AUDITOR-GENERAL
SOUTH AFRICA

PFMA
2020-21

CONSOLIDATED GENERAL REPORT ON NATIONAL AND PROVINCIAL AUDIT OUTCOMES

Accelerate improvements in accountability

ANNEXURES

Annexures containing information on the following are available on **www.agsa.co.za**

Annexure 1:
Auditees' audit outcomes; areas qualified; and findings on predetermined objectives, non-compliance, specific risk areas and unauthorised, irregular, and fruitless and wasteful expenditure

Annexure 2:
Auditees' financial health indicators, supply chain management findings and root causes

Annexure 3:
Auditees' audit opinions over 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

PFMA 2020-21

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FOREWORD
from the Auditor-General

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

This report is meant to enable public accountability and empower citizens by informing them about how the national and provincial governments are managing public finances. It also provides an update on how key service delivery departments have spent their budgets and performed in the year under review, and gives an overview of the performance of public entities, as well as of those state-owned enterprises that we audit.

In addition to presenting the outcomes of our audits, this report highlights the progress that we have made in implementing the enhanced mandate granted to us by the amendments to the Public Audit Act. We report on the material irregularities identified and the progress made towards resolving them in accordance with relevant laws and regulations.

The findings and recommendations in this report serve as a good basis from which to address the challenges facing national and provincial government.

It has been almost two years since the president first declared a national state of disaster, and covid-19 remains a stark reality that continues to affect all of us and impact how we work and live. We are focused on addressing the challenges posed by the pandemic, keeping in mind all parties involved in the auditing process, and we remain committed to supporting government in the drive towards clean administration, which will ultimately result in a better life for the people of South Africa.

I wish to thank the audit teams from my office and the audit firms that assisted with the auditing of national and provincial government for their diligent efforts in helping us fulfil our constitutional mandate and for the manner in which they continued to strengthen cooperation with government leadership. I also wish to thank the leadership of all auditees for working with us during the auditing process.

6/12/2021

Tsakani Maluleke
Auditor-General

ICONS USED IN THIS REPORT

MOVEMENT IN AUDIT OUTCOMES

We compared the results of the completed 2020-21 audits for departments and public entities with their results in 2019-20 (previous year) and 2018-19 (first year of current administration), and depict the movement as follows:

Improved

Unchanged

Regressed

Movement of 5% or less: Slightly improved Slightly regressed

In some comparisons, we also include arrows to show how many auditees have improved or regressed and depict the movement as follows:

Improved

Unchanged

Regressed

Type of information

Definitions and explanations

Examples

ONE
EXECUTIVE SUMMARY

EXECUTIVE SUMMARY

In our 2019-20 general report, we commented on the signs of improvement at some auditees, but cautioned that the sustainable solutions and financial management disciplines required to prevent accountability failures and financial losses were not yet in place and would require investment and commitment from all levels of government.

We also highlighted that state-owned enterprises and key service delivery departments were struggling, which was having a significant impact on government finances and service delivery. Lastly, we reiterated the need for there to be consequences for accountability failures, and implored oversight bodies and executive authorities to play their part in supporting the material irregularity process we implemented to strengthen accountability mechanisms.

In 2020-21, the economic downturn and covid-19 left departments and public entities with limited funds available to deliver on their mandates, while also having to reprioritise their budgets to respond to the pandemic and operate within the extraordinary circumstances it caused. The good news is that even in these difficult times, some auditees were able to focus on compliance and governance issues and ultimately improved their audit outcomes.

Although we celebrate and acknowledge the admirable effort that goes into every incremental improvement, our call – and the theme of this general report – is that there is a need to **accelerate improvements in accountability**. Progress is slow, and those auditees with the greatest impact on the lives of citizens and the financial health of government are lagging behind in the improvement trend.

In the 2020-21 audit cycle, we audited 679 departments and public entities, and in this report we focus on the results of 425 of these audits. The report includes information, statistics, insight and stories on the audit outcomes and state of these departments and public entities, with a particular focus on the key service delivery departments, state-owned enterprises, provincial government and information technology (IT).

We also report on the progress auditees have made in dealing with the shortcomings and risks we identified through our real-time audit of government's covid-19 initiatives – this being our final report on covid-19 spending at national and provincial level.

As in previous years, we account for the implementation of our expanded mandate and share what we have identified and observed through the material irregularity process.

The remainder of this chapter provides a summary of the main results, messages and requisite call to action to national and provincial leadership and oversight structures.

AUDIT OUTCOMES MOVING TOWARDS CLEAN AUDITS

In the third year of the current administration, we continue to see a **net improvement in the audit outcomes** in national and provincial government, as shown in the figure on the next page. The cut-off date for the audit outcomes to be included in this report was 15 October 2021, but to share the most updated information, the figure also includes the outcomes of eight auditees whose audits we finalised after the cut-off date.

Overall audit outcomes (includes 8 audits finalised after 15 October 2021)

	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimed with findings	Outstanding audits	Total
	27%	45%	17%	< 1%	3%	8%	
2020-21	115	187	74	2	13	34	425 Total
2019-20	110	182	84	3	28	11	418 Total
2018-19 First year of administration	94	185	102	3	27	4	415 Total

	Improved	Regressed
Movement from previous year	52	31
From first year of administration	86	41

The good practices at these auditees that resulted in improved audit outcomes were as follows:

- Accounting officers and authorities and senior management were committed to, and got directly involved in, ensuring that internal control processes were improved and our recommendations were implemented. There was also stability in these key positions.
- Internal controls were improved – this includes preventative controls being implemented.
- Accounting officers and authorities, executive authorities, internal audit and audit committees provided oversight, monitoring and assurance.

The 115 auditees (48 departments and 67 public entities) with a **clean audit** status represent 19% of the expenditure budget of R1,9 trillion managed by national and provincial government.

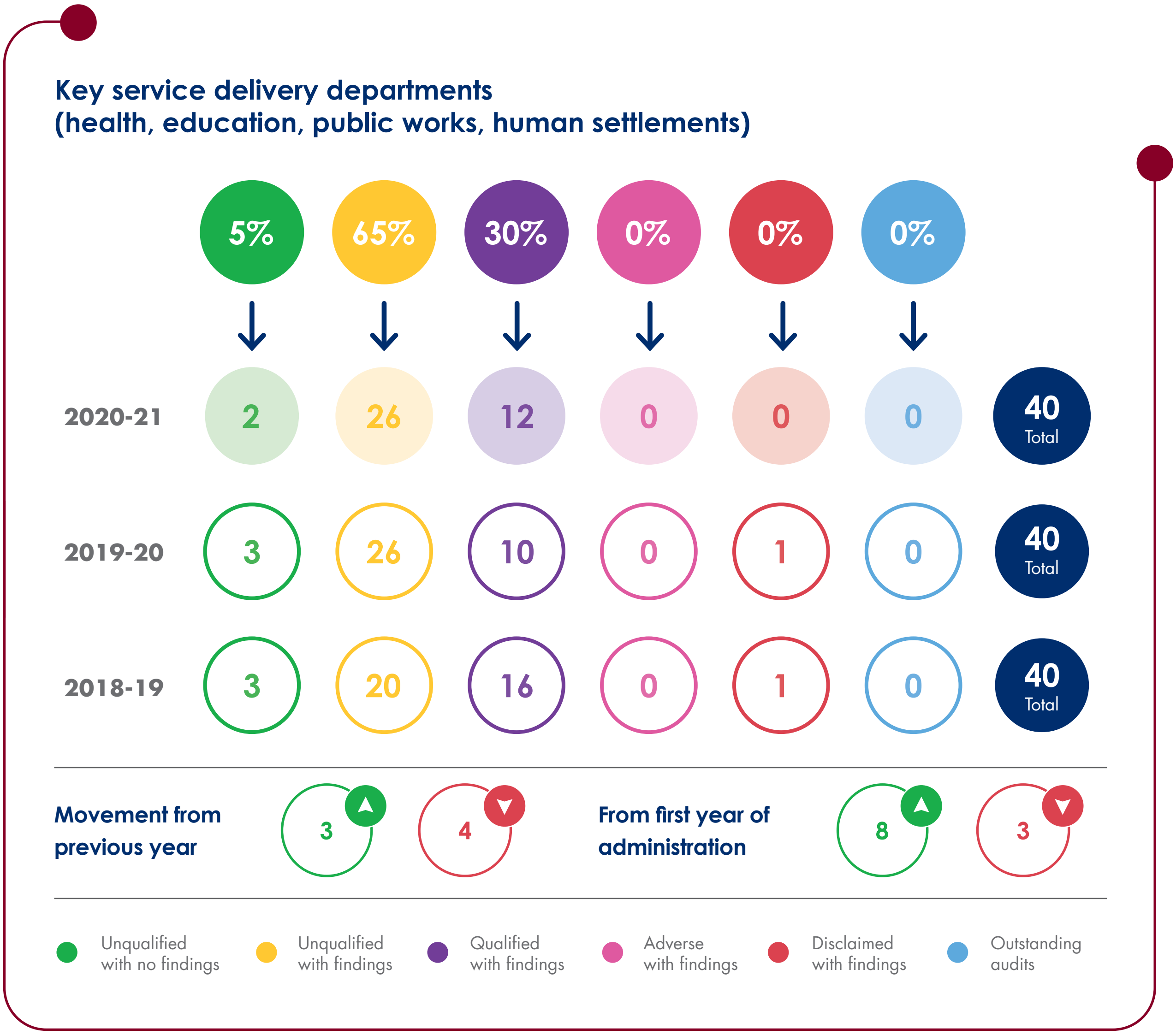
The number of clean audits increases every year due to significant effort and commitment by the leadership, officials and governance structures of these auditees. At least 31 auditees are very close to obtaining a clean audit status. Some have been working towards this goal for many years and, if they achieve it in 2021-22, we anticipate an uptick in clean audits.

However, it is often difficult to sustain a clean audit if financial and performance management systems and controls are not operating effectively. It is thus commendable that 62 auditees have managed to retain their clean audit status since the first year of the current administration.

When an auditee receives a clean audit, it means that their financial statements and performance report give a transparent, honest and credible account of their achievements, failures, problems and risks. In other words, these accountability reports present the true picture of that auditee, whether good or bad. This enables everyone with an interest in the auditee – particularly those who need to oversee the auditee's performance and provide support for it to succeed – to judge how the auditee is doing and to take action where necessary. It also means that the auditee complied with the important legislation that applies to it and, where slip-ups did occur, they were rare or not material.

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

Audit outcomes – key service delivery departments and state-owned enterprises



State-owned enterprises

	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimed with findings	Outstanding audits	
	7%	27%	13%	0%	7%	46%	
2020-21	1	4	2	0	1	7	15 Total
2019-20	2	4	2	0	5	2	15 Total
2018-19	0	5	6	0	3	1	15 Total

	Improved	Regressed
Movement from previous year	0	1
From first year of administration	2	0

The audit outcomes of the key service delivery departments within the health, education, human settlements and public works sectors were poor when compared to other departments, and improvements were much slower. These departments are responsible for almost a third of the expenditure budget and are instrumental in managing infrastructure and delivering essential services. While the audit outcomes of public entities show a definite upward trend, this is not the case for state-owned enterprises, and many of these audits were not completed because the entities did not submit their financial statements for auditing.

FINANCIAL MANAGEMENT

At a time when departments, state-owned enterprises and public entities need to optimise how they use their resources by doing more with less, and when the public's demands for service delivery and accountability are increasing, accounting officers and authorities should do everything in their power to get the most value from every rand spent and manage every aspect of their finances with diligence and care. Yet we continue to find evidence of **serious weaknesses in financial management**.

Credible **financial statements** are crucial for enabling accountability and transparency, but more than half of the auditees submitted poor-quality financial statements for auditing. This means that if misstatements had not been identified in these financial statements and the auditees allowed to correct them, only 182 auditees would have received unqualified audit opinions, compared to the 302 that ultimately received this outcome.

Most of the auditees that did not submit financial statements for auditing were state-owned enterprises. The Denel group did not submit financial statements for auditing due to financial and operational challenges, which resulted in a loss of key finance staff. The financial statements of the South African Airways group have been outstanding because the board and business rescue practitioner decided not to submit financial statements due to the business rescue proceedings. The financial statements for 2017-18 were only submitted for auditing in September 2021. The financial statements of South African Express Airways have been outstanding since 2019-20 due to the entity being placed in provisional liquidation.

A **disclaimed opinion** is the worst audit opinion an auditee can get, as it means that they could not provide us with evidence for most of the amounts and disclosures in their financial statements. As a result, we could not express an opinion on whether the financial statements were credible. Twelve public entities received disclaimed opinions in 2020-21, including the South African Nuclear Energy Corporation, the National Skills Fund, four technical and vocational education and training colleges, and both the Free State and North West development corporations. All 12 public entities had also received disclaimed opinions in 2019-20. Another nine public entities that had previously received disclaimed opinions had either not submitted their financial statements for auditing by the cut-off date for this report, or had submitted them so late that the audit was still in progress. These entities include the Passenger Rail Agency of South Africa, the Independent Development Trust and the Compensation Fund.

If financial statements are not prepared, or are so poor that we cannot express an opinion on their credibility, the users of those financial statements (e.g. the executive, oversight, creditors and banks) are deprived of information on the state of the public entity's finances. This has a significant effect on the accountability value chain.

The **financial health of departments remains concerning**. In 2020-21, unauthorised expenditure totalled R3,21 billion, all from overspending of the budget. Budget cuts and reprioritisation, along with emergency and unplanned spending in response to the covid-19 pandemic, meant departments had less funding available. Claims against the state further reduced available budgets, as most departments do not budget for such claims.

Even in these circumstances, good financial management should not suffer – instead, it should be reinforced to ensure that the limited funds available are spent wisely and within budget.

As a result of these factors, almost a third of departments ended the year in a deficit, which came to a combined R41,74 billion. In addition, over 60% of departments did not have sufficient funds to settle all their liabilities at year-end, with cash shortfalls totalling R33,29 billion. This means that the viability of these departments, and their ability to deliver on their mandates, is in question, as they started the 2021-22 financial year with part of their budgets effectively pre-spent.

The key service delivery departments have the poorest financial health of all, which affects their ability to deliver services to citizens. In total, these departments incurred 90% of all unauthorised expenditure and their deficits totalled R15,65 billion. Five provincial health departments had deficits totalling R6,2 billion.

In 2020-21, the provincial health departments paid out R1,76 billion for medical negligence claims, while the estimated settlement value of unpaid claims at year-end was R124,15 billion (75% of the total claims against the state). Seven provincial health departments had unpaid claims at year-end that exceeded their entire operational budget for the next year.

This growing trend of departments using the next year's budget to pay the current year's expenses and claims adversely affected their ability to pay creditors on time, and continues to have a negative impact on service delivery.

State-owned enterprises are in serious financial difficulty. In addition to the well-known financial problems at South African Airways, Denel and South African Express Airways, the South African Broadcasting Corporation and the South African Nuclear Energy Corporation disclosed uncertainty in their financial statements about whether they will be able to continue their operations. We expect to see more such disclosures at some of the state-owned enterprises with outstanding audits.

Some state-owned enterprises continued to ask for – and receive – funding from government, diverting funds intended for primary service delivery.

Key public entities were also under financial pressure. If we exclude state-owned enterprises, the 31% of public entities with expenditure that exceeded their revenue incurred a total deficit of R7,58 billion. Thirteen public entities disclosed uncertainty about whether they will be able to continue their operations. Many of these are key development and delivery entities that have been disclosing their vulnerable financial position for many years, including the South African National Roads Agency, the Property Management Trading Entity and a number of provincial public entities.

Government cannot afford to lose money because of poor decision-making, neglect or inefficiencies. However, high levels of **fruitless and wasteful expenditure** continue, with 224 auditees losing a total of R1,72 billion in the current year. Again, key service delivery departments and state-owned enterprises were the main culprits, wasting a combined R0,90 billion (52%).

Over the last three years, R6,71 billion of government expenditure has been fruitless and wasteful, as it was made without reasonable care.

PERFORMANCE MANAGEMENT AND REPORTING

Auditees are required to plan what they must deliver every year and over the term of administration. In their annual performance reports, they account for whether they managed to achieve their targets so that the executive authority and oversight structures can call them to account and/or provide support where they struggle. Government also needs this information to track the progress made towards achieving its medium-term objectives (as included in the Medium-Term Strategic Framework), its long-term goals (as included in the National Development Plan) and the sustainable development goals.

Good planning, in-year performance management, and monitoring and reporting that is useful and reliable are crucial for achieving the intended outcomes of government programmes and service delivery. Performance information that is not credible hampers decision-making on important matters, such as funding allocation for government programmes, where intervention or reprioritisation is needed and where accounting officers and authorities are not performing.

It does not bode well for service delivery that 60% of auditees submitted poor-quality performance reports for auditing. The most common problem we identified was that the achievements reported were not reliable, meaning they were either incorrect or there was no evidence to support the achievement. We also found that the indicators and targets against which the achievements are reported were not useful, meaning that they cannot be measured or relied on, or that they were not relevant to the original commitments made in the performance plans. Not all auditees could correct the problems we identified, which resulted in 88 performance reports (28%) being published with significant flaws.

Only 14 key service delivery departments (36%) got it right. These departments deliver services that directly affect the lives of citizens, so they must be able to properly manage and credibly account for their performance to oversight and the public. The main problems we identified within these sectors were as follows:

- Data gathering for the performance report relies heavily on manual processes and is prone to human error that is not detected and corrected in time.
- Only in the health sector do all the provincial departments measure and report on the same performance indicators, referred to as 'standardised indicators'. The education, human settlements and public works sectors do not have such standardised indicators, which reduces their ability to measure and reliably report on their progress towards achieving the service delivery targets set for this administration.
- For example, in the public works sector, the Northern Cape Department of Public Works and Infrastructure was the only provincial department to measure whether infrastructure projects were completed in time and within budget, and to include this information in its plans and reports, despite this being the sector's most relevant area of performance.

The lack of credible data and information in these sectors also reduces their ability to deliver services, respond to any challenges that could arise and make decisions. For example, if a health department cannot reliably measure the number of tuberculosis patients being serviced by a specific hospital, that hospital may end up with either too little or too much medicine to treat those patients.

Based on the best information available on how these sectors have performed over the past two years, it is clear that the departments of health, human settlements and public works will struggle to achieve all their five-year targets. We also have significant concerns about infrastructure development projects, as well as delivery and maintenance of public sector infrastructure.

INFRASTRUCTURE

It is widely accepted that South Africa's economic recovery from the devastation of the covid-19 pandemic and social unrest hinges on infrastructure development. One of the key initiatives in the South African Economic Reconstruction and Recovery Plan is aggressive infrastructure investment, which will lead to employment opportunities, skills transfer and development, and much-needed economic growth.

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.

Although each sector has unique circumstances, infrastructure investment in these sectors faces the same problems. Over the past few years, we have reported on the internal control deficiencies that led to money being wasted and value not being derived because of inefficient and ineffective infrastructure delivery. But our call to address these deficiencies has not been heeded, and infrastructure projects continue to face the same delivery challenges that we have reported previously.

The unattended project deficiencies included:

- inadequate needs assessment and project planning
- ineffective monitoring of project milestones and contractors or implementing agents
- contractors underperforming without facing consequences
- contractors not being paid on time
- failure in coordination and collaboration between different levels of government, or between stakeholders in the same institution.

This resulted in:

- delayed project completion
- increased project cost and financial losses
- defects in build quality
- completed infrastructure not being commissioned or being underused.

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

Poor-quality infrastructure also results in shorter lifespans for completed projects, which exposes the public to potential harm. In addition, the money wasted on such projects could have been spent on other government priorities.

The public works sector is responsible for providing and maintaining infrastructure that enables departments to deliver services to the public. Given the large number of properties under its custodianship (145 712 properties), the sector could be expected to spend a significant portion of its budget on facility management to ensure that these properties are regularly assessed and properly maintained. However, it actually allocates only 18% of its budget to facility management, while spending the largest portion (37%) on private leases.

According to the Government Immovable Asset Management Act, properties that have had their condition assessed at 20% are considered to be in poor condition and neither safe nor fit for use. However, 1 765 of the 2 160 properties in poor condition are still being used. This includes schools, which puts learners and teachers at risk of personal harm.

The sector owns over a thousand buildings that are not occupied, mostly because they do not meet the needs of departments. As a result, there are 3 704 buildings being leased from private property owners, of which 28% have expired lease contracts and are leased on a month-to-month basis. Some of these leases are very costly and escalate at a rate of 10% each year, which is generally above the inflation rate. As a result of the lack of competitive processes, the sector has incurred millions of rands in irregular expenditure and lost opportunities to negotiate these contracts to market-related levels.

NON-COMPLIANCE WITH LEGISLATION

Overall, 69% of auditees **materially did not comply with legislation**. This outcome is only slightly better than the 71% we recorded in the previous year.

The number of auditees at which we identified **material non-compliance with supply chain management legislation declined** from 37% in the previous year to 31%. However, this was partly because procurement decreased due to budget cuts. It is thus early days to celebrate an improvement in supply chain management compliance, especially given the many procurement failures observed during the height of the pandemic and reported in our special reports.

Uncompetitive and unfair procurement processes, inadequate contract management, and non-compliance with the legislation that requires auditees to procure certain commodities from local producers remain common. There has also been little action to address the concerns we have raised year after year about contracts being awarded to employees and their families without the necessary declarations of interest being made, and about non-compliance with the legislation that prohibits department employees from doing business with the state.

Irregular expenditure reported in the financial statements increased to R166,85 billion from R109,82 billion in the previous year. The National Student Financial Aid Scheme was responsible for R77,49 billion of the total, mainly because it did not consult with the respective minister on the funding rules and eligibility criteria for student bursaries, as required by legislation.

In reality, irregular expenditure could be even higher, as 30% of auditees were qualified because the amount they disclosed was incomplete and/or they had incurred irregular expenditure but the full amount was not known. We were also unable to audit R2,14 billion worth of contracts because information was missing or incomplete.

Auditees have a poor track record when it comes to **dealing with irregular expenditure** and ensuring that the relevant people are held accountable. The year-end balance of irregular expenditure that had accumulated over many years and had not been either recovered, condoned or written off stood at R488,14 billion.

Key provincial messages

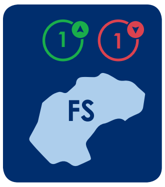
Previous year:

EASTERN CAPE

FROM FIRST YEAR OF ADMINISTRATION: 5 1

Decisive action by leadership is required for meaningful improvement in audit outcomes

Leadership must also demand greater collective effort in strengthening control environments in order to achieve improved audit outcomes and, ultimately, service delivery to citizens.



FREE STATE

FROM FIRST YEAR OF ADMINISTRATION: 3 1

Lack of leadership tone and effective consequence management to ensure accountability

Lack of leadership tone yields a culture of impunity on accountability for deteriorating financial disciplines, resulting in weak control environment, and poor financial sustainability and service delivery to communities.

GAUTENG

FROM FIRST YEAR OF ADMINISTRATION: 4 2

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

Embed the discipline of monitoring preventative controls and ensure timeous implementation of consequence management to continue improving accountability and audit outcomes.

KWAZULU-NATAL

FROM FIRST YEAR OF ADMINISTRATION: 9 2

Leadership must enforce a culture of accountability to realise further improvement

Leadership displayed greater dedication and commitment, but discipline is required to further strengthen accountability and consequence management.

LIMPOPO

FROM FIRST YEAR OF ADMINISTRATION: 7 1

Lack of sustainable preventative controls for a meaningful, positive impact

Provincial leadership must not be discouraged by the regression, but reflect and self-correct where necessary in order to lead the province to greater heights.

MPUMALANGA

FROM FIRST YEAR OF ADMINISTRATION: 3 3

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

Leadership must act swiftly to instil accountability by institutionalising preventative controls.

NORTHERN CAPE

FROM FIRST YEAR OF ADMINISTRATION: 3 1

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

A culture of strong preventative controls and consequence management must be embedded in the province.

NORTH WEST

FROM FIRST YEAR OF ADMINISTRATION: 4 1

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

For impactful and sustainable outcomes, leadership must insist an active supervision.

WESTERN CAPE

FROM FIRST YEAR OF ADMINISTRATION: 1 2

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

Solid, consistent pattern of good financial governance.

PROVINCIAL AUDIT OUTCOMES

Provincial leadership and legislatures should focus on implementing sustainable solutions at provincial departments and public entities to improve the audit outcomes and delivery in the provinces. Our key provincial messages are summarised below, and we invite you to read our detailed insights in chapter 8.

INFORMATION TECHNOLOGY

Government departments and entities use information systems to process critical business transactions and report on operational and financial performance. Over the years, we have identified significant control weaknesses in government's information systems, but the urgency to address these problems has been lacking, resulting in continued system vulnerabilities, project failures and financial loss.

The impact of these weaknesses was as follows:

- Government continues to spend money on new and advanced systems to streamline its processes. However, due to significant system weaknesses, we could not rely on the transactions and data processed by most of these systems. The systems are also vulnerable to misuse, abuse and fraud.
- Hackers successfully exploited security weaknesses at some of the auditees we rated as having weak IT security. This resulted in some key government services not being available for a prolonged period and, in some cases, hackers using ransomware for financial gain.
- If a significant IT incident causes major business disruptions, auditees with inadequate or ineffective disaster recovery capabilities cannot resume normal business operations timeously, resulting in a loss of services or revenue.
- Poorly managed IT projects resulted in auditees incurring costs that could have been avoided. We identified that R1,7 billion had been spent on system implementation projects that did not meet business expectations.
- Auditees paid for software licences they did not need, resulting in expenditure that could have been avoided. We identified R46 million in such avoidable expenses.

The root cause of the prevailing weak IT control environment is poor IT governance processes. The accounting officers and authorities of departments and public entities are responsible for effective IT governance, but have not fulfilled this responsibility for a number of years.

FINANCIAL MANAGEMENT OF COVID-19 INITIATIVES

In 2020, we tabled two special reports on the financial management of the covid-19 initiatives in national and provincial government based on our real-time audit of these initiatives. We continued to audit the 15 selected initiatives as part of our annual audits, and some of the problems we identified also affected the 2020-21 audit outcomes as well as the irregular and fruitless and wasteful expenditure disclosure of the relevant auditees, as detailed in this report.

According to the accounting records of our auditees and supporting expenditure information from external sources at 31 March 2021, as well as the May 2021 report from the Banking Association of South Africa on the credit guarantee scheme, only R218,54 billion of government's R500 billion relief package had been used.

We are encouraged by the impact of this real-time audit, particularly the implementation of controls to reduce both the payment of benefits and grants to ineligible persons and the serious lapses in procurement and payment processes. We have also seen improvements in the planning, monitoring and management of some initiatives. Some auditees are moving swiftly to investigate the irregularities we identified, recover the financial losses and make sure there are consequences for those involved.

Our close collaboration with the Fusion Centre – and sharing our data and information on potential fraud – has also borne fruit, as the Special Investigating Unit is investigating the companies and individuals we flagged for supply chain management irregularities. The Financial Intelligence Centre, Directorate for Priority Crime Investigation (the Hawks) and Department of Public Service and Administration are also taking action against individuals who received grants and unemployment benefits to which they were not entitled.

Most auditees still have a lot of work to do to implement all our recommendations for improving controls, and to effect consequences and recover losses where things went wrong. Where appropriate, we also raised material irregularities 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.

MATERIAL IRREGULARITIES

The weaknesses in financial management, controls, fraud prevention and legislative compliance, as evidenced by the audit outcomes and the special reports, resulted in material financial losses at some auditees. The amendments to the Public Audit Act, which came into effect on 1 April 2019, give us the mandate to report on these matters as material irregularities and to take action if accounting officers and authorities do not deal with them appropriately.

By 15 October 2021, we were dealing with 121 material irregularities at various stages in the process. We estimate the total financial loss of these material irregularities at R11,9 billion.

These material irregularities emerged in areas that were not complex, but in which auditees should have basic disciplines and processes in place – to procure at the best price, pay only for what was received, make payments on time, recover revenue owed to the state, safeguard assets, effectively and efficiently use the resources of the state to derive value from the money spent, prevent fraud, and comply with legislation.

They covered well-publicised matters such as procurement of overpriced personal protective equipment by various auditees; importing of unregistered medicine by the Department of Defence; losses resulting from the Beitbridge border infrastructure projects; debt-collection weaknesses and incorrect bursary pay-outs by the National Student Financial Aid Scheme; payments for poor-quality work on infrastructure projects and losses as a result of contractors not being paid; uneconomical use of resources, such as the losses suffered by the National Treasury on the Integrated Financial Management System project; and multiple lapses in the procurement and payment processes in the Free State and North West provinces and at the Passenger Rail Agency of South Africa.

If we identified a material irregularity, it means the preventative controls failed and the accounting officer or authority was unaware that it took place, or they knew there was an irregularity but did nothing about it, or they tried to address the matter but were unsuccessful.

While the best course of action would be to prevent these material irregularities from occurring, we are encouraged that most accounting officers and authorities are taking appropriate action to resolve the irregularities of which we have notified them. This signals a behavioural change towards responding to our findings.

We saw accounting officers and authorities being responsive and dealing swiftly with material irregularities, which resulted in losses being recovered, controls being improved and consequences being effected. As a result, 10 material irregularities were fully resolved in the past year.

However, we also noted some stumbling blocks – both internal and external to our auditees – to the timeous resolution of material irregularities. These include instability at the accounting officer and authority level, drawn-out investigation and disciplinary processes, delays in investigations being completed by the Special Investigating Unit and the Hawks, and delays in losses being recovered by the State Attorney. We are engaging with these institutions to find ways to reduce the delays.

We have been clear from the start that we will not hesitate to use our expanded powers if accounting officers and authorities do not deal with material irregularities with the required seriousness. In cases where accountability has failed, we have responded accordingly. In 2021, we issued our first four remedial actions – to the accounting officers/ authorities of the Passenger Rail Agency of South Africa (1), the Department of Defence (1) and the Free State Department of Human Settlements (2). The remedial action to the two departments included a directive to deal with the financial loss by the stipulated date, which, if not implemented, could result in a certificate of debt being issued.

We referred three material irregularities for investigation to the Hawks – one each for the Department of Defence, the South African Post Office and 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 in the audit reports to resolve material irregularities not appropriately being dealt with by the accounting officers of the departments of Defence, Cooperative Governance and Public Works.

The Public Audit Act amendments were intended to be a complementary mechanism to strengthen public sector financial and performance management so that these material irregularities can either be prevented, or can be dealt with appropriately if they do occur. The aim of our expanded mandate is thus to:

- promote better accountability
- catalyse the protection of resources
- enhance public sector performance and encourage an ethical culture
- ultimately, strengthen public sector institutions to better serve citizens.

This is what we are actively working towards and, as part of our call to action below, we are asking all role-players to support us in achieving this goal.

OUR CALL TO ACTION

The improvements in audit outcomes and year-on-year increases in clean audits are a feather in the cap of this administration. Some auditees are close to achieving a clean audit status and just need to get over the very last hurdles.

As expressed in the theme of this report, we wish for these improvements to be accelerated in areas that affect service delivery.

The focus should be on improving the financial and performance management of the key service delivery departments and ensuring the success of their vital infrastructure programmes. It should also be on finding solutions for those state-owned enterprises that are a drain on the country's finances and for the neglected government IT systems that have the potential to make a huge difference if correctly used, monitored and managed. 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.

The measure of success for us, together with national and provincial government, will be evidence of a sustainable and measureable improvement to the lived experience of citizens.

This requires everyone to play their part to enable a culture of accountability. The work done on professionalising the public sector, led by the public service and administration minister, is an example of multiple departments and entities working together to build a capable, ethical and developmental state.

A culture of responsiveness, consequence management, good governance and accountability should be shared vision for all involved, including executive authorities, Parliament and legislatures, and the coordinating ministries. We urge them to also play their designated roles in the accountability ecosystem by supporting, monitoring and overseeing the much-needed improvement in – and resolution of – material irregularities. When the auditor-general's powers of referral and remedial action (and to issue certificates of debt in future) are invoked, it not only reflects poorly on the accounting officer and authority, but also means that the whole accountability value chain has failed, up to executive and oversight level.

We encourage Parliament and the provincial legislatures, as well as political and administrative leadership, to play their part effectively and without fear or favour to ensure accountability for government spending and improvement in the lives of our country's citizens.

We trust that the recommendations included in this report will be of value in this pursuit.

We remain committed to working tirelessly within our new mandate to strengthen financial and performance management in national and provincial government, emphasising the need for accountability and doing the basics right so that citizens can thrive and our nation can prosper.

TWO
INTRODUCTION

INTRODUCTION

This report reflects on the audit outcomes of national and provincial government and presents our observations and insights from the audits for the financial year ended 31 March 2021.

As part of our annual audit, we provide assurance on the credibility of auditee's financial statements and performance reports, as well as on their compliance with legislation. We also audited the implementation of key government programmes, focusing specifically on the audit of infrastructure management.

We audited 679 departments and public entities, and in this report we focus on the results of 425 of these audits. In order 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.

This report also includes our closing reflections on the financial management of government's covid-19 initiatives, which we continued to audit as part of our normal annual audit after tabling the second special report in December 2020.

In this report, we delve deeper into the root causes of both favourable and unfavourable audit outcomes, and provide insight into key issues stemming from the audit outcomes that impact service delivery, the economy and, ultimately, the lived experience of South Africans. We also provide recommendations for oversight and stakeholders, which are intended to drive further improvements in financial and performance management across national and provincial government.

In chapter 3, we begin by reflecting on the **overall audit outcomes** in national and provincial government, covering key areas of financial and performance management and reporting, the state of financial health, and compliance with key legislation.

In chapter 4, we focus on the audit outcomes, main programmes and projects of the **key service delivery departments** in the health, education, human settlements and public works sectors. We also provide insights into areas of concern in financial, performance and infrastructure management; the sectors' ability to deliver services in terms of their mandate; and the impact of non-delivery.

In chapter 5, we conclude on the **real-time audit of the financial management of national and provincial government covid-19 initiatives** that began in May 2020, the results of which we reported in two special reports tabled in September and December 2020. We provide a status update on these initiatives, including the progress made by leadership and oversight in addressing their commitments as reported in the special reports. We also highlight key findings and matters that still require attention and resolution. This chapter excludes the initiative on support to local government. Detailed reports on each initiative are available on our website (www.agsa.co.za).

In chapter 6, we provide insights from our audits of **state-owned enterprises**, highlighting key challenges that continue to plague their governance, oversight and financial sustainability. We provide details on the how these challenges negatively affect both the entities themselves and the economy at large.

Chapter 7 focuses on the sustainable solutions that are needed to address the legacy issues in **government information systems**. Information technology controls are vital and, in this chapter, we highlight the impact of these controls on the systems used to process financial data and on service delivery. We also examine how inadequate controls can be detrimental and financially crippling.

Chapter 8 provides an overview of the results of and reflections on **each province**.

In chapter 9, we report on the third year of implementing our expanded mandate. We provide comprehensive insight into how we have used our expanded powers thus far, focusing on **material irregularities** identified, the obstacles faced in government's consequence enforcement and recovery processes, and the impact of these material irregularities. We also look at the progressions, stagnation and regressions observed since we first began implementing our expanded powers. A detailed report on all the material irregularities we have identified is available on our website (www.agsa.co.za).

Chapter 10 is the final chapter of this report and includes our **recommendations** to oversight and other key role-players for addressing the key issues we have highlighted.

The following supplementary information is also available on our website (www.agsa.co.za):

- Detailed annexures that provide the key results per department and public entity
- Educational information on our audit process and the terminology we use

THREE
AUDIT OUTCOMES IN NATIONAL AND PROVINCIAL GOVERNMENT

AUDIT OUTCOMES IN NATIONAL AND PROVINCIAL GOVERNMENT

In the third year of the current administration, we continue to see improvement in the audit outcomes in national and provincial government.

In this chapter, we share the audit outcomes of departments and public entities and reflect on the drivers of these outcomes. Where relevant, we also reflect on the improvement trend, its sustainability and the overall areas to which leadership and oversight must direct attention. We do not deal in detail with the impact and causes of these outcomes, except where some examples are provided – chapters 3 to 9 delve deeper into these matters, and our recommendations are reflected in chapter 10.

This chapter is broken down into the following sections:

- An overall reflection on the status of our **2020-21 audits**
- The trends in the **overall audit outcomes**
- The status of **financial management**, with particular focus on the quality of the financial statements and the financial health of departments and public entities
- The quality of the **reporting on the performance** of auditees
- Auditees' **compliance with legislation**, with a specific focus on supply chain management legislation
- The **irregular expenditure** resulting from non-compliance, and how auditees dealt with it
- The overall **root causes** of the less-than-ideal audit outcomes

STATUS OF 2020-21 AUDITS

The covid-19 pandemic continued to affect our audit processes and resources, as the finance minister extended the submission dates for the 2019-20 financial statements for auditing, which affected the period in which we could audit. As a result, we were auditing local government in early 2021, when we would normally have started with the department and public entity audits. This late start, together with the challenges of auditing during a pandemic (including our staff falling ill), delayed the finalisation of some of the audit reports.

By 15 October 2021 (the cut-off date for including the audit outcomes in this report), there were still 42 audits (10%) outstanding. Of these, 23 were outstanding because auditees had either not yet submitted their financial statements for auditing or had submitted them late. We include more information on this in the section on financial statements, and also tell the story of some of the prominent auditees at which the audits have not been finalised.

By the time this report is tabled, some of the remaining audits will have been finalised. Chapter 1 includes all the audit outcomes as of the tabling date, but **the remainder of this report focuses only on those audits that were finalised by 15 October 2021.**

OVERALL AUDIT OUTCOMES

Overall audit outcomes continue to improve

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	Total
	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

Movement from previous year: 50 ▲ 29 ▼

From first year of administration: 85 ▲ 37 ▼

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

The improvement in audit outcomes that we reported last year continued, with 48 auditees (11%) seeing a net improvement over the three years of the current administration.

This trend is evident at both departments and public entities, although departments generally have better audit outcomes.

Audit outcomes – departments

	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimed with findings	Outstanding audits	Total
	29%	48%	19%	0%	0%	4%	
2020-21	47	79	31	0	0	6	163 Total
2019-20	44	80	33	0	1	0	158 Total
2018-19 First year of administration	36	72	45	0	3	0	156 Total

	Improved	Regressed
Movement from previous year	16	9
From first year of administration	38	10

Audit outcomes – public entities

	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimed with findings	Outstanding audits	Total
	25%	40%	15%	1%	5%	14%	
2020-21	66	107	39	2	12	36	262 Total
2019-20	65	102	52	3	27	11	260 Total
2018-19 First year of administration	57	113	57	3	24	5	259 Total

	Improved	Regressed
Movement from previous year	34	20
From first year of administration	47	27

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

CLEAN AUDITS

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

The 113 auditees (47 departments and 66 public entities) with a clean audit status represent 19% of the R1,9 trillion expenditure budget managed by national and provincial government.

The number of clean audits increases every year due to significant effort and commitment by the leadership, officials and governance structures of these auditees.

Newly attained clean audits

Department of Cooperative Governance and Traditional Affairs (EC)

Audit outcomes improved due to leadership's commitment to attaining clean audit outcomes.

The department strengthened its record keeping, which was the root cause of the previous year's findings on the performance report, and established processes to validate the reported performance information before it was reviewed by internal audit and the audit committee. This enabled the department to support the current year's reported performance information with the required evidence.

NTP Radioisotopes

In the previous year, the entity had an unqualified opinion, with one compliance finding relating to its strategic planning and approval processes.

The accounting authority and senior management implemented our recommendation on the required approval processes, as well as proper process and monitoring controls to ensure compliance with all legislative strategic planning requirements.

It is often difficult for an auditee to sustain a clean audit if it does not have effective financial and performance management systems and controls. It is commendable that 61 auditees (54%) have managed to retain their clean audit status since the first year of the current administration.

Sustained clean audit status

Department of Planning, Monitoring and Evaluation

The department managed to sustain its clean audit outcome because of its mature internal control environment. Importantly, critical preventative controls are continuously reviewed to ensure that they remain relevant (in line with the latest laws, regulations and industry best practice) and effective.

In addition, all assurance providers are committed to fulfilling their monitoring, governance and oversight roles. We noted that the department takes all audit findings seriously, regardless of whether they are classified as 'other important' or 'administrative matters'. It makes a concerted effort to resolve findings as soon as they are raised to prevent them from reoccurring or escalating in the next audit cycle.

Dube TradePort (KZN)

The entity sustained its clean audit status by institutionalising and monitoring key controls, remaining committed to accountability, and having its board and governance structures provide assurance. Stability at executive and middle- to senior- management level also contributed to a strong control environment. A tone of clean administration has been entrenched within the entity at all levels, and it has strong internal controls for record management, reviews, reporting processes and continuous compliance monitoring for all key legislation that forms part of its mandate. The entity uses its internal audit services to allow for a robust assessment of the internal control activities. Financial statements are prepared twice yearly and reviewed by the audit committee, while internal audit performs a detailed review of the annual financial statements and performance report.

Some of the common practices that enabled auditees to sustain their clean audit status include institutionalising and monitoring key controls (including preventative controls), and having all assurance providers, including management and leadership, commit to fulfilling their monitoring, governance and oversight roles. The auditees must continue to apply these best practices if they are to sustain these favourable audit outcomes, otherwise the outcomes may regress.

Lost clean audit status

Department of Community Safety (GP)

The department, which achieved a clean audit in 2019-20, regressed in 2020-21 due to material findings on the quality of the performance report. The findings reflect inadequate controls and processes to ensure that the reported performance is reliable and that the regulations for managing performance information are followed to ensure indicators and targets are verifiable. The regression is attributed to the lack of effective and proper record management processes.

Armaments Corporation (Armscor)

The entity regressed from a clean audit status in the previous year due to a lack of internal controls for in-year and year-end reporting. Its financial systems are fragmented and require manual interventions, which increases the risk of misstatements in its financial statements. The process to collate and consolidate information from different financial systems was also extremely time-consuming, adding to the time constraints for adequate reviews. As a result, we reported a non-compliance finding on the quality of the financial statements the entity submitted for auditing.

There are 31 auditees that are very close to obtaining a clean audit status, and only need to address one finding on the quality of their annual financial statements (24 auditees), performance against predetermined objectives (one auditee) or compliance with procurement legislation (six auditees). Some of these auditees have been working towards this goal for many years and we encourage them to do what it takes to overcome the last hurdles. If they do, we expect to see an increase in the number of clean audits for 2021-22.

Close to attaining clean audit

Department of Economic Development and Tourism (MP)

The department has been making steady progress towards a clean audit outcome, as evident from the reduction of material compliance findings from four in the previous year to only one in the current year. The remaining finding relates to a material misstatement in the submitted financial statements. This admirable improvement is due to management's commitment to institutionalise controls and deal with findings from the previous year's audit. If this trend continues in the 2021-22 financial year, the department will achieve a clean audit outcome.

Movement in audit outcomes

The figure below shows the change in audit outcomes for the 376 auditees we audited in the previous year. It excludes the seven new auditees that we audited for the first time in the current year, three of which received clean audits while four were financially unqualified with findings.

Overall movements in audit outcomes

REASONS FOR IMPROVEMENT

- strengthened internal controls, including implementing preventative controls
- improved internal control processes and implemented our recommendations
- maintained stability in key positions, resulting in improved oversight, monitoring and assurance

REASONS FOR REGRESSION

- lack of internal controls to sustain outcomes and prevent regressions
- did not address risk areas identified in our messages

Auditees that received a financially unqualified opinion on their financial statements but still had material findings on the quality of their performance reports and compliance with key legislation account for 46% of the expenditure budget. Of these auditees, 107 have been in this category since the first year of the current administration. We encourage auditees to apply the same vigour to these two important areas as they do to upgrading financial reporting, as being complacent on these areas creates a culture of tolerance for poor performance and transgressions, affecting the auditee's ability to fully focus on its mandate of service delivery to citizens. As mentioned earlier in this chapter, some of these auditees have worked hard on the remaining challenges over the past few years and are now close to attaining a clean audit.

Key service delivery departments and state-owned enterprises

Key service delivery departments and state-owned enterprises have greatest impact

In our previous general reports, we have consistently highlighted the need to pay specific attention to the key service delivery departments and state-owned enterprises, commonly referred to as SOEs, because they have the greatest impact on the service delivery needs of the citizen and the financial health of government. Their audit outcomes are a good indicator of their ability to fully discharge their mandate.

Audit outcomes of key service delivery departments compared to other departments

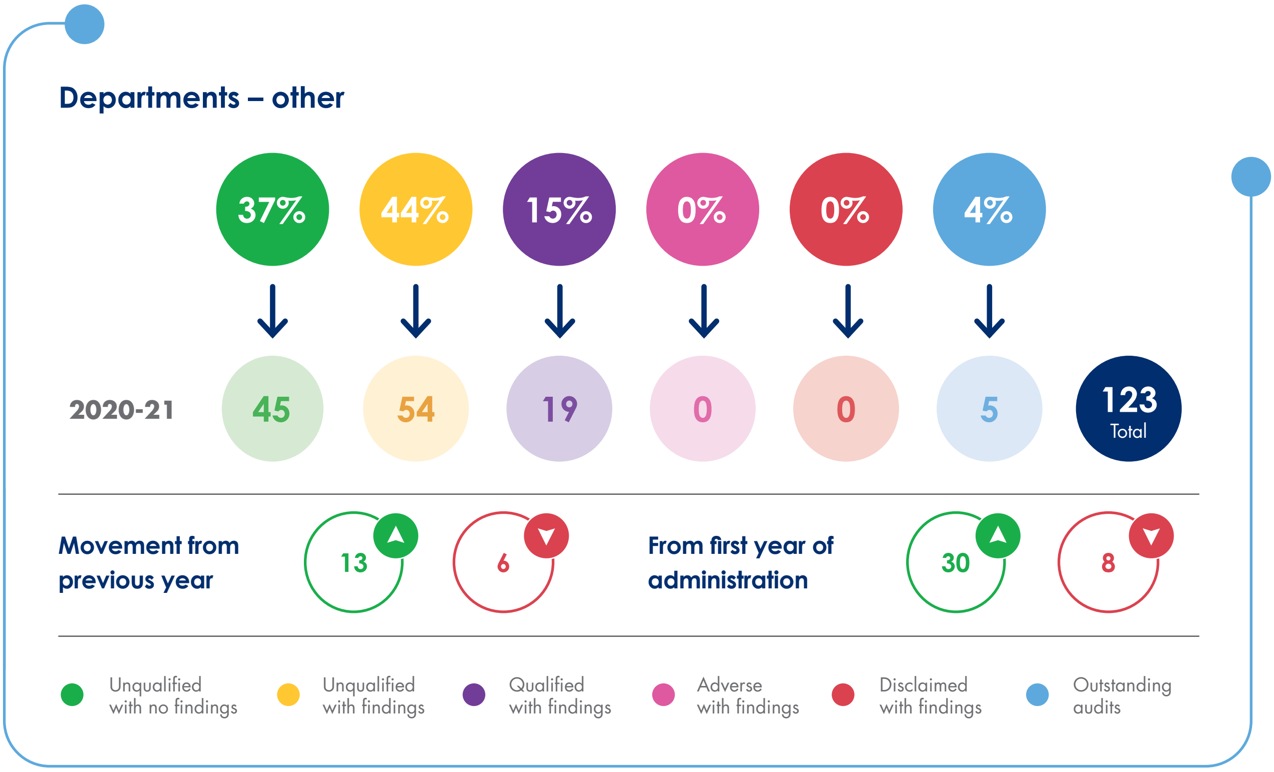
Key service delivery departments (Health, education, public works, human settlements)

	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 improved, 3 regressed

From first year of administration: 8 improved, 2 regressed

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



The audit outcomes for the key service delivery departments within the health, education, human settlements and public works sectors are worse than those of other departments. Only two of these departments (provincial departments of health, and of transport and public works in the Western Cape) obtained a clean audit status and many of the departments that struggle to produce credible financial statements are in these sectors. These departments also lag behind other departments in the improvement trend. We unpack the problems experienced in the sectors and the impact they have on service delivery in chapter 4.

Audit outcomes of state-owned enterprises compared to other public entities

State-owned enterprises

	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimed with findings	Outstanding audits	Total
	7%	27%	13%	0%	7%	46%	
2020-21	1	4	2	0	1	7	15 Total
2019-20	2	4	2	0	5	2	15 Total
2018-19	0	5	6	0	3	1	15 Total

	Improved	Regressed
Movement from previous year	0	1
From first year of administration	2	0

Public entities – other

	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimed with findings	Outstanding audits	Total
	26%	42%	15%	1%	4%	12%	
2020-21	65	103	37	2	11	29	247 Total

	Improved	Regressed
Movement from previous year	34	19
From first year of administration	45	27

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

While the audit outcomes of public entities show a definite upward trend, this is not evident for SOEs. Many of the SOE audits are outstanding because their financial statements were not submitted for auditing (as detailed later in this chapter), and the outcomes where the audits were completed are dismal. We provide more detail and insights on the troubling state of affairs at SOEs in chapter 6.

FINANCIAL MANAGEMENT

Financial management still needs attention

Accounting officers and authorities managed an estimated expenditure budget of R1,9 trillion in 2020-21 (including outstanding audits).

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

In this section, we highlight our concerns about the current state of financial management by looking at auditees' financial statements and financial health. We also demonstrate why this is an important discipline, as it directly affects the decisions made to better serve our citizens.

Quality of financial statements

Little improvement in quality of financial statements submitted for auditing

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

Auditees are required by legislation to submit their financial statements on time. The goal of this requirement is to ensure that auditees account for their financial affairs when this information is still relevant to stakeholders for decision-making and oversight. Most of the 10% of auditees that did not submit their financial statements on time were public entities, with only one department (the Western Cape Department of Education) submitting late.

Why are the financial statements important?

Financial statements are an important tool that provide an account of an auditee's financial affairs. They show how the auditee spends its money, where its revenue comes from, its assets and the state of those assets, how much it owes creditors, how much it is owed by its debtors, and whether the money owed is expected to be received. The financial statements also give insight into an entity's committed financial obligations and whether the entity will be able to honour these commitments when they fall due.

In addition, the financial statements provide crucial information on how the auditee adhered to its budget; the unauthorised, irregular, and fruitless and wasteful expenditure it incurred; and its overall financial position – in other words, whether its operations are financially sustainable.

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

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

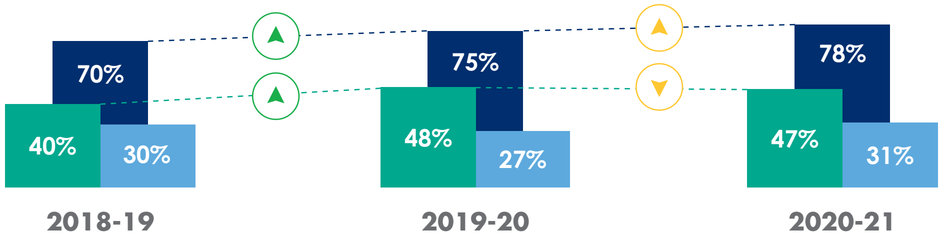
Outcome of our audit of financial statements and some key observations

Timely submission and quality of financial statements

Submission of financial statments by legislated date (all audits)

Movement from previous year	2020-21	2019-20	Movement over 3 years	2018-19
▲	90%	89%	▼	93%

Credibility of financial statements



- Quality of financial statements before audit
- Undue reliance on auditors to enhance credibility of financial statements
- Quality of published financial statements after audit

Opinions on financial statements

Before audit: 180 (47%) | 203 (53%)

119 (31%)

Our audit intervention resulted in 119 more auditees being able to report credible financial results

After audit: 299 (78%) | 84 (22%)

- Unqualified
- Unqualified / Adverse / Disclaimed

The following table shows the 17 public entities that had not submitted their financial statements by 15 October 2021. Most of these public entities are SOEs, and we provide more information on the delays in chapter 6.

Public entities that had not submitted their financial statements by 15 October 2021

<table>
<tr><th>Auditees</th><th>Reasons for non-submission</th></tr>
<tr><td colspan="2">State-owned enterprises</td></tr>
<tr><td>Denel and subsidiaries:
• Denel Saab Aerostructures
• Denel Vehicles Systems
• Densecure
• LMT Holdings
• LMT Products (subsidiary of LMT Holdings)</td><td>The financial statements for Denel and its subsidiaries are outstanding. The entity has been experiencing financial and operational challenges, which resulted in a loss of key finance staff. Some of the subsidiaries of Denel have been under liquidation since June 2021.

Denel, Denel Aerostructures and Denel Vehicles Systems previously received disclaimed audit opinions.

LMT Products went into business rescue in September 2019, and was subsequently sold during the 2020-21 financial year.</td></tr>
<tr><td>South African Airways and subsidiaries:
• Air Chefs
• SAA Technical
• Mango Airlines</td><td>South African Airways was placed under business rescue on 5 December 2019, following a board resolution. The business rescue proceedings were finalised on 30 April 2021.

Air Chefs and SAA Technical did not submit financial statements due to the ongoing business rescue proceedings at South African Airways and interdependencies of the subsidiaries within the group.

Mango Airlines is still under business rescue.

The 2017-18 financial statements of SAA Technical, Air Chefs and South African Airways were only submitted for auditing in August and September 2021.</td></tr>
<tr><td>South African Express Airways</td><td>South African Express Airways did not submit its financial statements after it was placed under provisional liquidation on 9 June 2020. The entity's financial statements have been outstanding since 2019-20.</td></tr>
<tr><td colspan="2">Other national public entities</td></tr>
<tr><td>Coastal TVET College</td><td>The college was dysfunctional and no council was in place. As a result, an administrator was appointed in December 2020. Key officials were suspended because fraudulent activities were identified. As a result, the financial statements could not be prepared on time.

This auditee received a disclaimed audit opinion in 2019-20.</td></tr>
<tr><td>Compensation Commissioner for Occupational Diseases in Mines and Works</td><td>The financial statements for the Compensation Commissioner for Occupational Diseases in Mines and Works have not been submitted for auditing for many years due to inadequate financial systems and controls, but significant progress has been made in addressing the backlog. The 2019-20 financial statements were recently submitted and the audit is currently in progress.</td></tr>
<tr><td>Government Printing Works</td><td>Government Printing Works experienced data loss during the financial year and requested permission to submit its financial statements for both 2020-21 and 2021-22 in May 2022.

This auditee received a disclaimed audit opinion in 2019-20.</td></tr>
</table>

Auditees	Reasons for non-submission
North West provincial public entities	
North West Transport Investments Atteridgeville Bus Services North West Star	The North West Transport Investments group was placed under provisional liquidation in 2018-19. The 2018-19 financial statements were also not submitted on time due to uncertainty about the accounting framework to be used in terms of Directive 12. With the assistance of the provincial treasury, a decision was made to use the Standards of Generally Recognised Accounting Practice instead of the International Financial Reporting Standards. The 2018-19 financial statements were submitted on 1 December 2020 and the audit report was signed on 13 May 2021. Due to significant instability and vacancies at both board and management level, stemming from the group being placed under provisional liquidation, the entities still lack the capacity to prepare financial statements. The group's 2019-20 and 2020-21 financial statements remain outstanding, but it has committed to submit the 2019-20 financial statements in January 2022.

Over half of auditees continue to submit poor-quality financial statements for auditing, although some of them corrected all of the misstatements we identified. Had this not been the case, only 47% of auditees with completed audits would have received unqualified audit opinions, compared to the 78% that ultimately received this outcome.

Auditees have inadequate controls to prevent misstatements in their financial statements. This results in misstatements not being detected through the various levels of review, including reviews by the chief financial officer, internal audit and the audit committee, before the financial statements are approved by the accounting officer or authority. Auditors are then under pressure to identify the misstatements as part of the audit process so that the auditees can make the corrections needed to obtain an unqualified audit opinion – a practice that is neither efficient nor sustainable.

Over the years, this reliance on audit teams to identify misstatements in the financial statements has placed undue pressure on the audit teams to meet the legislated deadlines for completing the audits, as well as the unintended consequence of increased audit costs.

The poorly prepared financial statements and significant activity to make corrections in response to the audit means that leadership makes financial decisions throughout the year based on financial information that is not credible. The treasuries and oversight bodies (such as portfolio committees) also use in-year reporting for monitoring purposes, and without reliable information, their monitoring process is ineffective. As detailed later in this chapter, auditees' poor monitoring and corrective action throughout the year is one of the main reasons for the concerning financial health status of departments and public entities, which threatens their ability to provide much-needed services to citizens.

In total, 22% of auditees with completed audits could not correct all of the material misstatements we identified during our audit, and received qualified, adverse or disclaimed audit opinions (collectively called 'modified audit opinions'). This is a slight improvement from the 25% in the previous year, but a solid improvement from the 30% in the first year of administration.

Outside the audit process, auditees must improve the quality of their financial statements and focus on the identified root causes of modified opinions.

Root causes addressed – audit opinion improved

The **Pan South African Language Board** improved from a qualified opinion to an unqualified opinion. The public entity was qualified on its disclosure of property, plant and equipment in 2019-20, but was able to reverse the qualification by strengthening its preventative internal controls and action plans. During the financial year, the entity appointed a chief financial officer who assisted in implementing controls around the asset register. The chief financial officer established a task team to perform monthly asset reconciliation, identified assets which were not depreciated, investigated the reasons for not depreciating the assets as required by the applicable standard and where necessary, depreciated these assets retrospectively. Audit action plans were tracked at chief financial officer and audit committee level. There was also stability amongst those charged with governance, including the board and the audit and risk committee.

Root causes not addressed – audit opinion regressed

Gateway Airport Authority Limpopo regressed from a qualified opinion to an adverse opinion. In the 2019-20 financial statements we identified material misstatements in a number of areas, none of which were addressed in the 2020-21 financial year. We also identified further material misstatements in other financial statement items.

The regression was caused by breakdown in the public entity's financial reporting checks and balances, a collapse of governance structures, and instability in leadership. The position of chief financial officer was vacant for the entire financial year and the official appointed to act in the position was suspended and later dismissed. The chief executive officer was also suspended and an official who was seconded to act in the position passed away during the initial stages of the audit. The public entity also did not have an internal audit unit, audit committee or accounting authority – all of which have important assurance responsibilities in the financial reporting chain.

A **qualified audit opinion** means that there were areas in the financial statements that we found to be materially misstated (material errors or omissions that are so significant that they affect the credibility and reliability of the financial statements). In our audit reports, we point out which areas of the financial statements cannot be trusted. In total, 70 auditees (31 departments and 39 public entities) received qualified audit opinions.

ADVERSE AND DISCLAIMED AUDIT OPINIONS

Adverse and disclaimed audit opinions are the worst opinions an auditee can receive. An **adverse opinion** means that the financial statements included so many material misstatements that we disagree with virtually all the amounts and disclosures. A **disclaimed opinion** means those auditees could not provide us with evidence for most of the amounts and disclosures in the financial statements. Effectively, the information in financial statements with adverse or disclaimed opinions can be discarded because it is not credible. In our audit reports, we tell oversight structures and other users of the financial statements that the information cannot be trusted. In 2020-21, Gateway Airport Authority (LP) and Ehlanzeni TVET College received adverse opinions.

Over the years, we have called on national and provincial leadership and oversight to direct their efforts towards auditees that continue to receive disclaimed opinions. In 2020-21, 12 public entities received disclaimed opinions. All 12 public entities had also received disclaimed opinions in 2019-20.No department received a disclaimed audit opinion during this period.

Below, we share the stories of four public entities with disclaimed opinions or that have a history of such opinions but had not yet submitted financial statements for auditing at the cut-off date for this report. These examples are intended to demonstrate that a disclaimed audit opinion not only reflects poor financial reporting, but often indicates a collapse of the auditee's control environment, which also affects its ability to deliver on its mandate and manage its finances.

Repeat disclaimed audit opinion

Free State Development Corporation

The Free State Development Corporation earns revenue by leasing the commercial and residential properties it owns, and charging interest on the loans it offers to small, medium and micro enterprises as part of its primary mandate. The entity does not receive significant grants, as it is meant to be financially self-sustaining.

In 2020-21, the entity received its second consecutive disclaimed opinion because it could not confirm its ability to continue operating. To improve its cash flow, recover its long-outstanding debt (96% of which has been deemed irrecoverable) and ensure its survival, the entity needs to recover all rental and utilities from its tenants. However, it outsourced billing and collecting these amounts to a service provider. In terms of the agreement with the service provider, all amounts collected from tenants were to be paid over to the entity. However, the service provider has since gone into voluntary liquidation and owes the entity R109,2 million for amounts collected from tenants that had not been paid over. In the previous year, the service provider only paid over R4,8 million of the R37,5 million collected, resulting in a material irregularity and a likely financial loss of R32,7 million.

