



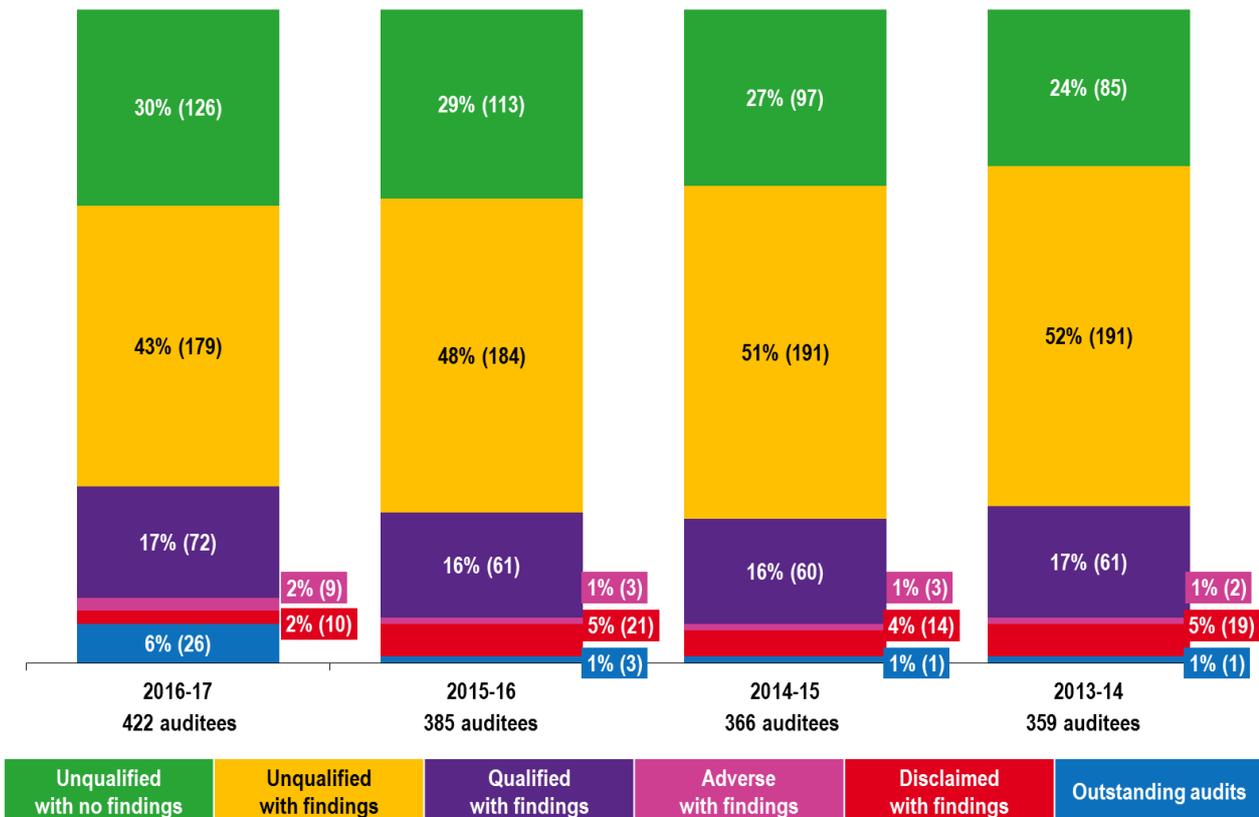
1 November 2017

Auditor-general reports a slow, but noticeable four-year improvement in national and provincial government audit results

PRETORIA – The auditor-general (AG), Kimi Makwetu, today announced national and provincial audit results that show an improvement, albeit at a very slow rate, in the past four years.

The overall outcomes have been summarised as follows:

Overall audit outcomes (all auditees)



