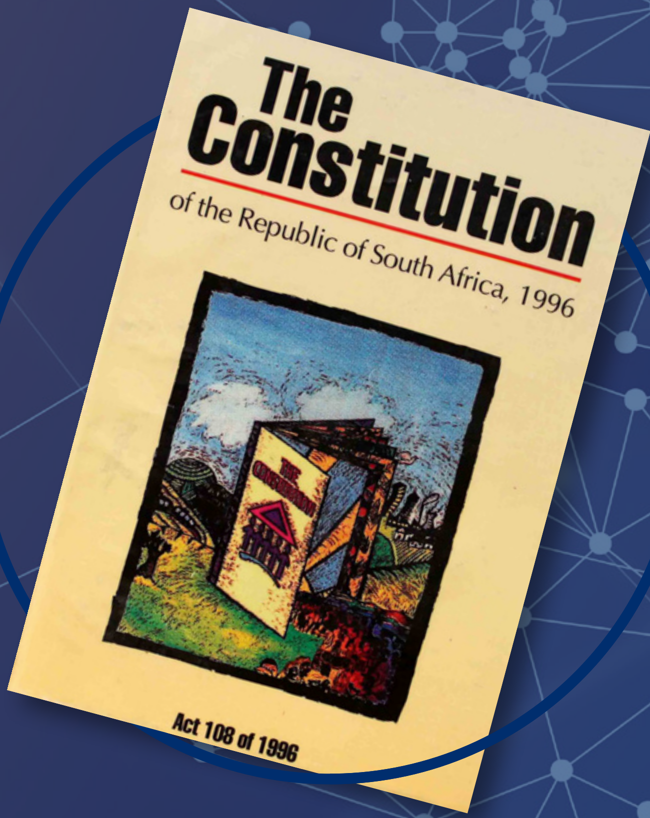
AUDITOR-GENERAL
SOUTH AFRICA

2020-21

# THE CITIZEN'S REPORT

# CONSTITUTIONAL AND LEGISLATIVE MANDATE OF THE AUDITOR-GENERAL OF SOUTH AFRICA (AGSA)

*Chapter 9 of the Constitution of the Republic of South Africa of 1996 establishes the AGSA as one of the state institutions supporting constitutional democracy. The Constitution recognises the importance and guarantees the independence of the AGSA, stating that the AGSA must exercise its powers and perform its functions without fear, favour or prejudice.*





*The functions of the AGSA are described in section 188 of the Constitution and further regulated in the Public Audit Act of 2004, which mandates the AGSA to perform constitutional and other functions.*

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# VIGILANT CITIZENS
# MAKE ALL THE DIFFERENCE

**Dear Fellow Citizen**

Government service delivery is in the spotlight like never before, and it is clear that citizens are closely watching how their hard-earned taxes are being spent.

This is good news for our country's democracy: vigilance on the part of South Africa's citizens is vital in holding government to account.

When citizens are well informed about the state of the country's public finances, they are in a strong position to ensure that public money is spent wisely and in compliance with the law.

As the auditors of government, it is our hope that this citizen's report will further raise public awareness about what needs to be done to improve public financial management in South Africa.

**In this report**

In the report, we look at what we found in our audits of national and provincial government departments, public entities and state-owned enterprises for the 2020-21 financial year.

In the third year of the current administration, the audit outcomes of national and provincial government continue to improve. We commend the accounting officers and authorities for their resilience and commitment to achieving positive change.

We also commend the 71% of auditees that submitted quality financial statements for auditing – an important step in the journey to obtaining a clean audit.

But while we continue to see improvements in audit outcomes, the progress is slow. And clean audits do not always indicate good service delivery.

That is why, this year, our report centres around a call to **accelerate improvements in accountability**.

Please note that this citizen's report only summarises the main issues that came out of our 2020-21 audits of national and provincial government. The full detail can be found in the consolidated PFMA general report on the AGSA's website (www.agsa.co.za).

This report does not look at the finances of municipalities, which are audited separately. If you are interested in our most recent audits of local government, you can access the 2019-20 report on our website (www.agsa.co.za).

Thank you for being an informed and active citizen.

Sincerely,
AGSA Communication business unit

# WHAT DO THE DIFFERENT AUDIT OPINIONS MEAN?

Here is a quick summary of the audit opinions that the AGSA can give, from best to worst:

**Financially unqualified opinion with no findings:** The ideal – a clean audit – everything has been done the way it should be. There are no material misstatements in the financial statements and the auditee has complied with the law and reported properly on its performance objectives. A clean audit means the money has been used ideally and for the intended purpose.

A clean audit also confirms that those charged with service delivery have created a solid foundation for the delivery of services and finances are unlikely to be the cause for delayed service where things are going wrong.

**Financially unqualified opinion with findings:** Not bad, but not ideal – here, the information in the financial statements is correct and complete, meaning there are no material misstatements. But there are 'material findings': problems with the auditee's performance reporting or non-compliance with the law, or both. This could compromise the auditee's accountability.

**Financially qualified opinion with findings:** The situation is worrying – the auditee did not manage and account for its finances to achieve the best results. The financial statements contain material misstatements about specific amounts, or there is insufficient evidence for the AGSA to conclude that the amounts are not materially misstated.

**Adverse opinion with findings:** Lots of problems everywhere – the auditee has not followed the correct rules and procedures and has not provided complete, correct information to account for its spending. There are a lot of material misstatements.

**Disclaimed opinion with findings:** The worst outcome – the finances are so badly managed that the auditee cannot even produce evidence (documentation) to support its financial statements.

Then there is a sixth category, '**outstanding audits**', mostly due to financial statements being submitted late (or not at all) for the AGSA to audit. This category is considered as bad as a disclaimed opinion.

## WHAT KIND OF PROBLEMS CAN THE AUDITORS FLAG?

There are three kinds of problems that the auditors might flag about government spending:

**Unauthorised expenditure:** spending that goes over budget or money that was not spent on the things it was meant to be used for.

This can be as a result of administration errors or accidents.

**Fruitless and wasteful expenditure:** pointless spending with nothing to show for it and that could have been avoided.

This can be simple things such as not paying suppliers on time and incurring interest.

