AUDIT PERSPECTIVES

ACCOUNTABILITY IS OUR PRIORITY, IMPLEMENTING THE PAA

The debates and subsequent media coverage that accompanied the tabling of the PFMA 2019-20 Consolidated General Report on national and provincial audit outcomes is very encouraging. This is complemented by notable attention from accounting officers and authorities to the reports and matters we have brought to their attention.

The optimism over the slight improvements in some areas of the audit outcomes is not misplaced but it is no reason to be complacent or celebrate.

We make a clarion call to all of society to become involved with matters of public accountability and participate in the process of ensuring that public funds are spent effectively and efficiently in the public interest.

This report, tabled under difficult circumstances of covid-19 and subsequent lockdowns, signals improvement. We acknowledge that unqualified audit opinions on financial statements improved, auditees publishing credible reports in the area of their performance increased, non-compliance with legislation decreased and compliance with supply chain management legislation has slightly improved.

However, we have not seen the progressive and sustainable improvements required to prevent accountability failures and deal with them appropriately and consistently across national and provincial government.

In our 2018-19 consolidated general report and the two special reports tabled in 2020 on the financial management of government's covid-19 initiatives, we said that to see real improvements, we must apply sustainable solutions that prevent accountability failures and ensure consequences for these failures when they do occur. We also need to prioritise improving the public sector's financial management and take opportunities for progressive and sustainable change.

Regrettably, over the past year we were confronted with the same issues raised before. To move forward, we have had to emphasise these messages and continue to call for the administration to intensify their action on accountability. We therefore tabled this report under the theme *a continued call to act on accountability*.

Although the improvements in audit outcomes are encouraging, the sustainable solutions required to prevent accountability failures are not yet in place, and will require investment from all levels of government.

We also call on oversight bodies, executive authorities and coordinating departments like offices of the premier and treasury, to pay specific attention to state-owned entities, struggling public entities and the key service delivery departments such as health and education. The inability of these auditees to sustain their operations and continue to deliver services is having – and will continue to have – a significant impact on government finances and the lives of citizens.

We also emphasise the importance of financial management disciplines. Every official must do their part to ensure that public money is protected with transparency and accountability for the way it is managed.

Preventing leakages and recovering money that has been lost will need to be a key priority of all accounting officers and authorities, especially now when much must be done with very limited and continually decreasing financial resources.

Equally important is where consequences for accountability failures are required, these must be carried out swiftly, bravely and consistently.

Overall, audit outcomes improved, with 66 auditees improving and 35 regressing. These improvements can be attributed to stable leadership at the levels of accounting officers and chief financial officers. In addition, their commitment and direct involvement ensured that internal control processes improved and our recommendations were fully implemented.

In a nutshell, 26% of auditees produced quality financial statements and performance reports, and complied with key legislation, which gained them a clean audit opinion; a slight improvement from the 23% in the previous year. Countrywide, 74% of auditees received unqualified audit opinions on their financial statements, a slight improvement from 71% in the previous year. The number of auditees that submitted quality financial statements increased – 49% provided financial statements without misstatements, which is still very low.

On performance reporting, 71% of auditees published credible reports compared to 60% in the previous year. The quality of the performance reports submitted for auditing remained poor (with only 39% submitting good-quality reports). Even after auditees corrected the misstatements identified by the auditors in the performance reports, the AGSA reported material findings on 29% of the performance reports.

Notably irregular expenditure, a subject of much discussion, decreased to R54,34 billion from the R66,90 billion in the previous year. However, this optimism should be treated with caution – the amount could be higher as 31% of auditees received qualified audit opinions because the amounts disclosed as irregular expenditure were incomplete or not known.

In addition, the AGSA could not audit R2,08 billion worth of contracts because information was missing or incomplete. Unfortunately, auditees have a poor track record when it comes to dealing with irregular expenditure and ensuring accountability. Our report also reveals widespread weaknesses in the basic internal controls at a number of auditees.

The financial health of a number of departments continues to be alarming, especially the provincial departments of health and education. Unauthorised expenditure from auditees overspending their budget increased from R1,65 billion to R18,12 billion – R15,13 billion of this was a result of the early payment of the April 2020 social grants in response to the covid-19 lockdown measures.

We are in the second year of implementing our enhanced mandate. Through that process, by 28 February 2021, we had notified the accounting officers and authorities of the selected auditees of 75 material irregularities. They all related to non-compliance with legislation that resulted in a material financial loss. The estimated financial loss associated with these material irregularities is R6,9 billion. Of these 75, 30 are still in the consultation phase and will be reported in next year's report

We are pleased that accounting officers and authorities have resolved three of the 45 reported material irregularities and are dealing appropriately with 33 of them. This signals a behavioural change towards responding in a decisive and timely manner to our findings.

We believe these controls are not complex matters but basic disciplines and processes that should be in place at auditees – procure at the best price, pay only for what was received, make payments on time, recover the revenue owed to the state, safeguard assets, and make use of the state's resources in the most effective and efficient manner to ensure that value is derived from the money spent. Good preventative controls would have made all the difference.

These 2019-20 audit outcomes demonstrate weaknesses in the system that need urgent attention. Now is the time to encourage and enforce accountability in the system, and reinforce our message that there is no place for complacency and celebration yet. The citizens demand accountability and we dare not disappoint them. We must all stand together to ensure our democracy works.

By Tsakani Maluleke, Auditor-General of South Africa

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AUDITOR-GENERAL
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Auditing to build public confidence