A. National and provincial audit outcomes

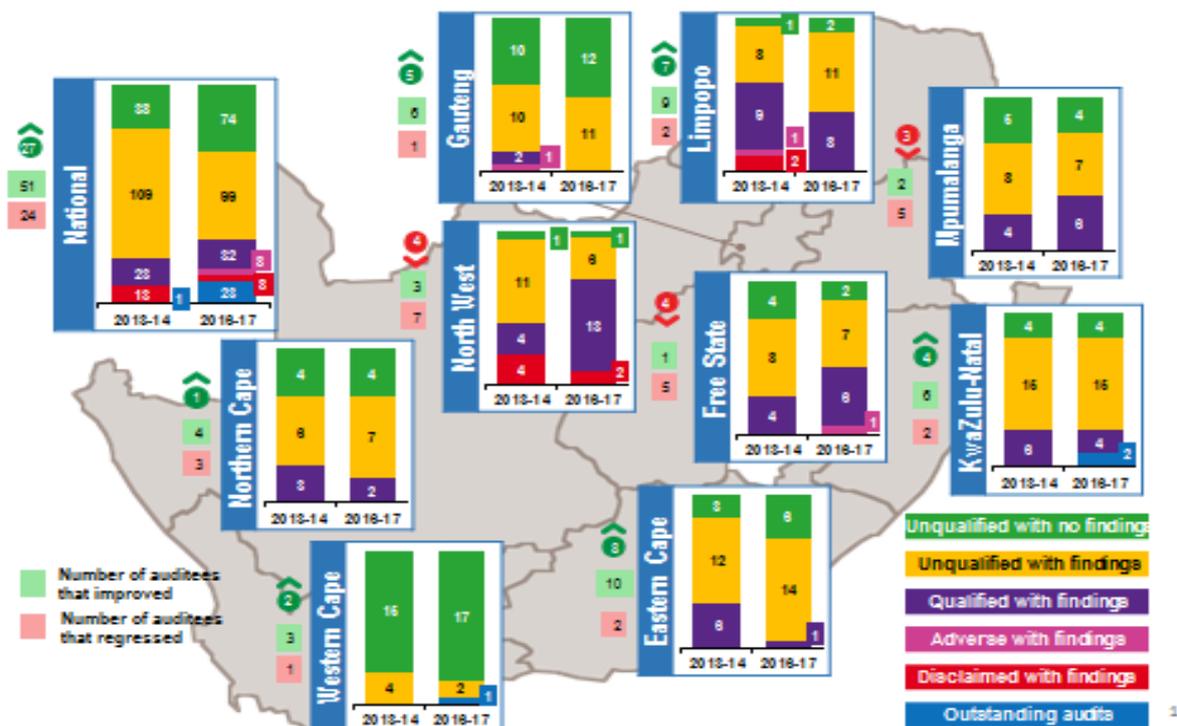
At a national level there was a slight improvement in outcomes, with the number of clean audits increasing to 30% of the total population.

Provincially the Western Cape and Gauteng continued to produce the best results. It is also clear that these results are being sustained from year to year, due to leadership emphasising a culture of accountability. Makwetu further recognised improvements in the audit outcomes in both the Eastern Cape and Limpopo, attributing these positive trends to the leadership roles of provincial treasury and the premier, respectively.

In contrast, outcomes in Mpumalanga, the Northern Cape and KwaZulu-Natal were erratic over the past four years, caused by a lack of urgency at leadership in responding to the root causes of the audit outcomes in these provinces.

In North West and the Free State, Makwetu singled out “lack of accountability and commitment towards clean administration” as factors that influenced the poor showing of these provinces. This picture does change when one factors in risks relating to the management of supply chain management issues (see section F).

National and provincial audit outcomes (all auditees)



While the overall audit outcomes showed a noticeable improvement, progress was hampered by factors such as poor compliance with laws and regulations, especially in the areas of supply chain management, inappropriate monitoring of key project deliverables and an inability to manage the finances of departments and entities properly.

B. Uncompleted audits

By 31 August, 26 audits (6%) had not been completed – an increase from the 13 audits that had not been completed at the same time last year. The main reasons were the late or non-submission of financial statements and outstanding information. Nine of the outstanding audits were as a result of an attempt by public entities within the South Africa Airways (SAA) group and some in the transport and public enterprises portfolio to resolve their going concern status – the entity's ability to continue their operations for at least another 12 months, without a need to liquidate assets or a risk of going out of business.

