

// 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.

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

Notable effort on disclaimers – overall accountability still a concern

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 contractor 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%

Overall internal controls

24%

Basic financial and performance management controls

24%

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.

Notwithstanding the net improvement reported in the provincial audit outcomes, the quality of financial statements submitted for auditing remained a challenge.

**Encouraging trend,
need more work
before we can say it
is sustainable**

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 Empumelweni 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

Solid consistent pattern

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.

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 Vredeloof 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.

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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.