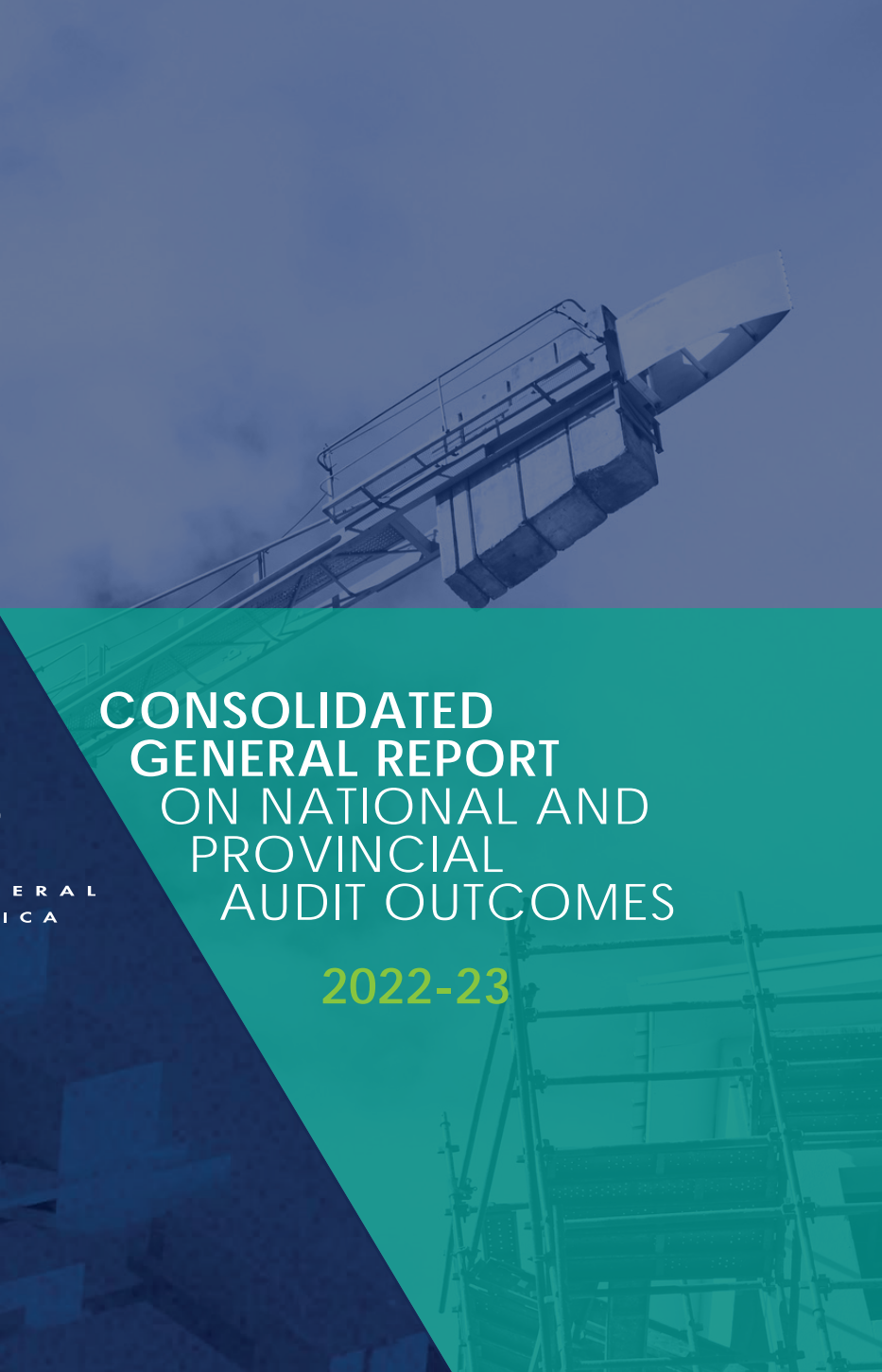




AUDITOR - GENERAL
SOUTH AFRICA

CONSOLIDATED GENERAL REPORT ON NATIONAL AND PROVINCIAL AUDIT OUTCOMES

2022-23





Scan to download this
report to your device




Scan to access the content
via our report website

CONTENTS

FOREWORD FROM THE AUDITOR-GENERAL 2

EXECUTIVE SUMMARY 4

01 INTRODUCTION 8 

02 OVERALL AUDIT OUTCOMES 12 

03 SERVICE DELIVERY AND FINANCIAL PERFORMANCE 24 

Performance planning and reporting 27

Delivery, maintenance and safeguarding of infrastructure 34

Financial management and resultant pressure on government finances 46

Impact on key government priorities 56

04 MATERIAL IRREGULARITIES 62 

05 CALL TO ACTION 72 

06 PROVINCES 78 

Eastern Cape 83

Free State 86

Gauteng 90

KwaZulu-Natal 93

Limpopo 97

Mpumalanga 100

Northern Cape 104

North West 107

Western Cape 111

AUDIT FACT SHEET 116

FOREWORD

FROM THE AUDITOR-GENERAL

Executive
summary

01
Introduction

02
Overall audit
outcomes

03
Service delivery and
financial performance

04
Material
irregularities

05
Call to
action

06
Provinces

Audit fact
sheet

National and provincial government are instrumental in delivering basic services such as healthcare, education, housing, safety and security, water and sanitation, and social security; and for ensuring an environment that is not harmful to the health and wellbeing of South Africans. The country depends on departments and public entities to provide and maintain essential infrastructure and to deliver on programmes that enable economic opportunities and growth.

Over the term of the current administration, we have continued to see improvement in the ability of these spheres of government to transparently report on their finances and performance and to comply with key legislation. However, those auditees with the greatest impact on the lives of South Africans and on government finances do not yet display quality service delivery, good performance, and strict financial and compliance discipline.

This report comes as South Africa is facing serious financial constraints, with state revenue remaining limited. It also comes following the National Planning Commission's report that expressed concern about the country's prospects for achieving the National Development Plan targets. This correlates with our messages in previous reports on the misalignment between auditee targets and the Medium-Term Strategic Framework.

The messages in this report focus on those auditees that are primarily responsible for delivering on government's infrastructure programme and the aspirations of this administration as defined in the Medium-Term Strategic Framework.

Through our culture shift strategy, we strive to ignite commitment and action from all roleplayers in the accountability ecosystem. We believe that



such action will ensure that everyone contributes to improving governance and accountability, which will enable good financial and performance management, compliance with legislation, and proper service delivery. Our contribution is to share our insights widely, make recommendations, and advocate for commitments by leadership at all levels of government to play their part.

The report also highlights the progress we have made in implementing our enhanced mandate by reporting on the material irregularities identified, the progress made by leadership towards resolving them, and the instances where we had to enforce our expanded mandate where there was inaction. I am pleased with the impact that we are making through this process. This was demonstrated through the elevated attention given to our audit activities and outcomes, action being taken to address our findings and, in some cases, the prevention and recovery of financial losses.

As an office we are committed to doing our part to instil a culture of performance, accountability, transparency and integrity in national and provincial government, which will result in a better life for the people of South Africa. I firmly believe that service delivery improvements will be enabled by capable, cooperative, accountable and

responsive institutions delivering on their mandates. That is why the theme of this report is *A culture of accountability will improve service delivery*.

I wish to thank the audit teams from my office and the audit firms that performed the audits for their diligent efforts in helping us fulfil our constitutional mandate, and for the manner in which they continue to strengthen cooperation with government leadership. I also wish to thank the leadership of all departments and public entities for working with us during the audit process.

I invite you to read the insights in this report and hope that they will motivate you to be an active participant in the accountability ecosystem.

Tsakani Maluleke 27.11.2023

Tsakani Maluleke
Auditor-General

Executive summary

01 Introduction

02 Overall audit outcomes

03 Service delivery and financial performance

04 Material irregularities

05 Call to action

06 Provinces

Audit fact sheet

EXECUTIVE SUMMARY

Executive
summary

01
Introduction

02
Overall audit
outcomes

03
Service delivery and
financial performance

04
Material
irregularities

05
Call to
action

06
Provinces

Audit fact
sheet

This general report includes insights from the audits of the fourth year of the current administration. It includes information, statistics, insights and stories on the audit outcomes of departments, public entities and legislatures.

In our previous general report, we acknowledged and celebrated the improvement in audit outcomes, but cautioned that progress was slow at those auditees that have the greatest impact on the lives of the people of South Africa.

We reported on weaknesses in service delivery planning, reporting and oversight; continued failures in infrastructure management; and the increasing pressure on the fiscus due to a lack of prudence in spending. We also reported on the slow progress towards achieving the Medium-Term Strategic Framework goals, making it difficult for government to achieve its objectives. Our call to the leadership in national and provincial government was for all roleplayers in the accountability ecosystem to promote a culture of accountability that will improve service delivery.

This year's report builds on these previous messages.

SUMMARY OF KEY MESSAGES

The audit outcomes reflect an overall improvement; however, there are still weaknesses in planning and reporting on service delivery, challenges in infrastructure management, and lack of prudence in spending limited resources which places further pressure on government finances.

Over the administrative term, we have seen some encouraging signs of improvement, but we have also noted some areas of concern:

- There has been a net **improvement in audit outcomes** (more auditees improved their audit outcomes than regressed) every year over the term of the administration and the number of clean audits continues to increase.

Departments, public entities and legislatures with **clean audits** are characterised by sound financial and performance management disciplines and perform their functions in accordance with applicable legislation. A well-functioning control environment forms a solid foundation on which auditees can build to further improve their performance and service delivery. The auditees that maintained their clean audit status continue to be an example of what is possible.

- We continued to focus on key service delivery portfolios and state-owned enterprises. We also expanded our focus to those auditees that contribute to delivering health services, skills development and employment, infrastructure development, safety and security, water and sanitation, energy, and environmental and financial sustainability. Overall, these **'high-impact' auditees** have poorer audit outcomes than the other auditees and struggle with performance, financial and infrastructure management.
- The **material irregularity process** continues to make an impact: financial losses of an estimated R2,55 billion have been recovered, are in the process of being recovered or have been prevented. We used this enforcement tool to spur accounting officers and authorities into action to strengthen internal controls and to address public resources not being used fully or efficiently; uneconomical, uncompetitive or unfair procurement practices, resulting in auditees paying too much for goods and services; payments for goods or services not received or late payments resulting in interest and penalties; debts not being recovered; and assets not being safeguarded.

Most accounting officers and authorities are taking action to resolve material irregularities. However, where the material irregularities were not dealt with swiftly or with the required seriousness, we included recommendations in audit reports, took remedial action and referred matters to relevant public bodies for investigation, where appropriate.

- Government's **planning, budgeting, monitoring and reporting process** has been well designed. It requires the leadership of multiple departments and public entities to establish disciplines that actively promote and drive effective coordination by systematically and purposefully planning and working together across the national and provincial spheres. They then need to report transparently on what they have achieved and how they have used their budgets. With this information, executive authorities, coordinating institutions and oversight bodies can monitor and oversee how departments and public entities perform, provide opportunities for correction if they are not on track, and address any shortcomings as early as possible.

High-impact auditees play a pivotal role in achieving the targets set out in the Medium-Term Strategic Framework, but we again identified **flaws in their performance plans and reports**, similar to those reported in our previous general report. The most common material finding was that the reported achievements were not reliable. We also reported material findings on the usefulness of the reported information. If we had not allowed auditees to correct the material misstatements we identified in the performance reports they

submitted to us for auditing, even more auditees would have published information on their achievements that was not credible. We also find it concerning that the performance plans of some auditees excluded performance indicators that measure their performance on their core mandated functions, including their contribution to Medium-Term Strategic Framework targets.

- Our audit work incorporated numerous site visits to inspect the progress on and quality of **infrastructure projects**. We identified deficiencies on over 80% of the 137 projects we visited. We have found that, all too often, infrastructure delivery projects are delayed, are costing more than planned or the work done is of poor quality. There are also delays in newly built infrastructure being put to use. Once again, we report on **existing infrastructure** that is **deteriorating** because it is not properly maintained and protected.
- When government is not careful with its **spending practices**, this reduces the already limited funds available. The main reasons for the continuing financial losses and waste we observed, especially at high-impact auditees, were widespread poor payment practices, uncompetitive and uneconomical procurement practices, limited value and benefit for money spent, poorly managed government properties and accommodation leases, and weaknesses in project management. The funds government budgets for service delivery activities are reduced by claims made against departments, and by auditees overspending their budgets and being in **poor financial health**. Ailing institutions, such as the state-owned enterprises, place further pressure on government by needing bailouts and through potential future obligations as a result of guarantees.

IMPACT

When auditees, especially high-impact auditees, do not properly manage their performance, finances and infrastructure, it directly affects the delivery of key government programmes that are intended to improve the lives of South Africans and to alleviate hardships stemming from tough economic conditions and poverty.

Wasted money and resources means reduced funding for service delivery programmes and, eventually, a greater burden on taxpayers.

WHAT SHOULD BE DONE

A CULTURE OF ACCOUNTABILITY WILL IMPROVE SERVICE DELIVERY

Improved service delivery and responsible use of the limited funds available will only be possible when we have capable, cooperative, accountable and responsive institutions that deliver on their mandates.

We repeat our call from previous general reports that the roleplayers in the accountability ecosystem, particularly those with direct control over service delivery, should work deliberately and with urgency towards a culture of accountability and improved service delivery. Based on the insights from our work on service delivery planning and reporting, infrastructure and financial performance, we identified three main weaknesses that hold back progress:

- A culture of no accountability and consequences
- Ineffective resource management
- Inadequate intergovernmental planning, coordination and support

These root causes are very similar to what we have highlighted consistently over the administrative term.

We recommend the following solutions to leadership and oversight bodies to address these matters:

1. **Accounting officers and authorities, coordinating institutions and executive leadership** should:
 - support the **professionalisation** of the public sector by ensuring qualified and competent officials are appointed and equipped to perform public functions conscientiously and with a strong sense of public service and ethical disposition. Achieving this goal requires support for the implementation of the **professionalisation framework** that prioritises meritocracy (merit-based management) as its foundation
 - effectively use **audit committees and internal audit units** to improve governance
 - improve the **quality of spending** through a focus on **economy, efficiency and effectiveness** to make better use of public funds, deliver services more effectively and ultimately benefit the people of South Africa.
2. **Executive authorities and committees in Parliament and legislatures** should insist on timely and credible reporting and accountability and take their oversight role seriously, ensuring that institutions are transparent and that their leaders are answerable for their actions.
3. **Institutions with a mandate for monitoring and enforcement** should enforce accountability by ensuring that there are consequences for any wrongdoing.
4. **Coordinating institutions** should intensify interventions to **improve intergovernmental planning and coordination** to ensure service delivery is planned for in an integrated and effective manner and transparently accounted for in performance reports.

We urge all roleplayers in the accountability ecosystem to fulfil their designated roles and to play their part effectively and without fear or favour to ensure accountability for government spending and improvement in the lives of all South Africans.

We remain committed to partnering with and supporting the public sector through our audits, the use of our expanded powers as granted by the Public Audit Act amendments, and the many initiatives that we have implemented to assist and guide all roleplayers. We trust that the insights and recommendations in this report will be of value in this pursuit.

01

INTRODUCTION

Executive
summary

01
Introduction

02
Overall audit
outcomes

03
Service delivery and
financial performance

04
Material
irregularities

05
Call to
action

06
Provinces

Audit fact
sheet

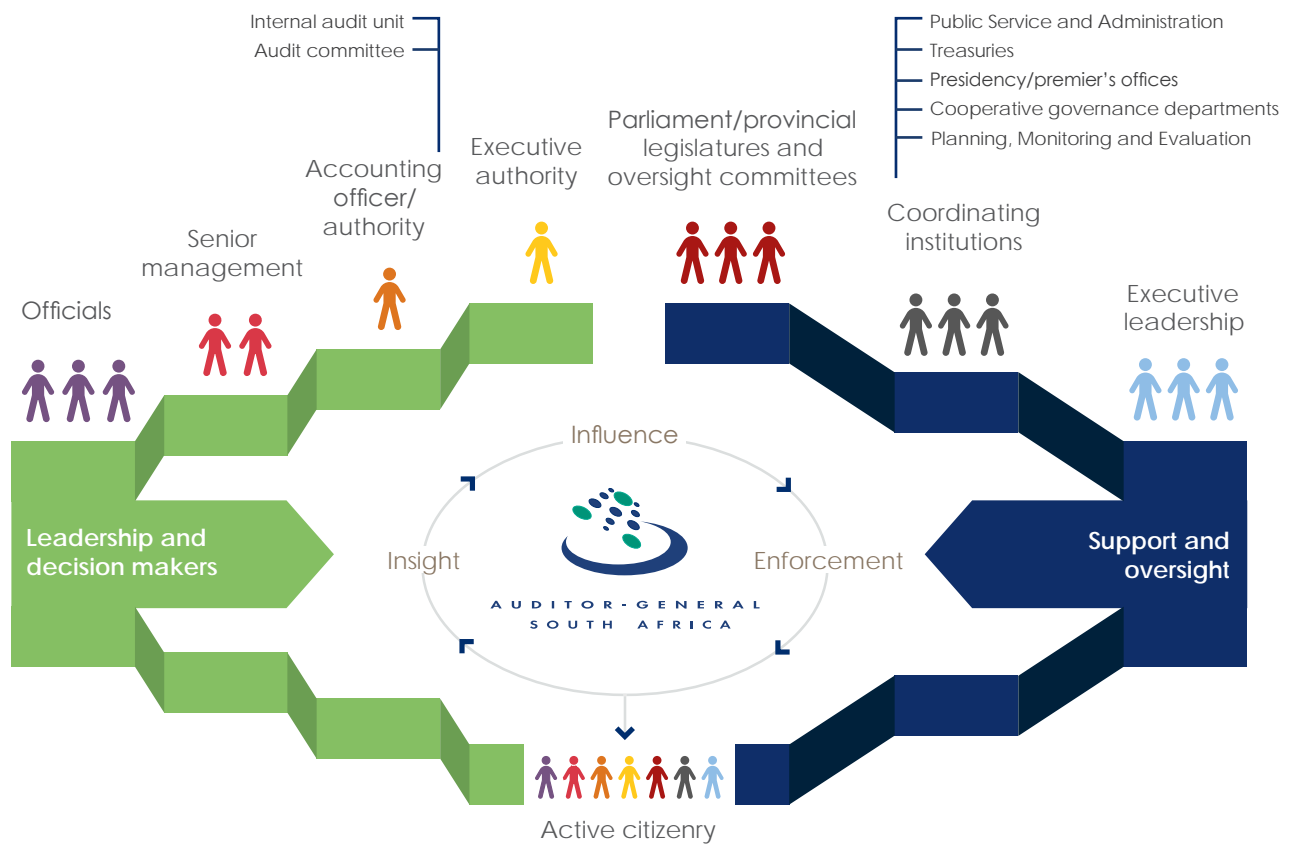
This report reflects on the audit outcomes of national and provincial government and legislatures and presents our observations and insights from the audits of the financial year ended 31 March 2023.

Auditees in the national and provincial spheres play a key role in delivering services, driving overall government programmes (including those affecting local government), and overseeing a significant portion of the public purse. National and provincial departments are also closely interconnected and play an important role in achieving the vision outlined in the National Development Plan – to eliminate poverty and reduce inequality by 2030. The plan identifies three main priorities for achieving this vision: raising employment through faster economic growth; improving the quality of education, skills development and innovation; and building state capability in areas such as infrastructure, environmental sustainability, health and community safety.

In this report, we continue to use the accountability ecosystem to pinpoint all those with a role to play in enabling a culture of performance, accountability, transparency and integrity in national and provincial government and legislatures.