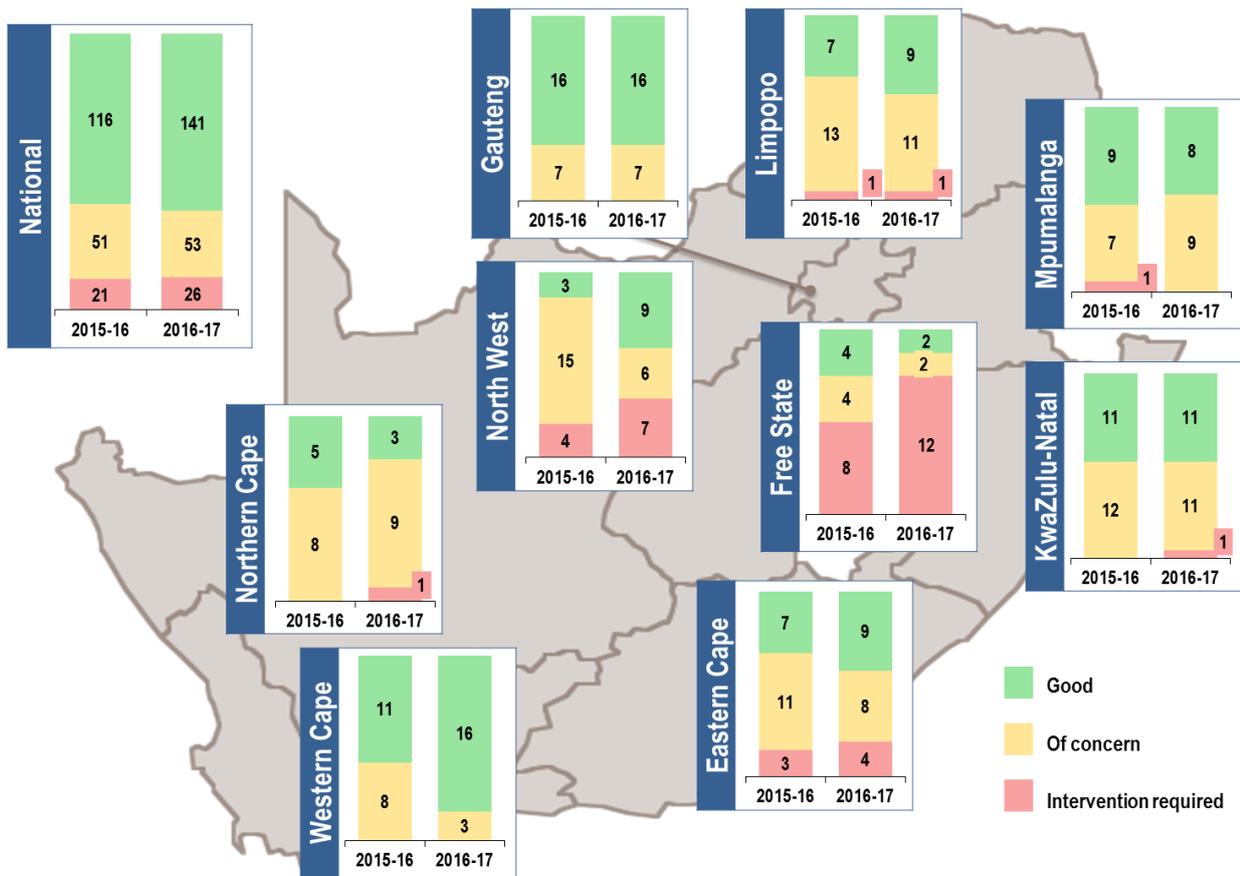
C. Financial health of auditees

The concerns about going concern status, as cited above, come against the background of a regression in the overall financial health of auditees.

“Overall, there is an emerging trend of departments failing to manage their finances properly. Some departments did not pay their creditors when their budgets started running out and thereby avoided unauthorised expenditure, but the payments then happened in the following year, effectively using money intended for other purposes.”

The graphic representation on the next page provides an overview of auditees with indicators of financial risks:

Overview of auditees with indicators of financial health risks



D. State-owned entities

The audit outcomes of state-owned enterprises (SOEs) continued to regress – most often as a result of inadequate controls, monitoring and oversight. “The accountability for government spending at SOEs is an area receiving attention in the public, as government funds and guarantees are being used to sustain some of the SOEs,” posits the AG.

The graph on the next page reflects the outcomes of the 19 completed SOE audits over four years.

SOE audit outcomes over four years



“The level of oversight by the departments to which the SOEs report differed, and there was no single approach in this regard. The political leadership was also inconsistent – at some SOEs there was a high level of involvement, while at others the required decision-making and policy direction were not adequate,” said the AG.

Public entities in total showed a slight improvement over the last 4 years, with 22% of these improving their audit outcomes and 14% regressing:

Audit outcomes of public entities over four years



E. Findings on the management and delivery of key programmes

In order to demonstrate the importance of accountability for government spending and the impact of poor financial and performance management on the delivery of key programmes of government, the AG's report includes findings on the management and delivery of five key programmes included in the estimates of national expenditure (ENE) for 2016-17.

These programmes, which had a combined budget of R58,5 billion, are:

1. water infrastructure development
2. expanded public works programme
3. school infrastructure
4. food security and agrarian reform
5. housing development finance.

