department in the qualified category. Although it is only one audit, the budget allocated to it represents 45% of the total budget allocation to the province. Instability in leadership, including acting personnel at head of department and senior management levels, resulted in a lack of accountability, a lack of good governance and a weak control environment at this department. In addition, there was a lack of monitoring and coordination between the head office and district offices, poor record keeping practices and failure to adequately implement action plans to address the previous year's audit findings. These factors contributed to repeat qualifications and findings on performance reporting and compliance.

Learner numbers are used as a basis for allocating resources and for performance reporting at Education, Transport and Sport, Recreation, Arts and Culture. The audit process revealed significant differences between the learner numbers captured on the computerised systems and the physical verification of learners. These differences had an impact on the reliability of the reported performance and the disclosure of fruitless and wasteful expenditure in the financial statements of Education. They also had an impact on the usefulness and reliability of reported performance information at Transport and constituted

one of the many factors that had an impact on the reliability of reported performance information at Sport, Recreation, Arts and Culture.

The audit outcome of the legislature regressed from unqualified with no findings to unqualified with findings on compliance with legislation. This regression was due to the legislature's control environment not being ready to comply with the Financial Management of Parliament and Provincial Legislatures Act that came to effect at the start of 2015-16.

Having recognised the improved outcomes, we noted that weak internal controls were still common at those auditees that did not achieve clean audit status and those that had failed to improve their previous audit outcome. Basic financial management disciplines and observing controls were still not in place at these auditees. The IT controls in the province are of concern and have not improved significantly since the previous year. We reported the risks in the IT environment for a number of years and they still have not been adequately addressed. This points to a lack of ownership by the leadership over the provincial IT systems and processes. The underlying weak internal controls coupled with weak IT controls at those auditees that did not improve their audit outcomes, could increase the risk of misappropriation of funds and a lack of credible financial and performance reporting.

There was a slow response to audit recommendations at 88% of auditees that did not achieve clean audit outcomes. These recommendations related to improving record management systems, implementation of proactive processes and timely response to audit committee and internal audit recommendations. Furthermore, the lack of consequences for poor performance and non-compliance with legislation was not adequately addressed.

The quality of financial statements submitted for auditing has improved progressively over the past three years. Sixty per cent of financial statements submitted in 2013-14 contained material misstatements compared to only 32% in 2015-16. This improvement is attributed to the appointment or development of competent financial personnel, improved in-year reporting and monitoring and improvement in controls at those auditees that achieved a clean audit status. This was brought about by the implementation of the recommendations made during the regular AGSA interactions on internal controls.

The quality of annual performance reports of departments regressed, while that of the entities remained unchanged over the past three years. Auditees continued to avoid material findings by processing corrections during the audit. We raised material findings on the usefulness of reported information at 16% of auditees, while we raised material findings on the reliability of reported performance at 28% of auditees. The auditees with material findings on usefulness could have avoided them had they implemented all of the

recommendations arising from the proactive audits of their annual performance plans. Poor record-keeping practices contributed to reliability findings because departments were unable to produce the documentation required to prove actual performance.

We have noted that the province has taken action in some cases; however, not all instances of irregular, fruitless and unauthorised expenditure were investigated or adequately investigated. In addition, investigations in progress were not completed timeously. In some cases where investigations were conducted and it was recommended that disciplinary and criminal charges be instituted against those responsible, no actions were taken against the responsible officials. This contributed to a culture of tolerance of non-compliance with legislation within the provincial administration, which in turn contributed to the findings on compliance. Although we acknowledge that compliance with legislation has improved, findings in this area have remained at high levels over the past three years. These findings, especially those relating to the prevention of irregular and fruitless and wasteful expenditure, as well as procurement and contract management, indicate that consequences are not effectively enforced.

The province disclosed irregular expenditure of R1,24 billion for the year under review. Education was qualified based on the irregular expenditure it disclosed. This department also disclosed that it was investigating a further R857 million in potential irregular expenditure, which meant the amount of R1,24 billion reported as irregular might not include all irregular expenditure incurred by the province during the year under review. The balance of irregular expenditure that has accumulated over the years and has not been sufficiently investigated and recovered, condoned or written off, as required by the PFMA, was R4,9 billion at 31 March 2016 for the province. Subsequent to year-end, Roads and Public Works received confirmation from the National Treasury that R1,8 billion included in the above amount had been condoned. The irregular expenditure was due to widespread conflict of interest and non-adherence to SCM requirements. Awards made to employees, their close family and employees in the service of the state where a conflict of interest existed amounted to R297 million. Associated with weaker controls over the SCM and procurement management environments is a heightened risk that value for money may not be realised for goods or services procured at higher than market-related costs.

The financial commitments of Human Settlements exceed their allocations over the next three years by an amount of R6 billion. Health disclosed that it had paid out R321 million in medical legal claims. It also disclosed contingent liabilities of R13,4 billion relating to such claims. If these claims materialise, they have the potential to derail service delivery by this department as they are not budgeted for. These situations should be monitored closely by the affected

departments, Provincial Treasury and the office of the premier to ensure that service delivery is not interrupted. In addition, three provincial public entities were facing cash flow difficulties that could affect their ability to render services and deliver on their mandate. These entities may require a cash injection to continue delivering service at existing levels. The financial health indicators of seven departments, the Provincial Legislature and two entities regressed from the good indicator status in the previous year to a concerning status. This was a result of pressures on budgets caused by the constrained fiscal environment. Other than the matters highlighted above, there were no material findings or concerns identified on financial health.

Work was performed on the infrastructure spending by the province during the year under review. Our audit approach was meant to respond to risks associated with the significance of budgets that were allocated and service delivery aspects related to the nature of these projects as pointed out in the state of the province address. Key findings raised included failure to follow SCM processes in the appointment of contractors at 32% of the projects selected for testing, and 19% of the projects tested resulted in irregular expenditure. Of the sample tested, 50% of the projects were not completed on time. These findings point to a lack of contract and project management capacity and capability within the Eastern Cape provincial government. This requires leadership attention if all planned infrastructure projects are to be delivered as planned. The good practices observed included proper planning; all required feasibility studies were conducted; performing proper checks on contractors to ensure that they are capable of delivery; monitoring of delivery (including review of the prepared progress reports); proper maintenance and follow up of site records, which included snag lists; and the implementation of consequences for poorly performing contractors.

The levels of assurance provided by senior management, accounting officers or authorities, MECs, audit committees and internal audit units have improved slowly but steadily over the past three years. The improvement in the assurance provided was more pronounced in 2015-16, which correlates with the improved audit outcomes. Although the levels of assurance have improved, there are a number of auditees where the assurance providers only provided some or limited assurance. These auditees need to strengthen their control environments to improve their levels of assurance.

We recommend that the provincial leadership implement the following to sustain the positive momentum towards accounting for public resources in a transparent manner and improving governance and accountability in the public sector:

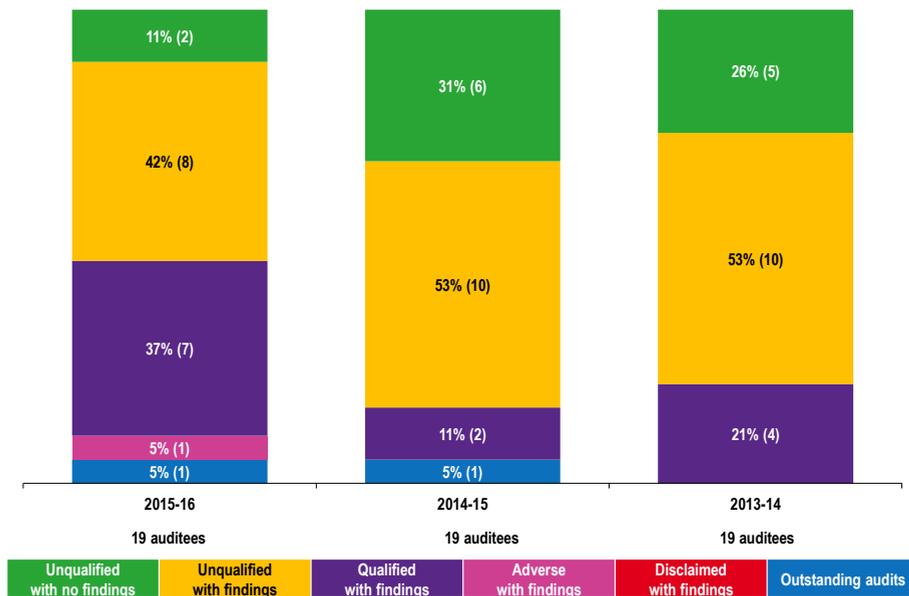
- Prioritise the filling of all key vacant posts at Education, including the head of department position. The leadership should also focus on

communication and coordination between the head office and district offices to ensure effective service delivery at schools and on maintaining appropriate records to enable credible financial and performance reporting.

- Enforce a culture of basic financial management discipline and adherence to good controls. This includes preparing reliable monthly and quarterly financial statements as well as daily and monthly reconciliations to ensure that all transactions, balances and disclosures are accurately and completely recorded.
- Implement proper systems and processes, including adequate record-keeping systems, for managing and reporting on predetermined objectives.
- Adopt a zero-tolerance approach to poor performance and breaches of legislation. Particular attention should be paid to all instances of unauthorised, irregular and fruitless and wasteful expenditure, investigations sanctioned and that those started are completed; that funds are recovered where the liability of officials is proven; and that consequences are implemented in the case of undeclared conflicts of interest.
- Institutionalise performance management systems to enhance accountability. The performance contracts of heads of department should include clauses relating to the elimination of compliance findings and irregular expenditure.
- Put proper systems and processes in place to monitor infrastructure delivery and to ensure that project management capacity and capability are built within the province. In addition, the best practices observed in the province should be rolled out to all projects.

## 9.2 Free State

### Three-year audit outcome



Up to the 2014-15 financial year there had been a slow but steady year-on-year improvement in audit outcomes. The year under review was a turning point that saw a noticeable regression in eight audit opinions. The main root cause of these regressions was the slow response by management (83% of auditees) and the political leadership (50% of auditees) to the recommendations made as well as failure to honour their commitments.

In our previous general report we mentioned that ‘the financial statements of six auditees disclosed that they still had to review the procurement process undertaken to determine the possibility or full extent of their irregular expenditure, which could result in a significant increase in irregular expenditure in the coming year. The regression in five departments’ audit opinions (Agriculture and Rural Development, Economic, Small Business Development, Tourism and Environmental Affairs [DESTEA], Education, Sport, Arts, Culture and Recreation, as well as treasury) was due to the failure of executive and administrative leadership to conduct adequate investigations into these contracts and agreements, notwithstanding the recommendation we provided in the previous year.

A further two departments regressed, namely the Office of the Premier and the Department of Public Works and Infrastructure, due to material non-compliance identified in the procurement processes. The Central Medical Trading Account regressed due to a lack of supporting documentation relating to payables as disclosed in the financial statements. It is concerning that no auditees were able to improve their audit outcome in the year under review. Only two auditees, the Free State Provincial Legislature and Fleet Management, maintained their clean audit status of the previous year. In 2015-16, only certain requirements of the Financial Management of Parliament and Provincial Legislatures Act were applicable. Legislatures would only be required to fully comply with this legislation in 2016-17, posing a potential risk of them losing clean audit status if the situation is not closely monitored.