**Irregular expenditure:** spending that did not comply with the legislation (in other words, money that was not spent in the way the law says it should be).

This may be caused by procedures not being followed, and does not necessarily mean that the money was wasted or that there was fraud.

# IT'S HAPPENING SLOWLY
## BUT OVERALL AUDIT OUTCOMES ARE LOOKING UP

Let's start with the good news from the 2020-21 audits of national and provincial government: there has been some progress.

Even in these difficult times, with the economy struggling and the covid-19 pandemic in full swing, some auditees improved their audit outcomes by working hard on their governance and compliance.

All told, there were 113 clean audits (47 departments and 66 public entities) by the cut-off date for the report (15 October 2021). These departments and entities are responsible for 19% of national and provincial government's R1,9 trillion expenditure budget.

Another 31 auditees are close to obtaining clean audits and will hopefully make that breakthrough in the next financial year.

### Audit outcomes (as at 15 October 2021)

| | Unqualified with no findings | Unqualified with findings | Qualified with findings | Adverse with findings | Disclaimed with findings | Outstanding audits | |
|---|---|---|---|---|---|---|---|
| | 27% | 44% | 16% | < 1% | 3% | 10% | |
| 2020-21 | 113 | 186 | 70 | 2 | 12 | 42 | 425 Total |
| 2019-20 | 109 | 182 | 85 | 3 | 28 | 11 | 418 Total |
| 2018-19 First year of administration | 93 | 185 | 102 | 3 | 27 | 5 | 415 Total |

## WHO WE AUDITED

We audited 679 departments and public entities, and in the general report we focus on the results of 425 of these audits. To simplify our reporting and ensure that our messages focus on key auditees, we do not report on dormant or small public entities. We also exclude the outcomes of auditees in the secret service environment and of the water boards, which have a different reporting cycle.

For the outcomes to be included in this report, the audits needed to have been signed off by **15 October 2021**.

One of the best signs of improvement in the national and provincial audit results is that more auditees have improved their audit outcomes in the past three years than have regressed.

For an explanation of the audit outcomes, turn to page 3.

**Movement from previous year**

50 (improved) | 29 (regressed)

**From first year of administration**

85 (improved) | 37 (regressed)

This progress comes on the back of a slow but steady increase in good audit outcomes and a decrease in poor outcomes.

## INCREASE IN CLEAN AUDITS, AND MORE ARE WITHIN REACH

The number of clean audits in national and provincial government has been growing each year for the past three years.

### *Number of clean audits increases every year*

**Clean audit:**

| 27 | 86 | 17 | 31 |
|---|---|---|---|
| Improved to clean | Sustained clean audit status | Lost clean audit status | Close to clean audit status |

Over the past three years, the number of clean audits has increased from 93 in 2018-19, to 109 in the following year and then to 113 in the latest round of audits.

*Nearly 30% of the audits we completed in 2020-21 were clean*

There has also been a slight increase in the number of auditees who obtained unqualified audits with findings (the second-best audit outcome), with almost half of the audits we completed receiving this outcome. Altogether, 71% of auditees received unqualified audits, either with or without findings, which means they submitted credible financial statements.

At least 31 of these auditees are close to obtaining clean audit status. Some of them have been working towards this goal for many years and only need to overcome the last hurdles. These 31 auditees deserve special attention and encouragement.

## Clearing the last hurdles

For 24 of these auditees, the last hurdle in the way of clean audit status is to improve the quality of their financial statements. One auditee needs to address a performance issue and six need to work on compliance with procurement legislation.

If they succeed – and we are doing everything we can to encourage them to do so – we expect to see an increase in the number of clean audits for the 2021-22 financial year.

## Dealing with poor audit opinions

There has also been definite progress in reducing the number of qualified audit opinions with findings (a poor outcome that means auditees' reporting cannot be relied on).

Where there were 102 auditees with qualified audit opinions in 2018-19, this has since come down to 70, accounting for 18% of completed audits in 2020-21.

As for auditees with the worst outcomes of all, adverse and disclaimed opinions, there have been small but hopeful signs of improvement in the past three years:

- Where there were three auditees with adverse opinions, there are now only two – the Gateway Airport Authority in Limpopo and the Ehlanzeni TVET College in Mpumalanga.
- The number of disclaimed audit opinions, which are the worst an auditee can get, has decreased from 27 to 12. All 12 of these auditees are public entities and include the South African Nuclear Energy Corporation (Necsa), the National Skills Fund and the development corporations of both the Free State and North West.

It must be said that this "improvement" may not be as significant as it seems.

Nine public entities that had previously received disclaimed opinions did not submit their financial statements for auditing, or they submitted them so late that the audit is still in progress. Among them were the Passenger Rail Agency of South Africa (Prasa), the Independent Development Trust and the Compensation Fund.

## Dipping into next year's budget

There is a growing trend among departments generally to pay this year's costs from next year's budget. Almost a third ended the year in a deficit and over 60% did not have enough cash in the bank to settle all their liabilities.

What this means is that they started the new financial year, 2021-22, with part of their budgets already spent, jeopardising their ability to pay their suppliers and deliver on their mandates.

## SIGNS OF PROGRESS: WELL DONE TO THE 61 AUDITEES WITH 3 CLEAN AUDITS IN A ROW

Earning a clean audit for the first time is a major milestone, but sustaining clean audit status for a second or third year takes relentless commitment, discipline and effort.

Altogether, 61 auditees have obtained clean audits for three consecutive years, proving that their financial and performance controls and systems are operating effectively.

A clean audit is not always an indicator of good service delivery. However, we have seen that when auditees have the controls and systems in place to plan, measure, monitor and account for their finances and performances, and to stay within the rules, they often also have a solid foundation for service delivery.

## SOEs and key service delivery departments fare poorly

While there is forward movement, it is slow and not everyone is keeping up.

What's more, those lagging behind have a big impact on citizens' lives and on government's financial health.

The broad upward trend in audit outcomes is also not filtering through to the auditees with the biggest impact on service delivery and the economy – the state-owned enterprises, commonly referred to as SOEs, and key service delivery departments in the fields of health, education, human settlements and public works.

