SECTION 4

Provincial overviews

4.1 EASTERN CAPE

PROVINCIAL SNAPSHOT

Clean audits: 19%	Financially unqualified financial statements: 86%	No findings on performance reports: 57%	No findings on compliance with legislation:19%	Irregular expenditure: R860 million
(2016-17: 29%)	(2016-17: 95%)	(2016-17: 62%)	(2016-17: 33%)	(2016-17: R2 376 million)

The Eastern Cape provincial government consists of 13 departments, one legislature and 11 entities. We classified four of the entities as small auditees in terms of our audit methodology. The outcomes of these audits are excluded from this summary.

At the start of the fifth term of the provincial legislature, we emphasised the role of the political leadership in ensuring that the province moves towards accurate, accountable and transparent financial and performance reporting that was underpinned by sound internal controls and good human resource (HR) management practices, including effecting consequences and accepting greater personal accountability. We also emphasised the need to be diligent and decisive in dealing with transgressions of legislation. At the engagements on the status of records review, we provided early warning signals regarding the status of record keeping and basic internal controls.

The political leadership of the province responded to the 2016-17 audit outcomes by committing to fill key vacancies at Education, assist Education to reduce its qualification areas, monitor Education's spending, improve the assurance provided by the executive leadership for all auditees, prevent regressed audit outcomes, reduce SCM non-compliance and irregular expenditure, and improve the audit outcomes of more than 50% of the provincial auditees to a clean audit status. While some of the commitments were honoured, most were not.

The slow response to our messages (and in some instances, the total lack thereof) and the slow implementation of commitments by the accounting officers and authorities had an impact on the audit outcomes for 2017-18, which show only a limited improvement in the accountability for government spending over the past four years and a regression in accountability when compared to the previous year. Some of the main contributors to the slow response by the administrative leadership included action plans that either did not address the root causes of findings raised or were not implemented, inadequate oversight by the accounting officers and authorities, poor risk management practices, and inadequate information technology (IT) systems that resulted in inefficient and cumbersome manual processes being used to generate key information (particularly for reporting on performance).

The audit outcomes improved by 10% over the past four years. However, during the year under review, the audit outcomes regressed by 19%. At an overall level, the lack of improvement and regressions can be attributed to accounting officers performing inadequate oversight of their internal control systems and processes.

Rural Development and Agrarian Reform and the Eastern Cape Rural Development Agency regressed from unqualified opinions with no findings in the previous year to unqualified opinions with findings during the year under review. Social Development regressed from an unqualified opinion with findings to a qualified opinion. These regressions were due to the following:

- Rural Development and Agrarian Reform relaxed the oversight applied to its performance reporting and was unable to provide evidence of the actual reported performance to the auditors. In addition, the department relaxed the diligence applied to paying suppliers on time and received a finding on the late payment of suppliers.
- The Eastern Cape Rural Development Agency did not comply with the SCM prescripts when procuring for agricultural projects and incurred irregular expenditure during the year under review.
- Social Development did not ensure effective controls over its leave recording systems. This resulted in the department receiving a qualification on the amount of leave entitlement disclosed in its financial statements.

Education, which is responsible for 42% of the provincial budget, stagnated on the qualified audit outcome obtained in prior years. The department did, however, reduce its qualification areas from five in the previous year to three in the year under review. Although key positions (including those of the chief financial officer and other senior managers) were filled after year-end, they were vacant for the entire year under review. These vacancies contributed to a lack of accountability and a weak control environment at the department. We noted during the audit that the leadership of this department spent a lot of time trying to manage the audit process and pushing back on the findings raised instead of focusing this energy on addressing the weaknesses identified in the control environment and improving controls over the daily, weekly and monthly financial and performance management activities. The pushback delayed the finalisation of the audit report by two weeks but did not change the audit outcome.

Twelve auditees (57%) maintained their unqualified opinions with findings on compliance and/or performance reporting. The lack of improvement by these auditees can be attributed to management not responding adequately to our messages relating to the improvement of internal controls over financial and performance reporting as well as compliance with SCM and other financial management legislation.

We noted a slight regression of 5% in the quality of the performance reports submitted for auditing, with 67% of the auditees adjusting their reports during the audit process. The findings in this area were due to poor planning and a lack of systems and processes to collect, collate and report on information relating to actual performance. The lack of improvement by 43% of the auditees in this area had an impact on the processes used to improve service delivery and could have negatively affected the lives of citizens.

The 10% regression in the quality of submitted financial statements and 14% regression in compliance with legislation, as well as the overall high levels of non-compliance, were due to a culture where the leadership tolerated compliance and control deviations instead of taking appropriate action against those responsible for transgressions.

For a number of years, we have expressed our concern that departments and entities did not acquire goods and services through processes that were transparent, competitive, equitable, fair and cost-effective. This culture of non-compliance together with a lack of consequences for transgressions contributed to the accumulated irregular expenditure of R5,26 billion at the end of the financial year under review. This amount included R4,4 billion brought forward from previous years that should be properly investigated. Such investigations should result in this irregular expenditure being recovered, condoned or written off.

Irregular expenditure of R860 million was incurred during the year under review. This is significantly less than the R2,38 billion of the previous year. However, the current year amount could be significantly higher, as it excluded R1,73 billion disclosed as irregular expenditure under investigation by Education (R1,59 billion) and the premier's office (R143 million), which will only be disclosed as irregular expenditure once confirmed through investigation. The main contributors to the irregular expenditure disclosed in the current year were:

- Roads and Public Works (R275 million)
- Health (R267 million)
- Education (R97 million)

The current year amount of R860 million included R242 million paid on multi-year contracts that had been awarded irregularly in prior years. There is very little evidence that the accounting officers investigated the possibility of terminating the contracts that continue to be paid despite being deemed irregular. The remaining R618 million related to quotations and contracts awarded irregularly during the year under review, which the accounting officers did not prevent.

Most of the irregular expenditure disclosed was caused by transgressions of SCM legislation, often because of the use of deviations by accounting officers in circumstances that were not catered for by the legislation. For example, Education 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.

Another example is Roads and Public Works that 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 Public Finance Management Act (PFMA). The leadership of the province should ensure that all irregular expenditure is investigated and appropriate actions are taken against those officials responsible for incurring it.

We reported in the previous general report that in order to achieve the MTSF's growth target of 5%, it was important for the strategic departments and entities to remain financially viable. We also reported that the medical legal claims and commitments for housing disclosed by Health and Human Settlements could put significant strain on the provincial revenue fund and the finances of the province as a whole. During the year under review, such claims and commitments continued to threaten the financial viability of the province. Medical legal claims disclosed by Health increased to R24,4 billion from R16,8 billion in the previous year. Although the housing commitments of Human Settlements decreased to R9 billion from the previous year's R11,9 billion, they still exceeded the annual budget allocation by more than R7 billion. These claims and commitments require urgent attention to prevent their materialisation into actual liabilities that may prevent the delivery of services and proper functioning of the provincial government.

In addition, the Mayibuye Transport Corporation is experiencing severe cash-flow challenges and is struggling to settle its operational liabilities as they fall due. The entity may require additional funding from the provincial revenue fund to maintain its existing level of service. A further five departments, the provincial legislature and the Eastern Cape Rural Development Agency had concerning financial health indicators that included accrual adjusted deficits or deficits, accrual adjusted net current liability and net liability positons, and accruals that exceeded more than 20% of the 2018-19 budgets. The provincial leadership should monitor these auditees to ensure that their financial health does not deteriorate to the point where additional funding is required from the provincial revenue fund.

The province is commended for spending nearly 99% of its allocated conditional grants for the year under review. A significant portion (48%) of these conditional grants was spent on infrastructure projects on which we raised findings relating to project planning, project management, and the oversight performed by management. This resulted in delays in the completion of projects and variation orders that increased the overall project costs. For example, the upgrading of a road (DR08029 – Wild Coast Meander) with an original contract value of R222 million and a completion date of 30 June 2017 ended up with a revised project cost of R303 million (including fruitless and wasteful expenditure of R1,2 million) and a completion date that was delayed by nine months.

The control environment, including IT controls, regressed when compared to the previous year. This was caused by inadequate oversight by accounting officers; ineffective, slow and complicated manual processes; poor risk management; and ineffective governance. Only four auditees had good internal controls relating to the areas of leadership, financial and performance management, and governance. As a result, the required daily, weekly, monthly and annual disciplines were not embedded in the systems and processes at most auditees. Furthermore, the monitoring and the oversight of internal controls by assurance providers were not always effective and had a limited impact on improving the overall outcomes of the provincial government.

All assurance providers should improve their monitoring and oversight to ensure that internal controls are effective and that further improvements in audit outcomes are achieved. In particular, the provincial leadership should set a leadership tone that promotes accountability, ethical behaviour and transparency. This should include taking swift and decisive action against those who transgress the requirements of legislation and dealing with those officials who are not performing at the required level. The commitments received from the provincial leadership relating to the strengthening and capacitation of the legislative committees to be more accountable and to hold the leadership of auditees more accountable, together with the commitment that the provincial treasury will assist auditees to prepare audit action plans that include effecting consequences, should contribute to improved accountability in the province.

4.2 FREE STATE

PROVINCIAL SNAPSHOT

Clean audits: 0%
(2016-17: 13%)

Financially unqualified financial statements: 47%
(2016-17: 56%)

No findings on performance reports: 36%
(2016-17: 29%)

No findings on compliance with legislation: 0%
(2016-17: 19%)

Irregular expenditure: R3 860 million
(2016-17: R5 421 million)

The province's political and administrative leadership yet again exhibited no response to improve accountability for government spending. The recommendations we continually made to implement fundamental principles for accountability (including proper planning, execution and supervision of internal controls as well as effecting consequences for poor performance) were not implemented; this despite the leadership's yearly commitment to do so.

The 2017-18 provincial overview reflects on 17 auditees, consisting of 12 departments, the provincial legislature and four entities. We are responsible for 19 provincial government audits in the province, two of which have been classified as small auditees in line with our audit methodology. The audit outcomes of these small auditees are not reflected in this overview. The Free State Tourism Authority merged with the Free State Gambling and Liquor Authority to form the Free State Gambling, Liquor and Tourism Authority, which is one of the small auditees. Maluti-A-Phofung IDZ RF was a newly established entity and is included in this overview.

Over a four-year period, the province's audit outcomes have significantly regressed. The regression continued from the prior year to the current year. The lack of improvement in accountability for government spending led to the significant regression in audit outcomes. Seven auditees regressed from the prior year, while only Education was able to improve from a qualified opinion to an unqualified opinion with findings. The province was unable to sustain any of its clean audit outcomes, as the provincial treasury and the legislature regressed to an unqualified opinion with findings and a qualified opinion, respectively. Police, Roads and Transport regressed from an unqualified audit opinion with findings to a qualified audit opinion. The Fleet Management Trading Entity regressed from an unqualified audit opinion with findings to an adverse opinion. The premier's office and Sport, Arts, Culture and Recreation regressed from qualified audit opinions to disclaimed opinions. Agriculture and Rural Development moved from an adverse opinion to a disclaimed opinion. The deteriorating audit outcomes could be attributed to the leadership's continued disregard for internal controls and the monitoring thereof. The provincial audit outcomes will continue to deteriorate if the right tone is not set at the top, and the leadership does not take accountability for addressing the root causes for the audit findings and does not ensure transparent reporting of government spending.