The entity has experienced instability in the board, which was disbanded in June 2021, as well as uncertainty and instability in the chief executive officer position. Without a board, the entity cannot improve its financial position. Due to its dire financial situation, the entity did not have the funds to deliver on its primary mandate.

The member of the executive council for Economic, Small Business Development, Tourism and Environmental Affairs must prioritise appointing a competent board, developing and executing a turnaround strategy, and filling key vacancies to address the entity's financial viability challenges. The entity should also use its in-house legal department to recover the long-outstanding debts owed by tenants instead of paying external parties to do so.

Outstanding audit

Compensation Fund

The Compensation Fund's primary objective, and core activity, is compensating workers for disablement caused by injuries and diseases sustained in the course of their work and for death resulting from such injuries or diseases. All employers are required by law to register with the fund.

The fund generates its revenue from levies paid by employers. In 2019-20, this amounted to R12,5 billion, while total benefits paid, as included in the 2019-20 financial statements, were R6,6 billion.

For the past eight years, the fund has received a disclaimed audit opinion because it could not provide credible and accurate financial and performance information for auditing.

We have repeatedly highlighted the pervasive weaknesses in the fund's control environment, including lack of reconciliations, inadequate review of underlying records, lack of record keeping and non-compliance with legislation. Furthermore, short-term solutions, such as using consultants, have not been effective, and fund leadership has not developed mechanisms to respond to the identified weaknesses.

The fund has struggled to process claims and medical invoices from service providers because claims are not adequately reconciled against supporting documentation. Some service providers exploited this deficiency by submitting and receiving payments for duplicate claims, while others took the fund to court, where it was ordered to pay the outstanding invoices with interest, causing further losses.

Due to deficiencies in the fund's information technology systems, some employees were able to collude with medical service providers and individuals outside the organisation to process fraudulent transactions. The fund has also failed to effectively implement consequence management processes or recover the money lost.

The 2020-21 audit is still ongoing, but we have already notified the accounting authority of two material irregularities relating to overpayments made to a medical service provider and interest paid due to late payment of medical invoices.

While the fund has introduced a new information technology system to facilitate claims and address the previous system's shortcomings, the full benefits have yet to be seen.

To improve its audit outcome, the fund must implement our previous recommendations:

- to urgently review its control environment, including the role of management, and then strengthen preventative and monitoring controls to identify deficiencies early and react appropriately
- to strengthen its performance and consequence management processes to ensure that officials are fully accountable for their duties
- to urgently finalise investigations and implement recommendations based on the outcomes of these investigations
- to appropriately address the two identified material irregularities.

Outstanding audit

Independent Development Trust

The Independent Development Trust is responsible for delivering social infrastructure and social development programme management services on behalf of government. The current year's audit was still in progress at the cut-off date for this report because the entity submitted its financial statements late.

The entity obtained disclaimed audit outcomes in five of the last six financial years. In 2018-19, it received a qualified audit outcome after re-evaluating and correcting some of the matters that had resulted in previous negative audit outcomes, but this improvement was not sustainable.

The executive authority, being the minister of public works and infrastructure, is responsible for appointing a board of trustees that serves as the accounting authority, in line with the provisions of the entity's trust deed. However, from 2017-18 until August 2021, the entity did not have a properly constituted board of trustees to make major decisions on its strategic direction. It also experienced a leadership and oversight vacuum due to vacant senior management positions and instability in the positions of chief executive officer and chief financial officer. Adding to these challenges were an ongoing organisational development process, uncertainty about the entity's future and a moratorium on filling vacancies, which led to staff shortages and low staff morale.

This resulted in inadequate preventative controls over daily and monthly processing and reconciliation of transactions, poor record keeping, and severe deficiencies in the entity's information technology environment.

The Special Investigating Unit also has three ongoing investigations at the entity, relating to procurement management and possible unlawful, improper or irregular conduct. During the 2019-20 audit, we also detected project-related irregular expenditure of R54,95 million.

This hampered the entity's ability to execute its mandate, especially as it relates to delivering infrastructure projects. As a result, fewer departments requested its services as implementing agent on projects to deliver critical services, and management fee revenue steadily declined from R227 million in 2015-16 to R149 million in 2019-20. Going concern issues ensued and the entity now relies on bailouts from the Department of Public Works to continue operating.

We are hopeful about recent developments, such as the appointment of a properly constituted board of trustees and the statement by the public works and infrastructure minister that proposals on the entity's future should be approved by the end of 2021.

To improve its financial and performance management, become financially viable and, ultimately, deliver on its mandate, the entity needs a clear financial and business recovery plan, and must prioritise its human resources and information technology systems. Staff at all levels should also support the implementation and monitoring of key preventative internal controls.

Outstanding audit

Passenger Rail Agency of South Africa

The Passenger Rail Agency of South Africa (Prasa) is responsible for delivering rail-commuter services and long-haul passenger rail and bus services within, to and from the country on behalf of government.

The entity received a disclaimed opinion in both 2018-19 and 2019-20, partly due to property, plant and equipment. In response, it embarked on an extensive asset verification process, which delayed the submission of financial statements and thus our audit. The other disclaimed areas were unspent conditional grants, revenue from non-exchange transactions, prior period errors, commitments, risk management, irregular and fruitless and wasteful expenditure, and other comparative misstatements.

The reasons that Prasa cannot improve its audit outcome include its poor control environment and the ineffective implementation of an audit action plan – partly because of instability in key leadership positions due to vacancies and prolonged employee suspensions. Compounding this are shortcomings in the entity's governance, risk management and internal control processes caused by instability at board and executive management level, as well as an internal audit unit and audit committee that are not fully effective.

Prasa's poor control environment as reported on in our audit reports as well as its failing infrastructure and resultant unreliable service, ongoing delays and frequent accidents, have all contributed to the decline in the entity's achievement of its strategic objectives from 55% in 2016-17 to 17,5% in 2019-20, and 25% in 2020-21*.

In addition, the entity did not effectively spend its capital grants, which negatively affected the timely maintenance and replacement of its core assets and resulted in train delays, non-functioning rail corridors and generally unreliable service. These service-offering challenges contributed to a gradual decline in fare revenue from R1,6 billion in 2016-17 to R69,8 million in 2020-21*, adding to its financial challenges.

Over the last four years, Prasa has remained one of the largest contributors to irregular expenditure (mostly caused by non-compliance with supply chain management regulations), and fruitless and wasteful expenditure (mainly because no value was derived from payments made). In 2020-21*, the balance of the entity's irregular expenditure stood at R29,3 billion and fruitless and wasteful expenditure stood at R467 million. As these balances have largely not been investigated, no consequences are being implemented against those responsible.

We also identified nine material irregularities at the entity.

The cumulative impact of these weaknesses has been both substantial and negative, and has affected the entity's operations and service offering to rail commuters who rely on this affordable transport service, as well as the South African economy as a whole. Adding to these woes are protracted and delayed supply chain management processes. This is evident in the rolling stock fleet renewal programme, which is supposed to enable a more reliable train service but is not delivering fast enough, and in the lack of infrastructure development to modernise depots and stations.

The minister's appointment of the board during 2020-21 and the filling of the group chief executive officer and group chief financial officer positions is a step in the right direction. To further turn Prasa's situation around and improve service delivery to citizens, the entity should prioritise:

- enhancing oversight, governance and accountability by the newly appointed board and executive management team to strengthen the control environment and address the causes of poor audit outcomes
- filling the remaining executive management positions with appropriately skilled and experienced personnel
- developing and implementing audit action plans, with a focus on root causes, to address audit findings and improve audit outcomes
- monitoring performance and consequence management, especially around supply chain and contract management
- implementing disciplined financial reporting processes, underpinned by solid accounting and financial management knowledge
- improving asset management by maintaining and/or replacing core assets, and instituting adequate and effective security measures to protect such assets.

* Unaudited reported figures for 2020-21

FINANCIAL HEALTH

Poor financial health of some departments and public entities remains a cause for concern

Our audits included a high-level analysis of financial health indicators for departments and public entities. The goal is to give management of these entities an overview of selected aspects of their current financial management and enable corrective action to be taken as soon as possible if the auditees' operations and service delivery may be at risk. We also performed audit procedures to assess whether there were any events or conditions that might cast significant doubt on an auditee's ability to continue its operations in the near future.

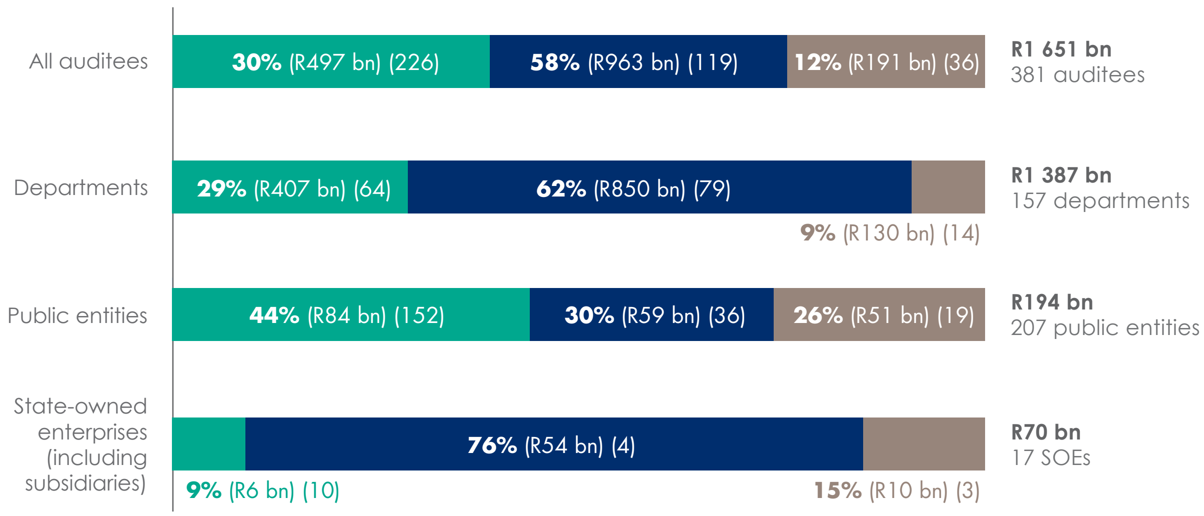
Based on this analysis, we determined the extent of unfavourable indicators and gave each auditee an overall assessment as follows:

Good	Fewer than 30% unfavourable indicators
Of concern	30% or more unfavourable indicators
Intervention required	Significant doubt that operations can continue in future (in other words, the audit report includes a 'going concern / financial sustainability' emphasis of matter or qualification) and/or received a disclaimed or adverse opinion, which means that the financial statements were not reliable enough for us to analyse

The unfavourable indicators are shared later in this chapter. We normally conclude overall that an auditee's financial health is concerning if there are multiple indicators of financial strain, such as a deficit, and inability to pay creditors and/or paying them late, an inability to recover debt, or dipping into the next year's budget to cover the current year's expenses.

If we look at the financial health of auditees in proportion to the expenditure budget for which they are responsible, we can see that there is pressure on the finances of the auditees responsible for the bulk of the budget. Only 30% of the budget is managed by auditees with good financial health.

Auditees' financial health in proportion to their share of expenditure budget

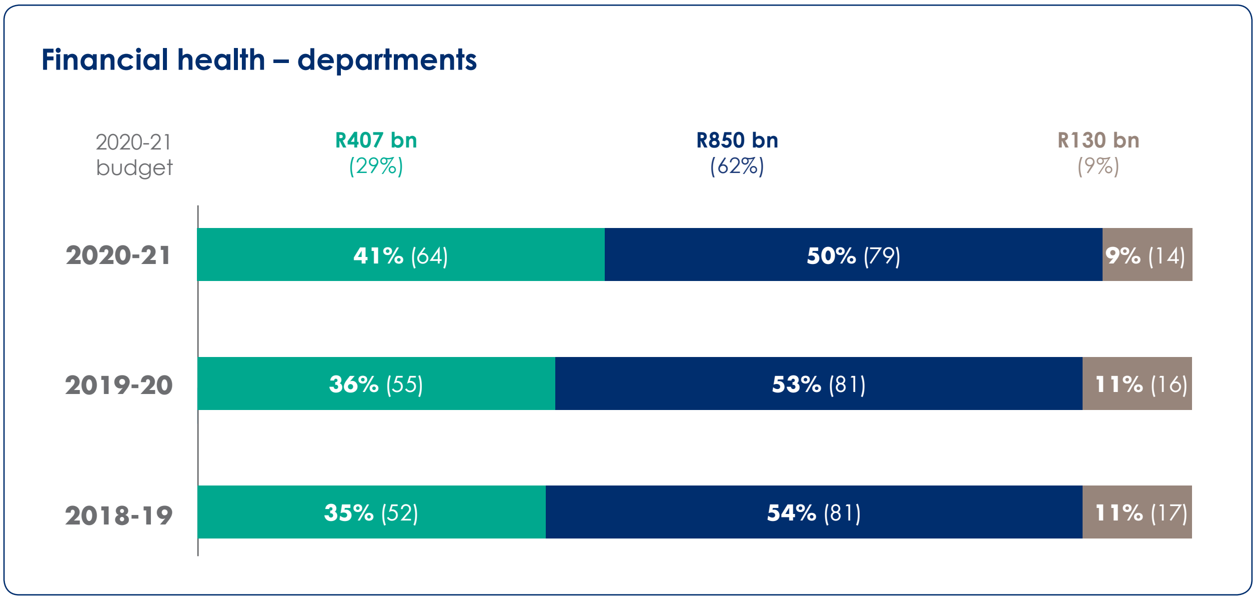


The auditees at which intervention is required include the following:

- Fourteen auditees responsible for 1% of the budget received adverse (two auditees) or disclaimed (12 auditees) opinions on their financial statements, which means that the financial statements were not reliable enough to analyse.
- Thirty-two auditees responsible for 11% of the budget disclosed in their financial statements that, based on the state of their finances, there is significant doubt that they will be able to continue with their operations in future. These auditees often need to scale down their operations and obtain financing or even bailouts to keep operating.

Auditees responsible for 58% of the budget were not yet in a position where they would not be able to continue operating, but there are indicators that this might soon be the case.

FINANCIAL HEALTH OF DEPARTMENTS



Departments responsible for 8% of the budget disclosed in their financial statements that they were in a particularly vulnerable position at the end of the financial year and that they might be at an operational risk in the future.

The status of **unauthorised expenditure** also provides a view of departments' financial health and shows where they have overspent their budgets.

Unauthorised expenditure for 2019-20 included R15,13 billion incurred by the Department of Social Development from paying the April 2020 social grants early in response to the covid-19 lockdown measures. If we exclude this anomaly, the unauthorised expenditure in 2019-20 would have been R2,99 billion. These figures indicate that unauthorised expenditure has increased every year since 2018-19, although the number of departments that incurred such expenditure decreased in 2020-21.

Unauthorised expenditure occurs when departments:

- used more funds than had been allocated (in other words, overspending)
- used allocated funds for purposes other than those intended.

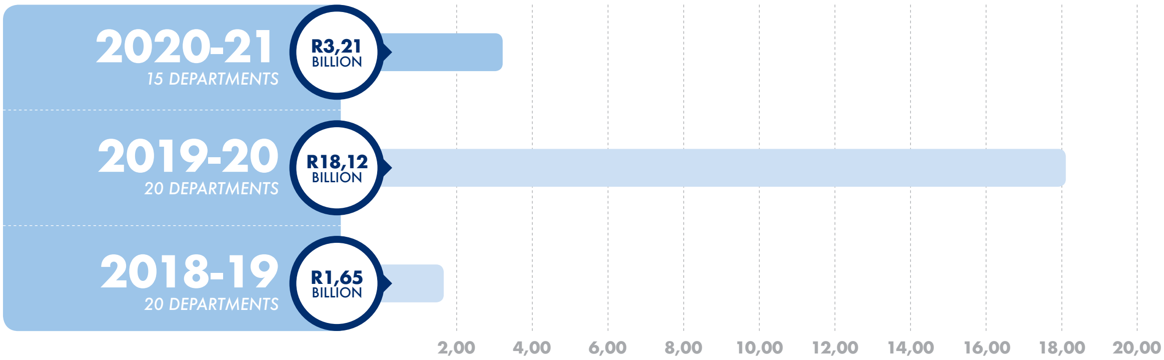
The unauthorised expenditure was mostly caused by departments overspending their budgets. Budget cuts and reprioritisation, along with emergency spending in response to the covid-19 pandemic, meant that departments had reduced funding available to fully cover their operational costs. Claims against the state further reduced available budgets (as detailed later in this section).

Departments from the Eastern Cape, the Free State and the Northern Cape were the main contributors to such expenditure, making up 87% of the total as follows:

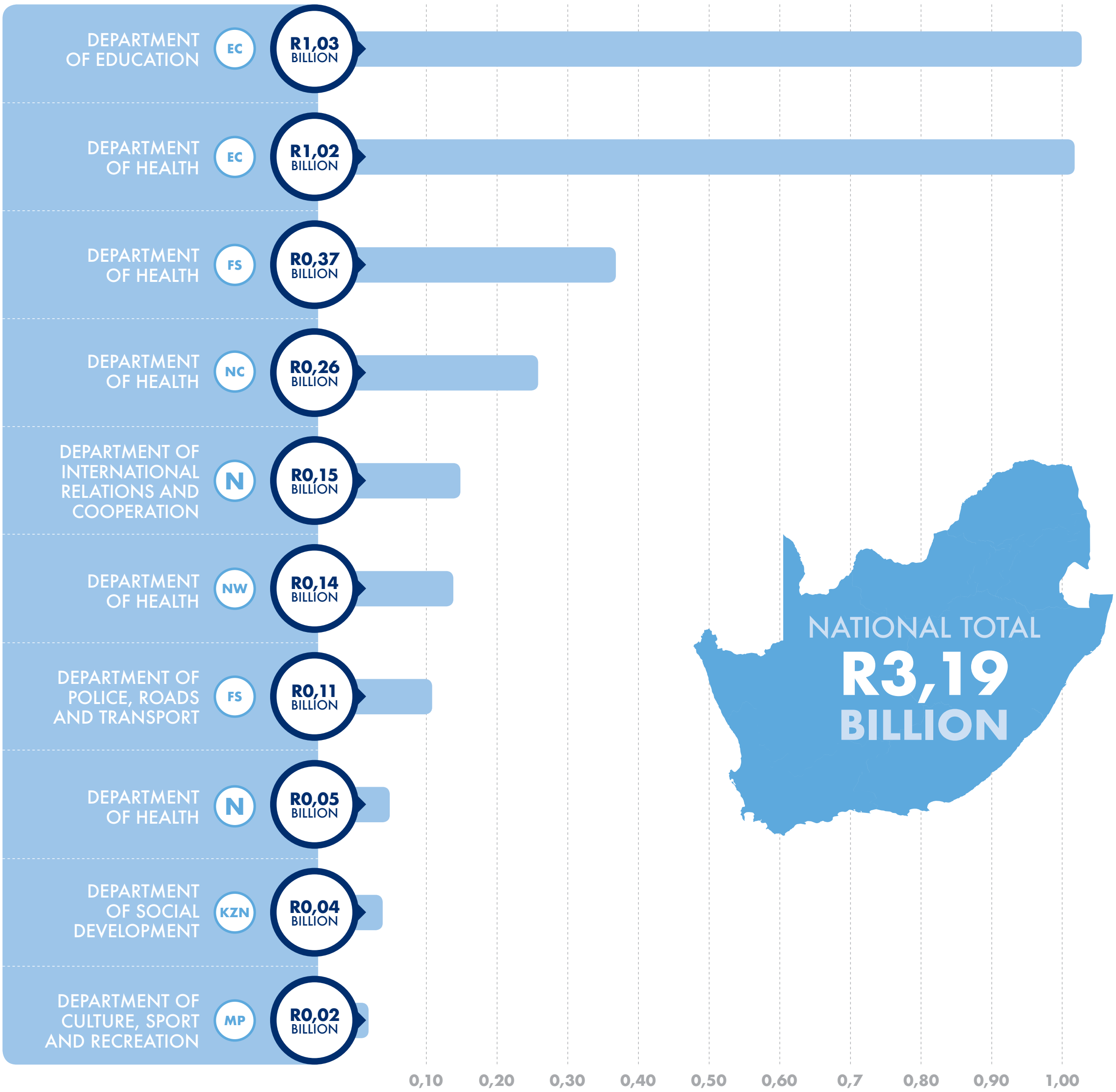
- Eastern Cape – R2,05 billion (64%)
- Free State – R0,48 billion (15%)
- Northern Cape – R0,26 billion (8%)

The provincial health and education departments alone incurred R2,83 billion in unauthorised expenditure. We discuss the concerning financial state of these sectors in chapter 4.

Unauthorised expenditure (including outstanding audits)



Top ten contributors to unauthorised expenditure (99% of total)



The Eastern Cape departments of Education and Health, the Free State Department of Police, Roads and Transport, and the North West Department of Health have incurred unauthorised expenditure for the past three years, including overspending on their key service delivery programmes, mainly on employee compensation:

- **Department of Education (EC)** – public ordinary school education programme
- **Department of Police, Roads and Transport (FS)** – administration (R0,04 billion) and transport regulations (R0,07 billion) programmes
- **Department of Health (NW)** – public district health services programme

In the case of the Eastern Cape Department of Health, unauthorised expenditure was due to medico-legal claims.

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

Departments prepare their financial statements on what is called the **modified cash basis of accounting**. The amounts disclosed in the financial statements are only what was actually paid during the year and **do not include accruals** (the liabilities for unpaid expenses) at year-end. While this is common for government accounting, it does not give a complete view of a department's year-end financial position.

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

The key indicators analysed below exclude auditees with adverse and disclaimed audit opinions.

Key financial health indicators at departments – sustainability

Indicators	2020-21
Sustainability	
Deficit (expenditure exceeded revenue)	R41,74 billion
Number of departments with deficit	32% (50)
Cash shortfall (bank overdraft less prepaid expenses/advances plus money to be surendered to treasury)	R33,29 billion
Number of departments with cash shortfall	61% (89)
>10% of following year's budget (excluding employee cost and transers) **will fund current year's shortfall**	18% (27)
Bank in overdraft	19% (30)
Estimated settlement value of claims against the state at year-end	R166,07 billion
Number of departments with unsettled claims	94% (138)
Claims settlement value >10% of following year's budget (excluding employee cost and transfers)	37% (55)

The sustainability indicators and the high unauthorised expenditure paint a picture of departments unable to operate within their budgets, resulting in deficits, cash shortfalls and bank overdrafts.

The main contributors to the R41,74 billion deficit in departments were:

- **Department of Public Enterprises** – R21,57 billion (52%)
- **Department of Health (GP)** – R4,47 billion (11%)
- **Department of Education (EC)** – R2,90 billion (7%)

Over 60% of departments had insufficient funds to settle all liabilities that existed at year-end – in other words, they had cash shortfalls. This means that these departments started the 2020-21 financial year with part of their budget effectively pre-spent.

The consolidated cash shortfall of the 27 departments (18%) that had already spent more than 10% of their 2021-22 operating budget (excluding employee costs and transfers) amounted to R31,08 billion, with the highest percentage incurred by:

- **Department of Social Development (national)** – 3 637% (cash shortfall = R15 228,11 million, following year's operating budget = R418,70 million)
- **Office of the Premier (FS)** – 311% (cash shortfall = R188,72 million, following year's operating budget = R60,63 million)
- **Department of Public Works (KZN)** – 285% (cash shortfall = R776,07 million, following year's operating budget = R272,16 million)

We also continued to see an increase in litigation and claims against departments, which we have flagged as an emerging risk since the previous administration.

Before getting into the analysis, let's first take a look at what this involves.

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

The estimated settlement value of the claims against the state totalled R166,07 billion at the 2020-21 year-end. This amount represents the claims made against the state that have not yet been settled (by court order or mutually between the parties). In accordance with the Modified Cash Standard, the reporting department reports an estimated value based on the most likely outcome of the process. As in the previous year, the provincial health departments accounted for the largest portion of this amount at 75%.

Causes of cash shortfall

At the **national Department of Social Development**, the shortfall occurred when the president announced the lockdown in March 2020 and a decision was made to pay some of the April 2020 grants in March. This resulted in the R15 billion overpayment in grants for the 2019-20 financial year as well as a bank overdraft. This shortfall has not been funded from the 2020-21 allocation and will need a resolution from the Standing Committee on Public Accounts to regularise the unauthorised expenditure.

The **KwaZulu-Natal Department of Public Works** uses an overdraft facility that was approved by the provincial treasury to procure on behalf of other client departments, and its cash reserves are thus always negative. The client departments are taking a long time to repay some of their outstanding debts, which is also a contributing factor.

Over a third of the departments had claims against them with an estimated settlement value that exceeded 10% of their following year's budget. If paid out in 2021 22, this would use up more than 10% of these departments' budgets meant for other strategic priorities, including service delivery.

Chapter 4 of this report includes more details on claims in the health and education sectors, as well as their impact. Outside of these sectors, the following departments have the highest claims:

- **Department of Police** – R7,71 billion, mostly relates to wrongful arrests, unlawful or unnecessary use of firearms/shooting, collisions or damages to vehicles/properties, and assaults during arrest or interrogation.
- **Department of Defence** – R5,51 billion, mostly relates to to an old case regarding a commission claim that is being defended in the Civil Court of Lisbon, Portugal, with a rand

value of R3,3 billion. The department is opposing the claim. Other claims include a proposed settlement of R305 million instituted by a sub-contractor of Denel against the department, as well as various claims for breach of contract, loss of income, collisions, unlawful arrest, damages, unpaid invoices, etc. to the value of R1,8 billion.

- **Department of Higher Education and Training** – R5,16 billion, R5 billion of which relates to a case lodged jointly against the National Student Financial Aid Scheme and the minister of higher education and training, which relates to intellectual property infringement. The department is a second respondent on the claim.
- **Department of Justice and Constitutional Development** – R2,98 billion, mostly relates to legal services rendered by the Office of the State Attorney on behalf of client departments.

If the departments do not pay the claims to beneficiaries by the court-ordered date, they must also pay interest, which causes further financial loss.

Key financial health indicators at departments – revenue management

Indicators	2020-21
Revenue management	
Debt-collection period < 90days	22% (35)
Average debt-collection period	140 days
More than 10% of debt irrecoverable	21% (33)

The key source of revenue for departments is the budget they receive from government. Some departments also generate revenue, which they need to collect to have enough cash to operate. Any surpluses at year-end are paid back into the National Revenue Fund or into provincial revenue funds, which then fund departments' budgets in the following year. Departments continued to struggle to collect the debt owed to them, as indicated by long debt-collection periods and the significant portion of debt that is deemed irrecoverable. Failing to collect debt affects not only the operation of the specific department, but also the funds available for future government initiatives.

Key financial health indicators at departments – creditors

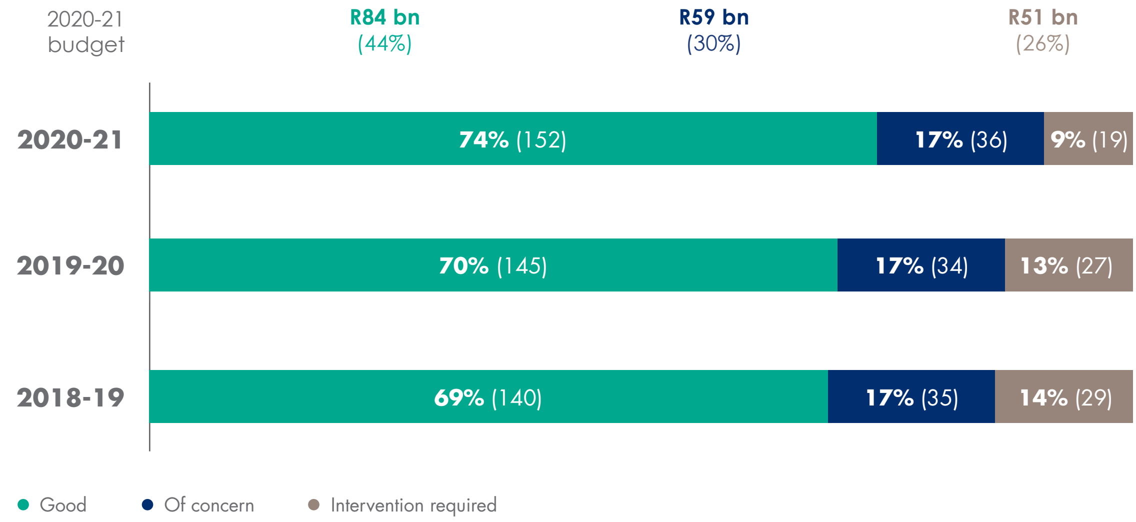
Indicators	2020-21
Revenue management	
Creditor-payment period > 30 days	33% (52)
Average creditor-payment period	31 days
Unpaid expenditure (accruals) at year-end	R28,58 billion
Number of departments with unpaid expenses at year-end	99% (146)
Unpaid expenses at year-end that should have been paid within 30 days > 10%	51% (75)

Almost all departments had unpaid expenses (accruals) at year-end, totalling R28,58 billion. Although the average time it takes departments to pay their creditors is edging closer to the required 30 days, a third of departments cannot pay their creditors on time. This affects the cash flow of the suppliers with which government is doing business and stands in sharp contrast to the objectives of stimulating the economy and especially supporting the small, medium and micro enterprise sector. For example, contractors working on infrastructure projects stop their work until they receive payment, which causes significant delays, as detailed in chapter 6. The interest charged on late payments is also a financial loss that departments can ill afford.

Although delayed payments are typically due to poor controls and processes, other contributing factors include the financial difficulty experienced by some departments, as well as the lack of cash to honour their obligations (as described earlier in this section).

Financial health of public entities

Financial health – public entities (excluding SOEs)



We now turn to the financial state of public entities (excluding SOEs), including constitutional institutions, government business enterprises, trading entities, public entities that are not profit-driven, and the technical and vocational education and training (TVET) colleges. Many of these entities are instrumental in achieving service delivery targets in areas such as infrastructure development, economic development and skills development. The entities also include those delivering services to the public and regulators that protect the public.

Overall, there has been a slight improvement at these public entities, with more entities improving their financial health status than regressing.

Key financial health indicators at public entities (excluding SOEs)

Indicators	2020-21
Sustainability	
Deficit (expenditure exceeded revenue)	R7,58 billion
Number of auditees with deficit	31% (61)
Net current liability position	12% (23)
Creditors as % of cash and cash equivalents > 100%	7% (13)
Revenue management	
Debt-collection period > 90 days	29% (57)
Average debt-collection period	107 days
More than 10% of debt irrecoverable	58% (114)
Revenue management	
Creditor-payment period > 30 days	69% (134)
Average creditor-payment period	70 days

The deficit of R7,58 billion was incurred by 61 public entities with expenditure that exceeded their revenue. Of this, 45% was incurred by schedule 3A public entities that are funded through revenue such as levies and taxes and that will either need additional funding or need to use their reserves. The public entity with the highest deficit in the past few years was the Road Accident Fund, but the audit of the fund had not been completed by 15 October and thus the information is not included in this report.

The major contributors to the R7,58 billion deficit were:

- Roads Agency Limpopo – R1,20 billion (16%)
- Gautrain Management Agency – R1,01 billion (13%)
- Agricultural Land Holding Account – R0,67 billion (9%)
- Freedom Park Trust – R0,47 billion (6%)
- Health and Welfare Sector Education and Training Authority – R0,43 billion (6%)

In total, 23 public entities were in a net current liability position, meaning that they had more short-term debt than assets such as cash and debtors.

The public entities in the most difficult position were the 13 that owed more money at year-end than they had in the bank, with the top three being:

- Corridor Mining Resources (LP) – 16 088% (creditors = R18,22 million, cash available = R113 244)
- North West Parks Board – 1 370% (creditors = R36,89 million, cash available = R2,69 million)
- Central Medical Trading Account (FS) – 935% (creditors = R323,59 million, cash available = R34,62 million)

The inability to pay creditors on time is another indicator of pressure in the finances of these public entities and, as mentioned earlier in this section, has a negative impact on their suppliers. Late payments are more common at public entities than departments, and the entities took an average of 70 days to pay their creditors. The public entities that took the longest to pay their creditors were:

- Traditional Levies and Trust Account (KZN) – 561 days
- Capricorn TVET College – 493 days
- Elangeni TVET College – 482 days

To pay creditors, public entities need revenue, but over half of these entities had more than 10% of their debt that was not recoverable.

The figure below shows the public entities whose financial health is of greatest concern, based on the disclosure in their financial statements that there is significant doubt that they will be able to continue their operations.

Public entities with serious financial health concerns

Going-concern issues identified at 13 (6%) public entities

Disclosed for

5 years	4 years	3 years	2 years	1 year
				2020-21 was first year of disclosure
• Corridor Mining Resources (LP) • The South African National Roads Agency • Property Management Trading Entity • North West Development Corporation • Golden Leopard Resorts (NW) • GL Resorts (subsidiary of Golden Leopard Resorts (NW)	• Great North Transport (LP) • Gateway Airport Authority (LP) • Free State Development Corporation	• Ithala Limited (KZN) • Northern Cape Rural TVET College	• South African Civil Aviation Authority	• Eastern Cape Development Corporation

In addition to those public entities that obtained disclaimed audit opinions, the following public entities received modified audit opinions because of significant doubt that they will able to continue their operations:

- Free State Development Corporation
- Golden Leopard Resorts (NW)
- GL Resorts (subsidiary of Golden Leopard Resorts) (NW)

Even though most public entities would be able to continue their operations, the negative indicators raise concerns about the financial viability of some of these entities, and about the pressure to acquire additional funding from government in the form of government grants transferred from either national or provincial departments.

Below are examples of some of the reasons why these entities were able to continue operating.

Reasons for continued operation

The **South African National Roads Agency was able to** continue operating by shifting funds from the non-toll portfolio to the toll portfolio, refinancing maturing debts and postponing capital projects in the toll portfolio.

Great North Transport is a schedule 3D public entity, and is thus required to be self-sustaining. However, for the past five years it has received grant allocations from the Limpopo Department of Economic Development, Environment and Tourism, as well as financial rescues from the provincial treasury to help it recapitalise and reduce the amount owed to creditors.

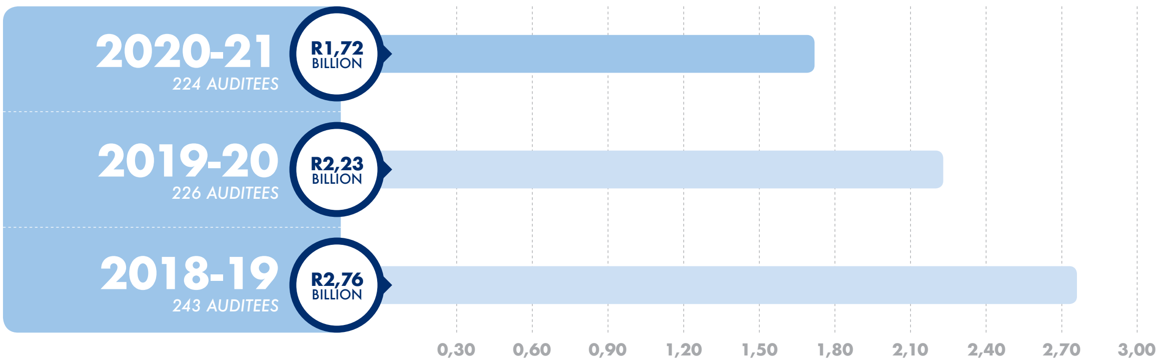
Entities such as **Corridor Mining Resources, Golden Leopard Resorts** and **GL Resorts** were able to operate because they received loans or financial support from parent or holding companies.

The **South African Civil Aviation Authority** reduced its operating expenses and limited capital expenditure to only critical projects. It also received R155 million in additional funding from the Department of Transport for 2020-21.

FRUITLESS AND WASTEFUL EXPENDITURE

Fruitless and wasteful expenditure remains high

Fruitless and wasteful expenditure (includes outstanding audits)



Fruitless and wasteful expenditure is expenditure that was made in vain and that could have been avoided if reasonable care had been taken.

Government cannot afford to lose money because of poor decision-making, neglect or inefficiencies, making the extent of fruitless and wasteful expenditure a good indicator of how the public purse is being managed.

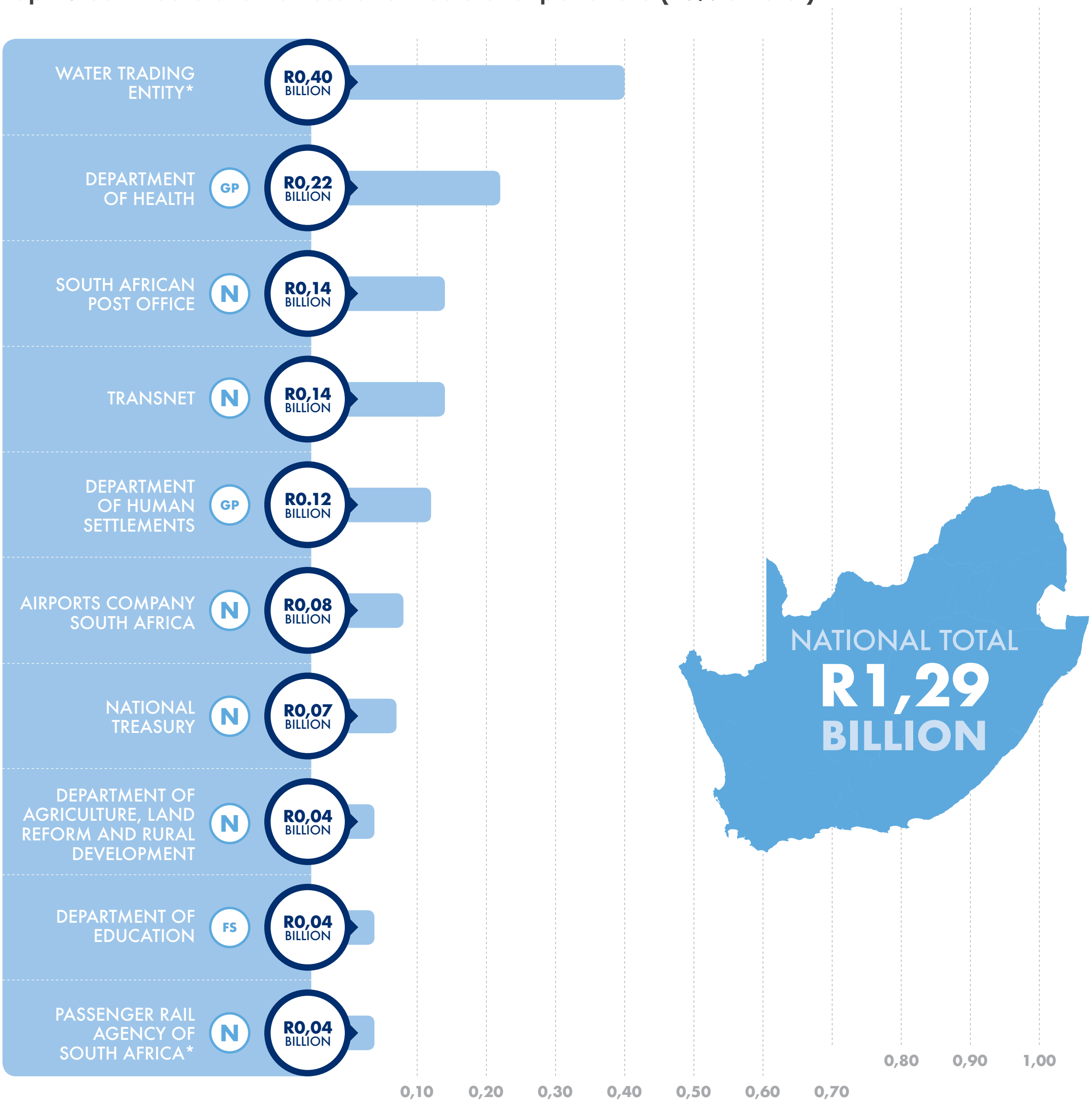
The reduction in fruitless and wasteful expenditure from the previous year is encouraging, but losing just over R1,7 billion that could have been used for the pressing service delivery needs of citizens is a red flag for government and needs urgent attention.

A total of 36% (R0,62 billion) of this expenditure was interest and penalties – this means auditees paid their creditors late and even paid over tax to the South African Revenue Service late because of their poor financial position.

A further 1% (R0,02 billion) of the expenditure was costs incurred for litigation and claims, while 63% (R1,08 billion) relates to causes such as paying higher than market-related prices to procure personal protective equipment, suffering losses on projects and incurring costs where no value was received. Auditees from national government, Gauteng and the Free State were the main contributors to this expenditure, constituting 92% of the total as follows:

- National government – R1,09 billion (64%)
- Gauteng – R0,38 billion (22%)
- Free State – R0,10 billion (6%)

Top 10 contributors to fruitless and wasteful expenditure (75% of total)



* Audit outstanding

The fruitless and wasteful expenditure disclosed by the national Department of Agriculture, Land Reform and Rural Development was mainly as a result of the take-on balance from the previous Department of Agriculture, Forestry and Fisheries as part of the merger with the former Department of Rural Development and Land Reform. With the exception of the newly formed department, all these auditees have incurred this type of expenditure for the past three years, with some of the main contributors being as follows:

- At the Water Trading Entity, fruitless and wasteful expenditure was attributed to abnormal costs incurred of R0,17 billion and R0,21 billion relating to internal and external projects, respectively.
- At the National Treasury, the main reason for the fruitless and wasteful expenditure was payment for technical support and maintenance on the Integrated Financial Management System programme, which the department is not using.
- At Transnet, the fruitless and wasteful expenditure mainly relates to redundant assets and stock (R0,05 billion) of raw materials that could not be used, theft of laptops and cellphones, damage to motor vehicles, misuse of company assets, employee fraud (R0,05 billion) and poor contract management, including non-adherence to the procurement procedure manual (R0,02 billion).
- At the South African Post Office, the fruitless and wasteful expenditure was mainly interest and penalties on late payments, of which R0,05 billion relates to the South African Revenue Service.
- At the Gauteng Department of Health, the fruitless and wasteful expenditure was due to service providers overcharging on procurement of personal protective equipment.

Despite the limited resources, we still find auditees not diligently and carefully managing funds. This is also apparent from the material irregularities identified, which we cover in more detail in chapter 9. Many auditees also do not follow the required procurement processes to ensure that the best price is paid for goods and services – we provide more details later on in this section.

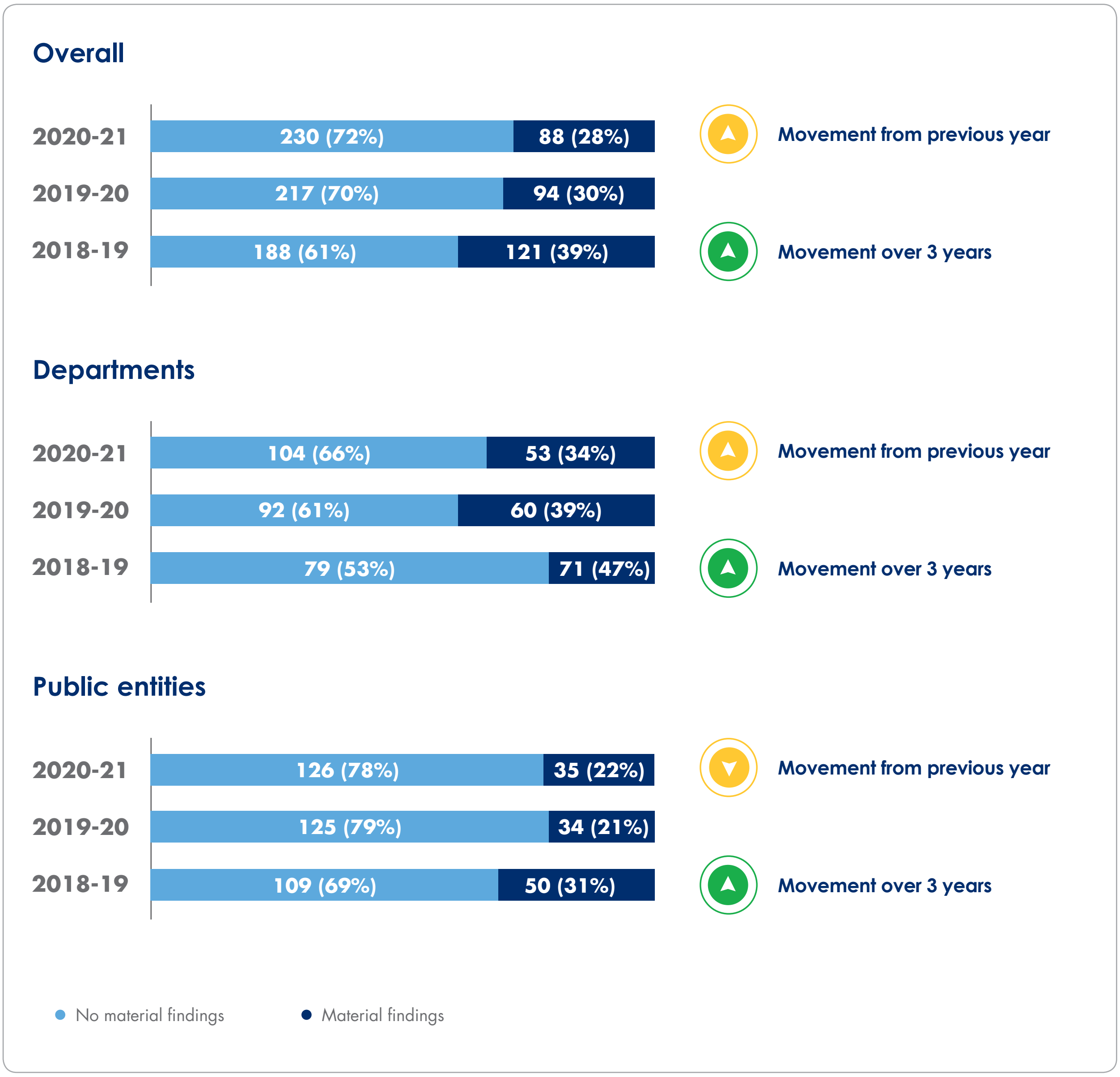
PERFORMANCE REPORTING

Unreliable performance reporting remains prevalent

Auditees are required to measure their actual service delivery against the performance indicators and targets set for each of their predetermined objectives in their annual performance plan, strategic plan or corporate plan, and to report on this in their performance reports.

Every year, we audit selected material programmes of departments and objectives of public entities to determine whether the information in the performance reports is useful and reliable enough to enable oversight bodies, the public and other users of the reports to assess the auditee's performance. We select programmes and objectives that align with the auditee's mandate and, in the audit report, we report findings that are material enough to be brought to the attention of these users.

Status of performance reporting



When an auditee receives material findings on its performance report, this means that it generally struggled to:

- align its performance reports to the predetermined objectives to which it committed in its annual performance plans
- set clear performance indicators and targets to measure its performance against its predetermined objectives
- report reliably on whether it has achieved its performance targets.

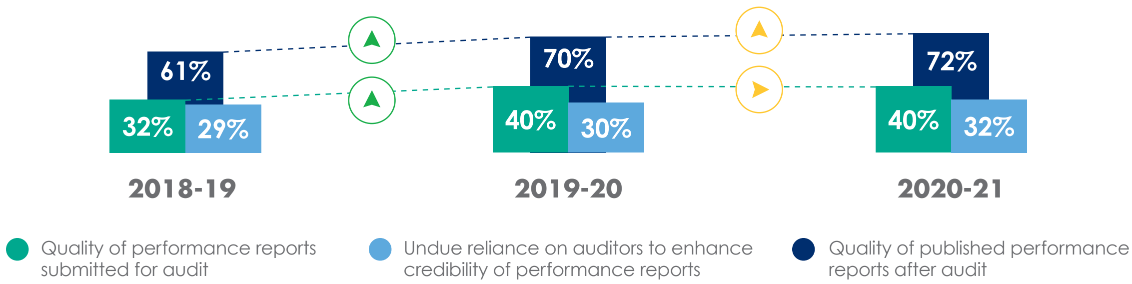
Outcome of our audit of performance reports and some key observations

A performance report accounts for achievement of performance promises made by an auditee in their plans

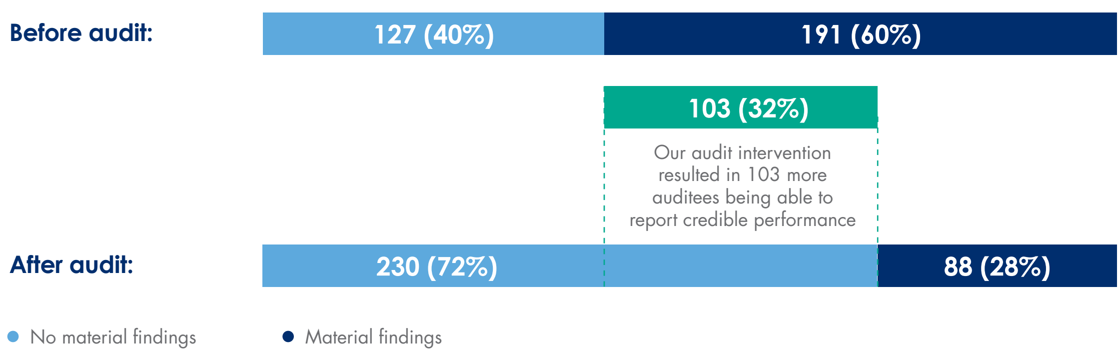
Finding

	Movement (prior year)	2020-21	Movement (3 years)
Achievement reported not reliable		23%	
Performance indicators and targets not useful		15%	

Credibility of performance reports



Conclusion on performance reports



Percentages are calculated based on the number of auditees that are required to report on their performance management and that prepared performance reports for auditing.

Sixty percent of auditees continue to submit poor-quality performance reports for auditing, although some of these auditees corrected all of the material findings we identified. This means that if we had not identified the problems in the reports and allowed the auditees to correct these, only 40% of the performance reports would have passed as useful and reliable, compared to the 72% that ultimately had no material findings. If we had not identified these problems and allowed these corrections to be made, less than half of the auditees would not have had credible performance reports.

Most auditees have inadequate systems to collate and report on their performance information, and officials did not apply the performance management and reporting requirements. The controls to prevent reporting on unreliable information were inadequate and the misstatements remain undetected, even though the performance reports go through various levels of review. Auditors are then put under pressure to identify the matters that need to be corrected as part of the audit process, placing further pressure on the audit fees.

The poorly prepared performance reports and significant activity to make corrections in response to the audit also raise questions about how credible auditees' in-year reporting is and how effective their performance monitoring is throughout the year. Poor monitoring and corrective action throughout the year contribute to auditees' inability to achieve their performance targets or reliably report on their performance. The executive authorities and oversight bodies (such as portfolio committees) also use in-year reporting for monitoring purposes, and without reliable information, their monitoring process is ineffective. It also hinders the accountability processes that those charged with oversight are tasked to implement, including the budget review and recommendations reports that portfolio committees are required to initiate. These reports guide the relevant executive authority in their priorities and associated budget requirements for the following performance period.

Not all auditees could make the required corrections to their performance reports, which resulted in 28% of published performance reports containing significant flaws. The most prevalent material findings on these performance reports (23%) were that the information provided was not reliable. In other words, either we had proof that the achievement as reported was not correct, or we could not find evidence to support it. This means that the achievements reported may not have taken place at all or were fewer than those reported.

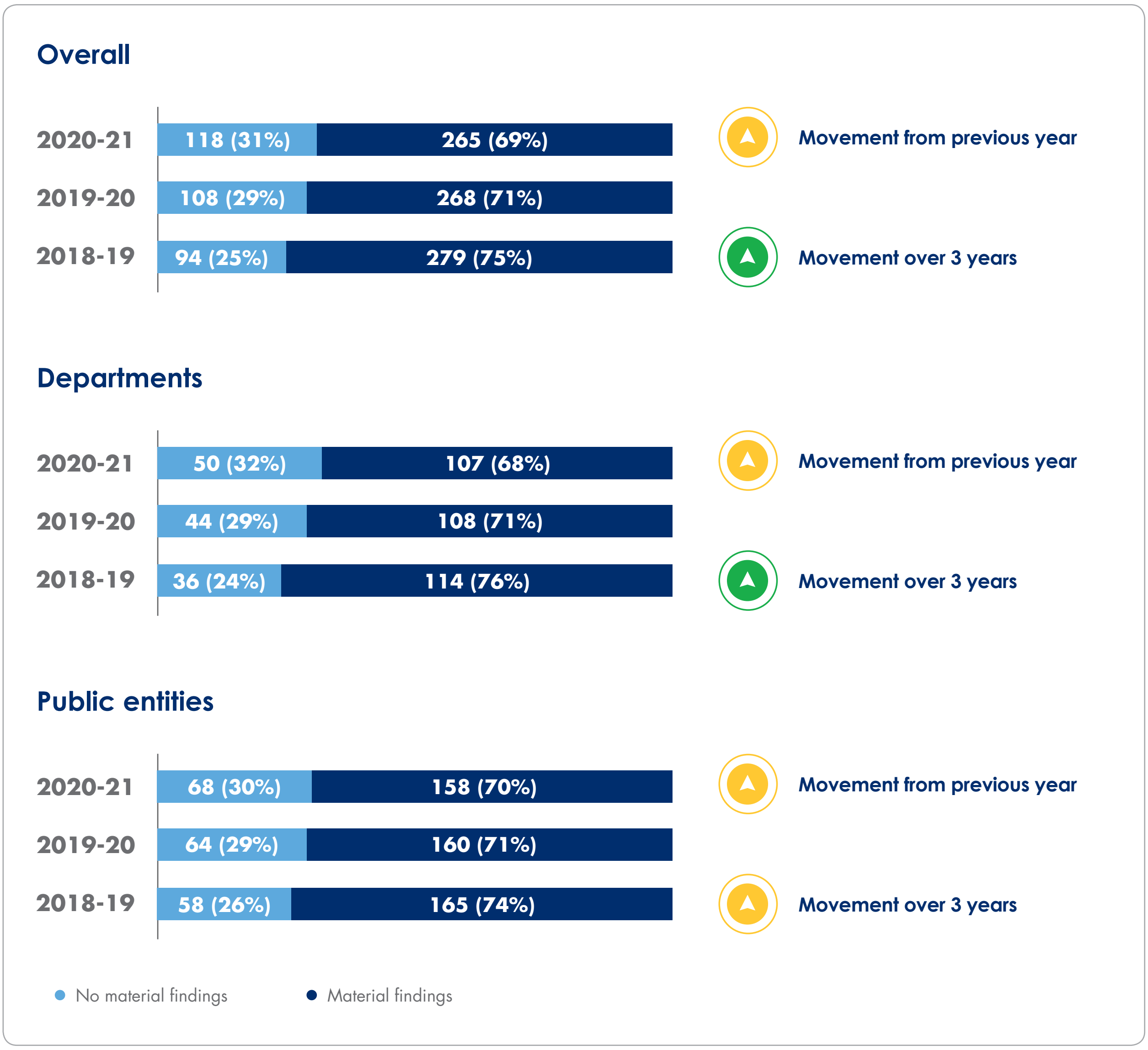
Less common (15%) was the indicators and targets used to plan and report on achievement not being useful. This means that what was reported had little relevance to the auditees' original commitments in their planning documents and anyone attempting to establish whether the commitments were honoured would struggle to get a credible answer from the report.

As with the overall audit outcomes, the sectors lag behind other departments in performance reporting, with only 23% submitting quality performance reports, compared to 38% for other departments, and only 36% publishing quality performance reports, compared to 76% for other departments. For further details and insight on the challenges of performance reporting in the sectors and the impact on service delivery, refer to chapter 4.

COMPLIANCE WITH LEGISLATION

Widespread non-compliance with legislation

Non-compliance with legislation



Most common areas of non-compliance	Movement from previous years	2020-21	2019-20	Movement over 3 years	2018-19
Quality of financial statements		53%	51%		59%
Prevention of unqualified, and fruitless and wasteful expenditure		36%	41%		43%
Procurement and contract management		31%	37%		42%
Effecting consequences		33%	29%		29%

Compliance with key legislation improved slightly from the previous year, but remains low, as only 31% of auditees did not have material findings on non-compliance with key legislation. The lapse in oversight and lack of controls relating to compliance were most evident in the areas of:

- the quality of financial statements and the prevention of unauthorised and fruitless and wasteful expenditure (as dealt with earlier)
- procurement and contract management (more commonly known as supply chain management)
- irregular expenditure
- consequence management.

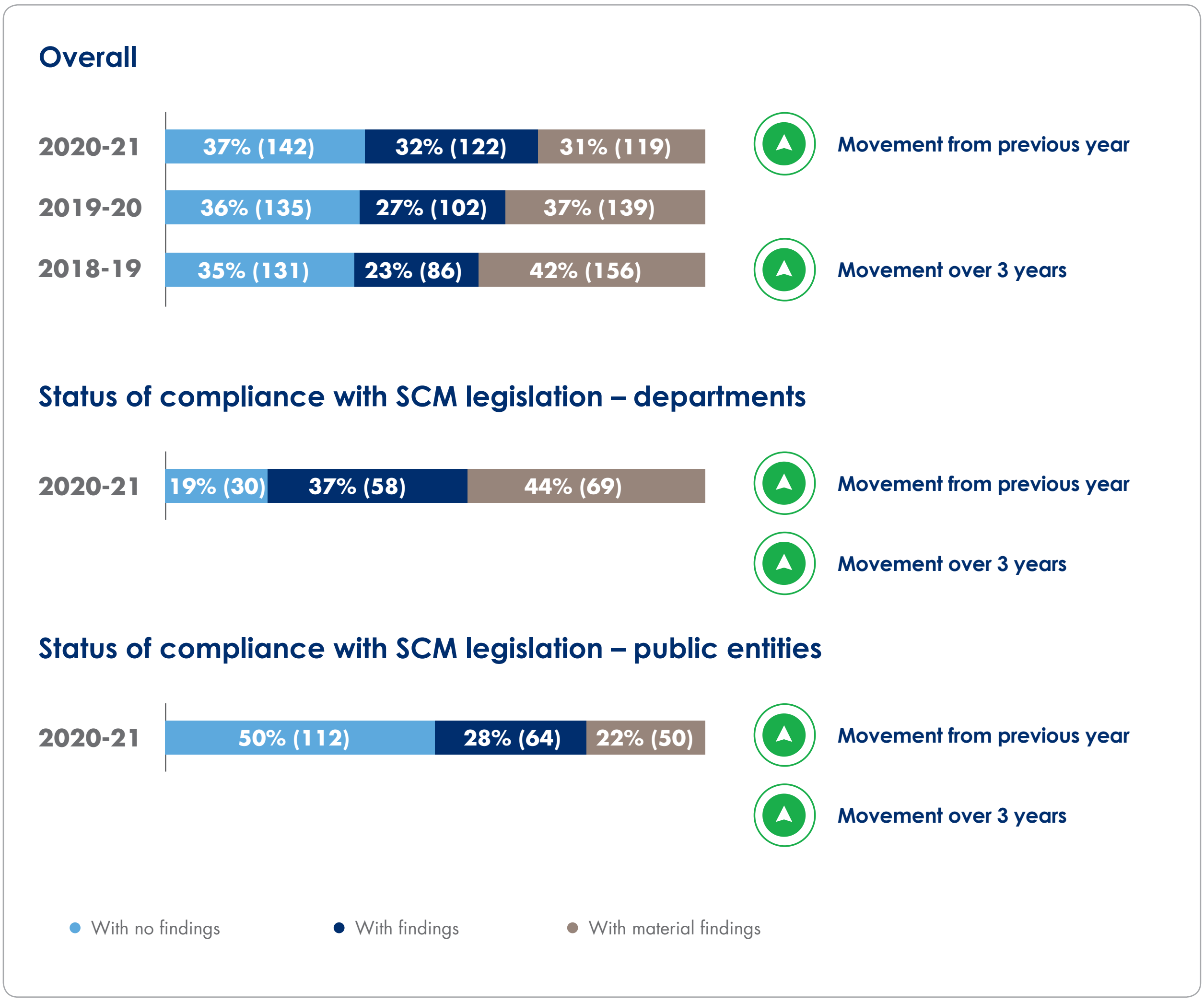
Other notable areas of non-compliance were expenditure management (16%), strategic planning and performance management (12%), and revenue management (8%).