### **SIGNS OF PROGRESS:** COVID-19 LOOPHOLES ARE BEING CLOSED

Steps are being taken to deal with the problems our auditors identified when we audited government's covid-19 initiatives at the request of President Cyril Ramaphosa.

Controls have been or are being put in place to prevent benefits and grants being paid to people who are not entitled to them, and to close loopholes that led to financial losses, overpayments, incorrect payments and other serious lapses.

We have also seen better planning, monitoring and management of covid-19 initiatives, and some auditees are moving swiftly to investigate the irregularities we uncovered, recover the money lost and make sure there are consequences for those involved.

However, some departments have been slow to respond to our findings on weak controls that have resulted in irregularities, or to implement consequences against transgressors.

Turn to page 15 for more on government's response to our covid-19 audits.

### **WARNING SIGNS:** INFORMATION TECHNOLOGY IS WEAK AND VULNERABLE

Year after year, we have warned that government's information technology (IT) systems are weak and vulnerable, and 2020-21 was no exception.

This was despite the large sums of money being spent on IT to streamline government processes.

New IT projects are often poorly managed, resulting in costs that could have been avoided. In our audit, we saw that R1,7 billion had been spent on projects that did not meet business expectations.

The fragility of government's IT systems has serious consequences for citizens and service delivery. Hackers have taken advantage of IT security weaknesses to infiltrate some government systems and IT outages are common, interrupting service delivery.

IT weaknesses also expose public money to fraud, abuse and misuse. For example, people who do not qualify for the covid-19 temporary employee/ employer relief scheme are still being paid, although to a lesser extent than before, because of a lack of integrated IT systems and databases in government.

# KEY SERVICE DELIVERY
# DEPARTMENTS ARE LAGGING BEHIND

Health | Education | Human settlements | Public works

South Africa has 40 departments in the health, education, human settlements and public works sectors – four national departments and 36 provincial departments. Together, these departments are responsible for a budget of R584 billion. That's almost a third of the budget for the year.

Only **two of the 40 national and provincial departments** in these sectors **received clean audits** during the year (Western Cape departments of health, and of transport and public works).

The rest either received unqualified audit opinions with findings (65%), or qualified opinions with findings (30%).

### Key service delivery departments (health, education, public works, human settlements)

| | Unqualified with no findings | Unqualified with findings | Qualified with findings | Adverse with findings | Disclaimed with findings | Outstanding audits | Total |
|---|---|---|---|---|---|---|---|
| | 5% | 62% | 30% | 0% | 0% | 3% | |
| 2020-21 | 2 | 25 | 12 | 0 | 0 | 1 | 40 Total |
| 2019-20 | 3 | 26 | 10 | 0 | 1 | 0 | 40 Total |
| 2018-19 | 3 | 20 | 16 | 0 | 1 | 0 | 40 Total |

**Movement from previous year**: 3 ▲ 3 ▼

**From first year of administration**: 8 ▲ 2 ▼

More than half of these departments submitted poor-quality financial statements, but corrected them after we pointed out the errors

Apart from their poor financial management, the key service delivery departments are in poor financial health. They were responsible for 90% of all unauthorised spending (mostly from overspending on the budget) in national and provincial government during the year, and were the biggest contributors to fruitless and wasteful expenditure.

## Manual data gathering an obstacle

The key service delivery departments also struggled with their performance reporting. Only 14 out of the 40 got it right.

One of the biggest weaknesses with their performance reporting is their manual data gathering processes. These are prone to human error, allowing mistakes to slip through the cracks.

This has serious implications for their ability to deliver services. For example, if a health department cannot reliably measure the number of tuberculosis patients being treated at a specific hospital, they may end up with too little or too much medicine.

The impact of the weaknesses in key departments' financial and performance reporting can be seen in their worsening financial health.

### **WARNING SIGNS:** BILLIONS OWED IN UNPAID CLAIMS AGAINST THE STATE

Departments in the health, education, human settlements and public works sector owe billions of rands for claims against the state.

For example, the provincial health departments paid out R1,76 billion in medical negligence claims in 2020-21, and still owe a staggering R124,15 billion in unpaid claims – 75% of all claims against the state.

Unauthorised expenditure
**R3,21 billion**

Irregular expenditure
**R166,85 billion**

Fruitless and wasteful expenditure
**R1,72 billion**

### **WARNING SIGNS:** UNAUTHORISED EXPENDITURE CLIMBS TO R3,21 BILLION

Unauthorised expenditure has increased every year for the past three years (excluding the social grants that were paid early to deal with covid-19), reaching R3,21 billion in 2020-21. The biggest contributors to this were the provincial health and education departments, which were responsible for R2,83 billion.

Most of this was spent by departments in three provinces:

- Eastern Cape: R2,05 billion (64%)
- Free State: R0,48 billion (15%)
- Northern Cape: R0,26 billion (8%)

## **WARNING SIGNS:** NSFAS BEHIND MASSIVE LEAP IN IRREGULAR SPENDING

In 2020-21, irregular expenditure soared to R166,85 billion (for all national and provincial auditees). Over 46% of this (R77,49 billion) was spent by the National Student Financial Aid Scheme (NSFAS), which did not consult with the minister concerned on the rules and criteria for student bursaries.

That irregular spending, plus the R89,36 billion that other auditees spent irregularly, brought the total for the year to R166,85 billon, compared to R109,82 billion in the previous year. And this amount could actually be even higher, as 30% of auditees received qualified audit opinions because the irregular expenditure they disclosed was incomplete or the full amount was simply not known. We were also unable to audit R2,14 billion worth of contracts because information was missing or incomplete.

## **SIGNS OF PROGRESS:** AUDITEES WASTE LESS – BUT STILL TOO MUCH

Three years ago, national and provincial auditees wasted R2,76 billion through poor decision making, neglect or inefficiencies. The amounts wasted in the past two years were substantially lower:

- R2,23 billion in fruitless and wasteful expenditure in 2019-20
- R1,72 billion in 2020-21

This reduction is encouraging, but the money wasted could have been used to meet the pressing service delivery needs of citizens.