It is concerning that there was no evidence that certain goods, services and capital projects paid for were actually delivered, which was indicative of the poor internal control environment. This resulted in qualifications on expenditure at Agriculture and Rural Development; Economic, Small Business Development, Tourism and Environmental Affairs; the premier's office; and Sport, Arts, Culture and Recreation. Although accounting for fixed assets is not a complex area for provincial government, Agriculture and Rural Development; Fleet Management Trading Entity; the legislature; Police, Roads and Transport; and Sport, Arts, Culture and Recreation received qualifications in this regard. If we had not allowed any material audit adjustments, only Cooperative Governance and Traditional Affairs, the provincial treasury and Social Development would have received a financially unqualified audit opinion.

We raised material findings on compliance with legislation at all auditees due to the continued disregard for legislative prescripts. The main findings related to procurement and SCM; unauthorised, irregular as well as fruitless and wasteful expenditure not being prevented; and material adjustments to the financial statements. The leadership did not ensure stability and competencies in key positions and did not effect consequences for transgressions.

Irregular expenditure disclosed in the financial statements decreased from R5,4 billion to R3,9 billion. The decrease was due to Health reporting irregular expenditure of R3,5 billion in 2016-17 to address a qualification, of which R3,2 billion related to prior years. The main contributors to irregular expenditure were Police, Roads and Transport (R1,6 billion); Health (R798 million); and Human Settlements (R653 million). The most common SCM findings that resulted in irregular expenditure related to three quotations not being obtained, competitive bids not being invited, Preferential Procurement Regulations not being applied or being incorrectly applied, and the extension of contracts not being justifiable or approved. The main reason for the significant irregular expenditure incurred by Police, Roads and Transport, which also affected prior years, was the incorrect application of the preferential procurement requirements in establishing a panel of contractors for road projects during 2014. The department continued to use contractors from this panel in subsequent financial years, even for projects that did not fall within the scope of the original tender. The department could not provide a valid reason for the manner in which these awards were dealt with. When comparing the awards made to the original tender, it was evident that some suppliers on the panel were preferred.

A culture of no consequences has been created through the leadership's involvement in the decision-making that led to transgressions.
The continued disregard for procurement processes by the leadership that resulted in irregular expenditure, coupled with limited consequences for these transgressions, created an environment vulnerable to misappropriation, wastage and the abuse of state funds. The closing balance of irregular expenditure for the province was R10,6 billion (2016-17: R8,2 billion), which shows that irregular expenditure was not always investigated, resulting in the year-on-year increase. Where irregular expenditure was investigated, mostly by consultants, officials were seldom held accountable but amounts were written off. It was concerning that R1,4 billion of the irregular expenditure incurred related to multi-year contracts entered into in previous years that had not yet been dealt with appropriately, with Human Settlements contributing R511 million in this regard.

The amendments to the Public Audit Act would allow us to refer for investigation any irregular acts or omissions causing a material financial loss, the misuse or loss of material public resources, or substantial harm to a public sector institution or the general public; and could result in remedial action. The area that would be affected the most in the province is irregular expenditure, due to the substantial amount that is reported each year without the necessary investigations taking place. We therefore encourage management and the leadership to take a strong stance against the abuse of public funds by ensuring that transgressions are appropriately investigated by the relevant oversight structures.

Provincial government did not promote accountability for its spending in a manner that would have a positive impact on people's lives and allowed money intended for the people to be misused. Conditional grants were not used for their intended purpose at Agriculture and Rural Development; Education; and Police, Roads and Transport. Moreover, conditional grants were materially underspent at Agriculture and Rural Development; Social Development; and Sport, Arts, Culture and Recreation. Additionally, spending on key projects was riddled with shortcomings, as the departments did not always apply the principles of sound project planning and management. Consequently, key performance targets were not always achieved or were not accurately reported. The impact of the lack of accountability for government spending at departments is illustrated below.

We noted poor project planning and management at Human Settlements' Bethlehem Bakenpark Ext. 5 (Voggelfontein) housing project, which was irregularly awarded. Construction on the project started on 15 April 2013, but it had not been completed, with R81 million of the contract amount of R138 million already having been spent. During the project term, the contract had to be ceded to another contractor after delays due to poor performance by the original contractor. Ninety-one completed houses were vandalised and damaged before being handed over to the beneficiaries. The damage to the structures would lead to additional costs for repairs before it could be occupied. Furthermore, these houses were completed without being connected to bulk water and sewage services.

In various instances, professional fees were incurred to plan projects (beyond the feasibility phase) that were subsequently stopped due to poor planning and budget constraints. At Public Works as well as Sport, Arts, Culture and Recreation, it further resulted in capital work-in-progress being written off. The projects at Public Works related to new buildings for the legislature and the provincial government, where the legislature and Public Works had spent R122 million on planning in previous years but construction had not started due to a lack of funding. At Sport, Arts, Culture and Recreation, the service provider appointed as project manager for infrastructure projects received payments for professional services of R126 million, but the department did not ensure that these services were actually delivered nor that the fees charged were in terms of the original award. Some of these projects related to the construction of stadiums, which have now been abandoned, on which R82 million had been spent.

Poor contract management and inadequate monitoring of service delivery were common, as illustrated by the following examples. In the prior year, Health procured six mobile clinic buses for R71 million, but these buses have not yet been utilised effectively as they were only registered in September 2017, training of medical personnel occurred late, and these imported buses were not designed to travel in remote areas. Additionally, the warranties of the medical equipment fitted in the buses started to expire without the equipment ever having been used. The department entered into another agreement with a service provider for health care services using mobile buses on an outsourced service basis. The department paid the service provider R24 million, which was based on a fee of R954 per patient, irrespective of the type of screening services provided, resulting in overpayments. Included in the billing were also duplications of patients, which indicated that the performance by the service provider was not monitored adequately. At Sport, Arts, Culture and Recreation, the service level agreement to implement a cultural event was inadequate, as it was silent on who would benefit from the revenue generated by all the events hosted as part of the festival as well as the sponsorships received, which would not benefit provincial government. Additionally, all of the contracts mentioned above were awarded irregularly.

There was a slight improvement in the quality of the reported performance information, as nine auditees had material findings, compared to 10 in the previous year. If we had not allowed audit adjustments, 11auditees would have had findings on their performance information. It is concerning that auditees did not have reliable performance reports to empower citizens to hold the political leadership accountable for promises made relating to service delivery. Performance reporting did not receive the necessary attention, nor did the leadership take accountability for the reporting and monitoring of planned objectives. This matter requires urgent attention to ensure that auditees are ready when we start expressing an audit opinion on performance information. Furthermore, IT remains critical for the integrity and availability of performance information to enable reliable reporting. However, appropriate information systems were not in place to enable the monitoring of targets and core objectives as per the strategic plan.

The leadership's lack of accountability for government spending had a negative impact on auditees' financial sustainability. Unauthorised expenditure of R513 million (2016-17: R316 million) was incurred. Funds to be surrendered to the revenue fund and accruals and payables not recognised exceeded cash on hand by R4,1 billion (2016-17: R3,1 billion). A significant portion of the 2018-19 budget would therefore be required to settle these obligations, reducing departments' ability to effectively deliver on their mandate. Furthermore, Health was the defendant in lawsuits of R1,8 billion (2016-17: R1,5 billion). Should these claims materialise, it could derail service delivery by this department, as these claims have not been budgeted for. The combined bank overdraft balances of Education and Health of R1,2 billion (2016-17: R885 million) put pressure on the entire province, as these departments are prioritised for funding.

The impact of the state of the province's financial health was evident at Education, which had payables of R166 million relating to subsidies not paid to the schools in the province during the first quarter of the 2018 academic year. As these subsidies are used for the day-to-day operations of schools and to provide nutritious meals to learners, it might have an adverse effect on the quality of teaching and learning. The deterioration in departments' financial health was due to the provincial leadership not considering the budget when committing to strategic projects, not always paying the best price for goods and services, wastage caused by poor planning, and committing money to non-critical services (for example, the premier's farewell function). Without improved fiscal discipline for the more effective, efficient and economical use of resources, the departments' financial health and service delivery will continue to deteriorate.

There has been an increased call for greater accountability in provincial government in the Free State. The fundamental principles needed to improve accountability for government spending require dedication by the leadership, backed by visible action. The administrative and political leadership 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:

- proper planning and budgeting
- basic daily and monthly checks and balances on compliance as well as financial and performance information
- managing the performance of staff
- effecting consequences for poor performance and transgressions.

In addition, the leadership should critically assess information, such as procurement deviations, before making decisions. Greater emphasis should be placed on risk assessment and the role of the internal auditors and audit committee, who should independently evaluate management's implementation of key controls and daily disciplines. Moreover, the internal audit unit should report directly to the audit committee, not to management. Accountability and transparency are considered the main pillars of good governance – sustainable clean audits will only be achieved through a strong foundation of good governance.

We remain committed in our efforts to be a value-adding assurance provider through continuous engagements with the political and administrative leadership. We have reported the weaknesses in internal control and the risks that required attention in our management reports, audit reports and general reports. We provided root causes for audit findings and recommendations to address those root causes. We ensured that our messages were heard through quarterly engagements with all assurance providers. These actions have not had the desired impact and management was not always open and honest about key challenges. We have now extended our engagements to status of records reviews. These include an analysis of financial and non-financial information to identify key areas that may derail progress in compliance with legislation and the preparation of financial and performance reports. The focused implementation of these measures and action plans by Education contributed to its improved audit outcome. We will continue to engage with management and the leadership, and monitor the progress they have made to address key challenges and risks identified during the status of records review process.

4.3 GAUTENG

PROVINCIAL SNAPSHOT

Clean audits: 52%	Financially unqualified financial statements: 100%	No findings on performance reports: 68%	No findings on compliance with legislation: 57%	Irregular expenditure: R6 367 million
(2016-17: 52%)	(2016-17: 100%)	(2016-17: 77%)	(2016-17: 52%)	(2016-17: R5 875 million)

Encouragingly, the Gauteng provincial government improved its audit outcomes over the past four years and sustained the good audit outcomes achieved in the previous year with 12 auditees (52%) again obtaining clean audit outcomes in 2017-18. This was due to the province responding to our recommendations and institutionalising internal controls over financial management, performance reporting and compliance with legislation, as evidenced by the 10 auditees (43%) that retained their clean audit outcomes over the past four years. The premier, speaker and members of the executive council continued to lead by example and insisted on a culture of transparency and accountability in the conduct of public affairs. Coordinating departments and external oversight structures complemented this culture, as they sustained their oversight responsibilities within the province.

