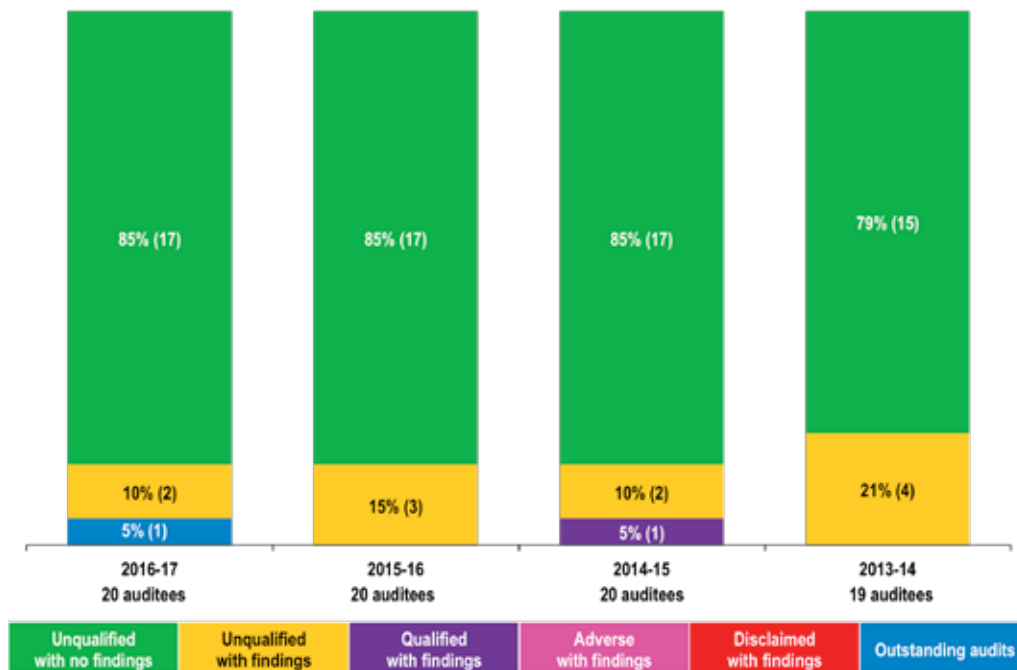


## 16 Provincial overviews

**The Western Cape and Gauteng continued to produce the best results –** with 85% and 52% clean audits, respectively. The improvement made year-on-year was mostly sustainable. Common in both provinces was the role of the leadership in instilling a culture of accountability and expecting nothing less than sound administration. Members of the executive councils and provincial treasuries have a common goal of clean administration and, under the leadership of the premiers, are working systematically towards that goal in spite of facing similar challenges as the other provinces.

## 16.1 Western Cape

Four-year audit outcomes



The Western Cape provincial government consists of 24 auditees, including 14 departments and 10 entities. As part of our audit methodology, we classified four entities as small auditees based on their importance and the size and nature of their business. The audit outcomes of these entities are not included in this overview, but are published in the annexures available on our website. If these small auditees had been included in the overall audit outcomes, it would have reflected an improved picture for 2016-17, with 21 auditees (88%) receiving clean audit outcomes, two auditees (8%) obtaining financially unqualified opinions with findings, and one auditee whose audit was outstanding (4%).

The overall provincial audit outcomes of the Western Cape remained unchanged compared to the previous year, with a slight improvement in audit outcomes over the past four years as a result of the leadership in the province continuously leading by example. The leadership insisted on a culture of accountability and sound management practices, while the political leadership continued to focus on clean administration. Two departments were financially unqualified with findings, namely Human Settlements that regressed from financially unqualified with no findings and Health that remained unchanged. Both departments had material findings on the reliability of their performance reports. The other 10 provincial departments, the provincial parliament and four entities were able to sustain their financially unqualified audit outcomes with no findings from 2015-16. The Western Cape Housing Development Fund and the Western Cape Nature Conservation Board improved from unqualified opinions with findings in the previous year to unqualified opinions with no findings this year. The audit outcome of Agriculture is outstanding pending the finalisation of a technical matter related to an interpretation of whether the agreements in place with Casidra and one other private entity should be accounted as transfer payments or goods and services.

It is encouraging that we did not report material compliance findings at any auditee. This is an improvement from the previous year when one auditee had a material compliance finding relating to corrections in the financial statements.

Irregular expenditure increased slightly from R18 million in the previous year to R23 million in the year under review. The increase was mainly due to procurement without competitive bidding or quotation processes as well as non-compliance with legislation on contract management and other procurement process requirements. Although we reported no material non-compliance with legislation during 2016-17, mainly due to most managers taking accountability through regularly monitoring and reviewing compliance

with legislation, we are still concerned about the immaterial findings on SCM. If these are not addressed, they have the potential to lead to a regression in the audit outcomes. Four auditees had immaterial compliance findings related to local content requirements not having been followed – this was the area within SCM that had findings at the highest number of auditees.

Overall, five auditees submitted performance reports that contained material errors, as was the case in the previous year. The main reasons for material misstatements were the inadequate review of performance information and inadequate processes to prepare accurate and complete information for reporting purposes. The quality of performance reports remains a concern for the sustainability of clean audit outcomes, as Human Settlements and Health were unable to correct their performance reports, resulting in these departments obtaining unqualified opinions with findings.

The analysis of financial viability shows an overall improvement in the status of financial health of departments. Of concern, however, are three departments with more than two unfavourable indicators. The indicators for these departments included an accrual-adjusted net current liability position at year-end (which meant that current liabilities exceeded current assets), an accrual-adjusted deficit at one department (where expenditure exceeded total revenue), and a debt-collection period after impairment exceeding 90 days at two departments. It is important that departments appropriately manage the amount of accruals and payables to limit the impact on their working capital.

The leadership insisted on a culture of accountability and sound management practices, while the political leadership continued to focus on clean administration in the province.

We audited the key programmes included in the ENE and selected key projects that support these programmes – we tested 16 projects at six departments. Our procedures included determining whether grant money had been spent for the intended purpose, whether procurement processes had been followed, whether programmes funded by grants had been evaluated, and whether planned targets or milestones had been achieved. Generally, departments applied good planning and project management principles, monitored spending against the budget, and followed the required procurement processes.

There was a slight improvement 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 2016-17; while one position that became vacant during 2015-16 in each of these categories was subsequently filled. Stability in these key positions is important to sustain and improve audit outcomes and the control environments of financial and performance management and compliance with legislation.

The drivers of key controls indicated that the leadership-related controls were sustained for the past three years, mainly due to the stability and accountability in leadership roles and established policies, procedures and processes. Financial and performance management key controls were not sustainably effective at four auditees, considering the adjustments to performance reports and other immaterial findings reported. With regard to governance, audit committees and internal audit units 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 contributed to the sustained audit outcomes.

We assessed IT controls in the areas of IT governance, security management, user access management and IT service continuity management. We also considered the work of internal audit units in terms of the nature, scope and timing of the work performed. The internal audit units' work on the IT service continuity focus area was used and findings per department were reported as part of the external audit. The work and findings of the IT application security review performed by the internal audit unit at one of the entities were also used.

Although auditees made progress in addressing prior year IT audit findings, departments experienced challenges with the implementation of controls in the areas of IT service continuity and user access management. Nine departments regressed in the area of IT service continuity due to the inadequate testing of disaster recovery plans. The user access management focus area showed a net regression of one department as a result of the inadequate implementation of controls for reviewing system administrator activities and failed login attempts. An analysis of the overall IT audit outcomes for departments indicates

a regression from the previous year due to the regressions in these focus areas. Entities made significant progress in addressing prior year findings through the implementation of corrective measures. This was evidenced by four of the entities having no significant findings. There was also a reduction in the number of findings at the other entity.

The slow management response to risks identified and to improve internal controls supporting the reliability of reporting on all indicators was the root cause of the only material findings that remained in the province. We reported immaterial findings in 2015-16 at Health and Human Settlements on some of the same indicators, which escalated to the audit report in 2016-17.

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 in the province. Senior management should, however, strengthen and speed up the implementation of controls in performance reporting. The executive leadership continued with commitments made in the previous year relating to their monitoring and implementation of the corporate governance and review outlook process.

The provincial treasury also continued its support and guidance through budgetary control, monitoring monthly reports, and enforcing financial management practices. It is pleasing to note that these initiatives contributed to the province not incurring unauthorised expenditure for the fifth consecutive year.

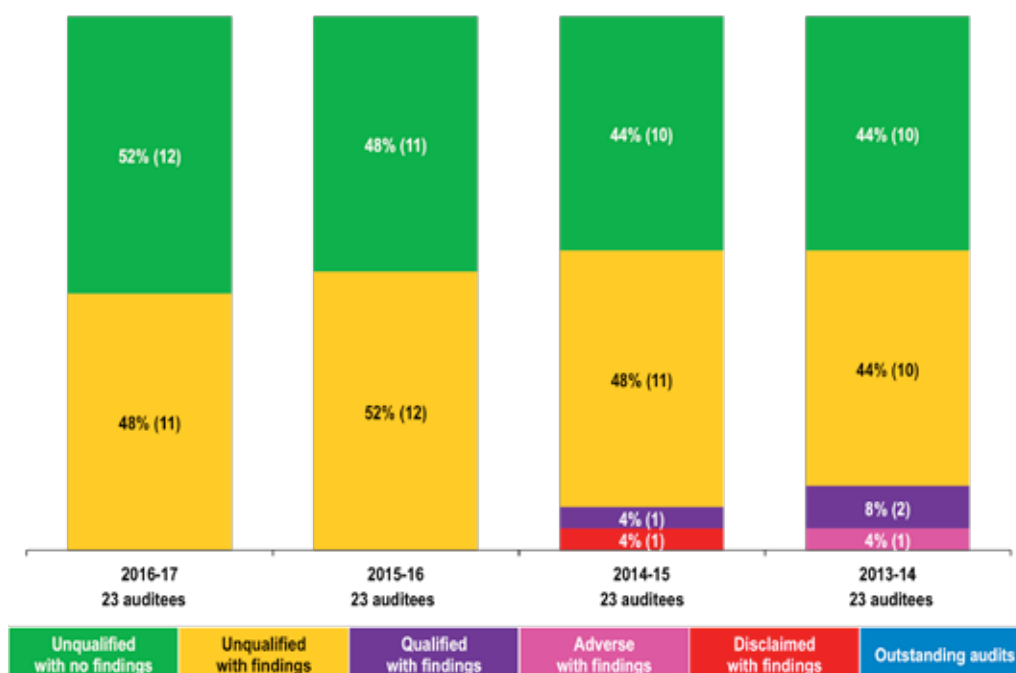
Accounting officers, accounting authorities and senior management are committed to achieving and maintaining clean administration as well as providing consistent oversight to ensure that the required action is taken where weaknesses in controls are reported. Furthermore, consequence management is applied through investigations, as required by legislation, and appropriate action is taken to hold officials accountable, where applicable. The assurance provided by audit committees through their oversight continued to contribute to the drive towards clean administration.