In the previous year the commitments made by the provincial leadership included MECs meeting with us on a quarterly basis to discuss the status of key controls and giving more attention to compliance with SCM prescripts. The provincial leadership further committed to investigate unauthorised and irregular expenditure to ensure appropriate consequence management, as well as to provide departments with guidance on the use of implementing agents and the procurement processes to be used by these implementing agents.

Due to management’s failure to implement these commitments, the improvement in key controls in the previous year was not sustained, which in turn contributed to the significant increase in non-compliance with SCM prescripts due to uncompetitive or unfair procurement processes. This resulted in an increase of irregular expenditure. The most notable regression in internal controls resulted in the deterioration of our assessment of assurance at executive authority and accounting officer levels.

The audit intervention forum chaired by the MEC for Finance was established in the previous year to discuss transversal audit matters; to intervene, where required; to facilitate conclusion of unresolved outstanding matters; and to provide the necessary leadership to auditees during the audit process. While we support the objective of this intervention committee, it resulted in a lack of ownership by the accounting officers. This, in turn, resulted in mounting pressure on the MEC for Finance to deal with the audit findings at year-end, while the internal controls implemented by the individual departments deteriorated as a result of inadequate control disciplines.

As mentioned, the quality of financial management and control disciplines regressed. This is evidenced by the number of material audit adjustments made to the financial statements submitted by 61% of auditees. Had these adjustments not been allowed, only six auditees (33%) would have received unqualified opinions. These adjustments were required notwithstanding the fact that 78% of auditees had chief financial officers with an average of 65 months

in the position. Unfortunately, eight auditees (42%) could not make all the audit adjustments in their financial statements resulting in either a qualified or adverse audit opinion, mainly due to the following:

- The completeness of irregular expenditure, because they failed to disclose all instances where implementing agents and partners did not follow procurement processes when procuring goods and services, including capital expenditure. In many instances the implementing agents or partners were appointed through deviations
- The incorrect accounting treatment of expenditure by implementing agents, where the goods are later transferred in kind to beneficiaries, was not accounted for in accordance with the Modified Cash Standard. Appropriate classification of payments to, and expenditure by, the implementing agents is critical to ensure transparent reporting on the departments' actual performance, even if the departments discharge their core mandate by using implementing agents. Notwithstanding the additional guidance from the National Treasury on the accounting treatment relating to implementing agents, the previous year's findings were not addressed.

It is concerning that Education and Health, which comprise 69% of the province's budget, were qualified, as they were unable to report accurate and reliable information in their financial statements.

Material non-compliance with legislation was still evident at 84% of auditees, which was an overall regression in the level of compliance with legislation in the province. Material SCM findings resulted in irregular expenditure increasing by R362 million from R1,6 billion in the previous year to R1,9 billion. The most common material SCM findings related to uncompetitive or unfair procurement processes, which occurred at 10 auditees (56%).

SCM and the high levels of irregular expenditure remain high-risk areas due to the overall disregard for procurement processes and the limited consequences for these actions. The leadership failed to lead by example and take decisive steps to enforce zero tolerance for deviations from SCM processes due to lack of consequences for poor performance and transgressions which occurred at 50% of auditees. Human Settlements incurred R965 million (50%), Health R466 million (24%) and Education R399 million (21%) in irregular expenditure. In total these three departments incurred R1,8 billion (95%) of the total irregular expenditure. In the previous year they accounted for 99% of irregular expenditure incurred.

While irregular expenditure levels were high, some departments did not disclose all irregular expenditure in their financial statements and were qualified as a result. This would have resulted in a further increase of at least

R1,1 billion in irregular expenditure. However, the total value of the contracts awarded was much higher than what was expensed and the continued use of these contracts will result in additional irregular expenditure.

Unauthorised expenditure decreased from R601 million to R202 million. Most unauthorised expenditure, i.e. R157 million (78%), was incurred by the Department of Education due to overspending of their budget. However, had the department settled the invoices outstanding for longer than 30 days, unauthorised expenditure would have increased to R2,3 billion, which puts pressure on the province's severely constrained cash flow.

The financial health of the province has continued to deteriorate since nine auditees (50%) experienced problems relating to financial sustainability due to significant accruals and commitment balances that still need to be paid which affect the next year budget while in most instances the funds to be surrendered are not always supported by the available cash. The Department of Education had an overdraft of R641 million, while the remaining 11 departments had a total positive cash balance of R111 million. This resulted in a net bank overdraft of R530 million for the province (2015: R761 million). Additionally, funds to be surrendered to the revenue fund amounted to R453 million (2015: R307 million) and total accruals to R2,7 billion. Taking into account the overdraft, funds to be surrendered and long-outstanding accruals, the province required R3,1 billion (2015: R1,6 billion) to clear the backlog.

The financial distress at the Department of Education is concerning. The department had outstanding accruals and payables of R380 million (2015: R270 million), a bank overdraft of R641 million (2015: R826 million), as well as commitments approved and contracted for of R1 billion (2015: R2,5 billion). The actions of the Department of Education negatively affected the whole province as they committed themselves to funds that were not available despite the backlog in paying creditors. The Provincial Treasury intervened as from 1 April 2015 by taking over the financial administration of the department, and this action has started to yield positive results although there was still a lot of work to be done to turn this situation around.

Despite an improvement in the area of reporting on performance information, with 63% of auditees (2015: 50%) producing credible and useful performance reports, five auditees (32%) avoided findings by making material audit adjustments to their annual reports. Four of the auditees, namely Education, Health, Human Settlements and Police, Roads and Transport, which did not produce credible and useful performance reports, were responsible for 81% of the total provincial budget. These departments failed to focus on predetermined objectives as required, resulting in material findings on annual performance information.

The IT control environment of Free State departments and public entities improved during the 2015-16 financial year. The improvement comes as a result of increased attention given to IT challenges and risks. Furthermore, the introduction of the DPSA IT governance framework had a positive effect on the outcomes over these past three years. However, there remains a challenge in ensuring that those responsible for implementing controls within the IT environments of departments and public entities consistently comply with existing policies and procedures. During the year under review such non-compliance caused the patient administration and debtors system at the Department of Health to crash. Due to inadequate backup processes, this had a negative impact on their audit opinion.

Finally, immense resistance by auditees to audit findings raised by audit teams was experienced in the year under review as leadership, advised by state law advisers, argued that payments to implementing agents ceased to be public funds once transferred, thus falling outside the AGSA mandate. As a result, undue pressure was placed on the audit teams not to audit a number of transactions, especially those relating to transfers of state funds to implementing agents or where deviations from normal procurement processes were approved by accounting officers. Instead of focusing on improving the control environment, auditees responded to findings by involving state law advisers with more emphasis being placed on legal interpretation than on accounting treatment of transactions. Therefore, the challenge remains for the province to build a public service characterised by transparent financial and performance reporting. Greater effort is needed to strengthen key controls, especially those relating to financial and predetermined objective reporting, budget management and SCM practices, to ensure that funds are spent through a procurement process which is fair, equitable, transparent, competitive and cost-effective so that services of the required quality and quantity can be rendered.

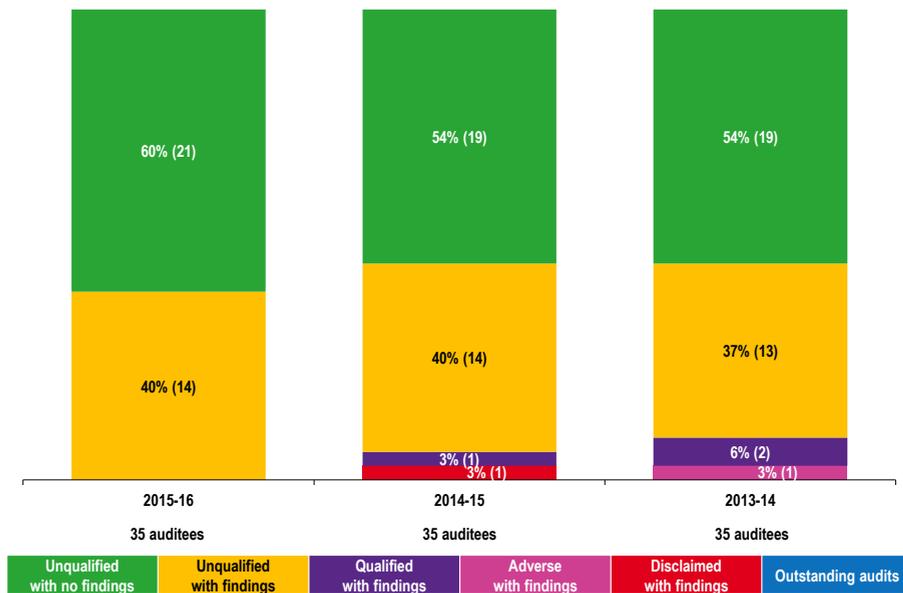
At the heart of improved audit outcomes is a leadership tone that must inform the seriousness and urgency with which appropriate action plans and initiatives are implemented and monitored relating to the following:

- Procurement processes in appointing implementing agents and partners should be fair and transparent.
- Guidance on procurement processes which implementing agents and partners need to follow when spending public funds to ensure that they are spent in a fair, equitable and transparent manner by setting clear performance measures.
- Addressing the province's financial sustainability.

- The first level of assurance (senior management, accounting officers and MECs) should be improved by ensuring that the leadership responds to our recommendations.

## 9.3 Gauteng

Figure 1: Three-year audit outcome



The Gauteng provincial audit outcomes improved once again in 2015-16, with 21 auditees (60%) (2014-15: 19 [54%]) achieving clean audit outcomes, while no auditee received a modified audit opinion on their financial statements. It is encouraging to see 17 auditees (49%) sustaining a clean audit status from 2013-14 in 2015-16, due to internal controls and regular financial and performance reporting disciplines that have been institutionalised. Three new auditees joined those with clean audit opinions in 2015-16 (Gauteng Growth and Development Agency, Gauteng Infrastructure Financing Agency and Cost Recovery Trading Account). However, the Greater Newtown Development Agency regressed from clean to unqualified with findings due to a lack of monitoring of the basic financial disciplines around the preparation of the financial statements.

The improvement in the overall audit outcomes is attributable to the premier, the Provincial Legislature and MECs leading by example. The premier, with the support of the MECs, insisted on a culture of accountability, sound financial management practices and demonstrated timely and effective consequence management where non-performance was identified. The political leadership embraced the premier's vision of a clean administration that is transparent and

accountable to the people (termed 'going green') and upheld their commitments by effectively working with the administrative leadership and holding them accountable for the institutionalisation of internal controls and sound financial management practices. Audit committees, coordinating departments and external oversight structures intensified their robust discussions in exercising their oversight responsibilities to improve the governance of provincial government.

A big milestone for the province was the Department of Health and g-Fleet Management that improved to unqualified opinions with findings in 2015-16 from a qualified (for three consecutive years) and disclaimed audit opinion, respectively, in 2014-15. At the department, stability in the positions of accounting officer and chief financial officer assisted in implementing corrective action plans and at g-Fleet Management, the MEC for Roads and Transport (overseeing g-Fleet Management) released the chief executive officer and chief financial officer from their positions. Consultants played an important role assisting these auditees to improve the quality of their financial statements and address the qualification areas. However, the sustainability of the current audit outcomes remains at risk as there is no clear business continuity plan regarding the transfer of knowledge from the consultants. To sustain these audit outcomes, the accounting officers need to ensure that improvements in internal controls are institutionalised. The Department of Health needs to ensure that the upgrading and implementation of the health recording system is completed to provide accurate and reliable information for financial and performance reporting.

