3 The status of financial management

3.1 Financial statements

Figure 1 provides a three-year overview of audit opinions on the financial statements, the percentage of auditees that had submitted their financial statements for auditing by the legislated date (blue line), and the percentage of auditees that submitted financial statements that were not materially misstated (red line). Figure 2 provides the same overview for departments and public entities separately.

Figure 1: Three-year trend – audit of financial statements

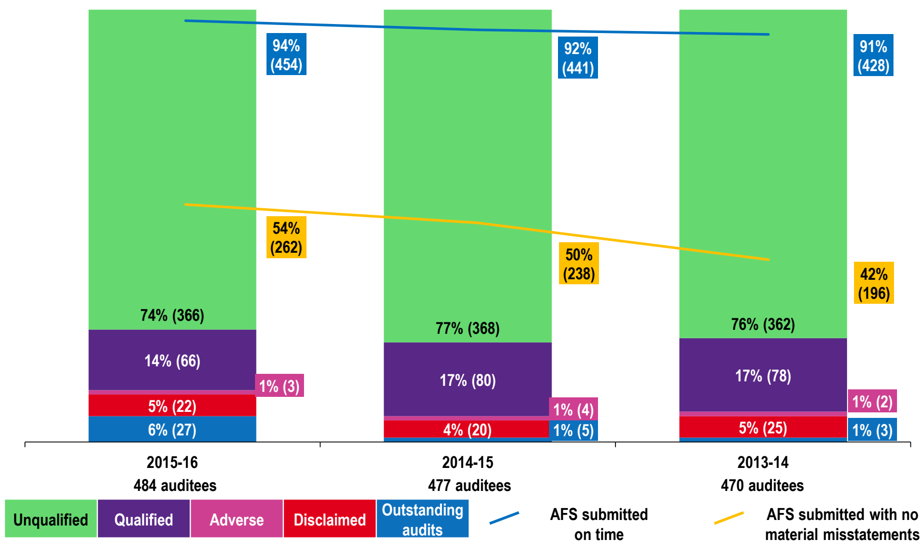


Figure 2: Audit of financial statements – departments and public entities

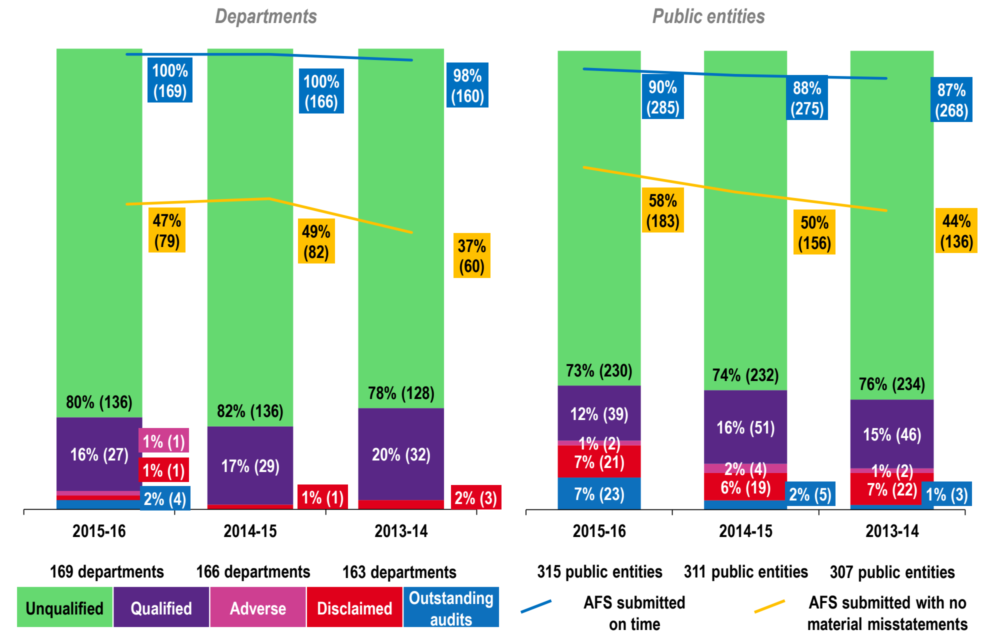


Figure 1 indicates that 94% of auditees had submitted their financial statements for auditing by 31 May 2016 (or 31 March in the case of technical vocational education and training [TVET] colleges) as required by legislation, which is a slight improvement from the 91% in 2013-14. Six public entities have not submitted their financial statements – some of them for more than one year. Section 6 contains more detail on these auditees and the reasons for non-submission. Figure 1 further shows that the audit opinion on the financial statements had slightly regressed since 2013-14 and the previous year to 74% unqualified opinions in 2015-16.

Only 54% of the auditees were able to provide auditors with annual financial statements in 2015-16 that contained no material misstatements, an improvement from the 42% in 2013-14. This means that 59 departments (35%) and 67 public entities (21%) received a financially unqualified audit opinion only because they corrected all the misstatements we had identified during the audit. A total of 27 departments and 42 public entities were unable to make the necessary corrections to their financial statements, which resulted in qualified, adverse or disclaimed audit opinions.

The main reason for not making corrections was the unavailability of information or incomplete information or documentation to determine the correct amounts to be reflected in the financial statements.

Forty per cent of the financial statements of the national and provincial departments of **Education, Health and Public Works** received a qualified or disclaimed opinion. This has remained unchanged from 2014-15. Regressions in audit opinions were noted at Education (Free State) and two Health (Limpopo and North West) departments.

Table 1 shows the percentage of auditees in national and provincial government that submitted quality financial statements for auditing (i.e. with no material misstatements) and the outcome after the corrections made.

Table 1: Status of financial statements in national and provincial government

Portfolio	Financially unqualified auditees before correction of material misstatements		Financially unqualified auditees after correction of material misstatements	
	Number	Movement from 2014-15	Number	Movement from 2014-15
National auditees	120 (52%)	►	186 (81%)	►
Eastern Cape	17 (68%)	▲	24 (96%)	▲
Free State	6 (33%)	▼	10 (56%)	▼
Gauteng	25 (71%)	▲	35 (100%)	▲
KwaZulu-Natal	23 (68%)	▲	29 (85%)	▲
Limpopo	4 (17%)	►	15 (65%)	►
Mpumalanga	6 (35%)	▼	11 (65%)	►
Northern Cape	10 (53%)	▲	16 (84%)	▲
North West	6 (19%)	►	16 (50%)	▼
Western Cape	23 (96%)	►	24 (100%)	►
Total	240 (53%)	►	366 (80%)	►

The second column of table 1 lists the low percentage of auditees in national and provincial government that would have received an unqualified audit opinion if no corrections were made to the financial statements (i.e. submitted annual financial statements with no material misstatements). It also shows that there has been an improvement in the quality of submitted financial statements in four provinces while the quality of annual financial statements in the Free State and Mpumalanga regressed. The fourth column of table 1 shows that the Western Cape and Gauteng had the most number of auditees that received a financially unqualified audit opinion (100%). The Free State and North West regressed, while most of the other provinces improved or showed little movement.

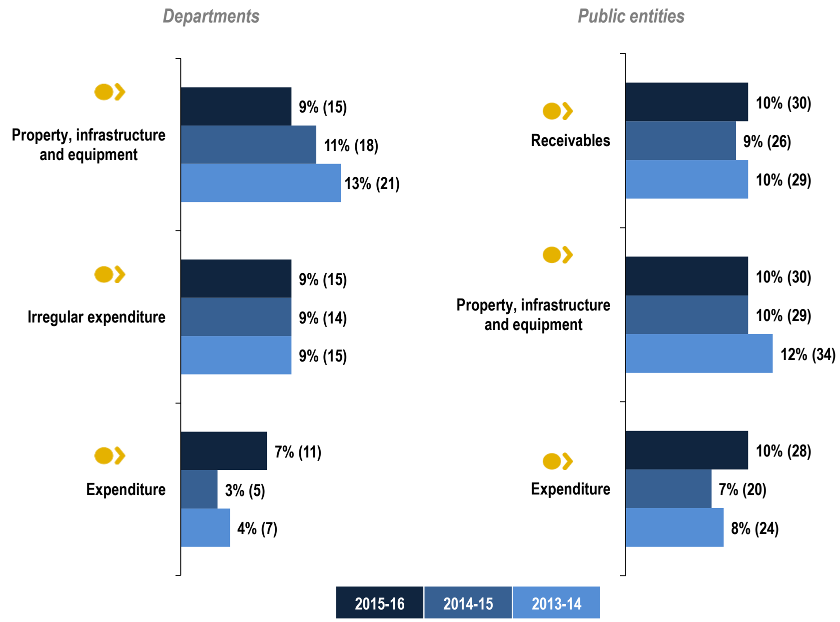
Continued **reliance on the auditors** to identify corrections to be made to the financial statements to obtain an unqualified audit opinion is not a sustainable practice. Over the years this has placed undue pressure on the audit teams to meet legislated deadlines for the completion of audits, with an accompanying increase in audit fees.

National Treasury Instruction no. 05 of 2014-15 requires departments to prepare interim financial statements for each quarter of the financial year ended 31 March 2016 and submit these to the National Treasury a month after the end of the quarter. We also encourage the preparation of interim financial statements as a control measure at all entities to assist with sound financial management.

Although departments do comply with the submission requirements of the instruction note, it is found that all too often the submissions are incomplete and not of a good quality. This is indicative of the fact that the interim financial statements are purely submitted in an effort to comply with the instruction note. These submissions thus do not serve the intended purpose of assisting the auditees to improve their monthly and quarterly financial management disciplines.

Figure 3 shows the three most common financial statement qualification areas of departments and public entities whose financial statements received a qualified opinion, and the progress made in addressing these areas since 2013-14.

Figure 3: Three most common financial statement qualification areas – departments and public entities



The number of auditees qualified in these areas has not changed significantly over the three years.

The main reason for auditees to be qualified on **property, infrastructure and equipment** was that the value of assets recorded in the financial statements was either incorrect or we could not confirm the value at which these assets had been recorded. The qualifications were most common in the Health sector for departments and the TVET colleges for public entities. Of the 15 departments that were qualified in this area, 33% were from Limpopo while 57% and 23% of the public entities were from national and North West, respectively.

The main reason for departments to be qualified on the **irregular expenditure** disclosed in their financial statements was that not all irregular expenditure had been disclosed, or sufficient evidence could not be obtained that all irregular expenditure had been disclosed. The qualifications were most common in the Health and Education sectors. The Free State had the highest number of departments that were qualified on irregular expenditure at 40% in 2015-16.

The main reason for public entities to be qualified on **receivables** was that they had difficulty in accurately disclosing in their financial statements all amounts receivable or calculating and recording receivable amounts incorrectly. The qualifications were most common at the TVET colleges. From the 30 public entities that were qualified on receivables, 67% and 27% were from national and North West, respectively.

Auditees were qualified on **expenditure** because not all expenditure had been recorded, sufficient evidence could not be obtained that all the expenditure had been disclosed or expenditure was shown as transfer payments while it should be goods and services. Furthermore, evidence could not be obtained that transactions and events that had been recorded, had occurred. The qualifications were most common in the Education and Health sector for departments and the TVET colleges for public entities. The Free State had the highest number of departments that were qualified in this area at 45%, while national public entities and those in the North West had 68% and 18%, respectively.

A

Annexure 1 lists all auditees and the areas qualified.

3.2 Compliance with key legislation

Figure 1 depicts the number of auditees that had material findings on compliance over the past three years, while figure 2 indicates the material findings on compliance per auditee type and table 1 the status of compliance of the completed audits in national and provincial government.