We commend the province on all auditees obtaining unqualified audit opinions over the past three years. It was encouraging that the quality of the financial statements submitted for auditing improved from the previous year, as only six auditees (26%) [2016-17: eight (35%)] were required to make corrections to their submitted financial statements due to material misstatements identified during the audit. As we had also recommended in the previous year, accounting officers should hold chief financial officers accountable for the implementation of basic financial disciplines, including the regular reporting and review of financial information during the year.

Despite a slight improvement in the number of auditees that complied with key legislation, 10 of the 11 auditees that did not achieve clean audit outcomes in the current year had material findings on compliance with key legislation – as was the case in the previous three years. This remains the main obstacle preventing the province from further improving its audit outcomes, as the administrative leadership and senior management were slow to implement their commitments to address compliance findings, specifically those relating to expenditure management, procurement management, and the prevention of irregular expenditure.

Irregular expenditure disclosed in 2017-18 remained high at R6,4 billion, of which R4,9 billion (77%) related to non-compliance with SCM requirements and R1,2 billion (19%) related to Human Settlements that transferred funds from the human settlements development grant to implementing agents without the National Treasury's approval. Of the R4,9 billion in SCM-related irregular expenditure, R2,1 billion was due to the extension of the bus subsidy legacy contracts at Roads and Transport, while R2 billion was due to multi-year non-compliant contracts awarded in previous years at Health and Education. The SCM-related irregular expenditure does not necessarily represent wastage or fraud, but this needs to be confirmed through timeous investigations by the relevant accounting officer or authority to minimise and/or recover possible losses, as we had also recommended in the previous year. The premier and the member of the executive council responsible for finance honoured their commitment to fast-track and monitor the implementation of the open tender process, including publishing the amendment bill of the Gauteng Finance Management Supplementary Act for public comment as part of the province's efforts to ensure that the open tender process becomes the institutionalised manner of procuring goods and services in Gauteng.

The audit outcomes on performance information in the province regressed from the previous year and showed no improvement over the four-year period. Although 15 auditees (68%) had no material findings on their performance reports, only seven auditees (32%) would have achieved this positive outcome had we not allowed auditees to make corrections to the reliability of the information in the submitted performance reports. Auditees continued to struggle with both the usefulness and the reliability of performance information, which is an indication that they did not demonstrate accountability to adequately plan, manage and report on their performance. Accounting officers and authorities were slow to attend to, and should therefore prioritise, our recommendation to hold heads of monitoring and evaluation units accountable for ensuring credible performance reporting.

The provincial IT environment remained a concern, as auditees did not adequately implement effective controls over user access management, security management, and IT service continuity. The province needs to focus on the effective implementation of automated IT controls for financial transversal systems, and must ensure that there is a clear business continuity plan for the transfer of knowledge from consultants used for regular IT operations and functions. Accounting officers and authorities must ensure that IT units are fully staffed with skilled resources, IT governance processes are adequately monitored, and consequences are effected for non-compliance with IT policies and procedures.

The financial health of auditees regressed in 2017-18, as only 13 auditees (57%) reflected good financial health compared to 70% in the previous year. Health's financial health continued to deteriorate due to a funding shortfall. Consequently, creditors were still not paid within 30 days, infrastructure deficiencies were not addressed, and there were staff shortages at health facilities. Adding to these financial sustainability concerns, was the R21,7 billion in medical legal claims against the department. Health, Human Settlements as well as Infrastructure Development would have incurred unauthorised expenditure had all their accrued expenses been paid by year-end, and this will place additional pressure on the service delivery objectives planned for the following financial year. The province, led by the provincial treasury, should continue to embrace prudent and efficient financial spending to ensure that basic services are provided to citizens.

The premier had set a target of 75% of all auditees attaining clean audit outcomes in 2017-18. This target was not achieved due to the slow response by the administrative leadership to prioritise the timeous implementation of action plans, predominantly relating to compliance with key legislation and performance information at 11 auditees. Furthermore, consequences were not effective as disciplinary cases took longer than expected to be finalised and for the appropriate action to be taken. There were also instances of instability in key positions at Health; Agriculture and Rural Development; Sport, Arts, Culture and Recreation; and g-Fleet Management.

The province adopted a 10-pillar plan aimed at radically transforming, modernising and re-industrialising Gauteng. This formed the basis of the province's strategic priorities and programmes, which in turn informed our selection of key projects for testing. We evaluated whether auditees executed their mandate in accordance with their predetermined objectives, complied with procurement processes, and recorded transactions appropriately in the financial statements. We also focused on the overall project management and delivery of these key projects to assess the transparency, accountability and credibility of government spending. Our significant findings at Human Settlements, Health and Education are reflected below:

- Human Settlements: At the Riverside View Ext. 28 project, the available budget for the year had been overspent and the project did not meet its target of 2 299 completed units by the planned completion date due to poor project management. The department did not report accurately on the project's performance, as the reported 1 228 units constructed did not relate to this project or to the financial year under review. We identified poor workmanship during our site visits and noted that certain houses had not yet been transferred to the beneficiaries who were already occupying them.

- Health: The Mandisa Shiceka clinic project was in the early stages of construction and planned targets were not achieved due to poor planning around the relocation of patients. The Helen Joseph project was in the planning phase. A lack of coordination between Infrastructure Development and Health in finalising relevant documentation resulted in the project being delayed. In respect of the community health care workers project, the department incurred fruitless and wasteful expenditure of R8 million on the installation of access systems that were subsequently not utilised fully.

- Education: We followed up the previous year's findings at Everest, Mayibuye and Nokuthula primary schools relating to the planning, commissioning and maintenance of infrastructure projects. There had been little improvement from the previous year, which resulted in the planned targets of the projects not being achieved due to inadequate project management.

Our analysis of key projects indicated that the accounting officers and senior management responsible for the projects were slow to implement corrective action plans to address repeat findings and internal control deficiencies. This resulted in delays and planned targets not being met at some projects. Accounting officers should hold senior management accountable for the implementation of sound project management principles, such as effective planning and monitoring of project plans, thereby ensuring effective spending of government funds. There is also a need to improve intergovernmental coordination and oversight by the political and administrative leadership to ensure that provincial and local government auditees take responsibility for the successful delivery of key projects, which will ultimately result in a better life for citizens.

In order to further improve and sustain the audit outcomes, the political and administrative leadership must continue to lead the way by positively influencing a culture of accountability, improving financial governance, and reducing irregular expenditure. Accounting officers and authorities will need to provide oversight of their operational plans to ensure that senior managers are diligent in addressing the gaps in the basic control environment in a sustainable manner. Audit committees and internal audit units need to continue with their oversight to ensure that controls over financial management, performance reporting and compliance with legislation improve and are embedded. Portfolio committees need to intensify their focus on holding auditees accountable for accurate and complete performance information, while collaboration with the public accounts committee should be improved and formalised.

We remain committed to strengthen financial and performance management and compliance with legislation in the province, through emphasising the need for accountability and effective oversight with consequences against transgressors. In light of the proposed amendments to the Public Audit Act focusing on material financial losses, the misuse or loss of material public resources, and substantial harm to a public sector institution or the general public, we are encouraged by the premier's decision to ensure that long-outstanding disciplinary cases involving officials in the province are concluded speedily and that appropriate action is taken. This should strengthen consequences and accountability in the province. We will use the status of records review to enhance our tracking of commitments made and actions taken by the political and administrative leadership. We further call on the oversight structures to give attention to our reports to ensure that there is accountability for government spending in the province.

4.4 KWAZULU-NATAL

PROVINCIAL SNAPSHOT

Clean audits: 12% (2016-17: 17%)	**Financially unqualified financial statements: 79%** (2016-17: 83%)	**No findings on performance reports: 64%** (2016-17: 65%)	**No findings on compliance with legislation: 12%** (2016-17: 17%)	**Irregular expenditure: R9 917 million** (2016-17: R11 375 million)

The KwaZulu-Natal provincial government comprises 14 departments, the provincial legislature and nine public entities. The overall audit outcomes for the province depict a slight regression when compared to the previous year. The number of clean audits decreased from four (17%) to three (12%), while qualified opinions increased from four (17%) to five (21%).

We engaged regularly with the province's leadership and senior management, and obtained firm commitments in anticipation of improving the audit outcomes. We continued to discuss the root causes of our findings and key control deficiencies, while also providing value-adding recommendations on areas of importance. Despite these interactions, the administrative leadership and senior management did not decisively address key matters of concern and follow through on undertakings made. This was evidenced by the 17 auditees (81%) that either were slow in responding (11 auditees) or did not respond (six auditees) to fundamental audit matters that required dedicated effort and direction.

The provincial treasury and Dube TradePort were the only auditees to retain their clean audits for the past four years, while the Housing Fund achieved a clean audit for the first time. The Nature Conservation Board improved from a qualified to an unqualified opinion with findings on compliance. Management at the Housing Fund and the Nature Conservation Board contributed to these improvements as they swiftly addressed prior year matters. Cooperative Governance and Traditional Affairs regressed to a qualified opinion although we raised early warning signals with management about significant internal control weaknesses over the payment of izinduna (headmen) allowances. Additionally, Sports and Recreation and the Sharks Board regressed from clean audits to unqualified opinions with findings on compliance with SCM legislation. SCM checklists were not aligned to local production and content as well as Construction Industry Development Board requirements at these auditees, which resulted in material findings on compliance.

Health and Transport received qualified opinions for the past four years. The provincial treasury's intervention team was unsuccessful in assisting Health to address qualification areas, as officials did not always cooperate with the implementation of audit turnaround plans. The key positions of the accounting and chief financial officers were filled by persons in an acting capacity. We again experienced disagreements at Transport on the accounting for road infrastructure and the principle of the custodianship thereof. The provincial treasury intervened in an attempt to resolve the matter but was unsuccessful. Health and Transport were again qualified on assets and irregular expenditure. Both areas were strongly highlighted in our status of records review engagements with the leadership and senior management as priority matters. Agriculture received a qualified opinion for the past two years due to weak controls over asset management and its failure to appropriately account for transfer payments. Staff did not fully understand the requirements of the financial reporting framework due to several vacant posts being filled by acting incumbents. The Traditional Levies Trust Account regressed from an unqualified to a qualified opinion because limitations were imposed on the audit of movable assets and revenue.

Financial management and control disciplines were concerning in basic areas such as record management, reconciliations, daily processing, and reviews. This was evidenced by the high number of material audit adjustments made to the financial statements submitted by 14 auditees (58%). An additional nine auditees (38%) would have received qualified opinions if material misstatements identified during the annual audit had not been corrected.

The confidence of users in the achievement of service delivery is determined through the quality of the performance reports, especially those of the key service delivery departments (Education, Health and Transport). A critical function of government is to plan, monitor and report on service delivery commitments in an accurate and transparent manner. We found that reporting on service delivery in the performance reports was not improving at some auditees and at the key service delivery departments. Although only eight auditees (36%)

had material findings on their reported performance information, a further nine auditees (41%) still relied on the audit process to correct material findings in their final performance reports. Performance reports were not useful and reliable due to weak record management and inadequate reviews.

