CONSOLIDATED GENERAL REPORT

on national and provincial audit outcomes

PFMA
2018-19

AUDITOR-GENERAL
SOUTH AFRICA

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Auditing to build public confidence

PFMA
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CONSOLIDATED
GENERAL REPORT ON NATIONAL AND PROVINCIAL AUDIT OUTCOMES

The information and insights presented in this flagship publication of my office are aimed at empowering oversight structures and executive leaders to focus on those issues that will result in reliable financial statements, credible reporting on service delivery and compliance with key legislation.

I wish to thank the audit teams from my office and the audit firms that assisted with the auditing of national and provincial government for their diligent efforts towards fulfilling our constitutional mandate and the manner in which they continue to strengthen cooperation with the leadership of government.

Auditor-General

Kimi Makwetu
Auditor-General

Our reputation promise/mission

The Auditor-General of South Africa has a constitutional mandate and, as the Supreme Audit Institution (SAI) of South Africa, exists to strengthen our country's democracy by enabling oversight, accountability and governance in the public sector through auditing, thereby building public confidence.

PERFORMANCE SNAPSHOT

(Refer to section 2 for explanations on how to interpret these figures and movements)

Overall audit outcomes

LITTLE IMPROVEMENT IN AUDIT OUTCOMES

52 ∨ *Regressed*
54 ∧ *Improved*

DEPARTMENTS	21 ∨ *Regressed*	16 ∧ *Improved*
PUBLIC ENTITIES	31 ∨ *Regressed*	38 ∧ *Improved*

Clean audits

26%
(2017-18: 25%)

Quality financial statements

74%
(2017-18: 75%)

43% (164)
Auditees submitted financial statements without material misstatements

No findings on performance reports

62%
(2017-18: 63%)

32% (102)
Achievement reported not reliable

Findings on compliance with legislation

72,1%
(2017-18: 71,5%)

Irregular expenditure

R42,8 bn (2017-18: R36,8 bn)

Outstanding audits or audits subsequently finalised

R19,76 bn (2017-18: R15,8 bn)

MATERIAL IRREGULARITIES (MIs)

28 MIs identified from 12 completed audits

R2,81 bn likely financial loss (**R2,51 bn** known and **R0,3 bn** estimated)

Nature of material irregularities

Unfair or uncompetitive procurement processes resulting in **overpricing of goods and services procured**
39% (11)
R438 million

Unfair procurement processes resulting in **supplier appointed that did not deliver**
4% (1)
R2 200 million

Payment for **goods or services not received**
39% (11)
R55 million

Payment for **poor-quality work**
7% (2)
R7,6 million

Invoices or claims **not paid on time**
11% (3)
R106 million

ASSURANCE PROVIDERS

Senior management **slightly regressed**

Accounting officers **slightly regressed**

Internal audit units and audit committees **regressed**

National and provincial role players **slightly regressed**

FINANCIAL HEALTH

DEFICIT
(expenditure exceeded revenue)

2018-19	36% (127)
2017-18	37% (131)

CREDITOR-PAYMENT PERIOD > 30 DAYS

53% (187)
45% (158)

VULNERABLE FINANCIAL POSITION

2018-19	9% (34)	2017-18	9% (34)

STATUS OF CONTROLS

47%
Overall internal controls **slightly regressed**

38%
Basic financial and performance management controls **slightly regressed**

31%
Information technology controls **slightly improved**

KEY PROGRAMMES

	% OF BUDGET USED	ALL TARGETS ACHIEVED	RELIABLE PERFORMANCE REPORTING	FINDINGS ON PROJECTS
Education school infrastructure (accelerated school infrastructure delivery initiative and education infrastructure grant)	Asidi – 91,8% EIG – 96,1%	NO	PARTIALLY	YES
District health services (HIV and Aids, TB and maternal and child health)	98%	NO	NO	N/A
Expanded public works programme	93%	NO	NO	N/A
Housing development finance	99,5%	NO	NO	YES
Water infrastructure development	98%	NO	YES	YES

STATE-OWNED ENTITIES (AUDITED BY THE AGSA)

	2018-19	MOVEMENT from 2017-18
Quality of published financial statements	54%	
Quality of published performance reports	63%	
Compliance with legislation	8%	
Irregular expenditure	R1,125 bn	
Financial health	42%	

Outstanding audits

South African Airways group

South African Nuclear Energy Corporation (holding company) and Pelchem (subsidiary)

Trans-Caledon Tunnel Authority

ROOT CAUSES

90%
Slow or no response in improving internal controls and addressing risk areas

SLOW RESPONSE – 88%
NO RESPONSE – 12%

39%
Instability or vacancies in key positions or key officials lacking appropriate competencies

35%
Inadequate consequences for poor performance and transgressions

NOTES

CONTENTS

ANNEXURES

The annexures containing information on the following are available on **www.agsa.co.za** (our website):

- **Annexure 1**: Auditees' audit outcomes; areas qualified; and findings on predetermined objectives, non-compliance, specific risk areas and unauthorised, irregular as well as fruitless and wasteful expenditure
- **Annexure 2**: Auditees' financial health indicators, supply chain management findings and root causes
- **Annexure 3**: Auditees' audit opinions over the past five years
- **Annexure 4**: Assessment of auditees' key controls at the time of the audit (per audit outcome)

To access the content of this report on our website, simply use the **QR code scanner** on your mobile phone or tablet to scan the code.

CLEAN AUDITS 2018-19

Unqualified financial statements with no material findings on the quality of the performance report or compliance with key legislation

NATIONAL

DEPARTMENTS	PUBLIC ENTITIES
Civilian Secretariat for the Police Service	African Renaissance and International Cooperation Fund
Department of Mineral Resources	Companies and Intellectual Property Commission
Department of Planning, Monitoring and Evaluation	Competition Commission
Department of Public Enterprises	Construction Education and Training Authority
Department of Science and Technology	Council for Geoscience
Department of Sport and Recreation South Africa	Council for Scientific and Industrial Research
Department of Trade and Industry	Cross-Border Road Transport Agency
Department of Traditional Affairs	Deeds Registration Trading Account
Economic Development Department	Elangeni TVET College
Government Communication and Information Systems	False Bay TVET College
National School of Government	Fibre Processing Manufacturing Sector Education and Training Authority
Office of the Chief Justice	Film and Publication Board
Parliament of the Republic of South Africa	Financial Sector Conduct Authority
Statistics South Africa	Food and Beverages Manufacturing Industry Sector Education and Training Authority
	Guardians Fund
	Independent Regulatory Board for Auditors
	Insurance Sector Education and Training Authority
	International Trade Administration Commission
	Land Bank Insurance
	Legal Aid South Africa
	Maluti TVET College
	Medical Research Council of South Africa
	Municipal Demarcation Board
	Municipal Infrastructure Support Agency
	National Credit Regulator
	National Energy Regulator of South Africa
	National Gambling Board
	National Lotteries Commission
	National Lottery Distribution Trust Fund
	National Youth Development Agency
	Northlink TVET College
	Office of the Pension Funds Adjudicator
	Private Security Industry Regulatory Authority
	Public Service Sector Education and Training Authority
	Quality Council for Trades and Occupations
	Road Traffic Infringement Agency
	Road Traffic Management Corporation
	Safety and Security Sector Education and Training Authority
	Small Enterprise Development Agency
	South African Heritage Resource Agency
	South African Local Government Association
	South African Qualifications Authority
	South Cape TVET College
	Special Investigating Unit
	Third Party Funds
	West Coast TVET College

PROVINCIAL

EASTERN CAPE	DP	Provincial Legislature Provincial Treasury Safety and Liaison
	PE	East London Industrial Development Zone Eastern Cape Parks and Tourism Agency
FREE STATE		No auditee in the Free State achieved a clean audit
GAUTENG	DP	Cooperative Governance and Traditional Affairs Office of the Premier Provincial Treasury
	PE	Gauteng Growth and Development Agency Gauteng Partnership Fund Gautrain Management Agency Supplier Park Development Company
KWAZULU-NATAL	DP	Provincial Treasury Social Development
	PE	Dube TradePort Company KZN Housing Fund Traditional Levies and Trust Account
LIMPOPO	DP	Community Safety Provincial Treasury
MPUMALANGA	DP	Cooperative Governance and Traditional Affairs Provincial Treasury
	PE	Mpumalanga Economic Regulator
NORTHERN CAPE	DP	Office of the Premier Provincial Treasury
NORTH WEST	DP	Provincial Treasury
WESTERN CAPE	DP	Community Safety Cultural Affairs and Sport Economic Development and Tourism Environmental Affairs and Development Planning Health Human Settlements Local Government Office of the Premier Provincial Parliament Provincial Treasury Transport and Public Works
	PE	Government Motor Transport Saldanha Bay IDZ Licencing Company Western Cape Nature Conservation Board Western Cape Tourism, Trade and Investment Promotion Agency

DP = DEPARTMENT   PE = PUBLIC ENTITY

NOTES

SECTION 1

Executive summary

The 2018-19 financial year on which we reflect in this report was the last year of the previous administration. The report therefore affords us the opportunity to reflect on the progress made by the fifth administration in the financial and performance management of national and provincial government. Over the five years, our messages were aimed at highlighting risks and weaknesses and at making recommendations for improvement. Over the past few years it became more insistent towards the **need for accountability for government spending** as we continued to see a lack of improvement.

We experienced that **accounting officers and authorities have been slow in implementing our recommendations** and in certain instances even blatantly disregarded these. Our recommendations did not require more than what they were legally obligated to do by the Public Finance Management Act and other enabling legislation, in areas such as planning and budgeting, establishing internal controls, effectively dealing with transgressions, keeping proper records, credibly reporting on their finances and performance, and using the resources with which they are entrusted in an effective, efficient and transparent manner. We also did not always experience the correct tone and level of oversight from executive authorities and oversight structures that would enable accountability, transparency and good governance.

The accountability mechanisms were not working as they should, resulting in continued calls for more to be done – particularly by us as the Auditor-General of South Africa. Through the support of our parliamentary oversight committee, the **Public Audit Act was amended to provide us with the mandate to report on material irregularities detected** during our audits and take further actions if accounting officers and authorities do not appropriately deal with such reported material irregularities. We can refer the matter to a public body to investigate or include recommendations in the audit report on what should be done to address the matter. The amendments further give us the power to take binding remedial action if our recommendations are not implemented and, in certain circumstances, we can recover the money lost from accounting officers or authorities that do not implement the remedial actions.

By reporting material irregularities, we support accounting officers and authorities by bringing to their attention the irregularities that could have a significant impact on finances, resources and service delivery, while also empowering them to take the appropriate steps timeously in terms of legislation. This will lessen the adverse effect of such irregularities on auditees, set the right tone for accountability, highlight the need for consequences, and encourage a behavioural change at the highest levels. We report the material irregularities in the audit report, which also **enables public accounts and portfolio committees** to perform their oversight function – focusing on the most material matters affecting auditees.

The **amendments became effective on 1 April 2019** and we started implementing the material irregularity process at selected auditees. For us, the greatest outcome of this first phase of implementation was the positive response by the affected accounting officers and authorities, with most taking immediate and appropriate steps to address the material irregularities we reported.

Over the past year, **we engaged with the new leadership** in all the provinces, the national ministers and the newly constituted committees in Parliament and provincial legislatures to explain our role and share our messages and urgency for accountability. We also prepared them for the introduction of the material irregularity process.

The opportunities for progressive and sustainable change are evident to us based on the enthusiasm and commitment displayed by the new leadership, our ability to improve our contribution to the accountability process through the amendments to the Public Audit Act, and the positive reaction to the results of our first phase of implementation. Hence, the theme of this general report is ***Act now on accountability.***

Based on the disappointing audit outcomes in 2018-19, the slow progress over the past five years and the insights gained from the first year of implementing the material irregularity process, our key recommendation is that the system of accountability has reached a point where **accounting officers and authorities must invest in preventative controls**.

We call on the accounting officers and authorities and the political leadership to …

… act to improve overall audit outcomes

Our audits show a regression in audit outcomes over the past five years, which must be turned around in a progressive and deliberate manner. The outcomes were as follows:

1 Overall, the **audit outcomes regressed since 2014-15** with only 80 auditees improving and 91 regressing. There was very limited movement from the previous year, as the 54 auditees that improved were offset by the 52 that regressed. Only 100 (26%) of the auditees managed to produce quality financial statements and performance reports and to comply with key legislation, thereby receiving a clean audit. In 2014-15, 106 auditees had clean audits.

2 There were **serious weaknesses in the financial management** of national and provincial government that had not been addressed over the past five years:

- Credible financial statements are crucial to enable accountability and transparency, but departments and public entities **continued to struggle to prepare and publish quality financial statements**. In 2014-15, 80% of auditees received unqualified audit opinions, which regressed to only 74% in the current year.

  Only 43% of the auditees gave us financial statements for auditing without material misstatements. Compared to the 49% of auditees that did so in 2014-15, this clearly points to a lack of improvement despite us reporting on the poor preparation of financial statements every year in the audit reports (as a non-compliance finding) and in the general reports.

  The controls to prevent misstatements are inadequate and the misstatements remain undetected even though the financial statements go through various levels of review, including by the chief financial officer and the audit committee, before it is approved by the accounting officer or authority. The pressure is then placed on the auditors to identify the misstatements as part of the audit process – this is not an effective or sustainable practice.

- **The financial health of auditees continues to be alarming.** Departments in particular were struggling to balance their finances. Unauthorised expenditure, which is mainly as a result of overspending of the budget, remained high at R1,37 billion. Some departments did not pay their creditors when their budgets started running out and thereby avoided unauthorised expenditure, but the payments were then made in the following year, effectively using money intended for other purposes. This continuing trend of using the next year's budget to pay the current year's expenses had a negative impact on departments' ability to pay creditors on time and to deliver services.

  An emerging risk is the increased litigation and claims against departments. Over a third of the departments had claims against them in excess of 10% of their next year's budget. Departments do not budget for such claims, which means that all successful claims will be paid from funds earmarked for other strategic priorities, including the delivery of services, further eroding the ability of these departments to be financially sustainable.

  A total deficit of R62,06 billion was incurred by the 31% of public entities whose expenditure exceeded their revenue – 90% of the total deficit related to the Road Accident Fund. Even though most public entities that incurred deficits would be able to continue their operations, these negative indicators raise concerns about their financial viability, which could result in pressure to acquire additional funding from government.

- Government cannot afford to lose money because of poor decision-making, neglect or inefficiencies. However, we continued to see a **rise in fruitless and wasteful expenditure,** with 223 auditees losing R849 million in the current year. Over the five-year period, R4,16 billion of government expenditure was fruitless and wasteful.

3 The **quality of the performance reports slightly regressed** since 2014-15 from 66% to only 62% of the auditees now publishing credible reports. As is the case with the financial statements, we continued to receive performance reports for auditing with material misstatements. The submissions were getting worse – 47% of the auditees submitted quality performance reports for audit purposes in 2014-15, but only 33% did so in 2018-19.

4 This year, we again focused on the management and delivery of the key government programmes for **water infrastructure development, housing development finance, school infrastructure**

delivery, expanded public works programme, and district health services (HIV/Aids, TB as well as maternal and child health). There has been **little improvement** on these programmes, as not all our recommendations have been implemented.

A common and worrying trend over the five-year Medium-term Strategic Framework period, was that departments continued to use most of their allocated budget to deliver on these programmes, yet they were unable to fully achieve their planned targets.

A number of targets were not achieved for the education school infrastructure and district health services programmes. In addition, the public works, health and human settlements departments were not able to report in a reliable manner on the performance of their programmes, as information on the achievement by projects funded at provincial and municipal level was not always gathered in a consistent manner or was not credible. This will make it difficult for government to assess whether the intended targets of these programmes were achieved over the five-year term.

Irregularities in the procurement processes and inadequate contract management were recurring findings on the school, housing and water infrastructure projects. Some of the projects displayed serious weaknesses in terms of delayed delivery, poor-quality work, waste and mismanagement. Some of the delays were due to inadequate planning and project management processes, prolonged procurement processes, and poor contractor performance. The widespread lack of consequences made the situation even worse.

If the identified challenges and deficiencies are not urgently addressed by the relevant departments and portfolio committees, the ideals of the National Development Plan and sustainable development goals (such as alleviating poverty, providing access to clean water and sanitation, improving longevity of citizens, improving quality of teaching and learning through provision of education infrastructure, enabling decent employment, and economic growth) may not be achieved.

5

In total, 72% of the **auditees materially did not comply with legislation.** The outcome is similar to the previous year and slightly higher than the 70% in 2014-15. The lapse in oversight and lack of controls relating to compliance were evident in a number of areas, including supply chain management.

6

The **compliance with supply chain management legislation slightly improved** from the previous year, bringing us back to similar results as in 2014-15. It remains concerning that only 36% of the auditees are fully complying. This is in spite of all the reporting we have done in this area, the red flags we have raised, and the many recommendations we have made. Uncompetitive and unfair procurement processes and inadequate contract management were common.

We identified non-compliance with the legislation requiring auditees to procure certain commodities from local producers at 39% of the auditees where we audited this area. These auditees demonstrated a **lack of understanding and awareness** of the requirements – and even a disregard for them – which could result in government not achieving the objectives of this initiative.

There had been a slight regression in addressing the concerns we have raised year after year about **contracts being awarded to employees and their families without the necessary declarations of interest**. We also found little action being taken to ensure compliance with the legislation that **prohibits employees of departments from doing business with the state** from 1 August 2016.

7

Irregular expenditure increased to R62,60 billion from the R51 billion we reported last year. It includes the irregular expenditure (R19,76 billion) of those auditees of which the audits were completed after the cut-off date for this report (2 September) as well as the unaudited amounts disclosed in the financial statements of the auditees whose audits were still outstanding by the date of this report. The amount could be even higher, as 34% of the auditees were qualified because the amount disclosed was incomplete and/or disclosed that they had incurred irregular expenditure but that the full amount was not known. In addition, we could not audit R2,33 billion worth of contracts due to missing or incomplete information.

Auditees have a poor track record in **dealing with irregular expenditure** and ensuring accountability. The year-end balance of irregular expenditure that had accumulated over many years and had not been dealt with (through recovery, condonement or write-off) was R174,88 billion.

... give urgent attention to the state of state-owned entities

The overall **audit outcomes of state-owned entities** (commonly known as SOEs) **regressed** when compared to the previous year and significantly regressed over the last five years. None of the SOEs managed to obtain a clean audit opinion, with the South African Post Office slipping back to a qualified audit opinion and the Development Bank of Southern Africa regressing from a clean audit in 2017-18 to a financially unqualified opinion with findings on compliance with legislation.

A number of the **SOE audits had not been completed by the time of this report**. The situation has improved slightly when compared to this time last year. Financial statements and audits were mainly delayed because auditees such as the South African Airways group (for both the 2018-19 and 2017-18 financial years) and the South African Nuclear Energy Corporation group were struggling to demonstrate that they were a going concern. In addition, there were delays in the submission of the financial statements of the South African Nuclear Energy Corporation in an effort to correct the errors and limitations reported in the 2017-18 audit report. In the case of the Trans-Caledon Tunnel Corporation (which we are auditing for the first time), the delays were due to significant accounting adjustments that were necessary to improve the quality of the financial statements submitted for auditing.

There were **weaknesses in the performance reporting processes** and an **increase in non-compliance** at the 14 SOEs and their significant subsidiaries we audited – 94% had material findings in this regard. They also disclosed **R1,4 billion in irregular expenditure**, which is slightly lower than the previous year's R1,9 billion, but the amount could be even higher as four SOEs were qualified on the completeness of their irregular expenditure disclosure. The irregular expenditure of the SOEs we did not audit amounted to R57 billion, which included R49,9 billion at Transnet and R6,6 billion at Eskom – these amounts are not included in the irregular expenditure of R62,60 billion reported earlier in this section. The significant increase in irregular expenditure at these SOEs was due to a drive to clean up past irregularities.

The **financial health of SOEs has remained under significant pressure**. We reported material uncertainties regarding auditees' ability to continue with operations in future without financial assistance at Denel, the South African Broadcasting Corporation, the Petroleum Oil and Gas Corporation of South Africa (a major subsidiary of the Central Energy Fund), South African Express Airways and the South African Post Office. Considering also that most of the SOEs where audits had not yet been completed are facing going concern challenges, the financial outlook for most SOEs is bleak. Government had already issued guarantees of R446 billion for SOEs (R350 billion for Eskom) and these SOEs had used the guarantees to obtain R328 billion in loans.

In this report, we again highlight our concerns about **vacancies in key positions and instability** at board and management level. Turnaround plans initiated nearly every year had almost no impact in restoring the SOE environment, as executive and management instability makes it impossible to hold those responsible accountable. We found the **discipline of sustained monitoring and oversight of key controls to be extremely weak** at most SOEs. The overall audit outcomes of the SOEs are the worst they have ever been.

We also highlight that the 10 departments responsible to oversee the SOEs **did not have consistent oversight practices** and most did not adequately plan for their oversight function and report thereon in their performance reports. In addition, confidence in the ability of the executives tasked to manage the affairs of SOEs has regressed over the past years, as evidenced in the assessment of the assurance provided by the respective executives.

We recommend that the SOEs be directed by **stabilising their leadership** tasked to **operationalise the action plans** designed to improve the strategic direction and internal controls of the SOEs. Those tasked with the oversight of SOEs should be set clear responsibilities to periodically evaluate the SOEs' actual performance against the predetermined performance targets and to implement consequences when such targets are not met.

... act to improve audit outcomes in the provinces

The provincial leadership and provincial legislatures should pay attention to improving the audit outcomes in the provinces, which are summarised below.

The Western Cape continued to produce the best results with 79% clean audits and the lowest irregular as well as fruitless and wasteful expenditure. At 74%, the province also had the highest number of auditees with a good financial health status and there were no auditees with unauthorised expenditure. Over the five years, there has been a **solid and consistent pattern of good audit outcomes in the Western Cape**, which can be attributed to the provincial leadership and accounting officers and authorities instilling a culture of accountability and good governance, and implementing initiatives to strengthen this culture in a deliberate manner. We do want to emphasise the point, that this province should not risk being lulled into a false sense of comfort. Sustainable controls are a regular and permanent feature of operations and should always be closely monitored with strong preventative controls. This will allow the province to venture into other innovative areas to expand and sustain delivery of services.

Overall the outcomes in KwaZulu-Natal remained unchanged with three auditees improving and three regressing – there are now five clean audits. There are **progressing trends visible in KwaZulu-Natal but greater effort is required to trigger stronger outcomes.** At R12,4 billion, the irregular expenditure of the province is the highest of all the provinces and more than that of national government. Its closing balance of R41,9 billion is also the highest of all the provinces – this despite our ongoing recommendations to the leadership to take steps to avoid the abuse of supply chain management legislation. The outcome of our audits on key projects and programmes in the province is also cause for concern, as it highlights poor management and ineffective delivery.

The **audit outcomes in the Eastern Cape progressed since 2014-15, but greater effort is required for sustainability.** The audit outcomes regressed slightly in 2018-19 as a result of the slow pace of addressing the root causes of the findings we raise every year in spite of commitments from accounting officers and authorities in this regard. The culture of non-compliance in the province – especially in the area of supply chain management – continued as a result of the leadership's tolerance for deviations from legislative requirements. The province also continued to be plagued by weaknesses in the delivery of grant-funded projects. We again raised our concerns about the financial health of the auditees in the province – specially the commitments by and claims against departments – which could potentially have a negative impact on provincial funding.

The improvement in the audit outcomes (three auditees improved and one regressed) is an **encouraging trend, but more work needs to be done in Limpopo** before we can say that the improvement is sustainable. To facilitate sustainable change, the lack of discipline in controls needs to be addressed and a decisive commitment must be made to effect consequences. The irregular expenditure increased to just over R2 billion as a result of widespread non-compliance with supply chain management legislation, fed by a blatant disregard for legislation and officials not being held accountable for these transgressions. We again reported our concerns about the lack of credible reporting on the performance of the auditees, and identified that the grant intended for provincial road maintenance was not used for its intended purpose. Poor budgeting, in-year monitoring and cash-flow management affected the financial health of auditees in the province.

Mpumalanga's audit outcomes regressed after an improvement in the previous year. The outcomes have been erratic over the past five years with auditees not sustaining their outcomes, as strong internal controls have not been institutionalised, resulting in unstable internal control environments. As in the other provinces, non-compliance (particularly relating to supply chain management) and poor management and delivery of key projects were common and we have concerns about the impact of poor fiscal discipline on the province's financial health and service delivery. **Mpumalanga's audit outcomes should be observed closely** to see whether the leadership can effectively address the warning signals we reported.

We have seen a **concerning trend emerging from the audit outcomes in Gauteng**. After years of obtaining 100% unqualified audit opinions, two of their auditees obtained disclaimed opinions. The clean audits have decreased from 12 to seven. Irregular expenditure increased and we again reported deficiencies in the management and delivery of key projects in the province. Accounting officers and authorities did not respond timeously to the findings we raised in prior years, especially on the need to strengthen the supply chain management processes and reporting on performance. The financial health of auditees is improving, however, with 70% reporting good financial health. We were encouraged by the tone set by the premier upon engagement with the outcomes. Firm steps are already being taken to give collective provincial attention to the matters raised in the audit between the executive, accounting officers and oversight with the audit office providing the much-needed insights to address these weaknesses. This task will be completed in December 2019, setting the scene for leadership-driven improvements into the 2020 reporting year and beyond.

Yet again, **no major strides have been made in the outcomes in the Northern Cape.** The audit outcomes regressed (two regressions and no improvements) – as it did in the previous year. The leadership remains slow to address our continued calls for improved controls and consequences for transgressions and poor performance. The provincial leadership made numerous commitments in the past but the impact was minimal, as very little was done to implement and monitor these.

The audit outcomes improved overall (five improvements and three regressions) with a **notable effort towards reducing disclaimed and adverse opinions, but the overall accountability in the Free State is still a concern**. It is the only province with no clean audit and the financial health of the province is in a very bad state with 69% of the auditees requiring urgent intervention. It also has the highest unauthorised as well as fruitless and wasteful expenditure of all the provinces. A culture of no consequences prevails, as consequences are not effected and the political leadership is involved in the decision-making at some auditees. The continued disregard for procurement processes resulted in irregular expenditure at all auditees and created an environment vulnerable to misappropriation, wastage and the abuse of state funds. Our audits revealed poor planning, management and monitoring of infrastructure and other projects. The completion of these projects was often delayed, resulting in the quality of work being compromised and project costs being exceeded. This had a negative impact on the delivery of services, as funds were not always used effectively and efficiently to provide sustainable services.

The premier has led by example in setting the tone for accountability in North West and this has been embraced by members of the executive council. This has resulted in a stagnation of the overall audit outcomes for the first time in four years. This is an indication of a turnaround which **requires greater effort and focus from the new political leadership to shift the audit outcomes in North West**. Following the intervention by the inter-ministerial task team to place five departments under administration during July 2018, certain improvements in the control environment of departments were noted and these should be sustained and replicated in the province. This encouraging trend and effort were not substantive enough to have an impact on the overall audit outcomes. We urge the new political leadership together with the inter-ministerial task team to continue setting the right tone for accountability and consequences, including efforts to fully restore governance in the province. The irregular expenditure remained high at R3,2 billion and the closing balance was one of the highest of the provinces at R18,8 billion. The premier, with the support of the inter-ministerial task team, identified 46 cases of theft, fraud and corruption amounting to R2,5 billion. These were handed over to the Directorate for Priority Crime Inspectorate for investigation, and some of the irregular contracts identified during prior years were cancelled. However, we identified various instances of infrastructure project failures as a result of poor project management, inadequate monitoring of project deliverables, and a lack of coordination.

… effectively deal with the material irregularities identified

The material irregularity process was carried out at 16 auditees as part of our first phase of implementation – we completed 12 of these audits by the date of this report. In this first year, we focused on non-compliance with legislation that resulted in or is likely to result in a material financial loss.

We identified a total of **28 material irregularities** at eight of the auditees, which resulted in a **financial loss of R2,81 billion** – R2,51 billion is known as the accounting officer or authority quantified the loss, and the remainder is an estimate of the loss. Of the known loss, R2,2 billion is the money expected to be lost as a result of the irregularities in the purchase of locomotives by the Passenger Rail Agency of South Africa.

The most material irregularities (10) were identified at the human settlements department in the Free State, followed by the Passenger Rail Agency of South Africa (nine).

The material irregularities related to **payments for goods and services that were not received** (11) or that were **not of the right quality** (two); **unfair or uncompetitive procurement processes** resulting in the overpricing of the goods or services received (11) or the appointment of **suppliers that could not deliver** (one); and **invoices not paid on time** resulting in interest or standing time costs (three).

The material irregularities we identified and reported are not complex accounting or procurement issues and **could have been prevented through basic controls**. None of the material irregularities were as a result of human error, but were rather due to poor processes and judgement. There were most definitely indicators of fraud in some of these material irregularities, which have been (or will still be) uncovered by further investigations.

As mentioned, **the accounting officers and authorities reacted positively** to the notifications they received of the material irregularities we identified, and most of them are taking appropriate action to address these. They had already started taking action in some cases by the time we formally notified them of the material irregularity. At least preliminary investigations were done within the 20 working days we gave them to respond to our notification. This demonstrates that accounting officers and authorities understand what they are required by legislation to do when they become aware of irregularities and that they are willing and able to take on these responsibilities. It also signals a behavioural change towards responding in a decisive and timely manner to our findings.

… implement preventative controls

Preventing poor-quality financial statements and performance reports, non-compliance and material irregularities **is more effective than having to deal with the consequences** thereof – money and time are lost, costly investigations have to be instituted, and officials are subjected to the discomfort and anxieties associated with these processes – which often take a number of years.

Our message has been consistent over the years that a **strong control environment and processes are key** to achieving strategic objectives, addressing risks, ensuring compliance with legislation, and managing public sector funds to the benefit of citizens. We acknowledge that it takes time to institutionalise good preventative controls, especially in large and complex environments, but the accounting officers and authorities need **to build their institutions towards accomplishing this in a deliberate manner**.

We encourage accounting officers and authorities to **identify the areas of greatest risk in their institutions and focus on strengthening those areas first** – by applying the 80:20 rule, the greatest impact can be achieved through the lowest effort by focusing on the 20% that will bring 80% of the results.

Automating preventative controls such as building checking and approval processes into information technology systems can be very effective, as it ensures the consistent application of the controls. Our audits again identified that in spite of spending approximately R13,26 billion on information technology, the status of information technology controls in complex environments remains inadequate, as 63% of these auditees had weak information technology governance practices and a staggering 88% still had weak information technology general controls.

The detail on the weaknesses in internal control and identified risks that we include in our management, audit and general reports, will **assist in identifying the other areas that need attention**. The status of records reviews we perform and engage on with accounting officers also provide an early warning system whereby accounting officers are alerted to matters that can potentially lead to undesirable audit outcomes. All of these measures are aimed at assisting the leadership to prevent accountability failures, or to provide them with information on how to deal with such failures where they have occurred.

Parliament and legislatures can also play an important role in strengthening preventative controls through the portfolio committees and standing committees on public accounts. A proactive approach aimed at identifying risks and requiring assurance from accounting officers and authorities that these risks are being mitigated through preventative controls, will have a positive impact on the control environment of auditees. Our reports and briefings will be a good source of information in this regard, but we also strongly encourage engagement with the chair of the audit committee and the head of the internal audit unit on their perspective, as they have a key responsibility to assess risk and control.

We are encouraged by the decision taken by the Committee of Chairs in the National Assembly upon presentation of these overall national audit outcomes. They have already decided to review and workshop the parliamentary oversight model to ensure that they deliberately incorporate some of the matters we have elevated. This is to help strengthen the focus of portfolio committees. This interaction is planned for January/February 2020 as part of a comprehensive national response to these audit outcomes.

We remain committed to working tirelessly within our new mandate to strengthen financial and performance management in national and provincial government in South Africa, emphasising the need for accountability and doing the basics right. We encourage Parliament and the provincial legislatures as well as the political and administrative leadership to play their part effectively and without fear or favour to ensure accountability for government spending and improvement in the lives of the citizens of this country.

SECTION 2

Introduction

2 INTRODUCTION

Our previous reports continuously focused on the importance of accountability for government spending and highlighted the impact of poor financial and performance management on areas such as the delivery of key government programmes, the state of affairs at state-owned entities, and the overall financial health of national and provincial departments that have continued to regress.

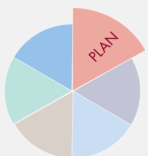
This report demonstrates that over the past five years, there has been little to no improvement and that the pace at which our recommendations are heeded remains slow. We also report for the first time on the material irregularities identified as part of our first phase of implementing the amended Public Audit Act. The opportunities for progressive and sustainable change are evident to us based on the enthusiasm and commitment displayed by the new leadership, our ability to improve our contribution to the accountability process through the amendments to the Public Audit Act, and the positive reaction to the results of our first phase of implementation.

This has led us to choose ***Act now on accountability*** as the central theme of this report.

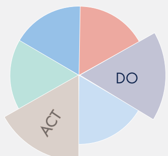
The actions that will enable accountability are well defined in the Public Finance Management Act and other enabling legislation, which are all underpinned by the basic values and principles governing public administration as set out in our constitution. It includes the need for high standards of professional ethics, accountability and transparency as well as the promotion of the efficient, economical and effective use of resources.

In this report we highlight opportunities where an investment in preventative controls can contribute to effective and sustainable improvements. We again advocate the use of the 'plan+do+check+act' cycle to continuously improve the processes, outcomes and service delivery of departments and public entities – and thereby strengthen accountability. The cycle and its link to the Public Finance Management Act are demonstrated below.

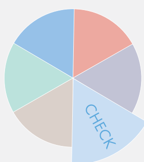
Public Finance Management Act prescribes obligations of accounting officers and authorities to:



- **Plan and budget** for delivery
- Use resources in an **effective**, **efficient and transparent** manner



- Establish and implement **internal controls to prevent and detect** irregularities, losses and financial misconduct **and effectively deal with any breaches**



- Report and account on regular basis

- **Prevent unauthorised, irregular and fruitless and wasteful expenditure** and losses resulting from criminal conduct
- **Recover** any financial losses from **responsible official(s)**
- **Institute formal investigation** if there are indications of fraud, corruption or other criminal conduct; if confirmed, take further action (e.g. report matter to South African Police Service)
- **Recover** any financial losses from **external party**
- **Take steps** against responsible official(s), which can include financial misconduct investigation

In section 3, we report on the first year of implementation of our expanded mandate. We provide comprehensive insight on the **material irregularity process and include outcomes of those audits signed off by 11 October 2019.**

In section 4, we reflect on **financial management in national and provincial government** over the past five years.

Section 5 focuses on the **management and delivery of five key programmes** included in the estimates of national expenditure for 2018-19, namely education school infrastructure, district health services (HIV and Aids, tuberculosis and maternal and child health), the expanded public works programme, housing development finance, and water infrastructure development.

Section 6 **summarises the audit outcomes** and covers all the areas we had reported on in previous general reports.

Section 7 is a continuation of what we had reported in the previous general report on the **governance, oversight and financial sustainability of state-owned entities**. We also provide detailed reporting on each state-owned entity at group level focusing on insights from the audit, key challenges of the auditee (including financial health) and the impact thereof, and recommendations for improvement.

We provide an overview of the **results and reflections per province** in section 8.

We explain more about our **audit process and terminology** in section 9. Our website (www.agsa.co.za) includes **detailed annexures** that provide the key results per department and public entity.

Please note the following important matters when reading this report:

- National and provincial government consists of 770 auditees. The audit outcomes of 78 public entities audited by private auditors, 66 dormant public entities, two secret service auditees, one South African Revenue Service revenue account, and 18 public entities with different reporting cycles are not included in the analysis presented in this report.
- As part of our audit methodology, we classified 173 public entities as small auditees based on the size and nature of their business. The audit outcomes of these public entities are also not included in this general report, but are published in the annexures available on our website.
- We set the cut-off date for inclusion of audit outcomes in this report as 2 September 2019. Therefore, when studying the figures, please note that the percentages are calculated based on all completed audits of 383 auditees, unless indicated otherwise – such as in the following instances:
  - In section 6, we also highlight the outcomes of audits concluded since our initial cut-off date of 2 September 2019.
  - In section 7, we include the results of audits completed up to 30 September 2019 to provide a more comprehensive view of the outcomes of state-owned entities.

- To determine the movements from the previous year and over the five-year period, we compared the results of the completed audits for departments and public entities (including provincial legislatures and technical vocational education and training colleges) with their results in 2017-18 and in 2014-15. These movements are depicted as follows:

Improved | Unchanged | Regressed

Movement of 5% or less: Slightly improved | Slightly regressed

- We use the following icons in this report to indicate:

Explanations of terminology – we also explain more about our audit process and terminology in section 9

What we have found

Examples to illustrate the effects of weaknesses

NOTES

SECTION 3

Material irregularities

INTRODUCING MATERIAL IRREGULARITIES

The **responsibilities and duties of accounting officers and authorities are well defined** in the Public Finance Management Act and other enabling legislation, which are all underpinned by the basic values and principles governing public administration as set out in our constitution. It includes the need for high standards of professional ethics, accountability and transparency as well as the promotion of the efficient, economical and effective use of resources.

Our audits have for many years been highlighting a systemic failure across government to establish the systems, processes and controls required to make the constitutional principles and the requirements of the Public Finance Management Act and similar legislation the norm. Not only are **irregularities and the resultant losses, misuse and harm not prevented from happening, it is also not appropriately dealt with when it is identified**. This is evident in the rising irregular expenditure not being dealt with, the lack of action on potential fraud and corruption, and the continued disregard for our findings and recommendations.

The remarks made by Chief Justice Mogoeng Mogoeng in October 2016 at a meeting of the heads of supreme audit institutions were a catalyst for the **changes made to our mandate** through the amendments to the Public Audit Act. The amendments were driven by the Standing Committee on the Auditor-General and received unprecedented support in Parliament.

'… the failure to be disciplined in the way you use public resources, would not only attract consequences, but serious consequences …'

Call it 'the power to follow up on audit recommendations, the power to take remedial action, the power to ensure compliance', but you need to strengthen the pre-existing mechanism to follow up on the recommendations he made. Only then, I would believe, would qualified audit reports come down significantly. When people know that failure to act in line with the legal framework applicable to the use of public money, and the failure to be disciplined in the way you use public resources, would not only attract consequences, but serious consequences … [would audit outcomes improve].

[Audit follow-ups] should not be a loose arrangement dependent on the mercy or reasonableness of the incumbent affected by a negative audit report. People should know in advance that it is a matter of compliance with the Constitution, it is a matter of compliance with a statute, and there are serious consequences if you don't do it. In that way I believe they would be incentivised to do much more than they would otherwise have done absent that provision.

Chief Justice Mogoeng Mogoeng – CBC meeting – October 2016

The amendments provide us with an expanded mandate to ...

Refer material irregularities to relevant public bodies for further investigations

Take binding remedial action for failure to implement our recommendations for material irregularities

Issue a certificate of debt for failure to implement remedial action if financial loss was involved

The amendments to the Public Audit Act became effective on 1 April 2019. These amendments introduced the concept of a material irregularity.

What is a material irregularity?

Irregularity — *Any non-compliance with, or contravention of, legislation, fraud, theft or a breach of a fiduciary duty*

Material irregularity — *… identified during an audit performed under the Public Audit Act that resulted in or is likely to result in …*

Impact — *a material financial loss, the misuse or loss of a material public resource or substantial harm to a public sector institution or the general public.*

Accounting officers and authorities are familiar with the different elements of a material irregularity, as they are responsible for **preventing irregularities** such as non-compliance, fraud, theft and breaches of fiduciary duty and the impact in terms of the loss or misuse of the money and resources financed by taxpayers. They also have a clear duty to serve and protect the public and the well-being of the institution they are leading.

The intent of the amendments is **not to take over the functions of the accounting officers and authorities**, as their accountability responsibilities are clear in legislation. It is also not an attempt to bring another punitive measure but rather a **complementary mechanism for strengthening financial and performance management**, which in turn will contribute to improved accountability in the public sector. Hence, our extended powers will only be activated if we reported a material irregularity to an accounting officer or authority and they did not take appropriate and timely action to address it.

By identifying material irregularities, we **support accounting officers and authorities** by bringing to their attention the irregularities that could have a significant impact on finances, resources and service delivery while also empowering them to timeously take the appropriate steps in terms of legislation. This will lessen the adverse effect of such irregularities on auditees, set the right tone for accountability, highlight the need for consequences, and encourage a behavioural change at the highest levels. We report the material irregularities in the audit report, which also **enables public accounts and portfolio committees to perform their oversight function** – focusing on the most material matters affecting auditees.

If accounting officers and authorities, supported by their political leadership, adhere to their legislated responsibilities and commit to take swift action when we notify them of a material irregularity, there will be **no need for us to use our remedial and referral powers**.

They should focus on **preventing material irregularities**, as it is more effective than having to deal with the impact and consequences thereof. More insights on the prevention of material irregularities are included at the end of this section.

THE DIFFERENCE BETWEEN MATERIAL IRREGULARITIES AND IRREGULAR EXPENDITURE

A material irregularity and irregular expenditure are not the same, as shown below:

Irregular expenditure	Material irregularity
Irregular expenditure is all expenditure where there was non-compliance with legislation in the process leading up to the payment. For example, if the procurement process for the awarding of a construction contract did not comply with legislation on supply chain management, all payments to that contractor will be irregular expenditure. When irregular expenditure is identified, the accounting officer or authority is required to perform an investigation to determine the impact by considering if the non-compliance resulted in a financial loss, whether there was any fraud involved, and if an official should be held accountable. If there was no loss or fraud, the irregular expenditure will be condoned after the necessary disciplinary action had been taken.	As with irregular expenditure, a material irregularity also stems from non-compliance with legislation, but it has a broader scope and can be applied to fraud and theft and to a breach of fiduciary duty (which means that an official did not do what the legislation requires and/or did not act in the best interest of the auditee). Another key difference is that for any non-compliance to be considered a material irregularity, there must already be an indication that the non-compliance resulted in, or is likely to have a material impact in the form of, a material financial loss, the misuse or loss of a material public resource, or substantial harm to a public sector institution or the general public.

The values will differ. Irregular expenditure is the total expenditure. If the material irregularity relates to a financial loss, the value will be the loss. A material irregularity will also not always have a value (for example, substantial harm cannot be quantified).

Example	Example
A lack of a competitive bidding process for the awarding of a contract of R20 million. The irregular expenditure is all the payments made on the contract to date (e.g. R10 million).	A lack of a competitive bidding process for the awarding of a contract of R20 million resulting in a material financial loss, as the same service could have been delivered at a lower price (e.g. R18 million). The financial loss is R2 million (what was lost and what can still be lost).

APPROACH TO 2018-19 AUDITS

Irregularities are **identified during our normal audit process** as we audit compliance with key legislation as well as consider governance and control as part of the audit. Our audit processes can also identify possible fraud and theft, which we then report to management for investigation.

However, our audit process **generally does not consider the impact** of the irregularities identified (for example, if a financial loss is likely), as it is not required by the auditing standards. The requirements and processes to follow for a material irregularity as prescribed by the Public Audit Act and the Material Irregularity Regulations introduce additional steps in the audit process, new processes for referrals and remedial action, and the establishment of new structures and additional capacity.

The impact of the expanded mandate on our audit process and organisation as well as the profound implications thereof requires us to **implement the changes in a careful, but progressive manner**. As agreed with the Standing Committee on the Auditor-General, we are phasing in the implementation of our expanded mandate. The phasing-in allows us to:

- responsibly align the organisational resources with the demand placed on us by the Public Audit Act
- establish relationships with the public bodies to which we will be referring material irregularities
- create the required level of awareness of the Public Audit Act and the Material Irregularity Regulations in the external environment.

For the 2018-19 audits, **we implemented the material irregularity process at a limited number of auditees** selected based on their audit outcomes and their history of irregular expenditure. Through our selection we also endeavoured to have sufficient coverage across all spheres of government and the provinces. We selected 16 auditees for the Public Finance Management Act audit cycle in 2018-19.

In the first phase of implementation, we focused on identifying material irregularities that relate to **non-compliance that can result in a material financial loss** identified as part of our compliance audit. The reason for this focus is that we already have well-established processes to identify material non-compliance with key legislation and that the recovery of financial losses by government is of great concern to the country. We will continue with a phased approach over the next few years but will progressively increase the extent of the work we do until it is fully implemented at all auditees.

What did we do to identify material irregularities?

The material irregularity process was applied only from 1 April 2019 at the selected auditees, when the amendments became effective. The auditor-general used the discretion allowed by the Public Audit Act to direct that the audit teams **only consider material irregularities where it continued to have a financial impact in the 2018-19 financial year**. This means that we did not consider non-compliance that took place in prior years except where it continued to financially affect the auditee; for example, if payments are still being made on a contract that was irregularly awarded in prior years, or if a debt owed to the auditee was still in its books in 2018-19.

We also made sure that we applied the definition of a material irregularity correctly by only reporting it if the **non-compliance directly resulted in a financial loss** or there were sufficient indicators that it is likely to result in a financial loss. We considered whether **a financial loss was material** through considering its value, nature and impact. The value of the financial loss had often already been determined by the auditee and disclosed in the financial statements, such as fruitless and wasteful expenditure (what we refer to as a known financial loss). But for some material irregularities, we estimated the potential financial loss to consider if it was material (what we refer to as an estimated financial loss).

The limited time available from 1 April 2019 until the finalisation of the audit, the complexity of some of the matters we dealt with, and the time we gave accounting officers and authorities to respond to identified material irregularities **affected our ability to finalise most of the audits by 31 July 2019**. It is likely that **additional material irregularities will be reported** at the selected auditees in upcoming audits.

What did we do when we identified a material irregularity?

When we identified a material irregularity, the **accounting officer or authority was notified** without delay. We gave them 20 working days to respond to the notification by giving us a written submission and evidence on what they have done to address the material irregularity and what their further planned actions are.

We assessed the responses provided and concluded whether their actions (taken or planned) and its outcomes were appropriate in line with their legal obligations. If we found the actions and outcomes to be appropriate, we took no further action and **reported the material irregularity and the taken and planned actions of the accounting officer or authority in the audit report**.

If we concluded that it was not appropriate, we included **recommendations in the audit report** on what the accounting officer or authority should do to address the material irregularity. We included a deadline by when these recommendations should be implemented.

We also identified a material irregularity that was **referred to a public body as it required further investigation**.

Legal obligations of accounting officer or authority to address an irregularity

If an accounting officer or authority is made aware of an irregularity (non-compliance, fraud, theft or a breach of fiduciary duty), the **Public Finance Management Act, Treasury Regulations and instruction notes typically prescribe** the following steps to be taken:

1. Perform a preliminary investigation to determine the facts and collect information on what caused the transgression, who is responsible, and whether a financial loss was (or will be) suffered

If applicable

2. Prevent any losses or further losses
3. Institute a formal investigation if there are indications of fraud, corruption or other criminal conduct; if confirmed, take further action (e.g. report the matter to the South African Police Service)
4. Recover any financial losses from an external party
5. Take steps against the responsible official/s (which can include a financial misconduct investigation)
6. Recover any financial losses from the responsible official/s

The policies and procedures of an auditee typically describe how these steps should be taken and the timing thereof

What happens with the identified material irregularities?

A material irregularity is only **fully resolved** if (1) the loss (or further losses) is prevented and/or any losses incurred have been recovered or all possible steps have been taken to recover the losses; and (2) appropriate steps have been taken against the person or party responsible for the loss.

The **responsibilities for the further steps** to be taken by the accounting officer or authority, executive authorities, public bodies and oversight to resolve an identified material irregularity are detailed further on.

The material irregularities and the progress made in resolving them will be **reported in the audit report of the auditee and in general reports until they have been fully resolved** to enable accountability and oversight.

	Auditor-General of South Africa and accounting officers or authorities	Executive and oversight
Accounting officer or authority is dealing with material irregularity	**Accounting officer or authority** implements committed actions to address material irregularity and improves controls to prevent reoccurrence **Auditor-General of South Africa** follows up in next audit if actions were implemented and if outcomes were reasonable; if not, can result in referral or recommendation in audit report	**Executive** monitors progress and supports accounting officer or authority in addressing material irregularity and improving controls **Oversight** monitors progress and calls accounting officer or authority to account for actions taken and outcomes
Material irregularity is referred to public body	**Public body** formally responds to referral to indicate whether investigation will be performed, performs investigation, and provides progress reports and final outcome of investigation to Auditor-General of South Africa **Accounting officer or authority** cooperates with public body and implements any remedial actions / recommendations made as well as improves controls to prevent reoccurrence **Auditor-General of South Africa** provides information on material irregularity to public body, monitors progress with investigation, and follows up in next audits, implementation of any remedial actions / recommendations	**Executive** supports public body's investigation and accounting officer or authority in improving controls; if responsible for public body, monitors progress with investigation **Oversight** monitors progress with investigation and calls public body to account for undue delays in investigation
Recommendation included in audit report	**Accounting officer or authority** implements recommendations by date stipulated in audit report and improves controls to prevent reoccurrence **Auditor-General of South Africa** follows up by stipulated date whether recommendations were implemented and whether outcomes were reasonable; if not, issues remedial action	**Executive** monitors progress and supports accounting officer or authority in implementing recommendations and improving controls **Oversight** monitors progress and calls accounting officer or authority to account for actions taken and outcomes

If applicable, remedial action and issuing a certificate of debt will only commence in 2020

OUTCOMES FROM THE 2018-19 AUDITS

Sixteen national and provincial government auditees were identified for implementation of the material irregularity process in 2018-19. SAA Technical (a subsidiary in the South African Airways group) was selected but the audit did not take place as the financial statements for 2017-18 are still outstanding.

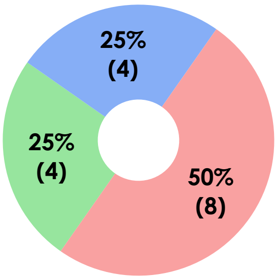
The **overall outcomes** were as follows:

Overall outcome

28 material irregularities identified

R2,81 billion financial loss

(**R2,51 billion** known and **R0,3 billion** estimated)



Addressing the material irregularities

25 (89%) – Accounting officer or authority is taking appropriate action

2 (7%) – Recommendations included in audit report

1 (4%) – Material irregularity referred to a public body

Auditees identified in phase 1	Status	Material irregularities identified
Human Settlements (FS)		10
Passenger Rail Agency of South Africa		9
Department of Water and Sanitation		2
Health (GP)		2
Health (NC)		2
Health (KZN)		1
Department of Basic Education		1
Education (LP)		1
Department of Correctional Services		0
Department of Defence		0
Education (EC)		0
Health (MP)		0
Water Trading Entity		
Community Safety and Transport Management (NW)		
Department of Cooperative Governance		
SAA Technical		

Completed audits – no material irregularities identified

Completed audits – material irregularities identified

Audits outstanding as at 15 October 2019

Nature of material irregularities

Unfair or uncompetitive procurement processes resulting in **overpricing of goods and services procured**
39% (11)
R438 million

Unfair procurement processes resulting in **supplier appointed that did not deliver**
4% (1)
R2 200 million

Payment for **goods or services not received**
39% (11)
R55 million

Payment for **poor-quality work**
7% (2)
R7,6 million

Invoices or claims **not paid on time**
11% (3)
R106 million

Instances where the **accounting officer or authority is appropriately dealing with the material irregularities** reported are summarised below:

APPROPRIATE ACTION BEING TAKEN

Auditee	Number of material irregularities	Description	Financial loss	Action being taken
Human Settlements (FS)	10	Contractors were paid for the following projects that were not completed: • Development of community residential units, block G – Thabong extension 3, Welkom • Housing project – Thaba Nchu 400 Payments were made on duplicate claims submitted by suppliers on the following housing projects: • Bethlehem Bakenpark extension 5 • Sasolburg 200 • Wesselsbron 112 • Vrede 1000 • Kroonstad 350 Retention payments were made to contractors in excess of the retention amount withheld by the department for the following housing projects: • Ventersburg 200 • Bloemfontein 393 • Odendaalsrus 300	R32,9 million is known and the remainder is still to be quantified by the accounting officer	Recovery processes against the suppliers have been instituted through the Office of the State Attorney. The department has undertaken investigations to identify the responsible officials and will take the necessary disciplinary action based on the outcome of the investigations.
Passenger Rail Agency of South Africa	8	Competitive bidding processes were not followed to appoint contractors for the following services: • General overhaul and upgrade services – first awarded in 2008 and extended multiple times without following competitive bidding processes • Provision of bus services in the Western Cape – first awarded in 2005 and extended multiple times without following competitive bidding processes • Provision of surveillance services (drones) (February 2018) • Provision of security services (February 2018)	To be quantified by the board based on the investigations	The board committed to initiate independent investigations into the material irregularities. Disciplinary steps, financial recovery as well as civil and criminal cases will be undertaken based on the outcome of the investigations.

Auditee	Number of material irregularities	Description	Financial loss	Action being taken
		Non-compliance with supply chain management legislation led to uncompetitive and/or unfair procurement processes for the following: • A new signalling system in the Western Cape (July 2012) – the value of the contract awarded was also higher than what had been approved • Repair, supply and delivery of signalling equipment (September 2018) • Control of vegetation (August 2018) • Repair and replacement of signalling equipment (July 2018) – the value of the contract awarded was also higher than what had been approved The lack of competitive bidding and unfair/uncompetitive procurement processes are likely to result in material financial losses, as market-related prices are not being secured for the delivery of services.		
Department of Water and Sanitation	2	Delayed payments to a water board responsible for a water infrastructure project resulted in the temporary suspension of the project. The contractor charged for standing time and interest on outstanding invoices, resulting in a financial loss of R12,8 million.	R30,7 million	Water board payment – the accounting officer is investigating the material irregularity and has committed to take action against any officials found to be responsible and to recover the financial loss to the fullest extent possible.
		A payment of R17,9 million was made to a consulting firm appointed for financial management services without evidence of work performed.		Consulting firm payment – the accounting officer investigated the material irregularity. Based on the outcome, the accounting officer initiated disciplinary procedures against the officials involved and filed a summons with the High Court of South Africa to declare the contract invalid. Further action (including recovering the loss) will be taken once the court processes have been concluded.

Auditee	Number of material irregularities	Description	Financial loss	Action being taken
Health (GP)	1	Information technology infrastructure was procured without inviting competitive bids, resulting in a financial loss of R148,9 million as cheaper alternatives were available.	R148,9 million	The accounting officer investigated the material irregularity. Based on the outcome, the accounting officer referred it to the National Prosecuting Authority and the Office of the State Attorney for criminal charges and possible civil claims against the officials. Disciplinary action will also be taken.
Health (NC)	1	Payments were made for radiology services but the contract contained a mathematical error that resulted in overpayments. Payments were also made for mammogram services even though the hospital where the services were rendered did not have a mammogram machine.	To be quantified by the accounting officer based on the investigation	The accounting officer did a preliminary investigation. Based on the outcome, a full-scale investigation was instituted on 23 August 2019.
Health (KZN)	1	Contracts for radiology equipment were awarded to bidders that did not score the highest points in the evaluation process. The prices were higher than those of the bidders that should have been awarded the contracts.	To be quantified by the accounting officer based on the investigation	The accounting officer did a preliminary investigation. Based on the outcome, the accounting officer referred the material irregularity to the provincial treasury for a formal investigation. Further plans are to take action against any officials found to be responsible as well as to quantify and recover losses.
Department of Basic Education	1	A contractor was paid although the work undertaken was not at the required standard of quality. Further payments had to be made to another contractor appointed to perform remedial construction work.	To be quantified by the accounting officer based on the investigation	An investigation into the matter was concluded during the 2017-18 financial year. The accounting officer aims to recover the money in the 2019-20 financial year.

Auditee	Number of material irregularities	Description	Financial loss	Action being taken
Education (LP)	1	The department entered into a contract with a supplier of information technology services. The contract was cancelled during the period that the department was placed under administration (from 2011). The required goods and services were received from the supplier before the contract was cancelled, but the invoices were not paid. Litigation resulted in the supplier successfully claiming the outstanding payment plus interest. The interest paid in January 2019 amounted to R85,2 million.	R85,2 million	The accounting officer performed a preliminary investigation, which determined that different public sector institutions played a role in the material irregularity. The matter was referred to the Limpopo premier's office in June 2019 to be dealt with as an intergovernmental relations dispute.

The material irregularities **referred to a public body for investigation** or for which we **included recommendations in the audit report** to address the material irregularities are detailed below:

RECOMMENDATIONS AND REFERRALS

Auditee	Material irregularity	Financial loss	Recommendation/referral
Passenger Rail Agency of South Africa	Multiple instances of non-compliance in the procurement process for locomotives in July 2012 resulted in the contract being unfairly awarded. A prepayment of R2 600 million was made to the supplier, but the auditee derived no value as the locomotives were not fit for purpose. The supplier applied for liquidation in December 2018, making the recovery of the financial loss unlikely and resulting in R2 200 million of the debt owed by the supplier to the auditee being impaired in 2018-19. An investigation by the board in 2015 resulted in a referral to the Directorate for Priority Crime Investigation for investigation and the contract being set aside by courts in May 2019. The second phase of the investigation into the implicated officials is still in progress.	R2 200 million	Recommendations to be implemented by 31 March 2020: 1. Appropriate action should be taken to ensure that the second phase of the investigation is concluded. 2. Effective and appropriate disciplinary steps should commence against any employee that the second phase of the investigation finds to be responsible, as required by section 51(1)(e) of the Public Finance Management Act.

Auditee	Material irregularity	Financial loss	Recommendation/referral
Health (GP)	Medical claims were not paid within the period specified in court judgements, resulting in interest being charged. The action taken by the accounting officer was not appropriate to address the material irregularity.	R8 million	Recommendations to be implemented by 31 January 2020: 1. The accounting officer should investigate the fruitless and wasteful expenditure incurred as a result of the interest paid. 2. Effective and appropriate disciplinary steps should be taken against any official that the investigation finds to be responsible, as required by section 38(1)(h) of the Public Finance Management Act and in accordance with treasury regulation 9.1.3. 3. Appropriate action should be taken to determine whether the responsible official(s) is liable by law for the losses suffered by the department for the purpose of recovery, as required by treasury regulations 9.1.4 and 12.7.1.
Health (NC)	A three-year contract for medical waste collection was awarded in November 2018 to a supplier based on the criteria applied in the evaluation process, which were different from those included in the original bidding invitation. The non-compliance is likely to result in a material financial loss, as the fixed monthly pricing awarded to the supplier differed significantly from the variable costing pricing included in the original bidding invitation. The accounting officer did not agree that there was non-compliance in the procurement process.	To be determined as part of investigation	We referred the matter to the National Treasury in October 2019 for investigation.