In order to sustain and improve the audit outcomes in the province, the following actions should be taken:

- The administrative and political leadership should continue to take accountability for their commitments and act timeously 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 performance reports being supported by sufficient and credible evidence for all programmes reported on.
- Accounting officers and accounting authorities should continue with all good practices that are already in place and improve the review of controls in place to facilitate improved compliance with procurement legislation, such as the use of compliance checklists by 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 and accounting authorities as well as senior management should implement basic internal controls and accounting disciplines effectively by preparing regular and accurate financial statements and performance reports, to enable governance structures to sufficiently review them. They should further implement processes to ensure an adequate and timely response to any new accounting, performance reporting and compliance developments to facilitate accurate reporting.

## 16.2 Gauteng

Four-year audit outcomes



The Gauteng provincial government consists of 34 auditees, including 15 departments and 19 entities. As part of our audit methodology, we classified 11 entities as small auditees based on their importance and the size and nature of their business. The audit outcomes of these entities are not included in this overview, but are published in the annexures available on our website. If these small auditees had been included in the overall audit outcomes, it would have reflected a much improved picture for 2016-17, with 22 auditees (65%) receiving clean audit outcomes and 12 auditees (35%) obtaining unqualified opinions with findings.

The Gauteng provincial government improved its audit outcomes over the past four years. It is encouraging to see eight auditees (35%) sustaining their clean audit outcomes, by institutionalising internal controls over financial management, performance reporting and compliance with legislation. It is commendable that no auditee regressed in the current year, with one auditee, namely Gauteng Enterprise Propeller, joining those with a clean audit outcome in 2016-17.

The premier, speaker and members of the executive council continued to lead by example and thereby strengthened accountability. The premier, with the support of the members of the executive council, insisted on a culture of accountability and sound financial management practices and demonstrated timely and effective consequence management where non-performance was identified, as we have seen senior officials found guilty of financial misconduct being dismissed, including accounting officers. The political leadership continued to focus on the premier's vision of a clean administration (termed 'going green') by working effectively with the administrative leadership and holding them accountable for the implementation of sound internal controls and financial management practices. Coordinating departments and external oversight structures sustained their oversight responsibilities to further improve governance within the province.

Health and g-Fleet Management, with the continued assistance of consultants, managed to sustain their unqualified audit opinions; however, the sustainability of the current audit outcomes remains at risk as they still have not addressed the recommendation to implement a clear business continuity plan for the transfer of knowledge from the consultants and to institutionalise internal controls. The accounting officer at Health was slow to respond to the urgent need to upgrade the health recording system to provide accurate and reliable information for financial reporting. Although all auditees submitted their financial statements for

auditing on time, material misstatements were identified at eight auditees (35%), which were corrected during the audit. This was because chief financial officers failed to implement basic financial disciplines and regular financial reporting controls during the year, which is not a sustainable practice.

Despite a slight improvement in the number of auditees that complied with key legislation, all 11 auditees (48%) that failed to achieve clean audit outcomes, as in the previous year, had material findings on compliance with key legislation. This remains the major factor preventing the province from improving its audit outcomes. The administrative leadership and senior management's response to commitments to address compliance findings, specifically those relating to expenditure management and SCM, was slower than expected.

As a result, the irregular expenditure remained high at R5,9 billion (2015-16: R6,5 billion). Most of the irregular expenditure incurred related to payments made against non-compliant contracts awarded in previous financial years at Roads and Transport (bus subsidy legacy contracts to the value of R2,3 billion), and without following the proper procurement and contract management process at Health and Human Settlements. Notwithstanding the high value of irregular expenditure, we determined that goods and services were received for most of the irregular expenditure relating to non-compliance with SCM requirements. Accounting officers should ensure that rigorous investigations are conducted and that steps are taken to recover losses, if identified. The premier and the member of the executive council responsible for finance honoured their commitment to fast-track the implementation of the open tender process. The shortcomings identified during the early implementation stages of this process must be addressed to ensure the intended positive impact thereof across all departments in the province and to reduce irregular expenditure.

The quality of performance information regressed and remains a concern. Although only five auditees (23%) had material findings on their performance information, another eight auditees (36%) 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 re-industrialisation plan, it is critical that actual performance is reported accurately. Accounting officers and accounting authorities should hold heads of monitoring and evaluation units accountable for ensuring that sound processes are in place to confirm that performance information is supported by sufficient and credible evidence. In addition, the provincial IT strategy must provide solutions where information systems are not stable and secure to produce accurate and verifiable information.

IT remains critical in ensuring the confidentiality, integrity and availability of information to enable accurate reporting, service delivery and national security as well as to promote effective oversight. The provincial IT environment showed little progress since the previous year due to the slow response from accounting officers to improve the stability of chief information officer positions and hold senior management accountable for implementing action plans. Despite the stagnation, best practices were observed at some auditees, including the accounting officers prioritising and taking ownership of IT matters through effective monitoring mechanisms. Accounting officers and accounting authorities must ensure that the IT units are fully staffed with skilled resources and that IT governance processes are adequately monitored to improve the areas of user access management, security management and IT service continuity controls.

The status of financial health remained unchanged, with no auditees experiencing significant going concern challenges. Education, Health and Human Settlements, which constitute about 79% of the provincial budget, would have incurred unauthorised expenditure had all their accrued expenses been paid by year-end, which placed additional pressure on the service delivery objectives of the following financial year. The provincial leadership should safeguard against the increased risk of lawsuits and claims at Health, which would place further strain on the department's financial resources.

The province used 99% of the R18,8 billion in conditional grants made available to departments in 2016-17 to deliver services to the citizens and in most cases accounted correctly for these in the financial statements. However, at Human Settlements, the human settlements development grant was not spent in accordance with the applicable grant framework, which resulted in irregular expenditure, and key project milestones were not achieved. The accounting officer must hold senior management accountable to improve planning and the spending of government funds.

The Gauteng provincial government has improved its audit outcomes over the past four years. In order to sustain and further improve the audit outcomes, the premier, speaker and members of the executive council must continue to lead the way and positively influence a culture of accountability, improving financial governance and reducing irregular expenditure.

The premier committed to continue oversight and acceleration of provincial initiatives for the achievement of clean administration across the province, aiming for 75% of all auditees attaining clean audit outcomes in 2017-18. The accounting officers and senior management should perform their duties with the required discipline and respond proactively by improving internal controls and paying greater attention to filling vacancies in key positions. Audit committees and internal audit units need to improve their oversight to ensure

that controls over financial management, compliance with legislation and performance reporting improve and are embedded. Portfolio committees need to intensify their focus on holding auditees accountable for accurate and complete performance information, while the public accounts committee's accountability mechanism should be improved and formalised. We will continuously track the commitments made and actions taken by the political and administrative leadership to determine whether they yield the desired impact of improving financial governance, reducing irregular expenditure and further improving the overall audit outcomes of the province.

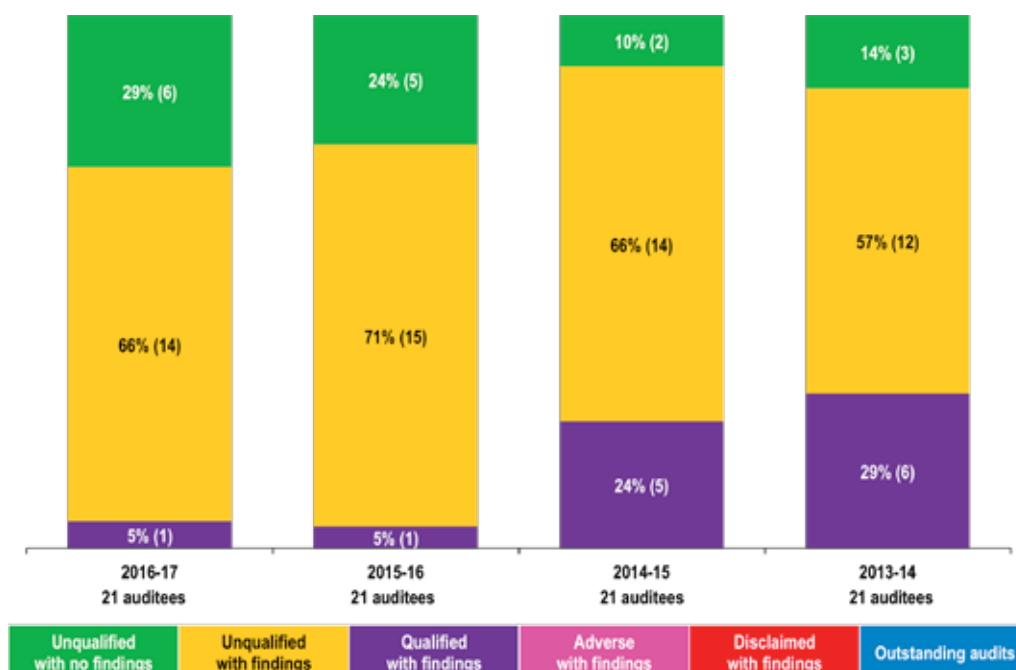


The audit outcomes of the **Eastern Cape and Limpopo improved** over the past four years. In the Eastern Cape, the provincial treasury played a significant role in these improvements through not only responding to our recommendations but also actively seeking our advice. The province is, however, plagued with poor SCM practices and project and service delivery failures for which there is little accountability and consequences.

In Limpopo, the improvements can be attributed to the political leadership taking accountability and discharging oversight responsibility through robust discussions and interrogation of reports submitted by the administrative leadership. However, poor asset management systems and record keeping contributed to a qualification on capital movable assets at six departments.

## 16.3 Eastern Cape

Four-year audit outcomes



The Eastern Cape provincial government consists of 25 auditees, including 14 departments and 11 entities. As part of our audit methodology, we classified four entities as small auditees based on their importance and the size and nature of their business. The audit outcomes of these entities are not included in this overview, but are published in the annexures available on our website. If these small auditees had been included in the overall audit outcomes, it would have reflected an improved picture for 2016-17, with 10 auditees (40%) receiving clean audit outcomes. The leadership of the Eastern Cape Liquor Board is congratulated on achieving this outcome during the year under review, while the leadership of the remaining three small auditees is congratulated on maintaining this outcome.

The provincial audit outcomes improved by 39% over the past four years. The most significant improvement occurred during 2015-16. We are encouraged by the improved accountability and good governance displayed by Rural Development and Agrarian Reform, which contributed to it improving to an unqualified audit opinion with no findings from an unqualified opinion with findings in the previous year. We further recognise the political and administrative leadership of the provincial treasury, Safety and Liaison, Eastern Cape Parks and Tourism Agency, Eastern Cape Rural Development Agency and East London Industrial Development Zone for maintaining their clean audits. The leadership of the provincial treasury is also recognised for the significant role it played in the province's improved and sustained outcomes by proactively engaging our office on transversal audit issues, technical issues and specific auditee matters.

The control environments of those departments and entities that did not achieve clean audits remained a concern. The slow response by accounting officers and senior managers to implement our recommendations relating to enforcing a culture of basic daily, weekly and monthly financial management disciplines and adhering to good controls contributed to these poor control environments. Controls in the IT environment remained concerning and improved only slightly from the previous year.

In response to the 2015-16 outcomes, the provincial leadership committed to filling critical vacant posts at Education, including the position of head of department; ensuring better communication and coordination between district offices and the head office, thereby enabling effective service delivery at schools; and maintaining appropriate records for credible financial and performance reporting. We commend the premier's office for assisting Education with the commitment relating to the filling of the head of department post and exercising its oversight role by intervening in the challenges faced by the department related to the delivery of school infrastructure.

