

# // SECTION 3



*Summary of audit outcomes*



OVERALL AUDIT OUTCOMES

	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimed with findings	Outstanding audits	TOTAL
2014-15	121	203	70	3	20	1	418
2016-17	129	185	83	9	14	3	423
2017-18	99	196	81	2	15	41	434

CLEAN AUDIT MOVEMENTS

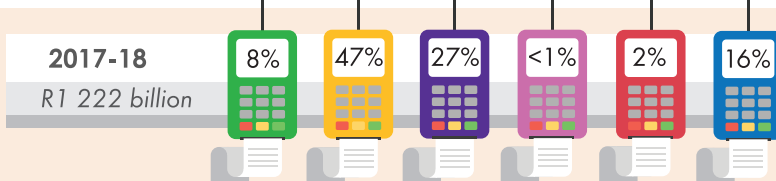


79 > Remained clean

42 < Regressed

18 > New clean audits

EXPENDITURE BUDGET



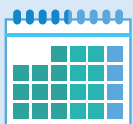
MOVEMENT - from previous year

43 > Improved 73 < Regressed

MOVEMENT - over 4 years

78 > Improved 87 < Regressed

OUTSTANDING AUDITS



Cut-off date for inclusion of the audit outcomes in this report is 31 August 2018

REASONS FOR 41 OUTSTANDING AUDITS

- Financial statements not submitted - 3 (8%)
- Financial statements submitted late - 19 (46%)
- Delay in the audit - 19 (46%)

RESULTS OF 13 AUDITS SUBSEQUENTLY FINALISED BEFORE 21 OCTOBER 2018

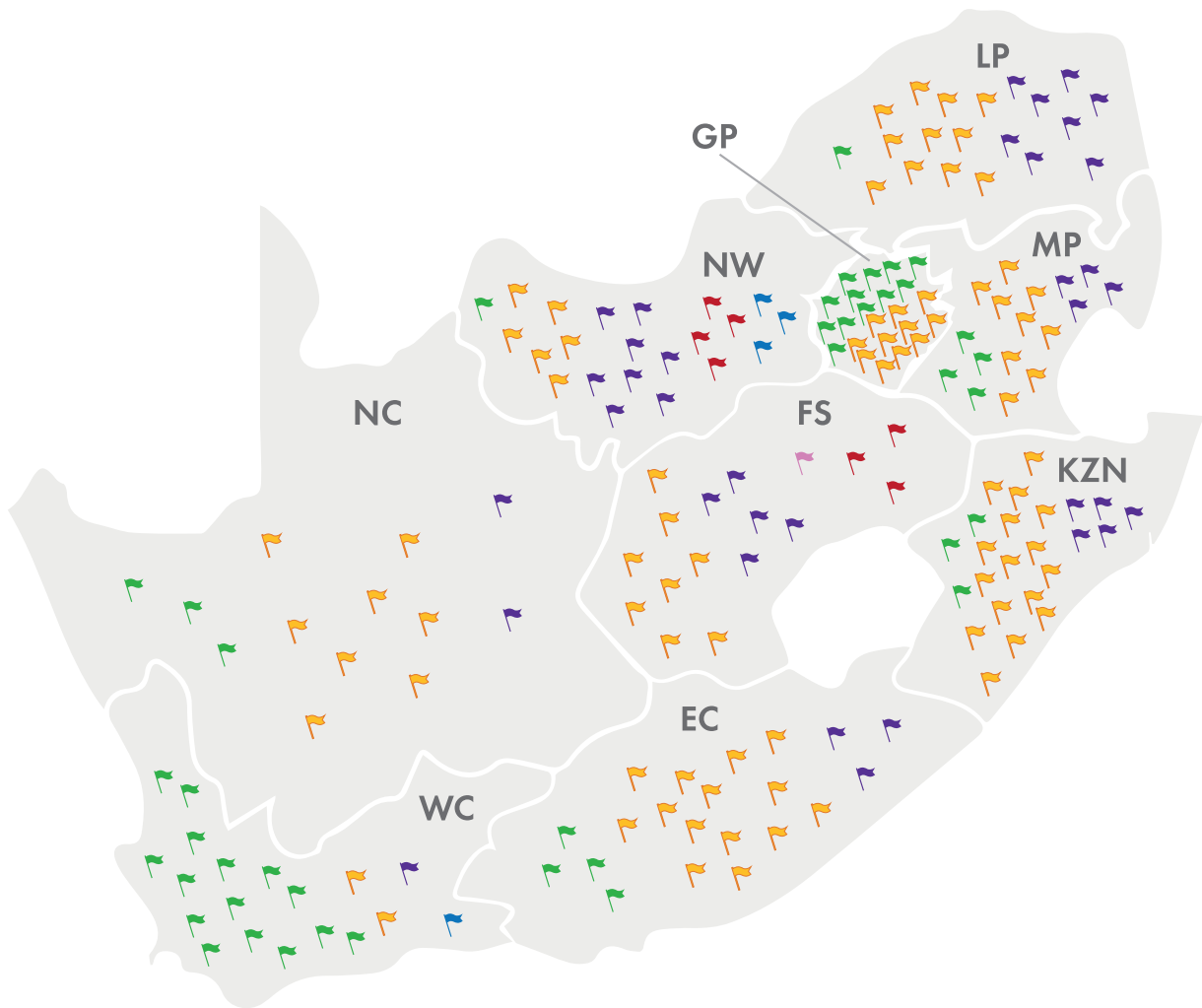


Audits subsequently finalised before 21 October 2018	Movement from previous year's audit outcome	2017-18 AUDIT		
		Audit opinion	Performance reports	Compliance with legislation
Department of Police	>	Unqualified with findings	Findings	Findings
Independent Development Trust	>	Disclaimed with findings	Findings	Findings
Office of the Premier (NW)	>	Unqualified with findings	Findings	Findings
South African Bureau of Standards	<	Unqualified with findings	Findings	Findings
National Housing Finance Corporation	<	Unqualified with findings	Findings	Findings
Cape Town Community Housing Company	-	Unqualified with findings	Findings	Findings
South African Post Office	>	Unqualified with findings	Findings	Findings
South African Forestry Company	>	Unqualified with findings	Findings	Findings
Komatiland Forests	>	Unqualified with findings	Findings	Findings
Department of Environmental Affairs	>	Adverse with findings	Findings	Findings
Property Management Trading Entity	>	Unqualified with findings	Findings	Findings
Passenger Rail Agency of South Africa	>	Unqualified with findings	Findings	Findings
Department of Cooperative Governance	<	Disclaimed with findings	Findings	Findings

■ Unqualified with no findings 
 ■ Unqualified with findings 
 ■ Qualified with findings 
 ■ Adverse with findings 
 ■ Disclaimed with findings 
 ■ Outstanding audits 
 ■ Findings



# NATIONAL AND PROVINCIAL AUDIT OUTCOMES AS WELL AS MOVEMENTS



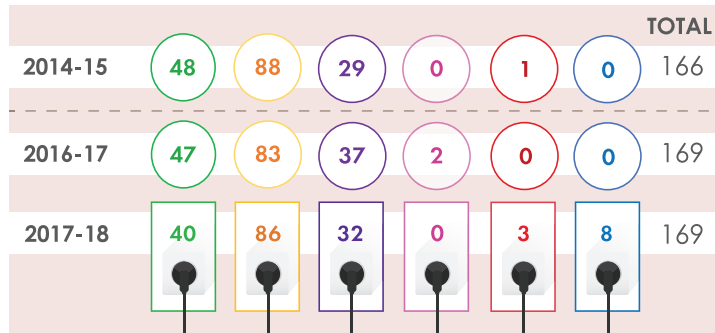
PROVINCIAL				
2017-18	EASTERN CAPE (EC)	0	4	
		4	14	3
2017-18	FREE STATE (FS)	1	7	
		8	5	3
2017-18	GAUTENG (GP)	0	0	
		12	11	
2017-18	KWAZULU-NATAL (KZN)	2	4	
		3	16	5
2017-18	LIMPOPO (LP)	2	3	
		1	11	8
2017-18	MPUMALANGA (MP)	4	2	
		4	9	4
2017-18	NORTHERN CAPE (NC)	2	3	
		3	8	2
2017-18	NORTH WEST (NW)	2	3	
		1	6	8
2017-18	WESTERN CAPE (WC)	1	1	
		15	2	1

Unqualified with no findings  
 Unqualified with findings  
 Qualified with findings  
 Adverse with findings  
 Disclaimed with findings  
 Outstanding audits

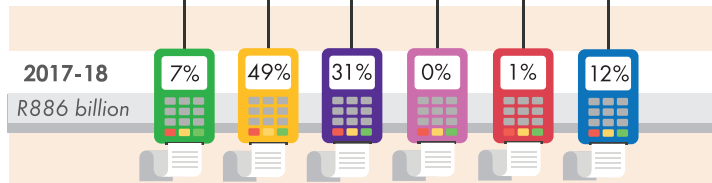


## DEPARTMENTS

### AUDIT OUTCOMES



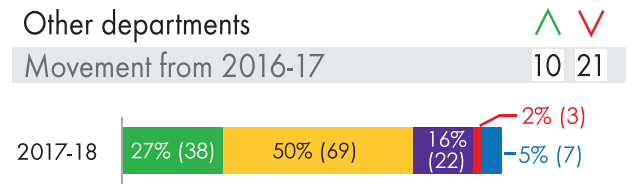
### EXPENDITURE BUDGET



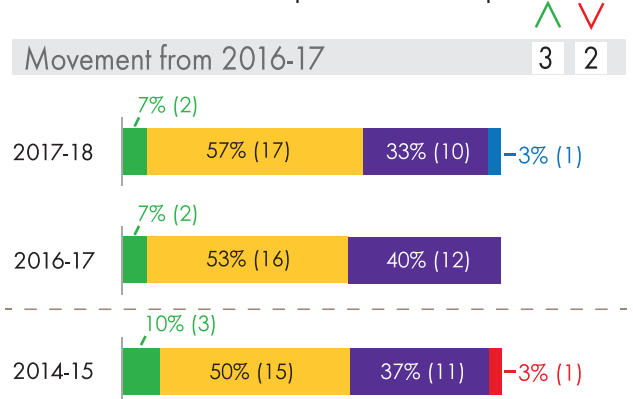
#### MOVEMENT from 2016-17

13  $\Delta$  Improved 23  $\nabla$  Regressed

### Education, health and public works departments versus other departments



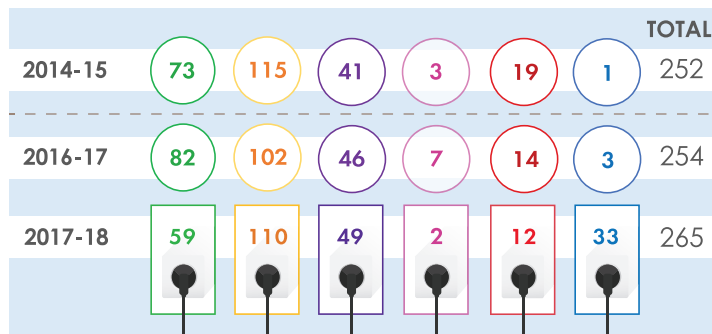
### Education, health and public works departments