Based on the outcomes of the 2018-19 audits, we can make the following observations:

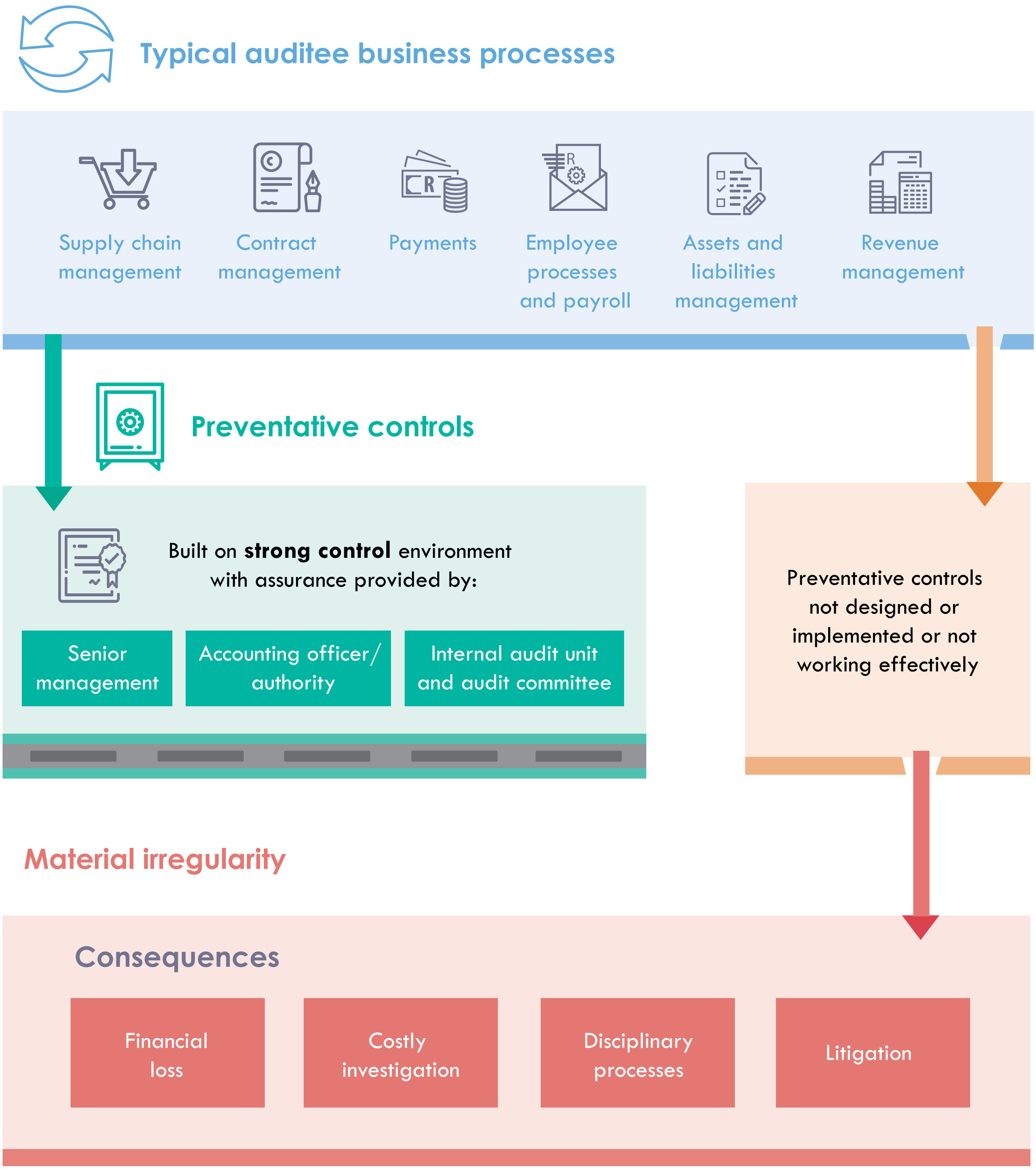
- The **reaction of accounting officers and authorities** towards being selected for the first phase was tentative in the beginning and some experienced anxiety over how it would affect them. As the process unfolded and the accounting officers and authorities realised that the process is not punitive in nature but gives them the opportunity to deal with the material irregularities identified through their legislated and internal processes, the reaction was more positive and cooperative.
- Most **accounting officers and authorities are taking appropriate action** to address the material irregularities identified. They had already started taking action in some cases by the time we formally notified them of the material irregularity. At least preliminary investigations were done within the 20 working days we gave to the accounting officers and authorities to respond to our notification. This demonstrates that accounting officers and authorities understand what they are required by legislation to do when they become aware of irregularities and that they are willing and able to take on these responsibilities. It also signals a behavioural change towards responding in a decisive and timely manner to our findings.
- The timely resolution of material irregularities will be **dependent on investigations** that are thorough but also speedily completed. The accounting officers and authorities can monitor the progress made on the investigations they commissioned, and can ensure that the completion is not unduly delayed. However, when a material irregularity is referred to another public sector institution, for example the Special Investigating Unit, the Directorate for Priority Crime Investigation or a treasury, the accounting officer or authority has little influence. In the case of the locomotives purchased by the Passenger Rail

Agency of South Africa, for example, the matter had already been referred to the Directorate for Priority Crime Investigation in 2015 for investigation but is still outstanding. The executive authorities and committees in Parliament and legislatures will need to monitor progress on these investigations and hold these institutions accountable.

- Most of the material irregularities identified were money lost as a result of payments that should not have been made. These material irregularities **are not complex accounting or procurement issues and could have been prevented through basic controls**. The material irregularities resulting from supply chain management non-compliance were also mostly not complex or ambiguous and could have been prevented – or at least detected and dealt with – before they resulted in such material financial losses for the auditees. None of the material irregularities were as a result of human error, but were rather due to poor processes and judgement. There were most definitely indicators of fraud in some of these material irregularities, which have been (or will still be) uncovered by the investigations.

PREVENTING MATERIAL IRREGULARITIES

The system of accountability has reached a point where **accounting officers and authorities must invest in preventative controls**. Preventing material irregularities is more effective than having to deal with the consequences thereof – money is lost, costly investigations have to be instituted and officials are subjected to the discomfort and anxieties associated with these processes, which often take a number of years.



Our message has been consistent over the years that a strong control environment and processes are key to achieving objectives, addressing risks, ensuring compliance with legislation, and managing public sector funds to the benefit of citizens. We acknowledge that it takes time to institutionalise good controls, especially in large and complex environments, but the accounting officers and authorities need to **build their institutions towards accomplishing this in a deliberate manner**.

We encourage accounting officers and authorities to **identify the areas of greatest risk in their institutions and focus on strengthening those areas first** – by applying the 80:20 rule, the greatest impact can be achieved through the lowest effort by focusing on the 20% that will bring 80% of the results. In the context of material irregularities, we highlight three key areas where auditees are vulnerable to material financial losses, based on our findings in this first phase of implementation, and provide recommendations for preventative controls:

1. *Awarding of contracts (the procurement process)*

The process of inviting competitive bids, evaluating the bids received and awarding the contracts is well described in legislation and the guidance issued by the National Treasury. Auditees generally have supply chain management policies and procedures in place and have the required delegation frameworks, structures and committees to enable a controlled process. However, weaknesses arise when the standard procurement process is not followed or deviations are allowed. Attention should be paid to the following:

- **Always follow a competitive bidding process** for contracts valued at more than R500 000. Deviating from the process as a result of an emergency or there being a sole supplier should be approved by the accounting officer or authority only in exceptional circumstances and only after the proposal by the supply chain management officials has been evaluated independently – by the internal audit unit or an appropriate committee or structure. A competitive bidding process ensures that the pricing and quality of the goods and services and the capacity and capability of the supplier are rigorously tested to prevent paying inflated prices or a failure by the supplier to deliver.
- The **specifications** for the goods and services to be procured and the capacity and capability of the supplier should be comprehensive, specific and measurable to prevent changing specifications during the evaluation process, deviations or making subjective decisions. The time spent by skilled people in perfecting specifications pays off later in the process.
- Investing in people with the required **skills and independence** to be part of the evaluation and adjudication committees will prevent incorrect decisions and reduce the risk of undue influence or pressure on members to favour certain suppliers. Including risk officers, internal auditors or experts from outside the organisation in the committees will contribute to a fair process. **Reaching out to the treasuries** for support and guidance on complex issues should be encouraged.
- The supply chain management unit, the members of the committees and the officials delegated to make the decisions have a multitude of matters to consider and check. The processes can be quite complex and lengthy, lending itself to human error and the risk of manipulation. To prevent this, **checklists** are a proven way of ensuring a consistent and thorough approach. Checklists should be developed and applied from the start of the process until the contract is awarded, and should be kept as an audit trail.
- Any **deviations from the prescribed procurement process** must be flagged and elevated to the delegated officials or structures for consideration. It is sometimes better to discard a bidding process that did not deliver what had been planned, than going ahead with deviations that later result in non-delivery or litigation.
- **Participating in contracts arranged by other organs of state** is cost-effective and saves time but the risk of non-delivery by the supplier increases if the decision is taken without the required level of diligence. It can be prevented by implementing the same rigour in determining the specifications for the goods and services to be procured as in a normal process. The evaluation and adjudication structures should also be used to independently consider whether the contract is sound, the supplier will deliver the required goods and services, and the legislative prescripts for such participation have been adhered to.
- The officials responsible for **setting up the contract** after it has been awarded should be independent from the procurement process and should not deviate from the values, conditions, prices and defined goods and service awarded. This should also be independently checked before the contract is signed.
- The **internal audit unit** has a significant role to play in the procurement process. They can act as observers in the process or can be used to evaluate and certify the process before a final award is made. They can also independently check the contracts. The **audit committee** should support the internal audit unit in their work, protect them from undue influence, and monitor and report on the processes.

2. *Managing contracts*

Managing contracts involves monitoring the delivery by the supplier, ensuring that the goods and services received adhere to the requirements of the contract in terms of quality and price, and invoking the required penalties if there is non-delivery. The responsible officials should look after the best interest of the auditee by ensuring delivery and that value for money is received. However, auditees severely neglect this area. Attention should be paid to the following:

- Some auditees have no contract registers. They do not know what contracts the auditee has entered into, when it expires and the amounts committed. Without a contract register, it is not possible to manage contracts, which often leads to contracts being extended without a competitive bidding process, as the auditee only became aware of the expiry when the supplier notified them. The lack of registers is also often accompanied by missing contracts – without a contract, it is not possible to manage delivery and payment. Comprehensive **contract registers and record keeping** are key to contract management.
- Contracts should be clear on what should be delivered, by when and the quality of the deliverable. Based on the contract, the **performance measures and the evidence** required should be defined, documented and **monitored on a monthly basis** to prevent non-delivery. **Officials** with the required skills and who are close enough to the delivery to make an independent assessment should be responsible for contract management.
- Often remedial work is necessary to fix sub-standard work by a contractor or money is lost as a result of **poor-quality deliverables**. Such losses should always trigger an immediate process of recovery from the contractor and/or non-payment or retention. Any delays in recovery increases the risk of non-recovery and costly litigation processes.

3. *Making payments*

Most of the material irregularities identified were as a result of payments that should not have been made. Preventative controls for the payment processes are well known, designed and implemented at most auditees, while the financial systems have built-in controls to enforce, for example, matching invoices to goods receive notes, approval of payments, and segregation of duties. Problems arise, however, when these processes are circumvented. Attention should be paid to the following:

- **Prepayments should not be made** except in exceptional circumstances, and only when it was agreed and committed to at the start of the procurement process (in other words, it was not decided on only after a supplier had been appointed). The conditions for prepayments should be strict and should be monitored and enforced. As it creates a high risk for the auditee, it should also be flagged and monitored by the internal audit unit and/or risk unit of the auditee.
- No payments should be made without the official responsible for approving the payment or certifying that the payment can be made, scrutinising the contract and checking all the requirements of the contract. Auditees should apply the principle of **no contract, no payment**. Controls can also be built into the financial systems to check payments to suppliers and keep track of the contract values and expiry dates.
- As detailed earlier, the performance measures for services to be delivered by a supplier (including construction contracts) and the evidence that it has been delivered need to be defined and monitored on a monthly basis. **No payments should be made without credible and reliable evidence of services having been delivered** as required. Such payments can be prevented to some extent by segregating the duties of officials responsible for projects and the certification of service delivery and officials responsible for payment, as well as by using elevated delegation levels for any deviations.

The preventative controls will only operate effectively and consistently if they are built on a **strong control environment** driven by the leadership – in particular by the accounting officer or authority. Such an environment is characterised by the following:

- A culture of ethical behaviour and commitment to good governance and accountability enabled and inspired by the words and actions of the **leadership** of the auditee.
- **Adequate and sufficiently skilled officials** who know what their responsibilities are towards internal controls, as it is included in their job descriptions and often communicated, while their performance is monitored.
- Comprehensive **policies and procedures** define principles and processes for officials to follow when they are performing their duties.
- Mechanisms for officials to report any pressure on them to act (for example, make decisions or payments) in a manner that is not in accordance with policies, procedures or codes of ethics. Such **whistleblowing mechanisms**

should protect the official and enable swift and appropriate action against the implicated parties.

- **Risk management** through regular risk assessments (including fraud risk) and the development and implementation of mitigating measures, such as internal controls.
- A **combined assurance model** whereby different levels of management, the internal audit unit and the audit committee all work towards strengthening controls through monitoring and oversight.

Parliament and legislatures can also play an important role in preventing material irregularities through the portfolio committees and standing committees on public accounts. As detailed earlier in this section, the committees can use the information we provide on material irregularities in the audit report and general reports to call accounting officers and authorities as well as public bodies to account on how reported material irregularities are being resolved. However, a more proactive approach geared towards prevention will have an even greater impact. Such an approach should be aimed at identifying risks for material irregularities and requiring assurance from accounting officers and authorities that these risks are being mitigated through a strong control environment and the type of preventative activities detailed above. Our briefings to the committees on, for example, the status of records will be a good source of information on risks and the status of controls. But we also strongly encourage committees to engage with the chair of the audit committee and the head of the internal audit unit on their perspective, as they have a key responsibility to assess risk and control.

As we continue on our journey to implement the material irregularity process, we hope to see a definite move towards the prevention of material irregularities to the benefit of the financial management, reputation and service delivery of our auditees – and ultimately the lives of the citizens they serve.

NOTES

SECTION 4

Financial management in national and provincial government

4 FINANCIAL MANAGEMENT IN NATIONAL AND PROVINCIAL GOVERNMENT

Accounting officers and authorities managed an estimated expenditure budget of R1 747 billion in 2018-19. In order to allow accountability for government spending and as per the 'plan+do+check+act' cycle explained in section 2, they must plan (define the target), control (implement the basic controls and supervision) and monitor (check) the finances of departments and public entities with a view to achieve their strategic goals and objectives; and report in a transparent and credible manner on these finances in their financial statements.

Our responsibility with regard to financial management is to audit the financial statements to determine whether they fairly present the financial state of affairs of auditees and to audit auditees' compliance with legislation relating to financial management. In addition, we assess and comment on the financial health and internal controls of auditees.

Over the past five years, we have consistently reported on the same deficiencies in financial management in national and provincial government and made recommendations to the auditees, national and provincial role players as well as oversight structures – but there has been little improvement in this area.

At this time when departments and public entities need to do more with less and where the demands from the public for service delivery and accountability are increasing, accounting officers and authorities should do everything in their power to get the most value from every rand spent and manage every aspect of their finances with diligence and care.

As in the previous year, we again highlight our concerns on the current state of financial management in this section – in particular, by looking at auditees' financial statements, financial health, compliance with legislation relating to financial management, and financial losses. We also provide our view on the reasons for these deficiencies and our overall recommendations.

FINANCIAL STATEMENTS

Credible financial statements are crucial to enable accountability and transparency, but many auditees are failing in this area.

Why are the financial statements important?

The financial statements of an auditee show how it spends its money, where its revenue comes from, its assets and the state of those assets, how much it owes creditors, how much is owed to the auditee, and whether it is expected that the money owed will be received.

The financial statements also provide crucial information on how the budget was adhered to, the unauthorised, irregular as well as fruitless and wasteful expenditure incurred plus the overall financial position of the auditee – whether its operations are financially sustainable.

The financial statements are used by the committees in Parliament and the legislatures to call the accounting officers and authorities to account and to make decisions on, for example, the allocation of the budget. In the case of some public entities, the financial statements are also used by creditors, banks and rating agencies to determine the level of risk in lending money to an entity. In addition, members of the public can use the financial statements to see how well the auditee is using the taxes they pay to provide services.

If we audit and express an unqualified audit opinion on the financial statements, it means that there were no material misstatements (errors or omissions) in the financial statements and the users thereof can trust the credibility of the information.

What did we find on the submission of financial statements for auditing?

As in the previous year, 8% of the **auditees did not submit their financial statements for auditing by the legislated date**.

The following nine auditees had still not submitted their financial statements for auditing by the cut-off date of 2 September 2019:

Public entities	Reasons for non-submission
National	
Air Chefs Mango Airlines SAA Technical South African Airways	The SAA group is experiencing serious financial challenges and is unable to meet going concerns. The financial statements for 2017-18 are also still outstanding.
Tshwane North Technical and Vocational Education and Training College	Inadequate financial systems and internal controls led to the late submission of financial statements for a number of years.
Turbomeca Africa	The auditee has assessed itself as being dormant and therefore did not submit financial statements.
North West	
Atteridgeville Bus Services North West Star North West Transport Investments	First-time adoption of the International Financial Reporting Standards and lack of capacity to prepare financial statements.

The audits of the Compensation Commissioner for Occupational Diseases and the Tshwane North Technical and Vocational Education and Training College were long outstanding as a result of the late submission of financial statements. This was due to the former lacking reliable data and record keeping, and the latter's leadership and governance challenges. Although the 2018-19 audit for the college is still in progress as financial statements were only submitted on 30 September 2019, the backlog of outstanding prior year audits was cleared and the audits of 2016-17 and 2017-18 were completed. The Compensation Commissioner for Occupational Diseases submitted most of their backlog in financial statements – we have audited the 2010-11 to 2015-16 financial years and are currently busy with the audit of 2016-17. The financial statements for 2017-18 and 2018-19 are still outstanding.

Of particular concern to us is that no progress has been made in addressing the lack of accountability by traditional authorities. We also drew attention to this in the previous general report. Our main concerns reported in prior years were that the last financial statements we received for the North West Tribal and Trust Fund were for 2000-01 and that we had not received any books or accounts to audit from the individual tribal authorities in Limpopo or North West since 1994. The National Treasury has developed a draft reporting framework for tribal authorities, and will be consulting with the Department of Cooperative Governance and the affected entities. The Traditional and Khoi-San Leadership Bill, which should address some of the inconsistencies and uncertainties, has not yet been promulgated.

The financial statements submitted to us for auditing were even worse than in prior years. Only 43% of the auditees gave us financial statements without material misstatements. Of the 217 auditees that gave us poor financial statements, 118 could correct all the material misstatements we identified – resulting in 74% of the auditees receiving unqualified audit opinions. This means that if we had not identified the misstatements for the auditees and allowed them to correct these, 57% of the auditees (81 departments and 136 public entities) would have published financial statements that were not credible.

Although we report on the poor preparation of financial statements every year in the audit reports (as a non-compliance finding) and in the general report, there has been a slight regression since the previous year. In 2014-15, 49% of the auditees submitted quality financial statements for auditing – which regressed slightly to 47% by 2017-18 and then further regressed to 43% in 2018-19.

The controls to prevent misstatements are inadequate and the misstatements remain undetected even though the financial statements go through various levels of review, including the chief financial officer and the audit committee, before it is approved by the accounting officer or authority. Pressure is then placed on the auditors to identify the misstatements as part of the audit process. The continued reliance on the auditors to identify corrections to be made to the financial statements to obtain an unqualified audit opinion is not an effective or sustainable practice. Over the years, this has placed undue pressure on the audit teams to meet the legislated deadlines for the completion of the audits, with an accompanying impact on the audit fees.

Who is over-relying on the audit process to prepare credible financial statements?

Accounting for the transactions, assets and liabilities of departments and public entities using the public sector accounting frameworks is generally not complex. In a specific financial year, however, there could be unique or complex transactions, arrangements or events that are difficult to account for. There could also be changes in the accounting framework or new interpretations and guidance on particular areas. It is thus to a degree acceptable that an auditee could struggle in that year to produce financial statements without material misstatements. But some auditees give us poor financial statements every year and only achieve an unqualified audit opinion as a result of us identifying the corrections they should make.

In total, 245 auditees submitted financial statements over the past five years with material misstatements and only achieved unqualified opinions by correcting the misstatements we identified. A third of these auditees (33%) achieved their unqualified opinion in this manner for two years, and 16% for three years. The following are the 4% of auditees that gave us poor financial statements every year over the past five years, but obtained unqualified opinions every year because they corrected their misstatements:

Departments	Public entities
National departments: • Labour • Rural Development and Land Reform Eastern Cape: • Human Settlements Gauteng: • Infrastructure Development Limpopo: • Transport	Central Energy Fund and one of its subsidiaries, Strategic Fuel Fund Association Energy and Water Sector Education and Training Authority Public Protector of South Africa South African National Roads Agency

What did we find on the quality of the financial statements?

The number of auditees that obtained unqualified audit opinions decreased to 282 (74%) from 286 (75%) in the previous year. Although the percentage of auditees decreased from 2014-15, the number increased from 274 (80%).

These auditees could not correct some or all of the material misstatements we identified during the audit, which resulted in qualified, adverse or disclaimed audit opinions (collectively called 'modified audit opinions').

Adverse and disclaimed audit opinions are the worst opinions an auditee can receive. An adverse opinion means that the financial statements included so many material misstatements that we disagree with virtually all the amounts and disclosures in the financial statements. A disclaimed opinion means those auditees could not provide us with evidence for most of the amounts and disclosures in the financial statements.

Effectively the information in financial statements with adverse or disclaimed opinions can be discarded, as it is not credible – in our audit reports, we tell oversight structures and other users of the financial statements that the information cannot be trusted.

Two departments, Human Settlements (GP) and the premier's office (FS), obtained disclaimed opinions as a result of insufficient appropriate audit evidence for various line items, including transfers and subsidies as well as payables at both departments. These departments were responsible for R6 768 million of the expenditure budget.

In the previous year, the Free State's Agriculture and Rural Development; premier's office; and Sport, Arts, Culture and Recreation received a disclaimed opinion.

These types of opinions were more common at public entities, with four adverse opinions (Coastal Technical and Vocational Education and Training College, Community Schemes Ombud Service, consolidated Ingonyama Trust Board, and Ingonyama Trust) and nine disclaimed opinions – two technical and vocational education and training colleges, four provincial public entities in North West, Compensation Fund, Marine Living Resources Fund, and Gauteng Housing Fund. Since 2014-15, there has been a decrease in disclaimed opinions (from 12) and an increase in adverse opinions (from three) at the public entities. The Compensation Fund and Mbabane Arts, Culture and Sport Foundation have been in this group for the past five years. In 2014-15, six technical and vocational education and training colleges were in this group, but there has been a significant improvement since then.

A qualified audit opinion means that there were areas in the financial statements that we found to be materially misstated.

In our audit reports, we point out which areas of the financial statements cannot be trusted.

In 2018-19, 39 departments obtained qualified audit opinions – a regression from 30 in the previous year, and 25 in 2014-15.

Fewer public entities (47) had qualified opinions than in the previous year. However, only 28 public entities had qualified opinions in 2014-15.

What causes these modified opinions?

Departments and public entities follow different accounting frameworks and have different systems and processes to prepare their financial statements – hence the obstacles they face towards producing credible financial statements are different.

Departments follow a modified cash basis of accounting – it is a simpler form of accounting where most of the transactions are only recognised (in other words, included in the financial statements) when they are paid. They do not account for their assets and liabilities in a sophisticated or complex manner.

Typically, departments also do not have various sources of revenue and only a few generate their own revenue in addition to receiving appropriations.

Most departments use transversal information technology systems (namely the Basic Accounting System, Personnel and Salary System, and Logistical Information System) to capture their transactions, while the National Treasury provides specimen financial statements and detailed guidance to support the preparation of financial statements.

The following were the most common areas of departments' financial statements we qualified in 2018-19:

- The value of **assets** recorded in the financial statements was incorrect or we could not confirm the value at which these assets had been recorded.
- The **commitments** (meaning the value of contracts and agreements on which they are committed) were not correctly recorded and disclosed in the financial statements or we could not obtain sufficient evidence that all had been included.
- We could not obtain sufficient evidence regarding the **expenditure** recorded and disclosed.

A common feature at departments with modified audit opinions were inadequate processes, systems and controls to ensure that transactions, commitments and assets were recorded correctly and completely and that the disclosures in the financial statements were made in accordance with the modified cash basis of accounting.

The incomplete disclosure of irregular expenditure in the financial statements was also a common area (we qualified 9% of the departments in this regard), but it is not an accounting problem but rather the result of inadequate processes to prevent or detect irregular expenditure (more on this in section 6).

Public entities mostly use Generally Recognised Accounting Practice as their accounting framework, which is similar to the accounting frameworks used in the private sector. It is slightly more complex than the accounting for a department, as it uses an accrual basis of accounting. This means that transactions are recognised when they take place, and all assets and liabilities are included in the financial statements.

Public entities are more likely to generate their own revenue and have debtors, creditors, loans and more sophisticated financing arrangements.

The consolidation of some public entities also adds a level of complexity.

Technical and vocational education and training colleges make up 38% of the public entities that had modified audit opinions. The audit outcomes in section 6 show that the number of such colleges with financially unqualified opinions has improved over the past five years – from 13% (2) in 2014-15 to 46% (23) in the current year. The most common areas of their financial statements that we qualified in 2018-19 were expenditure (43%) and non-current assets (39%).

The control environment at most of the colleges had not necessarily improved, as they relied heavily on the chief financial officers seconded to them through the support programme of the South African Institute of Chartered Accountants, particularly on finance matters. This support programme ended recently.

The other public entities were most commonly qualified in the areas of assets, receivables, expenditure, and the valuation of liabilities.

The poorly prepared financial statements and significant activity after their submission to make corrections in response to the audit also raise questions on the credibility of in-year reporting and the effectiveness of financial monitoring and control throughout the year. The treasuries and oversight bodies (such as portfolio committees) use in-year reporting for monitoring, and the unreliable information provided to them affects their effectiveness. Auditees' poor monitoring and corrective action throughout the year is one of the main reasons for the concerning financial health status of departments and public entities and the high amount of unauthorised expenditure.

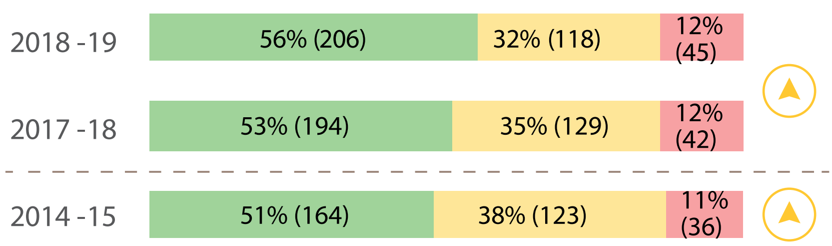
FINANCIAL HEALTH AND UNAUTHORISED EXPENDITURE

Our audits included a high-level analysis of **12 financial health indicators for departments** and **nine financial health indicators for public entities** to provide management with an overview of selected aspects of their current financial management and to enable timely remedial action where the auditees' operations and service delivery may be at risk. We also performed audit procedures to assess whether there were any events or conditions that might cast significant doubt on an auditee's ability to continue its operations in the near future. Based on the analysis, we gave each auditee an overall assessment as follows:

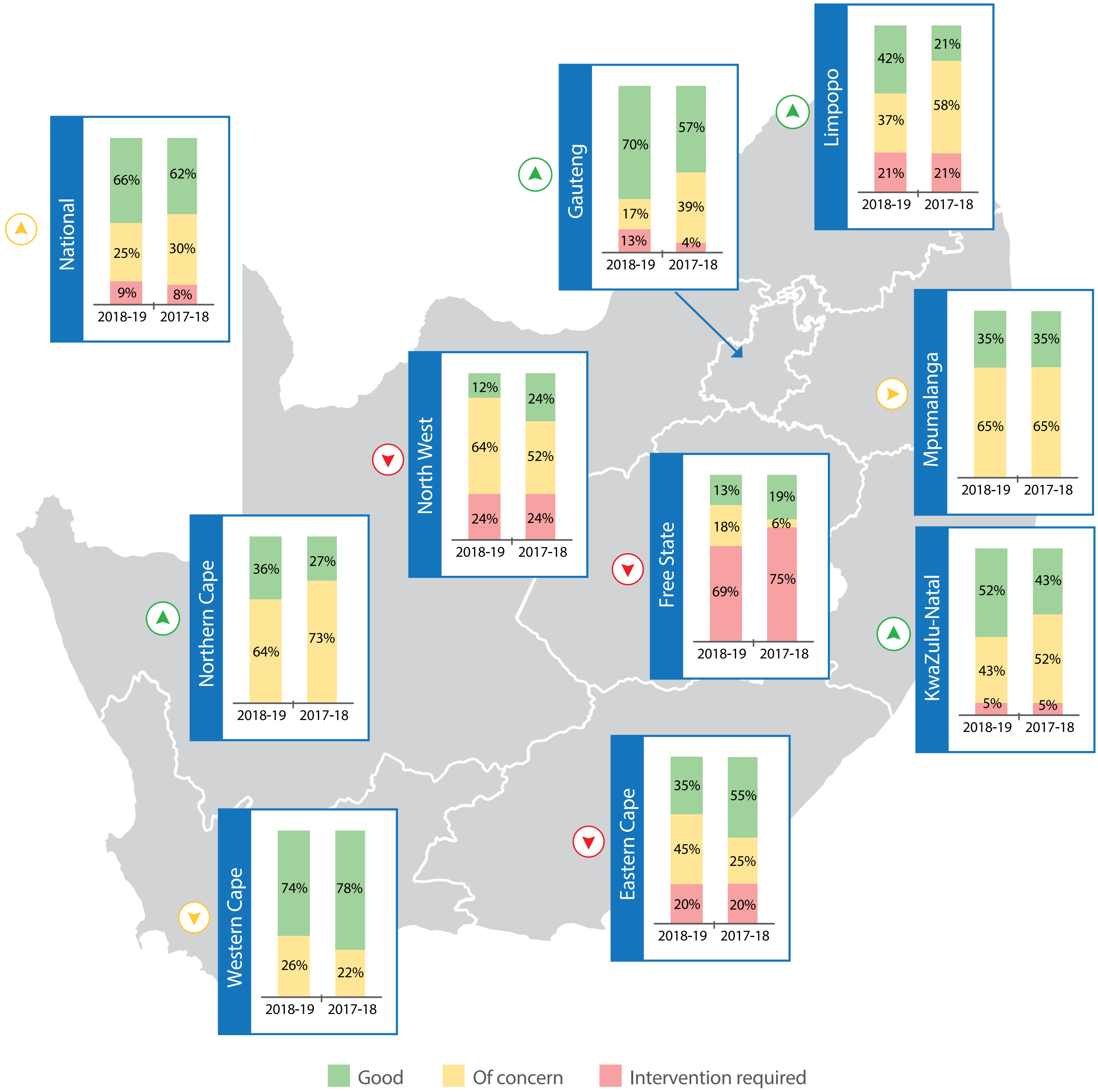
Good	Fewer than 30% unfavourable indicators
Of concern	30% or more unfavourable indicators
Intervention required	Significant doubt that operations can continue in future (vulnerable position) and/or where auditees received a disclaimed or adverse opinion, which meant that the financial statements were not reliable enough for analysis

Please note that the following information excludes the financial health status of state-owned entities, as we comprehensively deal with this in section 7.

Overall, there has been a slight improvement in the financial health status of national and provincial auditees since the previous year and over the past five years, as can be seen below, mostly as a result of a slight upturn in the financial health of some public entities:

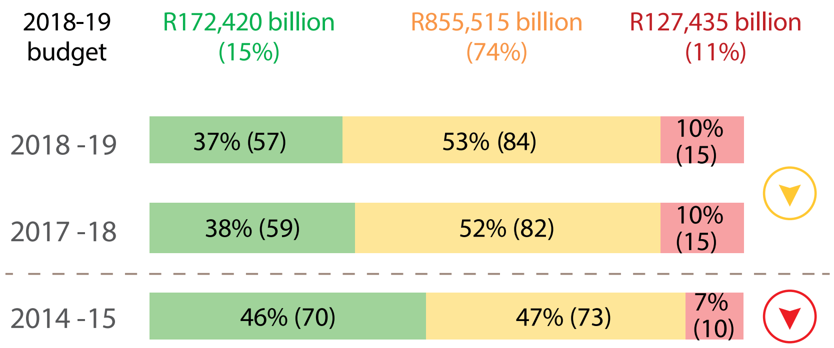


The financial health of auditees in most provinces either improved or remained unchanged, with the Eastern Cape, Free State and North West showing a regression. There are still a significant number of auditees in the Free State that need urgent attention.



We further detail the key concerns at departments and public entities below.

FINANCIAL HEALTH AND UNAUTHORISED EXPENDITURE OF DEPARTMENTS

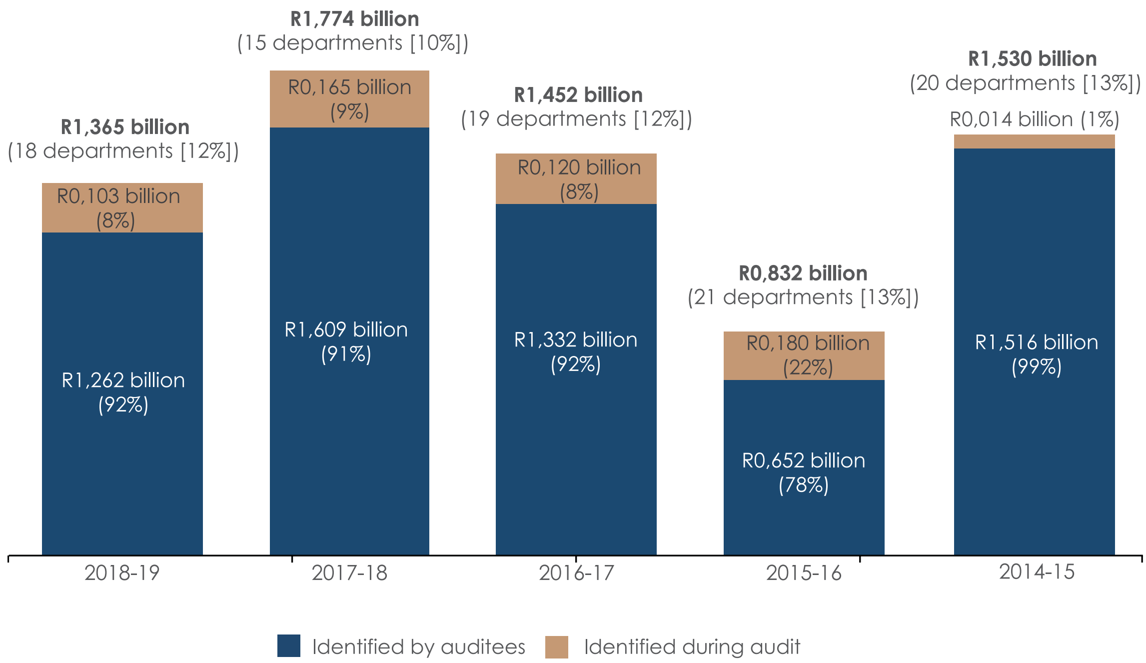


The financial health of departments showed a further slight regression in 2018-19 – continuing on a downward spiral since 2014-15. The departments with a good financial health status represented only 15% of the expenditure budget of departments. Included in the 57 departments with a good financial health status in the current year, are 26 departments that were able to maintain their good financial health status from the previous year and when compared to 2014-15. These departments are most prevalent in Gauteng (eight), the Western Cape (five), and the national government (five). The eight departments identified in Gauteng included the provincial treasury, provincial legislature and e-Government. Gauteng's provincial treasury has managed to retain its creditor-payment and debt-collection periods below 30 days and has not had a bank overdraft, guarantees or claims against them for the past two years.

Overall, 13 of the 15 departments that we identified as requiring urgent intervention disclosed in their financial statements that they might find it difficult to continue to operate. Although these departments continued with their operations, they were reporting that they were in a particularly vulnerable position at the end of the financial year.

The status of unauthorised expenditure also provides a view of the financial health of departments, as it mostly represents departments' overspending of their budgets. It is encouraging that unauthorised expenditure decreased by 23% from the previous year, but the increase in the number of departments incurring this type of expenditure remains concerning.

The extent of unauthorised expenditure over the past five years and the proportion thereof identified during the audit and not by the auditee can be seen below:



R1,363 billion (99,9%) related to overspending of the budget and the remainder was money not spent in accordance with the purpose of the budget

Four of the 18 departments that incurred unauthorised expenditure in the current year, also incurred this type of expenditure for the past three years. The two departments in the Free State, namely Education as well as Police, Roads and Transport, have incurred this type of expenditure for the past five years. Section 6 includes more detail on the unauthorised expenditure incurred.

We provide further details on the indicators we used to analyse the financial health of departments below, but first it is important to understand how the financial analysis of departments is different from that of other auditees and private sector entities.

As mentioned earlier, departments prepare their financial statements on what is called the **modified cash basis of accounting**. This means that the amounts disclosed in the financial statements are only what had actually been paid during the year and **do not include accruals** (the liabilities for unpaid expenses) at year-end. While this is common for government accounting, it does not give a complete view of the year-end financial position of a department.

We believe it is important for management to understand the state of their departments' finances, which may not be easily seen in their financial statements – hence we annually **reconstruct the financial statements** at year-end to take into account these unpaid liabilities. It allows us to assess and report to management whether the surpluses they reported are the true state of affairs and whether they have technically been using the following year's budget because of overcommitments in a particular year.

Key financial health indicators at departments

Indicators	2018-19 with movement from previous year	Movement from 2014-15
Sustainability		
Deficit (expenditure exceeded revenue)	43% (66) ▼	▼
> 10% of next year's budget (excluding employee cost and transfers) will fund current year's shortfall	17% (24) ▼	▼
Bank in overdraft	16% (24) ▲	▲
Claims > 10% of next year's budget (excluding employee cost and transfers)	34% (50) ►	-
Revenue management		
Debt-collection period > 90 days	30% (46) ▼	▼
More than 10% of debt irrecoverable	23% (36) ▼	▼
Creditors		
Creditor-payment period > 30 days	36% (55) ▼	▼
Average creditor-payment period	31 days ▲	▼
Unpaid expenses at year-end that should have been paid within 30 days > 10%	50% (73) ▼	▲

The **sustainability indicators** and the high unauthorised expenditure paint a picture of departments unable to operate within their budgets – resulting in **deficits** and **overdrafts**. The consolidated deficit amounted to **R16,4 billion** with Health (GP), the Department of Correctional Services and the Department of Police being the major contributors with R4,3 billion (26%), R1,6 billion (10%) and R1,6 billion (10%), respectively.

In total, 108 departments (74%) technically had **insufficient funds** to settle all liabilities that existed at year-end if the unpaid expenses at year-end were also taken into account. This means that these departments started the 2018-19 financial year with part of their budget effectively pre-spent. As shown above, 24 departments had already spent more than 10% of their 2018-19 operating expenditure budget if the budget for employee cost is not taken into account. The **consolidated cash shortfall** of these 24 departments amounted to R11,7 billion, with Public Works (KZN) (109%), Cooperative Governance, Human Settlements and Traditional Affairs (NC) (105,8%) and Education (FS) (82,3%) having the highest percentage shortfall against next year's operating budget.

An emerging risk is the increased **litigation and claims against departments**. Let's first see what this involves.

Claims are made against departments through litigation for compensation as a result of a loss caused by the department – the most common claims are medical negligence claims against provincial health departments. Departments do not budget for such claims, which means that all successful claims will be paid from funds earmarked for the delivery of services, further eroding the ability of these departments to be financially sustainable.

This is the second year we analysed the extent of such claims and, as indicated in the table on the previous page, just over a third of the departments had claims against them in excess of 10% of their next year's budget. If paid out in 2019-20, this would use up more than 10% of these departments' budget meant for other strategic priorities. These claims totalled R100,9 billion at the 2018-19 year-end. The health departments in Gauteng, KwaZulu-Natal, Mpumalanga and Limpopo as well as the Department of Police were the highest contributors to this amount, with a combined value of R70,9 billion (70% of the total claims).

The following is an example of how **claims against the state** negatively affected service delivery:

Health (MP)

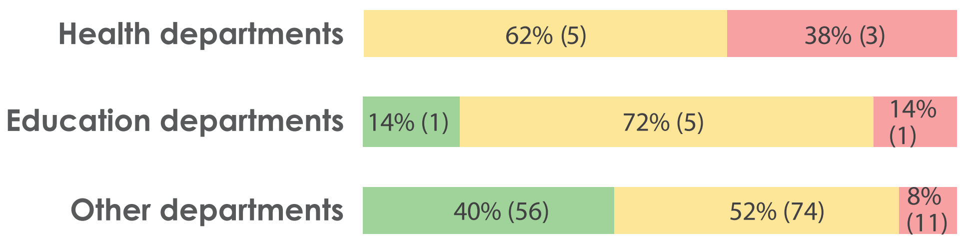
The department's budget for claims in 2018-19 amounted to R68 million, but the total claims paid out for the year amounted to R499 million. As a result, vacant positions of chief executive officers and nurses were not filled timeously at some hospitals. The maintenance and purchasing of new ambulances were also affected, which in turn had an impact on the services rendered by hospitals.

Departments receive a budget from government as their key source of **revenue**. Some departments also generate revenue and depend on the collection of that revenue to provide them with the cash to operate. Any surpluses at year-end are paid back into the National Revenue Fund or provincial revenue funds, which in turn fund the budgets of departments in the following year. The ability to collect the debt owed to departments continued to be below par with **long debt-collection periods** and significant portions of the debt that were not deemed to be recoverable. The failure to collect debt not only affects the operation of the specific department but also the funds available for government initiatives in the following years.

The inability of auditees to pay their **creditors within 30 days** was one of the most common compliance findings we had raised (as detailed later on in this section). Delayed payments affect the cash flow of the suppliers that government is doing business with and are in sharp contrast with the objectives of stimulating the economy and supporting especially smaller businesses. Although delayed payments are typically as a result of poor controls and processes, it can be concluded that the financial difficulty of some departments and the lack of cash to honour their obligations (as described earlier in this section) are also contributing factors in this regard. There has been a slight regression in the payment of creditors by departments.

Which departments' financial health needs the most attention?

The financial health of provincial departments of health and education needs urgent intervention to prevent the collapse of these key service delivery departments. In comparison with the other departments, these sectors (particularly the health sector) are in a bad state, as demonstrated below:



The health department in the Northern Cape and the education departments in the Eastern Cape and Limpopo are among the departments excluded from the analysis, as these audits were finalised after the cut-off date.

Key financial health indicators at education and health departments

Province	Vulnerable position	Unauthorised expenditure	Deficit	% of cash shortfall funded by next year's operational budget*	Claims as % of next year's budget
Provincial education departments					
Free State	Yes	R280 million	R452 million	82,3	2,4 (R38 million)
Gauteng	No	-	R472 million	0,4	5,8 (R478 million)
KwaZulu-Natal	No	R11,9 million	No deficit	14,5	16,1 (R1 038 million)
Mpumalanga	No	-	No deficit	23,4	7,4 (R205 million)
Northern Cape	No	R18,8 million	No deficit	27,3	7 (R75 million)
North West	No	-	No deficit	2,8	16,3 (R375 million)
Western Cape	No	-	No deficit	0,5	7,7 (R274 million)
Provincial health departments					
Eastern Cape	Yes	R569 million	R3 million	7	366,3 (R29 million)
Free State	Yes	-	R134 million	7,9	68 (R2 511 million)
Gauteng	No	-	R4 281 million	14,7	116,74 (R24 756 million)
KwaZulu-Natal	No	R14 million	R1 347 million	0,3	135 (R20 730 million)
Limpopo	No	-	R1 053 million	0,1	185 (R8 499 million)
Mpumalanga	No	-	R207 million	4,6	182 (R10 091 million)
Northern Cape	No	R22 million	R553 million	8,7	49,1 (R2 107 million)
Western Cape	No	-	No deficit	0	1,4 (R126 million)

*** These departments will start the 2019-20 financial year with part of their budget effectively pre-spent**

We are also concerned about some of the other departments due to the reasons shown in the following table:

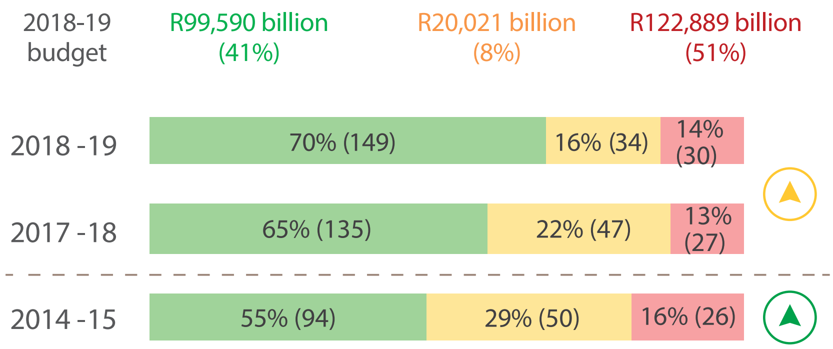
Department	Vulnerable position	Unauthorised expenditure	Deficit	% of cash shortfall funded by next year's operational budget	Claims as % of next year's budget
Home Affairs	No	-	No deficit	39,4	80,2 (R2 088 million)
Justice and Constitutional Development	No	-	R108,6 million	31,3	37,9 (R2 356 million)
Social Development	No	-	No deficit	14,9	35,4 (R152 million)
Water and Sanitation	Yes	-	No deficit	11,7	16,2 (R885 million)
Human Settlements (KZN)	No	R1,909 million	No deficit	10,3	58,2 (R119 million)
Cooperative Governance, Human Settlements and Traditional Affairs (LP)	No	-	No deficit	11,2	167,7 (R339 million)
Public Works (EC)	No	-	No deficit	16,5	29 (R320 million)
Cooperative Governance and Traditional Affairs (MP)	No	-	R28,03 million	27,5	50,1 (R41 million)
Energy	No	-	No deficit	17,8	42,7 (R125 million)
Higher Education and Training	No	-	R250,58 million	22,3	26,6 (R150 million)

Overall, the trend of departments failing to manage their finances properly continued. Some departments did not pay their creditors when their budgets started running out and thereby avoided unauthorised expenditure; but the payments were then made in the following year, effectively using money intended for other purposes. Some departments overspent their budgets and still had outstanding liabilities at year-end. This continuing 'rollover' of budgets is having a negative impact on departments' ability to pay creditors on time and to deliver services. The education and health departments are affected the most, and the possible effect on service delivery will have an impact on the most vulnerable in society.

FINANCIAL HEALTH OF PUBLIC ENTITIES

Section 7 discusses the major concerns we identified regarding the financial health of state-owned entities. The analysis in this section excludes these state-owned entities to give a view of the state of the other entities, which include constitutional institutions, government business enterprises, trading entities, other public entities that are not profit-driven, and the technical and vocational education and training colleges. Many of these entities are instrumental in achieving the targets set by the Medium-term Strategic Framework in areas such as infrastructure development, economic development and skills development. The entities also include those delivering services to the public and regulators that protect the public.

Overall, there has been a slight improvement in the financial health status of public entities since the previous year, and there has been good progress over the past five years, as follows:



Included in the 149 public entities with a good financial health status in the current year, are 73 public entities that were able to maintain their good financial health status from the previous year and when compared to 2014-15. It is encouraging to note that included in these 73 public entities are constitutional institutions and regulatory bodies such as the Financial and Fiscal Commission, Government Technical Advisory Centre, Independent Regulatory Board for Auditors, Financial Sector Conduct Authority, Financial Intelligence Centre, Municipal Demarcation Board, National Energy Regulator of South Africa, South African Local Government Association, and Human Rights Commission. Public entities such as the Financial and Fiscal Commission were able to retain their good financial health status over the past five years by ensuring that their creditor-payment and debt-collection period remained below 30 days, and that cash on hand exceeded the creditors for the past two years.

Key financial health indicators at public entities

Indicators	2018-19 with movement from previous year		Movement from 2014-15
Sustainability			
Deficit (expenditure exceeded revenue)	31% (61)	▲	▲
Net current liability position	16% (32)	▲	▼
Creditors as % of cash and cash equivalents > 100%	8% (16)	▲	▲
Revenue management			
Debt-collection period > 90 days	26% (52)	▲	▼
Average debt-collection period	77 days	▲	▲
More than 10% of debt irrecoverable	53% (105)	►	▼
Creditors			
Creditor-payment period > 30 days	66% (132)	▼	▼
Average creditor-payment period	75 days	▼	▼

In terms of **sustainability indicators**, a **total deficit** of **R62,06 billion** was incurred by the 31% of public entities whose expenditure exceeded their revenue – 95% thereof by schedule 3A public entities that are funded through revenue such as levies and taxes and that will need additional funding. Of the total deficit, 90% related to the **Road Accident Fund**. Even though most of the public entities that incurred deficits for the financial year would be able to continue their operations, the negative indicators raise concerns about the financial viability of some and the pressure to acquire additional funding from government.

The fact that there is an improvement in terms of **creditors exceeding available cash** is commendable.

At year-end, the **total creditors amount** for public entities was estimated to be **R58,1 billion** while the cash available was estimated to be **R70,9 billion.**

One of the main reasons for the poor financial health of public entities is inadequate **revenue management**. The root causes of **long-outstanding debt**, which places revenue funds under pressure and affects the ability of public entities to operate, remain poor revenue-collection and debt-management practices and the poor economic climate. **Extended collection periods** put the cash flow of public entities under significant pressure, which in turn means that they took longer to pay their creditors.

Late payments of **creditors** were more common in public entities than in departments. Public entities with **extended creditor-payment periods** are running the risk of key suppliers discontinuing their services, which may have a significant impact on their operations and ability to deliver services or continue with their business.

Below, we highlight the public entities whose financial health is of greatest concern, based on their disclosure in the financial statements that there is significant doubt that they will be able to continue their operations:

Public entities with serious financial health concerns

Public entity	National / province	Vulnerable position	Deficit	Number of times in vulnerable position over 5 years
Agricultural Research Council	National	Yes	R22,1 million	3
Competition Commission	National	Yes	No deficit	2
Free State Fleet Management Trading	Free State	Yes	No deficit	2
Road Accident Fund	National	Yes	R55 849,6 million	5
South African National Roads Agency	National	Yes	No deficit	5
Motheo TVET College	National	Yes	R21,4 million	4
Coega Development Corporation	Eastern Cape	Yes	No deficit	4
Mayibuye Transport Corporation	Eastern Cape	Yes	R4,3 million	4
Free State Development Corporation	Free State	Yes	R123,8 million	2
Corridor Mining Resources	Limpopo	Yes	R12,4 million	4
Gateway Airport Authority	Limpopo	Yes	R11,4 million	2
Great North Transport	Limpopo	Yes	R76,4 million	2
Limpopo Roads Agency	Limpopo	Yes	R832,7 million	2
Property Management Trading Entity	National	Yes	No deficit	3
Flavius Mareka TVET College	National	Yes	R18,8 million	1
Goldfields TVET College	National	Yes	R13,4 million	2
Cape Town Community Housing Company	National	Yes	R24,9 million	2

These entities were only able to continue operating mainly due to the following:

- Historic cash reserves
- Bank overdrafts
- Non-payment of creditors
- Shifting funds earmarked for capital projects to operational expenditure (with National Treasury approval in the case of the South African National Roads Agency)
- Government grants (transferred from either national or provincial departments)
- Project funds held for future projects
- Using conditional grants to fund operations (e.g. the Motheo college in the Free State had unspent conditional grants worth R11 million but the available cash amounted to only R326 000)
- Utilising retained surpluses (e.g. the Competition Commission curtailed its operations relating to core functions significantly during 2018-19, which included placing investigations on hold in order to remain financially viable)

Apart from obtaining disclaimed audit opinions, the audit opinions of the following public entities were modified as there is significant doubt that they will be able to continue their operations:

Public entity	National / province	Vulnerable position	Deficit
Gauteng Housing Fund	Gauteng	Yes	1
GL Resorts	North West	Yes	2
Golden Leopard Resorts	North West	Yes	2
North West Development Corporation	North West	Yes	1

These entities have only been able to continue with operations due to loans from holding companies, while the holding companies were only able to remain viable mainly because of the annual grant received from government and some cash reserves (which have since been depleted).

As highlighted in the previous report on national and provincial government audit outcomes, the shortfall of a number of these auditees had to be funded by either the National Revenue Fund or provincial revenue funds through transfers from either national or provincial departments.

NON-COMPLIANCE WITH LEGISLATION RELATING TO FINANCIAL MANAGEMENT

Auditees that materially did not comply with key legislation slightly increased from 71,5% to 72,1%. Overall, the main areas of non-compliance were the poor quality of the financial statements submitted; supply chain management weaknesses; and unauthorised, irregular, and fruitless and wasteful expenditure not being prevented. Section 6 provides more detail on the status of compliance by auditees and in particular these main areas of non-compliance.

In addition to these main areas, auditees materially did not comply with legislation that defines how financial management should be dealt with. The findings in these areas (as shown on the following page) highlight problems with collecting money due to government and paying creditors on time as well as the ineffective management of expenditure (including the use of grant money for other purposes). A few public entities also did not adhere to all the legal requirements relating to the management of assets and liabilities.

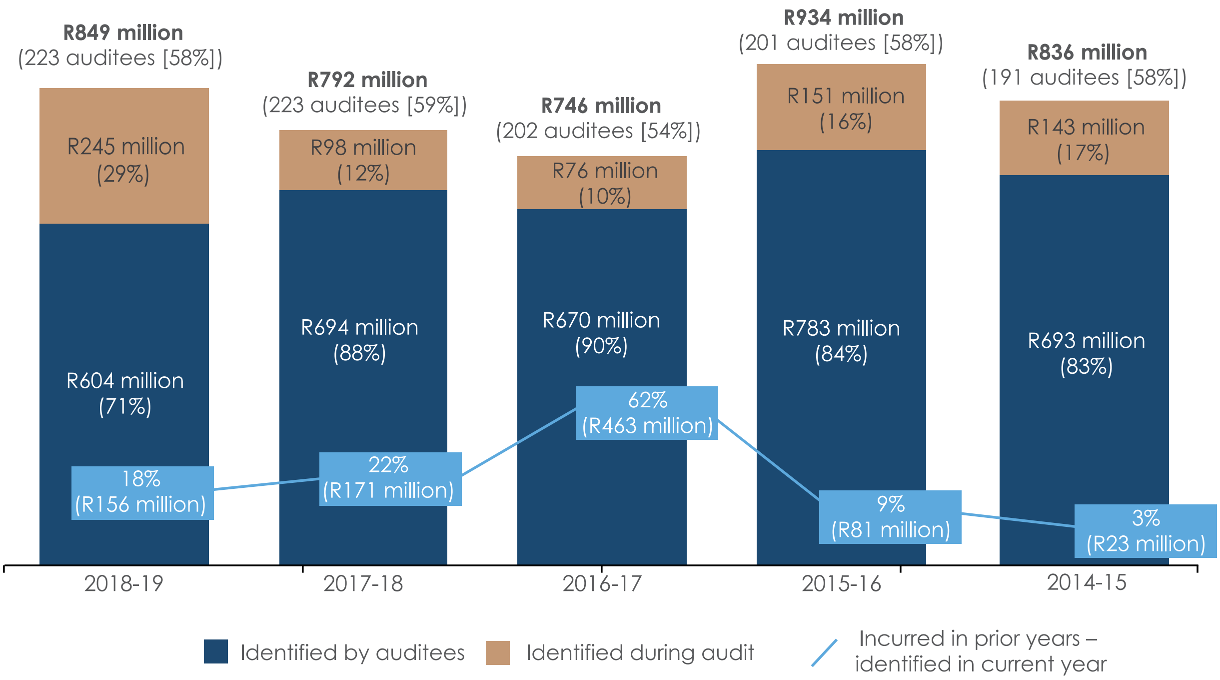
Main areas of non-compliance relating to financial management

NON-COMPLIANCE AREAS	DEPARTMENTS		PUBLIC ENTITIES	
	2018-19	Most common finding per area	2018-19	Most common finding per area
Expenditure management	29% (45)	Payments to creditors not settled within 30 days from receipt of invoice – 25% (39)	8% (18)	Payments to creditors not settled within 30 days from receipt of invoice – 3% (7) Expenditure not in accordance with approved budget – 3% (7)
Revenue management	8% (13)	Effective and appropriate steps not taken to collect all money due – 6% (10)	10% (22)	Effective and appropriate steps not taken to collect all money due – 9% (20)
Transfers and conditional grants	10% (15)	Division of Revenue Act allocations not spent in accordance with applicable grant framework – 7% (11)	-	-
Liability management	-	-	1% (3)	Money borrowed without appropriate approval – 1% (2)
Asset management	-	-	3% (7)	Financial assistance to related and/or interrelated company without approval by shareholders' special resolution – 1% (2)

POTENTIAL AND ACTUAL FINANCIAL LOSSES

Government cannot afford to lose money because of poor decision-making, neglect or inefficiencies. However, we continue to see a rise in **fruitless and wasteful expenditure**. This expenditure, which is effectively money lost, increased by 7% from the previous year. The overall increase was mostly as a result of fruitless and wasteful expenditure incurred by the Department of Energy (R110 million) relating to additional storage costs for solar water heater geysers manufactured and stored by suppliers beyond the agreed storage period; and Health (FS) (R101 million) due to remedial work done on infrastructure projects.

The extent of fruitless and wasteful expenditure over the past five years and the proportion thereof identified during the audit and not by the auditee can be seen below:



The number of auditees with fruitless and wasteful expenditure remained the same as in the previous year. A total of 184 auditees incurred fruitless and wasteful expenditure in both the current and the previous year, of which 158 had incurred such expenditure for the past three years. Section 6 includes more detail on the fruitless and wasteful expenditure incurred.

Except for the work done on material irregularities (as discussed in section 3), our audits in 2018-19 did not include an assessment of the actual financial impact of non-compliance by auditees. Based on the nature of the compliance findings, however, we determined that 178 (64%) of the auditees with material findings on compliance in 2018-19 (95 departments and 83 public entities) had findings with a **potential negative financial impact** or findings that could cause a financial loss. It is the role of those charged with governance to investigate non-compliance and the impact thereof, which could include financial loss through excessive expenditure (uneconomical use of funds), fruitless and wasteful expenditure, lost revenue, failure to recover debt, and avoidable penalties and interest.

Often findings on non-compliance with supply chain management legislation are viewed and commented on as procedural issues or possible fraud. But the **potential for losses** to government due to the **correct processes not being followed** is often overlooked. In 2018-19, 101 departments (65%) and 100 public entities (44%) did not comply with supply chain management legislation, resulting in unfair or uncompetitive procurement processes – most often it means that all potential suppliers were not given a fair chance to compete for work. Less competition often leads to higher prices being paid for goods and services. Similarly, the 56 departments (36%) and 57 public entities (25%) that did not comply with legislation on contract management open up the state to losses when contracts are not in place or performance is not monitored.

The effect of **unfair or uncompetitive procurement processes and non-compliance with contract management legislation** (including possible and actual financial losses) can be seen in the following examples:

Education (KZN) – construction of La Mercy mathematics, science and technology academy

- The project with a contract value of R223 million was awarded on 24 May 2016 and had a planned completion date of 22 January 2018. The project was delayed by more than 15 months, and the total project cost has escalated to R235 million.
- The delay was due to inadequate project planning and monitoring by management to ensure proper contract management and that timely payments were made to the contractor. In addition, various quality defects were identified during the site visit and reported to the department to rectify.
- The delay in construction resulted in the department not meeting its objective of improving the mathematics, science and technology results in the province.

Health (FS) – renovations and refurbishments at Boitumelo regional hospital in Kroonstad

- The renovations and refurbishments at the hospital commenced in 2011, but approximately eight years later, the project is still not completed despite the planned project duration being only 36 months. The contract value of the project amounted to R138 million. The actual project expenditure as at 31 March 2019 was R209 million, which significantly exceeded the original contract value by 51%. This was due to delays in the project caused by the contractor as well as inadequate monitoring of the project by the department and the implementing agent for the project, namely Public Works and Infrastructure (FS).
- Due to poor workmanship, the intensive care unit and administration block that were approximately 85% to 90% complete in 2018 were still not operational in April 2019 at the time of our site visits.
- It is estimated that a further R105 million will be required for remedial work to complete the project. The actual project costs to date include irregular expenditure of R40 million (mainly due to variation orders exceeding the allowed value and professional services being appointed without following supply chain management processes). Fruitless and wasteful expenditure of R20 million has also been incurred for an out-of-court settlement between the department and the contractor when the department wanted to terminate the contract without success as well as remedial work done on the project.