The Provincial Treasury complemented the ever-maturing assurance model through financial management support mechanisms, which contributed to the quality of financial statements submitted for auditing improving slightly from the previous year, most noticeably at the Department of Health and the Department of Education. Although all auditees submitted their financial statements for auditing on time, 10 auditees (29%) had material misstatements that were identified and corrected during the audit. This was as a result of chief financial officers not implementing basic financial disciplines and regular financial reporting controls during the year. The continued reliance on auditors to identify errors in the financial statements, which are then corrected by the auditee to obtain an unqualified opinion, is not a sustainable practice.

Although there was a slight improvement in the number of auditees that complied with key legislation, all 14 auditees (40%) that did not obtain clean audit outcomes had material findings on compliance with key legislation and this remains the major obstacle preventing the province from 'going green'. There was a slower than expected response by the administrative leadership and senior management to their commitments to address compliance findings, specifically SCM and expenditure management findings. The non-compliance

with key legislation was compounded by vacancies in the positions of accounting officer, chief financial officer and head of SCM unit at some auditees.

Irregular expenditure increased to R6,5 billion (2014-15: R5,6 billion) and can primarily be attributed to continued non-compliance with SCM legislation (concentrated around uncompetitive or unfair procurement processes). Most of the irregular expenditure incurred related to payments made against non-compliant contracts awarded in previous financial years (legacy contracts) at the Department of Roads and Transport and the Department of Human Settlements. Notwithstanding the increase in irregular expenditure, we have determined that goods and services were received for all the irregular expenditure incurred due to SCM non-compliance. To minimise the risk of procurement processes that are not transparent, cost-effective and equitable, the premier and MEC for Finance have committed to fast track the implementation of the open tender system across all Gauteng provincial departments.

The quality of performance information regressed and remains a concern. Although there were only four auditees (13%) with material findings on usefulness and reliability, there were 13 auditees (43%) that relied on the audit process to correct the reliability of the information in the final performance report. With the provincial focus on service delivery through the transformation, modernisation and reindustrialisation plan, it is critical that actual performance is reported accurately and supported by adequate document management systems. Accounting officers and accounting authorities should hold heads of monitoring and evaluation accountable for ensuring that sound processes are in place to ensure that performance information is supported by sufficient and credible evidence. In addition, the provincial IT strategy must provide solutions for the information systems that were not stable and secure to produce accurate and verifiable information.

IT remains critical to ensure the confidentiality, integrity and availability of information to enable accurate reporting, service delivery, national security and promote effective oversight. The Gauteng IT environment improved from previous years due to the stability of chief information officers and skilled resources. In addition, senior management was more involved in providing support and monitoring of auditees' commitments. However, more attention is required at 14 auditees (40%) in the areas of operating effectiveness of user access management, security management and IT service continuity controls. Accounting officers and accounting authorities must ensure that the IT units are fully staffed with skilled resources and there is adequate monitoring of IT governance processes.

The status of the financial health showed a slight improvement at some auditees and there were no auditees with significant going concern or financial sustainability challenges. Although the number of auditees with findings on payables that exceeded the payment term of 30 days remained unchanged, the Department of Education and the Department of Health, which constitute almost 74% of the provincial budget for 2015-16, would have incurred unauthorised expenditure had all their accrued expenses been paid by year-end. This places additional pressure on the service delivery objectives for the following financial year. The provincial leadership should guard against the increased risk of legal lawsuits and claims at the Department of Health where payments of medical claims in 2015-16 amounted to R436 million, placing strain on financial resources. As the Gauteng population is increasing at a greater rate than the national average (*Source: Statistics South Africa: Census 2011 and Mid-year population estimates 2015*), largely due to interprovincial migration, the efficient use of available financial resources needs to be heightened.

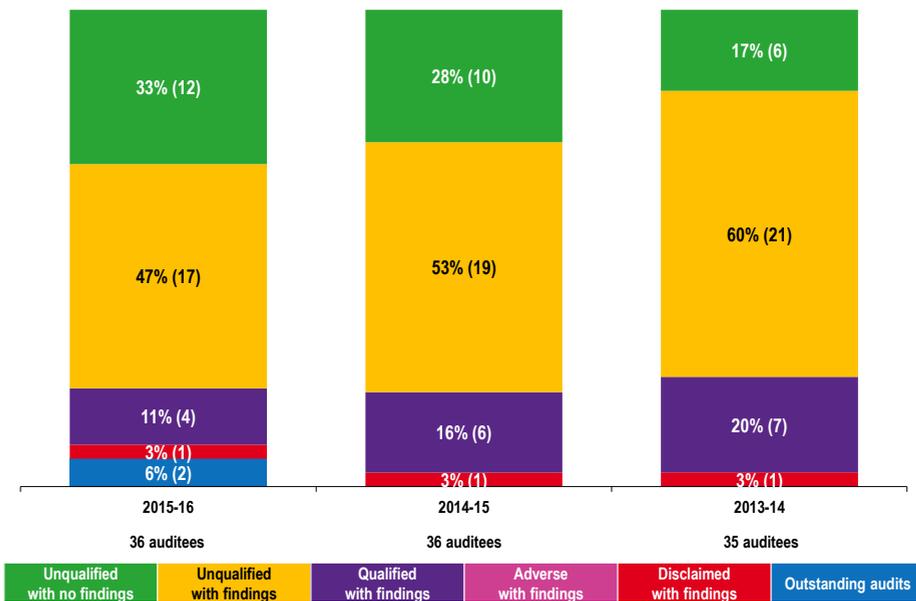
The combined assurance model continued to show maturity; however, senior management should be decisive and continue to strengthen financial and performance management internal controls as well as compliance management practices to build a public service characterised by transparent financial and performance reporting. The oversight committees should continue to collaborate with each other and should improve continuously and standardise key oversight activities, including the timely tabling and regular follow up of key resolutions. Portfolio committees need to increase their focus on keeping auditees accountable for accurate and complete performance information. The follow-up and feedback mechanisms during the year between the auditees and the oversight committees need to be formalised.

Although the internal control environment has matured over the years, in order to sustain and further improve the audit outcomes the premier, Provincial Legislature and MECs must continue to lead the way and positively influence key role players to honour their commitments and institutionalise internal controls. More attention must be given to the filling of vacancies in key positions, and senior management should perform their duties with the required disciplines and should respond proactively by implementing sustainable internal controls.

The premier made it clear in his 2016 state of the province address that action will be taken where departments and entities show ongoing poor performance and unethical conduct. We will continuously track this and other commitments to ascertain that they yield the desired impact in improving financial governance, reducing irregular expenditure and further improving overall audit outcomes of the province.

## 9.4 KwaZulu-Natal

### Three-year audit outcome



The KwaZulu-Natal provincial government comprises 14 departments – the Provincial Legislature and 21 public entities. The overall audit outcomes exclude the results of Ithala Limited and Ithala Development Finance Corporation, as these audits were not finalised on time due to the pending approval of the annual banking exemption licence by the minister of Finance, subject to certain financial requirements being met by these auditees.

The overall audit outcomes depict progress over three years. Seven auditees (19%) improved by obtaining clean audits and four (11%) sustained clean audits since 2013-14. The KZN Growth Fund Trust came into existence in 2014-15 and has retained a clean audit since then. Public entities achieved the majority of clean audits; however, this is offset by having the Provincial Treasury as the only department that retained a clean audit for the past three years. The auditees that achieved clean audits were at the pinnacle of excellence in transparent and credible reporting and were epitomised by effective basic disciplines on records management, daily and monthly processes as well as enhanced regular reviews and reconciliations. Additionally, dedication and commitment by senior management were

instrumental in the institutionalisation of these basic controls at public entities. Twelve auditees (33%) remained unchanged at unqualified opinions with findings since 2013-14. The accounting officers and senior management of these auditees did not implement timely and decisive corrective actions, which ensured that adequate controls were in place for credible performance and compliance reporting.

Qualified audit opinions decreased since 2013-14. Education, which accounted for 41% of the total provincial budget, had received a qualified opinion for five years prior to 2014-15. In 2014-15, they received an unqualified opinion with findings, which they retained in the year under review. This was only possible through the dedication of leadership and management coupled with an institutionalisation of basic disciplines and fine-tuning of SCM controls. The Provincial Legislature also improved from a qualified audit opinion with findings in 2014-15 to an unqualified opinion with findings in the year under review. The qualification on assets was addressed due to the filling of key posts and improved controls. Consultants were also appointed to assist in ensuring that assets were accurately and completely recorded. Arts and Culture, the Housing Fund and the Traditional Levies and Trust Account also improved to an unqualified opinion with findings in the year under review after receiving qualifications in 2013-14.

Two auditees (6%) regressed since the previous year. Cooperative Governance and Traditional Affairs regressed from a clean audit to an unqualified opinion with findings while Human Settlements moved from an unqualified audit opinion with findings to a qualified audit opinion with findings. At these auditees, management failed to implement elementary controls over proper record keeping and regular reviews and reconciliations over financial, compliance and performance information. The Business Rehabilitation Trust Fund received a disclaimed audit opinion for the past three years due to inadequate records to support underlying transactions, arising from inappropriate management oversight and reviews.

Qualifications at Health and Transport, together which account for 42% of the provincial budget, persisted for the past three years as these auditees struggled to implement effective controls over asset management, SCM and human resource management. This was largely due to a lack of understanding of accounting and regulatory requirements by key officials, which contributed to the slow response by management in adhering to action plans.

The quality of financial statements submitted for auditing improved from 50% in 2014-15 to 74% in 2015-16. Eight departments (53%) and 17 public entities (89%) submitted financial statements that contained no material misstatements. Strong internal controls over record keeping, monthly processing, reconciling of transactions, regular review, supervision, and

preparation of credible financial reports on a regular basis largely contributed to this improvement. In addition, regular engagements at financial forums with the provincial accountant-general, coupled with monitoring of action plans, assisted in reducing the extent of misstatements identified at certain departments.

The province made little progress on the reporting of predetermined objectives to solidify undertakings made to the public. It is concerning that the three key service delivery departments in the province (Education, Health and Transport), which accounted for 83% of the total provincial budget, had repeat material findings on their annual performance reports. These three departments need to take urgent corrective action and accountability for the ongoing shortcomings in reporting on the performance outcomes. In addition, 12 departments (80%) and seven public entities (47%) made material adjustments to their performance reports and only received favourable conclusions on predetermined objectives due to audit corrections. Poor records management, inadequate review and monitoring of the preparation of annual performance reports, as well as a lack of implementation of standard operating procedures for reporting on predetermined objectives resulted in reports not being useful and reliable.

Compliance with legislation improved from 26% in 2014-15 to 35% in 2015-16. However, there was still a high rate of compliance findings, as 14 departments (93%) and eight public entities (42%) had material findings on compliance. Vacancies in vital posts and inadequate implementation of compliance checklists contributed to the high rate of findings reported.

Although training workshops were held to address issues on SCM, this did not have an optimal impact. The status of SCM and related controls remained unchanged from 2014-15 at departments with 11 (73%) reporting findings on SCM whereas at public entities these regressed from the previous year as the number of entities with material findings reported increased from two (11%) to four (21%). The findings reported related predominantly to uncompetitive and unfair processes and awards made to close family members of employees. Administrative and political leadership at these auditees should strengthen their performance and consequence management processes by implementing stricter monitoring controls.