We now look in more detail at two specific areas of non-compliance, namely supply chain management and irregular expenditure.

Supply chain management

Supply chain management improvements are slow-paced

Status of compliance with supply chain management legislation



In 2020-21, we noted some improvement in the compliance with legislation on supply chain management, building on the improvement trend from the start of the new administration. However, the compliance rate remains low, especially at departments, and the situation is still concerning.

The reasons for improvements were varied, with some auditees making the changes needed for sustainable improvement by enhancing control environments and ensuring stability in supply chain management units or key positions.

Improvements in compliance with legislation

At the **Commission for the Promotion and Protection of the Rights of Cultural, Religious and Linguistic Communities**, the accounting officer and senior management were committed to, and directly involved in, ensuring that improvements in internal controls are implemented consistently and in good time. This improvement can be attributed to the additional controls (including preventative controls) management implemented to address the previous period's misstatements and root causes. Management has also focused on supply chain management issues raised in the previous year and developed an action plan, which included our recommendations to address the previous year's findings.

At some auditees, however, non-compliance only decreased because fewer tenders were issued, mainly due to budget constraints. For example, the Eastern Cape Department of Education did not issue any tenders for infrastructure projects in 2020-21 due to budget constraints.

It is thus early days to celebrate an improvement in supply chain management compliance, especially given the many procurement failures observed during the height of the pandemic and reported in our special reports. Chapter 5 provides further detail on the covid-19 procurement findings.

We were unable to audit procurement of R2 138 million at 27 auditees (7%) due to missing or incomplete information. The impact of these limitations was as follows:

- There was no evidence that auditees had followed a fair, transparent and competitive process for all awards. If unsuccessful bidders request information on the process, this information would not be available, thus exposing auditees to possible litigation.
- Poor record management created an environment in which it was easy for officials to commit and conceal improper or illegal conduct.
- Due to these limitations, we could not assess whether any part of the R2 138 million might represent irregular expenditure or material irregularities.

The highest contributors to these limitations, accounting for 90%, were:

- **Department of Public Works and Roads (NW)** – R550 million: The department did not submit any of the tender documents for auditing due to poor record management. The most significant contracts were for upgrading roads (R456 million) and extensions to the Mmabatho Convention Centre (R86,4 million).
- **Property Management Trading Entity** – R501 million: Due to poor record management, the entity did not submit for auditing the contract and all bid documentation for the unsuccessful bidders relating to the procurement process and contract for the urgent relocation of the national Department of Health from the Civitas building to alternative accommodation.
- Department of Defence – R387 million: The department did not submit one of the procurement contract files for auditing. The file relates to Unified Communication Solution and renewal of Microsoft software licences.

- Roads Agency Limpopo – R378 million: The auditee could not provide the documentation for nine awards as they are currently subject to court litigation by the losing bidder.
- **Department of Health (NW)** – R107 million: The department could not provide the tender documentation for the winning suppliers relating to the contract for the supply and delivery of coal. The reason for the limitations was improper internal controls implemented for the safeguarding of tender documentation.

Although there is no legislation that prohibits auditees from making awards to suppliers in which employees and their close family members have an interest, such awards might create conflicts of interest for employees and/or their close family members. As part of our audit, we assess the financial interests of employees of the auditee as well as their close family members in suppliers to ensure that any conflicts of interest are identified and reported to management, as these may result in an unfair procurement process.

Awards to employees and close family members

Awards	Movement from previous year	Number of auditees with findings	Number of awards	Amount (R million)
Awards to employees		8% (31)	261	107
Awards to close family members of employees		11% (44)	682	661

As with employees and close family members, there is no legislation that prohibits making awards to suppliers in which state officials have an interest. However, the **amended Public Service Regulations prohibit employees of departments from doing business with the state** from 1 August 2016. During our audits, we identified 712 employees who were still doing business with the state (an increase from 560 in the previous year). The onus of complying with these regulations is on the employees, but departments have a responsibility to monitor such compliance.

Department employees doing business with the state

Findings	Movement from previous year	Number of departments	Number of employees	Amount (R million)
Employees doing business with own department – contracts awarded after 1 August 2016		5% (8)	58	20
Employees doing business with other state institutions – contracts awarded after 1 August 2016		18% (28)	654	379

Despite consistently raising concerns about contracts being awarded to employees and their families, we still find that **contracts are awarded without the necessary declarations of interest** being made.

False declarations by suppliers and non-disclosure by employees

Findings	Number of auditees	Number of suppliers/ employees	Amount (R million)
Suppliers owned or managed by employees of another state institution made false declarations	7% (27)	298	72
Suppliers owned or managed by employees of the auditee made false declarations	2% (8)	66	8
Suppliers owned or managed by close family members of employees of the auditee made false declarations	7% (27)	322	316
Employees of the auditee failed to declare their own interest either as part of the procurement processes or through annual declarations	5% (20)	73	19
Employees of the auditee failed to declare their family members interest	5% (19)	162	250

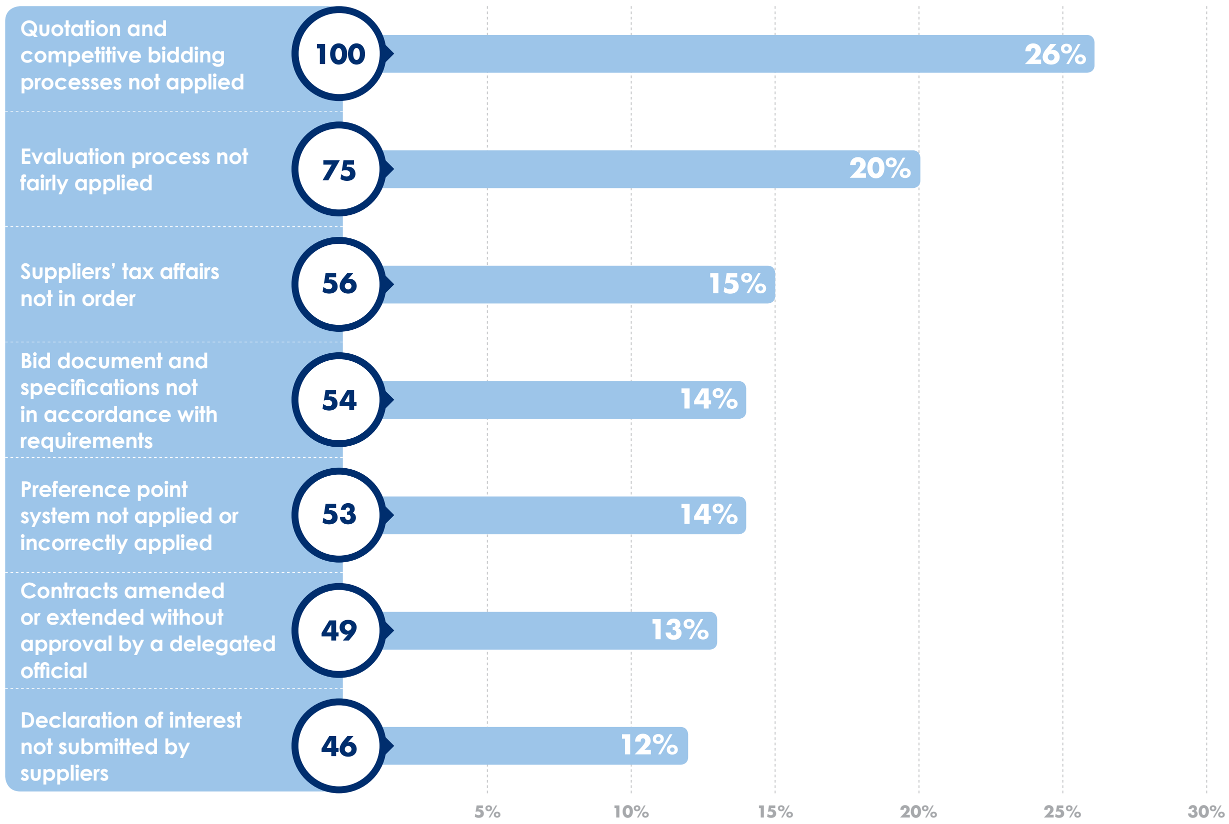
False declarations by suppliers and non-disclosure by employees

The **Mpumalanga Department of Health** relied on the declarations submitted and the central supplier database compliance reports for all procurement to identify any interests and act in accordance with its policy. However, these reports did not pick up all the interests. This weakness in preventative controls allowed the increased procurement related to covid-19 to contribute to the high number of false declarations by suppliers. The department committed to investigate the false declarations and deal with the root causes.

The **KwaZulu-Natal Department of Education** relied on the declarations submitted and the central supplier database compliance reports for all procurement to identify any interests and act in accordance with its policy. The department's internal control and human resource management directorate followed up on the suppliers we flagged to management for investigation of false declarations through our computer-assisted audit techniques. The suppliers were notified that they would have to either deregister as the directors of the company or resign from their employment at the department. Over the years, we have not seen a repeat of previously reported interests.

Uncompetitive and unfair procurement processes are still common. We reported findings (27% of which were material) on uncompetitive and unfair procurement processes at 51% of auditees, and contract management findings (6% of which were material) at 22% of auditees.

Uncompetitive and unfair procurement processes and contract management



Often, findings on non-compliance with supply chain management legislation are viewed and commented on as procedural issues or possible fraud, while the potential losses for government due to the correct processes not being followed are overlooked. Less competition often leads to higher prices being paid for goods and services, while non-compliance relating to contract management can open the state up to losses when contracts are not in place or performance is not monitored. This results in further losses, placing the fiscus under undue pressure.

The aim of the Preferential Procurement Regulations is to support **socioeconomic transformation**. These regulations have a significant impact on the fair and equitable development of the country's local economy. The public sector should lead by example to achieve this goal, but we again found that some auditees are failing in this area. As seen in the figure above, 53 auditees (14%) either did not apply the preference point system or applied it incorrectly.

The Preferential Procurement Regulations also require auditees to procure certain commodities from local producers. Auditees also failed in this area, as 77 (44%) of the 176 auditees at which we audited local content failed to comply with the regulation on promoting local producers on awards amounting to R918 million.

There were 38 auditees (10%) that failed to comply with the **covid-19 emergency procurement requirements**.

Chapter 9 provides further details and examples of what we discovered in terms of uncompetitive and unfair procurement processes and inadequate contract management.

Irregular expenditure

Irregular expenditure remains high

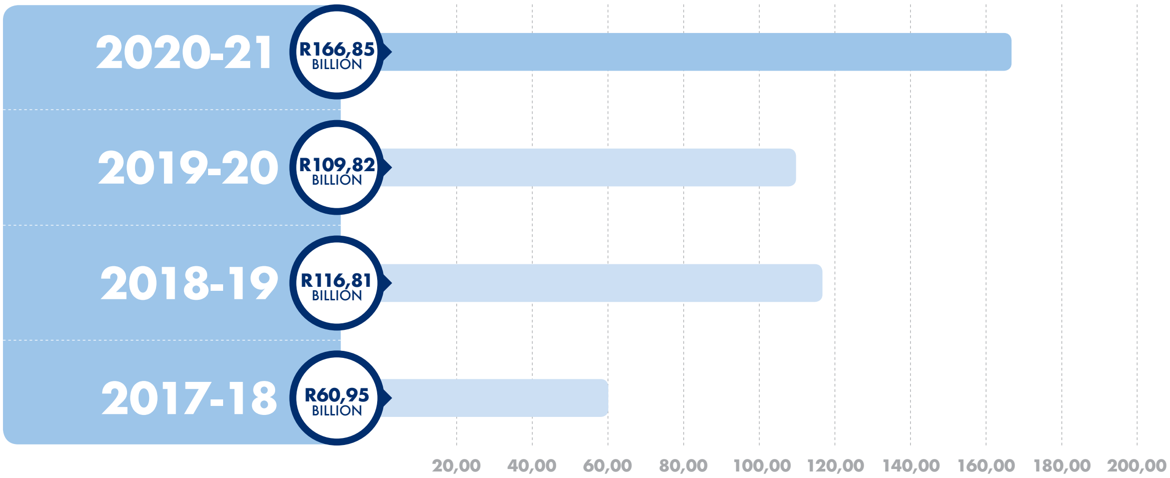
Irregular expenditure is expenditure that was not incurred in the manner prescribed by legislation, and does not necessarily mean that money was wasted or that fraud was committed.

When an auditee incurs irregular expenditure, it indicates non-compliance in the process that management needs to investigate to determine whether it was incurred because of an unintended error, through negligence or with the intention to work against the requirements of legislation (which, for example, require that procurement should be fair, equitable, transparent, competitive and cost-effective).

These investigations also determine who is responsible for the non-compliance and what the impact is, and provide the basis for determining the next steps. If the non-compliance had no impact and negligence was not proven, one possible step is to condone the expenditure. Alternatively, if negligence was proven, the auditee can take disciplinary action, recover any losses from the implicated officials, or even cancel a contract or report it to the police or to an investigating authority.

Irregular expenditure – annual and movement over four years (includes outstanding audits)

INCURRED BY **286 AUDITEES** (INCLUDING **R4,62 BILLION** FROM OUTSTANDING AUDITS)



Irregular expenditure is not complete
- Qualification/still outstanding to determine full amount = 88 auditees (23%) (2019-20: 112 (30%))
- Limitations in auditing procurement = R2,14 billion

Irregular expenditure remains high at R166,85 billion, and auditees are still slow to deal with it.

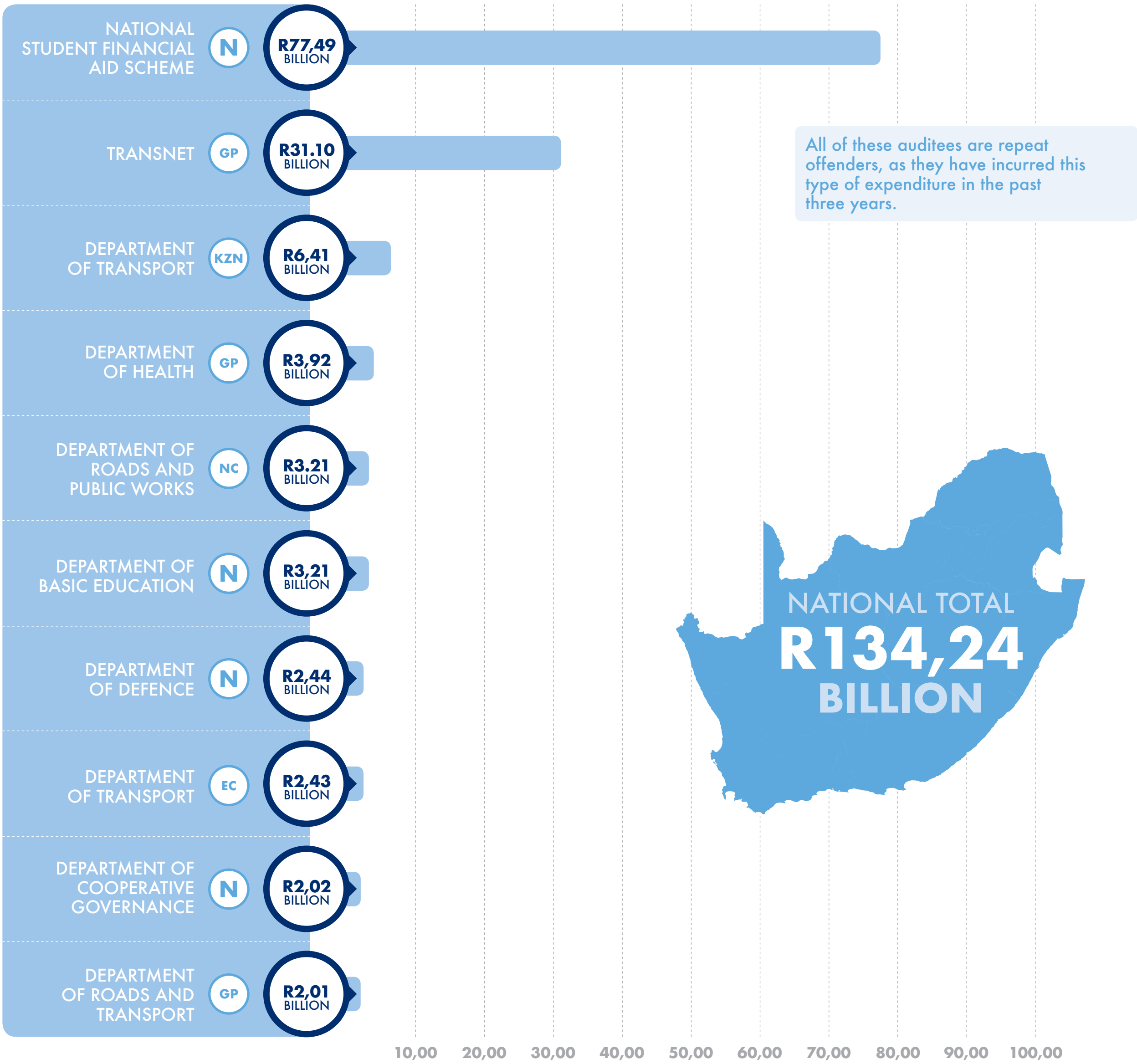
The biggest increase in irregular expenditure was in national government, mainly as a result of the National Student Financial Aid Scheme increase. If we exclude this amount (R77,49 billion), irregular expenditure for the current year would be R89,36 billion.

For the first time in many years, most of the irregular expenditure (R103,55 billion, or 62%) was caused by non-compliance with legislation that did not relate to supply chain management. As mentioned above, a significant portion of this amount (R77,49 billion) is from the National Student Financial Aid Scheme, mainly due to non-compliance with bursary-related regulations.

The R63,30 billion (38%) that relates to non-compliance with supply chain management legislation can be broken down as follows:

- Procurement without following a competitive bidding or quotation process – R7,43 billion (12%)
- Inadequate contract management – R4,65 billion (7%)
- Non-compliance with other procurement process requirements – R51,22 billion (81%)

Top 10 contributors constitute 80% of total irregular expenditure



All of the top 10 contributors to irregular expenditure are repeat offenders, having previously incurred this type of expenditure within the past three years. Further insight on some of these top 10 contributors is as follows:

- **National Student Financial Aid Scheme** – R43,71 billion (56%) of the irregular expenditure was incurred in previous years but was identified and disclosed in the current year. The remainder was incurred in the current year and was mainly due to a failure to consult with respective Ministers on the funding rules and eligibility criteria for the student bursaries.
- **Transnet** – R16,96 billion (55%) of the irregular expenditure was incurred in previous years but was identified and disclosed in the current year. The remainder was incurred in the current year. Some of the more significant matters are being investigated by the Special Investigating Unit.
- **Department of Transport (KZN)** – R2,05 billion (32%) of the irregular expenditure was incurred in previous years but was identified and disclosed in the current year. The remainder was incurred in the current year. Non-compliance with other procurement process requirements constituted 87% of the expenditure. The goods or services and key contracts affected included a bus service contract, security services and upgrading of roads.
- **Department of Roads and Transport (GP)** – R2,01 billion (100%) of the irregular expenditure was incurred and identified in the current year – most of this represents irregular expenditure incurred on ongoing multiyear contracts awarded in previous years. All of the expenditure is due to non-compliance with other procurement process requirements and relates mostly to extension of expired bus contracts.

Auditees have a poor track record in dealing with irregular expenditure and ensuring accountability. The year-end balance of irregular expenditure accumulated over many years continues to grow and remains unresolved.

A culture of tolerance and even acceptance of non-compliance fuels the situation where officials are not held accountable and consequence management is not implemented.

Below are some examples of why this type of expenditure continues to grow.

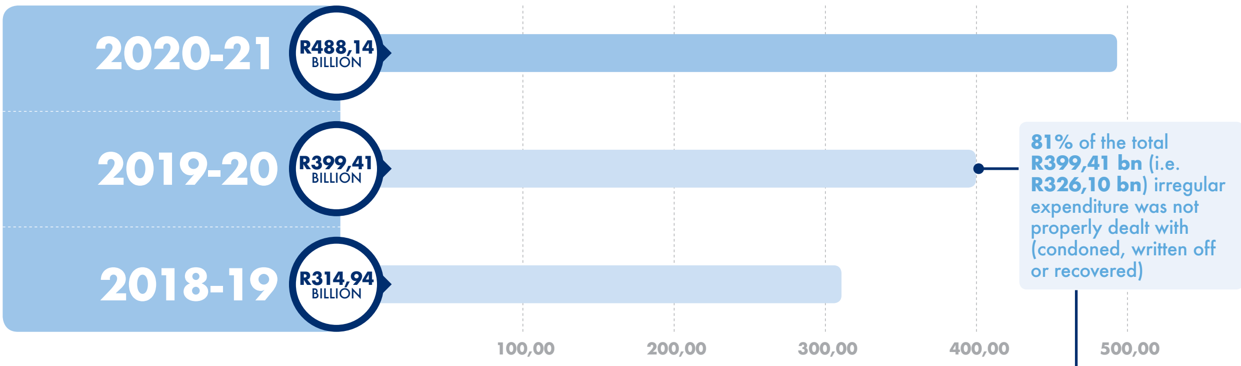
Reasons for increase in year-end balance of irregular expenditure

Approximately R37 billion of the **Transnet** amount relates to the procurement of 1 064 locomotives that was found to be irregular. These transactions are the subject of ongoing investigations and court processes, the outcome of which will determine the appropriate steps to be implemented for dealing with the irregular expenditure, including recovery of losses incurred (if any), disciplinary steps and/or condonation if there are good grounds to do so.

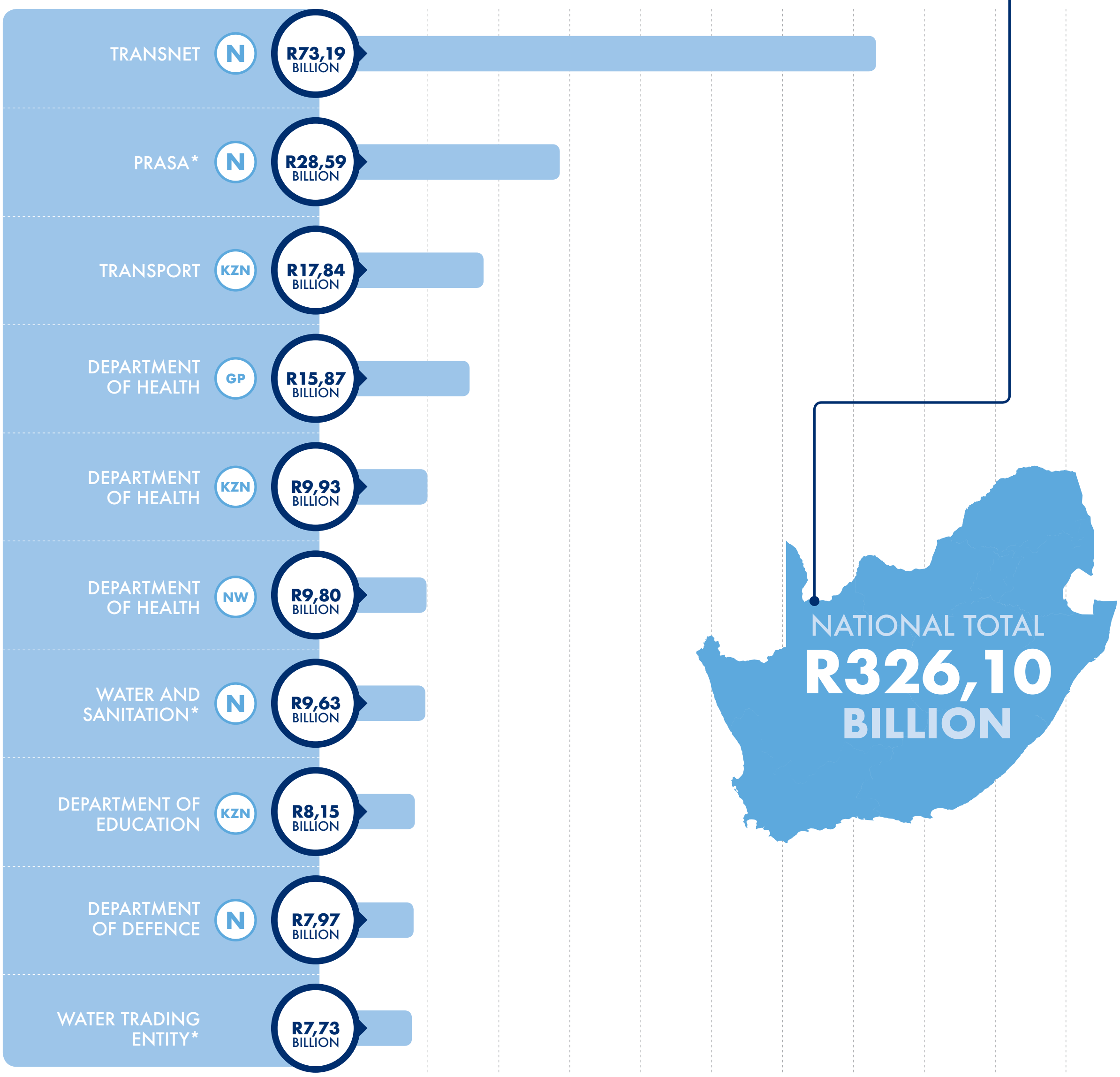
The **Gauteng Department of Health** is not investigating all cases of irregular expenditure due to lack or non-submission of requests for condonement of the irregular expenditure to the relevant authorities, and the fact that most of the irregular expenditure is from legacy issues, such as consignment stock, security contracts and cleaning contracts. As a result of the legacy issues and the instability in leadership, current leadership is unable to speedily deal with the irregular expenditure.

The biggest reason for growing irregular expenditure at the national **Department of Defence** is the lack of an effective consequence management and control environment. In the current year, 74 new cases of irregular expenditure were identified, while only three were condoned and none were recovered or written off.

Irregular expenditure not speedily dealt with



Top ten contributors to irregular expenditure not speedily dealt with



*Audit outstanding

ROOT CAUSES OF UNFAVOURABLE AUDIT OUTCOMES

Status of internal controls and strength of assurance provided

Over the years, our message has remained consistent – departments and public entities must have a strong control environment with practical, automated and routinely executed internal controls.

Internal controls support the achievement of national and provincial objectives by monitoring the risk of human error, incorrect decisions, fraud, abuse and loss. Such controls also prevent financial loss, wastage and transgressions, and significantly improve financial and performance management and reporting.

Investing in and progressively building a strong internal control environment is the sustainable solution that national and provincial government needs to do more with the limited funds at its disposal. The status of internal controls reflects an improvement over the last three years that correlates with the improvement in audit outcomes – but it is still not where it should be, with almost half of the auditees still not receiving the necessary attention.

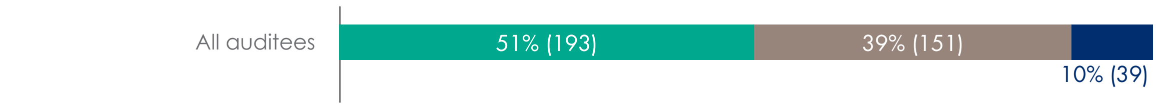
The status of the financial and performance management controls shows that auditees need to invest further in strengthening their control environment:

- Many auditees still struggle with basic and routine daily transactional disciplines and monthly controls such as reconciliations. These disciplines and controls are also not supported consistently and effectively by information technology system controls.
- We rarely find auditees with good, built-in processes to monitor and review all transactions, procurement, payments and decision-making to ensure that they comply with legislation, best practices and policies.
- There is lack of proper record keeping for financial and performance information, which weakens the potential for credible in-year reporting to enable national and provincial leaders to monitor performance and make well-informed decisions. Consequently, at year-end, financial statements and performance reports are riddled with misstatements.
- Our consistent call to implement audit action plans to address the root causes of audit findings is not getting the required attention, with plans being developed but not executed.
- If sound systems of internal control are lacking, there may be a regression in audit outcomes.

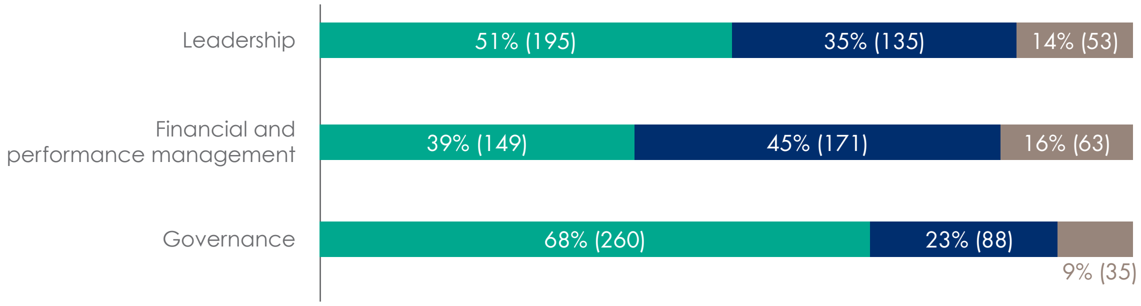
Our reporting and the oversight process reflect on history, as they take place after the financial year. Many other role-players contribute throughout the year to the credibility of financial and performance information and compliance with legislation by ensuring that adequate internal controls are implemented.

We assess the level of assurance provided by role-players in national and provincial government based on the status of auditees' internal controls. We also assess the impact of the different role-players on these controls.

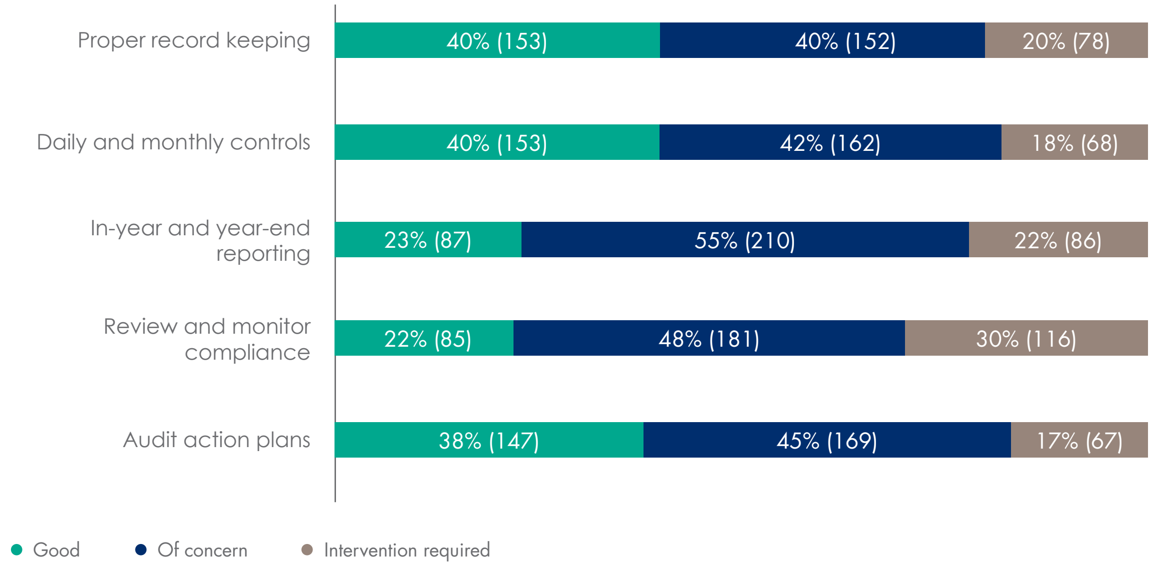
Overall status of internal control



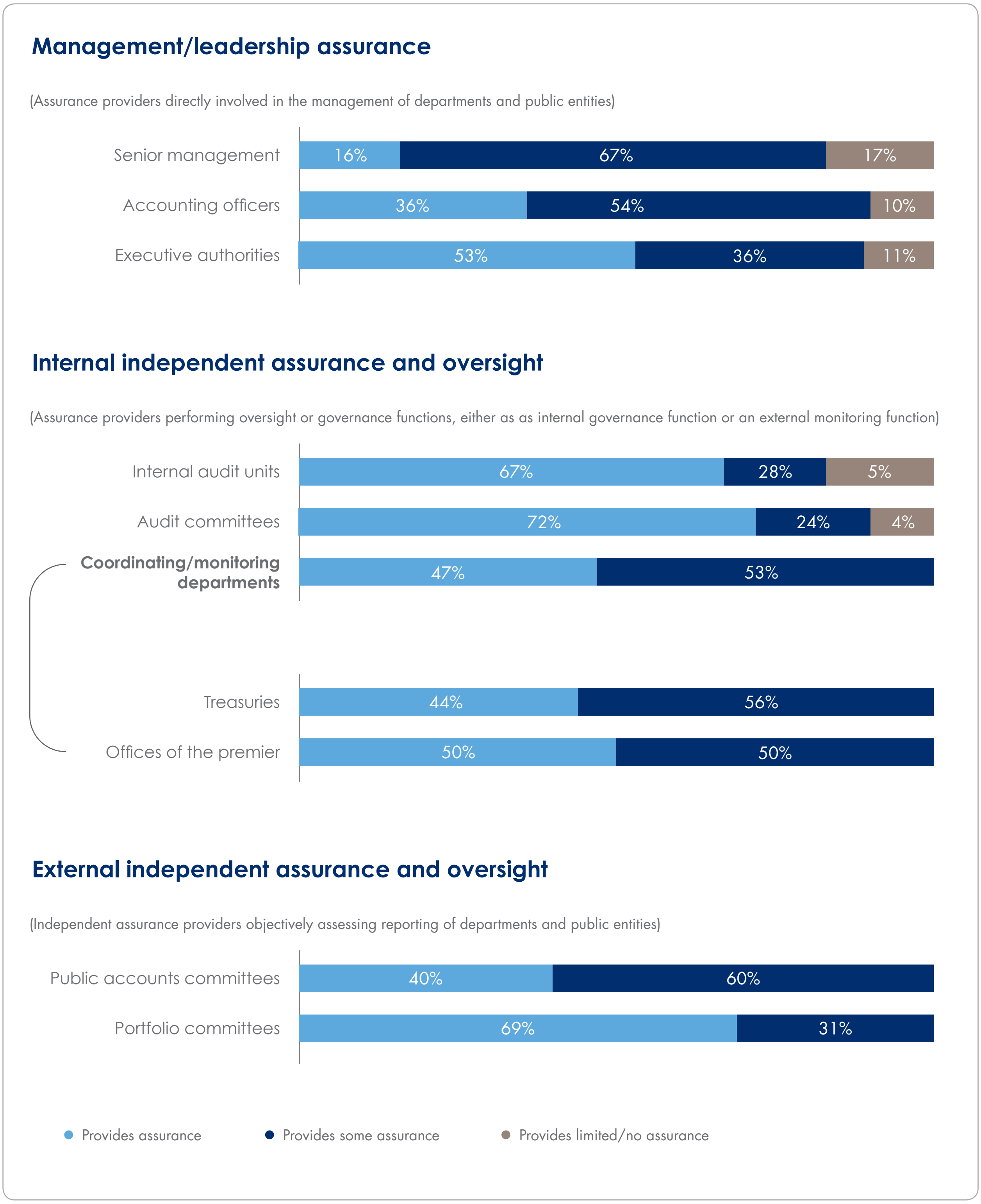
Drivers of internal control



Financial and performance managment



Level of assurance provided based on status of internal controls



In chapter 10, we highlight the role of each key role-player in providing assurance.

Since the first year of administration, we have seen a significant improvement in the level of assurance provided by coordinating departments, public accounts committees and portfolio committees.

The poor quality of the financial statements and performance reports submitted for auditing, along with the continuing non-compliance, are clear indicators that there is a need for improved assurance at senior management level.

We also saw an improvement in the assurance assessment by internal audit units and audit committees over 2019-20, as well as a positive improvement over the first year of the administration (net improvement of 36 auditees). It is encouraging to see both internal audit units (67%) and audit committees (77%) playing a significant role in improving the audit outcomes. Accounting officers or authorities and senior managers should implement the recommendations of internal audit units and auditee committees and use the opportunity to interact with these bodies to help improve governance and control. However, at some auditees, these role-players do not have the desired impact because management is either not effective in its role as assurance provider or does not implement the recommendations from the internal audit units and audit committees.

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

Below are some examples illustrating the effect of inadequate controls and ultimately leading to low levels of assurance.

Inadequate controls leading to low levels of assurance

Leadership at the **national Department of Defence** did not exercise sufficient oversight over financial and performance reporting or compliance with legislation. We identified material misstatements in both the financial statements and the annual performance report submitted for auditing.

Management did not prepare regular, accurate and complete financial and performance reports that were always supported and evidenced by reliable information. Some of the supporting evidence provided differed materially from the reported achievement, while in other instances we could not obtain sufficient appropriate audit evidence to verify the reported achievements. This was mainly due to a lack of proper record management systems and insufficient controls over daily transaction reconciliation. Management's delay in rolling out clear guidelines for reporting also resulted in a lack of relevant and sufficient evidence to confirm the validity, accuracy, and completeness of the reported capabilities and number of members deployed which forms part of the performance programme of the department.

The department did not effectively implement and monitor the action plans developed to address matters from the previous year's audit findings, which resulted in repeat negative audit findings. Additionally, controls for reviewing and monitoring compliance with legislation did not effectively detect and prevent non-compliance, which resulted in both irregular expenditure and material irregularities.

North West Parks Board

The **North West Parks Board** retained its qualified audit outcome from the previous year because it made no changes to the overall control environment. Although the entity prepared a post-audit action plan, there was inadequate control to ensure that the plan would be fully implemented. Only a few material misstatements identified during the previous year's audit had been addressed, which affected the current year's audit results. This was mainly due to instability in key positions, as all senior management positions were vacant at year-end.

Coupled with this, over the past five years critical executive-level positions, including chief executive officer, chief financial officer and head of strategic planning, have been filled by individuals in an acting capacity. During the current year, the entity appointed two acting chief executive officers and two acting chief financial officers, as well as an acting supply chain management manager. The chief audit executive was appointed during the 2020-21 financial year and the chief executive officer was appointed in June 2021. A new board was appointed in December 2020 and did not have enough time to perform proper oversight and ensure that controls were implemented.

The instability at these levels of assurance providers severely hampered the entity's basic systems of internal controls over financial and performance management, including its ability to comply with legislation.

Where there were improvements in the internal control environment, we can see that the level of assurance provided by the key role-players also improved, as illustrated by the examples below.

Improvement in controls leading to increased levels of assurance

The **Gautrain Management Agency** managed to sustain its clean audit status for three years. The entity continued to implement preventative controls such as processing and reconciliation, regular reporting, proper record management and adequate review, including using governance structures for reviews. Senior management is continuously implementing processes that ensure adequate and effective daily and monthly transaction reconciliations, as well as maintaining regular, accurate and complete financial records to avoid material misstatements and adequate controls to ensure compliance with legislation.

In the area of procurement and contract management (supply chain management), the entity holds annual panel discussions with experts focusing on supply chain management regulations to ensure that it complies with these regulations. Management responds promptly to any immaterial supply chain management findings raised by the audit team to ensure there are no repeat findings in the next audit. The entity's governance structures have helped to provide the necessary oversight to ensure that the controls in the environment are operating effectively. Compliance reports are prepared every quarter and submitted to the audit and risk committee to ensure compliance with laws and regulations.

The entity's internal audit unit has been operating effectively and providing the necessary assurance in terms of the control environment. It reviewed significant internal controls and provided management with an appropriate internal audit appraisal function focusing on key controls over financial and performance reporting and compliance. Quarterly performance reports with supporting evidence are prepared and submitted to the audit and risk committee after review by the internal audit unit. Quarterly reporting of performance information ensures that the annual performance report is of good quality and free of material misstatements. The entity responds timeously to any immaterial findings raised by the audit team to ensure that there are no repeat findings in the next audit that might escalate to being material.

Gauteng Growth and Development Agency

The **Gauteng Growth and Development Agency** turned its situation around and improved its audit outcome to financially unqualified with no findings. This can be attributed to the agency's good control environment, which is actively supported by the internal audit unit and audit committee.

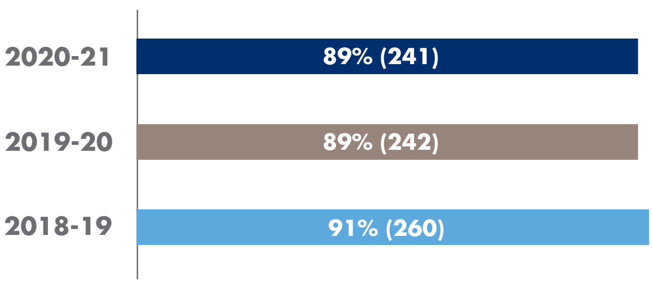
The entity's regression in 2019-20 was related to supply chain management regulations, stemming from misinterpretation of sections on participating in contracts secured by other organs of state. In the current year, senior management implemented our recommendation and consulted further with the provincial treasury to get clarity and further guidance on this matter. Although the auditee did participate in a contract secured by another organ of state, it implemented the legislation correctly, in line with our recommendation from the previous year.

The group chief executive officer was also actively involved in providing guidance and enforcing controls at the entity. The audit committee was strict during the year and held focused meetings on improving the controls and keeping the chief financial officer and his team accountable. The accounting authority is also positively influencing good governance and clean administration. The assurance provider's assessment of the accounting authority is based on there being no control deficiencies directly attributable to the accounting authority during the financial year. The assurance provided by the accounting authority was adequate, and the level of oversight and monitoring required at a leadership level was sufficient to ensure audit matters and internal control deficiencies were adequately designed and put in place.

Slow response to recommendations

We have consistently recommended that auditees improve their internal controls, but given the slow response to this recommendation over many years, internal control environments remain weak. The most common reasons that auditees do not achieve clean audits (89% of cases) is because they either respond slowly to our recommendations or do not respond at all.

Slow response to recommendations



	Slow response	No response
Slow response by management	204	36
Slow response by political leadership	18	6
Slow response by oversight	13	1

Our recommendations were ignored at 11 national auditees, 10 auditees in the Free State, six auditees in Limpopo, 11 auditees in North West and one auditee in the Western Cape. At some auditees, there was no response to our recommendations at management, political leadership or oversight level.

The following example shows how failure to adequately respond to our recommendations by implementing good audit action plans compounded the auditee's ability to achieve good audit outcomes.

Effect of recommendations on audit outcomes – no response

The **Department of Justice and Constitutional Development** has received a qualified audit opinion for the past four years. In both the previous and current years, the department was qualified on contingent liabilities (liabilities that may occur, depending on the outcome of an event at some time in the future). We also identified reliability issues on the reported performance information relating to validity, accuracy and completeness, and reported these in the audit reports for the current and previous years.

If the department had adequately and timeously implemented our recommendations, and if all role-players had monitored the action plans to address key audit matters, the repeat findings could have been avoided.

In contrast, the example below shows how the auditee achieved favourable audit outcomes due to implementing our recommendations.

Effect of recommendations on audit outcomes – no response

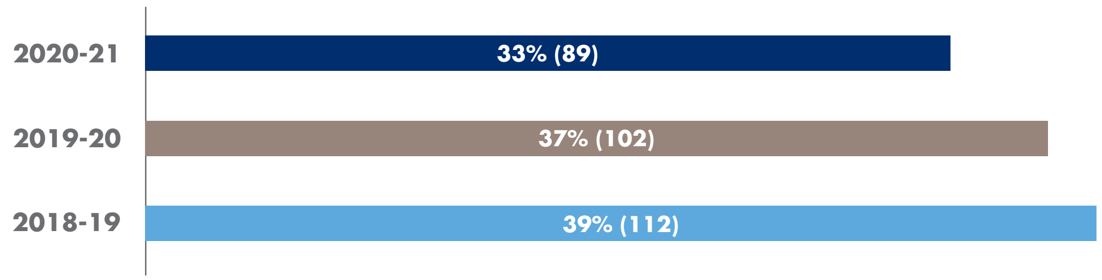
In 2018-19, the **Northern Cape Department of Economic Development and Tourism** regressed to a qualified audit opinion. During 2019-20, the accounting officer highlighted to management that the unfavourable audit opinion must be resolved in the current year.

Over the past two years, the auditee has applied our recommendations to resolve the matter raised and ensure that it provides sufficient supporting documentation to support the amounts disclosed in the financial statements. The department had numerous discussions with us to ensure that it was on track to resolve these issues, and both the accounting officer and the chief financial officer were involved in the matter from the outset. The department was able to collaborate with the audit team and admit to its errors to ensure that, together, we developed a workable approach to resolving the finding. The department has also identified the internal control process that it plans to implement to ensure that the improvement to financially unqualified with findings is sustainable.

Instability or vacancies in key positions, or key officials lacking competencies

Vacancies in key positions, or key officials lacking appropriate competencies, remains a key reason that auditees are not achieving clean audits (33%), although the number of such instances is decreasing. The percentages in this section are calculated based on the number of auditees that have the key positions included in their overall structure.

Vacancies in key positions or key officials lacking appropriate competencies



Despite this improvement, if auditees are to improve and maintain their audit outcomes, they must fill and maintain stability in these key positions – in other words, they must appoint people and keep them in those positions for a longer time, on average.

The table below shows the status of vacancies and stability at year-end, as well as the correlation to audit outcomes.

Vacancies and stability in key positions at year-end

Positions	Vacant for less than 6 months	Vacant for 6 months or more	Total vacancies	Average time in position
Heads of department (HoDs)	6% (9)	17% (27)	23% (36)	44 months
Chief executive officer (CEO)	4% (7)	17% (32)	20% (39)	48 months
Chief financial officer (CFO)	4% (14)	13% (50)	17% (64)	56 months
Head of supply chain (HoS)	2% (6)	15% (55)	17% (61)	57 months

Stability* in key positions produces better audit outcomes

	Clean audit	Unqualified with findings	Qualified with findings	Adverse/disclaimed with findings
HoDs	60	39	31	N/A
CEO	60	42	49	41
CFO	62	58	42	25

* Average months in position

Instability in the key positions of heads of department, chief executive officer, chief financial officer and head of supply chain management has a negative impact on audit outcomes. The table below shows the impact of vacancies in the chief financial officer position at year-end for the past year.

Impact of vacancies at year-end in chief financial officer position for previous year

Indicators	Number of months vacant	Audit opinion
Golden Leopard Resorts (NW)	84	Disclaimed
GL Resorts (NW)	84	Disclaimed
g-FleeT Management (GP)	66	Qualified
North West Tourism Board (NW)	60	Qualified

Instability at accounting officer or authority level continues to delay the material irregularities process, an integral part of which requires accounting officers or authorities to take appropriate steps to recover the final loss suffered by an auditee from the responsible official. We give more detail on the importance of the role played by accounting officers and authorities in the material irregularity process in chapter 9.

Inadequate consequences for poor performance and transgressions

Slight regression from previous year

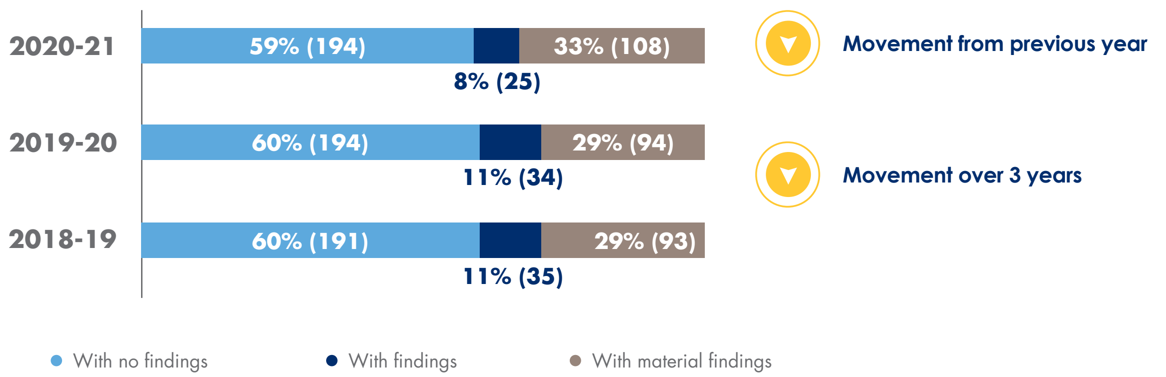
Over the past few years, we have made continued calls for accountability. But what does this actually mean? There are two components to accountability:

- First, those who take actions or make decisions must answer for these actions and decisions.
- Second, those who do wrong (transgress), do nothing (fail to act) or perform poorly should face consequences.

Effecting consequences against officials responsible for non-compliance helps auditees to recover losses incurred by those officials and deter other officials from contravening legislation. By effecting consequences, auditees demonstrate their commitment to prudent financial management practices.

However, we identified a lack of compliance with consequence management legislation at just over 40% of auditees, a slight regression from the previous year. Instances of non-compliance and the resultant financial losses at these auditees are likely to continue if officials do not get the sense that they will be held accountable for non-compliance and misconduct.

Status of compliance with legislation on implementing consequences



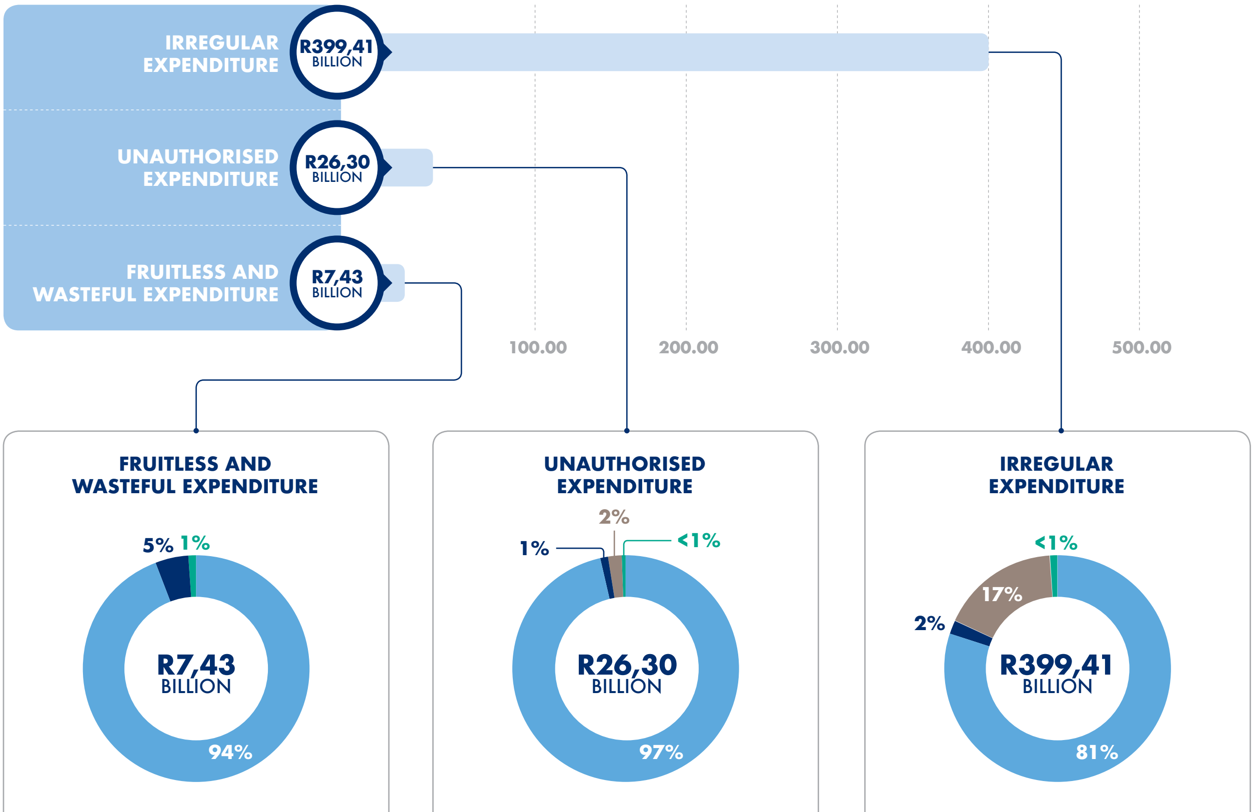
Our most common findings in this area were as follows:

- Irregular expenditure identified in the previous year was not investigated to determine if a person was liable for the expenditure – 84 auditees (26%).
- Fruitless and wasteful expenditure identified in previous years was not investigated to determine if a person was liable for the expenditure – 55 auditees (17%).
- Effective and appropriate disciplinary steps were not taken against officials who incurred and/or permitted irregular expenditure – 52 auditees (16%).

As a result, the year-end balances of this unwanted expenditure continue to grow, with irregular expenditure standing at R488,14 billion, unauthorised expenditure at R28,67 billion, and fruitless and wasteful expenditure at R9 billion.

The Public Finance Management Act requires these types of expenditure to be objectively and diligently investigated. Neither accounting officers or authorities nor treasuries should write off or condone such expenditure without making sure that no losses were suffered or that any such losses cannot be recovered.

How auditees dealt with all unauthorised, irregular, and fruitless and wasteful expenditure to date



Fruitless and wasteful expenditure

Not dealt with	R7,03 bn
Written off	R0,36 bn
Money recovered or in process of recovery	R0,04 bn

Unauthorised expenditure

Not dealt with	R25,55 bn
Written off	R0,20 bn
Condoned	R0,55 bn
Money recovered or in process of recovery	R0,01 bn

Irregular expenditure

Not dealt with	R362,10 bn
Written off	R6,94 bn
Condoned	R66,29 bn
Money recovered or in process of recovery	R0,08 bn

We tested whether **allegations of financial and supply chain management misconduct and fraud** had been adequately followed up at 96 auditees and found the following:

- At 40 auditees (42%), investigations took longer than three months to complete.
- At 25 auditees (26%), allegations were not investigated.
- At eight auditees (8%), disciplinary proceedings were not instituted for confirmed cases of fraud or misconduct.

As part of our consequence management audit, we report **indicators of possible fraud or improper conduct in the supply chain management processes**, and recommended that management investigate these matters further. In 2019-20, we reported such indicators for follow-up at 140 auditees. There is a definite need to increase the momentum in finalising these investigations, as shown in the figure below.

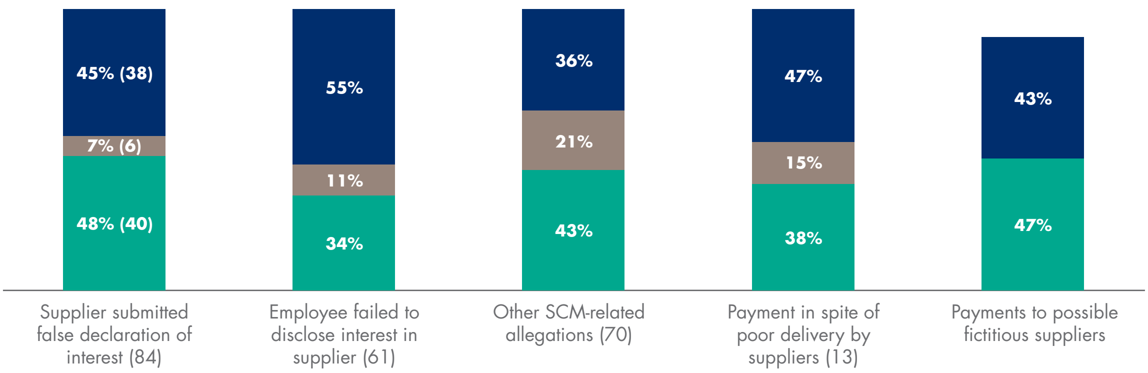
Status of investigations into fraud or improper conduct in supply chain management processes

44% (61) auditees investigated all of the findings were reported

19% (27) auditees investigated some the findings were reported

37% (52) auditees investigated none the findings were reported

Of the 88 auditees that investigated some or all findings, **50 (57%)** had satisfactory resolutions to these investigations, while **43%** did not (for example, the investigation recommended that contracts in which employees failed to declare their interest be cancelled, but the auditee did not do so)



- All investigated
- Some investigated
- None investigated

The lack of consequences remains a key reason that auditees are not achieving clean audits (24%) – this was the most prevalent reason in the Northern Cape, the Free State and North West.

We continue to advocate for auditees to implement adequate consequence management swiftly, bravely and consistently.

CONCLUSION

Accelerate improvements in accountability

Although we celebrate and acknowledge the effort that goes into every incremental improvement, we call for auditees to accelerate improvements in accountability. In this regard, we are concerned that the auditees that have the biggest impact on both the lives of citizens and the financial health of government are lagging behind in the improvement trend.

There are also red flags that we have raised consistently over the years that are not getting the required attention. This signals to us that some of the improvements we have seen may not be sustainable, or may not translate into the strong financial and performance management disciplines auditees need to be able to deliver on their mandates. As a result, the lived experiences of citizens do not yet reflect the improvement we have seen in the audit outcomes of national and provincial government. We unpack this theme further in the chapters that follow.

FOUR
KEY SERVICE DELIVERY DEPARTMENTS

KEY SERVICE DELIVERY DEPARTMENTS

The audit outcomes of the key service delivery departments within the sectors of health, education, human settlements and public works lag behind those of other departments, indicating weaknesses in financial and performance management and compliance with legislation.

This is concerning because, together, these sectors are responsible for managing almost a third (R584 billion) of the estimated total expenditure budget of R1 855 billion, and are instrumental in managing infrastructure and delivering key essential services to citizens.

These four sectors each play an essential role in achieving key government priorities. Thus, paying urgent attention to the root causes behind their failure will have the biggest impact on the success of government initiatives.

We begin the chapter by reporting on the results of our audit of infrastructure grant management for projects funded by key grants in the health, education, human settlements and public works sectors. We have reported similar findings in previous years, but little has changed in terms of improving the management of infrastructure projects. We then provide insight into, and identify the root causes behind, key challenges that are prevalent in infrastructure management, such as delayed projects, poor quality and maintenance of infrastructure, excessive and unnecessary costs incurred for unoccupied buildings, and poor project management and implementation. We also highlight the impact of these issues.

In the remainder of the chapter, we give more context to the audit outcomes for each of the four sectors by including insights on the following:

- **Financial management and financial health** – we expand on matters relating to budgeting, (including the impact of budget reprioritisation, budget cuts, over- and underspending, and budgeting for medical claims), financial reporting, financial health, unauthorised expenditure and losses.
- **Programme performance** – we focus on key observations, including whether key performance indicators and targets were achieved and reliably reported, and whether departments are on track to achieve targets included in the Medium-Term Strategic Framework (MTSF) and the National Development Plan. Where applicable, we also include obstacles preventing good performance reporting.
- **Compliance with legislation** – we highlight the main areas of non-compliance with legislation.
- **Material irregularities** – we provide details on and the status of any material irregularities identified in these sectors.
- **Root causes** – we discuss the root causes behind accountability failures in these sectors.

INFRASTRUCTURE

PERFORMANCE SNAPSHOT

For the 2020-21 audits, we focused on grant management across sectors. This snapshot shows the audit outcomes of infrastructure grant management with an emphasis on projects funded by key grants in health, education and human settlements.

Total grant funding (to all departments)
R34,32 bn

Audit focus

Grant	2020-21
Human settlements development grant	R16,62 bn
Health facility revitalisation grant	R6,50 bn
Education infrastructure grant	R9,41 bn
Schools backlog grant (accelerated school infrastructure delivery initiative[1])	R1,79 bn

Purpose

Human settlements development grant

To provide funding for the progressive realisation of access to adequate housing through the creation of sustainable and integrated human settlements, and to facilitate a programmatic and inclusive approach to upgrading informal settlements.

Health facility revitalisation grant

To help accelerate construction, maintenance, upgrading and rehabilitation of new and existing infrastructure in health including health technology, organisational development systems and quality assurance.

Education infrastructure grant

To provide co-funding for the ongoing infrastructure programme in provinces, including maintaining and construction of infrastructure.

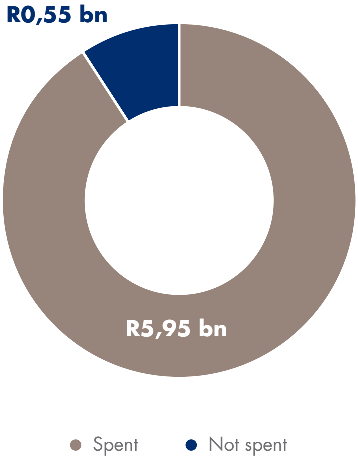
Schools infrastructure backlog grant

To eradicate the backlog in implementing basic safety norms in schools without water, sanitation and electricity, and to replace schools constructed from inappropriate material (mud, *plankie* [timber], asbestos), thus contributing to optimal learning and teaching. This grant funds the accelerated school infrastructure development initiative portfolio.