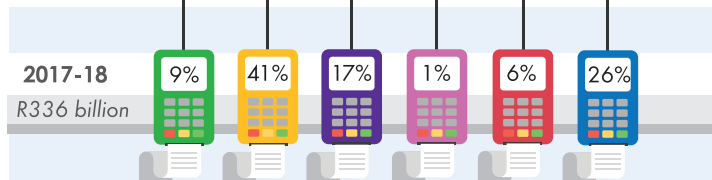
The expenditure of the national and provincial departments of education, health and public works contributed to around 53% of the total spending by all departments

## PUBLIC ENTITIES

### AUDIT OUTCOMES



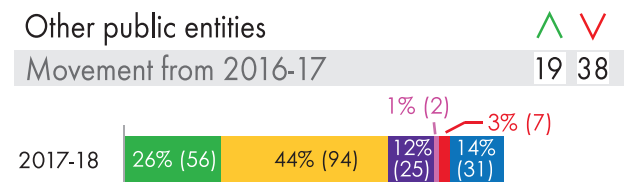
### EXPENDITURE BUDGET



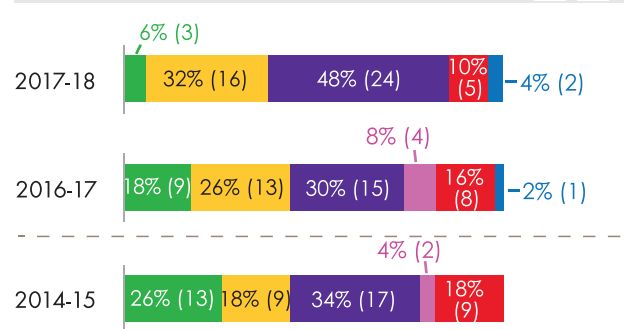
#### MOVEMENT from 2016-17

30  $\Delta$  Improved 50  $\nabla$  Regressed

### Technical and vocational education and training colleges (TVETs) versus other public entities



### TVETs



TVETs continued to struggle compared to other public entities - 13 TVETs did not achieve an unqualified opinion in all 4 years





# FINANCIAL STATEMENTS



SLIGHT REGRESSION IN QUALITY OF PUBLISHED FINANCIAL STATEMENTS

TARGET	MOVEMENT from prior year	2017-18	2016-17	2014-15 & MOVEMENT over 4 years	2017-18	
					(Including movement from prior year) DEPARTMENTS	PUBLIC ENTITIES
Timely submission of financial statements		97% (380)	97% (379)	99% (334)	99% (159)	95% (221)
Quality of financial statements submitted for auditing		45% (176)	54% (209)	48% (184)	45% (73)	44% (103)
Quality of published financial statements		75% (295)	77% (301)	77% (299)	78% (126)	73% (169)

**119 auditees (30%)** achieved unqualified audit opinions only because they **corrected all misstatements** identified during the audit

## QUALIFICATION AREAS

(on audited financial statements)

	MOVEMENT from prior year	2017-18	2016-17	2014-15 & MOVEMENT over 4 years
Property, infrastructure, plant and equipment		14% (55)	14% (53)	12% (48)
Expenditure		8% (32)	9% (37)	7% (27)
Receivables		8% (31)	8% (31)	8% (31)
Irregular expenditure		7% (28)	6% (24)	7% (26)

### DEPARTMENTS

(Including movement from prior year)

2017-18

### PUBLIC ENTITIES

(Including movement from prior year)

2017-18

Property, infrastructure, plant and equipment	13% (21)	Property, infrastructure, plant and equipment	15% (34)
Irregular expenditure	9% (14)	Receivables	13% (29)
Contingent liabilities and commitments	8% (13)	Payables, accruals and borrowings	11% (26)
Expenditure	6% (10)	Revenue	10% (23)

15

## NATIONAL AND PROVINCIAL VIEW

	TIMELY SUBMISSION OF FINANCIAL STATEMENTS		QUALITY OF FINANCIAL STATEMENTS SUBMITTED FOR AUDITING		QUALITY OF PUBLISHED FINANCIAL STATEMENTS	
	Number	Movement from 2016-17	Number	Movement from 2016-17	Number	Movement from 2016-17
<b>National</b>	211 (95%)		105 (48%)		167 (76%)	
<b>Eastern Cape</b>	21 (100%)		11 (52%)		18 (86%)	
<b>Free State</b>	16 (94%)		3 (18%)		8 (47%)	
<b>Gauteng</b>	23 (100%)		17 (74%)		23 (100%)	
<b>KwaZulu-Natal</b>	24 (100%)		10 (42%)		19 (79%)	
<b>Limpopo</b>	18 (90%)		3 (15%)		12 (60%)	
<b>Mpumalanga</b>	17 (100%)		6 (35%)		13 (76%)	
<b>Northern Cape</b>	13 (100%)		4 (31%)		11 (85%)	
<b>North West</b>	19 (100%)		1 (5%)		7 (37%)	
<b>Western Cape</b>	18 (100%)		16 (89%)		17 (94%)	
<b>Total</b>	380 (97%)		176 (45%)		295 (75%)	





# PERFORMANCE REPORTS



SLIGHT IMPROVEMENT IN QUALITY OF PUBLISHED PERFORMANCE REPORTS

TARGET	MOVEMENT from prior year	2017-18	2016-17	2014-15 & MOVEMENT over 4 years	2017-18 (Including movement from prior year)	
					DEPARTMENTS	PUBLIC ENTITIES
Performance reports prepared		100% (329)	99% (327)	99% (320)	100% (161)	100% (168)
Quality of performance reports submitted for auditing		32% (104)	35% (113)	45% (145)	26% (42)	37% (62)
Quality of published performance reports		65% (213)	62% (203)	64% (207)	57% (92)	72% (121)

109 auditees (33%) had no material findings only because they corrected all misstatements identified during the audit

## FINDINGS ON PERFORMANCE REPORTS

	MOVEMENT from prior year	2017-18	2016-17	2014-15 & MOVEMENT over 4 years	2017-18 (Including movement from prior year)	
					DEPARTMENTS	PUBLIC ENTITIES
Performance indicators and targets not useful		19% (63)	20% (66)	23% (73)	23% (37)	15% (26)
Achievement reported not reliable		30% (98)	33% (107)	31% (99)	39% (63)	21% (35)
No underlying records or planning documents		1% (2)	1% (3)	–	–	1% (2)

## MOST COMMON USEFULNESS FINDINGS

43% Not well defined    32% Not specific    30% Not consistent    30% Not verifiable

## NATIONAL AND PROVINCIAL VIEW

	PERFORMANCE REPORTS PREPARED		QUALITY OF PERFORMANCE REPORTS SUBMITTED FOR AUDITING		QUALITY OF PUBLISHED PERFORMANCE REPORTS	
	Number	Movement from 2016-17	Number	Movement from 2016-17	Number	Movement from 2016-17
<b>National</b>	165 (100%)		56 (34%)		115 (70%)	
<b>Eastern Cape</b>	21 (100%)		7 (33%)		12 (57%)	
<b>Free State</b>	14 (100%)		3 (21%)		5 (36%)	
<b>Gauteng</b>	22 (100%)		7 (32%)		15 (68%)	
<b>KwaZulu-Natal</b>	22 (100%)		5 (23%)		14 (64%)	
<b>Limpopo</b>	20 (100%)		4 (20%)		9 (45%)	
<b>Mpumalanga</b>	17 (100%)		5 (29%)		12 (71%)	
<b>Northern Cape</b>	13 (100%)		5 (38%)		9 (69%)	
<b>North West</b>	17 (100%)		2 (12%)		6 (35%)	
<b>Western Cape</b>	18 (100%)		10 (56%)		16 (89%)	
<b>Total</b>	329 (100%)		104 (32%)		213 (65%)	





## COMPLIANCE WITH KEY LEGISLATION



INCREASE IN NON-COMPLIANCE

Auditees with non-compliance increased from 64% (250) to **72% (281)** since 2016-17

		MOVEMENT from prior year	2017-18	2016-17	MOVEMENT over 4 years	2014-15
<b>DEPARTMENTS</b>			71% (114)	65% (105)		70% (110)
<b>PUBLIC ENTITIES</b>			72% (167)	63% (145)		68% (156)

### MOST COMMON NON-COMPLIANCE AREAS



		MOVEMENT from prior year	2017-18	2016-17	MOVEMENT over 4 years	2014-15
Quality of financial statements			54% (213)	45% (176)		45% (174)
Management of procurement and contract management			43% (169)	36% (139)		33% (127)
Prevention of unauthorised, irregular, and fruitless and wasteful expenditure			42% (167)	38% (150)		36% (140)

### OTHER NOTABLE NON-COMPLIANCE AREAS

#### MOVEMENT 2017-18

#### MOST COMMON FINDINGS PER AREA



Expenditure management		20% (78)	Payment to creditors not settled within 30 days from receipt of an invoice - 71% (55)
Effecting consequences		18% (69)	Disciplinary steps not taken against officials who made or permitted irregular expenditure - 83% (57)
Strategic planning and performance management		13% (50)	No specific information systems to enable monitoring of targets and core objectives - 56% (28)
Revenue management		10% (39)	Effective and appropriate steps not taken to collect all money due - 77% (30)

Non-compliance by **201** auditees (**72%**) can potentially lead to financial loss

## NATIONAL AND PROVINCIAL VIEW

### AUDITEES WITH NO FINDINGS ON COMPLIANCE

	National	Eastern Cape	Free State	Gauteng	KwaZulu-Natal	Limpopo	Mpumalanga	Northern Cape	North West	Western Cape
Number	65 (29%)	4 (19%)	0 (0%)	13 (57%)	3 (13%)	2 (10%)	4 (24%)	3 (23%)	1 (5%)	17 (94%)
Movement from 2016-17										
<b>Total</b>	<b>112 (28%)</b>									