The AG reports that these programmes either did not achieve the targets highlighted in the ENE or did not report on whether targets had been achieved even though the allocated budgets had been spent. Inadequate monitoring and poor accounting for the assets and liabilities relating to programmes were the most common causes of qualifications in this regard.

Says the AG: “Although using implementing agents is often the most effective way of delivery, the departments did not adequately manage and correctly account for the projects executed by these agents. Some of the projects funded through these programmes showed serious weaknesses in terms of delayed delivery, poor quality work and mismanagement.”

F. Supply chain management

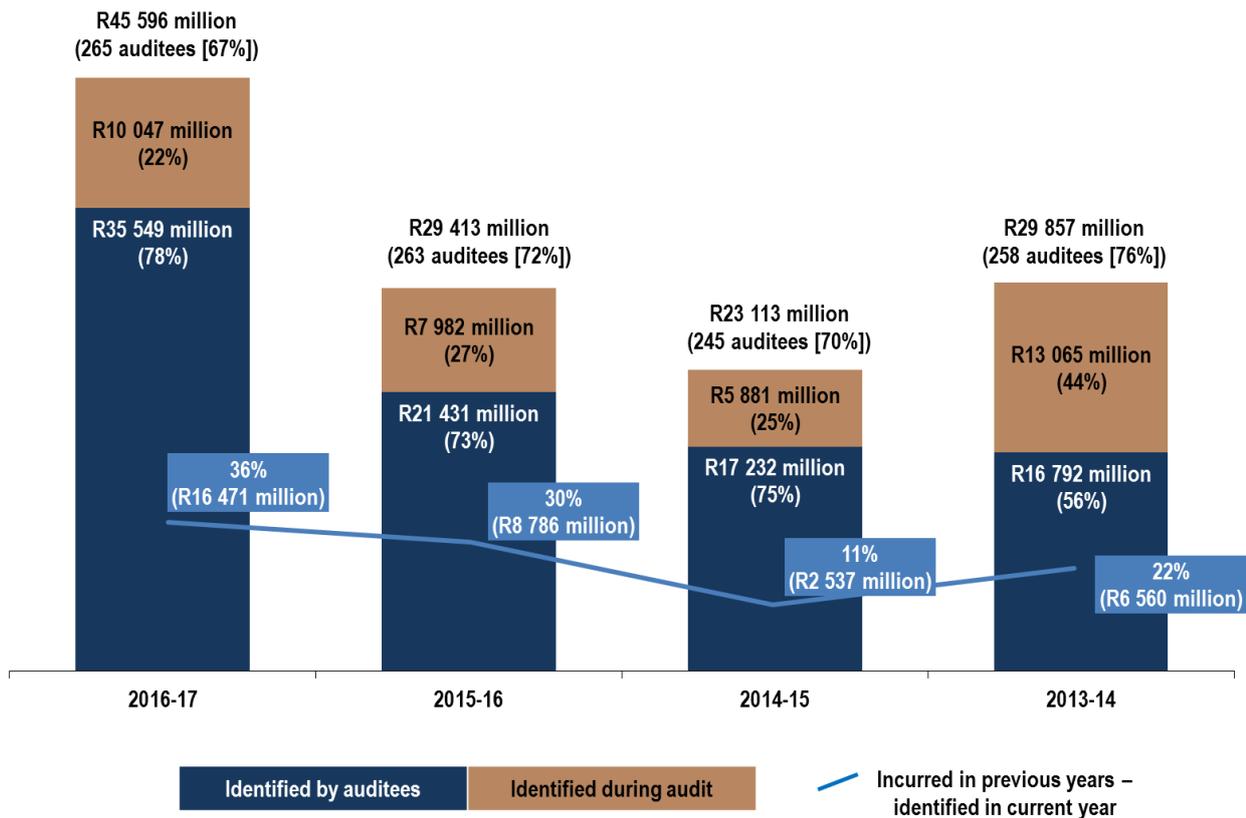
Challenges with supply chain management remained one of the key contributors to poor audit outcomes.

Irregular expenditure increases

Irregular expenditure has increased by 55% since the previous year to R45,6 billion. The AG says this amount could be even higher, as it does not include the irregular expenditure of the auditees where the audits are still ongoing (including Prasa where irregular expenditure last year was almost R14 billion). Furthermore, 25% of the auditees disclosed that they had incurred irregular expenditure but that the full amount was not known, while 28 auditees were qualified as the amount they had disclosed was incomplete.