Fruitless and wasteful expenditure needs urgent attention.

## **WARNING SIGNS:** DELIVERY DEPARTMENTS WASTE AND OVERSPEND MORE

Key service delivery departments are the biggest culprits when it comes to unauthorised, irregular, and fruitless and wasteful spending.

The provincial health and education departments had unauthorised expenditure of R2,83 billion. For example, the Gauteng health department wasted R0,22 billion by overpaying for personal protective equipment (PPE) in 2020-21.

Together with state-owned enterprises, these key service delivery departments were responsible for more than half of the fruitless and wasteful spending racked up this year (R0,90 billion).

They also contributed substantially to irregular expenditure.

Last but not least, these departments ended the year with huge deficits, collectively amounting to R15,65 billion.

The health, education, human settlements and public works departments are not the only ones with financial troubles, though. The finances of SOEs are also in a dire state.

# STATE-OWNED ENTERPRISES IN SERIOUS FINANCIAL DIFFICULTY

The 15 state-owned enterprises (SOEs) that we audited had a total budget of approximately R100 billion for the year, but the finances of most of them are in a shambles.

Audits were only completed for eight of the SOEs because the rest did not submit their financial statements for auditing.

Only one SOE, the **Development Bank of Southern Africa**, received a clean audit in 2020-21.

The rest received dismal audit outcomes:

- **Armaments Corporation of SA (Armscor)** – lost its clean audit status and obtained an unqualified audit opinion with findings
- **South African Nuclear Energy Corporation (Necsa)** – received a second disclaimed opinion
- **Transnet** (audited by the AGSA for the first time in 2020-21) – received a qualified audit because its disclosure of irregular spending was incomplete. Of all the SOEs, Transnet was the single largest contributor to irregular expenditure, at over 90%.
- **South African Airways, Denel** and **South African Express Airways** are in grave financial difficulty. Denel has liquidity challenges, while SAA is in business rescue and South African Express Airways is in provisional liquidation.

They are not alone in their financial woes.

In 2020-21, the **SABC** and **Necsa** disclosed uncertainty about whether they will be able to continue their operations.

This is unlikely to be the end of the bad news. We expect other SOEs whose audits are still outstanding to disclose uncertainty over their financial future.

Some SOEs continued to ask for – and receive – funding from government, diverting funds intended for primary service delivery.

# INFRASTRUCTURE ON SHAKY GROUND

## Wastage, poor controls are rife in infrastructure development

In 2020-21, the health, education and human settlements sectors received R34,32 billion in grant funding for infrastructure projects to create sustainable human settlements, build healthcare infrastructure, and build and upgrade schools.

The budget of the public works sector amounted to R56,12 billion for the year.

The evidence is that these funds are not delivering the value for money expected.

Over the past few years, we have reported on control weaknesses that have led to money being wasted and value not being derived because infrastructure is not being delivered effectively and efficiently. This is especially true when it comes to the health, education, human settlements and public works sectors.

Our calls to address these shortcomings have fallen on deaf ears. The deficiencies continue, unabated and unattended.

The main problem areas are inadequate needs assessment and project planning, ineffective monitoring of project milestones and contractors, contractors underperforming without facing consequences, late payment of contractors, and failures in coordination between different levels of government, and even between stakeholders in the same institution.

This has resulted in delays in completing projects, financial losses, high project costs and defects in building quality. Some infrastructure is completed but is either not commissioned or underused.

The continued shortage of housing, good school infrastructure and access to healthcare facilities is the direct result of these project failures.

### HOUSING BACKLOG GROWS AS HUMAN SETTLEMENTS BEHIND SCHEDULE

- We estimate that the human settlements sector should be delivering at least 90 000 houses, 60 000 serviced sites and 238 644 title deeds a year.
- Although we could not confirm the reliability of the sector's reported achievements, as six auditees had material misstatements on their performance information, delivery falls significantly short of those goals, increasing the housing backlog.
- The risk is that at the end of the Medium-Term Strategic Framework, there will be a shortfall of more than 188 000 houses, more than 109 000 serviced sites and more than a million title deeds.

## WARNING SIGNS:
## UNSAFE, POORLY MAINTAINED BUILDINGS PUT PEOPLE AT RISK

- 2 160 buildings owned by the public works sector are considered to be in poor condition and unsafe to use, but 1 765 of these unsafe buildings – including schools – are still being used.
- The sector has more than 145 000 properties on its books but allocates only 18% of its budget to facilities management. This is not enough, given how many properties it looks after.

## WARNING SIGNS:
## MILLIONS SPENT ON PRIVATE LEASES WHILE 1 000 BUILDINGS STAND EMPTY

- The largest portion of public works' budgets, 37%, is spent on leasing private buildings. The sector leases over 3 700 buildings from private property owners.
- 28% of private leases have expired and government is leasing these buildings from month to month. Rental on some escalates at over 10% a year, which is above the inflation rate.
- Meanwhile, the sector owns over 1 000 buildings that are not occupied, mostly because they do not meet the needs of departments.

## WARNING SIGNS:
## DELAYS AND DEFECTS

- 68% of the infrastructure projects we selected for auditing were completed late or were still under construction after the contractual completion dates. The average delay was 26 months.
- We identified quality defects at 10 schools across five provinces, largely due to poor workmanship.

# GOVERNMENT RESPONSE TO OUR COVID-19 AUDITS

In March 2020, government announced a R500-billion social, health and economic relief package for vulnerable citizens and businesses affected by covid-19.

By 31 March 2021, only R218,54 billion of the R500 billion relief package had been used.

Because this support was made available urgently, using fast-tracked processes, government asked the AGSA at the outset to audit the covid-19 spending of government departments and agencies in real time.

Our auditors followed the money as and when it was spent by conducting real-time audits of 16 high-impact, high-risk covid-19 initiatives – 15 at national and provincial level, and one at local municipality level. We then produced three special reports, two on covid-19 spending in national and provincial departments and one on spending in local government.

But we didn't leave it there. As part of our annual audits for 2020-21, we continued to audit selected initiatives and to follow up on government's response to our recommendations on addressing shortcomings and risks.