Although some of these commitments were honoured, Education, which represents 44% of the provincial budget, retained its qualified opinion. This was despite the use of management and financial consultants that were paid R253 million during the year under review. The number of qualification areas increased to five from three in the previous year. Instability in leadership, including acting personnel at head of department (for eight months during the year before the permanent appointment), chief financial officer and senior management levels, resulted in a lack of accountability and good governance and a weak control environment at this department. In addition, an appreciation of the role of applying consequences for transgressions and poor performance was not evident in restoring the integrity of, and building public confidence in, the department's management practices.

The quality of the submitted financial statements improved over the last four years, with only 38% requiring material adjustments. Material amendments were required to the financial statements of Roads and Public Works despite it using consultants at a cost of R39 million to manage its finance function and prepare its financial statements.

The quality of the submitted performance reports stagnated over the last four years, with 62% requiring material adjustments. The usefulness of the reported performance regressed slightly from 19% (four) of the auditees with findings during the previous year to 29% (six) with findings during the year under review. The reliability of the reported performance remained at similar levels than in the previous year (33% or seven auditees with findings). The departments with findings in this area did not ensure that there were adequate systems and processes to collect, collate and record information on actual performance.

In our previous general reports, we expressed concern over the culture of procuring goods and services without complying with legislation and the lack of consequences for the legislative transgressions, which resulted in cumulative irregular expenditure of R4,9 billion at the end of the previous year. The provincial leadership responded by committing to investigate the irregular expenditure disclosed, holding those responsible accountable, applying a zero-tolerance approach to breaches of procurement processes, and preventing irregular expenditure going forward. Although it is encouraging that 82% of the auditees that contributed to this irregular expenditure demonstrated accountability by investigating the irregular expenditure disclosed by them, only R3,5 million was recovered from the responsible officials. Despite the above commitments, the province incurred irregular expenditure of R2,4 billion in the year under review alone, which was almost double the previous year's amount. Education contributed R1,9 billion to the amount disclosed, while Roads and Public Works contributed R303 million. The level of accountability at Education requires intervention, as the department's contribution to irregular expenditure included an adjustment of R1,1 billion to correct the previous period's under-disclosures. The amount of irregular expenditure incurred by the province could be substantially higher, as Education further disclosed that it was still investigating potential irregular expenditure of R1,1 billion and was also qualified on the completeness of the amount of irregular expenditure disclosed.

There has been a slight improvement in the Eastern Cape's audit outcomes. However, the province is still struggling to prevent irregular expenditure and enforce consequences for SCM transgressions.

The accounting officers used their discretion to appoint targeted suppliers without ensuring that the requirements of the PFMA and SCM Regulations were correctly applied. One such example related to the awarding of a printing tender to the value of R125 million where the bid specifications were restricted through the inclusion of criteria relating to the turnover and the location of the supplier. These criteria effectively excluded all other printing companies that may have wanted to tender. This is contrary to the principles of a fair, equitable and transparent procurement and provisioning system, as required by section 38(a)(iii) of the PFMA. Another department constructed a juvenile detention centre for R49 million to house 60 children in Burgersdorp without first conducting a feasibility study. After construction, the department awarded a contract to the value of R128 million for the management of the facility over a period of five years. The accounting officer used his discretion to award the management contract despite his bid adjudication committee and the provincial bid adjudication committee not recommending the appointment because the process followed had not been fair, equitable or transparent, as required by section 38(a)(iii) of the PFMA.

We applaud the accounting officers for developing effective planning systems, which set defined targets that were aligned to the government priorities outlined in the MTSF. The only exception related to the procurement from local businesses and small, medium and micro-sized enterprises and the payment of these within 30 days, which are central to the provincial economic growth strategy and the priorities of the provincial leadership. We further applaud the accounting officers for ensuring that spending was aligned to overall government priorities. The spending patterns of departments and public entities were predictable, consistent and according to cash-flow management principles. The notable exception was Education, where 39% of the budget was spent in the last month of the financial year and 13% on the last day of March, posing a risk of fiscal dumping. In addition, Education spent 99% of its budget but only achieved 20% of its targets. This poses a risk to the achievement of the department's service delivery objectives, which include improving the lives of people through the provision of quality education.

Infrastructure delivery is a key priority contained in the MTSF. We identified weak control environments and a lack of proper systems and processes around project execution and commissioning and the use of infrastructure as the areas that require the most leadership attention in this regard. The main findings in these areas included inadequate supervision and monitoring of contractors, poor quality management, and projects not completed within budget or within the planned time resulting in delayed commissioning and use of projects. For example, additional costs of R19 million were incurred on a clinic, which had an original budget of R28 million, because the contractor had to be replaced and quality issues were not addressed timeously by the project managers. An example of delayed commissioning and use related to upgrades to an existing hospital, which was not used because the hospital in question did not have a facilities manager to manage the use of the new facilities.

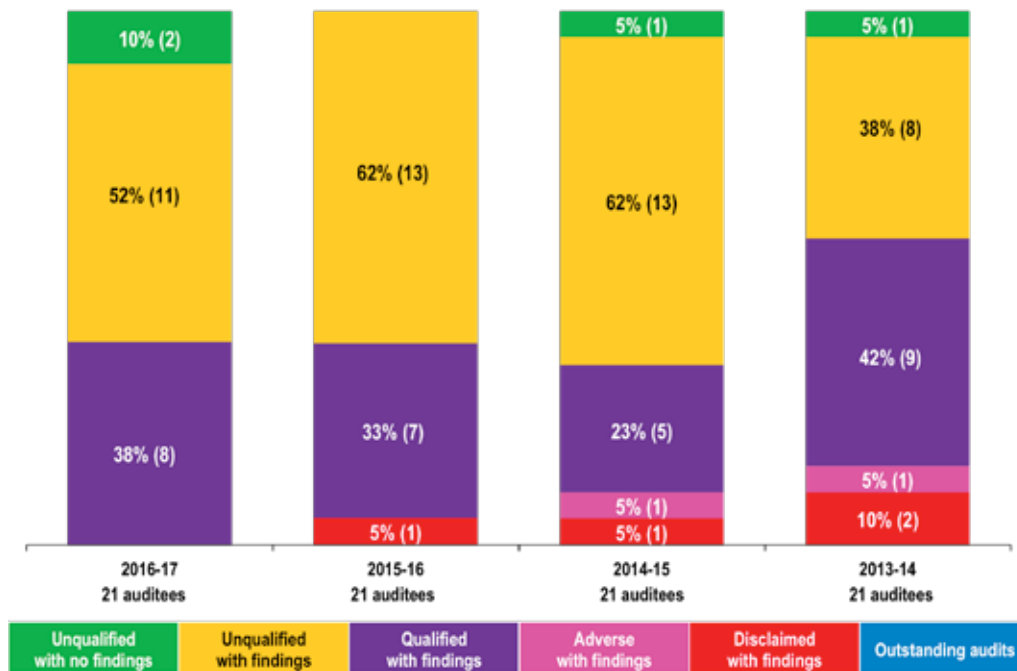
In order for the province to grow the economy to the target of 5% per year as set out in the MTSF and to provide the social services as promised, its strategic departments and public entities have to be financially viable. Five departments (Education, Health, Roads and Public Works, Social Development, and Human Settlements) that together constitute 87% of the provincial budget, one strategic economic driver entity (Coega Development Corporation) and the Mayibuye Transport Corporation may require additional funding to maintain their existing levels of services. Human Settlements disclosed commitments to build houses, payables and accruals to the value of R13,1 billion, while Health disclosed R16,9 billion in contingent liabilities relating to medical claims, which were not budgeted for, and commitments and accruals of R2,6 billion. We are particularly concerned about the impact of these amounts on future budgets and on the finances of the province as a whole. A shortage of skilled medical practitioners, poor access to emergency medical services, poor record keeping relating to patient files, faulty equipment and a shortage of necessary equipment were identified as contributing factors to the increased medical claims against Health.

To further improve the audit outcomes in 2017-18, the provincial leadership committed to providing support to Education by assisting the department to address its qualification areas, monitoring its spending and dealing with medical legal claims as well as pushing at least 50% of the departments to achieve unqualified opinions with no findings. The provincial leadership also re-committed to reducing irregular expenditure caused by SCM non-compliance and monitoring the implementation of consequence management.

All assurance providers should improve their monitoring and oversight to ensure that internal controls are effective and further improvements in audit outcomes are achieved. In particular, the provincial leadership should set a leadership tone that promotes accountability, ethical behaviour and transparency. The lack of accountability and the failure to adhere to financial management disciplines at Education should be dealt with swiftly to salvage this department.

## 16.4 Limpopo

Four-year audit outcomes



The Limpopo provincial government consists of 23 auditees, including 13 departments and 10 entities. As part of our audit methodology, we classified two entities as small auditees based on their importance and the size and nature of their business. The audit outcomes of these entities are not included in this overview, but are published in the annexures available on our website. If these small auditees had been included in the overall audit outcomes, it would have reflected a much improved picture for 2016-17, with three auditees (13%) receiving clean audit outcomes and 12 (52%) obtaining unqualified opinions with findings.

The province had improved its audit outcomes from the previous year, with two clean audit opinions achieved by the provincial treasury and the Limpopo Gambling Board, three public entities improving to unqualified audit opinions with findings from prior year qualifications, namely Roads Agency Limpopo, Gateway Airports Authority Limited and Limpopo Tourism Agency, and Education improving to a qualified audit opinion from being disclaimed for five consecutive years. The audit outcomes of two departments and one public entity regressed to a qualified opinion, namely those of Agriculture and Rural Development; Cooperative Governance, Human Settlement and Traditional Affairs; and the Limpopo Economic Development Agency. The regression at the latter is of concern, as the entity plays a significant role in driving the special economic zone and rolling out the infrastructure broadband telecommunication programme in Limpopo, which is expected to create jobs and boost economic activity.

Improvements can be attributed to the political leadership taking accountability and discharging oversight responsibility through robust discussions and interrogation of reports submitted by the administrative leadership. The premier honoured his commitment from the prior year to improve audit outcomes and to hold the executive leadership accountable for the outcomes. The executive leadership updated the premier on the status of the expected audit outcomes during a special meeting in mid-June. The provincial treasury also played a key role in the improved outcomes by intensifying its engagements at chief financial officers' forums, and further accepted our proposal to have bilateral meetings to discuss the audit process, related technical and legal matters and any other concerns from both parties. These engagements were very positive and ensured that each party carried its own accountability baton.

During 2011-12, the province was placed under section 100(1)(b) administration in terms of the country's constitution. Following the withdrawal of the administration team in 2015, the provincial treasury placed Education under administration in terms of section 18(2)(g) of the PFMA for a period of two years. This initiative finally yielded positive results, as the department improved its audit outcome after five consecutive years of obtaining disclaimed opinions. The department appointed the official from the provincial treasury responsible for heading the section 18(2)(g) administration team as the head of department in 2016-17. Her appointment resulted in the right tone being set at the top; and through collaborative efforts with staff, the department was able to improve. This proves the premier's assertion that the appointment of the right people in the right positions will result in improved audit outcomes.