Accountability ecosystem



Executive summary

01 Introduction

02 Overall audit outcomes

03 Service delivery and financial performance

04 Material irregularities

05 Call to action

06 Provinces

Audit fact sheet

As South Africa's supreme audit institution, our role is to audit every department and public entity in the country as required by the **Public Finance Management Act** and the legislatures as required by the **Financial Management of Parliament and Provincial Legislatures Act**, and to report on what we have found.

Through our reports, we inform the executive authorities (ministers and executive council members) and the legislatures of the quality of auditees' financial statements and performance reports, the status of their compliance with key legislation, and whether we have identified any material irregularities. We do this because these roleplayers are key to providing oversight and in-year monitoring. They also use the financial statements and performance reports to determine whether auditees have used their budgets as intended to achieve service delivery objectives and to assess the impact on the lived experiences of South Africans.

Ultimately, accounting officers and authorities are responsible and answerable for how auditees perform and manage their finances for the benefit of all South Africans. Audit committees and internal audit units play an important role in providing an independent view of the effectiveness of auditee controls and processes, while legislation requires coordinating institutions to support auditees by enforcing good financial management and overseeing performance budgeting, planning and monitoring.

Active citizenry is also crucial for holding national and provincial leadership accountable to the people of South Africa.

The success of national and provincial government rests on the ability of this whole accountability ecosystem to work together: for all roleplayers to

not simply operate within their silos, but to function collaboratively with an awareness of how their respective roles influence and affect each other.

This report is therefore directed at all of these roleplayers.

The report summarises the insights and recommendations we have already shared with roleplayers for further action. We remain encouraged by the commitments various roleplayers have made to improve audit outcomes, service delivery and financial performance. We will continue to monitor and report on the implementation, effectiveness and impact of these commitments over the administrative term.

In the section on the provinces, we also report on the follow-up work we have done since August 2022 on the funds used to provide relief to communities in flood-ravaged areas of KwaZulu-Natal and the Eastern Cape.

Through our expanded mandate, and the ensuing material irregularity process, we have enriched our insights and strengthened our ability to influence and enforce performance, accountability, transparency and institutional integrity at national and provincial auditees. In response to the material irregularities we have identified, auditees are taking action to recover losses, to prevent further losses and harm by strengthening internal controls, and to implement consequences for wrongdoing. We will table a detailed report on material irregularities in national and provincial government after we have tabled this general report.

CONTENT OF THE REPORT

This report summarises our key messages in the following areas:

1

The **state of national and provincial government and legislatures** over the first four years of the sixth administration's term, dealing with:

- Audit outcomes
- Material irregularities
- Service delivery and financial performance

2

A **call to action** for all roleplayers in the accountability ecosystem to address the root causes of auditee failures as well as our recommendations to help in this regard

3

The state of provincial government in each of the **nine provinces**

4

An **audit fact sheet** that provides information on the audits we performed and an explanation of the numbers used in this report



In support of greater transparency that will enable accountability, our website (www.agsa.co.za) includes detailed annexures that provide the key results for each department, public entity and legislature

02

OVERALL AUDIT OUTCOMES

Executive summary

01 Introduction

02 Overall audit outcomes

03 Service delivery and financial performance

04 Material irregularities

05 Call to action

06 Provinces

Audit fact sheet

Audit outcomes are based on our audits of the financial statements and performance reports of our auditees, as well as their compliance with key legislation.

In 2022-23, accounting officers and authorities managed an estimated expenditure budget of R3,10 trillion in national and provincial government. We obtained this amount through the audit process: it includes all the funds departments and public entities budgeted for operating expenditure to run day-to-day operations; and capital expenditure to provide services and to acquire, upgrade and maintain assets and infrastructure.

Over the term of the current administration, audit outcomes continued to improve and the number of clean audits increased.

Audit outcomes (all auditees)

	Unqualified with no findings (clean)	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimed with findings	Outstanding audits	
2018-19	94	179	100	3	25	4	405
Last year of previous administration							
2021-22	126	183	80	2	14	12	417
2022-23	147	162	69	4	5	31	418
	35%	39%	17%	1%	1%	7%	
2022-23	16%	48%	29%	2%	1%	4%	

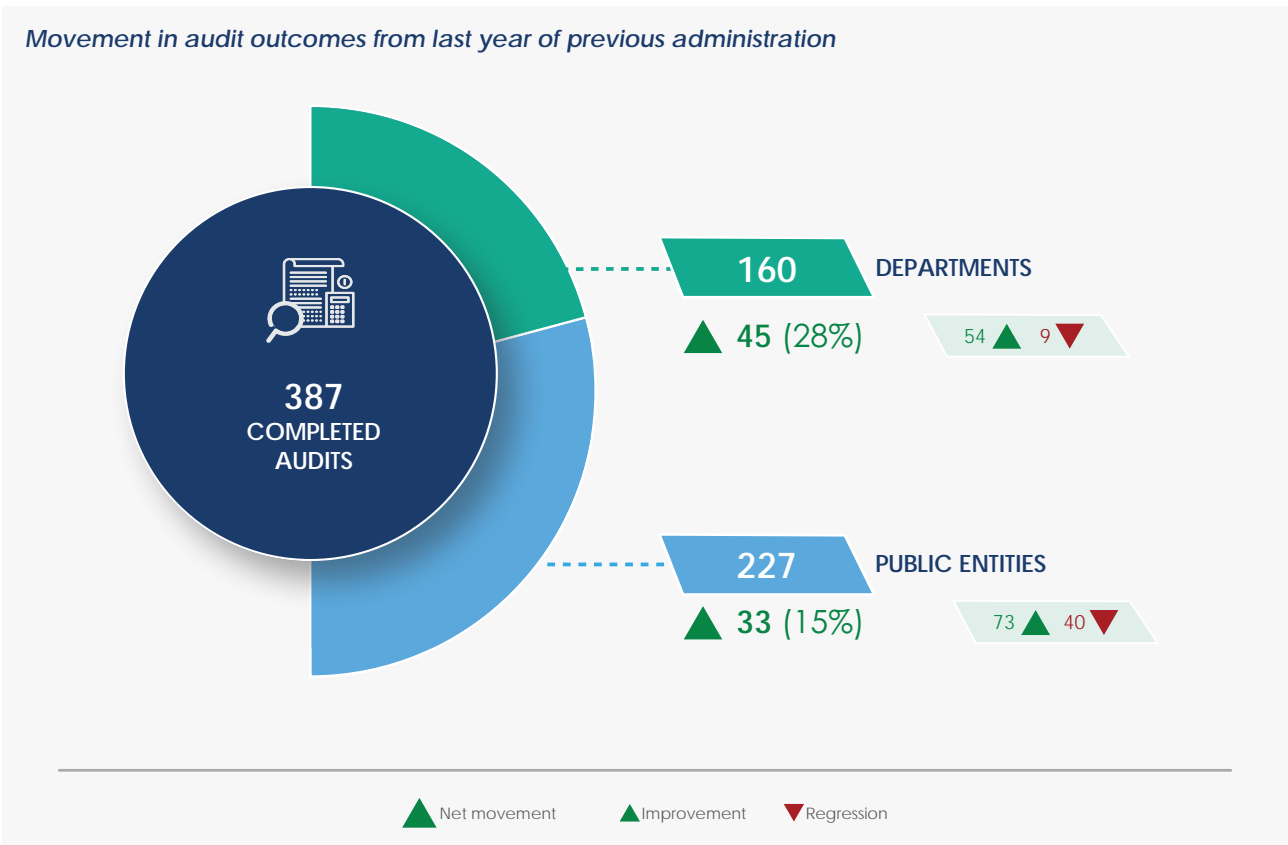
Percentage of expenditure budget R3,10 trillion





Overall, the audit outcomes of both departments and public entities improved and more auditees improved their audit outcomes each year of the administrative term than regressed. In 2022-23, the net improvement

was 37 auditees (9%) – the biggest movement over the four-year period. Provincial government showed a net improvement of 44 (27%) and national government a net improvement of 34 (15%).



- Executive summary
- 01 Introduction
- 02 Overall audit outcomes
- 03 Service delivery and financial performance
- 04 Material irregularities
- 05 Call to action
- 06 Provinces
- Audit fact sheet

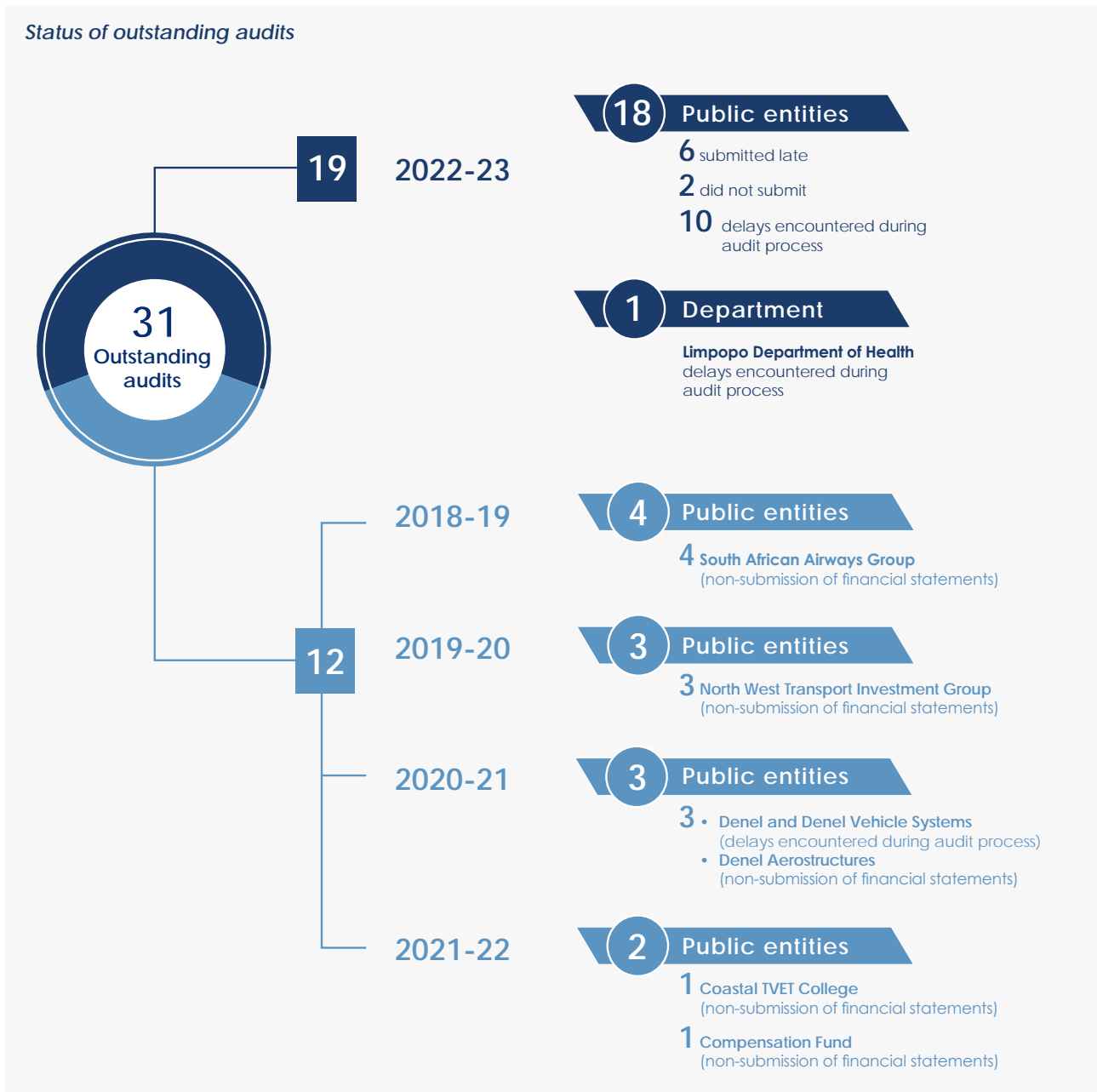
OUTSTANDING AUDITS

We can only finalise and report on an audit in time if we receive both the financial statements and the performance report for auditing by the legislated date. The number of auditees that submitted their financial statements on time in 2022-23 improved slightly to 93%, from 92% last year.

When we tabled the previous year's general report, 26 audits were outstanding either because the auditees had submitted their financial statements late or not at all, or because of delays encountered

during the audit process. Three of these auditees have since closed down and one became dormant, which means their outcomes are no longer reported in the general report. We also finalised the audits of 10 auditees.

By 30 September 2023, 12 of the audits reported as outstanding last year had still not been completed, while the 2022-23 audits of another 19 auditees were outstanding.



Over the past five years, we have noted that some of these public entities habitually submit their financial statements late or not at all.

Public entities with late submission or non-submission in 2022-23 (five-year submission history)

Auditee	Years audit outstanding and not included in general report	Years financial statements not submitted	Years financial statements submitted late	
SAA Technical	5	1	4	Executive summary
Air Chefs	5	1	4	01 Introduction
South African Airways	5	1	4	
Mango Airlines	5	1	4	
Atteridgeville Bus Services	4	4	1	
North West Star	4	4	1	02 Overall audit outcomes
North West Transport Investments	4	4	1	
Denel Aerostructures	3	2	2	
Coastal TVET College	2	2	1	03 Service delivery and financial performance
Compensation Fund	2	2	1	
African Exploration Mining and Finance Corporation	1	-	1	
Alexkor	1	-	2	
Central Johannesburg TVET College	1	-	1	04 Material irregularities
National Student Financial Aid Scheme	1	1	-	
Passenger Rail Agency of South Africa	1	-	3	
South African Maritime Safety Authority	1	-	2	05 Call to action
Taletso TVET College	1	-	5	
Unemployment Insurance Fund	1	1	3	06 Provinces
				Audit fact sheet

CLEAN AUDITS

When an auditee receives a financially unqualified audit opinion with no findings (also referred to as a clean audit), it means that its financial statements and performance report give a transparent and credible account of its finances and its performance against set targets. In other words, these accountability reports present a reliable picture of that auditee’s performance – whether good or bad. This enables everyone with an interest in the auditee – particularly those that 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. A clean audit also means that the auditee complied with the important legislation that applies to it and, where transgressions did occur, they were rare or not material.

A clean audit is not always an indicator of good service delivery. However, a clean audit positions

an auditee to transparently communicate to citizens on whether and when their needs will be met through accurate records, which also enables informed decisions by the different roleplayers in the accountability ecosystem. We have seen that auditees with institutionalised controls and systems 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 to the people of South Africa.

The number of clean audits increases every year due to significant effort and commitment by the leadership, officials and governance structures of these auditees. The 147 auditees (62 departments and 85 public entities) that achieved clean audits in 2022-23 managed 16% of the R3,10 trillion expenditure budget in national and provincial government.

Movement in number of clean audits from last year and auditees close to clean audit status

Improved to clean audit status

37

Sustained clean audit status

110

Lost clean audit status

14

Outstanding audit

2

Close to clean audit status

37

Each of the 37 auditees that is very close to obtaining a clean audit only needs to address one finding on either the quality of its financial statements (31 auditees) or on its performance reporting (six auditees). For example, the Ithala Development Finance Corporation (KwaZulu-Natal), the Limpopo Tourism Agency (Limpopo) and 19 auditees in the higher education and training portfolio each only had one finding on material misstatements in its submitted financial statements.

Some of these auditees have been working towards this goal for many years and we encourage them to persevere in overcoming the last hurdle. If they manage to do so, we expect to see an increase in the number of clean audits for 2023-24. This will set a strong foundation from which the next administration can build when its term starts in 2024-25.

An auditee will often find it difficult to sustain a clean audit if it does not have financial and performance management systems that operate consistently and effectively, and controls that are properly embedded. We commend the 53 auditees (36%) that have managed to retain their clean audit status over the administrative term. They achieved this through practices such as institutionalising and monitoring key controls (including preventative controls), and by having all roleplayers in the accountability ecosystem (including management and leadership supported by internal audit units) committed to fulfilling their monitoring, governance and oversight roles. They should continue to do so to avoid any possible regressions.

Auditees that sustained clean audit status for five or more consecutive years

22 National auditees

Department of Planning, Monitoring and Evaluation
 Department of Science and Innovation
 Department of Traditional Affairs
 National School of Government
 Parliament of the Republic of South Africa
 African Renaissance and International Cooperation Fund
 Companies and Intellectual Property Commission
 Competition Commission
 Council for Scientific and Industrial Research
 Cross-Border Road Transport Agency
 Financial Sector Conduct Authority
 Guardians Fund
 Justice Administered Funds
 Legal Aid South Africa
 Municipal Demarcation Board
 Municipal Infrastructure Support Agency
 National Youth Development Agency
 Northlink TVET College
 Public Service SETA
 Quality Council for Trades and Occupations
 Medical Research Council of South Africa
 South African Local Government Association

4 Eastern Cape

Safety and Liaison
 Provincial Treasury
 East London Industrial Development Zone
 Eastern Cape Parks and Tourism Agency

4 Gauteng

Cooperative Governance and Traditional Affairs
 Office of the Premier
 Provincial Treasury
 Gautrain Management Agency

4 KwaZulu-Natal

Provincial Treasury
 Dube TradePort Corporation
 KZN Housing Fund
 Traditional Levies and Trust Account

1 Mpumalanga

Cooperative Governance and Traditional Affairs

2 Northern Cape

Office of the Premier
 Provincial Treasury

1 North West

Provincial Treasury

15 Western Cape

Agriculture
 Community Safety
 Cultural Affairs and Sport
 Economic Development and Tourism
 Environmental Affairs and Development Planning
 Health
 Local Government
 Office of the Premier
 Provincial Parliament
 Provincial Treasury
 Social Development
 Transport and Public Works
 Government Motor Transport
 Saldanha Bay IDZ Licencing Company
 Western Cape Nature Conservation Board

DISCLAIMED AND ADVERSE OUTCOMES

Overall, the number of auditees with disclaimed audit opinions decreased. If the auditees with outstanding audits also receive disclaimed opinions, the improvement in this area will be less significant, but should still be acknowledged.

There was an increase in adverse audit opinions due to three public entities improving from a disclaimed opinion last year to an adverse opinion in 2022-23, while one improved out of this category and another regressed into it.

FINANCIAL STATEMENTS, PERFORMANCE REPORTS AND COMPLIANCE

An auditee's audit outcome is determined based on the results of the mandatory audit work we perform annually and report in each auditee's audit report. This work comprises an audit of the quality of the auditee's financial statements and performance report (if it is required to report on performance), as well as its compliance with key legislation.

Although results fluctuate slightly from year to year, the overall improvement in audit outcomes over the administrative term is reflected in all three of these areas.