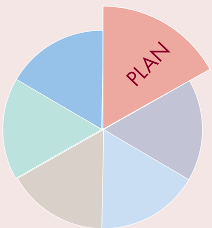
Health (NC) – conditions-based maintenance project for all health facilities

- The project with a budget of R82 million was awarded without following the required competitive bidding process when appointing a service provider. The project was funded through the health facility revitalisation grant. The amount spent to date on the project stood at R117 million, which was deemed to be irregular expenditure because of the non-compliance with supply chain management prescripts. An amount of R0,599 million paid to the contractor further constituted fruitless and wasteful expenditure, as the value of the work on site could not be verified.
- We identified poor-quality work, such as sagging ceilings due to roof leakages, incomplete ceilings, no door handles on toilet doors, old or substandard taps, office spaces not being used due to leakages in open spaces, incomplete electrical work, and chipped flooring in the receiving area not meeting warehouse standards.

CONCLUSION

The recommendations we made last year on improving the different aspects of financial management did not receive the necessary attention, and we now repeat key aspects thereof linked to the plan+do+check+act cycle for the attention of oversight structures. Preventative controls are the most effective way to improve financial management. Dealing with the consequences of poor financial management is costly, time-consuming and often the results cannot be reversed.

PLAN

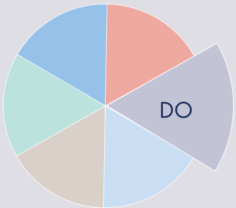


Investing in good planning is an effective preventative control. The budgeting processes of some departments and public entities are inadequate – partly because of their inability to plan effectively what needs to be expensed in the year and the level of revenue expected. But there are also inherent problems with the budgeting by departments, as they cannot budget for claims and their budgets do not effectively take unpaid expenses into account at year-end. We found that good audit action plans, which addressed the root causes of the audit findings on financial management and were implemented and monitored, were in place at only 38% of the auditees.

We recommend the following:

1. The budget and performance planning processes should be informed by a solid analysis and forecast, based on credible historical information and knowledge of the funding constraints and expected performance pressures. Auditees in financial difficulty should set clear targets for improvement and plan systematically towards achieving these.
2. The implementation of audit action plans and the quarterly monitoring thereof to support financial management and governance at auditees should be prioritised.
3. The matters requiring attention by accounting officers and senior managers include the following:
   - Devise action plans to specifically address the external and internal audit findings.
   - Assign clear responsibilities to specific staff members to carry out action plans and ensure that these responsibilities are executed effectively and consistently through monitoring.
   - Develop audit action plans early enough in the financial year to resolve matters by year-end.
   - Ensure that audit action plans address all three areas of audit outcomes, namely qualifications, findings on performance reports, and non-compliance with legislation.
   - Focus the actions to be taken on the root causes of findings, thereby ensuring that sustainable solutions are found.

DO



At the heart of the deficiencies in financial management identified during our audits is auditees that failed to institutionalise preventative internal control mechanisms that were mature and responsive enough to prevent and detect misstatements, non-compliance, losses as well as signs of financial distress during the year; and to correct these timeously. There has been no improvement in the financial and performance management controls over the past five years, with only 38% of the auditees having good controls in place and 19% failing significantly in this area.

Furthermore, vacancies and a lack of financial management skills in finance units often had a significant impact on the quality of the financial statements. At year-end, chief financial officers had been in their positions for an average of just over four and half years, while 16% of the chief financial officer positions were vacant.

We recommend the following:

1. Proper and timely record keeping ensures that complete, relevant and accurate information is accessible and available to support financial and performance reporting. Sound record keeping will also enable senior management to hold staff accountable for their actions. Senior managers should implement policies, procedures and monitoring mechanisms to manage records and make staff members aware of their responsibilities in this regard.

2. Controls should be put in place to ensure that transactions are processed in an accurate, complete and timely manner, which in turn will reduce errors and omissions in financial and performance reports.

3. Management should ensure that the arrangements with implementing agents are clear in terms of responsibilities and deliverables, including the supply chain management principles to be followed and the accounting to be done on the projects. The activities and deliverables of implementing agents should also be monitored.

4. Auditees should perform periodic, independent reconciliations between registers and records, including implementing processes to address errors or omissions. Detailed registers should be kept for project allocations and contracts approved / not yet approved to provide a reliable source for disclosures, such as commitments.

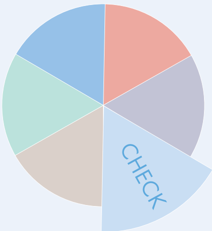
5. Departments should reassess the record keeping and reliability of reports used to value assets.

6. Financial discipline is required to curtail spending and ensure that the best financial decisions are made. This extends beyond the role of chief financial officers and finance units to also include the procurement practices of all divisions, executive-level decisions and human resource management, among other.

7. Executive authorities and accounting officers or authorities should ensure stability in key senior management positions, specifically those of accounting officers, chief financial officers and heads of supply chain management units. The ability to attract and retain competent officials remains a major challenge, but is key to consistent performance and a strong control environment.

8. Technical and vocational education and training colleges should provide employees in their finance units with adequate training to ensure that they are properly skilled to prepare financial statements. Greater effort should be made towards improving and institutionalising internal controls.

CHECK



A key element of internal control is monitoring by the different assurance providers to ensure that internal controls are adhered to, risks are managed, and outcomes are achieved. Early detection allows for timeous correction, which prevents financial management failures. It is important that all the assurance providers understand their roles, are equipped to perform their functions, and are given the authority their role requires; while the outcomes of their monitoring and oversight should also be responded to appropriately. Our assessment of the assurance provided by senior management through their monitoring actions shows very low assurance levels, with only 14% of the auditees having strong oversight by senior management.

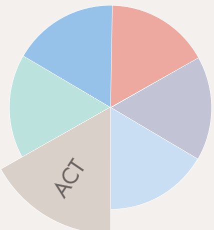
We recommend the following:

1. The financial position of departments will only improve if expenditure is monitored more effectively in-year, as and when incurred (and not just when paid), and by improving systems to promptly account for liabilities incurred. The National Treasury, provincial treasuries and relevant portfolio committees should monitor actual spending patterns and identify the departments with serious cash shortfall issues to intervene where necessary.

2. The monitoring and oversight by senior management (and the chief financial officer in particular) needs to improve by using credible in-year reports.

3. Internal audit units should be used to provide assurance on key areas of the financial statements – focusing on those that were misstated in prior years. Audit committees also need to intensify their review of the financial statements to prevent material misstatements in the versions submitted to us for auditing.

ACT



Accountability means that those performing actions or making decisions are answerable for them, but also that there should be consequences for transgressions, a lack of action, and poor performance. Auditees should institute consequences against officials who fail to comply with applicable legislation, continuously underperform or are negligent as well as against those whose actions and decisions cause financial losses.

We recommend the following:

1. Officials should be clear on their responsibilities and the performance expected from them as well as on the consequences for transgressions and poor performance.

2. The leadership should consistently but fairly implement the policies and procedures of the auditee relating to consequences.

SECTION 5

Management and delivery of key programmes

INTRODUCTION

In 2017-18, we reported on the management and delivery of selected key programmes and provided our assessments and recommendations on the financial and performance management required to achieve the planned targets and improve the audit outcomes. In 2018-19, we were again guided by the government priorities included in various strategic documents such as the National Development Plan and the Medium-term Strategic Framework (shortened to MTSF in this section) to select key programmes on which to focus.

We audited the selected programmes in an **integrated** manner by covering all three disciplines of an audit, namely the financial statements, performance reporting, and compliance with key legislation. At some of the bigger service delivery departments and sectors, we did **additional work on the key projects that enabled delivery on these programmes**, often using performance auditors and experts such as engineers to determine if money was used effectively and efficiently – including assessing the quality of project deliverables on, for example, infrastructure projects. This provided us with a unique and comprehensive view of the **management and delivery of key government programmes**. We reported our findings on key programmes to the accounting officers, provincial leadership, ministers and portfolio committees to assist in the accountability and improvement process.

In this section, we report on the following five key programmes that we audited – all of which have a significant impact on the achievement of government priorities:

- Education school infrastructure (accelerated school infrastructure delivery initiative and education infrastructure grant)
- District health services (HIV and Aids, tuberculosis and maternal and child health)
- Expanded public works programme (shortened to EPWP in this section)
- Housing development finance
- Water infrastructure development

We report on the management and delivery of these key programmes to demonstrate the importance of **transparency and accountability for government spending**. Plans and budgets as included in the estimates of national expenditure should translate into service delivery through good financial, performance and project management, supported by the fair and transparent procurement of goods and services. Departments should account for how the money was spent in a credible and transparent manner; and report on the successes and failures of the funded programmes.

For each programme, we show the following:

- The programme **purpose/objective** and outcome related to the MTSF.
- Key observations on the **programme performance**, including how much of the programme **budget** was spent, and whether key performance indicators and **targets were achieved** and **reported reliably**.
- If a department provided a **grant**, the purpose and intended recipients of the grant, how that grant was **spent and accounted** for by the provincial departments, and whether the money was **spent in accordance with the grant framework** that defines the intended purpose of the grant.
- **Key findings and service delivery challenges** identified on the programme and/or related projects that we audited.
- An assessment of the **impact of the findings identified**.
- **Recommendations** for improvement and a **call to** leadership to **act**.

DEPARTMENT OF BASIC EDUCATION

EDUCATION SCHOOL INFRASTRUCTURE (ACCELERATED SCHOOL INFRASTRUCTURE DELIVERY INITIATIVE AND EDUCATION INFRASTRUCTURE GRANT)

PROGRAMME PURPOSE AND MTSF OUTCOME

The education sector aims to improve the quality of teaching and learning through, amongst others, providing sustainable school infrastructure. This programme supports MTSF outcome 1 relating to quality basic education by improving the quality of teaching and learning through the provisioning of infrastructure.

This is achieved through two main education infrastructure initiatives over the medium-term, namely the accelerated school infrastructure delivery initiative and the education infrastructure grant.

The national department is responsible for the infrastructure development projects funded as part of the **accelerated school infrastructure delivery initiative**, with the aim of eradicating the basic safety norms backlog in schools without water, sanitation and electricity; and replacing those schools constructed from inappropriate material such as mud and asbestos to contribute towards levels of optimum learning and teaching.

The provincial education departments are responsible for the infrastructure-related projects funded as part of the **education infrastructure grant**. The purpose of the grant is to help accelerate the construction, maintenance, upgrading and rehabilitation of new and existing infrastructure in education, including district and circuit accommodation; enhance capacity to deliver infrastructure in education; and address the achievement of targets set out in the minimum norms and standards for school infrastructure.

PROGRAMME PERFORMANCE OVER FIVE YEARS

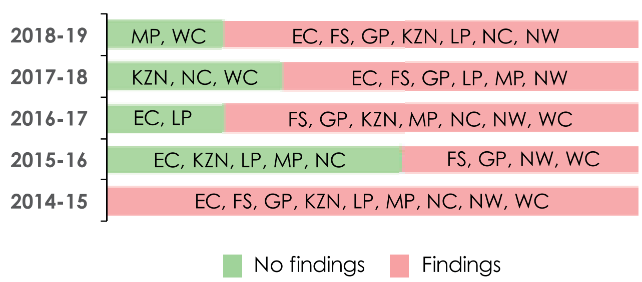
The infrastructure programme overall did not fully achieve the set targets as included in the detailed annual performance plans, to allow the implementation of strategic goals and objectives.

For the five financial years up to 2018-19, the infrastructure budget was R58,4 billion, made up of R10,2 billion for the accelerated school infrastructure delivery initiative and R48,2 billion for the education infrastructure grant. In spite of **94%** of the R58,4 billion budget allocated to deliver on education school infrastructure development **having been spent** over this period, overall the departments only **achieved 67% of the related planned targets** (accelerated school infrastructure delivery initiative: 23% and education infrastructure grant: 70%). The 23% relating to the accelerated school infrastructure delivery initiative is based on the planned targets and achievement for only 2016-17, 2017-18 and 2018-19, as the performance for 2014-15 and 2015-16 was not identifiable from the department's annual performance reports. However, the percentage includes the 2014-15 performance for the target of new schools built and completed through the accelerated school infrastructure delivery initiative.

Key delivery challenges relating to infrastructure projects affecting the achievement of targets

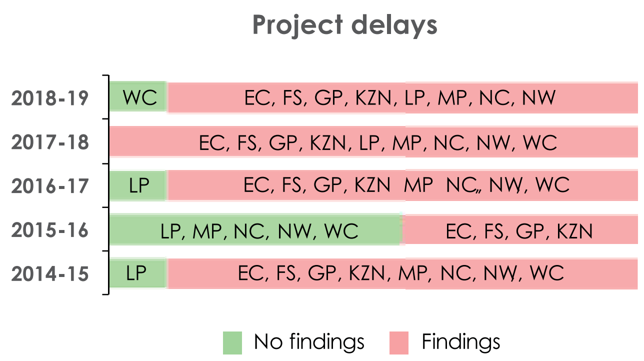
Over the past five years, we identified significant internal control deficiencies that led to repeat findings related to the **poor monitoring of projects, project delays as well as the poor quality of work** – as detailed in the graphics below. In some instances, these internal control deficiencies resulted in payments to suppliers being in excess of the budgeted costs for the projects.

Project monitoring

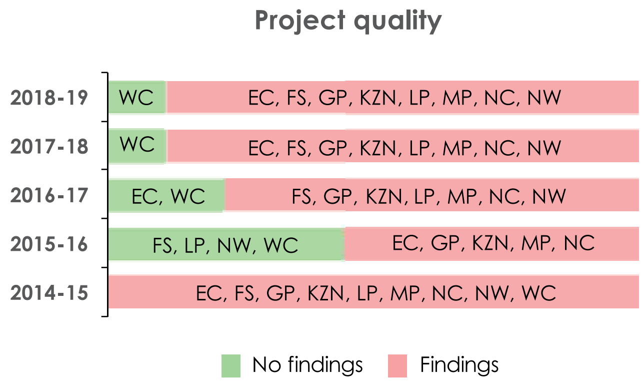


Progress on certain projects was not regularly monitored, which affected the quality of work performed by contractors.

Some of the departments did not make timely payments to contractors in line with the progress made on projects. Late payments to contractors exposed the departments to the risk of fruitless and wasteful expenditure because of interest, penalties and paying for standing time.



Delays in completing projects in provinces were due to either departments' or contractors' inefficiencies. These delays invariably resulted in cost increases. Actions were not taken against contractors and professional teams to address slow progress. Some of the delays were due to inadequate planning and project management processes, prolonged procurement processes, and poor contractor performance. The widespread lack of consequences made the situation even worse.



Poor workmanship was evident at most provincial projects visited, largely due to the poor quality not being addressed by contractors or professional teams. As departments did not adequately monitor, manage and supervise these projects, actions were not being taken to remedy the poor quality.

The repeat findings were due to departments not effecting consequences, which would have promoted accountability and resulted in the professional teams effectively managing and monitoring work performed by the contractors and invoking professional liability provisions where it could be demonstrated that the professionals involved were in default.

Maintenance needs were identified at various facilities visited due to the following:

- Lack of ongoing maintenance as a result of ineffective condition assessments at certain facilities.
- No evidence that conditional assessments were conducted in some instances.
- Ineffective monitoring of the maintenance budget in certain provinces.

Consequently, certain departments did not fully utilise the provided infrastructure.

Impact on service delivery

The following are examples of the poor quality on projects:

New toilets not connected to reticulation system

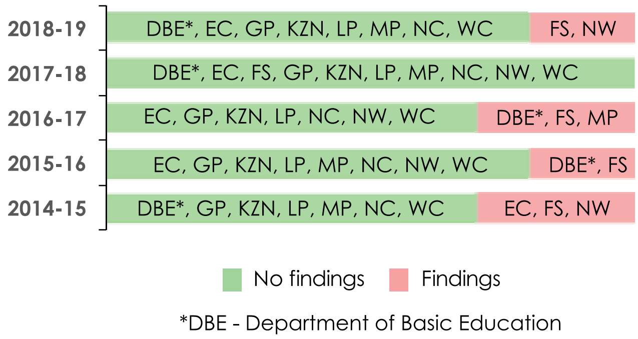
Blocked toilets and ceiling close to collapsing

Bricks fallen from edge arch

Conditional grant funding and compliance with legislation

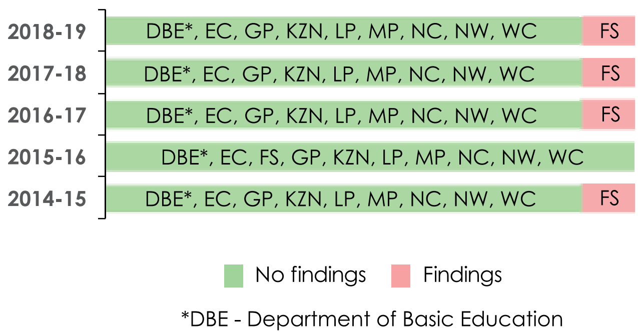
Some departments **underspent their budgets by more than 10%** due to, amongst others, investigations resulting in projects being delayed (Free State), slow movement of projects (national department and Free State), implementing agents not carrying out some of the planned infrastructure projects (North West), and delays in appointing contractors (national department, Mpumalanga, North West and Free State).

Grant underspending (> 10%)



Money was used in accordance with the grant framework except in the Free State. However, the many supply chain management non-compliance findings on a number of projects indicated that **supply chain management prescripts were not adhered to.**

Grant framework compliance



The national department entered into contracts with implementing agents to construct most of the capital infrastructure. These implementing agents were expected to follow procurement processes and manage contracts in compliance with the same legislation to which the department is subjected, as they manage these projects on the department's behalf. We identified various instances where this **legislation was contravened, which resulted in irregular expenditure**. We also reported that the lack of processes and systems at the department to monitor compliance meant that undetected instances of non-compliance could result in even more irregular expenditure. At seven of the 13 key accelerated school infrastructure delivery initiative projects tested in 2018-19, we identified uncompetitive and unfair procurement processes relating to the procurement of goods and services for the project.

In the Eastern Cape, Northern Cape, Free State, Gauteng and KwaZulu-Natal, we identified non-compliance in the procurement of goods and services on projects in 2018-19.

The national department incurred fruitless and wasteful expenditure due to inadequate planning before handing over the site to the contractor, resulting in additional costs of R1,952 million and interest of R0,495 million being charged due to the late payment of contractors. In KwaZulu-Natal, fruitless and wasteful expenditure of R16,2 million was incurred on two projects, of which R10,1 million related to the re-establishment of the site after the contractor suspended construction due to late payment by the department, and R6,1 million related to payments to a replacement contractor to complete work for which the original contractors had already been paid.

Reasons provided by the departments for underachieving over the past five years included poor contract management by implementing agents who could not identify poor-performing contractors, contractors with cash-flow problems for materials delaying the implementation of projects, unreliable water and electricity in the areas where schools were located, closure of sites by concerned groups of contractors, and professional service providers demanding that they be awarded some of the projects.

Impact analysis

Our audits over the five-year period showed that poor planning, inadequate and non-compliant procurement and contract management practices, a lack of credible reporting, inadequate monitoring by all role players involved, and a lack of accountability and consequences made it difficult for key deliverables to be achieved.

Over the years we reported the deficiencies and the leadership made commitments to address them, but some of these commitments have not been fully honoured.

Call to action

The lack of **monitoring and evaluation processes** in infrastructure projects should be remedied to ensure that projects are completed within their agreed time frames and budgets. Dedicated staff should **frequently monitor and report** on the performance of contractors of the various infrastructure projects across all phases of construction, to prevent or detect the risks that delay and hamper service delivery and to implement timeous corrective measures when needed. This will ensure a sound control environment.

A comprehensive **project commissioning plan** must be compiled by the accounting officers and revised regularly to respond to changes that may have occurred.

A **culture of accountability** by those charged with leadership responsibility should be instilled within the departments. This can be achieved by ensuring that oversight appropriately measures the performance of leadership and effectively enforces **consequences** for non-performance.

DEPARTMENT OF HEALTH

DISTRICT HEALTH SERVICES (HIV AND AIDS, TUBERCULOSIS AND MATERNAL AND CHILD HEALTH)

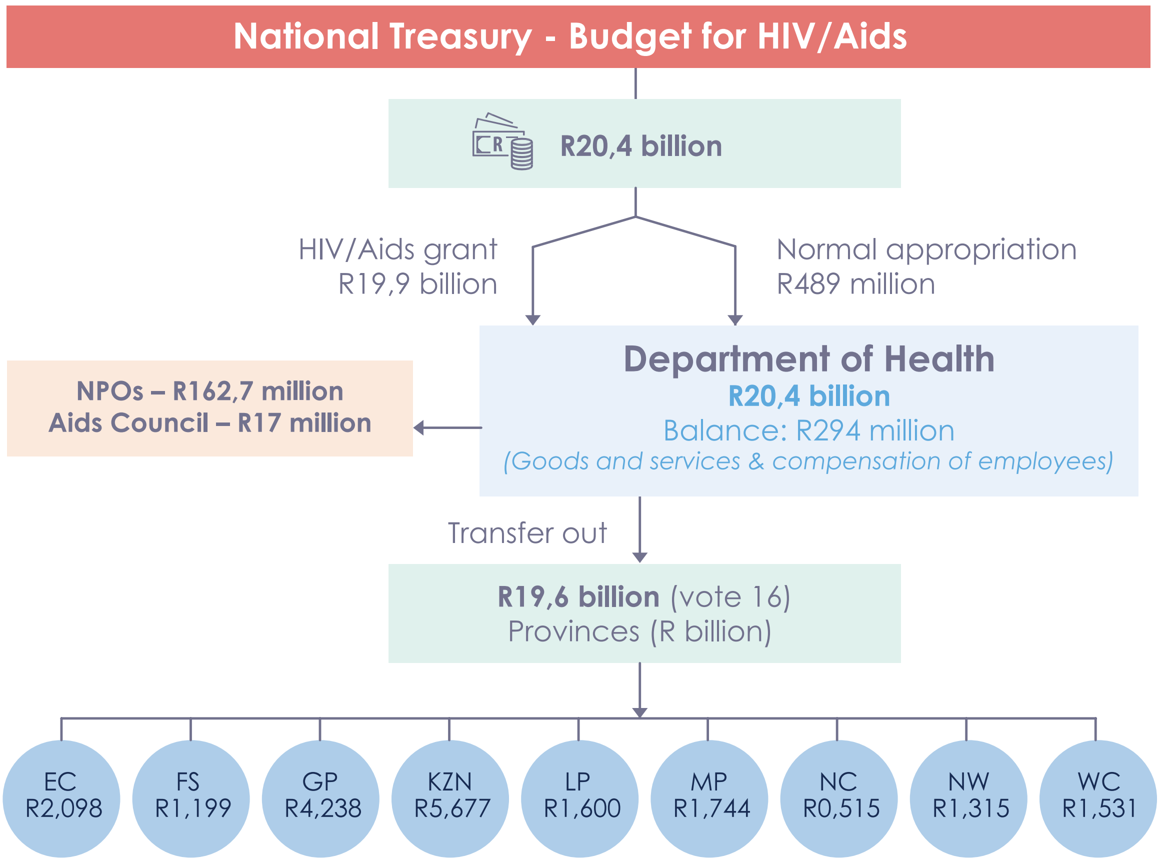
PROGRAMME PURPOSE AND MTSF OUTCOME

The purpose of the programme is to develop national policies, guidelines, norms and standards as well as targets to decrease the burden of disease related to the HIV and TB epidemics; support the implementation of these; and monitor and evaluate their impact. The programme's objectives are to reduce the rate of mother-to-child transmissions, increase the life expectancy of people living with HIV, and reduce new infections.

The programme supports outcome 2, sub-outcome 8 of the MTSF regarding a long and healthy life for all South Africans and the prevention and successful management of HIV/Aids and TB.

The programme had a budget allocation of R20,7 billion (2017-18: R18,3 billion) and consists of the sub-programmes of programme management, HIV and Aids, TB, women's maternal and reproductive health as well as child, youth and school health. We selected the sub-programme HIV and Aids for testing, which had a budget allocation of R20,4 billion (2017-18: R18,0 billion).

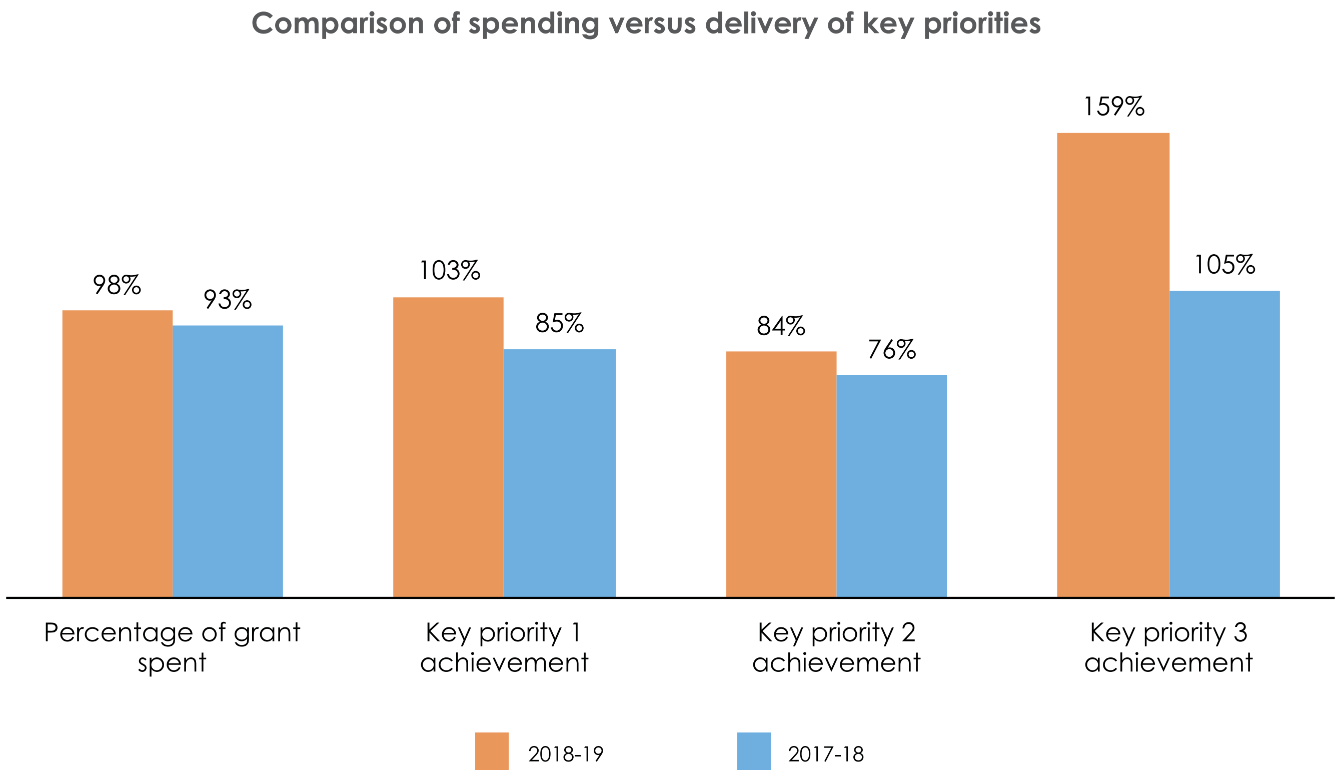
HIV/Aids sub-programme



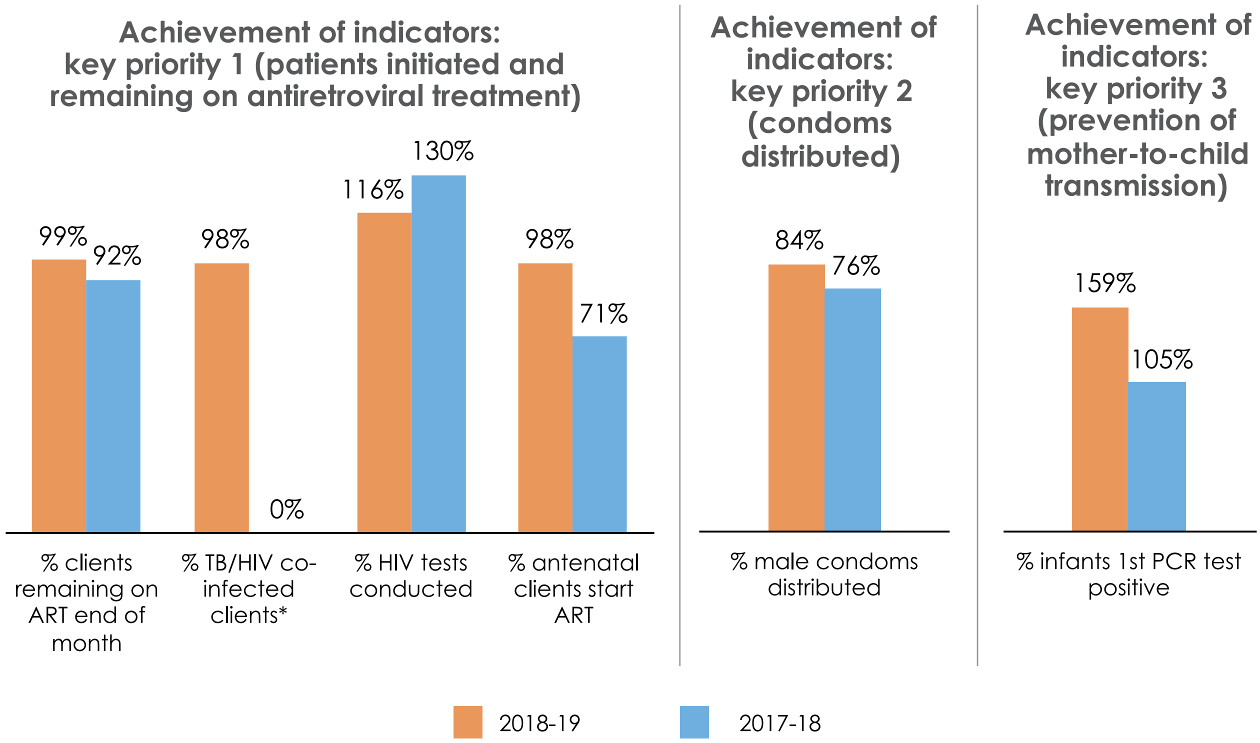
PROGRAMME PERFORMANCE OVER TWO YEARS

Grant spending against actual achievement

The figure below compares the spending of the grant against the budget and indicates the average percentage achievement per key priority for 2017-18 and 2018-19:



The following figures further depict that a number of **the scoped-in indicators were not achieved, despite departments using almost the entire budget**. The overall performance does, however, indicate a slight improvement across the indicators when compared to the previous year.



* Indicator not tested in 2017-18

The following are some of the **root causes** of non-achievement or **best practices** for achievement or overachievement:

- Non-achievement of key priority 1: Mainly due to patients who started the treatment not returning to facilities for continued treatment, resulting in the treatment service cycle not being delivered as intended.
- Non-achievement of key priority 2: None of the provincial departments, with the exception of Gauteng, achieved their planned targets, mainly due to delayed delivery by suppliers as a result of quality assurance processes taking longer than expected and a lack of distributors across all provinces to meet the current demand.
- Overachievement of key priority 3: All provinces either achieved or exceeded their planned targets, due to training for clinicians at facilities as well as improved adherence to antiretroviral treatment by mothers.

Credibility of performance reports

We **could not confirm if the sector had met its targets**, as we could not determine the accuracy of the data reported. This was mainly because of significant deficiencies in the systems and associated internal controls, which resulted in the reported data not being reliable.

We therefore could not confirm whether the reported achievements for all indicators of the selected key priorities were valid, accurate and complete due to limitations caused by the inadequacy or absence of controls over the reporting process. All provinces, except the Western Cape, had material findings on the reliability of the indicators linked to these key priorities.

Conditional grant funding and compliance with legislation

Key priorities selected for testing	2018-19 budget vs spending
Key priority 1: Patients initiated and remaining on antiretroviral treatment	**Key priority 1**: R14 211 million vs spending of R13 823 million (97% spent)
Key priority 2: Condoms distributed	**Key priority 2**: R492,5 million vs spending of R425,9 million (86% spent)
Key priority 3: Prevention of mother-to-child transmission	**Key priority 3**: R293,1 million vs spending of R374,4 million (128% spent)
	Transferred to provinces for service delivery: R14,99 billion (100%)

The underspending on key priority 1 of R388 million and on key priority 2 of R66,7 million was re-allocated to the other priorities within the overall HIV and Aids programme.

The grant was not utilised as per the business plan at the provincial health department in Gauteng, resulting in irregular expenditure of R226 million.

Impact analysis

The indicators represent the prevention strategies that departments have designed and implemented to assist in reducing new infections and mother-to-child transmissions and in increasing life expectancy. The non-achievement of the annual targets hampers the effectiveness of these prevention strategies.

In addition, the ineffectiveness of these strategies results in the possibility of new infections increasing and the life expectancy of the people who are currently living with HIV decreasing, as they might not be receiving the required treatment. New infections place an added burden on the already strained economic resources within the health system, as additional treatment is required. The country's workforce can be negatively affected if people living with HIV that form part of the economically active population do not obtain access to, or remain on, treatment services.

Call to action

Policies and procedures for recording and reporting performance-related information have been approved by the national department and distributed to all provinces for implementation. The internal controls of key reporting systems should be strengthened by effectively **implementing these policies and procedures** across the sector, to ensure that the provinces reliably report data. Consequences also need to be enforced in cases of continued non-implementation of, or non-adherence to, these policies and procedures.

In addition, it is essential that an appropriate information system exists to monitor and measure the performance of the grant. The national department should provide guidance on how to resolve **challenges with the reporting systems** to all provinces that encounter these challenges. Reliable data will assist the planning and budgeting processes to ensure that resources are allocated economically and effectively to the key focus areas of the comprehensive HIV and Aids grant.

Creative and new distribution solutions need to be explored to ensure that male condoms of the correct quality are readily and timeously distributed, to ensure the effectiveness of this critical prevention strategy. Where suppliers are not performing in terms of the requirements of their contractual agreements to deliver the required number of male condoms, in the stipulated time frames and of the appropriate quality, non-performance clauses should be enforced.

The sector needs to continue leveraging the good work conducted on awareness campaigns, which has resulted in increased testing for HIV, by also creating awareness of the critical importance for people living with HIV to remain on their treatment.

DEPARTMENT OF PUBLIC WORKS

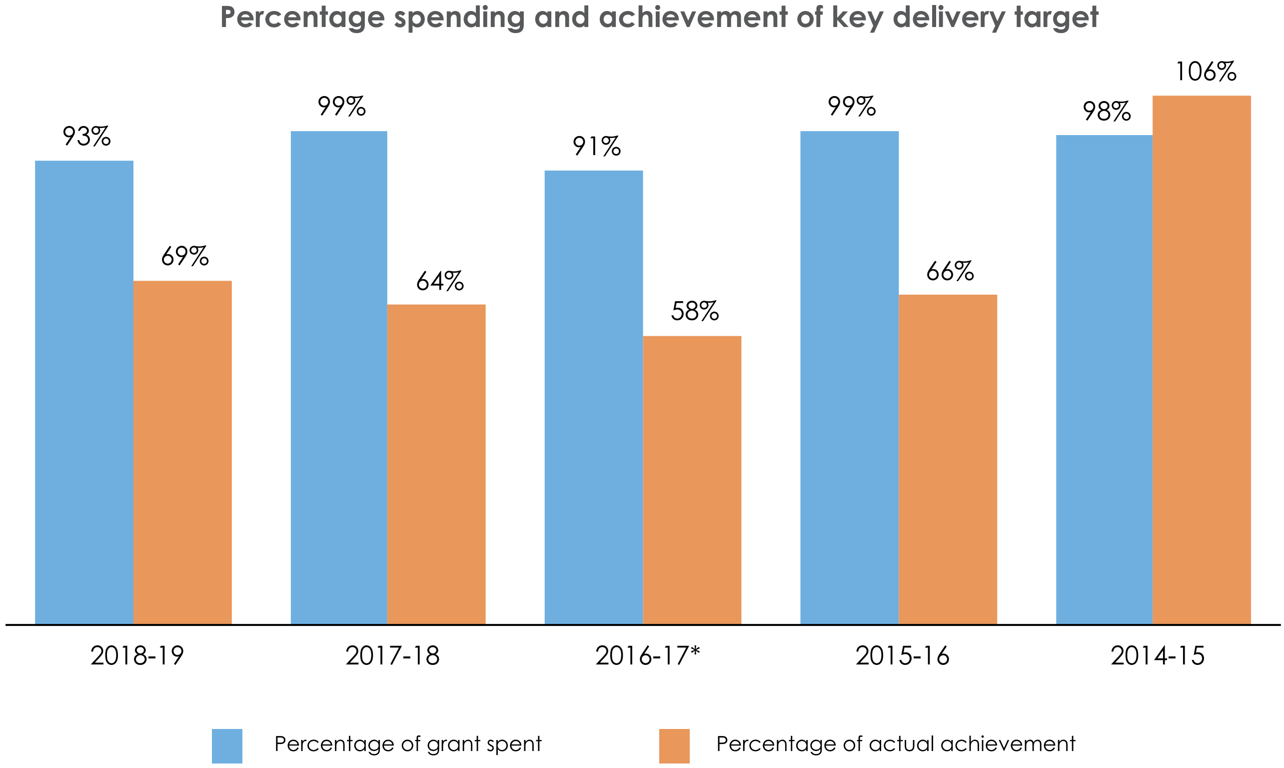
EXPANDED PUBLIC WORKS PROGRAMME

PROGRAMME PURPOSE AND MTSF OUTCOME

To create work opportunities and provide training for unskilled, marginalised and unemployed people in South Africa in support of MTSF outcome 4 relating to decent employment through inclusive growth.

PROGRAMME PERFORMANCE OVER FIVE YEARS

Grant spending against actual achievement



* Indicator was not included in 2016-17 annual performance plan and thus not audited

While the department spent 96% of the allocated budget (R9,317 billion of the budget of R9,711 billion) over the MTSF period, only 71% of the targeted number of work opportunities (4,5 million of the target of 6,4 million) was created over the period. There is no clear correlation between the budget that was substantially spent and the actual achievement, considering that the achievement could not be verified.

Key issues identified over MTSF period

Lack of customised indicators for all public bodies (departments and municipalities) who receive the EPWP grant for the creation of work opportunities to enable standardised reporting and consistent accountability on all work opportunities created.

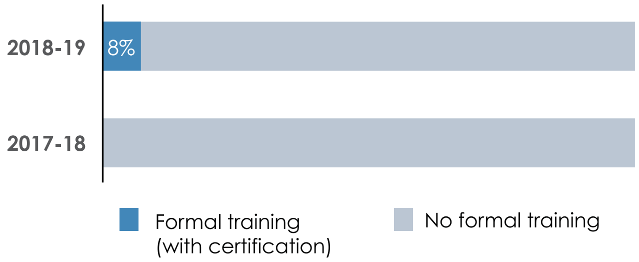
The number of work opportunities created is **misstated** due to the following:

- **Insufficient** grant conditions and **guidance** to all public bodies to enable the consistent collation of evidence for all work opportunities created
- **Inadequate systems, monitoring and reviews** regarding the reporting of work opportunities created by public bodies

The reported number is therefore not credible as it was not adequately supported by reliable evidence.

Key service delivery matters

Percentage of projects with formal training



There was not enough focus on the provision of formal training through this programme, as only 8% of formal training was provided

Over the past two years, **very limited certified formal training** was provided to beneficiaries enrolled, as outlined in the strategic documents of the national department. Consequently, the upskilling and empowerment of participants were not prioritised to ensure that they were capacitated to exit the programme and enter into permanent employment. While some beneficiaries might have gotten on-the-job training and experience, this was not verifiable as no portfolio of evidence or certification process was in place, due to management not sufficiently prioritising this to ensure formal training with certification.

Impact analysis

An analysis of the unemployment rate against work opportunities created over the MTSF term is shown below:

	2018-19	2017-18	2016-17	2015-16	2014-15
Average annual unemployment rate (formal)	27,4%	27,2%	27%	25,4%	25,4%
Percentage of work opportunities achieved against set targets as per annual performance plans	69%	64%	58%	66%	106%

EPWP workers on site

The objective of the EPWP is to create work opportunities. In its nature, it is informal and temporary to alleviate the poverty of the marginalised. These work opportunities are not intended to be permanent.

The national department should enhance its efforts in managing the EPWP. If the programme is not appropriately managed, current participants will remain on the programme with no rotation – creating a barrier for others to participate and to be upskilled. It is a key government programme and, if managed better, will upskill and empower participants so that they can be absorbed by the market. If the programme works as intended, it has the potential to alleviate poverty and decrease the country's unemployment rate.

The **insufficient impact as well as the unverifiable reporting** was due to a lack of consistent indicators for all public bodies across the three spheres of government who receive EPWP funding. This was made worse by a system that did not reliably and consistently collect information on all work opportunities created as well as insufficient oversight to ensure accurate and complete information on all work opportunities created in government through the EPWP grant.

Implementation of previous commitments

Although the department rolled out the standard operating procedure to the recipients of grants as per our prior recommendations, most of our other recommendations were not implemented. Consequently, the desired impact was not realised as similar issues recurred.

Call to action

To national Department of Public Works and all public bodies	• Formalise the EPWP indicator as a customised indicator by publishing it in the MTSF for all public bodies. The institutions concerned can then be required to account for the number of work opportunities created for all grant money allocated. • The department should provide guidance to all public bodies receiving EPWP funding and implement requirements that should be monitored more carefully to further ensure the consistency, accuracy and completeness of work opportunities created across all three spheres of government. • The provision of formal training and certification of participants should be enhanced and prioritised in strategic planning documents.
To oversight bodies	• National and provincial oversight bodies and legislative structures should influence and insist on the inclusion of customised indicators in the annual performance plans of the institutions within their jurisdiction to enable credible reporting and accountability. • The portfolio committee should request quarterly feedback on the analysis of grant spending against the achieved targets, and hold the department accountable for any misalignment.

DEPARTMENT OF HUMAN SETTLEMENTS

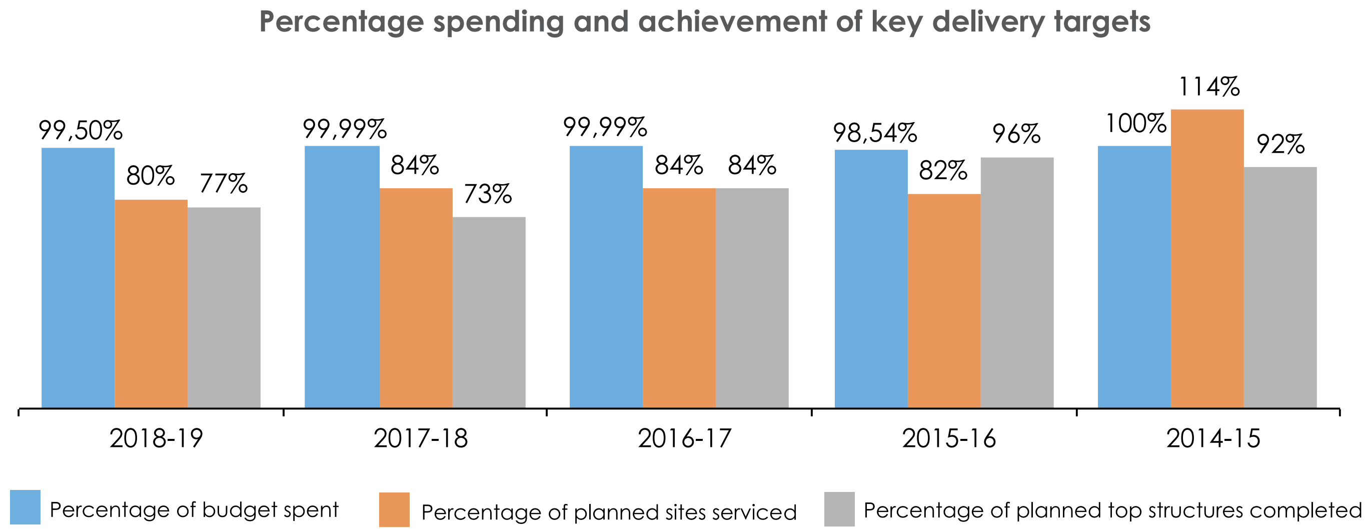
HOUSING DEVELOPMENT FINANCE

PROGRAMME PURPOSE AND MTSF OUTCOME

To fund the delivery of housing and human settlements programmes, and manage all matters related to improving access to housing finance and developing partnerships with the financial sector. The programme supports outcome 8 of the MTSF relating to sustainable human settlements and improved quality of household life.

PROGRAMME PERFORMANCE OVER FIVE YEARS

Grant spending against actual achievement



The programme budget over five years amounted to R153 billion and the sector (which includes national, provincial and local government) spent 99,6% of this allocation. The actual reported achievement from 2014 to date was 449 873 out of 533 489 (84%) for top structures completed; and 256 482 out of 294 406 (87%) for serviced sites.

Key issues identified over MTSF period

Lack of customised and consistent indicators to ensure uniformity in reporting on achievements and accountability across the sector.

Reported numbers not supported by credible evidence due to **inadequate planning and monitoring**.

Key service delivery matters

Despite the investment made in the sector, we identified the following key findings on projects funded through the **human settlements development grant and the urban settlements development grant:**

Poor quality of houses built by contractors was evident during site visits to key projects. Consequences were not adequately instituted by provincial and local government.

Significant delays in delivery against project schedules with an average delay period of 24 months.

Project management by relevant public bodies and contractors was not adequate, resulting in additional costs being incurred and contributing to poor quality and significant delays in housing delivery.

Lack of participation of all relevant sector departments and stakeholders to support the achievement of government priorities through planning, customised indicators, coordination and monitoring.

Impact on service delivery

An example of poor-quality workmanship can be seen on a project in Umlazi infill, part 4, phases 1 and 2 (KwaZulu-Natal).

The picture on the left is a house in its final stages where the brickwork finish illustrates the poor standard in various sections throughout the house.

This is a general occurrence across the projects visited in all nine provinces. Other common deficiencies included the following:

- Roof tiles around the edges were inadequately aligned, which could result in rainwater leaking into houses.
- No mortar was used between bricks.
- Leaking toilet connections.

Impact analysis

The following targets were set for the sector during the MTSF period:

Indicator	Overall assessment	Planned target	Output	Backlog
Number of top structures completed	Not achieved	533 489	449 873	83 616
Number of sites serviced	Not achieved	294 406	256 143	38 263
Number of title deeds registered	Not achieved	963 101	275 587	687 514

Due to a lack of planning and coordination across all three spheres of government, together with a lack of monitoring and consistent reporting, the sector reported that it only achieved 84% of its targeted housing infrastructure. Thus, **a backlog of 16% was created over the five-year period**. This is equivalent to the average annual planned delivery for the sector of 83 616 top structures and 38 263 serviced sites. Yet the current population in need of housing is growing rapidly, which further increases the need for housing development finance. With the growing rate of unemployment, urbanisation and beneficiaries of low-cost houses, government might find it difficult to meet expectations. Furthermore, an additional average annual allocation of approximately R31 billion will have to be made available to eradicate the backlog, thus causing further strain on government's purse and, most importantly, continuing to marginalise some South African families and communities.

Additionally, significant delays and quality issues during the past period added to the service delivery backlogs. This can result in possible financial losses, as defects must first be corrected before beneficiaries can receive their houses.

The human settlements department in the Free State was part of our phased-in approach of the amendments to the Public Audit Act. We identified and reported material irregularities relating to, amongst others, overpayments (refer to section 3 for more detail in this regard). If the overpayments are not recovered, they are likely to result in material financial losses.

Despite government's focus on the registration of title deeds and the eradication of backlogs, targets and indicators relevant to measure performance against this priority were not always included in the planning documents of the national department as well as all sector departments, public bodies and other critical role players. This resulted in **government not being able to reliably report on performance** against this priority during the period. In addition, the planned targets as reflected in some of the annual plans during the period were not achieved, further contributing to the growing backlog.

Implementation of previous commitments

The commitment by the national department to develop a process to report on customised indicators for the human settlements development grant consistently within the sector was not implemented over the MTSF period.

Call to action

To national Department of Human Settlements	• Better coordinate planning and reporting across the sector, by ensuring that the planned performance of the national department and its grant beneficiaries is customised in the respective annual performance plans and annual performance reports, thereby improving the usefulness and reliability of reported performance against predetermined objectives. • Ensure that all targets and indicators needed to measure performance against government priorities (such as the title deeds restoration) are included in the planning documents of all relevant sector departments and public bodies. • Increase oversight of the provincial departments' project and quality management processes to enable them to hold the National Home Builders Registration Council, public bodies and any other key role players accountable for their areas of responsibility in the value-creation process. • Ensure that the resources of the sector are used effectively, efficiently and economically, and follow up on any instances where the money spent does not correlate with the actual performance. This will ensure that action is taken against any non-compliance that caused, or is likely to cause, material financial losses to the department. • Seek to ensure that projects attracting housing investment from the state should have schools, clinics, recreational facilities, running water and adequate sanitation – and, importantly, access to basic and economic activities.
To oversight bodies	• The portfolio committee should request timely feedback on the progress made in addressing backlogs as well as the delivery of timely and quality housing opportunities to South African communities. • The portfolio committee should ensure the consistent inclusion of customised indicators in all provincial human settlements departments across the sector.

DEPARTMENT OF WATER AND SANITATION

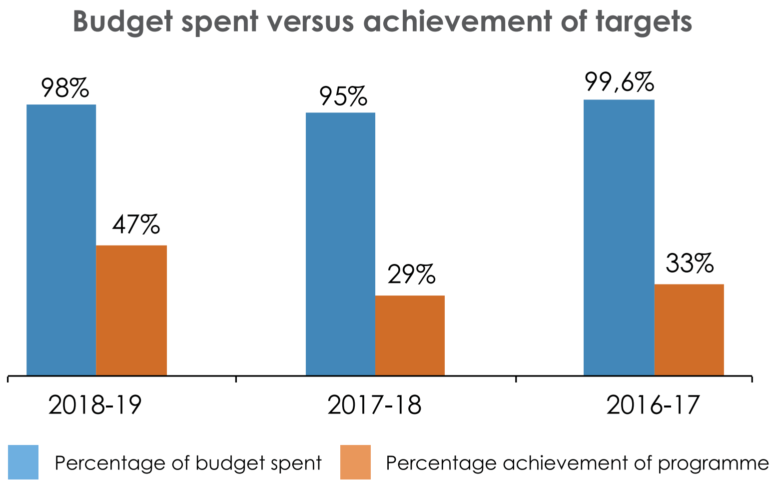
WATER INFRASTRUCTURE DEVELOPMENT

PROGRAMME PURPOSE AND MTSF OUTCOME

The programme is responsible for developing, rehabilitating and refurbishing raw water resources and water and sanitation services infrastructure to meet the socio-economic and environmental needs of South Africa. This programme supports outcome 6 of the MTSF regarding an efficient, competitive and responsive economic infrastructure network, with specific reference to the maintenance and supply of bulk water resource infrastructure. The programme's budget amounted to R14 255 million in 2018-19, of which 98% was spent.

PROGRAMME PERFORMANCE OVER FIVE YEARS

Budget spending against actual achievement



We report on only the past three years as we started auditing the key projects in 2016-17

Financial constraints were experienced by the department mainly due to the following:

- Engaging in and conducting projects that had no budgets, or were not aligned to budgets, resulting in budget overruns or material underspending (refer to the key delivery challenges below).
- The war on leaks programme now budgeted for under programme 3: goods and services, utilised a portion of the department's capital expenditure budget (R376 million).

The overall budget for the programme was almost fully utilised (98%), but this spending did not correlate with the performance, as the department **did not achieve its targets** as set out in its annual performance report. The additional spending on the war on leaks programme resulted in **irregular expenditure**.

Key delivery challenges relating to projects

The table below summarises the key projects that we audited and indicates overall findings relating to performance reporting, achievement of targets, project delays and quality issues identified on these projects:

Key projects audited / followed up this year	Actual versus budget (original)	Resulting in irregular and/ or fruitless and wasteful expenditure	Findings
Giyani bulk water project	R3,3 billion spent (No initial budget)	Yes Irregular expenditure: R0,226 billion Fruitless and wasteful expenditure: R0,047 billion	None
Bucket eradication programme	R3,4 billion spent (No initial budget)	Yes Irregular expenditure: R0,434 billion	Target was not achieved (15 638 target vs 2 019 achieved)

Key projects audited / followed up this year	Actual versus budget (original)	Resulting in irregular and/ or fruitless and wasteful expenditure	Findings
War on leaks programme	R2,97 billion spent (No initial budget)	Yes Irregular expenditure: R1,048 billion	Target was not achieved (2 640 target vs 1 689 achieved)
Sedibeng wastewater treatment plant	R0,766 billion spent (R1,093 billion budget)	No	Poor quality issues (also refer to the impact of this on service delivery on the following page)
Raising of Hazelmere dam	R0,498 billion spent (R0,533 billion budget)	Yes Fruitless and wasteful expenditure: R0,003 billion	Delayed due to unavailability of permanent load cells (operational equipment) and disputes with contractor
Mopani emergency project	R0,013 billion spent (No initial budget)	Yes Fruitless and wasteful expenditure: R0,013 billion	Performance reporting concerns, as no target was included in annual performance plan
Nwamitwa dam	No current year spending	No current year spending	Project on hold
Raising of Tzaneen dam wall	R0,010 billion spent (R0,047 billion budget)	No	Delayed – did not commence due to holdups in finalisation of tender process following design delays
Raising of Clanwilliam dam	R31,6 million spent (R189 million budget)	Yes Fruitless and wasteful expenditure: R8,2 million	Delayed – project still on hold awaiting delivery of permanent load cells (operational equipment)
Mzimvumbu water project	R6 million spent (R87 million budget)	No	Delayed as there was no approved budget in the previous year as well as changes in contractors (now conducted by construction unit of the Water Trading Entity)

Project monitoring

The department experienced extreme financial constraints, which resulted in it not being able to finalise some of the capital projects. The department therefore incurred fruitless and wasteful expenditure on existing projects, as standing time payments were made to some contractors due to contractual obligations. Furthermore, procurement processes were not always followed. In addition, the department did not implement the standard for infrastructure procurement and delivery management, exposing the department to the risk of undue increases in project costs. A **lack of proper project management** can result in budget overruns as well as timelines and completion dates being extended.

Impact on service delivery

The quality deficiencies identified at the Sedibeng wastewater treatment plant (where we used an infrastructure specialist) illustrate the impact of project weaknesses on service delivery.

Lots of patched cracks on concrete

Reinforcing steel severely affected by rust

Poor concrete work

Construction to be done again due to stalled work and poor workmanship

These quality deficiencies were mainly due to the department not implementing quality assurance measures on the projects run by implementing agents. Implementing agents are solely responsible for occupational health and safety on projects, which includes quality management and assurance. Thus, the department's engineers did not conduct oversight of the project, which resulted in the implementing agent's workmanship not being up to standard.

Grant funding and compliance with legislation

The following two main objectives (out of five) are funded through grants:

The **regional bulk infrastructure grant** provides for the development of new infrastructure, and the refurbishment, upgrading and replacing of ageing infrastructure, servicing extensive areas across municipal boundaries.

R4 844 million (34% of estimates of national expenditure) divided into a direct (schedule 5B) and an indirect (schedule 6B) portion.

The **water services infrastructure grant** provides for the construction of new infrastructure and the rehabilitation of existing water and sanitation infrastructure through the grant transfer of water services schemes to water services institutions. The allocation prioritises the 27 poorest district municipalities.

R5 385 million (38% of estimates of national expenditure) divided into a direct (schedule 5B) and an indirect (schedule 6B) portion.

Indirect grants (schedule 6B) are managed or administered by the national department, meaning that the accountability for spending or utilisation lies with the national department.	**Regional bulk infrastructure grant (2018-19)** Budget: R2 881 million – spending by department: **82%** **Water services infrastructure grant (2018-19**) Budget: R608 million – spending by department: **95%**
Direct grants (schedule 5B) are managed or administered by municipalities, meaning that the accountability for spending or utilisation lies with municipalities. Although the municipalities still had three months to spend the allocated funds as at 31 March 2019, we noted the following underspending:	**Regional bulk infrastructure grant (2018-19)** Budget: R1 963 million – **only 48%** was spent by municipalities **Water services infrastructure grant (2018-19**) Budget: R4 777 million – **only 24%** was spent by municipalities

We reported material **non-compliance with the Division of Revenue Act** by the department, as allocations to projects funded by the grants were not spent on their intended purposes in accordance with the applicable grant framework. The grants were underspent, but there was no cash in the department's bank account at year-end. The 2019-20 budget would therefore be required to settle these obligations, reducing the department's ability to effectively deliver on its mandate for the 2019-20 year.

Credibility of financial and performance reports

- The reported performance information was useful and reliable, but only after material adjustments were made to the annual performance report submitted for auditing.
- A total of 83% of the projects selected for the year under review were not included in the annual performance plan or the target was not met.
- For four of the projects being implemented at the trading entity, project delays were not disclosed in the financial statements, contrary to the applicable reporting framework.
- We had previously reported that both irregular expenditure and fruitless and wasteful expenditure were incurred on the Giyani project, which significantly contributed to the overall irregular expenditure and the department being qualified on the incomplete disclosure of irregular expenditure in the financial statements. The department disclosed this appropriately in 2018-19, as the prior qualifications were addressed.
- Despite credible performance reporting, the war on leaks and the bucket eradication programmes both resulted in continuing irregular expenditure.

Impact analysis

In order to ensure that the objectives of the war on leaks programme are met, spending will continue to be incurred. In turn, this will continue to place strain on the department's already stretched resources. Funds being channelled from capital projects to implement this project result in those capital projects not being implemented or finalised, leading to further additional payments for standing time as well as penalties and interest.

The department's **lack of proper oversight** resulted in poor-quality workmanship on the Sedibeng project, which directly affected service delivery. The department could be required to spend additional fees to rectify the defects, which could have been spent on new projects instead. The quality defects could also result in the infrastructure not operating as efficiently and effectively as intended.

Overall, the department continued to encounter **severe financial constraints** due to some of the practices reported above on the implementation of key projects, which resulted in payments being made to service the large amounts of accrued liabilities incurred on projects where the projects were allowed to continue without making payments in prior years. This was due to improper budgeting where the actual project costs often exceeded the initial budgeted costs and/or payments being made on projects that had not been budgeted for. This has resulted in an ongoing cycle where the department has to play catch-up, as funds and allocations earmarked for the implementation of projects in a particular year, are used to service these outstanding liabilities and accruals. This has an adverse impact on the department's service delivery objectives, as not many new projects are undertaken and the targets of much-needed promised water infrastructure are continually reduced, despite the allocated funds being spent.

Call to action

There has been a **slow response to implement prior year recommendations** due to the long-persisting instability in leadership at accounting officer level. Insufficient budget and project management controls (due to slow progress in adequately updating the related policies and procedures) further contributed to the lack of improvement.

The department needs to improve the planning and implementation of the war on leaks and the bucket eradication programmes to ensure that they are being implemented as efficiently and effectively as possible. Based on the current year's performance of the bucket eradication programme of just over 2 000 households, it would take the department well over a 1 200 years to fully address the backlog of 2,6 million households without access to basic sanitation services reported in 2015 – and this does not even include the new demand. The department also needs to start engaging in a process to enable the success of the war on leaks programme to be measured insofar as the initial overall objectives are concerned. This includes the number of successfully trained and developed youth who would be employed as water agents, artisans and plumbers, who would be addressing the annual water losses suffered by government as well.

A director-general must be appointed as a matter of urgency to ensure leadership stability. This position has been vacant for several years. It would be beneficial if the appointed person has an engineering or project management background to oversee the implementation of the water master plan of the department. This will help to ensure that the department focuses on delivering the required water infrastructure to meet the water demands of the country.

Certain multi-year projects of prior years were conducted on an emergency basis, which raises questions about the validity, accuracy and authenticity of the water master plan and the priorities of the department. The department should have a holistic, properly supported/informed and analysed view of the water needs of South Africa – which should assist the department in determining its focus in terms of the delivery of new water infrastructure. From our reviews over the years, we noted that **industrial, economic and social development projects have stalled in the past 10 years due to a lack of infrastructure**.