The province implemented the asset management system (BAUD) at all departments in 2016-17, as recommended by the section 100(1)(b) administration team in 2012-13, with the exception of Health. However, poor migration processes and project management during the implementation of the system contributed to a qualification on capital movable assets at six departments. The use of Excel at Health contributed to the stagnant position on asset management. The in-year monitoring and review of asset registers need to be strengthened at these departments.

The overall outcome of the audit of performance reports regressed when compared to the previous year, with 11 auditees having findings in this regard. Four auditees regressed, namely Agriculture and Rural Development; Cooperative Governance, Human Settlement and Traditional Affairs; Corridor Mining Resources; and the Roads Agency Limpopo, at which we raised material findings on the performance reports submitted for auditing. The lack of standardised operating procedures and poor record-keeping practices contributed to findings on reliability, as the auditees were unable to produce supporting evidence to substantiate the reported performance. We reported material findings on the reliability of the reported performance at Health; Education; Public Works, Roads and Infrastructure; and Agriculture and Rural Development on indicators related to conditional grants. We reported SCM compliance findings at Health (revitalisation grant), Education (infrastructure grant), Agriculture (Ilima/Letsema projects grant), and Cooperative Governance, Human Settlement and Traditional Affairs (human settlements development grant). These grants are aimed at addressing social challenges faced by the unemployed and poor communities. The inability of the departments to fairly report on the performance of funds granted to meet key service delivery targets limits the ability of both the provincial and national administration to fairly assess progress and to implement remedial action to address any shortcomings identified.

The political and administrative leadership needs to take decisive steps to enforce zero tolerance for deviations from SCM processes, and consequence management should be implemented to deter the disregard of regulations. An action plan to deal with the repeat instances of non-compliance with SCM Regulations must be developed to ensure that the process for procurement is fair, equitable, transparent, competitive and cost-effective and that value for money is realised for the goods and services procured. The irregular expenditure more than doubled from the previous year to R2,6 billion (2015-16: R1 billion). Two auditees incurred R2,087 billion (81%) of the irregular expenditure, namely the Roads Agency Limpopo (R1,195 billion) and Education (R892 million). The most common compliance findings related to an uncompetitive or unfair procurement process, including not inviting competitive bids, bids not being advertised for the required period, and bid documentation not stipulating the minimum threshold for local production and content. At the Roads Agency Limpopo, R1,060 billion of the R1,195 billion related to non-compliance with SCM Regulations in the previous year, with the entity identifying and quantifying the full extent of the non-compliance and adequately disclosing this amount in the year under review. In addition, two auditees (Agriculture and Education) were qualified on the completeness of the amounts disclosed as irregular expenditure and a further 13 auditees were still investigating the irregular expenditure disclosed to determine the extent of the expenditure incurred. As a result, the total irregular expenditure incurred by the province is understated by an unknown amount. Only R1,6 billion of the R6,5 billion accumulated irregular expenditure at the end of the 2015-16 financial year had been investigated and was condoned (R1,1 billion), identified as recoverable from the liable persons (R648 000) or written off as irrecoverable (R511 million) in the current reporting period.

Fruitless and wasteful expenditure increased to R139 million (2015-16: R44 million), R109 million (78%) of which related to an overpayment on the acquisition of land by Cooperative Governance, Human Settlement

and Traditional Affairs. The member of the executive council responsible for this department requested that a forensic investigation be conducted into this matter. The province is applauded for not incurring unauthorised expenditure, compared to R555 000 in the previous year. This proves the maturity of financial planning and monitoring processes at auditees.

The financial health of the province improved when compared to 2015-16. Six provincial departments improved while three public entities regressed, with Corridor Mining Resource having a significant financial sustainability challenge. Only Health's bank account was in overdraft compared to three auditees in the previous year, and more than 10% of debts were irrecoverable at eight auditees (2015-16: 10). The province should continue working on strategies to improve debt collection and strengthen the cash-flow position of the province.

Auditees showed improvement over the previous audit cycle on all IT focus areas, with the exception of user account management. The regression in this regard was due to the provincial treasury not updating user account management procedures to include the BAUD system. Improvements at departments were due to the involvement of internal audit units in monitoring findings raised by our office in the previous year. While some departments appointed skilled personnel such as government IT officers, critical IT vacancies had still not been filled at especially Health, Education and Transport. Heads of departments, the premier's office and provincial government IT officers are now involved in monitoring the IT issues reported to ensure that they are resolved. They also provide assistance with the implementation of controls at departments.

The key control environment and the overall level of assurance provided by key role players had also improved, as evidenced by the improvement in the audit outcomes and the achievement of two clean audits. We noted an increased interest by members of the executive council and heads of departments in the auditing process with robust engagements between these stakeholders and audit teams.

In the 2015-16 general report, we reported that there were six vacancies at head of department level.

These vacancies were significantly reduced with only Sport, Arts and Culture and the provincial legislature not having a permanent head of department at year-end – a head of department was subsequently appointed at Sport, Arts and Culture.

We commend the public accounts committee for clearing the hearing backlog on the 2013-14 and 2014-15 audit outcomes. At the time of writing this report, the 2015-16 hearings for all auditees, except for Cooperative

Governance, Human Settlement and Traditional Affairs, Limpopo Tourism Agency and Roads Agency Limpopo, had been concluded and the resolutions tabled. The response by the public accounts committee when dealing with all outstanding hearings following our recommendation last year is encouraging and demonstrates the continued drive towards a culture of accountability, ethical conduct and sound financial management. We once again wish to emphasise that the public accounts committee and portfolio committees should increase their oversight role, as this will ensure that the root causes of poor audit outcomes are collectively dealt with, while improving service delivery outcomes. Our office should furthermore be invited to all portfolio committee meetings to provide insight on matters reported on performance information.

To further improve the audit outcomes and maintain the gains achieved, the premier committed, together with the members of the executive council, to appoint the right people with proper qualifications and implement and monitor action plans at all auditees to ensure sustainable improvements. We have developed a new initiative to enhance our regular engagements with accounting officers and authorities, which is aimed at improving key controls by proactively identifying audit risks that may derail the auditee's progress and result in regressed audit outcomes. The effectiveness of this initiative depends on the administrative leadership's active involvement in developing and enhancing key internal controls to address the identified audit risks, thereby creating a robust internal control system.

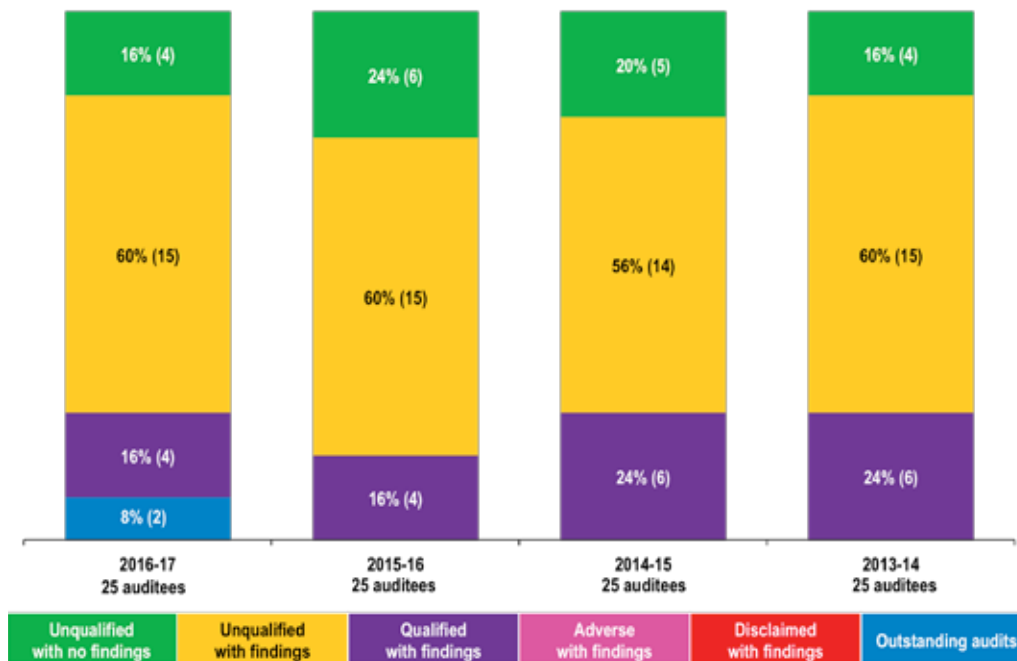
The level of commitment demonstrated by the political and administrative leadership in improving audit outcomes is commendable. The governance structures should intensify their oversight process by robustly interrogating reports submitted to them by departments and public entities to achieve clean administration.

The **outcomes in KwaZulu-Natal, Mpumalanga and the Northern Cape were erratic** over the past four years – improvements in the one year were offset by regressions in the following. A lack of urgency by the leadership in honouring commitments and implementing action plans and a slow response to applying consequences were some of the root causes of the outcomes.



## 16.5 KwaZulu-Natal

Four-year audit outcomes



The KwaZulu-Natal provincial government comprises 14 departments, the provincial legislature and 20 public entities. As part of our audit methodology, we classified 10 entities as small auditees based on their importance, size, nature and extent of activities. The audit outcomes of these entities are not included in this overview, but are published in the annexures available on our website. If these small auditees had been included in the overall audit outcomes, it would have reflected a regression for 2016-17, with eight auditees (23%) receiving clean audit outcomes, 20 auditees (57%) unqualified opinions with findings, and five auditees (14%) qualified opinions.

The overall audit outcomes also exclude the results of Ithala Development Finance Corporation (holding company) and Ithala Limited (subsidiary), as the audits of these public entities had not been finalised by the cut-off date for inclusion in this overview. Ithala Limited did not meet certain conditions that needed to be fulfilled as part of the banking licence exemption set out by the minister of Finance, which also delayed its holding company's financial statements.

Over the four-year period, little progress had been made towards improving the audit outcomes. The audit outcomes of six auditees (24%) had improved, 15 (60%) had remained the same, and two (8%) had regressed since 2013-14. It is worth noting that the 15 auditees (60%) with stagnant outcomes included 11 auditees (44%) whose audit outcomes were unqualified with findings.

The provincial treasury and Dube Trade Port maintained their clean audit status over the four-year period. The Sharks Board and Sports and Recreation improved from an unqualified audit outcome with findings in 2013-14 to a clean audit outcome in the current year. These auditees improved their systems and processes by focusing on simple tasks that mattered and were characterised by committed political and administrative leadership and senior management teams with knowledge of important reporting processes. In addition, the shared provincial audit committee robustly engaged with accounting officers and chief financial officers at these auditees, which further contributed to the favourable audit outcomes. Human Settlements also improved from a qualified opinion in 2015-16 to an unqualified opinion with findings in the current year. The department procured the services of a consultant with the assistance of the provincial treasury to inspect contracts and bid documentation of implementing agents used for municipal construction. This enabled the accurate disclosure of irregular expenditure, which had previously been qualified.

Repeat qualifications at Health and Transport, which account for 42% (R46,60 billion) of the total expenditure budget, have persisted since 2013-14. Notable regressions since the previous year include Agriculture and the Nature Conservation Board that regressed to qualified opinions.