Executive summary

01 Introduction

02 Overall audit outcomes

03 Service delivery and financial performance

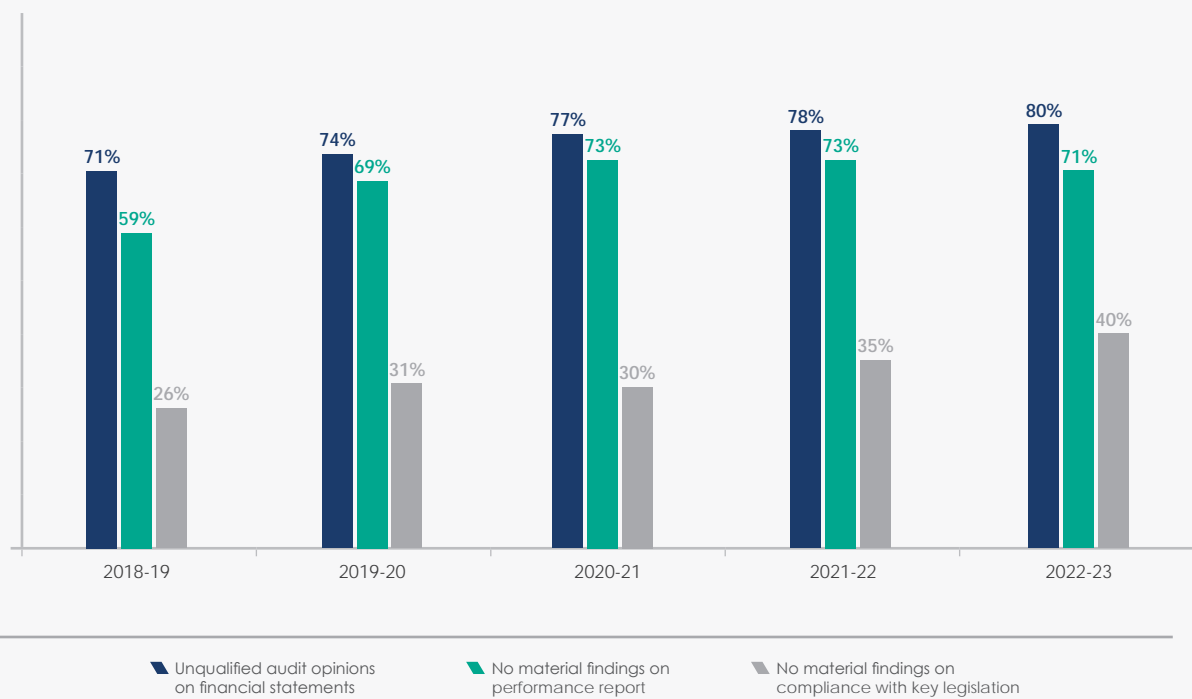
04 Material irregularities

05 Call to action

06 Provinces

Audit fact sheet

Audit results over term of administration (completed audits only)



For years, we have reported that auditees must ensure that the financial statements and performance reports they submit for auditing are of the required

quality. Often, auditees receive unqualified audit opinions on their financial statements and no material findings on their performance reports because we

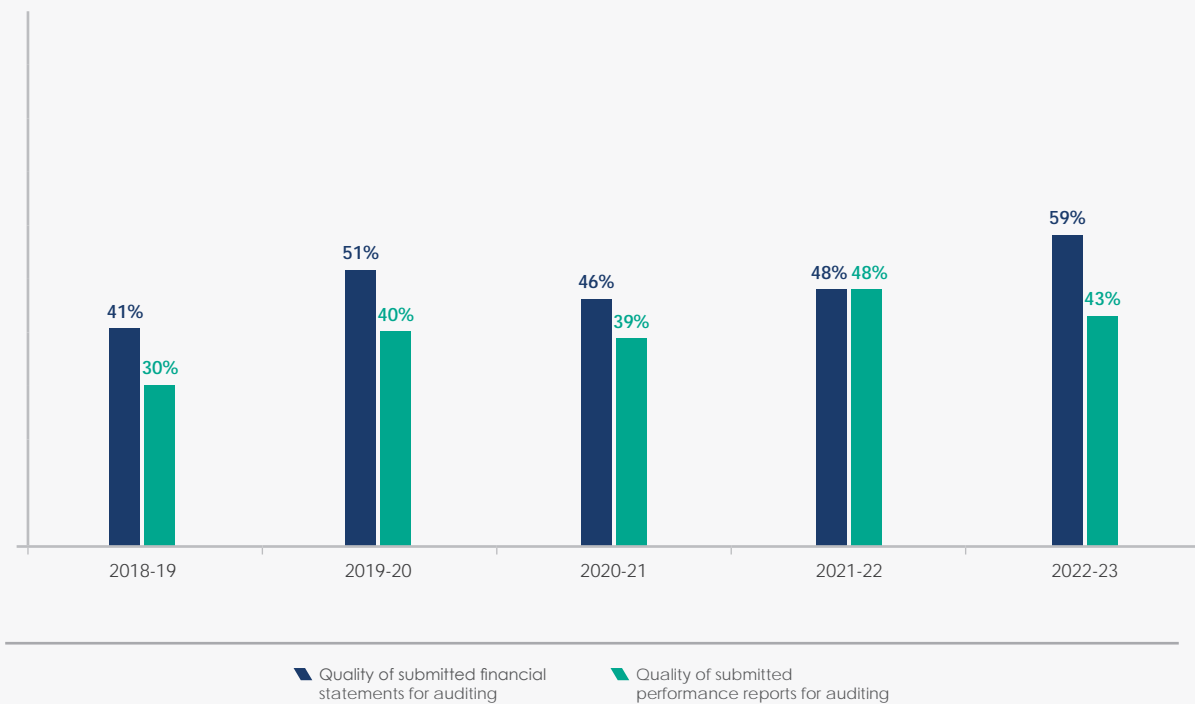
identify misstatements that we allow them to correct, but this is not sustainable and creates delays in finalising the audit process.

If we had not allowed auditees to correct such material misstatements in their financial statements, only 59% would have received unqualified audit opinions in 2022-23, compared to the 80% that eventually did so. Similarly, only 43% of auditees (and not 71%) would have had no material findings on their performance reports if we had not allowed corrections.

The poor quality of the financial statements and performance reports submitted for auditing does not bode well for the credibility of auditees' in-year financial reporting. It means that important financial and service delivery decisions, analyses and monitoring on key matters could be based on unreliable information, which could have a negative impact on communities.

Although we still see many poor-quality submissions, and despite regressions in some years, the situation has improved significantly over the administrative term.

Good-quality financial statements and performance reports submitted for auditing (completed audits only)



The quality of submitted financial statements improved significantly from last year, most notably in North West, Gauteng and the Northern Cape. This was mainly because more auditees submitted their financial statements on time for review to the provincial treasuries, which could then exercise their supporting role more effectively. Auditees also put in the effort required to improve their outcomes, maintained stability in key finance positions, and took part in focused interventions. These included our training interventions with chief financial officers

in collaboration with the National School of Government, and our engagements with auditee leadership to influence a shift in the public sector culture.

We include further detail on the importance of good-quality financial statements and performance reports, as well as compliance with key legislation, in the section on service delivery and financial performance.

AUDIT OUTCOMES OF LEGISLATURE SECTOR

We specifically include the legislature sector in this report as Parliament and the provincial legislatures have an important role to play in the accountability ecosystem. They are independent from national and provincial government and are therefore ideally placed to oversee executive action and perform specific oversight functions relating to various aspects of government operations. They must ensure that government is accountable for its decisions, is transparent in its dealings, and is responsive to the needs of its people.

These auditees are not governed by the Public Finance Management Act, but rather by the Financial Management of Parliament and Provincial Legislatures Act.

The audit outcomes of the sector improved significantly over the administrative term, and all but one auditee in this sector have now attained a clean audit status.



Nine of the 10 auditees in this sector are now well positioned to provide credible oversight of national and provincial government's actions and financial practices, and to facilitate accountability for government performance and spending. The North West Provincial Legislature must address its compliance findings on expenditure and

procurement management to also progress to a clean audit status.

We reflect further on the important role these auditees play in the accountability ecosystem in the call to action section.

AUDIT OUTCOMES OF STATE-OWNED ENTERPRISES

The Public Finance Management Act lists 21 ‘major’ public entities under schedule 2. Commonly known as state-owned enterprises, they were established as independent entities to achieve the various socioeconomic goals of government. Government, through the respective executive authorities (ministers), is the sole shareholder of these entities.

In previous general reports, we consistently highlighted the need to pay specific attention to these entities because of the big impact they

have on economic growth, service delivery and government’s financial health. Their audit outcomes are a good indicator of their ability to fully discharge their mandate.

We currently audit 15 of the state-owned enterprises (79%), compared to 14 (70%) five years ago. Private sector auditors audit four in accordance with section 4(3) of the Public Audit Act, while the remaining two are not included in this report.



The analysis and detailed audit outcomes per state-owned enterprise (incorporating any subsidiaries) are included in the overall audit outcomes. The audit

outcomes of the individual subsidiaries are available in annexure 1 to the general report available on our website.

Audit outcomes (state-owned enterprises)

	Unqualified with no findings (clean)	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimed with findings	Outstanding audits	
State-owned enterprises (we audit)	1	7	2	0	2	3	15
	7%	47%	13%	0%	13%	20%	
State-owned enterprises (audited by private sector auditors)	0	3	0	0	0	1	4
	0%	75%	0%	0%	0%	25%	

Overall, there was a net regression in the audit outcomes of the 12 state-owned enterprises with completed audits that we audit. While the South African Nuclear Energy Corporation improved its outcome from a disclaimed audit opinion to a qualified opinion with findings, this was offset by two regressions: the Land and Agricultural Development Bank of South Africa regressed from a clean audit to a financially unqualified opinion with findings,

and the South African Broadcasting Corporation regressed from a qualified audit opinion with findings to a disclaimed opinion. With regard to the three completed audits performed by private sector auditors, Air Traffic and Navigation Services, Broadband Infracore and Industrial Development Corporation retained their financially unqualified audit opinions with findings from the previous year.

AUDIT OUTCOMES OF SERVICE DELIVERY AUDITEES AND KEY PUBLIC ENTITIES

In our previous general reports, we consistently highlighted the need to pay specific attention to state-owned enterprises and the auditees in key service delivery portfolios. We have been refining our messaging and aligning it to our strategic intent of providing audit insights on those auditees with the greatest impact on service delivery and financial performance.

From this report onwards, we will specifically focus on those auditees contributing to the

delivery of health services, skills development and employment, infrastructure development, safety and security, water and sanitation, energy as well as environmental and financial sustainability. We will also continue to focus on state-owned enterprises and other key public entities.

Together, we call these auditees ‘high-impact’ auditees. They are responsible for approximately 85% of the expenditure budget.

Audit outcomes (high-impact auditees)						
	Unqualified with no findings (clean)	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimed with findings	Outstanding audits
High-impact auditees	38	89	46	2	3	15
	20%	45%	24%	1%	2%	8%
	193					

Auditees from this group account for 48% of all outstanding audits and 65% of all modified audit opinions (in other words, qualified, adverse and disclaimed opinions). Of the 127 of these auditees that prepared performance reports, 42% had material findings on their reported performance information, while we raised material findings on compliance with key legislation at 76% of the 178 auditees with completed audits.

We unpack the results from our audits of these important auditees in the next section. We also look at their planning, reporting and monitoring of infrastructure and service delivery, as well as their impact on government finances and the lives of the people of South Africa.

We provide a list of these high-impact auditees, along with their audit outcomes and key results, as an annexure to the general report available on our website.

03

SERVICE DELIVERY AND FINANCIAL PERFORMANCE

Executive summary

01 Introduction

02 Overall audit outcomes

03 Service delivery and financial performance

04 Material irregularities

05 Call to action

06 Provinces

Audit fact sheet

National and provincial government are responsible for providing the basic services that the people of South Africa are entitled to, as enshrined in the Constitution, such as healthcare, education, housing, safety and security, water and sanitation, social security, and an environment that is not harmful to their health and wellbeing. Government must also provide and maintain the infrastructure required for service delivery and implement programmes that enable economic opportunities and growth.

In 2012, government launched the long-term strategy for South Africa, known as the National Development Plan. The plan focuses on government's long-term goals for systemically improving the wellbeing of the country and its people, with the aim of eliminating poverty and reducing inequality by 2030. Infrastructure development is one of the key elements of the plan.

South Africa's existing infrastructure cannot support the country's growing demands and there is a backlog in providing the infrastructure needed for basic services such as water and sanitation. Infrastructure

must also be properly maintained to ensure that it remains in a workable and safe condition throughout its lifespan. Government has responded to the growing infrastructure needs with an aggressive infrastructure investment programme, which is also a key component of the Economic Reconstruction and Recovery Plan introduced in 2020 to improve economic growth.

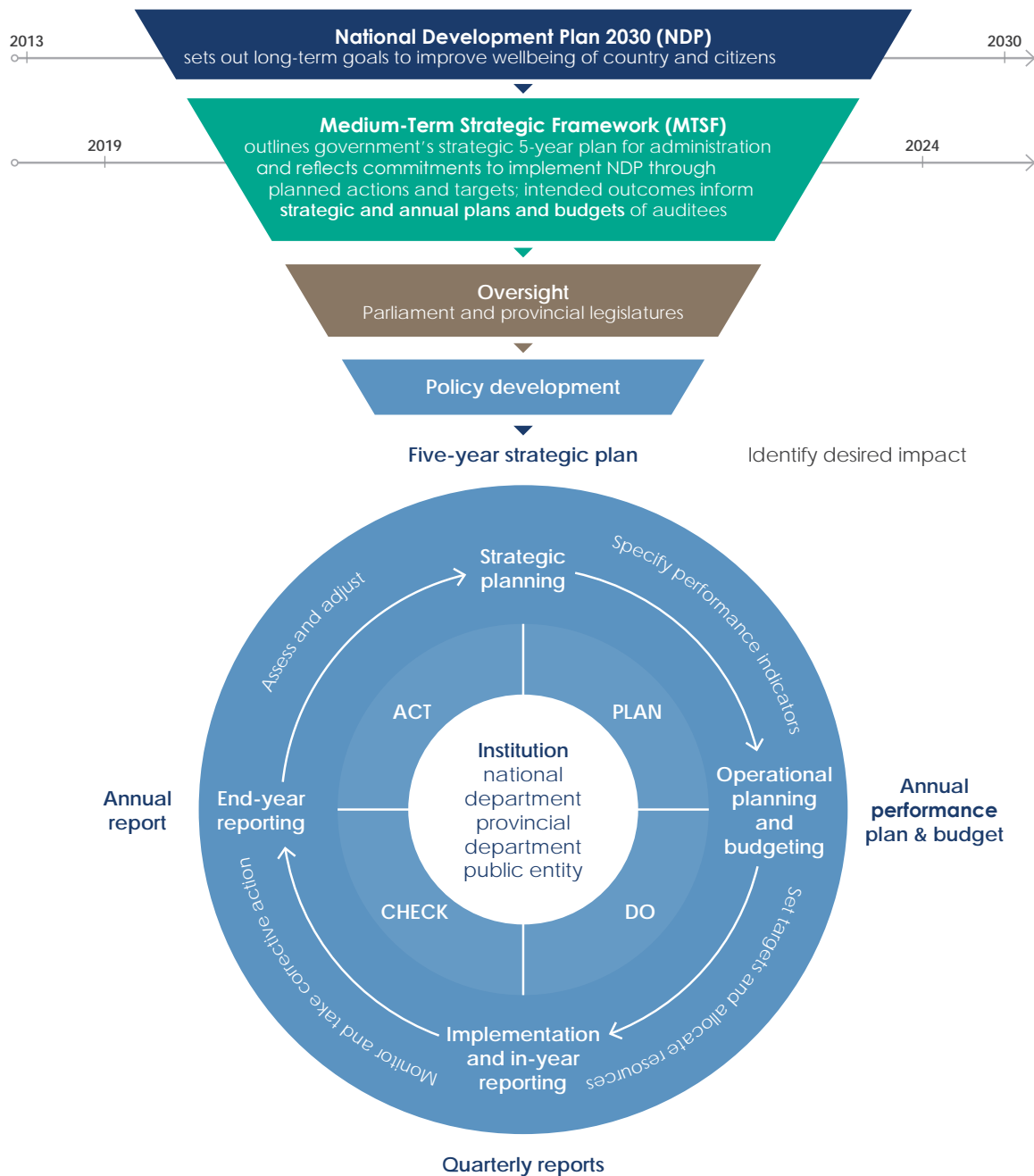
According to the public sector infrastructure expenditure and estimates issued by the National Treasury, government budgeted R192,40 billion for infrastructure spending in 2022-23. The Presidency has also prioritised infrastructure development and delivery by focusing on several initiatives, including overseeing the implementation of strategic integrated projects and establishing Infrastructure South Africa – a programme within the ministry of public works and infrastructure.

For government to successfully implement the National Development Plan and infrastructure programme, and deliver on its service delivery mandate with the limited funds available, departments, public entities and municipalities across the national, provincial and local government spheres must systematically and purposefully plan and work together. They must then report transparently on what they have achieved and on how they have used the budgets provided. With this information, executive authorities, coordinating institutions and oversight bodies can monitor and oversee how these entities perform, provide opportunities for correction if they are not on track, and address any shortcomings as early as possible.

Government's planning, budgeting, monitoring and reporting processes have been well designed to support this basic plan-do-check-act process.



Planning, budgeting, monitoring and reporting process



Executive summary

01 Introduction

02 Overall audit outcomes

03 Service delivery and financial performance

04 Material irregularities

05 Call to action

06 Provinces

Audit fact sheet

In 2022-23, the administration's five-year strategic plan (the Medium-Term Strategic Framework 2019-24, commonly known as the MTSF) was in its fourth year. It has been a tumultuous four years in which government had to adjust its plans to respond to the covid-19 outbreak and disasters such as the floods in KwaZulu-Natal and the Eastern Cape. Government had to introduce new, unplanned social programmes to respond to the hardships suffered by South Africans during covid-19 and the economic downturn in the years following.

While some progress has been made towards achieving the objectives of the MTSF, ordinary South Africans are not experiencing improved service delivery in their daily lives and businesses are struggling. Infrastructure failures in South Africa are mounting, with power cuts, water shortages and potholes being all too common. Poverty and inequality remain, due in large part to the high unemployment rate, despite significant investments having been made in education and skills development. Health facilities are not coping with the demand for health services, and the safety and security of citizens and businesses are under threat.

At a time of economic hardship in which the public's demands for service delivery and accountability are increasing, there is an expectation that national and provincial government will 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. This is, however, not what we have seen at some departments and public entities during our audits.

In our previous general report, we highlighted deficiencies in the planning, management and reporting of service delivery and warned about MTSF targets that are not likely to be achieved. We also reported on weaknesses in infrastructure delivery and maintenance, as well as the mounting pressure on government finances.

In the rest of this section, we provide further insights on the prevailing weaknesses in these areas, which remain obstacles on the road towards a better life for South Africans. We also demonstrate the impact of the weaknesses on the delivery of key government programmes.

The section covers:

- Performance planning and reporting
- Delivery, maintenance and safeguarding of infrastructure
- Financial management and the resultant pressure on government finances
- Impact on key government priorities and the lives of South Africans

Our focus is on the 193 high-impact auditees that contribute to delivering health services, skills development and employment, infrastructure development, safety and security, water and sanitation, energy, and environmental and financial sustainability. The grouping also includes state-owned enterprises and other key public entities.

In some instances we also group our findings per sector. Sectors are made up of national and provincial departments that have similar functions, such as health, education, human settlements, public works, transport, and water and sanitation.

PERFORMANCE PLANNING AND REPORTING

What we found

The high-impact auditees play a vital role in achieving the MTSF targets. We continued to identify flaws in their performance plans and reports, similar to those reported in our previous general report.

In total, 139 of the 193 high-impact auditees were required to report on their performance in 2022-23. Those excluded were the 50 technical and vocational education and training colleges, and the Property Management Trading Entity, Water Trading Entity and Commission on Restitution of Land Rights, whose performance is reported in the performance reports of their parent departments. The finance minister also exempted the Land and Agricultural Development Bank of South Africa from the Public Finance Management Act requirement to prepare a corporate plan for 2022-23, and thus the bank's performance report was not submitted and audited.

We do not audit, evaluate or conclude on the performance of the auditee – it remains the role of those in the accountability ecosystem responsible for governance and oversight (the executive authority, legislatures and coordinating institutions). Our responsibility is to provide assurance to these roleplayers and the public that the information they use for the evaluation of performance is useful and reliable.

Every year we select programmes or objectives of the auditees for auditing that align with their mandate and have the greatest impact on service delivery.

To audit these programmes and objectives, we evaluate the information the auditees report

against criteria developed from their performance management and reporting framework, which is based on the legislation, frameworks and guidelines that apply to them. A performance report that is prepared using these criteria provides useful and reliable information on – and insights into – the auditee's planning and delivery on its mandate and objectives.