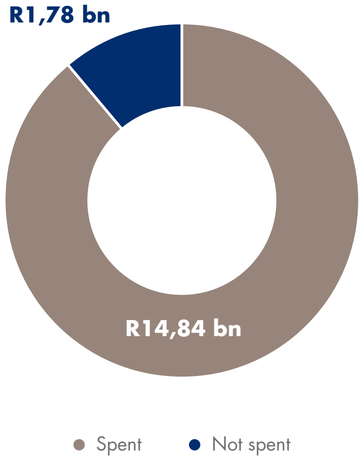
[1] This programme aims to contribute to eradicating infrastructure backlogs in schools, especially those with dangerous structures and a lack of water, sanitation and electricity, to support better teaching and learning environments that comply with the government's minimum norms and standards for school infrastructure.

Expenditure on grants

Health facility revitalisation grant: total R6,50 billion

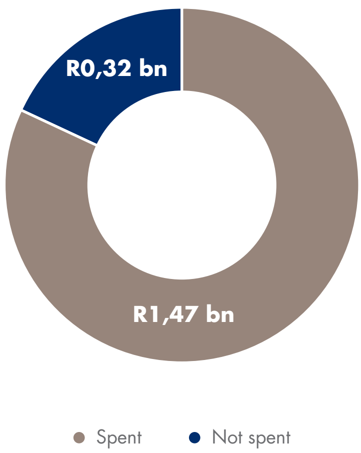


Human settlements development grant: total R16,62 billion



Education infrastructure grant: total R9,41 billion

Schools backlog grant: total R1,79 billion



Audited across all provinces

Human Settlements
17 projects
R2,90 billion
contract budgets[2]

Health
26 projects
R3,06 billion
contract budgets

Education (including ASIDI)
30 projects
R1,71 billion
contract budgets

[2] Contract budgets refer to the contract value of the project

INTRODUCTION

It is widely accepted that South Africa's economic recovery from the devastation of the covid-19 pandemic and social unrest hinges on infrastructure development, which unlocks value. As Finance Minister Enoch Godongwana said at the National Investment Dialogue in late September 2021, the country urgently needs investment in areas such as energy (including alternative energy), water and sanitation, roads and bridges, and human settlements.

One of the key initiatives in the South African Economic Reconstruction and Recovery Plan is the **aggressive infrastructure investment** that will lead to increased income levels in the construction sector.

South Africa desperately needs investment in infrastructure. However, the budget and cost overruns that have become almost synonymous with public sector infrastructure projects are putting further strain on government's limited financial resources.

Our reports have repeatedly highlighted billions of rands of irregular and fruitless and wasteful expenditure in various government infrastructure projects. While some of this can be attributed to improper tender practices, corner-cutting and the like, a significant amount of money is lost to inefficiencies such as scope creep, where additional scope is added to a project during the construction phase.

This chapter includes information, statistics, insights and stories from our audits of infrastructure projects in the health, education and human settlements sectors.

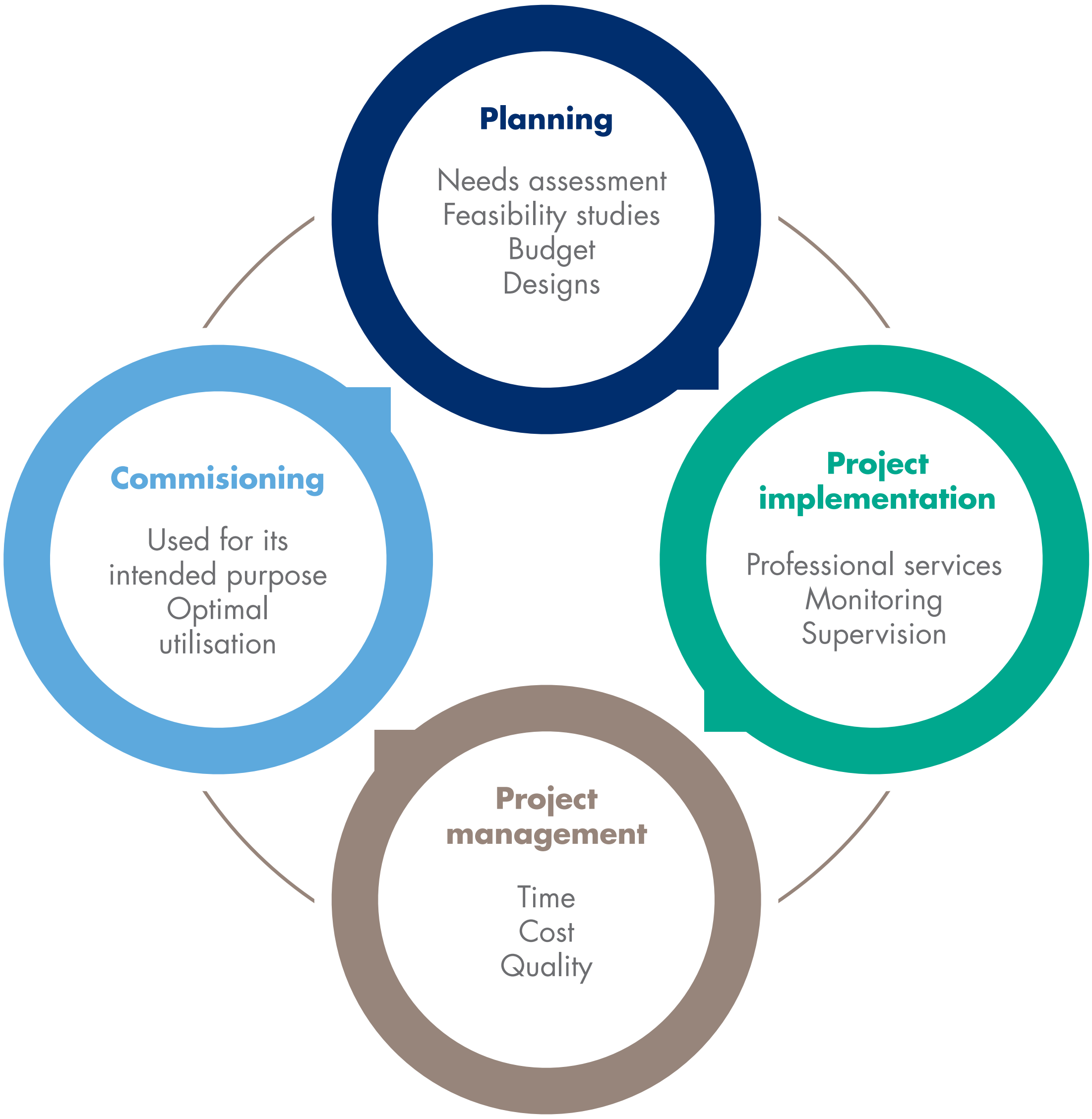
Service delivery objectives

- The Constitution of the Republic of South Africa states that everyone has the right to have access to adequate housing. The mission of the Department of Human Settlements is to **facilitate creating sustainable human settlements and improving the quality of household life.**
- One of the National Development Plan implementation goals is to **build healthcare infrastructure for effective service delivery.** This objective is also captured in goal 4 of the health sector's strategy 2019–2024. Through the health facility revitalisation grant, which is the largest source of funds for public health infrastructure, provincial departments of health are responsible for building, replacing, maintaining, renovating, upgrading and adding to infrastructure.
- The education sector remains a priority for government and receives a large share of voted government funding.

Although each sector has a unique set of circumstances, infrastructure investment in these sectors yields the same problems and inefficiencies. During our audit, we paid specific attention to infrastructure delivery across the project life cycle, focusing on some of the key projects in every province.

We also concentrated on each key phase of infrastructure delivery to address the economical, efficient and effective use of resources in constructing infrastructure. The different phases of the project life cycle for infrastructure delivery are depicted on the next page.

Project life cycle



OVERVIEW OF DEFICIENCIES, FINDINGS AND IMPACT

Over the past few years, we have identified significant internal control deficiencies that led to repeat findings on the economical procurement of resources, and the efficient and effective delivery of infrastructure. These remain unresolved, and infrastructure projects still fail to realise the intended service delivery objectives. In our estimation, if departments imposed consequences, it would promote accountability and thus improve government's ability to deliver infrastructure projects effectively and within budgeted cost. In implementing our expanded mandate, we have also identified a number of potential material irregularities that are at various stages of the material irregularity process. The findings and key delivery challenges are detailed in the graphics below.

Unattended project deficiencies

- Inadequate needs assessment and project planning
- Ineffective monitoring of project milestones and contractors/ implementing agents
- Underperformance by contractors without consequences
- Contractors not paid on time
- Failure in coordination and collaboration between different levels of government, or stakeholders in the same institution

RESULTING IN

- Delayed completion of projects (time)
- Increased project cost and financial losses (cost)
- Build quality defects (build quality)
- Completed infrastructure not commissioned or underused

IMPACTING ON

- Continued shortage of housing, good school infrastructure and access to healthcare facilities
- Poor quality infrastructure – shorter useful life and exposes public to harm
- Money wasted – could have been spent on other government priorities

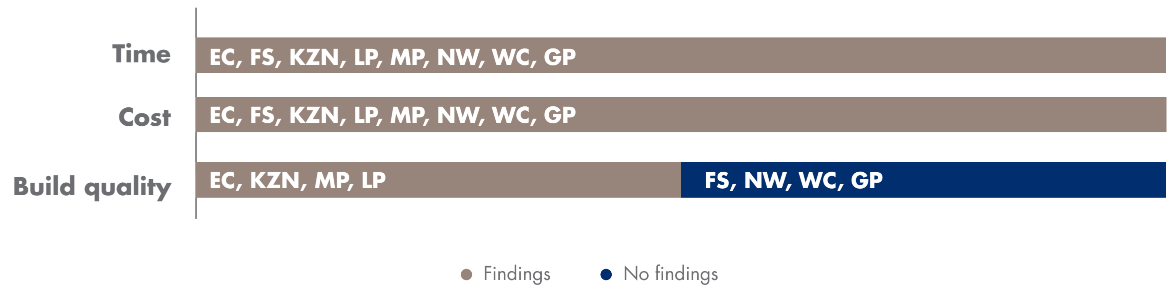
The following graphs show the number of provinces in the targeted sectors with key findings on time, cost and build quality.

Time relates to the delays in delivering infrastructure projects by the planned completion date.

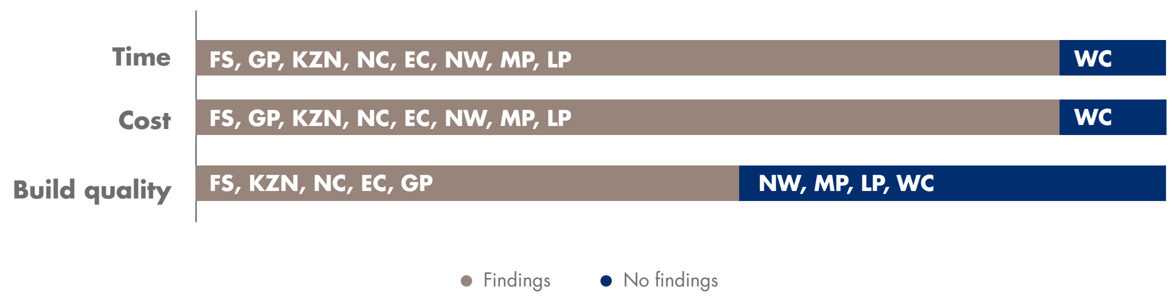
Cost relates to the potential fruitless and wasteful expenditure on some projects due to departments not managing the infrastructure projects effectively.

Build quality relates to the quality of the deliverable,where departments did not receive value for money and paid for poor-quality work.

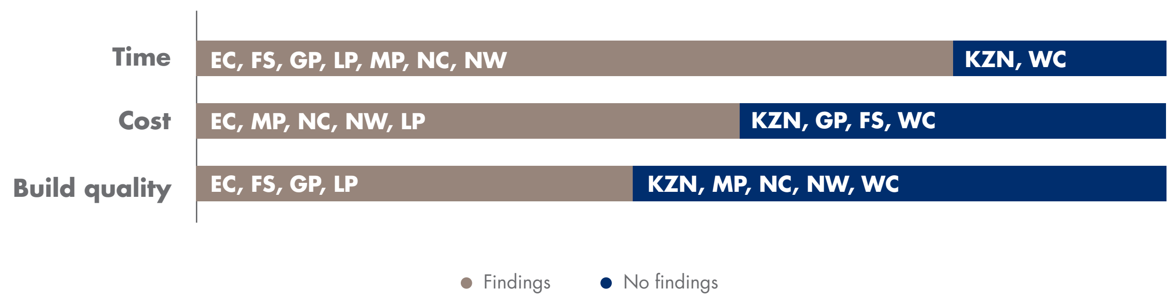
Number of provinces with findings: Human settlements



Number of provinces with findings: Education



Number of provinces with findings: Health



ROOT CAUSE ANALYSIS

The diagram below highlights the main root causes identified during the audits on infrastructure delivery. There are many contributing challenges and a holistic approach is required to improve infrastructure service delivery. While addressing one or two root causes may alleviate the problem, a coordinated and comprehensive process is required to achieve the goal of delivering infrastructure to the citizens of South Africa.

Diagrammatic view of root cause analysis*

Planning

- Inadequate needs assessment and project planning
- Poor coordination between different levels of government, or stakeholders in same institution
- Planning not done effectively resulting in scope changes and/or cost increases

Project implementation and management

- Ineffective monitoring of project milestones and contractors or implementing agents
- Lack of management oversight during infrastructure construction
- Staff with necessary skills and competencies not in place to manage projects effectively
- Over-reliance on consultants
- Poor project management processes, including:
  - Instructions, designs and documentation not always provided to contractors on time
  - Contractors not paid on time
  - No consequences for contractor underperformance
- Poor monitoring and control of inputs, activities, outputs and outcomes to ensure timely completion

Commissioning

- Failure in coordination and collaboration between different levels of government, or stakeholders in same institution
- Completion times of construction, appointment of staff, and availability of completed infrastructure and municipal services were not sufficiently synchronised

POOR SERVICE DELIVERY TO THE PEOPLE OF SOUTH AFRICA AND GOALS NOT ACHIEVED

* New root causes (those that have not been repeated from previous audits) **are indicated in blue.**

The remainder of this chapter focuses on the unattended project deficiencies in the areas of planning, project implementation and management, and commissioning, with examples of each.

Planning

The success of an infrastructure project depends, to a large extent, on the quality of the needs assessment and planning of a project.

Inadequate needs assessment and project planning for infrastructure projects

Departments did not always ensure that the needs of the project were properly identified so that they could plan accordingly.

Inadequate needs analysis

Syferfontein housing project (WC) – Human Settlements

Water use license and building plans were not approved in time, contributing to extension-of-time claims of R4,69 million, and a six-month delay in completing houses.

The purpose of the project was to construct civil services for 359 erven and build 173 housing units. The project commenced on 31 August 2018; however, the provincial department did not ensure that all the planning processes and approvals were in place upfront:

- The water use licence application was only approved 52 calendar days after the project commenced, resulting in the contractor claiming for extension of time as well as stockpiling to the value of R2,75 million.
- The department (as the developer) did not ensure that the George Municipality provided revised construction drawings and site instructions to the contractor in good time. The contractor then claimed an extension of time amounting to R1,94 million for 135 calendar days (24% of the original 573 construction days).

The extensions of time contributed to a delay in completing the project. In addition, although 147 housing units had been completed by 2 December 2019, the units were not commissioned and thus stood vacant and were not handed over to the beneficiaries. The delays were caused by a delay in upgrading the Outeniqua wastewater treatment works contract, which included a package plant to allow connections to the new housing units. This had an impact on the intended beneficiaries.

Julius Sebolai Primary School site (GP) – Education

Poor planning resulted in additional cost of 35% (R27,04 million) more than original contract value.

The site was handed over for construction in April 2015, and the original contract value was R77,83 million. However, poor planning resulted in the following:

- In August 2015, the provincial department converted the project into a smart school prototype that included R15,89 million in design and specification changes.
- The geotechnical investigation was only conducted on 29 June 2015, after the contract was awarded. Excessive rock was identified on site, increasing the contract value by a further R5,79 million. This extra cost was due to poor planning for the initial tender process, as the tender was not specific about the proposed project location. Bidders did not have an opportunity to visit and investigate the site before tendering.
- During the site handover, the existing mobile classrooms could not be relocated as the department could not arrange for an alternative location. A decision was made to split the project into two phases to allow learning to continue during construction. The estimated cost of incorporating a second phase (including a soccer field, sports facilities, combi courts and external work) was R5,36 million. The project was actually completed on 21 June 2019, and the newly constructed school is in use. However, by 18 June 2021, the mobile structures were still on site, unused and occupying the area allocated to sports fields, denying the learners access to onsite recreation facilities.

Project implementation and management

Project implementation and management focuses on achieving critical targets or delivery dates, monitoring current expenditure against progress and budgeted funds, monitoring quality against specifications, and addressing risks with suitable interventions.

The provincial departments responsible for education, health and low-cost housing are usually responsible for project implementation and management, and supplement their limited capacity with consultants and implementing agents.

Ineffective monitoring of project milestones and contractors or implementing agents

Provincial departments did not monitor and evaluate projects effectively to ensure that they were completed on time, within budget and to the required quality. Of the projects selected for detailed auditing, 68% were completed late or were still under construction after the contractual completion dates. The average delay for these projects was 26 months, as shown in the graphs below.

Average delay in project completion (months)

Average period between planned and actual completion date, or project was still ongoing

Projects with longest delays (months)* across sectors

Delay in completion of projects (months), and ongoing

* Delays are ongoing and projects are not yet complete

Ineffective monitoring

Jubilee Primary School (EC) – Education

School projects were delayed by more than four years and learners were accommodated in temporary classrooms. Completed infrastructure is not being used.

The school, built in the 1950s, was known as the *plankie* school, as most of the existing structures were built from timber. In 2011, the structure was deemed unsafe, posing a grave risk to teachers and learners, and the school was slated to be demolished as soon as possible. Repairs, renovations and additions to the value of R77,01 million commenced on 5 August 2014, with a planned completion date of 5 September 2016.

As at 16 July 2021, the contractor had not reached practical completion and the project was still in progress. The actual project expenditure as at 30 August 2021 was R105,14 million – 37% higher than the original contract value. This excluded professional fees of R15,95 million.

Project status on 16 July 2021: Temporary prefab classrooms in use (left) and unused computer laboratory (top)

The delay in service delivery deprives communities of their constitutional right to have access to basic school infrastructure.

As the contractor has taken time to complete the project, the implementing agent decided to hand over the completed sections to the department.

Betshwana – 1 000 housing project (EC) – Human Settlements

Project delayed by more than four years due to poor planning and poor contractor performance, which led to poor-quality work that needs repairs.

The project consisted of constructing 1 000 housing units with VIP toilets and water tanks. The 24-month contract had a value of R140,30 million and was due to be completed in May 2017. However, as at 12 July 2021, the project was still not completed, with 92 housing units outstanding.

The actual spend on the contract was R126,11 million. The delay in completing the project was caused by poor project and budget planning, and the poor performance of the contractor, resulting in work of poor quality that required repairs. The project has been delayed by more than four years, and is still ongoing.

Ineffective monitoring continued

Khotsong/Caleb Motshabi water and sewer reticulation (FS) – Human Settlements

Project was delayed more than three years as unsatisfactory performance by first contractor led to a new contractor being appointed.

In April 2015, construction began on a water and sewer reticulation network to 5 690 stands. The project, valued at R303,39 million, was planned for completion by 2 April 2018. In July 2017, the contract with the service provider was terminated due to unsatisfactory performance. At termination, only 14% of the work by contract value had been completed, while approximately 20% (R60,89 million) had been paid.

A second contractor was appointed in August 2017 to complete the construction at a total contract value of R196,01 million. Subsequent variation orders amounted to R87,21 million, while an increase in scope contributed a further R40,72 million to expenditure.

In July 2021, the project was still under construction and had been delayed by more than three years. The termination of the first contractor and appointment of a new contractor contributed to the delay, which led to a delay in service delivery.

Pelonomi tertiary hospital (FS) – Health

Health service delivery hampered as hospital completion delayed by more than four years.

This is the province's only specialist referral hospital. The provincial department started a project to refurbish the neonatal, obstetrics, antenatal and delivery wards of the existing maternity ward. The R41,90 million contract had a completion date of 29 October 2016, but was still not complete as at 27 May 2021 – a delay of more than four years. There was also no activity or contractor on site as the project was halted due to contractual litigation between the contractor and the department. The contractor has since vacated the site.

The department did not promptly institute corrective action, such as charging penalties or terminating the contract, once performance issues were identified. These delays negatively affected the hospital's ability to execute its mandate and attend to referrals from regional hospitals. The delays continue to have a negative impact on the province's infant and maternal mortality, and its general healthcare services.

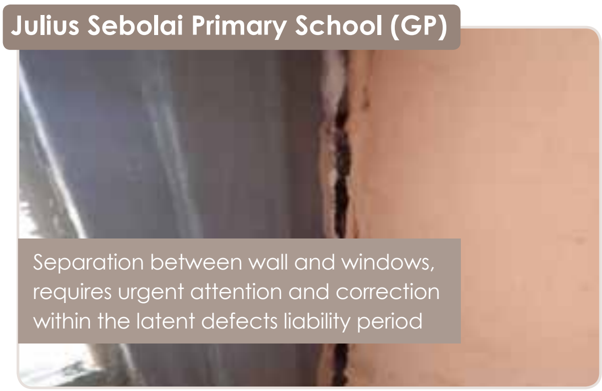
We also identified quality defects at 10 schools across five provinces, largely due to poor workmanship that was not effectively addressed. The contractors or professional teams did not address poor quality because the provincial departments did not adequately monitor, manage and supervise the projects.

Quality defects identified at 10 schools across five provinces

Simpumelele Secondary School (KZN)

Voids not filled within brickwork in the administration block

Julius Sebolai Primary School (GP)



Separation between wall and windows, requires urgent attention and correction within the latent defects liability period

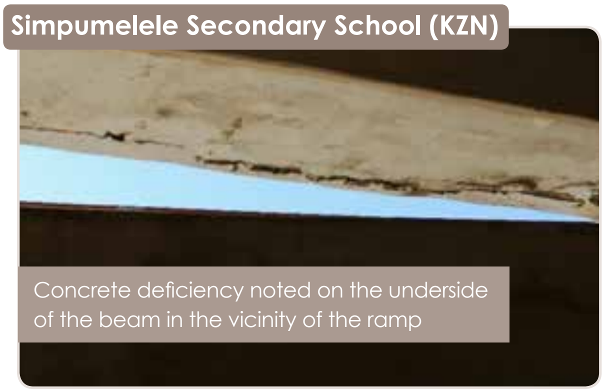
Simpumelele Secondary School (KZN)

Dampness identified in the corner of the ramp in the courtyard area

Julius Sebolai Primary School (GP)

Bubbling vinyl floor in the Nutrition Hall

Simpumelele Secondary School (KZN)



Concrete deficiency noted on the underside of the beam in the vicinity of the ramp

Brandvlei High (NC)

Plastering work

Mobile classrooms (NC)

Loose cable covers

Steynville Primary (NC)

No proper channelling of rainwater

Underperformance by contractors not identified and dealt with

Contractors did not always make adequate progress during the contractual term, and replacing them resulted in significant project delays and escalating project costs. In some instances, the combined costs of the original and replacement contractors exceeded the original contract price.

Contractor underperformance

New nursing college (NC) – Health

Poor contractor performance resulted in project delay of more than three years, cost increase of 61% to R260,51 million, and remedial work at a cost of R410 453.

Construction of the R161,42 million college began in November 2016, and the contract with the first contractor was terminated on 27 May 2019 for reasons including poor-quality work, health and safety shortcomings, and poor planning. The contractor was paid R96,44 million.

A second contractor was appointed on 29 September 2020 at a contract cost of R164,07 million. Some project sections needed to be re-worked, which increased the total project cost to R260,51 million, R410 453 of which related to remedial work.

The project was still under construction as at 7 June 2021 – a delay of more than three years from the original planned practical completion date.

Masinenge slums clearance housing project (KZN) – Human Settlements

Poor contractor performance resulted in project delay of more than five years, only 26 of 882 units being completed in contract period, cost increase of 18% per house, and remedial work at a cost of R3,48 million.

The project was initiated in 2013-14 to provide decent housing for the occupants of the Masinenge informal settlement in the Ray Nkonyeni Municipality. The planned 800 housing units were later increased to 882 units. The 30-month contract had a planned completion date of 30 April 2016 and a contract value of R97,96 million.

Various challenges encountered during the project led to the initial contractor being terminated. By February 2016, only 26 units had been completed. This poor progress was caused by ineffective project management processes and unenforced contractual remedies for delays in the project.

On 7 July 2020, a new service provider was appointed on a 24-month contract to continue with the project. The contract value of R102,33 million, including R3,48 million for remedial work.

The cost per house increased by 18%, from R116 410 in the initial contract to R137 927 for the new contract. The delay in completing the project is currently more than five years.

Contractor underperformance continued

Ufafa rural housing project (KZN) – Human Settlements

Poor contractor performance resulted in delayed provision of 547 houses to the community. Appointment of new contractor resulted in 10% increased cost per house due to time lapsed.

Planning for the project, which is a priority for the Ubuhlebezwe Local Municipality, started in 2012. The two-phase, 1 000-house project falls within areas of the provincial growth and development strategy that have a high need for services and a high potential for economic development that could contribute to sustainable community development.

After various delays in funding approval, the R55,89 million phase 1 contract was signed on 13 February 2017 for a construction period of 25 months.

Due to delays in project planning, construction was delayed and the service provider did not complete the project by March 2019. An extension of time was granted until November 2019. However, because the projected targets were not met and the quality of workmanship on site was poor, the municipality terminated the contract on 20 September 2019, with only 453 of the 500 phase 1 houses completed.

On 3 May 2021, a new contractor was appointed to construct 300 houses over 24 months at a cost of R38,29 million, but construction of the phase 2 houses had not yet started by 23 June 2021.

Nine years has elapsed since the start of the project, and only 453 of the original 1 000 houses for the first two phases have been completed. A new contractor has been appointed to construct a further 300 houses by April 2023, with the balance of phase 2 still to be contracted.

The cost per house has risen by 10%, from R104 829 to R115 567.

During our site visit, we observed quality defects that the provincial department has indicated it is investigating.

Quality defects observed during site visit: Structural crack on the side of the houase (left) and ceiling collapse (top)

Contractors not paid on time

Late payments to contractors often contribute to project delays and additional expenditure due to standing time.

Contractors not paid on time

Excelsius Nursing College (NW) – Health

Late payments by the department led to possible additional cost implication of R9,83 million.

The R237,38 million project commenced on 7 December 2016, for completion in June 2018.

We reported project delays during the previous audit cycle, and the consultant recommended a revised completion date of 21 January 2021, but at the time of the current audit the project was still not complete. The provincial department also did not pay the contractor on time due to budget constraints, which led to standing time and the contractor claiming R9,83 million for an extension of time.

Sipetu District Hospital (EC) – Health

Provincial department did not pay invoices for upgrading hospital in Ntabankulu in time.

The aim of the R502,38 million project was to upgrade the existing health facility so that it can operate as a fully fledged level 1 district hospital.

Due to poor project management, the provincial department did not have sufficient funds to pay the contractor on time. The default interest paid to the contractor led to fruitless and wasteful expenditure of R841 805. The contractor suspended work due to non-payment, resulting in project delays that could have been avoided.

Commissioning

Commissioning is the final phase of completing a project. The contractor commissions the completed building to the client department for occupation and use.

Lack of coordination and collaboration between role-players

Role-players at different levels of government, or within in the same institution, did not work together to synchronise project completion, staff appointments and the availability of completed infrastructure and municipal services in order to ensure comprehensive infrastructure delivery.

Lack of coordination and collaboration

Low-cost houses in Emzinoni (MP) – Human Settlements

Basic services not available due to insufficient coordination.

Lack of coordination between the provincial department and the Govan Mbeki Local Municipality meant that completed houses did not have in-house water, electricity and sanitation services. In some instances, beneficiaries created illegal electricity connections because there was no bulk supply to the housing units. Some beneficiaries abandoned the units, which were then vandalised. The department will have to spend more money to fix these houses when the bulk supply is available, as beneficiaries are unlikely to occupy houses that have been vandalised.

Vandalism inside house (left) and illegal electricity connections (top) at Emzinoni (Ext 16)

Vlakkeland housing project (WC) – Human Settlement

Poor coordination resulted in additional costs.

The provincial department and the Drakenstein Municipality did not coordinate and formally agree on the responsibilities, timing and actions required from the municipality before the project began. For example, the role-players did not agree on:

- the time frames and sequencing for approving the house plans, which contributed to an eight-month delay and a cost increase of R3,05 million
- when the municipality would take over the civil portion of the housing project. As a result, the department paid the contractor preliminary and general costs of R1,14 million to remain responsible for the civil portion of the project over a longer period. If the department had agreed on the timing for taking over the civil works portion before the contract commenced, this additional cost could have been avoided.

Recommendations

Our recommendations to those involved in and overseeing infrastructure projects are as follows:

1. Projects should be adequately planned to reduce delivery delays and unnecessary extensions. Poor demand and procurement planning results in inadequate specifications, wrong decisions about the type and scope of work and/or the feasibility of the project, and unrealistic cost estimates.
2. Factors that could lead to delays and impede projects should be identified during planning, and continuously revised and updated during implementation. Measures should be implemented to address factors likely to contribute to delays.
3. The provincial departments should improve their project management and monitoring to ensure that all instances of poor workmanship are promptly identified and rectified.
4. Projects should be adequately managed and deviations from the contract or poor performance should be addressed promptly in terms of the contract. For example, penalties or terminations should be implemented immediately once the deviation is discovered.
5. Project managers should prioritise completing projects and avoid the risk of cost escalations.
6. Coordination between the implementing agent, client and other role-players should be improved to ensure that the infrastructure can be commissioned and used immediately after practical completion.
7. Different project phases should be completed in a practical and logical order, and deliverables should be used and tested to ensure that they meet the project need.

Conclusion

Over the past few years, we have identified significant internal control deficiencies that led to repeat findings on the economical, efficient and effective use of resources on the delivery of infrastructure projects. These findings are not receiving enough attention, and key delivery challenges to infrastructure projects, such as the continued shortage of housing, good school infrastructure, access to healthcare facilities and poor-quality infrastructure, still affect service delivery. As a result, the lives of citizens in many parts of the country have still not improved.

HEALTH

PERFORMANCE SNAPSHOT

The snapshot shows the audit outcomes of 10 auditees in the sector – the national department and 9 provincial departments.

Total sector budget
R237,83 bn

Overall audit outcomes remained unchanged

	Improved	Regressed
Movement From 2019-20	1 auditee	1 auditee
Movement From 2018-19 First year of administration	2 auditees	0 auditees

Improved	North West
Regressed	Limpopo
Unchanged	Western Cape; Gauteng; Mpumalanga; National Department; Eastern Cape; Free State; KwaZulu-Natal; Northern Cape

- Unqualified with no findings
- Unqualified with findings
- Qualified with findings

Financially unqualified financial statements	**50% (5) 2019-20: 50% (5)**
Financial statements submitted without material misstatements	30% (3) 2019-20: 20% (2)
No material findings on performance report	**0% (0) 2019-20: 10% (1)**
Performance reports submitted without material misstatements	0% (0) 2019-20: 10% (1)

No material findings on compliance with legislation — **10% (1) 2019-20: 10% (1)**

No findings on compliance with supply chain management legislation — **10% (1 – WC) 2019-20: 20% (2)**

Irregular expenditure

R9 371,8 m (10)

2019-20: R6 217,20 m (10)

Top four contributors	
Gauteng	R3 921,79 m
KwaZulu-Natal	R1 629,39 m
Northern Cape	R1 282,22 m
Mpumalanga	R1 275,86 m

Financial health indicators

Unauthorised expenditure	R1 835 m (5)
Fruitless and wasteful expenditure	R248 m (9)
Going concern uncertainty	Eastern Cape (3yrs), Free State (3yrs) and Northern Cape (3yrs)
Deficit	R6 204 m (5)
Unpaid claims by year-end (96% = Medico claims)	R124 145 m (10)
Unpaid claims more than 100% of next year's operational budget	Eastern Cape, Free State, Gauteng, KwaZulu-Natal, Limpopo, Mpumalanga and North West
Unpaid invoices (accruals)	R15 364 m

Material irregularities (MIs)

Notified by
15 October 2021

15 MIs with established loss of **R94,19 m** at **6 auditees**

Details of MIs are included in chapter 9

Nature	
Non-compliance in procurement processes resulting in overpricing of goods and services procured	3
Revenue not billed	1
Payment for goods or services not received	1
Payment not made in time resulting in interest, standing time and penalties	7
Uneconomical procurement	1
Inefficient use of resources – no benefit derived	2

Overall message

Overall, accounting officers and senior management are not implementing key recommendations and/or action plans to address the deficiencies identified in previous years. The unwillingness to implement remedial actions and key recommendations creates an environment in which consequence management is not always prioritised. This, in turn, **creates opportunities for transgressors as internal control system weaknesses remain unaddressed.** The sector has thus been unable to improve on its unfavourable overall audit outcomes over a number of years. The poor financial management and performance reporting disciplines may also be reflected in critical areas of service delivery.

Financial and performance reporting

Despite the North West department's improvement to an unqualified audit opinion, the audit outcomes relating to financial reporting remained generally stagnant, as Limpopo regressed to a qualified audit opinion. We commend Gauteng, Mpumalanga, North West and the Western Cape for submitting financial statements that were free from material misstatements in the 2020-21 year. Our biggest concerns are KwaZulu-Natal and the Northern Cape, which have received qualified audit outcomes for the past five years with no indication of progress or even minimal improvement.

The sector's performance reporting reflects similar unfavourable audit outcomes for the past five years, with the exception of the Western Cape. Given that this is the core programme for primary healthcare in the provinces, it is concerning that the district health services programme continues to have difficulty with the credible collection, collation and reporting of performance information. In general, the sector still faces challenges with performing basic reconciliations between the source documents, various summary registers and the District Health Information System (its performance information system). This inability to perform these reconciliations placed a limitation on our work that left us unable to conclude on whether the achievements reported were valid, accurate and complete, with the exception of the Western Cape.

The sector has not been able to implement our recommendations, mainly due to capacity constraints and its efforts being primarily focused on patient treatment. In some instances, facilities have a limited number of clinicians and an inadequate number of administrative support staff. These clinicians are then responsible for both treating patients and completing the daily registers or patient files, and often focus on patient treatment and only complete the registers and/or patient files at a later stage. The impact of this can be seen in the differences noted through the audit process.

Without credible, reliable and accurate performance data, the sector will not be able to easily identify and respond to any service delivery challenges that might arise. As an example, if the department cannot reliably measure the number of tuberculosis patients being serviced by a specific hospital or facility, this may result in a shortage of medicine for those patients at that hospital or facility, and potentially an excess of medicine at another hospital or facility.

Compliance

There is a continuous disregard for laws and regulations relating to supply chain and contract management. This is evident in the year-on-year increase in unauthorised, irregular, and fruitless and wasteful expenditure reported by the sector. The lack of actions taken against perpetrators has created an environment in which non-compliance continues to flourish. Instability in leadership may also be fuelling the culture of no accountability, as acting leaders constantly leave mid-investigation and new leaders may not have an appetite to continue with investigations in which they were not involved. As a result, investigations are frequently left unfinalised, as occurred in the Northern Cape.

Sector performance

The MTSF priority outcomes for the health sector were set to achieve the goals as set out in chapter 10 of the National Development Plan, which were informed by the United Nations' sustainable development goals, specifically goal 3. Within the continent, the MTSF targets are aligned to the African Union's Agenda 2063 (strategic framework), which also highlights the importance of healthy and well-nourished citizens through its targets relating to maternal, child and neo-natal deaths; malnutrition; and access to anti-retroviral medication. The president also signed a presidential health compact that details the plan to improve the nine fundamental pillars of the country's health system. When these are dysfunctional, it leads towards collapse.

Health-related goals at sector, national, regional and global levels

Global	Regional	National	Sector 5 years	
				
Goal 3: Good health and wellbeing	**Aspiration 1:** A prosperous Africa, based on inclusive growth and sustainable development	**Chapter 10:** Promoting health	**Priority 3:** Education, skills and health	
Ensure healthy lives and promote wellbeing for all at all ages	**Healthy and well-nourished citizens**	**Vision 2030**	**Universal health coverge**	**Universal health coverge**
	Health and nutrition – expanding access to quality healthcare services, particularly for women and girls	• Raise the life expectancy of South Africans to at least 70 years • Ensure that the generation of under-20s is largely free of HIV • Significantly reduce the burden of disease • Achieve an infant mortality rate of fewer than 20 deaths per thousand live births, including an under-5 mortality rate of less than 30 per thousand	**Outcome** Universal health coverage for all South Africans achieved **2024** • Universal health coverage for all South Africans progressively achieved and all citizenships protected from the catastrophic financial impact of seeking healthcare by 2030 • Total life expectancy of South Africans improved to 70 years by 2030	• **Pillar1** – Human resource for health (HRH) plan • **Pillar 2** – Access to essential medicines, vaccines and medical products • **Pillar 3** – Execute the infrastructure plan • **Pillar 4** – Access, coverage and quality of health services • **Pillar 5** – Quality, safety and quantity of health services provided • **Pillar 7** – Strengthened government and leadership • **Pillar 8** – Adequate and appropriate community-based care • **Pillar 9** – Information system

The table below shows the sector performance towards achieving the MTSF targets. The status (progress) was sourced from the Department of Planning, Monitoring and Evaluation's *Bi-annual 2019–2024 MTSF synthesis report for the period ending March 2021*. The sector is behind on a number targets because its efforts were concentrated on managing the pandemic during the year under review.

Sector progress towards MTSF targets

Key indicators	5-year MTSF target	31 March 2021 progress
Outcome: Universal health coverage for all South Africans achieved by 2030		
NHI Fund established and purchasing services operational	NHI Fund operational by December 2020 NHI Fund purchasing services by 2022-23	**Behind**
Proportion of public sector facilities implementing the national quality improvement programme	80% by 2022-23 100% by 2024-25	**Behind**
Total rand value of medico-legal claims in the public sector	Contingent liability of medico-legal cases reduced by 80% (under R18 billion) in 2024	**On track**
Number of clinics attaining Ideal Clinic status	3 467 primary healthcare (PHC) facilities (100%) attain and maintain Ideal Clinic status by 2024	**Behind**
Human resources for health (HRH) plan 2020-21 – 2024-25 completed	HRH plan 2020-21 – 2024-25 completed by March 2020	**On track**
HRH strategy 2030 completed	HRH strategy 2030 produced by March 2020	**On track**
Provincial nursing colleges with satellite campuses established in all nine provinces	One nursing college per province (with satellite campuses) established by 2020 and fully operational in all nine provinces by 2022	**On track**
Number of community health workers (CHWs) integrated into the health system	50 000 CHWs by March 2024	**On track**
Outcome: Progressive improvement in the total life expectancy of South Africans		
Number of people screened for tuberculosis (TB)	2 million additional people screened for TB by 2020 and eligible people initiated on treatment	**On track**
TB treatment success rate	90% by 2022 95% by 2024	**Behind**
Proportion of people living with HIV who know their status	90% by 2020 95% by 2024	**On track**
Proportion of HIV-positive people initiated on antiretroviral therapy (ART)	90% by 2020 95% by 2024	**Behind**

Key indicators	5-year MTSF target	31 March 2021 progress
Outcome: Total life expectancy of South Africans improved		
Proportion of people on ART who are virally supressed	90% by 2020 95% by 2024-25	On track
HIV tests conducted annually by 2024	30 million tests annually by 2024	Behind
Outcome: Reduce maternal and child mortality		
Antenatal first visit before 20 weeks rate	75% by 2024	On track
Antenatal clients initiated on ART rate	98% by 2024	On track
Immunisation coverage under 1 year	90% by 2024	Behind
Children under 5 years severe acute malnutrition case fatality rate	<5,0% by 2024	Behind
Children under 5 years pneumonia case fatality rate	<1,0% by 2024	Behind
Children under 5 years diarrhoea case fatality rate	<1,0% by 2024	Behind
Number of people screened for high blood pressure	25 million by 2024	On track
Number of people screened for elevated blood glucose levels	25 million annually by 2024	On track

Source: Department of Planning, Monitoring and Evaluation, *Bi-annual 2019–2024 MTSF synthesis report for the period ending March 2021*

The sector decided on these indicators and targets because they were deemed crucial for achieving the specific outcomes in the implementation of government's health objectives. Some of these were, therefore, included in all the provincial departments' annual performance plans as standardised indicators for programme 2 – district health services. Despite reported progress on some of these, we experienced and reported on material limitations during the auditing of programme 2 across the various provinces, and the outcomes are reflected in the **financial and performance reporting** section above.

The sector's financial health situation is also concerning, given its critical role in ensuring that South Africans have access to quality healthcare, and this threatens its ability to achieve overall targets by 2030. The covid-19 pandemic aggravated the pressure of the situation, as the sector had to use its limited budget to expand its current activities to include measures to deal with the pandemic. Some activities had to be reprioritised because the already strained budget was not geared for any unplanned activities.

The situation is further exacerbated by the significant increase in medico-legal claims, with claims paid by the sector in the 2020-21 financial year amounting to R1 756 million, while total claims against the sector amounted to R124 145 million. If these claims are unsuccessfully defended and need to be paid out, it will further erode an already stretched budget and have a negative impact on service delivery.

This financial strain also led to an increase in unpaid invoices (accruals) amounting to R15 364 million, which represents 17% of the sector's 2021-22 appropriation (excluding compensation of employees and transfer payments). When the sector settles these invoices, only 83% of its budget for the 2021-22 financial year will be available for service delivery. As the sector requires 100% of its budget to deliver an effective and efficient service, it may have to suspend some activities, which will further disadvantage citizens.

Impact of financial strain

In the current year, the balance for medico-legal claims against the **Eastern Cape department** escalated to R38 608 million. The department has an approved overdraft facility of R1 000 million to help it pay these medico-legal claims, which are not within its budget. There has also been an increase in instances of the department's bank accounts being attached due to attorneys approaching the courts. This means that at specific points the department may not be able to transact in its own bank account, and has resulted in funds being transferred from other service delivery areas to pay for these medico-legal claims. The department also paid R921 million, including interest, relating to medical claims in the current year, while R450 million was awaiting payment (accruals and payables not yet recognised) at year-end. This has reduced the department's total budget for service delivery areas.

Conclusion

If these sector challenges relating to record keeping and financial health remain neglected, they will have a detrimental long-term effect on the sector's ability to deliver quality and timeous healthcare services and will threaten its ability to achieve set targets by 2030. The impact of not achieving these targets constrains the sectors' ability to achieve goals relating to improving access to medical care, reducing the burden of diseases and ultimately increasing life expectancy as articulated in the indicators for goal 3 of the sustainable development goals.

EDUCATION

PERFORMANCE SNAPSHOT

The snapshot shows the audit outcomes of 10 auditees in the sector – the national department and 9 provincial departments.

Total sector budget
R289,9 bn

Overall audit outcomes remained unchanged

	Improved	Regressed
Movement From 2019-20	1 auditee	1 auditee
Movement From 2018-19 First year of administration	2 auditees	1 auditee

Improved	National Department of Basic Education
Regressed	North West
Unchanged	Eastern Cape; Gauteng; Free State; KwaZulu-Natal; Limpopo; Mpumalanga; Northern Cape; Western Cape

Unqualified with findings
Qualified with findings

Financially unqualified financial statements	70% (7) 2019-20: 70% (7)
Financial statements submitted without material misstatements	30% (3) 2019-20: 50% (5)
No material findings on performance report	20% (2) 2019-20: 20% (2)
Performance reports submitted without material misstatements	20% (2) 2019-20: 10% (1)

No material findings on compliance with legislation	**0% (0) 2019-20: 0% (0)**
No findings on compliance with supply chain management legislation	**20% (2) 2019-20: 20% (2)**

Irregular expenditure

R5 863,42 m (10)

2019-20: R5 218,13 m (10)

Top three contributors	
National Department	**R3 209,19 m**
Northern Cape	**R618,40 m**
Limpopo	**R468,09 m**

Financial health indicators

Unauthorised expenditure	**R1 039 m (2)**
Fruitless and wasteful expenditure	**R107 m (10)**
Deficit	**R5 987 m (6)**
More than 20% of cash shortfall funded by next year's operational budget	**Eastern Cape, Free State, KwaZulu-Natal, Northern Cape**

Material irregularities (MIs)

Notified by 15 October 2021

12 MIs with estimated loss of **R214,28 m** at **4 auditees**

Accounting officers have been notified

Nature	
Payments for goods or services not received	**2**
Payment to unauthorised or fictitious recipient	**4**
Non-compliance with supply management prescripts	**1**
Payment of interest and other penalties	**5**

Audit outcomes

The audit outcomes of most auditees in the sector remained unchanged from 2019-20, although there was a noticeable improvement in the audit outcomes of the national Department of Basic Education. The leadership of the department responded positively to our recommendations, including ensuring closer monitoring of the agents responsible for implementing infrastructure projects. We encourage leadership to continue with this commitment, as the environment still needs to have internal control disciplines embedded in department officials as they perform their daily activities.

The North West Department of Education regressed to a qualified audit opinion because it did not address the root causes of the internal control deficiencies that were previously reported. There was also a lack of accountability and monitoring from department officials to ensure that the financial and performance information submitted for auditing was credible.

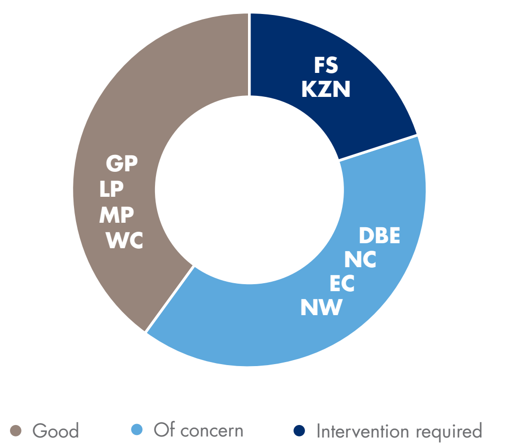
The quality of financial statements submitted for auditing by most auditees in the sector remains concerning, with departments still relying on the audit process to identify errors. The main area of significant control deficiencies related to the accounting for infrastructure assets due to inadequate project management and coordination of implementing agents. The preventative and detective controls have not yet been institutionalised, and we recommended that these be prioritised.

Leadership at the national Department of Basic Education was driving the management of implementing agents to ensure accountability and delivery on commitments. As a result, the department's audit outcomes have improved. It is vital that the national department share these newly established best practices within the sector.

Material non-compliance findings were reported at all auditees across the sector. The non-compliance with supply chain management regulations is concerning, as is the resultant increase in irregular expenditure, because it exposes the sector to the risk of fraud. The sector needs to strengthen and improve compliance monitoring, and intensify consequence management processes to address the root causes of transgressions.

Financial health

Sector financial health status



The financial health of most sector auditees is concerning, while the KwaZulu-Natal and Free State departments of education require urgent intervention – mainly due to inefficient spending of the budget as well as a lack of proper cash-flow management. The financial sustainability of some of sector auditees remained under stress, aggravated by economic pressures and budget cuts.

Under the current financial conditions, it is crucial that the management of the departments implements prudent financial disciplines so that they can achieve set targets and provide quality education.

Departments requiring urgent intervention

In **KwaZulu-Natal**, the department's staff debt escalated due to overpayments to staff whose services had been terminated, which placed added pressure on the department finances. At year-end, the department has written off a significant amount of employee debt. The strained financial health resulted in delayed payments to creditors, including contractors for infrastructure assets. Three of the projects that were audited were delayed due to non-payment of contractors.

In the **Free State**, the department incurred unauthorised expenditure in previous years, a portion of which was approved without funding. The department also incurred cost overruns due to poor project management and creditors not being paid when they became due. This placed further strain on the department's cash flow and has a negative impact on its deliverables.

Performance reporting

According to the information contained in the annual performance reports of basic education departments for programme 2 – public ordinary schools, as well as in the Department of Planning, Monitoring and Evaluation's *Bi-annual 2019–2024 MTSF synthesis report for the period ending 31 March 2021*, the sector seems to be on track to achieve the material planned MTSF targets, as shown in the table below.

Sector progress towards MTSF targets

Key indicators	5-year MTSF target	Tracking
PPM 207: Number of educators trained in literacy/ language content and methodology	All teachers qualifying for training trained by 2024	On track
PPM 208: Number of educators trained in numeracy/ mathematics content and methodology	All teachers qualifying for training trained by 2024	On track
PPM 212: Number of educators with training on inclusion	All special schools have access to required therapists by 2024	On track
PPM 213: Percentage of Funza Lushaka bursary holders placed in schools within six months upon completion of studies or confirmation that the bursar has completed studies	90% by 2024	On track
PPM 216 (a): Percentage of learners with English first additional language (EFAL) textbooks in grades 3, 6, 9 and 12	100%	On track
PPM 216 (b): Percentage of learners with numeracy/ mathematics textbooks in grades 3, 6, 9 and 12	100%	On track

While progress appears to be on track, the sector did not have approved standardised indicators, and not all provincial departments included these MTSF targets in their annual performance plans, making it difficult to reliably measure the collective performance of the sector. This challenge is exacerbated by unreliable processes for collation, recording and reporting on performance information. It is therefore crucial that the sectors standardise the MTSF indicators.

The quality of performance reports submitted for auditing remains poor, with 80% of sector auditees having material findings on their performance reports. The process for collating information at school level is based on manually capturing documents on the Education Management Information System. This manual capturing is prone to errors, while the in-year monitoring processes and reconciliations are not always implemented. These deficiencies will further impact the planning for future targets and management of these achievements.

We are encouraged by the national Department of Basic Education and the Gauteng Department of Education, which did not have findings on performance information because their indicators and targets were found to be useful. These departments have also managed to ensure that they have processes in place to reliably report on targets achieved.

The sector will benefit from an automated system at input level, such as learner attendance, as well as improved accountability at all levels – school, district and department. Credible performance reports are key to the sector's current and future decision-making, and significantly affect planning for future infrastructure needs, particularly given the changing environment while the sector is recovering from the impact of covid-19.

Conclusion

The basic education sector is crucial for the facilitation of the key government priorities. Therefore, sector leadership must ensure a sustainable control environment to guarantee accurate and reliable financial and performance reporting. This will aid those charged with governance in decision-making and will enable prompt remedial interventions, ensuring that the sector achieves its aspirations.

HUMAN SETTLEMENTS

PERFORMANCE SNAPSHOT

Total sector budget
R21,87 bn

The snapshot shows the audit outcomes of nine auditees in the sector – the national department and 8 provincial departments.

The audit of the Western Cape Department of Human Settlements was still in progress at the cut-off date for this report. With the exception of irregular, and fruitless and wasteful expenditure, as well as the information on material irregularities, the outcomes of this auditee are not included in the snapshot.

Overall audit outcomes remained unchanged

Movement
From 2019-20

1 auditee (improved) | 1 auditee (regressed)

Movement
From 2018-19
First year of administration

2 auditees (improved) | 1 auditee (regressed)

Improved	North West
Regressed	Mpumalanga
Unchanged	National Department; Eastern Cape; Free State; KwaZulu-Natal; Limpopo; Northern Cape; Gauteng
Outstanding	Western Cape

Unqualified with findings · Qualified with findings · Outstanding audits

Financially unqualified financial statements	**67% (6) 2019-20: 78% (7)**
Financial statements submitted without material misstatements	**22% (2) 2019-20: 33% (3)**

No material findings on performance report — **33% (3) 2019-20: 33% (3)**

Performance reports submitted without material misstatements — 33% (3) 2019-20: 22% (2)

No material findings on compliance with legislation — **11% (1) 2019-20: 11% (1)**

No findings on compliance with supply chain management legislation — 11% (1) 2019-20: 0% (0)

Sector performance

Key indicators	5-year MTSF target*	2-year sector target**	2-year sector target achieved†
Number of BNG‡ houses delivered	**450 000**	124 379	104 529
Number of serviced sites delivered	**300 000**	81 754	76 063
Number of new title deeds registered	**1 193 222**	216 218	52 678

* Targets as included in the 2019-2024 MTSF.

** Total of sector targets for 2019-20 and 2020-21 years as included in the annual performance plans.

† Total achievement by sector for 2019-20 and 2020-21 years as reported in their annual performance reports.

‡ 'Breaking new ground' – refers to the policy document Breaking new ground, a comprehensive plan for the development of sustainable human settlements in South Africa

Irregular expenditure

R2 587,65 m (9)

2019-20: R5 074,20 m (9)

Top three contributors	
Mpumalanga	R639,7 m
Free State	R618,9 m
Limpopo	R403,8 m

Financial health indicators

Fruitless and wasteful expenditure	**R129,10 m (8)**
Going concern uncertainty	**Free State**
Deficit	**R1 448 m (3)**
More than 20% of cash shortfall funded by next year's operational budget	**Limpopo, National Department**
Unpaid claims by year-end	**R5 142,44 m (9)**
Unpaid claims more than 100% of next year's operational budget	**Eastern Cape, Gauteng, Limpopo, North West**

Material irregularities (MIs)

Notified by 15 October 2021

11 MIs with established loss of **R51,1 m*** at **4 auditees**

* Excludes possible financial loss for Gauteng MIs, as a reliable estimate could not be made

Nature	
Payment for covid-19 standing time not in terms of the contract	1
Interest on late payment of court	1
Temporary residential unit rental costs excessive	1
Overpayment on project management services	2
Contract not awarded to the highest scoring bidder	3
Payment made to an incorrect beneficiary	1
Overpayment on housing project	2

Sector planning and performance

The Department of Human Settlements is responsible for facilitating and supporting the creation of sustainable and integrated human settlements across the country. Through the human settlements development grant, the sector seeks to create sustainable and integrated human settlements that enable improved quality of household life and access to basic services. The title deeds restoration grant seeks to eradicate the pre-2014 title deeds registration backlog.

As indicated in the five-year MTSF targets for upgrading informal settlements and title deeds, the sector's delivery targets included 450 000 houses, 300 000 serviced sites and the transfer of 1 193 222 title deeds to the homeowners referred to in the key indicators under sector performance. Therefore, the sector should be aiming to deliver at least 90 000 houses, 60 000 serviced sites and 238 644 title deeds each year. However, for the past financial two years (since the start of the MTSF period), the sector has not developed plans geared towards achieving its medium-term housing targets, as the consolidated, sector-planned targets for these three key indicators bore no similarity to the average MTSF targets for those years. As a result, the achievements are significantly lower than both the required MTSF targets and the consolidated sector targets. There is thus a risk that the targets will not be met at the end of the MTSF period, leaving an estimated shortfall of 188 678 houses, 109 843 serviced sites and 1 061 527 title deeds to be transferred. This will increase the growing backlog for adequate housing.

The sector still does not have processes to ensure effective planning and coordination, and intergovernmental relations structures remain ineffective as there are no evident mechanisms to ensure consistent and reliable performance reporting throughout the sector. We could not confirm the reliability of the sector's reported achievements, as six of the auditees reported on had material misstatements on their performance information.

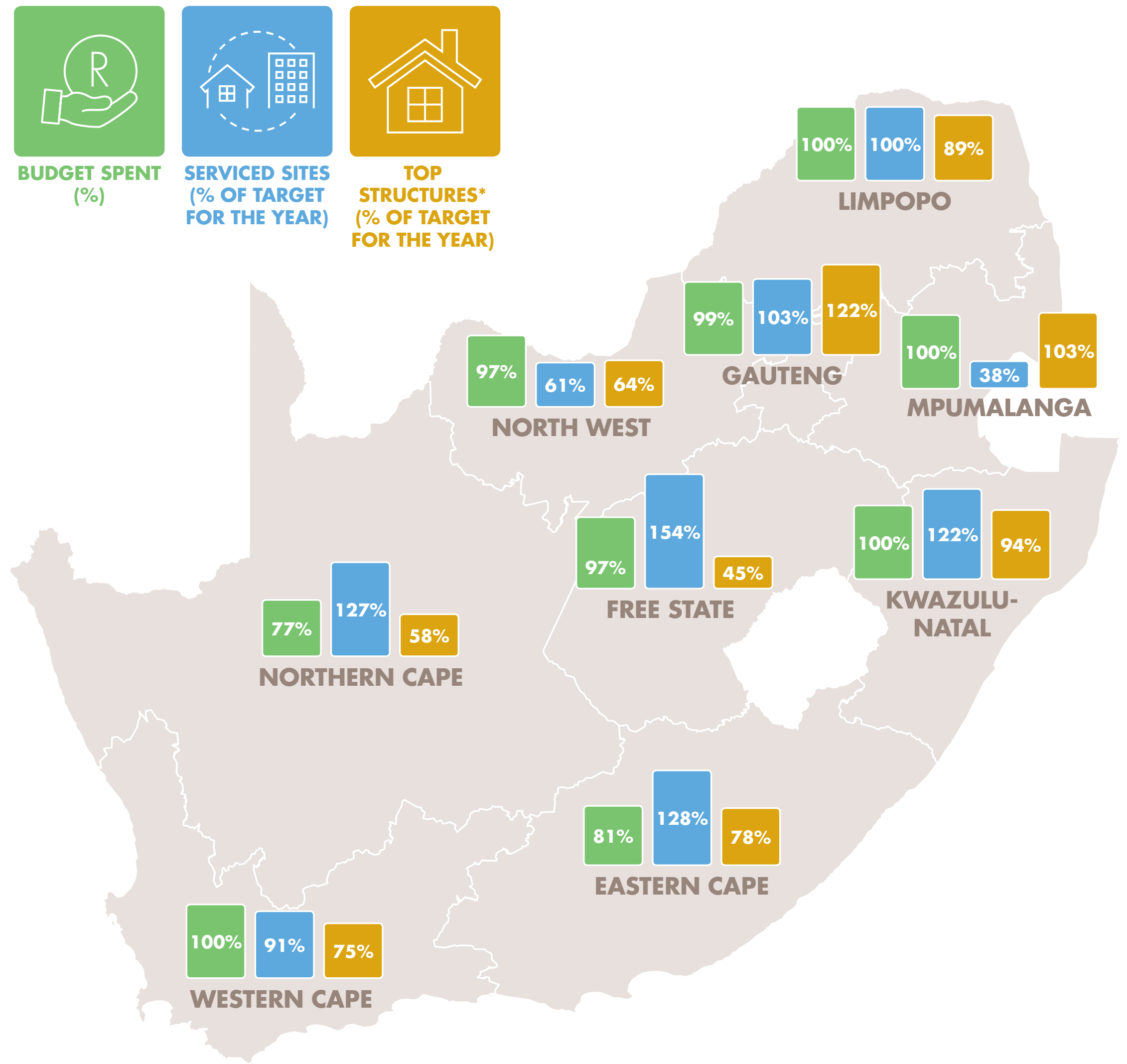
Sector spending

Human settlements development grant

The purpose of the human settlements development grant is to create sustainable, integrated human settlements that enable improved quality of household life and access to basic services.

During the period under review, the sector spent an average of 96% (2020: 94%) of the human settlements development grant, while only completing 93% of serviced sites and 86% of houses.

Human settlements development grant per province (2020-21)



* The structures built on serviced sites, e.g. houses

Targets achieved per province

The **Gauteng** department over-achieved on targets for both serviced sites and houses, at 103% and 122%, respectively, which means the department has completed more houses and serviced more sites than its plan for the year. For serviced sites, the department identified additional sites during the implementation of the Western Mega Project. For houses, the Gauteng Partnership contributed funds to accelerate the delivery of more houses at the Elijah Barayi/ Varkenslaagte and Affrivillage Greenhills projects.

The **Mpumalanga** department completed more houses (103%) than its planned target. However, it only managed to service 38% of planned serviced sites. This raises concerns that the housing units delivered might have been built on sites without basic services such as sewerage, water and/or electricity, as identified in the Emzinoni project referred to earlier in this chapter.

The **Eastern Cape** department completed 45% of the 2 581 planned houses, while the **Free State** completed 78% of the 6 807 planned houses. This is due to contractors being appointed late and not being properly overseen once appointed (e.g. payments not in line with project stage of completion, standing payments due to covid -19 delays).

The **Northern Cape** department spent 77% of its budget and completed 58% of the planned houses due to delays on various projects as well as spending on rectification works. A similar trend was noted in the **Western Cape**, where the department spent 100% of its budget and completed only 75% of its 8 506 planned houses due to project delays.