Irregular expenditure increased by 112%, from R1,69 billion in the previous year to R3,57 billion in 2015-16. This was largely due to Health's contribution of R2,52 billion (71%) to the total incurred. The inflated irregular expenditure incurred at Health was as a result of a clean-up exercise to identify possible irregular expenditure on all contracts and quotations to resolve the qualification from the previous year. It is evident that although the province implemented controls over SCM, these controls were not effective as they did not prevent irregular expenditure. The main reasons were that controls over SCM were not

adequately monitored and action was not taken in time to address the risks identified. A total of R845 million (24%) of the R3,57 billion in irregular expenditure incurred was audited and it was confirmed that goods and services were received, despite the normal processes governing procurement not having been followed.

There was a noticeable improvement in all three drivers of internal controls, namely leadership, financial and performance management as well as governance, which contributed to the improved outcomes. Where inadequate key controls still existed, it was mainly due to vacancies and instability in supporting roles to the chief financial officer, the head of SCM and the manager responsible for the reporting on predetermined objectives.

The status of financial health showed a slight improvement when compared to 2014-15. Forty-one per cent of auditees had favorable financial health indicators and 59% had more than two unfavourable indicators, compared to the 44% and 53% reported in 2014-15. No auditees reported materially unfavourable indicators or going concern uncertainties in the year under review. It is concerning that 11 departments (79%) had findings relating to accruals older than 30 days. This was because of payments being withheld at year-end as departments attempted to avoid incurring unauthorised expenditure.

Human resource management controls improved, with good controls being reported at four departments (27%) and 13 public entities (68%), compared to three departments (20%) and 12 public entities (63%) in the previous year. Although vacancies in the positions of accounting officer, chief executive officer and chief financial officer are still a challenge, stability in these positions has improved. This was due to the commitments made by the coordinating departments to empower these officials. Improvements in stability in key positions also contributed to the improved audit outcomes. Chief executive officers and chief financial officers at auditees that attained clean audit outcomes were in their positions on average for more than three years. In addition, improved stability at accounting officer level contributed to the reduction in qualified opinions at departments.

Although the IT audit outcomes of the province improved, with one department (7%) and 10 public entities (53%) having no IT findings, the majority of provincial departments and public entities experienced challenges with the implementation of IT controls. Management often failed to realise the importance of IT controls and this has resulted in many financial and performance information processes not being fully automated and frequently requiring manual intervention or being performed using Excel spreadsheets, which make accountability for actions performed difficult to track and are more susceptible to the manipulation of data. The key factors that resulted in the IT

deficiencies identified in the province were the moratorium on the hiring of staff which resulted in key positions within IT units being vacant and limited funding which affected the completion of key projects. Additionally, management did not prioritise resolving the previous year's findings in a timely manner and new systems to automate performance information and operations were in the process of being implemented.

The assurance provided by executive authorities, accounting officers and audit committees improved since 2014-15, whereas the assurance provided by senior management and internal audit units remained unchanged. Assurance provided by the public accounts committee and the coordinating departments declined. Although accounting officers and executive authorities at more than 50% of auditees are providing effective leadership, including oversight and monitoring of action plans to address deficiencies, their effectiveness is dependent on senior management implementing the required financial and performance management disciplines. The positive and robust tone of the audit committee in holding accounting officers accountable enabled them to exercise oversight roles effectively and improve the assurance provided. However, operational challenges such as vacancies and skills gaps at some auditees, coupled with the challenges faced by internal audit units, limited the audit committees' ability to perform at optimum levels. Capacity and budget constraints faced by internal audit units prevented them from fully executing their operational plans in a manner that covered all the high-risk areas and contributed to the lack of movement in the assurance provided. The public accounts committee needs to amplify its oversight role and authority by being firm on resolutions made and time frames on actions required. There was minimal progress on the commitments made by the coordinating departments to improve audit outcomes since the previous year.

The vast number of auditees that displayed little or no progress in audit outcomes was plagued by root causes pertaining to the slow response by management (19 auditees: 86%), instability and/or vacancies in key positions (nine auditees: 41%) and lack of consequences for transgressions (seven auditees: 32%). The slow response by political leadership to ensure that there are consequences for poor performance and transgressions created an environment where poor performance was tolerated. This, in turn, resulted in the slow response by senior management to implement internal and external auditor recommendations. The non-filling of key vacancies was in some instances attributed to budget constraints while, in other cases, it was merely a matter of it taking too long to fill key vacancies.

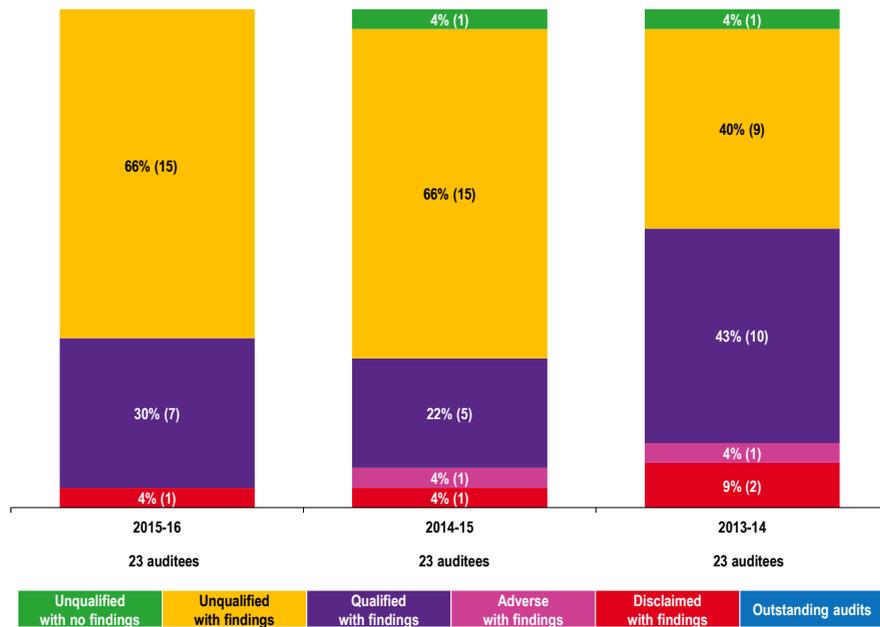
The prospect for further sustainable improvements in the provincial outcomes is not an insurmountable task, as positive leaps have been made by Education and a majority of public entities over the past three years.

To further improve the audit outcomes, specifically at Education, Health and Transport, we recommend the following:

- Accounting officers or authorities should ensure that risk assessments and strategies adequately address key SCM risks.
- A reliable recording system should be implemented to ensure that all source documents in support of actual achievement of performance targets are filed in a systematic way such that they are readily available for verification.
- Records management – the manner in which supporting documents are stored and referenced to information in the financial statements should be addressed.
- Key officials should be trained on the accounting and regulatory requirements applicable to their departments.
- Administrative and political leadership must pursue meeting their commitments and act rapidly when implementing effective and sustainable internal controls that support credible financial, performance and compliance reporting.
- Senior management, political leadership and oversight structures should continue to pay close attention to the prevalence of SCM transgressions. Investigations and/or appropriate corrective steps and consequence management should be implemented for non-compliance identified and/or irregular expenditure incurred.
- Accounting officers should be agile and energised and hold heads of performance monitoring and evaluation accountable for ensuring that there are robust processes in place to ensure that reported performance is supported by sufficient and credible evidence.
- Accounting officers and senior management must implement basic internal controls and accounting disciplines successfully by preparing regular and accurate financial and performance reports that enable governance structures to play an effective and value-adding assurance and risk advisory role.

## 9.5 Limpopo

### Three-year audit outcome



In the 2014-15 general report we acknowledged the strides made by the province in improving its audit outcomes as it registered a net improvement at seven auditees, which included a clean audit opinion achieved by the Office of the Premier. We further noted the advances made by the province to address competency challenges by performing a skills audit followed by formal training interventions by the Provincial Treasury where gaps had been identified. The Provincial Treasury also invoked section 18(2)(g) of the PFMA at the Department of Education by seconding experienced officials from the Provincial Treasury and other departments to address the lack of financial discipline at the department.

Regrettably, the province was unable to build on the momentum from the previous year. The Office of the Premier could not maintain its clean audit status. In addition, two departments (Health and Economic Development, Environment and Tourism [LEDET]) regressed to a qualified opinion, due to their failure to maintain sound internal control discipline to ensure that daily and monthly financial recording is accurate, complete and valid.

Instability at the level of head of department remains a concern that threatens the province's ability to improve its audit outcomes and submit quality financial statements and performance reports. Of the 13 departments (including the Provincial Legislature) in the province, there were six vacancies (46%) at the level of head of department at year-end, with the average period in this position being less than 36 months. The provincial accountant-general was also deployed to a municipality during the 2015-16 financial year, which further depleted the skills available to support the provincial departments. These high vacancy rates and instability in key positions, coupled with the lack of appropriate competencies, were also some of the root causes of the lack of improvement in audit outcomes.

The two key service delivery departments (Health and Education), which are the cornerstone of the national development plan and the Limpopo development plan and account for approximately 76% of the provincial budget, received a qualified opinion and disclaimer of opinion, respectively. The regression to a qualified opinion at the Department of Health can be ascribed to instability in the positions of accounting officer and chief financial officer following the withdrawal of the intervention team in terms of section 100(1)(b) of the Constitution in January 2015. At year-end, the position of accounting officer was vacant for six months and that of the chief financial officer for 12 months. This hampered the drive towards creating a sustainable control environment with effective monitoring controls. We have repeatedly stated in our previous reports that auditees continue to rely on the audit process to identify shortcomings and errors, and request corrections to the financial statements and/or annual reports. This was evident at the Department of Health, as the audit team identified a significant number of errors that were indicative of a breakdown in internal controls. The department was not able to correct these.

The Department of Education continued to disappoint with its performance and retained a disclaimer of opinion for a fifth consecutive financial year, despite being one of the departments that were placed under section 100(1)(b) intervention. The department has the biggest budget allocation in the province, which amounts to approximately 47% (R25 billion) of the provincial budget. The Provincial Treasury seconded experienced officials from various provincial departments to assist in implementing sound financial management practices at the Department of Education. Of particular concern was the inability of the political and administrative leadership to effectively integrate the seconded officials into the department to work with departmental officials towards a common goal and take joint accountability for the development and implementation of the financial management resuscitation plan. We recommend that the MEC: Treasury take the lead in addressing these matters, together with the MEC: Education, as the success of this intervention is highly

dependent on a good working relationship between these two departments. Although there was no improvement in the audit outcome as a result of this intervention, there have been some notable successes in the eradication of unauthorised expenditure and a reduction in the amounts of irregular expenditure (by R658 million to R336 million) and fruitless and wasteful expenditure (by R55 million to R17 million).