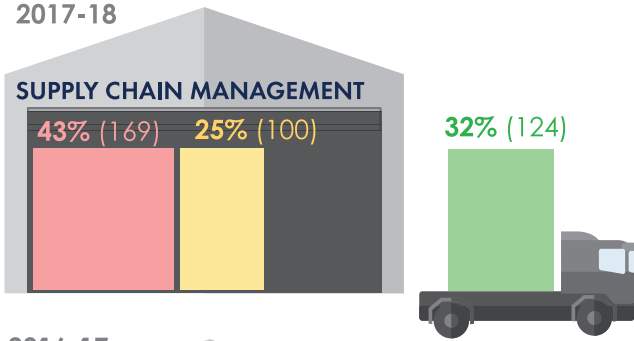


# SUPPLY CHAIN MANAGEMENT (SCM)

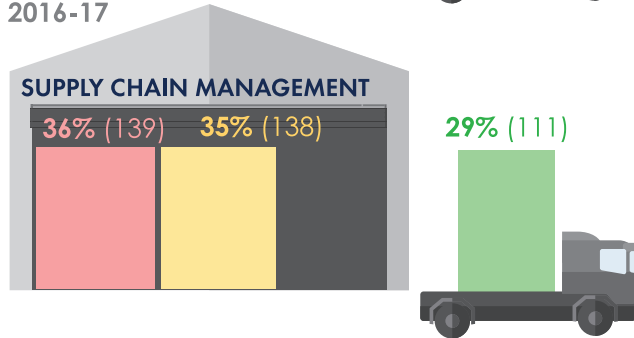


INCREASE IN MATERIAL NON-COMPLIANCE WITH SCM LEGISLATION

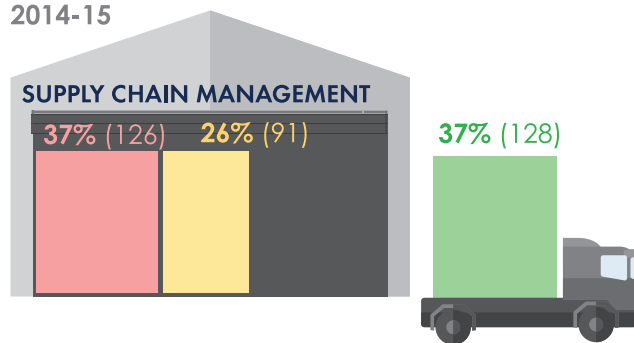
2017-18



2016-17



2014-15



■ With material findings ■ With findings ■ With no findings

Not able to audit procurement of **R6 498 million** due to **missing or incomplete information** at 28 auditees (7%). The rand value of limitations increased significantly from **R1 841 million** in the previous year.

Highest contributors (**84% of the rand value**) were:

- National Department of Basic Education (**R2 792 million**) – unable to conclude on compliance with some requirements of Preferential Procurement Policy Framework Act because contract is still being subject to court proceedings
- Community Safety and Transport Management (NW) (**R2 653 million**) – relates to scholar/commuter transport contracts

## MATERIAL FINDINGS

	DEPARTMENTS	PUBLIC ENTITIES
% of findings	57%	34%
MOVEMENT FROM 2016-17	▼	▼
MOVEMENT FROM 2014-15	▼	▼

18

## AWARDS TO EMPLOYEES AND CLOSE FAMILY MEMBERS

AWARDS/FINDINGS	MOVEMENT FROM 2016-17	MOVEMENT FROM 2014-15	2017-18 NUMBER OF AUDITEES WITH FINDINGS	2017-18 AWARDS R MILLION (NUMBER OF AWARDS)
Awards to employees and political office-bearers	▲	▲	7% (29)	R888 (694 awards)
Awards were made to political office-bearers at two auditees in the Free State and Gauteng. SCM legislation was not complied with in the procurement process of <b>380</b> of the awards amounting to <b>R265 million</b> .				
Awards to close family members of employees	▲	▼	13% (50)	R335 (870 awards)
SCM legislation was not complied with in the procurement process of <b>565</b> of the awards amounting to <b>R242 million</b> .				

## ASSET DECLARATIONS BY POLITICAL OFFICE-BEARERS

Legislation requires members of Parliament and legislatures to declare their assets and interest in a similar manner as state officials. A review of these declarations identified instances of late submissions with little consequences as well as a lack of processes to check the accuracy and completeness of declarations. The relevant ethics committees should address these shortcomings to enhance transparency and accountability.





## DEPARTMENTS' EMPLOYEES DOING BUSINESS WITH THE STATE



The amended Public Service Regulations prohibit employees of departments from doing business with the state with effect from 1 August 2016. The regulations allowed employees until February 2017 to stop the business or resign as an employee. We identified 618 employees that were still doing business with the state (a decrease from 896 in the previous year). The onus of complying with these regulations is on the employees, but departments have a responsibility to monitor such compliance.

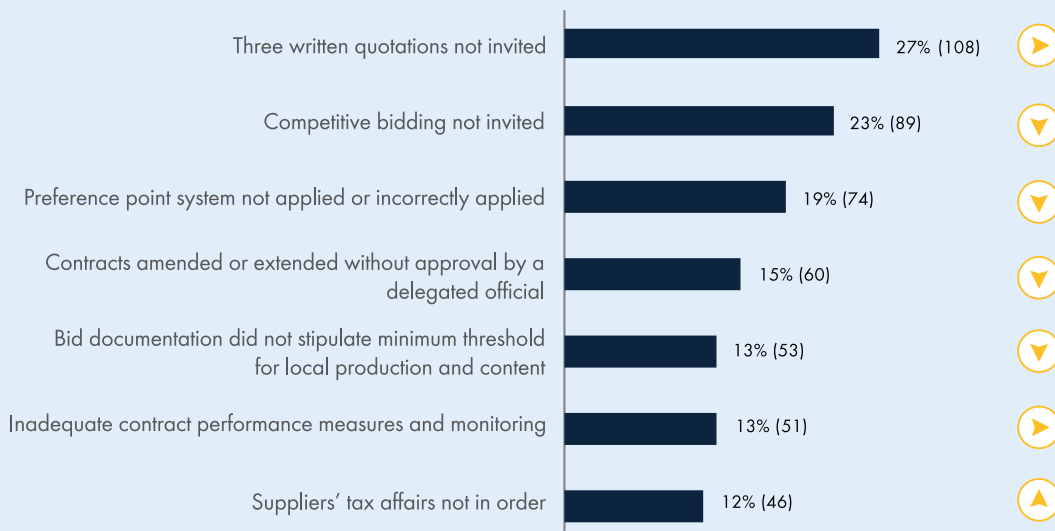
FINDINGS	MOVEMENT FROM 2016-17	NUMBER OF DEPARTMENTS	NUMBER OF EMPLOYEES	AMOUNT (R MILLION)
Employees doing business with <b>own department</b> - contracts awarded after 1 August 2016	▲	7% (12)	274	R107
Employees doing business with <b>own department</b> - contracts awarded before 1 August 2016 - did not resign or stop doing business	▲	1% (2)	10	R2
Employees doing business with <b>other state institutions</b> - contracts awarded after 1 August 2016	▼	18% (29)	326	R123
Employees doing business with <b>other state institutions</b> - contracts awarded before 1 August 2016	▲	2% (4)	8	< R0,5

## UNCOMPETITIVE OR UNFAIR PROCUREMENT PROCESSES AND CONTRACT MANAGEMENT

Findings on **uncompetitive and unfair procurement processes** at **56%** of auditees, of which 38% was material non-compliance. This is a slight regression from 54% in 2014-15 but remained unchanged from the previous year.

Findings on **contract management** at **26%** of auditees, of which 9% was material non-compliance. This is a slight regression from 23% in the previous year and 21% in 2014-15.

Most common findings were the following:



## LOCAL PROCUREMENT

▼ Auditees are required to procure certain commodities from local producers; **67** auditees out of 131 where we audited local content failed to comply with regulation on promotion of local producers on awards amounting to **R450 million**

## EXAMPLES OF UNCOMPETITIVE OR UNFAIR PROCUREMENT PROCESSES AND CONTRACT MANAGEMENT



Cooperative Governance and Traditional Affairs (KZN) deviated from normal procurement processes when appointing service providers relating to legal services. The combined value of this contract was R2,3 million. One of the reasons for appointing attorneys on an urgent basis was that the department generally received less than 48 hours' notice of a new matter that had to be filed and served. However, the reasons for deviation were found not to be justifiable.



Education (EC) deviated from procurement processes when it awarded a contract for R22,3 million to a company to provide teachers for a winter school. The deviation was the result of poor planning and did not meet the requirements of treasury regulation 16A6.4, which allows deviations from competitive bidding processes when it is impractical to follow such processes.



Roads and Public Works (EC) used a deviation to appoint consultants to assist with the preparation of its 2016-17 financial statements and supporting records. The total value of the contract was R45 million. The department applied to the provincial treasury for approval of the deviation, but such approval was not provided. The department then awarded the contract without this approval and disclosed the amount as irregular expenditure. 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.

### FALSE DECLARATIONS BY SUPPLIERS AND NON-DISCLOSURE BY EMPLOYEES

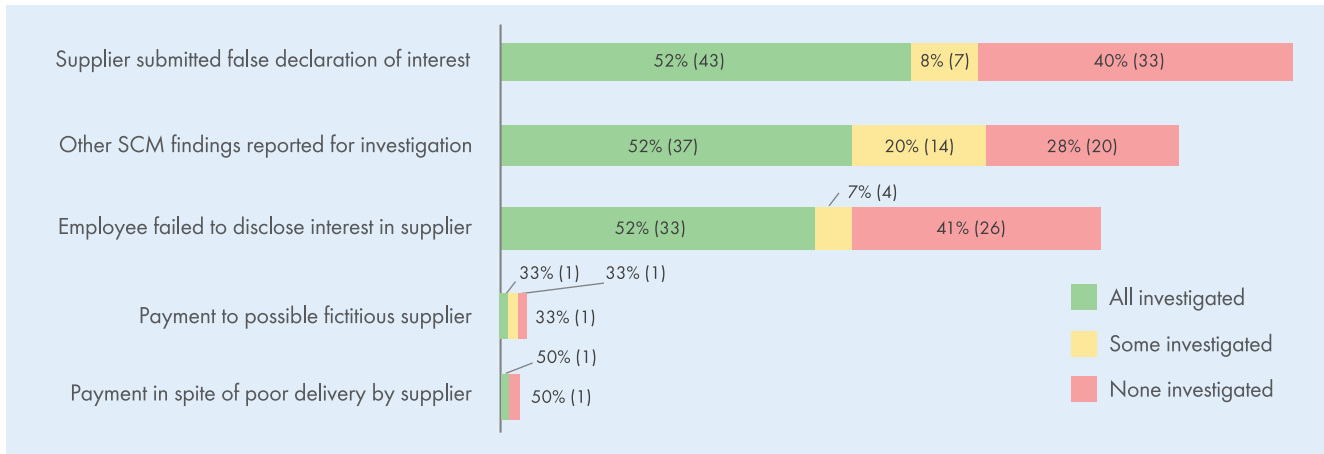
FINDINGS	MOVEMENT	NUMBER OF AUDITEES	NUMBER OF SUPPLIERS/EMPLOYEES	AMOUNT (R MILLION)
Suppliers owned or managed by employees of another state institution made false declarations	▲	9% (37)	689	R831
Suppliers owned or managed by employees of the auditee made false declarations	▲	2% (8)	157	R161
Suppliers owned or managed by close family members of employees of the auditee made false declarations	▲	7% (28)	302	R117
Employees of the auditee failed to declare their own interest either as part of the procurement processes or through annual declarations	▲	4% (15)	90	R22
Employees of the auditee failed to declare their family members' interest	▲	9% (35)	298	R96

