2 Introduction

2. *Introduction*

As mentioned in the executive summary, this report reflects on the progress made since 2014 in the financial and performance management of national and provincial departments and public entities in this last year of the electoral term of the current government. At the centre of our message is **accountability for government spending: from the plan to the people**.

The political leadership and accounting officers and authorities who are entrusted with the accountability of state resources for the benefit of society, must achieve the objectives set for their departments and public entities, while acting in the public interest at all times and consistently adhering to the requirements of legislation and government policies. Accountability and good governance are central to building an efficient, effective and developmental-oriented public service. Accountability means that the leadership are answerable to the public and take responsibility for their actions, decisions and policies. These concepts of public interest and accountability are entrenched in the country's constitution and the legislation that governs national and provincial government.

The MTSF is government's strategic plan for the 2014-19 electoral term. It reflects the commitments made in the election manifesto of the governing party, including the commitment to implement the National Development Plan (NDP). The MTSF sets out the actions government planned to take and the targets to be achieved. It also provides a framework for the plans of national, provincial and local government. In this report, we provide our assessments and recommendations on the financial and performance management required to achieve these targets and improve audit outcomes by using the **'plan+do+check+act' cycle**. This cycle, also known as the Deming cycle, is used courtesy of the International Organization for Standardization. It is a repetitive, four-stage approach for continually improving processes, products and services, which forms a solid foundation for leadership accountability.

In section 3, we report on the **management and delivery of five key programmes of government** to demonstrate the importance of accountability for government spending. We also highlight where the management of these programmes should be enhanced to improve delivery to the people. The focus of section 4 is on **SOEs** that are showing signs of poor accountability and are having a significant impact on government spending. The theme of accountability for the financial management of auditees continues in section 5, which deals with the **financial health of departments and public entities**. The remainder of our report includes similar information and insights as in our 2015-16 report but with enhanced messages on accountability linked to the plan+do+check+act cycle.

It is important for us to share at the introduction of this report, the increasingly hostile environment in which we conduct our audits. In 2015-16, we reported that we experienced **contestation from auditees and their leadership** where they disagreed with our findings and conclusions. This trend continued and intensified in the 2016-17 cycle, as mentioned in the executive summary. It is acceptable for auditees to question and challenge the outcome of audits, based on evidence and solid accounting interpretations or legal grounds. We further acknowledge that many of the accounting and legal matters dealt with in the audits are complex and often open to interpretation. But at some auditees, pressure is placed on audit teams to change conclusions purely to avoid negative audit outcomes or the disclosure of irregular expenditure – without sufficient grounds. Often the findings are communicated throughout the audit and even from previous years, but only at end of the audit when outcomes become apparent does the contestation arise.

We experienced such contestation from accounting officers, chief executive officers, boards, chief financial officers and provincial accountants-general and, unfortunately, also from audit committees that should be independent and ensure that management fulfils its responsibilities. Often contestations were escalated to the level of premiers, ministers and members of the executive councils. Contestations included threats of litigation against us and lawyers were increasingly used, at great cost, to contest accounting matters or compliance findings that were not complex or disputable. Our audit processes and the motives of our audit teams were questioned and there were cases of personal threats and intimidation. Delaying tactics were also used whereby information and evidence were not provided as requested.

In our experience, the reason for these contestations was the pressure to improve audit outcomes and performance bonuses often being tied to audit outcomes. Officials and the political leadership also wanted to avoid the consequences and bad press surrounding irregular expenditure. This trend can be reversed if accounting officers and authorities fully and correctly address prior year findings and react to new audit findings and recommendations earlier in the audit process. We also need the National Treasury to play a more proactive role in resolving these disputes. The **leadership should set the tone for accountability** – if audit outcomes are not as desired, energy should be directed to addressing the problem and not to coercing the auditors to change their conclusions.

Please note the following important matters when reading this report:

- We audited 502 public entities in 2016-17. In order to simplify our reporting and ensure that our message is focused on the main entities (422 auditees), we excluded the outcomes of the dormant entities and what we term ‘small auditees’. As part of our audit methodology, we classified 163 public entities as small based on the size and nature of their business, and applied a reduced scope of work at these entities. The audit outcomes of these auditees are included in the annexures to this report (which are available on our website), but not in the analysis in this report.
- Every year we increase the number of public entities we audit – most notably in the higher education sector where we systematically increased our auditing of the TVET colleges. In 2016-17, we audited an additional 20 colleges and also performed the audit of the SAA group for the first time. Comparisons year on year are made difficult as the denominator we use in our calculations differs, but we explain the impact of this in appropriate places in the report.
- We refer to the national departments by their full name (e.g. the Department of Basic Education), while we use the shortened version for the provincial departments (e.g. Education).
- We use the following icons in this report to indicate:

A References to the annexures available on our website

Proposed recommendations throughout the report to assist auditees to improve their audit outcomes

Examples to illustrate the effects of weaknesses

Explanations of terminology – we also explain more about our audit process, terminology and abbreviations in section 17

Information on the SOEs audited by private audit firms

When studying the figures, please note that the percentages are calculated based on the completed audits, unless indicated otherwise. Movement over a period is depicted as follows:

Improved

Unchanged   Movement of 5% and less: Slightly improved / Slightly regressed

Regressed