## SIGNS OF PROGRESS: POSITIVE IMPACT OF OUR COVID-19 AUDITS

- Overpricing of **personal protective equipment (PPE**) and procurement non-compliance were tackled by strengthening controls and processes.
- The Unemployment Insurance Fund (UIF) began improving controls for the **temporary employee/ employer relief scheme (Ters)**, reducing incorrect payments made. The UIF also referred suspicious payments to the Fusion Centre investigating covid-19 irregularities.
- 131 companies that we flagged in **possible irregularities** were also flagged by the Special Investigating Unit. It has since confirmed irregularities of a little over R1 billion at 31 of these entities and is still investigating at 77 others.
- Some auditees are taking steps to investigate financial losses and irregularities and to recover losses and implement consequences. For example, the Department of Agriculture, Land Reform and Rural Development is recovering payments made to people who did not qualify for **farmers' relief.**

## WARNING SIGNS:
## SOME ARE DRAGGING THEIR HEELS ON COVID-19 ACTION

While many departments have moved swiftly to deal with the problems we raised with their covid-19 spending, others have not:

- The Department of Defence has not taken action against officials involved in procuring the unregistered drug Heberon.
- The Department of Tourism has only handed over a tourism relief overpayment to one beneficiary for recovery by the State Attorney. There is no action plan to address our remaining findings.
- The Compensation Fund has not addressed its control weaknesses, which affect covid-19 claims and normal claims as it uses the same processes for both.
- The Department of Sport, Arts and Culture has not yet recovered relief fund payments made to ineligible beneficiaries and has not investigated the root causes of the incorrect payments.
- The Department of Small Business Development did not follow up properly with the South African Social Security Agency (Sassa) when we found evidence of "double-dipping": some beneficiaries of the department's debt relief finance scheme also benefited from Sassa's R350 relief of distress grant. Although the debt relief scheme is no longer running, exactly the same risks apply to the spaza shop support programme, which is still running.

## WARNING SIGNS:
## MORE NEEDS TO BE DONE TO RECOVER COVID-19 LOSSES AND ENSURE CONSEQUENCES

Most auditees still have a lot of work to do to implement all our recommendations for improving controls, and to implement consequences and recover losses where things went wrong.

Examples are:

- The Department of Social Development needs to recover payments that were supposed to be made to vulnerable households but went to beneficiaries who were not eligible.
- In the health sector, controls have been put in place to prevent further non-compliance with procurement regulations but management has not yet implemented consequence management in instances where both the Special Investigating Unit and internal investigations identified fraud or non-compliance.

Where appropriate, we have raised material irregularities (see page 20) to ensure that these matters receive the necessary attention. We will continue to audit and report on the actions taken as part of our normal annual audits.

# **AUDIT OUTCOMES**
# IN THE PROVINCES

## NORTH WEST

*Lack of strong accountability and effective oversight, resulting in negative impact on service delivery*

Overall audit outcomes improved

1 | 7 | 7 | 3 | 3

**Movement from 2019-20**

3 auditees ▲ | 1 auditee ▼

**Movement from 2018-19**
First year of administration

4 auditees ▲ | 1 auditee ▼

**12 departments + 1 provincial legislature + 9 public entities**

**18 MIs** with estimated loss of **R492,70 m** at **4 auditees**

## NORTHERN CAPE

*Failure to consistently implement preventative controls compromises desired audit outcomes and financial viability*

Overall audit outcomes improved

3 | 7 | 3

**Movement from 2019-20**

1 auditee ▲ | 0 auditees ▼

**Movement from 2018-19**
First year of administration

3 auditees ▲ | 1 auditee ▼

**12 departments + 1 provincial legislature**

**5 MIs** with estimated loss of **R31,7 m** at **1 auditee**

## WESTERN CAPE

*Robust control environment, solid and consistent pattern of good financial governance*

Overall audit outcomes improved

14 | 3 | 4

**Movement from 2019-20**

1 auditee ▲ | 0 auditees ▼

**Movement from 2018-19**
First year of administration

1 auditee ▲ | 1 auditee ▼

**13 departments + 1 provincial parliament + 7 public entities**

None

## EASTERN CAPE

*Decisive action is required for meaningful improvements in audit outcomes*

Overall audit outcomes improved

7 | 11 | 3

**Movement from 2019-20**

2 auditees ▲ | 1 auditee ▼

**Movement from 2018-19**
First year of administration

5 auditees ▲ | 1 auditee ▼

**13 departments + 1 provincial legislature + 7 public entities**

**17 MIs** with established loss of **R85,90 m** at **5 auditees**

Unqualified with no findings | Unqualified with findings | Qualified with findings | Disclaimed with findings | Outstanding audits | MI Material Irregularity

# LIMPOPO

*Lack of sustainable preventative controls for a meaningful, positive impact*

Overall audit outcomes regressed

| Unqualified with no findings | Unqualified with findings | Qualified with findings | Outstanding audits |
|---|---|---|---|
| 5 | 10 | 3 | 1 |

**Movement from 2019-20**

- 1 auditee (improved)
- 4 auditees (regressed)

**Movement from 2018-19**
First year of administration

- 7 auditees (improved)
- 1 auditee (regressed)

**12 departments + 1 provincial legislature + 7 public entities**

**2 MIs** with established loss of **R5 m** at **2 auditees**

# GAUTENG

*Effectively monitor preventative controls to continuously improve accountability to have a sustained, positive impact on service delivery*

Overall audit outcomes improved

| Unqualified with no findings | Unqualified with findings | Qualified with findings | Disclaimed with findings |
|---|---|---|---|
| 9 | 11 | 2 | 1 |

**Movement from 2019-20**

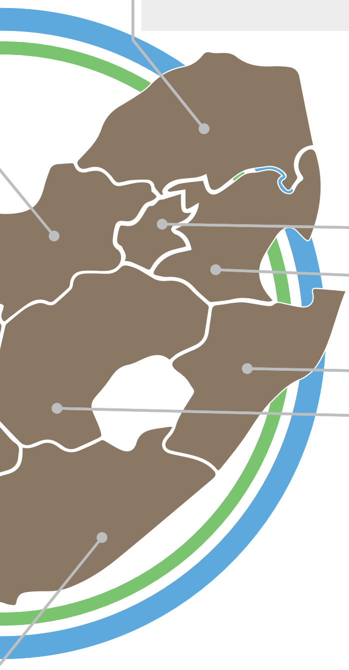
- 5 auditees (improved)
- 2 auditees (regressed)