### FINDINGS REPORTED FOR INVESTIGATION DURING THE AUDIT PROCESS IN CURRENT YEAR

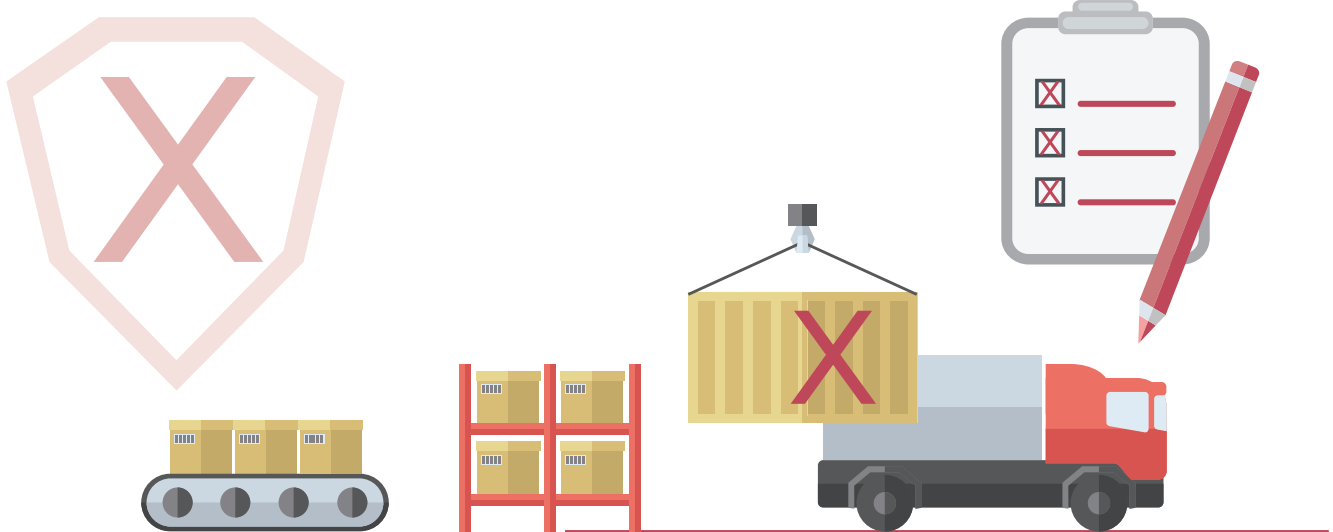
Supplier submitted false declaration of interest	23% (81), 1 372 instances	▲
Other SCM findings reported for investigation	19% (65), 1 409 instances	▶
Employee failed to declare interest in supplier	14% (47), 508 instances	▲
Payment in spite of poor delivery by supplier	1% (5), 55 instances	▶
Payment to possible fictitious supplier	<1% (1), 2 instances	▲

In 2017-18, we reported these SCM findings for investigation at 130 auditees (38%), which was a slight improvement from the 135 (40%) in 2016-17. In total, 85 (63%) of the 135 auditees that had such findings in 2016-17 had similar findings in 2017-18. Of the 130 auditees where we reported SCM findings for investigation, 95 were departments and 35 were public entities.

## FOLLOW-UP OF PREVIOUS YEAR'S SUPPLY CHAIN MANAGEMENT FINDINGS REPORTED FOR INVESTIGATION IN PRIOR YEAR






We reported SCM findings for investigation at **135** auditees in the previous year. **68 (50%)** of these auditees investigated all the findings we reported, while **29 (21%)** investigated some findings. **64 (66%)** out of the **97** auditees that investigated all or some findings, satisfactorily resolved all the investigations conducted.





# UNAUTHORISED, IRREGULAR AND FRUITLESS AND WASTEFUL EXPENDITURE (UIFW)

<p><b>NB:</b> The entire analysis excludes the outstanding auditees of which the audits were subsequently finalised, unless indicated otherwise (*)</p>	<p><b>Irregular</b></p> <p><i>Non-compliance with legislation in process leading to expenditure</i></p>	<p><b>Unauthorised</b></p> <p><i>Expenditure by departments more than budget or not in accordance with purpose of budget</i></p>	<p><b>Fruitless and wasteful</b></p> <p><i>Expenditure made in vain – could have been avoided if reasonable care was taken</i></p>
<p><b>How much was disclosed in 2017-18?</b></p>	<p><b>R45 595 million at 280 (71%) auditees</b></p> <p>1% increase from R45 312 million in 2016-17</p> <p>*Irregular expenditure of subsequently finalised auditees – <b>R5 370 million (2016-17: R6 356 million)</b></p> <p></p>	<p><b>R2 125 million at 18 (11%) departments</b></p> <p>38% increase from R1 543 million in 2016-17</p> <p>*Subsequently finalised auditees had no unauthorised expenditure</p> <p></p>	<p><b>R2 454 million at 227 (58%) auditees</b></p> <p>224% increase from R757 million in 2016-17</p> <p>*Fruitless and wasteful expenditure of subsequently finalised auditees – <b>R113 million (2016-17: R391 million)</b></p> <p></p>
<p><b>Is all of it 2017-18 expenditure?</b></p>	<p><b>No</b></p> <p>R7 700 million (17%) was expenditure in previous years only uncovered and disclosed in 2017-18</p> <p>R37 895 million (83%) was expenses in 2017-18, which included payments made on ongoing contracts irregularly awarded in a previous year</p> <p><b>R21 062 million (56%) of the R37 895 million represents non-compliance in 2017-18, while R16 832 million (44%) is expenditure on ongoing multi-year contracts</b></p>	<p><b>Yes</b></p>	<p><b>No</b></p> <p>R544 million (22%) was expenditure in previous years only uncovered and disclosed in 2017-18</p> <p><b>R1 910 million (78%) was expenses in 2017-18</b></p>
<p><b>How much of the 2017-18 budget does it represent?</b></p>	<p>4%</p>	<p>0,3%</p>	<p>0,2%</p>
<p><b>Is this the total amount?</b></p>	<p><b>No</b></p> <p>105 auditees (27%) did not know total amount and were still investigating to determine the full amount</p> <p>28 auditees (7%) were qualified on the completeness of their disclosure</p> <p>We could also not audit procurement processes for contracts valued at R6 498 million due to missing or incomplete documentation – it is not known whether any part of this amount might represent irregular expenditure</p>	<p><b>Yes</b></p> <p>None of the departments were qualified on the completeness of their disclosure</p>	<p><b>No</b></p> <p>3 auditees (1%) were qualified on the completeness of their disclosure</p>

	Irregular	Unauthorised	Fruitless and wasteful
<b>What was main cause?</b>	<p><b>Non-compliance with supply chain management legislation (92%)</b> – related to:</p> <ul style="list-style-type: none"> <li>• Procurement without a competitive bidding or quotation process – R12 375 million (29%)</li> <li>• Non-compliance with procurement process requirements – R20 741 million (50%)</li> <li>• Inadequate contract management – R8 647 million (21%)</li> </ul>	<p><b>Overspending of the budget (86%)</b> – R1 821 million</p>	<p><b>Penalties and interest</b> on overdue accounts and late payments (13%) – R319 million</p> <p><b>Litigation and claims (2%)</b> – R57 million</p> <p><b>Other (85%)</b> – R2 077 million The main causes are included in the top 10 contributor table</p>
<b>Did the auditees detect this expenditure?</b>	<p><b>72% identified by auditees</b> and remainder by audit process</p> <p>Many auditees put processes in place to fully uncover irregularities of previous years – partly to address prior year qualifications on irregular expenditure (R3 233 million) but also to correct and address past irregularities</p>	<p><b>90% identified by auditees</b> and remainder by audit process</p>	<p><b>92% identified by auditees</b> and remainder by audit process</p>
<b>Does it mean this money was wasted?</b>	<p><b>Possibly</b> – it can only be determined through an investigation by the accounting officer or accounting authority</p> <p>Goods and services were received for R27 498 million (66%) of the expenditure related to supply chain management, but were not received for R120 million (&lt; 1%), while we did not audit the remaining 34%</p> <p>We cannot confirm if value for money was received for all of these goods and services</p>	<p><b>No</b></p>	<p><b>Yes</b></p>



## NATIONAL AND PROVINCIAL VIEW

	Irregular (R million)	Unauthorised (R million)	Fruitless and wasteful (R million)
<b>National</b>	R15 744 35% of total 3% of national budget	R584 27% of total 0,2% of national departmental budget	R1 924 78% of total 0,3% of national budget
<b>KwaZulu-Natal</b>	R9 917 22% of total <b>7% of provincial budget</b>	R509 24% of total 0,4% of provincial departmental budget	R12,3 1% of total < 0,1% of provincial budget
<b>Gauteng</b>	R6 367 14% of total <b>5% of provincial budget</b>	None	R199 8% of total 0,2% of provincial budget
<b>Free State</b>	R3 860 8% of total <b>6% of provincial budget</b>	R513 24% of total 1,5% of provincial departmental budget	R16 1% of total < 0,1% of provincial budget
<b>North West</b>	R3 065 7% of total <b>8% of provincial budget</b>	None	R55,4 2% of total 0,1% of provincial budget
<b>Limpopo</b>	R2 471 5% of total 4% of provincial budget	R193 9% of total 0,3% of provincial departmental budget	R215 9% of total 0,3% of provincial budget
<b>Mpumalanga</b>	R2 218 5% of total 4% of provincial budget	R37 2% of total 0,1% of provincial departmental budget	R2,3 0,1% of total < 0,1% of provincial budget
<b>Northern Cape</b>	R1 050 2% of total <b>6% of provincial budget</b>	R231 11% of total 1,4% of provincial departmental budget	R6 0,2% of total < 0,1% of provincial budget
<b>Eastern Cape</b>	R860 2% of total 1% of provincial budget	R58 3% of total 0,1% of provincial departmental budget	R23 1% of total < 0,1% of provincial budget
<b>Western Cape</b>	R44 0,1% of total 0,1% of provincial budget	None	R0,2 < 0,1% of total < 0,1% of provincial budget