These auditees experienced challenges such as poor record management, breakdowns in regular reporting and reconciliations as well as ineffective monitoring and reviews of reported information. It was also evident that the political and administrative leadership at Health and Transport was slow to implement consequence management for errant officials. Agriculture experienced a breakdown in key controls, as staff did not fully understand the requirements of the financial and performance reporting frameworks due to several vacant posts being filled by acting incumbents. Consequently, there were inadequate monitoring controls over the implementation of asset management policies and procedures and a lack of coordination of financial and performance information from regional sites.

The quality of financial statements submitted for auditing remained a challenge, as 11 auditees (48%) had material misstatements. These auditees continued to struggle with weak internal controls over record keeping, monthly processing and reconciling of transactions as well as regular review and supervision. Seven auditees (30%) received financially unqualified audit opinions only because they corrected all the material misstatements identified during the audit process. It is also concerning that material misstatements were identified in the financial statements of some auditees with fully capacitated finance and chief financial officer positions.

Non-compliance with laws and regulations remains a key hindrance to improving outcomes, as 83% of the auditees did not address compliance findings. Apart from material misstatements, SCM transgressions continued to contribute to the high levels of non-compliance. One of the root causes of non-compliance with key legislation was instability and vacancies in key positions such as those of the accounting officer, chief financial officer and head of the SCM unit. Although members of the executive council displayed a positive attitude and previously committed to implementing mechanisms for the filling of key vacancies and support staff posts, limited progress was made on this commitment.

Some progress had been made on the commitments by the premier's office and the provincial treasury to address weaknesses around irregular and unauthorised expenditure. The support provided to departments assisted in reducing unauthorised expenditure from R218 million in 2015-16 to R106 million in 2016-17, through cash blocking and tighter fiscal policies. Irregular expenditure, however, grew significantly over the year by 218% from R3,57 billion in 2015-16 to R11,35 billion. Most of the irregular expenditure (98%) incurred in the current year related to SCM transgressions. Compliance checklists were not aligned to updates in SCM legislation and/or not implemented in some instances, similar to weaknesses in the previous year, and some departments also had vacancies in head of SCM unit positions.

Health, Human Settlements and Transport requested the provincial treasury to assist in quantifying the full extent of the irregular expenditure to address historical qualifications. Human Settlements disclosed irregular expenditure relating to the prior year of R2,33 billion to address its prior year qualification, whereas Health and Transport were still qualified in this regard. Health, Transport, Human Settlements and Education accounted for R10,68 billion (94%) of the irregular expenditure, which arose mainly due to expired contracts, unjustifiable deviations from procurement processes, non-application of the preference point system, and not following competitive bidding processes. Accounting officers had made minimal progress to ensure that effective consequence management was enforced, as there was an increase in the number of auditees where irregular expenditure was not investigated to determine if anyone was liable for this expenditure. Where investigations were conducted, they were not properly performed and effective disciplinary steps were not taken against officials responsible for the irregular expenditure.

Reporting on performance information regressed, as eight auditees (36%) had material findings in 2016-17 compared to six (27%) in the previous year. In addition, the quality of performance reports had not improved from the previous year in spite of previous recommendations provided. Nine auditees (41%) had performance reports with no material findings only because they corrected the material findings identified during the audit. Education, Health and Transport continued to have material findings on their performance reports. This was as a result of poor record management and inadequate controls over reviewing and reconciling performance information.

The key service delivery departments (Education, Health, Transport and Human Settlements) received R95,87 billion of the total provincial budget (87%). Most of the budgets were utilised with no significant underspending.

Education, which received the largest budget in the province, had significant findings relating to early childhood development (grade R), including classrooms being too small to cater for these school children, teachers not being qualified, and inadequate monitoring of the grade R curriculum. It is encouraging that not many quality concerns regarding the construction of schools were identified on site visits, but poor project management by the department resulted in delays in the finalisation of projects. Poor storage and stock management practices, staff shortages, stockouts and stock losses, insufficient temperature and security controls, and inadequate technology were cited as some of the reasons for the poor health services and high medical claims against Health. Poor project management and implementation, staff vacancies and instability at the coalface of service delivery along with poor governance contributed to the findings we reported.

Transport developed and maintained road networks around the province and fulfilled its role in transporting learners to schools. However, we could not verify whether the department attended to some key safety and compliance areas relating to drunken driving operations and the roadworthiness of vehicles as a result of poor record keeping. At Human Settlements, houses were built with no significant quality control concerns and were being transferred to beneficiaries.

There was uncertainty over the unfunded liability to settle backdated izinduna (headmen) stipends of R1,20 billion at Cooperative Governance and Traditional Affairs. Payments had to be made to the izinduna in the current year based on a presidential proclamation issued in Government Gazette No. 38568 of 2015. The provincial executive council resolved that the department would pay half of the cost through budget reprioritisation, with the balance being proportionately funded by all remaining departments commencing from 1 December 2016. An additional amount of R799,38 million has been projected in terms of the Medium-Term Expenditure Framework to be departmentally funded for izinduna stipend payments, which will place added pressure on departments that currently face cash constraints. Health also disclosed an amount of R10,29 billion for possible medical legal claims; should these materialise, further service delivery setbacks could be expected.

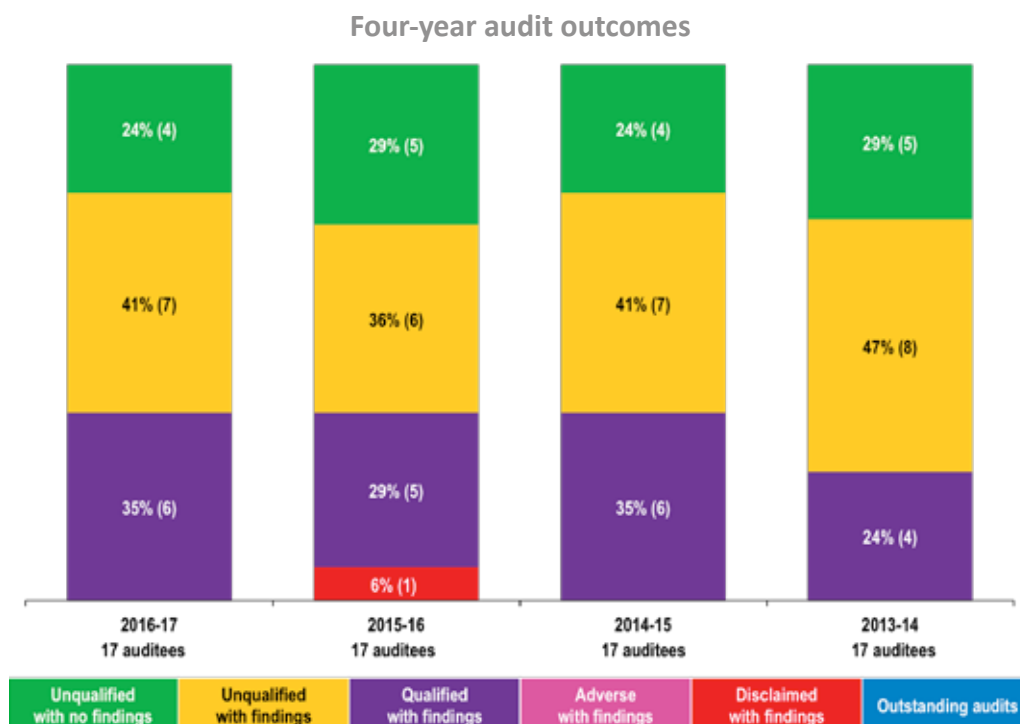
The audit outcomes in the province reflect little improvement over four years. The political leadership must set the tone and establish a strong accountability culture that positively influences the urgency with which key role players implement and monitor commitments, initiatives and consequence management.

Departments continued to experience challenges with the implementation of IT controls. Adequate progress was not made in addressing previous audit findings as well as new IT risks, as corrective measures were instituted late due to the required funding not being made available timeously. System functionality limitations as well as a moratorium on the hiring of staff resulted in a shortage of in-house IT skills for prolonged periods, which had a negative impact on IT controls.

The leadership must continue to lead the way and positively influence key role players to honour their commitments and institutionalise internal controls. Attention should be channelled towards the following important areas to effectively and positively reshape and promote the province to excel and build public confidence:

- Senior management should diligently implement and monitor action plans and recommendations to address previous years' audit findings.
- Basic key controls and monthly reporting processes, such as record management, key account reconciliations along with policy conformance, are the building blocks of internal control and require concerted and disciplined refinement, implementation and buy-in from all officials.
- The political and administrative leadership should ensure that competent people are employed in financial and SCM positions. These individuals should embrace accountability and take responsibility for their actions, coupled with a comprehensive understanding of key policies, processes and procedures.
- Frequent project planning, project management as well as monitoring and reporting on key priorities and service delivery attainments/backlogs are critical to enable swift intervention and management remediation.

## 16.6 Mpumalanga



The audit outcomes in Mpumalanga were inconsistent over the past four years with 65% of the auditees attaining unqualified audit outcomes during the 2016-17 financial year. Four auditees (24%) attained unqualified audit opinions with no findings, with three (18%) of these maintaining their clean administration status over the past four financial years. The driver of the good audit outcomes at the auditees with clean audits was mainly their prompt implementation of responsive action plans that were designed to address identified risk areas. In turn, these actions ensured a sound internal control environment. The overall provincial picture can change significantly if the other auditees also adopt these actions.

The audit outcome of one auditee, the Mpumalanga Economic Growth Agency, improved to a qualified audit opinion from a disclaimer in 2015-16. The entity took advantage of the interim audit to address some of the previous year's qualification areas and was also assisted by consultants to clean up the financial information, as the entity had not implemented basic daily and monthly disciplines. Work still needs to be done to improve other key elements of the entity's internal controls; moreover, the key processes need to be institutionalised to move the entity towards clean administration.

This slight improvement by the Mpumalanga Economic Growth Agency was, however, negatively offset by the regression of Social Development from a clean audit to an unqualified opinion with findings. During the 2016-17 financial year, the department decentralised the processes relating to the planning, collection, collation and reporting of performance information but did not properly institute the monitoring systems to respond to this change, hence the regression.

Similar to the previous year, six auditees (35%) could not adequately address significant errors identified in their financial statements, leading to qualified audit outcomes mainly in the areas of assets and revenue. We acknowledge the efforts by some of the auditees to improve audit outcomes, but unfortunately these efforts did not translate into tangible improvements due to significant weaknesses in the internal control environment as well as delays in finding practical solutions to recurring qualification areas. Culture, Sport and Recreation was further affected by instability in key positions, particularly at the level of chief financial officer. Furthermore, the review of the financial statements and performance reports by internal audit units, audit committees and the provincial treasury did not have the desired impact, as the underlying records supporting the financial statements contained errors.

The quality of financial statements and performance reports remains a matter of concern, with auditees still relying on the auditors to identify errors in the financial statements submitted for auditing. Eleven auditees (65%) received unqualified audit outcomes, but three (18%) received such outcomes only because they corrected all the material errors identified during the audit. In some instances, the root causes of the errors identified were similar to those that caused errors in previous years, indicating that these were not promptly addressed during the year. Overall, the province remained stagnant with no significant improvement in the audit outcomes, as there were still widespread weaknesses in the internal control environment.

We audited 17 key projects funded by conditional grants at six provincial departments and were encouraged that planned targets were achieved on 14 (82%) of these projects and that grants allocated were spent in accordance with the respective conditions. At the same time, we raised findings on non-compliance with SCM prescripts on three projects (18%) and identified accounting errors relating to capital expenditure and irregular expenditure on five projects (29%).