The graph below shows a four-year trend in irregular expenditure, excluding audits not completed by the date of this report.

Four-year trend in irregular expenditure



Had the irregular expenditure of auditees whose audits had not been completed at the date of this report been factored into the above, the total amount of irregular expenditure could rise to as high as R65 billion.

Makwetu said the significant increase can be attributed overall to continued supply chain management weaknesses. He points out that “although deviations are allowed, we found that it had often not been approved; or, if approved, the deviation was not reasonable or justified”.

Auditees in KwaZulu-Natal, the Free State, Limpopo and the Eastern Cape were the main contributors to the significant increase in irregular expenditure compared to the previous year. The sectors with the highest amounts of irregular expenditure were health (R11 777 million), transport (R6 378 million) and education (R6 090 million).

Employees doing business with the state without necessary declarations

The AG's report further reveals that there had been no improvement in addressing the concerns his office has raised year after year about contracts being awarded to employees and their families without the necessary declarations of interest.

Makwetu stressed that although there is no legislation that prohibits making awards to suppliers in which state officials have an interest, the amended Public Service Regulations prohibited employees of departments from doing business with the state as from 1 August 2016. The onus of complying with these regulations is on the employees of departments, but departments have a responsibility to enable and monitor such compliance. "Based on the findings in just the first six months of implementation, it seems that this responsibility is not being given the attention it deserves," the AG said.

Impact of supply chain management challenges on risk profiles of provinces

In contrast with the analysis of provinces provided in section A, a view of supply chain-related challenges changes the picture to the point where the Western Cape and Gauteng find themselves in a medium-risk category and where the Eastern Cape, Limpopo and KwaZulu-Natal provinces move to a high-risk rating. The Free State, Mpumalanga, Northern Cape and North West are categorised as very high-risk environments when it comes to supply chain management. The national environment also finds itself in a medium- to high-risk environment. These risks pose a serious threat to the financial health of departments and entities, with potential negative impacts on the delivery of key projects.

G. Consequence management

The AG revealed that most auditees had the required policies and processes to ensure that transgressions and fraud are identified and acted upon, but chose not to use these – a clear indicator of a lack of commitment to accountability. Of the 99 auditees his office audited where there were allegations of financial and supply chain management misconduct and fraud, a third did not investigate the allegations and at 32% investigations took longer than three months.

He went on to caution that “As long as the political leadership, senior management and officials do not make accountability for transgressions a priority, irregular, unauthorised and fruitless and wasteful expenditure as well as fraud and misconduct will continue. An environment that is weak on consequence management is prone to corruption and fraud, and the country cannot allow money intended to serve the people to be lost”.

H. Contestation of audit findings

Makwetu disclosed that the trend of contestation of his office’s audit findings continued and intensified in 2016-17, leading to the delay of some audits.

“It is acceptable for those we audit (auditees) to question and challenge the outcome of audits, based on evidence and solid accounting interpretations or legal grounds. We also acknowledge that many of the accounting and legal matters dealt with in the audits are complex and often open to interpretation,” he clarifies.

But Makwetu asserts that at some auditees, pressure is placed on his office’s audit teams to change conclusions purely to avoid negative audit outcomes or the disclosure of irregular expenditure – without sufficient grounds.

Conclusion

“There is currently a lot of focus on the role of auditors and their ethical responsibility to report on irregularities and mismanagement. We have been reporting without fear or favour on poor financial and performance management, irregularities and transgressions – often repeating the same message year after year. In the public sector, the auditors are not always heard and our messages are not acted upon. In this last year of administration, we call on oversight to give attention to this report and ensure that there is accountability for government spending,” he said.

Makwetu says his office remains committed to working tirelessly within its mandate to strengthen financial and performance management in national and provincial government, emphasising the need to do the basics right; hence the central theme of his report being accountability for government spending: from the plan to the people.

He concludes that “Accountability and good governance are central to building an efficient, effective and developmental-oriented public service. Accountability means that the leadership is answerable to the public and takes 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”.

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Media note: The *consolidated general report on the PFMA national and provincial government audit outcomes* is available on www.agsa.co.za. This media release and its translated versions, in seSotho, xiTsonga, isiXhosa, isiZulu and Afrikaans will also be available on our website.

About the AGSA: The AGSA is the country’s supreme audit institution. It is the only institution that, by law, has to audit and report on how government is spending taxpayers’ money. This has been the focus of the AGSA since its inception in 1911 – the organisation celebrated its 100-year public sector auditing legacy in 2011.