A lack of consequences for transgressions resulted in the continued disregard for compliance with key legislation. The non-adherence to SCM requirements, the incurrence of irregular expenditure, and the poor quality of financial statements submitted for auditing were the main reasons for the compliance findings. Despite irregular expenditure decreasing from R11,4 billion to R9,9 billion in 2017-18, the amount remained high. The most common areas of SCM non-compliance that caused irregular expenditure related to procurement without competitive bidding and/or quotation processes as well as contract management and local production and content requirements not being followed. The irregular expenditure could be even higher, as Health, Transport and Agriculture did not disclose all irregular expenditure in their financial statements and were qualified as a result. The following were the main reasons for the irregular expenditure:

- Management did not update policies to align these to legislation.
- Bids were not approved by delegated officials.
- Critical vacancies in SCM units were not filled.

Transport, Health, Education and Human Settlements incurred R9,1 billion (92%) of the total irregular expenditure. Most of the irregular expenditure at Transport and Health was due to expenditure on expired or month-to-month contracts. Health also continued to analyse its contracts to ensure that irregular expenditure incurred in prior years was fully accounted for. Education did not follow due processes when appointing service providers for the national school nutrition programme and was instructed by the provincial treasury to set aside the bid process. The department used expired contracts of the previous suppliers of the programme on a month-to-month basis until the new bid process had been finalised. Human Settlements continued to assess the contracts and bid documentation for implementing agents being used for municipal construction and detected further irregular expenditure.

The accumulated balance of irregular expenditure that still needed to be investigated and thereafter recovered, condoned or written off as required by the PFMA, was R29,9 billion as at 31 March 2018. This indicates that investigations did not take place timeously or were not rigorous enough to resolve the balance of irregular expenditure recorded. Limited consequences for SCM transgressions and the resultant high levels of irregular expenditure create an environment that is open to misappropriation and wastage of funds – a trend that will continue unless consequences are strictly enforced.

The majority of the provincial grants received were spent in the current year. A substantial amount (R18,1 billion, or 96%) was used to upgrade or build provincial hospitals and schools, upgrade the transport network, supply basic housing to needy citizens, distribute food to school children, provide basic education to learners and support to teachers, and manage the HIV/Aids epidemic.

Education received R3,6 billion in grants, which included amounts for learner-teacher support material, early childhood development, and school infrastructure. We identified significant findings in the areas of early childhood development (grade R) and the provision of learner-teacher support material, including the following:

- Classrooms were too small to cater for school children.
- Teachers lacked essential qualifications.
- There were not enough textbooks for learners.
- The grade R curriculum was not monitored adequately.

We focused on the construction of two schools (Mandla Mthethwa high school and MaleZulu LSEN school) with a project value of R309,2 million and R133,7 million, respectively. We identified quality concerns regarding the construction of these schools on site visits, resulting from poor project management and implementation along with poor governance.

Similar to the previous financial year, the HIV/Aids conditional grant of R4,9 billion was not spent in accordance with the grant framework at Health. We tested three key programmes relating to HIV/Aids in the province, namely the prevention of mother to child transmission, condom distribution, and high transmission area interventions and antiretroviral treatment related initiatives. We raised findings on the procurement of goods and services using this grant, which resulted in irregular expenditure.

Transport developed and maintained road networks around the province and fulfilled its role in transporting learners to schools. We noted quality control deficiencies during site visits of the P47-1 road project to the value of R40,7 million. These included lane dividers and emergency lanes not being clearly marked as well as uneven surfaces and poor quality pothole patching on a portion of the road.

Human Settlements received an allocation of R3,5 billion for housing during the financial year. Our focus during the year was on the multi-year project of constructing housing units in the Vulindlela rural area to the value of R2,6 billion. During site visits, we identified construction defects on the completed houses arising from the department's failure to undertake quality inspections. Furthermore, we identified fraud indicators on the irregular appointment of the developers and contractors on this project. The appointment of these developers and contractors is still under investigation.

Financial health remained concerning in light of some of the issues noted at departments. Thirteen departments (93%) were in an accrual-adjusted net current liability position at year-end, which confirms that departments are failing to effectively manage their spending. Additionally, 12 departments (86%) had amounts payable in future periods that were greater than 10% of their budgets for the next three years. The major concerns at specific departments were the following:

- Health disclosed an amount of R16,8 billion (2016-17: R14,1 billion) for possible medical legal claims.
- The staff debt at Education continued to increase and currently stands at R482,4 million (2016-17: R443,8 million). Education incurred R485,9 million (95%) of the total provincial unauthorised expenditure due to budget overruns from unfunded mandates relating to inflationary wage increases and izinduna allowances. In addition, its negative bank balance increased to R773,6 million due to spending on infrastructure projects for which grant funding was delayed.
- There was uncertainty regarding the unfunded liability to settle backdated izinduna allowances of R1,3 billion at Cooperative Governance and Traditional Affairs.

The realisation of these liabilities and failure to recover debts could adversely affect the province's ability to meet planned obligations and citizen needs in a sustainable manner. Accounting officers should dedicate adequate time and resources to improve the quality of budgeting processes, in-year monitoring, and cash-flow management to instil accountability and fiscal discipline.

IT controls did not improve. Management failed to resolve the previous year's findings in a timely manner, while new systems to automate performance information and operations were not implemented. The factors that resulted in the IT deficiencies were vacancies in key IT positions as well as insufficient knowledge and skills to support and maintain the current IT environments.

The persuasive and robust approach of audit committees in compelling accounting officers to account for the affairs of their entrusted auditees enabled these committees to better manage their mandated oversight role. Internal audit units executed their operational plans in a manner that covered high-risk areas, which contributed to the improvement in the assurance they provided. The portfolio committees evaluated annual reports, performance plans and budgets submitted by the departments. These committees also issued and tracked resolutions in their quarterly meetings with departments. The public accounts committee held initial hearings with all departments and their entities as well as follow-up hearings with departments that had poor audit outcomes. The effectiveness of the work performed by these and other assurance providers, such as members of the executive council, the provincial treasury and the premier's office, could have a positive impact on audit outcomes provided that management implements their recommendations and resolutions.

The political and administrative leadership should work harder to create a culture that is responsive, accountable, effective and efficient in a provincial government that takes punitive action against officials who break the law. As part of our continuous contribution to accountability and good governance in the public sector, we implemented the status of records review project at 11 departments. At most departments, this review found that sustainable controls were not in place and none of the departments improved their audit outcomes in the current year. Accounting officers need to pay closer attention to the status of records review so that proactive remedial action can be taken to prevent setbacks in audit outcomes and for key internal controls to be strengthened. Our engagements with the provincial accountant-general and chief financial officers during the year continued to address various matters of inconsistency and contention, but will need to be intensified and conducted early enough to address emerging risks and avoid pushbacks.

4.5 LIMPOPO

PROVINCIAL SNAPSHOT

Clean audits: 5%
(2016-17: 10%)

Financially unqualified financial statements: 60%
(2016-17: 60%)

No findings on performance reports: 45%
(2016-17: 45%)

No findings on compliance with legislation: 10%
(2016-17: 10%)

Irregular expenditure: R2 471 million
(2016-17: R2 578 million)

The 2017-18 provincial overview reflects on 20 auditees, made up of 12 departments, seven public entities and the provincial legislature. We are responsible for 30 provincial government audits in Limpopo, of which 10 have been classified as small auditees in line with our audit methodology; and of which the outcomes are not reflected in this overview. As Venteco had been de-registered, reference to the entity will therefore also not be included in this overview or in the comparative information.

In the previous general report, we reported a net improvement in the province for 2016-17 with two auditees obtaining unqualified opinions with no findings (clean audits). This improvement was driven by a commitment from both the political and the administrative leadership to address audit findings. We advised the leadership that, in order to sustain these improvements and increase the number of clean audits, the governance structures should also intensify their oversight role by robustly interrogating the in-year reports submitted to them by departments and public entities. In 2016-17, the premier committed to continue his oversight role and to accelerate provincial initiatives for the achievement of clean administration. Regrettably, the premier's commitment did not come to fruition, as the province reported a net regression in audit outcomes for 2017-18. The regression is as a result of the political and administrative leadership not dealing with our recommendations timeously and decisively. We find that auditees deal with prior year matters close to year-end or even during the audit process – this practice is not sustainable if the province is serious about its drive towards clean administration. Transgressions are ignored and officials are not being held accountable when they have failed to perform at the required level.

Over a four-year period, the province's audit outcomes have slightly improved but regressed when compared to the prior year. The Limpopo Gambling Board regressed from a clean audit status, as the entity failed to institutionalise a strong internal control environment. Further regressions were noted at Great North Transport and Gateway Airports Authority Limited from unqualified opinions with findings to qualified opinions. Most auditees remained stagnant on either an unqualified opinion with findings or a qualified opinion. On a positive note, Cooperative Governance, Human Settlements and Traditional Affairs as well as Agriculture improved from qualified opinions to unqualified opinions with findings. The provincial treasury should further be commended for sustaining its clean audit opinion from the prior year.

Annually, we recommend that attention must be given to address weaknesses in the internal control environment to improve the provincial audit outcomes. These recommendations were disregarded, as evidenced by 85% (17) of the auditees submitting financial statements of a poor quality for auditing. There was a great reliance on the audit process to identify misstatements, as 45% (nine) of the auditees received financially unqualified audit opinions only after correcting material misstatements identified during the audit process. If we had not allowed any material audit adjustments, only the provincial treasury, premier's office and Limpopo Gambling Board would have received a financially unqualified audit opinion. Furthermore, 40% (eight) of the auditees that obtained qualified audit opinions continued to struggle with implementing basic internal controls, such as daily and monthly reconciliations, regular reviews and supervision, and proper record management.

Last year, we reported that the regression in the quality of performance information was the result of a lack of standard operating procedures and poor record management. These control activities were still lacking in the year under review, which resulted in a stagnation in the outcomes, with 11 (55%) of the auditees again having material findings. Three auditees regressed, namely the premier's office, Great North Transport and Limpopo Gambling Board, where we raised material findings on the performance reports. The regression at the premier's office was due to the failure to implement our recommendations on the review of the interim annual performance plan. As a key monitoring and oversight department, it is critical that the premier's office set an example of good governance and accountability. At Great North Transport, the position of senior manager responsible for strategic planning remained vacant, which gave rise to internal control weaknesses. The Limpopo Gambling Board failed to maintain its robust system of internal controls from the prior year, as management could not provide documentation to support the reported performance. Performance reports containing information that is not useful and reliable is a sign of weaknesses in the ability of auditees to adequately plan, manage and report on their performance.