**Movement from 2018-19**
First year of administration

- 4 auditees (improved)
- 2 auditees (regressed)

**14 departments + 1 provincial legislature + 8 public entities**

**8 MIs** with estimated loss of **R361 m** at **3 auditees**



# MPUMALANGA

*Lack of preventative controls requires leadership to set the tone and drive change*

Overall audit outcomes regressed

| Unqualified with no findings | Unqualified with findings | Qualified with findings |
|---|---|---|
| 4 | 7 | 5 |

**Movement from 2019-20**

- 1 auditee (improved)
- 2 auditees (regressed)

**Movement from 2018-19**
First year of administration

- 3 auditees (improved)
- 3 auditees (regressed)

**12 departments + 1 provincial legislature + 3 public entities**

**2 MIs** and **1 suspected MI** with established loss of **R110,26 m** at **3 auditees**

# FREE STATE

*Lack of leadership tone and effective consequence management to ensure accountability*

Overall audit outcomes remained unchanged

| Unqualified with no findings | Unqualified with findings | Qualified with findings | Disclaimed with findings |
|---|---|---|---|
| 1 | 7 | 7 | 1 |

**Movement from 2019-20**

- 1 auditee (improved)
- 1 auditee (regressed)

**Movement from 2018-19**
First year of administration

- 3 auditees (improved)
- 1 auditee (regressed)

**12 departments + 1 provincial legislature + 3 public entities**

**9 MIs** with established loss of **R128,6 m** at **3 auditees**

# KWAZULU-NATAL

*Leadership must enforce a culture of accountability to realise further improvement*

Overall audit outcomes improved

| Unqualified with no findings | Unqualified with findings | Qualified with findings |
|---|---|---|
| 10 | 10 | 3 |

**Movement from 2019-20**

- 5 auditees (improved)
- 1 auditee (regressed)

**Movement from 2018-19**
First year of administration

- 9 auditees (improved)
- 2 auditees (regressed)

**14 departments + 1 provincial legislature + 8 public entities**

**9 MIs** with established loss of **R468,32 m** at **4 auditees**

# **MATERIAL** IRREGULARITIES

## Our expanded powers are the last resort for accountability failures

At some auditees, weaknesses in financial management and internal controls have led to significant financial losses. If accounting officers and authorities do not deal with these losses appropriately, the AGSA has the mandate to report on these matters as material irregularities.

By 15 October 2021, we were dealing with 121 material irregularities at various stages in the process, with estimated financial losses of R11,9 billion.

Many of these cases have received a lot of public attention, such as:

- procurement of **overpriced PPE**
- **importing of unregistered medicine** by the Department of Defence
- losses from the **Beitbridge border infrastructure projects**
- **incorrect bursary pay-outs** by the National Student Financial Aid Scheme
- repeated **lapses in the procurement and payment processes** in the Free State, in North West and at the Passenger Rail Agency of South Africa.

## Behaviours are starting to change

Most accounting officers and authorities have been actively working to resolve the material irregularities in their institutions by recovering losses, improving controls and implementing consequences.

Here are a few examples:

- Several **Housing Development Agency** officials were arrested for their alleged involvement in irregularities on the Talana project, a covid-19 temporary residential initiative.
- The **Free State Department of Education** cancelled a teacher-training contract that had been awarded to a bidder whose R27,6 million tender was more than R8 million more expensive than the price quoted by a bidder who was disqualified when they shouldn't have been. The contract was cancelled before any services were received or payments were made, and so there was no financial loss.
- A supplier received prepayment of R21,3 million from the **North West Department of Community Safety and Transport Management** for learner driver training that was not delivered. A civil claim process to recover the money was started in 2017 and a summons was issued in August 2021, after the supplier's whereabouts were established.

Unfortunately, not all accounting officers and authorities have been as responsive, and in some cases we have had to invoke our extended powers.

*You can read more about our expanded mandate and how we deal with material irregularities on page 26 of this report.*

## AG takes remedial action for the first time

We have been clear from the start that if accounting officers and authorities don't deal with material irregularities with the required seriousness, we won't hesitate to use our expanded powers.

In 2021, we issued our first four remedial actions to the accounting officers or authorities of:

- the **Passenger Rail Agency of South Africa** (one material irregularity)
- the **Department of Defence** (one material irregularity)
- the **Free State Department of Human Settlements** (two material irregularities).

If they do not take remedial action to deal with the financial loss by the date we have set, this could result in a certificate of debt being issued.

We referred three material irregularities to the Hawks for investigation, one each for:

- the **Department of Defence**
- the **South African Post Office**
- the **Free State Development Corporation**.

We also included recommendations in the audit report of the **Free State Development Corporation** to resolve certain aspects of the material irregularity that will not be dealt with by the Hawks.

In addition, we included recommendations to resolve material irregularities not appropriately dealt with in the audit reports of the **departments of Defence, Cooperative Governance** and **Public Works and Infrastructure**.

# CONCLUSION

While the improvements in audit outcomes and clean audits are real achievements, we hope to see these improvements ramp up in areas that affect service delivery.

The bottom line is that while some auditees are getting better at managing their finances, the pace of progress is slow and the extent limited. There is a need to accelerate improvements in accountability.

Government should focus on improving the financial and performance management of key service delivery departments and SOEs, and on ensuring that vital infrastructure programmes succeed.

The lessons learnt from the successes and failures of the covid-19 response should be used to strengthen the environment so that it is better prepared for the next disaster.

At the end of the day, the measure of success for us, together with national and provincial government, will be evidence of a sustainable and measureable improvement to the lives of citizens.

For this to happen, we all need to play our part to enable a culture of accountability.

# WHAT CAN YOU, AS A CITIZEN, DO?

When government spending is irregular, unauthorised or fruitless and wasteful, it is citizens' tax money that is being misused.