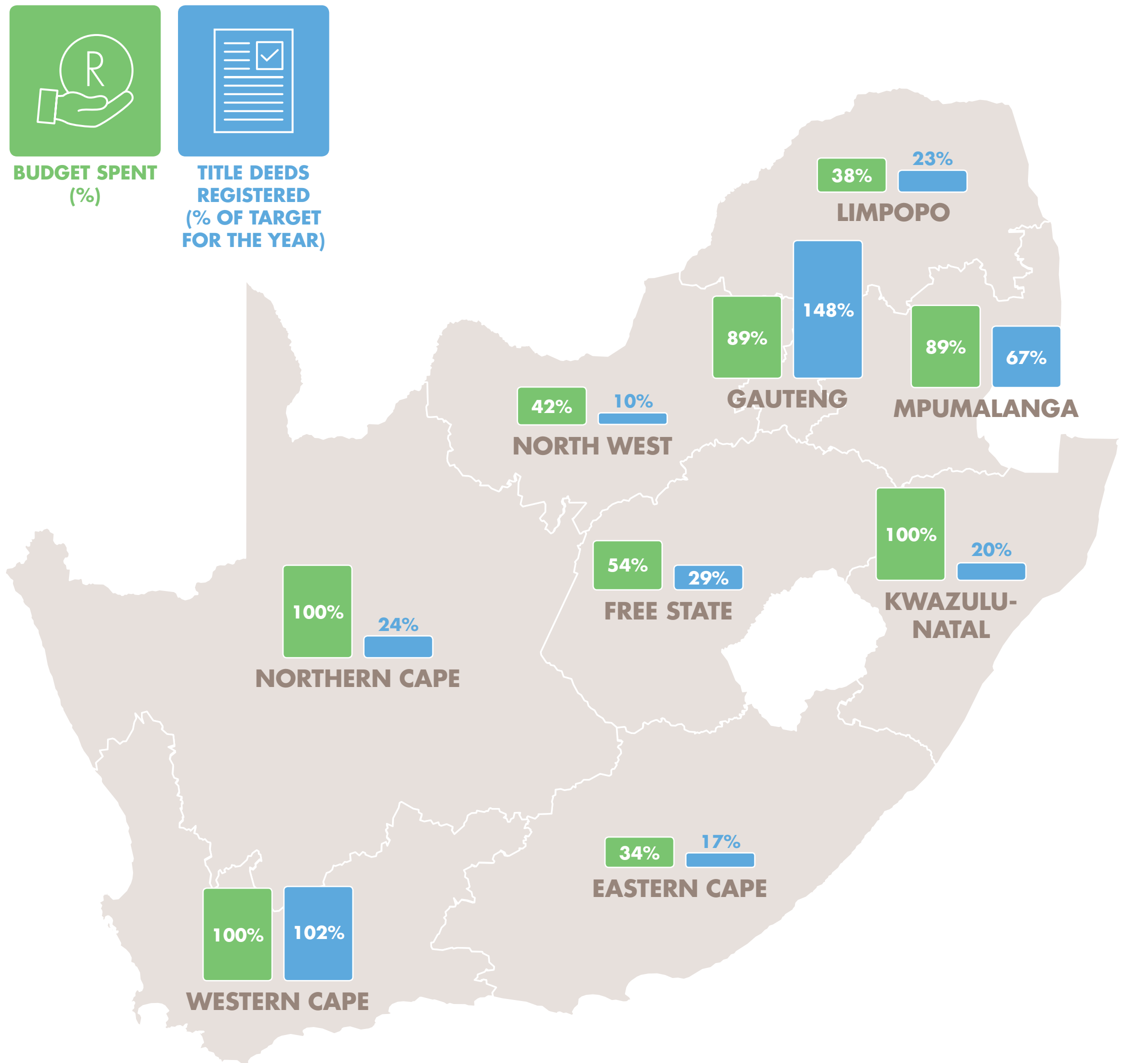
The **North West** department spent 92% of its R1 357,1 million allocation and completed 2 968 houses (64% of the planned 4 668 houses) because it outsourced the project management of its projects to a service provider without effectively monitoring the service provider's work.

The challenges highlighted above have remained unattended over the years and are significantly affecting the sector's ability to effectively meet the objectives of this grant – to provide much-needed houses to citizens.

Title deeds restoration grant

The purpose of the title deeds restoration grant is to provide funding to eradicate the pre-2014 title deeds registration backlog.

Title deeds restoration grant per province (2020-21)



The year under review started during the countrywide lockdown precipitated by covid-19; consequently, various reductions were made in the human settlements budget. This included a reduction of R415 million for the title deeds restoration grant. This also necessitated a review of the related targets, which affected the provincial performance. For example, in **KwaZulu-Natal**, the targets were revised downwards by 71% as the funding decreased by 63,5% compared to the previous year. In some instances, such as in the **Northern Cape**, the allocated budget was revised but the planned target was not adjusted in line with the revision. As a result, the province spent 100% of the revised allocation, but only registered 24% of the planned title deeds.

Overall, the sector spent an average of 73% (2020: 52%) of the final title deeds restoration grant, while only 30% of the title deeds were registered. This can be attributed to the challenge of an increasing backlog as informal townships continue to be established without the legal processes of formal establishments being undertaken.

Ineffective intergovernmental coordination continues to be a stumbling block to the sector's performance in this programme. Through our audit processes, we identified that municipalities and provincial departments do not adequately coordinate to ensure that beneficiaries are registered. In the **Eastern Cape**, for example, the department established a panel of attorneys to register title deeds. However, no work was done by the panel and title deeds were not transferred, as most municipalities were not ready for the registration processes to commence. As a result, some beneficiaries are occupying low-cost houses without title deeds. Provincial departments are also unable to confirm the number of title deeds registered across the sector.

There are legal and financial benefits associated with title deeds. If beneficiaries do not hold the title deeds, they cannot leverage their houses as security to access bonds or obtain funding to extend their homes. Houses without title deeds do not have an official address and cannot be legally transferred to next of kin. There is a thus a missed opportunity for these title deeds to be used to complement other basic needs associated with security of tenure.

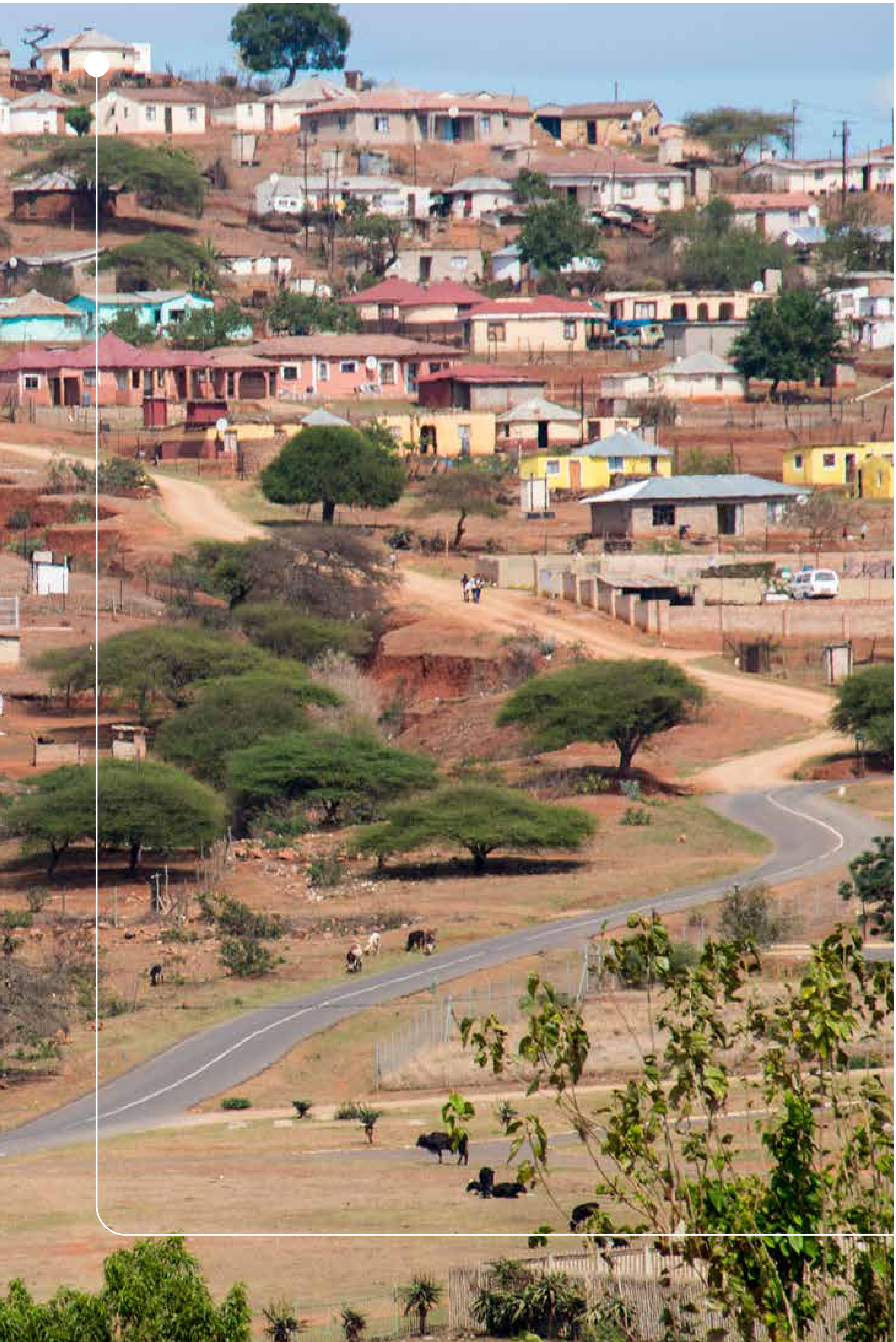
Key strategic projects

During the audit of selected housing projects across the country, we identified findings relating to projects being completed on time, quality of workmanship, mismanagement of funds and delays in the commissioning of houses due to **basic infrastructure not being available.** The detail and impact of these findings are included in the infrastructure section of this chapter.

Conclusion

The sector's overall audit outcomes have remained stagnant, with most departments struggling to effectively manage and improve performance reporting and compliance. Ineffective intergovernmental coordination continues to be an obstacle within the sector. Concerns about performance reporting require the national department to take action to ensure that there are better coordination and monitoring initiatives within the sector through standardised indicators and accompanying standard operating procedures.

We encourage the sector to institutionalise preventative controls relating to project management to reduce the risk of errors in the project life cycle, as this type of trend continues to put a strain on government's purse and, most importantly, to marginalise communities as their basic human right to adequate housing is not met.



PUBLIC WORKS AND INFRASTRUCTURE

PERFORMANCE SNAPSHOT

The snapshot shows the audit outcomes of 11 auditees in the sector – the national department, 9 provincial departments and 1 trading entity.

Total sector budget
R56,12 bn

Overall audit outcomes remained unchanged

1 | 8 | 2

Movement From 2019-20	0 auditees (improved)	0 auditees (regressed)
Movement From 2018-19 First year of administration	2 auditees (improved)	0 auditees (regressed)

Unchanged — Property Management Trading Entity; North West; National Department; Limpopo; Mpumalanga; Gauteng; Free State; KwaZulu-Natal; Eastern Cape; Northern Cape; Western Cape

- Unqualified with no findings
- Unqualified with findings
- Qualified with findings

Financially unqualified financial statements	**82% (9) 2019-20: 82% (9)**
Financial statements submitted without material misstatements	27% (3) 2019-20: 36% (4)

No material findings on performance report	**82% (9) 2019-20: 64% (7)**
Performance reports submitted without material misstatements	50% (5*) 2019-20: 18% (2)

* Property Management Trading Entity and national department have one annual performance report

Sector performance

Key indicators	5-year MTSF target*	2-year sector target†	2-year sector target achieved‡
Number of infrastructure projects completed within time	**481**	218	152
Number of infrastructure projects completed within budget	**481**	218	233
Number of condition assessments completed	**11 161**	4 392	2 484
Number of planned maintenance projects completed	**1 858**	868	637

* MTSF targets are as included in the annual performance plans of all auditees within the sector for a period of four years from 2019-20 to 2022-23, as 2023-24 figures are not available.

† Total of sector targets for 2019-20 and 2020-21 years as included in the annual performance plans.

‡ Total achievement by sector for 2019-20 and 2020-21 years as reported in their annual performance reports.

No material findings on compliance with legislation — **9% (1) 2019-20: 9% (1)**

No findings on compliance with supply chain management legislation — **0% (0) 2019-20: 0% (0)**

Irregular expenditure

R8 229,23 m (11)

2019-20: R1 560 m (11)

Top three contributors	
Northern Cape	**R3 213,74 m**
Limpopo	**R1 594,20 m**
North West	**R1 481,38 m**

Financial health indicators

Unauthorised expenditure	**R16,88 m (1)**
Fruitless and wasteful expenditure	**R29,85 m (5)**
Going concern uncertainty	**Property Management Trading Entity and Free State**
Deficit	**R2 027,11 m (3)**
More than 20% of cash shortfall funded by next year's operational budget	**National Department and KwaZulu-Natal**
Unpaid claims by year-end	**R2 057,24 m (10)**

Material irregularities (MIs)

Notified by 15 October 2021

11 MIs with established loss of **R98,6 m** at **4 auditees**

Nature	
Tenders awarded to incorrect bidder	**2**
Penalties and interests payment made on standing time	**1**
Payment made above contract amounts	**2**
Payment made for services not delivered	**1**
Unfair procurement leading to overpricing	**1**
Payment not in line with bill of quantities	**1**
Assets not safeguarded resulting in damage	**1**
Overpayment of lease contract	**1**
Approved and paid extensions not per contract terms	**1**

Analysis of funding spent on key strategic initiatives

As the custodian of immovable properties, the public works sector has the mandate to provide support user departments with the infrastructure needed to deliver services to the public. The sector is thus required by law to put proactive plans in place for the 145 712 properties it manages to be adequately managed (maintained) to ensure the occupational health and safety of the user departments. In addition, where the sector does not have properties that meet the needs of the user departments, it is expected to carry out construction or infrastructure projects on time, at the right quality and within the allocated budget.

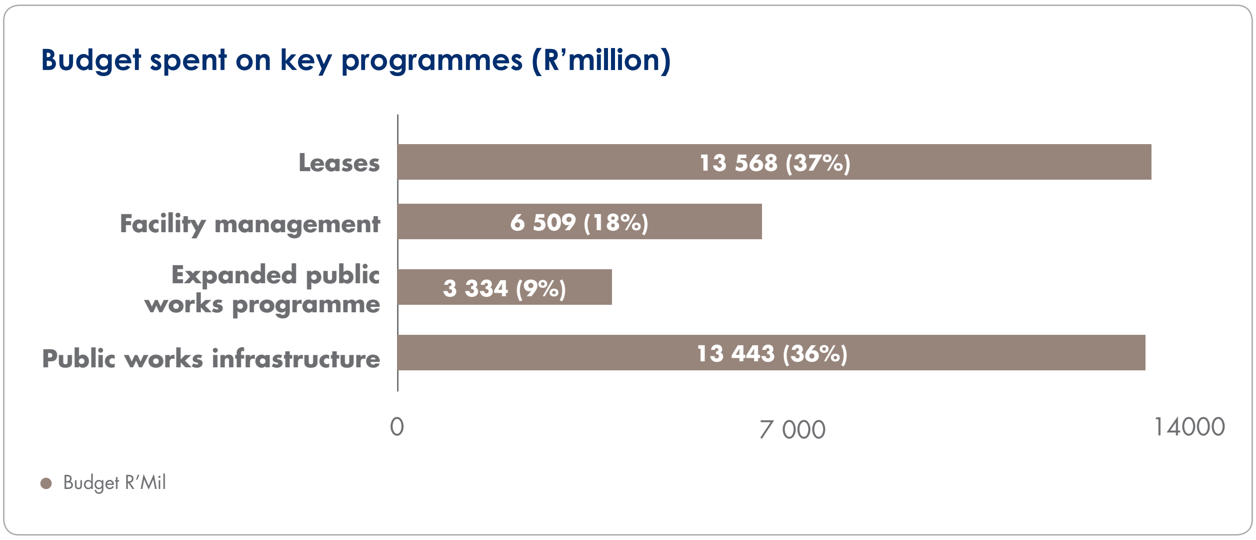
As outlined under the sector performance section of this report, the only sector target set for the key indicators that was met was completing infrastructure projects within budget, which may result in the five-year MTSF targets not being attained. It is extremely concerning that of all sector auditees, only the national department and the Northern Cape included indicators related to completing infrastructure projects on time and within budget in their plans and performance reports. This could be due to the lack of coordinated efforts within the sector to ensure that these critical strategic initiatives are agreed upon and included as standardised sector indicators.

The proportion of planned maintenance when compared to the planned assessment conditions is also of great concern, as it shows that maintenance of existing immovable assets under the custodianship of the sector is not prioritised to underpin the sector's mandate.

To demonstrate the impact of these concerns, we reflect on significantly delayed infrastructure projects; poor and unfit properties that are still being used and those that have been closed, affecting service delivery; and how the mismanagement of lease contracts is resulting in a loss of funds that could be used to fulfil key indicators supporting the sector's mandate.

The figure below illustrates how the sector spent its budget on strategic initiatives that aimed to support this mandate.

Public works sector spending on strategic initiatives

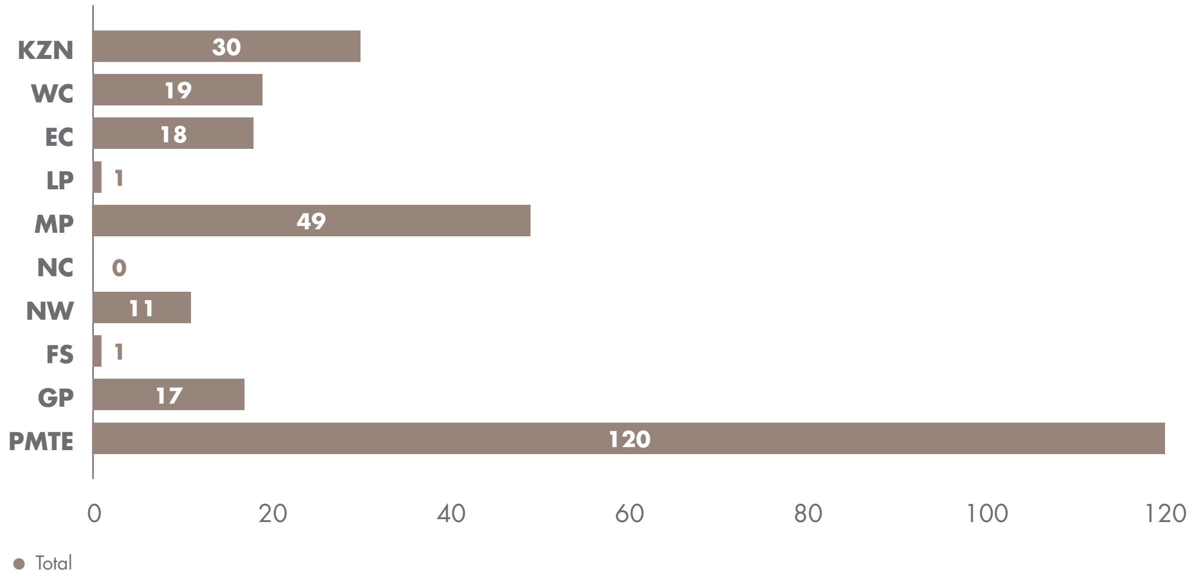


Given the high number of properties under its custodianship (145 712 properties), the sector could be expected to spend a significant portion of its budget on facility management to ensure that these properties are regularly assessed and properly maintained. However, it actually allocates only 18% of its budget to facility management, while spending the largest portion (37%) on private leases.

Infrastructure projects

As outlined under sector performance, the public works sector has struggled for more than two years to complete infrastructure projects within the planned time and budget.

Number of significantly delayed projects per sector auditee



The Property Management Trading Entity had 120 significantly delayed projects, while provincial departments had 146 such projects.

These delays can be attributed to poorly performing contractors that fail to complete the project at the right time and quality, delays in the supply chain process when appointing contractors to start the projects, poor project monitoring, and lack of consequence management for project managers who are charged with overseeing these projects.

Significantly delayed projects

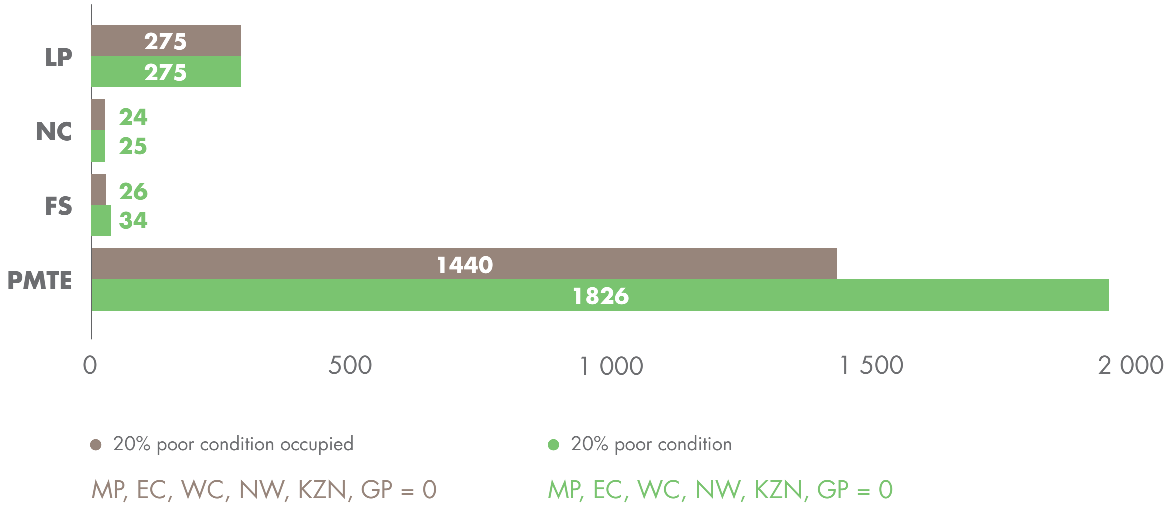
In the **Eastern Cape**, the project to refurbish the electrical, mechanical and fire installation of the **Botha Sigcau building**, which is used by several departments servicing the OR Tambo region in Mthatha, commenced in 2012-13. In 2015, the contract was terminated due to poor contractor performance and a new contractor was appointed in 2019. However, in 2021 the project had still not been finalised. The building is currently occupied by several departments while refurbishment is in progress.

In the **Northern Cape**, a mental health facility construction project commenced in 2005 and was planned to be completed in 2007. The contract was delayed by 14 years due to poor contractor performance and was only finalised in 2021. Not only did the delays result in massive overspending that is currently being evaluated for material irregularity, in 2019-20 patients in the province who suffered with mental illness could not be institutionalised when needed due to facility constraints.

Facility management

According to the Government Immovable Asset Management Act, properties that have had their condition assessed at 20% are considered poor and neither safe nor fit for use. However, a number of properties that have been assessed as poor and not fit are still being used (see figure below).

Number of poor and unfit buildings occupied



As outlined under sector performance and budget spending, the sector has poor and unfit properties because, from a planning and budgetary perspective, less priority is given to maintaining the buildings in its custody.

In some provinces, this is because the maintenance budget is allocated to user departments instead of to the sector, and these user departments do not prioritise maintaining the buildings. At the Property Management Trading Entity, this is mainly due to overreliance on private leases, which leads to resources being focused on these instead of on facility management.

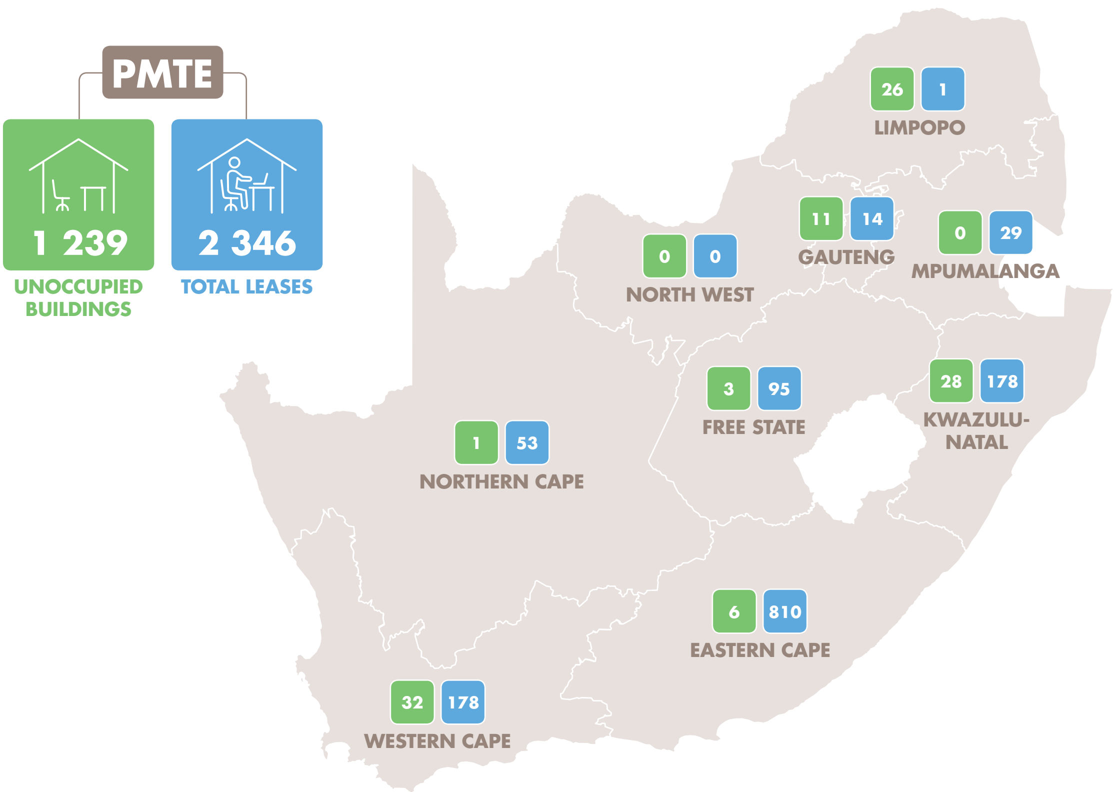
Poor and unfit buildings occupied

In the **Free State**, the **clinic in Winburg Road** in Mahlatswetsa town was closed due to vandalism. The people in the area either have to go to Borwa Municipality Clinic in Excelsior which is 36,5 kilometres (33 minutes) away, or to Pule Sefatsa Clinic in Botshabelo, which is 81,1 kilometres (over an hour) away to get medical assistance This might be a challenge if there is medical emergency. The **Witzieshoek Police Station** in Harrismith in the Free State was closed due to poor condition. However, there are other police stations in the area such as the Pabalong Police Station, which is 2,6 kilometres (six minutes) from the closed one.

Three **Free State** schools that have been assessed to be in poor and unfit condition – **Joe Solomon P. School** in Heidedal, **Reitz Combined School** in Reitz and **Witteberg High School** in Bethlehem – are still being used despite not adhering to occupational health and safety standards, putting learners and teachers at risk.

Use of private leases

Number of leases vs number of unoccupied buildings



The sector has a strategic initiative aimed at leasing out unoccupied buildings to reduce the number of private leases entered into on behalf of user departments. However, this is not included in the planning documents for some auditees, such as the Free State, Gauteng, KwaZulu-Natal, Limpopo, Mpumalanga, the Northern Cape and the Western Cape. Where it is included, as is the case with Property Management Trading Entity, it was not achieved.

Many of these buildings are unoccupied because they do not meet the needs of the user departments and the sector instead relies heavily on private leases to meet these needs.

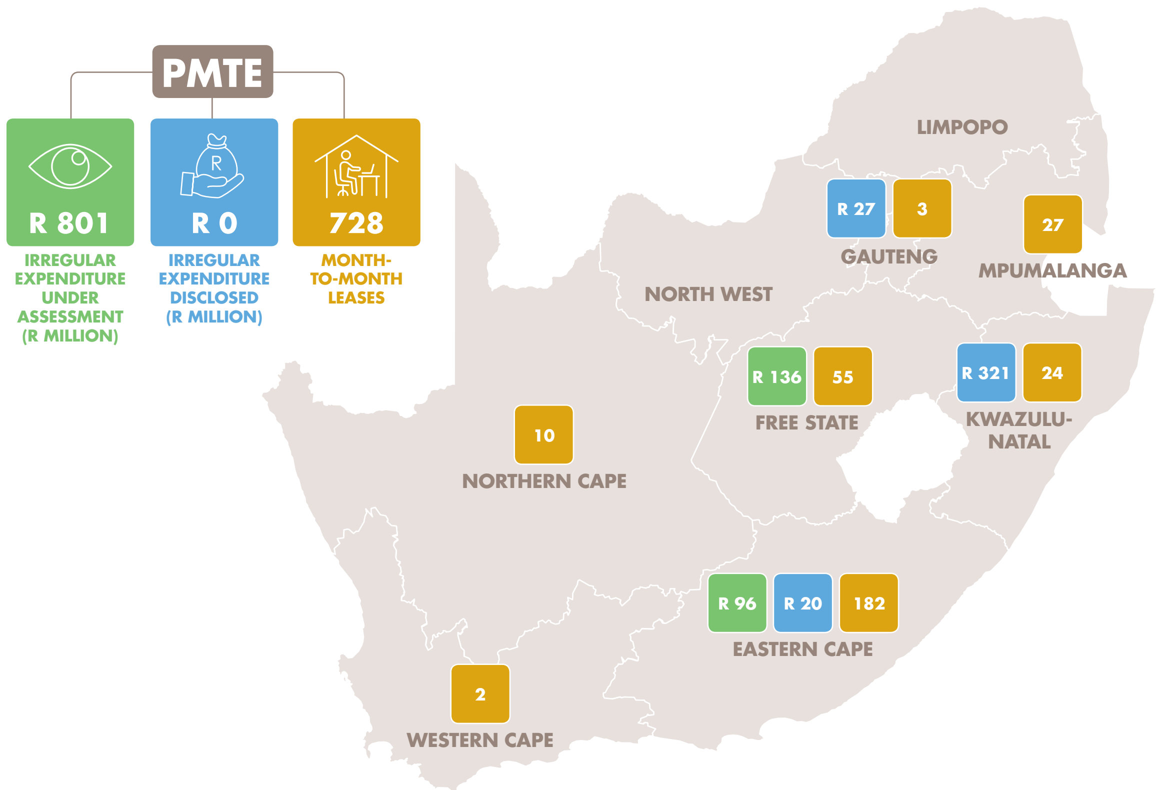
If the sector reprioritised its budget to focus on fixing unoccupied buildings, it could reduce the number of leases held, yielding a significant impact. This is especially true for the Property Management Trading Entity, which has several properties in good condition that are unoccupied.

Property in good condition but not occupied

The **Telkom Towers building**, located opposite the national Department of Public Works and Infrastructure headquarters in Pretoria, **Gauteng**, was initially purchased on 9 September 2016 for R695 million. The intention was for the building to be used by the South African Police Service, but later that year the department indicated that this move would be delayed for unknown reasons. As at 31 March 2021, the costs incurred include R152 million paid to consultants, R10 million paid for securing the building and R15 million in facility management costs. Cumulatively, the sector has spent R872 million (excluding rates, taxes and security costs) on this building that is still not occupied.

The sector continues to hold most expired private lease contracts on a month-to-month basis over long periods, which has a significant impact.

Number of leases vs number of unoccupied buildings



There appears to be lack of will from the sector, the affected user departments and the lessors to enter into new agreements. As demonstrated by the Armscor building example, resources that could have been used to maintain the properties owned by the sector are spent to the benefit of the lessors who own these buildings through lease amounts that continue to escalate at 10%, which is much higher than the national inflation rate. To date, R1 033 million relating to expired leases held

Impact of month-to-month leases

The **Armscor building** in Pretoria, **Gauteng**, occupied by the Department of Defence, has been on a month-to-month contract for 17 years, since the lease expired in 2004. Throughout this period, the lease amount has increased at 10% annually, costing the sector R502 million from 2004 to 2020. If the lease had escalated at 5,5% as approved by the National Treasury, the Property Management Trading Entity would have paid only R455 million – a saving of R47 million over the 17 years for which the contract has been running month to month.

The **Domans building** used by the **Free State** Department of Agriculture has been on a month-to-month lease since 2007. Although a lease for a new building has been signed, the building cannot be used as it has not been renovated. According to the lease agreement, the lessor is responsible for renovating the building before the lessee moves in.

on month-to-month contracts has been disclosed as irregular expenditure under assessment (Property Management Trading Entity, Eastern Cape and Free State), while R368 million has already been confirmed as irregular expenditure (Gauteng, KwaZulu-Natal and Eastern Cape).

Sector material irregularities

Based on the 11 material irregularities notified by 15 October 2021 at four auditees in the sector, an established loss of R98,6 million was reported. The loss could be higher if we consider that in some instances accounting officers are in the process of determining the amounts of these losses. Decisive actions, including recovering these losses, must be taken immediately and consequences must be implemented against the officials and service providers who caused these material irregularities. This will demonstrate a behaviour shift that sets a tone of zero tolerance for financial mismanagement.

Overall message and impact

The sector is spending excessive amounts on leasing private buildings rather than maintaining its existing infrastructure. Consequently, some critical service delivery-related properties such as police stations and clinics have been closed because they are in poor and unfit condition. In addition, some properties that are in poor and unfit condition, such as schools, are still being used, which endangers the lives of the learners and teachers. At the same time, a significant number of infrastructure projects are delayed and are not being finalised within the planned time, which results in government suffering financial losses. Insufficient maintenance of properties and significantly delayed delivery of infrastructure projects exacerbate the sector's use of private leases to respond to the needs of user departments. This overreliance on leases has created opportunities for these funds to be mismanaged, as evidenced by the irregular expenditure incurred due to excessive use of month-to-month contracts. It has also led to overpayment of leases, some instances of which we have already identified as financial losses.

We urge accounting officers to consider the above concerns when compiling their strategic planning documents. Oversight bodies should also be aware of these issues and seek accountability for strategic plans, annual plans and budgetary processes.

Conclusion

Sector stakeholders urgently need to make a coordinated effort to ensure that both the strategic planning documents and the budgetary process prioritise key initiatives that directly support the sector's mandate. Such initiatives include those focusing on facility management and completing infrastructure projects on time. It will also be critical for the sector to curb the financial losses and irregular expenditure arising from lease mismanagement so that these funds can be used to maintain existing properties and enable new infrastructure projects to be completed on time. This will ensure that delivery of key services such as education, healthcare, and safety and security are not further affected by significantly delayed projects or poor and unfit properties that have to be closed.

FIVE
FINANCIAL MANAGEMENT OF GOVERNMENT'S COVID-19 INITIATIVES

FINANCIAL MANAGEMENT OF GOVERNMENT'S COVID-19 INITIATIVES

Government responded to the outbreak of covid-19 by redirecting resources to fund a R500 billion package for the health response and the relief of social and economic distress caused by the drastic measures that had to be taken to contain the spread of the virus.

In May 2020, we began a real-time audit of 16 of the key covid-19 initiatives introduced by government and of the management of the funds made available for these initiatives. We tabled two special reports on the outcomes of these audits in national and provincial government (on 2 September and 9 December 2020) and one on the outcomes in local government (30 June 2021).

As committed in these reports, we continued to audit the covid-19 funding and follow up on the progress made in addressing our findings as part of our normal annual audit. Some of these matters also had an impact on the 2020-21 audit outcomes as well as the disclosure of irregular and fruitless and wasteful expenditure of the affected auditees, as detailed in this report.

We also undertook to identify material irregularities from this process and to share our findings, risk indicators and data analyses with the Fusion Centre, which was established to deal with investigations into fraud and corruption relating to covid-19.

This chapter provides a final update on the status of the 15 covid-19 initiatives we audited in national and provincial government and the use of the R500 billion relief package. The local government initiatives are not included and we will report on them in the local government general report planned for mid-2022.

The chapter summarises how the auditees reacted to and implemented our recommendations, as well as the matters that remain unresolved and continue to need attention. A detailed report on each of the covid-19 initiatives is available on our website (www.agsa.co.za).

STATUS OF R500 BILLION RELIEF PACKAGE

Overall, R218,54 billion (44%) of the R500 billion fiscal relief package had been used by 31 March 2021*, as detailed in the table below. We obtained the information on the initiatives that we audited from the accounting records of the auditees included in the covid-19 audit, and the remainder from external sources.

* *The amount used for the initiative on credit guarantee schemes is as at 18 May 2021.*

Spending of R500 billion relief package

	BUDGET	USED	DETAILS
Support to vulnerable households	R54 billion	R49,3 billion	A special relief of distress grant was paid until April 2021 and re-introduced from August 2021 until March 2022 – on average 5 million people recieved the grant. Top-up grants were also paid to an average of 13,4 million beneficiaries until October 2020 when it was discontinued. This initiative was included in the covid-19 audit (first and second special reports).
Wage protection – Temporary employment relief scheme (Ters)	R40 billion	R55,8 billion	Unemployment Insurance Fund surpluses were used to provide support to businesses with workers' wages through paying 13,9 million temporary employee/ employer relief scheme claims. This initiative was included in the covid-19 audit (first and second special reports).
Health response	R23 billion	R21,96 billion	Support and treatment of those affected by covid-19 and efforts to manage the spread of the virus. Included in the covid-19 audit (first and seconds special reports) were the provision of the personal protective equipment (PPE), capacitation of hospital beds through field hospitals and temporary structures, and community screening and testing. The reported budget in the special report included the province-specific allocation from their own budget. The amount reported has increased as a result of additional shifting of funds by the provincial departments to fund covid-19 expenditure.
Support to municipalities	R20 billion	R4,58 billion	Funding was made available to municipalities through repurposing of grants and additional allocations to help protect communities and frontline workers against covid-19 and manage its impact. This initiative was included in the covid-19 audit (third special report). The expenditure amount excludes three municipalities for which information was not available.
Frontline services and relief funding	R48 billion	R29,59 billion	Various initiatives were funded to enable frontline services to manage the impact of covid-19, to provide relief to various sectors of business and society, and to procure and distribute PPE. Included in the covid-19 audit (first and second special reports) were defence frontline services, provision of quarantine sites, basic education interventions (provision of water and PPE), support to small businesses, relief for small-scale farmers, the expanded public works programme, and the sports, arts and culture relief fund. The amount includes both spending by the departments that received the funding and transfers made to public entities. *Source of amount used: National Treasury budget allocations and spending report dated 21 April 2021*
Credit guarantee scheme	R200 billion	R18,4 billion	The scheme provided bank loans, guaranteed by government, to eligible businesses. This initiative was not included in the Covid-19 audit. *Source of amount used: Loan guarantee update by the Banking Association South Africa (May 2021).*
Tax relief	R70 billion	R38,91 billion	Temporary tax relief, such as tax deferrals and postponement of some payments to the South African Revenue Service, was provided. This initiative was not included in the covid-19 audit. *Source of amount used: SARS annual report 2020-2021*
Funds not appropriated	R45 billion	N/A	R45 billion of the R190 billion that related to budget allocations to national, provincial and local government was not appropriated.
TOTAL	**R500 billion**	**R218,54 billion**	

RECAP ON AUDIT APPROACH AND FINDINGS FROM SPECIAL REPORTS

This audit was unique in its approach. We audited payments, procurement and delivery as they occurred, and reported any audit findings and observations to the accounting officer or authority so that they could deal with any shortcomings in real time and tighten controls to prevent the findings from reoccurring. A key component of the audit was the focus on preventative controls, which are, by their nature, a deterrent to abuse. We engaged up front with accounting officers and authorities on the importance of preventative controls to counteract the increased risks and to direct significant changes in their operations. We also assessed the preventative controls implemented by the auditees and recommended additional controls to strengthen the processes and prevent any accountability failures.

The audit was performed by multidisciplinary teams made up of fraud, information technology and sector-specific experts, who supported the financial auditors to dig deeper and provide relevant insights on auditees' risks and operations.

The reporting approach was also unique because we used special reports to report on our findings and recommendations throughout the audit and not only at the end of an audit, as is our normal approach. The response to this approach was very positive, as portfolio and standing committees in Parliament and the legislatures could also play a more proactive oversight role, supported by the reports and our briefings to them.

Unsurprisingly, the findings from these real-time audits bore a striking resemblance to what we have reported on in the past.

In these special reports, we again highlighted the significant deficiencies in the **procurement and contract management processes**, and reported on the inadequate controls meant to ensure that **payments** are only made for goods and services that are delivered at the right time, price and quality. During a pandemic, the consequences of a supplier not delivering items such as personal protective equipment (PPE) are severe. We expressed concern about unfairness in the awarding of government business and that sufficient care was not taken to protect against overpricing, financial loss, fraud and abuse of the system.

The bulk of the government's PPE procurement took place in the health and education sectors, where the pre-existing weaknesses in the control environments were further compounded by the covid-19 interventions.

In addition, we reported that the **information technology systems, processes and controls** used in government were not agile enough to respond to the changes required. We identified that the lack of validation, integration and sharing of data across government platforms resulted in people (including government officials) receiving benefits and grants to which they were not entitled.

Some of the initiatives, such as planned facilities that were earmarked for use as quarantine sites and the provision of temporary residential units, did not achieve the desired results, and some were even abandoned because of failed **coordination, monitoring and relationships across the three spheres of government**. Where implementing agents were involved, we found weaknesses in coordination and monitoring that compromised delivery, transparency and accountability. Even though command centres and other oversight structures were put in place, we often found that the information provided to them and to executive authorities on the performance of the initiatives was flawed.

We further highlighted **irregularities, poor controls and indicators of potential fraud**, which was noted in the context of the already compromised control environment. In previous years, we have reported on poor control environments where the basics of financial management and record keeping are not in place. We have highlighted the impact of instability in leadership, a lack of consequences for transgressions and non-compliance with legislation, and opportunities for abuse in the supply chain management processes.

The reports also included our recommendations to accounting officers and authorities for addressing our findings, as well as the responses we received to these recommendations.

We called on oversight structures to use the special reports to direct their oversight actions – to call accounting officers and authorities and executive authorities to account for how they implemented the covid-19 initiatives and managed the funds entrusted to them.

We also urged all role-players to shift their thinking towards prevention, which is a far better approach than having to deal with lengthy and costly investigations that result in loss of resources and diminished public confidence. Shortly after we tabled these reports, we launched a preventative control guide to help oversight and accounting officers in this regard.

STATUS OF INITIATIVES AND IMPLEMENTATION OF RECOMMENDATIONS

As we continued to audit these initiatives, we noted that six initiatives had been completed, two had been discontinued and seven were still ongoing. In this chapter, we include the status of the implementation of our recommendations by the auditees for each initiative.

COMPLETED INITIATIVES

COMPLETED	BUDGET	EXPENDITURE
Farmers' relief support to qualifying financial distressed small-scale farmers • Department of Agriculture, Land Reform and Rural Development • Agricultural Land Holding Account *15 681 small-scale farmers recieved and redeemed vouchers for acquisition of production inputs for farming purposes.*	R700 million	R569 million
Defence frontline services deployment of soldiers, procurement of personal protective equipment, repatriation efforts, enforcement and implementation of health measures • Department of Defence *Deployed soldiers to help enforce law and order, repatriated South African citizens Wuhan, procured PPE for frontline workers and medical equipment for health facilities, refurbished 1 Military hospital.*	R4 297 million	R3 183 million
Expanded public works programme provision of job opportunities through utilising programme participants for screening, testing and educational campaigns. • Department of Public Words and Infrastructure • Independent Development Trust *34 320 participants recruited by 30 November 2020 against targets of 25 000*	R771 million	R165 million
Tourism relief fund support to qualifying small, medium and micro enterprises (SMMEs) in the tourism and hospitality sector • Department of Tourism *R200,05 million was paid to 4 000 approved beneficiaries*	R200 million	R200,05 million
Emergency supply of water to targeted communities provision of water tanks and water tankering services (first phase) • Department of Water and Sanitation • Rand Water *6 140 (76%) of the 8 125 tanks purchased in phase 1 were installed by 31 March 2021*	R506,53 million	R426,96 million
Wage protection payment of Covid-19 temporary employee/employer relief scheme benefit to employees and employers who have closed operations, or part of orporations, due to Covid-19 • Unemployment Insurance Fund *13,91 million claims were paid by 31 March 2021*	R40 000 million	R55 800 million

Status of recommendations: • In progress • Implemented • Behind schedule/not implemented • Not applicable

For all completed initiatives, our recommendations were still in the process of being implemented. As a result, we noted the efforts relating to consequence management and loss recovery with the following matters still needing attention:

Farmers' relief

After the release of our first special report, any further payments from the farmers' relief fund were stopped so that the department could first address the deficiencies communicated. Some of the vouchers that had been issued to non- qualifying beneficiaries such as public officials and not yet redeemed were withdrawn. For vouchers that had already been redeemed, the Department of Agriculture, Land Reform and Rural Development had to initiate the process of writing demand letters to the non-qualifying beneficiaries. The department will continue the process of recovering the funds in the 2021-22 financial year.

Defence frontline services

Some adjustments were made to the plans for procuring PPE and medical equipment. However, department leadership does not prioritise consequence management. No action has been taken against officials involved in procuring the unregistered drug Heberon® Alfa R (Heberon), and non-compliance with National Treasury instruction notes on PPE procurement has not been investigated. Irregular expenditure was also not disclosed in all instances.

Expanded public works programme

The initiative concluded before the second special report was tabled in December 2020, and we could not conduct follow-up work on the findings reported on training, monitoring and the provision of PPE because sites were closed. The Independent Development Trust's internal review processes to verify and reconcile payments of R68 million made by non-profit organisations to beneficiaries after September 2020 were not carried out due to a lack of resources. This presented a limitation in support of payments to beneficiaries and must therefore still be resolved.

Tourism relief fund

The only action the accounting officer took in response to our recommendations was to hand over the overpayment to one beneficiary to the State Attorney for recovery. Management did not have an action plan in place to address the remaining findings reported in the second special report.

Emergency supply of water to targeted communities and schools

Rand Water was responsible for procuring and installing water tanks, and in August 2020 handed the water tanks project for targeted communities and schools over to the departments of Water and Sanitation and Basic Education, respectively. Our observations during this initiative revealed that inadequate needs analyses were performed, appropriate documentation to substantiate delivery of water tanks was lacking and there were quality issues with the installation of water tanks. The Department of Basic Education subsequently terminated the agreement with Rand Water to supply water tanks and has since instructed Rand Water to provide evidence of work done. These reconciliations between the department and Rand Water had not yet been finalised at year-end. Similarly, the Department of Water and Sanitation also committed to reconcile and verify the tanks against the supporting registers and is currently still busy with the process.

Wage protection

In line with the commitments made by its leadership, the Unemployment Insurance Fund improved the validation processes for the information submitted by applicants for the temporary employee/ employer relief scheme (Ters). We engaged the Fusion Centre on the exceptions contained in our special reports, and it is encouraging to note that the fund also referred numerous suspicious payments to the centre and that the Special Investigating Unit, the South African Police Service and the Directorate for Priority Crime Investigation (the Hawks) are currently investigating these payments.

The President issued a proclamation for the Special Investigating Unit to investigate all Ters payments suspected to be fraudulent. The Unemployment Insurance Fund procured the services of seven consulting firms to supplement its own resources before starting the post-validation processes. This process is currently in its second phase, but we are concerned that it is progressing slower than expected and needs to be accelerated.

Ineligible Ters claims are still being paid, albeit to a lesser extent, because of a lack of integrated government systems and databases against which applications can be validated.

DISCONTINUED INITIATIVES

DISCONTINUED	BUDGET	EXPENDITURE
Quarantine sites identify and provide properties that can be used as quarantine sites and self-isolation sites by the public works sector • National and provincial departments of public works – EC, FS and MP • Provincial departments of public works – GP, KZN, LP and NC *192 quarantine sites activated for use*	R3 122 million	R977 million
Support to small businesses – debt relief finance scheme support to qualifying small, medium and micro enterprises affected by the Covid-19 • Department of Small Business Development • Small Enterprise Finance Agency • Small Enterprise Development Agency *Debt relief provided to 1 144 businesses*	R513 million*	R316 million
Temporary residential units provision of temporary residential units for resettlement of overcrowded settlements • National and provincial departments of human settlements – FS • Provincial departments of human settlements – EC • Provincial departments of human settlements – LP • Housing Development Agency *Discontinued as part of covid-19 response. Implementation of 95 re-blocking projects continued as part of the sector's normal upgrading of informal infrustructure*	R1 426 million	R85,9 million (Provinces only)

Status of recommendations: • In progress • Implemented • Behind schedule/not implemented • Not applicable

* Budget was revised from R484 m to R513 m

Our recommendations for the discontinued initiatives were fully implemented, except for those relating to the temporary residential units initiative. The following matters remain:

Quarantine sites

Although this initiative was discontinued, processes for decommissioning quarantine sites must be adequately managed to ensure that these assets are secured and safeguarded until they are transferred to other public bodies to use for service delivery.

Support to small businesses – debt relief finance scheme

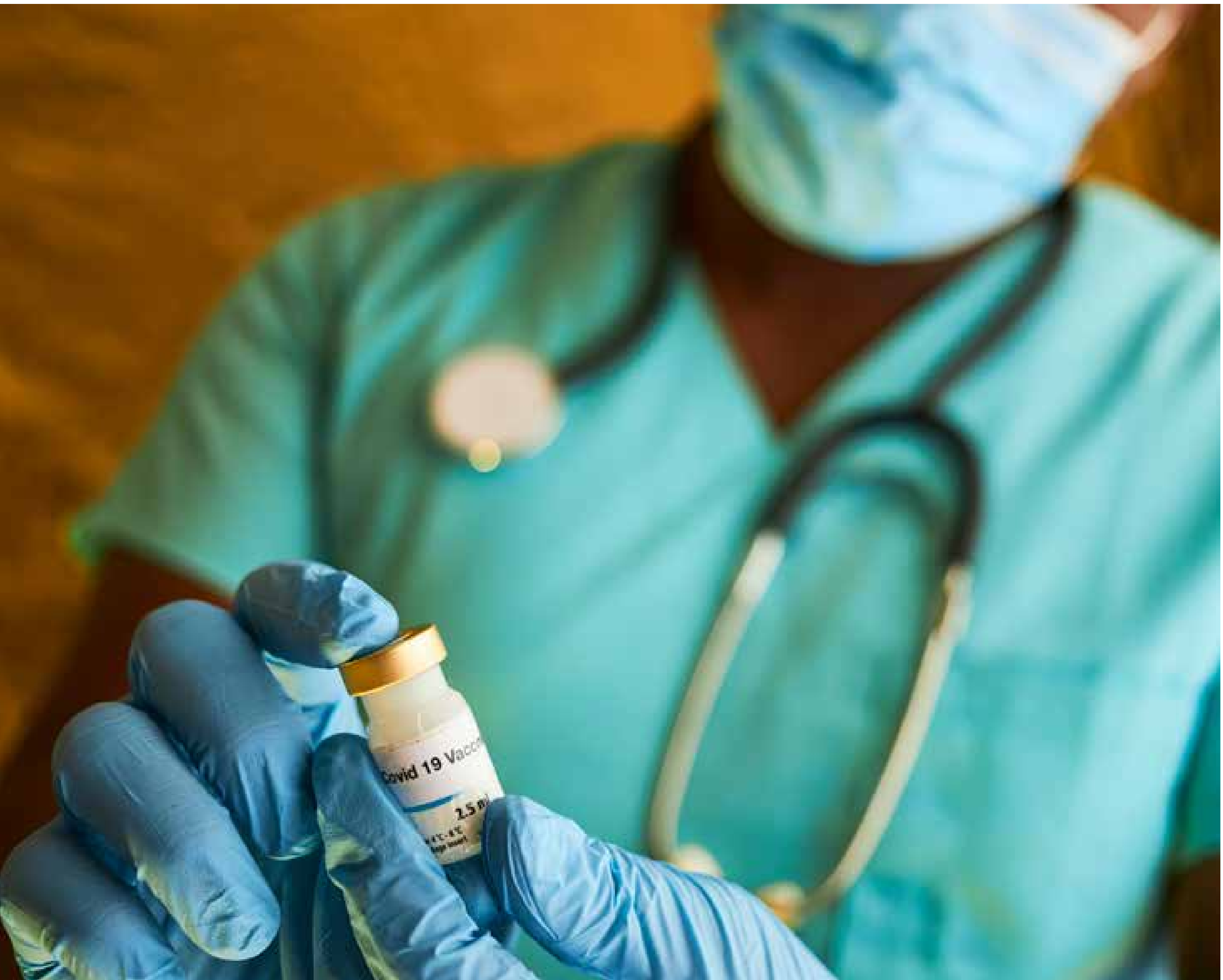
While this did not contravene any regulations, some beneficiaries of the debt relief finance scheme also benefited from the R350 social relief of distress grant (i.e. double-dipping) distributed by the South African Social Security Agency. The Department of Small Business Development sent correspondence on this matter to the agency, which did not respond, and the department did not follow up on this matter. As a result, the risks we noted relating to double-dipping have not been adequately addressed.

The issues we identified for this initiative are identical to those that apply to the spaza shop support programme, which is still ongoing as part of the support to small businesses initiative.

Temporary residential units

We noted various issues during the construction of temporary residential units that were reported in the special reports and still need attention, including:

- non-compliance with procurement regulations
- issues related to poor quality of construction and compliance with national building norms and standards, which are being investigated by the Housing Development Agency and the National Home Builders Registration Council. The Special Investigating Unit investigated allegations of fraud and corruption in awarding the tender to establish and construct the units in the Talana project. However, consequence management was lacking
- the lack of processes to efficiently and effectively implement, monitor and coordinate sector plans across the three spheres of government.



ONGOING INITIATIVES

ONGOING	BUDGET	EXPENDITURE
Basic education interventions provision of personal protective equipment to learners, educators and support staff as well as emergency supply of water and sanitation to selected public schools. Emergency supply of water ended on 31 August 2020 • Department of Basic Education, provincial departments of education – GP, KZN, MP and NW • Provincial department of education – EC, FS, LP, NC and WC *R2 421 million was used to provide personal protective equipment to schools and R389 million was spent on emergency supply of water and sanitation services – water tanks were delivered to 2 624 schools.*	R4 665 million	R2 810 million
Support to vulnerable households payment of new social relief grant and top-up grants as well as distribution of food parcels to support households most vulnerable to the impact of the pandemic • Department of Social Development • South African Social Security Agency *An average of 5,01 million people received the special relief grant and 13,40 million people received the top-up grant. 146 847 food parcels were delivered*	R54 240 million	R49 434 million
Compensation for occupationally incurred covid-19 compensation for disability, illness and death resulting from occupational injuries and diseases incurred due to covid-19 • Compensation Fund *Covid-19 claims represent 0,421% of the total medical benefits the fund has incurred*	R0	R16,9 million
Healthcare services support and treatment of those affected by covid-19 plus efforts to manage the spread of the virus • National and provincial departments of health – WC and National Health Laboratory Services • Provincial departments of health – EC, FS, GP, KZN, LP, MP, NC and NW *Provided PPE to health facilities, NHLS laboratories conducted 4 330 538 covid-19 tests, external hospitals have been decommissioned*	R23 388 million	R21 961 million
Sports, arts and culture social relief fund support to qualifying artists, athletes and technical persons in sport, arts and culture • Departments of sport, art and culture *Relief was provided to 10 001 artists, athletes and technical support persons*	R235 million	R167 million
Support to small businesses - spaza shop support support to qualifying small, medium and micro enterprises affected by the covid-19 • Department of Small Business Development • Small Enterprise Finance Agency • Small Enterprise Development Agency *5 276 cards issued to spaza shops*	R175 million	R18 million
Loans through the Industrial Development Corporation support to companies in distress due to covid-19 • Industrial Development Corporation *14 loans amounting to R419 million were approved by 31 March 2021*	R1 100 million	R56 million

Status of recommendations: • In progress • Implemented • Behind schedule/not implemented • Not applicable

Our recommendations for the ongoing initiatives are still in the process of being implemented, except for those relating to the loans through the Industrial Development Corporation initiative. While we note some improvements stemming from our recommendations, the following matters still require attention:

Basic education – personal protective equipment

The president issued a proclamation for the Special Investigating Unit to investigate all allegations of PPE-related fraud. The outcomes of these investigations will enable the relevant authorities to effectively and timeously implement the consequence management process so that accounting officers can recover any lost state funds.

Support to vulnerable households

The issue of paying ineligible persons continued, as there was an increase in the number of ineligible beneficiaries receiving grants after the second special report. We also noted the lack of integrated systems against which applications could be validated as a root cause requiring intervention, as the department had limited sources available for validation purposes. All payments to ineligible recipients must therefore be recovered and the responsible individuals should be prosecuted.

Compensation for occupationally incurred covid-19

Processing covid-19 claims falls within the normal processes of the Compensation Fund, and we noted that the pre-existing control weaknesses have not been addressed. The fund did not implement sound preventative and detective controls within and around its information technology systems.

Healthcare services

Accounting officers implemented a number of controls in response to previously reported findings to prevent the non-compliance with procurement regulations from reoccurring. The risk that remains in the process relates to the lack of consequence management implemented by management in instances where both the Special Investigating Unit and internal investigations identified fraud and/or non-compliance. The current challenge in the sector is to finalise the consequence management processes so that appropriate and decisive action can be taken against transgressors. Effective and timeous implementation of consequences will enable accounting officers to recover any lost state funds.

Sport, arts and culture social relief fund

Although the initial criteria for evaluating applications were later clarified, we still identified some ineligible applicants who were approved and received payments. This was because some applicants who were receiving income from other sources were not detected during the approval processes due to the lack of integrated systems against which applications could be validated. Consequence management was also not enforced, as the accounting officer had not yet recovered funds paid to ineligible beneficiaries and no investigations were conducted into the root causes for the issues raised.

Support to small businesses – spaza shop support

The issues we identified for this initiative are identical to those that apply to the debt relief finance scheme and for which details are included in the discontinued initiatives section of this chapter.

IMPACT OF COVID-19 AUDITS

Our real-time covid-19 audits had a number of positive impacts. Some of the highlights include:

- **Controls were improved** – in some cases, the swift implementation of improved controls helped to prevent findings from reoccurring. This was evident particularly at the Unemployment Insurance Fund, where the Ters system was enhanced to improve the information validation processes. This included configuring the system to verify the employee salaries declared on the Ters applications against those declared as part of normal employers' submissions before covid-19. The enhanced processes also included using data from the Department of Home Affairs to verify applicants' identity numbers, which significantly reduced the number of suspicious payments.

  We also noted particular improvement in supply chain management controls for PPE procurement in response to our findings on overpricing and non-compliance with supply chain management requirements. In the health sector, compliance-monitoring controls in some provinces led to a provincial contract being established specifically to procure covid-19 PPE to ensure that the PPE was ordered at market-related prices and within the thresholds prescribed by the National Treasury.

- **Planning, monitoring and managing of initiatives was strengthened** – in response to the findings we raised in the second special report, monitoring controls for managing the quarantine sites initiative were increased with a noticeable impact. We also outlined the lack of demand for quarantine sites, which resulted in a ministerial directive being issued to cease funding for this initiative from 1 October 2020 to prevent any further unnecessary spending.

- **Financial losses and irregularities were identified and auditees are taking steps to investigate irregularities, recover losses and implement consequences** – one example is the Talana project, which was part of the initiative on temporary residential units, where several Housing Development Agency officials have been arrested based on matters reported in the special reports and subsequent investigations performed by the Special Investigating Unit.

  In the health sector, we identified financial losses from findings raised in the special reports, resulting in two material irregularities, of which the respective accounting officers have been notified, and a number of potential material irregularities are also being considered. Similarly, for the defence frontline services initiative, we notified the accounting officer of material irregularities relating to the procurement of PPE and Heberon because of the financial losses incurred.

  In the education sector, in some cases where PPE was under-delivered, suppliers were contacted and the matter was rectified. Funds were also recovered in some instances where the prices charged for PPE exceeded the limits set by the National Treasury, and possible cover-quoting was being investigated.