In our audit reports, we report those findings that are material enough to be brought to the attention of users of the auditee's performance report. We also report in auditees' management reports on the completeness of their performance indicators; and, for some auditees, we provide audit opinions or conclusions on the selected programmes or objectives.

By 30 September 2023, we had completed the audits of 127 high-impact auditees. For 74 of these auditees (58%), we reported no material findings on the performance reports in the audit reports – an improvement from 54 (45%) in 2018-19. The improvement in the quality of performance reports of high-impact auditees over the administrative term is a significant step forward. However, some of these auditees were only able to achieve this result because we allowed them to correct the misstatements we identified during the audit process. Some had also removed performance indicators that attract findings or scrutiny by oversight bodies, as detailed later in this section.

The table that follows provides information on the findings we reported in the audit and management reports and their impact, as well as the improvements we identified.

Executive
summary

01
Introduction

02
Overall audit
outcomes

03
Service delivery and
financial performance

04
Material
irregularities

05
Call to
action

06
Provinces

Audit fact
sheet

Performance planning and reporting at high-impact auditees

Finding	Prevalence	Description	Impact
Not reliable	49 auditees (39%)	<p>The most common material finding was that the reported achievements were not reliable.</p> <p>This means that either we had proof that the achievement as reported was not correct, or we could not find evidence to support it.</p> <p>Although this number is the same as last year, it is an improvement from the 50% that had unreliable performance information in 2018-19.</p>	<p>If achievements are not reported correctly, this limits the ability of the whole accountability ecosystem, particularly the executive authority and oversight bodies, to assess the auditee's performance and take action to enable improvement.</p> <p>It also means that it is difficult to track the auditee's achievements against its planned targets and allocated budgets, which undermines the accountability mechanisms.</p>
Not useful	23 auditees (18%)	<p>We reported material findings on the usefulness of the reported information, with the most common problem being auditees that included performance indicators and/or targets in their performance plans that were not measurable, meaning that they were not well defined and specific or verifiable.</p> <p>There was some improvement, as we reported findings in this area at 25% of auditees in 2018-19 and 22% of auditees last year.</p> <p>The other usefulness findings were on:</p> <ul style="list-style-type: none"> inconsistencies between what was included in the performance plan and what was reported how the reported information was presented, including not being able to verify the reasons for overachieving or underachieving targets. 	<p>If planned performance indicators and targets are not measurable, this often results in auditees struggling to consistently and accurately report on their achievement and to provide evidence of their reported achievements for auditing, because they do not have the methods and processes in place to properly measure their performance.</p> <p>It also makes it difficult for users of the performance reports to understand how the indicators and targets relate to the overall objective that is meant to be achieved and whether progress is being made towards the planned outcome.</p>
Not measurable	20 auditees (16%)		

Finding	Prevalence	Description	Impact
Poor-quality submissions	70% of auditees	<p>If we had not allowed auditees to correct the material misstatements we identified in the performance reports they submitted to us for auditing, 70% of them would have had material findings, rather than the 42% that we reported.</p> <p>Although we still receive many poor-quality submissions, there has been improvement over the administrative term. In 2018-19, we reported that 82% of the auditees submitted poor-quality performance reports for auditing.</p>	<p>It is not sustainable for us to identify misstatements for auditees to correct, and it causes delays in finalising audits.</p> <p>The poorly prepared performance reports and significant activity required to make corrections in response to our audits also raise questions about the credibility of in-year reporting and the effectiveness of performance reporting throughout the year.</p> <p>If auditees do not properly monitor their performance throughout the year and take corrective action when needed, they cannot achieve their performance targets or reliably report on their performance. Accounting officers and authorities and oversight bodies (such as portfolio committees) also use in-year reporting for monitoring purposes, which they cannot do effectively without reliable information.</p>
Missing indicators	13 auditees (10%)	<p>Auditees' performance plans excluded indicators that measure their performance on their core mandated functions, which included their contribution to the MTSF targets.</p> <p>From 2023-24, we will report in the audit reports if auditees had excluded indicators from their performance plans without appropriate and verifiable reasons.</p>	<p>If departments and public entities exclude indicators from their performance plans and reports, they risk not being able to achieve the MTSF targets and deliver on their core mandated functions. A target that is not measured or accounted for is unlikely to be delivered.</p> <p>If they do not have complete performance plans, auditees cannot transparently report on how they perform their core functions or on their contributions to government programmes and initiatives. This weakens the accountability process because those that need to monitor and make decisions about government-wide deliverables are not working with complete and reliable (audited) information.</p>

Because departments within the same sector must achieve similar priorities and deliver similar services, indicators for planning and reporting should be standardised across the sector for consistency.

In 2020, the Department of Planning, Monitoring and Evaluation issued new guidelines on standardising indicators across sectors with similar functions to improve intergovernmental coordination on what and how to measure. Yet, we continued to find inconsistencies in how sector departments standardise indicators across provinces.

The performance reports of auditees in the public works and transport sectors did not have standardised performance indicators. The human settlements sector agreed to include standardised indicators in 2022-23. This is a significant step towards consistent and focused planning and reporting in the sector.

Without consistent planning and reporting within sectors, it is very difficult for national government to compare the performance of sector departments across provinces, and to monitor and report on relevant government programmes and priorities.

Examples of what we found – education, health, human settlements, public works, transport, and water and sanitation sectors

The audit opinions on the selected programmes we include in auditees' management reports show the pervasiveness of these findings. Normally, we audit and give a separate opinion on more than one

programme in the performance report, but for comparison purposes we are only showing the worst opinion for each of the sector auditees in the figure.

Audit opinion on performance reports (per sector)




	Unqualified	Qualified	Adverse	Disclaimed	Outstanding audits	Total	Movement from last year of previous administration
Education	3	4	2	1	0	10	4 ▲ 0 ▼
Health	2	1	2	4	1	10	1 ▲ 1 ▼
Human settlements	3	6	0	1	0	10	5 ▲ 4 ▼
Public works	6	3	1	0	0	10	6 ▲ 1 ▼
Transport	6	4	0	0	0	10	4 ▲ 1 ▼
Water and sanitation	0	1	0	0	0	1	0 ▲ 1 ▼

We reported material findings on the performance reports of most departments in the education, health and human settlements sectors, with most of the worst audit outcomes (adverse and disclaimed opinions or conclusions) being in education and health. Overall, there has been an improvement over the term of the administration, which is most evident in the public works and education sectors.

The most common finding in the sectors was that the reported achievements were not reliable (56%), most often due to a lack of systems and processes to collate, review and validate the data used for reporting. If achievements are not reported correctly, this makes it difficult to assess the auditee's performance and take action to enable improvement.

Forty-four of the 50 departments (88%) submitted performance reports with material misstatements in 2022-23, compared to 78% in the previous year.

Examples of reported achievements not reliable (e.g. not supported by sufficient evidence)

Sector	Indicator	Province/ National	Target	Reported achievement
 Education	Learners with English and mathematics textbooks in grades 6 & 9	EC	70%	75,40%
	Public schools provided with water infrastructure	KZN	300	300
	Children accessing registered early childhood development programmes	MP	58 000	59 825
		LP	105 000	103 003
	Funza Lushaka (teacher) bursary holders placed in schools within 6 months of completing studies	LP	60%	50,6%
		MP	55%	41,36%
 Health	Funded posts in National Health Insurance organogram filled	Nat	70%	85%
	Ideal clinic status rate obtained	KZN	80,10%	93%
		MP	53%	81%
Children under 5 with severe acute malnutrition rate	EC	8%	8%	
 Human settlements	Serviced sites and households delivered	FS	3 178	322
	Post-2014 title deeds registered	MP	3 500	1 354
		NW	1 821	157
		WC	4 500	973
New title deeds registered	NC	150	0	
 Public works	Savings realised on identified private leases	Nat	R100 million	R165 million
	New (education, health and general) construction projects completed	EC	13	5
	Square metres of blacktop (pothole) patching	LP	180 000 m ²	318 371 m ²
 Transport	Number of jobs created	Nat	10 000	11 009
	Gravel roads bladed (levelled)	EC	30 486 km	20 653 km
	Square metres of blacktop (pothole) patching	NW	52 470 m ²	151 353 m ²
 Water and sanitation	Scheduled maintenance projects completed compared to planned maintenance projects	Nat	50%	45%

Weaknesses in performance management system







The North West Department of Health did not maintain a proper provincial health information system and records. As a result, we reported material limitations over many years on the credibility of reported performance on primary healthcare services. The lack of proper records and resultant unreliable performance reporting caused harm to the department's accountability processes and operations. We notified the accounting officer of a material irregularity because of this in May 2023. Without credible data and information, the department could not accurately plan and budget (e.g. for medical supplies), respond to challenges or make decisions.

Departments within the sectors are mandated to perform certain core functions in support of achieving the MTSF targets. They must therefore deliver on standardised and/or MTSF indicators.

The performance plans and reports of some of these departments did not include indicators that measure their contribution to the MTSF targets relating to their core functions. Consequently, it is unlikely that the service delivery mandate related to these core functions would be fulfilled.

Examples of key MTSF indicators excluded from performance plans and reports

Sector	MTSF indicator
 Education	<p>FS, GP, NC, WC: Learners with access to required mathematics and English textbooks in grades 6 & 9</p> <p>KZN: Seven indicators relating to 10-year-old learners enrolled in publicly funded schools able to read for meaning, including:</p> <ul style="list-style-type: none"> • Availability of reading material for grade 3 learners in indigenous languages • % of foundation phase teachers trained on teaching reading and numeracy • Lesson plans for home language literacy in grades 1-3 • Implementation of early grade reading assessment to support reading at required level by grade 3 <p>NC: Six indicators relating to youth better prepared for further studies and world of work beyond grade 9, including:</p> <ul style="list-style-type: none"> • Learners with access to required mathematics and English textbooks in grades 6 & 9 • Coding and robotics curriculum implemented
 Health	<p>NW: Contingent liability of medical negligence cases reduced by 80%</p>
 Human settlements	<p>KZN: Number of priority development areas invested in</p>
 Public works	<p>KZN: Leasing for accommodation requirements of owned and private properties</p>

At some departments, performance indicators in the performance plans and reports were not measurable or were otherwise not useful for planning and reporting purposes.

Examples of performance indicators/targets not measurable and other usefulness findings

Sector	Indicator
 Education	<p>National: Number of districts in which teacher development was conducted as per district improvement plans <i>Department reported and measured number of development plans districts developed, instead of number of districts in which teacher development was conducted</i></p>
 Health	<p>NW: Children under 5 with severe acute malnutrition case fatality rate <i>Definitions did not support consistent and verifiable measurement, and incorrect denominator was determined for calculating percentage</i></p> <p>NW: Death under 5 years against live birth rate <i>Indicator measured a ratio, but was planned and reported as a number</i></p> <p>NC: Ideal clinic status rate obtained <i>Reason for underachievement of target (17%) against planned target (40%) included in performance report not supported by sufficient evidence</i></p>
 Human settlements	<p>FS, LP, MP, NC: Number of pre-1994 title deeds registered & Number of post-1994 title deeds registered</p> <p>EC: Number of post-1994 title deeds registered</p> <p>FS, LP, NC: Number of new title deeds registered <i>Inadequate housing registration systems – could not differentiate between pre- and post-1994 title deed registrations</i></p>
 Public works	<p>National: Number of reports produced that reflect work opportunities reported by public bodies <i>Inadequate process to collect, collate, record and review progress reports that reflect work opportunities reported by public bodies on Expanded Public Works Programme reporting system</i></p> <p>LP: Number of planned maintenance projects completed <i>Department set target at zero due to budget constraints but this could not be confirmed</i></p>
 Transport	<p>National: Surface and gravel roads maintained <i>Processes not established to consistently measure and reliably report on indicator</i></p> <p>NC: Number of vehicles stopped and checked <i>Established processes inadequate to consistently measure and report achievements</i></p> <p>Transnet: Ship turnaround time (DCT Pier 1) <i>Processes to consistently measure and report on achievements were inadequate</i></p>

Executive summary

01 Introduction

02 Overall audit outcomes

03

Service delivery and financial performance

04 Material irregularities

05 Call to action

06 Provinces

Audit fact sheet

What caused this?

The system of performance planning, management and reporting is well designed. There are performance management and reporting frameworks that clarify definitions and standards for performance information, including the requirements for systems and processes to manage such information. The outcomes, indicators and targets for the MTSF have been clearly set and revised as required; and the responsibilities for leading delivery and achieving targets have been clearly defined.

However, at auditee level and in the sectors, the system is not implemented as designed because of the following:

- Auditees do not have adequate systems to collate and report on their performance information.
- Officials and auditee leadership do not properly apply the performance management and reporting requirements because they do not properly understand or appreciate them.
- Auditees do their planning and reporting 'off the books' – although they continue to work towards delivery, they do not include this work in their plans or report on their achievements in this area. This means that it is not subject to executive and oversight scrutiny or to auditing. Instead of addressing the inadequate systems and processes that lead to unreliable reporting or poor delivery, auditees simply remove the indicators, which often results in them using their full budgets but not achieving their targets.
- To reduce scrutiny and accountability, auditees prefer to show good achievements on easier targets. This is often done to create the perception that the auditee is performing well and that service delivery is taking place.
- The inconsistencies in how sector departments standardise indicators across provinces often occur because provinces do not agree with the indicators or push back on being led or monitored by a national department or executive.
- Audit committees and internal audit units are not sufficiently involved in performance reporting processes to identify misstatements in performance reports that need to be corrected.
- Accounting officers and authorities do not always take the advice of the coordinating institutions that review the performance plans and do not always implement the recommendations made by the Department of Planning, Monitoring and Evaluation based on its reviews of national departments' performance plans; we then identify the same problems when we review the plans.
- Executive authorities and portfolio committees do not properly scrutinise the performance plans and reports, or they approve plans without establishing whether they will achieve the desired results for the auditee. Auditees also face limited consequences when providing unreliable information in their performance report or underachieving on their targets.

DELIVERY, MAINTENANCE AND SAFEGUARDING OF INFRASTRUCTURE

What we found

Every year, we audit infrastructure and report to accounting officers and authorities and their executive authorities on the status of selected projects as well as on deficiencies and inadequate infrastructure maintenance. We also share our findings with Parliament and provincial legislatures and emphasise the money being lost due to poor contract management and limited maintenance, report what we observe to be causing the weaknesses, and make recommendations for improvements. But despite this, we see little improvement year on year.







Project delivery

In 2022-23, we audited 137 infrastructure projects. We focused on critical infrastructure including health facilities, schools, housing, roads and railways, water infrastructure, and government buildings such as police stations. The public works and infrastructure portfolio was an implementing agent for 67 of these projects.

Our audit work incorporated numerous site visits using specialist auditors to inspect project progress and quality. We reported findings on 112 (82%) of the projects we visited. We found that, all too often, infrastructure delivery projects have been delayed, are costing more than planned or are of poor quality. There are also delays in newly built infrastructure being put to use.

The table that follows provides information on the findings on infrastructure projects that we reported in auditees' management reports, as well as the impact of these findings. Where we report on project delays, this means that projects were either completed late or were still under construction after the contractual completion date.

Findings on infrastructure projects (overall and by project type)

Sector	Projects audited	Projects delayed	Average delay	Original budget exceeded	Poor build quality	Not commissioned on time
 Water	4	1 (25%)	17 months	3 (75%)	0	0
 Health	35	24 (69%)	36 months	12 (34%)	12 (34%)	4 (11%)
 Education	35	25 (71%)	30 months	19 (54%)	13 (37%)	3 (8%)
 Human settlements	27	24 (89%)	45 months	16 (59%)	12 (44%)	6 (22%)
 Transport	18	7 (39%)	13 months	5 (28%)	2 (11%)	0
 Government buildings	18	12 (67%)	46 months	10 (56%)	5 (28%)	0
	137	93 (68%)	36 months	65 (47%)	44 (32%)	13 (9%)

Executive summary

01 Introduction

02 Overall audit outcomes

03 Service delivery and financial performance

04 Material irregularities

05 Call to action

06 Provinces

Audit fact sheet



IMPACT

Delayed delivery negatively affects service delivery and increases expenses due to cost overruns.

Increased costs negatively affect service delivery due to reduced funding for new projects.

Poor-quality construction can harm those using the infrastructure (members of the public or public sector officials) and increase costs to fix defects.

Late commissioning negatively affects service delivery because the public cannot access infrastructure or related services; and wastes funds (e.g. municipal and security services are paid for but not used).

We reported findings on 53 infrastructure projects (79%) for which the public works and infrastructure portfolio was an implementing agent.

Infrastructure maintenance and safeguarding

The condition of public infrastructure largely depends on appropriate budget allocations and the development and implementation of sound maintenance systems, policies and processes.

The public works sector is responsible for maintaining government properties, including health facilities, police stations and buildings that accommodate departments. However, many government properties are in poor condition because of the sector's reactive approach to maintenance. Most maintenance work is only done in response to emergency requests and little time or budget is spent on preventative maintenance.

Preventative maintenance is only effective if the condition of buildings is regularly assessed. The Government Immovable Asset Management Act requires a condition assessment to be done every five years. In 2022-23, the Property Management Trading Entity performed condition assessments at 107 (0,13%) of the 80 034 properties in its portfolio – less than half of the 236 properties assessed in the previous year – because of limited capacity.

Government officials and the public continue to use properties that are in poor condition, which lowers the effectiveness of the working environment and puts the safety of officials and the public at risk. In 2022-23, the total properties classified by the Property Management Trading Entity as being in poor condition stood at 6 943.

There are currently 2 394 unoccupied government properties, most of which have not been maintained and are in a bad state. Even though these properties are not used, costs such as property rates and taxes still need to be paid. When there are not enough fit-for-use properties available to departments, the Property Management Trading Entity needs to enter into lease agreements – which could have been avoided if properties had been properly maintained.

Unoccupied buildings are often subject to vandalism, looting and illegal occupation. Infrastructure projects are also vulnerable to vandalism and theft. These criminal activities not only put people's lives at risk, but also result in infrastructure project cost overruns and significant spending on security services to protect the infrastructure.

The examples that follow clearly illustrate the shortcomings in infrastructure delivery, maintenance and safeguarding across the different sectors.

Health facilities



Heuningvlei Community Health Clinic in Northern Cape

(Independent Development Trust)

The project started in May 2015 with a planned completion date of September 2016. Construction was delayed because the appointed contractor did not deliver on time and a new contractor had to be appointed to complete the work. The clinic was eventually completed in November 2022. The delay left the community without access to adequate and accessible medical and health services.

During our May 2023 site visit, we found leaking urinals, loose paving stones, broken door closers and air conditioners that were blowing hot air into a medicine room, which goes against pharmacy guidelines on medication temperature control. A contractor was paid to install a water storage tank, but the installation was incomplete and there was no water backup at the clinic, leaving it vulnerable to water shortages. We are busy assessing the matter as a possible material irregularity.



Mayibuye Clinic

(Gauteng Department of Infrastructure Development)

A contractor was appointed in December 2016 to complete construction of the clinic by July 2018, but was only given access to the site in August 2017. The contractor did not perform and the contract was eventually terminated in August 2021. No replacement contractor has been appointed, and the site is left exposed to extreme weather conditions and the existing infrastructure will likely deteriorate. Nearby communities still have to travel to other health facilities for medical treatment. In July 2023, we notified the accounting officer of a material irregularity on this matter.

Schools



Loretlweng Primary School (North West Department of Public Works)

Construction of the school started in December 2016 with a planned completion date of January 2020. In September 2020, after spending R12,69 million, the department terminated the contract due to poor-quality workmanship. No replacement contractor has been appointed and the project has stopped due to ongoing legal proceedings between the contractor and the department.