Figure 1: Auditees with findings on compliance with key legislation

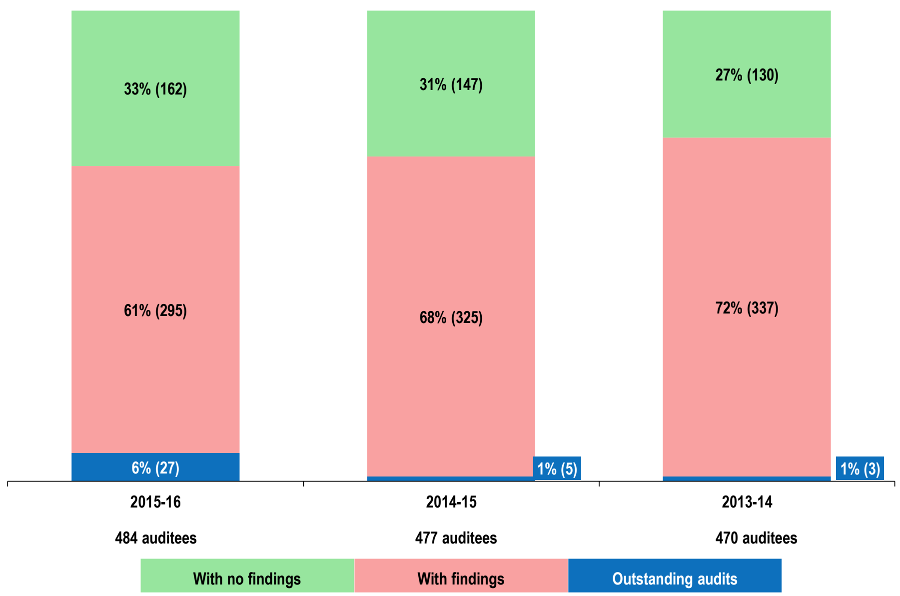


Figure 2: Findings on compliance with key legislation – departments and public entities

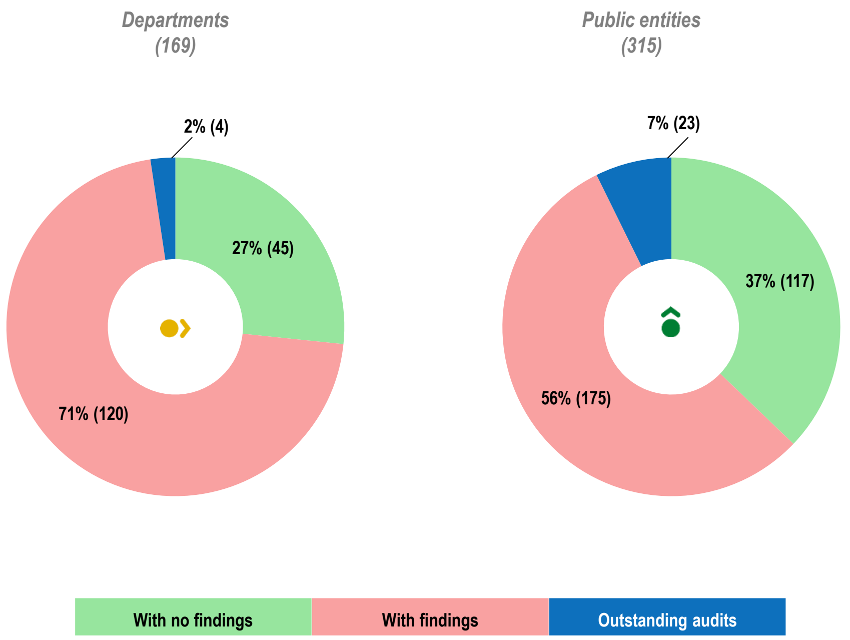


Table 1: Status of compliance with key legislation in national and provincial government

Portfolio	Auditees with no findings on compliance	
	Number	Movement from 2014-15
National auditees	83 (36%)	→
Eastern Cape	9 (36%)	↑
Free State	2 (11%)	↓
Gauteng	21 (60%)	↑
KwaZulu-Natal	12 (35%)	↑
Limpopo	0 (0%)	↓
Mpumalanga	5 (29%)	↑
Northern Cape	6 (32%)	↑
North West	3 (9%)	↑
Western Cape	21 (88%)	→
Total	162 (35%)	→

While the three-year trend reflects an improvement, non-compliance with key legislation remains high. The number of departments with no material findings decreased from 51 to 45 since 2014-15, which represents a slight regression. However, this was offset in the overall picture by an increase in the number of public entities with no findings from 96 to 117.

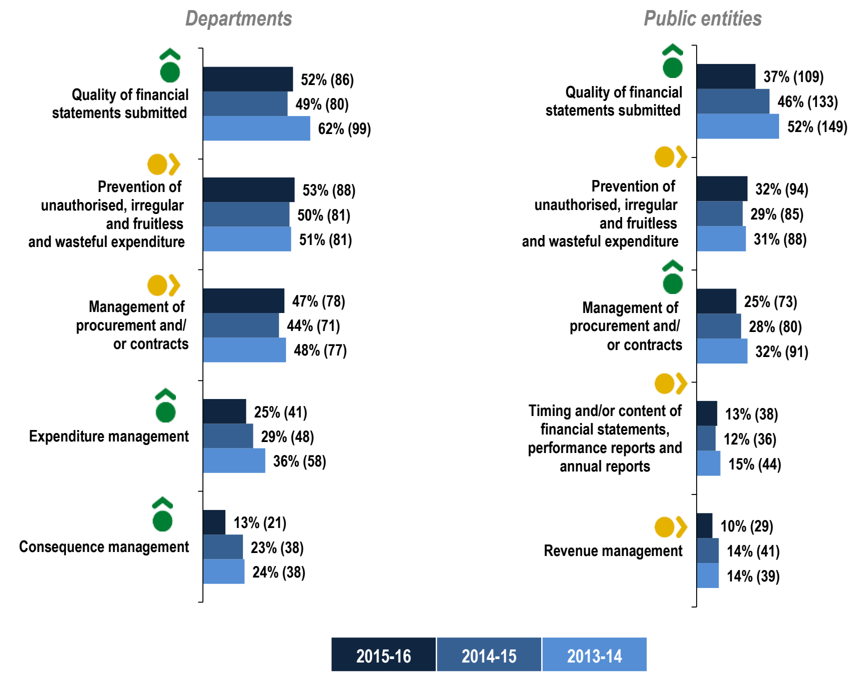
Ninety per cent of the departments of **Education, Health and Public Works** had findings on compliance with key legislation. This has relatively remained unchanged from the previous year when 93% of these departments had findings.

The number of auditees with no compliance findings improved in most of the provinces, except in Limpopo which had no auditees without compliance findings and the Free State that regressed. The Western Cape and national auditees remained unchanged.

Two hundred and nine (71%) of the 295 auditees with material findings on compliance in 2015-16 had findings with a <u>potential</u> negative financial impact or findings which could cause a financial loss for the auditee or government. Not all non-compliance with legislation has financial loss implications, e.g. material misstatements in financial statements do not result in money being lost.

Figure 3 shows the compliance areas with the most material findings in the year under review and the progress made in addressing these since 2013-14 per auditee type.

Figure 3: Most common areas of non-compliance – departments and public entities



Over the past three years, we have consistently raised material findings on compliance around the quality of financial statements submitted (material misstatements); prevention of unauthorised, irregular and fruitless and wasteful expenditure; and the management of procurement and contracts.

We report non-compliance with regard to **material misstatements** only in certain circumstances, as explained in section 10. Section 3.1 provides more information on the improvement in material misstatements.

There has been a slight regression in the **prevention of unauthorised, irregular and fruitless and wasteful expenditure** since 2013-14. Section 3.2.1 to 3.2.3 provides more information on the movements in this area.

Material findings on compliance with legislation in respect of **procurement and contract management** (also referred to as SCM) have decreased since 2013-14, with only a slight decrease in 2014-15. Section 3.2.1 provides more information on the findings and improvements in this area.

Findings on **the timing and/or content of financial statements, performance reports and annual reports** of public entities have slightly decreased over the three years.

Departments continued to struggle with **expenditure management.** In 2015-16 21% of departments did not pay creditors within 30 days or an agreed-upon period – a slight improvement when compared to 24% of departments in the previous year. More information is provided in section 3.3 on financial health on the state of payment within 30 days across all auditees.

Effective and appropriate steps were not taken to collect all money due – this remained a common finding under **revenue management** for public entities; 26 public entities (9%) had this finding when compared to 32 public entities (11%) in the previous year.

Legislation is clear on the **consequences** of non-compliance with legislation and the steps to be taken to deal with such transgressions. It is the role of those charged with governance to investigate non-compliance and the impact thereof, which could include financial loss through excessive expenditure (uneconomical use of funds), fruitless and wasteful expenditure, lost revenue and avoidable penalties and interest. Figure 3 indicates a decrease in the number of departments with non-compliance in this area since 2013-14. The most common finding in 2015-16 was that investigations were not conducted into all allegations of financial misconduct by officials – 11 departments. Section 3.2.4 provides further details on consequence management.

A

Annexure 1 lists all auditees and the compliance findings.

3.2.1 Irregular expenditure caused by weaknesses in supply chain management

Irregular expenditure

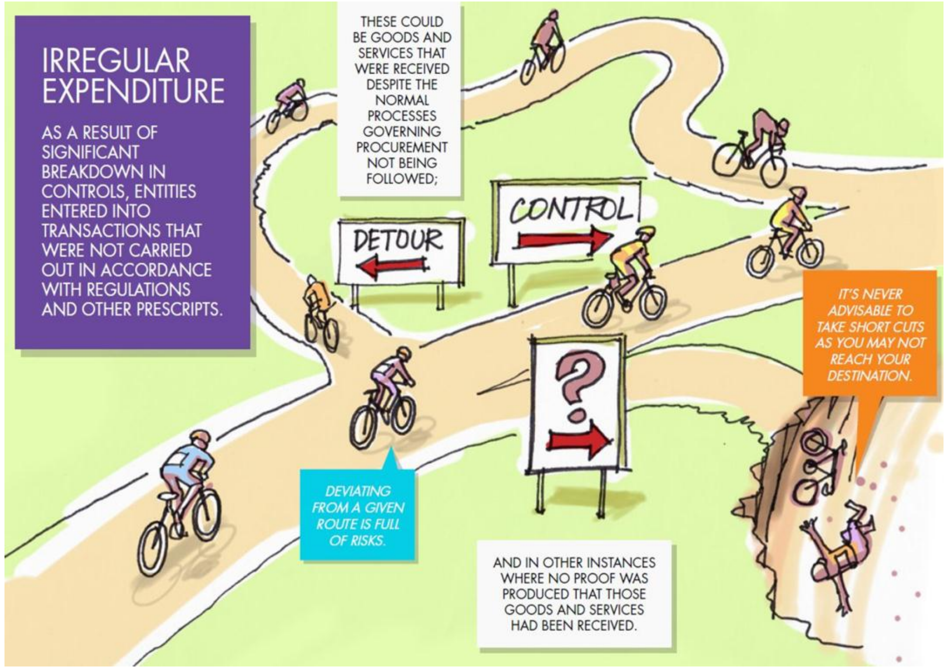
Irregular expenditure is expenditure that was **not incurred in the manner prescribed by legislation** – i.e. somewhere in the process that led to the expenditure; the auditee did not comply with the applicable legislation.

Such expenditure does **not necessarily mean that money had been wasted or that fraud had been committed**. It is an indicator of non-compliance in the process that needs to be investigated by management to determine whether it was an unintended error, negligence or done with the intention to work against the requirements of legislation, which, for example requires that procurement should be fair, equitable, transparent, competitive and cost-effective.

Through such **investigation** it is also determined who is responsible and what the impact of the non-compliance was. Based on the investigation the next steps are determined. One of the steps can be condonement if the non-compliance had no impact and negligence was not proven. Alternatively if it was proven the steps can be disciplinary steps, recovery of any losses from the implicated officials or even cancelling a contract or reporting it to the police or an investigating authority.

Figure 1 illustrates that irregular expenditure can be as a result of a ‘detour’, i.e. the transactions were not in accordance with legislation but goods and services were received and there were no losses or fraud. Such non-compliance can also be an indicator of more serious failure and impact.