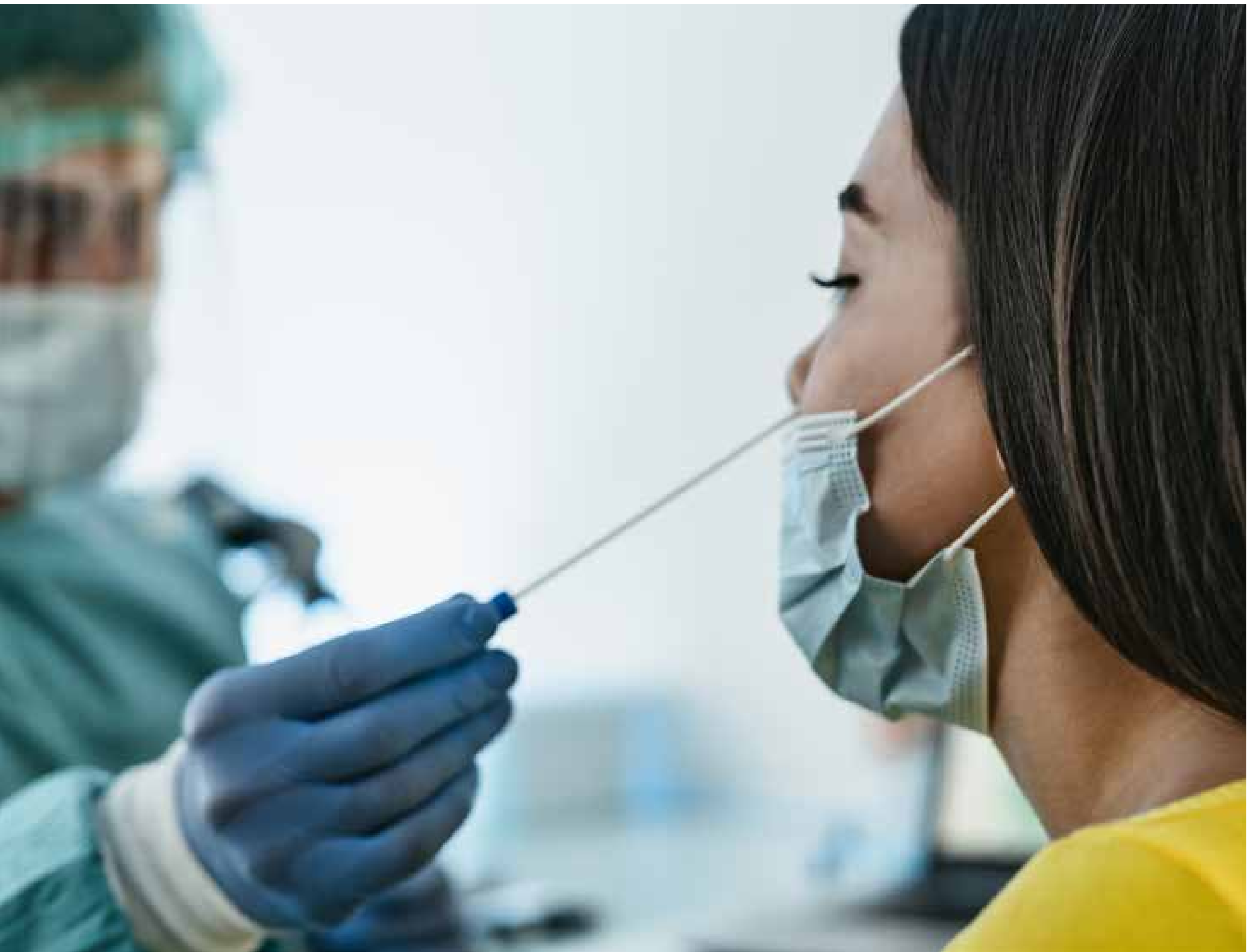
- Fraud red flags in procurement processes were shared with the Fusion Centre, enabling investigations that are currently ongoing – for both the first and second special reports, we used data analytics and computer-assisted audit techniques to identify anomalies and red flags, or high-risk indicators, within the payment, grants and data. We shared the following information with the Fusion Centre:
  - **South African Social Security Agency:** anomalies identified, including grant payments made to non-qualifying applicants, such as incarcerated individuals or government employees
  - **Unemployment Insurance Fund:** anomalies identified, including Ters payments to non-qualifying individuals, such as those who are imprisoned, deceased, below legal working age, receiving relief from other initiatives or government programmes (double-dipping), etc.
  - **Supply chain management:** covid-19-related purchases and services in the health and education sectors, water portfolio, Free State Provincial Treasury, etc. We included red flags such as large round amounts, conflict of interest matters identified, bank account details that differed from those included on the central supplier database, suppliers not registered for VAT, etc.

The way forward on matters referred to the Fusion Centre is as follows:

- **Supply chain management issues:** The Fusion Centre will further enhance the investigation of anomalies and red flags shared with them using sources of information that only the Financial Intelligence Centre can access, for example section 27 requests in terms of the Financial Intelligence Centre Act. We noted that 131 companies included in the information we shared with the Fusion Centre were also flagged by the Special Investigating Unit, which:
  - has confirmed irregularities, amounting to R1,05 billion, at 31 of these entities
  - has found no irregularities at 23 entities
  - is still investigating at 77 entities.

We will continue to liaise with the Fusion Centre regarding the anomalies raised and the further steps taken by the public bodies that form part of the Fusion Centre.

- **Special Investigating Unit:** initiated a number of investigations, brought these matters to the Special Tribunal and obtained freezing orders. We will follow up on the recovery of money and ensure consequence management.
- **Directorate for Priority Crime Investigation (the Hawks):** has various investigations in progress. For example, the Financial Intelligence Centre registered an umbrella case for individuals who benefitted unduly through grant payments from the South African Social Security Agency.
- **Department of Public Service and Administration:** the Fusion Centre analysed data from the South African Social Security Agency and the Unemployment Insurance Fund using Persal, and identified additional public servants who may have unduly benefitted from the social relief of distress grant and Ters payments:
  - The Fusion Centre held numerous discussions with the department and provided it with the list of identified officials.
  - The department indicated that it would coordinate with all affected departments to:
    - launch internal investigation processes
    - trigger disciplinary action against the suspected employees
    - recoup misappropriated funds by garnishing the employees' monthly salaries.



MATTERS THAT REMAIN AND LESSONS LEARNT

While the response to our special reports was positive and the actions taken in response to our findings and observations were commendable, more could have been achieved if the funds and related initiatives had been better managed. The information and insights presented in these special reports were intended to empower oversight structures and enable executive leaders to focus on implementing and strengthening controls that support the call for transparency and accountability. The outbreak of covid-19 and the impact on the wider economy is placing unprecedented pressures on not only the lives of ordinary South African citizens, but also their livelihoods. It is more important than ever for all government institutions to have an ethical, effective and efficient focus to overcome the impact of covid-19 on the citizens of South Africa.

In delivering the covid-19 initiatives, government had to respond at a pace and on a scale not previously envisaged. Government should learn from the successes and failures in the financial management of these initiatives.

A shift in thinking and behaviour is necessary, and the following lessons should be applied:

- **Fraud risks remain but can be managed** if a more ethical culture is encouraged and embraced transversally, and if leadership demonstrates this by setting the tone at the top.
- **Greater investment is required in integrating government information technology systems** to ensure that they are intersecting, agile and responsive to changes in the environment. Proper validation, integration and sharing of data across government platforms is also essential.
- **Coordination, monitoring and intergovernmental relationships across spheres of government must be strengthened** to enable key projects and programmes to be successfully implemented and monitored.
- **Sustainable solutions are required to ensure that control environments are mature** so that the risks are minimised when these environments are exposed to abnormal and disruptive circumstances. Designing and implementing controls that prevent and/or detect fraud, errors and abuse is an investment that pays off when an institution is called upon to deal with a crisis. It is a far better approach than having to deal with lengthy and costly investigations and a loss of resources and public confidence.

For any endeavour to succeed, everyone involved should share a common goal as well as embrace and commit to the role they play in achieving that goal. We will continue to audit the covid-19 funding and follow up on the progress made in addressing the audit findings and observations as part of our normal annual audits.

We call on the accounting officers to address the remaining risks and ensure that swift action is taken to recover losses and implement consequences. We also recognise the specific and important role played by executive authorities and oversight structures, and we encourage them to continue to support and oversee this process.

SIX
STATE-OWNED ENTERPRISES

STATE-OWNED ENTERPRISES
PERFORMANCE SNAPSHOT

This snapshot shows the audit outcomes of 15 public entities listed in schedule 2 of the Public Finance Management Act, known as state-owned enterprises and commonly referred to as SOEs.

The total expenditure budget for these SOEs amounted to approximately R100 billion for the year. The outcomes are shown at group level. We audit 15 of the SOEs – the remaining five (Air Traffic and Navigation Services; Alexkor; Broadband Infraco; Eskom; Industrial Development Corporation) are audited by private audit firms.

The audits of South African Airways, South African Express Airways and Denel had not commenced at the cut-off date for this report, as the entities did not submit financial statements for auditing. The audits of the Independent Development Trust, Land and Agricultural Development Bank, South African Post Office and Trans-Caledon Tunnel Authority were still in progress at the cut-off date for this report. With the exception of irregular and fruitless and wasteful expenditure, and the information on material irregularities, **the outcomes of these auditees are not included in the snapshot**.

Audit outcomes regressed

Movement From 2019-20

0 auditees

1 auditee

Movement From 2018-19
First year of administration

2 auditees

0 auditees

Improved	**No improvements**
Regressed	**Armaments Corporation of South Africa**
Unchanged	**Development Bank of Southern Africa; Airports Company of South Africa; Central Energy Fund; South African Forestry Company; South African Broadcasting Corporation; Transnet*; South African Nuclear Energy Corporation**
Outstanding	**Denel; Independent Development Trust; Land and Agricultural Development Bank; South African Airways; South African Express Airways; South African Post Office; Trans-Caledon Tunnel Authority**

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

Financially unqualified financial statements **62,5% (5) 2019-20: 46,2% (6)**

Transnet and the South African Broadcasting Corporation were qualified on completeness of irregular expenditure disclosed.

Financial statements submitted without material misstatements **25% (2) 2019-20: 23,1% (3)**

The Armaments Corporation of South Africa, Central Energy Fund and South African Forestry Company submitted financial statements that required material adjustments.

No material findings on performance report **62,5% (5) 2019-20: 61,5% (8)**

Performance reports submitted without material misstatements **50% (4) 2019-20: 30,8% (4)**

Transnet corrected material misstatements identified on its performance report.

We commend the following auditees for submitting performance reports that are without material misstatements: Airports Company South Africa, Armaments Corporation of South Africa, Development Bank of Southern Africa and South African Forestry Company.

No material findings on compliance with legislation **12,5% (1) 2019-20: 15,4% (2)**

Development Bank of Southern Africa did not have material findings on compliance with legislation.

Areas of non-compliance	Auditee
Prevention of irregular, and fruitless and wasteful expenditure (6)	Airports Company South Africa, Central Energy Fund, South African Broadcasting Corporation, South African Forestry Company, South African Nuclear Energy Corporation, Transnet
Inadequate consequence management (4)	Central Energy Fund, South African Broadcasting Corporation, South African Nuclear Energy Corporation, Transnet
Supply chain management (3)	Central Energy Fund, South African Nuclear Energy Corporation, Transnet

Auditees with no material findings on compliance with supply chain management legislation **62,5% (5) 2019-20: 53,8% (7)**

We commend the following auditees for no material findings on compliance with supply chain management legislation: Airports Company South Africa, Armaments Corporation of South Africa, Development Bank of Southern Africa, South African Broadcasting Corporation and South African Forestry Company.

Irregular expenditure

R15 459,10 m
(R613,60 m included for audits outstanding)
2019-20: **R76 638,23 m***

Closing balance
R115 544,23 m
(R6 125,35 m included for audits outstanding)
2019-20: **R144 750,73 m**

Top three contributors	
Transnet	R14 139 m
South African Post Office	R383,15 m
Airports Company South Africa	R280,19 m

* *The 2019-20 figures include a R16 960 million adjustment relating to Transnet that was identified in the current year but was incurred in the previous year.*

Fruitless and wasteful expenditure

R389,35 m
(R154,34 m included for audits outstanding)
2019-20: **R462,37 m**

Closing balance
R1 971,76 m
(R938,91 m included for outstanding audits)
2019-20: **R1 820,65 m**

Top three contributors	
South African Post Office	R141,30 m
Transnet	R136,00 m
Airports Company South Africa	R77,08 m

Financial health indicators

	2020-21	2019-20
Going concern uncertainty	**South African Broadcasting Corporation, South African Nuclear Energy Corporation**	Independent Development Trust, Land and Agricultural Development Bank, South African Nuclear Energy Corporation, South African Broadcasting Corporation, South African Post Office, Denel
Deficit	**R12 643 m (6)**	R5 058,4 m (5)
Average debt-collection period	**74 days**	120 days
More than 10% of debt irrecoverable	**50% (4)**	31% (4)
Creditor-payment period > 30 days	**38% (3)**	54% (7)

Material irregularities (MIs) – AGSA auditees
Notified by 15 October 2021

MIs identified in the current year
4 MIs with established loss of **R87,56 m** at **3 auditees** issued during 2020-21

MIs identified since implementation
8 MIs with established loss of **R247** m at **4 auditees – 2 MIs** have been resolved, **6 MIs** are ongoing

Nature of current year MIs	
Contract awarded to bidders that did not attain the highest score in the evaluation process	**1**
Contract amounts exceed the tendered prices	**1**
Penalties paid for the under estimation of provisional tax	**1**
Restriction of competition amongst competing respondents	**1**

SECTION 4(3) AUDITS (AUDITS NOT CONDUCTED BY THE AGSA)

Audit outcomes remained unchanged

Movement From 2019-20: 0 auditees (improved); 0 auditees (regressed)

Movement From 2018-19
First year of administration: 0 auditees (improved); 0 auditees (regressed)

Improved	0
Regressed	0
Unchanged	Broadband Infraco; Industrial Development Corporation; Air Traffic and Navigation Services; Eskom
Outstanding	Alexkor

Unqualified with findings · Qualified with findings · Outstanding audits

Reportable irregularities (RIs) – audits not performed by the AGSA
Notified by 15 October 2021

4 RIs reported are still ongoing at **2 auditees** (Eskom and Alexkor) and are awaiting the outcomes of investigations or further actions before they can be **resolved**

Nature of ongoing RIs

- Breach of fiduciary duty
- Non-compliance with laws and regulations that included:
  - Section 55(2)(b)(i) of the Public Finance Management Act
  - National Environment Management Act
  - Income Tax Act

Over the past five financial years, private audit firms have raised 14 RIs on the audits that are not carried out by the AGSA. Four of these RIs have not yet been resolved. Most of the RIs were at Eskom (85%).

OVERALL MESSAGE

The status of SOEs remains volatile, particularly their financial health, as many key financial indicators continued to deteriorate for the year under review. Many SOEs had to adjust their forecasts and outlook on whether they would be able to continue their operations due to covid-19. This caused their financial health to deteriorate, including a significant increase in reported deficits. Some SOEs continued to ask for – and receive – funding from government, which resulted in funds intended for primary service delivery being diverted. This concern was also raised by oversight bodies. Some SOEs continue to record significant losses, raising doubts about their ability to continue operating.

The overall control environment within SOEs also remains weak in the areas of financial and performance reporting, and compliance with laws and regulations. The key contributors to the unfavourable audit outcomes include poor governance processes, instability at senior management and executive levels, lack of consequence management, ineffective strategic planning and monitoring, and lack of regular reconciliation, reviews and reporting. Most SOEs struggle to comply with legislation, especially in the area of procurement, as irregular expenditure showed no signs of decreasing. The key contributors to this state of affairs need to be addressed urgently and decisively for there to be any improvement. Some actions taken include business rescue proceedings, selling of non-core assets and considering strategic equity partnerships. These actions were still in progress at the cut-off date for this report. As a result, the effectiveness of these actions cannot be assessed.

The number of SOEs that did not submit their financial statements and performance reports for auditing increased significantly during the current year, as did audit delays. This negatively affects the accountability chain because the various stakeholders are not able to evaluate the state of these entities. During the current year's audit, we noted the following:

- The South African Airways audit has been outstanding since the 2017-18 financial year, and the entity only filed a notice of substantial implementation of the business rescue plan on 30 April 2021.
- South African Express Airways has not submitted financial statements for auditing since 2019-20, as it is currently under provisional liquidation.
- Denel did not submit financial statements for auditing due to the severity of the control deficiencies identified in the previous year, combined with staff shortages.
- The Independent Development Trust, Land and Agricultural Development Bank, South African Post Office and Trans-Caledon Tunnel Authority submitted financial statements for auditing, but these audits had not yet been completed by the cut-off date for this report.

During the year under review, we also took back and audited Transnet for the first time. Transnet is the second-largest SOE in the country and became the largest contributor (90,2%) to the irregular expenditure balance. The audit outcome, which was qualified on the completeness of irregular expenditure disclosed, was consistent with previous years. We also notified the accounting authorities of two material irregularities.

RECOMMENDATIONS

At the heart of the financial management deficiencies we identified during our audits are auditees that failed to institutionalise mature preventative controls that were responsive enough to prevent and detect misstatements, non-compliance, losses and signs of financial distress during the year, and to correct these timeously. Our detailed recommendations in the SOEs' management reports can only succeed if the entities have sound internal control environments and effective governance structures and processes in place. This links directly with some of the initiatives government is implementing to strengthen the governance of SOEs, including establishing a Presidential State-Owned Enterprises Council. The council's mandate covers strengthening the framework governing SOEs, which includes introducing an overarching act to regulate SOEs and determining an appropriate shareholder-ownership model. Government is also drafting an SOE bill that aims to:

- determine an appropriate shareholder ownership model
- inform institutional arrangements for overseeing SOEs, including the future role of the Presidential State-Owned Enterprises Council
- integrate lessons from various investigative commissions of enquiry

- ensure that competent people of integrity are appointed to SOE boards and executive positions via a transparent and robust process
- clarify the respective roles and responsibilities of the executive authority, boards and executives
- regularly review and update various guidelines.

CONCLUSION

Many SOEs continue to face challenging and tumultuous conditions, and boards need to be relentless in executing their fiduciary duties to safeguard the entities' best interests. Government as shareholder also needs to accelerate the bold and decisive implementation of initiatives and interventions for those SOEs facing governance, financial and other challenges.

SEVEN
INFORMATION TECHNOLOGY

INFORMATION TECHNOLOGY

Government departments and entities use information systems to process critical business transactions and report on operational and financial performance.

Our role is to assess the control environment of hosting systems that process business and financial information and data, and to evaluate whether this information can be relied on for audit purposes and whether government has derived value from the investments in information technology (IT). Over the years, we have identified significant control weaknesses in government's information systems. Some of our most prevalent concerns include the following:

- Government systems are **supplemented by manual processes**, which makes them vulnerable to intentional and unintentional manual-based delinquency and manipulation. Automated controls are far more reliable and can be applied more consistently than manual controls. Manual interference makes it difficult to prevent or detect unauthorised access to systems and activities performed on these systems, and, as a result, diminishes the reliability of these systems.
- Government systems are **vulnerable to cybersecurity attacks** and, in some cases, hackers have exploited these security vulnerabilities successfully. There were a number of cases where systems were unavailable as a result of cyberattacks and/or other major incidents, which resulted in key government services not being available for a prolonged period. Affected areas include ports of entry, the Department of Justice and Constitutional Development and the South African Police Service.
- In a number of cases, **IT expenditure was not justifiable** or government did **not receive the intended value or benefits from money spent** on IT projects or contracts. In some cases, this has given rise to fruitless and wasteful expenditure.

The root cause of the prevailing weak IT control environment is poor IT governance processes. Accountability for effective IT governance resides with the accounting officers and authorities of departments and entities, and the current weak state of the IT environment implies that they have not fulfilled their responsibility to effectively manage and implement IT governance processes over a number of years.

IT GOVERNANCE

IT governance is an element of corporate governance aimed at improving the overall management of IT and deriving value from investment in information and technology. This enables auditees to manage their IT risks effectively and ensure that the activities associated with information and technology are aligned with their overall business objectives.

We identified 128 auditees (63%) out of 202 with ineffective IT governance processes. We noted the following at many of the auditees:

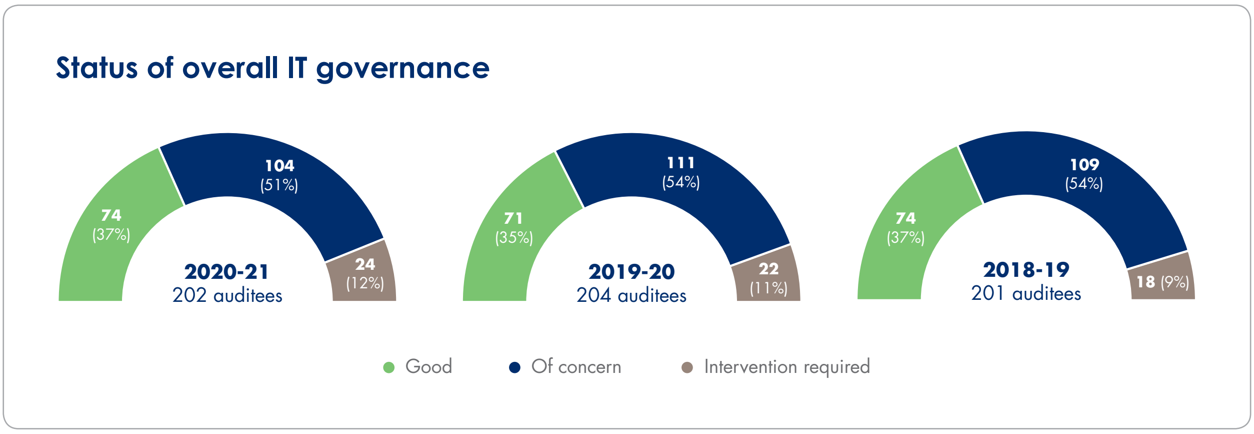
- Although auditees had adequate IT governance frameworks (and in some cases, well-defined IT governance frameworks), these were not implemented or operating as intended.
- Where IT steering committees had been established, they were not operating effectively. Either they did not have the required level of representation or they did not meet regularly to carry out their oversight responsibilities.
- IT budgets and plans were not well defined or monitored to ensure that they deliver the expected business value and intended benefits.
- IT risks were not well articulated or managed and, in some cases, internal auditors did not perform required IT risk assessments, especially around key processes and significant projects.

Impact

Ineffective IT governance processes have led to control environments that are vulnerable to abuse or misuse, IT expenditure that cannot be justified and/or runaway IT projects.

Root cause

Accounting officers and authorities have not fulfilled their responsibilities to ensure effective IT governance processes and oversight.



SYSTEM-RELATED CONTROLS

Many government systems process critical information and data that support key business operations and financial management processes. These systems are used to process large volumes of data which, in theory, should make government more efficient and economical by streamlining operations and processes.

We identified 185 auditees (92%) out of 202 where system-enabled controls were not adequate or effective to ensure the accuracy of the information processed by those systems. The following concerns were prevalent across the auditees:

- Access to system functionalities that performed critical business transactions was not well controlled, which meant that unauthorised activities performed on the system could not be prevented or detected.
- Systems were not set up to enforce segregation of duties, even though many of the modern enterprise resource planning systems can be configured to do so.
- Changes to critical system functions were not well controlled, resulting in unauthorised changes to systems not being prevented or detected.
- Information processed by the systems was manipulated further outside the systems, which made it less reliable.

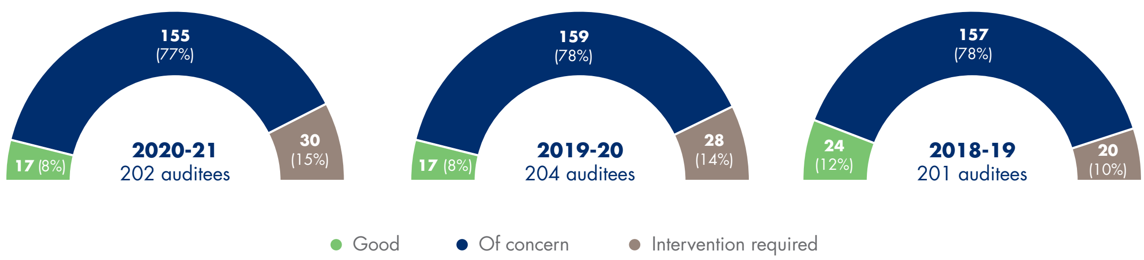
Impact

Government continues to spend money on new and advanced systems to streamline its processes. Because of significant weaknesses around these systems, we could not rely on the transactions and data that they processed. In addition, these systems are vulnerable to misuse, abuse and fraud.

Root cause

The prevailing weaknesses in the control environments that host critical business and financial applications can be attributed to ineffective IT governance, negligence and/or a lack of consequence management.

Status of controls in IT environment



Unreliable control environments

The following auditees had significantly invested in IT systems that support their core business and financial management processes, but their control environment was not reliable for audit purposes:

- The **Department of Police** spent R2 billion on IT and the status of IT controls remained concerning.
- The **Department of Defence** spent R744 million on IT and the status of IT controls still required intervention.
- The **Department of Justice and Constitutional Development** spent R683 million on IT and the status of IT controls remained concerning.
- The **Department of Home Affairs** spent R660 million on IT and the status of IT controls still required intervention from the previous year.
- The **North West Office of the Premier** spent R465 million on IT and the status of IT controls regressed from concerning to now requiring intervention.

IT SECURITY

Information security measures are critical to ensure that government information systems are not vulnerable to cyberattacks and to prevent internal staff from performing system activities for which they are not authorised.

In the last year, government departments and entities experienced a drastic increase in cyberattacks, which had an adverse impact on these auditees. We identified 164 auditees (81%) out of 201 with ineffective security controls. At some of these auditees, the security controls had regressed over the past year. The following concerns were widespread at most of the auditees:

- Inadequate settings on the network components facing the external environment or that could be accessed from the internet
- Systems that were running on outdated operating systems that were no longer supported by their respective suppliers – this means that the latest security updates were not applied
- Systems that were running on aging infrastructure or hardware that was vulnerable to known security flaws and could not be upgraded with the latest software
- Systems where the latest software patches were not applied as soon as they became available to resolve known security flaws, making the environment vulnerable to attacks

Hackers do not require complex techniques to take advantage of these security weaknesses.

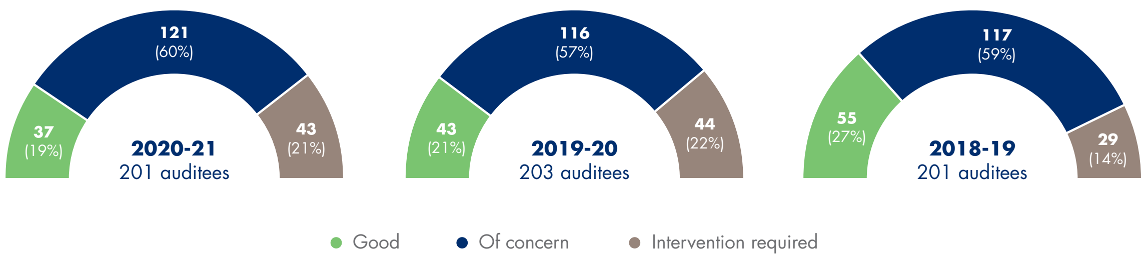
Impact

Hackers were successful in exploiting the security weaknesses at some of the auditees that we rated as weak. This resulted in some key government services not being available for a prolonged period and, in some cases, hackers using ransomware for financial gain.

Root cause

Information security governance is a component of IT governance, and accounting officers and authorities have not fulfilled their responsibility in this regard.

Status of security management



Security weaknesses were successfully exploited

For security reasons, we cannot name the government departments and entities that are most vulnerable to this threat. At the following auditees, the security weaknesses were successfully exploited during the last two years and the information is already in the public domain:

- The IT systems of the **Department of Justice and Constitutional Development** were hacked in September 2021.
- The **Ithala Development Finance Corporation** and **Ithala SOC Limited** experienced ransomware attacks in February 2021, affecting public-facing online platforms.
- **Transnet** suffered a security intrusion cyberattack in July 2021. According to Transnet, the Port Terminals division was among those severely hit.
- The **South African Police Service and National Treasury** networks were disrupted, caused by cable vandalism in September 2021.
- The **Mpumalanga Department of Economic Development and Tourism** was hit by ransomware.
- The **South African Civil Aviation Authority** experienced a security breach in February 2020, targeting email systems and accounts.

DISASTER RECOVERY

IT continuity, commonly known as disaster recovery, is required to ensure that there will be minimal disruptions to business operations if there is a disaster or major incident that would affect the availability and functionality of IT systems and infrastructure.

We identified 125 auditees (62%) out of 202 where disaster recovery capabilities were either inadequate or ineffective. Some of the auditees experienced technology-related incidents that caused major disruptions to business operations and their disaster recovery capabilities were not effective to restore business operations timeously.

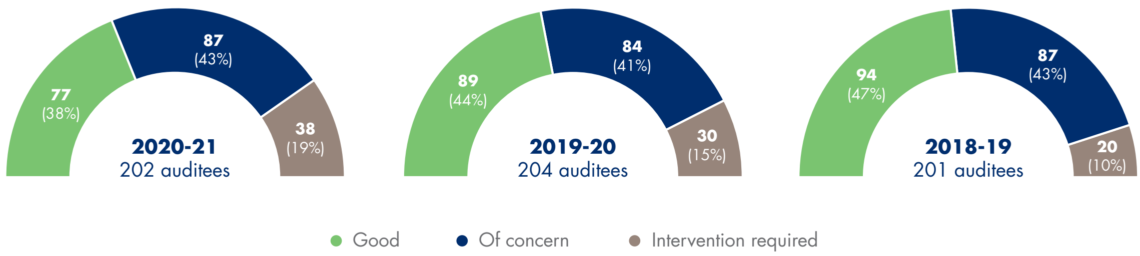
Impact

When significant IT incidents causing major business disruptions did occur, auditees were unable to resume normal business operations timeously, which resulted in a loss of services or revenue. In addition, auditees may need to spend money to recapture some of the lost business transactions and, in some cases, business partners can impose penalties.

Root cause

Inadequate disaster recovery capabilities can be attributed to ineffective IT risk management practices. The responsibility for effective risk management resides with the accounting officers and authorities.

Status of IT continuity



IT continuity risks

IT continuity risks materialised at the following auditees:

- The **Eastern Cape Department of Education** lost its 2020 learner database when it crashed, and could not successfully retrieve the changed information. This resulted in the incorrect transfer of learner data.
- The **Ithala Development Finance Corporation** and **Ithala SOC Limited** experienced a ransomware attack. The disaster recovery site link failed, leaving the auditees unable to meet the recovery point and time objectives. This had a negative impact on the entities' business activities due to systems being offline.
- The **South African Post Office** experienced interruptions at its Midrand branch for up to five days. The integrated grants payment system, which was used to pay grants, was sometimes offline for unknown reasons and the WebRiposte – an offline system – was also not available. This had a negative impact on the entity's operations.
- **Transnet** experienced a ransomware attack in July 2021 that forced the company to declare force majeure at container terminals and switch to manual processing. This slowed down the company's operations.
- The **Department of Justice and Constitutional Development** experienced a ransomware attack on 6 September 2021 that left all the IT systems encrypted and not available for use. This had a negative impact on the department's operations.

Government spent R15 billion on IT-related systems and services at 202 auditees, but the control environments were not improved. The two sections that follow detail the extent of the spending while also calling to action the responsible accounting officers and authorities.

IT PROJECTS

IT projects, especially system implementation projects, are renowned for not meeting time, cost and/or business expectations.

We reviewed 36 IT implementation or system acquisition projects from a sample of 35 auditees' projects. We found that 20 of these projects did not meet time, cost, quality or business expectations. The following shortcomings were common to these projects:

- Projects were initiated and implemented without valid or feasible business cases.
- Projects were implemented without business users being adequately involved, even though the primary objectives of system implementation projects were to improve business efficiencies.
- There was inadequate project governance and oversight, resulting in significant time or cost overruns.
- There was a high dependency on external consultants and service providers, who were not adequately supervised or monitored.

Systems did not meet business expectations

The following are some of the most significant examples of auditees at which implemented systems did not meet business expectations:

- The **Gauteng Department of Infrastructure Development** spent R161 million on new systems that are not fully utilised and do not meet user requirements.
- The **Department of Correctional Services** implemented the Integrated Inmate Management System; R260 million has been spent to date without the department realising the intended benefits.
- The **Department of Home Affairs** implemented the ABIS project in 2017-18 to replace the Home Affairs National Identification System. The department has spent R281 million to date and the project is two years behind schedule.
- The **South African Weather Service** spent R3,9 million on implementing a human resources system and the project was cancelled because it did not meet user requirements.
- The **Department of Employment and Labour** spent R68 million on SAP HANA Roadmap implementation and there have been significant delays in the implementation. These delays resulted in the department and its entities (Compensation Fund and Unemployment Insurance Fund) paying for licences that were either under-utilised or not being used because the business environment is not fully ready.

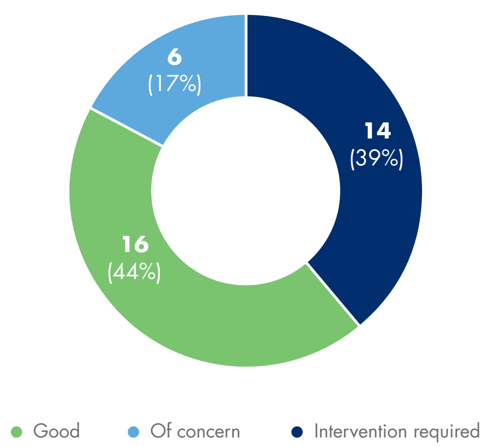
Impact

Poorly managed projects resulted in auditees incurring avoidable costs. We identified that R1,7 billion had been spent on system implementation projects that did not meet business expectations.

Root cause

In many cases, system implementation projects are delegated to IT management without adequate project governance and oversight. This is a result of poor IT governance, where accounting officers and authorities did not fulfil their responsibilities.

Overall assessment of IT projects



CONTRACTS AND LICENCES

We identified a number of contracts that were not concluded in the best interest of government departments or entities. We reviewed 37 contracts, and in nine cases (25%) found that auditees did not derive the intended value.

The following are some of the common weaknesses across the contracts selected for auditing:

- Auditees contracted for more software licences than they actually need.
- Auditees contracted for professional licences (which are more expensive) instead of limited licences that would be sufficient for users to perform their job functions.
- Auditees paid for software licences that have not been used due to delayed system implementation projects. This is on top of the system implementation and consulting costs associated with those projects.

Impact

Auditees paid for software licences they did not need, resulting in expenditure that could have been avoided. We identified R46 million in such avoidable expenses.

Root cause

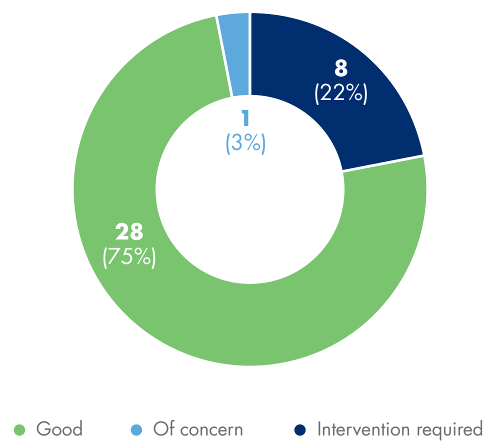
IT management contracted on terms that were not favourable to the auditees. In some cases, IT management did not have adequate systems in place to monitor how licensed software was actually used.

Contract and licensing weaknesses

The following are some examples of auditees with contract and licensing weaknesses:

- The **Eastern Cape Department of Health** spent R46 million on Microsoft, Nintex and Signiflow, and there was no software licence agreement in place.
- The **National Treasury** spent R67 million on support and maintenance of its Integrated Financial Management System (IFMS), but the system is not in use.
- **Transnet** overpaid an amount of R37 million on a contract not rendered and an additional R11 million was paid to the same supplier for services not contracted.
- The **South African Broadcasting Corporation** spent R27 million on software licences and does not have a process to track allocation and usage of these licences.

Overall assessment of IT contracts



CONCLUSION

Accounting officers and authorities are responsible for ensuring effective IT governance. By effectively managing and improving the poor IT governance processes that lie at the root of the current weak IT controls, these role-players can strengthen the control environment, which will:

- improve the accuracy and credibility of data collected and stored on these systems
- prevent significant downtime caused by security breaches
- reduce unnecessary spending on systems that do not meet business requirements.

Ultimately, improved IT governance and a strong control environment will not only assist departments and entities with carrying out their primary functions, it will also have a positive effect on their ability to deliver services to the citizens of South Africa.

EIGHT
PROVINCIAL OVERVIEWS

EASTERN CAPE

PERFORMANCE SNAPSHOT

The snapshot shows the audit outcomes of 21 auditees in the province – 13 departments, the provincial legislature and 7 public entities. The outcomes of 4 small public entities are excluded.

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

Improved	Cooperative Governance and Traditional Affairs; Sport, Recreation, Arts and Culture
Regressed	Eastern Cape Development Corporation
Unchanged	Safety and Liaison; Provincial Treasury; Coega Development Corporation; East London Industrial Development Zone; Eastern Cape Parks and Tourism Agency; Office of the Premier; Provincial Legislature; Public Works; Eastern Cape Government Fleet Management Services; Eastern Cape Rural Development Agency; Mayibuye Transport Corporation; Economic Development, Environmental Affairs and Tourism; Human Settlements; Rural Development and Agrarian Reform; Social Development; Health; Transport; Education

● Unqualified with no findings ● Unqualified with findings ● Qualified with findings

Financially unqualified financial statements	**86% (18) 2019-20: 86% (18)**
Financial statements submitted without material misstatements	**43% (9) 2019-20: 62% (13)**

No material findings on performance report	**67% (14) 2019-20: 71% (15)**
Performance reports submitted without material misstatements	**43% (9) 2019-20: 48% (10)**

No material findings on compliance with legislation	**33% (7) 2019-20: 29% (6)**
No findings on compliance with supply chain management legislation	**24% (5) 2019-20: 29% (6)**

Material irregularities (MIs)
Notified by 15 October 2021

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

Nature	
Payments for goods and services not received	6
Payments not made in time	6
Unfair procurement leading to overpricing	3
Assets not safeguarded resulting in theft	1
Suspected fraud	1

Irregular expenditure

R3 026,44 m (16)
2019-20: R837,08 m (16)

Closing balance
R6 520,38 m
2019-20: R4 266,48 m

Top three contributors	
Transport	R2 435 m
Health	R162 m
Human Settlements	R151 m

Unauthorised, and fruitless and wasteful expenditure

Unauthorised expenditure
R2 051,61 m (2)
2019-20: R1 588,71 m (2)

Closing balance
R4 568,80 m
2019-20: R2 517,19 m

Fruitless and wasteful expenditure
R26,69 m (13)
2019-20: R43,82 m (14)

Closing balance
R246,60 m
2019-20: R252,11 m

Financial health indicators

	2020-21	2019-20
Going concern uncertainty	**2**	2
Deficit	**R3 262 m (6)**	R143 m (8)
Cash shortfall	**R2 478 m (7)**	R1 371 m (8)
Unpaid claims	**R39 643 m (13)**	R37 555 m (12)
Average creditor-payment period	**54 days**	48 days

PROVINCIAL OVERVIEW

Decisive leadership action is required for meaningful improvements in audit outcomes

In our 2019-20 message, we urged provincial leadership to ensure that control environments were strengthened and that all necessary preventative controls were implemented and consistently monitored. Provincial leadership committed to improve the audit outcomes and accountability, and made some progress in responding to our message.

The provincial department of cooperative governance and traditional affairs demonstrated that a clean audit can be achieved by improving record keeping and internal processes to verify reported performance information. Similarly, leadership at the provincial department of sport, recreation, arts and culture took the necessary steps to monitor its action plans, resulting in a clean audit outcome. However, there was a regression at the Eastern Cape Development Corporation, which did not embed the preventative controls necessary to sustain its clean audit from the previous year. More effort is required for further improvements, as three auditees (provincial departments of health, education and transport), which together account for 78% of the provincial budget, did not improve their qualified audit opinions for the third consecutive year. A further 10 auditees (47%) were only able to maintain their previous year's audit opinion of financially unqualified with findings with the help of auditors who allowed them to correct the misstatements identified during the audit.

We found that accounting officers did not raise the difficult questions and pursue answers from management in cases where progress was clearly not being made in addressing the previous year's findings. The tone from provincial leadership when it comes to holding individuals responsible for transgressing legislation is not strong enough, as a significant amount of unauthorised, irregular, and fruitless and wasteful expenditure investigations have not been completed to determine who should be held accountable. We call upon leadership to investigate these transgressions, establish preventative controls so that they do not reoccur, hold the individuals involved accountable and set a tone of zero tolerance for transgressions.

We have noted a trend of poor project management at some of the departments where projects are not completed, are not progressing at all or are completed but of poor quality. This poor project management exacerbates the financial constraints of the province and further hinders service delivery to citizens who need schools, hospitals and houses.

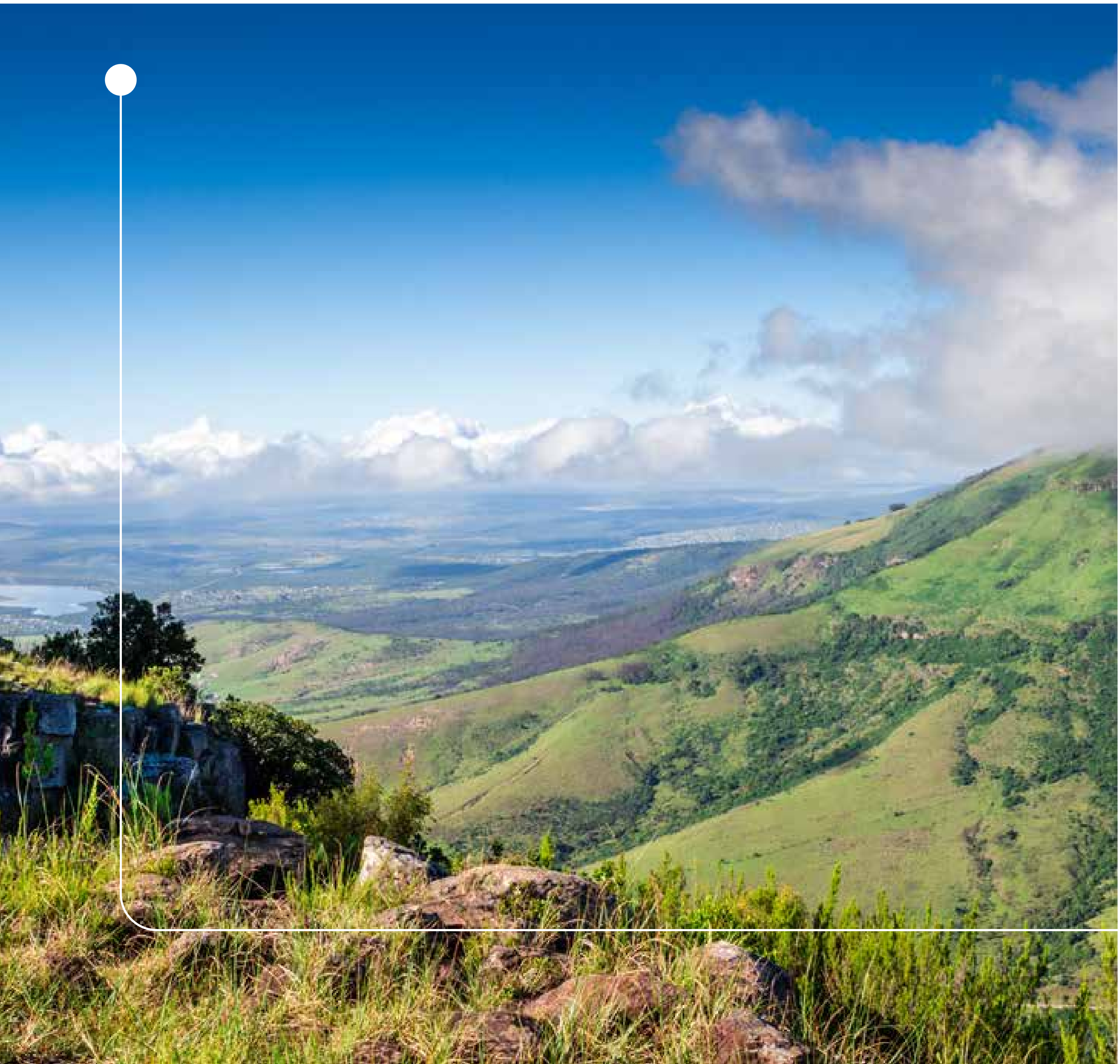
There were delays in the delivery of completed schools at the provincial department of education due to late payment of contractors and poor project management.

The provincial department of health had delays in upgrading hospitals and, in one instance, a contractor abandoned a project, leaving work that was not of satisfactory quality. The increasing medico-legal claims that are not budgeted for will further compound this slow delivery of infrastructure at the department, as the budget for service delivery is redirected to pay for these claims.

Projects were not completed within the planned time at the provincial department of human settlements, and one project that should have been completed within 24 months is still in progress 72 months after construction began.

We have seen good cooperation from the provincial accounting officers during the implementation of the Public Audit Act amendments, and they have responded to the material irregularity notifications that we issued to them. We noted that some matters in the provincial departments of transport and education were reported to the South African Police Service and the Directorate for Priority Crime Investigation (the Hawks); however, the financial losses identified have not yet been recovered.

Accounting officers must take overall responsibility for the financial management of their institutions and for achieving the objectives of those institutions. Their actions and directives must also elevate the importance of internal controls and accountability, and set the tone for the institution. Provincial leadership must instil a greater sense of urgency when it comes to improving the audit outcomes for the three departments that have qualified audit opinions and for those that have stagnated on unqualified opinions with findings audit opinions.



FREE STATE
PERFORMANCE SNAPSHOT

The snapshot shows the audit outcomes of 16 auditees in the province – 12 departments, the provincial legislature and 3 public entities. The outcomes of 3 small public entities are excluded.

Overall audit outcomes remained unchanged

	Improved	Regressed
Movement From 2019-20	1 auditee	1 auditee
Movement From 2018-19 First year of administration	3 auditees	1 auditee

Improved	Fleet Management Trading Entity
Regressed	Provincial Treasury
Unchanged	Cooperative Governance and Traditional Affairs; Education; Human Settlements; Provincial Legislature; Police, Roads and Transport; Public Works and Infrastructure; Agriculture and Rural Development; Central Medical Trading Account; Economic, Small Business Development, Tourism and Environmental Affairs; Health; Office of the Premier; Social Development; Sports, Arts, Culture and Recreation; Free State Development Corporation

- Unqualified with no findings
- Unqualified with findings
- Qualified with findings
- Disclaimed with findings

Financially unqualified financial statements	**50% (8) 2019-20: 50% (8)**
Financial statements submitted without material misstatements	**44% (7) 2019-20: 38% (6)**

No material findings on performance report	**43% (6) 2019-20: 43% (6)**
Performance reports submitted without material misstatements	**7% (1) 2019-20: 21% (3)**

No material findings on compliance with legislation	**6% (1) 2019-20: 6% (1)**
No findings on compliance with supply chain management legislation	**6% (1) 2019-20: 6% (1)**

Material irregularities (MIs)
Notified by
15 October 2021

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

Nature	
Payment for goods or services not delivered	6
Inefficiencies, no benefit derived from cost	1
Debt not recovered	1
Payroll incorrectly calculated resulting in employee taxes, interest and penalties payable to South African Revenue Service	1

Irregular expenditure
R2 219,06 m (14)
2019-20: R3 189,12 m (16)

Closing balance
R14 947,68 m
2019-20: R14 740,96 m

Top three contributors	
Police, Roads and Transport	**R1 017,19 m**
Human Settlements	**R618,89 m**
Education	**R274,4 m**

Unauthorised, and fruitless and wasteful expenditure

Unauthorised expenditure
R481,32 m (3)
2019-20: R347,57 m (4)

Closing balance
R2 195,3 m
2019-20: R1 859,6 m

Fruitless and wasteful expenditure
R102,58 m (9)
2019-20: R71,05 m (11)

Closing balance
R371,19 m
2019-20: R270,77 m

Financial health indicators

	2020-21	2019-20
Going concern uncertainty	**11**	12
Deficit	**R1 272 m (6)**	R1 218 m (6)
Cash shortfall	**R2 372 m (12)**	R1 886 m (12)
Unpaid claims	**R 4 921 m (12)**	R3 919 m (12)
Average creditor-payment period	**60 days**	56 days

PROVINCIAL OVERVIEW

Lack of leadership tone and effective consequence management to ensure accountability

In our 2019-20 message, we called on political and administrative leadership to ensure that preventative internal controls were institutionalised, particularly for day-to-day transaction processing and ensuring compliance with legislation. We encouraged political leadership to lead from the front, to continue improving the assurance provided, to hold administrative leadership accountable for its actions, and to ensure that there were consequences for poor performance and transgressions.

However, our call to action was not heeded, resulting in an overall stagnation in the current-year audit outcomes compared to the previous year. Seven departments were qualified in multiple areas, some of them repeated, which reduced the credibility of financial reporting to oversight and citizens. To improve the credibility of financial statements throughout the province, accounting and chief financial officers should focus on developing and implementing credible action plans that include the year-end closing processes for financial statements. The internal audit unit and the provincial treasury should carefully review these financial statements and ensure that they are supported by appropriate documentation.

The provincial treasury regressed from its previous clean audit opinion due to material non-compliance relating to procurement, mainly because the department did not institutionalise internal controls on compliance. In contrast, the Fleet Management Trading Entity managed to achieve the only clean audit opinion in the province. This follows years of gradual improvement after management implemented proper processing and reconciliation controls over its asset management system. This is an example of what can be achieved when all role-players enable a culture of accountability.

Leadership's continued lack of accountability for government spending negatively affected departments' financial sustainability. Funds to be surrendered to the revenue fund, together with accruals and payables not recognised, exceeded cash on hand by R4,4 billion, up from R4 billion in the previous year. It is concerning that a significant portion of the 2021-22 budget will be needed to settle these obligations, as this will reduce the departments' ability to effectively deliver on their mandates. The provincial departments of education and health also had combined bank overdraft balances of R1,2 billion, compared to R1,1 billion in the previous year, which put pressure on the financial wellbeing of the entire province. Political and administrative leadership should urgently intervene to address the province's financial health status. The provincial treasury in particular should promote effective financial management that will prioritise the already shrinking public purse to focus on key service delivery imperatives.

Outcomes on performance reporting also generally stagnated, with only 43% of auditees reporting accurately on their predetermined objectives after audit adjustments. The provincial departments of education, health and human settlements failed to accelerate the implementation of their audit action plans and could not deal with the poor delivery of infrastructure projects due to a lack of consequences, which negatively affected the lived experiences of citizens. We urge accounting officers and senior management to implement effective monitoring of preventative controls to improve the quality of submitted annual performance reports, and to rely less on the audit process.

Compliance with laws and regulations remained a challenge, as 15 auditees (94%) had material non-compliance findings. Officials continued to disregard supply chain management laws and regulations in their procurement processes. The closing balance of irregular expenditure continues to climb every year, with the single biggest contributor since 2017-18 being the provincial department of police, roads and transport.

When it comes to consequence management, the longer it takes auditees to determine if any officials were responsible for non-compliance or whether any losses were incurred, the more difficult it will be for them to implement consequences because supporting documentation will be more difficult to find and responsible officials may no longer work at affected departments. These challenges have already materialised at the provincial department of health, where documentation supporting the non-compliance could not be found. Continued non-compliance may result in financial loss or harm to institutions and the general public.

As part of implementing our expanded powers in line with the Public Audit Act amendments, we continued to notify accounting officers and authorities of material irregularities identified during our audits. However, some accounting officers and authorities did not take adequate action to address these material irregularities, which led to us including recommendations in the audit reports or referring the material irregularity to a relevant public body for investigation. Political leadership and oversight should ensure that these material irregularities receive urgent attention so as to strengthen the integrity of these public institutions, recover and prevent further losses, effect consequences for misconduct, and drive a change in behaviour to prevent the similar matters from occurring in the future. On a positive note, the provincial department of education took swift action to resolve a material irregularity.

Sustainable improvements will only be achievable when all role-players do what they need to do.

To ensure sound financial management that will enhance the lives of citizens, there needs to be firm commitments from political leadership, followed by decisive action from the administration. Portfolio committees should also ensure that they measure the progress made to improve the audit outcomes.

GAUTENG
PERFORMANCE SNAPSHOT

The snapshot shows the audit outcomes of 23 auditees in the province – 14 departments, the provincial legislature and 8 public entities. The outcomes of 11 small public entities are excluded.

Overall audit outcomes improved

Movement From 2019-20

5 auditees (improved)

2 auditees (regressed)

Movement From 2018-19
First year of administration

4 auditees (improved)

2 auditees (regressed)

Improved	Agriculture and Rural Development; Gauteng Growth and Development Agency; Supplier Park Development Company; e-Government; Gauteng Enterprise Propeller
Regressed	Community Safety; g-FleeT Management
Unchanged	Cooperative Governance and Traditional Affairs; Economic Development; Gautrain Management Agency; Provincial Legislature; Provincial Treasury; Office of the Premier; Education; Gauteng Partnership Fund; Health; Infrastructure Development; Gauteng Medical Supplies Depot; Roads and Transport; Social Development; Sport, Arts, Culture and Recreation; Human Settlements; Gauteng Housing Fund

Unqualified with no findings · Unqualified with findings · Qualified with findings · Disclaimed with findings

Financially unqualified financial statements 87% (20) 2019-20: 83% (19)

Financial statements submitted without material misstatements 70% (16) 2019-20: 61% (14)

No material findings on performance report* 68% (15) 2019-20: 68% (15)

Performance reports submitted without material misstatements* 41% (9) 2019-20: 50% (11)

*From a base of 22 auditees

No material findings on compliance with legislation 43% (10) 2019-20: 30% (7)

No findings on compliance with supply chain management legislation 35% (8) 2019-20: 39% (9)

Material irregularities (MIs)

Notified by 15 October 2021

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

Nature	
Payment not made in time	2
Unfair procurement leading to overpricing	4
Inefficiencies – no benefit derived from cost	1
Other	1

Irregular expenditure

R9 716,92 m (19)

2019-20: R7 493,82 m (17)

Closing balance

R42 062,93 m

2019-20: R36 693,60 m

Top three contributors	
Health	R3 921,79 m
Roads and Transport	R2 013,18 m
Infrastructure Development	R1 119,88 m

Unauthorised, and fruitless and wasteful expenditure

Unauthorised expenditure

R0 m

2019-20: R0 m

Closing balance

R16,68 m

2019-20: R16,68 m

Fruitless and wasteful expenditure

R378,40 m (13)

2019-20: R103,11 m (15)

Closing balance

R504,27 m

2019-20: R199,91 m

Financial health indicators

	2020-21	2019-20
Going concern uncertainty	**0**	0
Deficit	**R5 521 m (4)**	R3 582 m (4)
Cash shortfall	**R2 711 m (7)**	R2 216 m (7)
Unpaid claims	**R29 606 m (12)**	R28 377 m (9)
Average creditor-payment period	**48 days**	67 days

PROVINCIAL OVERVIEW

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

In the previous year, our message to the provincial leadership focused on effective monitoring of preventative controls and ensuring that transgressions were addressed through timeous investigations and consequence management. We urged oversight to monitor and hold accounting officers accountable for implementing action plans. There was a positive response to our call for action and this led to overall improved audit outcomes in 2020-21, where three auditees improved their audit outcomes to clean, while two qualified audits improved to unqualified.

Encouragingly, the provincial department of agriculture and rural development, the Gauteng Growth Development Agency and the Supplier Park Development Company were able to improve to a clean audit outcome by addressing material compliance findings. Furthermore, e-Government and the Gauteng Enterprise Propeller's audit outcomes improved from qualified to unqualified, mainly because these auditees timeously implemented their action plans to address material audit findings previously raised relating to assets and receivables, while also filling critical positions. The regressions noted at g-FleeT Management and the provincial department of community safety were due to failure to implement adequate oversight on the preparation of the financial and performance reports. In addition, key positions within the finance unit at g-FleeT Management were vacant, creating instability. As a result, g-FleeT Management was qualified on assets due to misclassification of motor vehicles and a lack of proper records management to support the recorded work in progress, while the provincial department of community safety regressed from a clean audit to unqualified with material findings on predetermined objectives. The audit opinion for the provincial department of human settlements stagnated on a qualified opinion, as we identified material misstatements on capital work in progress. Although the department made some significant strides and commitments in trying to resolve key areas of concern arising from the previous year, there were still deficiencies present that prevented the overall outcome from improving.

There was a continuing trend of improvement in the quality of financial statements submitted, as 70% of auditees did not have material misstatements. This improvement can be attributed to adequate implementation of preventative controls such as proper record management, regular and accurate reporting, as well as adequate reviewing processes by senior management and the relevant governance structures. However, we continue to encourage accounting officers to embed disciplines of effective monitoring of preventative controls to address the 30% of auditees that continued to submit financial statements with material misstatements, mainly due to a lack of proper record management and inadequate reviews.

Outcomes on performance reporting generally stagnated, with 68% of auditees reporting accurately on their predetermined objectives. We urge accounting officers and senior management to replicate the same disciplines of effective monitoring of preventative controls in preparing quality financial statements to also improve the quality of submitted annual performance reports, and to rely less on the audit process. In terms of the reported performance on pre-determined objectives, some of the planned service delivery objectives could not be achieved due to budget constraints and disruptions resulting from covid-19.

There was a notable improvement in the overall compliance outcomes; however, we remain seriously concerned about the increasing trend of non-compliance with supply chain management legislation and the resultant increase of R9,72 billion in irregular expenditure (closing balance: R42,06 billion). Provincial leadership needs to make a greater effort to deal with the high irregular expenditure by investigating each instance as soon as possible, and shifting behaviour to focus more on preventative rather than detective controls, with stringent consequences for transgressions. It is, however, encouraging to note that selected tenders that went through the provincial treasury's open-tender initiative during the current year did not result in irregular expenditure.

The province incurred R378,40 million in fruitless and wasteful expenditure in the current year, mainly attributable to the procurement of personal protective equipment. If the province is to maintain the momentum it achieved in reducing the fruitless and wasteful expenditure balance in the previous year, it needs to make the same effort to deal with this increase.

The accounting officers continued to be responsive by taking appropriate action for the two material irregularities affecting the provincial departments of health and human settlements identified in previous years. At the provincial department of health, disciplinary action has been instituted against the implicated officials and the matter has been referred to the State Attorney and the National Prosecuting Authority. Additionally, the contract that resulted in the material irregularity came to an end and was not renewed. At the provincial department of human settlements, disciplinary hearings were scheduled for the implicated officials, the National Prosecuting Authority obtained an order to preserve some of the funds in the contractor's bank account and a vehicle was seized. Such instances of effective consequence management provide practical examples of best practices to be replicated, as they show an overall improvement in the environment. We identified a further six new material irregularities in the province in the current year and we encourage executive leadership and oversight to continue overseeing the progress made to both address and prevent such material irregularities. Acting swiftly will curb financial losses incurred and ensure public funds are spent for the intended purpose.

Encouragingly, the province remained financially viable by continuing to reflect good principles and disciplines of effective budgeting and spending, with 70% of auditees maintaining good financial health, representing 55% of the province's budget. The provincial department of health continued to be under financial strain due to unbudgeted medical claims of R24,33 billion, with R392 million paid out in the current year. This affected the department's ability to deliver services, to pay its suppliers on time, to fill vacant positions for healthcare workers at some health institutions, and to build, maintain and upgrade hospitals and other health facilities. To address the remaining 30% of auditees that still had concerning financial indicators, auditees should implement cost-effective procurement processes to ensure that costs are optimised and that revenue and cash strategies are enhanced. This will ensure that accruals and payables are minimised and cash is available to pay suppliers on time.

To continue with the trend of improving audit outcomes, we urge executive leadership to remain responsive to our call by embedding the discipline of monitoring preventative controls. In addition, the premier, executive council and accounting officers should implement timeous consequence management to create a tone at the top that shifts the focus towards preventative rather than detective controls, particularly for compliance with supply chain management legislation and irregular expenditure. Oversight should continue to monitor and hold accounting officers to account for implementing action plans to resolve audit findings and adequately implementing consequences for transgressions.

KWAZULU-NATAL

PERFORMANCE SNAPSHOT

The snapshot shows the audit outcomes of 23 auditees in the province – 14 departments, the provincial legislature and 8 public entities. The outcomes of 15 small public entities are excluded.