Furthermore, the department should ensure that comprehensive policies and procedures (including the standard for infrastructure procurement and delivery management) are effectively implemented and enforced relating to project management and the monitoring of implementing agents. Proper consequences should continue to be enforced in cases of non-compliance with supply chain management legislation and non-adherence to the policies and procedures that are central to the implementation of key water infrastructure and ultimately service delivery.

The oversight structures must request management to **provide regular and supported feedback** on the following:

- Progress on filling key vacancies at the department, especially that of the accounting officer.
- Progress on the implementation of action plans to address matters reported on projects that may have an adverse impact on service delivery.
- Key initiatives implemented to improve financial health, budget management and control as well as turnaround plans or interventions.
- Action taken against transgressors who permitted irregular or fruitless and wasteful expenditure to be incurred, to ensure the proper effecting of consequences.

In total, the programme spent 98% of its allocated funds but achieved only 47% of its targets. This indicates that service delivery objectives to develop, rehabilitate and refurbish raw water resources and water and sanitation infrastructure are not being met. Ultimately, this has a negative effect on the socio-economic and environmental needs of the country.

OVERALL CONCLUSION

Almost all of the funds allocated to the departments responsible for the programmes highlighted in this section were used in 2018-19, yet none of these departments were able to achieve their planned targets.

At Education, the non-achievement of targets can mainly be attributed to projects not being monitored by delegated officials, project delays by the department, and contractor inefficiencies. Although the overall performance of Health shows a slight improvement across the indicators when compared to the previous year, a number of the scoped-in indicators for some of the key priorities were not achieved. In addition, Public Works, Health and Human Settlements were not able to report in a reliable manner on the performance of their programmes, as information on the achievement by the projects funded at provincial and municipal level was not always gathered in a consistent manner or was not credible. This will make it difficult for government to assess whether the intended targets of these programmes were achieved over the five-year MTSF term.

Irregularities in the procurement processes and inadequate contract management were recurring findings on the water, education and housing infrastructure projects. Some of the projects displayed serious weaknesses in terms of delayed delivery, poor-quality work, waste and mismanagement. Some of the delays were due to inadequate planning and project management processes, prolonged procurement processes, and poor contractor performance. The widespread lack of consequences made the situation even worse.

Further investment in **preventative controls** is encouraged to strengthen the control environment, as this will be much more effective than having to deal with the consequences of poor or no service delivery and money not being used for its intended purposes.

The achievement of the goals and objectives included in the strategic documents of government (**IMPACT**) requires a systematic and well-coordinated process of planning (**PLAN**), disciplined implementation (**DO**), effective progress monitoring and evaluation (**CHECK**), and corrective action where delivery does not take place as planned (**ACT**).

If the identified challenges and deficiencies are not addressed as a serious matter of urgency by the relevant departments and oversight authorities, the ideals of the National Development Plan and sustainable development goals (such as alleviating poverty, providing access to clean water and sanitation, improving longevity of citizens, improving quality of teaching and learning through provision of education infrastructure, enabling decent employment as well as economic growth) may not be achieved.

SECTION 6

Summary of audit outcomes

OVERALL AUDIT OUTCOMES

	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimed with findings	Outstanding audits	Total
2014-15	106	195	60	3	15	3	382
2017-18	97	202	95	5	27	5	431
2018-19	100	182	86	4	11	49	432

EXPENDITURE BUDGET

	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimed with findings	Outstanding audits
2018-19 *R1 747 billion*	6%	40%	34%	<1%	1%	19%

MOVEMENT from 2017-18

54 ⋀ *Improved* **52** ⋁ *Regressed*

MOVEMENT from 2014-15

80 ⋀ *Improved* **91** ⋁ *Regressed*

36 of the 41 outstanding audits reported in 2017-18 were completed by the date of this report

CLEAN AUDIT MOVEMENTS - from previous year

71 > *Remained clean* **29** ⋀ *New clean audits* **25** ⋁ *Regressed*

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

OUTSTANDING AUDITS

Cut-off date for inclusion of the audit outcomes in this report is **2 September 2019**

REASONS FOR **49** *OUTSTANDING AUDITS*

Auditee delays - **15 (32%)**

Financial statements submitted late - **10 (20%)**

Financial statements not submitted - **9 (18%)**

Material irregularity phased-in audit - **8 (16%)**

Delay in the audit - **7 (14%)**

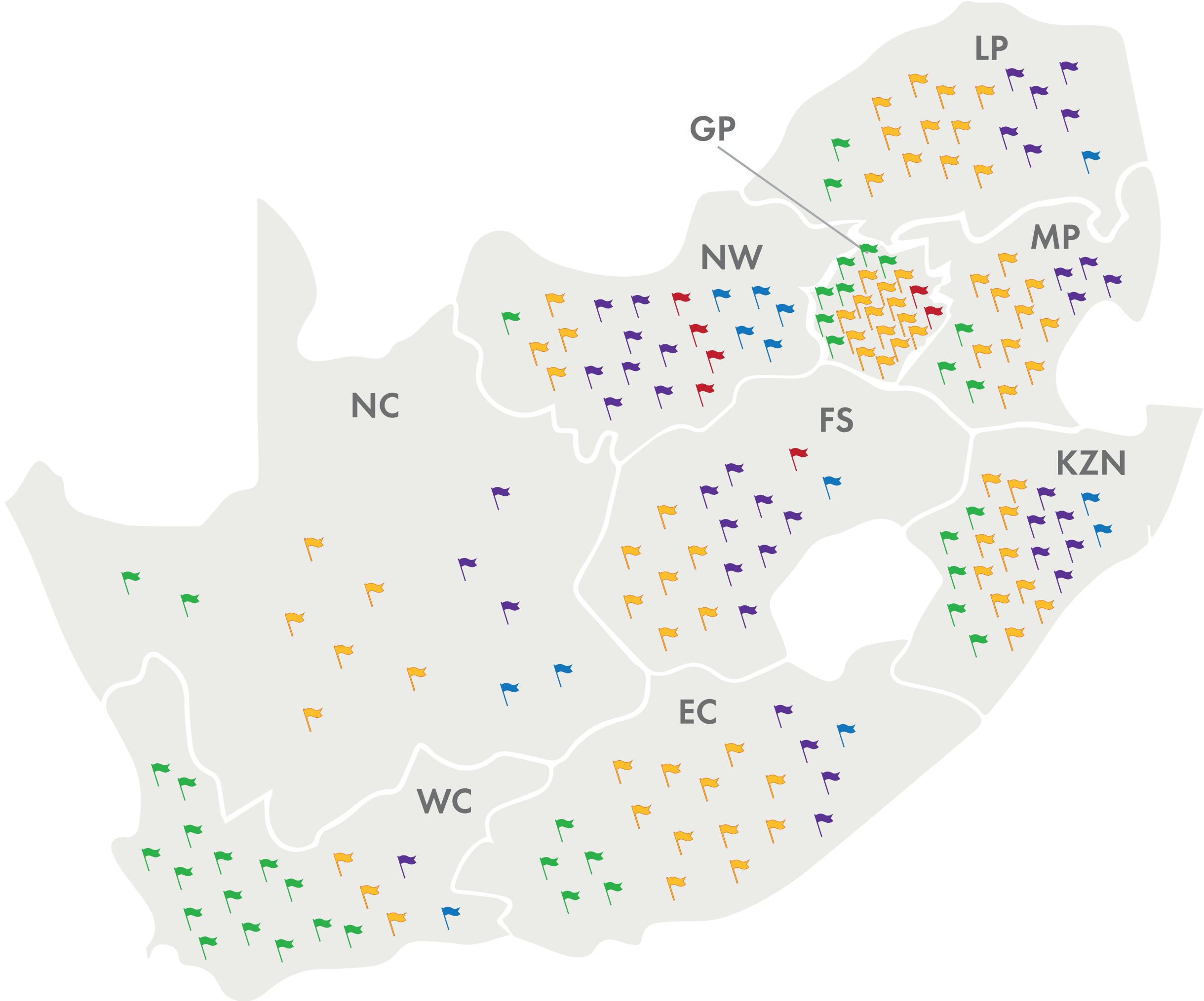
RESULTS OF 28 AUDITS SUBSEQUENTLY FINALISED AS AT 16 OCTOBER 2019

	Unqualified with no findings	Unqualified with findings	Qualified with findings	Disclaimed with findings
2018-19	1	5	13	9

	MOVEMENT FROM PREVIOUS YEAR'S AUDIT OUTCOME	2018-19 AUDIT OUTCOMES		
		Audit opinion	Performance reports	Compliance with legislation
Education (EC)	►	Qualified with findings	Findings	Findings
Education (LP)	►	Qualified with findings	Findings	Findings
Health (NC)	►	Qualified with findings	Findings	Findings
Social Development (WC)	►	Unqualified with no findings		
National Treasury	►	Unqualified with findings	Findings	Findings
Department of Tourism	▼	Qualified with findings		Findings
Department of Defence	►	Qualified with findings		Findings
Department of Environmental Affairs	▲	Qualified with findings	Findings	Findings
Office of the Premier (NW)	►	Qualified with findings	Findings	Findings
Human Settlements (FS)	►	Qualified with findings		Findings
Pelchem	►	Disclaimed with findings	Findings	Findings
Sedibeng TVET College	►	Qualified with findings		Findings
Independent Development Trust	▲	Qualified with findings	Findings	Findings
Estate Agency Affairs Board	►	Qualified with findings	Findings	Findings
Estate Agents Fidelity Fund	▲	Unqualified with findings		Findings
Passenger Rail Agency of South Africa	▼	Disclaimed with findings	Findings	Findings
Autopax	►	Disclaimed with findings		Findings
Airports Company South Africa	►	Unqualified with findings		Findings
Denel	►	Disclaimed with findings	Findings	Findings
South African Express Airways	►	Disclaimed with findings	Findings	Findings
Denel Aerostructures	►	Disclaimed with findings		Findings
Densecure	►	Unqualified with findings		Findings
LMT Holdings	►	Disclaimed with findings		Findings
Denel Vehicles Systems	►	Disclaimed with findings		Findings
LMT Products	►	Disclaimed with findings		Findings
South African Broadcasting Corporation	▲	Qualified with findings	Findings	Findings
South African Health Products Regulatory Authority	New auditee	Qualified with findings		Findings
Ithala	►	Unqualified with findings		Findings

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

NATIONAL AND PROVINCIAL AUDIT OUTCOMES AS WELL AS MOVEMENTS



		Improved ↑	Regressed ↓	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimed with findings	Outstanding audits
2018-19	NATIONAL	37	28	60	106	46	4	4	36

PROVINCIAL

Province	Improved ↑	Regressed ↓	2018-19: Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimed with findings	Outstanding audits
EASTERN CAPE (EC)	2	3	5	11	4			1
FREE STATE (FS)	5	3		7	8		1	1
GAUTENG (GP)	0	7	7	14			2	
KWAZULU-NATAL (KZN)	3	3	5	10	6			2
LIMPOPO (LP)	3	1	2	11	6			1
MPUMALANGA (MP)	1	2	3	10	4			
NORTHERN CAPE (NC)	0	2	2	6	3			2
NORTH WEST (NW)	1	1	1	4	8		4	5
WESTERN CAPE (WC)	2	2	15	3	1			1

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

DEPARTMENTS

AUDIT OUTCOMES

	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimed with findings	Outstanding audits	TOTAL
2014-15	48	88	29	0	1	0	166
2017-18	41	86	37	1	4	0	169
2018-19	40	75	39	0	2	13	169

EXPENDITURE BUDGET

	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimed with findings	Outstanding audits
2018-19 R1 368 billion	5%	41%	38%	0%	<1%	16%

MOVEMENT from 2017-18

16 ∧ *Improved* 21 ∨ *Regressed*

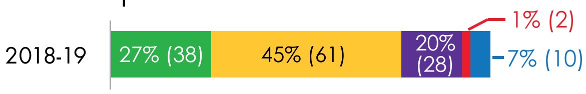
MOVEMENT from 2014-15

23 ∧ *Improved* 43 ∨ *Regressed*

The audits of the outstanding eight departments reported in 2017-18 were completed by the date of this report.

Education, health and public works departments versus other departments

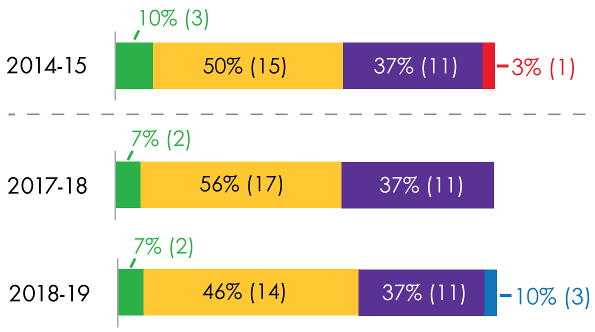
Other departments



MOVEMENT from 2017-18

14 ∧ *Improved* 16 ∨ *Regressed*

Education, health and public works departments



MOVEMENT from 2017-18

2 ∧ *Improved* 5 ∨ *Regressed*

The expenditure of the national and provincial departments of education, health and public works contributed to around 39% of the total spending by all departments.

PUBLIC ENTITIES

AUDIT OUTCOMES

	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimed with findings	Outstanding audits	TOTAL
2014-15	58	107	31	3	14	3	216
2017-18	56	116	58	4	23	5	262
2018-19	60	107	47	4	9	36	263

EXPENDITURE BUDGET

	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimed with findings	Outstanding audits
2018-19 R379 billion	8%	43%	17%	<1%	2%	30%

MOVEMENT from 2017-18

38 ∧ *Improved* 31 ∨ *Regressed*

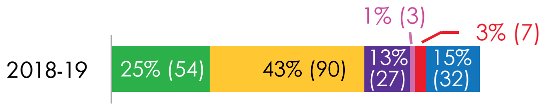
MOVEMENT from 2014-15

57 ∧ *Improved* 48 ∨ *Regressed*

The audits of 28 of the 33 outstanding public entities reported in 2017-18 were completed by the date of this report.

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

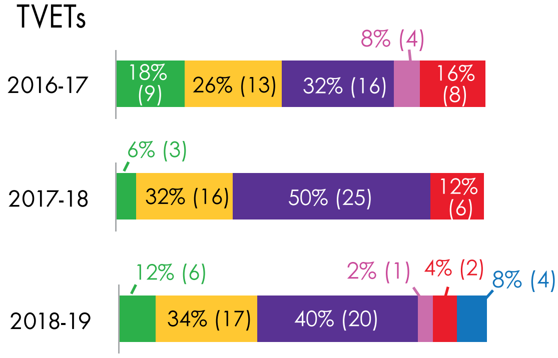
Other public entities



MOVEMENT from 2017-18

27 ∧ *Improved* 28 ∨ *Regressed*

TVETs



MOVEMENT from 2017-18

11 ∧ *Improved* 3 ∨ *Regressed*

TVETs improved over the past three years but struggle compared to other public entities.

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

FINANCIAL STATEMENTS

▼ Slight regression in quality of published financial statements

TARGET	MOVEMENT from prior year	2018-19	2017-18	2014-15 & MOVEMENT over 5 years	2018-19 (Including movement from prior year) DEPARTMENTS	2018-19 (Including movement from prior year) PUBLIC ENTITIES
Timely submission of financial statements (all auditees)	►	92% (399)	92% (396)	▼ 93% (356)	▼ 99% (167)	▼ 88% (232)
Quality of financial statements submitted for auditing	▼	43% (164)	47% (180)	▼ 49% (168)	▼ 48% (75)	▼ 39% (89)
Quality of published financial statements	▼	74% (282)	75% (286)	▼ 80% (274)	▼ 74% (115)	▲ 74% (167)

118 auditees (31%) *achieved unqualified audit opinions only because they* **corrected all misstatements** *identified during the audit*

QUALIFICATION AREAS
(on audited financial statements)

	MOVEMENT from prior year	2018-19	2017-18	2014-15 & MOVEMENT over 5 years
Property, infrastructure, plant and equipment	▼	14% (55)	13% (51)	▼ 12% (40)
Expenditure	▼	11% (43)	8% (30)	▼ 6% (22)
Receivables	▼	9% (35)	8% (31)	▼ 7% (23)
Payables, accruals and borrowing	▼	9% (34)	7% (28)	▼ 6% (22)

DEPARTMENTS
(Including movement from prior year)

	2018-19
Property, infrastructure, plant and equipment	▼ 13% (20)
Expenditure	▼ 10% (15)
Contingent liabilities and commitments	▼ 10% (15)
Irregular expenditure	► 9% (14)

PUBLIC ENTITIES
(Including movement from prior year)

	2018-19
Property, infrastructure, plant and equipment	► 15% (35)
Receivables	▼ 13% (30)
Payables, accruals and borrowings	▼ 13% (30)
Expenditure	▼ 12% (28)

NATIONAL AND PROVINCIAL VIEW

	TIMELY SUBMISSION OF FINANCIAL STATEMENTS		QUALITY OF FINANCIAL STATEMENTS SUBMITTED FOR AUDITING		QUALITY OF PUBLISHED FINANCIAL STATEMENTS	
	Number	Movement from 2017-18	Number	Movement from 2017-18	Number	Movement from 2017-18
National	229 (89%)	►	94 (43%)	▼	166 (75%)	▲
Eastern Cape	21 (100%)	►	13 (65%)	▲	16 (80%)	▼
Free State	17 (100%)	▲	3 (19%)	►	7 (44%)	▼
Gauteng	23 (100%)	►	11 (48%)	▼	21 (91%)	▼
KwaZulu-Natal	23 (100%)	►	12 (57%)	▲	15 (71%)	▼
Limpopo	20 (100%)	▲	3 (16%)	►	13 (68%)	▲
Mpumalanga	17 (100%)	►	5 (29%)	▼	13 (76%)	►
Northern Cape	12 (92%)	▼	3 (27%)	▼	8 (73%)	▼
North West	17 (77%)	▼	4 (24%)	▲	5 (29%)	►
Western Cape	20 (100%)	►	17 (89%)	▼	18 (95%)	►
Total	399 (92%)	►	165 (43%)	▼	282 (74%)	▼

PERFORMANCE REPORTS

▼ Slight regression in quality of published performance reports

TARGET	MOVEMENT from prior year	2018-19	2017-18	2014-15 & MOVEMENT over 5 years	2018-19 (Including movement from prior year) DEPARTMENTS	PUBLIC ENTITIES
Performance reports prepared	►	100% (323)	100% (323)	▲ 99% (314)	► 100% (156)	► 100% (167)
Quality of performance reports submitted for auditing	▲	33% (105)	31% (100)	▼ 47% (147)	▲ 29% (46)	▲ 35% (59)
Quality of published performance reports	▼	62% (200)	63% (205)	▼ 66% (210)	▼ 55% (86)	▼ 68% (114)

95 auditees (29%) *had no material findings only because they* **corrected all misstatements** *identified during the audit*

FINDINGS ON PERFORMANCE REPORTS

	MOVEMENT from prior year	2018-19	2017-18	2014-15 & MOVEMENT over 5 years	2018-19 (Including movement from prior year) DEPARTMENTS	PUBLIC ENTITIES
Performance reporting not useful	▼	21% (65)	19% (62)	► 21% (66)	▼ 24% (36)	▲ 18% (29)
Achievement reported not reliable	▼	32% (102)	31% (101)	▼ 29% (92)	▼ 41% (63)	► 24% (39)
No underlying records or planning documents	▼	3% (9)	1% (2)	–	▼ 2% (3)	▼ 4% (6)

MOST COMMON USEFULNESS FINDINGS

9% Indicators not well defined

7% Reasons reported for variances not reliable

6% Targets not measurable

6% Indicators not verifiable

NATIONAL AND PROVINCIAL VIEW

	PERFORMANCE REPORTS PREPARED		QUALITY OF PERFORMANCE REPORTS SUBMITTED FOR AUDITING		QUALITY OF PUBLISHED PERFORMANCE REPORTS	
	Number	Movement from 2017-18	Number	Movement from 2017-18	Number	Movement from 2017-18
National	167 (100%)	►	58 (35%)	▲	110 (66%)	►
Eastern Cape	20 (100%)	►	8 (40%)	▲	12 (60%)	►
Free State	13 (100%)	►	3 (23%)	►	6 (46%)	▲
Gauteng	22 (100%)	►	5 (23%)	▼	13 (59%)	▼
KwaZulu-Natal	19 (100%)	►	2 (11%)	▼	11 (58%)	▼
Limpopo	19 (100%)	►	7 (37%)	▲	11 (58%)	▲
Mpumalanga	17 (100%)	►	5 (29%)	►	8 (47%)	▼
Northern Cape	11 (100%)	►	4 (36%)	►	7 (64%)	▼
North West	16 (100%)	►	3 (19%)	▲	5 (31%)	►
Western Cape	19 (100%)	►	10 (53%)	▼	17 (89%)	▲
Total	323 (100%	►	105 (33%)	▲	200 (62%)	▼

COMPLIANCE WITH KEY LEGISLATION

SLIGHT INCREASE IN NON-COMPLIANCE

Auditees with non-compliance slightly increased from 71,5% (274) to **72,1% (276)** since 2017-18

	MOVEMENT from prior year	2018-19	2017-18	MOVEMENT over 5 years	
DEPARTMENTS	▼	72% (113)	70% (109)	▼	69% (105)
PUBLIC ENTITIES	▲	72% (163)	73% (165)	▼	71% (134)

MOST COMMON NON-COMPLIANCE AREAS	MOVEMENT from prior year	2018-19	2017-18	MOVEMENT over 5 years	2014-15
Quality of financial statements	▼	57% (217)	53% (203)	▼	50% (170)
Management of procurement and contract management	▲	42% (159)	43% (163)	▼	37% (125)
Prevention of unauthorised, irregular, and fruitless and wasteful expenditure	►	41% (156)	41% (157)	▼	40% (136)

OTHER NOTABLE NON-COMPLIANCE AREAS	MOVEMENT	2018-19	MOST COMMON FINDINGS PER AREA
Effecting consequences	▼	25% (94)	*Disciplinary steps not taken against officials who made or permitted irregular expenditure – 13% (49)*
Expenditure management	▲	16% (63)	*Payments to creditors not settled within 30 days from receipt of an invoice – 12% (46)*
Strategic planning and performance management	▼	13% (50)	*No specific information systems to enable monitoring of targets and core objectives – 9% (35)*
Revenue management	▲	9% (35)	*Effective and appropriate steps not taken to collect all money due – 8% (30)*

Non-compliance by **178 (64%)** of auditees can potentially lead to financial loss

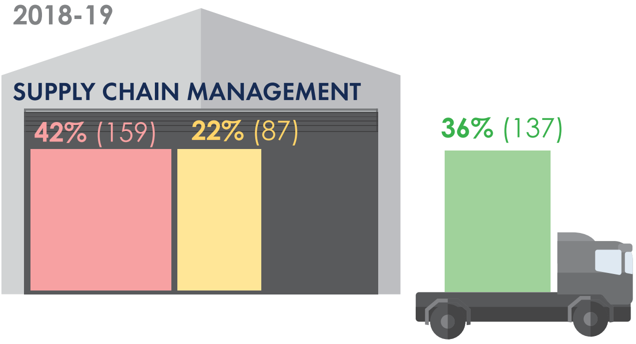
NATIONAL AND PROVINCIAL VIEW

AUDITEES WITH NO FINDINGS ON COMPLIANCE

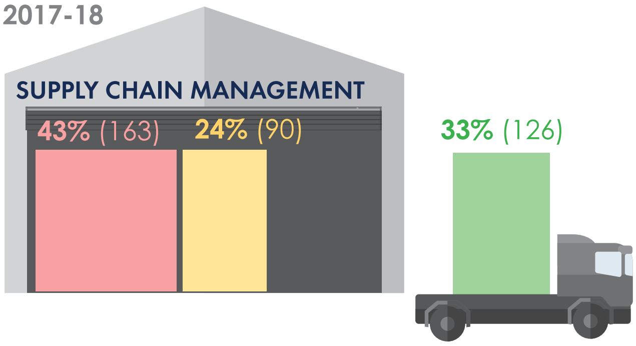
	National	Eastern Cape	Free State	Gauteng	KwaZulu-Natal	Limpopo	Mpumalanga	Northern Cape	North West	Western Cape
Number	65 (30%)	6 (30%)	0 (0%)	7 (30%)	5 (24%)	2 (11%)	3 (18%)	2 (18%)	1 (6%)	16 (84%)
Movement from 2017-18	▲	▲	►	▼	▲	►	▼	▼	►	▼

Total 107 (28%) ▼

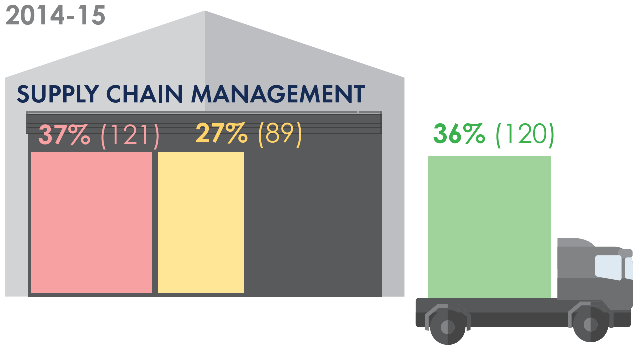
2018-19



2017-18



2014-15



With material findings | With findings | With no findings

Not able to audit procurement of **R2 334 million** due to **missing or incomplete information** at 32 auditees (8%)

Highest contributors (84% of rand value) were:

- Human Settlements (GP) – **R877 million**: Due to a fire at the department's premises, information (including procurement documentation) was moved to a new storage area – procurement documentation was not properly packed in storage and could not be found in time for audit purposes
- Human Settlements (KZN) – **R593 million**: Contracts and bid documentation for municipal construction of housing units awarded by municipalities in prior years were not made available for auditing
- Health (NW) – **R243 million**: R99 million relates to the purchase of pharmaceutical supplies and the remainder to infrastructure contracts – the required tender documents could not be submitted for auditing due to poor record management and inadequate controls by the department
- Department of Basic Education – **R149 million**: Relates to school infrastructure development projects funded as part of the accelerated school infrastructure delivery initiative – supporting documents for the procurement process were not provided by the implementing agents
- Human Settlements (MP) – **R100 million**: Relates to poor record management on low-cost housing contracts

MATERIAL FINDINGS

	DEPARTMENTS	PUBLIC ENTITIES
% of findings	54%	33%
MOVEMENT FROM 2017-18	↑	↑
MOVEMENT FROM 2014-15	↓	↓

AWARDS TO EMPLOYEES AND CLOSE FAMILY MEMBERS

AWARDS/FINDINGS	MOVEMENT FROM 2017-18	MOVEMENT FROM 2014-15	2018-19 NUMBER OF AUDITEES WITH FINDINGS	2017-18 AWARDS R MILLION (NUMBER OF AWARDS)
Awards to employees and political office-bearers	↓	→	8% (31)	R100 (260 awards)
SCM legislation was not materially complied with in the procurement process of **87** of the awards amounting to **R49 million**				
Awards to close family members of employees	↓	↓	14% (52)	R798 (785 awards)
SCM legislation was not materially complied with in the procurement process of **167** of the awards amounting to **R109 million**				

DEPARTMENTS' EMPLOYEES DOING BUSINESS WITH THE STATE

The amended Public Service Regulations prohibit employees of departments from doing business with the state with effect from 1 August 2016. The regulations allowed employees until February 2017 to stop doing the business or resign as an employee. We identified 520 employees that were still doing business with the state (a decrease from 551 in the previous year). The onus of complying with these regulations is on the employees, but departments have a responsibility to monitor such compliance.

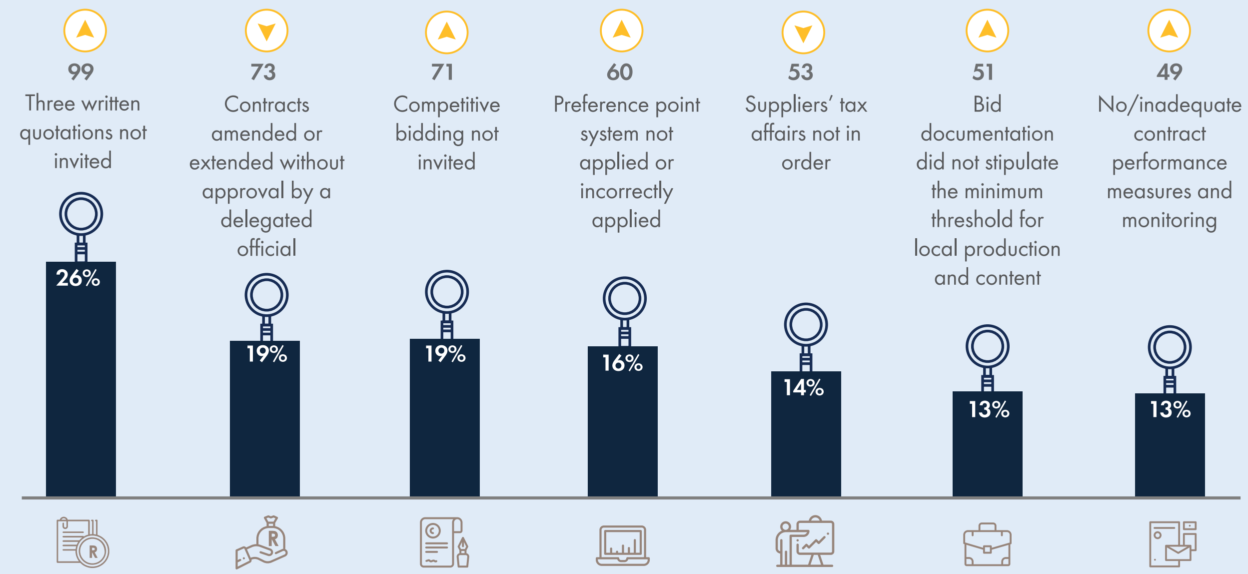
FINDINGS	MOVEMENT FROM 2017-18	NUMBER OF DEPARTMENTS	NUMBER OF EMPLOYEES	AMOUNT (R MILLION)
Employees doing business with **own department** - contracts awarded after 1 August 2016	▼	8% (12)	79	R7
Employees doing business with **own department** - contracts awarded before 1 August 2016 – did not resign or stop doing business	▲	1% (1)	6	R55
Employees doing business with **other state institutions** - contracts awarded after 1 August 2016	▼	19% (30)	430	R153
Employees doing business with **other state institutions** - contracts awarded before 1 August 2016	►	2% (3)	5	R24

UNCOMPETITIVE OR UNFAIR PROCUREMENT PROCESSES AND CONTRACT MANAGEMENT

Findings on **uncompetitive and unfair procurement processes at 52%** of auditees, 36% of which was material non-compliance. This is a slight improvement from 55% for both previous year and since 2014-15.

Findings on **contract management at 30%** of auditees, 11% of which was material non-compliance. This is a slight regression from 27% in the previous year and a regression from 20% in 2014-15.

Most common findings were the following:



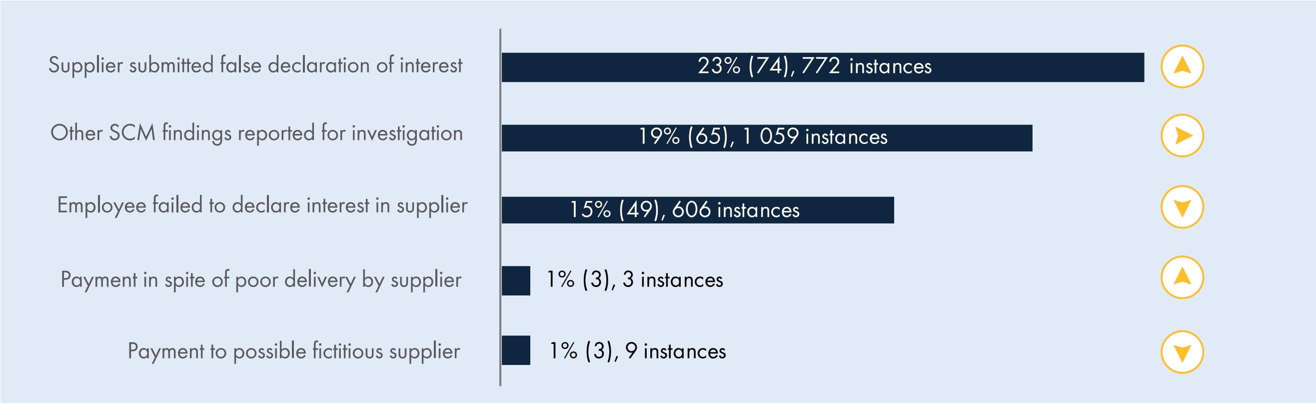
LOCAL PROCUREMENT

Auditees are required to procure certain commodities from local producers; **61** out of 158 auditees where local content was audited failed to comply with the regulation on promotion of local producers on awards amounting to **R5 036 million.**

FALSE DECLARATIONS BY SUPPLIERS AND NON-DISCLOSURE BY EMPLOYEES

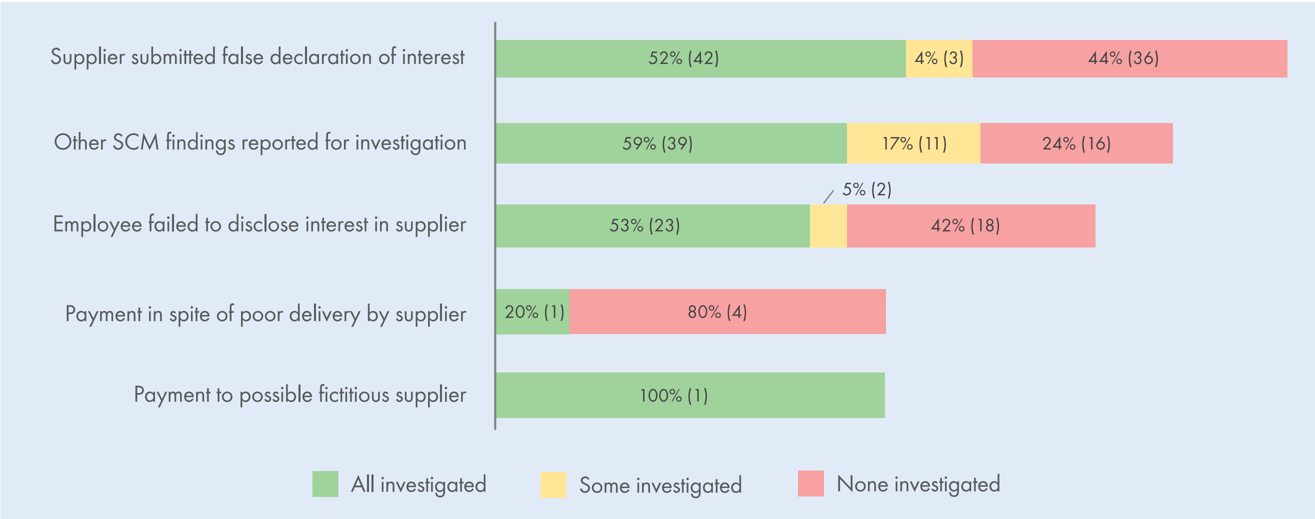
FINDINGS	MOVEMENT	NUMBER OF AUDITEES	NUMBER OF SUPPLIERS/ EMPLOYEES	AMOUNT (R MILLION)
Suppliers owned or managed by **employees of another state institution** made false declarations	↑	5% (21)	111	R111
Suppliers owned or managed by **employees of the auditee** made false declarations	↓	3% (11)	61	R19
Suppliers owned or managed by **close family members of employees** of the auditee made false declarations	→	8% (30)	243	R621
Employees of the auditee **failed to declare their own interest** either as part of the procurement processes or through annual declarations	↑	7% (26)	137	R69
Employees of the auditee **failed to declare their family members' interest**	↑	9% (34)	331	R578

FINDINGS REPORTED FOR INVESTIGATION AT 131 AUDITEES (40%) - UNCHANGED FROM 2017-18



In 2018-19, we reported these SCM findings for investigation at 131 auditees (40%), which remains unchanged from the 40% in 2017-18. In total, 83 (64%) of the 129 auditees that had such findings in 2017-18 had similar findings in 2018-19. Of the 131 auditees where we reported SCM findings for investigation, 86 were departments and 45 were public entities.

FOLLOW-UP OF PREVIOUS YEAR'S SUPPLY CHAIN MANAGEMENT FINDINGS REPORTED FOR INVESTIGATION IN PRIOR YEAR AT 129 AUDITEES



71 (55%) of these auditees investigated all the findings we reported, while **19 (15%)** investigated some findings and **39 (30%)** investigated none of the findings.

57 (63%) out of the **90** auditees that investigated all or some findings, satisfactorily resolved all the investigations conducted.

UNAUTHORISED, IRREGULAR AND FRUITLESS AND WASTEFUL EXPENDITURE (UIFW)

Note: The entire analysis excludes the outstanding audits unless otherwise indicated (*)	**Irregular** Non-compliance with legislation in the process leading to expenditure	**Unauthorised** Expenditure more than budget or not in accordance with grant conditions	**Fruitless and wasteful** Expenditure made in vain - could have been avoided if reasonable care was taken
How much was disclosed in 2018-19?	**R42,835 billion at 274 auditees (72%)** 16% increase from R36,833 billion in 2017-18 * Irregular expenditure of outstanding audits based on unaudited financial statements – **R19,755 billion (2017-18: R15,847 billion)**	**R1,365 billion at 18 departments (12%)** 23% decrease from R1,774 billion in 2017-18 * Unauthorised expenditure of outstanding audits based on unaudited financial statements – **R0,281 billion (2017-18: R0,351 billion)**	**R0,849 billion at 223 auditees (58%)** 7% increase from R0,792 billion in 2017-18 * Fruitless and wasteful expenditure of outstanding audits based on unaudited financial statements – **R0,758 billion (2017-18: R1,901 billion)**
Is all of it 2018-19 expenditure?	**No** R11,552 billion (27%) was expenditure in prior years only uncovered and disclosed in 2018-19 R31,282 billion (73%) was expenses in 2018-19, which includes payments made on ongoing contracts irregularly awarded in prior years – **R9,056 billion** (29%); and **R22,227 billion** (71%) representing non-compliance in 2018-19	**Yes**	**No** R0,156 billion (18%) was expenditure in prior years only uncovered and disclosed in 2018-19 R0,693 billion (82%) was expenses in 2018-19
How much of the 2018-19 budget does it represent?	**2%**	**< 1%**	**< 1%**
Is this the total amount?	**No** 131 auditees (34%) were either qualified on the completeness of their disclosure and/or did not know the total amount and were still investigating to determine the total amount We could also not audit procurement processes for contracts valued at R2,334 billion due to missing or incomplete documentation – it is not known whether any part of this amount might represent irregular expenditure	**No** 1 department was qualified on the completeness of their disclosure	**No** 6 auditees (2%) were qualified on the completeness of their disclosure

	Irregular	Unauthorised	Fruitless and wasteful
What was main cause?	**Non-compliance with supply chain management legislation (93%), related to:** • Procurement without following a competitive bidding or quotation process – R13,454 billion (34%) • Non-compliance with other procurement process requirements – R15,705 billion (39%) • Inadequate contract management – R10,748 billion (27%)	**Overspending of budget (99,9%) –** R1,363 billion	**Penalties and interest** on overdue accounts and late payments **(28%)** – R0,238 billion **Litigation and claims (19%)** – R0,161 billion **Other (53%)** – R0,450 billion The main causes are included in the top 10 contributor table
Did the auditees detect this expenditure?	**77% was identified by auditees** and the remainder in the audit process Many auditees put processes in place to fully uncover irregularities of prior years – partly to address prior year qualifications on irregular expenditure (R2,827 billion) but also to correct and address past irregularities	**92% was identified by auditees** and the remainder in the audit process	**71% was identified by auditees** and the remainder in the audit process
Does it mean this money was wasted?	**Possibly** – it can only be determined through an investigation by the accounting officer or accounting authority Goods and services were received for R27,238 billion (68%) of the expenditure related to supply chain management, but were not received for R0,244 billion (1%), while we did not audit the remaining 31% We cannot confirm if value for money was received for all of these goods and services	**No**	**Yes**
How much of the current and prior year expenditure has not yet been dealt with (i.e. what is the closing balance)?	**R174,876 billion**	**R7,829 billion**	**R3,282 billion**

NATIONAL AND PROVINCIAL OVERVIEW

Province	Irregular (IE) (R billion)	Unauthorised (UE) (R billion)	Fruitless and wasteful (FWE) (R billion)
National	R11,254 26% of total IE incurred 1% of national budget Closing balance – R47,241	R0,058 4% of total UE incurred < 1% of national budget for departments Closing balance – R2,893	R0,433 50% of total FWE incurred < 1% of national budget Closing balance – R1,746
Eastern Cape	R0,869 2% of total IE incurred 2% of provincial budget Closing balance – R2,428	R0,569 42% of total UE incurred 1% of provincial budget for departments Closing balance – R0,649	R0,023 3% of total FWE incurred < 1% of provincial budget Closing balance – R0,047
Free State	R2,562 6% of total IE incurred 5% of provincial budget Closing balance – R10,984	R0,617 45% of total UE incurred 2% of provincial budget for departments Closing balance – R1,829	R0,141 17% of total FWE incurred < 1% of provincial budget Closing balance – R0,151
Gauteng	R7,134 17% of total IE incurred 5% of provincial budget Closing balance – R29,204	R0,006 < 1% of total UE incurred < 1% of provincial budget for departments Closing balance – R0,006	R0,113 13% of total FWE incurred < 1% of provincial budget Closing balance – R0,620
KwaZulu-Natal	R12,424 30% of total IE incurred 7% of provincial budget Closing balance – R41,909	R0,030 2% of total UE incurred < 1% of provincial budget for departments Closing balance – R0,641	R0,030 4% of total FWE incurred < 1% of provincial budget Closing balance – R0,214

Province	Irregular (IE) (R billion)	Unauthorised (UE) (R billion)	Fruitless and wasteful (FWE) (R billion)
Limpopo	R2,095 5% of total IE incurred 5% of provincial budget Closing balance – R6,713	< R0,001 < 1% of total UE incurred < 1% of provincial budget for departments Closing balance – R0,001	R0,030 4% of total FWE incurred < 1% of provincial budget Closing balance – R0,172
Mpumalanga	R2,734 6% of total IE incurred 5% of provincial budget Closing balance – R12,403	None Closing balance – R0,910	R0,011 1% of total FWE incurred < 1% of provincial budget Closing balance – R0,040
Northern Cape	R0,585 1% of total IE incurred 4% of provincial budget Closing balance – R5,070	R0,050 4% of total UE incurred < 1% of provincial budget for departments Closing balance – R0,479	R0,001 < 1% of total FWE incurred < 1% of provincial budget Closing balance – R0,074
North West	R3,157 7% of total IE incurred 6% of provincial budget Closing balance – R18,849	R0,035 3% of total UE incurred < 1% of provincial budget for departments Closing balance – R0,421	R0,067 8% of total FWE incurred < 1% of provincial budget Closing balance – R0,218
Western Cape	R0,021 < 1% of total IE incurred < 1% of provincial budget Closing balance – R0,075	None Closing balance – none	< R0,001 < 1% of total FWE incurred < 1% of provincial budget Closing balance – < R0,001

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

TOP 10 CONTRIBUTORS – IRREGULAR EXPENDITURE

All of these auditees had incurred irregular expenditure for the **past 3 years**

Auditee	Disclosed (R billion)	Incurred in 2018-19 (R billion)	Nature	Key projects/ contracts affected	Grants* affected (R billion)
Health (KZN)	R4,519	R2,977 (66%)	57% related to non-compliance with legislation on contracts		
Transport (KZN)	R4,146	R3,404 (82%)	48% related to non-compliance with legislation on contracts, while 28% related to procurement without following competitive bidding or quotation processes	Subsidised public transport: subsidised bus contracts were extended without appropriate approval One major project valued at R2,68 billion was awarded based on criteria that differed from the original specifications and was procured without a proper needs assessment	R1,58 (PTOG)
Water and Sanitation	R3,130	R1,850 (59%), of which R1,404 represents irregular expenditure incurred on ongoing multi-year contracts awarded in prior years	48% related to non-compliance with legislation on contracts, while 33% related to non-compliance with other procurement process requirements	Giyani bulk and water services Bucket eradication project War on leaks Sedibeng wastewater treatment	R0,341 (RBIG) R0,434 (RBIG and WSIG)
Health (GP)	R2,862	R2,292 (80%)	63% related to procurement without following competitive bidding or quotation processes	Security and other contracts were extended without following proper supply chain management processes and did not comply with the Division of Revenue Act	R0,226 (comprehensive HIV/Aids grant) R0,011 (NTS grant)
Roads and Transport (GP)	R2,259	R2,259 (100%)	100% related to non-compliance with other procurement process requirements	Bus subsidy contracts were extended without following proper supply chain management processes	
Education (KZN)	R1,879	R1,879 (100%)	86% related to procurement without following competitive bidding or quotation processes	School feeding scheme	R1,60 (NSNP grant)

Auditee	Disclosed (R billion)	Incurred in 2017-18 (R billion)	Nature	Key projects/ contracts affected	Grants* affected (R billion)
Health (NW)	R1,240	R1,240 (100%), of which R1,120 represents irregular expenditure incurred on ongoing multi-year contracts awarded in prior years	81% related to non-compliance with other procurement process requirements	Various infrastructure projects relating to building of hospitals, new community health centre, etc.	R0,992 (HFR grant)
Human Settlements (MP)	R1,193	R1,193 (100%), of which R1,034 represents irregular expenditure incurred on ongoing multi-year contracts awarded in prior years	100% related to non-compliance with other procurement process requirements	Housing finance and human settlements projects with regard to low-cost housing	R1,190 (HSDG)
Education (GP)	R1,168	R1,128 (97%), of which R0,899 represents irregular expenditure incurred on ongoing multi-year contracts awarded in prior years	97% related to non-compliance with other procurement process requirements	School nutrition tender (R0,826)	
Police	R1,164	R0,004 (0,3%)	100% related to procurement without following competitive bidding or quotation processes		
Total for top 10	R23,560	This constitutes 55% of the total irregular expenditure disclosed in 2018-19 R8,759 billion (37%) of the top 10 irregular expenditure resulted from non-compliance with procurement process requirements, while R7,980 billion (34%) related to procurement without following competitive bidding or quotation processes *Excluded from these top contributors is irregular expenditure of National Student Financial Aid Scheme, Defence and Passenger Rail Agency of South Africa amounting to R9,110 billion, R3,587 billion and R3,037 billion, respectively – the amounts are based on either unaudited financial statements or audited financial statements of audits completed after the cut-off date of this report*			

* PTOG – public transport operations grant
* NSNP grant – national school nutrition programme grant
* NTS grant – national tertiary services grant
* HFR grant – health facility revitalisation grant
* HSDG – human settlement development grant
* RBIG – regional bulk infrastructure grant
* WSIG – water services infrastructure grant

TOP 10 CONTRIBUTORS – UNAUTHORISED EXPENDITURE

Three of these departments had incurred unauthorised expenditure for the **past 3 years**, namely Education (FS), Police, Roads and Transport (FS), and Education (NC)

Auditee	Disclosed (R billion)	Nature
Health (EC)	R0,569	Overspending of budget: the overspending was mainly on three programmes, namely district health services (R0,447 billion), provincial health services (R0,070 billion), and central health services (R0,046 billion) Most of the overspending related to medical claims not budgeted for
Education (FS)	R0,280	Overspending of budget: the overspending was on the public ordinary school education programme, mainly due to overspending of employee cost
Police, Roads and Transport (FS)	R0,203	Overspending of budget: the overspending was on three programmes, namely administration (R0,055 billion), transport services (R0,019 billion), and transport regulations (R0,129 billion) Most of the overspending related to employee costs
Office of the Premier (FS)	R0,135	Overspending of the budget: the overspending was mainly on the programmes for institutional development (R0,028 billion) and policy governance (R0,104 billion)
Statistics South Africa	R0,057	Overspending of budget: the overspending was mainly on compensation of employees (R0,049 billion)
Transport, Safety and Liaison (NC)	R0,027	Overspending of budget: the overspending was mainly on two programmes, namely administration programme (R0,025 billion) and civilian oversight (R0,002 billion)
Health (NW)	R0,022	Overspending of budget: the overspending was on the district health services programme, with most of the overspending relating to property payments
Education (NC)	R0,019	Overspending of budget: the overspending was mainly on the public ordinary schools education programme (R0,011 billion) – additional educator posts were filled due to an increase in learner numbers
Health (KZN)	R0,014	Overspending of budget: the overspending was on the provincial hospital services and central hospital services programmes, mostly due to Medico legal claims
Provincial legislature (NW)	R0,013	Overspending of budget: the overspending was mainly on the programme for legislature operations
Total for top 10	R1,339	This constitutes 98% of the total unauthorised expenditure *Excluded from these top contributors is unauthorised expenditure of Education (EC), amounting to R0,280 billion – the amount is based on unaudited financial statements as the audit had not yet been completed at the date of this report*

TOP 10 CONTRIBUTORS – FRUITLESS AND WASTEFUL EXPENDITURE

All of these auditees had incurred fruitless and wasteful expenditure for the **past 3 years**, except Free State Development Corporation (FS), Health (GP), and Higher Education and Training

Auditee	Disclosed (R billion)	Nature
Energy	R0,110	Relates to additional storage costs for solar water heater geysers that were manufactured and stored by suppliers beyond the agreed storage period
Health (FS)	R0,101	Mostly relates to fruitless and wasteful expenditure incurred on capital projects amounting to R0,091 billion, including for remedial work, idle time, settlement fees and overpayments on these projects
South African Social Security Agency	R0,078	Mostly relates to payment to service provider for work not performed (R0,075 billion) – agency made direct payments to beneficiaries but was charged by Cash Paymaster Services for the same service
Water and Sanitation	R0,060	Relates to interest charged on late payment of invoices from suppliers (R0,013 billion) and excessive management fees to Giyani water project (R0,047 billion)
Roads and Transport (GP)	R0,059	Mostly relates to litigation and claims such as court orders due to cancellation of contracts
South African Post Office	R0,056	Mostly relates to interest and penalties – R0,052 billion (93%)
Local Government and Human Settlements (NW)	R0,050	Relates to costs to demolish houses and rebuild/rectify defects due to poor quality of work identified on housing projects
Free State Development Corporation (FS)	R0,032	All interest and penalties relating to late payments to municipalities, South African Revenue Service interest, etc.
Health (GP)	R0,027	All interest and penalties relating to late payments due to cash flow constraints / challenges affecting the department
Higher Education and Training	R0,025	Fraudulent payments to community education and training employees (overpayments to employees not entitled to such payments)
Total for top 10	R0,598	This constitutes 71% of the total fruitless and wasteful expenditure *Excluded from these top contributors is fruitless and wasteful expenditure of South African Broadcasting Corporation, Education (LP), National Treasury, Airports Company South Africa, Passenger Rail Agency of South Africa, Defence and Denel amounting to R0,224 billion, R0,088 billion, R0,068 billion, R0,063 billion, R0,051 billion, R0,037 billion and R0,132 billion, respectively – the amounts are based on either unaudited financial statements or audited financial statements of audits completed after the cut-off date of this report*

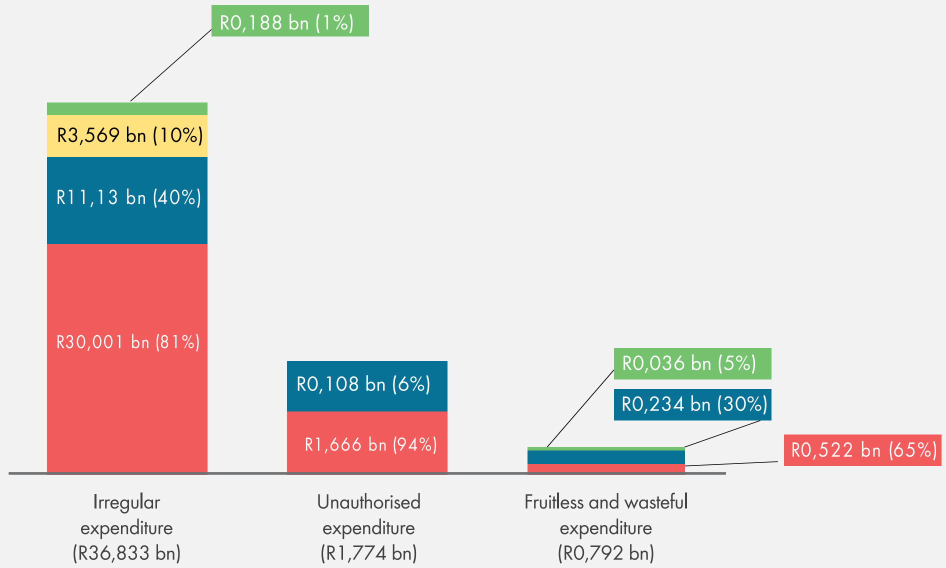
INVESTIGATION AND FOLLOW-UP OF PRIOR YEAR UNAUTHORISED, IRREGULAR AND FRUITLESS AND WASTEFUL EXPENDITURE

Investigations by auditees of all prior year instances regressed from **86% to 78%**

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

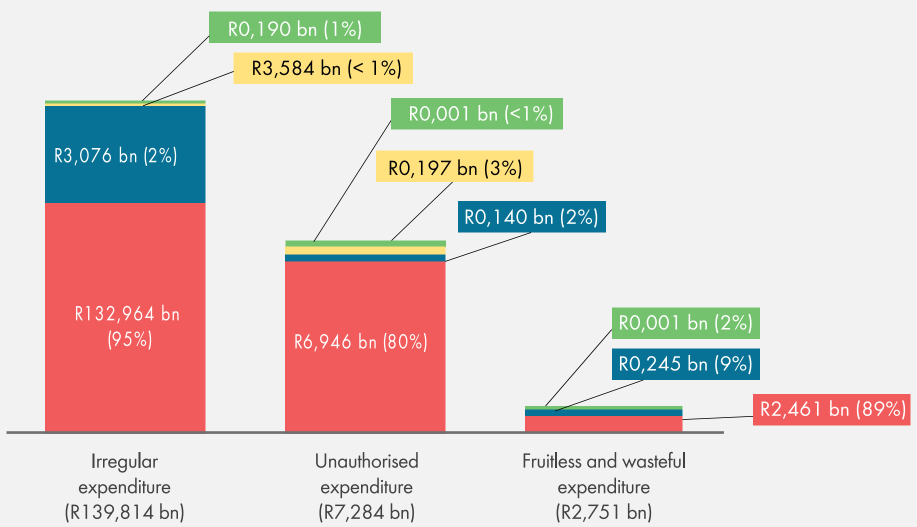
Sufficient steps were not taken to recover, write off, approve or condone UIFW. As a result, the year-end balance of irregular expenditure that had accumulated over many years and had not been dealt with totalled R174,876 billion, while that of unauthorised expenditure was R7,829 billion and that of fruitless and wasteful expenditure was R3,282 billion.

HOW HAVE AUDITEES DEALT WITH UIFW INCURRED IN 2017-18?



HOW HAVE AUDITEES DEALT WITH ALL PRIOR UIFW TO DATE?

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



GROWING BALANCE OF IRREGULAR EXPENDITURE NOT DEALT WITH

Top 5 contributors to accumulated irregular expenditure (constitutes 30% of R174,876 billion), which also **did not investigate all instances** of prior year irregular expenditure:

- Transport (KZN) – R14,108 billion
- Health (KZN) – R13,444 billion
- Water and Sanitation – R9,286 billion
- Health (NW) – R8,859 billion
- Education (KZN) – R6,572 billion

Reasons for not investigating all instances of prior year irregular expenditure included:

- Process of identifying all irregular expenditure for investigation was still in progress
- Current organisational structure did not support adequate effecting of consequences
- Capacity constraints

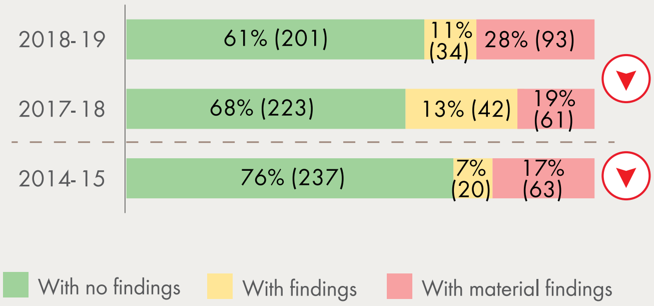
The investigation of irregular expenditure that accounting officers and authorities are required to perform includes determining whether the non-compliance with legislation caused a financial loss. Any financial loss should be recovered and further financial losses prevented. Delays in performing investigations increase the risk of the state continuing to lose money and not recovering what has been lost.

It is strongly recommended that investigations should be prioritised and fast-tracked. Some of these irregularities with a resultant financial loss are likely to be reported as material irregularities in future if they are not resolved timeously.

FRAUD AND LACK OF CONSEQUENCES

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

NON-COMPLIANCE WITH LEGISLATION ON IMPLEMENTING CONSEQUENCES



Most common findings were the following:

- *Irregular expenditure identified in previous year not investigated – 57 auditees (17%)*
- *Effective and appropriate disciplinary steps not taken against officials who made and/or permitted irregular expenditure – 46 auditees (14%)*
- *Fruitless and wasteful expenditure identified in previous year not investigated – 38 auditees (12%)*

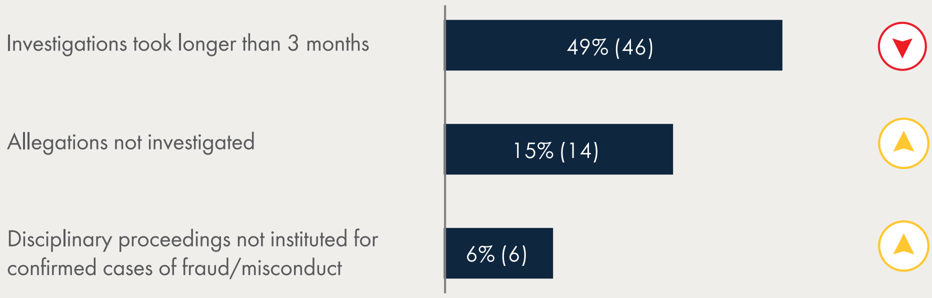
MECHANISMS TO DEAL WITH LACK OF CONSEQUENCES

Inadequate mechanisms for reporting and investigating transgressions and possible fraud at 36 auditees (11%)

Although 89% had the required mechanisms, these had not necessarily been implemented successfully as evidenced by the increase in material non-compliance with legislation on implementing consequences

CONTRIBUTE TO

INADEQUATE FOLLOW-UP OF ALLEGATIONS OF FINANCIAL AND SUPPLY CHAIN MANAGEMENT MISCONDUCT AND FRAUD - TESTED AT 94 AUDITEES



AND

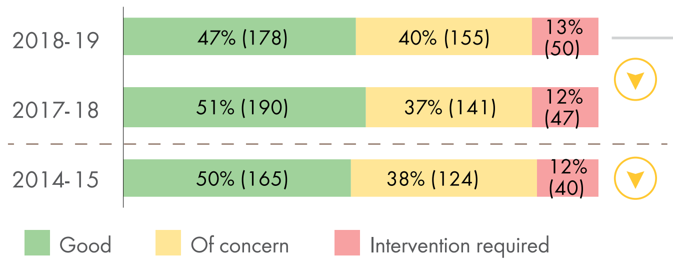
Unauthorised, irregular, and fruitless and wasteful expenditure (UIFW) not followed up and dealt with – refer to section on UIFW

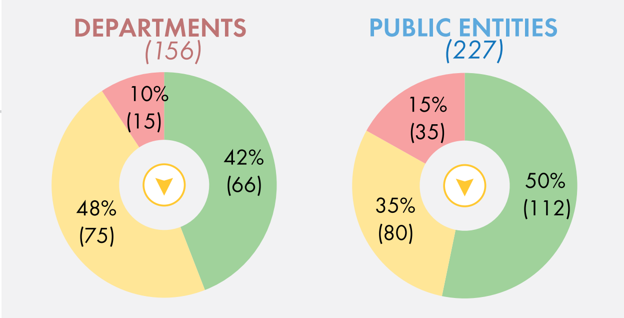
Supply chain management (SCM) findings we reported to management for investigation not followed up – refer to section on SCM

INTERNAL CONTROL

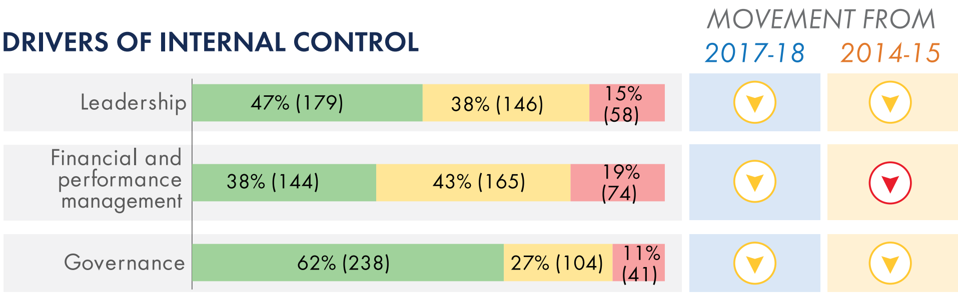
SLIGHT REGRESSION IN OVERALL STATUS OF INTERNAL CONTROL

OVERALL STATUS OF INTERNAL CONTROL





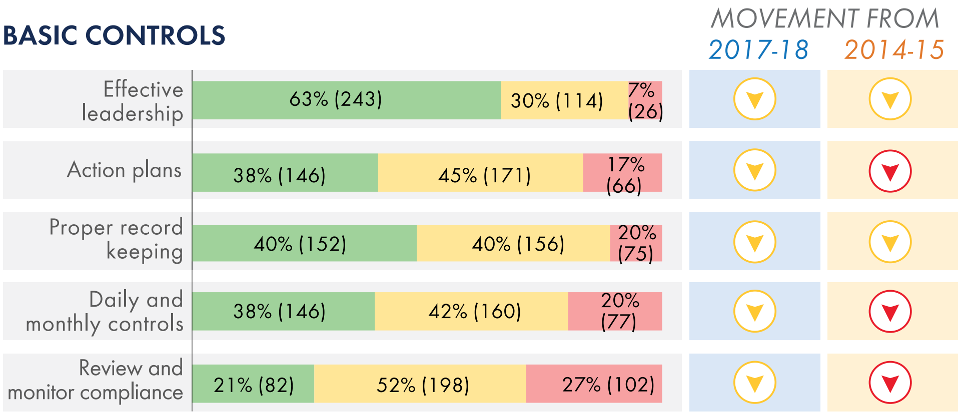
DRIVERS OF INTERNAL CONTROL



Good internal control is the key to ensuring that auditees deliver on their priorities in an effective, efficient and economical manner.