If you, as a taxpaying citizen of South Africa, are unhappy with the way any government department or public entity is spending public funds, you have the right and the power to speak up and demand accountability to ensure that public funds are used responsibly.

## Here are a few suggestions for how you can make your voice heard

Attend and ask questions during government's public meetings such as Taking Parliament to the People, which is run by the National Council of Provinces and held in a different province every year. It includes public meetings where citizens can talk about their experiences of government service delivery and related matters.

Write petition letters requesting the legislature in your province to ensure that the provincial departments spend public money properly and that action is taken against those who do not. Each provincial legislature has a petitions office that receives and processes petition letters from members of the public.

Participate at local government level by attending ward committee meetings.

Participate in civil society or community-based organisations' meetings.

Participate in the integrated development plan consultation meetings in your region and engage with your municipality's leadership on service delivery issues and infrastructure developments and service delivery plans for your ward.

Get involved in provincial legislature meetings where discussions on provincial strategic plans, annual performance plans, budgets and annual reports take place.

# FREQUENTLY ASKED QUESTIONS

## WHAT IS THE AGSA?

The Auditor-General of South Africa (AGSA) is the country's supreme audit institution. This means that, by law, the AGSA has to audit and report on how the government is spending the South African taxpayers' money.

## WHAT IS THE ROLE OF THE AGSA?

Once a year, we audit every national and provincial government department and some public entities, referred to as auditees.

Our auditors go through the financial statements and performance reports to check the quality and to see if they have complied with key laws on financial and performance management (such as the Public Finance Management Act).

## WHERE DOES THE MONEY COME FROM AND HOW IS IT SPENT?

The money that government spends comes from the public purse – from the taxes that citizens pay and which the South African Revenue Service (SARS) collects.

This tax money is intended to be spent on programmes that improve the quality of life of citizens through access to clean water, sanitation, electricity, safe and reliable transport, and so on.

## WHY ARE AUDITS OF GOVERNMENT SPENDING IMPORTANT?

The amount of money available for government service delivery is limited, but the demand is huge and ever-growing.

This means that the limited money available must be spent on the right things – on government's priority service delivery programmes and projects.

## WHAT CAN THE AGSA DO WHEN IT COMES TO GOVERNMENT SPENDING?

- We check all public spending yearly by conducting audits of government departments' financial statements.
- Based on our audit findings, we give an opinion on how well or poorly the department concerned fared in the three areas listed on page 25.

## WHAT DO WE LOOK AT IN OUR AUDITS?

When we audit the financial statements, we check three areas:

1. **Have all the facts and figures been included and are these correct and accurate?**
   This is about making sure that the financial statements give a fair presentation of the department's finances and that there are no material misstatements, which could mislead the user of the statements.
2. **Did the department provide reliable and credible information on the things it was supposed to do during the year?**
   These goals are known as performance objectives or predetermined objectives
3. **Did the department comply with all the laws and regulations governing public finances?**
   One of the most important of these laws is the Public Finance Management Act, which sets out how departments must manage and report on their finances.

## We focus on:

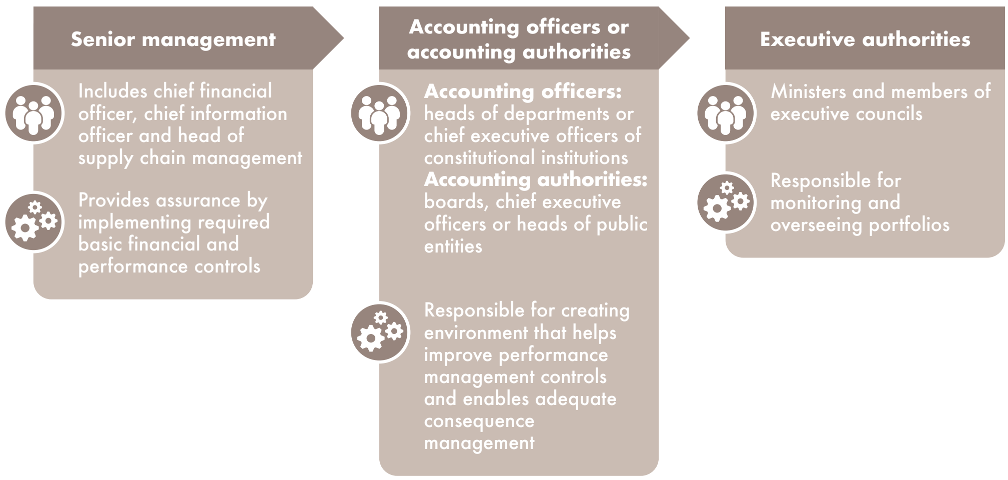
1. Whether the financial statements fairly represent the key financial information for the financial year, using the correct reporting framework and in accordance with the law.
2. Material misstatements (information that is wrong or missing) that make it difficult to rely on the facts and figures in the financial statements.
3. Whether the material misstatements could have been prevented or detected if a proper internal control system had been in place.

## WHAT ARE THE FINDINGS IN THE AUDIT REPORT?

Sometimes, an audit might show that public money has not been spent the way it should have been or the spender has not provided proper proof of how the money was spent. When this happens, the AGSA points out the problems in an audit report.

After we report on what we have found, someone has to take responsibility for acting on our findings and recommendations.

## WHO ARE THE RESPONSIBLE PEOPLE?



## WHY DOESN'T THE AGSA TAKE ACTION AGAINST WRONGDOERS?

People sometimes ask why the AGSA itself does not take action against the wrongdoers if an audit shows that money was wasted, misused or not properly accounted for. The answer is that we have a mandate, which comes from the Constitution and the Public Audit Act.

We do not prescribe what government ministers or heads of departments should do with the audit findings.

When auditing the financial statements, our aim is to give an opinion on whether users of the statements can rely on them to give a full, accurate picture of government spending.

## WHY WAS THE AGSA'S MANDATE EXPANDED?

Ideally, the preventative controls in government should be so effective that it would be difficult to sidestep or manipulate them, and it should be easy to detect and deal with any attempts to do so.