Figure 1: Illustration of irregular expenditure

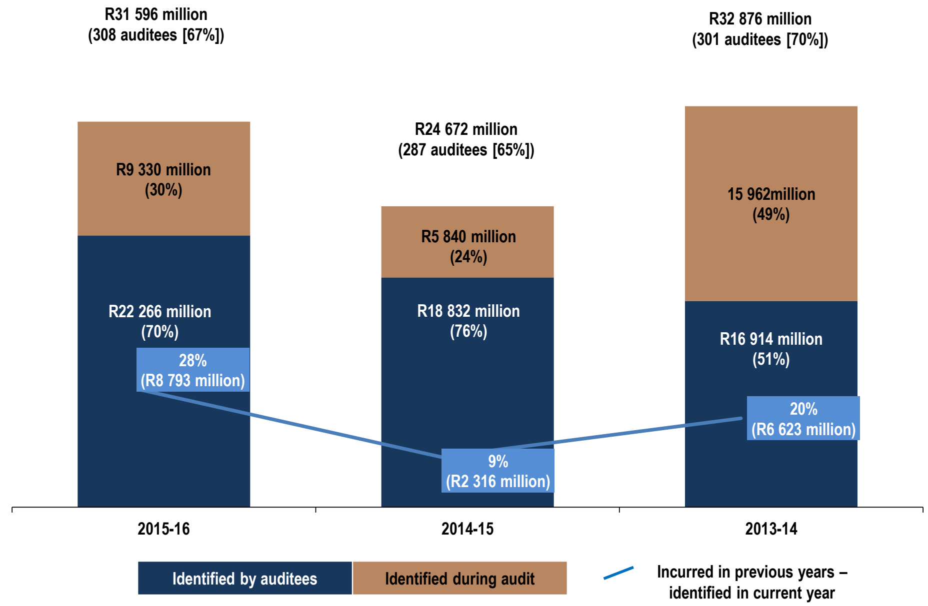


The PFMA is clear that **accounting officers and authorities are responsible** to prevent irregular expenditure and if it takes place what the process is that should be followed as described above.

In order to promote transparency and accountability **all irregular expenditure identified (whether by the auditee or through the audit process) is disclosed** by the auditees in their financial statements with detail on how it was resolved – i.e. how much was investigated, recovered or condoned.

Figure 2.1 shows the three-year trend in irregular expenditure based on the amounts that were disclosed in the financial statements of the auditees. It also indicates the percentage of irregular expenditure identified by auditees versus that identified by the audit process as well as the proportion of irregular expenditure disclosed that was incurred in previous years (blue line).

Figure 2.1: Three-year trend in irregular expenditure



The amounts shown in figure 2.1 only include those incurred by the auditees whose audits were completed by 12 August, the cut-off date we set for inclusion in this general report. Although we do not include the results of the audits completed after 12 August in the analyses in the general report (we only summarise them in section 6), we make an exception for irregular expenditure and fruitless and wasteful expenditure (section 3.2.2) as the amounts are so significant.

Figure 2.2 shows the three-year trend that includes the nine auditees whose audits we finalised after 12 August.

Figure 2.2: Three-year trend in irregular expenditure with audits subsequently finalised included

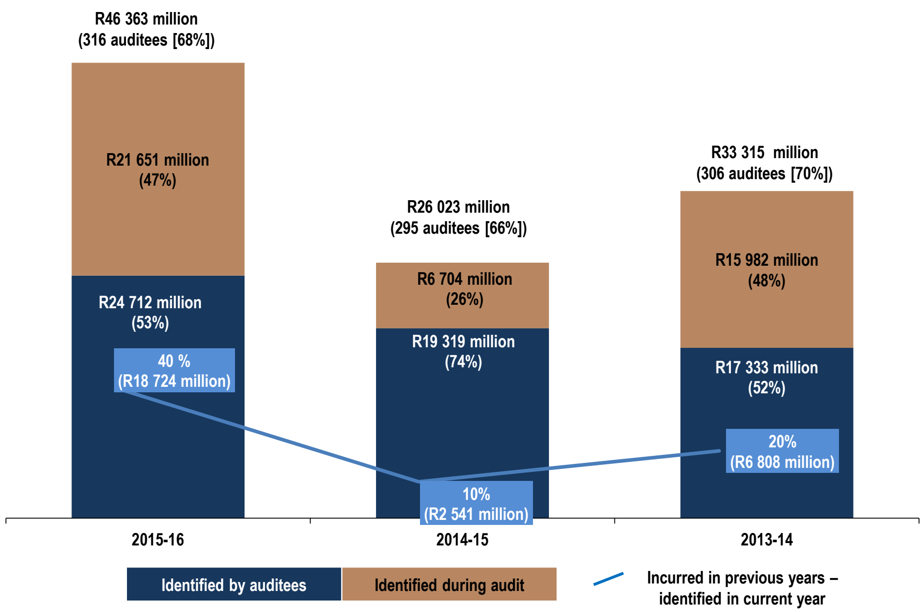


Figure 2.2 shows that the irregular expenditure increased by 39% (R13 048 million) since 2013-14 as well by 78% (R20 340 million) from the previous year. The number of auditees incurring such expenditure over the three years has increased to 316. A total of 259 (82%) of the 316 auditees **also incurred irregular expenditure in the previous year**, 233 (74%) of which has incurred such expenditure for the past three years.

KwaZulu-Natal, Mpumalanga, North West and national auditees were the **main contributors to the significant increase in irregular expenditure** from the previous year. The sectors with the highest amounts of irregular expenditure were, Transport (R16 806 million), Health (R7 720 million), Human Settlements (R3 517 million) and Education (R3 244 million).

Figure 2.2 shows that 40% of the irregular expenditure was the result of **acts of non-compliance in previous years**. This is typically due to one of the following scenarios:

1. Payments were made in the current year on a contract that was irregularly awarded in a previous year – if the non-compliance was not investigated and condoned the payments on these multi-year contracts will continue to be viewed and disclosed as irregular expenditure.
2. A non-compliance in previous years was only identified in the current year and all the related expenditure (even from the previous years') was disclosed in the current year.

If we determine that an auditee did not fully disclose all their irregular expenditure in the financial statements, the disclosure is qualified if material (refer to section 3.1 for more detail). To address such a qualification auditees typically do a very detailed review of their processes in previous years to identify all the irregular expenditure and correctly disclose it – i.e. as per scenario 2 above. In total, R550 million (2014-15: R1 743 million) of the irregular expenditure as shown in figure 2.2 was as a result of **auditees fully recognising their previous year's irregularities to address these qualifications**.

As detailed in the previous section on compliance, inadequate action taken by accounting officers and authorities to **prevent irregular expenditure** was one of the most common material findings on compliance. We reported the findings on compliance as material at 88 departments (53%) and 99 public entities (33%), based on the fact that they incurred irregular expenditure in 2015-16 and the previous year, a recurrence of the transgressions that had caused the irregular expenditure, and on our assessment that adequate controls and processes would have prevented it.

Figure 2.2 also shows that we had identified 47% of the irregular expenditure of 2015-16 during the audit process, which means that a number of auditees did **not have adequate processes to detect and quantify all irregular expenditure**. However, this is a slight improvement compared to 48% in 2013-14 but a regression from 26% in the previous year.

Completeness of irregular expenditure

Ninety-six auditees (21%) disclosed in their financial statements that they had incurred irregular expenditure, but the **full amount was not known** as it was still being investigated. In 2014-15, 101 auditees (22%) made this disclosure.

Thirty-four auditees were qualified in 2015-16 on the **completeness of the disclosure** of irregular expenditure in their financial statements.

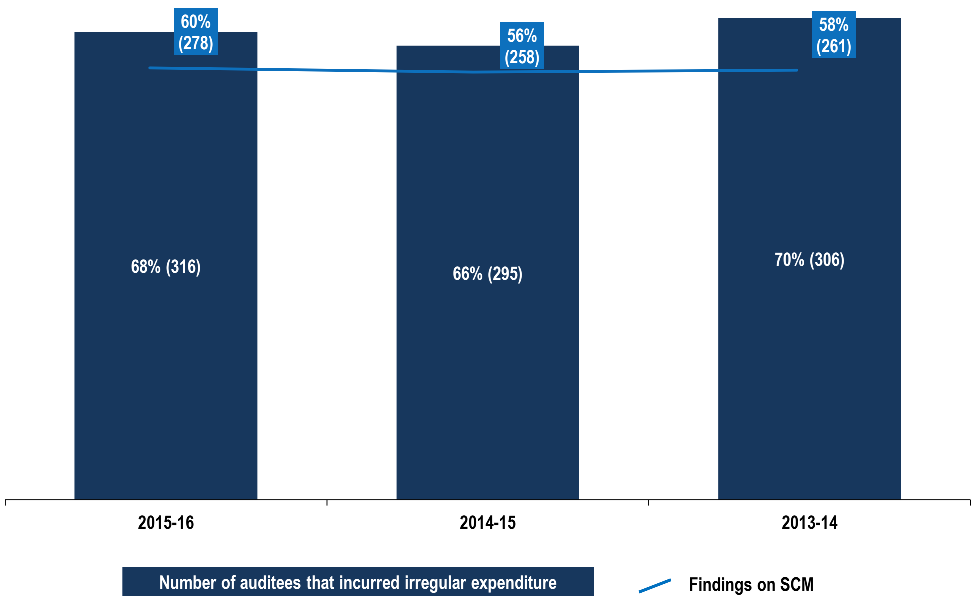
This means that the amount of irregular expenditure for 2015-16 **could have been higher** if these investigations had been completed by year-end and the correct amounts were disclosed in the financial statements.

What causes these high levels of irregular expenditure?

As part of our audits of SCM in 2015-16, we tested 6 008 contracts (with an approximate value of R92 843 million) and 18 910 quotations (with an approximate value of R2 514 million), also referred to as *awards* in the rest of the report. More information on the audit we performed is included in section 11.

Figure 3 shows the number of auditees where we reported findings on compliance with SCM legislation (whether reported in the audit report or only in the management report) and the number of auditees that incurred irregular expenditure over three years.

Figure 3: Irregular expenditure versus supply chain management findings



Although not all irregular expenditure is caused by the non-compliance with SCM legislation (hence there are more auditees with irregular expenditure than SCM findings), the figure highlights the **correlation between poor SCM practices and the high occurrence of irregular expenditure** in national and provincial government. Typically, other compliance findings such as when grants were not used for the purpose stipulated in the Division of Revenue Act (Dora) grant framework would also result in irregular expenditure but this is less common.

In total, R42 543 million (92%) **of the irregular expenditure in 2015-16 was as a result of non-compliance with SCM legislation**. The following were the main areas of SCM non-compliance as disclosed by the auditees in their financial statements, with an indication of the estimated value of the irregular expenditure:

- Procurement without a competitive bidding or quotation process – R19 525 million (46%) (2014-15: 50%, R12 214 million)
- Non-compliance with procurement process requirements – R20 657 million (49%) (2014-15: 40%, R9 801 million)
- Non-compliance with legislation relating to contract management – R2 361 million (5%) (2014-15: 10%, R2 337 million).

(More information on the typical findings in these areas is discussed later on in this section.)

Table 1 shows the auditees that were the **main contributors (53%) to irregular expenditure in 2015-16**. The corresponding figures for 2014-15 are shown in *italics.*

Table 1: Highest contributors to irregular expenditure

Auditee	2015-16		
	Amount (Million)	Instances	Nature
Passenger Rail Agency of SA	R13 971 *R551*	335 *32*	Non-compliance with Construction Industry Development Regulations and in some instances preference point system was either not applied or incorrectly applied
Health (KZN)	R2 521 *R839*	32 844 *17 949*	SCM non-compliance by implementing agents and extension of expired contracts without a competitive process
Human Settlements (GP)	R2 376 *R1 928*	200 *82*	Non-compliance with Dora regarding the use of grant money and payments made against contracts that were identified in previous years as irregular
Roads and Transport (GP)	R2 032 *R1 942*	37 *42*	Payments made against contracts that were identified in previous years as irregular
Health (MP)	R1 920 *R1 918*	3 104 *329*	SCM non-compliance by implementing agents and payments made against contracts that were identified in previous years as irregular
Department of Water and Sanitation	R1 711 *R87*	16 *20*	SCM non-compliance by implementing agents

Implementing agents are increasingly being used to manage and implement projects on behalf of departments. The agents can be government institutions (e.g. the Independent Development Trust), non-governmental organisations or private sector entities. Although there are many benefits to partnering with other entities to deliver on projects, we often find that the agents do not follow fair and competitive processes to procure goods and services for the projects even though they are also required to comply with the SCM legislation. As per table 1, this has been the cause of irregular expenditure by three of the top six contributors. Section 3.4 provides more detail on our findings on the use of implementing agents for key projects funded by conditional grants.