It will also ensure that auditees produce quality financial statements and performance reports, and comply with applicable legislation.

BASIC CONTROLS



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

Refer to the human resource (HR) management section for the HR controls and information technology (IT) controls section for IT governance controls.

PROGRESS MADE IN IMPROVING DRIVERS OF INTERNAL CONTROL

IN NATIONAL AND PROVINCIAL GOVERNMENT OVER FIVE YEARS

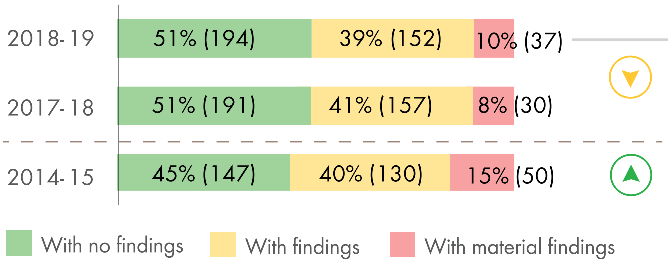
Auditees must invest in preventative controls to strenghten their control environment

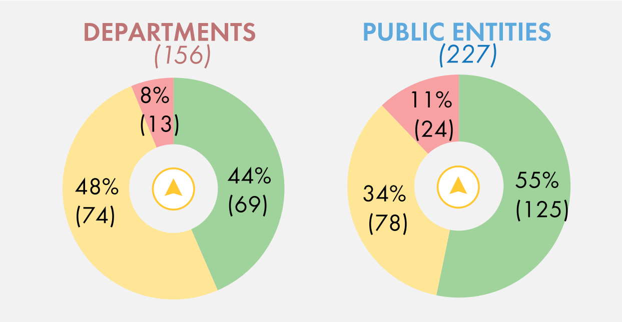
	Leadership	Financial and performance management	Governance
National	▼	▼	▼
Eastern Cape	▲	▲	▲
Free State	▼	▼	▼
Gauteng	▲	▼	▲
KwaZulu-Natal	▲	▼	▲
Limpopo	▲	▼	▲
Mpumalanga	▲	▲	▲
Northern Cape	▲	▼	►
North West	▼	▼	▼
Western Cape	▼	▼	▼
Total	▼	▼	▼

HUMAN RESOURCE (HR) MANAGEMENT

Slight regression in HR management controls

OVERALL STATUS OF HUMAN RESOURCE CONTROLS





KEY POSITIONS - VACANCIES AND STABILITY

Medium-term Strategic Framework target for 2019 is to retain heads of departments for at least four years – at 2018-19 year-end, 54 departments (35%) achieved this target.

HEAD OF DEPARTMENT

MOVEMENT FROM

VACANCIES **23% (36)** 2017-18 2014-15

VACANT for less than 6 months - **4% (6)**

VACANT for 6 months or more - **19% (30)**

MOVEMENT FROM

STABILITY **50 months** 2017-18 2014-15

(Average number of months in position)

CHIEF EXECUTIVE OFFICER

MOVEMENT FROM

VACANCIES **19% (38)** 2017-18 2014-15

VACANT for less than 6 months - **5% (11)**

VACANT for 6 months or more - **14% (27)**

MOVEMENT FROM

STABILITY **47 months** 2017-18 2014-15

(Average number of months in position)

STABILITY* IN KEY POSITIONS PRODUCED BETTER AUDIT OUTCOMES

HEAD OF DEPARTMENT

**Average number of months in position*

60 42 56 67

CHIEF EXECUTIVE OFFICER

**Average number of months in position*

61 44 42 29

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

KEY POSITIONS - VACANCIES AND STABILITY

CHIEF FINANCIAL OFFICER

MOVEMENT FROM

VACANCIES **16% (59)** | 2017-18 ▼ | 2014-15 ▲

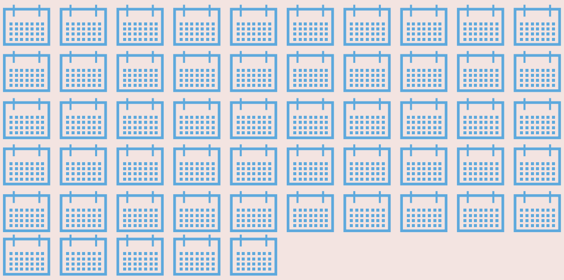
VACANT for less than 6 months - **5% (17)**

VACANT for 6 months or more - **11% (42)**

MOVEMENT FROM

STABILITY **55 months** | 2017-18 ▲ | 2014-15 ▲

(Average number of months in position)



HEAD OF SUPPLY CHAIN MANAGEMENT UNIT

MOVEMENT FROM

VACANCIES **14% (51)** | 2017-18 ▲ | 2014-15 ▲

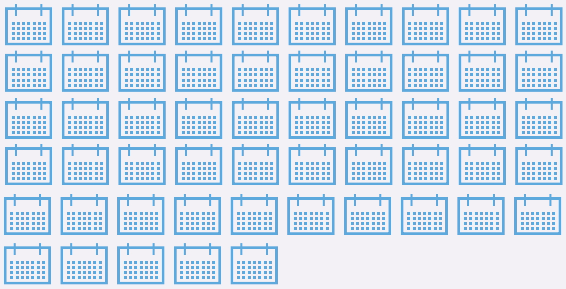
VACANT for less than 6 months - **1% (5)**

VACANT for 6 months or more - **14% (51)**

MOVEMENT FROM

STABILITY **55 months** | 2017-18 ▲ | 2014-15 ▲

(Average number of months in position)



STABILITY* IN KEY POSITIONS PRODUCED BETTER AUDIT OUTCOMES

CHIEF FINANCIAL OFFICER

**Average number of months in position*

61 | 57 | 45 | 22

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

AVERAGE VACANCY RATES

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

OVERALL ▼ **14%**   *SENIOR MANAGEMENT* ▼ **18%**   *FINANCE UNITS* ▼ **13%**

Medium-term Strategic Framework target for 2019 is a vacancy rate of less than 10% in national and provincial departments - it was 12% as at 2018-19 year-end.

Resourcing of 111 finance units (29%) assessed as either concerning or requiring intervention, of which 71 were as a result of staff vacancies and 17 were as a result of inadequate skills; 18 were as a result of a combination of both staff vacancies and inadequate skills.

INFORMATION TECHNOLOGY (IT) CONTROLS

Slight improvement in IT controls

The IT systems, including related application systems that support key business processes relevant to financial reporting, are a significant part of the auditees' system of internal control. IT general controls relate to the control environment within which computer-based application systems are developed, maintained and operated. These controls include policies, procedures and practices established by management to provide comfort that specific business objectives are achieved; that is, these controls can be relied upon to ensure the integrity of financial information and data processed by these systems.

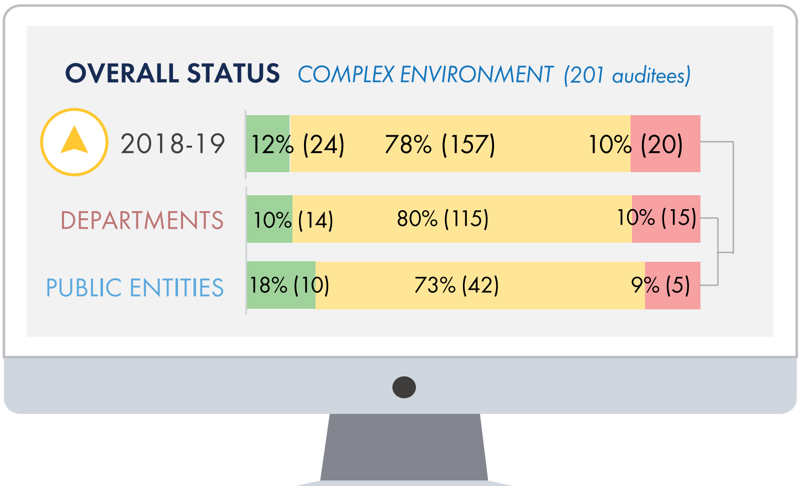
We identified 201 of the 383 national and provincial auditees as those with more complex IT environments that support key financial reporting and service delivery processes. Overall, their general control environment slightly improved, including the following areas of focus: (1) security management; (2) user access management; and (3) IT service continuity management.

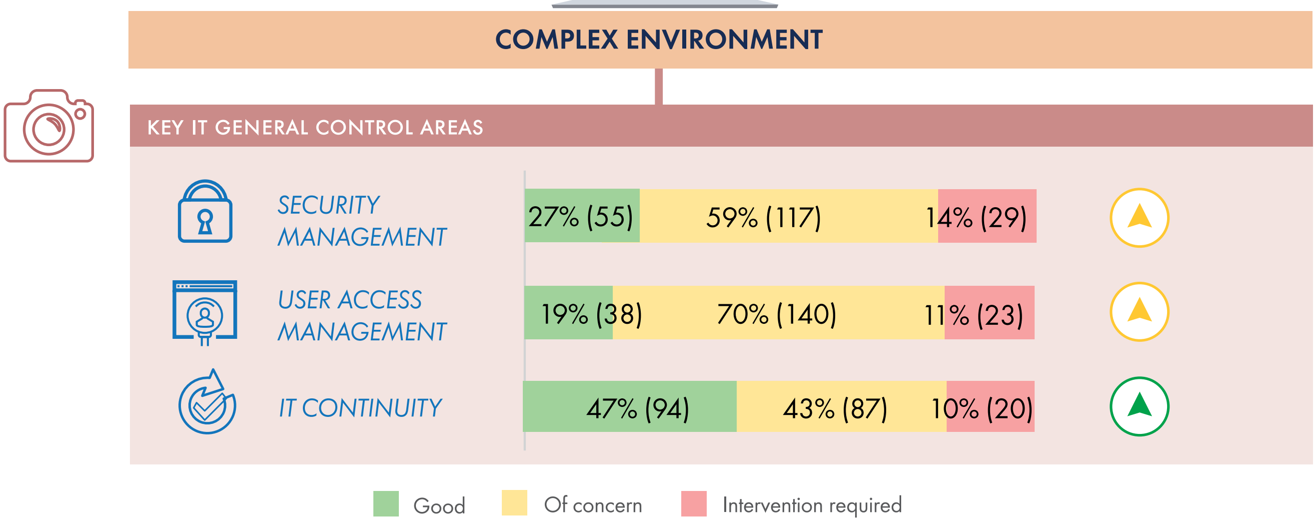
However, a staggering 88% of auditees still had weak IT general controls, which could potentially increase the risk of unauthorised and/or fraudulent transactions being processed on the systems.

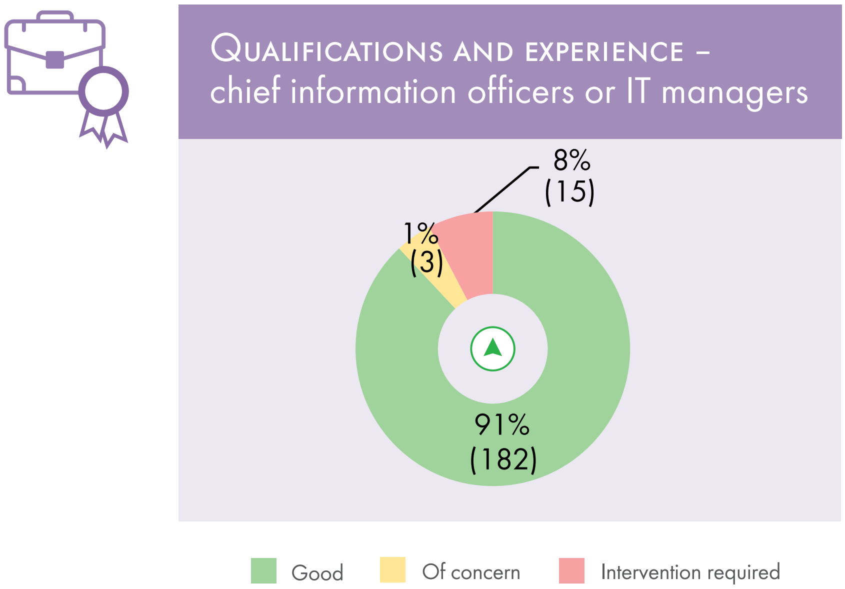
ROOT CAUSES OF WEAK INFORMATION TECHNOLOGY GENERAL CONTROLS

- Ineffectiveness of those charged with governance – not proactive in addressing audit findings and preventing recurrences
- Chief information officers, IT managers and IT staff did not fulfil their responsibilities
- Accounting officers and accounting authorities did not prioritise the approval of IT policies and procedures to establish and enforce/monitor internal controls
- Performance monitoring processes of IT service providers were not adequately enforced
- Most auditees were fixing symptoms rather than implementing improved IT controls
- Insufficient funding to replace outdated infrastructure and software to improve IT controls

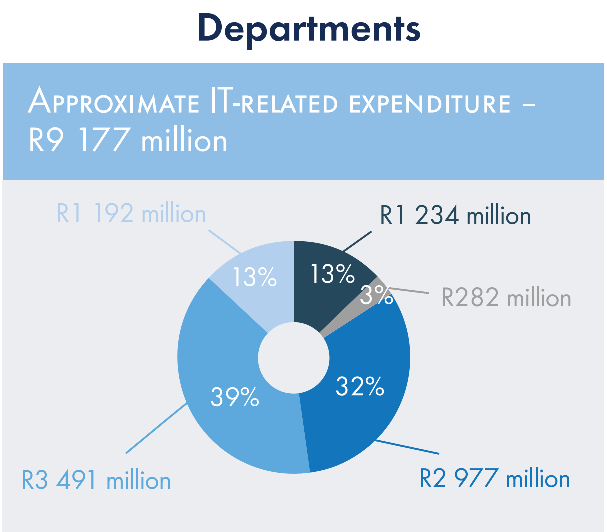
Most of the root causes remained the same as in the past four years, demonstrating a lack of accountability by those who had to ensure that decisions and actions were implemented and consequences were enforced.

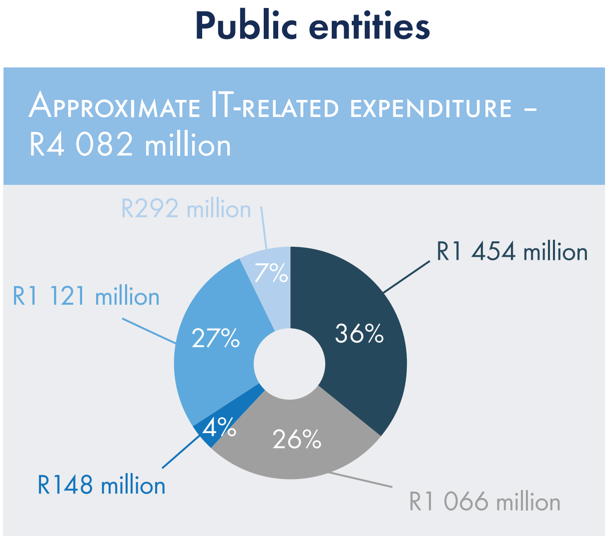






EXPENDITURE ON INFORMATION TECHNOLOGY





Infrastructure	Software licences	State Information Technology Agency services	External service providers	System developments

90% of the auditees acquired their IT services through the State Information Technology Agency at the expected levels; while 10% was not satisfied with the performance, resulting in 87% of the performance issues being escalated for corrective action/resolution.

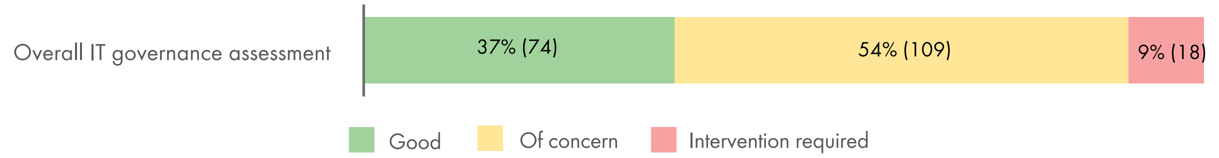
28% of the auditees were operating on old and redundant IT infrastructure, despite departments and public entities spending R2 688 million on new IT infrastructure.

Nine (4%) of the auditees procured and paid for more licences than what they used, which suggests that savings could have been realised by optimising the licence usage.

System developments amounting to R1 485 million related to approximately 54 projects at departments and public entities. Approximately 13 of these projects were implemented, but the system functionality developed was not used. Nine of these projects were discontinued with the intention to continue them later.

IT GOVERNANCE FRAMEWORK

EFFECTIVENESS OF IT GOVERNANCE *AT PROVINCIAL AND NATIONAL DEPARTMENTS AS WELL AS PUBLIC ENTITIES*



IT governance is a set of organisational processes, procedures and standards that directs the IT endeavours to ensure: (1) alignment of IT with the enterprise and realisation of promised benefits; (2) enterprises exploit opportunities and maximise benefits; (3) responsible use of IT resources; and (4) appropriate management of IT risks. Overall, 63% of auditees had weak IT governance practices, thereby demonstrating a lack of accountability and oversight by those charged with the oversight of IT performance and risk management.

Main contributory factors

Governance framework: Auditees have not implemented all the elements of the framework that would enable them to ensure the delivery of IT.

Benefits delivery: Project benefits realisation was not identified and monitored by some of the auditees.

Risk optimisation: IT steering committees were ineffective as they often lacked the appropriate structures and processes to evaluate IT performance against strategic plans and delivery of key IT programs/projects.

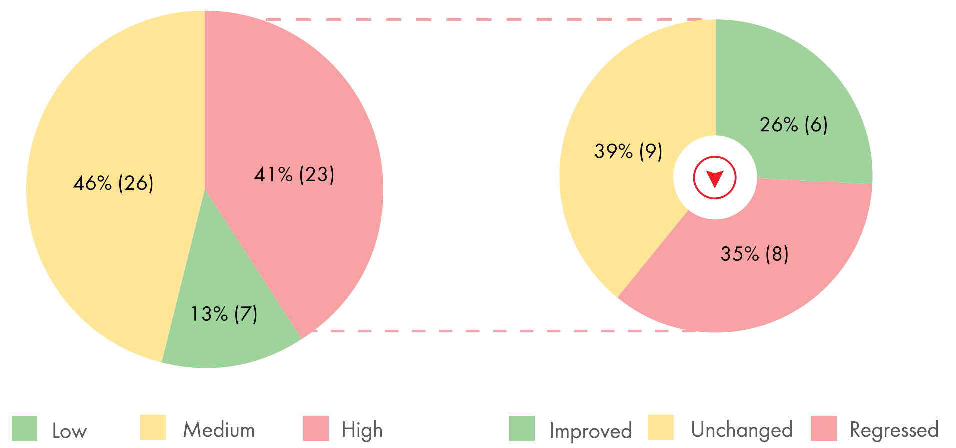
Monitoring and reporting: IT services delivered by third-party service providers were not always monitored against the services agreed in the service level agreements to ensure optimal service delivery.

Resources optimisation: IT resource structures were inadequate to deliver and support current and future business needs.

CYBERSECURITY

CYBERSECURITY POSTURE (STRENGTH) *AT PROVINCIAL AND NATIONAL DEPARTMENTS AS WELL AS PUBLIC ENTITIES WITH COMPLEX IT ENVIRONMENTS*

9% (5)
Auditees' systems hacked or compromised



Cybersecurity has become a widespread issue facing most public sector organisations and is recognised as an organisational issue. Investments in controls are necessary to protect auditees from increasingly sophisticated and widely available attack methods. Intentional attacks, breaches and incidents can have damaging consequences. **Five (9%) of the 56 auditees** identified as having complex IT environments were either **compromised or hacked**.

Twenty-three auditees (41%) categorised as high-risk and vulnerable, did not demonstrate any urgency in improving their information security controls; of which 74% regressed or did not improve their information security controls by investing in these controls to protect their business environments against hackers or intruders.

Main contributory factors

Long-standing shortage of IT security skills and appropriate budget allocation.
Aging/redundant IT infrastructure and lack of adequate investment in defence mechanisms.

INTEGRATED FINANCIAL MANAGEMENT SYSTEM (IFMS) PROJECT

RESPONSIBLE DEPARTMENT: National Treasury

ESTIMATED AMOUNT SPENT on project to date: **R2,4 billion** (IFMS 1: R1 billion; IFMS 2: R1,4 billion)

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

TIMELINE

- **2016** Contract awarded to Oracle
- **2022** Original implementation date
- **2030** Revised implementation date

Limited improvement in the oversight and management of IFMS programme; and accountability and consequences would have been difficult to enforce (ACT)

CONCERNS

- No formal business case addressing revised IFMS solution as well as inadequate project planning and monitoring
- Project governance on IFMS programme was lacking – various accounting officers did not adequately support IFMS programme implementation to ensure appropriate oversight
- IFMS steering committee's inconsistent attendance by members negatively affected successful implementation of project

NATIONAL e-STRATEGIES

	e-GOVERNMENT	e-HEALTH	e-EDUCATION
	Department of Public Service and Administration	Department of Health	Department of Basic Education
AIM	Provide a more coordinated and citizen-driven focus to the country's e-Government initiatives, thus ensuring that government brings services closer to citizens through an organised and holistic adoption of information and communication technology.	Reduce waiting times, improve data quality and integrity, increase timely access to data, streamline registers, and strengthen information management in the public health sector.	Incorporate the use of information and communication technology in the delivery of basic education, including the provision of teacher training, information and communication technology devices, software, connectivity, IT support to schools, and online learner and teacher support material.
STATUS	Little progress has been made with the development initiatives undertaken in the previous year. The following concerns still existed: • Public service digital transformation strategy delayed due to cabinet request to involve Department of Telecommunications and Postal Services, Department of Home Affairs, and State Security Agency. • Cloud computing policy not finalised. • Data governance framework to be consulted with government technology officers council. • Value governance framework still to be incorporated as part of revised corporate governance of information and communication technology policy framework.	All provinces except KZN and EC incorporated e-Health in their IT strategies (KZN and EC still had draft strategies).	• MP, GP, FS, KZN, WC and NC: developed their strategies to align with the White Paper on e-Education. • Some provinces had no or draft e-Education strategies, misalignment with the White Paper on e-Education, insufficient budget allocations, no implementation plan, and management not understanding their role in the implementation of Operation Phakisa. • Lack of an allocated budget, properly defined implementation plans as well as monitoring and prioritisation by senior management in the provinces could result in the implementation of the strategy not being achieved, thus ultimately hampering the achievement of quality education in the country.
CONCLUSION	The environment had improved slightly with the appointment of the government chief information officer although IT governance matters remained a concern.	Little progress had been made with the implementation of this strategy in the provinces, due to budget constraints, IT-critical vacancies as well as a lack of prioritising the implementation of the initiatives. Although some provinces had started addressing connectivity issues by rolling out broadband, this was still in its infancy. Therefore, provinces were still facing challenges relating to connectivity, old infrastructure and interfacing key systems (such as billing, patient registration and pharmaceutical systems), which contributed to the objectives of the strategy not being realised. The national department was considering a new e-Health strategy.	The overall status of implementation indicated a slight improvement compared to the previous year.

ASSURANCE PROVIDERS

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

ASSURANCE PROVIDED BY MANAGEMENT / LEADERSHIP

	Provides assurance	Provides some assurance	Provides limited/no assurance	Not established	MOVEMENT FROM 2017-18	MOVEMENT FROM 2014-15
Senior management	14%	66%	20%		▼	▼
Accounting officers/authorities	33%	54%	13%		▼	▼
Executive authorities	51%	39%	10%		▲	▲

INTERNAL INDEPENDENT ASSURANCE AND OVERSIGHT

	Provides assurance	Provides some assurance	Provides limited/no assurance	Not established	MOVEMENT FROM 2017-18	MOVEMENT FROM 2014-15
Internal audit units	59%	32%	8%	1%	▼	▼
Audit committees	68%	22%	7%	3%	▼	►
COORDINATING/MONITORING DEPARTMENTS	30%	45%	25%		▼	▼
Offices of the premier / Department of Planning, Monitoring and Evaluation	30%	40%	30%		▼	▼
Treasuries	30%	50%	20%		►	▼

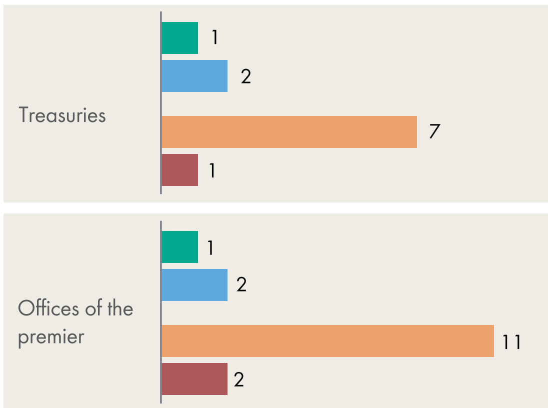
EXTERNAL INDEPENDENT ASSURANCE AND OVERSIGHT

	Provides assurance	Provides some assurance	Provides limited/no assurance	Not established	MOVEMENT FROM 2017-18	MOVEMENT FROM 2014-15
Public accounts committees / Standing Committee on Public Accounts	30%	40%	30%		▼	▼
Portfolio committees	56%	31%	13%		▼	▲

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

FINDINGS	INTERNAL AUDIT UNITS	AUDIT COMMITTEES
Fully compliant with legislation	91% (344) ▲	93% (347) ▲
Positive impact on audit outcomes	60% (227) ▼	73% (271) ▼
Evaluates reliability of financial information	90% (343) ▼	95% (356) ▼
Evaluates reliability of performance information	85% (324) ▼	88% (329) ▼
Evaluates compliance with key legislation	93% (353) ▼	97% (362) ►
Interacts with executive authority	N/A	88% (329) ►

Status of commitments made in prior years by coordinating and monitoring departments

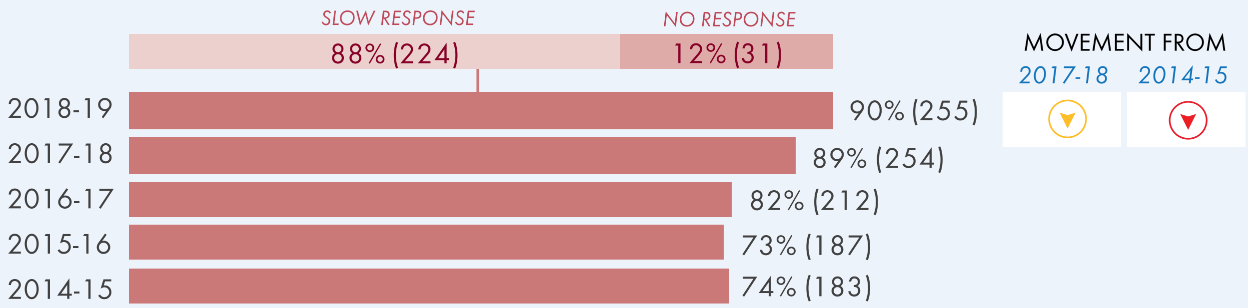


Completed - significant impact Completed - limited impact In progress Not implemented

ROOT CAUSES OF LIMITED IMPROVEMENT

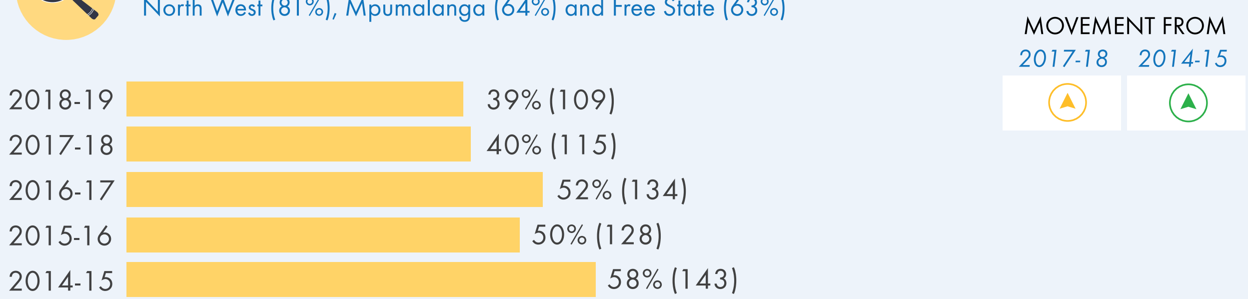
SLOW OR NO RESPONSE IN IMPROVING INTERNAL CONTROLS AND ADDRESSING RISK AREAS

No response most evident in national government (10 auditees), North West (9 auditees), Limpopo (6 auditees) and Free State (5 auditees)



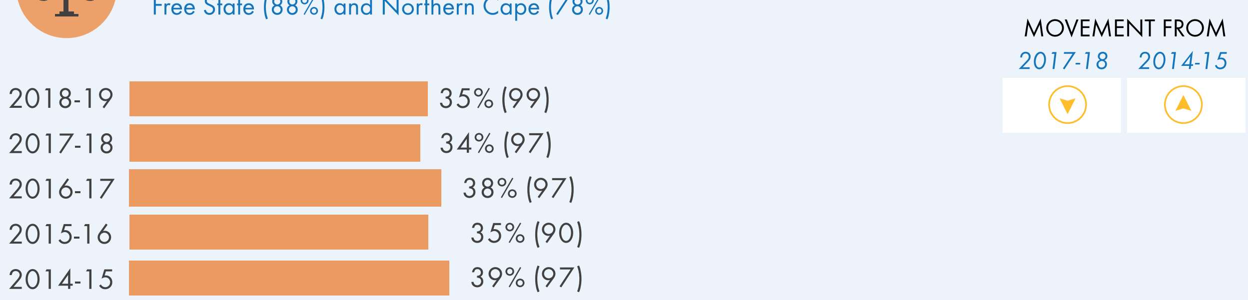
INSTABILITY OR VACANCIES IN KEY POSITIONS OR KEY OFFICIALS LACKING APPROPRIATE COMPETENCIES

Vacancies, instability or lack of competencies most prominent in North West (81%), Mpumalanga (64%) and Free State (63%)



INADEQUATE CONSEQUENCES FOR POOR PERFORMANCE AND TRANSGRESSIONS

Lack of consequences most evident in North West (94%), Free State (88%) and Northern Cape (78%)



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

NOTES

SECTION 7

Governance, oversight and sustainability of state-owned entities

INTRODUCTION

Schedule 2 of the Public Finance Management Act lists 21 'major' public entities, commonly known as state-owned entities or SOEs. These SOEs are independent entities, partially or fully owned by the state, established to achieve the various socio-economic goals of government. They are expected to fulfil a dual commercial and developmental role, generate profits and declare dividends, and be run in accordance with general business principles.

Government, through the respective executive authorities (ministers), **represents the sole shareholder of these SOEs**. The shareholder is obligated to appoint an accounting authority, which also constitutes the board of directors in terms of the Companies Act. The accounting authority is tasked to steer the SOE in line with the agreed performance indicators and targets with its shareholder. The accounting authority must ensure that the SOE has and maintains an internal control environment that conforms to the Public Finance Management Act and the Companies Act, guided by good corporate governance practices.

The tone at the top set by the accounting authority of an SOE together with its shareholder is therefore of utmost importance, as this has a direct impact on whether the SOE is steered in the right strategic direction. The accounting authority must implement and monitor policies to evaluate the performance of those tasked with implementation against the agreed performance objectives. Legislation requires **accounting authorities** to monitor the performance against the set targets and take corrective action on a timely basis **to establish a stable environment where accountability becomes responsibility**.

Failures in this regard have resulted in government having to assist most SOEs in order for them to remain sustainable. These failures and the state of affairs of SOEs have also received a lot of attention from commissions of inquiry, media reports, and credit-rating agencies.

This section provides some context to the state of the internal controls prevailing at our SOEs, providing a picture of each SOE's audit outcomes over the last five years and looking at the status of key focus areas such as financial health, compliance with legislation as well as stability in key management and oversight positions. The section also considers the status of the strategic oversight provided by the SOEs' shareholder departments and executive authorities.

We are currently responsible for the external audits of 14 of the 21 SOEs (67%), compared to only eight (38%) five years ago. Six SOEs are audited by other audit firms. Telkom is not considered a public entity that falls under our mandate and is therefore not included in our analysis. During 2018-19, the 20 SOEs that we deal with in this report (both those audited by us and by audit firms) had a combined total estimated expenditure (operational and capital expenditure) of R347 billion – compared to the total estimated expenditure budget of R1 747 billion for public entities, other institutions and departments.

Our audits for the year ended 31 March 2019 at South African Airways (as well as for the financial year ended 31 March 2018), the South African Nuclear Energy Corporation and Trans-Caledon Tunnel Authority had not been finalised for purposes of this section by 30 September 2019.

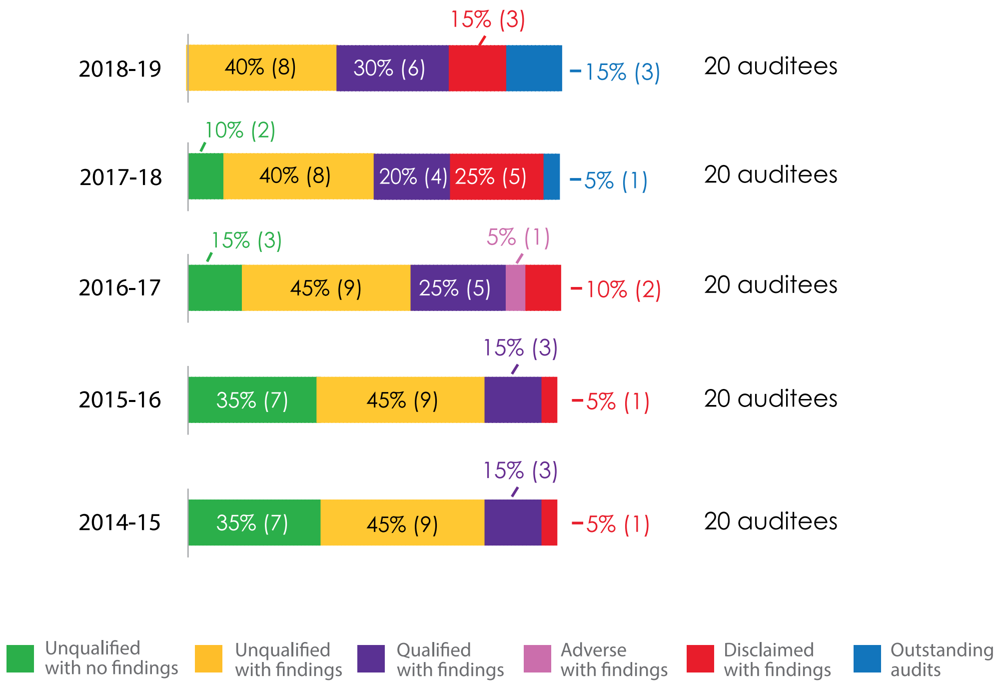
Please note that the analysis and detailed audit outcomes per SOE are provided at group level in those instances where the SOE consists of a group of companies. In the individual summaries, the information on audit outcomes, financial health as well as vacancies and stability relates to the holding company as a stand-alone entity, while the information on irregular expenditure and supply chain management pertains to the group as a whole. The audit outcomes of the individual subsidiaries of the SOEs are provided in the annexure to the general report available on our website.

OVERALL AUDIT OUTCOMES

The overall audit outcomes of the SOEs regressed when compared to the previous year and significantly regressed over the last five years. Confidence in the ability of the executives tasked to manage the affairs of SOEs has similarly regressed over the past years. Turnaround plans initiated almost on an annual basis had almost no impact in restoring the SOE environment, as executive and management instability makes it impossible to hold those responsible accountable. We found the discipline of sustained monitoring and oversight of key controls to be extremely weak at most SOEs. **The overall audit outcomes of the SOEs are the worst they have ever been.**

Renewed efforts to turn around the dire state of affairs at SOEs have begun with the appointment of new accounting authorities at most SOEs. There was a significant increase in irregular expenditure at these SOEs due to a drive to clean up irregularities from the past. We provide more details in this regard throughout the section to serve as an example to all auditees to implement similar measures to improve their internal controls and clear irregularities.

Similar to the previous year, the overall audit outcomes again regressed with the less desirable audit outcomes (qualified and disclaimed) increasing, as shown below:



The picture over the last five years has deteriorated significantly with none of the SOEs being able to achieve an unqualified audit outcome with no findings (clean audit) in the current year. Below we look at the reasons for the overall audit outcomes.

CAUSE OF THE AUDIT OUTCOMES

FINANCIAL STATEMENTS

The financial statements submitted to the external auditors by all SOEs were in a worse condition than a year ago. This is because **only 18%** (three of the 17 SOEs with completed audits) **submitted financial statements for auditing without material misstatements**. Of the 12 SOEs that submitted financial statements of a poor quality, only six could correct all the material misstatements that the auditors identified during the audit, resulting in only 47% of the SOEs with completed audits receiving unqualified audit opinions.

NON-COMPLIANCE WITH LEGISLATION RELATING TO FINANCIAL MANAGEMENT

Material non-compliance with legislation by SOEs and their significant subsidiaries again **increased** – from 89% to 94%. Overall, the main areas of non-compliance were the poor quality of the financial statements, supply chain management weaknesses, and irregular as well as fruitless and wasteful expenditure not being prevented.

It is of utmost importance that SOEs provide credible information in their financial statements and that they comply with key legislation in order to provide confidence in their ability to stimulate the industry as mandated – and ultimately grow the South African economy. Doubt about the financial statements and level of compliance with legislation affects the considerations that rating agencies take into account when deciding on a rating for that specific SOE and the overall rating of the South African fiscus.

Based on our audits, the following key causes resulted in the poor financial management at our SOEs:

Regression from unqualified opinion with no findings

The Development Bank of Southern Africa and the Industrial Development Corporation regressed from a clean audit to an unqualified opinion with findings on compliance matters in relation to procurement and the quality of its submitted financial statements, respectively. SOEs should address the following internal control deficiencies:

- Monitoring compliance with relevant legislation should be a key control on a daily basis.
- SOEs in general need to report their financial statements in terms of the International Financial Reporting Standards. Due to the ever-changing reporting requirements and updated and new standards being introduced, it is important for SOEs to keep up to date with these reporting changes and plan for them well in advance.

Financially unqualified opinion with findings

Non-compliance with key legislation was common in the following three areas:

- Material misstatements in the financial statements submitted for auditing were subsequently corrected to avoid a qualification. In most instances, SOEs either responded too late or did not have appropriate plans to successfully implement the new revenue and financial instruments standards (International Financial Reporting Standards 15 and 9, respectively), causing material misstatements that were subsequently corrected.
- The Public Finance Management Act directs accounting authorities to prevent the incurrence of irregular as well as fruitless and wasteful expenditure. In most instances, SOEs were not able to prevent such expenditure. In this regard, irregular expenditure increased significantly to R58 billion from R30 billion in the previous year due to a drive to clean up prior irregularities.
- SOEs struggled to comply with legislative requirements regarding supply chain management when procuring goods and services. Together with a lack of corrective action against those responsible for such non-compliance as provided for in legislation, this created an environment in which the disrespect for rules and policies was not appropriately disciplined.

Qualified opinion

- The completeness of irregular expenditure was the main cause of most of the qualifications reported. This has had a negative impact on the audit outcomes of a couple of SOEs over the last three audit cycles (Eskom, South African Forestry Company and Transnet).
- In other instances, the cause of the qualifications was mostly due to instances where complex transactions were entered into but the accounting thereof in the financial statements was not properly considered beforehand.

The top five contributors to the significant increase in the irregular expenditure were:

SOE	Irregular expenditure incurred in 2018-19	Movement
Transnet	R49 922 million	Increased*
Eskom	R6 618 million	Decreased
South African Broadcasting Corporation	R351 million	Decreased
Airports Company of South Africa	R264 million	Decreased
Denel	R217 million	Decreased

* Most of the irregular expenditure disclosed in the financial statements of Transnet was caused by non-compliance with the Preferential Procurement Policy Framework Act and its regulations. Irregular expenditure of R41,5 billion was incurred on the contracts with different suppliers for 1 064, 95 and 100 locomotives.

Disclaimed opinion

- As mentioned earlier, the financial reporting framework mostly used by SOEs is the International Financial Reporting Standards, which requires the entity to report on its financial results on the principle that it will continue to operate in the foreseeable future (normally a 12-month period from the end of its reporting period). Most SOEs in this category had difficulty in providing the auditors with clear evidence that they would be able to pay debts as they became due in the next 12 months. Combined with other uncertainties, such as significant dependencies on government for support, declining economic conditions and a lack of customer confidence in the SOEs, this prevented us from concluding on the reasonability and appropriateness of the application of the going concern principle.
- At Denel and South African Express Airways, significant weaknesses in internal controls were the main drivers of the disclaimed audit opinion. In the absence of a strong internal control environment, management was unable to produce credible financial statements.

The cause of the audit outcomes is further analysed in the individual SOE summaries later on in this section.

FINANCIAL HEALTH OF STATE-OWNED ENTITIES

We mentioned earlier that SOEs are independent entities that are partially or fully owned by the state to achieve various socio-economic goals. They are expected to fulfil a dual commercial and developmental role. The **economic conditions** in which these SOEs need to operate **have worsened over the last five years**. Government has committed to support the SOEs in various forums, such as through the finance minister's budget speech in February 2019. Since the budget had been tabled in Parliament, various financial support initiatives were extended to SOEs such as Eskom, the South African Broadcasting Corporation, South African Airways, Denel and South African Express Airways. More detail on the support provided to these SOEs can be found in the individual SOE summaries.

What does it mean to give a guarantee to an SOE by the state?

By granting a guarantee, the state is providing surety to a lender that the state will repay amounts due to the lender in terms of the agreement if the SOE is not in a position to do so. A guarantee is typically a commitment by the state to take responsibility for a loan in the event of default by the SOE.

Providing a guarantee is not necessarily negative, such as when government decides to provide support to an SOE established in a specific industry or sector, due to that key industry or sector struggling to grow as expected in the South African economy.

These guarantees can be a direct charge to the National Revenue Fund should the SOEs default on their guarantee liabilities. Records of guarantees issued and the total exposure to government are kept by the fund.

Government provided financial guarantees amounting to R446 billion (2017-18: R428 billion) to 11 of the SOEs (2017-18: 10). The total government exposure relating to these guarantees amounted to R328 billion (2017-18: R290 billion) – SOEs therefore used 13% more of the guarantees in the current financial year than in the previous year. Of the total guarantees, 78% was provided to Eskom, with the total cumulative guarantees issued to Eskom amounting to R350 billion (2017-18: R350 billion), with a R286 billion (2017-18: R245 billion) exposure as at 31 March 2019 – a 17% increase in the utilisation of the guarantees. The amount stated as total exposure means that the SOEs utilised the guarantees to obtain loans from lenders.

Even despite the difficult economic conditions, it is commendable that some SOEs sustained their operations and fulfilled their dual mandate with their own resources, with minimal or no support from government. The key enablers to SOEs being able to sustain themselves are often found in leadership stability, well-considered performance plans, key financial ratios that are monitored to avoid falling behind on financial management responsibilities, and those charged with governance and oversight holding officials accountable for commitments and periodically monitoring SOEs' performance against predetermined objectives.

INDIVIDUAL SUMMARIES OF STATE-OWNED ENTITIES

On the following pages, we provide a snapshot of the key audit considerations per SOE. We first look at the SOEs that we audit and then focus on those audited by other audit firms. Please note that the financial health indicators consist of only the information reported in the audit reports, and are therefore excluded from the summaries of those SOEs of which the audits are performed by audit firms.

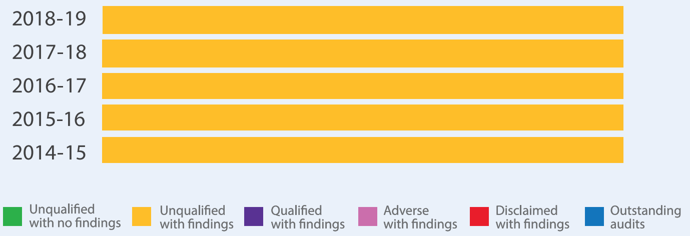
Airports Company South Africa (Acsa)

(Audited by AGSA)

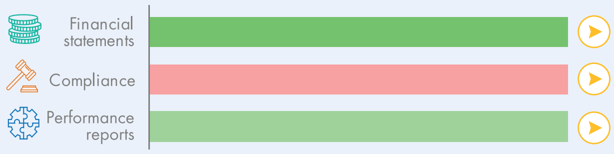
Overall stagnation in audit outcome

Audit outcomes

Overall stagnation due to material non-compliance relating to supply chain management and material adjustments to financial statements



Audit outcomes on three key areas



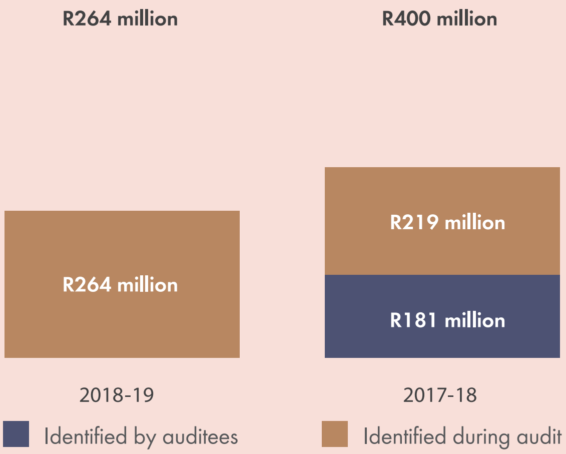
Financial statements: Audit opinion on financial statements was unqualified due to Acsa correcting the material misstatements identified

Compliance: Material non-compliance relating to quality of financial statements, procurement and contract management, effecting consequences as well as expenditure management (failure to take steps to prevent the incurrence of irregular and fruitless and wasteful expenditure)

Performance reports: No material findings or misstatements

Unqualified | Qualified | Disclaimed | With no findings | With findings

Irregular expenditure



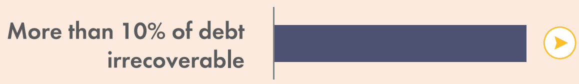
No irregular expenditure incurred in prior years – identified in current year

Financial health

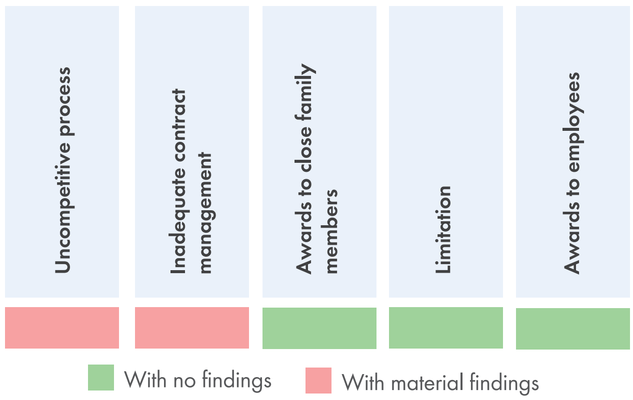
Going concern status

Section 51(1)(d)(i) and (iii) of the PFMA sets responsibilities for the accounting authority to collect all revenue due and manage available working capital efficiently and economically. The effectiveness of Acsa in managing the collection of revenue, not being dependent on a specific revenue stream and also monitoring their budget, contributed to them not facing going concern challenges.

Financial health indicators



Findings on supply chain management



Lack of competitiveness in the procurement of some goods, works and services. Certain contracts awarded to bidders based on pre-qualification criteria that differed from those stipulated in original invitation for bidding. Lack of evidence to confirm that certain construction contracts were awarded to contractors registered with Construction Industry Development Board. Root causes of non-compliance matters were slow response in implementing commitments to capacitate supply chain management unit with appropriately skilled and experienced staff to monitor compliance as well as lack of implementation of consequences.

Vacancies and stability

Vacancies at year-end

Accounting authority	No vacancies
Chief executive officer	Vacant for less than 6 months
Chief financial officer	Vacant for more than 6 months

Stability (average number of months in position)

Chief executive officer	Vacant
Chief financial officer	Vacant

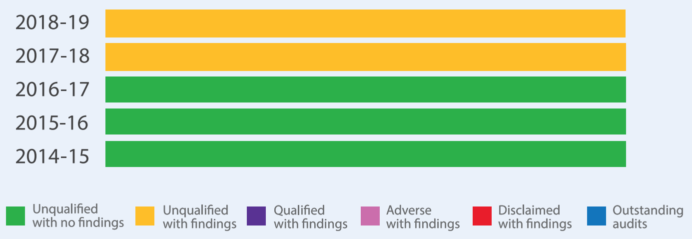
Armaments Corporation of South Africa (Armscor)

Overall stagnation in audit outcome

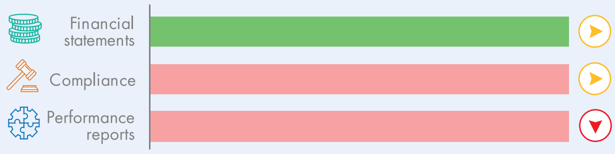
(Audited by AGSA)

Audit outcomes

Overall stagnation in audit outcome on unqualified with findings as a result of material adjustments to financial statements and one material finding on performance report in 2018-19; for 2017-18, the finding was due to not preventing irregular expenditure



Audit outcomes on three key areas



Financial statements: Unqualified
Compliance: Material non-compliance due to quality of financial statements as material adjustments were required to avoid a qualification
Performance reports: Material finding relating to a limitation on one goal due to performance processes not being established to validate achieved percentage received from third party

Unqualified | Qualified | Disclaimed | With no findings | With findings

Financial health

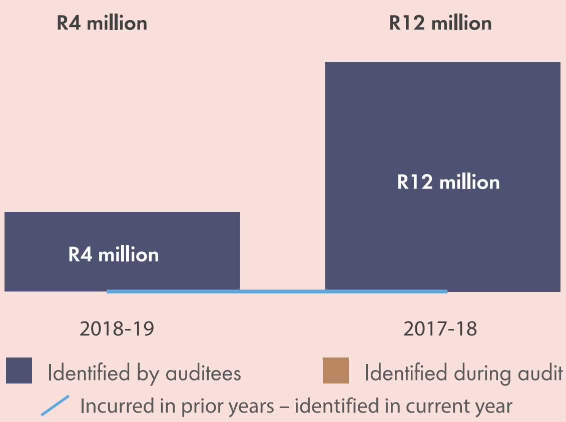
Going concern status

No material uncertainty on going concern evident

Good
Of concern
Intervention required

Financial health indicators

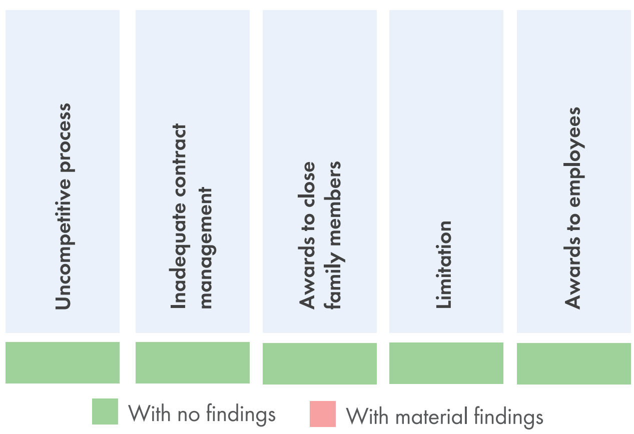
Irregular expenditure



Of the R4 million irregular expenditure for 2018-19, R0,2 million was identified during the audit

The irregular expenditure incurred in prior years – identified in current year amounted to an insignificant amount of R52 000 in 2018-19 and R123 000 in 2017-18

Findings on supply chain management



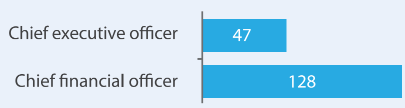
No material non-compliance findings with regard to supply chain management

Vacancies and stability

Vacancies at year-end

Accounting authority	No vacancies
Chief executive officer	Not vacant
Chief financial officer	Not vacant

Stability (average number of months in position)



Central Energy Fund (CEF)

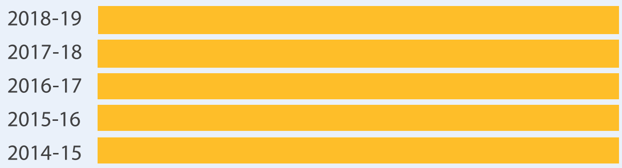
Overall stagnation in audit outcome

(Audited by AGSA)

Subsidiaries: Petroleum Oil and Gas Corporation of South Africa, SFF Association, South African Agency for Promotion of Petroleum Exploration and Exploitation

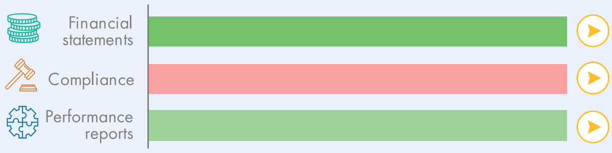
Audit outcomes

Stagnation over past five years



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

Audit outcomes on three key areas

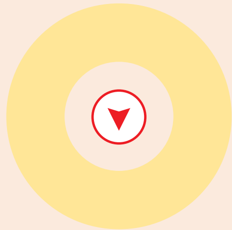


Financial statements: No material findings reported
Compliance: Findings on quality of financial statements, strategic planning and performance management, expenditure management as well as effecting consequences
Performance reports: No material findings reported

Unqualified · Qualified · Disclaimed · With no findings · With findings

Financial health

Going concern status

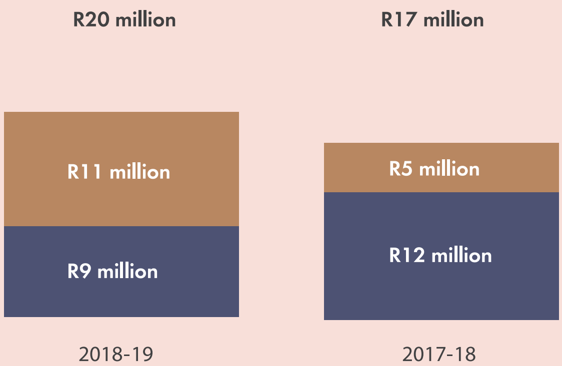


Concerning due to net loss of R470 million and creditor-payment period of 296 days

Good
Of concern
Intervention required

Financial health indicators

Irregular expenditure

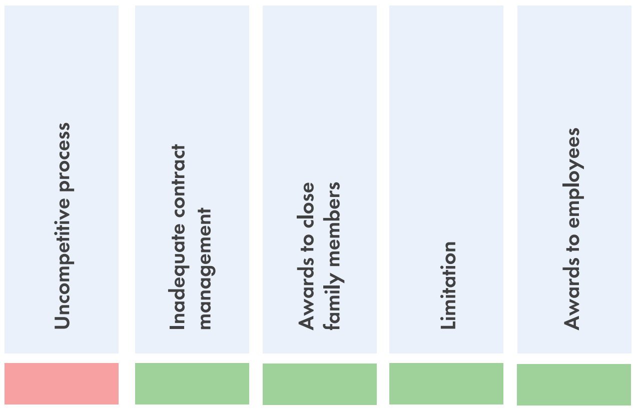


Identified by auditees · Identified during audit

No irregular expenditure incurred in prior years – identified in current year

The irregular expenditure incurred by the group consists of R8,4 million by CEF and R11,8 million by subsidiary (African Exploration Mining and Finance Corporation)

Findings on supply chain management



With no findings · With material findings

Non-compliance with supply chain management policy to ensure that minimum of three quotations was obtained. Non-adherence to Preferential Procurement Regulations as bidders were evaluated based on pre-qualification criteria that differed from original bid invitation.