Overall, the province still struggled to report reliable information on its predetermined objectives, as 12 auditees (71%) regressed in this area from the previous year due to a lack of proper review processes to ensure that reported information was credible. However, the discipline exercised by the province in the management and reporting of key projects funded by conditional grants set the proper platform for possible improvement on the planning, delivery and reporting of all other objectives contained in annual performance plans.

SCM continued to be a challenge and weaknesses in this area contributed to 94% of the total irregular expenditure (R3,2 billion) incurred in the financial year under review. Although the amount of irregular expenditure incurred in the current year had decreased, the province had not yet mastered the art of properly investigating irregular expenditure previously identified, as more than 70% of the current year's irregular expenditure arose from old multi-year contracts that had not been investigated. As a result, the closing balance of irregular expenditure increased to R11,2 billion (2015-16: R8,6 billion). Unauthorised expenditure increased to R98 million (2015-16: R9 million) due to Education overspending on programme 2: public ordinary schools education by R97 million. The reasons for the unauthorised expenditure included poorly prepared budgets. The political leadership should regularly monitor the progress and quality of investigations into previously reported instances of irregular and unauthorised expenditure to ensure that they are appropriately dealt with in line with legislation.

We noted a slight improvement in the financial health of the province, but some auditees still struggled with cash-flow management because of poor budget control and a lack of effective debt-management strategies. Consequently, these auditees failed to pay money owed within 30 days as required by legislation. Noticeable was also a trend by auditees to carry over their debt to the new budget. This had a negative impact on the delivery of planned targets in the new budget period. In addition, there was a concern about the financial independence of the two strategic public entities in the province, namely Mpumalanga Economic Growth Agency and Mpumalanga Tourism and Parks Agency. Both these entities depended largely on equitable share allocations as they were either not generating much income on their own or unable to collect amounts owed to them. The province is encouraged to monitor the implementation of the strategies in place to enable these entities to be self-sustainable to release much needed funds into the provincial fiscus to focus on service delivery.

In line with the previous year, IT controls in the province were fairly well managed at five auditees (29%) in support of their business objectives. This was due to a skilled workforce and management taking accountability to maintain good IT controls and addressing previous audit findings. Furthermore, oversight bodies such as the provincial government IT officers' council and internal audit units continued to play an important role in maintaining IT controls at all the auditees in the province. However, there were still some challenges in ensuring the effectiveness of IT governance controls (59%), security management controls (41%), and user access management controls (53%).

Accountability towards the timely discharge of commitments made by key stakeholders will help the province realise improvement in an otherwise stagnant environment.

The effectiveness of the work performed by the various assurance providers, such as the internal audit unit, audit committee, provincial treasury and public accounts committee, was hampered significantly by management's failure to implement their recommendations or resolutions. In the last four financial years, we have consistently shared our key message on the actions needed to improve audit outcomes with accounting officers and authorities, members of the executive council, the premier and the legislature through our reports and interactions with them. In most cases, the engagements with the political leadership were well received and commitments to strengthen the key control environment and improve the audit outcomes were given.

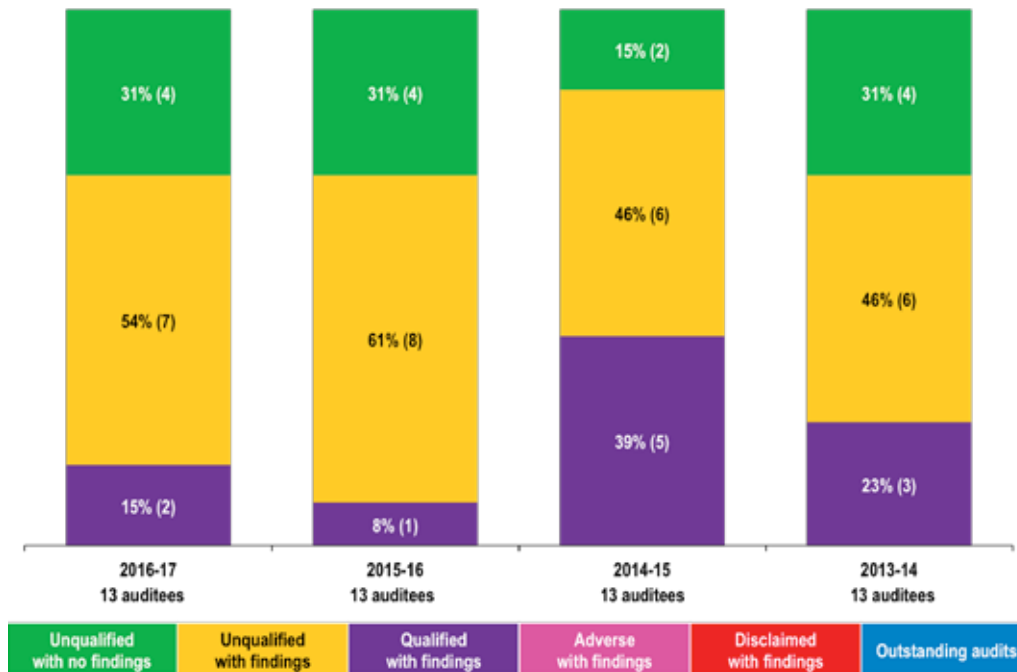
We have continued to monitor these commitments and other initiatives of the executive and the legislature. Regrettably, the work done by the provincial leadership has not had the desired impact on the audit outcomes due to various challenges, including vacancies and instability in key positions, slow responses and a lack of consequence management for poor performance and transgressions. The province should focus on the following commitments to improve this situation:

- The legislature's commitment to track house resolutions and follow up implementation by auditees, which was still in progress.
- Commitments by executive authorities to closely monitor the performance of their departments, particularly SCM compliance.

We remain positive that should the weaknesses in the internal control environment be addressed, there will be a noticeable movement towards clean audits. As such, we will continue investing efforts in assisting the key role players to improve audit outcomes, mainly through our enhanced assessment of key controls and engaging the accounting officers, accounting authorities, audit committees and executive authorities on the status thereof.

## 16.7 Northern Cape

Four-year audit outcomes



The Northern Cape provincial government consists of 20 auditees, including 13 departments and seven listed public entities. As part of our audit methodology, we classified these seven listed public entities as small auditees based on their importance and the size and nature of their business. The audit outcomes of these entities are not included in this overview, but are published in the annexures available on our website. If these small auditees had been included in the overall audit outcomes, it would have reflected an overall stagnation in 2016-17, with seven auditees (35%) receiving clean audit outcomes, nine auditees (45%) receiving unqualified opinions with findings, three auditees (15%) receiving qualified opinions, and one auditee (5%) whose audit was outstanding.

The four-year audit outcomes of the province showed a slight improvement, but the province slightly regressed when compared to the previous year. We complimented the three oversight departments (premier's office, provincial treasury and provincial legislature) in the previous year on achieving clean audits. In addition, Environment and Nature Conservation improved to a clean audit in the year under review. While we commend the oversight departments for again obtaining clean audits, we are concerned about the lack of improvement by most of the other departments. In addition, two of the largest budget spenders in the province (namely Health as well as Roads and Public Works), representing 39% of the provincial budget, received a qualified opinion in the year under review.

Health remained qualified over the past four years – with efforts by oversight structures and attention from the internal audit unit having little impact. Most qualification areas from the previous year were repeated, and we again identified material findings on the performance report and compliance. The department struggled with stability in key positions, including the position of accounting officer that was vacant for the last five months of 2016-17. The message of accountability should be emphasised and the leadership must deal decisively with those that do not follow policies and procedures. Additionally, a culture of discipline over internal controls and the proper monitoring of these should be implemented.

Oversight departments as well as the second and third levels of assurance providers have a role to play in directing departments towards improved audit outcomes. However, the responsibility for the implementation and monitoring of controls as well as keeping officials accountable remains that of the first level of assurance providers (accounting officer, senior management and executive authority).

The current audit outcomes reflect that these assurance providers were ineffective and that the message of accountability was not fully imbedded, as also reported in the previous year.

The financial audit areas of the two departments that were qualified related to correctly measuring and disclosing property, infrastructure and equipment as well as irregular expenditure. The number of qualifications on property, infrastructure and equipment increased from one department (8%) in 2015-16 to two departments (15%) in 2016-17, while the number of qualifications on irregular expenditure was unchanged at one department (8%).

The quality of financial statements submitted for auditing remains a major concern, with only seven departments (54%) submitting credible financial statements requiring no material adjustments during 2016-17 – the same as in the previous year. This confirms that many departments continued to experience difficulties with internal controls and relied too much on the audit process to detect misstatements in the financial statements and performance reports.

The slow response to recommendations and a lack of accountability are hindering improved audit outcomes and optimal service delivery to the citizens of the province.

The departments with no material findings on their performance reports improved year-on-year from seven (54%) in 2015-16 to nine (69%) in 2016-17. However, it is concerning that seven of the nine auditees were able to avoid findings on their performance reports by making material adjustments during the audit process. This shows that internal controls over the reporting of performance information still require attention.

The province struggled to improve its compliance with legislation and we did not raise findings in this area at only four departments (31%) (2015-16: four (31%). The non-adherence to SCM prescripts; the non-prevention of unauthorised, irregular and fruitless and wasteful expenditure; and the poor quality of financial statements submitted for auditing were the main contributors in this area. This was due to inadequate controls over monitoring compliance with legislation and a lack of timely, decisive action against transgressors.

Although irregular expenditure incurred decreased from R1,7 billion in the previous year to R1,6 billion in the year under review, the R10 billion closing balance of irregular expenditure is concerning. Health and Education were the highest contributors in the province with irregular expenditure of R574 million and R345 million, respectively. The most common areas of SCM non-compliance that caused irregular expenditure were procurement without competitive bidding or a quotation process and non-compliance with procurement process requirements.

SCM findings, allegations of financial misconduct and irregular expenditure should all be investigated. Irregular expenditure should only be written off after having been properly investigated. Of further concern is that no investigations into irregular expenditure incurred were carried out for the year under review at the top five contributors (Health; Education; Transport, Safety and Liaison; Cooperative Governance, Human Settlements and Traditional Affairs; and Roads and Public Works).

During the year under review, six departments either wrote off or condoned irregular expenditure of R92 million, but in no instance was any amount recovered from a liable person. The accounting officers should ensure that rigorous investigations are conducted and, where possible, the necessary steps are taken against the officials who caused the irregular expenditure.

While the financial health of the province stagnated, Health regressed to a state where material uncertainty existed regarding its financial health. This was due to increasing difficulties in recovering money owed to the department, concerns regarding the creditor-payment period, and a bank overdraft at year-end. Health also had a contingent liability for legal claims against the department amounting to R1,45 billion. We are concerned that the total current liabilities exceeded the total current assets at 11 departments (85%), while the cash shortfall as a percentage of the following year's total appropriation (excluding compensation of employees) of more than 10% was reported at six departments (50%). The practice of departments committing a substantial portion of the following year's budget in the current year is unsustainable and a concern that we also raised in the previous year. Budgetary controls need to be implemented in such



a way that departments only spend what they budgeted for in a particular year. Where this is not done, departments should be called on to account for this.