We did not investigate the irregular expenditure as that is the role of the accounting officer. However, through our normal audits we confirmed that **goods and services were received** for R37 981 million (89%) of the R42 543 million in irregular expenditure relating to SCM compliance, despite the normal processes governing procurement not having been followed. However, we could not confirm that these goods and services had been procured at the best price and that value was received for the money spent.

Supply chain management

We have been auditing and reporting on the weaknesses in SCM for a number of years and our messages have been consistent on the need to pay urgent and focused attention to improving the SCM processes.

Figure 4 depicts the number of auditees that had SCM findings and those where we have reported material findings on compliance in the audit report since 2013-14. Please note that the remainder of this section includes only the results of the audits completed by 12 August.

Figure 5 shows the status of SCM findings at departments and public entities, while table 2 illustrates the progress made with regard to auditees with no findings on SCM.

Figure 4: Status of supply chain management

Figure 5: Status of supply chain management – departments and public entities

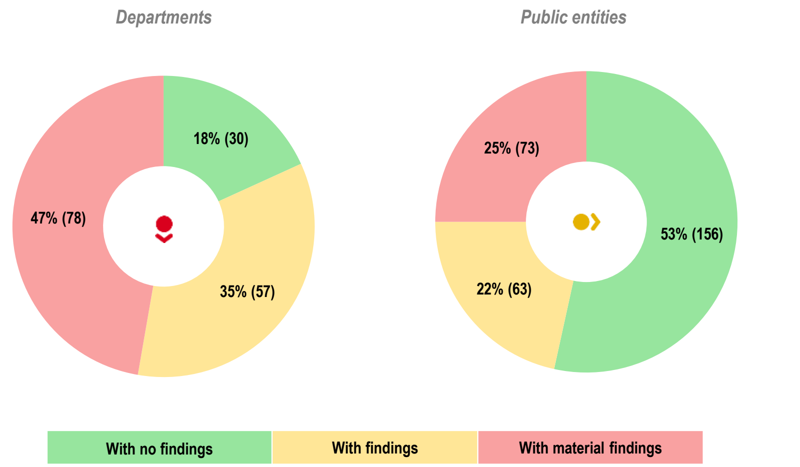


Table 2: Progress made with regard to supply chain management by national and provincial government

Portfolio	Auditees with no findings on supply chain management	
	Number	Movement from 2014-15
National auditees	109 (47%)	
Eastern Cape	7 (28%)	
Free State	2 (11%)	
Gauteng	22 (63%)	
KwaZulu-Natal	16 (47%)	
Limpopo	5 (22%)	
Mpumalanga	1 (6%)	
Northern Cape	2 (11%)	
North West	7 (22%)	
Western Cape	15 (63%)	
Total	186 (41%)	

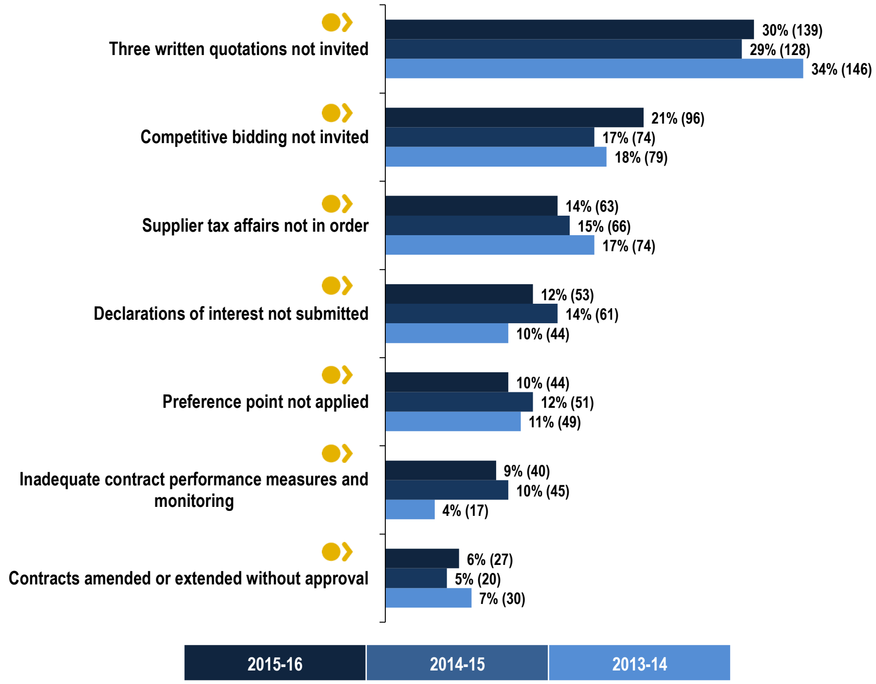
The overall status of auditees with no SCM findings slightly regressed since the previous year and since 2013-14, mostly as a result of a regression in SCM status at departments. National auditees and those in the Western Cape and Mpumalanga regressed since the previous year and only North West has improved.

The number of auditees with material findings slightly decreased since 2013-14, which shows auditees are paying more attention to SCM. However, there has been no movement since 2014-15 and it was of great concern that almost half of the departments and one of every four public entities did not comply materially with SCM legislation.

Not all non-compliance has a financial impact, but some legislative requirements, if not met, may result in the auditee facing a risk of financial loss through excessive expenditure (uneconomical use of funds), fruitless and wasteful expenditure, lost revenue, failure to recover debt and avoidable penalties and interest. Two-hundred and nine (77%) of the 271 auditees with SCM findings in 2015-16 had findings that had a potential negative financial impact or findings that could cause a financial loss for the auditee or government.

Figure 6 provides a three-year overview of the most common findings on SCM – all of which can have a potential negative financial impact. All, except the finding on adequate performance measures, lead to irregular expenditure.

Figure 6: Findings on supply chain management

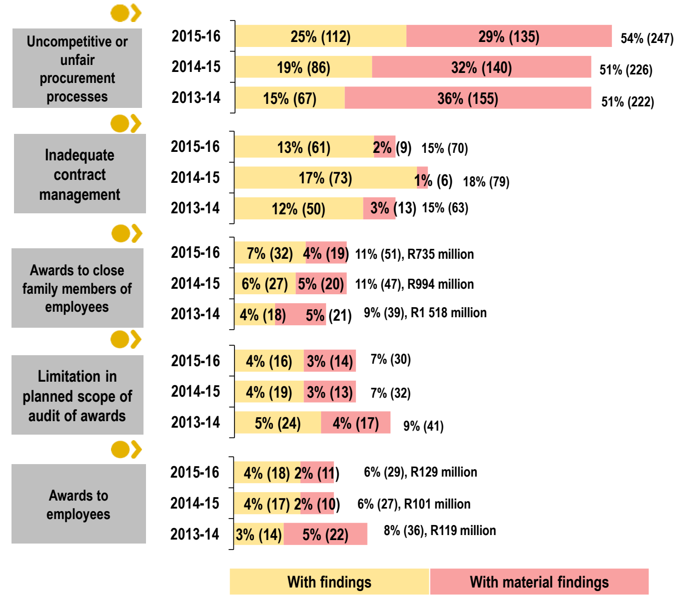


The most common findings for the past three years have been the deviations from the prescribed procurement processes. Three written quotations or competitive bids were not invited to enable selection of a supplier based on a competitive and fair process. Although such deviations are allowed we find that it is often not approved or that it has been approved but the deviation was not reasonable or justified.

There has been little movement in the past three years in the occurrence of these common findings – only slight improvements in some areas and slight regressions in other.

Figure 7 provides a three-year overview of all the SCM areas on which auditees had findings, the number of auditees where the findings raised were material enough to be reported in the audit report, as well as the extent of awards made to employees and close family members of employees.

Figure 7: Findings on supply chain management



The number of auditees with findings in the different SCM areas also remained almost unchanged over the three years. The level of material findings remained unchanged in all SCM areas except that of uncompetitive or unfair procurement processes, which improved over the three years.

Figure 7 reflects little movement in the number of auditees with findings on awards made to **suppliers in which employees or their close family members had an interest.**

Although such awards are not prohibited by current legislation, it is of concern that there was little progress in addressing the lack of financial interest declarations by the employees and suppliers. At 16 departments, employees did not declare their interest in awards of R59 million, while suppliers did not declare their interests in awards of R336 million at 30 departments. Employees also failed to declare their family members' interest in awards of R320 million at 23 departments.

The possibility of undue influence cannot be discounted, especially if the person, including SCM officials, could have influenced the procurement processes for these awards, which could have created opportunities for irregularities.

We again point out that a failure by suppliers to declare the interest of employees and other state officials constitutes a fraudulent act and should be investigated and dealt with in accordance with legislation. Section 3.2.4 on consequence management provides more information on what we reported to management in the last three years.

We audited in 2015-16 whether procurement at auditees was done in accordance with legislative requirements to **procure certain commodities from local producers**. We have identified and reported non-compliance in this regard at 21 auditees and we will continue to increase our audit focus on this important government initiative.

In 2015-16 we were unable to audit awards to a value of R2 526 million at 31 auditees because the auditees **could not provide us with evidence that awards had been made in accordance with the requirements of SCM legislation**, as the documentation either did not exist or could not be retrieved as a result of poor document management.

Table 3 lists the extent of limitations in national and provincial government over three years.

Table 3: Extent of limitations on planned audits

Portfolio	2015-16		2014-15		2013-14		Movement - 2015-16 vs 2013-14
	Number of auditees	Amount R million	Number of auditees	Amount R million	Number of auditees	Amount R million	
National auditees	8	25	11	98	19	1 018	
Eastern Cape	2	357	0	0	4	68	
Free State	2	3	4	74	3	6	
Gauteng	3	183	1	6	1	10	
KwaZulu-Natal	3	1 240	4	51	1	10	
Limpopo	4	34	3	83	4	452	
Mpumalanga	2	17	5	345	2	19	
Northern Cape	1	80	1	137	2	9	
North West	5	587	3	536	5	516	
Western Cape	0	0	0	0	0	0	
Total	30	2 526	32	1 330	41	2 108	

While the number of auditees where limitations were experienced in 2015-16 decreased only slightly from the previous year, there has been a more visible improvement from 2013-14 – especially at national level. The value of these limitations varied over the three years as it depends on the value of the relevant contract awarded in the year.

These limitations had the following impact:

- The procurement processes could not be audited by us, the internal auditors or investigators.
- There was no evidence that auditees had followed a fair, transparent and competitive process for all awards. Should unsuccessful bidders request information on the process, also for possible litigation purposes, it would not be available.
- We could not determine whether these awards were irregular and, as a result, the true extent of irregular expenditure could not be determined.
- Our general report, audit reports and management reports did not reflect the true extent of non-compliance with SCM, irregularities and possible fraud.
- Poor record management created an environment in which it was easy to commit and conceal improper or illegal conduct.

The SCM weaknesses require immediate and focused action to ensure that the principles of fairness, transparency, completeness, equity and cost-effectiveness in procurement processes are consistently applied. Attention paid in this regard will also address the very high amounts of irregular expenditure incurred annually.