We previously recommended that the political and administrative leadership should take decisive steps to enforce zero tolerance for deviations from SCM processes and that consequences should be effected to deter non-compliance with regulations. These recommendations were not acted upon, as 65% (13) of the auditees had material findings on SCM. Although the reported irregular expenditure marginally decreased to R2,5 billion (2016-17: R2,6 billion), this figure remained worryingly high. The total irregular expenditure included R1,1 billion arising from multi-year contracts, while the balance of R1,4 billion resulted from non-compliance with legislation identified in the year under review. Irregular expenditure of only R305 million was written off, condoned or transferred to receivables, which is especially concerning when looking at the total irregular expenditure incurred on multi-year contracts. The highest contributors to the irregular expenditure were Education (R957 million); Cooperative Governance, Human Settlements and Traditional Affairs (R825 million); and Roads Agency Limpopo (R270 million). These three auditees alone accounted for R2,1 billion (83%) of the disclosed irregular expenditure. Overall, R2,4 billion (96%) of the irregular expenditure was as a result of the contravention of SCM Regulations.

The most common compliance findings related to three written quotations not being obtained, competitive bidding not being invited, bid documentation not stipulating the minimum threshold for local production and content, and points being calculated incorrectly and resulting in incorrect suppliers winning the bid. In addition, three auditees (Limpopo Economic Development Agency, Education, and Great North Transport) were qualified on the completeness of the irregular expenditure amount disclosed in their financial statements, which implies that the amount reported is understated by an unknown amount. The lack of consequences for non-compliance further contributed to the high irregular expenditure year on year. Subsequent to the audit outcomes, the executive committee of the province resolved that the provincial treasury should initiate a pilot exercise to consider the deployment of a management company to the two biggest departments in the province, namely Education and Health, with a view to providing hands-on support to the SCM processes.

The province's financial health has weakened from the previous two years. The decline can be attributed to inadequate processes to ensure sound financial management. Below are some of the indicators we analysed:

- Corridor Mining Resources, Great North Transport, Roads Agency Limpopo and Gateway Airports Authority Limited had financial sustainability challenges, as the entities incurred net losses and/or their current/total liabilities exceeded their current/ total assets.
- Health, Transport as well as Social Development had committed more than 50% of the next three years' budget (excluding compensation as well as transfers and subsidies).
- Claims (contingent liabilities) instituted against Health and Agriculture exceeded their next year's budget (excluding compensation as well as transfers and subsidies).
- Gateway Airports Authority Limited, Roads Agency Limpopo, Limpopo Tourism Agency, Limpopo Economic Development Agency and Great North Transport had creditors that exceeded cash and cash equivalents at year-end. These entities could not pay their creditors as they became due, while Gateway Airports Authority Limited required a bailout from the parent department (Department of Transport) for operational purposes. Roads Agency Limpopo had also overcommitted its allocation for the next three years.
- Community Safety as well as Social Development had an overdraft at year-end.

Of particular concern is that schedule 3D entities (Limpopo Economic Development Agency, Great North Transport, Corridor Mining Resources and Gateway Airports Authority Limited) continued to rely on government grants to fund operations while not generating enough cash from their operating activities, which put additional strain on the fiscus. The leadership should monitor the implementation of the strategies in place to enable these entities to be self-sustainable so that funds can be released into the fiscus for service delivery objectives. In addition, fruitless and wasteful expenditure of R215 million (2016-17: R139 million) was incurred in the current year. The province cannot afford the inefficient use of public resources in light of the significant financial sustainability challenges it is facing. Strong financial discipline is required to manage, monitor and spend funds to ensure the most effective, efficient and economical use of resources.

We audited 44 key projects funded by conditional grants, and raised nine material findings at Education; Health; Sport, Arts and Culture; and Public Works, Roads and Infrastructure. Six related to non-compliance with SCM prescripts, including non-compliance by implementing agents (identified at the three projects tested at Education), functionality points being awarded unfairly, and a contract amount exceeding the tender amount by R20 million when the grant was utilised. Health did not achieve its planned milestones for the installation and construction of a boiler house at Elim hospital, as the service provider appointed was not suitably qualified to implement the project. The construction of the Mahlabatheng library by Sport, Arts and Culture was also not completed within the planned time frames, as the appointed service provider struggled to replace the architect who was initially appointed. The upgrading of gravel roads in the Makhado Municipality was delayed, as the stage of completion of the project was incorrectly assessed by Public Works, Roads and Infrastructure.

The overall IT audit outcomes in the province regressed, particularly with regard to IT governance, while user access management, security management and IT continuity remained unchanged. The departments had challenges with vacancies in their IT directorates, which resulted in existing policies not being fully implemented and regularly reviewed and monitored. In addition, the Baud and Logis systems were implemented without adequate user account management processes. The provincial treasury is yet to finalise the user account management policies for implementation at all departments. Furthermore, a few departments did not participate in the testing of the disaster recovery plan by the State Information Technology Agency.

The assurance provided by the first- and second-level providers declined in line with the audit outcomes. The first-level assurance providers (senior management, accounting officer and executive authority) did not ensure that regular reconciliations were performed and that stringent record-keeping controls were embedded in the culture of most of the auditees. We have continuously made these recommendations, but they are often disregarded as evident at five departments (Education; Health; Sport, Arts and Culture; Economic Development, Environment and Tourism; and Public Works, Roads and Infrastructure) that had the same qualification areas in the current and prior year. Due to these basic controls not having been implemented, the second level of assurance (internal audit unit and audit committee) could not provide the necessary assurance. Further, the internal audit unit did not validate the progress reported on action plans against documentation to ensure that the root causes of findings were being addressed.

The commitments made by the executive committee in the drive towards clean administration in 2019-20 include the vigorous monitoring of action plans to ensure that root causes are addressed, executive authorities regularly engaging with the financial misconduct board, and the immediate investigation of unauthorised, irregular as well as fruitless and wasteful expenditure. The executives must take ownership of these commitments and the premier must hold them accountable for the implementation thereof.

In addition to the above commitments, we recommend the following to improve the audit outcomes:

- The political leadership must encourage greater partnership and collaboration with the AGSA's office to ensure the timeous implementation of our recommendations. The political and administrative leadership should also ensure that there are consequences for all transgressions and poor performance. This specifically includes investigating previous years' unauthorised, irregular as well as fruitless and wasteful expenditure and taking the necessary disciplinary steps against transgressors.

- Auditees should adhere to basic internal controls and accounting disciplines, such as daily and monthly reconciliations of financial information and the continuous validation of information in the accounting records, to ensure the preparation of credible financial and performance reports.

- The portfolio committees must intensify their efforts in dealing with performance management and the monitoring of compliance with legislation, as they are the key assurance providers in this regard. We further recommend that the portfolio committees engage with the chairpersons of the audit committees at least on an annual basis.

- As part of their quarterly audits, internal audit units should review the implementation of action plans to validate the progress reported to ensure that the root causes of our findings are being addressed. The audit committees should also monitor the implementation of the action plans.

- The provincial treasury should share the best practices that resulted in its sustained clean audit outcome.

We remain positive that should a robust system of internal control be appropriately designed and implemented, there will be an improvement in audit outcomes and these improvements will be sustainable as basic controls in financial and performance management would have been institutionalised. The status of records review that we implemented in the 2017-18 financial year, identifies areas of concern that derail progress in the preparation of financial statements and performance reports as well as compliance with legislation that will have an impact on audit outcomes. It also assists auditees in assessing progress made in implementing action plans or following through with commitments made. It is critical that auditees address any concerns raised as part of these reviews timeously to improve their audit outcomes.

4.6 MPUMALANGA

PROVINCIAL SNAPSHOT

Clean audits: 24%
(2016-17: 19%)

Financially unqualified financial statements: 76%
(2016-17: 63%)

No findings on performance reports: 71%
(2016-17: 50%)

No findings on compliance with legislation: 24%
(2016-17: 25%)

Irregular expenditure: R2 218 million
(2016-17: R3 154 million)

Mpumalanga improved its audit outcomes, with 13 auditees (76%) attaining unqualified audit opinions in the 2017-18 financial year. The Mpumalanga Liquor Authority and the Mpumalanga Gambling Board merged in the 2017-18 year to form the Mpumalanga Economic Regulator. Although the province had 10 auditees with unqualified audit opinions each year from 2014-15 to 2016-17, it had not been the same auditees every year as some auditees were unable to sustain their unqualified audit outcomes. Auditees' inability to sustain their unqualified audit status, as was the case at Public Works, Roads and Transport, is a clear indication that internal controls have not been institutionalised over the past four years and that the control environment was thus not stable, resulting in erratic audit outcomes over the years. This contributed to the limited improvement in accountability for government spending over the past four years.

Four auditees (24%) attained unqualified audit opinions with no findings in 2017-18, of which two (12%) maintained their clean administration status over the past four years due to institutionalising strong internal controls. It is commendable that the envisaged benefits, such as stronger internal controls and effective management collaboration, were realised from the merger of the Mpumalanga Gambling Board and the Mpumalanga Liquor Authority, with the newly formed Mpumalanga Economic Regulator attaining an unqualified audit opinion with no findings in its first year of existence.

Education; Culture, Sport and Recreation; Mpumalanga Tourism and Parks Agency; and Mpumalanga Regional Training Trust improved their outcomes, with the first three moving from qualified opinions to unqualified opinions with findings, and the latter moving from an unqualified opinion with findings to an unqualified opinion with no findings. These auditees designed and implemented credible action plans to address the material misstatements that caused their qualifications in previous years. The tone set by their leadership in driving accountability and improved administration further led to the improvement. In addition to these efforts, the continuous interactions outside the audit process, through our status of records review initiative as well as robust engagements with the provincial treasury in proactively dealing with technical matters and addressing specific challenges, contributed to the improved audit outcomes at some of the departments.

The quality of financial statements submitted for auditing remained a matter of concern – of the 13 auditees (76%) that received unqualified audit outcomes, seven (54%) did so because of the corrections we allowed during the audit process. This indicated that the technical capabilities at most auditees were not sufficient to respond to the challenges in the internal control environment, which we have consistently advised the leadership of the province to attend to. We took note of the review processes of the provincial treasury, internal audit units and audit committees that focused on the presentation of the financial statements. The effectiveness of these reviews was limited, however, as the underlying data supporting the financial statements was often not accurate, leading to material misstatements that could not have been identified through these reviews. This further proves that internal controls had still not been institutionalised at most auditees. Reliance on these assurance providers without fixing the internal control environment is hence not a sustainable approach to achieve and maintain good governance.

The province continued to struggle with procurement and contract management – weaknesses in this area contributed to 99,98% of the total irregular expenditure (approximately R2,2 billion) identified in the financial year under review. Although the irregular expenditure had decreased when compared to previous years, the decrease was solely due to Health's irregular contracts expiring in the 2017-18 year. The highest contributors to the irregular expenditure in the province were Human Settlements (R985 million); Community Safety, Security and Liaison (R416 million); Health (R310 million); and Education (R190 million). Non-adherence to procurement processes continued in the province, with auditees not always adhering to a number of key laws and regulations. This posed the risk of auditees not paying the most economic price for the procured goods and services. In our reporting, we have thus always stressed the need for consequences where there are significant transgressions. The political and administrative leadership needs to take decisive steps to enforce zero tolerance for breaches of procurement processes.