As part of our evaluation of grant management, we audited 30 key projects at the 10 departments that received grants in terms of the Division of Revenue Act. We raised SCM findings relating to inadequate procurement processes by departments or implementing agents on 10 projects, while targets were also not achieved and/or evaluated at nine of these projects. Social Development underspent the substance abuse treatment grant by 100%, due to a dispute between the department and contractors relating to the construction of a substance abuse treatment centre in Kimberley. Health underspent the health facility revitalisation grant by 23%, due to delays in awarding tenders by implementing agents. We also raised concerns regarding the quality of workmanship relating to infrastructure development, and this had an impact on the time it took to complete facilities. These delays related mainly to poor project management and a lack of monitoring the progress on these projects. Where projects are delayed, it has a direct impact on service delivery – for which the responsible officials or service providers need to be held accountable.

The overall assessment of IT improved in the year under review although all departments still received findings in this area. As reported in the previous year, these findings can be attributed to concerns around IT managers not having adequate skills and resources to ensure that IT controls were adequately implemented. This resulted in most departments addressing symptoms rather than implementing processes that would improve the IT environment. Oversight bodies and the senior leadership of departments should intervene to ensure movement in this area.

The effectiveness of the work performed by the various assurance providers, such as the internal audit unit, audit committee and provincial treasury, was hampered by management's failure to implement their recommendations. Consequently, we identified a slow response in improving key controls and addressing recommendations as the key root cause that hindered progress in audit outcomes. This was worsened by accounting officers and senior management failing to keep officials accountable for their duties.

The commitments made by the premier in recent years focused on the implementation of consequences for poor performance as well as improving the quality of financial statements and the levels of compliance with legislation. These commitments were meant to improve the audit outcomes of departments, but as highlighted above, they were not implemented. The tracking of commitments remains a concern and we believe an improvement in the audit outcomes is possible if oversight structures frequently track their commitments. A lack of consequences by the political leadership at departments that did not improve their outcomes, especially in the area of compliance with key legislation, is one of the key reasons for the outcomes not improving.

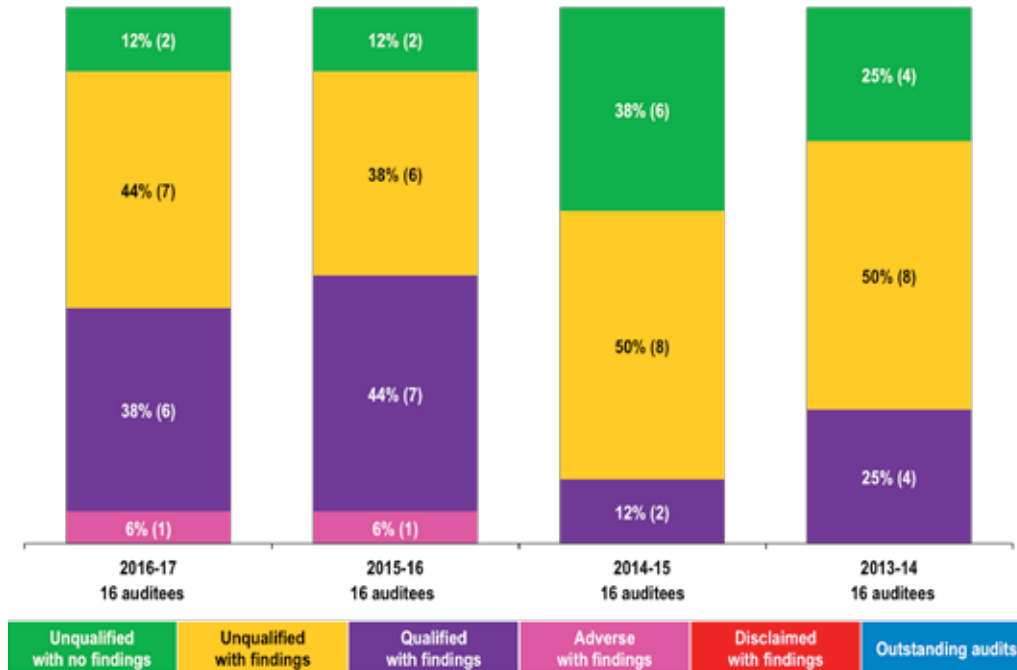
To further improve the audit outcomes, specifically at Health as well as Roads and Public Works, we recommend improvement in the monitoring of action plans as well as the implementation of reviews by internal audit units to confirm the status of action plans reported by senior management. Commitments made with regard to the resolutions of the public accounts committee need to be tracked and, at an overall level, accounting officers and executive authorities must hold staff accountable for transgressions.

The provincial government needs to prioritise accountability and the executive leadership needs to be held accountable for continued repeat audit findings if meaningful progress is to be made towards clean administration. This will require a combined effort by oversight bodies and the political leadership, and will result in improvements at departments that continue to struggle to report accurately on their financial and performance information and to comply with legislation.

A **lack of accountability and commitment towards clean administration was evident in the Free State and North West.** Their audit outcomes regressed over the four years – the Free State showed a slight improvement in 2016-17 but North West is in a downward spiral. The response by the provincial leadership was to contest the audit conclusions instead of addressing the weak control environment at most of the auditees.

## 16.8 Free State

Four-year audit outcomes



The Free State provincial government consists of 19 auditees, including 13 departments and six entities. As part of our audit methodology, we classified three entities as small auditees based on their role and size as well as the nature of their business. The audit outcomes of these entities are not included in this overview, but are published in the annexures available on our website. Overall, there was a regression in audit outcomes over the past four years. If the outcomes of these small auditees had been included, it would not have changed the picture as two entities received unqualified audit opinions with findings over the same period, while the audit outcome of one was still outstanding.

The provincial treasury improved from a qualified audit opinion to a clean audit and Health improved from a qualified opinion to an unqualified opinion with findings. The leadership at these departments responded to our messages and took timely action to address the previous year's qualifications. However, the premier's office, which should lead by example in the province, regressed from an unqualified opinion with findings to a qualified opinion and the Fleet Management Trading Entity regressed from a clean audit to an unqualified opinion with findings. The majority (63%) of auditees' audit outcomes stagnated on either an unqualified opinion with findings or a qualified opinion. Agriculture and Rural Development received an adverse opinion for the last two years. The lack of progress in the audit outcomes was attributable to the leadership's lack of focused and committed attention to continuously strengthen internal controls and improve the monitoring thereof. The provincial audit outcomes will not improve to the desired level if the right tone is not set at the top and the leadership does not take accountability to address the root causes of the audit findings to improve the control environment.

During 2015-16, we urged the political and administrative leadership to take accountability for and address the control weaknesses that resulted in a significant regression in audit outcomes. Five departments disputed these audit outcomes, which resulted in the late or non-tabling of their annual reports. The leadership then committed that disputes would be resolved, the use of implementing agents would be reviewed with a view to eliminating this practice, and accounting officers would provide more assurance through oversight and taking ownership of the control environment. These commitments were not honoured as they only received attention close to the reporting date, resulting in limited progress being made to improve audit outcomes.

The slow response by the political and administrative leadership to honour their commitments and address the weak control environment, a lack of consequences and the continued disregard for compliance with legislation resulted in findings at 13 auditees and material adjustments to the financial statements being required at 10. Additionally, there was a noticeable regression in the quality of reported performance information as 10 auditees had material findings, compared to five in the previous year. This regression was mainly due to management not prioritising transparent reporting on the achievement of predetermined objectives. Instability and vacancies in key positions as well as inadequate documentation further contributed to the poor quality of reported performance information. IT remains critical for the integrity and availability of performance information to enable reliable reporting. However, there were no dedicated strategies to implement an IT platform for performance information.

Effective monitoring and oversight by all assurance providers are essential to break the cycle of impunity and improve internal controls. The administrative and political leadership should accept responsibility for their actions and should create a culture that will result in a responsive, accountable, effective and efficient provincial government as set out in the MTSF.

Irregular expenditure disclosed in the financial statements increased from R1,927 billion to R5,421 billion. This was mainly due to five departments reporting irregular expenditure to address the previous year's qualifications. However, the amount of R5,421 billion is understated, as Agriculture and Rural Development and the premier's office did not disclose irregular expenditure of R974 million and subsequently received a qualified audit opinion. The most common instances of irregular expenditure related to three quotations not being obtained, competitive bids not being invited, and the preference point system not being applied or being incorrectly applied. The main contributors to irregular expenditure were Health (R3,502 billion), Human Settlements (R1,015 billion) and Education (R680 million). The amount for Health is high as a result of the effort the department made to quantify its irregular expenditure and to deal with the previous qualification on irregular expenditure. The closing balance of irregular expenditure was R9,224 billion, which is an indication that irregular expenditure was not always investigated adequately to identify the officials to be held accountable for the possible recovery of losses, resulting in the year-on-year increase in the balance. Where irregular expenditure was investigated, officials were seldom found liable and amounts were written off. The leadership's involvement in the decision-making that led to transgressions resulted in their inability to hold staff accountable and, as a result, adequate consequence management processes were not implemented.

The departments' financial health continued to deteriorate with only the provincial treasury not requiring intervention. This was due to the provincial leadership not taking accountability to plan properly and considering the available budget when committing to strategic projects, so that funds were used optimally. Funds to be surrendered to the revenue fund and accruals and payables not recognised exceeded cash on hand by R2,6 billion. A significant portion of the 2017-18 budget would therefore be required to settle these obligations, reducing departments' ability to effectively deliver on their mandate. The intervention by the provincial treasury at Education since April 2015 had not improved financial management at the department, as it continued to incur irregular expenditure and to commit funds in excess of what would be available for future projects and services. Furthermore, Health is the defendant in lawsuits of R1,5 billion. Should these claims materialise, it could derail service delivery by this department as these were not budgeted for. The combined bank overdraft balances of Education and Health of R885 million put pressure on the entire province, as these departments are prioritised for funding. These signs of financial failure should receive urgent attention because without improved fiscal disciplines for the more effective, efficient and economical use of resources, the departments' financial health and service delivery will continue to deteriorate.

An important point in the MTSF is to establish an accountable, effective and efficient provincial government that promotes accountability for government spending of the budget in a manner that will have a positive impact on people's lives. At Agriculture and Rural Development as well as Education, however, grants were not used for their intended purpose, and Education underspent conditional grants by R203 million, resulting in the public not receiving services as outlined in these departments' annual performance plans.

Spending on key projects was riddled with shortcomings, as the departments did not always apply the principles of sound project planning and management, resulting in cost overruns, poor quality workmanship, delays in the completion of projects, and potential fruitless and wasteful expenditure. Consequently, key performance targets were not always achieved. The provincial leadership continued to make use of implementing agents to deliver some key projects without ensuring that they complied with SCM requirements. We are concerned about the continuous disregard for procurement processes by the administrative and political leadership that resulted in irregular expenditure, coupled with limited consequences for these transgressions, as it created an environment conducive to misappropriation, wastage and abuse of state funds.