During our site visits in March 2022 and June 2023, we observed substandard construction work. Walls were collapsing in the same direction because they were not strong enough to resist wind. Significant remedial work will be required, which will increase the costs and further delay the completion of the school. As a result, learners in the area are attending overcrowded schools, which negatively affects the quality of learning. We are busy assessing the matter as a possible material irregularity.

Abandoned building works and collapsed building walls and roofing at Loretlweng Primary School



Dinizulu Senior Secondary School (Eastern Cape Department of Public Works)

The new ablution blocks for the school were expected to be completed by April 2018. During our site visit in February 2023, the project had still not been completed and the contractor was not onsite. There were significant delays in dealing with the variation orders submitted by the contractor, which resulted in the work being stopped. At the time of our audit, a variation committee that had recently been set up by the department was busy analysing the variation orders.

Because of the five-year delay in completing the project, learners are still using the old, dilapidated ablutions, which are not safe or hygienic. We are busy assessing the matter as a possible material irregularity.

Schools (continued)



Toleni Junior Secondary School (Eastern Cape Department of Education)

Construction of the new school was completed in October 2020. Based on the September 2016 enrolment data, the school was designed to accommodate 496 learners (201 from grades R to 7 and 295 from grades 8 to 12) and 13 educators.

During our May 2023 site visit, we noted:

- there was no access to water, despite the department paying for the installation and connection of a borehole
- new ablution facilities were locked and had never been used, leaving learners to use the older, dilapidated pit toilets
- operational equipment such as computers and printers was not procured before the school was put into use.

This resulted in the school not being fully used as intended, with only about 100 of the planned 201 grade R to 7 learners being accommodated.

The department is receiving little value from the money spent on building this school – learners in the area still do not have improved access to schools; and those who do attend, do not have access to basic facilities. We are busy assessing the matter as a possible material irregularity.

Roads



Upgrading 20 kilometres of road in Sekhukhune district (Roads Agency Limpopo)

The project to upgrade portions of the road from gravel to tar started in October 2016 and was planned for completion by August 2018. The completion date was revised to May 2019 due to civil unrest, delays in the delivery of construction material, and non-payment by the contractor to suppliers and local labourers.

The first contractor could not complete the project and terminated the contract in April 2019 citing non-payment of invoices. A second contractor was appointed in November 2020 and given one year to complete the project, but the start was delayed because this contractor was not given access to the site until February 2021. During our site visit in March 2023, we noted that no construction had taken place, which the agency indicated was because of a lack of funds.

Approximately six-and-a-half years after the project started, the estimated completion rate is 69%. The contract value has increased from R194 million to R205 million, and more will need to be spent to complete the project. We are busy assessing the matter as a possible material irregularity.



Construction of community residential units in Welkom

(Free State Department of Human Settlements)

The project to construct 780 housing units started in August 2014 and was planned to take two years to complete at a cost of R221 million. The first contractor could not complete the project by August 2016, and the contract was terminated in March 2017 due to poor performance. The second contractor, appointed in June 2018, was given two years to complete the project for an additional R326 million but also did not perform, and the contract was terminated in October 2022.

Approximately nine years after the project started, it has an estimated completion rate of only 44%. Project costs have more than doubled to R490 million, and more will need to be spent to complete the project. The additional costs reduce the funds available for service delivery while the delays mean that approved beneficiaries in the community continue to live in poor conditions while waiting to receive affordable housing.

We notified the accounting officer of the following material irregularities relating to this project:

- July 2019:** *Poor contract management that resulted in significant delays and increased costs to complete the project*

The accounting officer handed over the matter to the Office of the State Attorney to recover the overpayment of R20,18 million from the contractor. Our remedial action taken in October 2021, to finalise an investigation into the non-compliance and take disciplinary action against officials found responsible, was also implemented.
- July 2021:** *Payments of R16,07 million to contractor for standing-time delays due to constant strikes, even though there was no contractual obligation to make such payments*

The accounting officer did not take appropriate action to address the material irregularity and we issued recommendations in August 2023 for the accounting officer to investigate the non-compliance, apply consequences against the responsible officials, and report any criminal acts identified to the South African Police Service. We also referred the matter to the Directorate for Priority Crime Investigation (the Hawks) for further investigation.
- October 2021:** *Payment to contractor in August 2020 for standing time during the covid-19 lockdown despite no contractual obligation to make such payments, resulting in estimated financial loss of R10,18 million*

The accounting officer did not take appropriate action to resolve the material irregularity and we referred the matter to the Hawks in September 2022. The investigation was still ongoing at the time of this report.

Housing (continued)



Umbulwane housing project

(KwaZulu-Natal Department of Human Settlements)

The project to build 505 houses in Steadville (Ladysmith) was initially approved for planning activities and service installation in May 2006. However, the application for housing construction was only approved in March 2018 because no land was available and changes were made to the site layout plan.

Construction eventually started in 2018, 12 years after the approval of the project, and was planned to be completed by December 2023. However, the project has been further delayed because the existing water and sanitation infrastructure needed to be upgraded to adequately service the new housing project and the National Home Builders Registration Council halted construction until the water and sanitation requirements were met. The department installed gabions (barriers to prevent site flooding) and upgraded stormwater infrastructure to mitigate the risk to the community.

Due to a lack of security at the housing development site, we noted during our inspection in May 2023 that three completed houses had been vandalised. The living conditions of the community that should benefit from this project remain poor, with unstable housing structures in an area prone to bad weather and flooding.

Substandard living conditions at Umbulwane housing project – residents built informal and mud houses between newly constructed houses



Vlakkeland housing project

(Western Cape Department of Human Settlements)

The project to build 228 housing units in Paarl started in November 2017 and was planned to take 16 months to complete at a cost of R60,57 million. A replacement contractor was appointed due to the first contractor's poor-quality work but units have still not been completed.

During our site visit in April 2023, we identified quality defects such as houses with incorrectly approved bulk earthworks or house founding levels, resulting in stormwater flooding. Some load-bearing slabs had also been compromised, resulting in structural instability. Fixing these defects will cause further delays in providing communities in the area with decent accommodation. We are busy assessing the matter as a possible material irregularity.

Bulk earthworks at incorrect level taken at different angles (house and close-up views) at Vlakkeland housing project



Executive
summary

01
Introduction

02
Overall audit
outcomes

03
Service delivery and
financial performance

04
Material
irregularities

05
Call to
action

06
Provinces

Audit fact
sheet

Water and sanitation



Various bulk water supply projects (Department of Water and Sanitation)

We previously reported extensive delays in finalising the Giyani bulk water scheme project, which started in 2011 and was planned to be completed within two years.

In March 2014, a court ruled that the implementing agent, Mopani Local Municipality, had appointed the contractor unlawfully. A new implementing agent, Lepelle Water, was appointed in 2014 and contractors were again appointed in 2016 to complete the project within two years. By June 2023, the project had still not been completed. The project has been delayed by more than a decade due to the irregular appointment of the first contractor and the continuing poor management of the implementing agent and contractors, which resulted in contractors abandoning the project for reasons including non-payment.

The initial 2011 contract value of R284 million was revised twice – first to R520 million in 2019 and then to R767 million in 2020.

The Special Investigating Unit is investigating the project. We will follow up and report on the investigative report once finalised, and consider the possibility of material irregularities.

By 31 March 2023, we noted that the following ongoing projects of the department were also behind:

- Mafikeng South bulk water supply (R302 million) – delayed by 77 months (nearly six-and-a-half years)
- Mogalakwena bulk water scheme (R168 million) – delayed by 36 months (three years)
- Nebo bulk water scheme (R24 million) – delayed by 36 months (three years)
- Masilonyana bulk water supply (R505 million) – delayed by 30 months (two-and-a-half years)

The delays in completing water projects resulted in (or are likely to result in) significant harm and undue hardship to the communities that were meant to benefit from these projects, as some residents resorted to drinking unsafe water. During our visit to these communities, concerns raised included water shortages and poor water quality. The delays also had a negative impact on other sectors, particularly agriculture, health and education.

Government buildings



New Brighton Police Station (Property Management Trading Entity)

Based on the October 2022 condition assessment of the police station in Gqeberha (Eastern Cape), the lack of routine maintenance had left the facility in poor condition, with some walls needing to be demolished and rebuilt. A year later, in September 2023, no repairs had been done. The structural damage to the cell walls and the drain blockage left the holding cells unusable, with the police station having to use the holding cells of other police stations instead.



Lothair periodical court (Department of Public Works and Infrastructure)

The Department of Justice and Constitutional Development asked the Department of Public Works and Infrastructure to act as an implementing agent for the construction of the court in Ermelo (Mpumalanga) and gave instructions to proceed in August 2007.

The planning stage of the project began and a professional team was appointed, consisting of a quantity surveyor, an architect, a principal agent, an electrical engineer, a civil engineer and a mechanical engineer. In January 2021, the rationalisation coordinating committee of the Department of Justice and Constitutional Development stopped the project indefinitely after R12,61 million had already been spent on professional services. The committee indicated that the statistical demographics of the area do not warrant construction of a new building.



Kopano hospital complex (Property Management Trading Entity)

The complex in Welkom (Free State) was closed due to non-compliance with occupational health and safety legislation. The building was then vandalised and a section of the property is now illegally occupied. The occupants installed illegal electricity connections, which pose a hazard to both themselves and the nearby informal settlement.

What caused this?

The failures in delivering, maintaining and safeguarding infrastructure are due to four matters that need urgent attention:

1. Inadequate coordination and collaboration, and deliverables not being synchronised in the ecosystem (e.g. between implementing agents and other departments).
2. Failure to conduct proper needs assessments and feasibility studies; or conducting them but not using them as a base to implement the infrastructure projects.
3. Lack of accountability – the terms of construction contracts are not used to hold the contractor and professional service providers (consultants and implementing agents) accountable when they do not perform.
4. Inadequate monitoring and enforcement by infrastructure-related regulatory bodies such as the Construction Industry Development Board and the National Home Builders Registration Council, particularly relating to repeat offenders that cause delayed projects across sectors.

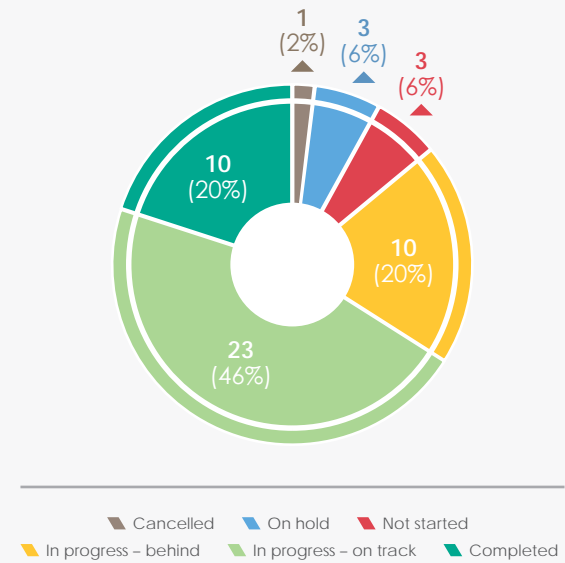
The coordinated approach followed by the Presidential Infrastructure Coordinating Commission, as described next, might offer a solution to some of these problems.

Presidential Infrastructure Coordinating Commission

The Presidency and the Department of Public Works and Infrastructure have been working closely with Infrastructure South Africa to monitor and speed up infrastructure delivery, raise additional funding and address issues of project delivery by focusing on strategic integrated projects. These are projects that are of significant economic or social importance; contribute substantially to any national strategy or policy relating to infrastructure development; or are above a certain monetary value.

Auditees are responsible for implementing, managing and overseeing the budgets of their infrastructure programmes and projects. The commission provides additional support to auditees implementing strategic integrated projects. For example, multidisciplinary steering committees are established to help auditees through the planning, approval, implementation, operation, monitoring and reporting phases of a specific project.

Status of 50 gazetted strategic integrated projects by 31 March 2023



Although some projects have been delayed, this coordinated approach has contributed to large infrastructure projects being either completed or on track. A good example is the student housing infrastructure programme.

Student Housing Infrastructure Programme



In South Africa, students often live in poor and unsafe conditions located in decaying parts of a city, in informal settlements or areas that are far from their campuses. Where on-campus accommodation is available, residences are often overcrowded and in a rundown condition.

The Department of Higher Education and Training therefore launched the Student Housing Infrastructure Programme to provide safe, accessible, affordable and decent student accommodation to improve educational outcomes. The programme aims to accelerate the roll-out of 300 000 student beds at 26 universities and 50 technical and vocational education and training colleges over 10 years. Affordable student accommodation will also alleviate pressure on both students and the National Student Financial Aid Scheme because of the lower cost of this accommodation compared to private accommodation.

In 2022-23, 5 936 of the planned 6 248 student beds for the year were added at a cost of R1,52 billion. The project was completed ahead of schedule at North West University and Nelson Mandela University, and only 13 days after the planned completion date at the University of the Western Cape.

We found that the following contributed to the success of the programme:

- Implementing proper procurement and contracting processes, such as by appointing reputable, competent and experienced contractors.
- Harnessing stakeholder engagement and governance – the main contractors appointed local labourers and sub-contractors, and the Development Bank of Southern Africa (implementing agent), Department of Higher Education and Training (contracting department), student housing infrastructure team and Infrastructure South Africa all collaborated.
- Ensuring project management by all stakeholders through monthly steering committee meetings to oversee and monitor the projects, including monitoring project status and progress; and addressing quality, health and safety challenges and risks. The involvement of experienced members contributed to challenges being resolved more easily and faster.

North West University – panorama view of completed student accommodation blocks



Nelson Mandela University – bird's eye view of student accommodation (blocks 1 to 6 completed for occupation in February 2023)



FINANCIAL MANAGEMENT AND RESULTANT PRESSURE ON GOVERNMENT FINANCES

What we found

The accounting officers and authorities of high-impact auditees managed an estimated expenditure budget of R2,64 trillion in 2022-23 – 85% of the total national and provincial budget.

In our previous general report, we highlighted the lack of careful spending and the eroding of the limited funds available. We continued to identify such practices at the high-impact auditees – funds are spent but service delivery does not improve. In simple terms, the quality of spending remains a problem.

Over the four-year term of the current administration, auditees have disclosed fruitless and wasteful expenditure totalling R7,62 billion. High-impact auditees were responsible for R6,47 billion (85%) of these wasted funds. The total fruitless and wasteful expenditure in 2022-23 was R1,73 billion, with high-impact auditees being responsible for R1,43 billion of this amount. Since 2019, we have also identified non-compliance and fraud resulting in an estimated R14,34 billion in financial loss through our material irregularity process.

The main reasons that money is being lost are:

- poor payment practices
- uncompetitive and uneconomical procurement practices
- no or limited benefits received for money spent
- poorly managed government properties and leases
- weaknesses in the management of projects.

The funds government budgets for service delivery activities are reduced by claims made against departments, and by auditees overspending their budgets and being in poor financial health. Ailing institutions, such as the state-owned enterprises, place further pressure on government by needing bailouts and through potential future obligations as a result of guarantees.

Poor payment practices

Contracts that have been awarded to suppliers must be actively managed to ensure that the suppliers deliver at the right time, price and quality before any payments are made. Payments must also be made on time to avoid interest and penalties. Such requirements are not only standard financial management practices, but are also included in the Public Finance Management Act, which makes accounting officers and authorities responsible for ensuring that the required processes and controls are implemented.

At some auditees, poor payment practices such as late payments, overpayments and payments for goods not received resulted in (or are likely to result in) financial losses. Often government has to pay interest on late payments, such as when auditees do not pay their creditors within 30 days. Interest and penalties were the reasons for R0,59 billion of the fruitless and wasteful expenditure of high-impact auditees.

Since 2019, we have identified 118 material irregularities at high-impact auditees related to poor payment practices.

Poor payment practices



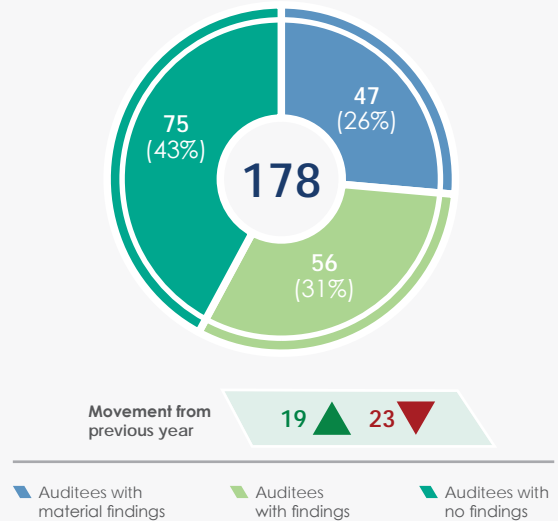
- The KwaZulu-Natal Department of Health did not pay a supplier in a timely manner, resulting in interest of R2,09 million having to be paid as well. The accounting officer was notified of the material irregularity in August 2022. An investigation was undertaken and it was confirmed that interest of R1,45 million was incorrectly charged by the service provider and was subsequently refunded to the department. An investigation into the balance is currently ongoing to identify the responsible officials and take action against them.
- From June 2022 to November 2022, the Eastern Cape Department of Education paid salaries of R12,67 million to employees after they had resigned and no longer worked there. The department could not recover the loss. We notified the accounting officer of the material irregularity in August 2023.

Uncompetitive and uneconomical procurement practices

Fair and competitive procurement processes enable auditees to get the best value for their limited funds and give suppliers fair and equitable access to government business.

We continued to identify and report non-compliance with procurement and contract management legislation at high-impact auditees, some of which resulted in irregular expenditure.

Status of compliance with procurement and contract management legislation (high-impact auditees)



Uncompetitive and unfair procurement processes and inadequate contract management remained widespread. We reported findings on uncompetitive and unfair procurement processes at 80 auditees (45%), and contract management findings at 39 auditees (22%). Of these, our findings on uncompetitive and unfair procurement processes were material at 22% of auditees, and our findings on contract management were material at 7% of auditees.

This and other forms of non-compliance with procurement and contract management legislation remained the biggest contributor to irregular expenditure in 2022-23.

The irregular expenditure disclosed in 2022-23 totalled R63,37 billion, with high-impact auditees being responsible for R53,77 billion (85%) of this amount. In terms of a National Treasury instruction note issued in December 2022, auditees do not have to include irregular expenditure incurred in prior years or the closing balance of irregular expenditure in their financial statements. Therefore, the actual amounts incurred may differ where prior-year amounts were not disclosed in the annual report or where we did not receive the annual report before completing the audit.

As part of our audits, and to point oversight bodies to areas where they should focus their attention, we assessed the impact of the irregular expenditure incurred. We found that R31,56 billion of the irregular expenditure incurred by high-impact auditees arose from breaches of legislation relating

to the five pillars of procurement. These are: value for money, open and effective competition, ethics and fair dealing, accountability and reporting, and equity.

In cases where procurement was not fair, transparent, competitive and cost-effective, high-impact auditees acquired goods and services worth R29,07 billion at prices that may have been higher than necessary because they either did not adequately test market prices or did not choose the most cost-effective options. Unfair procurement could also lead to auditees being exposed to litigation due to breaches of procurement processes, which could result in funds intended for service delivery being diverted to pay legal fees. The remaining R2,49 billion in irregular expenditure related to procurement that was not equitable, such as when the procurement did not advance previously disadvantaged individuals and small businesses.

On top of following a competitive procurement process, an auditee must consider whether the prices that will be paid for goods and services are market related and whether the terms of the contract are in the best interest of the state.

At some auditees, uncompetitive and uneconomical procurement practices resulted in (or are likely to result in) financial losses, as goods and services could have been obtained at a lower price. Since 2019, we have notified the accounting officers and authorities of high-impact auditees of 41 material irregularities dealing with such losses.