During 2017-18, the province transferred part of the government nutrition programme to the Mpumalanga Economic Growth Agency as an implementing agent for Health and Education to fast-track growth opportunities for poor farmers and cooperatives. However, the entity did not have the capacity to carry out this function and had to appoint a service provider, which they did without following the SCM prescripts. This contributed to the increased irregular expenditure of R147 million incurred by the Mpumalanga Economic Growth Agency in 2017-18.

Although some effort had been made to deal with the R9,9 billion closing balance of irregular expenditure, the progress made by the province to investigate this balance was slow. This was also evident in that 67% (R1,4 billion) of the R2,1 billion in irregular expenditure incurred in the current year related to multi-year projects. The premier's office had finally appointed a service provider in 2017-18 to investigate the irregular expenditure incurred in previous years, stemming mainly from the procurement done by the rapid implementation unit. We continue to reiterate that the provincial leadership must monitor the progress and quality of these investigations to ensure that previously reported instances of irregular expenditure are appropriately dealt with in line with applicable legislation.

The auditees with no material findings on their performance reports improved from eight (50%) to 12 (71%). However, seven (58%) of the 12 auditees achieved such outcome through the corrections we allowed during the audit process for them to report reliably on their annual performance. As these auditees are responsible for the implementation of certain government priorities as outlined in the MTSF, their inability to report reliably on their annual performance might hinder government's ability to assess the progress made in implementing those priorities. It could further lead to the executive leadership taking incorrect decisions. It is therefore crucial that accounting officers and authorities 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.

We audited the key programmes included in the estimates of national expenditure and tested 11 key projects that support these programmes at five provincial departments. It was encouraging that the allocated grants were spent in accordance with the grant conditions. At the same time, however, we identified the following shortcomings:

- We raised reliability findings on key performance indicators and targets on one project at Health.
- At Human Settlements, one project did not achieve its planned targets.
- We identified non-compliance with SCM prescripts as well as quality deficiencies on one project at Human Settlements, due to inadequate project management and poor workmanship by the contractor. Although we take note of the different roles that Human Settlements and local government play, we are concerned about the lack of coordination between the provincial and local spheres of government to facilitate the creation of sustainable human settlements and improved quality of household life. For example, at the Embalenhle informal settlement project where 126 houses were built in the year under review, Human Settlements continued to build top structures despite the bad condition of the bulk infrastructure that resulted in sewage spilling onto the streets, for which the Govan Mbeki Municipality is responsible.

We found further shortcomings at Education and Health, which together received 68% of the provincial budget. Education, which received the largest budget, had significant findings relating to early childhood development (grade R), including classrooms being too small to cater for the school children as well as teachers not being qualified. Although the department performed condition assessments to determine the maintenance needs at different schools, these were not included as part of the projects undertaken in 2017-18. Health, with the second largest budget, had significant findings relating to poor storage and stock management practices, staff shortages, insufficient training, and medical equipment that was not in a good working condition. These issues contributed to the poor education and health services in the province. The main drivers of the shortcomings at these departments were poor project management together with staff vacancies and instability.

IT controls in the province reflected a regression, as there were still challenges in ensuring the effectiveness of IT governance controls (53%), user access management controls (53%), and security management controls (47%). We continue to urge the oversight bodies to closely monitor this area as it could slow down the province's journey towards clean administration, as the credibility of both financial and performance reports is informed by the dependability and functionality of IT systems.

The financial health of the province declined from the previous year. Twelve departments, the provincial legislature and one public entity technically had insufficient funds to settle all liabilities that existed at year-end. Eleven departments had already committed more than 10% of their next three years' budget. This could compromise emerging strategic priorities and related basic service deliverables if not closely monitored. Seven departments had claims against them that exceeded 10% of the next year's budget, with Health reporting the highest claims of approximately R7,9 billion (156% of the next year's budget). As the department would not have budgeted for such claims, any successful claims would then need to be paid from funds earmarked for the delivery of health services, further eroding the ability of this department to be financially sustainable, thereby negatively affecting service delivery. A deficit was also realised at five departments and two public entities.

The main root cause of the financial health challenges indicated above was departments' inability to budget properly, which led to unauthorised expenditure of R37 million. Furthermore, accruals and payables exceeded both the payment term of 30 days and the voted funds to be surrendered at five departments, which would have constituted unauthorised expenditure had the amounts owed been paid on time.

In addition, the Mpumalanga Economic Growth Agency struggled to pay its creditors, as it took the entity 175 days on average to settle its accounts. If not resolved, this could lead to fruitless and wasteful expenditure due to interest and penalties. As the entity was appointed as the implementing agent for the government nutrition programme with partial funding from the province, it used its own funds for the start-up costs of the project. These issues, coupled with the current pricing model that has seen the entity recovering less than what it costs to deliver the service, are jointly being dealt with by the management of the entity and the provincial leadership to ensure that the entity can still achieve its objectives. The Mpumalanga Economic Growth Agency's debt-collection measures were also not effective, while the Mpumalanga Tourism and Parks Agency's revenue-generating strategy had not yet been fully implemented. This made it difficult for these entities to be self-sustainable instead of depending on the provincial allocation.

Throughout the year, we continued to monitor the commitments of the political leadership and the portfolio committees aimed at improving the audit outcomes. Unfortunately, these commitments had not yielded their full benefits, as challenges communicated in the prior year were still widespread due to senior management not taking an effective long-term approach to stabilise the internal control environment that would produce sustainable audit outcomes and ensure an effective public service offering. The province needs to invest in getting the right skills at the right time, providing those in the public service with the right tools to do the job, putting in place an effective performance management system, and implementing appropriate consequences. We took note of the commitments that the premier and her executive council made in response to these audit outcomes, one of which was that the heads of departments and the executive council would continuously track the progress made in strengthening the internal controls. We will follow up on the implementation of these commitments through our status of records review engagements with the accounting officers.

In order for the provincial government to position itself to achieve the goals as set out in the MTSF and be accountable for government spending, it is important that the leadership and management diligently execute their responsibilities to enable a professionalised provincial government that embraces the concepts of transparency and accountability. We again encourage the province to focus on the implementation of the commitments made to improve this situation and ultimately improve accountability for government spending.

4.7 NORTHERN CAPE

PROVINCIAL SNAPSHOT

Clean audits: 23%
(2016-17: 31%)

Financially unqualified financial statements: 85%
(2016-17: 85%)

No findings on performance reports: 69%
(2016-17: 69%)

No findings on compliance with legislation: 23%
(2016-17: 31%)

Irregular expenditure: R1 050 million
(2016-17: R1 551 million)

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 importance 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.

We continued to highlight the importance of accountability in our messages to the leadership following the slight regression in audit outcomes that we reported in the previous year. We emphasised the need for specific actions to increase accountability and consequences for transgressions at all levels, and instil a culture of oversight, discipline and responsiveness. Despite all of this, the audit outcomes once again slightly regressed in the current year, demonstrating a lack of leadership commitment to deal decisively with concerns relating to internal control weaknesses, the culture of non-compliance with applicable legislation, and the lack of accountability reported in the previous year.

The main root causes of the slight regression in the overall audit outcomes were as follows:

- The slow or no response by management and the political leadership to improve key controls and address risk areas.
- Inadequate consequences for poor performance and transgressions.

Health, as one of the three departments that received the biggest cut of the budget in the province (together with Education as well as Roads and Public Works), has remained qualified for the sixth year in a row. Since all of the qualification areas from the previous year were repeated in the current year and findings were again raised on performance reporting and compliance, it is clear that the efforts of the oversight structures (provincial oversight, executive leadership and audit committee) and the internal audit unit had a minimal impact on improving the audit outcome of the department.

The three oversight departments (premier's office, provincial treasury and provincial legislature) achieved clean audits in the previous year. However, the provincial legislature regressed in the current year to an unqualified opinion with findings due to material adjustments that were made to its financial statements. This was due to a lack of review prior to the submission of the financial statements.

The lack of accountability and consequences was evident from the following matters that we identified during the current year's audit process, which were also widespread in the previous year.

The quality of financial statements remains a significant concern, with departments relying on the external audit process to produce credible financial statements. Nine departments (69%) made material adjustments to their financial statements, of which seven could correct all material misstatements and were thereby able to obtain an unqualified audit opinion. Had these adjustments not been allowed, only four departments (31%) would have received unqualified opinions, as opposed to the reported 11 (85%).

The lack of improvement in the outcomes of departments was due to the poor state of internal controls, with 69% of the departments being assessed as having inadequate leadership controls, while 77% were assessed as having inadequate financial and performance management controls. Improved audit outcomes will only be possible if they are based on a strong internal control environment that is characterised by regular monitoring and review as well as leadership holding staff accountable for their actions.

A total of 77% of the departments (2016-17: 69%) had material findings due to non-compliance with legislation. The main reasons for the non-compliance related to the quality of financial statements submitted for auditing; the prevention of unauthorised, irregular as well as fruitless and wasteful expenditure; and the non-adherence to procurement and contract management requirements. Non-compliance has been of concern for a number of years and the leadership continued to ignore the need to act decisively against transgressors, especially those who failed to comply with SCM prescripts.

Reporting on performance information stagnated, as four departments (31%) had material findings on this audit area. Nine departments (69%) were able to avoid findings on the usefulness and reliability of their performance reports, although four of these departments (44%) were required to make material adjustments to avoid findings.

The lack of accountability was further evident at the three departments with the biggest budgets in the province (Health, Education, and Roads and Public Works) having numerous findings on their financial statements, performance reports or compliance with legislation. Despite Roads and Public Works improving its audit outcome, the department again submitted financial statements that required material adjustments, while regressing in the area of performance information as we raised material findings in this regard.

Irregular expenditure decreased from R1,6 billion in the previous year to R1,1 billion in the year under review. All instances of irregular expenditure related to non-compliance with SCM Regulations, of which the most common areas involved non-compliance with procurement processes (55%) and procurement without competitive bidding or quotation processes (27%). Despite the decrease in the amount of irregular expenditure, the number of departments incurring such expenditure remained high at 69% (2016-17: 85%). Four departments were still investigating the full extent of their irregular expenditure and, in addition, Health was qualified on the completeness of its irregular expenditure – meaning that the R1,1 billion highlighted above was likely to be understated. The main contributors to irregular expenditure were Health (R412 million), Education (R229 million), and Transport (R188 million). The amount for Health was high partly as a result of implementing agents procuring on behalf of the department not following appropriate procurement processes.

Of concern is that seven departments incurred irregular expenditure on accommodation leases procured by Roads and Public Works, mainly due to the absence of lease agreements. The executive leadership must intervene to address this transversal concern to prevent further irregular expenditure.

The closing balance of irregular expenditure was R10,7 billion, indicating that not all irregular expenditure was investigated to identify the officials to be held accountable for the possible recovery of losses. Of further concern is that the three main contributors to irregular expenditure in the year under review did not investigate their irregular expenditure, or were unable to provide supporting documentation for their investigations. Where investigations were conducted, it seems as though they were not rigorous enough as officials were not held accountable for the irregular expenditure.