The most common qualification area in the province was on property, infrastructure and equipment. Five departments had one or more qualification paragraphs in their audit reports on property, infrastructure and equipment. Departments maintain and control their assets on Excel spreadsheets due to ongoing implementation challenges experienced with the provincial asset management system (the BAUD system), which was procured by the Provincial Treasury in 2013-14. The Department of Health and LEDET are clear examples as both departments had new qualification findings on assets in the period under review. However, we are pleased to note that subsequent to the financial year-end, the BAUD system was implemented at the Provincial Treasury, the Office of the Premier and the Department of Safety, Security and Liaison. It is envisaged that all departments would have electronic asset registers in place by the end of the 2016-17 financial year. It is imperative that the political leadership keep a close eye on the implementation process and support the administrative leadership's efforts to ensure sustainable improvements in the future.

Two entities (Corridor Mining Resources and Road Agency Limpopo) improved their outcomes. The Corridor Mining Resources improved from a qualified audit opinion to an unqualified audit opinion with findings and Roads Agency Limpopo improved from an adverse opinion to a qualified opinion in the year under review. The improvement at the Road Agency Limpopo was due to the tone set by the leadership in ensuring that consequence management was implemented within the entity.

The level of non-compliance with legislation remained very high, as 100% (23) of the auditees had material findings. The drive for clean administration should include focused attention in addressing the root causes of findings on compliance with legislation. The slow response in improving internal controls at 78% (18) of the auditees was identified as one of the root causes of the lack of improvement in the audit outcomes in the province.

Only four auditees submitted annual financial statements and five submitted performance reports that did not have material misstatements. At the heart of these financial misstatements identified during our audits was auditees that failed to institutionalise internal control mechanisms that are mature and responsive enough to detect and prevent misstatements during the year and to correct these timeously. The auditees' failure to develop action plans to

address the root causes of material misstatements and the continued tendency of only focusing on areas identified by the audit process for correction, prevents the province from improving the quality of submitted financial statements.

The overall outcome of performance reports has improved and has been at its highest in the last three years, where 65% (2014-15: 35%) of auditees had no findings on reported performance for programmes selected for testing. The support provided by the Office of the Premier during the year through an established performance management forum contributed to the improvement, particularly over the usefulness of reporting. However, of concern was that a significant number of these auditees (43%) had to make material corrections to the reported performance information in order to clear the audit findings. The lack of performance management systems for the collection and recording of, and reporting on, performance information, and poor record management system were at the root of these recurring misstatements. The risk exists that information used during the year to evaluate progress made on the achievement of government priorities as outlined in the strategic goals of various departments may be based on unreliable information, resulting in incorrect interventions and resource allocation.

We noted a significant decrease in the amounts of unauthorised expenditure from R5 million in 2014-15 to R555 000 and fruitless and wasteful expenditure from R141 million in 2014-15 to R43 million, which has been at its lowest levels for a number of years. The decrease in the amount of unauthorised expenditure is encouraging and is indicative of the maturity of the financial planning and monitoring processes of the auditees. The decrease in the amount of fruitless and wasteful expenditure is an indication of improvement in financial and budgeting disciplines to ensure that late payments are avoided and any disputes are settled via arbitration instead of litigation.

Although irregular expenditure has been at its lowest level for the past three years (R1 billion compared to R2 billion and R3,5 billion for the past two years, respectively), it remained high and required further strengthening of SCM processes to eliminate non-compliance. In addition, there were three auditees that were qualified on the completeness of amounts disclosed as irregular expenditure in their financial statements and as a result the total irregular expenditure incurred in the province was understated by an unknown amount. This once again points to internal control systems that do not prevent, detect or address deviations, as well as a lack of consequences for poor performance and transgression, which were identified at 70% (16) of the auditees. Of concern was that approximately R7,6 billion of the accumulated irregular expenditure at the end of the 2014-15 financial was still under investigation. A bigger portion of this balance has remained in this account for longer than

three years, which reduces the probability that the funds will be recovered if any negligence is identified due to movement of officials and loss of records.

The financial health of the province continues to be a challenge. The poor revenue collection strategies, especially of revenue generated by departments and public entities, as well as ineffective debt-management processes, pose a threat to the provincial financial management capabilities. At 78% (18) of the auditees, we identified more than two unfavourable financial indicators, 9% (two) of which had significant doubt that operations could continue in the foreseeable future. The leadership should address these concerns by implementing rigorous cash flow and project management mechanisms to ensure that critical projects and services are prioritised.

The status of IT reflected a regression, as the majority (52%) of the auditees' outcomes were concerning. The regression was mainly in security management due to the challenges with the ageing or obsolete infrastructure. This resulted in security updates not being performed and the firewalls that protect the departments' networks from external perpetrators not being configured to address risks of vulnerabilities. This was mainly due to vacancies within the IT structure, lack of adequate skills to maintain network and firewall, and lack of adequate budget to implement IT controls. However, we are encouraged by the overall improvement in IT continuity as more auditees received good outcomes.

IT remains critical to ensure the confidentiality, integrity and availability of information to enable service delivery and national security, and to promote effective oversight. Planning and budgeting for IT should not be done in isolation; it should form part of the overall business planning and budgeting. This will assist in ensuring that enough budget is available for upgrading infrastructure and the department can fill critical IT vacancies with skilled resources.

The key control environment and the level of assurance provided by the key role players regressed during the year. In the previous year, we noted an increased interest by MECs in the auditing process, which was not a characteristic of the provincial leadership in the past. However, such interest was short-lived and did not result in improved focus on the development and institutionalisation of internal controls throughout the year. It is important that MECs take a keen interest in institutionalising effective internal control systems by monitoring the implementation of recommendations provided by internal and external audit, including an in-depth interrogation of the quarterly audit committee reports.

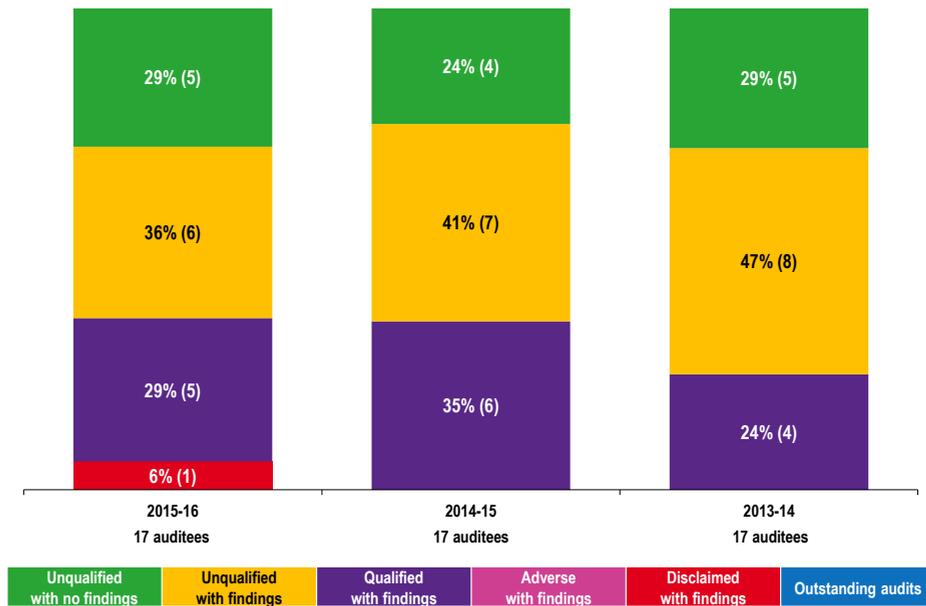
The slow progress of hearings by Scopa is a concern. The Scopa hearings for the 2013-14 and 2014-15 audit outcomes were yet to be concluded. We recommend that the committee should develop an action plan to address this

backlog to ensure the timely resolution to outstanding hearings, including the implementation of its recommendation to drive a culture of accountability, ethical conduct and sound financial management. This backlog also hampers the oversight role that Scopa plays in the accountability cycle. Corrective action recommended for matters that occurred two to three years ago become difficult to implement as officials responsible for wrongdoing move on and can no longer be held accountable. The public accounts committee and the portfolio committees should also collaborate more effectively in their oversight work as this will ensure that root causes of audit outcomes are addressed by management and that decisive actions are taken against poor performance and transgressions. We are pleased to note that the deputy speaker of the legislature has started working closely with the central audit committee to discuss and identify areas requiring attention. These issues must be shared with the portfolio committees for further action and follow up during the quarterly meetings with the departments. The role that the audit committee plays in ensuring good governance should be encouraged and supported.

We engaged the premier during the financial year and he once again stressed the importance of appointing the right people into the right positions before the province will be able to improve its overall audit outcomes. A meeting with the executive and top management of all departments is envisaged to identify challenges at each auditee to ensure proactive action in order to find sustainable, improved audit outcomes. Filling the current key vacant positions with skilled and competent people is an area that requires the utmost attention by both the political and administrative leadership in the year ahead. The three coordinating departments in the province, namely the Provincial Treasury, the Provincial Legislature 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.

## 9.6 Mpumalanga

### Three-year audit outcome



The province has been successful in attaining unqualified audit outcomes for more than 60% of the auditees for the past three years. The province has struggled to make a significant improvement in the audit outcomes towards clean administration over the years due to weaknesses in the internal control environment. Over the years, we have intensified our efforts to assist with improving the audit outcomes by regularly assessing and sharing the status of the key controls at auditees with executive authorities, accounting officers, accounting authorities and audit committees. The provincial administrative and political leadership responded positively to these interactions, commitments were made to address the internal control weaknesses highlighted during our engagement. However, the slow response to honour these commitments has been the main driver for these stagnant audit outcomes.

Eleven auditees (65%) received unqualified audit outcomes, five (29%) received such outcomes because they corrected all the errors identified during the audit. The continued reliance on the auditors to identify corrections to be made to the financial statements to obtain an unqualified audit opinion is not a

sustainable practice. We acknowledge the review processes of the Provincial Treasury, internal audit units and audit committees, which focus on the presentation of the financial statements. The effectiveness of these reviews is limited, as the underlying data that supports the financial statements is often not accurate, leading to material misstatements that were not identified during these reviews.

Six auditees (35%) could not make all the audit adjustments in their financial statements leading to either a disclaimed or a qualified audit opinion. The departments of Education, and Health and Community Safety, Security and Liaison (DCSSL) were committed to addressing their previous qualifications as they dedicated time and resources to work on addressing these challenges (immovable assets and revenue from traffic fines). However, the time and resources were not invested in strengthening the implementation of internal controls aimed at improving credibility of the information. The qualified areas are central to the mandate of each of these departments, which means that the high number of transactions (volumes and amounts) makes it difficult to make accurate adjustments in the absence of a stronger control environment. This led to repeat qualification on those areas.

At the Mpumalanga Economic Development Agency (Mega), the significant weaknesses in the internal controls were a main driver for the regression to a disclaimed audit outcome. In the absence of a strong internal control environment and adequate capacity at the finance department, the entity was unable to make accurate, timely adjustments to the financial statements.

We acknowledge the effort made by the leadership of the entity to strengthen the governance structures and fill vacancies at key management level with experienced and skilled personnel. This will serve as a strong foundation for the entity to start strengthening the internal control environment, which in turn will result in improved audit outcomes.

The province has been struggling to improve its compliance with legislation for the past three years, with poor quality of the financial statements submitted for auditing as indicated above and non-adherence to SCM prescripts being the main contributors. This was due to inadequate controls over monitoring of compliance with legislation and a lack of timely, decisive action against transgressors, especially regarding compliance with SCM prescripts.