A

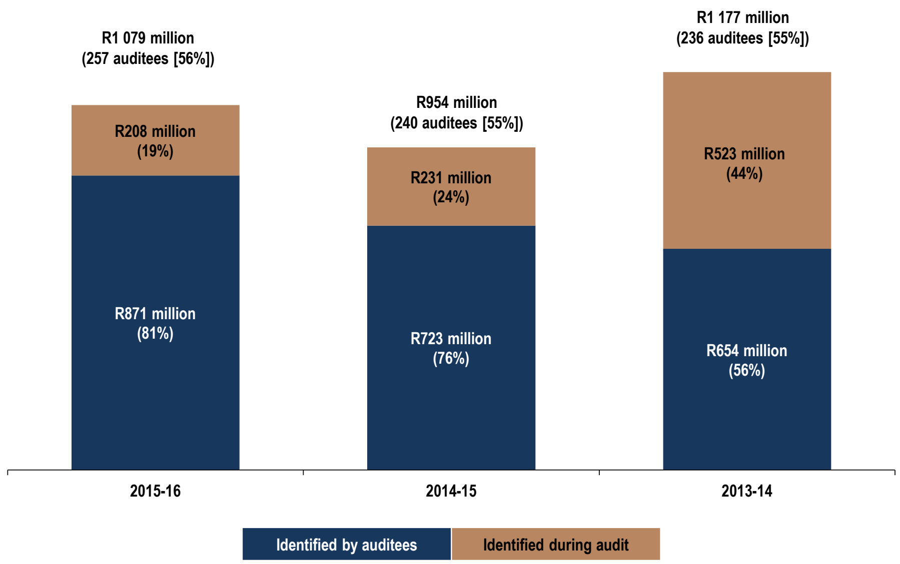
Annexure 1 shows the auditees with irregular expenditure, while annexure 2 lists the findings on SCM.

3.2.2 Fruitless and wasteful expenditure

Fruitless and wasteful expenditure refers to expenditure that was made in vain and could have been avoided had reasonable care been taken.

Figure 1.1 depicts the extent of fruitless and wasteful expenditure over the past three years and the proportion thereof that was identified during the audit and not by the auditee.

Figure 1.1: Three-year trend in fruitless and wasteful expenditure



The amounts shown in figure 1.1 only include those incurred by the auditees whose audits were completed by 12 August, the cut-off date we set for inclusion in this general report. Although we do not include the results of the audits completed after 12 August in this general report (we only summarise them in section 6), we make an exception for irregular expenditure (section 3.2.1) and fruitless and wasteful expenditure as the amounts are so significant.

Figure 1.2 shows the three-year trend that includes the nine auditees whose audits we finalised after 12 August.

Figure 1.2: Three-year trend in fruitless and wasteful expenditure with audits subsequently finalised included

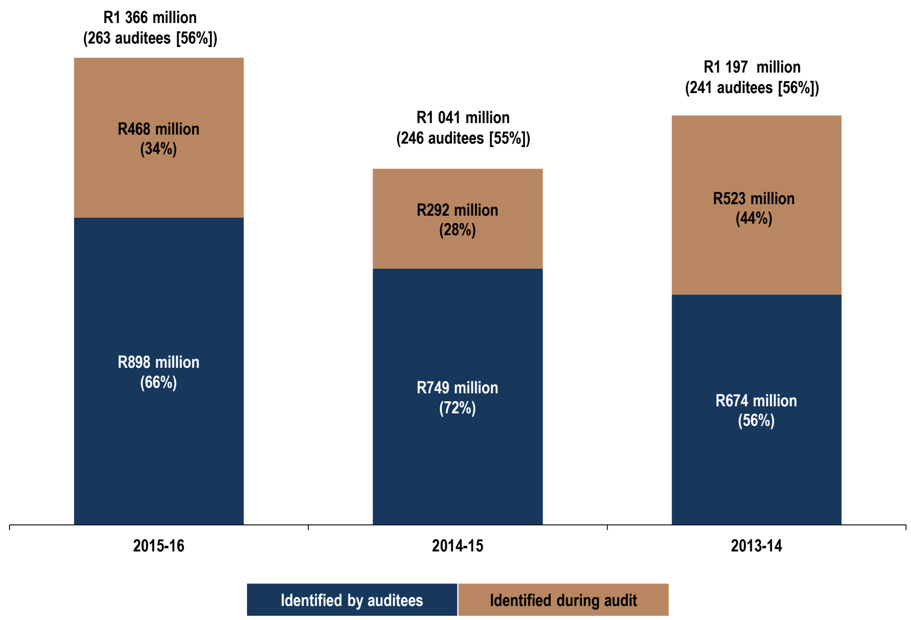


Figure 1.2 shows that the amount of fruitless and wasteful expenditure has increased by 31% since the previous year as well as by 14% since 2013-14. The number of auditees that incurred this expenditure has also increased by 9% since 2013-14 and by 7% since the previous year.

A total of 213 auditees (81%) incurred fruitless and wasteful expenditure in 2015-16 as well as in the previous year, of which 177 (67%) had incurred such expenditure for the past three years.

KwaZulu-Natal, Mpumalanga and national auditees were the main contributors to the significant increase in fruitless and wasteful expenditure from the previous year as well as since 2013-14.

The following auditees were the main contributors (72%) to fruitless and wasteful expenditure in 2015-16:

- Compensation Fund: R404 million – three instances (2014-15: R17 million – 71 instances)

- Passenger Rail Agency of South Africa: R255 million – 261 instances (2014-15: R20 million – three instances)
- Education (KwaZulu-Natal): R142 million – 446 instances (2014-15: R3 million – 662 instances)
- Education (Eastern Cape): R74 million – 1 727 instances (2014-15: R8,5 million – 33 instances)
- Water and Sanitation: R59 million – 198 instances (2014-15: R1,5 million – seven instances)
- Basic Education: R44 million – one instance (2014-15: R28 000 – one instance).

These auditees are among those that had incurred such expenditure for the past three years.

The general nature of the fruitless and wasteful expenditure related to the following:

- Interest on overdue accounts and late payments as well as penalties – R167 million (12%) (2014-15: 21%, R223 million)
- Litigation and claims – R589 million (43%) (2014-15: 55%, R569 million)
- Other (e.g. cancellation fees for accommodation and non-attendance of training) – R610 million (45%) (2014-15: 24%, R249 million).

Of the R1 366 million incurred in 2015-16, R23 million (2%) was incurred by auditees in order to avoid further fruitless and wasteful expenditure or losses which often relate to the cost of cancelling irregular contracts or the contracts of non-performers.

As detailed in the section on compliance (section 3.2), inadequate action taken by accounting officers to prevent fruitless and wasteful expenditure was one of the most common material findings on compliance. We reported the findings on compliance as material at 40 departments (24%) and 50 public entities (17%) based on the fact that they incurred fruitless and wasteful expenditure in the year under review as well as previous years, a recurrence of the action that had caused the fruitless and wasteful expenditure, and on our assessment that adequate controls and processes would have prevented it.

Figure 1.2 further illustrates that we had identified 34% of the fruitless and wasteful expenditure amount during the audit process, which means that some auditees did not have adequate processes to detect and quantify all fruitless and wasteful expenditure, as required by legislation. This is an improvement since 2013-14 but a regression from the previous year.

A Annexure 1 shows the auditees with fruitless and wasteful expenditure.

3.2.3 Unauthorised expenditure

Unauthorised expenditure is expenditure by departments that was not spent in accordance with the approved budget.

Figure 1 depicts the extent of unauthorised expenditure over the past three years and the proportion thereof that was identified during the audit and not by the auditee.

Figure 1: Three-year trend in unauthorised expenditure

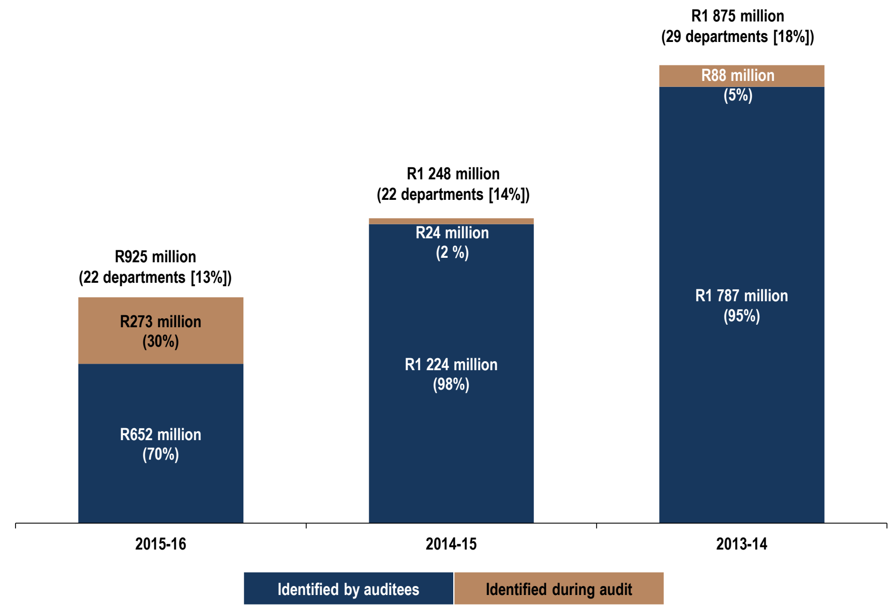


Figure 1 shows that the amount of unauthorised expenditure had decreased by 26% since the previous year and 51% since 2013-14. The overall decrease in unauthorised expenditure over three years is largely due to significant decreases in North West (97%), Eastern Cape (93%) and Limpopo (96%). The reasons for the reduction in unauthorised expenditure in these provinces included intervention by national government in terms of section 100 of the Constitution, disciplinary and criminal charges were instituted against those responsible.

A total of nine (41%) of the 22 departments also incurred unauthorised expenditure in the previous year, seven of which had incurred such expenditure every year for the past three years.

The following departments were the main contributors (75%) to unauthorised expenditure in 2015-16:

- International Relations and Cooperation (national): R167million (2014-15: R0 million)
- Education (Free State): R157 million (2014-15: R589 million)
- Health (KwaZulu-Natal): R147million (2014-15: R128 million)
- Basic Education (national): R132 million (2014-15: R6 million)
- Health (Northern Cape): R93 million (2014-15: R92 million).

These departments are among those that had incurred such expenditure for the past three years, except the departments of International Relations and Cooperation and Basic Education. The Department of Basic Education incurred such expenditure in the past two years, while the Department of International Relations and Cooperation incurred such expenditure only in 2015-16.

Overspending of the budget or main sections within the budget was the reason for 79% (2014-15: 100%) of the unauthorised expenditure. Poorly prepared budgets, inadequate budget control and a lack of monitoring and oversight were some of the reasons for the overspending. Twenty-one per cent of the unauthorised expenditure was as a result of expenditure not used for its intended purpose by the national Department of Basic Education (R132 million), Limpopo Department of Economic Development, Environment and Tourism (R555 000) and Northern Cape Department of Cooperative Governance, Human Settlements and Traditional Affairs (R61 million).

Figure 1 shows that we had identified 30% of the unauthorised expenditure amount during the audit process, which means that some departments did not have adequate processes to detect and quantify all unauthorised expenditure. This is a regression from 2013-14 as well as the previous year.

As detailed in section 3.2 on compliance, inadequate steps taken by accounting officers to prevent unauthorised expenditure constituted one of the most common material findings on compliance. We reported the findings on compliance as material at 13 (8%) of the 166 departments based on the fact that they had incurred the same type of unauthorised expenditure in the year under review and previous years and on our assessment that adequate controls and processes would have prevented it.

A Annexure 1 shows the auditees with unauthorised expenditure.

3.2.4 Fraud and consequence management

The PFMA and its regulations clearly stipulate that management should investigate matters such as incurring unauthorised, irregular and fruitless and wasteful expenditure, the possible abuse of the SCM system (including fraud and improper conduct), and allegations of financial misconduct and possible fraud. Appropriate actions should be taken based on the outcomes of the investigations. This section provides our observations and findings on how the auditees manage possible fraud cases and unauthorised, irregular as well as fruitless and wasteful expenditure.