Overall audit outcomes improved

Movement From 2019-20

5 auditees

1 auditee

Movement From 2018-19
First year of administration

9 auditees

2 auditees

Improved	Gaming and Betting Board; Sport and Recreation; Legislature; Sharks Board; Economic Development, Environmental Affairs and Tourism
Regressed	Arts and Culture
Unchanged	Cooperative Governance and Traditional Affairs; Provincial Treasury; Dube TradePort; Housing Fund; Traditional Levies and Trust Account; Agriculture; Community Safety and Liaison; Education; Human Settlements; Ithala Soc Limited; Ithala Development Finance Corporation; Nature Conservation Board; Office of the Premier; Public Works; Social Development; Transport; Health

Unqualified with no findings · Unqualified with findings · Qualified with findings

Financially unqualified financial statements — 87% (20) 2019-20: 91% (21)

Financial statements submitted without material misstatements — 74% (17) 2019-20: 70% (16)

No material findings on performance report — 76% (16) 2019-20: 67% (14)

Performance reports submitted without material misstatements — 43% (9) 2019-20: 24% (5)

No material findings on compliance with legislation — 44% (10) 2019-20: 26% (6)

No findings on compliance with supply chain management legislation — 35% (8) 2019-20: 22% (5)

Material irregularities (MIs)
Notified by
15 October 2021

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

Nature	
Payment not made in time	2
Unfair procurement leading to overpricing	5
Payment for goods/services not delivered	2

Irregular expenditure

R9 002,29 m (17)
2019-20: R9 745,42 m (20)

Closing balance
R48 463,04 m
2019-20: R44 548,07 m

Top three contributors	
Transport	R6 412,08 m
Health	R1 629,39 m
Public Works	R378,73 m

Unauthorised, and fruitless and wasteful expenditure

Unauthorised expenditure
R45,9 m (2)
2019-20: R330,8 m (3)

Closing balance
R911,90 m
2019-20: R866,02 m

Fruitless and wasteful expenditure
R13,46 m (16)
2019-20: R19,07 m (17)

Closing balance
R223,20 m
2019-20: R217,22 m

Financial health indicators

	2020-21	2019-20
Going concern uncertainty	**3**	4
Deficit	**R4 202 m (11)**	R2 244 m (13)
Cash shortfall	**R1 546 m (7)**	R1 704 m (10)
Unpaid claims	**R27 512 m (14)**	R25 928 m (14)
Average creditor-payment period	**56 days**	29 days

PROVINCIAL OVERVIEW

Leadership must enforce a culture of accountability to realise further improvement

During 2019-20, we encouraged leadership to exercise oversight and discipline in implementing and affirming the importance of preventative controls. In 2020-21, leadership remained committed and actioned our calls to support governance processes and controls. The overall audit outcomes reflect a net improvement, as five auditees progressed to clean audits, while one regressed.

The audit outcome of the provincial legislature improved due to a comprehensive and practical action plan, a robust risk-assessment process, as well as the value provided by internal audit and the audit committee. The provincial department of sport and recreation improved to a clean audit as management tightened procurement controls, while the provincial department of economic development, tourism and environmental affairs improved to a clean audit due to greater rigour over financial reporting and curbing instances of irregular expenditure. Dube TradePort, the provincial treasury and the provincial department of cooperative governance and traditional affairs, which all retained their clean audits, were characterised by a disciplined, leadership-driven approach to implementing and monitoring key preventative controls. The larger provincial service delivery departments of health and transport were qualified on multiple areas, some of which reoccurred, thus reducing the credibility of financial reporting to citizens. The accounting and chief financial officers of these departments need to devote serious attention to the past qualification matters and request the support they need from the national and provincial treasuries as early as possible. Where consultants are appointed to assist on past qualification matters or problem areas, it is imperative that leadership understands and monitors the quality and performance of their work. Regrettably, the provincial department of arts and culture moved to a qualified opinion due to a breakdown in key expenditure controls.

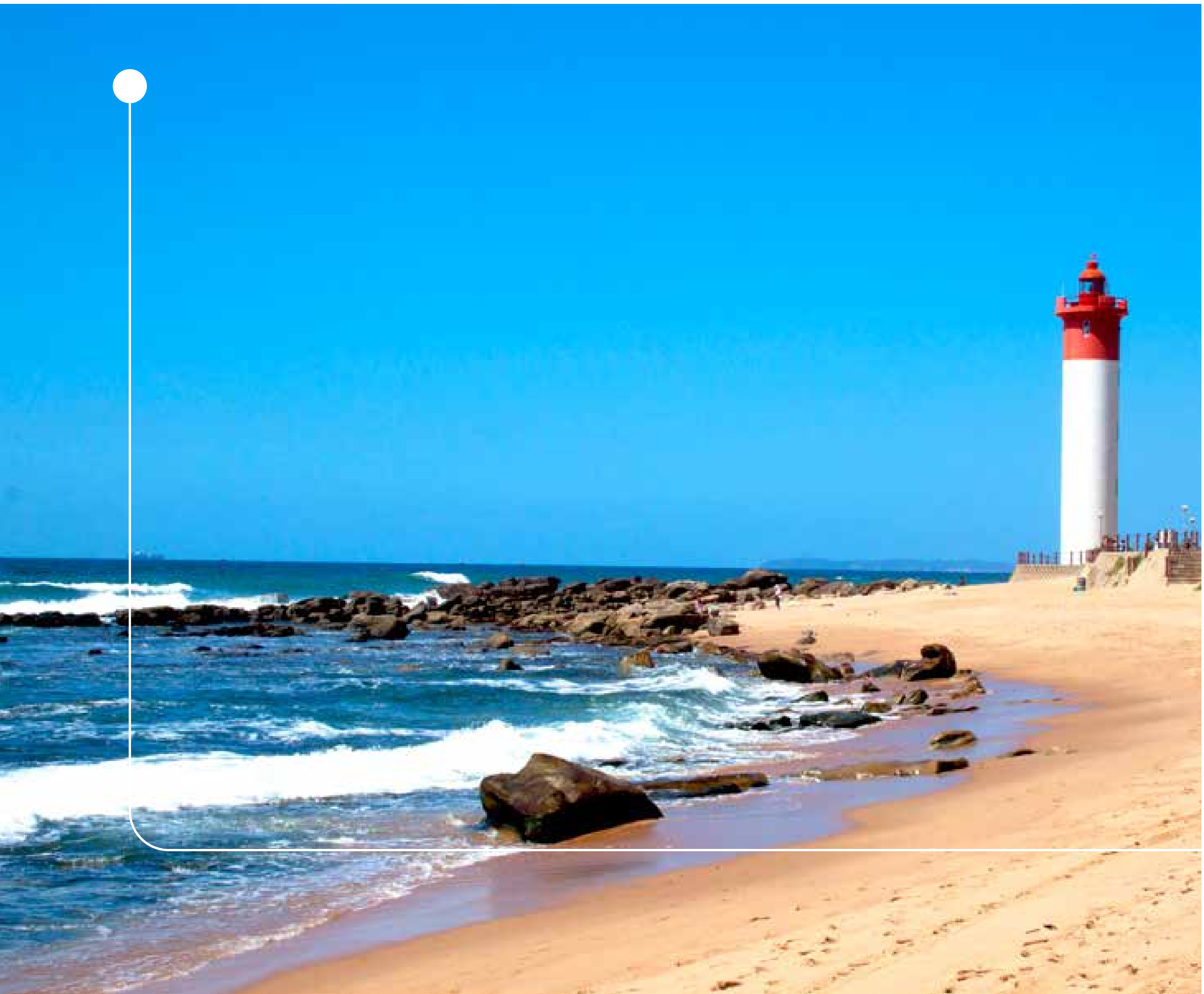
The provincial departments of education and health continued to have repeat findings on the quality of their performance information. Inaccurate reporting of performance information diminishes accountability and lowers public confidence in promised service delivery mandates.

Overall, the province's financial health status has improved; however, some auditees continue to face challenges in managing cash flows. The provincial department of education reflects financial sustainability issues largely arising from spending pressures related to service delivery demands and budget constraints, which could adversely affect its outlook for meeting its promises to citizens. Medical claims at the provincial department of health (R25,24 billion, of which R92,88 million was paid out) continue to soar, which could exacerbate the difficulty the department is experiencing in meeting foreseeable payment and service delivery obligations. Department leadership should undertake a diligent risk assessment of medical claims lodged and paid out, and formulate preventative controls using medical, legal and financial expertise to reduce avoidable losses. Ithala Limited also reported financial sustainability issues, as it operates under a South African Reserve Bank exemption notice. Failing to meet certain conditions of the notice could adversely affect the entity's ability to fulfil its obligations to customers and suppliers.

On a positive note, we noted that controls over the review and monitoring of compliance with legislation were strengthened. Although there were fewer supply chain management findings, we highlighted deficiencies in the procurement processes, including expenditure related to covid-19. Despite the slight reduction in irregular expenditure, the amount incurred is still high, considering that certain expenditure was halted in light of covid-19, and that the reported amount may not be complete because of the qualification at the provincial department of health. The irregular expenditure closing balance of R48,46 billion also remains high because many investigations were not promptly finalised, supporting documentation was not submitted to the provincial treasury to approve condonations, and officials who blatantly contravened legislation were not held accountable.

It is vital that accounting officers, as caretakers of public finances, are close to the institutions under their helm and that they appreciate and clearly communicate the importance of internal controls. If there is a strong ethical culture at the highest level and decisive actions are taken to avoid wrongdoing, this will remove perceptions of tolerance for non-compliance. It is crucial that political and administrative leadership are objective and attuned to audit findings, timelines for submitting audit evidence, and availability for audit meetings so that misunderstandings and setbacks in the finalisation of audits can be avoided. Quality should be driven and sustained by implementing updated policies and procedures, appropriate skills and competence, and well-meshed processes that are constantly monitored, improved and implemented by those charged with oversight and governance.

Accounting officers responded well to the material irregularity notifications we issued, and committed to investigate these irregularities and take appropriate actions to address them. As we continue to implement the material irregularity process, we hope to see greater dexterity in improving accountability and consequence management, with all role-players making a concerted effort to further improve outcomes and service delivery experiences.



LIMPOPO
PERFORMANCE SNAPSHOT

The snapshot reflects the audit outcomes of 19 auditees in the province – 12 departments, the provincial legislature and 7 public entities. The outcomes of 12 small public entities are excluded.

Overall audit outcomes regressed

Movement
From 2019-20

1 auditee (improved)

4 auditees (regressed)

Movement
From 2018-19
First year of administration

7 auditees (improved)

1 auditee (regressed)

Improved	Economic Development, Environment and Tourism
Regressed	Provincial Legislature; Limpopo Economic Development Agency; Health; Gateway Airports Authority Limited
Unchanged	Education; Agriculture and Rural Development; Cooperative Governance, Human Settlements and Traditional Affairs; Public Works, Roads and Infrastructure; Social Development; Sport, Arts and Culture; Corridor Mining Resources; Great North Transport; Roads Agency Limpopo; Limpopo Tourism Agency; Office of the Premier; Provincial Treasury; Transport and Community Safety; Limpopo Gambling Board

Unqualified with no findings · Unqualified with findings · Qualified with findings · Adverse with findings

Financially unqualified financial statements	**79% (15) 2019-20: 89% (17)**
Financial statements submitted without material misstatements	32% (6) 2019-20: 32% (6)

No material findings on performance report	**68% (13) 2019-20: 52% (10)**
Performance reports submitted without material misstatements	26% (5) 2019-20: 42% (8)

No material findings on compliance with legislation	**26% (5) 2019-20: 26% (5)**
No findings on compliance with supply chain management legislation	26% (5) 2019-20: 11% (2)

Material irregularities (MIs)

Notified by 15 October 2021

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

Nature	
Non-compliance in payment processes resulting in payment for goods and service not received	1
Non-compliance in procurement processes resulting in incorrect award of the contract	1

Irregular expenditure

R3 396 m (16)

2019-20: R3 374 m (13)

Closing balance

R14 005 m

2019-20: R13 828 m

Top three contributors	
Public Works	R1 594 m
Roads Agency Limpopo (RAL)	R734 m
Education	R468 m

Unauthorised, and fruitless and wasteful expenditure

Unauthorised expenditure

R17 m (2)

2019-20: R3 m (3)

Closing balance

R24 m

2019-20: R62 m

Fruitless and wasteful expenditure

R48 m (14)

2019-20: R32 m (12)

Closing balance

R662 m

2019-20: R618 m

Financial health indicators

	2020-21	2019-20
Going concern uncertainty	**3**	3
Deficit	**R3 668 m (10)**	R2 753 m (11)
Cash shortfall	**R371 m (5)**	R171 m (3)
Unpaid claims	**R13 400 m (11)**	R2 101 m (11)
Average creditor-payment period	**36 days**	31 days

PROVINCIAL OVERVIEW

Lack of sustainable preventative controls for meaningful, positive impact

The province's overall outcomes regressed from the previous year, after showing a significant improvement. In the previous general report, we reported on the importance of having a strong control environment and implementing our recommendations to sustain the improved outcomes. Those auditees that regressed were slow to respond to our recommendations from previous years, and we noted that action plans developed to address internal control weaknesses were not properly monitored by accounting officers, internal audit and audit committees to prevent repeat findings.

A culture of basic accounting disciplines embedded at the provincial treasury, the Office of the Premier, the provincial department of transport and community safety and the Limpopo Gambling Board enabled them to sustain their clean outcomes. We also commend the provincial treasury, which achieved a clean audit outcome for the fifth consecutive year. These auditees must share their best practices with other departments and entities in the province to drive improved audit outcomes.

Compliance with laws and regulations remained a challenge, as 14 auditees (74%) reported material non-compliance findings. Credible financial statements are crucial for sound financial management disciplines, in-year monitoring and decision-making purposes, but only six auditees (32%) submitted financial statements that did not require material adjustments. Provincial leadership risks making incorrect decisions based on misleading and inaccurate financial information that is not a true reflection of the province's performance – both financial and non-financial.

Amendments to the Public Audit Act were implemented at the same six auditees as in the previous year, and we followed up on the material irregularities raised in the previous years. The identified material irregularity at the provincial department of education stems from the period when the province was placed under section 100 administration. This material irregularity was closed because it is now being dealt with through the intergovernmental dispute resolution process, headed by the national Department of Cooperative Governance and Traditional Affairs. The material irregularity at the Roads Agency Limpopo was resolved because the entity prevented further losses of R1,3 million from occurring, and we concluded that the accounting officers at the provincial departments of health and of public works, roads and infrastructure are taking appropriate action on the material irregularities raised. The material irregularity process forced those auditees with material irregularities to implement proper consequence management, as required by existing legislation. The provincial department of health prevented further losses of R2,6 million and issued letters of intention to take corrective measures to affected officials. The accounting officer of the provincial department of public works, roads and infrastructure requested the Special Investigating Unit to investigate the material irregularity to identify the officials responsible. The premier must pay close attention to identified material irregularities and regularly follow up on the progress made to ensure that executive authorities implement consequence management where necessary.

Irregular expenditure in the province mainly resulted from conditional grants not being used for their intended purpose (R1,73 billion) and from non-compliance with supply chain management regulations (R1,67 billion). In the case of the former, we identified the irregular expenditure at the provincial department of public works, roads and infrastructure, where funds were transferred to the department's public entity, Roads Agency Limpopo, which did not adhere to the spending requirements in terms of the Division of Revenue Act. The increase in this unwanted expenditure is due to poor consequence management, as officials who enable these transgressions are not held accountable. The province is not adequately implementing performance management and there is no effective appraisal structure in place to timeously hold officials accountable for poor performance and intentional contravention of laws and regulations. There needs to be a culture of zero tolerance towards any form of transgression, and administrative and provincial leadership need to take decisive action to hold officials accountable and, where applicable, recover any losses from those responsible.

The province's financial health improved but remains concerning, with only four auditees (21%) reporting a good financial health status, while 10 (56%) showed a deficit for the year as their total expenditure exceeded their total revenue. The financial health of Corridor Mining Resources, Great North Transport and Gateway Airports Authority Limited has remained unfavourable for a number of years. Public entities struggled to make payments within the good-practice period of 30 days, which negatively affects both timeous service delivery and the sustainability of small to medium businesses in the province. More robust strategies to generate revenue and curb expenditure are required, which will place the province in a better position to achieve its service delivery objectives and have a positive impact on the lives of its citizens.

The premier wants action to be taken against accounting officers who have received unqualified with findings opinions year after year, with no improvement. He maintains that if repeat findings are addressed, these auditees can achieve clean audits. If the province takes strong action to empower accounting officers or hold them accountable where necessary, it will have many more clean audits. This commitment was partially achieved, as the administration managed one improvement to a clean audit, from the provincial department of economic development, environment and tourism, which had received an unqualified with findings audit outcome for two consecutive years. When accounting officers focus on achieving clean outcomes, it will result in proper accountability, which will lead to improved service delivery

Only by strengthening the control environment and implementing preventative controls will the province be able to prevent regressions and improve on the number of clean audits in the future. Provincial leadership must not be discouraged by the overall regression in outcomes, but should rather use it as an opportunity to reflect on what went wrong and on the need to intensify efforts to improve preventative and corrective controls at those auditees that did not achieve clean audits.

MPUMALANGA
PERFORMANCE SNAPSHOT

The snapshot shows the audit outcomes of 16 auditees in the province – 12 departments, the provincial legislature and 3 public entities. The outcome of 1 small public entity is excluded.

Overall audit outcomes regressed

Movement From 2019-20	1 auditee (improved)	2 auditees (regressed)
Movement From 2018-19 First year of administration	3 auditees (improved)	3 auditees (regressed)

Improved	Agriculture, Rural Development, Land and Environmental Affairs
Regressed	Office of the Premier; Human Settlements
Unchanged	Provincial Treasury; Cooperative Governance and Traditional Affairs; Provincial Legislature; Culture, Sport and Recreation; Economic Development and Tourism; Education; Mpumalanga Tourism and Parks Agency; Mpumalanga Regional Training Trust; Public Works, Roads and Transport; Health; Mpumalanga Economic Growth Agency; Community Safety, Security and Liaison; Social Development

Unqualified with no findings · Unqualified with findings · Qualified with findings

Financially unqualified financial statements	**69% (11) 2019-20: 81% (13)**
Financial statements submitted without material misstatements	38% (6) 2019-20: 31% (5)

No material findings on performance report	**63% (10) 2019-20: 63% (10)**
Performance reports submitted without material misstatements	50% (8) 2019-20: 19% (3)

No material findings on compliance with legislation	**25% (4) 2019-20: 19% (3)**
No findings on compliance with supply chain management legislation	6% (1) 2019-20: 13% (2)

Material irregularities (MIs)
Notified by 15 October 2021

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

Nature	
Suspected fraud	1
Inefficiencies – no benefit derived from cost	1
Cash receipts not deposited	1

Irregular expenditure

R3 393 m (12)
2019-20: R2 494 m (13)

Closing balance
R11 610 m
2019-20: R11 321 m

Top three contributors	
Health	**R1 276 m**
Human Settlements	**R640 m**
Community Safety, Security and Liaison	**R601 m**

Unauthorised, and fruitless and wasteful expenditure

Unauthorised expenditure
R18 m (1)
2019-20: R56 m (1)

Closing balance
R962 m
2019-20: R944 m

Fruitless and wasteful expenditure
R19,6 m (10)
2019-20: R9,9 m (7)

Closing balance
R57 m
2019-20: R43 m

Financial health indicators

	2020-21	2019-20
Going concern uncertainty	**0**	0
Deficit	**R189 m (4)**	R236 m (7)
Cash shortfall	**R367 m (9)**	R1 098 m (8)
Unpaid claims	**R10 982 m (12)**	R10 414 m (11)
Average creditor-payment period	**43 days**	38 days

PROVINCIAL OVERVIEW

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

Since the current administration took over, we have reported that preventative controls and a culture of 'doing things right' are not embedded at most auditees. After we released the 2019-20 audit outcomes, we outlined four key areas that needed to be considered to address the accountability deficiencies in the province. These were ineffectiveness of preventative controls, deteriorating financial health, ineffective infrastructure project management and monitoring, as well as non-adherence to laws and regulations and lack of consequence management. Neither administrative nor political leadership heeded our call, as they did not invest sufficient time and resources into addressing these four areas – especially institutionalising preventative controls. This led to the pressurised state of financial health, persistent project management deficiencies, non-compliance with laws and regulations and, ultimately, an overall regression in audit outcomes. All of this indicates that provincial leaders have not placed accountability at the top of their agenda.

A lack of strong controls to underpin effective financial management and reporting persisted, with only six auditees (38%) able to submit quality financial statements. A further five auditees (31%) relied on the audit process to identify material misstatements for correction to achieve favourable outcomes, which is not sustainable. We identified a lack of effective and timeous reconciliations and record-management controls, which resulted in qualified audit opinions at the provincial departments of community safety, security and liaison; social development; and human settlements, and at the office of the premier. We remain equally concerned about those auditees that still had material findings on their reported performance. This compromises the quality of leadership's decisions on future service delivery plans and budgets, since these decisions are based on non-credible information.

The province's poor financial health has a negative impact on future service delivery. Poor financial management disciplines contributed greatly to the current pressurised state of financial health. Similar to the previous year, 10 departments had already committed more than 10% of their future budgets at year-end. This trajectory has the potential to compromise emerging strategic priorities and the delivery of quality services to the people of the province. Claims against departments remained high, with the provincial department of health continuing to be the highest contributor, accounting for R10 117 million (92%) of the claims. If successful, these claims could take away funds earmarked for the health and wellbeing of the people of the province, especially in the wake of covid-19.

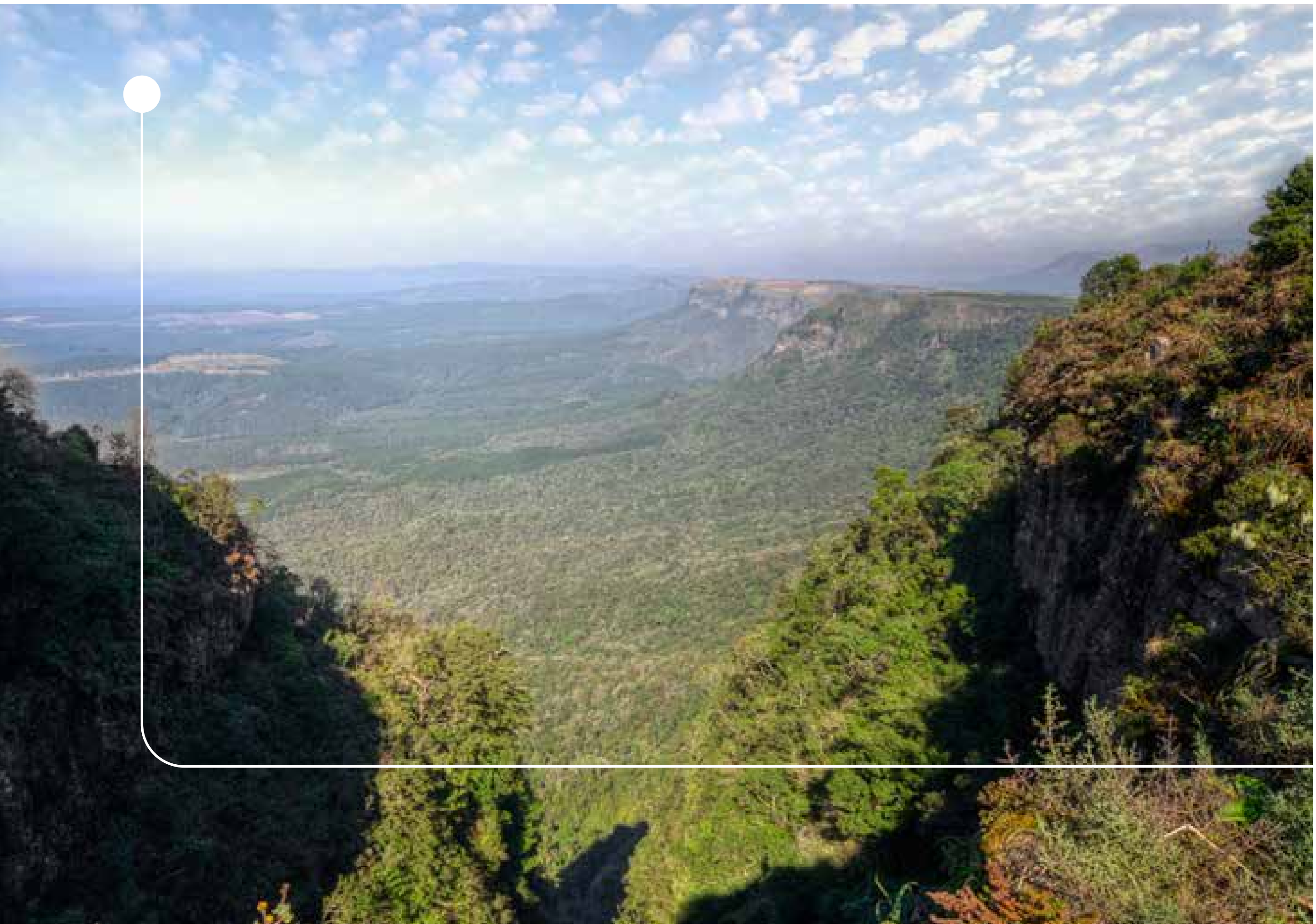
By 15 October 2021, we had notified accounting officers selected for our phased-in approach of the amendments to the Public Audit Act of three material irregularities. The weaknesses in financial management controls (such as reconciliations of source information and reviews of payments to suppliers) resulted in likely material financial losses at the provincial departments of education; health; and community safety, security and liaison. These losses could cripple the province's financial health even further.

The revenue-generating departments, such as the provincial department of community safety, security and liaison, and public entities, such as the Mpumalanga Economic Growth Agency and Mpumalanga Tourism and Parks Agency, continued to struggle to convert revenue into cash. These auditees have accepted and reported that they will not be able to collect R1 479 million (89%), R306 million (89%) and R7 million (79%) owed to them compared to their revenue earned, respectively. Due to the lack of effective collection measures, these auditees depend on an already constrained annual appropriation when they could be self-sustaining.

The limited funds available are also needed for infrastructure development, yet the province has still not mastered effective infrastructure project management. The provincial department of public works, roads and transport – the province's mandated implementing agent responsible for procuring and implementing infrastructure projects – is at the centre of these project management failures. The department lacked the capacity to monitor and oversee infrastructure projects, and hired consultants to fill these gaps. This was evident at the provincial department of education (user department), where consultants were not properly managed, resulting in payments being made for work not completed. This contributed to the disclosed fruitless and wasteful expenditure. The user department also did not play an active role in holding the agent accountable. This is unsettling, as much-needed resources for service delivery were spent without obtaining a corresponding benefit.

The culture of poor control monitoring extends to the area of compliance with legislation. Officials continued to disregard supply chain management laws and regulations in their procurement processes. This culture also resulted in increasing levels of irregular expenditure and created an environment vulnerable to misappropriation, wastage and the abuse of state funds. The provincial department of health was the highest contributor to irregular expenditure, accounting for R1 276 million (38%), mainly because it did not adhere to supply chain management laws and regulations in the contract for the construction of Middelburg Hospital. A further concern is the failure to investigate the increasing balance of unauthorised and irregular expenditure so that consequences can be implemented to hold those responsible accountable.

Once again, we call upon provincial leadership to invest in effective preventative controls, driven by stable and ethical leadership. Political and administrative leadership should aggressively monitor the implementation of actions to promote good governance in the province. All assurance providers have a distinct role to play in the accountability value chain and need to ensure that opportunities are not lost due to inadequate coordination. Doing this will result in improvements to both audit outcomes and the lives of citizens.



NORTHERN CAPE

PERFORMANCE SNAPSHOT

The snapshot shows the audit outcomes of 13 auditees in the province – 12 departments and the provincial legislature. The outcomes of 12 small public entities are excluded.

Overall audit outcomes improved

Movement **From 2019-20**	1 auditee (improved)	0 auditees (regressed)
Movement **From 2018-19** First year of administration	3 auditees (improved)	1 auditee (regressed)

Improved	Economic Development and Tourism
Unchanged	Health; Agriculture, Land Reform and Rural Development; Transport, Safety and Liaison; Cooperative Governance, Human Settlements and Traditional Affairs; Education; Environment and Nature Conservation; Provincial Legislature; Roads and Public Works; Sport, Arts and Culture; Provincial Treasury; Office of the Premier; Social Development

- Unqualified with no findings
- Unqualified with findings
- Qualified with findings

Financially unqualified financial statements	**77% (10) 2019-20: 69% (9)**
Financial statements submitted without material misstatements	**46% (6) 2019-20: 46% (6)**

No material findings on performance report	**77% (10) 2019-20: 69% (9)**
Performance reports submitted without material misstatements	**38% (5) 2019-20: 23% (3)**

No material findings on compliance with legislation	**23% (3) 2019-20: 23% (3)**
No findings on compliance with supply chain management legislation	**0% (0) 2019-20: 15% (2)**

Material irregularities (MIs)
Notified by 15 October 2021

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

Nature	
Unfair procurement leading to overpricing	1
Payment for goods and services not delivered	1
Payment not made in time	3

Irregular expenditure

R5 242,93 m (9)
2019-20: R1 442,3 m (11)

Closing balance
R18 244,05 m
2019-20: R13 308,21 m

Top three contributors	
Roads and Public Works	**R3 213,74 m**
Health	**R1 282,22 m**
Education	**R618,4 m**

Unauthorised, and fruitless and wasteful expenditure

Unauthorised expenditure
R255,6 m (2)
2019-20: R18,32 m (1)

Closing balance
R685,14 m
2019-20: R980,38 m

Fruitless and wasteful expenditure
R10,56 m (7)
2019-20: R8,81 m (9)

Closing balance
R163,47 m
2019-20: R154,59 m

Financial health indicators

	2020-21	2019-20
Going concern uncertainty	**1**	1
Deficit	**R1 462,96 m (6)**	R1 258,65 m (5)
Cash shortfall	**R745,09 m (10)**	R1 006,71 m (9)
Unpaid claims	**R2 195,43 m (12)**	R2 558,77 m (12)
Average creditor-payment period	**41 days**	38 days

PROVINCIAL OVERVIEW

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

In last year's general report, we emphasised a strong message of accountability, leadership responsiveness to internal and external audit findings, the strengthening of controls around compliance with legislation that resulted in irregular expenditure, and consequence management. Audit outcomes have improved overall from the first year of the current administration, as well as from the previous year. However, we remain concerned that our messages from the previous year have not been heeded. This is evident from three auditees remaining qualified and seven auditees receiving a financially unqualified with findings audit opinion.

It is concerning that three auditees received qualified opinions, mainly because accounting officers did not ensure that action plans to address and correct weaknesses highlighted in the previous year's audit, were properly implemented and monitored. Going forward, accounting officers should strengthen the internal control environment relating to financial reporting and prepare interim financial statements. The provincial treasury and internal audit must perform a proactive review on these financial statements and provide recommendations for corrective action.

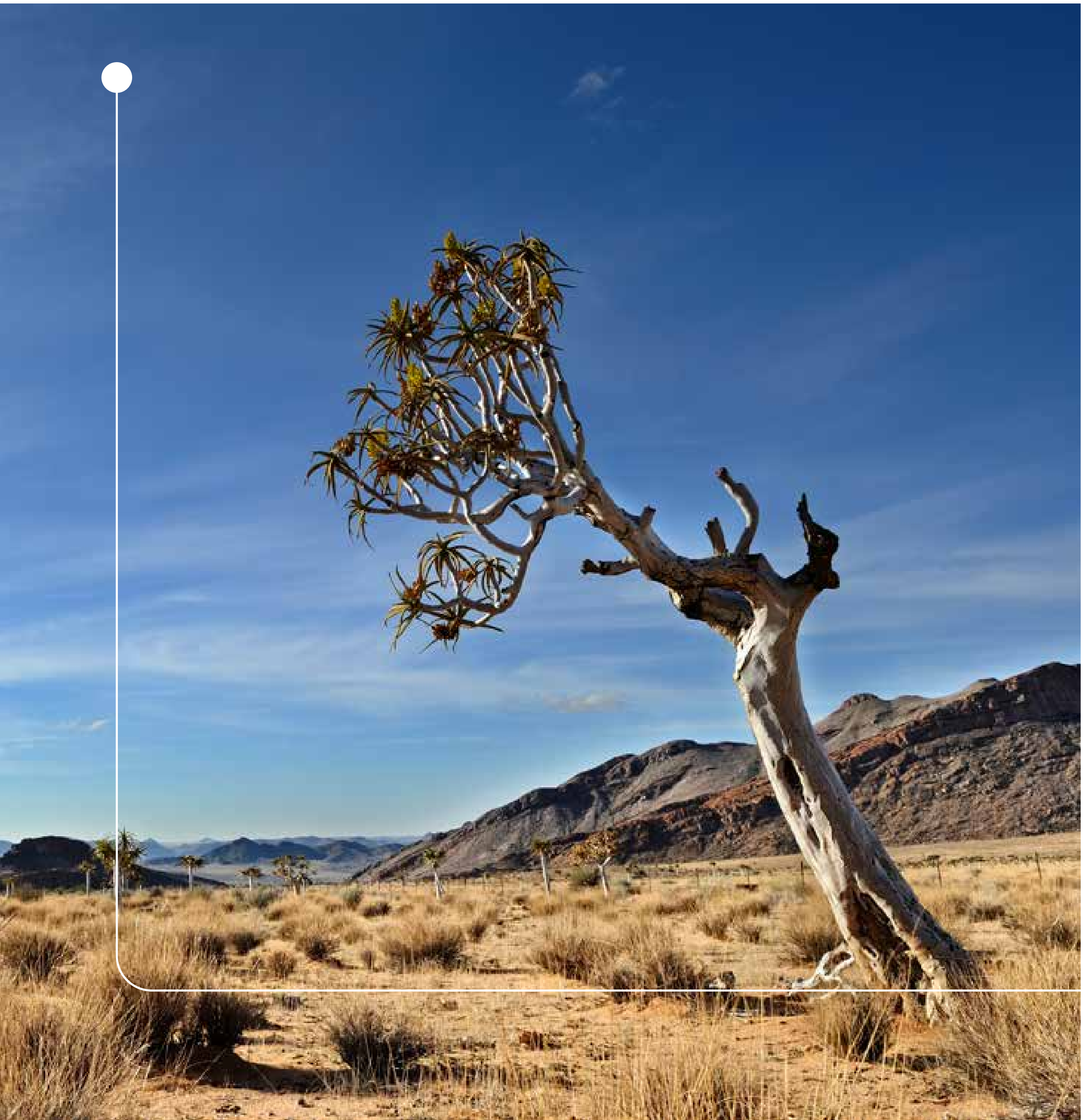
The basic discipline for reliable reporting remains lacking. This is due to leadership's reactive approach and high reliance on the audit process to identify misstatements – a practice that is neither prudent nor sustainable This compromises the quality of decisions that leadership makes on future service delivery plans and budgets, since these decisions are based on non-credible information. Monitoring of performance and service delivery in the province needs to be enhanced and early intervention by the premier is required.

Auditees' financial health and their inability to pay their suppliers on time remain concerning. This could compromise service delivery within the province and potentially result in auditees incurring additional costs due to delayed payments. For example, the provincial department of health already committed 10% of its budget for the following year to the current year's expenditure. Furthermore, R1,66 billion is possibly tied up in medico-legal claims, which will also impact its financial health. Going forward, auditees must instil budgeting and financial management disciplines, and the provincial treasury must oversee how auditees spend their approved budgets.

We are also concerned at the increase in irregular expenditure in the current year. The main contributors to this increase are the provincial departments of health and of roads and public works. Irregular expenditure at the provincial department of roads and public works increased to R3,21 billion from R109 million in the previous year, mainly because procurement processes were not followed for awards made using a panel of suppliers. At the provincial department of health, irregular expenditure increased to R1,28 billion from R537 million in the previous year due to non-governmental organisations being appointed to perform health services. For example, home-based carers were sourced without following a tender process. The closing balance of irregular expenditure increased from R13,31 billion to R18,24 billion, with 98% of the previous year's expenditure not being investigated. The continued transgressions can mainly be attributed to the lack of consequence management. Some non-compliance may result in a financial loss or harm to the respective institutions. Provincial oversight and leadership must urgently address this matter and take swift action, as provided for in existing legislation.

The provincial department of health, a key service delivery department, once again experienced audit qualifications, poor financial health and high irregular expenditure. Our call to action has remained the same for years, but none of the accounting officers has been able to implement an action plan to address the dire state of the department. This is directly affecting service delivery in the province and the lives of citizens on the street, and is evident in the fact that after seven years, the department has still not purchased a mammography machine for the Dr Harry Surtie Hospital in Upington, although the purchase of such a machine was previously budgeted and planned for. Patients must travel to Kimberley to access this service, resulting in additional travel cost and the risk of lives being lost as conditions are not being treated soon enough.

We once again urge provincial and administrative leadership to ensure that accounting officers strengthen preventative controls, focusing on qualified and key service delivery auditees. This focused approach will help to embed a culture in which the control environment will improve and consequence management will be implemented in the province. Best practices from auditees that achieved clean audits should also be replicated throughout the province, and the efforts of the operation clean audit committee should continue and be further enhanced.



NORTH WEST
PERFORMANCE SNAPSHOT

The snapshot shows the audit outcomes of 22 auditees in the province – 12 departments, the provincial legislature and 9 public entities. The outcomes of 10 small public entities are excluded.

Similar to last year, the audits of North West Transport Investments, North West Star and Atteridgeville Bus Services are outstanding, as these auditees had not submitted financial statements at the cut-off date for this report. With the exception of unauthorised, irregular, and fruitless and wasteful expenditure, and the information on material irregularities, the outcomes of these auditees are not included in this snapshot.

Overall audit outcomes improved

Movement From 2019-20

3 auditees

1 auditee

Movement From 2018-19
First year of administration

4 auditees

1 auditee

Improved	Health; Human Settlements; Mmabana Arts Culture and Sports Foundation
Regressed	Education
Unchanged	Provincial Treasury; Arts, Culture, Sports and Recreation; Cooperative Governance and Traditional Affairs; Economic Development, Environment Conservation and Tourism; Office of the Premier; Provincial Legislature; Social Development; Agriculture and Rural Development; Community Safety and Transport Management; North West Parks Board; North West Tourism Board; Public Works and Roads; GL Resorts; Golden Leopard Resorts; North West Development Corporation
Outstanding	Atteridgeville Bus Services; North West Transport Investments; North West Star

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

Financially unqualified financial statements	**42% (8) 2019-20: 42% (8)**
Financial statements submitted without material misstatements	26% (5) 2019-20: 11% (2)

No material findings on performance report	**50% (9) 2019-20: 33% (6)**
Performance reports submitted without material misstatements	17% (3) 2019-20: 6% (1)

No material findings on compliance with legislation	**5% (1) 2019-20: 5% (1)**
No findings on compliance with supply chain management legislation	16% (3) 2019-20: 11% (2)

Material irregularities (MIs)
Notified by 15 October 2021

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

Nature	
Overpricing of goods and services	2
Goods and services not received	10
Debt not collected	1
Invoices not paid on time	3
Incorrect supplier won	2

Irregular expenditure

R3 451,73 m (17)
2019-20: R4 015,09 m (17)

Closing balance
R30 375,97 m
2019-20: R27 167,00 m

Top three contributors	
Public Works and Roads	R1 481,38 m
Health	R771,72 m
GL Resorts	R555,57 m

Unauthorised, and fruitless and wasteful expenditure

Unauthorised expenditure
R144,06 m (1)
2019-20: R203,724 m (1)

Closing balance
R773,61 m
2019-20: R629,56 m

Fruitless and wasteful expenditure
R21,42 m (16)
2019-20: R22,42 m (17)

Closing balance
R231,04 m
2019-20: R239,08 m

Financial health indicators

	2020-21	2019-20
Going concern uncertainty	**3**	4
Deficit	**R945 m (7)**	R939 m (5)
Cash shortfall	**R963 m (8)**	R299 m (6)
Unpaid claims	**R6 938 m (12)**	R6 878 m (11)
Average creditor-payment period	**59 days**	38 days

PROVINCIAL OVERVIEW

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

Our call to action in 2019-20 was for provincial leadership to embed appropriate preventative controls, positively influence accountability and institutionalise disciplines of credible financial reporting. We also urged leadership to restore the rule of law by entrenching a culture of consequence management, promoting an anti-corruption posture and filling key vacancies to enable preventative controls to be instilled. In response, we have seen some auditees focus on reversing negative trends and raising their efforts to improve the quality of their financial statements. While there has been some traction, much is still required when it comes to implementing key recommendations and fulfilling intended objectives.

We commend the provincial departments of health and human settlements, as well as the Mmabana Arts Culture and Sports Foundation (Mmabana), for heeding our call, which resulted in a net improvement in the province's audit outcomes. The provincial department of health focused on strengthening review processes, with senior management giving the necessary attention to implementing agreed-upon post-audit action plans. This resulted in the quality of the financial statements improving. The improvement at the provincial department of human settlements resulted from management strengthening record-management controls, which were poor and had led to a disclaimer in the previous year. This improvement enabled the department to provide the underlying records as requested. In Mmabana, the drivers of the improved audit outcome were timeous filling of key vacancies, appropriate use of internal audit and better coordination of the audit process. Leadership's involvement was also central to staff executing some of the basic control activities. We are encouraged by these drivers of improved audit outcomes, and provincial leadership should insist that accounting officers replicate them across the province, especially at auditees with stagnant audit outcomes. We also urge accounting officers and authorities to use governance structures effectively and insist that administrative leadership diligently implement recommendations from these structures to achieve impactful and sustainable improvements in control environments.

Section 100 of the Constitution was still in effect at 10 (77%) of the 13 departments in the province. This intervention appears to have had a positive impact at some departments, which is evident in the gradual improvements in audit outcomes and the reduction in material findings that resulted in qualifications in previous years. To support instilling the required controls and accountability, there has been a drive to capacitate the departments by, for example, filling head of department positions at the departments of health, social development, and agriculture and rural development. In the area of corrective actions and consequences, several officials are facing disciplinary proceedings for financial misconduct, fraud and corruption, desertion of duty, and other connected offences. We remain cautiously optimistic about the sustainability of the above efforts, as section 100 intervention is not a permanent solution. Therefore, to see a substantial change and improvement, heads of departments should work closely with the administrators who are serving as accounting officers during this period of intervention. They must deliberately and rigorously implement the necessary preventative controls and actions to improve the underlying weak control environments. These activities should include addressing persistent compliance findings and fully investigating the concerning historical balances of unauthorised, irregular, and fruitless and wasteful expenditure. This is especially important for irregular expenditure, which increases every year – the closing balance increased from R27,17 billion to R30,38 billion. The continued transgressions show a lack of effective supervision and a disregard for legislation. Some non-compliances may lead to financial losses or harm to the respective institutions, and may ultimately have a negative effect on the lived experiences of affected citizens. Leadership must address this culture with the urgency and swift action it deserves.

Despite the noted improving trends, we remain concerned that most auditees have not fully embraced our call to action to improve control environments by embedding preventative controls, entrenching a culture of corrective actions and effecting consequence management. This is evident in the regression of the audit outcome of the provincial department of education, which was mainly due to a lack of monitoring of infrastructure projects. The department reported some projects as complete, but could not provide evidence to substantiate the completion status, such as close-out reports, support for value of work done, payment certificates and a detailed valuation. These issues were also reported in the previous year, but the department did not adequately attend to them. To avoid regressions, accounting officers must strengthen internal accountability processes and corrective actions, and insist on diligent reviews and effective oversight by senior management.

The province's financial health is still concerning, as auditees may not have adequate funds available to implement next year's planned activities, programmes and projects. For example, the provincial department of health had to use money meant for other purposes on the Excelsius Nursing College infrastructure project. This already-delayed project negatively affects the development and training of nurses in the province, which has high vacancy rates for nurses. The outstanding medical claims of R5,66 billion against the department remain a concern, as this represents more than 100% of the department's budget for next year and, if it materialises, may negatively affect its service delivery mandate. It is also concerning that 42% of auditees had a collective total cash shortfall of R963 million at year-end. In addition, the entities of the North West Development Corporation group require intervention to remain viable, and leadership should pay immediate attention to the funding model and financial health of these public entities.

Going forward, all provincial departments and public entities must instil budgeting and financial management disciplines.

We find it encouraging that accounting officers reacted positively to the 10 material irregularities we reported and are taking appropriate action to address those previously reported, including stopping financial losses and implementing recommendations from completed investigations. For example, at the provincial department of community safety and transport management, potential continuing losses of R13,7 million and R204,6 million were prevented by ending the respective contracts. However, we remain concerned that the accounting officers are still reacting rather than implementing appropriate actions to deal with the identified material irregularities and prevent them from reoccurring. Provincial leadership must help to enhance intergovernmental relations between departments and investigating bodies to ensure that external bodies can successfully investigate and pursue civil recovery of losses.

The province has taken steps in the right direction. We continue to call for greater accountability in managing public funds through timeous completion of investigations. Provincial leadership should focus its efforts on instilling a culture of financial and performance reporting disciplines and corrective measures, and on insisting on preventative controls that translate into improved control environments and consistent, improved audit outcomes.

The basic disciplines needed to prepare reliable performance reports remain lacking because the departments are not addressing weaknesses in the underlying control environments. For example, without credible performance data, a department cannot easily identify and respond to service delivery challenges. Leadership must require departments to adequately incorporate the promises to and expectations of citizens into their planning processes. This will ensure that effective execution of the plans will have a positive impact on the lives of citizens.

WESTERN CAPE

PERFORMANCE SNAPSHOT

The snapshot shows the audit outcomes of 21 auditees in the province – 13 departments, the provincial parliament and 7 public entities. The outcomes of 23 small public entities are excluded.

The audits for the departments of community safety, human settlements and provincial treasury were still in progress at the cut-off date for this report. With the exception of unauthorised, irregular, and fruitless and wasteful expenditure, and the information on material irregularities, the outcomes of these auditees are not included in the snapshot. The Atlantis Special Economic Zone is a new auditee included in the 2020-21 year, with no comparative information for 2019-20 included in this report. The outcomes of the Department of Agriculture are shown as outstanding because we are assessing the impact of the Supreme Court of Appeals' judgment.

Overall audit outcomes improved

Movement From 2019-20	1 auditee	0 auditees
Movement From 2018-19 First year of administration	1 auditee	1 auditee

Improved	Western Cape Gambling and Racing Board
Unchanged	Cultural Affairs and Sport; Economic Development; Environmental Affairs; Government Motor Transport; Health; Local Government; Office of the Premier; Provincial Parliament; Saldanha Bay Industrial Development Zone; Social Development; Transport and Public Works; Western Cape Nature Conservation Board; Casidra; Education; Western Cape Tourism, Trade and Investment Promotion Agency
New	Atlantis SEZ
Outstanding	Community Safety, Human Settlements, Provincial Treasury and Agriculture

Unqualified with no findings · Unqualified with findings · Outstanding audits

Financially unqualified financial statements	**100% (17) 2019-20: 100% (16)**
Financial statements submitted without material misstatements	100% (17) 2019-20: 100% (16)

No material findings on performance report	**82% (14) 2019-20: 88% (14)**
Performance reports submitted without material misstatements	65% (11) 2019-20: 56% (9)

No material findings on compliance with legislation	**94% (16) 2019-20: 81% (13)**
No findings on compliance with supply chain management legislation	41% (7) 2019-20: 25% (4)

Material irregularities (MIs)
None notified by 15 October 2021

Irregular expenditure
R328,9 m (14)
2019-20: R287,9 m (14)

Closing balance
R545,8 m
2019-20: R361,9 m

Top three contributors	
Human Settlements	R284,6 m
Health	R28,9 m
Transport and Public Works	R8 m

Unauthorised, and fruitless and wasteful expenditure

Unauthorised expenditure
R0 m
2019-20: R0 m

Closing balance
R0 m
2019-20: R0 m

Fruitless and wasteful expenditure
R0,9 m (9)
2019-20: R0,11 m (7)

Closing balance
R0,41 m
2019-20: R0,06 m

Financial health indicators

	2020-21	2019-20
Going concern uncertainty	**0**	0
Deficit	**R156,1 m (7)**	R24,2 m (3)
Cash shortfall	**R81,2 m (6)**	R35,5 m (6)
Unpaid claims	**R813,2 m (6)**	R715,3 m (7)
Average creditor-payment period	**31 days**	28 days

PROVINCIAL OVERVIEW

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

The province obtained 14 clean audits, 12 of which have been able to maintain their clean status for three or more consecutive years, which is commendable. All auditees in the province received financially unqualified audit opinions, indicating a strong financial control environment and that there are effective preventative controls in place.

A common trend at auditees that obtained a clean audit is the tone set by the accounting officers, who have instilled a culture of doing the right thing, being accountable and improving controls where weakness are identified. This tone, which starts at the top, is then cascaded to the various levels of leadership throughout the units responsible for reporting.

Best practices in the province include adhering to and monitoring controls throughout the financial year to ensure that compliance requirements are followed and that documentation is filed and readily available for each transaction. The chief financial officers also strictly monitor year-end processes and review the financial statements as soon as they are prepared. Auditees generally have highly competent, experienced and knowledgeable officials heading up the various units. The audit committees and internal audit units in the province have made significant strides in enhancing their governance and oversight by evaluating and monitoring management's responses to risks and overseeing the effectiveness of the internal control environment, including financial and performance reporting and compliance with legislation. The public accounts and portfolio committees focused on all critical areas within departments and public entities, which contributed significantly to the audit outcomes.

Three auditees received financially unqualified with findings audit opinions. The provincial department of human settlements, which was finalised after the cut-off date for inclusion in the snapshot statistics, was the only department with material non-compliance related to corrections required to the financial statements. The financial statements review processes did not detect material misstatements in the areas of current assets and current liabilities.

Overall, 35% of auditees submitted performance reports that contained material errors, compared to 44% in the previous year. Three auditees (17%) were able to correct the misstatements to bring the total number without material findings to 82%; however, credible performance information is needed to assist with the correct decisions being made throughout the year. Three auditees had material findings on the quality of their reported performance information, and for two of the three – namely, the provincial department of education and Casidra – we reported similar findings in the previous year. The challenges at the department related specifically to information collated by schools for reporting on the percentage of learners with English first additional language and mathematics textbooks in grades 3, 6, 9 and 12. This is the third consecutive year that we have reported material reliability findings on the department's reported performance information. While the department did instruct all the schools to collate the information, it needs to follow up further to ensure that the information is accurate and that schools are implementing instructions appropriately. The district offices and internal audit should assist by reviewing the accuracy of the quarterly performance information.

Two of the four key service delivery departments, namely the provincial departments of health and of transport and public works, maintained their clean audit outcomes. The same control-focused culture mentioned before has also been instilled at these departments. Although we identified material misstatements in predetermined objectives at the provincial department of health, resulting from human error at facility level, the department was committed to ensuring that the required resources were made available to interrogate the population and fix the errors identified during the audit to ensure that their clean audit is maintained. However, this may not be sustainable, and those completing the source documentation should take care to complete it correctly and use clear copies. If the issues persist, management must apply appropriate consequence management.

Procurement findings persisted in the current year, resulting in a further increase in irregular expenditure, from R287,9 million to R328,9 million. Despite our concerns raised in 2019-20, the audit outcome of the provincial department of human settlements regressed due to various procurement findings reported in the audit report. As a result, the department was responsible for 87% (2019-20: 92%) of the province's total irregular expenditure. Of the department's current-year irregular expenditure, R89 million (31%) relates to contracts entered into in previous years on which work still needed to be performed, while R189 million (66%) relates to one security contract for which certain procurement regulations were not followed. The processes and legislative requirements relating to expanding the scope of contracts need to be carefully considered to ensure full compliance and avoid further regression in audit outcomes. The department applied to the provincial treasury to have the irregular expenditure as disclosed in the 2019-20 financial statements condoned. The outcome of this application is outstanding.

Overall, the province's financial health is good, which shows the resilience of the provincial fiscus to withstand the economic impact presented by the covid-19 pandemic. This is further evidenced by there being no unauthorised expenditure recorded in the province for the three years under review. The pandemic altered the province's economic and developmental outlook, which required both an immediate and medium-term fiscal response. The Provincial Government Budget Office, which plays a key role in budgeting and cash management, adopted a three-phase approach to the budget to ensure that resources were reprioritised and deployed to respond to the pandemic. The immediate phase focused on the public health response through reprioritising resources and deploying available reserves. The short-term phase focused on policy-led repositioning towards the Western Cape Recovery Plan's priorities of jobs, safety and wellbeing. The 2021 Medium-Term Expenditure Framework, along with the third 2020 adjusted budget, represent the final phase of this approach and set the course for recovery over the medium term. The performance of the provincial department of human settlements in the current year fell short of targets set due to the impact of covid-19, as the level 5 lockdown meant there was no progress on projects. The department's annual allocation of the human settlements development grant was also drastically reduced, further affecting delivery of housing opportunities.

The province should maintain and further build on the controls already embedded in the areas of financial reporting, reporting on predetermined objectives and compliance with legislation. To sustain its good audit outcomes, the province must continue to implement the corporate governance and review outlook process, which includes a thorough analysis of any regressions and areas of concern identified in the various sections of the management and audit reports. The province should also clarify legislative interpretations and departures through consultation with the National Treasury, as these are the key reasons for some of our findings on supply chain management, and are also the driving force behind the increase in irregular expenditure. Dealing appropriately with this matter will address the two most significant issues for the province – material findings on procurement and growing irregular expenditure. We urge those charged with governance and oversight to monitor action plans to address any control weaknesses identified.

NINE
MATERIAL IRREGULARITIES

MATERIAL IRREGULARITIES

The amendments to the Public Audit Act became effective on 1 April 2019. These amendments provide us with an expanded mandate to go beyond auditing and reporting in an effort to strengthen the accountability mechanisms across government, mainly through the material irregularity (MI) process.

The amendments to the Public Audit Act became effective on 1 April 2019. These amendments provide us with an expanded mandate to go beyond auditing and reporting in an effort to strengthen the accountability mechanisms across government, mainly through the material irregularity (MI) process.

We are in the third year of implementing the amendments in national and provincial government. In this chapter, we share insights from, and outcomes of, the MI implementation journey. We also include examples of some of the identified MIs. More details on the MIs we have identified thus far are available on our website (www.agsa.co.za).

At the end of this chapter you can see how the MI process works – in particular how we identify, follow up and report on MIs as part of our audit process.

OUR EXPANDED MANDATE AND IMPLEMENTATION

The responsibilities and duties of accounting officers and authorities are well defined in the Public Finance Management Act and other enabling legislation, which are all underpinned by the basic values and principles governing public administration as set out in our Constitution. For many years, our audits have highlighted a systemic failure across government to establish the systems, processes and controls required to make the constitutional and legislative requirements the norm. Not only are irregularities and the resultant losses, misuse and harm not prevented from happening, such instances are also not appropriately dealt with when they are identified.

Our mandate has always been to audit and report on these matters so that they can be corrected, but a lack of progress in preventing and dealing with the accountability failures we report prompted the need for an expansion of our mandate. Rather than being a punitive measure, the amendments are intended to act as a complementary mechanism in the broader public sector accountability value chain by strengthening financial and performance management and instilling the right behaviour in order to prevent MIs and ensure they are appropriately dealt with if they do occur.

The aim of our expanded mandate is thus to:

- promote better accountability
- result in the protection of resources
- enhance public sector performance and encourage an ethical culture
- ultimately strengthen public sector institutions to better serve citizens and improve their lived experiences.

Definition of material irregularity and expanded powers

If accounting officer or authority does not appropriately deal with MIs, our expanded mandate allows us to:

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.**

Material irregularity (MI)

1. **Refer material irregularities** to relevant public bodies for further investigation
2. **Recommend actions** to resolve material irregularities in audit report

   Take binding remedial action for failure to implement recommendations
3. **Issue certificate of debt** for failure to implement remedial action if financial loss was involved

According to the MI definition, there are two main gates that a matter must pass for it to be classified as an MI – there needs to be an **irregularity** (which is the non-compliance, fraud, theft or breach), and that irregularity must have an **impact** (which is the loss, misuse or harm).

The amendments to the Public Audit Act and the Material Irregularity Regulations have been shaped to support the process of fair, transparent and legally sound administrative justice, by giving the accounting officer or authority an opportunity to take the actions required to deal with the MIs we identify. We use our additional powers only when the accounting officer or authority is not dealing appropriately with the MIs of which we notify them.

Our expanded mandate did not change the role and responsibilities of the accounting officers and authorities or the oversight and monitoring roles of oversight bodies and executive authorities, as shown below.

Roles and responsibilities in material irregularity process

TO STRENGTHEN ACCOUNTABILITY MECHANISMS IN THE PUBLIC SECTOR

ACCOUNTING OFFICERS AND AUTHORITIES (AOs/AAs)

Have legal obligation to prevent **all irregularities and take action when they occur**

OVERSIGHT AND EXECUTIVE AUTHORITIES

Oversight and monitoring roles remain unchanged

AGSA

- **Identify irregularities that could have significant impact** on auditees' finances, resources and delivery
- Notify AOs/AAs so that they can **timeously take appropriate steps in terms of legislation**
- **Give space to AOs/AAs to take actions required** to deal with MIs before using our additional powers

AGSA

By reporting MIs, **most material matters are highlighted** and information provided to assist oversight and monitoring roles

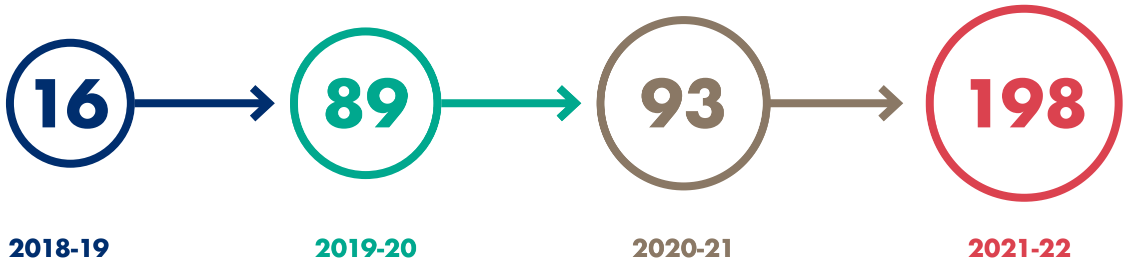
SUCCESS IS:
SWIFT ACTION BY AOs/AAs TO RESOLVE MIs AND PREVENT RECURRENCE

We are fully committed to implementing the enhanced powers given to our office – without fear, favour or prejudice.

If accounting officers and authorities, supported by their political leadership, fulfil their legislated responsibilities and commit to taking swift action when we notify them of an MI, there is no need for us to use our remedial and referral powers. Yet, we will not hesitate to use these powers when accounting officers or authorities do not deal with MIs with the required seriousness – as we clearly illustrate in this chapter.

The impact of the expanded mandate on our audit process and organisation, as well as the profound implications thereof, requires us to implement the changes in a careful but progressive manner.

We have phased in the implementation of different elements of the MI definition over the past three years, with 2020-21 being the first year we implemented the full definition. We also incrementally increased the number of auditees where we implemented the MI process – and plan a further increase in 2021-22.



We are focusing on those auditees where the greatest impact is likely, without spreading our resources too thin or compromising on the quality of our processes. A list of the selected auditees is included at the end of this chapter.

When we identify irregularities or indicators of irregularities, the MI process is not the only route we can take to ensure that the matter receives the required attention. We can also directly refer it to public bodies for further investigation – we used this avenue to enable swift action in dealing with the indicators of fraud and the abuse of funds we identified during the real-time audit of government's covid-19 initiatives. We shared the information with the Fusion Centre, which brings together key law-enforcement agencies to share information and resources. Chapter 5 includes more information on this.

STATUS OF IDENTIFIED MATERIAL IRREGULARITIES

In the previous general report, we reported that we had identified and notified accounting officers and authorities of 75 MIs and that three of these MIs had been resolved in 2019-20. Since then, we have closed another four of these MIs, based on information provided by the accounting officer; and split one of the MIs into three separate MIs. A total of 70 active MIs was thus carried over from previous years. By 15 October 2021, we had notified accounting officers and authorities of a further 61 MIs.

The 131 MIs all relate to non-compliance with legislation or suspected fraud that resulted in a material financial loss.

We only recently notified accounting officers and authorities of 32 of these MIs, and by 15 October 2021 (which was the cut-off date for inclusion in this report), their responses were not yet due. At that date, we were also still evaluating the responses of accounting officers and authorities to 14 of the newly identified MIs and assessing the appropriateness of the actions taken to address 12 previously reported MIs.