Non-compliance with SCM legislation has been the main cause of the escalating irregular expenditure, representing R3,9 billion (98%) of the total irregular expenditure of R4 billion in 2015-16, which is a significant increase from R1,0 billion reported in 2013-14. The departments of Health and Human Settlements have been the highest contributors in the province with irregular expenditure of R1,9 billion and R1,1 billion, respectively. At the Department of Health, the prolonged vacancy in the position of head of SCM unit of over eight

years and the decentralisation of some procurement to the hospitals and facilities where the requirements of the SCM prescript were not properly understood, led to this increasing irregular expenditure.

Most of the irregular expenditure stemmed from the procurement of linen, food, pharmaceuticals, medical waste removal and RDP houses, which are central to the mandate of these two departments. These high levels of irregular expenditure indicate that the disciplines that should be in place to ensure that awards are made in a fair, equitable and transparent manner are not institutionalised, which makes the auditees susceptible to the risk of fraud.

The results on reported performance information show a steady improvement of 12% over the past three years, as six auditees (35%) reported findings in 2015-16 compared to eight auditees (47%) in 2013-14. However, five auditees (29%) managed to avoid findings on reported performance in 2015-16 because they corrected misstatements identified during the audit process. Some of these auditees are responsible for the implementation of certain government's priorities as outlined in the MTSF. Their inability to set quality indicators and to accurately report on their performance might hinder government's ability to assess the progress made in implementing those priorities. It could further lead to executives taking incorrect decisions. Daily and monthly checks and balances, regular and accurate reporting, as well as effective oversight and risk management are essential for improved performance reporting.

Two auditees improved their financial status to good due to strict adherence to cost containment measures and increased funding. Although we acknowledge the effort put in place by the province to improve revenue collection at cash-generating departments such as the DCSSL, more work still needs to be done at Health, Mega and Mpumalanga Parks and Tourism Agency. If this is improved, more funds would be available for service delivery.

Some of the auditees' (Department of Agriculture Rural Development Land and Environmental Affairs, Public Works, Roads and Transport, Cooperative Governance and Traditional Affairs and Mpumalanga Gambling Board) overall status of IT controls in the province was fairly well managed to support the auditees' business objectives due to a skilled workforce, management taking accountability to maintain good IT controls and addressing previous audit findings. Furthermore, the oversight bodies such as the Mpumalanga Gito Council and internal audit played an important role in maintaining good IT controls at all the auditees in the province. However, there were still some challenges in ensuring the effectiveness of security management controls and user access management controls. Additionally, intervention was required at the Provincial Legislature and Mega that were experiencing challenges in all focus areas. The main reasons for this were lack of chief information officer or IT manager that was appointed to implement IT controls and there was

inadequate oversight by management to ensure that previous findings were addressed. Going forward, it is very important that IT representatives from departments and entities continue to participate in the Mpumalanga Gito Council to share knowledge on how to maintain good IT controls.

Internal control weaknesses in the province have remained a challenge as the daily and monthly disciplines have not been institutionalised at the auditees. Senior management has been unable to adequately monitor the implementation of internal controls, recommendations from governance structures and external auditors, as well as progress on action plans to improve on the internal controls and ultimately the audit outcomes. The executive authorities did not set the right tone at the top as evidenced by the irregular expenditure that was left to accumulate to a closing balance of over R8 billion and the continued transgression on SCM prescripts with little action being taken to avoid recurrence.

The effectiveness of the work performed by the various assurance providers such as the internal audit unit, audit committee, Provincial Treasury and PAC has been hampered significantly by management's failure to implement their recommendations or resolutions. Consequently, the slow response by management and political leadership was recognised as the key root cause that hindered the progress in audit outcomes, as management failed to improve the controls and the political leadership failed to deal with transgressors as we kept on highlighting the same deficiencies.

Throughout the year we monitor commitments and initiatives of the premier, MECs, PAC and portfolio committees that are meant to improve the audit outcomes. In the previous year, both the legislature and the executives made commitments, but these have not been fully honoured. We believe that should they start tracking these commitments, it would have a positive impact on the audit outcomes in the province.

We further encourage that the political leadership should continue with the efforts to stabilise the administrative leadership by filling vacancies in key positions and, together, they should play a critical role in monitoring the implementation of key internal controls and the recommendations of various oversight and governance structures aimed at improving the overall control environment at the departments and public entities. This will serve as the foundation for the following recommendations to move the audit outcomes in the province forward:

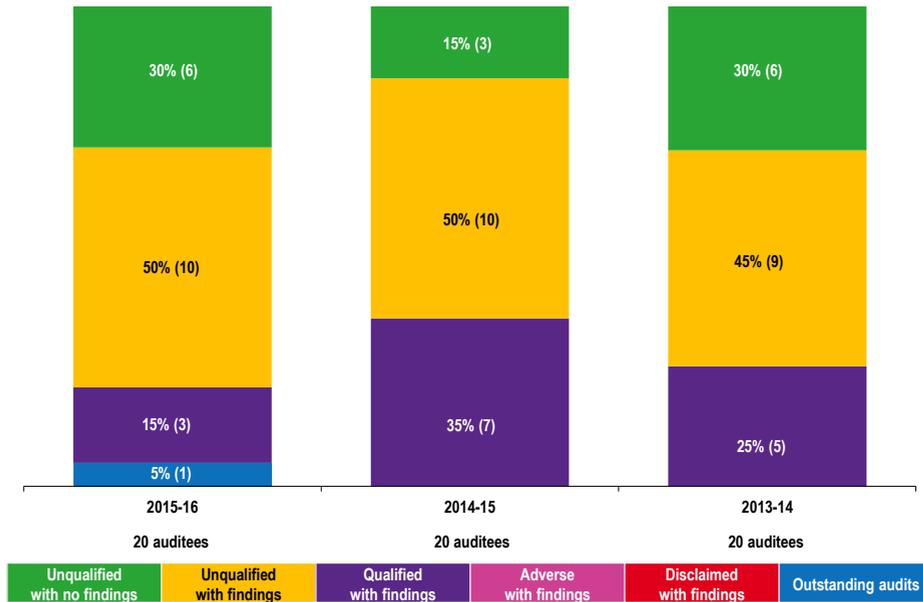
- Institute consequence management for poor performance and compliance transgressions. This will serve as a deterrent for poor performance and transgressions and set a foundation for improving the internal control. This will lead to zero tolerance to non-compliance with SCM, which would result in a decrease on irregular expenditure.

- Design and implement a credible and comprehensive action plan to address the root causes of risks and the matters raised by risk management, internal and external auditors, audit committees, PACs and other governance structures.
- Adhere to basic financial disciplines, such as regularly reconciling financial information (e.g. reconciliations to the general ledger each month or quarter) and continuously validating the information in the accounting records (e.g. physical verifications).

In addition, an internal control environment will be qualitatively stronger when all role players 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.

## 9.7 Northern Cape

### Three-year audit outcome



The three-year audit outcomes for the province show a resurgence in retaining the momentum that had been lost with the regressions suffered in 2014-15. During the 2015-16 financial year, the Department of Social Development and the Northern Cape Tourism Authority maintained their clean status, while the Office of the Premier, Provincial Treasury, Provincial Legislature and the Gambling Board managed to improve their audit outcomes and also achieve clean audits. It is commendable that the three oversight departments (Office of the Premier, Provincial Treasury and Provincial Legislature) were all able to achieve clean audits.

The six clean audits, the decline in the number of qualified auditees, as well as the fact that once again no auditees were disclaimed, confirm the progress made with the premier's previous year specific commitment to implement consequences for poor performance as seen in the non-renewal of two HoD contracts. In addition, the premier redeployed two other HoDs who had attained negative audit outcomes in exchange for those who had attained and sustained clean audit outcomes. The improvement in the assurance provided

by the key role players at the levels of senior management, accounting officer or accounting authority and executive authorities contributed to improvements in key controls, particularly those relating to the area of leadership. While the improvement is commendable, the leadership at a number of auditees continued to be heavily reliant on auditors and external service providers to achieve their eventual audit outcome. Seven auditees (37%) avoided qualifications by making material adjustments to their financial statements and seven auditees (37%) were assisted by consultants. This practice is unsustainable and leadership is encouraged to be proactive in addressing the findings raised by the internal and external auditors and not to wait until the time when the audit team follows up on the previous year's audit findings.

For the past three years, the financial audit areas where auditees struggled the most related to correctly measuring and disclosing property, infrastructure and equipment, irregular expenditure and commitments, but there has been improvement in terms of the number of qualifications in all three areas in the year under review. Two auditees (11%) were qualified on property, infrastructure and equipment in the year under review (2014-15: three [16%]), two (11%) on irregular expenditure (2014-15: three [16%]) and none on commitments (2014-15: four [21%]).

Although the Department of Health, with a budget allocation of 29% of the provincial budget, was unable to move to an unqualified audit opinion during the 2015-16 financial year, some improvement was evident in the reduction in the number of areas qualified. This is proof that the efforts made by the leadership to address the various challenges faced by this department have started to yield results. Continuous attention from the provincial leadership is required to ensure further improvement, especially relating to the supervision that is provided at the operational sites where funds are used to ensure that intended services are delivered to citizens.

The quality of financial statements submitted for auditing remained a major concern, with only nine auditees (47%) submitting quality financial statements (requiring no material adjustments) during 2015-16. Although this represents some improvement compared to the seven (37%) in 2014-15, it confirms that many auditees continued to experience difficulties around internal controls and their ability to produce accurate financial reports. This highlights the fact that in many instances financial statements are not sufficiently reviewed.

There has been an improvement, from three auditees (16%) to six (32%), in the number of auditees with no material findings on compliance with key legislation. It is, however, of concern that 13 auditees (68%) still had findings on compliance with legislation, with 12 (63%) being unable to prevent and deal with unauthorised, irregular and fruitless expenditure and 11 (58%) with findings on the management of procurement and contracts.

The premier in the previous year undertook to put a process in place to improve the quality of financial statements submitted for auditing and to address the high number of instances of non-compliance with legislation. Although some improvements were noted in the year under review, to ensure further improvement in audit outcomes in the future, this process still needs to be fully implemented.

Irregular expenditure was reported at 16 auditees (84%), mainly due to the lack of basic controls and non-compliance with SCM legislation. The value of these controls cannot be emphasised enough as they are an important mechanism to curb widespread abuse of the public resources that are required to provide services to citizens. The controls that require attention relate to the record-keeping and review of information to support the procurement process. Irregular expenditure in the year under review amounted to R1 756 million (2014-15: R1 372 million), of which 99,7% resulted from instances of non-compliance with SCM legislation. The most common SCM findings related to uncompetitive or unfair procurement processes and inadequate contract management.

The quality of annual performance reports had stagnated year-on-year from 11 auditees (58%) with no findings in 2014-15 to 10 (53%) in 2015-16. The fact that eight auditees (42%) still had findings on their annual performance reports is of concern and indicative of a lack of systems and skills required for planning, collating and reporting annual performance information. There has been an 11% increase in the number of annual performance reports requiring material adjustments. This is concerning and indicates that the reporting, review and oversight processes in place were not sufficient.

The reliability of performance information remained a challenge. In 2015-16 seven auditees (39%) had findings in this area (2014-15: six [33%]). The two largest departments in the province, Health and Education, both had findings on the reliability of their performance information. The root cause of this finding at these two departments related to basic controls over record-keeping that were not properly implemented. Inconsistencies in the documentation provided by the various regional and local offices contributed to this problem and a well-coordinated effort is required to ensure that standard documentation is generated and securely stored in a manner that allows for easy retrieval.