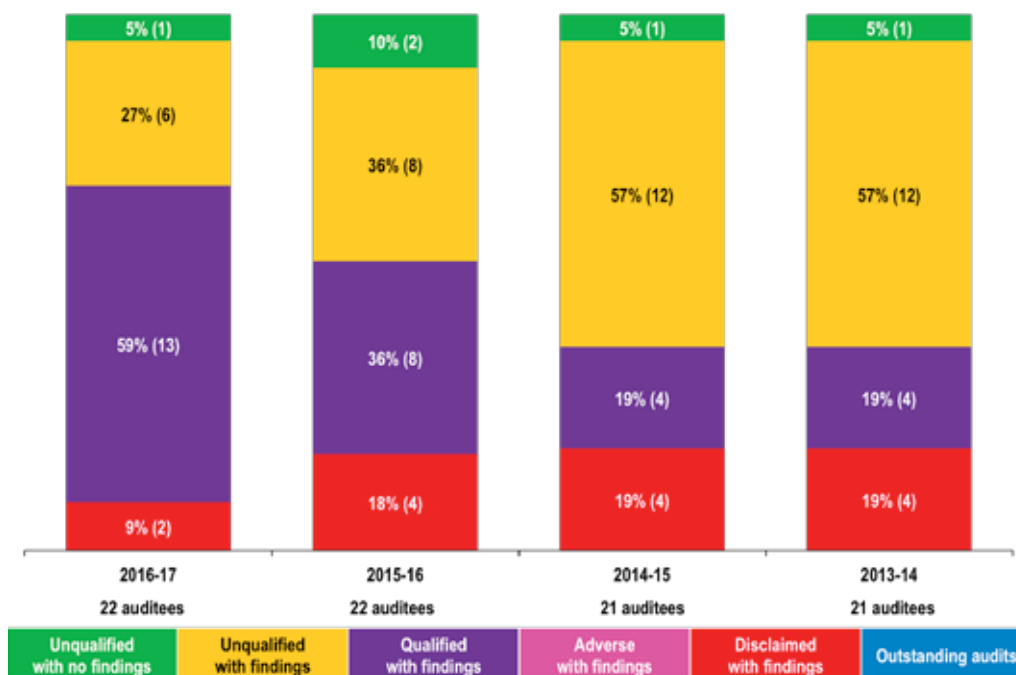
The construction of a district hospital and a psychiatric complex by Health had been placed on hold since 2012 due to a lack of funding. These delays affected service delivery and may result in additional costs due to changes in the community's needs and technological advancements. In spite of Health's cash-flow challenges, it irregularly awarded a tender to a service provider for the procurement of buses to be utilised as mobile clinics. We noted concerns regarding the department not applying the preferential procurement requirements, specifically with regard to the assessment of functionality to disqualify certain bidders as well as awarding points for local content.

There were significant delays in the construction of a school where the contract was ceded to a second contractor after 29 months due to poor performance with only 33% of the work having been completed. The initially planned project duration was 16 months. The quality of most of the structures was poor and had to be demolished or corrected. In another instance, a school was completed but the building was of sub-standard quality due to poor workmanship. The project was also not properly planned, as there were only enough learners to fill six of the 29 classrooms built. Public Works and Infrastructure was the implementing agent for both projects and had certified to Education that the work performed by the contractors was satisfactory and that payments could be made.

Effective monitoring and oversight by all assurance providers are essential to break the cycle of impunity and improve internal controls. The administrative and political leadership should accept responsibility for their actions and should create a culture that will result in a responsive, accountable, effective and efficient provincial government as set out in the MTSF. Mechanisms to promote accountability typically include basic daily and monthly checks and balances on compliance, financial and performance information; managing the performance of staff; and implementing consequences for poor performance and transgressions. Accountability and transparency are considered the main pillars of good governance and sustainable clean audits will only be achieved through a strong foundation of good governance.

## 16.9 North West

Four-year audit outcomes



The North West provincial government consists of 36 auditees, being 13 departments and 23 entities. As part of our audit methodology, we classified 14 entities as small or dormant auditees based on their importance and the size and nature of their business. The audit outcomes of these entities are not included in this overview but are published in the annexures available on our website. If these small auditees had been included in the overall audit outcomes, the picture for 2016-17 would have further regressed, with one auditee (3%) receiving a clean audit outcome, nine auditees (25%) unqualified opinions with findings, 17 auditees (47%) qualified opinions with findings, and four auditees (11%) disclaimed opinions. The 2013-14 audit outcome of the former Department of Human Settlements is included in the four-year audit outcome figure for comparative purposes.

Of specific concern is the audit outcome of the premier's office, which has remained qualified for the last two years with increasing irregular expenditure. As a key monitoring and oversight department, the premier's office should set an example of good governance and accountability. The lack of improvement in audit outcomes indicates that the provincial executive leadership was not interested in our messages and that, overall, there were poor accountability and consequence management. Specific commitments made relating to accountability and consequence management had not been successfully implemented. A consequence management committee had still not been established, resulting in the provincial executive leadership not holding accounting officers or accounting authorities accountable for the lack of progress made over the four-year period. Focused political will and a considerable investment in monitoring and oversight are required to turn around the audit outcomes of the province and create a baseline from which accountability can be inspired and strengthened.

The slow response by management to address root causes and the lack of consequence management for continued transgressions and poor performance should have been the priority of the provincial executive leadership, as highlighted in the previous year's general report. Contrary to this and irrespective of the continued reinforcement of our messages, the overall audit outcomes of North West regressed over the last four years with only 32% of the auditees obtaining

Accountability, consequence management and action by the provincial executive leadership in addressing root causes, are the cornerstones to improving audit outcomes.

financially unqualified opinions in 2016-17 compared to 46% in 2015-16 and 62% in 2014-15 and 2013-14. Most of the audit findings were repetitive in nature with auditees focusing on disagreeing with findings and questioning audit processes instead of finding a way forward to address the matters raised in audit reports. Finance was the only department that maintained its audit outcome of financially unqualified with no other findings for four consecutive years. Unfortunately, the coordinating role of the department was hampered by other auditees not being responsive to its recommendations and the best practices consequently not being replicated. The outcomes of the public entities in the province further regressed, with no public entity achieving a financially unqualified opinion in 2016-17.

The most common compliance finding related to financial statements containing material misstatements. The submission of quality financial statements for auditing within the legislated timelines and the availability of the underlying financial records remain a concern, with auditees relying on the audit process to produce credible financial statements. This resulted in 109 material adjustments (an average of five per auditee) being required during the audit process to correct these misstatements. Had these adjustments not been allowed, only two auditees (9%) would have received unqualified opinions as opposed to the reported seven (32%). Vacancies in key positions and the lack of appropriate competencies were again the main reasons for auditees' inability to implement basic controls such as record management as well as daily and monthly reconciliations to ensure the preparation of reliable financial reports. This also contributed to an over-reliance on consultants, specifically at public entities. An intensive effort is required to ensure stability and appropriate competencies in key positions, as this is crucial in institutionalising key controls that will address identified weaknesses.

Overall, 91% of the auditees had material findings on their performance reports. The most common findings related to indicators that were not well defined and reported achievements that were not supported by source documents due to poor record keeping and ineffective systems and processes to enable reliable reporting. IT remains critical to enable accurate reporting, enhance service delivery and promote effective oversight. Although departments made some progress in addressing weaknesses in IT controls identified in the previous year, public entities did not make any progress. This could result in disruptions in operations and increase the risk of fraudulent transactions that could result in financial losses. The government IT officer and the coordinating departments need to ensure that specific attention is given to assist the province in this regard.

Most auditees (91%) still had findings on compliance with legislation, specifically in the areas of irregular expenditure and non-adherence to procurement and contract management prescripts, which also resulted in an increase in the irregular expenditure incurred from R3 billion in 2015-16 to R3,6 billion in 2016-17. As a result of this year-on-year increase and due to irregular expenditure not being investigated, the total unresolved balance for the province was R16,5 billion. A total of 59% of the irregular expenditure was incurred by the following top three contributors in 2016-17: Community Safety and Transport Management (R880 million), Health (R714 million), and Public Works and Roads (R550 million).

The use of implementing agents at the premier's office and Rural, Environmental and Agricultural Development resulted in irregular expenditure, as the implementing agents did not adhere to the departments' SCM policies, as required. There were also instances where management applied discretion to deviate from SCM processes without adequate reasons, such as the awarding of a tender for the rehabilitation of flood-damaged roads of R103 million at Public Works and Roads; and the awarding of various cluster security contracts to suppliers not recommended by the department's bid adjudication committee at Health. A provincial committee to advise auditees on dealing with irregular expenditure was established in February 2017, but to date the submissions by departments have not been adequate to assist in clearing the growing irregular expenditure. In addition, the legislature's portfolio committees and the public accounts committee also did not have much of an impact on the lack of accountability and consequence management in the province.

We audited 16 key projects funded by conditional grants. Although 95% of the total grant allocation of R7 139 million received by the province was spent during the year, we identified instances where targets of key projects were not achieved or where work was not completed at the desired quality. For example, at Education and Sport Development, completed schools were not properly commissioned, including toilets that were not working and roofing of schools that had been poorly installed. At Local Government

and Human Settlements, a housing project was delayed for over 20 months and fruitless and wasteful expenditure was incurred, as 503 housing units had to be demolished and rebuilt due to quality defects, despite the contractor having been paid in full. The root cause of these findings was poor project management. Had the departments adequately monitored the work and progress by contractors before payments were made, these defects could have been identified and addressed. Government spending without ensuring value for money is of particular concern, taking into account the increased financial pressure on auditees to make sound financial decisions and implement cost-containment measures to ensure financial viability.

The outcomes of the public entities in the province remained poor over the four years with a regression in 2016-17, with no public entity achieving a financially unqualified opinion. In the previous year, we reported that the processes and legislative requirements to restructure certain public entities needed to be finalised. No progress had been made in this regard, however, as the implementation of decisions was emphasised without ensuring that the appropriate legislative approvals were obtained. We remain concerned that the provincial executive leadership did not have a complete picture of all the entities in the province. This resulted in a lack of governance at the entities, while the departments responsible for these entities did not monitor them appropriately. This is evident from the number of entities operating without approved budgets and without reporting quarterly and annually on their performance.

The financial health of most public entities in the province remains the biggest concern. Most entities continued to incur deficits every year, while the total current liabilities exceeded the total current assets at seven entities (78%). This indicates that the entities could not honour their liabilities and were therefore fully dependent on funding from their holding companies or departments to continue to operate as going concerns. The financial statements of two entities were so poor that a reliable assessment could not be done, but there were indicators of financial problems. While the financial health of departments improved over the four-year period, there was still a concern regarding accruals outstanding in excess of 30 days at seven departments (54%), which indicates that suppliers were not paid timeously. The non-payment of suppliers on a timely basis, specifically by Health, Education and Public Works and Roads, severely affected service delivery. In addition, litigation and claims against Health in excess of R1,2 billion highlight the department's and province's financial vulnerability should these claims be successful. Strong financial discipline is required to manage, monitor and spend funds to ensure the most effective, efficient and economical use of resources.

The province's downward spiral will continue until such time as the pillars of accountability and good governance are put in place. Consequently, the provincial executive leadership and oversight structures should aspire to develop a comprehensive assurance model, including strong and effective governance structures, which is required so that all key role players adequately perform their monitoring duties and the administrative leadership is held accountable for future commitments with regard to improved financial and performance reporting disciplines. This should include key oversight activities, especially on matters of consequence management, the tracking of commitments, the implementation of audit action plans, and the timely tabling and regular follow-up of key resolutions. In addition, the provincial leadership should take responsibility for creating a culture in which accountability can be restored and strengthened in the province.