Expenditure of 5% or higher of the provincial budget is highlighted in red

## TOP 10 CONTRIBUTORS – UNAUTHORISED EXPENDITURE

Half of these departments incurred unauthorised expenditure for the past three years, namely Education (KZN), Police, Roads and Transport (FS), Health (FS), Education (FS) and Health (NC)

Auditee	Disclosed (R million)	Nature
Water and Sanitation	R526	Overspending of the budget occurred at programme level. An amount of R392 million (75%) resulted from exceeding the budget for goods and services and payments to the war on leaks programme.
Education (KZN)	R486	The overspending occurred mainly in programme 2 – public ordinary schooling and programme 4 – public special schools education.
Police, Roads and Transport (FS)	R241	An amount of R169 million (70%) was money not spent in accordance with the purpose of the budget and the remainder related to overspending on programme 4 – transport regulations.
Education (LP)	R193	Overspending of the budget occurred mainly on programme 6 – infrastructure development due to a prepayment to the Development Bank of Southern Africa in the prior year for payments on behalf of the department.
Health (FS)	R141	Overspending occurred across various programmes. An amount of R92 million (65%) related to programme 2 – district health services.
Education (FS)	R130	Overspending occurred in programme 2 – public ordinary schooling. The overspending related to compensation of employees due to the insufficient budget allocation and budget cuts to fund other critical priorities.
Education (NC)	R123	An amount of R118 million (96%) of the overspending occurred in programme 2 – public ordinary schooling.
Health (NC)	R100	Overspending of the budget occurred at programme level. The transfers and subsidies in programme 5 – health science and training were overspent by R24,8 million, while programmes 2 and 3 were overspent on compensation of employees by R31,9 million and R4,8 million.
Education (EC)	R58	The overspending related to a virement without obtaining the required treasury approval that increased transfers and subsidies in programme 2 – public ordinary schooling.
Statistics South Africa	R57	The overspending related mainly to programme 2 – economic statistics and programme 6 – statistical collection and outreach.
<b>Total for top 10</b>	<b>R2 055</b>	<b>This constitutes 97% of the total unauthorised expenditure</b>





## TOP 10 CONTRIBUTORS – IRREGULAR EXPENDITURE

All of these auditees incurred irregular expenditure for the past three years

Auditee	Disclosed (R million)	Incurred in 2017-18 (R million)	Main non-compliance or nature
Transport (KZN)	R5 483	R4 431 (81%)	95% was due to non-compliance with legislation on contracts. Most of this expenditure related to expired or month-to-month contracts.
Water Trading Entity	R4 567	R4 127 (90%), of which R2 935 represents irregular expenditure incurred on ongoing multi-year contracts awarded in previous years	93% related to non-compliance with procurement process requirements, including bids not awarded in accordance with approved specifications; services to support and maintain the SAP system not procured through the State Information Technology Agency; and changes to scope of work after the award had been made.
Roads and Transport (GP)	R2 087	R2 087 (100%), of which R2 076 represents irregular expenditure incurred on ongoing multi-year contracts awarded in previous years	100% related to procurement without following the competitive bidding or quotation process.  R2 053 million (98%) related to non-compliance in the bus subsidies contracting process. Due to the old legacy bus contracts, the department was not able to go out on tender and the contracts were extended for three years until 31 March 2018.
Water and Sanitation	R1 978	R1 630 (82%), of which R889 represents irregular expenditure incurred on ongoing multi-year contracts awarded in previous years	56% related to non-compliance with procurement process requirements. Some of this expenditure was also due to irregularly awarded contracts on water and sanitation infrastructure projects, e.g. bucket eradication projects in the Free State and the Northern Cape.
Correctional Services	R1 897	R1 897 (100%), of which R1 803 represents irregular expenditure incurred on ongoing multi-year contracts awarded in previous years	94% related to procurement without following the competitive bidding or quotation process.  Included in this expenditure is an amount of R1 724 million, which was due to implementing agents not following the competitive bidding process.
Health (KZN)	R1 830	R1 464 (80%)	87% related to non-compliance with procurement process requirements. Approximately R661 million of this expenditure related to expired contracts, e.g. month-to-month contracts and expired rental contracts.

Auditee	Disclosed (R million)	Incurred in 2017-18 (R million)	Main non-compliance or nature
Health (GP)	R1 703	R1 352 (79%), of which R1 066 represents irregular expenditure incurred on ongoing multi-year contracts awarded in previous years	83% related to procurement without following the competitive bidding or quotation process, of which R679 million related to security contracts.
Police, Roads and Transport (FS)	R1 632	R650 (40%), of which R404 represents irregular expenditure incurred on ongoing multi-year contracts awarded in previous years	86% related to non-compliance with procurement process requirements, of which R1 383 million was due to the incorrect application of preference points in line with the Preferential Procurement Policy Framework Act.
Human Settlements (GP)	R1 381	R1 381 (100%)	6% related to non-compliance with legislation on supply chain management. 94% related to non-compliance with other legislation – R1 155 million was incurred on transfers to implementing agents in contravention of the Division of Revenue Act, as the transfers were not included in the conditional grant business plan.
Public Works and Roads (NW)	R1 139	R494 (43%), of which R240 represents irregular expenditure incurred on ongoing multi-year contracts awarded in previous years	100% related to non-compliance with procurement process requirements. Approximately R466 million of this expenditure related to road infrastructure.
<b>Total for top 10</b>	<b>R23 697</b>	<b>This constitutes 52% of the total irregular expenditure disclosed in 2017-18</b>	

\* Excluded from these top 10 contributors is the irregular expenditure of the Passenger Rail Agency of South Africa amounting to **R3 939 million** – this audit was subsequently finalised



## TOP 10 CONTRIBUTORS – FRUITLESS AND WASTEFUL EXPENDITURE

All of these auditees incurred fruitless and wasteful expenditure for the past three years, except National Treasury, Health (GP), and Local Government Sector Education and Training Authority

Auditee	Disclosed (R million)	Nature
Water Trading Entity	R1 022	Due to financial viability concerns, many water infrastructure projects were not progressing. However, internal resources and contractors were employed on these projects and still had to be paid due to contractual arrangements.
Defence	R399	R324 million related to the restatement of previous year figures, while the remainder related to leased properties and medical equipment not utilised.
Education (LP)	R194	Most related to learner-teacher support material purchased in excess of the requests received from schools, resulting in outdated textbooks on hand that had to be disposed of.
Road and Transport (GP)	R148	Included court order payments on routine road maintenance (contracts cancelled but suppliers took department to court) and lease of photocopy machines.
South African Broadcasting Corporation	R84	Included interest and penalties incurred due to the late payment of suppliers as a result of financial viability concerns, South African Revenue Service penalties, and unauthorised overtime payments.
National Treasury	R67	Payment of technical support for the integrated financial management system software licence that were not yet in use.
Justice and Constitutional Development	R48	R44 million related to asset forfeiture curator fees as a result of ceased assets not being returned to the defendant without the possibility of prosecution.
Correctional Services	R41	R34 million related to a deferment fee paid on a capital works project; also included travel cancellations and interest paid on court orders.
Health (GP)	R38	Included interest on litigation costs, overdue accounts, and payments to the sheriff.
Local Government Sector Education and Training Authority	R36	Included fraudulent grant claims submitted by a service provider for training that did not take place.
<b>Total for top 10</b>	<b>R2 077</b>	<b>This constitutes 85% of the total fruitless and wasteful expenditure</b>

\*Excluded from these top 10 contributors is the fruitless and wasteful expenditure of the Passenger Rail Agency of South Africa and the Independent Development Trust amounting to **R56 million** and **R42 million**, respectively – these audits were subsequently finalised

## INVESTIGATION AND FOLLOW-UP OF PRIOR YEAR UNAUTHORISED, IRREGULAR, AND FRUITLESS AND WASTEFUL EXPENDITURE

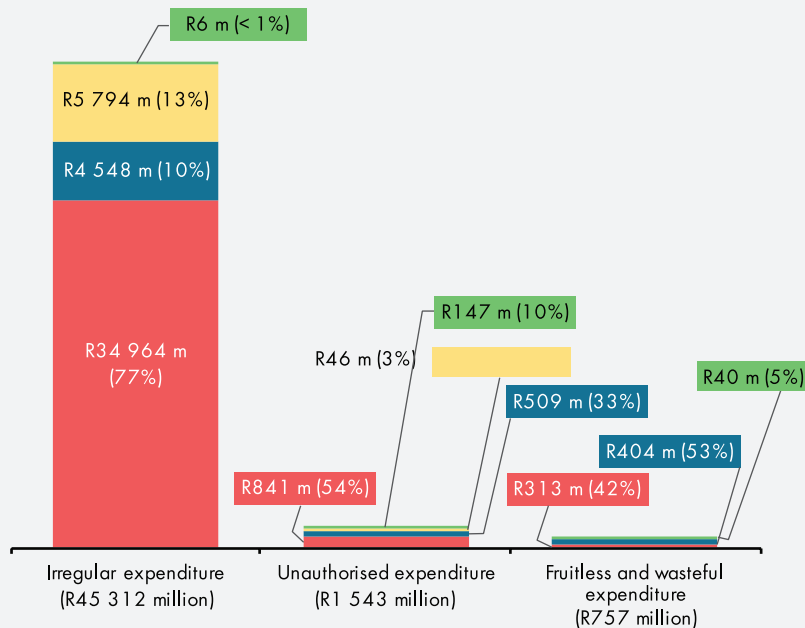


Investigations by auditees of all prior year instances improved from 215 (75%) to 241 (86%)

UIFW disclosed must be investigated to determine impact and responsible person/s. Based on the outcome of the investigation, the next steps can include condonement/authorisation, recovery, or write-off. It may also include the cancellation of contracts irregularly awarded.