We noted a 16% regression in the financial health of the Northern Cape. There is doubt about two public entities' ability to continue as going concern, while only two departments were favourably assessed on their financial health (i.e. fewer than two unfavourable financial health indicators). We are concerned that 11 departments (85%) were in an accrual-adjusted net current liability position at year-end (total current liabilities exceeded total current assets mainly due to amounts accrued but not yet paid at year-end). This confirms

that a number of departments did not manage their budgets properly. The practice of departments committing a substantial portion of the next year's budget in the current year is unsustainable and can have a negative impact on service delivery. Budgetary controls need to be implemented in such a way that departments only spend what they budgeted for in a particular period. This is only possible if proper budget management principles are applied throughout the financial year.

The status of internal controls improved at an overall level. Considering the improvement in audit outcomes, the internal control area that had the most impact on driving this improvement in the audit outcomes was leadership (moved from 20% to 42% effectives). Although the area of leadership improved, more needs to be done to ensure the sustainability of audit outcomes. This will only be achieved if the leadership proactively responds to audit findings and takes full responsibility for the audit outcomes.

The area of governance also improved and the shared internal audit units and audit committees continued to operate effectively. Failure to establish internal audit units and audit committees at 16% and 11% of auditees (2014-15: 21% and 16%), respectively, remained a concern and since this problem mostly relates to public entities, we urge oversight bodies to intervene in order to find a solution.

The stability in the chief executive officer and chief financial officer positions improved compared to the previous year. However, vacancies in HoD positions increased, with five HoD positions being vacant at year-end. Although the individuals acting in these vacant positions generally performed well, the high vacancy rate is a concern that requires the premier's attention.

The overall assessment of IT has stagnated when compared to the previous year. The lack of improvement in the status of IT can be attributed to concerns around IT managers not having adequate skills to ensure that IT controls were adequately implemented. This resulted in the majority of auditees addressing symptoms rather than implementing process improvements and as a result new IT control weaknesses are identified each year.

The following key root causes were noted at auditees that have not yet achieved clean audit status:

- Slow response by management (11 auditees, 58%).
- Inadequate consequences for poor performance and transgressions (eight auditees, 42%).
- Slow response by political leadership (seven auditees, 37%).

Overall, there were fewer root causes in the year under review. The improvement is reflected in the improved audit outcomes, which confirms that the province is moving in the right direction, although some auditees still have some work ahead in addressing the weaknesses identified in their internal control environment.

The administrative leadership needs to focus on the critical areas where progress is still lacking, namely:

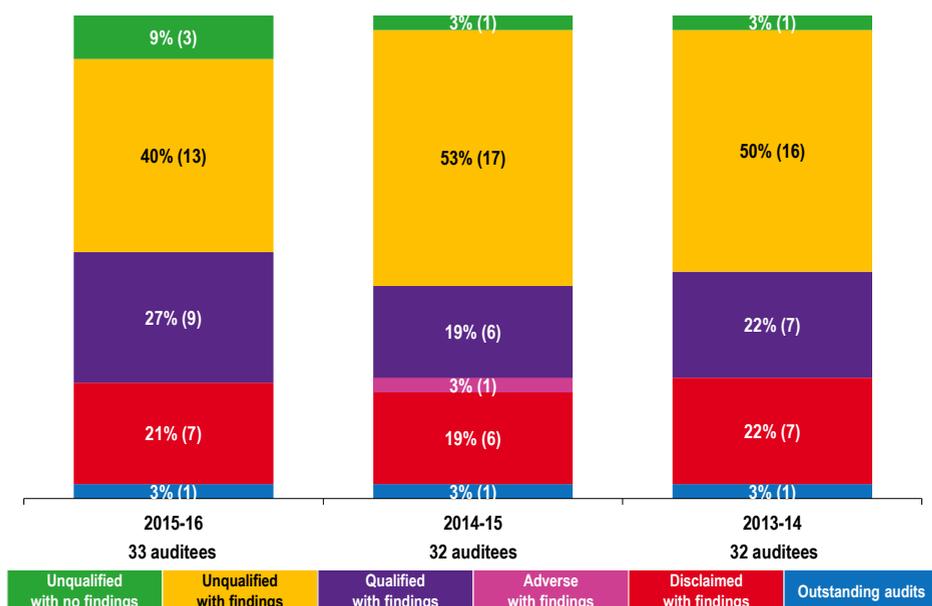
- the quality of the financial statements submitted for auditing
- compliance with key legislation, in particular SCM legislation
- the quality of annual performance reports, with emphasis on the reliability of performance information.

All three oversight departments achieved clean audits and the following good practices at these three departments should be emphasised and shared when carrying out their oversight responsibilities at the departments directly involved in delivering services to the public:

- Accounting officers maintained an effective control environment that prevented or detected and corrected breaches timeously.
- The leadership responded to the findings from internal and external audit, avoiding a recurrence of previous year's findings.
- Officials were held accountable for their actions.
- Sound record-keeping systems, resulting in easy retrieval of information.
- Regular interaction with auditors to ensure a better understanding of audit findings and recommendations.

## 9.8 North West

### Three-year audit outcome



Overall, the audit outcomes of North West for 2015-16 have remained largely unchanged from previous years. The 2013-14 audit outcome of the former Department of Human Settlements is included in the three-year audit outcome figure for comparison purposes. Four auditees registered improved outcomes and five regressed, resulting in only 49% of auditees with financially unqualified opinions compared to 56% in 2014-15 and 53% in 2013-14. It is encouraging, however, to note that the Department of Finance has maintained its clean audit status for three consecutive years. Two more auditees improved to a clean audit status in 2015-16, namely the Department of Economic and Enterprise Development and the North West Agricultural Bank.

The effort by these two departments to institutionalise key controls, ensure that there is stability and appropriate competencies in key positions and have committed leadership, are best practices that should be replicated in the province as a whole.

The outcomes of the public entities in the province remained poor with seven entities being disclaimed. This includes a regression in the outcome of the North West Development Corporation group after a significant restructuring with entities previously part of the North West Parks and Tourism Board group. The current performance and outcomes of the public entities can be attributed to a lack of effective monitoring by the provincial leadership as well as the responsible departments.

While we recognise the need for the restructuring and repositioning of public entities to achieve efficiencies in delivering on the provincial leadership's mandate, we raised a number of material findings in terms of legal and administrative compliance in implementing these strategic decisions. The implications of these decisions should be appropriately considered and clear guidance be provided by the responsible accounting officers or authorities, to ensure that all legal, administrative and accounting issues are taken into account to ensure a smooth implementation. The public entities in the province control significant assets and the risk exists that if these assets are not used to their full potential, these public entities might become redundant.

The commitment of implementing the back-to-basics approach adopted by the provincial leadership is yet to yield the desired outcomes and impact in the administrative environment. Simple key controls such as records management, daily and monthly processing and reconciling controls and accurate and regular financial and performance reporting were still not being implemented or needed to be strengthened. Vacancies in the key positions of accounting officer or authority, chief executive officer, chief financial officer and head of the SCM unit continued to impact the ability of senior management and the administrative leadership to respond decisively to internal control weaknesses and implement corrective actions. Officials lacked the discipline to prepare accurate financial and performance reports throughout the year, while financial statements and performance reports were not effectively reviewed by management and the internal audit unit or audit committee before being submitted for auditing. Addressing these root causes is critical to ensure that audit outcomes are improved in the future.

Although there has been an improvement in the timely submission of financial statements over the past three years, the financial statements of the North West Tribal and Trust Fund (D-account) (included in the three-year audit outcome figure for illustrative purposes) remain outstanding since 2001, with the last audit as at 31 March 2001, resulting in a disclaimer of opinion. Furthermore, the books and accounts of the 92 individual tribal authorities have not been submitted for auditing since 1994, as required by the North West Traditional Leaderships and Governance Act, 2005 (Act No. 2 of 2005), as amended. Further details of these accounts are highlighted below.

We commend the province for submitting annual financial statements; however, the quality and availability of the underlying financial records remained a concern, with auditees relying on the audit process to produce credible financial statements. Had the material misstatements identified by the auditors not been corrected, only six of the auditees (19%) would have received a financially unqualified opinion as opposed to the reported 16 (49%). The material misstatements were due to the vacancies and lack of skills in key positions, which then contributed to the lack of daily and monthly financial disciplines.

Except for the three clean audits, all other auditees (91%) had material findings on compliance. These findings included material misstatements in the submitted financial statements, the auditees' inability to prevent irregular and fruitless and wasteful expenditure, as well as continued findings on procurement and contract management where SCM prescripts were not adhered to. These SCM transgressions resulted in 98% of the irregular expenditure in the year under review and were mainly due to a lack of consequence management, non-compliance with legislation and a slow response by political leadership.

This lack of consequence management has led to increased levels of irregular expenditure, with a further R2 976 million (2015: R2 062 million) incurred in the year under review, resulting in a total balance of R13 216 million in unresolved irregular expenditure for the province. It should be noted that while not all irregular expenditure results in financial losses for the auditee, the high levels of non-compliance with SCM prescripts increase the risk that value for money might not be achieved when goods and services are procured. It is imperative that the provincial executive leadership and oversight structures lead by example and hold officials accountable for poor performance and transgressions and implement the consequence management as required by law.

Over the past three years, there was increased pressure on the auditees' financial viability. Most public entities were unable to pay their creditors within 90 days and at year-end their debt in most cases exceeded the cash available. At the Department of Health, the timeous payment of payables that exceeded the 30-day payment period would have resulted in possible unauthorised expenditure. Strong discipline is required on how funds are managed, monitored and spent to ensure the most effective, efficient and economic use of resources.

There has been an increased culture of auditees only collating supporting evidence on their performance reporting, once the audit process commences. Consequently, most auditees still had material findings on the usefulness and reliability of their performance reports. Four of the seven auditees with no

findings, had to make material adjustments to their annual performance reports while three public entities did not report on their performance at all. The major findings on usefulness related to indicators or targets not being measurable; inconsistency of indicators and targets reported between the strategic plans or annual performance plan and annual performance report; and the reasons for variances between planned and actual performance not being disclosed. The most common finding on reliability of the information remained the inability of management to provide sufficient appropriate evidence to support the reported performance information, as controls were not in place to ensure that the information being reported was accurate and complete when compared to source documentation. These findings were mainly as a result of programme managers not being knowledgeable about the performance management requirements and taking responsibility to implement monitoring controls over performance reporting.

We noted that most public entities and some departments made minimal progress in attending to IT control weaknesses reported in previous years and that further improvement is needed, specifically regarding controls over systems that directly generate information required for financial and performance reporting. The coordinating departments responsible for managing and administering these departmental financial systems did not effectively play their role to ensure that adequate controls over areas of security management, user account management and IT service continuity are implemented and adequately managed. Contributing to the latter was the late appointment of the provincial Gito, which was only concluded towards the end of the financial year, and the fact that most IT managers did not have the required skills and qualifications. The weak IT controls identified not only increased the risk of fraud, but could also undermine the business continuity of these auditees.

Commitments made by various levels of assurance providers, including the coordinating departments and provincial executives over the past two years, did not translate into tangible implementation because of little or no consequential monitoring thereof. A concerted effort is required in terms of decisively addressing the quality of financial statements, the prevalence of non-compliance, the lack of consequence management and the investigation of irregular expenditure in the province as a whole.