Losses due to uncompetitive and uneconomical procurement practices



During 2021-22, the Department of Social Development procured capital assets at above-market prices. In February 2023, we notified the accounting officer of a material irregularity because the department did not have adequate controls in place to ensure that an effective market-price analysis was performed, resulting in an estimated loss of R1,21 million.

No or limited benefit received for money spent

With the limited funds available, auditees must ensure that they get the maximum value from every rand spent.

Some high-impact auditees procured goods or services that they either did not use or did not use in full, which resulted in (or is likely to result in) financial

losses. Since 2019, we have notified the accounting officers and authorities of high-impact auditees of 10 material irregularities dealing with such losses.

One common area of loss was auditees procuring more software licences than they needed, leaving many unused.

Software licences going unused



- In early 2021, the KwaZulu-Natal Department of Public Works procured 200 software licences and continued to pay subscription fees, despite having only 15 users loaded on the system. This resulted in an estimated financial loss of R6,10 million. We notified the accounting officer of this material irregularity in September 2022. However, as the accounting officer did not take appropriate action to address the matter, we included recommendations to resolve the material irregularity in the 2022-23 audit report.
- The Eastern Cape Department of Education purchased licences for operating system software to be used at schools. However, because the department did not know which schools were using the software, it bought more licences than were needed, resulting in fruitless and wasteful expenditure of R5,65 million. We notified the acting accounting officer of a material irregularity in July 2023.

Poorly managed government properties and leases

Financial losses are rife in the public works sector, especially when it comes to leasing buildings, due to:

- government buildings being unoccupied and vandalised (as detailed in the infrastructure sub-section earlier on)
- leases being paid for unoccupied buildings

- higher-than-average market rates being paid for leasing buildings.

We notified the accounting officers and authorities of high-impact auditees of two material irregularities dealing with the payment of leases for buildings not occupied.

Lease payments on unoccupied buildings



From 2020 to 2021, the Mpumalanga Department of Education made R1,37 million in lease payments for unoccupied buildings that were intended to be used by schools. We notified the acting accounting officer of a material irregularity in August 2022.

Government often pays above-market rates for leases and enters into contracts of which the terms are not to the benefit of tenants and stipulate high annual increases. Converting from month-to-month

leases to longer term contracts presents an ideal opportunity to renegotiate the terms of the lease to be in line with market prices, but such renegotiation seldom happens.

Poorly managed lease agreements



Property Management Trading Entity

In April 2009, the entity signed a lease agreement to rent the Thibault Navarre Wachthuis complex in Pretoria on behalf of the South African Police Service at a rate of R70,30 per square metre (excluding VAT) with a 9% annual increase. The contract ended on 28 February 2019 but continued on a month-to-month basis. By March 2023, the entity was paying R217 per square metre, compared to the average market rate of R63,60 per square metre for a similar building in the same area. The entity is thus paying approximately R75,41 million above the market rate per year.

In August 2013, the entity signed a lease to rent the Sol Plaatjie building in Pretoria at a rate of R85 per square metre (excluding VAT), with a 10% annual increase. The contract ended on 31 July 2015 but continued on a month-to-month basis. By 31 March 2023, the entity was paying R182,20 per square metre, compared to the average market rate of R63,60 per square metre for a property of a similar grading. The entity is thus paying approximately R27,07 million above the market rate per year.

Weaknesses in project management

If projects are to be delivered on time, within budget and at the required quality, proper needs assessment, project planning and project management processes are required.

As detailed in the infrastructure sub-section earlier on, the success of an infrastructure project depends, to a large extent, on the quality of

project planning. Auditees do not always ensure that the needs for the project are properly identified so that they can plan accordingly. Poor demand and procurement planning result in unrealistic cost estimates, inadequate specifications and poor decisions about the type and scope of work. It also results in the feasibility of the project not being properly determined.

Poor planning of infrastructure projects



Department of Basic Education

The department paid R15 million for feasibility studies on various water and sanitation projects that were later cancelled because they had already been implemented by provincial education departments, or schools had closed because of decreasing student numbers. We are busy assessing the matter as a possible material irregularity.

KwaZulu-Natal Department of Health

Errors during project design contributed to increased costs from R42,45 million to R100,19 million on the department's King Edward VIII Hospital project in Durban.

Poor planning of infrastructure projects (continued)



Free State Department of Education

The contract value of the department's project to construct a hostel at Leboneng Special School in Welkom increased from R74,32 million to R101,17 million due to, among others, project drawings not complying with applicable requirements. The project site was not properly assessed, which resulted in the project designs not complying with the required norms and standards and an increase in costs. We are busy assessing the matter as a possible material irregularity.

High-impact auditees struggled to manage information technology projects. Last year, we reported on the delays and resultant financial losses in the Integrated Financial Management System project managed by the National Treasury, which

was intended to replace the ageing financial management systems used by departments. This year, we identified more examples at other high-impact auditees.

Problematic information technology projects



Gauteng Department of Health

The department procured a system to expand the radiology solution and address network connectivity issues at health facilities in the province. Full implementation was planned for April 2023. However, implementation had not yet started by March 2023 although the department had already spent R26,29 million. The department had to rely on an information technology service provider to define and implement project management processes. We identified various project governance weaknesses, mainly due to a lack of human resources and poor project management.

Poor planning and project management resulted in suppliers being paid for standing time on projects, increased completion costs due to delays, and projects being cancelled after substantial

payments had already been made. Examples of these losses are included in the sub-section on infrastructure earlier on.

Standing-time payments to contractors and delays in project completion with escalating costs



- In June 2020, the Free State Department of Education paid claims for standing time to the supplier building Malebogo Primary School in Setlagole, even though it had no contractual obligation to do so. We notified the accounting officer of a material irregularity resulting in a loss of R7,24 million in October 2022.
- From December 2019 to July 2021, the Eastern Cape Department of Education paid a supplier R7,40 million in claims for standing time because of delays following the architect suspending services due to late payments for repairs, renovations, additions and demolitions of inadequate structures. We notified the accounting officer of a material irregularity in August 2023.

Claims against departments

Claims are made against departments through litigation for compensation as a result of a loss caused by the department. The most common type of claim is because of medical negligence by provincial health departments. Departments do not normally budget for such claims; and those that do, often do not budget enough. We also identified deficiencies in the measures departments implement to manage and defend against medical negligence claims. As a result, all successful claims will be paid from funds earmarked for service delivery, affecting departments' financial sustainability and ability to meet their service delivery commitments.

In 2022-23, the estimated settlement value of the claims against departments that have not yet been settled (by court order or mutually between the parties) totalled R113,63 billion. High-impact auditees accounted for R109,85 billion of this amount. In accordance with the Modified Cash Standard (a basis of accounting used by government departments), departments report an estimated value of the claims based on the most likely outcome of the process. As in the previous year, the provincial health departments were responsible for most of this amount (61%).

A total of 34 departments (45%) in the high-impact category had claims against them with an estimated settlement value of more than 10% of their budget for the following year. This means that if the departments pay out these claims in 2023-24, they would use more than 10% of their budgets meant for other strategic priorities, including service delivery.

The financial position of the health sector has been under immense pressure for years because of limited funding and poor financial management. The revised MTSF included an estimate for medical negligence claims in 2018 of R80 billion. In an effort to reduce this bill, it also included a target to reduce the contingent liability of these cases by 80% in 2024. The sector does not seem close to reaching the target as the claims have already exceeded the baseline set when drafting the revised MTSF. The total medical claims against the sector currently stand at R68,01 billion and the sector paid out R1,42 billion in claims in 2022-23 (these figures exclude the claim amounts

of the Limpopo Department of Health, as the audit had not yet been completed at the cut-off date for this report).

In our previous general reports, we consistently highlighted the need for the health sector to pay specific attention to medical record keeping, because claims often cannot be successfully defended without proper records. Departments then suffer further financial losses because they are ordered to pay interest on claims that are not paid out to beneficiaries by the time ordered by the court.

Although there is an approved health strategy addressing the increasing medical negligence claims, we previously reported that this strategy is not being effectively implemented. The poor state of medical record keeping has still not been attended to by the health departments in four provinces (Eastern Cape, Gauteng, KwaZulu-Natal and Northern Cape) because clinics and hospitals do not ensure that health records containing prescribed information are created and maintained for every user of health services.

A formalised medical records system is vital for defending against medical negligence claims because it enables healthcare facilities to maintain accurate, secure and compliant patient records. It also reduces the risk of legal disputes, supports accountability and protects against errors and omissions in healthcare documentation. The national Department of Health entered into a three-year contract with a service provider to develop a case management system to keep records of claims. However, only the Free State department was using the system. Two other provinces indicated that they could not use the system because user departments were not given access to it.

Other health sector challenges that need attention include staff shortages, which result in qualified nurses having to fill multiple roles, such as administrators, pharmacist assistants and operational managers; ineffective healthcare facilities; and policies and legal frameworks not being implemented. If these matters are not addressed, they will cause long-term harm to the sector's ability to deliver swift, good-quality healthcare services, jeopardising the essential building blocks for the National Health Insurance system.

Overspending of budgets and poor financial health

When departments overspend their budgets, they disclose this as unauthorised expenditure. If this type of expenditure is condoned, it means that the department needs to either find more money or absorb the overspent amount, which reduces the available budget for the following years. In 2022-23, the unauthorised expenditure for all departments amounted to R4,59 billion. Such spending has remained high throughout the administrative term, totalling R28,22 billion over the four years.

Unlike departments, which must submit their budget vote to parliamentary committee hearings to be approved, public entities do not have a separate vote and thus disclose their overspending as irregular expenditure. In 2022-23, the irregular expenditure incurred due to overspending was R0,90 billion.

High-impact auditees were responsible for R4,35 billion (79%) of the R5,49 billion total overspending (departments and public entities) in 2022-23.

Departments prepare their financial statements based on the Modified Cash Standard basis of accounting. This means that the amounts disclosed in the financial statements only include what was actually paid during the year and do not include accruals (money owed 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 department's finances, which may not be easily seen from their financial statements. That is why, every year, we reconstruct the financial statements at year-end to take these unpaid expenses into account and provide our insights to management. This allows us to assess whether the surpluses reported are the true state of affairs and whether the departments have technically been using their budget for the next year because of over-commitments in a particular year.

These reconstructed financial statements paint a picture of departments that could not operate within their budgets. The total **deficit** across all departments was R32,29 billion in 2022-23, with

R27,53 billion (85%) of this amount being from departments classified as high-impact auditees.

When an auditee has a deficit at year-end, this means that it did not have enough revenue to cover all of its expenses – and thus ended the financial year in the red. This most often means that the auditee will have to use its income for the next year to cover what it was short this year.

Overall, public entities ended 2022-23 with deficits totalling R12,73 billion, with R9,73 billion (76%) of this amount incurred by public entities classified as high-impact auditees. Most of them are typically funded through revenue such as levies and taxes. In some cases, auditees (such as Transnet) are funded through capital funding from external markets. They will need to either receive additional funding or use their reserves to cover their deficits.

Major contributors to R12,73 billion deficit

- Transnet
R5,68 billion
- Property Management Trading Entity
R1,54 billion
- Roads Agency Limpopo
R1,10 billion
- Gautrain Management Agency
R1 billion
- Gert Sibande TVET College
R0,78 billion

More than 60% of high-impact departments did not have enough funds to settle all their liabilities at year-end – in other words, they had **cash shortfalls**. The total cash shortfall across all departments was R35,42 billion, of which R19,28 billion related to high-impact departments. This means that these departments started the 2023-24 financial year with part of their budget effectively pre-spent. We calculated that 19 of the high-impact departments will need to spend more than 10% of their operating budget in 2023-24 to pay for 2022-23 expenses.

Departments get most of their revenue from the budget they receive from government. Some departments also generate revenue, which they need to collect. 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 funds owed to them, such as patient fees to health departments. If a department does not collect the money it is owed, this affects both its operations and the funds available for future government initiatives.

Most public entities are self-funded, which means that they need to bill all the goods or services they

sell or the levies and taxes they manage, and then collect all debt. However, public entities also struggled with debt collection, and high-impact public entities took an average of 116 days to collect the money they were owed. In total, 74 of these public entities (76%) disclosed that more than 10% of their debt is irrecoverable.

Since 2019, we have identified eight material irregularities at high-impact auditees related to revenue not billed or recovered.

Debt not recovered



Between April 2020 and March 2023, the Department of Mineral Resources and Energy accrued revenue in relation to prospecting fees for licences, permits and rights. As the department did not collect this revenue, it had to be impaired as it was no longer recoverable, resulting in a likely loss of R296 million. We notified the accounting officer of a material irregularity because of this in July 2023.

The **financial position** of 24 public entities is so dire that they either disclosed a material uncertainty in their financial statements about whether they would be able to continue operating, or received modified audit opinions because they could not show that they would be able to continue operating.

Simply put, these public entities do not have enough revenue to cover their spending and they owe

more money than they have. Many of these public entities have been in this dire financial position multiple times over the past five years, which affects their ability to deliver services to the public in line with their mandates.

Ten of these public entities are in the high-impact grouping, five of which are state-owned enterprises.

High-impact public entities with serious financial health concerns

Disclosed for

5 years

- Northern Cape Rural TVET College
- Property Management Trading Entity
- Road Accident Fund
- South African Broadcasting Corporation
- South African National Roads Agency
- South African Post Office

4 years

- Independent Development Trust

2 years

- Land and Agricultural Development Bank of South Africa
- Motheo TVET College
- Postbank

Most state-owned enterprises continue to face challenges when it comes to their ability to continue operating. They are expected to implement sustainable turnaround plans that will create public value and not rely on government bailouts.

Financial guarantees of over R466,90 billion have been provided over several years to these entities. The total government exposure relating to these guarantees is R386,47 billion (exposure means that the entities have used the guarantees to obtain loans from lenders). Eskom remains the single biggest financial risk to the National Revenue Fund, accounting for over 70% of government guarantees to state-owned enterprises.

When the state grants a guarantee, it essentially takes responsibility for repaying a loan if the state-owned enterprise cannot do so. If these entities default on their loans, the guarantees can be a direct charge to the National Revenue Fund, which keeps records of all guarantees issued and government's total exposure. In certain circumstances, guarantees are required, but the entity should ensure that it honours the conditions of the guarantee and that it becomes sustainable so that further guarantees will not be necessary.

There has been slow progress in implementing key government reforms for state-owned enterprises. These reforms need to be finalised urgently to ensure policy certainty so that state-owned enterprises can deliver on their developmental mandates.

What caused this?

There are two main causes for the financial losses, erosion of funds, overspending of budgets, poor financial health of high-impact auditees and continuing pressure on government to keep ailing institutions afloat:

1. Weak financial management and procurement practices
2. Lack of effective monitoring, oversight and accountability, including appropriate consequences for wrongdoing

Basic financial management and procurement processes are not functioning as they should at auditee level. These include having standardised, effective processes for procurement, payment and accounting disciplines; ensuring proper record keeping; performing independent reviews and reconciliations of transactions and accounting records; and ensuring that in-year reporting and monitoring take place.

Crucially, good financial management and procurement practices are not just the responsibility of the accounting officer or authority and the finance and supply chain management units. Every official and senior manager is responsible for using the limited funds available wisely and carefully for infrastructure projects and maintenance, information technology projects, service delivery programmes and projects, and operational requirements. This is where financial management often fails.

The system of transparent financial reporting through financial statements is well designed to enable monitoring and scrutiny by those charged with overseeing auditees – particularly the executive authorities, oversight departments, public accounts committees and portfolio committees. The financial statements are not limited to only 'accounting information' – they also communicate how the budget was spent as well as any overspending (unauthorised expenditure), improper spending (irregular expenditure), financial losses (such as fruitless and wasteful expenditure), and future losses (such as claims against the department). They also show how infrastructure grants are spent, how much maintenance is done, and how much the auditee has invested in infrastructure.

We are particularly concerned about the following trends we have observed:

- Some high-impact auditees that are responsible for significant government funds and some state-owned enterprises that are struggling financially do not annually account for their finances by tabling their financial statements on time as required by the Public Finance Management Act. Examples are the South African Airways Group (whose financials have been outstanding since 2018-19), the Denel Group, the Compensation Fund, the Unemployment Insurance Fund and the Passenger Rail Agency of South Africa.
- In December 2022, the National Treasury introduced changes to how departments and public entities need to disclose irregular and fruitless and wasteful expenditure in their financial statements. As a result of these changes, auditees no longer need to disclose ongoing irregular expenditure from multi-year contracts. Auditees also no longer have to report the balances and movements of total irregular and fruitless and wasteful expenditure, or any such expense identified in prior years, in the financial statements.

This information is now included in the annual report, which we do not audit. If we receive the annual report from the auditee on time, we review it and report on any discrepancies we identify, but most of the time the report is received late in the audit or after the audit has been completed. This means that our ability to confirm the correctness of the information published has been significantly reduced, leading to weakened transparency and accountability.

- Public accounts committees and portfolio committees rarely act on what is disclosed in the financial statements, and instead depend on the auditees and auditors to highlight what they need to look at. Often, the committees do not make impactful resolutions based on their assessment of the financial statements.
- Very little is done against those responsible for wasting money and making poor financial decisions.

IMPACT ON KEY GOVERNMENT PRIORITIES

What does this mean for the people of South Africa?

The numbers, findings and outcomes we report are not the whole story. What underpins our insights is the negative impact the prevailing weaknesses in service delivery and financial performance have on the lived realities of our people.





The country looks to the high-impact auditees to deliver health services, encourage skills development and employment, develop and maintain infrastructure, ensure safety and security, deliver water and sanitation, provide energy, and enable environmental and financial sustainability.

Failures in their performance, financial and infrastructure management directly affect the delivery of key government programmes intended

to improve the lives of South Africans. Wasted money and resources put further pressure on government finances, which leads to reduced funding for delivery programmes and, eventually, a greater burden on taxpayers.

Some key government programmes did not achieve their targets in 2022-23 despite spending almost all of their budgets. The annual performance plan defines the delivery planned for the year and is used as a basis for the budget allocation. A low ratio of achievement against target can be due to underbudgeting, the 'planning off the books' reported earlier in this section (i.e. the budget was used to deliver on objectives that were not in the plans), or a lack of prudence in spending.