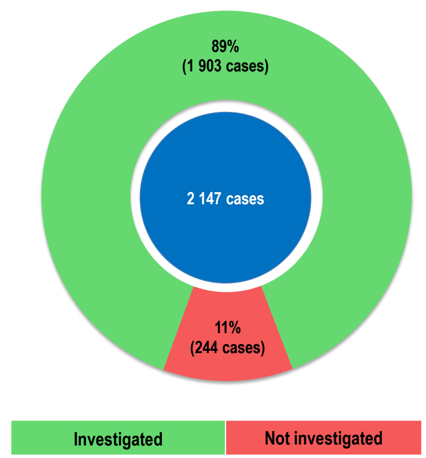
Reporting and follow-up of possible fraud cases

Our audits have shown that 90% of auditees had mechanisms in place for reporting and investigating transgressions or possible fraud (e.g. policies, codes of conduct, fraud reporting mechanisms, role classifications and record keeping of processes). Only 46 auditees (10%) had shortcomings in areas such as policies, codes of conduct, role clarification, mechanisms for reporting fraud and record keeping of processes followed for financial misconduct or transgressions.

In 2015-16, 2 147 **cases of possible fraud were reported** at 129 auditees through their internal mechanisms such as a fraud hotline.

Figure 1 shows the rate of investigation at these auditees.

Figure 1: Investigation of possible cases of fraud reported

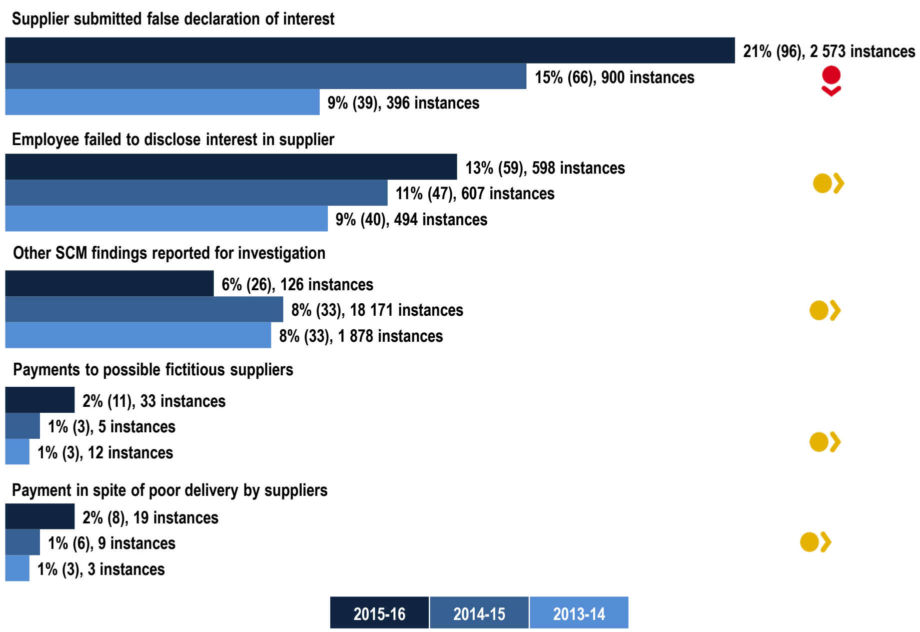


At an overall basis the internal mechanisms for **investigating possible fraud were found to be in place** with only 11% of the cases not being investigated. Of the 129 auditees, 98 auditees (76%) investigated 80% or more of the cases of fraud reported. Only 18 auditees (14%) investigated either none or less than 50% of the cases reported. Twenty-five per cent of the 1 903 cases investigated **resulted in disciplinary actions, civil recoveries or criminal proceedings**, while 16% were **referred to law enforcement agencies for investigation.**

Supply chain management findings reported for investigation

We report all our findings on SCM compliance and weaknesses to management for follow up. If there are **indicators of possible fraud or improper conduct in the SCM processes**, we recommend that management conduct an investigation. Figure 2 illustrates the extent of SCM findings we had reported to management for investigation.

Figure 2: Supply chain management findings reported to management for investigation



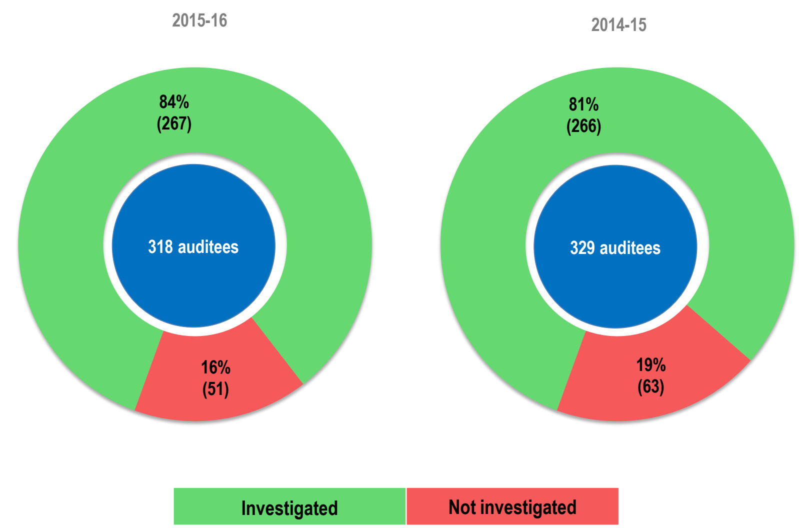
In 2015-16 we reported these types of findings at 158 auditees (34%), a regression from the 127 auditees (29%) in 2014-15 as well as from the 75 auditees (17%) in 2013-14. In total, 65% of the 127 auditees that had such findings in 2014-15 had similar findings in 2015-16.

There was **little change in the type of findings reported as per figure 2, except for the increase in reporting on false declaration by suppliers over the past three years.**

Investigation and follow-up of unauthorised, irregular and fruitless and wasteful expenditure

Figure 3 shows the overall status of investigations at the auditees that had **incurred unauthorised, irregular and fruitless and wasteful expenditure** in the previous year.

Figure 3: Investigation of unauthorised, irregular and fruitless and wasteful expenditure



At over 80% of the auditees the accounting officer or authority **conducted the required investigations into unauthorised, irregular and fruitless and wasteful expenditure**. There was a slight improvement from the previous year, but 24 of the 63 auditees that did not conduct investigations in 2014-15 also did not do the required investigations in 2015-16.

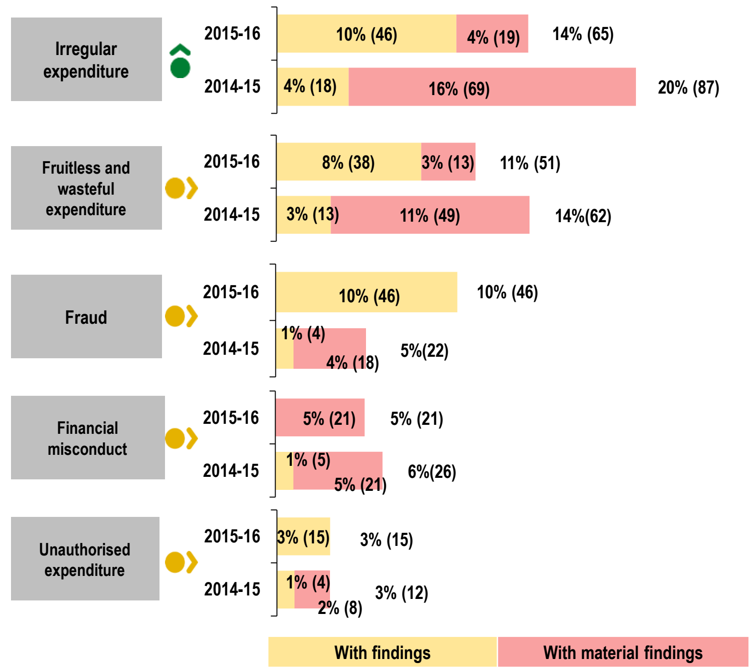
Although investigations were done, **insufficient steps were taken to recover, write-off, approve or condone unauthorised, irregular and fruitless and wasteful expenditure** of the 2014-15 and 2015-16, as required by the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA). As a result the year-end balance of irregular expenditure that has accumulated over many years and has not been dealt with as required in terms of the PFMA, was R100,7 billion, while that of unauthorised expenditure was R5 399 million and fruitless and wasteful expenditure R3 174 million.

The main reason for the accumulation of the irregular expenditure is that in most cases an auditee cannot condone its own irregular expenditure – condonement is requested from the owners of the legislation that was transgressed, mostly the National Treasury, which typically requires additional information and takes some time to consider the condonement. Some of the irregular expenditure was also incurred a number of years ago and the persons responsible are no longer in the service of the auditee or information is no longer available.

Compliance with legislation on consequence management

As detailed in section 3.2 we raised **material findings on compliance with legislation in respect of consequence management** at 38 (8%) of the auditees (2014-15: 75 [17%]). Figure 4 shows the extent of the non-compliance per type of transgression – 'material findings' means that the non-compliance was so significant that we reported it in the audit reports of those auditees, while 'with findings' means there was non-compliance but to a lesser degree.

Figure 4: Transgressions for which there was inadequate consequence management



There was little change from the previous year with regard to consequence management for transgressions, except the improvement in irregular expenditure follow-up.

We reported the following main material findings on compliance in the audit reports:

- Nineteen auditees failed to take appropriate disciplinary steps against officials who made or permitted irregular expenditure, while 13 auditees failed to take appropriate disciplinary steps against officials who made or permitted fruitless and wasteful expenditure.
- Ten auditees failed to investigate allegations of financial misconduct committed by the accounting officer, while 11 auditees failed to conduct investigations in all allegations of financial misconduct committed by other officials.

Conclusion

In conclusion, most auditees had the required internal mechanisms to ensure that possible fraud cases are reported and investigated. Unauthorised, irregular and fruitless and wasteful expenditure was investigated as required. At an overall level there were only a few auditees that did not correctly follow up on fraud, financial misconduct and unauthorised, irregular as well as fruitless and wasteful expenditure.

However, this has not yet had the desired impact of discouraging unauthorised, irregular and fruitless and wasteful expenditure and fraud and improper conduct. We also continue to report inadequate consequence management as a root cause of poor audit outcomes.

The only conclusion that can be made is that the consequences for transgressions are not serious enough; such consequences are not communicated to all officials and are probably not applied consistently. We will further increase our focus on fraud and consequence management in order to report the reasons.

3.3 Financial health

Our audits included a high-level analysis of 11 financial health indicators for departments and 10 financial health indicators for public entities to provide management with an overview of selected aspects of their current financial management and to enable timely remedial action where the auditees' operations and service delivery may be at risk. We also performed audit procedures to assess whether there were any events or conditions that might cast significant doubt on an auditee's ability to continue its operations in the near future. Based on the analysis, each auditee was given an overall assessment as follows:

Good	Two or fewer unfavourable indicators
Of concern	More than two unfavourable indicators
Intervention required	Significant doubt that operations can continue in future and/or where auditees received a disclaimed or adverse opinion, which meant that the financial statements were not reliable enough for analysis

Figure 1 shows our assessment of the financial health of auditees over the past three years. Figure 2 shows the assessment of the financial health of departments and public entities for 2015-16 and table 1 shows the status and movement in national and provincial government.