Vacancies and stability

Vacancies at year-end

Accounting authority	3 vacancies for less than 6 months and 1 vacancy for more than 6 months
Chief executive officer	Vacant for more than 6 months
Chief financial officer	Not vacant

Stability (average number of months in position)

Chief executive officer	Vacant
Chief financial officer	24

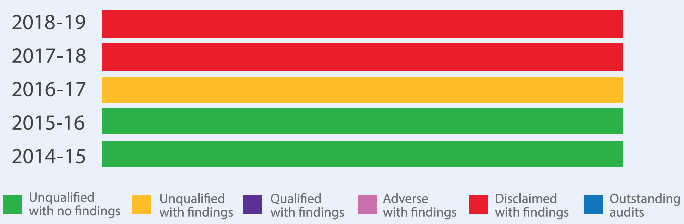
Denel

Overall stagnation in audit outcome

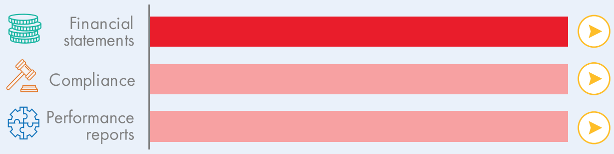
(Audited by AGSA) Subsidiaries: Denel Saab Aerostructures, Denel Vehicle Systems, Densecure, LMT Holdings, LMT Products, Turbomeca Africa

Audit outcomes

Remained disclaimed due to significant weaknesses in internal control



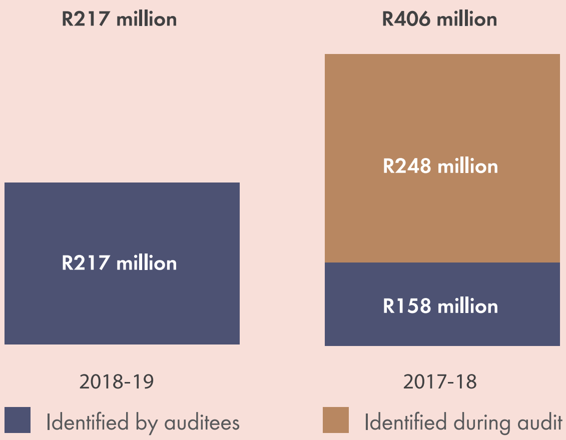
Audit outcomes on three key areas



Financial statements: Disclaimed opinion on revenue, inventory, trade and other receivables, trade and other payables, property, plant and equipment, investment in subsidiaries, retirement benefit obligation, operating expenditure, contingent liabilities, prior period errors, risk management disclosure, related parties, irregular and fruitless and wasteful expenditure as well as deferred and income tax
Compliance: Material findings on quality of financial statements, expenditure management, revenue management, strategic planning, procurement and contract management as well as effecting consequences
Performance reports: Material findings on both reliability and usefulness

Unqualified | Qualified | Disclaimed | With no findings | With findings

Irregular expenditure



No irregular expenditure incurred in prior years – identified in current year

Full extent of irregular expenditure could not be confirmed as per our basis for disclaimed opinion

Financial health

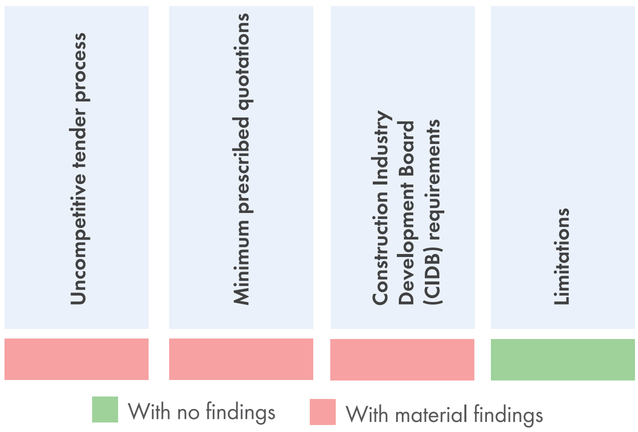
Going concern status

Financial viability remains a significant concern due to adverse liquidity ratios and significant operating losses, resulting in material uncertainty regarding going concern

Good | Of concern | Intervention required

Financial health indicators

Findings on supply chain management



Non-adherence to supply chain management policy to ensure that a minimum of three quotations was obtained and that a competitive bidding process was followed where required approval for deviation was obtained. Non-adherence to Preferential Procurement Policy Framework Act and its regulations, as bid invitations did not include functionality criteria to ensure a fair procurement process. Construction contracts were entered into without verifying that supplier was registered with CIDB.

Vacancies and stability

Vacancies at year-end

Accounting authority	No vacancies
Chief executive officer	Not vacant
Chief financial officer*	Vacant for less than 6 months

Stability (average number of months in position)

Chief executive officer	3
Chief financial officer	Vacant

*Appointed in September 2019

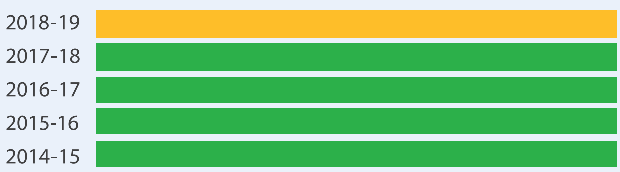
Development Bank of Southern Africa (DBSA)

Overall regression in audit outcome

(Audited by AGSA)

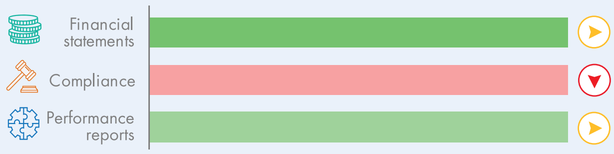
Audit outcomes

Overall regression due to material non-compliance with legislation on supply chain management



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

Audit outcomes on three key areas



Financial statements: Financial statements submitted were free of material misstatements
Compliance: Material non-compliance relating to preferential procurement prescripts on procurement of local content and production of goods and services from designated sectors
Performance reports: Material misstatements on reliability, which were subsequently corrected by management

Unqualified | Qualified | Disclaimed | With no findings | With findings

Financial health

Going concern status

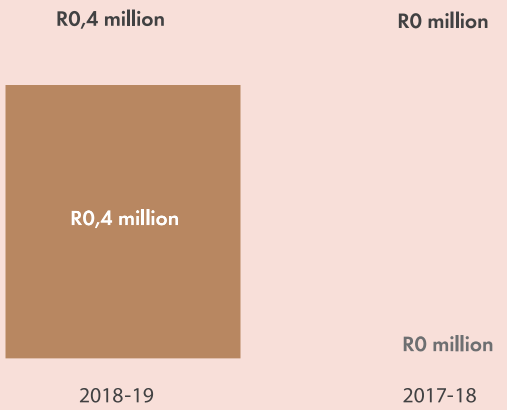
No material uncertainty on going concern evident

Good
Of concern
Intervention required

Financial health indicators

The financial health of DBSA is assessed on specific industry ratios as reported in its annual report.

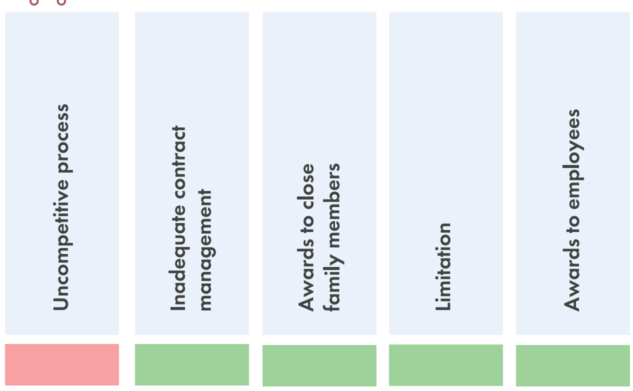
Irregular expenditure



Identified by auditees | Identified during audit

No irregular expenditure incurred in prior years – identified in current year

Findings on supply chain management



With no findings | With material findings

Non-compliance due to procurement of goods and services from designated sectors without following preferential procurement prescripts relating to local production and content in Infrastructure Delivery Division where DBSA acts as implementing agent on behalf of other government entities.

Vacancies and stability

Vacancies at year-end

Accounting authority	4 vacancies for less than 6 months
Chief executive officer	Not vacant
Chief financial officer	Not vacant

Stability (average number of months in position)

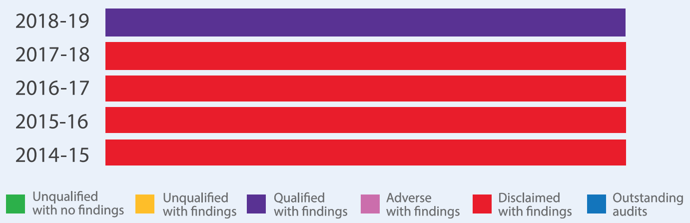
Independent Development Trust (IDT)

Overall improvement in audit outcome

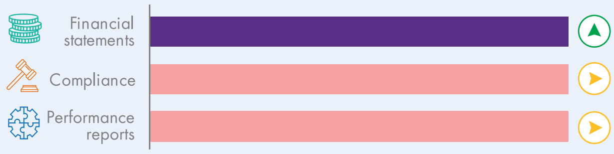
(Audited by AGSA)

Audit outcomes

Improved from disclaimed to qualified due to enhanced record management; significant internal control deficiencies remain to be addressed to prevent a regression in future



Audit outcomes on three key areas



Financial statements: Qualifications on corresponding figures of programme assets and liabilities as well as revenue and receivables from exchange transactions; additionally, there was an impact on disclosure notes relating to first-time adoption of SA Standards of Generally Recognised Accounting Practice and prior year adjustments

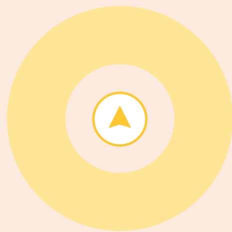
Compliance: Findings on quality of financial statements and performance report, revenue management, expenditure management, effecting consequences as well as procurement and contract management

Performance reports: Material findings on reliability of reported achievements in both current and previous year

Unqualified | Qualified | Disclaimed | With no findings | With findings

Financial health

Going concern status



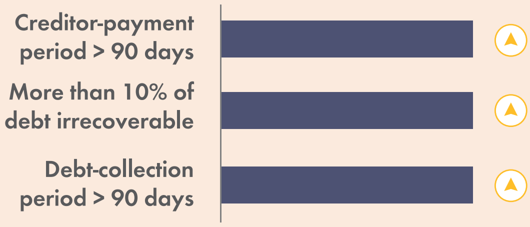
Before 2018-19, we could not perform a meaningful financial health analysis due to the repetitive disclaimed audit opinions on the financial statements. Even though we identified no material going concern uncertainty for 2018-19, the IDT still needs to attend to serious concerns as evidenced by the negative indicators below.

Good

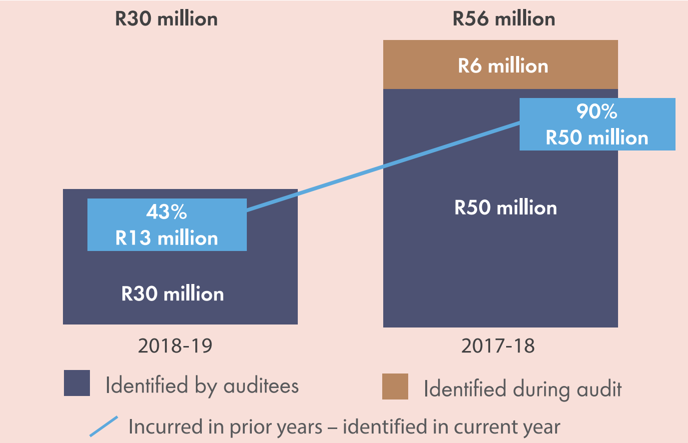
Of concern

Intervention required

Financial health indicators



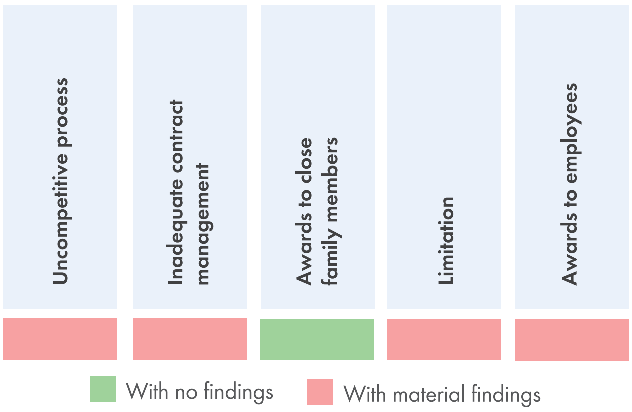
Irregular expenditure



Of the R30 million irregular expenditure for 2018-19, R0,4 million was identified during the audit

The IDT is an implementing agent and the irregular expenditure reflected relates to overhead costs only – we identified additional irregular expenditure of R73,7 million incurred by the IDT on behalf of its client departments

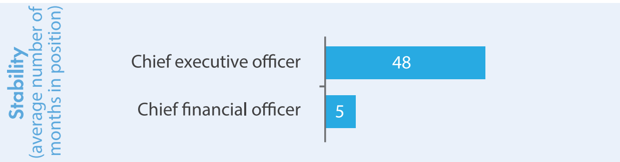
Findings on supply chain management



IDT did not procure some goods, works or services through a procurement process that was fair, equitable, transparent and competitive – similar to the previous year. The absence of appropriate consequences, lack of human resource capacity in supply chain management unit as well as outdated policies and procedures contributed to lack of improvement in this area.

Vacancies and stability

Vacancies at year-end	
Accounting authority	8 vacancies for more than 6 months
Chief executive officer	Not vacant
Chief financial officer	Not vacant



Land and Agricultural Development Bank of South Africa (Land Bank)

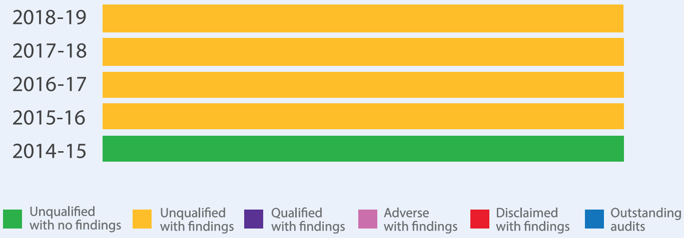
Overall stagnation in audit outcome

(Audited by AGSA)

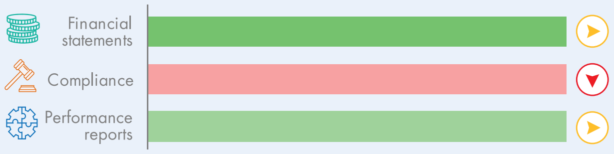
Subsidiaries: Land Bank Insurance, Land Bank Life Insurance

Audit outcomes

Remained stagnant on unqualified with findings on compliance with legislation due to failure to submit financial statements that were free from misstatements



Audit outcomes on three key areas



Financial statements: Financial statements contained material misstatements relating to loans by credit quality and collateral values of loans issued, which were subsequently corrected by management

Compliance: Material non-compliance relating to preparation of financial statements in line with applicable accounting framework due to material misstatements in financial statements submitted for auditing

Performance reports: Material misstatements on reliability, which were subsequently corrected by management

Unqualified | Qualified | Disclaimed | With no findings | With findings

Financial health

Going concern status

No material uncertainty on going concern evident

Good

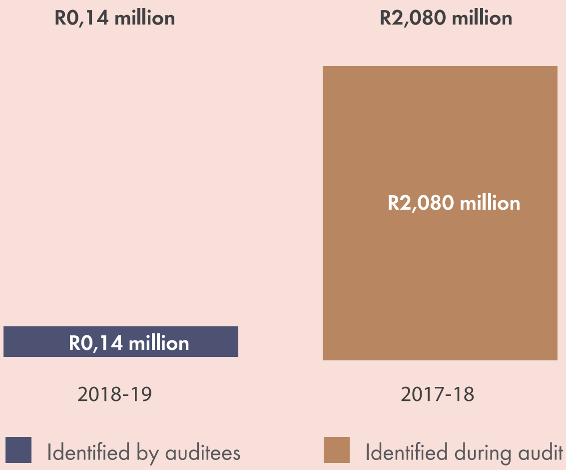
Of concern

Intervention required

Financial health indicators

The financial health of Land Bank is assessed on specific industry ratios as reported in its annual report.

Irregular expenditure



No irregular expenditure incurred in prior years – identified in current year

Findings on supply chain management

Uncompetitive process	Inadequate contract management	Awards to close family members	Limitation	Awards to employees

With no findings | With material findings

No material non-compliance findings with regard to supply chain management

Vacancies and stability

Vacancies at year-end

Accounting authority	No vacancies
Chief executive officer	Vacant for less than 6 months
Chief financial officer*	Not vacant

Stability (average number of months in position)

Chief executive officer	Vacant
Chief financial officer*	45

* Chief financial officer resigned after year-end in May 2019 after 45 months in position

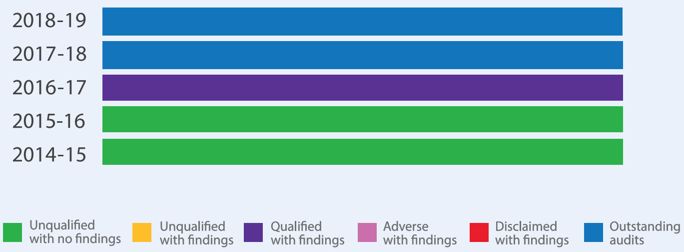
South African Airways (SAA)

Current year audit outstanding

(Audited by AGSA) Subsidiaries: Air Chefs, Mango Airlines, SAA Technical

Audit outcomes

Regressed in 2016-17 to qualified opinion, while current and previous year audits are still outstanding because of non-submission of financial statements for auditing



Audit outcomes on three key areas

Current and previous year audits are still outstanding

Outstanding audit

Financial health

Going concern status

SAA has not been able to submit financial statements due to liquidity constraints. Loans have matured and could not be repaid. Ongoing negotiations with lenders to extend current debt is in progress.

Good

Of concern

Intervention required

Financial health indicators

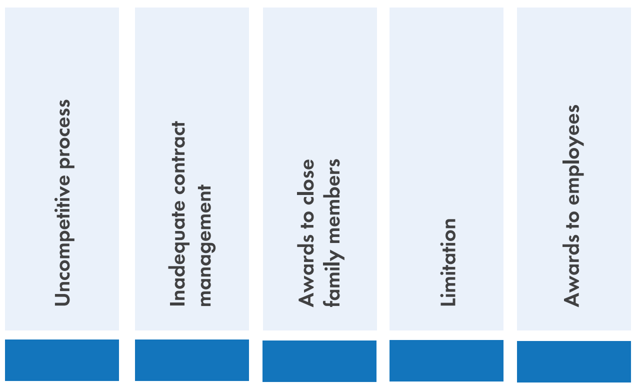
Irregular expenditure

Unknown	Unknown
2018-19	2017-18

Outstanding audit

No irregular expenditure reported in either year as financial statements were not submitted

Findings on supply chain management



Outstanding audit

Vacancies and stability

Vacancies at year-end

Accounting authority*	1 vacancy for more than 6 months
Chief executive officer**	Vacant for less than 6 months
Chief financial officer	Vacant for more than 6 months

Stability (average number of months in position)

No stability in key positions

* Chair of the board resigned in July 2019

** Chief executive officer resigned in June 2019

South African Broadcasting Corporation (SABC)

Overall improvement in audit outcome

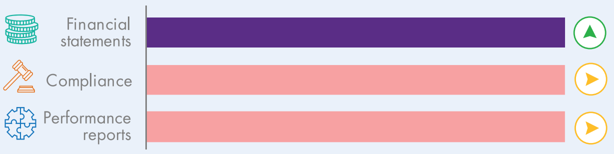
(Audited by AGSA)

Audit outcomes

Audit outcome improved primarily due to funding made available through Department of Communications, subject to certain conditions being met

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

Audit outcomes on three key areas



Financial statements: Qualifications on property, plant and equipment as well as irregular expenditure
Compliance: Findings on quality of financial statements, revenue management, expenditure management, effecting consequences as well as procurement and contract management
Performance reports: Material findings on reliability in the current year, and both usefulness and reliability in previous year

Unqualified | Qualified | Disclaimed | With no findings | With findings

Financial health

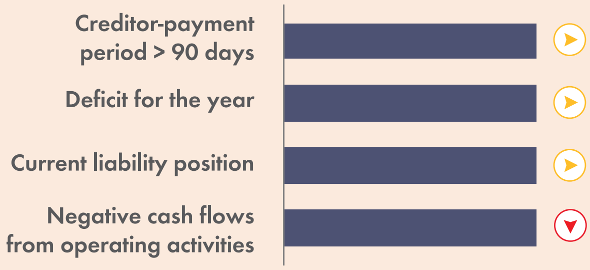
Going concern status

Good
Of concern
Intervention required

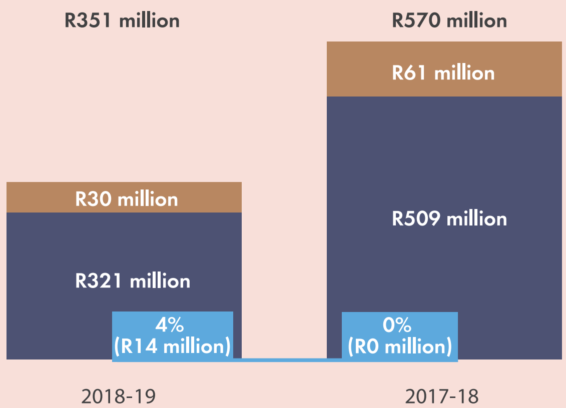
Material uncertainty on going concern due to loss of R482 million (2017-18: R744 million) and current liabilities exceeding current assets by R875 million at year-end (2017-18: R456 million). Trade and other payables increased to R1,6 billion from R1,1 billion in 2017-18.

Government funding in the form of a bailout has been made available to the Department of Communications, which will be provided to the SABC subject to certain conditions being met (including the review and finalisation of turnaround strategy).

Financial health indicators



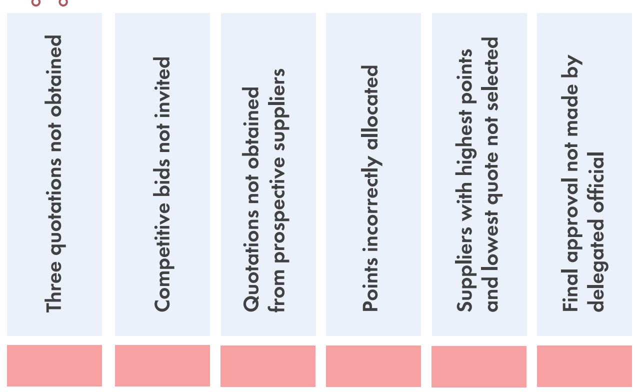
Irregular expenditure



Identified by auditees | Identified during audit
Incurred in prior years – identified in current year

Full extent of irregular expenditure could not be confirmed as per our basis for qualified opinion

Findings on supply chain management



With no findings | With material findings

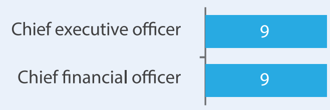
The SABC continued to have material findings on procurement. The head of the supply chain management unit was suspended and subsequently dismissed during the year and the position remains vacant to date. Supply chain management staff lacked the necessary skills and competence to implement supply chain management policy and comply with necessary supply chain management requirements.

Vacancies and stability

Vacancies at year-end

Accounting authority	Board was not quorate for 4 months
Chief executive officer	Not vacant
Chief financial officer	Not vacant

Stability (average number of months in position)



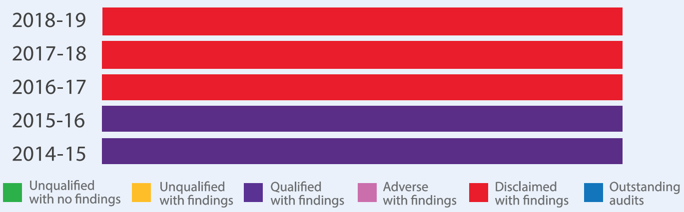
South African Express Airways (SAX)

Overall stagnation in audit outcome

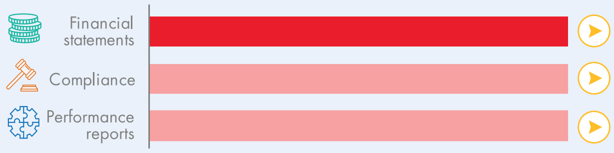
(Audited by AGSA)

Audit outcomes

Remained stagnant on disclaimed due to lack of adequate implementation of action plans to correct prior year qualification areas and going concern issues



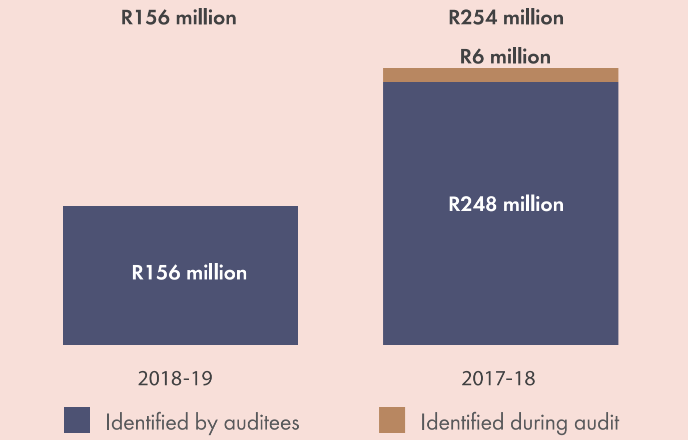
Audit outcomes on three key areas



Financial statements: Material misstatements / limitations relating to property, plant and equipment, inventories, trade and other receivables, trade and other payables, provisions, other financial liabilities, revenue, other operating expenses, gains of foreign exchange adjustments, finance costs, effects on taxation, contingencies, related parties, directors' emoluments, financial instruments, prior period error, new standards as well as irregular and fruitless and wasteful expenditure
Compliance: Findings on quality of financial statements, revenue management, expenditure management, liability management, strategic planning and performance management, effecting consequences as well as procurement and contract management
Performance reports: Material limitation as no performance report was prepared

Unqualified | Qualified | Disclaimed | With no findings | With findings

Irregular expenditure

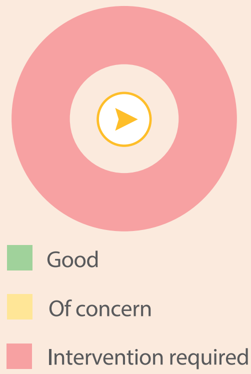


No irregular expenditure incurred in prior years – identified in current year

Full extent of irregular expenditure could not be confirmed as per our basis for disclaimed opinion

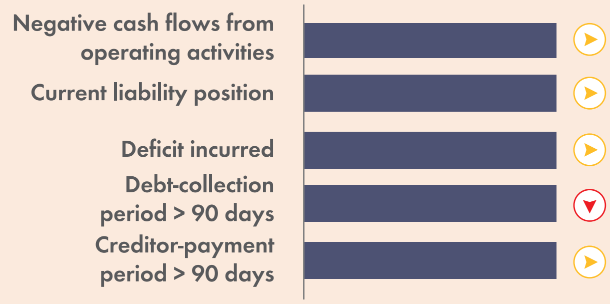
Financial health

Going concern status



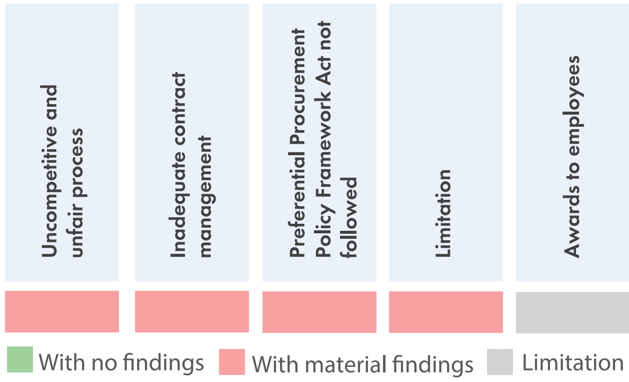
Material uncertainty relating to going concern due to loss of R591 million (2017-18: R162 million); current liabilities exceeding current assets by R374 million; and net cash from operating activities further deteriorating to negative R461 876 782 (2017-18: -R101 566 324). This was further affected by possible loss of market due to grounding during the financial year. SAX received a R300 million injection, which replaced the government guarantee previously issued. No turnaround strategy was provided.

Financial health indicators



The poor payment days were due to liquidity issues at SAX. Most of the debtors balance is South African Airways, hence the inability to collect.

Findings on supply chain management



SAX continued to have material findings on procurement, mainly due to non-adherence to supply chain management policy to ensure that minimum of three quotations was obtained and that competitive bidding process was followed. The head of procurement position was vacant during the year and remains vacant to date. Supply chain management staff lacked the necessary skills and competence to implement supply chain management policy.

Vacancies and stability

Vacancies at year-end	
Accounting authority	No vacancies
Chief executive officer	Vacant for more than 6 months
Chief financial officer*	Vacant for more than 6 months

Stability (average number of months in position): No stability in key positions

* A permanent chief financial officer was appointed after year-end

South African Forestry Company (Safcol)

Overall stagnation in audit outcome

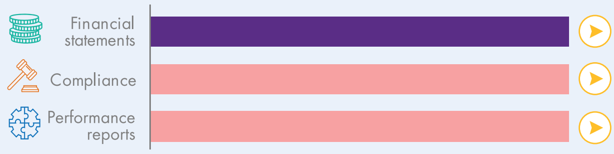
(Audited by AGSA) Subsidiary: Komatiland Forests

Audit outcomes

Remained stagnant from previous year, but reduction in qualification areas from 9 to only 1

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

Audit outcomes on three key areas

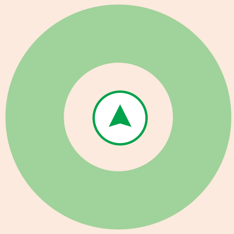


Financial statements: Qualification on irregular expenditure
Compliance: Findings on quality of financial statements, expenditure management as well as effecting consequences
Performance reports: Material findings on reliability in current year

Unqualified · Qualified · Disclaimed · With no findings · With findings

Financial health

Going concern status

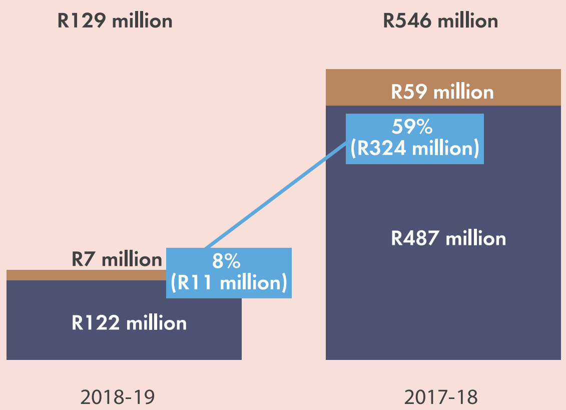


The group had negative cash flows from operating activities in the previous year, which have since returned to positive operating cash flows

Good
Of concern
Intervention required

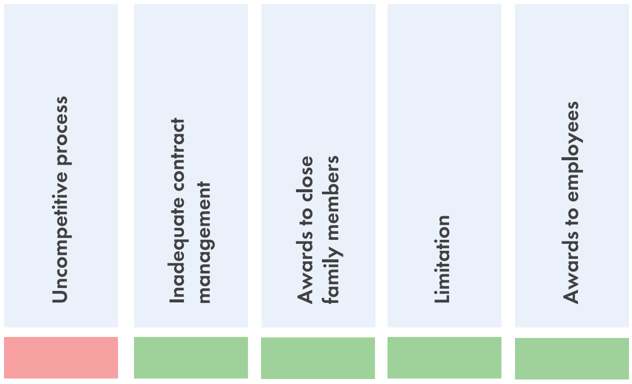
Financial health indicators

Irregular expenditure



Identified by auditees · Identified during audit
Incurred in prior years – identified in current year

Findings on supply chain management



With no findings · With material findings

Effective and appropriate measures were not timeously implemented to prevent and detect non-compliance with legislation.

Vacancies and stability

Vacancies at year-end

Accounting authority	No vacancies
Chief executive officer	Not vacant
Chief financial officer	Vacant for less than 6 months

Stability (average number of months in position)

Chief executive officer	16
Chief financial officer	Vacant

South African Nuclear Energy Corporation (Necsa)

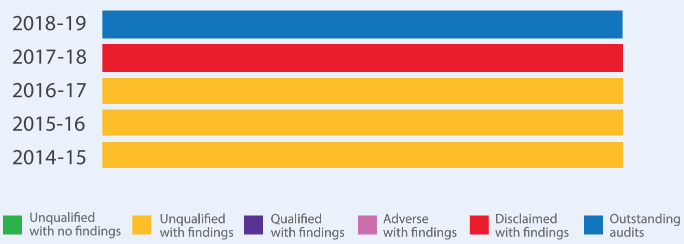
Current year audit outstanding

(Audited by AGSA)

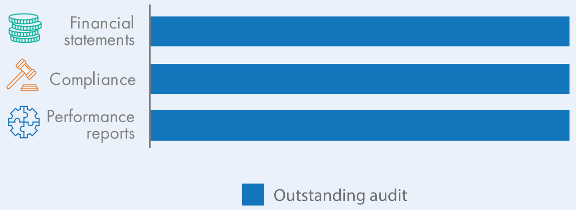
Subsidiaries: Gammatec NDT Supplies, NTP Radioisotopes, Pelchem

Audit outcomes

Regressed in 2017-18 to disclaimed opinion, while current year's audit is outstanding due to late submission of financial statements



Audit outcomes on three key areas



Financial health

Going concern status

Sufficient appropriate audit evidence could not be provided that the group was a going concern

Good

Of concern

Intervention required

Financial health indicators

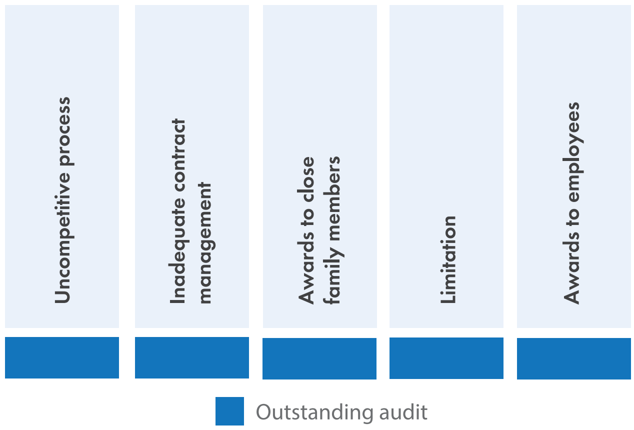
Irregular expenditure

Unknown	R0 million
	R0 million
2018-19	2017-18

Outstanding audit

No irregular expenditure reported in 2017-18

Findings on supply chain management

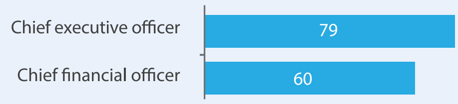


Vacancies and stability

Vacancies at year-end

Accounting authority	No vacancies
Chief executive officer	Not vacant
Chief financial officer	Not vacant

Stability (average number of months in position)



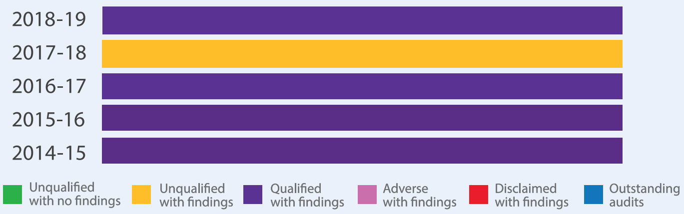
South African Post Office (Sapo)

Overall regression in audit outcome

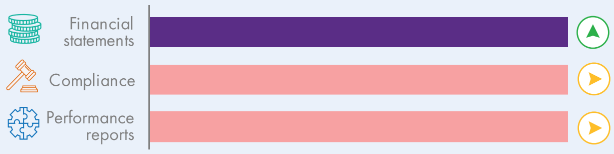
(Audited by AGSA)

Audit outcomes

Sapo had worked on improving the outcomes but was unfortunately qualified due to lack of controls to ensure that transactions were regularly recorded and reconciled for grant payouts



Audit outcomes on three key areas



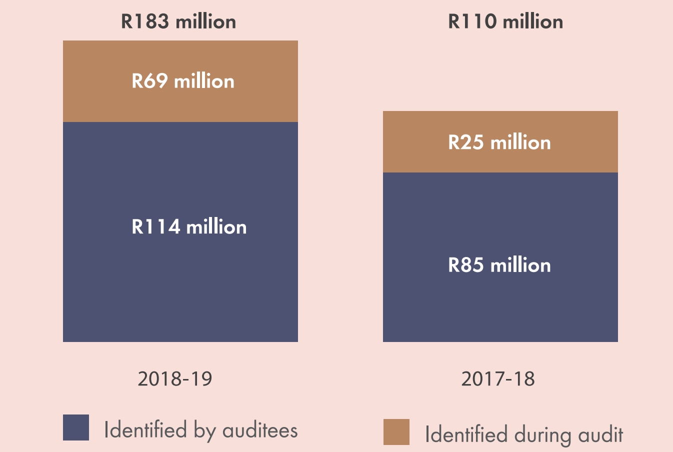
Financial statements: Qualified on trade and other receivables, other deposits (grants), and financial instruments and risk management

Compliance: Findings on quality of financial statements, revenue management, expenditure management, asset management, effecting consequences as well as procurement and contract management

Performance reports: Material findings on usefulness and reliability in current and previous year

Unqualified | Qualified | Disclaimed | With no findings | With findings

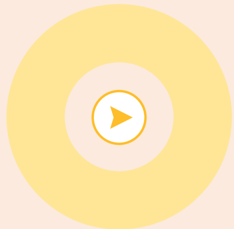
Irregular expenditure



No irregular expenditure incurred in prior years – identified in current year

Financial health

Going concern status



Good

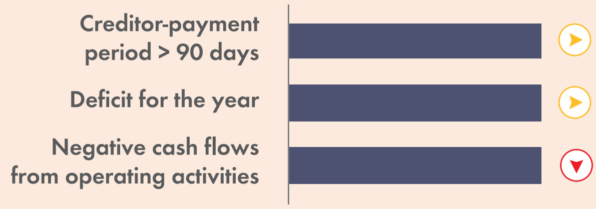
Of concern

Intervention required

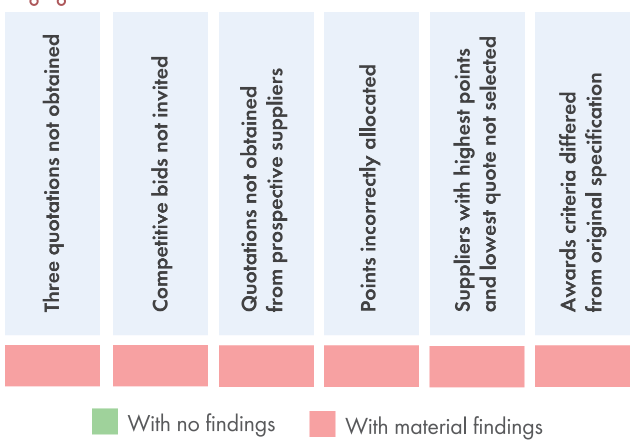
Material uncertainty on going concern due to loss of R1,1 billion in 2017-18 and 2018-19. Sapo had a high cost base with employee costs accounting for 69% of their revenue, which contributed to constant operating losses. Trade and other payables increased to R1,6 billion from R1,4 billion in 2017-18.

Sapo signed an agreement for grant payments with the South African Social Security Agency. National Treasury also approved funding for the universal service obligation / public service mandate amounting to R1,5 billion over the Medium-term Expenditure Framework period. During the 2018-19 mid-term budget adjustment, Sapo was further allocated R2,9 billion to fund future capital expenditure and operations.

Financial health indicators



Findings on supply chain management



Sapo continued to have material findings on procurement, due to supply chain management staff lacking the necessary skills and competence to implement supply chain management policy and comply with necessary supply chain management requirements.

Vacancies and stability

Vacancies at year-end

Accounting authority	No vacancies
Chief executive officer*	Not vacant
Chief financial officer**	Vacant

Stability (average number of months in position)

Chief executive officer*	12
Chief financial officer	Vacant

* Chief executive officer resigned in August 2019

** Acting chief financial officer was in place

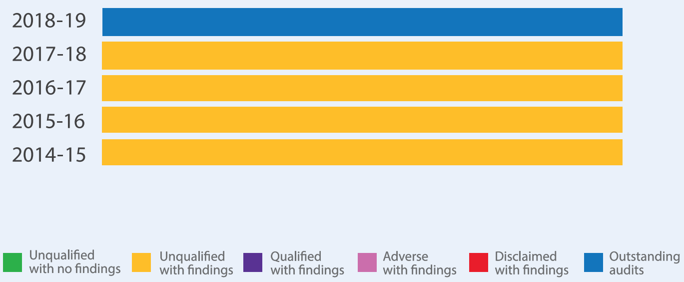
Trans-Caledon Tunnel Authority (TCTA)

Current year audit outstanding

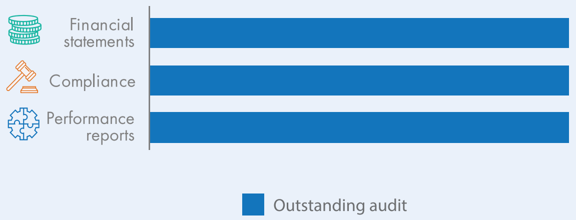
(Audited by AGSA)

Audit outcomes

Outcome is outstanding since the audit report has not yet been signed

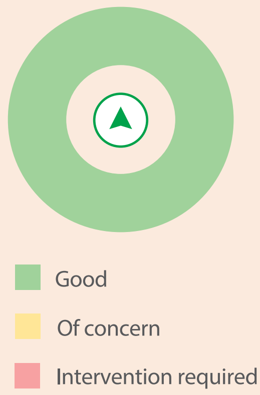


Audit outcomes on three key areas



Financial health

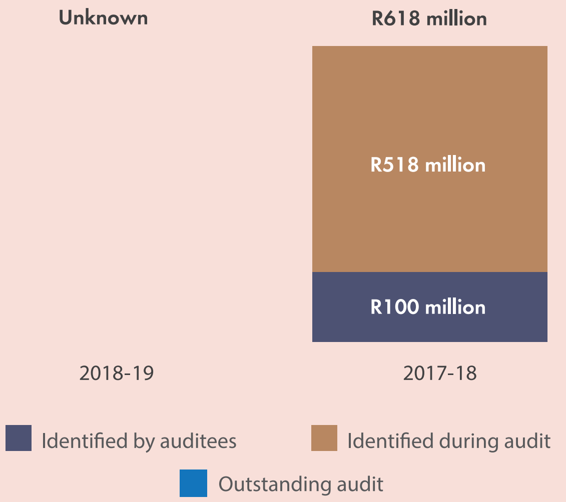
Going concern status



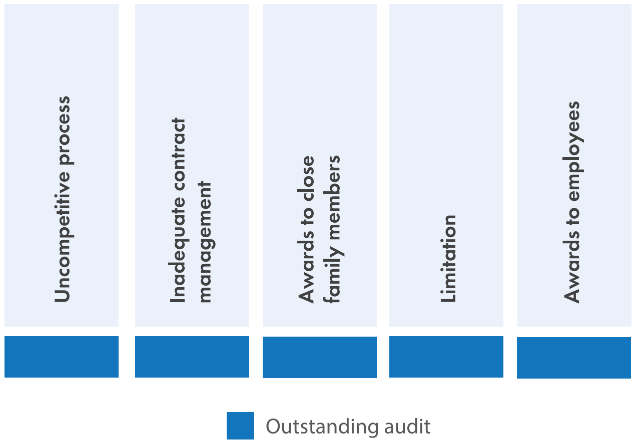
Financial health indicators

The audit is still outstanding and therefore we have not concluded our assessment of TCTA's going concern and financial health.

Irregular expenditure



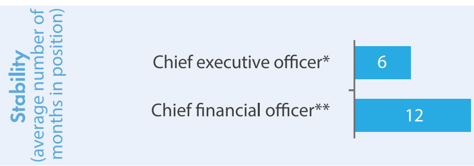
Findings on supply chain management



Vacancies and stability

Vacancies at year-end

Accounting authority	No vacancies
Chief executive officer*	Vacant for more than 6 months
Chief financial officer**	Vacant after financial year



* Chief executive officer appointed in October 2018

** Chief financial officer resigned in June 2019

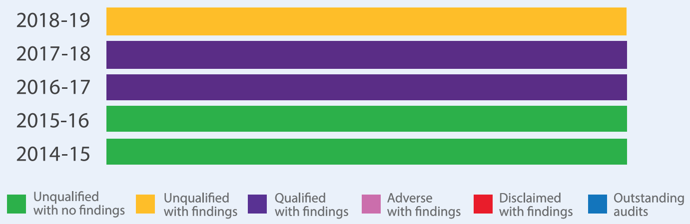
Air Traffic and Navigation Services (ATNS)

Overall improvement in audit outcome

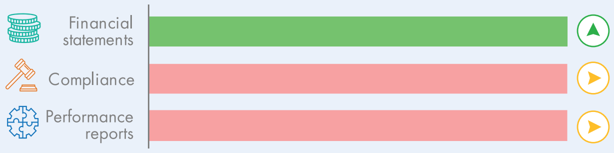
(Audited by audit firm)

Audit outcomes

Overall improvement compared to prior two years



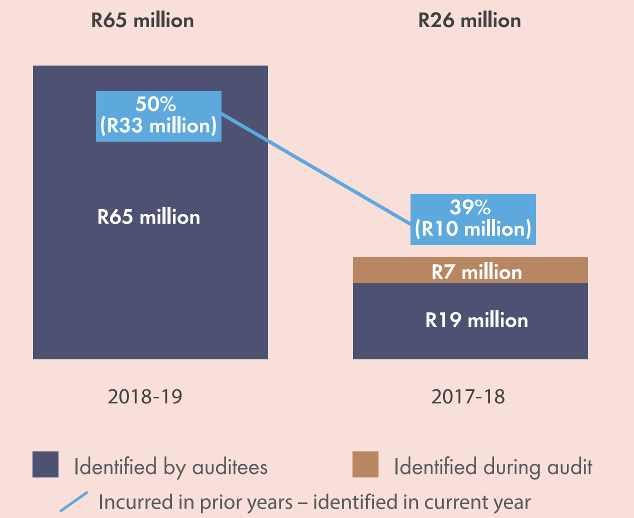
Audit outcomes on three key areas



Financial statements: Unqualified due to ATNS correcting the material misstatements identified
Compliance: Material non-compliance relating to quality of financial statements, procurement and contract management, effecting consequences as well as expenditure management
Performance reports: Material findings on reliability, as reported targets were not useful or supported by evidence

Unqualified Qualified Disclaimed With no findings With findings

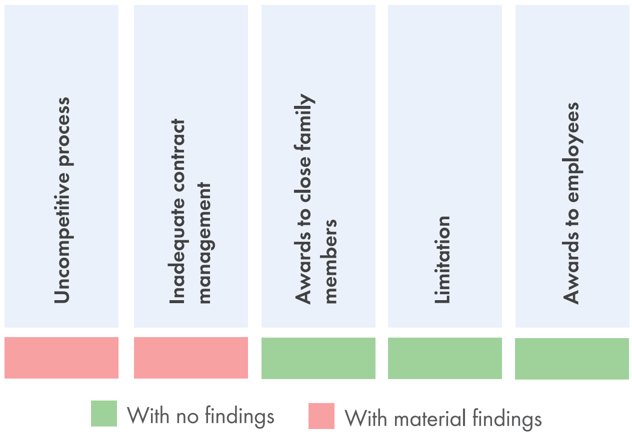
Irregular expenditure



Financial health

Going concern status

Findings on supply chain management



Lack of competitiveness in procurement of some goods, works and services. Contracts not monitored effectively, resulting in irregular expenditure. Root causes of non-compliance matters were slow response in implementing controls to monitor compliance with legislation, lack of controls to effectively monitor contracts as well as lack of implementation of consequences.

Vacancies and stability

Vacancies at year-end

Accounting authority	No vacancies
Chief executive officer	Vacant for more than 6 months
Chief financial officer	Vacant for more than 6 months

Stability (average number of months in position)

Chief executive officer	Vacant
Chief financial officer	Vacant

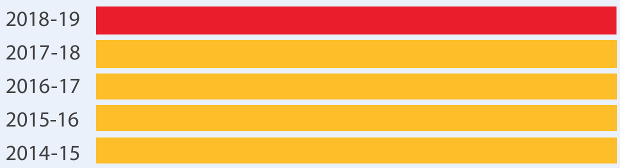
Alexkor

Overall regression in audit outcome

(Audited by audit firm)

Audit outcomes

Regressed to disclaimer due to material uncertainties that cast significant doubt on Alexkor's ability to continue as going concern



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

Audit outcomes on three key areas

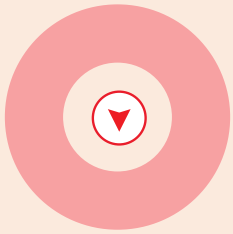
Financial statements	Disclaimed
Compliance	With no findings
Performance reports	With findings

Financial statements: Disclaimed due to material limitations on use of going concern assumption in preparation of financial statements
Compliance: No material non-compliance
Performance reports: Material findings on usefulness relating to two of the five objectives audited

Unqualified | Qualified | Disclaimed | With no findings | With findings

Financial health

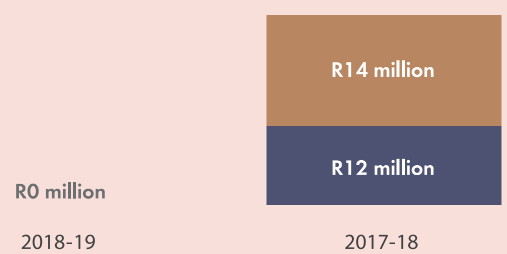
Going concern status



Material uncertainty on going concern due to liquidity issues. Alexkor had no other income-generating operations apart from its 51% investment in a pooling and sharing joint venture. Therefore, Alexkor is exposed to the financial challenges that face this venture. Furthermore, no financial support was received from shareholder. No turnaround strategy was provided.

Good
Of concern
Intervention required

Irregular expenditure



Identified by auditees | Identified during audit

No irregular expenditure incurred in prior years – identified in current year

Findings on supply chain management

Uncompetitive and unfair process	Inadequate contract management	Preferential Procurement Policy Framework Act not followed	Limitation	Awards to employees
With no findings	With no findings	With no findings	With no findings	With no findings

With no findings | With material findings

There were no findings on supply chain management as Alexkor did not have money to spend and awarded only two tenders and 16 quotations, which complied with relevant legislative requirements

Vacancies and stability

Vacancies at year-end

Accounting authority	No vacancies
Chief executive officer	Not vacant
Chief financial officer	Not vacant

Stability (average number of months in position)

Chief executive officer	22
Chief financial officer	21

Chief operations officer position was the only one vacant for more than 6 months

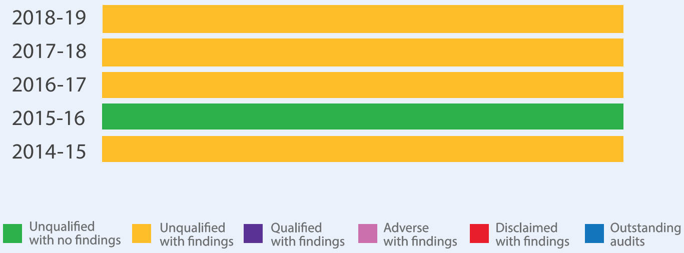
Broadband Infraco (BBI)

Overall stagnation in audit outcome

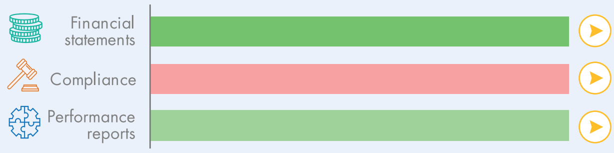
(Audited by audit firm)

Audit outcomes

Unqualified with findings on compliance



Audit outcomes on three key areas



Financial statements: Unqualified
Compliance: Findings on expenditure management as well as procurement and contract management
Performance reports: No findings

Unqualified | Qualified | Disclaimed | With no findings | With findings

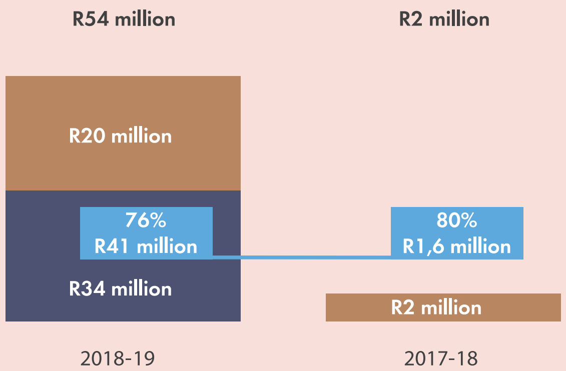
Financial health

Going concern status

Material uncertainty on going concern due to loss of R113 million (2017-18: R127 million) and current liabilities exceeding current assets by R154 million at year-end (2017-18: R127 million). Trade and other payables increased to R85 million from R77 million in 2017-18.

Good
Of concern
Intervention required

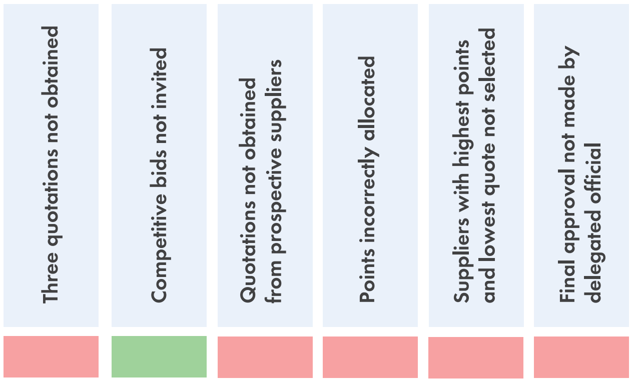
Irregular expenditure



Identified by auditees | Identified during audit
Incurred in prior years – identified in current year

The significant increase in irregular expenditure was mainly caused by two instances where BBI used a supplier even though the contract had expired without being extended

Findings on supply chain management



With no findings | With material findings

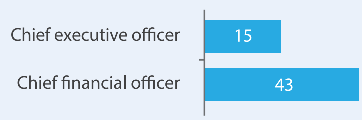
BBI continued to have material findings on procurement due to lack of proper procurement and contract management processes as well as inadequate action plans

Vacancies and stability

Vacancies at year-end

Accounting authority	No vacancies
Chief executive officer	Not vacant
Chief financial officer	Not vacant

Stability (average number of months in position)



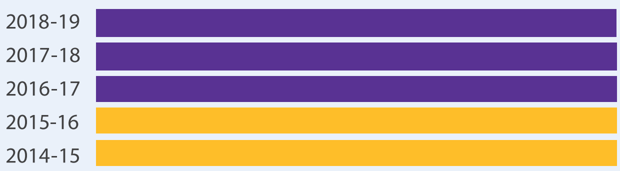
Eskom

(Audited by audit firm)

Overall stagnation in audit outcome

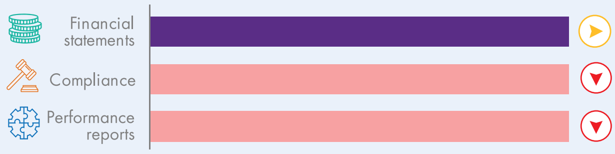
Audit outcomes

Remained stagnant on qualified with findings



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

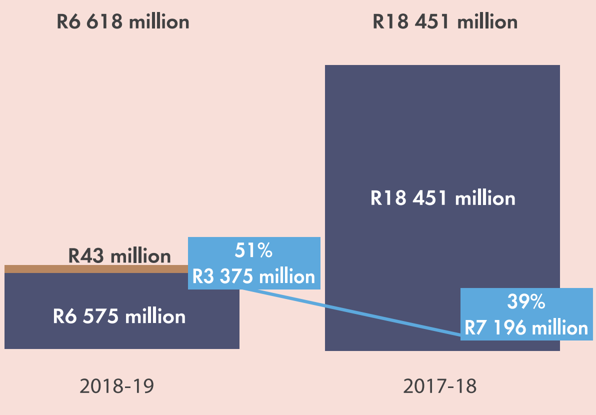
Audit outcomes on three key areas



Material non-compliance with section 55(1)(b) of the PFMA (financial statements were not prepared in accordance with financial reporting framework) – financial statements received a qualified opinion

Unqualified | Qualified | Disclaimed | With no findings | With findings

Irregular expenditure



Identified by auditees | Identified during audit

Incurred in prior years – identified in current year

Full extent of irregular expenditure could not be confirmed as per our basis for qualified opinion

Financial health

Going concern status

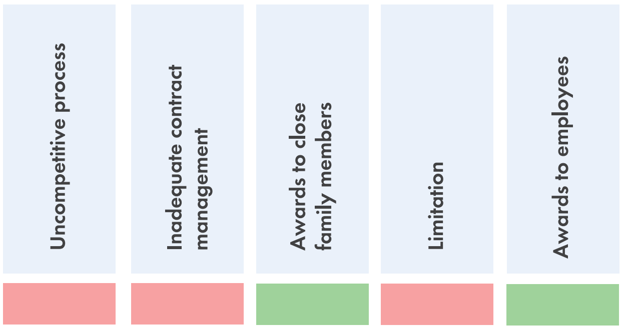
Material uncertainty on going concern due to current and prior year losses, current liabilities exceeding current assets, deterioration in most of the financial indicators, impact of reduced generation performance, and debt-reliant liquidity situation

Good

Of concern

Intervention required

Findings on supply chain management



With no findings | With material findings

Findings related to uncompetitive and unfair processes; non-compliance with Preferential Procurement Policy Framework Act and Preferential Procurement Regulations (local content and production); limitations; and Construction Industry Development Board requirements not met. The supply chain management environment was weak due to lack of proper oversight and monitoring by accounting authority, which subsequently resulted in a number of investigations, suspensions and transgressions as reported in the financial statements. This led to high irregular expenditure being reported in the financial statements although the completeness of the amount could not be confirmed.