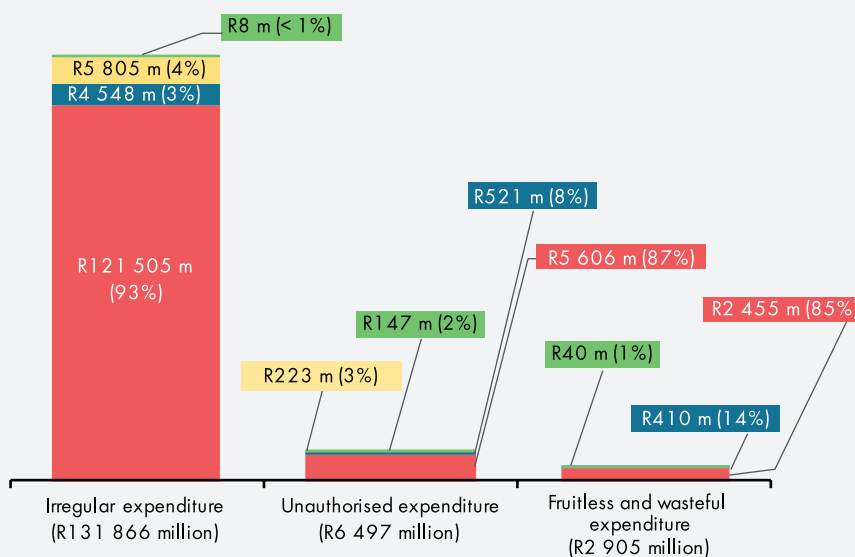
Despite the improvement in investigations, **sufficient steps were not taken to recover, write off, approve or condone** UIFW. As a result, the year-end balance of irregular expenditure that had accumulated over many years and had not been dealt with totalled R161 843 million, while that of unauthorised expenditure stood at R7 722 million, and that of fruitless and wasteful expenditure was R4 896 million.

### HOW HAVE AUDITEES DEALT WITH THE 2016-17 UIFW?



### HOW HAVE AUDITEES DEALT WITH ALL UIFW TO DATE?

(Figures below are expressed as percentage of previous year closing balance)



■ Money recovered or in the process of recovery  
 ■ Condoned or authorised  
 ■ Written off  
 ■ Not dealt with



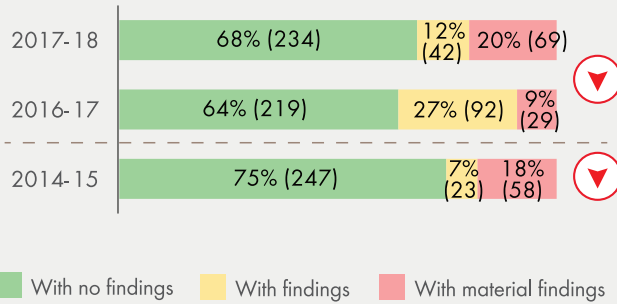


## FRAUD AND LACK OF CONSEQUENCES



INCREASE IN MATERIAL NON-COMPLIANCE WITH LEGISLATION ON IMPLEMENTING CONSEQUENCES SINCE PREVIOUS YEAR

### NON-COMPLIANCE WITH LEGISLATION ON IMPLEMENTING CONSEQUENCES



Most common findings were the following:

- Effective and appropriate disciplinary steps not taken against officials who made and/or permitted irregular expenditure – 49 auditees (14%)
- Effective and appropriate disciplinary steps not taken against officials who made and/or permitted fruitless and wasteful expenditure – 35 auditees (10%)
- Irregular expenditure identified in prior year not investigated – 32 auditees (9%)

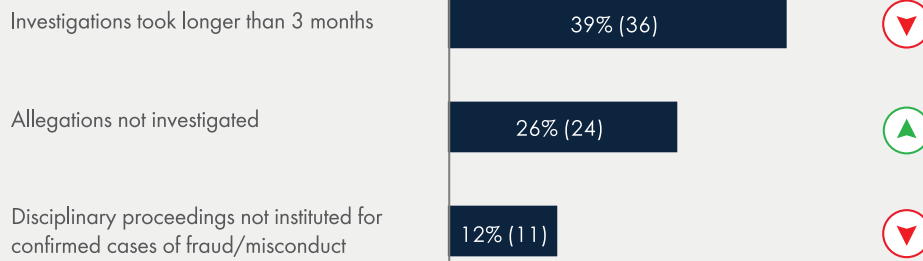
### MECHANISMS TO DEAL WITH LACK OF CONSEQUENCES

**Inadequate mechanisms for reporting and investigating transgressions and possible fraud at 45 auditees (13%)**

Although 87% had the required mechanisms, these had not necessarily been implemented successfully as evidenced by the increase in material non-compliance with legislation on implementing consequences

30

### INADEQUATE FOLLOW-UP OF ALLEGATIONS OF FINANCIAL AND SUPPLY CHAIN MANAGEMENT MISCONDUCT AND FRAUD



CONTRIBUTE TO

AND



**Unauthorised, irregular, and fruitless and wasteful expenditure (UIFW)** not followed up and dealt with – refer to section on UIFW



**Supply chain management (SCM) findings** we reported to management for investigation not followed up – refer to section on SCM

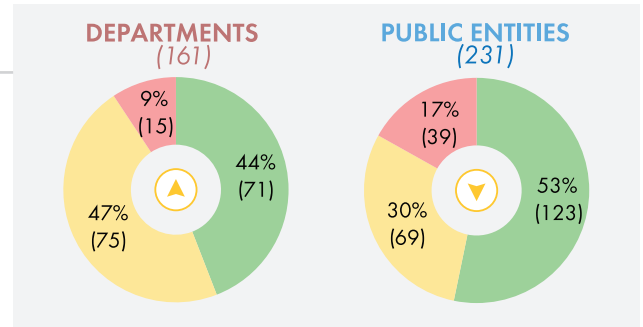
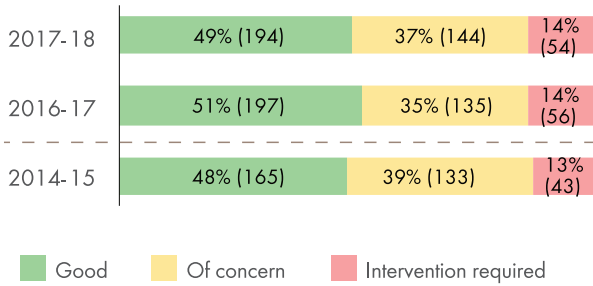


# INTERNAL CONTROL



SLIGHT IMPROVEMENT IN OVERALL STATUS OF INTERNAL CONTROL OVER 4 YEARS

## OVERALL STATUS OF INTERNAL CONTROL



## DRIVERS OF INTERNAL CONTROL

MOVEMENT FROM  
2016-17 2014-15

Driver	2016-17	2014-15	Movement
Leadership	49% (191)	35% (138)	16% (63)
Financial and performance management	39% (152)	41% (163)	20% (77)
Governance	66% (257)	23% (91)	11% (44)

*Good internal control is the key to ensuring that auditees deliver on their priorities in an effective, efficient and economical manner. It will also ensure that auditees produce quality financial statements and performance reports, and comply with applicable legislation.*

## BASIC CONTROLS

MOVEMENT FROM  
2016-17 2014-15

Control	2016-17	2014-15	Movement
Effective leadership	65% (256)	27% (107)	8% (29)
Action plans	40% (156)	43% (171)	17% (65)
Proper record keeping	48% (188)	41% (161)	11% (43)
Daily and monthly controls	39% (152)	41% (162)	20% (78)
Review and monitor compliance	26% (103)	45% (175)	29% (113)

*Analysis shows five of the seven basic controls that should receive specific attention to improve and sustain audit outcomes.*

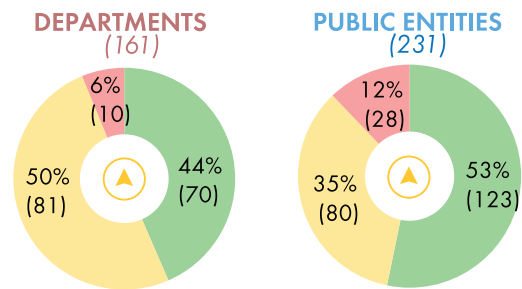
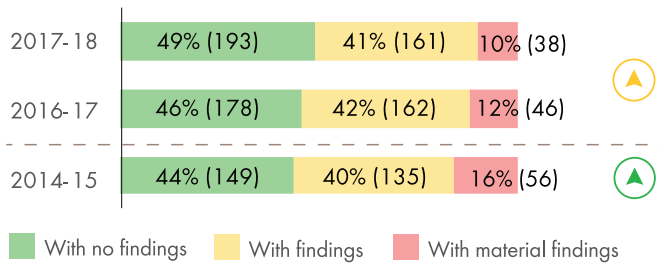
## PROGRESS MADE IN IMPROVING DRIVERS OF INTERNAL CONTROL IN NATIONAL AND PROVINCIAL GOVERNMENT OVER FOUR YEARS

	Leadership	Financial and performance management	Governance
National	▲	▼	▼
Eastern Cape	▲	▲	▲
Free State	▼	▼	▼
Gauteng	▲	▲	▲
KwaZulu-Natal	▲	▼	▲
Limpopo	▲	▼	▲
Mpumalanga	▲	▲	▲
Northern Cape	▲	▲	▲
North West	▼	▼	▼
Western Cape	▶	▼	▶
Total	▲	▼	▲



