

# // SECTION 2



*Introduction*

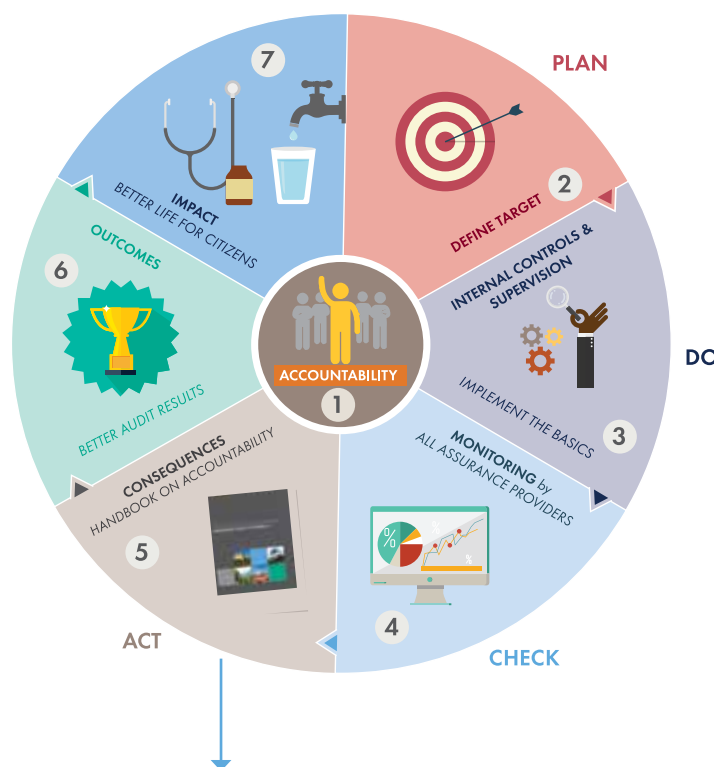
Our previous reports continuously focused on the importance of accountability for government spending and highlighted the impact of poor financial and performance management on areas such as the delivery of key government programmes, the state of affairs at state-owned entities, and the overall financial 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.

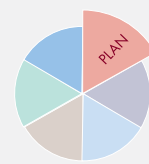
This has led us to choose **Act now on accountability** as the central theme of this report.

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.

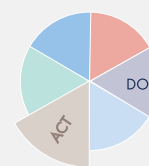
In this report we highlight opportunities where an investment in preventative controls can contribute to effective and sustainable improvements. We again advocate the use of the 'plan+do+check+act' cycle to continuously improve the processes, outcomes and service delivery of departments and public entities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



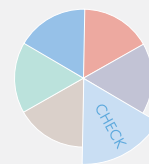
#### Public Finance Management Act prescribes obligations of accounting officers and authorities to:



- **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](http://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:



- 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