Vacancies and stability

Vacancies at year-end

Accounting authority	No vacancies
Chief executive officer*	Not vacant
Chief financial officer	Not vacant

Stability (average number of months in position)

Chief executive officer	10
Chief financial officer	4

*Chief executive officer resigned in May 2019

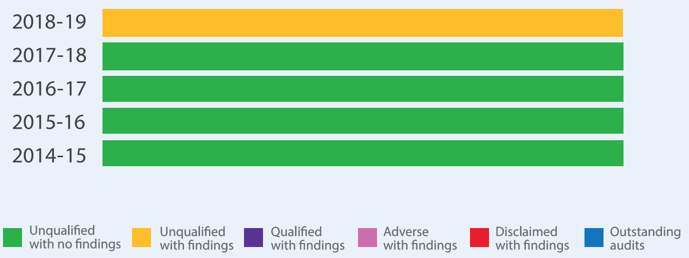
Industrial Development Corporation (IDC)

Overall regression in audit outcome

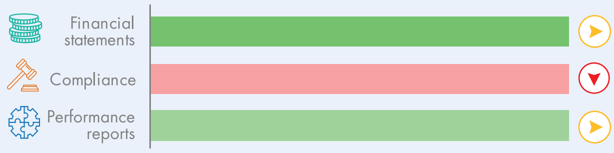
(Audited by audit firm)

Audit outcomes

Regression due to one material non-compliance finding



Audit outcomes on three key areas



Material non-compliance with section 55(1)(b) of the PFMA (financial statements were not prepared in accordance with financial reporting framework) – financial statements received an unqualified opinion after material adjustments to disclosure notes during the audit

Unqualified | Qualified | Disclaimed | With no findings | With findings

Financial health

Going concern status

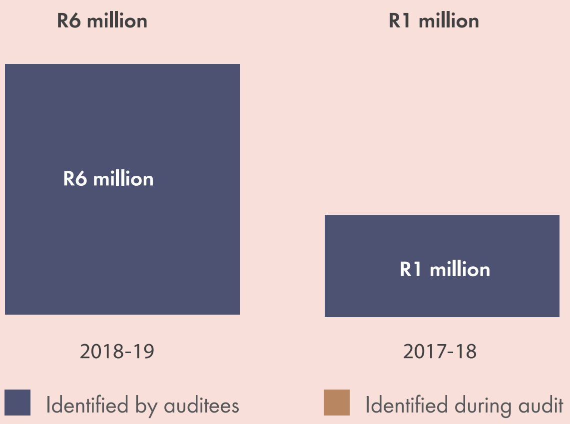
No material uncertainty on going concern evident

Good

Of concern

Intervention required

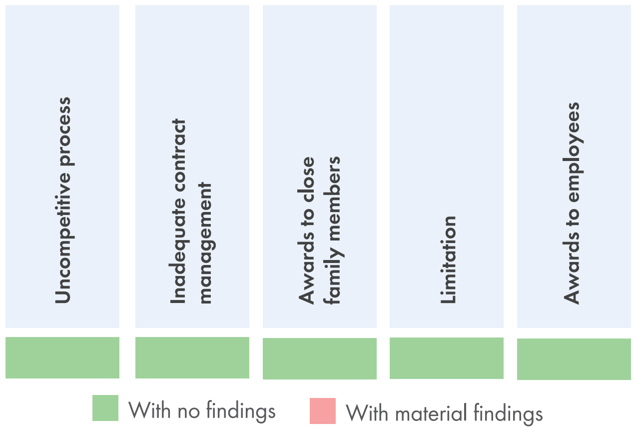
Irregular expenditure



No irregular expenditure incurred in prior years – identified in current year

Value of irregular expenditure was trivial and did not result in material supply chain management compliance findings

Findings on supply chain management

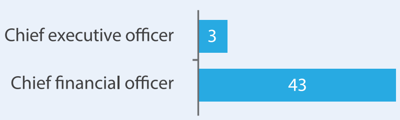


Vacancies and stability

Vacancies at year-end

Accounting authority	No vacancies
Chief executive officer	Not vacant
Chief financial officer	Not vacant

Stability (average number of months in position)



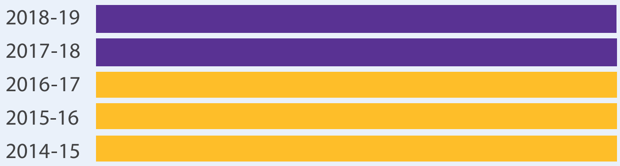
Transnet

Overall stagnation in audit outcome

(Audited by audit firm)

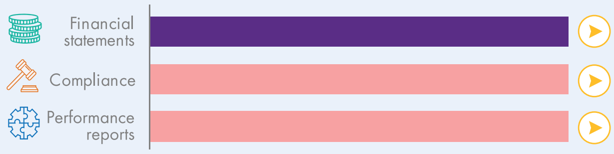
Audit outcomes

Remained stagnant on qualified with findings on performance report and compliance due to root causes of qualifications not being addressed, resulting in qualification relating to completeness of irregular expenditure disclosure



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

Audit outcomes on three key areas



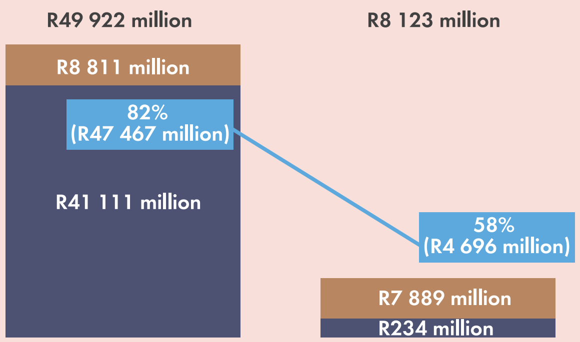
Financial statements: Qualification on completeness of irregular expenditure note in financial statements: related to prior year qualification that remained unresolved as well as further instances of irregular expenditure identified by the auditors in 2018-19 that were not disclosed by management

Compliance: Findings on expenditure management as well as procurement and contract management

Performance reports: Material findings on usefulness of performance indicators and targets; furthermore, a number of reported achievements were not reliable or could not be substantiated

Unqualified | Qualified | Disclaimed | With no findings | With findings

Irregular expenditure



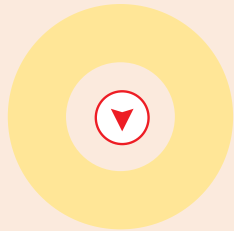
Identified by auditees | Identified during audit

Incurred in prior years – identified in current year

Full extent of irregular expenditure could not be confirmed as per our basis for qualified opinion

Financial health

Going concern status



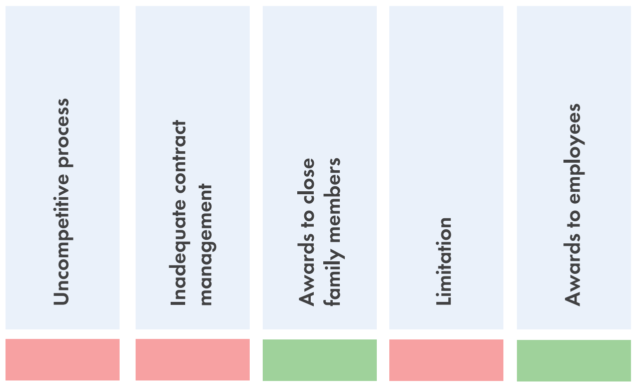
We emphasised going concern in current and previous financial year, due to breach of loan covenants by modification of audit opinion that triggers potential recall of loan facilities and insufficient resources to meet these in ordinary course of business

Good

Of concern

Intervention required

Findings on supply chain management



With no findings | With material findings

Findings related to uncompetitive and unfair processes; non-compliance with Preferential Procurement Policy Framework Act and Preferential Procurement Regulations (local content and production); limitations; and Construction Industry Development Board requirements not met. The supply chain management environment was weak due to lack of proper oversight and monitoring by accounting authority, which subsequently resulted in a number of investigations, suspensions and transgressions as reported in the financial statements. This led to high irregular expenditure being reported in the financial statements although the completeness of the amount could not be confirmed.

Vacancies and stability

Vacancies at year-end

Accounting authority	No vacancies
Chief executive officer	Vacant for less than 6 months
Chief financial officer	Vacant for less than 6 months

Stability (average number of months in position)

Acting chief executive officer	6
Acting chief financial officer	6

OVERSIGHT RESPONSIBILITY FOR STATE-OWNED ENTITIES

SOEs report to various oversight departments across government. These departments are responsible for providing strategic direction in terms of the overall mandate of the SOE and for monitoring the SOE's performance against predetermined objectives as required by the Public Finance Management Act. Additionally, the executive authority (which comprises the minister for the applicable oversight department and the shareholder of the SOE) annually agrees such predetermined objectives per the shareholder's compact signed between the accounting authority and the minister.

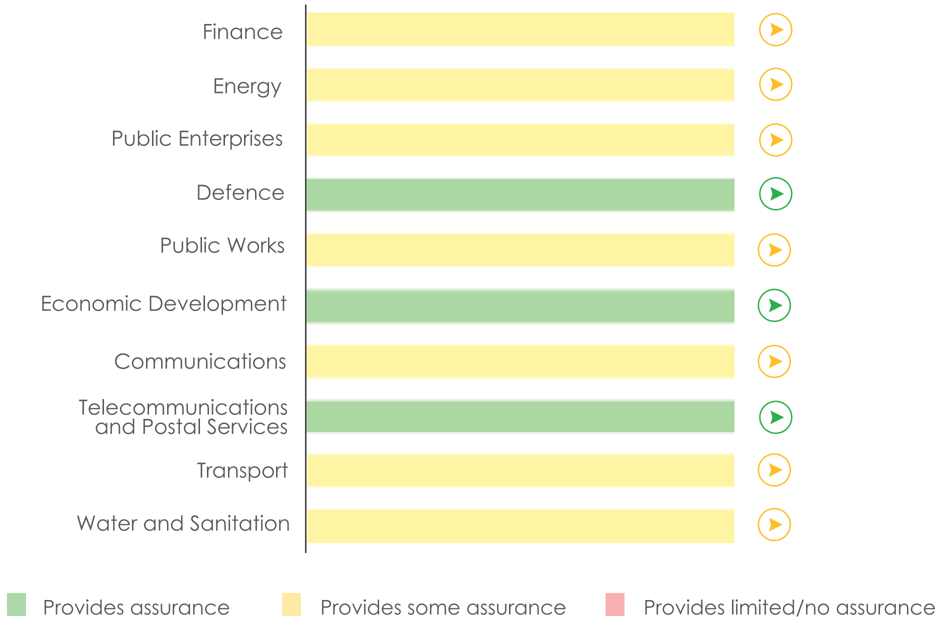
In some instances, **oversight departments did not have set programmes to govern and measure performance** against set targets in their annual performance plans to provide strategic direction to the SOEs in their portfolio. As a best practice, oversight departments (for example the ones listed in the table below) measure their performance against such targets. This should be used as a benchmark by those oversight departments that do not specifically measure the performance of their SOEs.

	National Treasury	Defence	Telecommunications and Postal Services	Water and Sanitation	Communications	Public Enterprises
SOEs in portfolio	Land and Agricultural Development Bank of South Africa	Armscor	Broadband Infraco South African Post Office	Trans-Caledon Tunnel Authority	South African Broadcasting Corporation	Alexkor Denel Eskom South African Airways South African Express Airways South African Forestry Company Transnet

Executive authorities should provide assurance in line with the legislative requirements provided in the Public Finance Management Act and the Companies Act. The executive authority is expected to steer the SOE on its path to implementing the accountability wheel (as explained in section 2) as follows:

- Provide a clear and timeous shareholder's compact (**PLAN**).
- Set clear expectations for the accounting authority to comply with based on approval of policies (**DO**).
- Monitor quarterly performance relating to predetermined objectives and compliance with legislation (**CHECK**).
- Take appropriate measures to institute consequences against the accounting authority when periodic measures are not in line with planned policies (**ACT**).
- Table the annual financial and performance results in Parliament in terms of legislation to enable oversight bodies and other users to hold the executive accountable (**ACT**).

As reflected in the graphic on the following page, we assessed that the executive authorities of Defence, Economic Development, and Telecommunications and Postal Services provided adequate assurance based on the considerations per the accountability wheel. However, the executive authorities of Finance (National Treasury), Communications, Energy, Transport, Water and Sanitation, Public Works, and Public Enterprises provided only some assurance, mainly due to a lack of a timeous plan agreed with the accounting authorities to enable accountability for the performance of SOEs during the year. The annual financial statements and performance results of some of the SOEs in the public enterprises and energy portfolios were tabled very late or have not been tabled in Parliament.



CONCLUSION

The **root causes of the regression** in the overall audit outcomes of SOEs were weak internal control environments (**PLAN**), instability in appointed senior management positions (**DO**), and a lack of implemented action plans (**DO**) to address previously reported audit findings. These matters, together with inadequate compliance monitoring (**CHECK**), resulted from management and those charged with governance being preoccupied with resolving the financial viability challenges encountered by the SOEs. In addition, consequences were not properly used (**ACT**) as a deterrent for those found to contravene legislation, painting a similar picture as in the previous year.

This section started off by acknowledging the importance of SOEs in the South African context. This principle was recognised in 2014 when the previous head of state commissioned a presidential review committee on SOEs. The committee's suggested principles remain at the core of steering our SOEs in the right direction. Since the committee's report had been tabled, positive developments have transpired, such as the recommendations of the committee being considered during the development of the country's National Development Plan.

Some of the principles that have not been implemented, such as a centralised shareholder ownership framework for all SOEs, need to be prioritised by the executive. This should ideally include matters such as clarity in SOE legislative requirements; a clear split between SOEs' social and commercial mandate; financial viability standards; remuneration principles; and separating government's role as owner, policymaker, regulator and implementer in the respective industries in which the SOEs operate.

We echo our president's recognition of the important role that SOEs play in the South African economy. This section therefore aims to provide those charged with governance with relevant insights and recommendations so that they can act to turn around SOEs for the benefit of all citizens.

We believe the following can serve as a recipe to get our SOEs back on track:

Stabilise leadership

Operationalise action plans

Evaluate periodically

NOTES

SECTION 8

Provincial overviews

EASTERN CAPE: PERFORMANCE SNAPSHOT

(Refer to section 2 for explanations on how to interpret these figures and movements)

The Eastern Cape provincial government consists of 25 auditees, made up of 13 departments, the provincial legislature, and 11 public entities. One audit was still outstanding at the cut-off date of this report. We classified four of the auditees as small auditees in terms of our methodology. The outcomes of these audits are excluded from this summary.

Clean audits

25%

(2017-18: 20%)

Overall audit outcomes

OVERALL SLIGHT REGRESSION IN AUDIT OUTCOMES

3 Regressed
2 Improved

DEPARTMENTS

2 Regressed
1 Improved

PUBLIC ENTITIES

1 Regressed
1 Improved

Financially unqualified financial statements

80%

(2017-18: 90%)

65% (13)

Auditees submitted financial statements without material misstatements

No findings on compliance with legislation

30%

(2017-18: 20%)

Irregular expenditure

R869 m

(2017-18: R794 m)

AUDITS SUBSEQUENTLY FINALISED

R29 m

(2017-18: R97 million)

No findings on performance reports

60%

(2017-18: 60%)

60% (12)

Reported achievement reliable

FINANCIAL HEALTH

DEFICIT
(expenditure exceeded revenue)

2018-19	50% (10)
2017-18	45% (9)

CREDITOR-PAYMENT PERIOD > 30 DAYS

2018-19	25% (5)
2017-18	35% (7)

VULNERABLE FINANCIAL POSITION

2018-19	20% (4)
2017-18	20% (4)

STATUS OF GOOD CONTROLS

35%
Overall internal controls

30%
Basic financial and performance management controls

30%
Information technology controls

ROOT CAUSES

100%
Slow response in improving internal controls and addressing risk areas

SLOW RESPONSE -100%

7%
Instability or vacancies in key positions or key officials lacking appropriate competencies

20%
Inadequate consequences for poor performance and transgressions

8.1 EASTERN CAPE

The overall audit outcomes for the province depict a slight regression with an increase in the number of audits with qualified opinions to four (20%) compared to two (10%) in the previous year. The outcomes exclude Education as the audit had not been finalised by the cut-off date for inclusion in this overview due to a disagreement on a technical interpretation relating to the leave provision disclosed in the financial statements between the auditors and the auditee.

At our regular interactions with the accounting officers/authorities and senior management, we obtained commitments to address internal control deficiencies and root causes of audit findings. Although some improvements were noted in the overall key controls at auditees, the prevalence of auditees that did not address the root causes of control deficiencies to prevent recurring audit findings remained high. Action plans were not effective and they were not adequately monitored by all the assurance providers to ensure that the necessary actions were implemented. This resulted in ineffective daily, weekly and monthly financial and performance disciplines.

Progressing, but greater effort required for sustainability

The quality of submitted financial statements improved by 10%, with seven auditees (35%) submitting financial statements that had material misstatements compared to nine (45%) in the previous year. However, fewer auditees were able to correct the material misstatements identified during the audit, resulting in an increased number of audits with unfavourable audit outcomes. This was due to the slow response in the implementation of action plans, vacancies in key units, and lack of consequences for poor performance and transgressions. Social Development failed to improve from the qualified audit opinion obtained in the previous year. The department did not have adequate systems to account for capital work in progress and the occupation-specific dispensation liabilities. Health, Transport and Eastern Cape Government Fleet Management Services regressed from unqualified opinions with findings in the previous year to qualified audit opinions. Financial management and control disciplines were lacking in basic areas such as record management, reconciliations as well as daily processing and reviews at these auditees.

The audit outcomes of the provincial legislature and Coega Development Corporation improved. The provincial legislature improved from an unqualified opinion with findings to an unqualified opinion without findings (clean audit), while Coega Development Corporation improved from a qualified opinion to an unqualified opinion with findings. The leadership at both auditees responded to our recommendations and ensured that effective steps were taken to address prior year findings. Adequate financial systems and controls were implemented by management to prevent material misstatements at the provincial legislature and to address the prior year qualification on trade and other payables at Coega Development Corporation.

The provincial treasury; Safety and Liaison; Eastern Cape Parks and Tourism Agency; and East London Industrial Development Zone are commended for maintaining their clean audit outcomes from the previous year. The overall leadership and governance structures within these auditees were working effectively and a commitment to clean administration was also demonstrated.

The quality of submitted performance information remained a concern, as material findings were reported on the performance information of eight auditees (40%). This was due to auditees having poor systems in place to adequately collect, collate and report information on actual performance. A significant portion of the conditional grants was spent on infrastructure projects on which we raised findings relating to project planning, project management, and the oversight performed by management. We noted delays in the completion of projects and variation orders that increased the overall project costs. For example, for the construction of St Elizabeth Hospital, the original contract price was R152 million and the planned completion date was May 2017. The original contract was terminated due to poor performance by the contractor after R31 million had been paid, and a revised contract for R247 million was approved with a delayed planned completion date of September 2018. However, construction was still not complete at the end of the 2018-19 financial year.

The findings on compliance with legislation have remained at high levels over the past three years. The most common transgressions related to the failure to prevent irregular and fruitless and wasteful expenditure as well as inadequate procurement and contract management. Irregular expenditure of R869 million was incurred, which was an increase of 9% (R75 million) from the previous year's irregular expenditure of R794 million. The highest contributors to irregular expenditure were Health, the premier's office, Public Works and Transport, who contributed R727 million (84%) to the total irregular expenditure of the province. The most common transgressions included the failure to invite competitive bids or written quotations without adequate justification, contracts amended or extended without the approval of a delegated official, and inadequate application of the preferential procurement requirements. This was due to a culture of non-compliance with legislation resulting from management's tolerance of deviations from the requirements of legislation.

The medical legal claims disclosed by Health increased to R29 billion from R24 billion in the previous year and exceeded the department's annual budget allocation by R5 billion. An amount of R797 million was paid in the current year relating to these claims, of which R460 million was funded by an overdraft facility. This funding model was not sustainable and placed further pressure on the provincial fiscus. The commitments at Human Settlements decreased to R8,3 billion from R9,9 billion in the previous year. The commitments still significantly exceeded the department's budget allocation of R2,4 billion and continued to pose a significant financial health risk to the department.

The information technology controls in the province also remained a concern, as the risks in the information technology environment that had been reported for a number of years had still not been adequately addressed. This points to a lack of oversight by the leadership of the information technology systems and processes. The weak information technology and internal controls could continue to hamper the progress towards producing credible financial and performance reports.

The Public Audit Act amendments and its implications were introduced to the provincial leadership, who welcomed and appreciated these. The material irregularity process was implemented at Education in the first phase of implementation, where the accounting officer cooperated during the audit process. Although instances of non-compliance with legislation were identified, these did not result in financial losses and therefore did not meet the definition of a material irregularity.

The prevalence of transgressions of supply chain management legislation, such as the failure to invite competitive bids without adequate justification and contracts being amended or extended without approval by a delegated official, poses a risk of material irregularities being identified in future. The accounting officers should ensure that controls and oversight mechanisms are in place to prevent and monitor instances of non-compliance before they can be identified as a material irregularity.

The elections resulted in the appointment of new members of the executive council and a new premier – who during his State of the Province Address took a strong stance on good governance and anti-corruption as well as committed to tighten controls and to prevent further malfeasance in the government system. We urge the new political leadership to prevent further accountability failures by taking appropriate action in order to gain positive momentum towards improving governance and accountability in the public sector and accounting for public resources in a transparent manner. A culture of basic financial management discipline and adherence to good controls should be enforced. Proper systems and processes should be put in place to plan and monitor infrastructure delivery. All role players should diligently execute their roles as outlined in legislation for marked and sustainable improvements to be realised in the province.

NOTES

FREE STATE: PERFORMANCE SNAPSHOT

(Refer to section 2 for explanations on how to interpret these figures and movements)

The Free State provincial government consists of 13 departments, including the provincial legislature, and eight public entities. The audit outcomes of two smaller and two dormant entities are not included in the analysis presented in this report. We set the cut-off date for inclusion of the audit outcomes in this report as 2 September 2019. By this date, one audit was outstanding.

Clean audits

0%

(2017-18: 0%)

Overall audit outcomes

OVERALL IMPROVEMENT IN AUDIT OUTCOMES

3 Regressed
5 Improved

DEPARTMENTS

2 Regressed
4 Improved

PUBLIC ENTITIES

1 Regressed
1 Improved

Financially unqualified financial statements

44%

(2017-18: 50%)

19% (3)

Auditees submitted financial statements without material misstatements

No findings on compliance with legislation

0%

(2017-18: 0%)

Irregular expenditure

R2,6 bn

(2017-18: R3,2 bn)

AUDITS SUBSEQUENTLY FINALISED

R1,2 bn

(2017-18: R653 m)

No findings on performance reports

46%

(2017-18: 38%)

54% (7)

Reported achievement reliable

FINANCIAL HEALTH

DEFICIT
(expenditure exceeded revenue)

2018-19	47% (7)
2017-18	67% (8)

CREDITOR-PAYMENT PERIOD > 30 DAYS

2018-19	67% (10)
2017-18	58% (7)

VULNERABLE FINANCIAL POSITION

2018-19	69% (11)
2017-18	75% (12)

STATUS OF GOOD CONTROLS

6%
Overall internal controls

0%
Basic financial and performance management controls

0%
Information technology controls

ROOT CAUSES

100%
Slow or no response in improving internal controls and addressing risk areas

SLOW RESPONSE - 69%
NO RESPONSE - 31%

63%
Instability or vacancies in key positions or key officials lacking appropriate competencies, including staff supporting them

88%
Inadequate consequences for poor performance and transgressions

8.2 FREE STATE

The overall audit outcomes of the province improved from the previous year; however, the continued lack of accountability and leadership failures to implement preventative controls and decisive consequences overshadowed these improvements. This prevented auditees from obtaining clean audits for the second consecutive year. There is a culture that an unqualified audit opinion with findings is an acceptable goal, with the result that compliance with legislation, reporting on performance information and the financial health in the province did not receive the necessary attention. The political leadership did not commit to improving the poor control environment.

There has been an increased call for greater accountability in provincial government in the Free State. We urge the new political leadership to take decisive and visible action to implement the fundamental principles needed to improve accountability for government spending. This would promote the culture of an accountable, effective and efficient provincial government that would ensure proper planning and budgeting, managing staff performance, and effecting consequences for poor performance and transgressions.

Notable effort on disclaimers – overall accountability still a concern

The provincial legislature and Police, Roads and Transport improved from qualified opinions to unqualified opinions with findings. Agriculture and Rural Development as well as Sport, Arts, Culture and Recreation improved from disclaimed opinions to qualified opinions. The Fleet Management Trading Entity improved from an adverse opinion to a qualified opinion. There was a notable effort by the provincial leadership to improve disclaimed and adverse opinions. Health, Social Development and the Free State Development Corporation regressed from unqualified audit opinions with findings to qualified opinions. If we had not allowed any material audit adjustments to the financial statements, only Cooperative Governance and Traditional Affairs; Police, Roads and Transport; and Public Works and Infrastructure would have received financially unqualified audit opinions. The premier's office received a disclaimed opinion for a second consecutive year, even though this department needs to lead by example.

It is a concern that a sound control environment did not support improvement in audit outcomes, as basic key controls were not effectively implemented and monitored. This raised questions on the sustainability of these improvements. All auditees had findings on compliance with legislation, mainly due to findings on procurement and contract management, irregular expenditure that was not prevented, and material adjustments to the financial statements. Where audit outcomes regressed, the auditees were complacent, as they had achieved financially unqualified audit opinions in the previous year. The status of records reviews we performed during the year revealed that auditees were mainly focusing on prior year qualification areas, but were not addressing the root causes to improve the overall control environment. This included compliance with legislation, useful and reliable performance information, overriding of controls, poor financial health, weaknesses in information technology controls and vacancies / competencies of staff supporting key positions.

There was a slight improvement in the quality of the reported performance information, as six auditees did not have material findings, compared to five in the previous year. If we had not allowed audit adjustments, 10 auditees would have had findings on their performance information. It is a concern 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.

The political and administrative leadership's slow or no response and their failure to create a culture that promoted an accountable, effective and efficient provincial government continued to impede clean audit outcomes. The poor control environment resulted in instances where goods paid for may not actually have been received, putting more pressure on the financial health of the province and negatively affecting service delivery. This led to qualifications on expenditure at Agriculture and Rural Development; Economic, Small Business Development, Tourism and Environmental Affairs; Health; the premier's office; Social Development; and Sport, Arts, Culture and Recreation.

The leadership's lack of accountability for government spending had a negative impact on auditees' financial sustainability. Unauthorised expenditure of R618 million (2017-18: R513 million) was incurred, mainly due to overspending on employee costs. Funds to be surrendered to the revenue fund and accruals and payables not recognised exceeded cash on hand by R4,1 billion (2017-18: R3,9 billion). A significant portion of the 2019-20 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 R2,5 billion, which was a significant increase since the previous year (R1,8 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, Health and the premier's office of R1,3 billion (2017-18: R1,2 billion) put pressure on the entire province.

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. Without improved fiscal discipline, the departments' financial health will continue to deteriorate.

Our audits revealed various areas of concern regarding poor planning, project management and monitoring of infrastructure and other projects. The completion of these projects was often delayed and the quality of work was compromised while project costs were exceeded. This had a negative impact on the delivery of services, as the funds were not always used effectively and efficiently to provide sustainable services. Furthermore, conditional grants were materially underspent at Agriculture and Rural Development; Education; Social Development; and Sport, Arts, Culture and Recreation. The impact of the lack of accountability for government spending at departments is illustrated below.

The renovations and refurbishments at the Boitumelo Regional Hospital in Kroonstad commenced in 2011, but approximately eight years later, the project is still not completed, despite the planned project duration being only 36 months. The actual project expenditure as at 31 March 2019 was R209 million, which significantly exceeded the original contract value of R138 million by 51%. This was due to delays in the project caused by the contractor, while the department and the implementing agent for the project, the Department of Public Works and Infrastructure, did not adequately monitor the project. Poor workmanship was also identified on this project and the intensive care unit and administration block that were approximately 85% to 90% complete in 2018 were still not operational in April 2019 at the time of our site visits. The department estimated that a further R105 million would be required to complete the project and correct the poor-quality work that had been done. The actual project costs to date include irregular expenditure of R40 million (mainly due to variation orders exceeding the allowed value and the appointment of professional services without following supply chain management processes) as well as fruitless and wasteful expenditure of R20 million (for an out-of-court settlement between the department and the contactor when the department wanted to terminate the contract without success, as well as corrective work done on the project to address poor workmanship).

During our site visit to Thakameso Combined School, one school block was identified that had severe structural damage cracks and had deteriorated to the extent of posing a risk of collapsing on learners if not urgently attended to. Although the department has adequate budget for maintenance, poor maintenance of school infrastructure facilities occurred, due to a lack of communication between school management and the department. Generally, this resulted in further deterioration over time, which exposes learners and staff to danger.

A culture of no consequences has been created through the political and administrative leadership's inability to implement consequences, exacerbated by the political leadership's involvement in decision-making at some auditees. Their continued disregard for procurement processes resulted in irregular expenditure at all auditees and created an environment vulnerable to misappropriation, wastage and the abuse of state funds. The closing balance of irregular expenditure for the province was R11 billion (2017-18: R8,7 billion), which shows that irregular expenditure was not always investigated, resulting in a year-on-year increase.

Irregular expenditure decreased slightly from R3,9 billion to R3,8 billion (including the amount incurred by Human Settlements of which the audit was subsequently finalised). The decrease was mostly as a result of Police, Roads and Transport reporting irregular expenditure of R1,6 billion in 2017-18, mainly due to the panel of contractors for road projects only being identified as irregular in the previous year although the contract was entered into in 2014. This matter also resulted in Police, Roads and Transport being the highest contributor of irregular expenditure (R980 million) in the current year, as the department continued to use contractors from the panel. The other main contributors to irregular expenditure were Health (R540 million) and Education (R505 million). The irregular expenditure figure was incomplete, as the premier's office was qualified on the completeness of irregular expenditure, while various departments also disclosed possible irregular expenditure under investigation, which may result in additional irregular expenditure in the next financial year. The most common supply chain management findings that resulted in irregular expenditure related to three quotations not being obtained, competitive bids not being invited, procurement without tax compliance, and Preferential Procurement Regulations not being applied or being incorrectly applied. It is a concern that R1,3 billion of the irregular expenditure related to multi-year contracts entered into in prior years that had not yet been dealt with appropriately.

The provincial leadership responded positively to the amendments of the Public Audit Act. We implemented the material irregularity process at Human Settlements in the first phase of implementation, where the accounting officer cooperated in the process. However, at the cut-off date for inclusion in this report, the audit had not been finalised, as we were still in the process of evaluating the adequacy of the steps taken by the accounting officer to quantify and recover the potential losses. The material irregularities identified at Human Settlements related to various overpayments on housing contracts due to duplicate claims, payments for complete houses although not fully complete, rectification of substandard quality houses, and overpayments on retention amounts withheld. This occurred as effective internal controls were not in place for the approval and processing of payments, as required by treasury regulation 8.1.1. The overpayments are likely to result in material financial losses, if not recovered. The accounting officer implemented processes to recover the money from the suppliers and planned to take appropriate action against officials found responsible based on the outcome of an internal investigation. We will follow up on the implementation of the planned actions during the 2019-20 audit.

We also identified poor project management relating to payments for goods and services not delivered and payment for poor-quality work at other auditees. Additional auditees will be phased in next year and we therefore encourage management and the leadership to take a strong stance against the abuse of public funds by implementing a discipline of preventative controls to promote compliance with legislation and ensuring that transgressions are appropriately investigated by the relevant oversight structures. 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 committees, who should independently evaluate management's implementation of key controls and daily disciplines. All assurance providers should improve on the level of oversight they are providing as well.

We remain committed in our efforts to add value through continuous engagements with the political and administrative leadership. We will continue to engage with management and leadership, and monitor the progress they made in addressing key challenges and risks identified during our status of records review process. These include the implementation of preventative controls as well as an analysis of financial and non-financial information to identify key areas that may derail progress in compliance with legislation and the preparation of credible financial and performance reports. The focused implementation of these measures and action plans by the provincial legislature and Police, Roads and Transport contributed to their improved audit outcomes. The administrative and political leadership of all departments should, however, focus on all key risk areas highlighted and not only on qualification areas, to ensure that they obtain the full benefit from this initiative.

GAUTENG: PERFORMANCE SNAPSHOT

(Refer to section 2 for explanations on how to interpret these figures and movements)

The Gauteng provincial government consists of 15 departments and 20 public entities. The audit outcomes of 12 smaller entities are not included in the analysis presented in this report. We set the cut-off date for inclusion of the audit outcomes in this report as 2 September 2019. By this date, no audits were outstanding.

Clean audits

30%

(2017-18: 52%)

Overall audit outcomes

OVERALL REGRESSION IN AUDIT OUTCOMES

7 Regressed
0 Improved

DEPARTMENTS

5 Regressed
0 Improved

PUBLIC ENTITIES

2 Regressed
0 Improved

Financially unqualified financial statements

91%

(2017-18: 100%)

48% (11)

Auditees submitted financial statements without material misstatements

No findings on compliance with legislation

30%

(2017-18: 57%)

Irregular expenditure

R7,13 bn

(2017-18: R6,37 bn)

No findings on performance reports

59%

(2017-18: 68%)

59% (13)

Reported achievement reliable

FINANCIAL HEALTH

DEFICIT
(expenditure exceeded revenue)

2018-19	33% (7)
2017-18	30% (7)

CREDITOR-PAYMENT PERIOD > 30 DAYS

2018-19	48% (10)
2017-18	35% (8)

VULNERABLE FINANCIAL POSITION

2018-19	0% (0)
2017-18	0% (0)

STATUS OF GOOD CONTROLS

57%
Overall internal controls

39%
Basic financial and performance management controls

26%
Information technology controls

ROOT CAUSES

81%
Slow response in improving internal controls and addressing risk areas

SLOW RESPONSE -100%

25%
Instability or vacancies in key positions or key officials lacking appropriate competencies

25%
Inadequate consequences for poor performance and transgressions

8.3 GAUTENG

The overall provincial audit outcomes regressed, with seven auditees (30%) obtaining clean audits and 14 auditees (61%) obtaining unqualified opinions with findings. Auditees with unqualified audit outcomes regressed to 91% as two auditees (9%), namely Human Settlements and the Housing Fund, received a disclaimed audit opinion, primarily due to a lack of leadership by senior management to address the root causes of prior year findings, including the inadequate management of records to support financial transactions. The decreasing clean audits in overall provincial audit outcomes were primarily due to the slow response by management to address prior year findings on predetermined objectives and compliance with legislation.

Concerning emerging trends – disclaimers are back and clean audits are disappearing

The quality of financial statements as submitted for auditing also regressed, as 52% of the auditees had material misstatements or limitations in their submitted financial statements. Ten of these auditees were able to correct the material misstatements to avoid receiving qualified opinions. The reliance on auditors to identify errors in financial statements, which are then corrected by auditees, is not a sustainable practice. We therefore continue to emphasise that accounting officers should hold chief financial officers accountable for the implementation of basic financial disciplines, including preventative controls and the regular reporting and review of financial information during the year.

The audit outcomes on compliance with key legislation regressed, as 70% of the auditees had material findings on compliance, which was the main driver of the overall regression in audit outcomes. We reported material compliance findings at all 16 auditees that did not achieve clean audit outcomes in the current year. The administrative leadership and senior management were slow to implement their commitments to address internal control weaknesses that we had highlighted in prior years, especially those relating to procurement management, expenditure management, prevention of irregular expenditure, and effecting consequences. Inadequate management of consequences as well as instability and vacancies in key positions also contributed to the regression of audit outcomes on compliance in the province.

Irregular expenditure increased, predominantly related to non-compliance with procurement process requirements, with the main contributors (accounting for 88% of the province's irregular expenditure) being Health, Education, and Roads and Transport. An amount of R1,08 billion in irregular expenditure relating to supply chain management in the province was due to multi-year non-compliant contracts awarded in prior years at Education; e-Government; Human Settlements; Sport, Arts, Culture and Recreation; and g-Fleet. Notwithstanding the irregular expenditure incurred relating to non-compliance with supply chain management requirements, we did not identify instances where goods and services were not received for this expenditure. It is encouraging that the province followed through on its previous commitment as it developed and approved the open tender framework. The province also implemented the open tender process at all provincial departments and at seven provincial public entities with a focus on specific tenders. This should be expanded to all tenders, as the intended positive impact of reducing irregular expenditure across the province through the implementation of this process has not yet been fully realised. Furthermore, as recommended in prior years, accounting officers should ensure that rigorous investigations are conducted and that steps are taken to recover any losses from liable officials.

The audit outcomes on performance information regressed, as 59% of the auditees had no material findings on their performance reports. Only 23% of the auditees would have achieved a positive outcome had we not allowed auditees to correct the information in their submitted performance reports. 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. Accounting officers should hold the heads of monitoring and evaluation units accountable for ensuring that performance information is supported by sufficient and credible evidence.

The overall information technology audit outcomes remained stagnant due to senior management's non-implementation of necessary information technology controls. Despite the stagnation, the province made headway with the implementation of e-strategies across various departments. At Education, significant strides were made in rolling out the e-Education strategy; however, concerns were noted as the information and communications technology classroom infrastructure supporting the initiative was not adequately rolled out to some schools, and devices were not adequately maintained in some instances. At e-Government, phase one of the roll-out of the Gauteng broadband network was completed; however, delays in the supply chain management process for phase two may have an impact on the successful implementation of the project.

Encouragingly, the financial health of auditees improved, as 70% of the auditees reflected good financial health. However, significant going concern challenges were experienced by one auditee, namely the Housing Fund, while Health continued to be under strain due to the settlement of legacy accruals and unbudgeted medical claims against the department.

Furthermore, Health and Infrastructure Development, which constitute about 37% of the provincial budget, 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 province's 10-pillar plan formed the basis of the province's strategic priorities and programmes, and in turn informed our selection of key projects for testing. We focused on the overall project management and delivery of these key projects to assess the transparency, accountability and credibility of government spending. At Human Settlements, the start date of the R1,32 billion multi-year Lufhereng mixed housing development project was delayed and only 182 units had been completed compared to the 2018-19 target of 2 285 units. This was due to insufficient budgeting and poor project management practices, such as not ensuring that building plans were approved timeously. At Education, management addressed prior year findings relating to the e-Learning project and had successfully implemented the e-Admission online registration system. However, improvement is required as some schools were not yet connected to the network due to the expiry of the service provider's contract. There were also delays in upgrading classroom infrastructure at some smart schools due to poor project management at Infrastructure Development.

Health was selected for the phased-in implementation of the Public Audit Act amendments – its accounting officer, together with the provincial leadership, was receptive to the amendments and cooperated in the process. We identified two material irregularities, as a result of non-compliance with supply chain management legislation and Treasury Regulations, which we communicated to the accounting officer. These material irregularities related to the procurement of information technology infrastructure without inviting competitive bids and medical claims that were not paid within the period specified in terms of a court judgement. The accounting officer has taken some steps to address the material irregularity relating to the information technology procurement; however, appropriate action must still be taken on the other identified material irregularity. We will follow up whether appropriate action has been taken during the next audit.

The increasing trend of irregular expenditure as a result of non-compliance with procurement and contract management legislation is an area of concern that may lead to material irregularities at a number of auditees in the province. There is a need for accounting officers and the provincial leadership to improve controls to prevent non-compliance and material irregularities from occurring by implementing our audit recommendations in a timely manner. We urge accounting officers to attend to irregularities and losses as they arise and resolve these, per their legal obligation, before it becomes necessary for us to raise it as a material irregularity. They can do so by adequately addressing matters relating to non-timely payments, payment for poor-quality work, and uncompetitive/unfair processes leading to overpricing.

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

We will continue to engage with our stakeholders to improve the overall audit outcomes in the province, among others by following up on the implementation of critical commitments. We continue to call on the oversight structures to give attention to our reports to ensure that there is accountability for government spending in the province.

NOTES

KWAZULU-NATAL: PERFORMANCE SNAPSHOT

(Refer to section 2 for explanations on how to interpret these figures and movements)

The KwaZulu-Natal provincial government consists of 14 departments, the provincial legislature, and 30 public entities. The audit outcomes of one public entity audited by a private auditor and 21 smaller and dormant entities are not included in the analysis presented in this report. We set the cut-off date for inclusion of the audit outcomes in this report as 2 September 2019. By this date, two audits were outstanding.

Clean audits

24%

(2017-18: 14%)

Overall audit outcomes

OVERALL STAGNATION IN AUDIT OUTCOMES

3 Regressed
3 Improved

DEPARTMENTS

3 Regressed
2 Improved

PUBLIC ENTITIES

0 Regressed
1 Improved

Financially unqualified financial statements

71%

(2017-18: 76%)

57% (12)

Auditees submitted financial statements without material misstatements

No findings on compliance with legislation

24%

(2017-18: 14%)

Irregular expenditure

R12,4 bn

(2017-18: R9,9 bn)

AUDITS SUBSEQUENTLY FINALISED

R6,5 m

(2017-18: Rnil)

No findings on performance reports

58%

(2017-18: 63%)

68% (13)

Reported achievement reliable

FINANCIAL HEALTH

DEFICIT
(expenditure exceeded revenue)

2018-19	52% (11)
2017-18	43% (9)

CREDITOR-PAYMENT PERIOD > 30 DAYS

2018-19	57% (12)
2017-18	38% (8)

VULNERABLE FINANCIAL POSITION

2018-19	5% (1)
2017-18	5% (1)

STATUS OF GOOD CONTROLS

43%	24%	24%
Overall internal controls	Basic financial and performance management controls	Information technology controls

ROOT CAUSES

100%
Slow response in improving internal controls and addressing risk areas

SLOW RESPONSE - 100%

31%
Instability or vacancies in key positions or key officials lacking appropriate competencies

44%
Inadequate consequences for poor performance and transgressions

8.4 KWAZULU-NATAL

The overall audit outcomes remained unchanged compared to the previous year. The outcomes exclude Ithala Development Finance Corporation and its subsidiary, Ithala, as the audits of these public entities had not been finalised by the cut-off date for inclusion in this overview. This was because financial policies and processes were not implemented swiftly to address the first-time adoption of the accounting model for loans extended to customers, as required by International Financial Reporting Standard 9, *Financial instruments*. There was also a delay in the appointment of the auditors' expert to test the model.

In the fifth year of the provincial leadership's administration, we continued to engage robustly at regular intervals on the key risk areas identified during our status of records reviews and on recommendations made in the prior years. We also emphasised to the administrative leadership and senior management the need for specific actions to increase accountability and consequences for transgressions at all levels, and instil a culture of oversight, ethical discipline and responsiveness. In spite of these engagements, accounting officers and senior management were not always proactive in driving action plans to implement and maintain sound internal control disciplines, including information technology controls. We again noted that the effectiveness of internal audit units and audit committees was hampered by management's failure to implement their recommendations. Consequently, we identified a slow response in improving key controls and addressing recommendations as the key root cause that hindered progress in audit outcomes. The failure by accounting officers and senior management to fill critical vacancies also contributed to the deteriorating state of controls.

Progressing trends – greater effort required to trigger stronger outcomes

The provincial treasury and Dube Tradeport retained their unqualified opinion without findings (clean audit) over the five-year period, with Social Development also achieving a clean audit in the current year after previously receiving an unqualified opinion with findings. These results were due to the diligent implementation and monitoring of action plans with a sharpened focus on the importance and continuous refinement of key controls over reported information and information technology controls. The premier's office, provincial legislature and Public Works regressed to qualified opinions. These regressions confirmed that vital controls such as record management, adherence to policies and procedures, diligent implementation of action plans as well as key reviews and reconciliations deteriorated during the year. Many auditees failed to produce accurate financial statements, as evidenced by the nine auditees (43%) that reported material misstatements in their submitted financial statements. Health and Transport were again unable to address past qualifications due to the slow response by management in addressing audit findings from prior years, which largely related to poor record management and a lack of consequences for poor performance. The position of the chief financial officer at Health had been vacant for more than four years, while that of the chief director of supply chain management was also vacant for a substantial portion of the year. The provincial treasury's intervention team and other consultants continued to assist Health to address qualification areas; however, the lack of records continued to pose challenges.

The lack of standardised operating procedures and poor record-keeping practices contributed to the slight regression in reported performance information compared to the previous year. Some auditees were unable to provide adequate support for their reported achievements, which affected the reliability of the reported results. The key service delivery departments, namely Health, Education and Transport, continued to report material findings on the usefulness and reliability of reported performance information. We focused on the testing of key infrastructure projects at Health, Education and Human Settlements. Inadequate monitoring of project milestones and the poor quality of finished projects by contractors were reported for key infrastructure and service delivery projects at these departments. Sector audits were performed on medical records and equipment at Health and on learner-teacher support material and facilities at Education. The audit at Health revealed concerns on increased waiting times for patients at health care facilities due to poor filing systems. Additionally, various deficiencies were identified on the planning, use and maintenance of radiology equipment. At Education, it was identified that schools did not attend to the needs of learners experiencing moderate barriers to learning as these schools were not adequately resourced – facilities, learner-teacher support material and appropriately trained teachers were lacking.

In addition to material misstatements in the submitted financial statements, unauthorised, irregular, and fruitless and wasteful expenditure as well as supply chain management transgressions continued to contribute to the high levels of non-compliance. Irregular expenditure grew by 26% from R9,87 billion in 2017-18 to R12,42 billion in the current year, largely due to deviations from supply chain management processes. This happened despite our ongoing recommendations to the leadership and management to take steps to avoid abuse of legislated procurement requirements. The irregular expenditure incurred could also be higher than currently reported as Health, Agriculture and the premier's office could not disclose the full extent of their irregular expenditure due to poor record-keeping practices.

Education, Health, Transport and Human Settlements incurred R11,69 billion (94%) of the total irregular expenditure for the year. Most of the irregular expenditure at Education, Health and Transport was due to spending on expired contracts extended on a month-to-month basis and not following competitive bidding processes. Human Settlements continued to assess their contracts and bid documentation for municipal construction by implementing agents and identified further irregular expenditure on these contracts. Investigations conducted on prior year irregular expenditure at most auditees were not effective as only R125 million of the R29,66 billion closing balance of irregular expenditure of prior years was recovered, condoned or written off as at year-end, as required by the Public Finance Management Act.

Key financial ratios indicated that many auditees did not adequately manage their cash flows and pay their debts as legislated. Health's possible medical legal claims increased to R19,93 billion compared to R16,93 billion in the previous year. An amount of R610 million was paid in the current year relating to these claims. There was uncertainty regarding the unfunded liability to settle backdated izinduna allowances of R1,38 billion by the provincial cooperative governance department. It is imperative that accounting officers pay the necessary attention to fiscal discipline and cash-flow management to contribute to improved levels of service delivery.

The amendments to the Public Audit Act and its implications have been and continue to be shared with the provincial leadership, whose reaction has been observed to be positive. We emphasised that the material irregularity process supports accounting officers in diligently undertaking their fiduciary responsibilities and setting the right tone of accountability and the need for consequences. The reporting of material irregularities also aims to empower oversight bodies with sufficient information to assist them to focus on the material issues that are of public interest.

Health formed part of the first phase of implementation of the material irregularity process. The accounting officer actively supported the process by being directly involved and available at all stages during the process. During our audit, we confirmed one material irregularity that was likely to result in a material financial loss. This related to awards made to bidders that did not score the highest points for preferential procurement. The accounting officer has taken appropriate action to address the material irregularity and a forensic investigation is in progress, which will be followed up during the next audit cycle. We encourage accounting officers and authorities to implement preventative measures by addressing key risk areas at their institutions, to closely review and monitor their supply chain management processes for the evaluation and awarding of tenders, and to implement corrective measures through the recovery of losses and wastage due to legislated rules that are repeatedly broken.

The political landscape of the province changed after the elections with the appointment of a new premier and members of the executive council. We acknowledge the newly elected premier's commitment and willingness to collaborate. We are hopeful that we will see a sustainable improvement in audit outcomes if the new leadership monitors corrective actions based on our recommendations and honours the commitments they undertake. Accounting officers are encouraged to implement mechanisms to promote accountability and to ensure that internal controls are designed to prevent transgressions and are entrenched in all reporting processes in such a way that there are consequences for transgressions. We are optimistic that the implementation of the amendments to the Public Audit Act along with the dedicated efforts and decisive actions of the political and administrative leadership will improve accountability in public administration.

NOTES

LIMPOPO: PERFORMANCE SNAPSHOT

(Refer to section 2 for explanations on how to interpret these figures and movements)

The Limpopo provincial government consists of 13 departments, including the provincial legislature, and seven public entities. The audit outcomes of two public entities audited by private auditors and 11 smaller and dormant entities are not included in the analysis presented in this report. We set the cut-off date for inclusion of the audit outcomes in this report at 2 September 2019. By this date, one audit was still outstanding.

Clean audits

11% ▲

(2017-18: 5%)

Overall audit outcomes

OVERALL IMPROVEMENT IN AUDIT OUTCOMES ▲

1 ∨ Regressed
3 ∧ Improved

DEPARTMENTS

1 ∨ Regressed
2 ∧ Improved

PUBLIC ENTITIES

0 ∨ Regressed
1 ∧ Improved

Financially unqualified financial statements

68% ▲

(2017-18: 63%)

16% (3)

Auditees submitted financial statements without material misstatements

No findings on compliance with legislation

11% ►

(2017-18: 11%)

Irregular expenditure

R2 095 m ▼

(2017-18: R1 514 m)

AUDITS SUBSEQUENTLY FINALISED

R721 m

(2017-18: R957 m)

No findings on performance reports

58% ▲

(2017-18: 47%)

63% (12)

Reported achievement reliable

FINANCIAL HEALTH

DEFICIT
(expenditure exceeded revenue)

2018-19	58% (11)
2017-18	53% (10)

▼

CREDITOR-PAYMENT PERIOD > 30 DAYS

2018-19	47% (9)
2017-18	63% (12)

▲

VULNERABLE FINANCIAL POSITION

2018-19	21% (4)
2017-18	21% (4)

►

STATUS OF GOOD CONTROLS

37%
Overall internal controls

26%
Basic financial and performance management controls

21%
Information technology controls

ROOT CAUSES

94%
Slow or no response in improving internal controls and addressing risk areas

SLOW RESPONSE - 59%
NO RESPONSE - 41%

47%
Instability or vacancies in key positions or key officials lacking appropriate competencies

65%
Inadequate consequences for poor performance and transgressions

8.5 LIMPOPO

The overall audit outcomes of the province improved compared to the previous year. Although these outcomes reflect an encouraging trend, they are still characterised by a lack of disciplines for preventative controls and decisive consequences. Most of the auditees have stagnated at an unqualified audit opinion with findings, without concerted efforts to attend to the lack of compliance with legislation, weaknesses in the reporting on performance information and heightened financial health risk. A lack of attention to the basic disciplines of internal controls creates an environment vulnerable to intentional misrepresentation of performance information and fertile grounds for non-compliance with laws and regulations, which is an impediment for these auditees to attain clean administration. At the cut-off date for this report, the audit outcome of Education was still outstanding and is thus excluded from this provincial overview.

The number of clean audits increased from one (5%) to two (11%), with Community Safety improving from an unqualified opinion with findings to an unqualified opinion with no findings, commonly known as a clean audit opinion. The provincial treasury is once more commended for maintaining its clean opinion for the third consecutive year. These two departments responded to our recommendations and institutionalised internal controls over financial management, performance reporting and compliance with legislation. Great North Transport and Economic Development, Environment and Tourism improved from a qualified to an unqualified opinion with findings. Social Development regressed from an unqualified opinion with findings to a qualified opinion, due to a failure to appropriately account for payments made to non-profit organisations in accordance with the requirements of the accounting framework. Of the remaining auditees, nine obtained financially unqualified opinions with findings and five obtained qualified opinions.

Encouraging trend, need more work before we can say it is sustainable

Notwithstanding the net improvement reported in the provincial audit outcomes, the quality of financial statements submitted for auditing remained a challenge. All the auditees, with the exception of the premier's office, Community Safety and the provincial treasury, were required to make corrections to their submitted financial statements due to material misstatements identified during the audit. If we had not allowed any material audit adjustments to financial statements, only these three auditees would have obtained financially unqualified audit opinions. Auditees continue to rely on the audit process to identify misstatements without putting their own quality control processes to eliminate material errors into place. The provincial leadership must ensure that vacancies in key positions are filled urgently, as these have a direct impact on the audit outcomes. Four auditees, namely Limpopo Economic Development Agency, Great North Transport, Transport as well as Cooperative Governance, Human Settlement and Traditional Affairs, did not have chief financial officers at year-end.

There was an improvement in the quality of the reported performance information, with 11 auditees (58%) not having material findings reported in the auditor's report. However, four of these auditees made material adjustments to the submitted performance reports to avoid the reporting of material findings. Auditees with material findings continued to struggle with both the usefulness and the reliability of performance information. We have been recommending for a number of years that standard operating procedures be developed, and it is encouraging to note that such procedures were developed and the auditees that implemented them have improved on the quality and presentation of their performance reports. Transparency for performance reporting requires attention to enable the accountability of the political leadership to the citizens on promises made relating to service delivery. One of the big departments in the province, Public Works, Roads and Infrastructure, had material findings on key projects funded by conditional grants. The department received a provincial roads maintenance grant in terms of the Division of Revenue Act, which was not used for its intended purpose. Most of this grant was transferred to Roads Agency Limpopo for utilisation on maintenance projects but they used these funds for the construction of roads instead, which resulted in delays on maintenance projects that were planned for the province.

Compliance with laws and regulations remains a challenge, as 17 auditees (89%) had material non-compliance findings. The administrative leadership and senior management were slow to implement their commitments to address compliance findings, specifically those relating to material misstatements identified in the financial statements (84%), procurement and contract management (68%), and the prevention of unauthorised, irregular as well as fruitless and wasteful expenditure (63%).

The status of records reviews we performed during the year revealed that auditees were mainly focusing on prior year qualification areas, but were not addressing the root causes to improve the control environment. This included compliance with legislation, useful and reliable performance information as well as vacancies or competencies of staff in key positions.

Irregular expenditure disclosed in the financial statements significantly increased to R2 095 million, compared to the previous year's R1 514 million. Irregular expenditure amounting to R771 million resulted from multi-year contracts and R1 264 million was due to non-compliance with procurement processes in the year under review. Transgressions of supply chain management prescripts resulted in irregular expenditure of R2 065 million (99%). Common transgressions relate to instances where three quotations were not obtained and such deviations were not approved or adequately justified, local content minimum thresholds were not stipulated in bid documentation or bids were awarded without local production and content declarations. For a number of years, we have expressed our concern over the blatant disregard of laws and regulations, in particular relating to procurement and contract management. The lack of (or delays in) holding officials accountable by the legislative oversight bodies for transgressions of laws and regulations and poor performance hinders the province in dealing with the prevailing lawlessness. Two auditees, namely Limpopo Economic Development Agency and Public Works, Roads and Infrastructure, were qualified on the completeness of irregular expenditure. It should therefore be noted that irregular expenditure disclosed at R2 095 million is understated by an unknown amount. Various departments also disclosed possible irregular expenditure under investigation (R221 million), which could potentially result in additional irregular expenditure in the next financial year.

Roads Agency Limpopo and Cooperative Governance, Human Settlement and Traditional Affairs were the two highest contributors to the total irregular expenditure in the province, incurring R945 million and R845 million, respectively, which accounted for 68% and 32% of their total budget allocation. Decisive action must be taken by the provincial treasury, the provincial leadership and Public Works, Roads and Infrastructure as the parent department of Roads Agency Limpopo to investigate potential wastage of funds and hold officials accountable.

The leadership's lack of accountability for government spending had a negative impact on auditees' financial sustainability. Auditees struggled to make payments when debts became due and most auditees reported a deficit for the year. Departments had contingent liabilities amounting to R1 309 million, with the medical claims at Health being the highest at R850 million. Should these be realised, the resultant demand on the provincial revenue fund would prevent the province from meeting its service delivery objectives. Great North Transport was assessed to be insolvent and its revenue deteriorated when compared to the previous year as a result of an ageing fleet of buses. Moreover, the Polokwane Municipality's new rapid transport system might make the situation even worse due to increased competition. A sound turnaround strategy is required for the entity's sustainability. Roads Agency Limpopo's total commitments (R2 256 million) exceeded the budget allocation for the 2019-20 (R1 038 million) and 2020-21 (R1 038 million) financial years collectively by R180 million. Most of the commitments relate to road construction contracts. Accounting officers and authorities are failing to ensure that the budgets that are prepared will enable the departments and entities to achieve on their mandates, while monitoring of the budget against actual expenditure seems to be performed merely as a compliance measure. Accounting officers and authorities should dedicate adequate time and resources to improving the quality of the budgeting process, in-year monitoring and cash-flow management, and instil a culture of accountability and fiscal discipline.

The overall information technology audit outcomes of the province improved. Although the BAUD user access management policy had been documented and approved, the implementation of the policy was rather slow. When policies and procedures are approved, there must be a concerted effort to implement and monitor adherence to the policies, as this forms the cornerstone of the control environment. The departments and entities continued to have challenges with vacancies within the information technology directorate, resulting in existing information technology policies not being fully implemented, and regular reviews and monitoring not being performed due to the limited resources.

The Public Audit Act amendments and its implications were introduced to the provincial leadership and they were well received. The amendments were implemented at Education, where the accounting officer cooperated and communicated with the auditors when clarity was required on the amendments. The non-compliance identified related to the contravention of treasury regulation 8.2.3, which requires payments to be made within 30 days of the receipt of an invoice. The department failed to make payments within the 30 days, which resulted in the supplier charging interest amounting to R85 million. It must be noted that the payments to the supplier were halted when the province was placed under administration in terms of section 100(1)(b) of the Constitution. The interest was paid in the year under review and was classified as fruitless and wasteful expenditure. The accounting officer took appropriate action regarding the material irregularity. The corrective action taken will be followed up during the 2019-20 audit. Additional auditees will be phased in next year and we therefore encourage management and leadership to take a strong stance against the abuse of public funds by implementing a discipline of preventative controls to promote compliance with legislation and ensuring that transgressions are appropriately investigated by the relevant oversight structures. All assurance providers should improve their level of oversight as well.

The new political leadership should work together with the administrative leadership to create a culture that is responsive, accountable, effective and efficient in a provincial government that takes punitive action against officials who transgress the law. The standing committee on public accounts and the portfolio committees play a key role in exercising oversight in accordance with the Constitution. Oversight entails proactive interactions with the executive authorities and the departments and public entities within their portfolios to encourage compliance with their constitutional obligations. It is of concern that the standing committee on public accounts is yet to conduct hearings on the audit outcomes of the 2017-18 financial year, as this backlog undermines the effectiveness of the committee in discharging its oversight responsibilities. This also creates a gap in the accountability cycle where consequences cannot be implemented against officials who are no longer in the employ of a department or public entity. It is critical that hearings are held as soon as the annual reports are tabled in the provincial legislature. The newly elected chairperson of the committee has, however, committed that the committee will intensify its efforts to clear the backlog.

MPUMALANGA: PERFORMANCE SNAPSHOT

(Refer to section 2 for explanations on how to interpret these figures and movements)

The Mpumalanga provincial government consists of 13 departments and seven public entities. The audit outcomes of three public entities audited by private auditors are not included in the analysis presented in this report.

Clean audits

18%

(2017-18: 24%)

Overall audit outcomes

OVERALL REGRESSION IN AUDIT OUTCOMES

2 Regressed
1 Improved

DEPARTMENTS

1 Regressed
1 Improved

PUBLIC ENTITIES

1 Regressed
0 Improved

Financially unqualified financial statements

76%

(2017-18: 76%)

29% (5)

Auditees submitted financial statements without material misstatements

No findings on compliance with legislation

18%

(2017-18: 24%)

Irregular expenditure

R2,73 bn

(2017-18: R2,22 bn)

No findings on performance reports

47%

(2017-18: 71%)

56% (9)

Reported achievement reliable

FINANCIAL HEALTH

DEFICIT
(expenditure exceeded revenue)

2018-19	53% (9)
2017-18	44% (7)

CREDITOR-PAYMENT PERIOD > 30 DAYS

2018-19	41% (7)
2017-18	44% (7)

VULNERABLE FINANCIAL POSITION

2018-19	0% (0)
2017-18	0% (0)

STATUS OF GOOD CONTROLS

29%
Overall internal controls

29%
Basic financial and performance management controls

35%
Information technology controls

ROOT CAUSES

93%
Slow response in improving internal controls and addressing risk areas

SLOW RESPONSE - 100%

64%
Instability or vacancies in key positions or key officials lacking appropriate competencies

29%
Inadequate consequences for poor performance and transgressions

8.6 MPUMALANGA

The Mpumalanga provincial government saw a net regression in the audit outcomes with only Public Works, Roads and Transport improving its audit outcome from qualified to unqualified with findings. Regrettably, over the past five-year period, the province was unable to attain more than four clean audits in each year. This is a clear indication that internal controls were not embedded at most auditees over the past five years and that the control environment was thus not stable, resulting in erratic audit outcomes. This weak environment discredited the accountability for government spending. In our reporting, we have consistently highlighted the indicators of deteriorating accountability; we now call on the newly elected provincial leadership to not only carefully watch and observe these accountability failures but also to act decisively on them.

To be carefully watched and closely observed

We consistently advised the accounting officers to pay particular attention to the status of the control environment, by implementing preventative and effective daily and monthly financial management disciplines throughout the year. We also expressed serious concerns to the provincial treasury about the lack of technical capabilities to respond to the challenges in the control environment at most auditees. The poor quality of financial statements submitted for auditing was an indication that our recommendations were not implemented. Of the 13 auditees (76%) that received unqualified audit outcomes, eight (47%) did so because of the corrections we allowed during the audit process.

Adherence to laws and regulations relating to procurement and contract management remained a major hurdle for the province – weaknesses in this area contributed to 93% of the total irregular expenditure (approximately R2,7 billion) identified. The highest contributors to the irregular expenditure in the province were Human Settlements (R1,2 billion); Community Safety, Security and Liaison (R435 million); Education (R414 million); and Mpumalanga Tourism and Parks Agency (R173 million). While the Mpumalanga Tourism and Parks Agency also featured in the top contributors, the majority of its irregular expenditure, which constituted 40% of its expenditure budget, was due to the incorrect delegation of authority when paying suppliers and salaries. Of the R2,7 billion in irregular expenditure incurred during the year under review, R1,4 billion related to multi-year contracts entered into in prior years, that had not been dealt with appropriately. This is a further indication of the failure to deal timeously with transgressions.

In the previous year, we reported that the premier's office had appointed a service provider to investigate the irregular expenditure incurred in prior years, which also included the expenditure incurred through the rapid implementation unit. Said investigation was only finalised during the year under review, but was still awaiting condonation from the National Treasury. Hence, the closing balance of R12 billion (2017-18: R9,9 billion) was not reduced as envisaged. Three departments and two public entities failed to investigate their prior year irregular expenditure, which further contributed to the slow progress in dealing with the closing balance of R12 billion.

We note the revised irregular expenditure framework, which grants the provincial treasury the authority to condone irregular expenditure; and will track the impact of this closely going forward. We appeal to the provincial leadership to 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 regressed from 12 (71%) to eight (47%). However, three (12%) of these eight auditees achieved this outcome through the corrections we allowed during the audit process for them to report reliably on their performance. It was of concern that only 59% of the auditees reported achievements reliably, which empowers citizens to hold the executive leadership accountable for promises made relating to service delivery. 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.