Figure 1: Regression in number of auditees with indicators of financial health risks (overall)

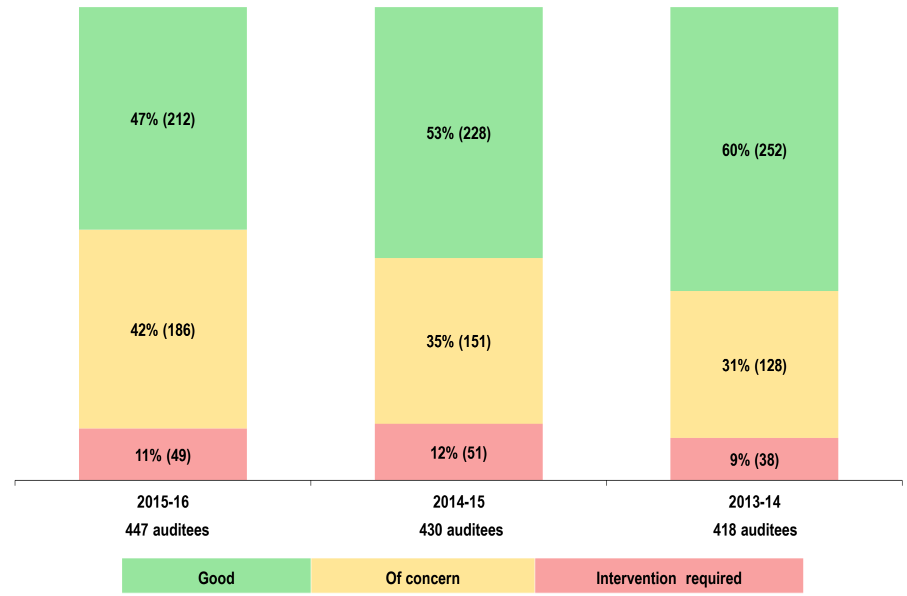


Figure 2: Number of auditees with indicators of financial health risks – departments and public entities

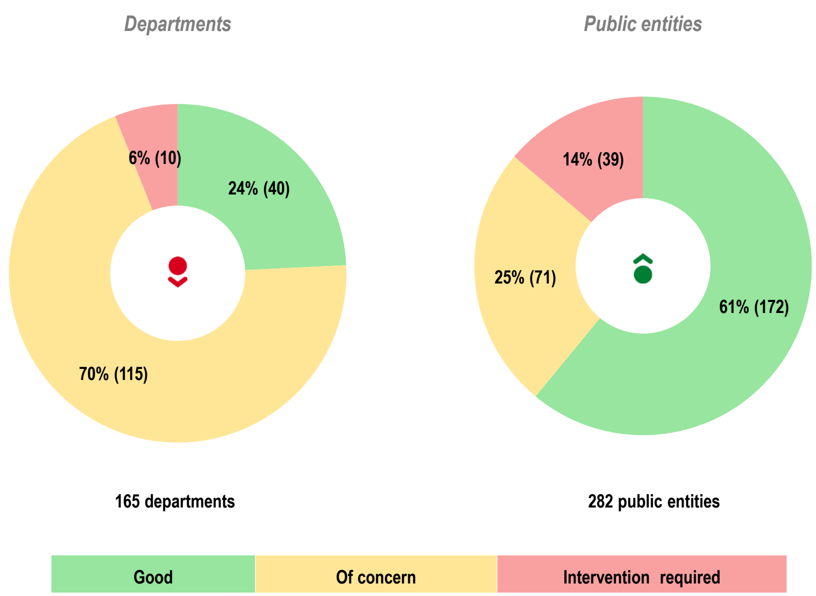


Table 1: Status of financial health in national and provincial government *(status of previous year included in brackets)*

Portfolio	Auditees with good financial health	
	Number	Movement from 2014-15
National auditees	137 (60%) ***(129 [63%])***	
Eastern Cape	5 (20%) ***(15 [60%])***	
Free State	1 (6%) ***(2 [11%])***	
Gauteng	24 (73%) ***(25 [71%])***	
KwaZulu-Natal	13 (41%) ***(14 [44%])***	
Limpopo	5 (22%) ***(6 [26%])***	
Mpumalanga	6 (35%) ***(4 [24%])***	
Northern Cape	5 (26%) ***(8 [42%])***	
North West	3 (10%) ***(6 [19%])***	
Western Cape	13 (54%) ***(19 [79%])***	
Total	212 (47%) ***(228 [53%])***	

The number of auditees we assessed as having a good financial health status has decreased since 2013-14, with the main regression in 2014-15 and a further slight regression in 2015-16. However, the movement is solely attributable to departments that significantly decreased from 86 (54%) in 2013-14 to 77 (48%) in 2014-15 and a further regression in 2015-16 where only 40 (24%) were assessed as 'good'.

In 2014-15, auditees in the Eastern Cape, Limpopo, Mpumalanga and the Western Cape were the main contributors to the regression.

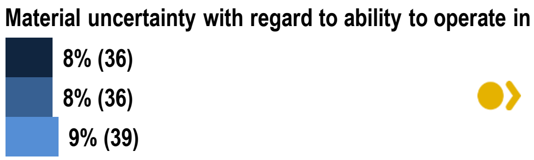
In 2015-16, the departments further regressed but public entities improved. The Eastern Cape (10 auditees) and Western Cape (six auditees) had the highest number of auditees that lost their good indicator status, while only Mpumalanga increased their number of auditees with good financial health (two auditees). The ministerial portfolios and provincial summaries in sections 8 and 9 provide more insight on the reasons for the movements.

Over the three years, there has been a slight increase of auditees in the 'intervention required' category (eight departments and 30 public entities in 2013-14 to 10 departments and 39 public entities in 2015-16). This was as a result of our assessment that financial statements with adverse or disclaimed audit opinions require intervention as they are not reliable for financial analysis. This has only been fully implemented in 2014-15.

Further details are provided for the main financial indicators used for these assessments over the three years. The following legend applies to the figures shown:

Figure 3 shows the number of auditees with material uncertainty with regard to ability to operate in the near future.

Figure 3: Going concern uncertainty



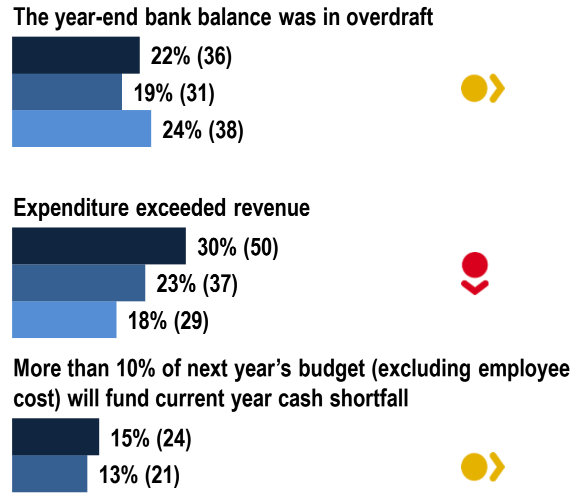
Twenty-seven public entities and nine departments either disclosed in their financial statements that a material uncertainty existed with regard to their ability to operate in the foreseeable future (i.e. as a going concern) or were qualified because such disclosures were not included in the year under review. This has remained unchanged from the previous year. The public entities included the South African National Roads Agency Limited (Sanral), the Road Accident Fund (RAF), two TVET colleges and seven public entities in North West. Eight of the nine departments were in the Free State.

Figures 4 and 5 show the typical indicators of going concern uncertainty over the past three years in addition to the revenue management and creditor-payment indicators detailed later in the section.

To understand and interpret the indicators for departments, it should be noted that departments prepare their financial statements on what is called the modified cash basis of accounting. This means that the amounts disclosed in the financial statements are only what was actually paid during the year and do not include accruals (the liabilities for unpaid expenses) at year-end. While this basis of accounting is common for government accounting, we believe it is important for management to understand the status of departments' financial health which may not be easily seen in the financial statements prepared on this basis.

To perform this analysis, we reconstructed the financial statements of departments to determine whether they would still have reported surpluses for the year had they used the accrual basis of accounting that is applied by public entities and local government. We also assessed the impact on the 2016-17 financial years' budget of the 2015-16 expenses that were incurred, but unpaid, at March 2016.

Figure 4: Financial position of departments



As per figure 4, the reconstructed financial statements showed that 30% of departments incurred a deficit instead of the surplus they reported, an increase from the previous year. This is a significant increase over the past three years.

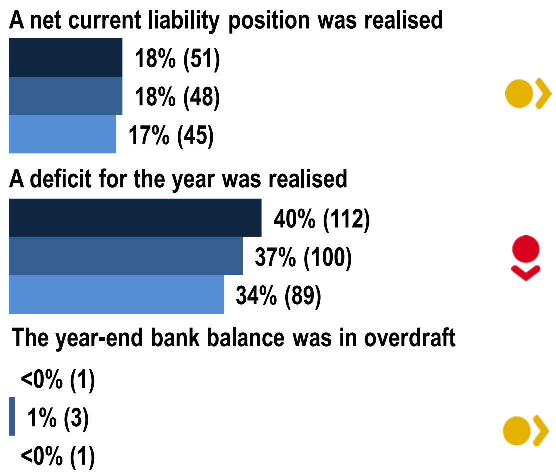
In total, 115 departments (69%) technically had insufficient funds to settle all liabilities that existed at year-end if the unpaid expenses at year-end were also taken into account. For most of the departments, this would have a minor impact, but 11 departments started the year with more than 10% of their budget effectively pre-spent. However, as shown in figure 4, if the budget for employee cost is not taken into account, 24 (15%) have spent more than 10% of the operating expenditure budget. Of these 24 departments, all but three are provincial departments and include three Education, five Health and three Public Works departments.

A further matter that requires attention is the 36 departments that had an overdraft at year-end, although there has been a slight improvement over the three years. This was largely a result of the previous year's unauthorised expenditure and overspending.

The financial position of departments will only improve if expenditure is more effectively monitored in-year, as and when incurred (and not just when paid), and by improving systems to promptly account for liabilities incurred.

The inability of government to monitor the actual spending patterns and to identify the departments with serious cash shortfall issues can hamper the success of cost containment measures. This, in turn, could create pressure on the fiscus when the continuing ‘roll-over’ of spending results in departments not being able to pay their creditors and deliver on services.

Figure 5: Sustainability indicators for public entities



There has been a steady increase over the three years in the number of public entities that have spent more than their available financial resources (thus a deficit) (40%). The national public entities made up 64% of those with deficits. Eighteen per cent of public entities had current liabilities that exceeded their current assets, which raises a concern over their ability to repay their current liabilities in the short term. Movement has been limited for the sustainability indicators for public entities.

The number of public entities with year-end bank balances in overdraft has remained unchanged since 2013-14.

Even though the majority of public entities that incurred deficits for the financial year would be able to continue their operations, the negative indicators raised concerns about the financial viability of some and the pressure to acquire additional funding from government.

Figures 6 and 7 show the departments and public entities with extended debt-collection periods (more than 90 days) as well as the expected uncollectability of amounts owed to them.

Figure 6: Revenue management indicators – departments

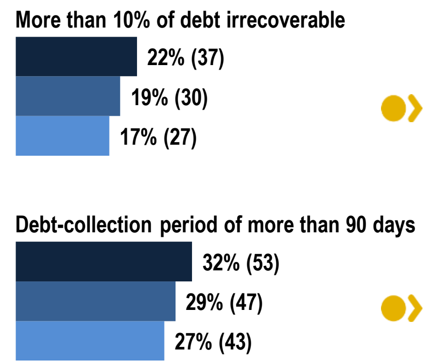
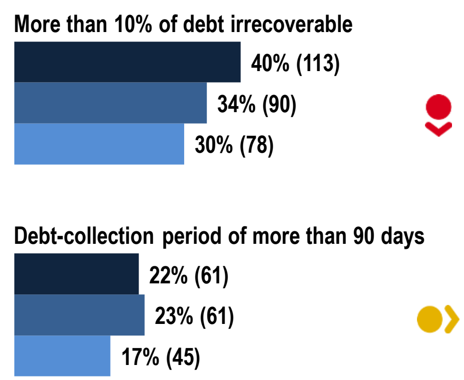


Figure 7: Revenue management indicators – public entities



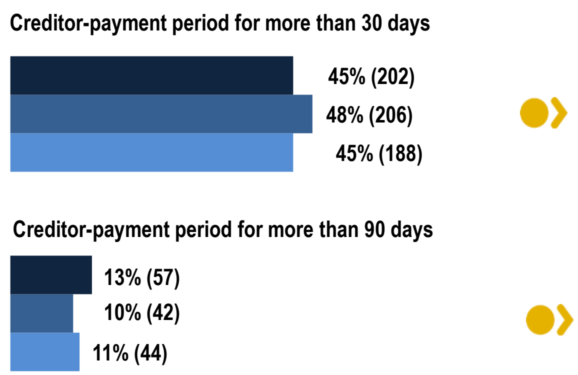
Forty per cent of public entities estimated that more than 10% of amounts owed to them would not be paid, while only 22% of departments had the same expectation. There has been an increase over the three years for public entities and a slight increase for departments. The main contributors to the regression were national auditees (64%).

As part of our analysis, we calculated the average number of days it took auditees to collect debt they deemed to be recoverable. In total, 22% of public entities and 32% of departments had an average collection period of over 90 days in the year under review. There has been limited change over the three years.