Examples of targets not achieved for key service delivery programmes in 2022-23

Sector	Key programmes	Target achieved vs budget spent
 Education	Public ordinary school education (provinces) <i>Primary and secondary schools run by government</i>	 ▶ 63% targets achieved ▶ 99,58% budget spent
	Early childhood development (provinces) <i>Programmes and policies for children up to age seven, intended to support children to achieve their full cognitive, emotional, social and physical potential</i>	 ▶ 52% targets achieved ▶ 93% budget spent
	Infrastructure development (provinces) <i>Building of physical infrastructure that creates an environment conducive to teaching and learning</i>	 ▶ 49% targets achieved ▶ 94% budget spent

Sector	Key programmes	Target achieved vs budget spent
 Health	District health services (provinces) <i>Services delivered through district health system (vehicle for delivering primary healthcare and foundation for national health system)</i>	 ▶ 51% targets achieved ▶ 100% budget spent <i>Excludes Limpopo (audit outstanding)</i>
	Regional and specialised hospitals (provinces) <i>Regional hospitals – receive referrals from and provide specialist support to district hospitals</i> <i>Specialised hospitals – provide care for specified groups of healthcare users</i>	 ▶ 46% targets achieved ▶ 100% budget spent <i>Excludes Limpopo (audit outstanding)</i>
	National Health Insurance (national) <i>Framework for public funding and purchasing of healthcare services, medicines, health goods and health-related products</i>	 ▶ 75% targets achieved ▶ 87% budget spent
	Communicable and non-communicable diseases (national) <i>Developing and supporting the implementation of national policies, guidelines, norms and standards, and the achievement of targets for the response to decrease disease-related morbidity and mortality</i>	 ▶ 48% targets achieved ▶ 97% budget spent
 Public works	Construction project management (national) <i>Effective and efficient delivery of accommodation needs for Department of Public Works and Infrastructure and user departments through construction</i>	 ▶ 20% targets achieved ▶ 86% budget spent
	Expanded Public Works Programme (provinces) <i>Create work opportunities and provide training for the unskilled, marginalised and unemployed</i>	 ▶ 73% targets achieved ▶ 95% budget spent
 Water	Water resource management (national) <i>Protection, use, development, conservation, management and control of water resources in a sustainable manner for the benefit of all people and the environment</i>	 ▶ 73% targets achieved ▶ 99% budget spent
	Water service management (national) <i>Addressing the water and sanitation services provision in support of water service authorities, integrating of bulk and retail water services and providing for the development of effective policies, strategies, guidelines and procedures and plans for all water service management institutions</i>	 ▶ 70% targets achieved ▶ 94% budget spent
 Transport	Transport infrastructure (provinces) <i>Promoting accessibility and the safe and affordable movement of people through the delivery and maintenance of transport infrastructure that is sustainable, integrated and environmentally sensitive and which supports and facilitates social empowerment and economic growth</i>	 ▶ 57% targets achieved ▶ 96% budget spent <i>Average calculated across eight provinces as Limpopo targets and budget were reported under provincial public works and Roads Agency Limpopo</i>
	Rail transport (national) <i>Facilitating and coordinating the development of rail transport policies, rail economic safety regulations, infrastructure development strategies and systems that reduce system costs and improve customer services</i>	 ▶ 50% targets achieved* ▶ 100% budget spent** * Achievement of targets related to policies and frameworks ** Transfer of funds, mostly to Passenger Rail Agency of South Africa

When departments do not achieve programme targets, improvements in service delivery are delayed. If they do not achieve the target while spending all (or almost all) of the budget, this also reduces the funds available.

A good example of how South Africans experience service delivery failures and where government programmes to improve the situation are failing due to infrastructure neglect, waste, and inadequate planning and resource management, can be found in the health sector.

Ideal Clinic Realisation and Maintenance Programme

In 2013, the national Department of Health launched the ideal clinic initiative to address the deficiencies in the quality of primary healthcare services in South Africa and to lay a strong foundation for the implementation of the National Health Insurance system. This will depend on a well-functioning primary healthcare system, which is the entry point for most patients into the healthcare system.

An ideal clinic provides high-quality healthcare services to the community by:

- providing good infrastructure
- employing adequate staff
- maintaining adequate supplies (including medicine) and sufficient bulk supplies
- implementing good administrative processes
- adhering to applicable clinical policies, protocols and guidelines
- harnessing partner and stakeholder support
- collaborating with other roleplayers in the public and private sectors to look at societal factors in the health environment.

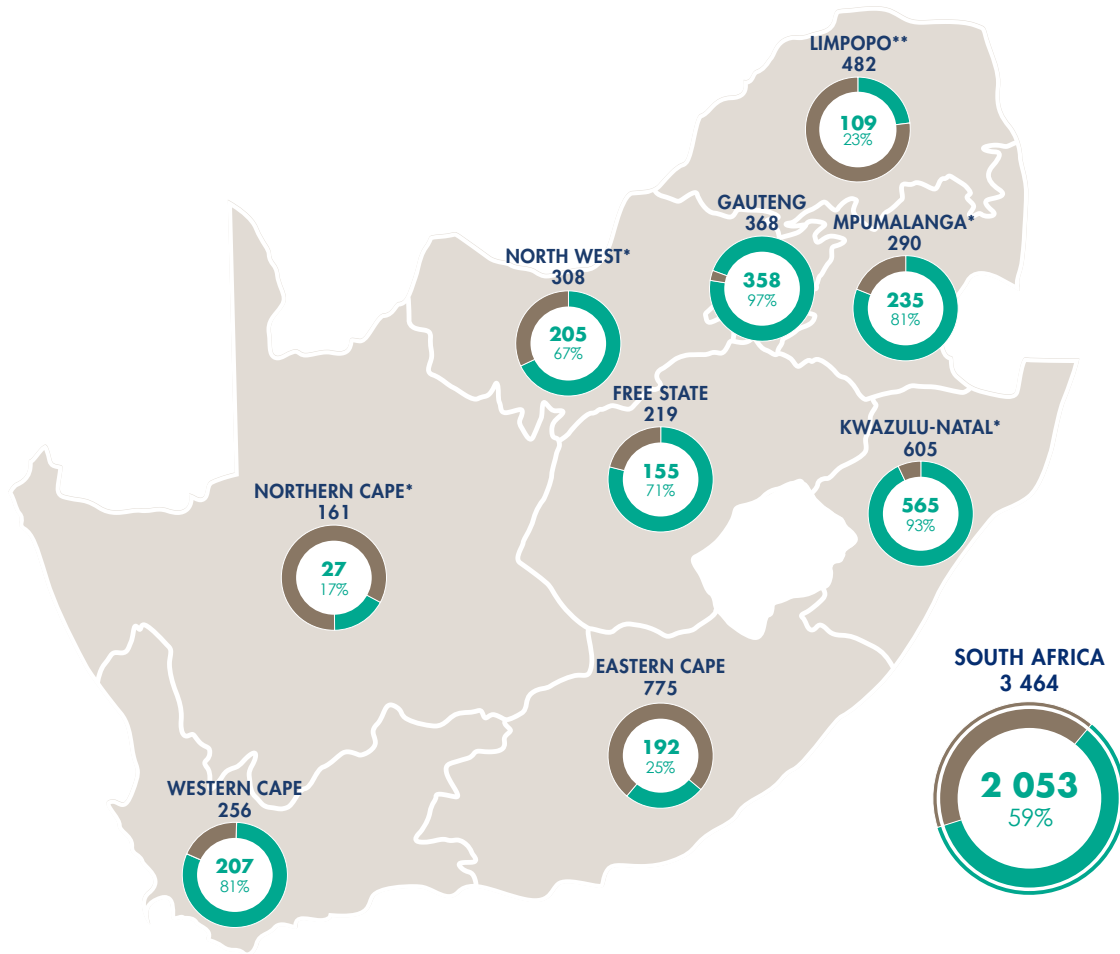
The ideal clinic programme defines 10 components, 33 sub-components and 238 elements that must be present and functioning optimally for a primary healthcare facility to be regarded as ideal.

The MTSF includes an outcome relating to universal health coverage for all South Africans to be achieved by 2030. The target for this outcome is for 100% of the primary healthcare facilities across the country to have attained and/or maintained their ideal clinic status by 2024. To achieve this, the provincial health departments included an ideal clinic status rate as one of the performance indicators in their annual plans and reports.

Based on the achievements reported by the provincial health departments in their annual reports, it is unlikely that the planned target of 100% will be achieved by 31 March 2024. By 31 March 2023, only 2 053 of the 3 464 clinics (59%) had achieved ideal clinic status, thus leaving 41% to do so within a year.

As reported earlier in this section, we found that the achievements for the indicator reported by KwaZulu-Natal, Mpumalanga, the Northern Cape and North West were not reliable. We also have not completed the audit of the Limpopo health department.

Primary healthcare facilities that had achieved ideal clinic status by 31 March 2023



* Reported achievement for indicator not reliable
 ** Audit of health department outstanding

■ Total
 ■ Ideal clinic status achieved
 ■ Ideal clinic status not achieved

- Executive summary
- 01 Introduction
- 02 Overall audit outcomes
- 03 Service delivery and financial performance
- 04 Material irregularities
- 05 Call to action
- 06 Provinces
- Audit fact sheet

As part of our audits, we visited 27 clinics that have not yet achieved an ideal clinic status (three per province) between February and May 2023. We inspected the clinics to assess the status of selected elements that are required to be in place to achieve ideal clinic status.

We identified weaknesses in the areas of medicines and supplies, medical equipment, human resource management, infrastructure, and access to basic services. Our detailed findings and observations have been shared with the relevant accounting officers and executive authorities.

Overall, the main reasons primary healthcare facilities have not attained ideal clinic status are the poor state of infrastructure, limited funding, lack of resource management and inadequate supervision.

When the National Health Insurance system is implemented in South Africa, the fund will only contract accredited facilities to provide healthcare services. If some of the facilities are not accredited in time, this could place a burden on other accredited facilities and their resources. Ultimately, the initial intention of the National Health Insurance system – to provide access to high-quality healthcare for everyone by 2030 – may not be realised.

Conclusion

Throughout this section we highlighted problems in the sectors and at high-impact auditees in the areas of performance planning and reporting, spending and financial management, and infrastructure management.

We identified three main root causes that underpin all of these problems:

- A culture of no accountability and no consequences
- Ineffective resource management
- Inadequate intergovernmental planning, coordination and support

In the call to action section, we look in more detail at these root causes and provide recommendations to the accountability ecosystem on how to address them. In the section on material irregularities, we also touch on how the material irregularity process is contributing to addressing these issues.



Executive
summary

01
Introduction

02
Overall audit
outcomes

03
Service delivery and
financial performance

04
Material
irregularities

05
Call to
action

06
Provinces

Audit fact
sheet

04

MATERIAL IRREGULARITIES

Executive summary

01 Introduction

02 Overall audit outcomes

03 Service delivery and financial performance

04 **Material irregularities**

05 Call to action

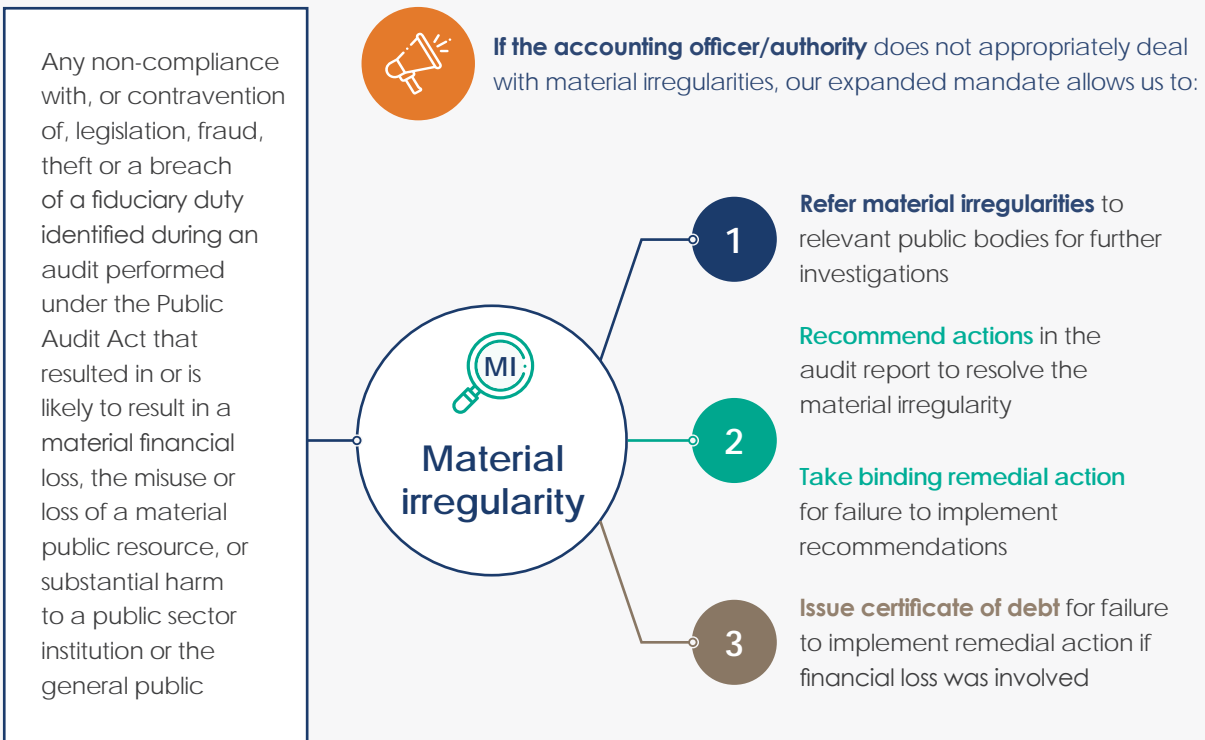
06 Provinces

Audit fact sheet

When the Public Audit Act was amended in April 2019, it gave us the mandate to identify and report on material irregularities (MIs) and to take action if accounting officers and authorities do not deal with them appropriately.

The amendments established a complementary enforcement mechanism to strengthen public sector financial and performance management so that irregularities (such as non-compliance, fraud, theft and breaches of fiduciary duties) and their resultant impact can be prevented or can be dealt with appropriately.

Definition of material irregularity and expanded powers





The overall aim of our expanded mandate is:

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

We issue notifications of MIs to accounting officers and authorities so that they can correct deficiencies, protect public finances, and improve the performance of the institutions for which they are responsible. If auditees protect and recover resources, they can redirect such resources towards much-needed services to communities.

We expanded our work significantly in 2022-23 by implementing the MI process at 431 national and provincial government auditees – from 202 in 2021-22. We plan to increase this number to 570 in 2023-24.

IMPACT OF MATERIAL IRREGULARITY PROCESS

Last year, we reported that through our expanded mandate, we have enriched our insights and strengthened our ability to influence and enforce accountability and consequence management. We saw a shift at departments and public entities, from responding slowly to our findings and recommendations over the years, to paying attention to MIs. Auditees were taking action to resolve MIs by recovering losses, preventing further losses and harm through strengthening internal controls, and implementing consequences for transgressions. Since then, we have been seeing even greater responsiveness.

Issuing an MI notification to an accounting officer or authority often results in them addressing irregularities and transgressions that they should already have dealt with. Until we issued notifications, no actions were being taken to address 82% of these matters.

An MI is resolved when all necessary steps have been taken to recover financial losses or to recover from substantial harm, when internal controls have been strengthened to prevent further losses and harm, when there are consequences (including disciplinary processes) for any wrongdoing, and, if applicable, the matter has been handed over to a law-enforcement agency.

Through the MI process, accounting officers and authorities have taken action to prevent or recover financial losses of R2,55 billion since 2019, with some of this amount still in the process of being recovered. These actions have included:

- making payment arrangements or negotiating with suppliers that are charging interest and penalties on late payments
- improving systems, processes and controls and protecting assets to prevent any further financial losses

- recovering financial losses from suppliers
- stopping supplier contracts where money was being lost
- implementing consequences against parties that caused the financial losses, including handing over matters to law-enforcement agencies, and identifying the officials responsible and starting disciplinary processes against them.

Departments and public entities can direct any recovered funds towards service delivery, enabling government to achieve its strategic priorities.

Actions taken to address financial losses

Financial loss recovered	R1,29 bn	50	Responsible officials identified and disciplinary process completed or in process
Financial loss in process of recovery	R0,70 bn	58	Internal controls improved to prevent recurrence
Financial loss prevented	R0,56 bn	15	Fraud/criminal investigations instituted
		4	Supplier contracts stopped where money was being lost

The impact of the process can be seen in the following examples of MIs that have been fully resolved or are in the process of being resolved by accounting officers and authorities responding to our MI notifications.



IMPACT ACHIEVED

- Financial loss recovered:** From July 2017 to August 2019, the Free State Department of Health paid for work to the value of R37 million that was not done. This related to renovations and repairs of doctors' residences and outpatient buildings at the National District Hospital in Bloemfontein. To resolve the MI, the accounting officer instructed the contractor to go back onsite to complete the project and address the discrepancies between the work done and the payments made. During the 2022-23 audit, we inspected the works onsite and reviewed the final valuations and progress report submitted by the department. We confirmed that the project had been completed and that discrepancies had been addressed. The doctors' residences and some of the outpatient buildings are currently in use.
- Financial loss recovered:** In 2019, the North West Department of Health overpaid a contractor by R4,03 million, which exceeded the approved extension-of-time amount. An investigation into the matter, which concluded in July 2021, resulted in R4,03 million being recovered from the final account payment to the contractor in March 2023. Disciplinary action was instituted against the implicated officials and is ongoing. The accounting officer developed a standard operating procedure for processing payments with the aim of improving internal controls to prevent similar losses in the future.
- Disciplinary processes instituted:** The Petroleum Oil and Gas Corporation sold petroleum to a company that used forged documents to be included on the customer database in October and November 2020. The bank guarantee provided by the fictitious customer was not authenticated, resulting in a financial loss of R11,50 million when the debtor's account went into arrears. The accounting authority concluded a forensic investigation in February 2021. The officials that had failed to implement the internal control were immediately suspended and disciplinary hearings were instituted against them, with various sanctions being issued.
- Financial loss recovered:** The National Student Financial Aid Scheme did not recover payments made to tertiary institutions that exceeded students' total cost of study, because the institutions did not declare the amounts owed to the scheme from 2017 to 2021. Through implementing the recommendations we issued in November 2022, the scheme has so far recovered R700,92 million of the estimated R2,80 billion loss.
- Under-utilisation of material public resource:** The North West Department of Health did not ensure that the Jouberton Community Health Centre in Klerksdorp was fully used for its intended purpose. The project was completed in July 2019, but the first patient was only admitted to the maternity ward two years later, in May 2021. By September 2021, only nine of the facility's 18 units were in use (three medical units and six administrative or support units). Key service delivery units such as the theatre, emergency room and crisis control room were equipped but not being used. The accounting officer responded to the MI by ensuring that all critical vacant posts were filled, and the facility is now fully operational.

NATURE OF MATERIAL IRREGULARITIES

From 1 April 2019 (when the amendments to the Public Audit Act became effective and we began implementing the MI process) until 30 September 2023 (the cut-off date for MIs to be included in this report), we identified 266 MIs.

We estimate the total financial loss of the 240 MIs that involved a material financial loss to be R14,34 billion.

The 26 MIs with an impact other than financial loss involved material public resources not being used (mostly health facilities), harm to the general public (due to infrastructure neglect and poor food quality in the school nutrition scheme), and harm to public sector institutions (mainly because of the non-submission of financial statements).