Our analysis of financial health showed an overall improvement, with four departments (31%) [2016-17: 23%] not having significant findings on financial health. Of concern, however, was that more than 30% of the financial health indicators of eight departments were still unfavourable. In addition, Health was once again in a state where material uncertainty existed regarding its financial health. The unfavourable financial health indicators included an accrual-adjusted net current liability position at year-end (which meant that current liabilities exceeded current assets) at eight departments, and a cash shortfall as a percentage of the next year's total appropriation (excluding compensation of employees as well as transfers and subsidies) of more than 10% at three departments. The practice of departments of 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 that particular year. Where this is not done, departments should be called to account.

The overall status of IT regressed in the year under review and we raised findings at all departments in this area. The fact that all departments had findings on two of the four key IT focus areas (IT governance and user access management) confirms that the concerns raised in the previous year around the skill level of IT managers and resources were not addressed to ensure that IT controls were implemented adequately. Once again, we call upon the oversight bodies and senior leadership of departments to intervene to ensure improvement in this area.

We audited 35 key projects funded by conditional grants at 10 provincial departments as part of our evaluation of grant management. Of the 35 projects, six were managed by implementing agents; and at three of these projects, the implementing agents did not comply with SCM prescripts when spending project funds. We also found that planned targets or key milestones were not achieved on seven projects.

The construction of the Kimberley mental health hospital has received substantial media attention over the past number of years. The project started in 2005 at a planned cost of R291 million and a completion date of December 2007. The contract with the original contractor was terminated in 2009 and a new contractor was appointed in 2011. The contract with the new contractor stated the completion date to be January 2014. The project has still not been completed more than 10 years after the original completion date, with the cost of the project escalating to more than R1,2 billion to date. Poor project management by Health largely contributed to the continuous delays in the project, including the following:

- Poor workmanship that resulted in remedial work having to be performed on work already done (repetition of work).
- Failure by the department to take action against the initial contractor as early as 2007 when indications of slow progress, poor workmanship and incomplete remedial work were identified.

- Insufficient resources on site to complete the project, pointing to the contractor's inability to cope with the project.

The effectiveness of the work performed by the various assurance providers, such as internal audit units, audit committees, the provincial treasury as well as portfolio and public accounts committees, was hampered by management's failure to implement their recommendations. We continuously shared our recommendations on the actions needed to improve audit outcomes with various stakeholders, including the premier and the legislature. Based on these engagements, the executive leadership provided commitments to strengthen the internal control environment and ensure improvement in the areas where findings were raised.

We have continued to monitor these commitments, but regrettably the work done by the executive and administrative leadership in the province has not had the desired impact on the audit outcomes. We recommend the following to improve the audit outcomes:

- Consequences should become a reality for officials who perform poorly or transgress laws and regulations, with the appropriate tone being set from the top (by senior managers, accounting officers and executive leaders).

- Action plans should be developed based on internal and external audit findings; and these action plans should be implemented and actively monitored.

- Regular reviews should be implemented to ensure a strong internal control environment.

In addition, the administrative and executive leadership should create a culture that will result in a responsive and accountable provincial government. Over the years, we have received numerous commitments from the executive leadership, but the impact of these commitments was minimal as very little was done to implement and monitor them. There were also no consequences when the responsible officials did not ensure that these commitments translated into actions and results. A culture of accountability for government spending in the province is only possible if the executive leaders take the step of ensuring that the administration is aligned to what they are committing to.

4.8 NORTH WEST

PROVINCIAL SNAPSHOT

Clean audits: 5%
(2016-17: 5%)

Financially unqualified financial statements: 37%
(2016-17: 32%)

No findings on performance reports: 35%
(2016-17: 11%)

No findings on compliance with legislation: 5%
(2016-17: 11%)

Irregular expenditure: R3 065 million
(2016-17: R2 876 million)

The provincial government in North West consists of 33 auditees, which include 13 departments (including the provincial legislature) and 20 entities, which are fewer than in the previous year due to the closure of three entities. The audit outcomes of 11 of these entities are excluded from this overview, as they were classified as small or dormant auditees based on their importance and the size and nature of their business. Health and Social Development did not submit financial statements on 31 May 2018 as required by legislation due to prolonged strikes; consequently, these audits have not yet been finalised. These financial statements have subsequently been submitted for auditing. In addition, the audit of the premier's office had also not been finalised by the cut-off date of 31 August 2018 for inclusion in this report.

The national executive delegated an inter-ministerial task team to undertake a governance and service delivery assessment in the province. Based on extensive engagements with external and internal stakeholders by the task team, the Cabinet invoked section 100(1) of the Constitution of the Republic of South Africa. This section provides that 'when a province cannot or does not fulfil an executive obligation in terms of legislation or the Constitution, the national executive may intervene by taking any appropriate steps to ensure fulfilment of that obligation, including issuing a directive to the provincial executive, describing the extent of the failure to fulfil its obligations and describing any steps required to meet its obligations'. Six of the provincial departments, namely Social Development; Local Government and Human Settlements; Tourism; Finance; Economy and Enterprise Development; and Rural, Environment and Agricultural Development, were placed under administration in terms of section 100(1)(a). Five other departments, namely premier's office; Health; Public Works and Roads; Community Safety and Transport Management; and Education and Sports Development, were placed under administration in terms of section 100(1)(b).

Overall, the audit outcomes have continued to regress over the past four years, with the number of auditees obtaining financially unqualified opinions decreasing from 10 (55%) in 2014-15 to seven (37%) in 2017-18. The number of auditees with qualified or disclaimed opinions increased from eight (45%) in 2014-15 to 12 (63%) in 2017-18. In the current administration, only Finance was able to sustain its clean audit outcome of financially unqualified with no findings over the past four years, although none of their best practices were replicated to other auditees. The outcomes of the public entities remained poor over the four years, with seven entities (78%) either having qualified or disclaimed opinions. Only two entities (22%) improved from qualified opinions to financially unqualified opinions in 2017-18. The provincial leadership did not prioritise addressing undesirable audit outcomes despite us continuously reinforcing our messages of there being an overall lack of accountability and consequences in the province.

The provincial executive leadership did not adhere to their commitments made in previous years and consequently failed to have any positive impact on the audit outcomes. The establishment of a provincial advisory committee by the premier, to specifically assist with the clearing of irregular expenditure, was not effective; while the premier's office did not adequately monitor the post-audit action plans of departments. The commitments for the establishment of a consequence management committee, the finalisation of an appropriate accounting framework for the compilation of the outstanding financial statements of the traditional authorities, the restructuring of public entities, and the availability of departments' annual performance plans in December 2017 for review by the AGSA, were not implemented. The lack of implementation of these commitments was indicative of a lack of accountability and political will to improve the audit outcomes.

The appointment of administrators was only finalised in July 2018 and due to the timing of the intervention, the inter-ministerial task team process did not have any impact on the audit outcomes in the province for 2017-18. Management members have not responded to our messages over the past four years, as control deficiencies were not addressed and our recommendations were not implemented. The effectiveness of the internal audit units and audit committees was also hampered by management not implementing their recommendations. These circumstances together with the overall regression in audit outcomes confirm this general report's theme of *limited improvement in accountability for government spending*.

The poor quality of submitted financial statements remains one of our foremost concerns. Only one auditee (5%) would have obtained an unqualified opinion if we had not given auditees the opportunity to correct the misstatements identified during the audit process. The vacancies and instability in key positions identified at 12 (63%) of the auditees – and which was also identified as a root cause in the previous year – was still a contributing factor to the poor quality. The environment created by the high vacancy rate resulted in a lack of accountability and key controls to enable reliable and timeous financial reporting, which meant that proper record keeping and daily and monthly reconciliations either did not exist or had not been institutionalised.

With the exception of Finance, all auditees had material findings on compliance with laws and regulations. The main areas of concern over the four-year period remained the lack of controls to prevent irregular as well as fruitless and wasteful expenditure and the non-adherence to procurement and contract management requirements due to the blatant disregard of key legislation. As a result, a further R3,1 billion (2016-17: R2,9 billion) in irregular expenditure was disclosed in the financial statements for 2017-18. However, this amount is not a true reflection of the full extent of the irregular expenditure for the province, due to four auditees (21%) being qualified for not disclosing all irregular expenditure incurred. The three auditees that contributed 76% of the irregular expenditure for 2017-18 were Public Works and Roads (R1,1 billion), Community Safety and Transport Management (R981,2 million), and Education and Sports Development (R197,2 million). The lack of investigations and consequences was the main driver of the increased irregular expenditure and consequently heightened the culture of non-compliance. At 10 auditees (53%), the irregular expenditure of previous years was either not investigated at all or not properly investigated. In total, irregular expenditure of only R30 million was resolved during the year, bringing the total unresolved balance of irregular expenditure to R12,4 billion as at 31 March 2018. The resolved irregular expenditure mostly related to legacy contracts where investigations found that no losses had been suffered by the state.

The number of auditees with no material findings on their performance reports improved over the four-year period from three auditees (17%) in 2014-15 to six auditees (32%) in 2017-18. While this is an improvement from the two auditees (10%) in the previous year, it still remains critical that reporting against predetermined objectives is useful and reliable to enable appropriate oversight of the performance of auditees. The most common finding remained the reported achievements not being reliable or supported by source documents due to poor record keeping and ineffective systems and processes to enable reliable reporting.

The provincial departments spent R5 billion (97%) of the R5,2 billion in conditional grants received, with R2,1 billion (40%) relating to the human settlements development grant and R1,1 billion (21%) relating to the education infrastructure grant. We tested eight key projects and focused our audits mainly on the delivery of key programmes relating to the EPWP, school infrastructure development, and human settlement delivery support. We also focused on the overall project management and delivery of these key projects to assess the transparency, accountability and credibility of government spending. In addition to the performance findings above relating to the reported achievements not being reliable, we identified projects that were behind schedule or completed late due to poor project management. These included the sanitation facilities at Onkabetse Thuto primary school where private dwellings on school property had to be relocated and the Flamwood social housing project that was delayed due to insufficient bulk infrastructure to accommodate the development.

Historically, the most financially vulnerable department is Health. As reported in the previous general report, there were litigations and claims in excess of R1,2 billion against the department as well as accruals and payables in excess of 30 days. The analysis of Health is excluded this year, as the audit was outstanding at the cut-off date for inclusion in this report. However, the entire province's finances will be affected adversely should these claims be successful and outstanding creditors be payable immediately. Together with the high percentage of future budgets committed for amounts payable in the current year by Community Safety and Transport Management, Local Government and Human Settlements, and Education and Sports Development, this placed the departments and province as a whole in a financially vulnerable position and consequently hampered service delivery.

In addition, the financial health of most public entities remained a major concern with only two entities (22%), being North West Parks Board and North West Tourism Board, not having a significant uncertainty as to their ability to continue as a going concern. The concerns at the other seven entities (78%) included:

- total expenditure exceeding total revenue
- current liabilities exceeding current assets
- an inability to pay creditors on a timely basis
- a significant percentage of debtors impaired as unlikely to be recovered
- negative net cash flows for the year from operating activities.