And, if someone actually successfully misuses public money, the accounting officers or authorities concerned would act quickly to recover the money and take the necessary action.

Unfortunately, this isn't always what happens.

So, the Public Audit Act was amended to give the AGSA an expanded mandate to go beyond auditing and reporting in an effort to strengthen accountability mechanisms.

## WHAT DOES THIS EXPANDED MANDATE MEAN?

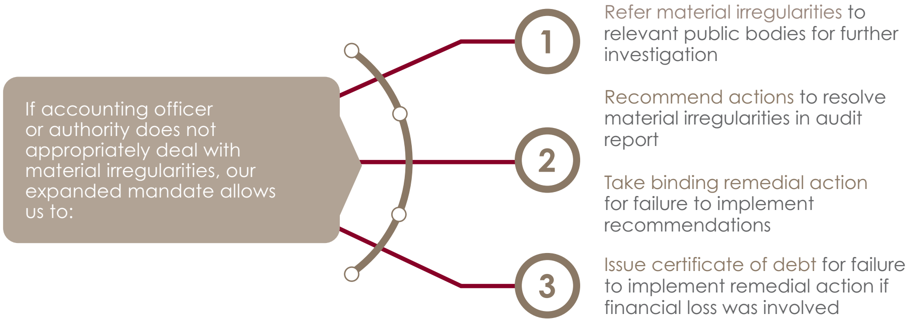
Our expanded powers don't change the roles and responsibilities of the accounting officers and authorities, executive authorities and oversight bodies. In a nutshell, they are centred around the concept of "material irregularity".

For example, accounting officers and authorities have the responsibility to prevent irregularities and act when they do happen. We only use our expanded mandate when we detected and reported on a material irregularity and no action has been taken.

## WHAT IS A MATERIAL IRREGULARITY?

The Public Audit Act amendments define a material irregularity as follows:

**Material irregularity** means any non-compliance with, or contravention of, legislation, fraud, theft or a breach of a fiduciary duty identified during an audit performed under the Public Audit Act that resulted in or is likely to result in a material financial loss, the misuse or loss of a material public resource, or substantial harm to a public sector institution or the general public.



## WHAT DO THESE TERMS MEAN?

### Referral

The auditor-general may **refer** a suspected material irregularity to a public body with a mandate and powers that are suitable to investigate it, such as the public protector, the Special Investigating Unit and the Hawks.

The public body would then deal with the matter within its own legal mandate and take appropriate action where necessary.

### Recommendations

The auditor-general may make **recommendations** in the audit report on how a material irregularity should be addressed, and give a specific deadline by when the recommendations should be implemented.

### Remedial action

The auditor-general may take **binding remedial action** if the auditee does not implement the recommendations by that date. If the material irregularity involves a financial loss, the auditor-general must also direct the accounting officer or authority to determine how much was lost and recover the amount from the responsible person or people.

### Certificate of debt

If the accounting officer or authority does NOT implement the remedial action, including determining and recovering a financial loss, the auditor-general must **issue a certificate of debt** in the name of that accounting officer or the members of that accounting authority.

The relevant executive authority (such as a minister or a member of the executive council) must then recover the loss from the accounting officer or authority.

## WHAT IS THE DIFFERENCE BETWEEN IRREGULAR EXPENDITURE AND MATERIAL IRREGULARITY?

The main difference between irregular expenditure and material irregularities is in nature and value.

### Nature

A material irregularity needs to pass two gates: there needs to be an **irregularity** (which is the non-compliance, fraud, theft or breach) and an **impact** (which is the loss, misuse or harm).

Irregular expenditure, on the other hand, only needs to pass the first gate – **irregularity**. It also only applies when money is spent.

### Value

The value of the material irregularity is the financial loss, while the value of the irregular expenditure is the total amount spent.

## Irregular expenditure (IE) versus material irregularity (MI)

### Definition

**IE:** Expenditure incurred in contravention of, or that is not in accordance with, a requirement of any applicable legislation

**MI:** Any non-compliance with, or contravention of, legislation, fraud, theft or a breach of a fiduciary duty identified during an audit performed under the Public Audit Act that resulted in or is likely to result in a material financial loss, the misuse or loss of a material public resource or substantial harm to a public sector institution or the general public

### Difference: irregularity

**IE:** Irregularity is only **non-compliance with legislation when incurring expenditure**

MI: Irregularity is **any non-compliance (not limited to expenditure)** as well as **fraud, theft or breach of fiduciary duty**

### Difference: impact

Impact is not specified, as Public Finance Management Act requires accounting officers and authorities to determine impact

There can be **irregular expenditure that did not result in any financial losses**, misuse or harm

### Difference: value

**IE:** Value is expenditure to date

**MI:** Does not necessarily have a value, but if impact is financial loss, value **we report is estimated financial loss**

## Example of irregular expenditure versus material irregularity

If a department paid R20 million on a contract, but it could have got the same service for R18 million, then the value of the material irregularity would be R2 million (money that was spent but shouldn't have been), while the irregular expenditure would be the entire R20 million (all the money that was spent irregularly).

# DOWNLOAD THE FULL GENERAL REPORT


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

## ANNEXURES

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

- **Annexure 1:** Auditees' audit outcomes: areas qualified; and findings on performance reports, compliance, specific risk areas and unauthorised, irregular as well as fruitless and wasteful expenditure
- **Annexure 2:** Auditees' financial indicators, supply chain management findings and root causes
- **Annexure 3:** Auditees' audit opinions over the past five years
- **Annexure 4 :** Assessment of auditees' key controls at the time of the audit
- **Annexure 5:** Material irregularities identified in national and provincial government

# PRODUCTS OF THE AGSA

Every year, the AGSA produces audit reports on all government departments, public entities, municipalities and municipal entities.

The outcomes of these reports are analysed in our general reports, which cover the Public Finance Management Act (PFMA) cycle for national and provincial government, and the Municipal Finance Management Act (MFMA) cycle for local government.

In 2020-21, we also produced three special reports on the financial management of government's covid-19 initiatives – two on initiatives in national and provincial government, and one on local government initiatives.

These and our other reports are available on our website (www.agsa.co.za).

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