As departments use the modified cash basis of accounting, revenue earned but not yet received is not reported in the statement of financial performance. All debts that are not recovered should be considered in the context of revenue that has been, or could be, lost to the state.

The root causes of long-outstanding debts, which place revenue funds under pressure or impact on the ability of public entities to operate, remain poor revenue collection and debt management practices and a poor economic climate.

Figure 8: Creditor-payment period



A total of 202 auditees (158 public entities and 44 departments) took more than 30 days to pay their creditors, with no improvement since 2013-14 and little in the previous year. The major contributors were the national auditees that made up 58% of the total. These numbers however significantly decreased when assessed over 90 days as only 57 auditees (13%) took more than 90 days to pay their creditors, this comprised of two departments and 55 public entities. The number of auditees has slightly increased over the three years with limited increase from the previous year.

As reported in section 3.2, the inability of auditees to pay within 30 days is one of the most common compliance findings we had raised. Delayed payments affect the cash flow of the suppliers government is doing business with and is in sharp contrast with the objectives of stimulating the economy and supporting especially smaller businesses. The slow progress in this regard is surprising as 30 day payments have been the focus of monitoring departments such as the National Treasury and DPME. Oversight committees are also increasingly focusing on this. Although delayed payments are typically as a result of poor controls and processes, it can also be concluded that the financial difficulty some auditees are in and the lack of cash to honour their obligations (as described earlier in this section) are contributing to this.

A Annexure 1 lists the auditees' financial health indicators.

3.4 Management of grants

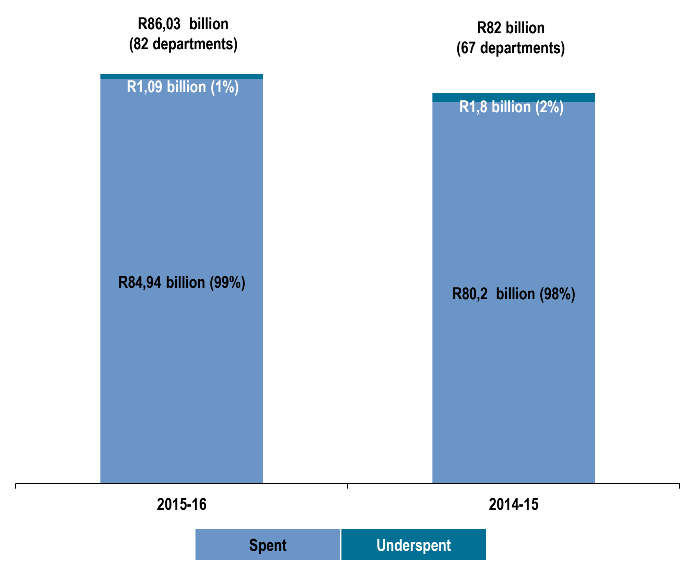
Grants totalling R85 billion (2014-15: R80,6 billion) were allocated to 82 provincial departments (2014-15: 67 departments) in 2015-16 through the Division of Revenue Act, 2016 (Act No. 3 of 2016) (Dora). These grants are conditional and may only be used for their stipulated purposes.

Due to unspent funds of R1,1 billion (2014-15: R1,4 billion) rolled over from the previous financial year, the departments had R86,03 billion (2014-15: R82 billion) to spend on programmes and projects funded from these grants.

Our audits at 72 of the provincial departments included testing compliance with Dora and the individual grant frameworks, as well as the achievement of planned targets for selected projects or programmes funded by each allocation.

Figure 1 depicts the percentage of grants spent by the provincial departments in 2015-16 and 2014-15.

Figure 1: Spending of total conditional grants



At an overall basis there have been **high spending levels** for these grants over the past two years. However, 21 (26%) of the provincial departments that received grants **underspent on one or more grants by more than 10%** – a significant increase from the 11 departments in 2014-15. Five of the departments were in the Arts and Culture sector and the underspending related to the community library services grant. Five of the Health departments underspent by more than 10% – three of which underspent on the national health insurance grant. Some of the highest underspending was on the expanded public works programme grant and the maths, science and technology grants in education. The underspending was most common in North West (four departments), Free State (three departments), Gauteng (three departments) and Limpopo (three departments).

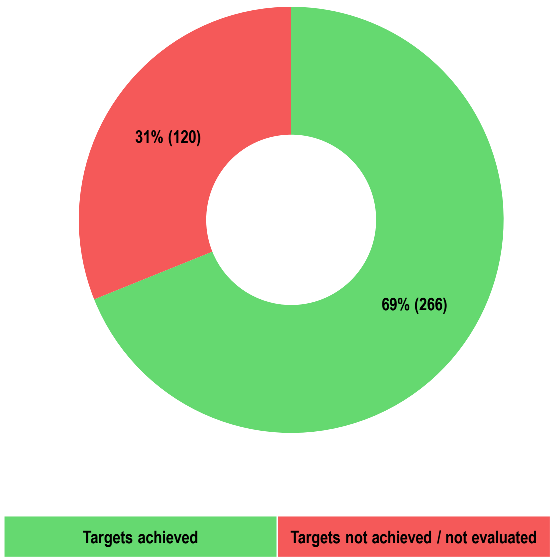
The 21 departments were collectively responsible for R845 million (78%) (2014-15: R860 million, 46%) of the total underspending of R1,09 billion (2014-15: R1,8 billion). The reasons for significant underspending include the following:

- Poor monitoring of grant spending.
- Delays by service providers in terms of delivery of goods and services.
- Delays in appointment of workers and/or suppliers.
- Delaying the project start dates.
- Slow implementation of projects, especially by small contractors.

We tested 386 key projects in 72 provincial departments. At only six (8%) of these departments did we identify that the grants money was **not used for its intended purpose**, and we reported it accordingly in the audit reports as a material non-compliance with Dora. The departments were three Health departments (Free State, KwaZulu-Natal and North West), two Human Settlement departments (Gauteng and Northern Cape) and Limpopo Department of Education.

Figure 2 shows the number and percentage of the 386 projects tested, which achieved the targets set for the programmes funded by the grants. The projects in the red category are those where either the targets were not achieved or not evaluated by the department.

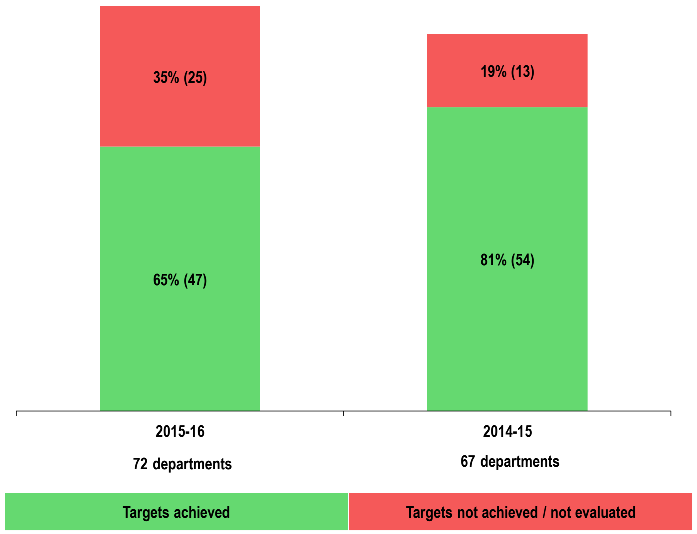
Figure 2: Achievement of planned targets – projects



The grant amount provided for the 120 projects where the **targets were not achieved or evaluated** was R31 694 million of which R30 818 million (97%) was spent. In total, 76 (63%) of these projects were in the Education (49 projects) and Human Settlements (27 projects) sectors and the grants mostly affected were the human settlement development grant (R4 552 million: 26 projects) and the education infrastructure grant (R3 573 million: nine projects).

Figure 3 shows the number and percentage of provincial departments where these key projects were tested. The departments in red are those where either the targets were not achieved or not evaluated.

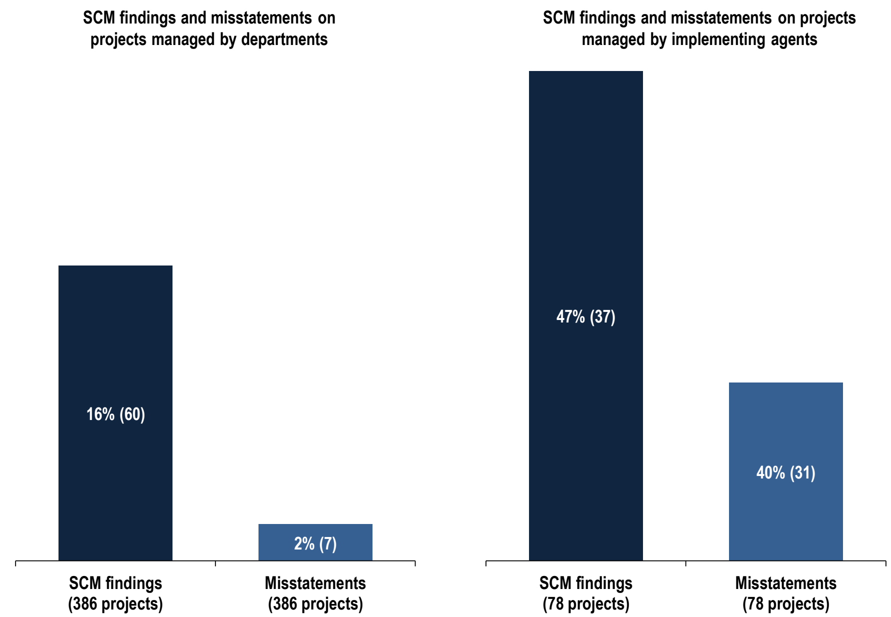
Figure 3: Achievement of planned targets – departments



As shown in figure 3, 35% of the departments failed to achieve planned targets for specific projects, a regression when compared to 19% in the previous year.

Departments often use implementing agents to manage and implement the projects funded by grants. We tested 78 key projects at 18 provincial departments where implementing agents were used. Figure 4 shows our findings on these 78 projects in comparison with projects that did not use implementing agents.

Figure 4: Use of implementing agents



We identified non-compliance with SCM legislation on 16% of the key projects managed by departments, but the level of non-compliance was significantly higher where implementing agents were used. The ability to correctly account for the assets and expenditure was also negatively affected as the implementing agents often did not have adequate registers and controls in place.

The majority of the poorly managed projects where implementing agents were used were in the Eastern Cape and in the Education sector.

Conditional grants are allocated to drive specific government objectives. It is important that projects and programmes funded by grants are tightly managed to ensure that they not only meet the set targets, but also deliver the intended outcomes.

3.5 Conclusion

In the past three years there has been little improvement in the financial management and administration of departments and public entities.

The opinions on the financial statements have improved in some provinces and portfolios and regressed in others, but the majority of the auditees with modified opinions have not been able to fully address their accounting problems over the past three years. We also continue to receive a high number of poor quality financial statements for auditing, which calls into question whether the in-year reporting and management of finances by these auditees are solid.

The signs of poor financial management are apparent in the increasing occurrence of deficits, departments funding cash shortfalls from the next year's budget, poor revenue management and the inability to pay creditors within the required 30 days. The weaknesses in managing key projects funded by grants and managing implementing agents further indicate that some departments do not closely monitor and actively manage the project delivery and finances.

Compliance with legislation, specifically SCM legislation, is not improving at the rate required to inspire confidence in national and provincial government's commitment to stay within the parameters of the law. Departments and public entities are under increasing pressure to deliver on their service delivery promises, while budgets are being cut and the financial resources are dwindling. This requires prudent management of resources and strong control over procurement processes and delivery by service providers. In the past three years there has been little improvement in the SCM practices and expenditure management, resulting in increasing levels of irregular expenditure, fruitless and wasteful expenditure and lost opportunities to save costs and ensure value for money.

Several auditees across the country have demonstrated sound financial management and accounting practices and prudent management of resources and serve as an example of good governance and accountability. However, we are concerned that those departments and public entities that are at the forefront of service delivery in terms of education, health and infrastructure development are the ones faring the worst.