The provincial executive leadership and oversight structures should collaborate to develop a comprehensive assurance model, including strong and effective governance structures, which is needed so that all key role players adequately perform their monitoring duties and the leadership is held accountable for future commitments made with regard to improved financial and performance reporting disciplines. This should include key oversight activities, especially on matters of consequence management, tracking of commitments,

implementation of audit action plans and the timely tabling and regular follow-up of key resolutions.

### *North West Tribal and Trust Fund*

The North West Tribal and Trust Fund (commonly known as the D-account) is one central bank account maintained by the Provincial Treasury, with individual ledger accounts, comprising the following:

- A total of 785 trust accounts (funds held in trust) from the former Bophuthatswana era totalling approximately R122,7 million as at 30 June 2016.
- A total of 92 traditional authority accounts totalling approximately R42,2 million as at 30 June 2016.

We last received financial statements for the North West Tribal and Trust Fund for audit purposes in 2001. The audit outcome of these financial statements was a disclaimed opinion.

The D-account has recently been given attention in the media after the Public Protector launched an investigation, specifically, into the Bapo Ba Mogale account in 2013. We received confirmation from the Provincial Treasury that the Public Protector's investigation was specifically around the Bapo Ba Mogale account and not the D-account as a whole.

### *North West traditional authorities*

The 92 traditional authorities in the province have been governed by various pieces of legislation since their establishment by the former Bophuthatswana government. The current North West Traditional Leadership and Governance Act, 2005 (Act No. 2 of 2005), as amended, stipulates the premier as being the ultimate custodian in terms of the act. Since promulgation of the act, the previous premiers did allocate certain functions to the MEC responsible for traditional affairs. However, the extent to which the current premier has delegated powers and functions to the MEC needs to be established and formalised by the North West provincial leadership.

Section 30 of the said act provides for the basis of maintaining the books and accounts for these traditional authorities, while section 31 provides for the auditing of these accounts by the auditor-general. However, since 1994 we have not received financial statements for audit purposes from any of these traditional authorities. This fact has been communicated to all premiers and directors-general from that time to date, at regular intervals.

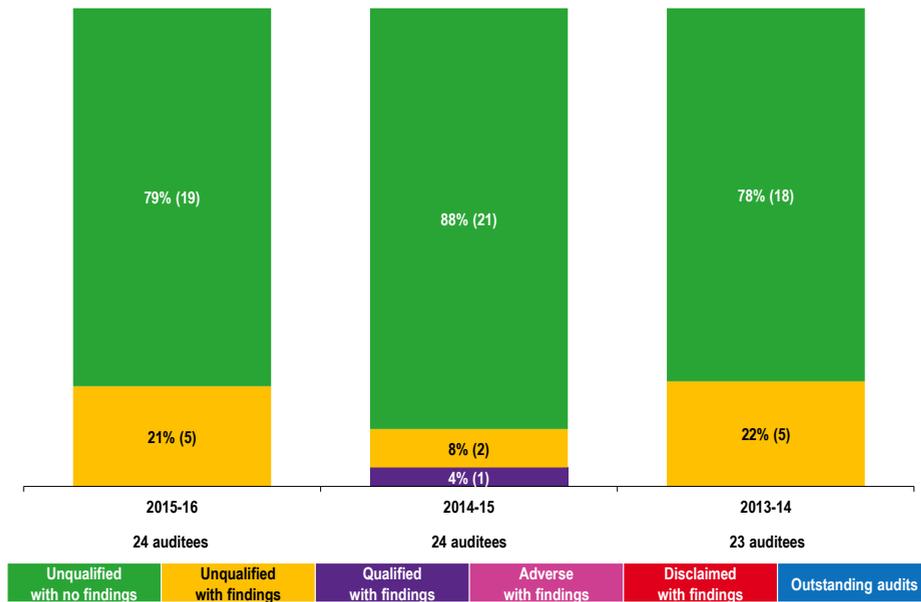
The emerging risks facing the provincial leadership when taking accountability in preparing financial statements for these traditional authorities for submission to the auditor-general for auditing include the following:

- The act is not prescriptive regarding the applicable accounting framework to be applied by the traditional authorities in preparing such financial statements.
- Clarity on the total number of the tribal and trust accounts in the North West.
- The completeness of revenue in these accounts in terms of mining royalties, due to the absence of monitoring controls as required by the act.
- The availability of supporting documentation since 1994, to facilitate the compilation of the books and accounts for auditing.

We have previously consulted with other affected provincial treasuries and the National Treasury on the accounting framework required for these financial statements, but have not received clarity. The last meeting we convened was on 26 June 2013, to clarify what their way forward would be in dealing with the challenges in preparing financial statements for accountability and audit of both the tribal and trust fund and the various traditional authority accounts. We have not yet seen any progress or received feedback, although we follow up annually on receipt of PFMA financial statements. The National Treasury has been working on a research paper which seeks to make recommendations on how to deal with the abovementioned challenges, but limited progress has been made in this regard. It has recently come to our attention that government has been working on a new bill, namely the Traditional and Khoi-San Leadership Bill, 2015, which also seeks to address these challenges.

## 9.9 Western Cape

### Three-year audit outcome



The overall provincial audit outcomes for the Western Cape have regressed slightly compared to the previous year, but it sustained its outcomes for the past three years. It is encouraging to report that the provincial departments that received clean audit outcomes in 2014-15 were able to sustain their clean audit status in the period under review. The Department of Health remained the only provincial department with a financially unqualified opinion with findings for both the year under review and previous year due to a material finding reported on the reliability of their annual performance report. The department improved in the area of compliance with legislation because, unlike the previous year, no material findings on compliance were reported. The 13 provincial departments that sustained their clean audit outcomes comprised 64% of the provincial budget, while Health comprised 36% of the provincial budget. The Western Cape Housing Development Fund also managed to improve from a qualified audit outcome in the previous year to an unqualified audit outcome with findings in the year under review. The Western Cape Tourism, Trade and Investment Promotion Agency improved from unqualified with findings to a

clean audit outcome. Three entities, however, regressed from a clean audit outcome in 2014-15 to unqualified with findings in 2015-16.

Three auditees (13%) submitted financial statements that contained material misstatements and had to make corrections to avoid a qualified audit opinion. Overall, there has been a slight regression in the quality of financial statements submitted for auditing by provincial public entities, which remained the biggest risk to further improvement and maintenance of good audit outcomes in the province. The misstatements identified at these entities related to year-end closing processes and were mainly as a result of vacancies that arose late in the financial year necessitating reliance on consultants to assist with the compilation of the financial statements.

The number of auditees with material findings on compliance remained unchanged since the previous year at 13%. The areas of non-compliance related to the quality of financial statements submitted (three auditees) and procurement and contract management (one auditee).

Irregular expenditure decreased from R124 million in the previous year to R28 million in the year under review. Auditees that were able to avoid material findings on procurement processes were able to do so because senior management regularly monitored and reviewed controls to ensure proactive compliance with legislation and instilled discipline among staff to adhere to the regulations. It is pleasing to note that the province did not incur any unauthorised expenditure for the fourth consecutive year and that fruitless and wasteful expenditure decreased from R2,7 million to R168 325 in the current year.

Overall, five auditees (22%) submitted annual performance reports that contained material errors, as was the case in the previous year. The quality of annual performance reports remained a concern for the sustainability of clean audit outcomes as two auditees were unable to correct their annual performance reports, compared to one in the previous year. This resulted in material findings for the two auditees. No findings were raised on the usefulness of annual performance reports. The main reason for misstatements in submitted performance reports related to inadequate processes to collate information for reporting purposes.

The drivers of key controls for the year indicated that the leadership-related controls were sustained compared to the previous year, mainly due the stability in leadership roles and established policies, procedures and processes. Financial and performance management key controls were not sustainably effective at all auditees, considering the adjustments to the financial statements and performance reports. The control environment was also not always supported by adequate review processes during the reporting phase. As in the previous year, we noted that controls over performance reporting would be

effective for programmes audited in the past, but the same level of controls was not always rolled out to other programmes. Audit committees and internal audit functions (governance) were in place at all auditees and were robust and proactive regarding the implementation and monitoring of action plans to address internal control deficiencies. This has contributed to the sustained audit outcomes. Although the internal control environment is encouraging at most departments, the discipline of good practices should be duplicated across the provincial government to further improve the audit outcomes.

Overall, there has been a slight increase in the number of vacancies in key positions. All chief financial officer and senior management for monitoring and evaluation positions were filled at the end of 2014-15; however, one position became vacant during 2015-16 in each of these categories. Stability in these key positions is important to sustain and improve audit outcomes and control environments for financial and performance management and compliance with legislation.

The analysis for financial viability shows a regression in the status of financial health for departments. Fifty-seven per cent of the affected departments had an accrual adjusted net current liability position at year-end (current liabilities exceeded current assets) and it is therefore important that departments appropriately manage the amount of accruals and payables to limit the impact on their working capital at 31 March of each year.

The overall assessment of the IT control environment for departments has improved, with six departments that had no significant findings in the previous year and two additional departments that had no significant findings in the year under review. Although certain departments and public entities still experienced challenges in implementing IT controls, no significant IT risks were identified over the past two years. This is as a result of the centralised nature of IT services in the province as well as continued involvement, support and monitoring of commitments by the Centre for e-Innovation, Provincial Treasury and senior management at the auditees.

Our assessment of assurance providers confirmed that the required level of assurance provided by most of the key role players contributed to the overall audit outcomes for the province. Senior management should however strengthen the implementation of controls in the financial and performance reporting areas. They should focus on year-end processes and the related controls which mainly contributed to the material misstatements noted.

The executive leadership has continued with commitments made in the previous year relating to their monitoring and implementation of the corporate governance and review outlook (CGRO) process. The Provincial Treasury also continued their support and guidance through budgetary control, monitoring of monthly reports and enforcement of financial management practices. It is

pleasing to note that these initiatives contributed to the province not incurring unauthorised expenditure for the fourth consecutive year.

Accounting officers, accounting authorities and senior management are committed to achieve and maintain clean administration and provide consistent oversight to ensure that the required action is taken where weaknesses for controls have been reported. The assurance provided by audit committees through their oversight continued to contribute to the drive for clean administration.

In order to sustain and improve audit outcomes for the province, the following actions should be monitored or improved:

- The administrative and political leadership should continue meeting their commitments and act in a timely manner when implementing effective and sustainable internal controls that support credible financial and performance reports and compliance with key legislation.
- Accounting officers and accounting authorities should hold senior management accountable for processes implemented in relation to annual performance reports being supported by sufficient and credible evidence for all programmes reported on (and not only those previously subjected to audit).
- Accounting officers and accounting authorities should continue and improve the review of controls in place to facilitate compliance with procurement legislation, such as the use of compliance checklists by many of the auditees to avoid a regression in this area.
- Oversight committees should continue to collaborate with each other and improve key oversight activities, including the timely tabling and regular follow up of key resolutions.
- Accounting officers or authorities and senior management must implement basic internal controls and accounting disciplines effectively, by preparing regular and accurate financial statements and performance reports, which enable governance structures to sufficiently review them. They should further implement processes which ensure an adequate and timely response to any new accounting, performance reporting and compliance developments to facilitate accurate reporting.