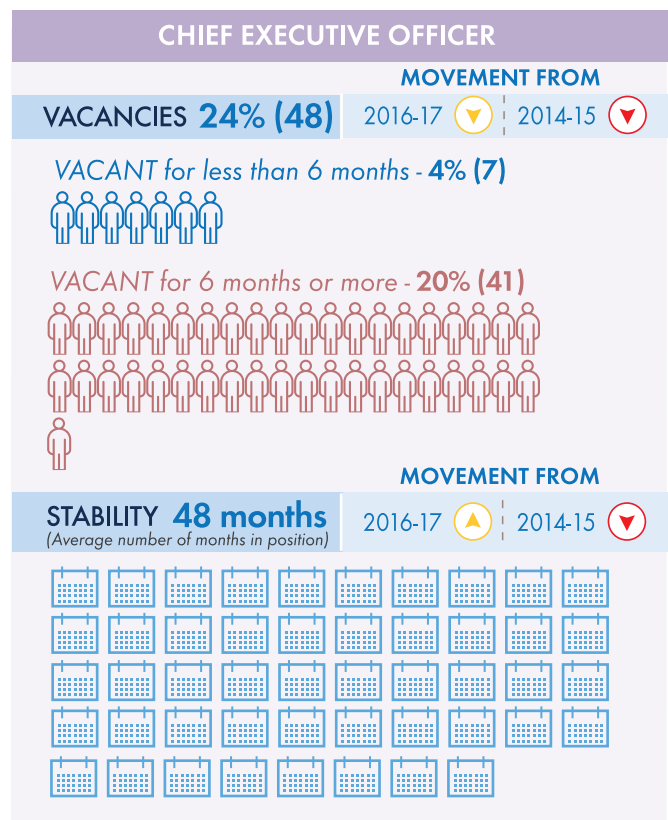
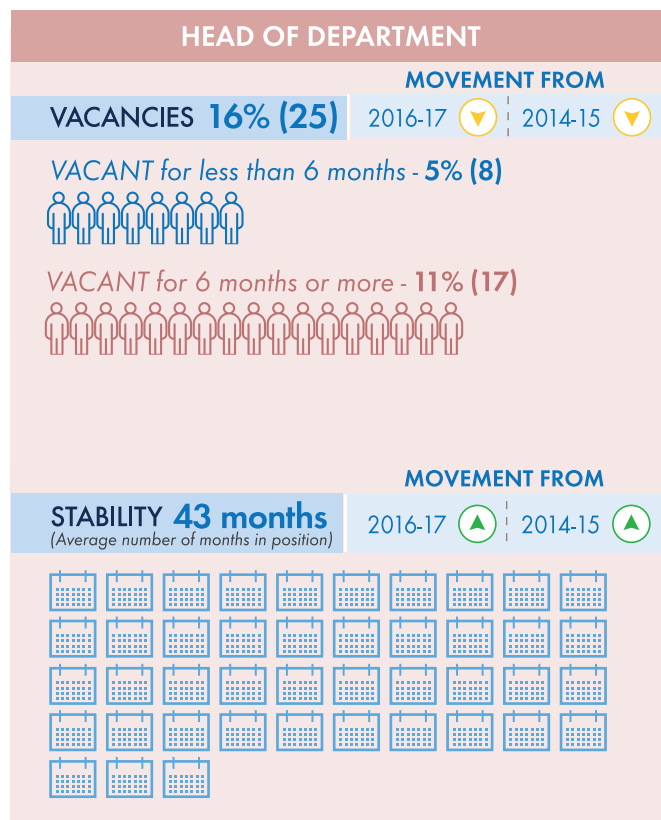


## OVERALL STATUS OF HUMAN RESOURCE CONTROLS

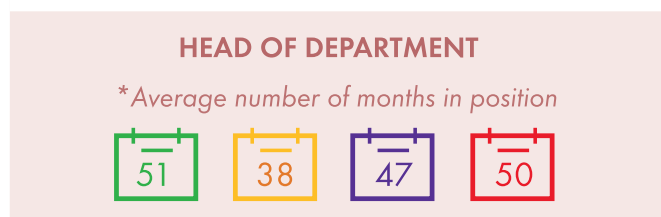


## KEY POSITIONS - VACANCIES AND STABILITY

Medium-term Strategic Framework target for 2019 is to retain heads of department for at least four years - 49 departments (30%) had achieved this target at 2017-18 year-end.



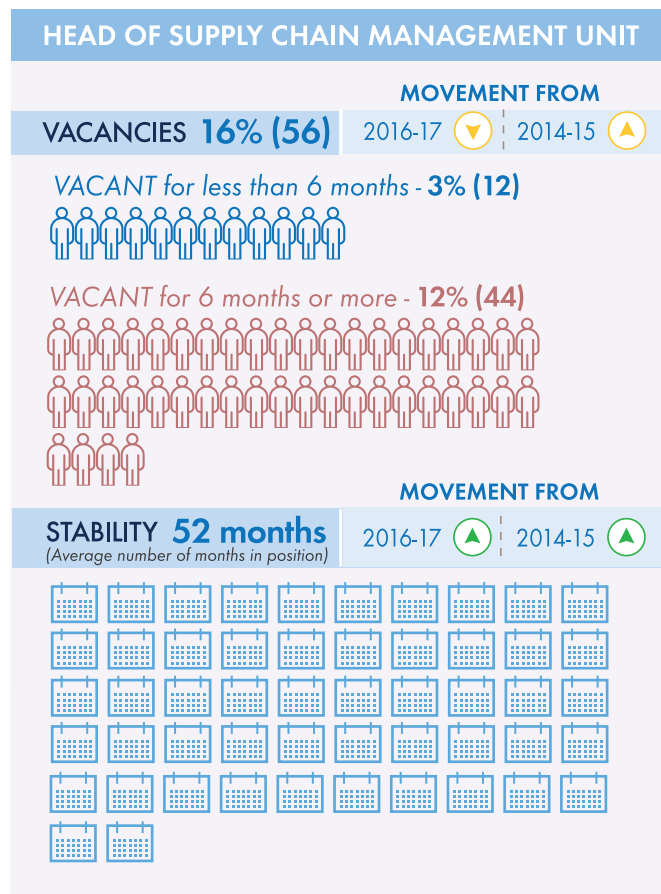
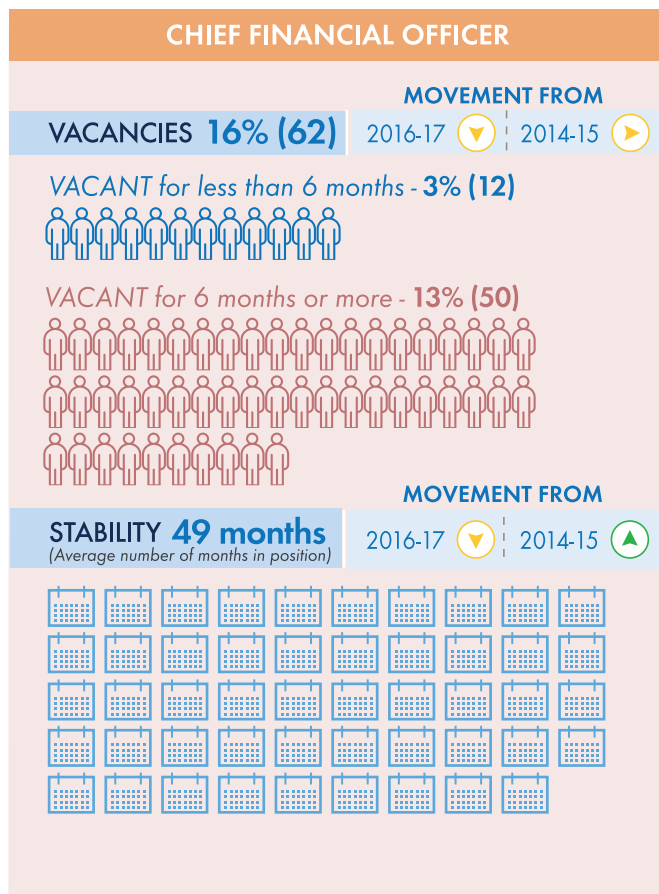
## STABILITY\* IN KEY POSITIONS PRODUCED BETTER AUDIT OUTCOMES



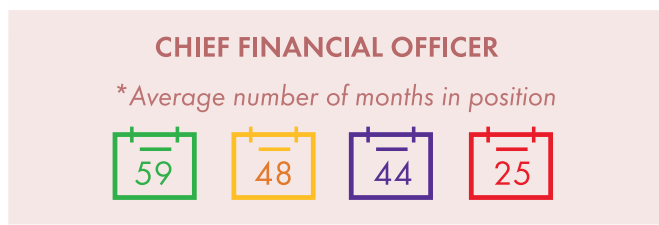
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  Unqualified with findings
  Qualified with findings
  Adverse and disclaimed with findings



## KEY POSITIONS - VACANCIES AND STABILITY



### STABILITY\* IN KEY POSITIONS PRODUCED BETTER AUDIT OUTCOMES



- Unqualified with no findings
- Unqualified with findings
- Qualified with findings
- Adverse and disclaimed with findings

### AVERAGE VACANCY RATES

One of the biggest challenges for national and provincial government is to attract and retain qualified and competent persons in all areas of administration. It is thus important that vacant positions are filled with suitably skilled individuals.

OVERALL **13%**      SENIOR MANAGEMENT **16%**      FINANCE UNITS **12%**

Medium-term Strategic Framework target for 2019 is a vacancy rate of less than 10% in national and provincial departments – it was 13% as at 2017-18 year-end.

Resourcing of 97 finance units (25%) assessed as either concerning or requiring intervention, of which 64 were as a result of staff vacancies and 18 were as a result of inadequate skills.



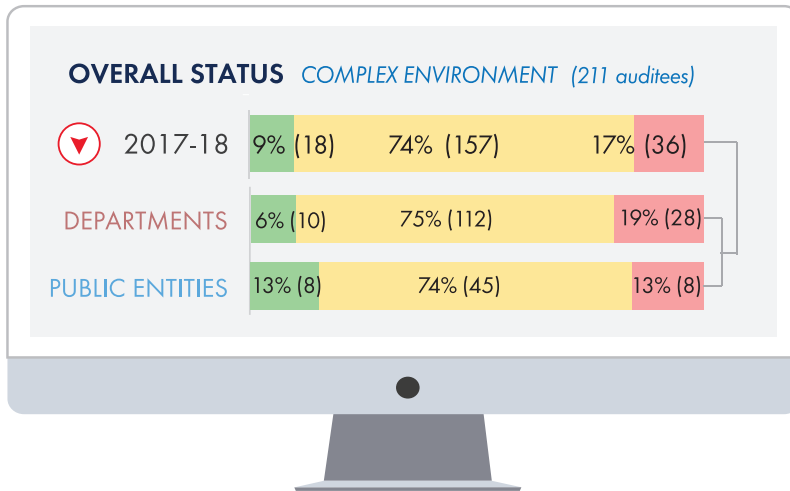


# INFORMATION TECHNOLOGY (IT) CONTROLS



REGRESSION  
IN IT CONTROLS

A significant part of the control environment at national and provincial auditees is the IT control environment. IT controls ensure the confidentiality, integrity and availability of state information, enable service delivery, and promote national security.



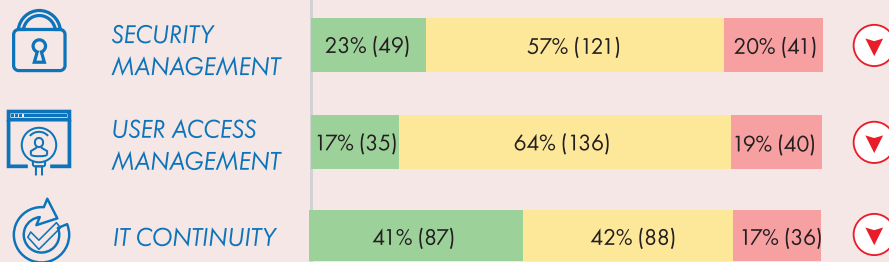
National auditees and seven provinces (Free State, Gauteng, Eastern Cape, Limpopo, Mpumalanga, North West and Northern Cape) regressed overall.