Status of remaining 73 material irregularities

10 MIs

MI resolved by AO/AA

52 MIs

Implementation of **appropriate actions** by accounting officer/authority (AO/AA) **in process**

3 MIs Lack of progress by AO/AA resulting in **recommendations issued**	1. Department of Defence 2. Department of Cooperative Governance 3. Department of Public Works and Infrastructure
4 MIs Recommendations not implemented by AO/AA resulting in **remedial action issued**	1. Department of Defence – 1 2. Passenger Rail Agency of South Africa – 1 3. Department of Human Settlements (FS) – 2
3 MIs Lack of progress by AO/AA resulting in **referral for investigation** to public body	1. Department of Health (NC) 2. Department of Defence 3. SA Post Office
1 MI Lack of progress by AO/AA resulting in **referral for investigation** to public body and **recommendations**	Free State Development Corporation

How have accounting officers and authorities responded?

We have already seen great value from the implementation of the MI process. As is evident from the status of the MIs on the previous page, most accounting officers and authorities are taking appropriate action to address the MIs identified. In following up on the progress of MIs reported in previous years, we also found that most accounting officers and authorities were actively working to resolve the MIs. This signals a behavioural change towards responding in a decisive and timely manner to our findings.

We have seen success stories of financial losses being recovered, internal controls being improved and consequences being effected. But we also became aware of stumbling blocks that accounting officers and authorities encounter in resolving MIs – some of these matters are within their control, causing internal delays; but there are also external factors that hamper the process.

The examples that follow demonstrate both the success stories and the stumbling blocks.

MI successfully resolved

The **Free State Department of Education** awarded a contract for training teachers on information and communication technology.

The department did not evaluate a bidder that achieved the minimum qualifying score for functionality criteria, as required by the Preferential Procurement Regulations. Consequently, the contract was awarded to another bidder at a higher price of R27,6 million, compared to the R19,4 million quoted by the disqualified bidder.

The accounting officer took the following actions to resolve the MI:

- The contract was terminated in July 2020 before any services were received or any payments were made, therefore preventing any losses.
- In September 2020, the accounting officer implemented an additional internal control measure, instructing the internal audit unit to verify all bid evaluation reports and bid documents before their approval. We confirmed during the 2020-21 audit that the unit did review tenders before confirming the awards.
- The internal audit unit investigated the matter and recommended consequence management as guided by the Public Finance Management Act.
- Sanctions were instituted against the members of the bid evaluation committee, in the form of written warning letters.

Financial losses recovered or in the process of being recovered

We raised an MI at the **National Student Financial Aid Scheme** on a likely financial loss as a result of money owed by tertiary institutions not being collected. The scheme appointed an external service provider to determine the extent of the debt through reconciliations. The board would have started recovering the funds from the institutions from September 2021.

From 2015 to 2020, the Pietersburg Hospital leased radiology equipment that it did not use due to safety concerns, resulting in an estimated loss of R3,7 million. After we issued the MI, the equipment was relicensed and is now in use. To recover part of the financial loss, the accounting officer of the **Limpopo Department of Health** renegotiated an extension of the contract, which will allow the equipment to be used for 12 months at no cost.

A municipal grant payment of R103 million incorrectly made in 2018 to a supplier by the **Department of Cooperative Governance** was dealt with swiftly and the money is currently being recovered through court processes (supported by the Special Investigating Unit, the Directorate for Priority Crime Investigation (the Hawks) and the State Attorney).

Speedy recovery hampered by suppliers in business rescue or being liquidated or delays in recovery by the State Attorney

In 2016-17, the **Eastern Cape Department of Transport** paid for a fire truck that was not received. After we issued the MI notification, a letter of demand and summons were served on the supplier in November 2020, but the supplier had gone into business rescue in 2017.

The financial losses suffered by the **Passenger Rail Agency of South Africa** as a result of the purchase of locomotives that were not fit for purpose are unlikely to be recovered in full, as the supplier applied for liquidation in 2018.

Unfair procurement processes for information technology infrastructure in March 2015 by the **Gauteng Department of Health** resulted in an estimated financial loss of R149 million. An investigation identified the implicated officials and the matter was referred to the State Attorney in July 2019 to consider possible civil claims, but this is still in underway.

In October 2015, the **North West Department of Community Safety and Transport Management** irregularly appointed a supplier for learner driver training, who received a prepayment of R21,3 million and then did not deliver the service. A civil claim process for recovery from the supplier was started in 2017, but a summons was only issued following the establishment of the supplier's whereabouts in August 2021.

Disciplinary steps have been or are being taken against responsible officials, but processes are often delayed for more than a year

The **Gauteng Department of Human Settlements** made a payment of R2,5 million to an incorrect contractor; the payment is partially in the process of being recovered from the supplier through a legal process with the National Prosecuting Authority. The four officials responsible were identified through an investigation in April 2021. By August 2021, only one of the disciplinary hearings had been held due to covid-19-related postponements.

Expenditure on state funerals incurred by the **Department of Public Works and Infrastructure** between May 2018 and December 2018 exceeded the contract amount, while the services paid for differed from those provided for in the contracts. The accounting officer's investigation was finalised on 29 March 2019. The department's executive authority, together with the acting accounting officer and the executive authority in the Office of the Presidency, is proceeding with disciplinary action against the officials responsible. This process has been prolonged by court litigation levelled by the implicated officials against the department.

Supplier contracts cancelled – some even before the first payments were made, preventing any losses

The **Department of Cooperative Governance** made payments in advance to implementing agents without evidence of goods and services having been received. In response to the MI notification, some agents that were not complying with the requirements of the programme were referred to the internal audit unit for investigation and some contracts were subsequently terminated.

As detailed earlier, the **Free State Department of Education** awarded a R27,6 million contract to a specific supplier, but another supplier with a lower bid was unfairly disqualified. We notified the accounting officer of the MI on 7 July 2020, who then terminated the contract on 22 July 2020 before any services were received or any payments were made, preventing any losses.

Investigations instituted into fraud or criminal conduct by forensic firms, but most through referrals to the Special Investigating Unit or the Hawks

In September 2018, the **Limpopo Department of Public Works, Roads and Infrastructure** awarded a three-year road maintenance contract to a bidder that did not score the highest points in the evaluation process. This resulted in higher prices being paid, as the contract value of the appointed bidder was higher than the bid amount of the bidder that scored the highest points. In June 2021, in response to being notified of the MI, the accounting officer requested a forensic investigation into this matter by the Special Investigating Unit. A secondment agreement was signed with the Special Investigating Unit in August 2021 and the investigation commenced in September 2021.

The **North West Department of Health** entered into a contract for the maintenance of medical equipment from November 2016 to October 2020, with a provision that the department was to confirm if prices are market related with each transaction and then allowing the department to engage another service provider irrespective of the contract if it was found that the prices were not market related. However, the department did not follow this process and paid R3,3 million instead of the market-related cost of R144 562 for the same service. An internal investigation into the MI was completed in May 2021. In light of the seriousness of the findings, and as recommended by the internal investigation, the accounting officer handed the matter to law-enforcement agencies for criminal investigation and recovery in June 2021.

Significant delays in investigations, hampering timeous recovery of financial losses, consequence management processes and criminal proceedings

The **Department of Basic Education** distributed learner materials to volunteer educators for learners who did not qualify for the Kha Ri Gude literacy programme. After a departmental investigation, the matter was referred to the Hawks in 2017-18 – the investigation is still ongoing.

The investigation by the Special Investigating Unit into scholar transport contracts awarded by the **North West Department of Community Safety and Transport Management** has been ongoing since 2019. Two of the MIs we raised at the department are dependent on the completion of this investigation for resolution.

Delays in resolving matters as a result of intergovernmental processes, which unfold slowly

In June 2019, we notified the accounting officer of the **KwaZulu-Natal Department of Health** of an irregularity in awarding contracts to bidders that did not score the highest points in the evaluation process. Based on a preliminary investigation that confirmed the non-compliance, the accounting officer referred the matter to the provincial treasury in August 2019 for a forensic investigation, which was only concluded in June 2020 and did not find any non-compliance. Through our engagements with the National Treasury, the non-compliance was confirmed. The accounting officer was informed of the outcome of the consultation with the National Treasury and the expectation that further actions need to be taken to resolve the MI. We are currently awaiting feedback from the accounting officer on the further actions to be taken.

The **Limpopo Department of Education** received goods and services from a supplier of information technology services but did not pay the invoices, as the contract was cancelled when the department was placed under administration. This resulted in litigation and an order for the department to pay the outstanding amount plus interest (R85,2 million). The accounting officer's preliminary investigation determined that different public sector institutions played a role in the MI and the premier's office advised that the matter be referred to the intergovernmental relations forum. In December 2019, the former accounting officer requested the national Department of Cooperative Governance to assist in this regard. The new accounting officer followed up the matter and in September 2020 the department committed to facilitate a mediation process to identify the responsible parties. To date, this matter has not been finalised. We did, however, conclude that the accounting officer had taken all possible actions to resolve the matter.

Instability at accounting officer and authority level creates delays

We often need to reissue notifications when there is a change in accounting officer or authority, and there is rarely a good handover from the preceding accounting officers and authorities to the new ones. MI processes are thus halted or do not proceed as planned.

The **Northern Cape Department of Health** entered into a radiology services contract from 1 November 2013, which was subsequently extended multiple times. The contract contained a mathematical error that resulted in overpayments to the service provider. Payments were also made for mammogram services even though the hospital where the services were supposedly rendered did not have a mammogram machine. The incumbent accounting officer performed a preliminary investigation, which resulted in a full-scale investigation being instituted in August 2019. The investigation was only concluded in October 2020 due to a change in the accounting officer and the covid-19 lockdown.

We notified the board of the **Passenger Rail Agency of South Africa** of nine MIs in July 2019. The MIs have not been resolved or adequately attended to because of the multiple changes at board level since then.

What did we do when accounting officers and authorities did not respond adequately?

Where accounting officers and authorities did not appropriately address the MIs we reported to them, we used our expanded mandate by including recommendations in the audit reports, or the auditor-general invoked her additional powers of referral and remedial action.

Department of Defence – remedial action, recommendations and referral

We identified five MIs at the department, and concluded that the accounting officer had not taken appropriate action to resolve three of these as at 15 October 2021.

Remedial action: inventory and asset management contract not awarded to only the bidder that scored the highest points in the evaluation process

In February 2017, the department awarded the contract for inventory and asset management for a period of five years, starting on 1 March 2017. The department did not comply with the requirements of the Preferential Procurement Policy Framework Act in awarding this contract because it did not award the entire contract to the bidder that scored the highest points in the evaluation process. The non-compliance is likely to result in a material financial loss, as the contract was awarded to two bidders on a fifty-fifty basis at an increased price of R922 million for the same scope of work. This resulted in an increase of R250,56 million to the project cost.

The accounting officer disagreed with the notification and stated that there was no non-compliance in awarding the contract. The National Treasury then further investigated the matter and confirmed on 28 February 2020 that legislation had been contravened in awarding this contract.

We included recommendations in the department's 2019-20 audit report, which the accounting officer was required to implement by 30 November 2020.

Based on our assessment of the written response and supporting evidence submitted by the accounting officer, we concluded that the recommendations had not been adequately implemented and gave an extension until 30 April 2021 to implement those recommendations. Although the accounting officer did conduct an investigation, they cited limitations in terms of the Defence Act as it relates to taking disciplinary action against military command members. We concluded that the recommendations had not been implemented adequately, particularly those relating to determining the amount of the financial loss and taking disciplinary action against non-military personnel, as the accounting officer can take this type of action.

On 18 August 2021, the auditor-general issued a directive to the accounting officer to determine the amount of the financial loss and to recover such loss or make progress with recovering the loss from the responsible person(s) by 18 November 2021. She also notified the accounting officer of the following remedial actions to address the MI, which should be implemented by the same date:

- Effective and appropriate disciplinary steps must be taken against any civilian official that the investigation finds to be responsible, and appropriate action must be taken to determine whether any such person is liable for the losses suffered by the department for the purpose of recovery.
- Steps must be taken to ensure that the chief of the South African National Defence Force takes the same actions against any military command officials that the investigation finds to be responsible. If the required action is not taken, the accounting officer must promptly notify the executive authority of such failure.

Department of Defence – remedial action, recommendations and referral continued

Recommendations: lease payments made for unoccupied office buildings

From 2015-16 to 2019-20, the department made lease payments for unoccupied office buildings, in contravention of the Public Finance Management Act, which requires the effective, efficient, economical and transparent use of the department's financial resources. The non-compliance resulted in a financial loss of R108,3 million.

We notified the accounting officer of the MI on 11 August 2020. The accounting officer responded with planned actions to resolve the MI, which we considered appropriate. On 20 April 2021, we submitted a request for information on the progress made in addressing the MI, but did not receive a response. We therefore concluded that appropriate action is not being taken.

We included a recommendation in the 2020-21 audit report, which the accounting officer was required to implement by 11 November 2021:

- The amount of the financial loss should be determined and the officials responsible for the financial loss should be identified.
- Effective and appropriate disciplinary steps should be taken against any civilian official and military command official whom the investigation found to be responsible.
- Appropriate action must be taken to determine whether the responsible official(s) is/are liable by law for the losses suffered by the department for the purpose of recovery.

Referral: unfair award for the supply of fuel

In July 2019, the department awarded a contract worth R13,9 million for the supply and delivery of fuel to a supplier using evaluation criteria that differed from those stipulated in the original request for quotations, which stipulated that the award would be made to a bidder with a lower price. However, the department indicated that it used the rotation of suppliers and an average price as the evaluation criteria to award this contract. The mode of transport was also changed after the award, which resulted in a further price increase. Awarding the contract using different criteria resulted in non-compliance with the Treasury Regulations, which require the supply chain management process to be fair, transparent, competitive and cost-effective. The non-compliance caused a material financial loss of R2,57 million due to a higher price being paid for the fuel.

We notified the accounting officer of the MI on 11 August 2020. On 27 November 2020, the accounting officer completed the investigation and disagreed that there was any non-compliance with legislation in awarding this contract.

In September 2021, the auditor-general approved the referral of the MI to the Hawks for further investigation.

Free State Development Corporation – recommendations and referral

Recommendations and referral: long-outstanding electricity receivables not collected

The entity appointed a service provider to provide electricity billing and collection services to tenants for a contract period of 60 months. The service provider collected R37,5 million in the 2019-20 financial year but only paid over R4,8 million to the entity. In contravention of the Public Finance Management Act, effective and appropriate steps were not taken to collect the outstanding amounts due from the service provider, as the debt-collection process only started in May 2020. The service provider was placed under voluntary liquidation from 26 May 2020. The non-compliance is likely to result in a material financial loss if the outstanding amount is not recovered from the service provider, which owed the entity a total of R109 million by 31 March 2021.

We notified the accounting authority of the MI on 23 October 2020. An external legal firm was instructed to take legal steps against the service provider, but this process has not resulted in the recovery of the outstanding amount. The accounting authority could not provide sufficient and appropriate evidence of other actions that had been taken in response to being notified of the MI.

We included the following recommendations in the 2020-21 audit report that the accounting authority should take by 15 January 2022:

- Appropriate action should be taken to investigate the non-compliance to determine if any official should be held responsible.
- Effective and appropriate disciplinary steps should be taken against any official that the investigation finds to be responsible.

In addition, the auditor-general approved the referral of the MI to the Hawks for further investigation.

Free State Department of Human Settlements – remedial action

The accounting officer did not appropriately implement the recommendations in our 2019-20 audit report relating to two of the MIs we identified during our 2018-19 audit.

Remedial action: development of community residential units, block G – Thabong extension 3, Welkom

A new contractor had to be appointed in May 2018 to complete the construction of community residential units, as the previous contractor's contract was terminated in March 2017 due to consistent breach of contract. Consulting engineers confirmed that the value of the work done by the previous contractor by the termination date was only R12,8 million, despite the contractor receiving payments of R33 million from 2014 to 2017, in contravention of the Treasury Regulations. The overpayment was likely to result in a material financial loss of R20,2 million, if not recovered.

We notified the accounting officer of the MI on 12 July 2019. The accounting officer responded with planned actions, but has not taken any of these. The 2019-20 audit report included recommendations that should have been implemented by 28 July 2021, but the accounting officer did not adequately implement the recommendations.

- On 28 October 2021, the auditor-general notified the accounting officer of the following remedial action, which should be implemented by 28 February 2022:
- Effective and appropriate steps must be taken to ensure that the financial loss is recovered as soon as possible.
- Appropriate action must be taken to investigate the non-compliance to determine if any official should be held responsible.
- Effective and appropriate disciplinary steps must be taken against any official found to be responsible.

Remedial action: overpayments on housing project – F10110004 Kroonstad 350

During 2018-19, the department made payments on duplicate claims submitted by a supplier because it did not have effective internal controls in place for approving and processing payments, contrary to the Treasury Regulations. The overpayment was likely to result in a material financial loss of R6,6 million, if not recovered.

We notified the accounting officer of the MI on 12 July 2019. The accounting officer instituted a process to recover the duplicate payments from the supplier through the State Attorney on 8 August 2019, but did not take any further action. We therefore included recommendations in the 2019-20 audit report that should have been implemented by 28 July 2021, but the accounting officer did not adequately implement the recommendations.

On 28 October 2021, the auditor-general notified the accounting officer of the following remedial action, which should be implemented by 27 January 2022:

- Appropriate action must be taken to investigate the non-compliance to determine if any official should be held liable for the losses suffered by the department.
- If it is determined that the department suffered the financial loss through criminal acts, possible criminal acts or omission, this must be reported to the South African Police Service.
- Effective and appropriate disciplinary steps must be taken against any official found to be responsible.
- Effective and appropriate steps must be taken to monitor the recovery process of the financial loss through the State Attorney.

Passenger Rail Agency of South Africa – remedial action

Remedial action: unfair procurement process in the purchase of locomotives

In July 2012, the entity awarded a R3,5 billion contract to purchase locomotives. Multiple non-compliance matters were identified in the bidding and evaluation process. A prepayment of R2,6 billion was made to the supplier for which the entity has derived no value, as it assessed the supplier's locomotives as not fit for purpose. The amount has not been recovered from the supplier. A material financial loss is likely, as the supplier applied for liquidation in December 2018.

In 2015, the accounting authority at that time began the initial phase of the investigation into the matter, resulting in an application to the courts to set aside the contract, which was finalised in May 2019. The Hawks has also been investigating this matter since 2015. The second phase of the investigation into implicated employees is still in progress.

We notified the accounting authority of the MI on 17 July 2019. Because little action had been taken to address the MI, the 2018-19 audit report included recommendations that should have been implemented by 31 March 2020.

There were delays in implementing the recommendations because of changes at the accounting authority level and the lockdown measures implemented in response to covid-19. As a result, we granted the new accounting authority an extension for implementing the recommendations.

To implement the recommendations, the entity asked the Special Investigating Unit to assist with finalising the investigation into the MI by seconding resources for six months. The recommendations were not implemented appropriately because the Special Investigating Unit's report did not address the purpose of the investigation, namely to identify the responsible officials for disciplinary action. In addition, the accounting authority's response did not indicate what specific actions would be taken and by when, based on the Special Investigating Unit's report.

On 15 September 2021, the auditor-general notified the accounting authority of the following remedial action that must be implemented by 15 December 2021:

- Appropriate action must be taken to determine the role of the individual bid evaluation and bid adjudication committee members in appointing the supplier.
- Appropriate action must be taken to identify any other employees that were either actively or passively involved in appointing the supplier.
- Effective and appropriate disciplinary steps must be taken against the individual bid evaluation and bid adjudication committee members and any other employees found to be responsible.

Department of Cooperative Governance – recommendations

Recommendations: Community Work Programme payments to non-qualifying government employees

In 2018-19, payments were made through this programme to non-qualifying government employees because there were no effective internal controls in place for approving and processing payments. The non-compliance is likely to result in a material financial loss, if not recovered.

We notified the accounting officer of the MI on 13 August 2019.

A new accounting officer was appointed in April 2020 and we allowed the new incumbent time to implement the planned actions to resolve the MI, keeping in mind the challenges brought about by the nationwide lockdown restrictions.

An investigation commissioned by the preceding accounting officer was concluded in October 2020, but did not determine the amount of the financial loss because the scope was too broad and not specific to the MI. The officials who were found to be responsible for the non-compliance were suspended pending disciplinary proceedings, but no evidence was provided to confirm that the financial loss was recovered. Controls were also not implemented to prevent the non-compliance from reoccurring, which resulted in further losses due to continuing payments being made to some of the government employees.

We included the following recommendations in the 2020-21 audit report, which should be implemented by 31 January 2022:

- The amount of the financial loss relating to non-qualifying participants should be appropriately and accurately determined.
- Appropriate actions should be taken to recover the financial losses suffered by the department.
- If it is determined that the department suffered the financial losses through criminal acts, possible criminal acts or omission, this should be reported to the South African Police Service.
- Appropriate and proactive internal controls should be implemented to prevent payments to non-qualifying government employees by validating participants and removing non-qualifying government employees from the database.
- Government employees confirmed to have unduly benefitted from the programme should be reported to their employer and the Department of Public Service and Administration.
- Effective and appropriate disciplinary steps should be taken against any official whom the investigation finds to be responsible.

Department of Public Works and Infrastructure – recommendations

Recommendations: expenditure on state events exceeded contract amount

The prices charged on the invoices for three state events from July 2018 to November 2018 differed from the prices quoted on the pricing schedule submitted by the supplier during the tender process. The non-compliance resulted in a material financial loss of R0,8 million.

We notified the accounting officer of the MI on 3 September 2020, but he did not implement the actions he committed to in his response within a reasonable time.

We included the following recommendations in the 2020-21 audit report, which should be implemented by 3 February 2022:

- The irregular expenditure should be investigated and the amount of the financial loss incurred should be determined.
- Appropriate action should be taken to recover the financial loss suffered by the department from the supplier.
- Effective and appropriate disciplinary steps should be taken against any official whom the investigation finds to be responsible.

Northern Cape Department of Health – referral

Referral: evaluation criteria applied in medical waste award differed from original bidding invitation

In November 2018, the department awarded a three-year contract for medical waste collection at R4,3 million per month to a supplier based on criteria applied in the evaluation process that differed from those included in the original bidding invitation, in contravention of the Treasury Regulations. The non-compliance is likely to result in a material financial loss because the fixed monthly pricing awarded to the supplier differed significantly from the variable cost pricing included in the original bidding invitation.

We notified the accounting officer of the MI on 18 July 2019. The accounting officer disagreed that there was any non-compliance with legislation in awarding the contract.

The auditor-general referred the MI to the National Treasury on 6 October 2019 for further investigation. The National Treasury accepted the referral on 13 March 2020. The holdup in accepting the referral was caused by a delay in engagements on the memorandum of understanding to facilitate the referral.

The National Treasury provided feedback on 30 June 2021 that it is investigating the matter but that the progress of the investigation has been delayed by covid-19 lockdown restrictions.

South African Post Office – referral

Referral: inadequate system controls, resulting in data breaches and fraud

In 2018, the South African Post Office was awarded the contract to administer and process the payment of South African Social Security Agency grants through its then Postbank division. The entity was required to procure and implement an integrated grants payment system for this purpose. The system was not properly implemented and secured, however, resulting in the issuer master key for the bank cards of grant beneficiaries being compromised and fraudulent transactions taking place, which are likely to result in material financial losses.

Postbank became a separate public entity in April 2019, which resulted in a disagreement between Postbank and the South African Post Office about who was responsible for resolving the MI and for the limited actions that had been taken.

The auditor-general approved the referral of the MI to the Hawks in September 2021 for further investigation.

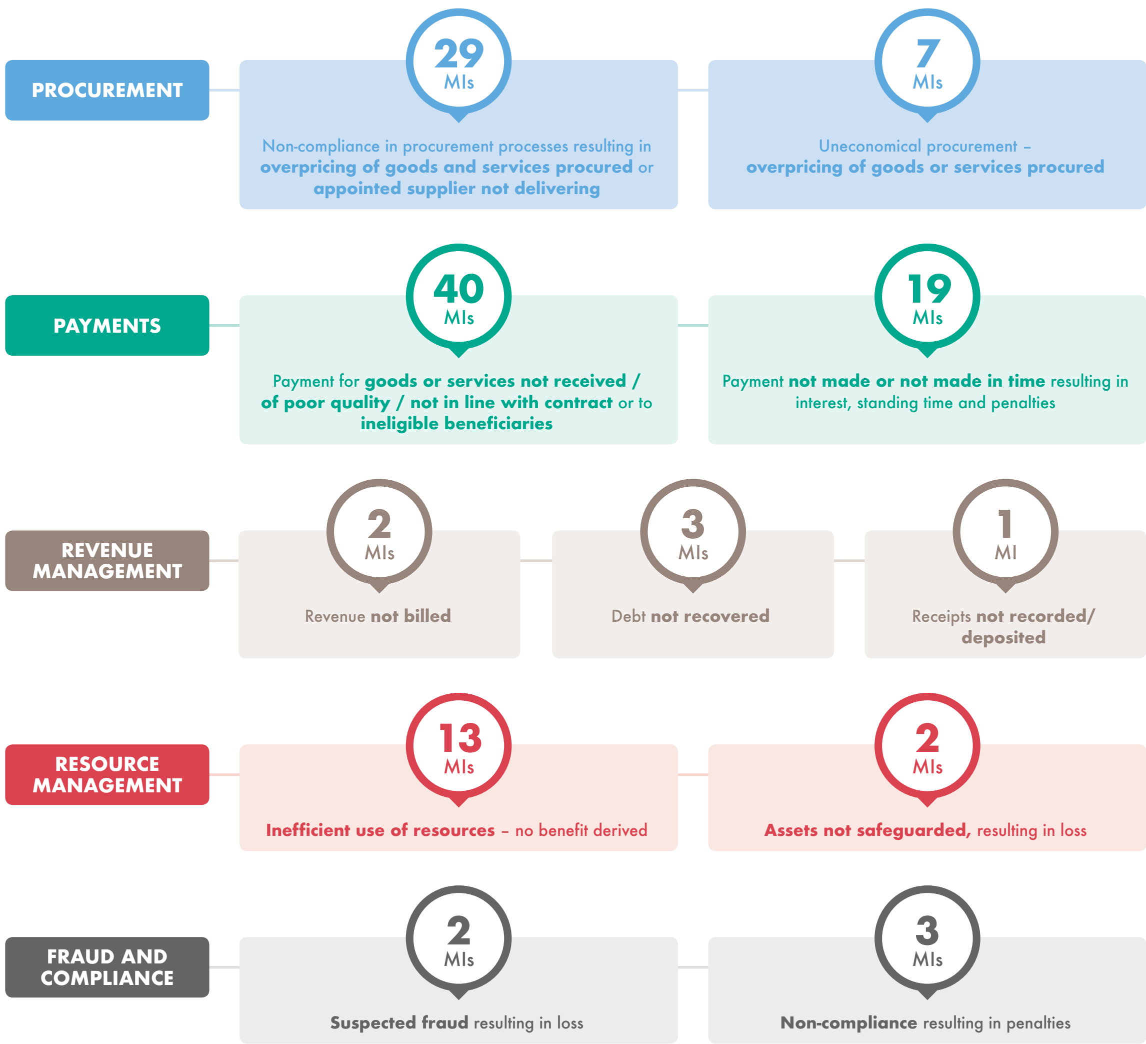
We have not issued any certificates of debt to date. However, if the MIs involving financial loss currently in the remedial process are not appropriately dealt with, the auditor-general can invoke the certificate-of-debt process.

Nature of identified material irregularities

We now turn our attention to the nature of the 121 MIs that had not been resolved by 15 October 2021. These MIs emerged in the areas of procurement, expenditure management (payments), revenue management, resource management, suspected fraud, and non-compliance resulting in penalties.

We estimate the financial loss associated with these MIs to be R11,9 billion. Such huge losses can be ill afforded at a time when limited funds are available and the demand for service delivery is high.

Areas vulnerable to material irregularities



We have highlighted all of the areas of vulnerability in the figure above for a number of years, including in this report and the special reports we tabled on the management of government's covid-19 initiatives. Six of the MIs identified on uneconomical procurement related to the covid-19 initiatives, mostly to the procurement of personal protective equipment.

These are not complex matters, but the basic disciplines and processes that should be in place at auditees:

- to procure at the best price
- to pay only for what was received
- to make payments on time
- to recover revenue owed to the state
- to safeguard assets
- to effectively and efficiently use the resources of the state to derive value from the money spent
- to prevent fraud
- to comply with legislation.

Financial losses mean that there is less money available to deliver much-needed services to citizens and for government to achieve it strategic priorities. Some of the MIs had a direct impact on the ability of auditees to deliver on projects and services in addition to reducing the funds available for such delivery. For example, the late payment of contractors or the appointment of contractors that cannot deliver led to delays in the completion of infrastructure projects, as detailed in chapter 4.

Below we look at further MI examples. A full list of all the MIs we have identified and to which the accounting officers or authorities have responded is available on our website (www.agsa.co.za).

National Student Financial Aid Scheme

Payment not in line with contract

From 2017-18, the scheme paid tuition fees and allowances to students that were above the maximum amounts set in the written agreements with the students due to ineffective controls. In some cases, the amounts in the agreements were incorrect, while in other cases the amounts paid were more than the total cost of study for the students. The non-compliance is likely to result in a material financial loss if the overpayments are not recovered from the students and tertiary institutions.

Debt not recovered

The scheme is owed money by tertiary institutions (universities as well as technical and vocational education and training colleges) due to students deregistering or being awarded bursaries from other donors and thus not using the scheme's funding, or due to pay-outs exceeding the student's total cost of study. As most of the institutions have not been following the processes for declaring amounts owing to the scheme since 2017, the scheme did not record and collect these amounts. The non-compliance is likely to result in a material financial loss if the debt is not recovered from the institutions.

Unbilled revenue

In terms of the scheme's policy, interest on student loans is supposed to be charged one year after students graduate or leave the tertiary institution. The scheme did not have up-to-date information on the status of students, resulting in loan recipients no longer studying continuing to be recognised as students for many years without interest being charged on their loans. The non-compliance is likely to result in a material financial loss of just over R1 billion if the interest is not recovered.

Status: The accounting authority is taking appropriate action to resolve these MIs.

North West Department of Health

Payment for goods or services not received

An advance payment was made to a contractor appointed to renovate the Mmabatho Nursing College. As this prepayment was not provided for in the contract between the department and the contractor, it contravened the Treasury Regulations. An investigation confirmed that R9,4 million was paid without services being rendered and that this should be recovered from the supplier.

Unfair procurement process resulting in overpricing

During the tender evaluation process for a R10,3 million maintenance contract, a bidder was disqualified at the functionality stage even though they met all the requirements. If the bidder had not been incorrectly disqualified, they could have won the contract at a cost of R3,3 million less than the winning bidder.

No benefit from cost

The construction of the Jouberton Community Health Centre was significantly delayed. The contractor was paid additional extension-of-time payments of R4 million above the total amount approved for such extensions. This will be a material financial loss if not recovered from the contractor.

Status: The accounting officer is taking appropriate action to resolve these MIs.

Department of Defence

No benefit from cost

The department imported 970 895 vials of the unregistered drug Heberon® Alfa R (Heberon) at an estimated cost of R260,6 million from a Cuban supplier without approval from the South African Health Products Regulatory Authority. Only R34,86 million has been paid to the supplier to date.

The South African Health Products Regulatory Authority authorised the use of only 10 vials of Heberon on a single patient on 5 October 2020 and rejected the department's bulk stock application on 21 October 2020. The outstanding approval, together with the approaching expiry dates, will most likely result in the department not administering some or all of the remaining drugs. Therefore, the non-compliance has resulted in a likely material financial loss of R260 million to the department.

Status: The accounting officer responded to the notification and we are assessing the response.

National Treasury

No benefit from cost

From April 2016 to March 2020, the National Treasury paid R336 million for technical support and maintenance on the Integrated Financial Management System that is not yet in operation, resulting in no value being derived from the expenditure.

Status: The accounting officer disagrees with the MI and we are considering what further action should be taken.

Coega Development Corporation

Suspected fraud

An employee at Coega's skills development centre created fictitious students and facilitated the transfer of stipends of R7 million into his own bank account. The theft of the funds took place from 2013 to February 2021.

Status: We have notified the accounting authority of the MI and are awaiting the response.

Free State Department of Education

Non-compliance resulting in penalties

Between March 2013 and February 2016, employee taxes on leave gratuities and pro-rata bonuses paid to retiring employees were not withheld and paid to the South African Revenue Service.

The department applied for a tax directive instead and incorrectly stated on the application forms that the payments were in lieu of severance benefits payable upon retirement. The South African Revenue Service concluded the matter based on the final audited assessment. Outstanding taxes and penalties totalling R55,4 million were payable.

Status: The accounting officer is taking appropriate action to resolve the MI.

Conclusion

In continuing on the MI implementation journey, we have substantially increased the number of MIs identified as well as our impact on the accountability mechanisms of national and provincial government. We observed accounting officers and authorities being responsive and swiftly dealing with MIs, which resulted in losses being recovered, controls being improved, and consequences being effected. But we also noted some stumbling blocks – both internal and external to our auditees – delaying the timeous resolution of MIs.

Where accounting officers and authorities have not done enough to resolve the MIs, our expanded mandate has provided us with the power to take decisive action in the form of recommendations, referrals to public bodies and remedial action.

A culture of responsiveness, consequence management, good governance and accountability is not just our goal, it is a shared vision for all involved, including executive authorities, Parliament and legislatures. We urge them to also play their role in the accountability ecosystem by supporting, monitoring and overseeing the resolution of MIs. When the auditor-general invokes her powers of referral and remedial action (and the issuing of certificates of debt in future), it not only reflects poorly on the accounting officer and authority, but also means that the whole accountability value chain failed, up to executive and oversight level.

Again, we need to highlight that preventing MIs is more effective than having to deal with the consequences – money is lost, costly investigations have to be instituted and officials are subjected to the discomfort and anxieties associated with these processes, which often take a number of years to be concluded.

If we identified an MI, it not only means that the preventative controls have failed, but also that the accounting officer or authority and those in the accountability value chain:

- were unaware that the irregularity took place, or
- knew there was an irregularly but did nothing about it, or
- tried to address the matter but were unsuccessful.

We hope to see a definite move towards preventing MIs to the benefit of the financial management, reputation and service delivery of our auditees – and ultimately the lives of the citizens they serve.

HOW DO WE IDENTIFY, FOLLOW UP AND REPORT ON MATERIAL IRREGULARITIES?

Having looked in detail at the MIs we have identified so far, we now provide some background on how the MI process works.

How do we identify and report on material irregularities?

Our annual regularity audit process has distinct phases, including planning and execution. As the legislated reporting date comes closer, we finalise and conclude on our audits, allowing for the audit report to be signed on time. After this, we interact with oversight committees and undertake engagements on the overall audit outcomes and the general report.

The MI process is integrated into the audit process, but is not bound to the audit cycle in the same way as our regularity audits. It does not have a distinct start and stop date, which is quite a different approach from what our auditees are used to. We can identify matters that could potentially be MIs at any time of the audit – even right before the audit report is signed. We then do not leave it to the next annual audit, but rather follow our structured MI route to confirm whether the matter meets the definition of an MI and, if it does, we start the process so as not to delay the accountability process.

What do we do to identify material irregularities?

The MI process was applied at selected auditees from 1 April 2019, when the amendments to the Public Audit Act became effective. The auditor-general uses the discretion allowed by the amended act to direct that the audit teams only consider MIs where they continue to have an impact from the effective date. This means, for example, that we do not consider non-compliance that took place before 1 April 2019 unless it continues to financially affect the auditee.We also make sure that we apply the definition of an MI correctly by only reporting it if the non-compliance directly resulted in a financial loss, or is likely to result in a financial loss. We determine whether a financial loss is material by considering its value, nature and impact. The value of the financial loss had often already been determined by the auditee and disclosed in the financial statements, such as fruitless and wasteful expenditure (what we refer to as a known financial loss). But for some MIs, we estimate the potential financial loss to consider if it is material (what we refer to as an estimated financial loss). We follow a similar approach in determining the nature of other irregularities (fraud, theft, and breaches of fiduciary duty) and their impact (the loss or misuse of a material public resource, or significant harm to the general public or a public sector institution).

Are material irregularities and irregular expenditure the same thing?

Our stakeholders often expect that all irregular expenditure will also be MIs. This is not the case, however, as summarised in the figure on the facing page.

The main differences are in the **nature** of irregular expenditure and MIs. An MI needs to pass two gates: there needs to be an irregularity and an impact. For a matter to be irregular expenditure, it only needs to pass the first gate – only the irregularity element is required. The irregularity is also limited to only non-compliance with legislation when incurring expenditure, while the irregularity element of an MI is much broader.

With irregular expenditure, the non-compliance and the resultant value of the expenditure incurred are disclosed. The accounting officer or authority is then required to determine if there was any impact in terms of, for example, a financial loss, and to take appropriate further action.

Sometimes, non-compliance with legislation is classified as irregular expenditure that can result in a financial loss. One such instance is non-compliance with supply chain management legislation in the procurement process resulting in an auditee missing the opportunity to get the best price for goods and then paying too much. Another is the money paid for remedial work when a supplier did not deliver a service at the required level.

BUT if the goods and services were reasonably priced and delivered on time and at the right quality, it is possible that there was no financial loss. So transactions or contracts considered to involve irregular expenditure do not always mean money was lost – this can only be determined by investigating the matter.

There are also some other matters deemed as irregular expenditure that rarely result in financial

How irregular expenditure differs from material irregularities

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**

loss, such as a supplier not submitting an updated tax certificate or an advert not including the specifications for local content.

Another difference between irregular expenditure and MIs has to do with **values**. The value of the MIs we report on are the estimated financial loss from a procurement process, while the value of irregular expenditure is the total amount expensed.

To illustrate the difference in value, let's take the example of a lack of a competitive bidding processes in awarding a contract of R20 million. The irregular expenditure would be all the payments made on the contract to date (e.g. R10 million). If the lack of competitive bidding processes resulted in a financial loss as the same service could have been delivered at a lower price of, say, R18 million, the value of the MI would be the financial loss – already lost and that could still be lost – in other words, R2 million.

What do we do when we identify a material irregularity?

When we identify an MI, the accounting officer or authority is notified without delay. We give them 20 working days to respond to the notification by giving us a written submission and evidence on what they have done to address the MI and what their further planned actions are, in line with their legal obligations.

Legal obligations of accounting officer/authority (AO/AA) to address irregularity

If AO/AA is made aware of irregularity (non-compliance, fraud, theft or breach of fiduciary duty) Public Finance Management Act, Treasury Regulations and instruction notes typically prescribe following steps to be taken:

1. Perform preliminary investigation to determine facts and collect information on what caused transgression, who is responsible and whether financial loss was (or will be) suffered
2. Prevent any losses or future losses
3. Institute formal investigation if there are indications of fraud, corruption or other criminal conduct, if confirmed, take further action (e.g report the matter to police)
4. Recover any financial losses from external party
5. Take steps against responsible officials (which can include financial misconduct investigations)
6. Recover any financial losses from responsible officials

IF APPLICABLE (steps 2–6)

Auditee's policies and procedures typically describe how these steps were taken and the timing thereof

Same steps should be taken if AO/AA is notified of MI

We assess the responses provided and conclude on whether their actions (taken or planned) and the outcomes of those actions are appropriate, in line with their legal obligations. If we find this to be the case, we give the accounting officer or authority space to implement the further planned actions. We follow up on the progress made in resolving the MI in the next audit cycle.

If we conclude that it was not appropriate, we include recommendations in the audit report on what the accounting officer or authority should do to address the MI. We also include a deadline by when these recommendations should be implemented.

Alternatively (or in addition), we refer an MI to a public body if it requires further investigation.

What do we do to follow up on the progress made in resolving material irregularities?

We write to the accounting officers and authorities to enquire on the progress made in resolving the MI and request evidence of the actions they took and still plan to take.

We assess the responses provided and conclude on whether their actions (taken or planned) and the outcomes thereof are appropriate in line with their legal obligations. If we find these to be appropriate, we give the accounting officer or authority space to implement the further planned actions, with an undertaking to follow up on the progress with resolving the MI in the next audit cycle.

If we conclude that the taken or planned actions are not appropriate, we include recommendations in the audit report on what the accounting officer or authority should do to address the MI, with a deadline by when these recommendations should be implemented. We can also refer the MI to a public body for investigation.

We follow a similar approach to obtain feedback and evidence from the auditee on the implementation of recommendations. If the recommendations have not been implemented by the stipulated date, we go through a rigorous process before concluding on whether the accounting officer or authority should be allowed more time or if remedial action should be implemented.

We appreciate our stakeholders' frustration regarding the long time it takes from identifying an MI to issuing a certificate of debt. But our MI process allows accounting officers and authorities sufficient time to take action, implement recommendations and remedial steps as well as state their case for not taking the required action.

The timeline below demonstrates the extent and timing of this process in a 'best-case' scenario. It is important to note that the certificate-of-debt process only starts after remedial action was issued and then not implemented.

Process from identifying material irregularity to issuing certificate of debt – an example

MONTH 1

Identify MI

MONTH 2

Notify AO/AA of MI – provide 20 working days to respond on actions taken and planned

MONTH 3

Conclude based on AO/AA response if appropriate action is taken or planned

MONTH 4

If actions were not appropriate, include recommendations in audit report on how MI should be addressed by specific date (e.g. within 6 months)

MONTH 12

Follow up whether recommendations have been implemented; if not, issue remedial action to AO/AA that must be implemented by specific date (e.g. within 3 months)

MONTH 16

Follow-up after 3 months whether remedial actions have been implemented; if not, issue notice of intention to issue CoD to AO/AA

Request written submission on reasons not to issue CoD within 20 working days

MONTH 18

Conclude based on written submission whether CoD process should continue

If it continues, request AO/AA to give oral representation at the MI advisory committee on reasons not to issue CoD

MONTH 19

MI advisory committee meets to hear oral representation and recommend course of action to the AG

MONTH 22

AG issues CoD to AO/AA

CoD:	certificate of debt
AO/AA:	accounting officer/authority
AG:	auditor-general

Even when the responses we receive from an accounting officer or authority and the actions they plan to take are appropriate, we sometimes find when following up that they have not honoured the commitments they made. This means that the process as detailed above can take up to another year to conclude, for a total of three years. We are busy reviewing the Material Irregularity Regulations and our internal processes to consider how we can speed up the process while still remaining fair and reasonable.

What happens with the identified material irregularities?

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

MIs and the progress made in resolving them are reported in the audit report of the auditee and in general reports until they have been fully resolved to enable accountability and oversight. When an audit report is signed, we report based on the status of MIs that are confirmed at that date. We typically include:

- new MIs identified and the actions the accounting officer or authority is taking to address them – or we include the recommendations or information on referral (as applicable)
- whether there are other MIs in process (if we have not concluded the notification and response process)
- progress made in resolving MIs reported in the previous audit report.

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

Responsibilities of key role-players to resolve an identified material irregularity

	Accounting officer/authority (AO/AA)	Executive and oversight
AO/AA is dealing with MI	**AO/AA...** implements committed actions to address MI and improves controls to prevent reoccurence **AGSA...** follows up in next audit if actions were implemented and if outcomes were reasonable; if not; can result in referral or recommendation in audit report	**Executive...** monitors progress and supports AO/AA in addressing MI and improving controls **Oversight...** monitors progress and calls AO/AA to account for actions taken and outcomes
MI is referred to public body	**AO/AA...** cooperates with public body and implements any remedial actions/recommendations made; improves controls to prevent reoccurrence **AGSA....** provides information on MI to public body, monitors progress with investigation and follows up in audits on implementation of any remedial actions/recommendations	**Executive...** supports public body investigation and AO/AA in improving controls; if responsible for public body, monitors progress with investigation **Oversight...** monitors progress with investigation and calls public body to account for undue delays in investigation
Recommendation included in audit report	**AO/AA...** implements recommendations by date stipulated in audit report and improves controls to prevent reoccurrence **AGSA...** follows up by stipulated date if recommendations were implemented and if outcomes were reasonable; if not, issue remedial action	**Executive...** monitors progress and supports AO/AA in implementing recommendations and improving controls **Oversight...** monitors progress and calls AO/AA to account for actions taken and outcomes

AUDITEES SELECTED FOR IMPLEMENTATION OF THE MATERIAL IRREGULARITY PROCESS IN 2020-21

Health sector

National and provincial departments of health (10)

Human settlements sector

Provincial departments responsible for human settlements (9)

National Home Builders Registration Council

Education sector

National and provincial departments of education (10)

Department on Higher Education and Training

National Student Financial Aid Scheme

National Skills Fund

Transport and public works sector

National and provincial departments responsible for transport and public works (16)

South African National Roads Agency

Roads Agency Limpopo

Passenger Rail Agency of South Africa

Property Management Trading Entity

Water portfolio

Department of Water and Sanitation

Water Trading Entity

Water boards (9)

Other national and provincial departments

Department of Defence

Department of Cooperative Governance

Department of Correctional Services

National Treasury

Mpumalanga Department of Agriculture, Rural Development, Land and Environmental Affairs

Mpumalanga Department of Community Safety, Security and Liaison

State-owned enterprises

Transnet

South African Broadcasting Corporation

South African Post Office

Trans-Caledon Tunnel Authority

Airports Company South Africa

Development Bank of Southern Africa

Independent Development Trust

Armaments Corporation of South Africa

Denel and its subsidiaries (3)

South African Express Airways

South African Airways and its subsidiaries (4)

Komatiland Forests

Other national and provincial public entities

State Information Technology Agency

Compensation Fund

Unemployment Insurance Fund

South African Social Security Agency

Free State Development Corporation

Coega Development Corporation (a public entity in the Eastern Cape)

TEN
RECOMMENDATIONS

RECOMMENDATIONS

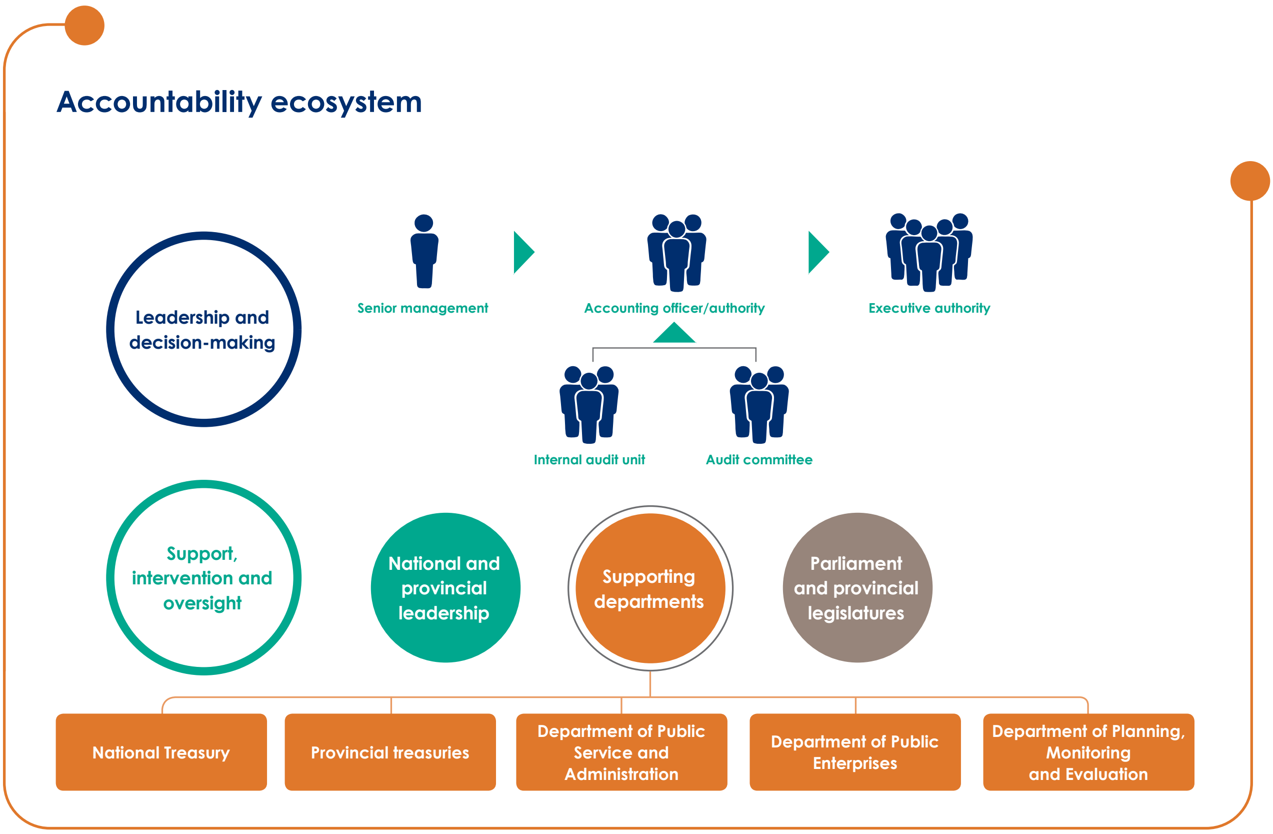
Throughout this report, we have highlighted the successes, responsiveness and good practices of our auditees, but there are still matters that need urgent attention if audit outcomes are to improve.

These include creating a culture that promotes effective financial and performance management; reducing irregular, unauthorised, and fruitless and wasteful expenditure; and improving service delivery. Therefore, our call is to galvanise all stakeholders behind the drive to **accelerate improvements in accountability.**

The improvements we seek do not only reside within the domain and responsibility of the accounting officer or authority and the auditors – they depend on the entire accountability ecosystem, which includes various role-players who all need to play their part effectively to **enable a culture of accountability in sustainable and meaningful ways.**

WHO SHOULD ACT?

There is a multitude of role-players that function at different levels – leadership and decision-making, support, intervention and oversight. We assert that when national and provincial leaders fully commit to transforming government into the capable, efficient, ethical and development-oriented institutions envisaged by the Constitution, significant improvements are bound to follow. Early victories are evident in instances where leadership has moved beyond politics and obstacles and taken definite steps to prioritise creating a better future for the communities they serve.



WHAT IS THE ROLE OF EACH KEY ROLE-PLAYER IN PROVIDING ASSURANCE?

The mandates of key role-players are well defined in the legislation. The figure below gives an overview of their key responsibilities.

Key responsibilities

ASSURANCE PROVIDED BY MANAGEMENT/ LEADERSHIP

Senior management

- Includes chief financial officer, chief information officer and head of supply chain management
- Provides assurance by implementing required basic financial and performance controls

Accounting officers or accounting authorities

- **Accounting officers:** heads of departments or chief executive officers of constitutional institutions
  Accounting authorities: boards, chief executive officers or heads of public entities
- Responsible for creating environment that helps improve performance management controls and enables adequate consequence management

Executive authorities

- Ministers and members of executive councils
- Responsible for monitoring and overseeing portfolios

INTERNAL INDEPENDENT ASSURANCE AND OVERSIGHT

Internal audit units

- Units established in terms of legislation
- Help accounting officers and authorities execute their duties by providing independent assurance on internal controls, financial information, risk management, performance management and compliance with legislation

Audit committees

- Independent body, created in terms of legislation
- Advises accounting officer or authority, senior management and executive authorities on matters relating to financial and performance management governance

Coordinating or monitoring departments

- Specific national and provincial departments:
  - national and provincial treasuries
  - offices of the premier
  - departments of Planning, Monitoring and Evaluation, and Public Service and Administration
- Play a coordinating and monitoring role as defined in legislation and in their mandates, which should contribute to the overall assurance process

EXTERNAL INDEPENDENT ASSURANCE AND OVERSIGHT

Public accounts committees and portfolio committees

Parliament and provincial legislatures have a constitutional mandate to oversee executive action and ensure compliance with legislation, which they do through committees established in line with their respective rules
Portfolio committees are required to assess the strategic and annual performance plans of departments and public entities to effectively fulfil their oversight role

Portfolio committees are required to assess the strategic and annual performance plans of departments and public entities to effectively fulfil their oversight role

All these role-players have multiple responsibilities, and for any endeavour to succeed, everyone involved should share the common goal of improving audit outcomes and, ultimately, the service delivery that will have a positive impact on the lives of citizens. We encourage all role-players to diligently execute their responsibilities, abide by the applicable rules and take full responsibility for their part in the accountability process.

When all parties commit and become responsive to risks and challenges, a culture of accountability will translate into improved control environments. Below, we highlight the crucial matters that should be attended to or implemented to improve audit outcomes.

Senior management

Senior management should:

- ensure that the budget and performance-planning processes are informed by a solid analysis and forecast, based on credible historical information and knowledge of funding constraints and with clear responses for expected performance pressures. The budgets and performance plans must be carefully monitored to reduce overspending and ensure that planned targets are met
- focus on proper infrastructure project management at an overall level and, where the monitoring process highlights any project failures and targets that are not being achieved, take corrective steps as early as possible. This is necessary to ensure the success of key projects and to avoid the challenges highlighted in chapter 4
- ensure proper record keeping so that complete, relevant and accurate information is accessible and available to support financial and performance reporting
- implement controls over daily and monthly processing and reconciliation of transactions. Controls should be in place to track that transactions are processed accurately, completely and in good time, which will reduce errors and omissions in financial and performance reports
- prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information
- review and monitor compliance with applicable legislation, paying specific attention to compliance with supply chain management legislation in order to reduce, contain and/or eliminate irregular expenditure
- design and implement formal controls over information technology systems
- ensure that corrective recommendations made by internal audit units and audit committees are implemented
- ensure that corrective recommendations made by external auditors are implemented through adequate action plans.

Accounting officers and authorities

While accounting officers and authorities depend on senior management to design and implement the required financial and performance management controls, it is their responsibility to create an environment that improves such controls.

Accounting officers and authorities should:

- ensure that monitoring controls for early detection are improved so that internal controls are adhered to, risks are managed and outcomes are achieved
- ensure that priority is given to implementing action plans that specifically address internal and external audit findings that will support financial management and governance, and to monitoring these action plans on a quarterly basis
- ensure that there are consequences for transgressions, in other words, that disciplinary steps are taken against officials who contravene the Public Finance Management Act and commit or permit unauthorised, irregular, and fruitless and wasteful expenditure. They must also create a culture of accountability for officials who fail to comply with applicable legislation, continuously underperform or are negligent, as well as for those whose actions and decisions cause or contribute to financial losses

- ensure that robust financial disciplines are implemented by institutionalising preventative internal control mechanisms that are mature and responsive enough to prevent and detect misstatements, non-compliance, losses and signs of financial distress, and to correct such matters when they do occur
- ensure that there is credible in-year reporting on financial and service delivery performance, particularly on the progress and achievement of targets for key projects
- ensure that auditees have mechanisms in place to identify applicable legislation and changes to legislation, assess the requirements of legislation, and implement processes to ensure and monitor consistent compliance with legislation
- ensure that appropriate risk management activities are implemented, that regular risk assessments – including the consideration of information technology risks and fraud prevention – are conducted, and that a strategy to address the risks is developed and monitored
- ensure ongoing support for the material irregularity process by responding swiftly and decisively when notified about identified material irregularities
- ensure that infrastructure projects and the progress of key government programmes are monitored against the targets of the Medium-Term Strategic Framework
- ensure that key matters for attention and recommendations made during the status-of-records reviews engagements we have with accounting officers and authorities and executive authorities are prioritised and swiftly addressed.

Executive authorities and national and provincial leadership

Through their specific monitoring and oversight responsibilities, these role-players can bring about improvements in the audit outcomes of their portfolios by becoming more actively involved in key governance matters.

Executive authorities should:

- ensure that they are familiar with the performance expected from accounting officers and authorities and that such performance is properly managed by holding the accounting officers and authorities accountable for the actions and decisions they take and implementing consequences for transgressions and poor performance
- ensure that accounting officers and authorities implement the recommendations of internal audit units and audit committees, and use the opportunity to interact with these bodies to help improve governance and control. They should also support the accounting officer or authority by ensuring that there is an adequately resourced and functioning internal audit unit, overseen by the audit committee, that can effectively identify internal control deficiencies and recommend corrective action
- ensure that they support and oversee the implementation of recommendations and lessons learnt from the covid-19 audits we performed
- ensure that they monitor progress and support accounting officers and authorities in addressing reported material irregularities and improving controls
- ensure that they use the status-of-records reviews and engagements that we conduct to further empower their oversight responsibilities
- ensure that, at the provincial level, a greater sense of urgency is instilled to drive sustainable improvements in audit outcomes (e.g. in the Free State and the Eastern Cape). Where audit outcomes are improving, the discipline of implementing and monitoring preventative controls must be instilled so that these improvements can be sustained. Further recommendations for provincial leadership are included in chapter 8 of this report.

Internal audit and audit committees

Internal audit units should:

- provide assurance on key areas of the financial statements and performance reports, and focus on the key risks faced by auditees as well as misstatements identified in prior years.

Audit committees should:

- support accounting officers and authorities in promoting accountability and service delivery by evaluating and monitoring responses to risks and overseeing the effectiveness of the internal control environment, including financial and performance reporting and compliance with legislation
- intensify their reviews of the financial statements and performance reports to prevent material misstatements in the versions submitted to us for auditing
- monitor and support the resolution of material irregularities, as this will add great value to the material irregularity process.

Coordinating and monitoring departments

We assess the impact of these departments on the controls of the auditees based on our interactions with them, commitments given and honoured, and the impact of their actions and initiatives. Sustainable solutions are vital for improving accountability failures.

As such, we recommend that coordinating and monitoring departments should:

- enforce performance measures for executive authorities and accounting officers and authorities in order to change behaviour and introduce accountability into the ecosystem (what does not get measured usually does not get done)
- implement decisive coordination, monitoring and corrective action on intergovernmental systems and processes without delay to reduce extraordinarily long turnaround times on consequence management processes (such as investigations by the Special Investigating Unit, prosecution by the National Prosecuting Authority, debt recovery by the State Attorney, etc.)
- invest in adequate systems that are properly integrated and fully utilised across government, which should help to avoid challenges such as those experienced during the covid-19 pandemic where, for example, ineligible or deceased individuals received social grants
- support departments and public entities to enable better intergovernmental relations, as well as coordination, monitoring and implementation of key projects and programmes in the key service delivery sectors across all spheres of government. For key service delivery sectors without standardised indicators, developing such indicators will contribute significantly towards achieving a uniform and structured approach to planning and reporting on the provision of key services
- take a well-considered, coordinated and centralised approach to address the legacy issues in the public sector information and communication technology environment
- continue to focus on finalising and implementing the professionalisation process, and ensure active tracking and monitoring to ensure the process is successfully implemented
- implement any required consequences for accountability failures swiftly, bravely and consistently to help departments address delays in the disciplinary processes and obstacles in recovering financial losses from liable officials. This will, in turn, support us with the material irregularity process, which aims to strengthen the accountability mechanism overall
- accelerate the bold and decisive implementation of initiatives for those state-owned enterprises that are facing governance, financial and other challenges.

We are optimistic about the **professionalisation project**, which seeks to achieve a capable, ethical, and developmental state by reinventing the administration of the state as a profession. The goal is to position public administration as a career of choice for the nation's brightest and most talented, with a strong ethical disposition and a sense of public service that is committed to delivering services to the public. Further details on the professionalisation project are included in a report prepared by the National School of Government that is available on our website (www.agsa.co.za)

Public accounts committees and portfolio committees

Informed by our constitutional mandate, we enable oversight, accountability and governance in the public sector through our regular engagements with Parliament and the provincial legislatures. We do this through oversight, leadership and portfolio committee engagements, during which we present and discuss key controls and compliance findings arising from the audit process and the related root causes. The discussions include our recommendations for focus areas that require oversight intervention. In 2020, we also launched our preventative controls guides, which aim to enable preventative oversight. We will also be releasing an additional guide alongside the tabling of this report to further assist in dealing with challenges on infrastructure.

We encourage these committees to use these insights and guides to enable more effective oversight. They should also continue to monitor and oversee the resolution of material irregularities. Such oversight will lead to improved governance and elevate accountability in the public sector.

CONCLUSION

We encourage you as key role-players in the public sector to continue working diligently to contribute towards the shared vision of our National Development Plan – to build a capable and developmental state that encourages high adherence to ethics throughout society, and a government that is accountable to its people.

We remain committed to partnering with and supporting the public sector through our audits, the Public Audit Act amendments, and the many initiatives we have implemented to assist and guide all role-players.

If we all walk together, connected by a unifying vision to uplift the lives of all South Africans, we can achieve so much more.

AUDITING TO
BUILD PUBLIC CONFIDENCE

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