We again recommend that the restructuring of certain public entities needs to be finalised to ensure that the governance structures at these entities can be fully operational. During July 2018, the new premier committed that one of the priorities of the inter-ministerial task team would be the restructuring of the public entities in the province. We will follow up this commitment during the next audit.

The status of IT services remained critical to enable accurate reporting, enhance service delivery and promote effective oversight.

The province's IT infrastructure was managed by the premier's office, including the hosting of systems on behalf of other departments. The IT controls at departments regressed due to inadequate controls to manage secure access and transmission of information into and out of the network in the province. The status of IT controls at the entities remained unchanged, with the areas of IT governance and service continuity needing the most attention. The government IT officer and the coordinating departments need to ensure that specific attention is given to assist the province in this regard.

Despite our message in the previous general report that the provincial executive leadership and oversight structures should aspire to develop a comprehensive assurance model, including strong and effective governance structures, the provincial coordinating departments, including Finance and the premier's office, did not fulfil their role as assurance providers for the province as a whole. The lack of impact of the assistance provided by Finance was evident in the fact that none of the departments previously qualified were able to address their qualification areas. We also identified significant SCM issues where Finance did not provide the correct guidance to departments. The premier's office had no initiatives that positively influenced the audit outcomes; instead of setting an example of good governance and accountability, the premier's office was also one of the auditees where we experienced the most pushbacks during the audit process in the past two years, which contributed to the late finalisation of its audit in the current year. The provincial public accounts committee and portfolio committees did not fulfil their role as assurance providers due to inadequate follow-up and tracking of resolutions, which meant that they did not have any positive impact on the audit outcomes. The lack of an effective comprehensive assurance model and timely action by the coordinating departments is a clear indication of the accountability failures in the province.

We are concerned about the large number of irregular acts or omissions that could result in a material financial loss, the misuse or loss of material public resources or substantial harm to a public sector institution and the general public if remedial actions are not taken. The area affected the most in the province is irregular expenditure, due to the substantial amounts that are reported each year without the necessary investigations taking place. We therefore encourage all auditees to take a strong stance against the abuse of public funds by ensuring that transgressions are appropriately investigated and monitored by the relevant oversight structures.

We reiterate, as in the previous general reports, that until such time that there is political will to implement consequences and hold those that continue to disregard legislation accountable, there will be no improvement in the audit outcomes. Effective political leadership is required to turn around the situation so that officials feel motivated, take accountability and have personal commitment and pride to perform their jobs well. We are hopeful that all role players will actively support the inter-ministerial task team intervention to be successful and result in improved audit outcomes in the province. Oversight structures should develop a comprehensive assurance model, which includes strong and effective governance structures, and ensure that all key role players adequately perform their monitoring duties and that the administrative leadership is held accountable for future commitments to improve financial and performance reporting disciplines. Implementation should be clearly tracked and those that are not willing to cooperate should be held accountable.

We are committed to promote accountability by continuing to provide recommendations and having regular and rigorous engagements with our auditees, which include status of records reviews. In doing so, we will track and provide feedback to the political leadership on the progress made and hopefully influence them into taking the necessary steps to improve accountability for government spending in the province.

4.9 WESTERN CAPE

PROVINCIAL SNAPSHOT

Clean audits: 83%
(2016-17: 83%)

Financially unqualified financial statements: 94%
(2016-17: 94%)

No findings on performance reports: 89%
(2016-17: 89%)

No findings on compliance with legislation: 94%
(2016-17: 100%)

Irregular expenditure: R44 million
(2016-17: R23 million)

The landscape of the Western Cape provincial government for general report purposes consists of 19 auditees, made up of 14 departments and five provincial entities. As part of our audit methodology, we classified four entities as small auditees based on an assessment of the size and nature of their business. The audit outcomes of these entities are not included in this overview. Environmental Affairs and Development Planning has also been excluded from this report, as the department's audit was finalised late due to a dispute over a technical matter on compliance with the Construction Industry Development Regulations. For comparative purposes, the department's prior year outcome is also not included in this analysis.

The overall audit outcomes for the Western Cape remained unchanged in 2017-18 in that 17 auditees received an unqualified audit opinion in both 2017-18 and 2016-17. It is commendable that the province had 15 clean audits in 2017-18, 14 of which were sustained from 2016-17 by institutionalising internal controls over financial management, performance reporting and compliance with legislation. Human Settlements improved from a financially unqualified opinion with findings in 2016-17 to a clean audit outcome by addressing its performance information findings.

The premier, members of the executive council and portfolio committees honoured their commitments through the various good governance initiatives and support functions within provincial government. These activities have developed and influenced the accountability culture, thus improving and maintaining clean administration. Consistent oversight ensured that required action was taken where weaknesses in controls were reported and consequences were effected through investigations, as required by legislation, with appropriate action being taken to hold officials accountable where applicable.

While the number of clean audits has been sustained, it is worth noting that the 2016-17 audit of Agriculture was only finalised during May 2018 due to a disagreement over the classification of expenditure as goods and services instead of transfers and subsidies. Despite our recommendations, the department continued to apply the same accounting treatment for the 2017-18 period, which resulted in a repeat qualified audit opinion. In addition, the audit outcome of the Western Cape Tourism, Trade and Investment Promotion Agency regressed due to material non-compliance in the areas of the quality of the financial statements as well as procurement and contract management. Management's slow response to our recommendations – or disagreement, in the case of Agriculture – was the root cause of the three auditees obtaining unfavourable audit outcomes.

In the year under review, we raised material compliance findings at the Western Cape Tourism, Trade and Investment Promotion Agency due to corrections to the financial statements submitted for auditing, as management did not perform the necessary reviews and reconciliations to prevent misstatements. We also raised procurement and contract management findings, as deviations from procurement processes were not justifiable as they resulted from poor procurement planning.

The irregular expenditure increased from R23 million in 2016-17 to R44 million in the current year. Non-compliance related to procurement and contract management contributed 99% of the total irregular expenditure. The most common SCM findings related to deviations that were not justifiable as well as local production and content requirements that were not followed. We urge auditees to monitor and strengthen their controls to enable the prevention of non-compliance. It is vital that auditees take accountability for their spending, as the area of procurement has a direct impact on the quality of services delivered and may negatively affect audit outcomes if not done within the parameters of the law. We encourage accounting officers and authorities to continue with ensuring that rigorous investigations are conducted and that steps are taken to recover any losses identified.

The quality of performance information remains a concern for the sustainability of clean audit outcomes. Overall, eight auditees submitted performance reports that contained material errors – compared to six in the previous year. The main reasons for the material misstatements were inadequate processes to prepare accurate and complete information for reporting purposes as well as inadequate reviews of performance information. Agriculture and Health were unable to correct their performance reports, and we reported material findings on reliability in their audit reports. Accounting officers need to hold senior management accountable to ensure that sound processes are in place so that performance information is supported by sufficient and credible evidence.

The status of departments' financial health remained the same as in the previous year. No auditee in the province had any going concern challenges, but we assessed the financial health of four departments as unfavourable. We identified poor collection processes (as it took them longer than 90 days to collect their debt) and net current liability positions as common indicators. It is important that departments appropriately manage the amount of accruals and payables to limit the impact on their working capital. We also urge departments to monitor their commitments, as the future spend could pose a risk to their overall financial health status.

The audit of Human Settlements included an assessment of key projects relating to the human settlements development grant and the audit of Transport and Public Works included the EPWP. We raised findings at Human Settlements relating to the timely occupancy of completed housing units at the Forest Village project (phase 1) and a failure to implement penalties against implementing agents for delays in the delivery of serviced sites at the Joe Slovo project (phase 3). On a positive note, the completed housing units were of an acceptable standard and no material quality issues were identified on the houses inspected.

Our assessment of the key projects at Transport and Public Works indicated that procurement processes were complied with, transactions were appropriately recorded in the financial statements, and funding was utilised for its intended purpose. We also assessed key projects at Education and Health. At Education, we looked at infrastructure development, e-Learning, and the national school nutrition programme; while we focused on patients initiated and remaining on antiretroviral treatment, condoms distributed, and the prevention of mother to child transmission of HIV at Health. We raised no significant findings on the key projects assessed at either of these departments and noted no material defects.

Overall, the number of vacancies in key positions regressed slightly compared to the prior year. One chief financial officer position and two senior management positions for supply chain became vacant. All senior management positions for strategic planning, monitoring and evaluation were filled by the end of 2017-18. Stability in key positions is crucial in improving and sustaining audit outcomes, and the Western Cape still reflects favourably in this regard.

IT remains critical to ensure the confidentiality, integrity and availability of state information; enable service delivery; and promote security in provincial government. The provincial IT environment of departments improved from the prior year, due to the administrative leadership taking accountability for addressing IT findings. Challenges with the implementation of controls, especially in the area of user access control, were still experienced. The weaknesses in user account management and security management identified at certain departments were due to the limited functionality of systems and controls, since the cost of developing the required functionality was not considered to be feasible for certain departments. Other departments were migrating to new systems and therefore did not want to invest in old systems.

The status of internal controls regressed slightly when compared to the prior year. We assessed financial and performance management controls as not effective in some areas at four auditees. This was mainly due to misstatements in the financial statements and performance reports that were subsequently corrected. One auditee (Agriculture) failed to correct material misstatements in the financial statements and this resulted in a qualified audit opinion. Of concern are the 11 auditees where we assessed senior management as providing only some assurance, based on misstatements identified in the financial statements and performance reports as well as instances of non-compliance with laws and regulations. In most cases, these findings did not have an impact on the audit outcomes, but senior management should nonetheless further strengthen controls and implement timely action plans to address these findings, as they may lead to unfavourable audit outcomes in future.

Notwithstanding the above, accounting officers and authorities provided the required level of assurance at most auditees. We assessed key controls relating to the administrative leadership as effective at all auditees, mainly due to an effective leadership culture, the implementation of action plans, and established policies and procedures. As a result, executive authorities were assessed as providing the required level of assurance at all auditees. Governance reflected favourably at all auditees, pointing to the effectiveness of the assurance provided by audit committees and internal audit units.

The premier committed to continue oversight and acceleration of provincial initiatives for the achievement of clean administration across the province, aiming for 100% of auditees attaining clean audit outcomes in 2018-19.

In order to improve and sustain good audit outcomes for the province, we recommend the following:

- Accounting officers and authorities should continue with their good practices and strengthen the controls regarding prevention and detection, specifically over the incurrence of irregular expenditure.

- Accounting officers and authorities should continue to hold senior management accountable for the processes implemented to ensure that performance information is supported by credible and sufficient evidence.

- The administrative and political leadership should continue taking accountability for their commitments and collaborate with oversight committees to improve key oversight activities.

- Agriculture should re-assess their arrangements with implementing agents and account for the related transactions as required by the Modified Cash Standard.

We will continue with our engagements on the status of records review at all auditees, as it provides – to both the political and the administrative leadership – an early warning system of key focus and risk areas (including the identification of areas of concern that may compromise financial and performance management as well as compliance with legislation). These reviews also enable the tracking and follow-up of critical commitments made by stakeholders.