Intervention was required at 31% of the national and provincial education, health and public works departments, compared to 16% of the other departments. These departments were still struggling with basic IT controls and regressed from the previous year due to a lack of resources and/or will to address findings raised in previous years.

## COMPLEX ENVIRONMENT



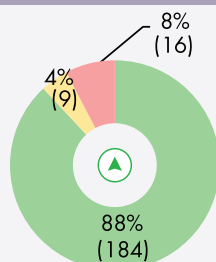
### INFORMATION TECHNOLOGY FOCUS AREAS



34

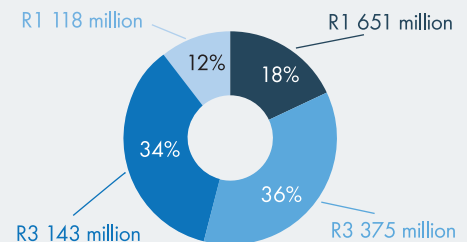


### QUALIFICATIONS AND EXPERIENCE – chief information officers or IT managers



### APPROXIMATE IT-RELATED EXPENDITURE

(national and provincial departments) – R9 287 million



### EXPENDITURE ON IT CONSULTANTS

Expenditure of **R2 971 million** was incurred at **36 auditees on 232 IT consultants**, mainly due to the lack of adequate skills within the IT environment and the need to deliver value-added information and communication technology services to auditees. 6 674 positions existed in the IT units of the 211 auditees audited, of which **1 432 (21%)** were vacant. Only 51 IT consultants were used to fill these vacant positions, while the remaining 181 were used to support auditees in other areas.



# INTEGRATED FINANCIAL MANAGEMENT SYSTEM (IFMS) PROJECT



**RESPONSIBLE DEPARTMENT:** National Treasury



**ESTIMATED AMOUNT SPENT** on project to date: **R1,7 billion**

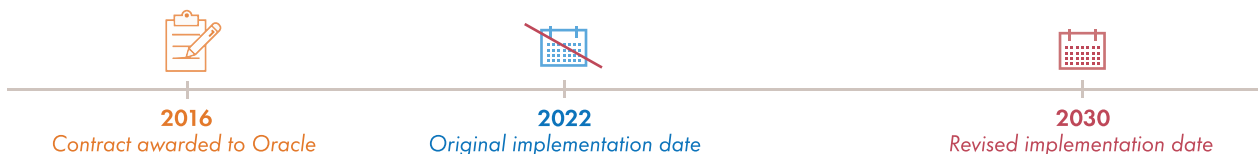


**AIM**

Enhance the efficiency of government back-office processes by integrating all human resource and financial management systems across government



**TIMELINE**



There had been no improvement in the oversight and management of the IFMS programme; and accountability and consequences would have been difficult to enforce (ACT)



**CONCERNS**

- Inadequate planning and monitoring
- No detailed budget breakdown
- No assessment of changes to policies and procedures
- Lack of stability hampers governance, oversight and delivery of IFMS solution

## NATIONAL e-STRATEGIES

	e-GOVERNMENT	e-HEALTH	e-EDUCATION
	Department of Public Service and Administration	Department of Health	Department of Basic Education
	Provide a more coordinated and citizen-driven focus to the country's e-Government initiatives, thus ensuring that government brings services closer to citizens through an organised and holistic adoption of information and communication technology.	Reduce waiting times, improve data quality and integrity, increase timely access to data, streamline registers, and strengthen information management in the public health sector.	Incorporate the use of information and communication technology in the delivery of basic education, including the provision of teacher training, information and communication technology devices, software, connectivity, IT support to schools, and online learner and teacher support material.
	<p>The government chief information officer position in the department filled late in 2017, after being vacant for more than six years. Although this office was under-resourced, it undertook the following development initiatives:</p> <ul style="list-style-type: none"> <li>• Public service digitisation strategy</li> <li>• Cloud first policy</li> <li>• Public service data management framework</li> <li>• Public service information and communication technology value management framework</li> </ul> <p><b>CONCERNS</b></p> <ul style="list-style-type: none"> <li>• Minimum Information Security Standards</li> <li>• Revised Minimum Interoperability Standards not enforced during period under review</li> </ul>	<ul style="list-style-type: none"> <li>• LP: made progress by compiling an e-Health strategy.</li> <li>• EC: had a draft e-Health strategy for 2016-17, but the strategy did not adequately address e-Health initiatives.</li> <li>• KZN: initiatives were not monitored due to the e-Health strategy being redrafted.</li> <li>• NC, MP and FS: incorporated e-Health strategy initiatives into their approved IT strategy, but not all initiatives were addressed.</li> <li>• NW: audit was delayed and progress could thus not be assessed.</li> </ul>	<ul style="list-style-type: none"> <li>• MP, GP, FS, KZN, WC and NC: developed their strategies to align with the White Paper on e-Education.</li> <li>• Some provinces had no or draft e-Education strategies, misalignment with the White Paper on e-Education, insufficient budget allocations, no implementation plan, and management not understanding their role in the implementation of Operation Phakisa.</li> <li>• Lack of an allocated budget, properly defined implementation plans as well as monitoring and prioritisation by senior management in the provinces could result in the implementation of the strategy not being achieved, thus negatively affecting the achievement of quality education in the country.</li> </ul>
<b>CONCLUSION</b>	The environment had improved slightly with the appointment of the government chief information officer although IT governance matters remained a concern.	<p><b>CONCLUSION</b></p> <p>Little progress had been made with the implementation of this strategy in the provinces, due to budget constraints, IT-critical vacancies as well as a lack of prioritising the implementation of the initiatives.</p> <p>Although some provinces had started addressing connectivity issues by rolling out broadband, this was still in its infancy. Therefore, provinces were still facing challenges relating to connectivity, old infrastructure and interfacing key systems (such as billing, patient registration and pharmaceutical systems), which contributed to the objectives of the strategy not being realised.</p>	<b>CONCLUSION</b> The overall status of implementation indicated a slight improvement compared to the previous year.





## ASSURANCE PROVIDERS

Low levels of assurance show a breakdown in a crucial element of the improvement cycle, being the monitoring to ensure that internal controls are adhered to, risks are managed, and outcomes are achieved

### ASSURANCE PROVIDED BY MANAGEMENT / LEADERSHIP

MOVEMENT FROM  
2016-17 2014-15

Category	Provides assurance	Provides some assurance	Provides limited/no assurance	2016-17	2014-15
Senior management	15%	66%	19%	Down	Down
Accounting officers/authorities	34%	53%	13%	Down	Down
Executive authorities	43%	49%	8%	Up	Up

### INTERNAL INDEPENDENT ASSURANCE AND OVERSIGHT

Category	Provides assurance	Provides some assurance	Provides limited/no assurance	Not established	2016-17	2014-15
Internal audit units	59%	31%	9%	1%	Up	Down
Audit committees	69%	24%	5%	2%	Up	Up
COORDINATING/MONITORING DEPARTMENTS	30%	50%	20%		Down	Down
Offices of the premier / Department of Planning, Monitoring and Evaluation	30%	50%	20%		Stable	Down
Treasuries	30%	50%	20%		Down	Down

### EXTERNAL INDEPENDENT ASSURANCE AND OVERSIGHT

Category	Provides assurance	Provides some assurance	Provides limited/no assurance	Not established	2016-17	2014-15
Public accounts committees / Standing Committee on Public Accounts	30%	50%	20%		Stable	Down
Portfolio committees	58%	37%	5%		Up	Up

■ Provides assurance   
 ■ Provides some assurance   
 ■ Provides limited/no assurance   
 ■ Not established

FINDINGS	INTERNAL AUDIT UNITS	AUDIT COMMITTEES
Fully compliant with legislation	89% (343) <span style="color: yellow;">▼</span>	92% (356) <span style="color: yellow;">▼</span>
Positive impact on audit outcomes	62% (240) <span style="color: yellow;">▼</span>	75% (287) <span style="color: yellow;">▼</span>
Evaluates reliability of financial information	89% (344) <span style="color: yellow;">▶</span>	97% (372) <span style="color: yellow;">▲</span>
Evaluates reliability of performance information	86% (334) <span style="color: yellow;">▲</span>	88% (340) <span style="color: yellow;">▶</span>
Evaluates compliance with key legislation	92% (356) <span style="color: yellow;">▲</span>	97% (373) <span style="color: yellow;">▲</span>
Interacts with executive authority	N/A	88% (339) <span style="color: yellow;">▼</span>

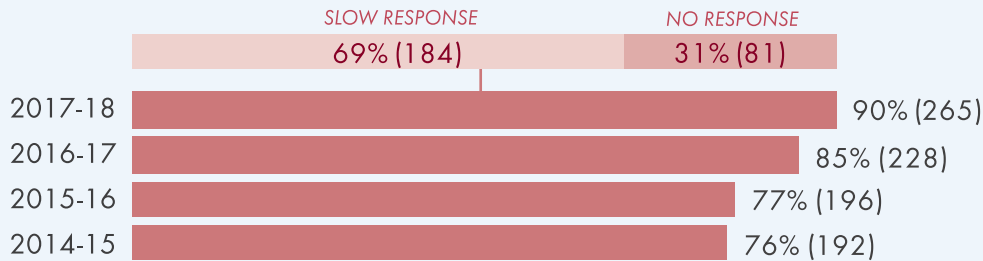


# ROOT CAUSES OF LIMITED IMPROVEMENT OVER 4 YEARS

## SLOW OR NO RESPONSE IN IMPROVING INTERNAL CONTROLS AND ADDRESSING RISK AREAS



No response in provinces most evident in **Eastern Cape (76%), Free State (71%), North West (50%) and Northern Cape (44%)**



## INADEQUATE CONSEQUENCES FOR POOR PERFORMANCE AND TRANSGRESSIONS



Lack of consequences most common in **provincial departments (47% of total)**



## INSTABILITY OR VACANCIES IN KEY POSITIONS OR KEY OFFICIALS LACKING APPROPRIATE COMPETENCIES



Lack of skills more widespread in **provincial departments (27%) and technical and vocational education and training colleges (18%)**



**ACCOUNTABILITY** ↓ = **SLOW/NO RESPONSE** ↑  
BY MANAGEMENT