We continued to audit the key programmes included in the estimates of provincial expenditure at four provincial departments (Education, Health, Human Settlements as well as Public Works, Roads and Transport) and selected key projects that supported these programmes. It was encouraging to note that most of the allocated grants were spent in accordance with the grant conditions; however, the underspending of grants is something that should be prevented – especially when citizens are in such dire need of services. This was evident at Education where R172 million of the education infrastructure grant allocated to them, was behind schedule in terms of spending, with the result that the National Treasury took back this money.

The following shortcomings were prevalent on some of the selected key projects (including infrastructure), as they were also reported in the previous year:

- Inadequate planning before the start of the projects, resulting in overruns and unapproved variation orders. Some facilities were not used even though completed because a proper needs analysis was not performed.
- Inadequate monitoring of projects resulted in poor workmanship and in some instances paying for work not done or overpayments, which resulted in fruitless and wasteful expenditure. We commend Public Works, Roads and Transport for engaging those suppliers that were identified through the audit process on such overpayments. The suppliers acknowledged the overpayments amounting to R120 million and were raised as debtors in the books of the department. The accounting officer was therefore required to collect all these monies and pay them back to the provincial revenue fund.
- For some projects, procurement processes were not followed, which contributed to the high amount of irregular expenditure.

One of the projects that we selected and visited is the Empumelelweni project under the Emalahleni Municipality tested at Human Settlements, where we identified non-compliance with supply chain management prescripts; quality deficiencies; 635 completed houses with no access to basic services such as in-house water supply; and waterborne ablutions that were not connected as there was no sewer reticulation network in the area. In the previous year, we advised the leadership that there had to be coordination between provincial and local government to facilitate the creation of integrated human settlements and improve the quality of household life; however, that recommendation had not been implemented, hence the repeat in audit findings.

Notwithstanding the improvements in the information technology environment, the shortcomings identified at 11 auditees (65%) should not be ignored, as poor controls in this environment increase the risk of breaches in cybersecurity, which can affect the credibility of information used for decision-making. Contracting and managing information technology services is also an area that needs close attention. We raised concerns about how the provincial contract relating to the case management system centralised at the premier's office was structured and whether the intended value was derived. We will observe closely to see how the accounting officer addressed these concerns, including the resultant estimated fruitless and wasteful expenditure of R5 million that had to be raised in the premier's office with regard to the system. The provincial leadership is urged to monitor the information technology environment closely, as it could slow down the province's journey towards clean administration.

We remain concerned about the financial health of the province. We relayed to the provincial leadership in the previous year that these negative indicators would compromise emerging strategic priorities and related basic service deliverables if not closely monitored, yet our recommendations were not implemented, as the negative indicators recurred in the current year. We raised concerns at six departments about claims against them that exceeded 10% of their following year's budget, with Health reporting the highest claims of approximately R10 billion (182% of the following year's budget).

The Mpumalanga Economic Growth Agency, whose mandate is to facilitate economic development in the province, struggled to pay its creditors, as it took the entity 154 days on average to settle its accounts. The entity's appointment as the implementing agent for the government nutrition programme in the previous year continued to cripple the entity's already burdened finances, as the current pricing model did not yield the returns as envisaged in the previous year. Subsequent to year-end, the premier announced that the government nutrition programme would move to Agriculture, Rural Development and Land Affairs. At the time of this report, engagements were still ongoing on the procedural matters, including the legal prescripts to be followed in order to finalise the transfer of this function. The entity also experienced poor debt collection from the industrial customers where it had provided the municipal services (refuse, water and electricity) to investees that it also provided with loans.

Without improved fiscal discipline for the more effective and economical use of resources, the provincial government's financial health and service delivery will continue to deteriorate.

As evidenced by the above indicators of accountability failures, the commitments made by the provincial leadership to improve audit outcomes had not yielded full benefits: challenges communicated in the previous year were still widespread due to senior management not taking an effective long-term approach to stabilise the internal control environment, which would produce sustainable audit outcomes and ensure effective public service delivery. The instability or vacancies in key positions, key officials lacking appropriate competencies as well as inadequate consequences for poor performance and transgressions were at the centre of the 2018-19 audit outcomes.

The Material Irregularity Regulations issued in terms of the amended Public Audit Act were shared with the accounting officers and authorities, executive leadership and oversight in the province; while there was some anxiety, the message was well received. The

Material Irregularity Regulations were implemented only at Health in the province during this audit cycle as part of the phased-in approach, where we identified material non-compliance but no material irregularity. Although not selected in this first phase of implementation, we highlighted significant matters that came to our attention during the audit of three departments (Safety, Security and Liaison; Sport, Culture and Recreation; and Public Works, Roads and Transport) and one public entity (Mpumalanga Economic Growth Agency), which may be recognised as material irregularities in future when the process is implemented.

The accounting officers and authority at these departments and public entity were encouraged to take appropriate, effective and timely action on these matters to prevent any losses, misuse or harm, or to recover any losses as a result thereof. We also recommended that appropriate steps be taken against the responsible officials or other parties. We will closely observe the progress made on these areas.

Senior management of auditees, executive authorities and oversight departments, such as the provincial treasury and premier's office, are crucial in improving the audit outcomes. We want to encourage the newly elected provincial leadership to carefully watch and closely observe the accountability failures. We urge them to act decisively in enhancing their assurance role through the following actions:

- Focus on getting the basics right – fill vacant positions with competent officials, implement preventative basic internal controls like daily, weekly and monthly reconciliations and reviews, and insist on regular and credible reporting on the state of auditees' finances and their performance in accordance with their performance plan.
- Enforce compliance with legislation by implementing processes and procedures as part of the daily disciplines and by monitoring auditees to prevent material irregularities. At all times demonstrate ethical leadership and a respect for the legislation enacted by Parliament on behalf of the citizens of this province.
- Hold people accountable for poor performance and transgressions. This will demonstrate that such behaviour is not tolerated and encourage responsible, accountable and transparent administration.
- Encourage and support robust and proactive audit committees and internal audit units, and ensure an adequate response to their recommendations and reports.

NORTHERN CAPE: PERFORMANCE SNAPSHOT

(Refer to section 2 for explanations on how to interpret these figures and movements)

The Northern Cape provincial government consists of 13 departments, including the provincial legislature, and 12 public entities. The audit outcomes of the 12 public entities are not included in the analysis presented in this report. We set the cut-off date for inclusion of the audit outcomes in this report as 2 September 2019. By this date, two audits (Health and provincial legislature) were outstanding.

Clean audits

18%

(2017-18: 27%)

Overall audit outcomes

OVERALL REGRESSION IN AUDIT OUTCOMES

2 Regressed
0 Improved

Financially unqualified financial statements

73%

(2017-18: 91%)

27% (3)
Auditees submitted financial statements without material misstatements

No findings on compliance with legislation

18%

(2017-18: 27%)

Irregular expenditure

R584,9 m

(2017-18: R638,1 m)

AUDITS SUBSEQUENTLY FINALISED

R715 m

(2017-18: R412,4 m)

No findings on performance reports

64%

(2017-18: 73%)

64% (7)
Reported achievement reliable

FINANCIAL HEALTH

DEFICIT
(expenditure exceeded revenue)

2018-19	36% (4)
2017-18	18% (2)

CREDITOR-PAYMENT PERIOD > 30 DAYS

2018-19	45% (5)
2017-18	18% (2)

VULNERABLE FINANCIAL POSITION

2018-19	0% (0)
2017-18	0% (0)

STATUS OF GOOD CONTROLS

27%
Overall internal controls

18%
Basic financial and performance management controls

0%
Information technology controls

ROOT CAUSES

100%
Slow response in improving internal controls and addressing risk areas

SLOW RESPONSE - 100%

0%
Instability or vacancies in key positions or key officials lacking appropriate competencies

78%
Inadequate consequences for poor performance and transgressions

8.7 NORTHERN CAPE

We continually emphasised the message of accountability during the term of the fifth administration. This message was not acted upon, as evident from the provincial audit outcomes that regressed compared to the previous year. Two departments regressed to qualified audit opinions, bringing the number of qualified audit opinions to three (27%) compared to one (9%) in the previous year. The number of clean audits decreased from three (27%) to two (18%). The audit of the provincial legislature is still in progress as they only submitted their financial statements on 3 September 2019. This was due to challenges relating to office accommodation that hampered the process of preparing the financial statements. In addition, the audit of Health had not yet been finalised by the cut-off date for inclusion in this report.

No major strides made – could still be slippery

Education regressed from an unqualified opinion with findings to a qualified opinion. This regression was due to inadequate controls to monitor the progress of capital projects, resulting in misstatements in immovable assets. Economic Development and Tourism regressed from a clean audit to a qualified opinion. Their regression was due to inadequate monitoring of service level agreements, resulting in the department being unable to determine the amount owed to them by parties to whom they made transfer payments.

The key root causes that contributed to the overall regression in audit outcomes were inadequate consequences for poor performance and transgressions and a slow response in improving internal controls and addressing risk areas. The lack of accountability and consequences by departments is further outlined below.

Despite raising concerns on quality in prior years, the quality of financial statements remained a significant concern. Departments are still relying on the external audit process to produce credible financial statements, indicating that controls are mostly reactive in nature. Eight departments made material adjustments to their financial statements, of which five were able to correct all material misstatements and were thereby able to obtain an unqualified audit opinion.

The confidence of users in the achievement of service delivery is determined through the quality of the performance reports. A critical function of government is to plan, monitor and report on service delivery commitments in an accurate and transparent manner. Although only four departments (36%) had material findings on their reported performance information, a further three departments (27%) still relied on the audit process to correct material findings in their performance reports.

A total of 82% of the departments had material findings due to non-compliance with legislation. The two most common non-compliance areas reported were the quality of financial statements submitted for auditing (73%) and the non-adherence to procurement and contract management requirements (64%). Non-compliance has been a concern for a number of years and executive and senior leadership continued to ignore the need to act decisively against transgressors, especially those who failed to comply with supply chain management prescripts.

In our previous reports, we expressed concern over the culture of procuring goods and services without complying with legislation and the lack of consequences for the legislative transgressions that resulted in cumulative irregular expenditure of R4,55 billion at the end of the previous year. Of concern is that the balance increased to R5,07 billion in the current year with condonement totalling only R16,8 million and no amount being recovered. This confirms that most irregular expenditure was not investigated and where investigations were conducted, it seems as though they were not rigorous enough, as officials were not held accountable for the irregular expenditure.

All departments (100%) were in an accrual-adjusted net current liability position at year-end, five departments (45%) had an average creditor-payment period of more than 30 days while expenditure exceeded revenue at four departments (36%), which confirm that departments are failing to effectively manage their spending.

While the overall assessment of information technology improved, of concern is that four departments still experienced challenges with the design of information technology controls. The lack of adequate progress could be attributed to inadequate oversight by those charged with governance, a lack of consequences for not resolving audit findings, and a lack of action plans for information technology issues.

The lack of improvement in the outcomes of departments was attributed to the poor state of internal controls, with 73% of the departments being assessed as having inadequate leadership controls, while 82% was 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.

We audited 23 key projects funded by conditional grants at nine provincial departments as part of our evaluation of grant management. The only findings reported on grant management were at Education and these related to planned targets or key milestones that were not achieved and supply chain management prescripts that were not complied with when spending project funds.

Health was selected for the phased-in implementation of the Public Audit Act amendments. The accounting officer, together with the provincial leadership, was receptive to the amendments and cooperated in the process. We identified two material irregularities as a result of non-compliance with supply chain management legislation as well as overpayments to a supplier due to both a mathematical error and payments for services that were not rendered. These material irregularities were communicated to the accounting officer and while we are in the process of referring the material irregularity that relates to non-compliance with supply chain management legislation for investigation by the National Treasury, the accounting officer instituted a full-scale investigation into the overpayments made to the service provider. We will follow up on the investigation and the implementation of the planned actions during our next audit.

Non-compliance with procurement and contract management legislation is an area of concern that may lead to material irregularities at a number of auditees in the province in future. There is a need for accounting officers to implement preventative controls to avoid irregularities and losses, thereby also preventing material irregularities from being raised.

The audit committees were independent, met on a frequent basis, and their approach was persuasive and robust in compelling accounting officers to account for the affairs of their entrusted departments. Internal audit units executed their operational plans in a manner that covered high-risk areas. The portfolio committees and public accounts committee held meetings with all departments and although they did not have the required capacity to follow up on the resolutions of their meetings, relevant questions were asked and some assurance was provided. The effectiveness of the work performed by these and other assurance providers, such as members of the executive committee, 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 focus on the following in order to improve the status of the province:

- Leadership to respond to findings from internal and external audit, preventing a recurrence of the previous year's findings.
- Officials to be held accountable for their actions.
- Accounting officers to strengthen controls regarding the prevention and detection of irregular expenditure.

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. The challenge to the sixth administration is to align the administration to the commitments made by the executive and instil a culture of accountability for government spending in the province.

NOTES

NORTH WEST: PERFORMANCE SNAPSHOT

(Refer to section 2 for explanations on how to interpret these figures and movements)

The North West provincial government consists of 13 departments, including the provincial legislature, and 20 public entities. The audit outcomes of 11 small and dormant entities are not included in the analysis in this report. We set the cut-off date for inclusion of the audit outcomes in this report as 2 September 2019. By this date, five audits were outstanding.

Clean audits

6%

(2017-18: 6%)

Overall audit outcomes

OVERALL STAGNATION IN AUDIT OUTCOMES

1 Regressed
1 Improved

DEPARTMENTS

1 Regressed
1 Improved

PUBLIC ENTITIES

0 Regressed
0 Improved

Financially unqualified financial statements

29%

(2017-18: 29%)

24% (4)

Auditees submitted financial statements without material misstatements

No findings on compliance with legislation

6%

(2017-18: 6%)

Irregular expenditure

R3,2 bn

(2017-18: R3,2 bn)

AUDITS SUBSEQUENTLY FINALISED

R131,6 m

(2017-18: R212,7 m)

No findings on performance reports

31%

(2017-18: 29%)

33% (5)

Reported achievement reliable

FINANCIAL HEALTH

DEFICIT
(expenditure exceeded revenue)

2018-19	31% (4)
2017-18	23% (3)

CREDITOR-PAYMENT PERIOD > 30 DAYS

2018-19	46% (6)
2017-18	38% (5)

VULNERABLE FINANCIAL POSITION

2018-19	0% (0)
2017-18	0% (0)

STATUS OF GOOD CONTROLS

12%
Overall internal controls

18%
Basic financial and performance management controls

6%
Information technology controls

ROOT CAUSES

88%
Slow or no response in improving internal controls and addressing risk areas

SLOW RESPONSE - 36%
NO RESPONSE - 64%

81%
Instability or vacancies in key positions or key officials lacking appropriate competencies

94%
Inadequate consequences for poor performance and transgressions

8.8 NORTH WEST

The premier has led by example in setting the tone for accountability in the province and this has been embraced by members of the executive council. This has resulted in a stagnation of the overall audit outcomes for the first time in four years. This is an indication of a turnaround which requires greater effort and focus from the new political leadership to shift the audit outcomes. Following the intervention by the inter-ministerial task team to place five departments under administration during July 2018, certain improvements in the control environment of departments were noted and these should be sustained and replicated in the province. This encouraging trend and effort were not substantive enough to have an impact on the overall audit outcomes. We urge the new political leadership together with the inter-ministerial task team to continue setting the right tone for accountability and consequences, including efforts to fully restore governance in the province.

Management has not yet actioned all our recommendations that we have been emphasising over the last four years. These include the implementation and monitoring of action plans in order to decisively address key areas of concern and improve on preventative internal controls with the required urgency. The new political leadership should promote an effective monitoring culture that embodies transparency, efficient and effective use of government resources, and where necessary effect consequences for poor performance and transgressions.

Greater effort and focus required to shift the audit outcomes

Overall, the audit outcomes remained unchanged with only five auditees obtaining financially unqualified opinions (29%) (2017-18: 29%). North West Transport Investments and its subsidiaries, North West Star and Atteridgeville Bus Service, did not submit financial statements on 31 May 2019 as required by legislation. In addition, the audits of the premier's office and Community Safety and Transport Management had not yet been finalised by the cut-off date for inclusion in this report, as a technical consultation and the material irregularity process, respectively, had not been concluded. Finance remained the only auditee that was able to sustain its clean audit outcome of financially unqualified with no findings over the last four years, but none of their best practices could be replicated at other auditees. While the audit outcome of Culture, Arts and Traditional Affairs improved from qualified to unqualified with findings in 2018-19, this was offset by the regression of Tourism from an unqualified opinion with findings to a qualified opinion. The audit outcomes of all public entities remained poor with disclaimers at four entities and qualified opinions at the other two.

The quality of financial statements submitted for auditing improved with four auditees not requiring material adjustments to the financial statements (24%) compared to only one auditee (6%) in the previous year. The improvement in this regard at the provincial legislature; Economic and Enterprise Development; and Education and Sports Development is commended. Finance did not leverage their best practices to influence and assist other auditees to improve the quality of financial statements, and only intervened at the North West Transport Investments group to assist with the preparation of financial statements due to the lack of capacity at these entities. The vacancies, instability or lack of competencies in key positions identified at 13 (76%) of the auditees had also been identified as a root cause in the previous year and again contributed to the poor quality of submitted financial statements by some auditees. The environment created by the vacancies and instability as well as the lack of competencies, specifically at those public entities that adopted a new financial reporting framework in the year, resulted in a lack of accountability and key controls to enable reliable and timeous financial reporting.

All auditees with the exception of Finance (94%) continued to have findings on their failure to comply with laws and regulations. The main areas of non-compliance remained the disregard for key legislation to prevent irregular as well as fruitless and wasteful expenditure (88%), not implementing appropriate consequences (82%), and transgression of procurement and contract management legislation (82%). As a result, a further R3,2 billion (2017-18: R3,2 billion) in irregular expenditure was disclosed in the financial statements for 2018-19. However, this amount is not a true reflection of the full extent of the irregular expenditure for the province, due to 10 auditees (59%) being qualified for not disclosing all irregular expenditure incurred. The three auditees that contributed 66% of the irregular expenditure were Health (R1,2 billion), Public Works and Roads (R456 million), and Education and Sports Development (R384 million). At most auditees, the irregular expenditure of prior years was not investigated at all or not properly investigated, bringing the total unresolved balance of irregular expenditure to R18,8 billion as at 31 March 2019. The premier, with the support of the inter-ministerial task team, identified 46 cases of theft, fraud and corruption amounting to R2,5 billion, which were handed over to the Directorate for Priority Crime Investigation (Hawks) for investigation. Furthermore, certain irregular contracts identified during prior years were cancelled during the financial year.

The amendments to the Public Audit Act have been welcomed by the provincial legislature, the executive council as well as accounting officers in both spheres of government in the province. The material irregularity process was implemented at Community Safety and Transport Management in 2018-19 as part of our phased-in approach. We identified four material irregularities at the department that resulted in or were likely to result in a financial loss. The material irregularities related to either competitive bidding processes not being followed or internal controls not being implemented before payments were made to suppliers, resulting in payments being made to suppliers where goods/services were not delivered in full. The accounting officer had already initiated investigations to determine and recover the losses, with the exception of one identified material irregularity where the National Treasury had been requested to conduct a forensic investigation. As a result of the process involved to allow the accounting officer appropriate time to respond to the material irregularity identified, the audit had not been finalised by the cut-off date. We will follow up with the accounting officer during the next audit to establish the progress that has been made to address these material irregularities. The non-compliance that resulted in the material irregularities at the department is prevalent in the province. We therefore encourage all auditees to take a strong stance against the abuse of public funds by ensuring that transgressions are appropriately investigated by the relevant oversight structures and any financial losses are recovered.

The number of auditees that had no material findings on their performance reports remained unchanged at five (31%). Useful and reliable reporting against predetermined objectives remains critical to enable appropriate oversight of the performance of auditees. The most common finding remained reported achievements that were not reliable or supported by source documents due to poor record keeping and ineffective systems and processes to enable reliable reporting.

We tested spending on the key programmes relating to school infrastructure development, housing development finance, the expanded public works programme and HIV/Aids, where the departments spent R3 986 million of the R4 183 million (95%) conditional grants received. The focus was on the overall project management and delivery of key projects in relation to these key programmes to assess the transparency, accountability and credibility of government spending. We identified projects where poor project management and a lack of adequate monitoring of project deliverables resulted in poor-quality work performed by contractors. One such project was the housing project at Boitumelong in Christiana with an estimated cost of R65,8 million that commenced in May 2015. Of the 1 000 housing units that were to be constructed by February 2016, only 500 had been completed to date due to poor project management – despite 95% of the total project budget already having been spent. Furthermore, during a site inspection of the project, we found that the units constructed had no access to basic services such as water and that the existing sewer networks were insufficient, with the result that some houses experienced sewer backflow. This was due to a lack of coordination and planning between the department and the local municipality.

The financial health of most auditees remained a concern (nine departments and two entities: 65%) while at the four public entities with disclaimed audit opinions, the financial statements were not reliable enough to analyse (24%). The most concerning aspect for departments was their inability to settle financial obligations as they became due. At four departments, more than 10% of their accruals and payables due had been outstanding for more than 30 days. At Health, this amount was R509 million – an improvement compared to the previous year, but had this been paid on time it would have resulted in unauthorised expenditure of R474 million. Furthermore, the outstanding legal claims against departments (in excess of R3 102 million at four departments), including the R1 982 million in medical negligence claims against Health, are concerning. Should these be successful, the claims would need to be settled from money intended for service delivery. We reiterate our recommendations of the previous year that the restructuring of certain public entities needs to be prioritised. The premier's commitment in this regard is commendable, which to date included ensuring that public entities report to the most appropriate departments, but this should be extended to ensuring that each entity's mandate and purpose are clear. Where necessary, this could include merging or closing down entities to ensure that the continued operating deficits and net liability positions at entities are addressed and that the governance structures at these entities are fully operational to ensure their effective and sustainable operation.

Although relations with the State Information Technology Agency were re-established, we remain concerned about information technology – which is the responsibility of the premier's office. The inadequate controls to manage secure access and transmission of information to and from the network in the province made information technology systems vulnerable and susceptible to the risk of cyber-attacks, with some of these environments being compromised during the current period. The status of information technology remains critical to enable accurate reporting, enhance service delivery and promote effective oversight. We therefore encourage continuous efforts by the government information technology officer and the premier's office to improve information technology controls.

The provincial executive leadership and oversight structures together with the inter-ministerial task team should continue to monitor and improve the functioning of the combined assurance model, including strong and effective governance structures. As the provincial coordinating departments, Finance and the premier's office, did not fulfil their role as assurance providers for the province as a whole. Finance should ensure that the discipline of financial reporting is reinstituted at auditees to drive the quality of financial statements. The lack of impact of the assistance provided by Finance was evident from the fact that most of the departments and all of the entities previously qualified were not able to address these qualification areas. To date, except at Finance, senior management has been slow to provide the required level of assurance by implementing appropriate preventative internal controls and addressing root causes of poor outcomes. Together with the accounting officers, they should be responding to the call of the premier and the inter-ministerial task team in setting the right culture and discipline to enable accountability and a turnaround. The role of internal audit units and audit committees continues to be compromised due to management's failure to implement their recommendations, including the lack of adequate monitoring and enforcement of the recommendations by the audit committees. Committees of the provincial legislature have only recently started with hearings to hold departments accountable. We are hopeful that this would continue to drive a culture of accountability that would have a positive impact on audit outcomes in future. The lack of an effective combined assurance model and timely action by the coordinating departments needs to be given attention by these committees, to address accountability failures in the province.

We will keep on promoting accountability by continuing to provide recommendations and having regular and rigorous engagements with our auditees and other relevant stakeholders through our status of records review processes. 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 credible financial and performance reports. Through the status of records review, we will follow up on the commitments made by Finance to replicate their best practices to other provincial departments and entities. Amongst others, these include the review of annual performance plans, capacitation on compliance with supply chain management prescripts, and credible financial reporting. We remain encouraged that the tone set by the premier and the inter-ministerial task team as well as the will to implement consequences and hold those that continue to disregard legislation accountable will continue, and that it be institutionalised with greater effort and focus.

WESTERN CAPE: PERFORMANCE SNAPSHOT

(Refer to section 2 for explanations on how to interpret these figures and movements)

The Western Cape provincial government consists of 14 departments and 30 public entities. The audit outcomes of 24 smaller and dormant entities are not included in the analysis presented in this report. We set the cut-off date for inclusion of the audit outcomes in this report as 2 September 2019. By this date, one audit was outstanding.

Clean audits

79%

(2017-18: 79%)

Overall audit outcomes

OVERALL STAGNATION IN AUDIT OUTCOMES

2 Regressed
2 Improved

DEPARTMENTS
1 Regressed
1 Improved

PUBLIC ENTITIES
1 Regressed
1 Improved

Financially unqualified financial statements

95%

(2017-18: 95%)

89% (17)

Auditees submitted financial statements without material misstatements

No findings on compliance with legislation

84%

(2017-18: 89%)

Irregular expenditure

R21,3 m

(2017-18: R48,9 m)

AUDITS SUBSEQUENTLY FINALISED

R0,1 m

(2017-18: R4,7 m)

No findings on performance reports

89%

(2017-18: 84%)

89% (17)

Reported achievement reliable

FINANCIAL HEALTH

DEFICIT
(expenditure exceeded revenue)

2018-19	32% (6)
2017-18	21% (4)

CREDITOR-PAYMENT PERIOD > 30 DAYS

2018-19	21% (4)
2017-18	11% (2)

VULNERABLE FINANCIAL POSITION

2018-19	0% (0)
2017-18	0% (0)

STATUS OF GOOD CONTROLS

89%
Overall internal controls

74%
Basic financial and performance management controls

32%
Information technology controls

ROOT CAUSES

75%
Slow or no response in improving internal controls and addressing risk areas

SLOW RESPONSE - 67%
NO RESPONSE - 33%

25%
Instability or vacancies in key positions or key officials lacking appropriate competencies

0%
Inadequate consequences for poor performance and transgressions

8.9 WESTERN CAPE

The provincial audit outcomes for the Western Cape remained unchanged compared to the previous year. Fifteen auditees received a clean audit outcome, of which 13 retained their clean audit outcome from the previous year. The political and administrative leadership of the province is commended for this noteworthy achievement, which is further enhanced in that 10 of the 13 who had retained their clean audit status, were in fact departments. Health, for the first time in their history, and the Western Cape Tourism, Trade and Investment Promotion Agency improved to a clean audit outcome after receiving a financially unqualified audit opinion with findings in the previous year. Education and the Western Cape Gambling and Racing Board regressed to financially unqualified opinions with findings after receiving clean audit outcomes in the previous year, as a result of material findings on performance information and compliance with laws and regulations, respectively. Agriculture received a qualified opinion for the third consecutive year due to goods and services incorrectly classified as transfer payments. The financial outcomes of the province reflect positively and have been sustained from the previous year with an achievement of 95% of the auditees receiving financially unqualified opinions. Social Development received a clean audit outcome, but has not been included in the analysis of this report as a result of the late finalisation of the audit due to follow-up work performed in response to additional risks identified in the last few days ahead of the legislative deadline.

Solid consistent pattern

The outcomes of the audit of performance information have shown a slight improvement with 89% of the auditees not receiving any findings compared to 84% in the previous year. Education and the Cape Agency for Sustainable Integrated Development in Rural Areas had material findings on the reliability of their reported performance information, with the latter also having material findings on the usefulness of their performance information. The quality of submitted performance information still remains a concern with 42% of the auditees processing material adjustments to avoid reliability findings as a result of errors identified during the audit process.

The outcomes of the audit of compliance with laws and regulations have shown a slight regression with 84% of the auditees having no reported compliance findings compared to 89% in the prior year. Agriculture and the Western Cape Gambling and Racing Board had material compliance findings on the quality of their submitted financial statements while the Cape Agency for Sustainable Integrated Development in Rural Areas also had material compliance findings on the procurement of goods and services.

There has been a significant reduction in the irregular expenditure in the province from R48,9 million in 2017-18 to R21,3 million in the current year. We commend the leadership in the province for taking accountability through the implementation of controls that resulted in this reduction. We recommend that these controls are continuously institutionalised so that further reductions become a reality in future. Non-compliance with the legislation on procurement contributed 99% of the irregular expenditure. The main contributor was non-compliance with the procurement process requirements, such as declarations of interest not being submitted by providers and procuring from suppliers without a valid tax clearance certificate.

The financial health at departmental level has shown a regression with five departments having unfavourable indicators compared to four in the previous year. The common indicator at three of the five departments was the debt-collection period being longer than 90 days. We commend the departments and entities in the province for the accountability they have shown with regard to the public purse and for their working capital management, as none reported any going concern uncertainties.

Key programmes were assessed at four departments, namely Education, Health, Human Settlements as well as Transport and Public Works. Eleven projects were tested across these departments which had a budget of R4,6 billion, of which 99% was spent. These projects were funded by the education infrastructure grant, HIV/Aids and TB grant, human settlements development grant, and expanded public works programme integrated grant. We tested the following projects funded by these grants: construction of a replacement school for the Qhayiya Secondary School, construction of the Vredekloof Primary School, ART related interventions, the Heideveld housing project and the Joe Slovo housing project. One finding was identified at Education but the most notable was at Human Settlements where we observed that some of the houses of the Heideveld housing project were unoccupied for up to 14 months after practical completion and some delays at the Joe Slovo housing project, which affected timely service delivery.

Information technology remains critical to ensure the confidentiality, integrity and availability of state information, enable service delivery, and promote security in provincial government. Although provincial departments placed emphasis on ensuring that the root causes of prior year information technology findings were addressed, control weaknesses were still identified in certain information technology focus areas. An analysis of the information technology audit outcomes for provincial departments indicated an overall regression when compared to the previous year. This was due to the regression in the area of user access control where three departments had not effectively implemented network user access reviews. Instances of active network user accounts were found for users who were no longer employed at these departments. User access controls were also not consistently implemented across the various application systems within certain departments.

The overall status of internal controls has regressed compared to the previous year, largely due to our assessment of controls over financial and performance management, where we assessed the controls of five auditees as being in progress. This was mainly as a result of the adjustments required to correct their financial statements or performance information as well as the compliance findings that were identified. Of concern, as reported last year, are the 12 auditees where we assessed senior management as providing only some assurance due to 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 as the inherent nature of the findings was not material and – as a result – they were only reported in the management reports. 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 audit committees and the assurance provided by internal audit units.

The premier committed to continuing with oversight and the acceleration of provincial initiatives for continued good governance across the province, which will include further good governance engagements with all spheres of government, including the National Treasury and our office.

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 focusing on preventative controls to avoid 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 selected 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. The amendments to the Public Audit Act and its potential impact have been rolled out to all levels of leadership. While no auditee in the province formed part of the phased-in implementation of the amended Public Audit Act in 2018-19, selected auditees will be included in the 2019-20 audit cycle. Ahead of implementation, the leadership at all levels is encouraged to investigate identified irregularities in terms of existing legislation and take the required action.

SECTION 9

Need to know

9.1 OUR AUDIT PROCESS AND FOCUS

WHAT IS OUR AUDIT AND REPORTING PROCESS?

We audit every department and some of the public entities in the country (also called auditees in this report) to report on the quality of their financial statements and performance reports as well as on their compliance with key legislation.

We further assess the root cause of any error or non-compliance, based on the internal control that has failed to prevent or detect it. We report in the following three types of reports:

- We report our findings, the root causes of such findings and our recommendations in **management reports** to the senior management and accounting officers or authorities of auditees, which are also shared with the ministers, members of the executive councils and audit committees.
- Our opinion on the financial statements, material findings on the performance reports and compliance with key legislation, as well as significant deficiencies in internal control, are included in an **audit report**, which is published with the auditee's annual report and dealt with by the public accounts committees and portfolio committees, as applicable.
- Annually, we report on the audit outcomes of all auditees in a **consolidated report** (such as this one), in which we also analyse the root causes that need to be addressed to improve audit outcomes. Before the general report is published, we share the outcomes and root causes with the national and provincial leadership, Parliament and the legislatures, as well as key role players in national and provincial government.

Over the past few years, we have intensified our efforts to assist in improving audit outcomes by identifying the **key controls** that should be in place at auditees, regularly assessing these, and sharing the results of the assessment with ministers, accounting officers and authorities, as well as audit committees.

During the audit process, we work closely with accounting officers or authorities, senior management, audit committees and internal audit units, as they are **key role players** in providing assurance on the credibility of the auditees' financial statements and performance reports as well as on their compliance with legislation.

We also continue to strengthen our relationship with the coordinating and monitoring departments (such as the treasuries, premier's offices and the Department of Planning, Monitoring and Evaluation) as well as Parliament and provincial legislatures, as we are convinced that their involvement and oversight have played – and will continue to play – a crucial role in the performance at departments and public entities.

We have further increased our efforts by using the **status of records review** to engage with accounting officers. Such a review is an assessment of records, risks and progress made by the auditee to address prior year issues early in the financial year.

The overall audit outcomes fall into five categories:

1. Auditees that receive a **financially unqualified opinion with no findings** are those that are able to:
    - produce financial statements free of material misstatements (material misstatements mean errors or omissions that are so significant that they affect the credibility and reliability of the financial statements)
    - measure and report on their performance in line with the predetermined objectives in their annual performance plan, and in a manner that is useful and reliable
    - comply with key legislation.

    This audit outcome is also commonly referred to as a 'clean audit'.

2. Auditees that receive a **financially unqualified opinion with findings** are those that are able to produce financial statements without material misstatements, but are struggling to:
    - align their performance reports to the predetermined objectives to which they have committed in their annual performance plans
    - set clear performance indicators and targets to measure their performance against their predetermined objectives
    - report reliably on whether they have achieved their performance targets
    - determine which legislation they should comply with, and implement the required policies, procedures and controls to ensure that they comply.

3. Auditees that receive a **financially qualified opinion with findings** face the same challenges as those that are financially unqualified with findings in the areas of reporting on performance and compliance with key legislation. In addition, they are unable to produce credible and reliable financial statements. Their financial statements contain misstatements that they cannot correct before the financial statements are published.

4. The financial statements of auditees that receive an **adverse opinion with findings** include so many material misstatements that we disagree with virtually all the amounts and disclosures in the financial statements.

5. Those auditees with a **disclaimed opinion with findings** cannot provide us with evidence for most of the amounts and disclosures in the financial statements. We are therefore unable to conclude or express an opinion on the credibility of their financial statements.

Auditees with adverse and disclaimed opinions are typically also:

- unable to provide sufficient supporting documentation for the achievements they report in their performance reports
- not complying with key legislation.

WHAT IS THE PURPOSE OF THE ANNUAL AUDIT OF THE FINANCIAL STATEMENTS?

The purpose of the annual audit of the **financial statements** is to provide the users thereof with an **opinion** on whether the financial statements fairly present, in all material respects, the key financial information for the reporting period in accordance with the financial reporting framework and applicable legislation. The audit provides the users with reasonable assurance regarding the degree to which the financial statements are reliable and credible on the basis that the audit procedures performed did not reveal any material errors or omissions in the financial statements. We use the term 'material misstatement' to refer to such material errors or omissions.

We report the **poor quality of the financial statements** we receive in the audit reports of some auditees as a material finding on compliance, as it also constitutes non-compliance with the Public Finance Management Act. The finding is only reported for auditees that are subject to this act and if the financial statements we receive for auditing include material misstatements that could have been prevented or detected if the auditee had an effective internal control system. We do not report a finding if the misstatement resulted from an isolated incident or if it relates to the disclosure of unauthorised, irregular or fruitless and wasteful expenditure identified after the financial statements had been submitted.

WHAT DOES COMPLIANCE WITH KEY LEGISLATION MEAN?

We annually audit and report on **compliance by auditees with key legislation** applicable to financial and performance management and related matters. We focus on the following areas in our compliance audits, if they apply to the particular auditee: ■ the quality of financial statements submitted for auditing ■ asset and liability management ■ budget management ■ expenditure management ■ unauthorised, irregular, and fruitless and wasteful expenditure ■ effecting consequences ■ revenue management ■ strategic planning and performance management ■ financial statements and annual report ■ transfer of funds and conditional grants ■ procurement and contract management (in other words, supply chain management) ■ human resource management and compensation.

In our audit reports, we report findings that are material enough to be brought to the attention of auditee management, as well as oversight bodies and the public.

WHAT IS THE SCOPE OF SUPPLY CHAIN MANAGEMENT AUDITS?

We test whether the **prescribed procurement processes have been followed** to ensure that all suppliers are given equal opportunity to compete and that some suppliers are not favoured above others. The principles of a fair, equitable, transparent, competitive and cost-effective supply chain management process are fundamental to the procurement practices of the public sector, as enshrined in the country's constitution and prescribed in the Public Finance Management Act and its regulations. The act and these regulations define what processes should be followed to adhere to the constitutional principles, the level of flexibility available, and the documentation requirements.

We also focus on **contract management**, as shortcomings in this area can result in delays, wastage as well as fruitless and wasteful expenditure, which in turn have a direct impact on service delivery.

We further assess the **financial interests of employees of the auditee and their close family members** in suppliers to the auditee. Although there is no legislation that prohibits making awards to suppliers in which state officials have an interest, the **amended Public Service Regulations prohibit employees of departments from doing business with the state** from 1 August 2016. The regulations allowed employees that were doing business with the state on 1 August 2016 time until February 2017 to stop the business or resign as an employee.

WHAT IS IRREGULAR EXPENDITURE?

Irregular expenditure is expenditure that was **not incurred in the manner prescribed by legislation**; in other words, somewhere in the process that led to the expenditure, the auditee did not comply with the applicable legislation.

Such expenditure does **not necessarily mean that money had been wasted or that fraud had been committed**. It is an indicator of non-compliance in the process that needs to be investigated by management to determine whether it was an unintended error, negligence or done with the intention to work against the requirements of legislation (which, for example, require that procurement should be fair, equitable, transparent, competitive and cost-effective).

Through such **investigation**, it is also determined who is responsible and what the impact of the non-compliance is. Based on the investigation, the next steps are determined. One of the steps can be condonement if the non-compliance had no impact and negligence was not proven. Alternatively, if negligence was proven, the steps can be disciplinary steps, the recovery of any losses from the implicated officials or even cancelling a contract or reporting it to the police or an investigating authority.

The Public Finance Management Act is clear that **accounting officers and authorities are responsible** for preventing irregular expenditure as well as on what process to follow if it has been incurred.

In order to promote transparency and accountability, auditees **should disclose all irregular expenditure identified (whether by the auditee or through the audit process)** in their financial statements with detail on how it had been resolved; in other words, how much had been investigated, recovered or condoned.

WHAT IS FRUITLESS AND WASTEFUL EXPENDITURE?

Fruitless and wasteful expenditure is expenditure that was made in vain and that could have been avoided had reasonable care been taken. This includes penalties and interest on the late payment of creditors or statutory obligations as well as payments made for services not used or goods not received.

The Public Finance Management Act requires accounting officers and accounting authorities to take all **reasonable steps to prevent fruitless and wasteful expenditure**. Auditees should have processes to detect fruitless and wasteful expenditure and disclose the amounts in the financial statements. Fruitless and wasteful expenditure is reported when it is identified – even if the expenditure was incurred in a previous year.

The act also sets out the steps that accounting officers and oversight bodies should take to investigate fruitless and wasteful expenditure to determine whether any officials are liable for the expenditure and to recover the money if liability is proven.

WHAT IS UNAUTHORISED EXPENDITURE?

Unauthorised expenditure refers to expenditure that auditees incurred without provision having been made for it in the approved budget.

The Public Finance Management Act requires accounting officers to take all **reasonable steps to prevent unauthorised expenditure**. Auditees should have processes to identify any unauthorised expenditure and disclose the amounts in the financial statements. The act also includes the steps that accounting officers and oversight bodies should take to investigate unauthorised expenditure to determine whether any officials are liable for the expenditure and to recover the money if liability is proven.

WHAT ARE CONDITIONAL GRANTS?

Conditional grants are **funds allocated from national government to auditees**, subject to certain **services being delivered or on compliance with specified requirements**.

Conditional grant allocations are approved each year through the Division of Revenue Act. This act indicates the approved allocation per auditee for that particular year, together with a forward estimate for the next two years.

Conditional grants stem from government's vision and priorities as articulated in the Medium-term Strategic Framework, which focuses on placing the economy on a qualitatively different path that ensures rapid sustainable growth, higher investments, increased employment, reduced inequality and the deracialisation of the economy.

In support of these goals, conditional grants are provided to provincial departments. During our audits, we test compliance with the Division of Revenue Act and the individual grant frameworks, as well as the achievement of planned targets for selected projects or programmes funded by each grant allocation.

WHAT IS THE PURPOSE AND NATURE OF THE ANNUAL AUDIT OF THE PERFORMANCE REPORTS?

Auditees are required to measure their actual service delivery against the performance indicators and targets set for each of their predetermined performance objectives as defined in their annual performance plan, strategic plan or corporate plan, and to report on this in their performance reports.

On an annual basis, we audit **selected material programmes** of departments **and objectives** of public entities to determine whether the information in the performance reports is useful and reliable enough to enable oversight bodies, the public and other users of the reports to assess the performance of the auditee. The programmes and objectives we select are those that are important for delivery by the auditee on its mandate. In the audit report, we report findings that are material enough to be brought to the attention of these users.

As part of the annual audits, we audit the **usefulness of the reported performance information** to determine whether it is presented in the annual report in the prescribed manner and is consistent with the auditee's planned objectives as defined in strategic and annual performance plans. We also assess whether the performance indicators and targets set to measure the achievement of the objectives are:

- well defined (the indicator needs to have a clear, unambiguous definition so that data can be collected consistently, and is easy to understand and use)
- verifiable (it must be possible to validate the processes and systems that produce the indicator)
- specific (so that the nature and the required level of performance can be clearly identified)
- time bound (the time period or deadline for delivery must be specific)
- measurable (so that the required performance can be measured)
- consistent (with the planned objectives, indicators/measures and/or targets)
- relevant (so that the required performance can be linked to the achievement of a goal).

We further audit the **reliability of the reported information** to determine whether it can be traced back to the source data or documentation and whether it is accurate, complete and valid.

WHEN IS HUMAN RESOURCE MANAGEMENT EFFECTIVE?

Human resource management refers to the **management of an auditee's employees or human resources**. Human resource management is effective if adequate and sufficiently skilled staff members are in place and if their performance and productivity are properly managed.

Our audits include an assessment of human resource management, focusing on the following areas:
■ human resource planning and organisation
■ management of vacancies ■ appointment processes
■ performance management ■ acting positions
■ management of leave and overtime.

Our audits further look at the management of vacancies and stability in key positions, the competencies of key officials, performance management as well as consequences for transgressions, as these matters directly influence the quality of auditees' financial and performance reports and their compliance with legislation.

Based on the results of these audits, we assess the status of auditees' human resource management controls.

WHEN ARE INTERNAL CONTROLS EFFECTIVE AND EFFICIENT?

A key responsibility of accounting officers and authorities, senior managers and officials is to **implement and maintain effective and efficient systems of internal control**.

We assess the internal controls to determine the effectiveness of their design and implementation in ensuring reliable financial and performance reporting and compliance with legislation. This consists of all the policies and procedures implemented by management to assist in achieving the orderly and efficient conduct of business, including adhering to policies, safeguarding assets, preventing and detecting fraud and error, ensuring the accuracy and completeness of accounting records, and timeously preparing reliable financial and service delivery information. To make it easier to implement corrective action, we categorise the principles of the different components of internal control under leadership, financial and performance management, or governance. We call these the **drivers of internal control**.

The key **basic controls** that auditees should focus on are outlined below.

Providing effective leadership

In order to improve and sustain audit outcomes, auditees require **effective leadership** that is based on a culture of honesty, ethical business practices and good governance to protect and enhance the interests of the auditee.

Audit action plans to address internal control deficiencies

Developing and monitoring the implementation of action plans to address identified internal control deficiencies are key elements of internal control, which are the responsibility of heads of departments, chief executive officers and their senior management team.

Some of the matters requiring attention include the following:

- Setting action plans to specifically address the external and internal audit findings.
- Assigning clear responsibility to specific staff to carry out action plans.
- Monitoring audit action plans to ensure that the responsibilities assigned are carried out effectively and consistently.
- Developing audit action plans early enough in the financial year to resolve matters by year-end.

Proper record keeping and document control

Proper and timely record keeping ensures that **complete, relevant and accurate information** is accessible and available to support financial and performance reporting. Sound record keeping will also enable senior management to hold staff accountable for their actions. A lack of documentation affects all areas of the audit outcomes.

Some of the matters requiring attention include the following:

- Establishing proper record keeping so that records supporting financial and performance information as well as compliance with key legislation can be made available when required for audit purposes.
- Implementing policies, procedures and monitoring mechanisms to manage records, and making staff members aware of their responsibilities in this regard.

Implementing controls over daily and monthly processing and reconciling of transactions

Controls should be in place to ensure that **transactions are processed accurately, completely and timeously**, which in turn will reduce errors and omissions in financial and performance reports.

Some of the matters requiring attention include the following:

- Daily capturing of financial transactions, supervisory reviews of captured information, and independent monthly reconciliations of key accounts.
- Collecting performance information at intervals appropriate for monitoring, setting service delivery targets and milestones, and validating recorded information.
- Confirming that legislative requirements and policies have been complied with before initiating transactions.

Reviewing and monitoring compliance with legislation

Auditees need to have mechanisms that can **identify applicable legislation as well as changes to legislation**, assess the requirements of legislation, and implement processes to ensure and monitor compliance with legislation.

WHAT IS INFORMATION TECHNOLOGY AND WHAT ARE INFORMATION TECHNOLOGY CONTROLS?

Information technology (commonly known as IT) refers to the computer systems used for recording, processing and reporting financial and non-financial transactions. IT controls ensure the confidentiality, integrity and availability of state information, enable service delivery, and promote national security. Good IT governance, effective IT management and a secure IT infrastructure are therefore essential.

Non-complex and complex information technology environments

As per our new audit methodology, we differentiate between **non-complex** and **complex** IT environments, as follows:

Non-complex environment – level 1 (low risk)

This is the lower end of the spectrum for IT sophistication and relevance. The auditee uses one server associated with financial reporting and/or performance information, a limited number of workstations, no remote locations, commercial off-the-shelf applications and infrastructure, vendors to perform updates and maintenance on the system, little emerging or advanced technology, and a few or no online and e-commerce transactions.

Key controls over financial reporting and/or performance information are not overly reliant on IT, are embedded in the commercial off-the-shelf applications, or are limited to very few manual processes and controls. Many small to medium-sized entities fall into this category.

Complex environment – levels 2 and 3 (medium and high risk)

This is the middle to high end of the spectrum. These auditees have the following characteristics:

- Use more than one server associated with financial reporting and/or performance information.

- Have remote locations.
- Employ one or more network operating system or non-standard ones.
- Have more workstations in total.
- Use some customisation of application software or have a relatively complex configuration of commercial off-the-shelf applications.
- Use enterprise resource planning systems and/or write their own custom software.
- Perform updates and maintenance on the system centrally onsite or through vendors, or perform centralised updates and maintenance on the system and distribute these to decentralised sites or through onsite vendors.
- Employ a few to moderate or a large number of emerging or advanced technologies.
- Enter into either a few or a large number of online and e-commerce transactions.
- Rely heavily on IT key controls over financial and/or performance information.

An auditee running transversal systems would also fall into this category. Information systems for which certain IT processes are managed centrally, but which are used by various auditees who have limited responsibility regarding the design and enhancement of the system, will also be classified as high risk at a national level.

Which information technology controls do we audit?

During our audits, we assess the IT controls that focus on IT governance, security management, user access management and IT service continuity – as discussed further down. To evaluate the status of the IT controls in the areas we audit, we group them into the following three categories, with reference to the control measures that should be in place:

1. **Where IT controls are being designed**, management should ensure that the controls would reduce risks and threats to IT systems.
2. **Where IT controls are being implemented**, management should ensure that the designed controls are implemented and embedded in IT processes and systems. Particular attention should be paid to ensuring that staff members are aware of and understand the IT controls being implemented, as well as their roles and responsibilities in this regard.
3. **Where IT controls have been embedded and are functioning effectively**, management should ensure that the IT controls that have been designed and implemented are functioning effectively at all times. Management should sustain these IT controls through disciplined and consistent daily, monthly and quarterly IT operational practices.

Information technology governance

This refers to the leadership, organisational structures and processes which ensure that the auditee's IT resources will sustain its business strategies and objectives. Effective IT governance is essential for the overall well-being of an auditee's IT function and ensures that the auditee's IT control environment functions well and enables service delivery.

Security management

This refers to the controls preventing unauthorised access to the computer networks, computer operating systems and application systems that generate and prepare financial and performance information.

User access management

These are measures designed by business management to prevent and detect the risk of unauthorised access to, and the creation or amendment of, financial and performance information stored in the application systems.

Information technology service continuity

These controls enable auditees to recover within a reasonable time the critical business operations and application systems that would be affected by disasters or major system disruptions.

WHAT ARE ROOT CAUSES?

Root causes are the **underlying causes or drivers of audit findings**; in other words, the reason why the problem occurred. Addressing the root cause helps to ensure that the actions address the real issue, thus preventing or reducing incidents of recurrence, rather than simply providing a one-time or short-term solution.

Our audits include an **assessment of the root causes of audit findings**, based on the identification of internal controls that have failed to prevent or detect the error in the financial statements and performance reports or that have led to non-compliance with legislation. These root causes are confirmed with management and shared in the management report with the accounting officer or authority and the executive authorities. We also include the root causes of material findings reported as internal control deficiencies in the audit report.

WHO PROVIDES ASSURANCE?

Ministers, members of the executive councils, and accounting officers and authorities use the **annual report** to report on the financial position of auditees, their performance against predetermined objectives, and overall governance; while one of the important **oversight functions of legislatures is to consider auditees' annual reports**. To perform their oversight function, they need assurance that the information in the annual report is credible. To this end, the annual report also includes our audit report, which provides assurance on the credibility of the financial statements, the performance report and the auditee's compliance with legislation.

Our reporting and the oversight processes reflect on history, as they take place after the financial year. Many other role players contribute throughout the year to the credibility of financial and performance information and compliance with legislation by ensuring that adequate internal controls are implemented.

The mandates of these role players differ from ours, and we have categorised them as follows:

- Those directly involved in the management of the auditee (management or leadership assurance).
- Those that perform an oversight or governance function, either as an internal governance function or as an external monitoring function (internal independent assurance and oversight).
- The independent assurance providers that give an objective assessment of the auditee's reporting (external independent assurance and oversight).

We **assess the level of assurance** provided by the role players based on the **status of auditees' internal controls and the impact of the different role players on these controls**. In the current environment, which is characterised by inadequate internal controls, corrected and uncorrected material misstatements in financial and performance information, and widespread non-compliance with legislation, all role players need to provide an extensive level of assurance.

What is the role of each key role player in providing assurance?

Senior management

Senior management, which includes the chief financial officer, chief information officer and head of the supply chain management unit, provides assurance by implementing the following basic financial and performance controls:

- Ensure proper record keeping so that complete, relevant and accurate information is accessible and available to support financial and performance reporting.
- Implement controls over daily and monthly processing and reconciling of transactions.
- Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.
- Review and monitor compliance with applicable legislation.
- Design and implement formal controls over information technology systems.

Accounting officers or accounting authorities

While we recognise that accounting officers and authorities depend on senior management for designing and implementing the required financial and performance management controls, they are responsible for creating an environment that helps to improve such controls.

The responsibilities of accounting officers and authorities are clearly described in section 38 (for departments) and section 51 (for public entities) of the Public Finance Management Act. This includes their responsibility to ensure that:

- there are consequences for transgressions through disciplinary steps against officials who contravene the Public Finance Management Act and make or permit unauthorised, irregular, and fruitless and wasteful expenditure
- appropriate, efficient and effective systems or policies are implemented and maintained for, among other, internal control, internal audit and supply chain management
- resources are used effectively, efficiently, economically and transparently
- effective and appropriate steps are taken to collect all money due to the auditee
- assets and liabilities are properly managed, including the safeguarding thereof
- expenditure is in accordance with the budget (including steps to prevent overspending).

Executive authorities

The executive authorities (ministers and members of the executive councils) have specific monitoring and oversight responsibilities in their portfolios in terms of the Public Finance Management Act and the Public Service Act. They are well placed to bring about improvements in the audit outcomes by becoming more actively involved in key governance matters and by managing the performance of the accounting officers and authorities.

We are convinced that the oversight and monitoring roles of the executive strengthen the assurance processes significantly, and this has had a positive impact on the audit outcomes in the past year. We therefore undertake to carry on with our engagements with them, but with greater emphasis on quality conversations that will yield a stronger impact.

Internal audit units

The internal audit units assist accounting officers and authorities in the execution of their duties by providing independent assurance on internal controls, financial information, risk management, performance management and compliance with legislation. The establishment of internal audit units is a requirement of legislation.

Audit committees

An audit committee is an independent body, created in terms of legislation, which advises the accounting officer or authority, senior management and executive authorities on matters such as internal controls, risk management, performance management and compliance with legislation. The committee is further required to provide assurance on the adequacy, reliability and accuracy of financial and performance information.

Coordinating or monitoring departments

At national and provincial level, some departments play a coordinating and monitoring role as defined in legislation and in their mandates, which should contribute to the overall assurance process. These departments are the National Treasury, provincial treasuries, offices of the premier, and the Department of Planning, Monitoring and Evaluation. We assess the impact of these departments on the controls of the auditees based on our interactions with them, commitments given and honoured as well as the impact of their actions and initiatives.

Public accounts committees and portfolio committees

Parliament and the provincial legislatures have a constitutional mandate to oversee executive action and ensure compliance with legislation. These institutions conduct oversight through committees established in line with the rules of Parliament and the provincial legislatures. Portfolio committees are required to assess the strategic and annual performance plans of departments and public entities to effectively fulfil their oversight role.

Informed by our constitutional mandate, we enable oversight, accountability and governance in the public sector through our regular engagements with Parliament and the provincial legislatures. We do this through oversight leadership and portfolio committee engagements, during which we present and discuss key controls and compliance findings arising from the audit process and the related root causes. The discussions include our recommendations on focus areas that require oversight intervention. We hope that through these interactions, specific oversight efforts will lead to improved governance and accountability in the public sector.

9.2 GLOSSARY OF KEY TERMINOLOGY USED IN THIS REPORT

Asset (in financial statements)	Any item belonging to the auditee, including property, infrastructure, equipment, cash, and debt due to the auditee.
Cash flow (in financial statements)	The flow of money from operations: incoming funds are revenue (cash inflow) and outgoing funds are expenses (cash outflow).
Chief information officer or government information technology officer (information technology)	The most senior official of the auditee who is accountable for aligning information technology and business strategies; for planning, resourcing and managing the delivery of information technology services and information; and for the deployment of the associated human resources. The chief information officers in the South African public sector are referred to as government information technology officers. The position was established by a cabinet memorandum in 2000.
Commitments from role players	Initiatives and courses of action communicated to us by role players in national and provincial government aimed at improving the audit outcomes.
Creditors	Persons, companies or organisations to whom the auditee owes money for goods and services procured from them.
Current assets (in financial statements)	These assets are made up of cash and other assets, such as inventory or debt for credit extended, which will be traded, used or converted into cash within 12 months. All other assets are classified as non-current, and typically include property, infrastructure, plant and equipment as well as long-term investments.
Current liability (in financial statements)	Money owed by the auditee to companies, organisations or persons who have supplied goods and services to the auditee.
Cybersecurity (information technology)	The protection of information assets by addressing threats to information processed, stored and transported by internet-worked information systems.
Financial and performance management (as one of the drivers of internal control)	The performance of tasks relating to internal control and monitoring by management and other employees to achieve the financial management, reporting and service delivery objectives of the auditee. These controls include the basic daily and monthly controls for processing and reconciling transactions, the preparation of regular and credible financial and performance reports as well as the review and monitoring of compliance with key legislation.
Governance (as one of the drivers of internal control)	The governance structures (audit committees) and processes (internal audit and risk management) of an auditee.
Hacked (information technology)	Unauthorised access to a computer system has been gained.
Hacker/intruder (information technology)	An individual who attempts to gain unauthorised access to a computer system.
Implementing agent	Government institutions (e.g. the Independent Development Trust), non-governmental organisations or private sector entities appointed by the auditee to manage, implement and deliver on projects.
Information technology infrastructure (information technology)	The hardware, software, computer-related communications, documentation and skills that are required to support the provision of information technology services, together with the environmental infrastructure on which it is built.

Leadership (as one of the drivers of internal control)	The administrative leaders of an auditee, such as heads of departments, chief executive officers and senior management. It can also refer to the political leadership or the leadership in the province (such as the premier).
Material finding (from the audit)	An audit finding on the quality of the performance report or compliance with key legislation that is significant enough in terms of either its amount or its nature, or both these aspects, to be reported in the audit report.
Material irregularity	Any non-compliance with, or contravention of, legislation, fraud, theft or a breach of a fiduciary duty identified during an audit performed under the Public Audit Act that resulted in – or is likely to result in – a material financial loss, the misuse or loss of a material public resource or substantial harm to a public sector institution or the general public.
Material Irregularity Regulations	The regulations stem from the provisions of section 52(1A) of the Public Audit Act. The regulations enable us to implement the material irregularity provision in the Public Audit Act by, amongst others, regulating the decision-making on material irregularities and the time frames applicable to the material irregularity process.
Material misstatement (in financial statements or performance reports)	An error or omission that is significant enough to influence the opinions or decisions of users of the reported information. Materiality is considered in terms of either its rand value or the nature and cause of the misstatement, or both these aspects.
Medium-term Strategic Framework	Government's strategic plan for the 2014-19 electoral term. It reflects the commitments made in the election manifesto of the governing party, including the commitment to implement the National Development Plan. Its aim is to ensure policy coherence, alignment and coordination across government plans as well as alignment with budgeting processes.
Misstatement (in financial statements or performance reports)	Incorrect or omitted information in the financial statements or performance report.
Property, infrastructure, plant and equipment (in financial statements)	Assets that physically exist and are expected to be used for more than one year, including land, buildings, leasehold improvements, equipment, furniture, fixtures and vehicles.
Public Audit Act (Act No. 25 of 2004)	This is the Auditor-General of South Africa's enabling legislation. The objective of the act is to give effect to the provisions of our country's constitution by establishing and assigning functions to an auditor-general and by providing for the auditing of institutions in the public sector. The Public Audit Act was amended [Public Audit Amendment Act (Act No. 5 of 2018)] to provide us with more power to ensure accountability in the public sector. The intent of the amendments is not to take over the functions of accounting officers and authorities, as their accountability responsibilities are clear in legislation. It is rather to step in where those responsibilities are not fulfilled in spite of us alerting leadership to material irregularities that need to be investigated and addressed.
Reconciliation (of accounting records)	The process of matching one set of data to another; for example, the bank statement to the cheque register, or the accounts payable journal to the general ledger.
Receivables or debtors (in financial statements)	Money owed to the auditee by companies, organisations or persons who have procured goods and services from the auditee.

Status of records review	A process whereby the auditor performs basic review procedures to identify risks and areas of concern for discussion with the accounting officer. The purpose of the status of records review is to: • ensure that there is a system of early warning to the accounting officer on challenges that may compromise good financial and performance management and compliance with legislation • demonstrate to the accounting officer a deepened level of understanding of the business of the auditee and the value added by the auditor • contribute to capacitating the accounting officer and senior management in instilling good practices of regular reporting, review and oversight • identify risks early and throughout the audit cycle to respond to these timeously and correctly.
System development (information technology)	The development of an integrated set of computer programs designed to serve a particular function that has specific input, processing and output activities.
Vulnerability (information technology)	In information security, a weakness or flaw (in location, physical layout, organisation, management, procedures, personnel, hardware or software) that may be exploited by an attacker to cause an adverse impact.
Vulnerable financial position (going concern)	The presumption that an auditee will continue to operate in the near future, and will not go out of business and liquidate its assets. For the going concern presumption to be reasonable, the auditee must have the capacity and prospect to raise enough financial resources to stay operational.

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