Nature of material irregularities

01 Introduction	Procurement and payment	35	10	112
		Non-compliance in procurement processes resulting in overpricing of goods and services procured or appointed supplier not delivering	Uneconomical procurement resulting in overpricing of goods and services procured	Payment for goods or services not received/ of poor quality/ not in line with contract or to ineligible beneficiaries
02 Overall audit outcomes	Resource management	5	23	
		Assets not safeguarded resulting in loss	Inefficient use of resources resulting in no/limited benefit derived for money spent	
03 Service delivery and financial performance	Revenue management	3	9	1
		Revenue not billed	Debt not recovered	Receipts not recorded/ deposited
04 Material irregularities	Interest and penalties	28	6	
		Payment not made in time, resulting in interest/ standing time/ penalties	Payroll and value-added tax returns not paid on time or incorrectly calculated resulting in South African Revenue Service interest and penalties	
05 Call to action	Fraud and compliance	6	2	
		Suspected fraud resulting in loss	Non-compliance resulting in penalties	
06 Provinces	Harm to general public	2	1	
		Lack of, or poorly maintained, infrastructure	Services not meeting quality standards	
Audit fact sheet	Harm to public sector institution	2	9	3
		Lack of proper performance-related records	Non-submission of financial statements	Financial mismanagement
	Misuse of material public resource	9		
		Under-utilisation of material public resource		

These MIs do not relate to complex matters, but rather to the basic disciplines and processes that should be in place at auditees to:

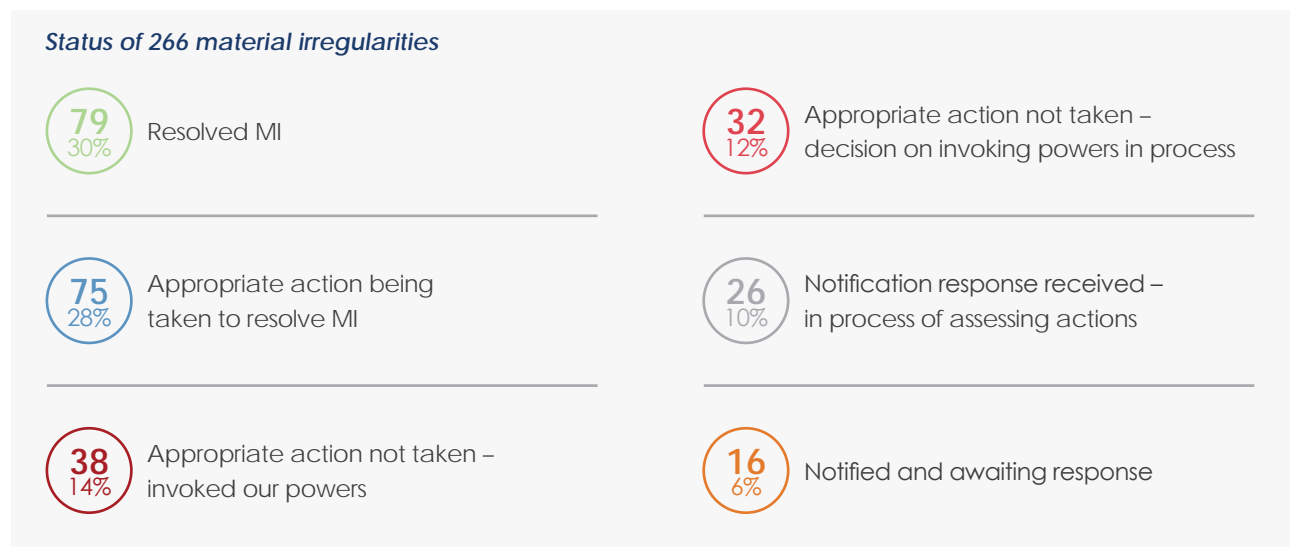
- procure at the best price
- pay only for what was received
- make payments on time to avoid unnecessary interest or penalties
- recover revenue owed to the state
- safeguard and maintain assets
- complete infrastructure projects on time and within budget
- effectively and efficiently use state resources to get value from the money spent and deliver the intended services

- report transparently and reliably on performance and finances
- manage finances with due care
- prevent fraud
- comply with legislation.

We have highlighted all these areas of vulnerability for several years, including in previous general reports and in the special reports we tabled on the management of government's covid-19 and flood-relief initiatives. Throughout this report, we include examples of MIs to show just how detrimental their impact can be.

STATUS OF MATERIAL IRREGULARITIES

The 266 identified MIs were in different stages of the MI process by 30 September 2023.



Our assessment of the actions taken to address 42 of the 266 MIs was in process as we either had only recently notified accounting officers and authorities and their responses were not yet due or were evaluating the responses to newly identified MIs. We are also busy deciding on whether to invoke our powers for 32 MIs. This means we have evaluated and can report on the status of 192 MIs – those that were resolved, where appropriate action was taken, and where appropriate action was not taken and we invoked our powers.

Resolved material irregularities

We consider an MI resolved only when all possible steps have been taken to recover any financial losses, to remove or address any harm caused, to implement consequences against those involved, and to prevent any further losses and harm.

Auditees have so far resolved 79 MIs by implementing these steps: 27 in prior years and the balance in 2022-23.

Appropriate action

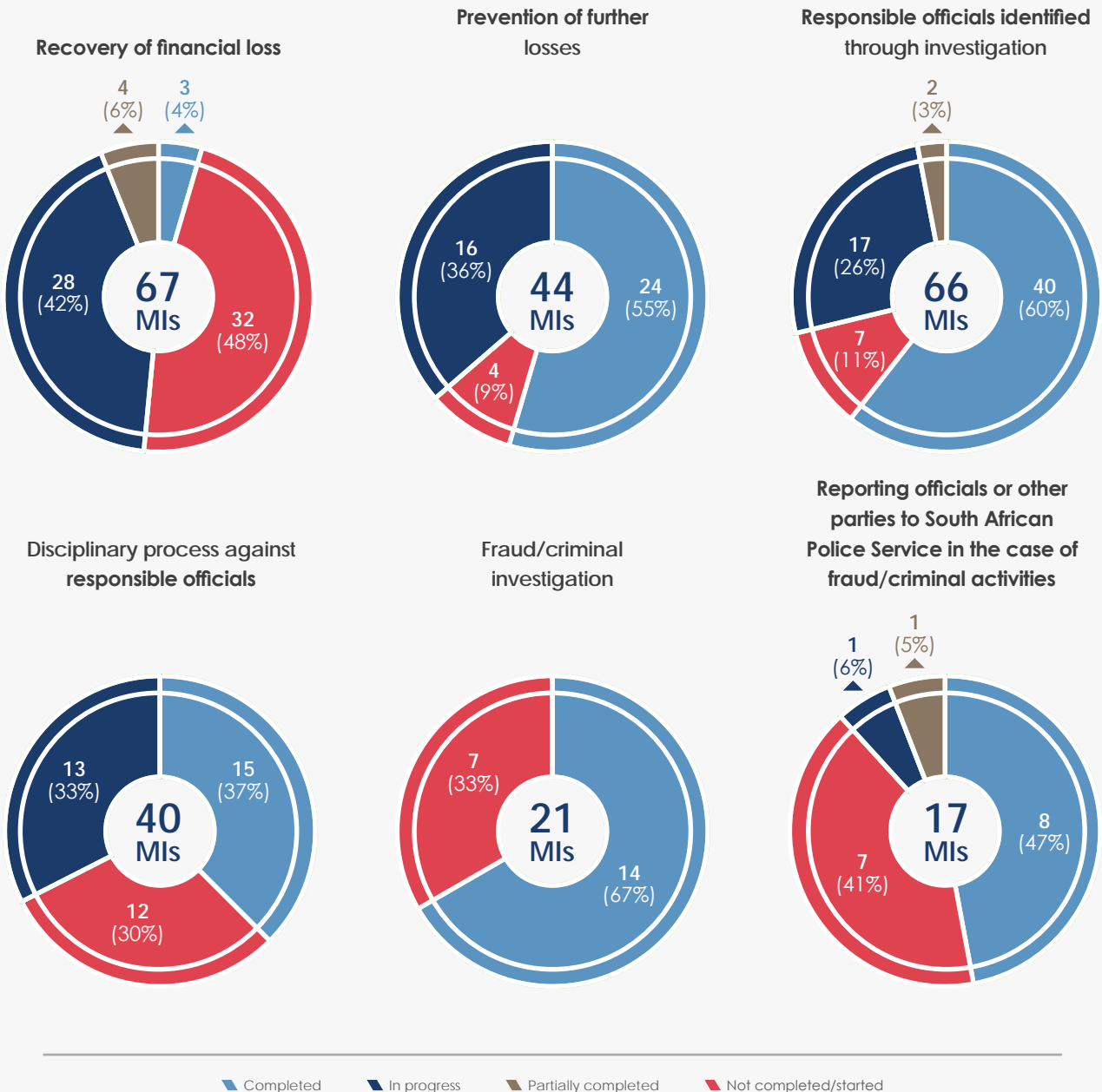
Appropriate action means that we have assessed the steps being taken to resolve the MI and are comfortable that once these have been fully implemented, the MI will be resolved.

Different MIs need different actions (and sometimes a combination of actions) to resolve. Some require financial losses to be recovered while others also require further financial losses to be prevented. Some require consequences to be implemented against responsible officials while others also require fraud or

criminal investigations, the outcomes of which must be reported to the South African Police Service.

Although the 75 MIs where appropriate action is being taken have not yet been fully resolved, accounting officers and authorities have made some progress in implementing their proposed actions. By 30 September 2023, the average 'age' of these MIs was 20 months from date of notification.

Status of material irregularities requiring specific actions to be resolved



How long it takes to resolve an MI depends on how many delays there are in taking the necessary action. Generally, it takes longer to recover financial losses than to implement other actions, as the matter first needs to be investigated, suppliers might have been liquidated, and it takes time to establish liability and submit civil claims. Some MIs can be resolved relatively quickly while others require auditees to correct deep-rooted issues or quantify financial losses that occurred across multiple years, which will take a lot longer.

Not all of these delays are avoidable, and where we assess them to be reasonable, we do not invoke our powers. However, the delayed resolution of MIs highlights the following challenges experienced by accounting officers and authorities:

- Some MIs can only be resolved once external parties have completed their investigations and processes. Prolonged investigations or delays by public bodies make it difficult for accounting officers and authorities to act swiftly to recover financial losses and to implement consequence management processes and criminal proceedings.
- The speedy recovery of lost funds is often hampered by suppliers being liquidated or the loss recovery processes taking a long time to complete.
- We often see delays when it comes to disciplining the officials responsible for MIs.

USING OUR EXPANDED MANDATE

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 do not hesitate to use these powers when accounting officers or authorities do not deal with MIs with the required seriousness.

In 38 cases 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. The departments and public entities where we took further action, are also those that are typically slow to respond to our findings and to improve the control environment.

Further action taken

23 Recommendations in audit report as accounting officer or authority took little or no action to address MI

Health (EC)
 Education (FS) – 3
 Public Works (KZN)
 Mpumalanga Economic Growth Agency
 Roads and Public Works (NC) – 3
 Co-Operative Governance, Human Settlements and Traditional Affairs (NC)
 Community Safety and Transport Management (NW)
 Department of Correctional Services
 Department of Defence
 Department of Mineral Resources and Energy
 Department of Police
 Construction SETA
 Independent Development Trust
 National Skills Fund
 National Student Financial Aid Scheme – 3
 Property Management Trading Entity
 South African Social Security Agency

1 Remedial action taken and referral to public bodies

Free State Development Corporation

8 Referral to public bodies for further investigation

Human Settlements (FS)
 Health (NC)
 Department of Defence – 2
 National Treasury
 South African Post Office
 Umgeni Water Board – 2

6 Recommendations in audit report and referral to public bodies

Human Settlements (FS) – 3
 Human Settlements (NW) – 2
 Department of Defence

Executive summary

01

Introduction

02

Overall audit outcomes

03

Service delivery and financial performance

04

Material irregularities

05

Call to action

06

Provinces

Audit fact sheet

The **recommendations** we include in the audit reports are not the normal recommendations we provide as part of our audits, but instead deal with the actions that accounting officers and authorities should take to resolve a specific MI. They typically deal with the following:

- Recovery: Steps to be taken to recover financial and public resource losses or to recover from harm
- Prevention: Steps to be taken to strengthen internal controls to prevent further losses and harm
- Consequences: Steps to be taken to effect consequences for the transgressions, including disciplinary processes and, if applicable, handing over the matter to a law-enforcement agency

We included recommendations on 29 MIs in the audit reports of 19 departments and public entities.

ACTIVATING THE ACCOUNTABILITY ECOSYSTEM

Everyone in the accountability ecosystem has a crucial role to play in the MI process. Some roleplayers have mandates and powers similar to – or more comprehensive than – ours, which they should use to ensure that irregularities are dealt with swiftly and that similar instances are prevented.

Our role is to notify accounting officers and authorities of MIs, to report on the status of these MIs, and to use our expanded powers where needed – as we are doing.

Accounting officers and authorities are responsible for preventing and resolving MIs. When we issue an MI notification, we effectively ask the accounting officer or authority to use their powers and responsibilities in terms of legislation and policies to

If an accounting officer or authority does not implement our recommendations, we take **remedial action** that covers the same areas of recovery, prevention and consequences. Remedial action is a binding (obligatory) instruction by the auditor-general. If the MI caused a financial loss for the state, the remedial action also includes a directive to calculate and recover the financial loss.

If a directive was issued for the financial loss to be quantified and recovered and this has not been done by the stipulated date, we move towards the **certificate of debt** stage.

For 15 MIs at eight auditees, we **referred** the matter to a **public body** – the Special Investigating Unit, the Directorate for Priority Crime Investigation (the Hawks) or the Public Protector – for investigation. In one instance, we took remedial action and referred the matter to a public body.

deal with the matter. The impact of the MI process described earlier results from accounting officers and authorities doing what they are required to do.

Executive authorities and oversight structures should seize the opportunity to contribute to improving national and provincial government through the MI mechanism. They should work together with legislatures and coordinating institutions to identify irregularities, losses and harm; insist that accounting officers and authorities address any identified irregularities; and monitor the progress made in resolving them.

We expand on how these roleplayers can do their part in the call to action section.



Executive
summary

01
Introduction

02
Overall audit
outcomes

03
Service delivery and
financial performance

04
Material
irregularities

05
Call to
action

06
Provinces

Audit fact
sheet

05

CALL TO ACTION

Executive
summary

01
Introduction

02
Overall audit
outcomes

03
Service delivery and
financial performance

04
Material
irregularities

05
Call to
action

06
Provinces

Audit fact
sheet

In the introduction, we touched on the importance of the accountability ecosystem, which includes all that have a part to play in enabling a culture of performance, accountability, transparency and integrity in national and provincial auditees.

In our previous general report, and through our engagements with national and provincial leadership across the country, we called on those that play pivotal roles in the accountability ecosystem to promote a culture of accountability that will improve service delivery and create tangible prospects for a better life for our people.

We had four main recommendations to these stakeholders:

- Prioritise professionalising the public service
- Strengthen oversight and coordination
- Commit to implementing consequences for poor performance and transgressions
- Prevent the eroding of funds budgeted for service delivery

Although audit outcomes have improved, the key matters relating to planning and reporting on service delivery, infrastructure, governance and pressure on government finances that we raised last year remained largely unchanged. Our recommendations have also not been fully implemented.

This year, we intensified our audit efforts to provide insights on the challenges in service delivery and financial performance of high-impact auditees and to highlight what caused them. At the end of the section on service delivery and financial performance, we summarised the overall root causes that need to be addressed as follows:

- A culture of no accountability and consequences
- Ineffective resource management
- Inadequate intergovernmental planning, coordination and support



These root causes are very similar to those we have highlighted consistently over the administrative term. There is only one year left for

this administration, and we urge all roleplayers to heed our call to action to urgently address these root causes and commit to implementing our recommendations.

ROOT CAUSES

A culture of no accountability and consequences

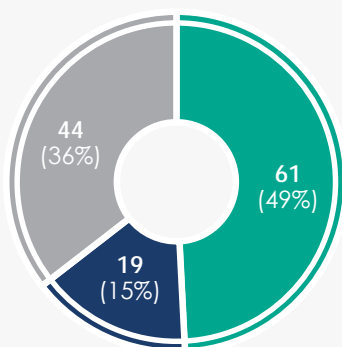
Over the past few years, we have made continued calls for accountability and have advocated for accounting officers and authorities to implement consequences swiftly, bravely and consistently. When officials and external parties such as suppliers face consequences for their actions, this helps to deter others from wrongdoing or non-performance.

In the section on material irregularities, we highlighted the tremendous impact that can be made if accounting officers and authorities use their legislated powers to investigate irregularities, identify those responsible and take appropriate

action against them, recover the losses incurred, and prevent further losses from occurring. We also reported that some accounting officers and authorities are slow to act, and thus miss the opportunities to instil a disciplined and ethical culture, to protect and recover their resources, and to improve the performance of their institutions.

We often also see this reluctance to act if there were allegations of fraud or improper conduct and when we flag to the accounting officers and authorities matters that need investigation and action, as shown in the figures that follow.

Status of investigations into fraud and improper conduct in supply chain management processes reported in previous year

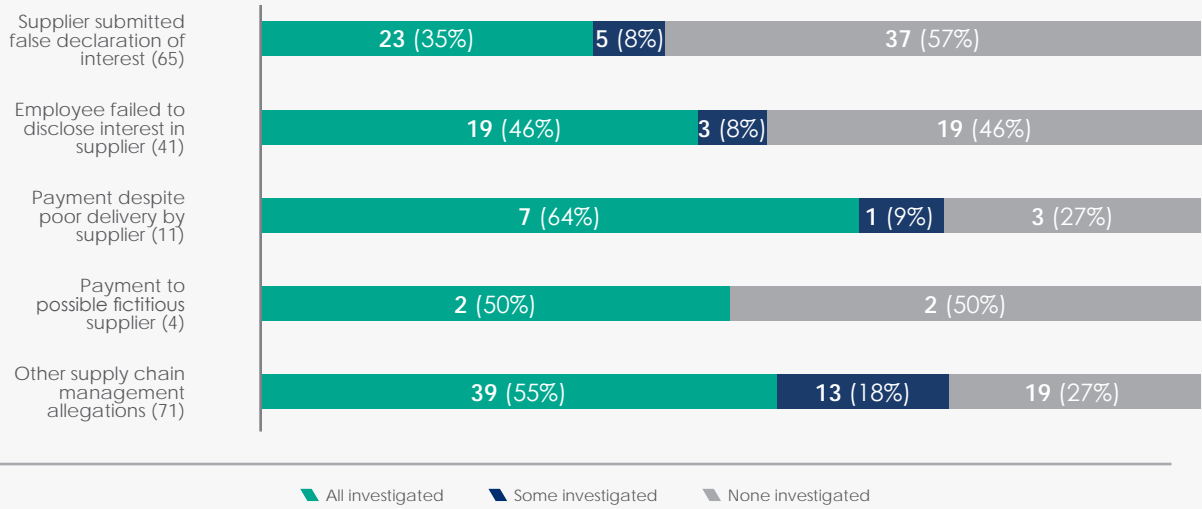


- 61 Auditees investigated all of the findings reported
- 44 Auditees investigated some of the findings reported
- 19 Auditees investigated none of the findings reported

80

Of these, **47 (59%)** satisfactorily resolved the findings, while **33 (41%)** did not (e.g. auditee did not implement investigation's recommendation to cancel contracts in which employees failed to declare their interest)

Instances of alleged fraud or improper conduct in supply chain management



The slow turnaround in addressing this root cause is also evident from the 29% of auditees that materially did not comply with legislation on implementing consequences in 2022-23. Our most common findings involved auditees not dealing with irregular and fruitless and wasteful expenditure.

This means that they did not take proper steps to recover, write off, approve or condone such expenditure. In total, 23% of auditees did not investigate their irregular expenditure from the previous year, 15% failed to do so for fruitless and wasteful expenditure, and 10% did not take effective and appropriate disciplinary steps against officials that were responsible for incurring and/or that permitted irregular expenditure. These delays in accountability are apparent from the balance of irregular expenditure that is not being dealt with, which continues to grow every year and stood at a collective R544,37 billion by 31 March 2023.

As detailed in the section on service delivery and financial performance, the culture in which officials, leaders and contractors are rarely called to account contributes to:

- auditees not always providing reliable – or even any – information for oversight purposes
- some service delivery targets not being achieved
- money being wasted
- some infrastructure projects and government programmes failing.

Ineffective resource management

The extent and impact of ineffective resource management is demonstrated in the section on service delivery and financial performance and in the material irregularities identified.

High-impact auditees have inadequate systems to collect information and report on their performance, operate on outdated financial systems, often experience system implementation failures, and do not optimally use new systems. They do not adequately safeguard and maintain assets, and material public resources such as government properties and newly built health facilities are left unused. They also do not properly manage the limited funds available.

While political leadership changes every five years, the leadership and officials in administrative positions should continue with little disruption. A stable, well-resourced and competent administration is an essential foundation for success. Instability and vacancies at senior management level continued to have an impact on the effectiveness of management functions, while instability at accounting officer and authority level affected decision making; the completion of action plans, projects and initiatives; and consequence management.

The positive impact of stability can be seen most clearly at departments and public entities with clean audit outcomes where, on average, accounting officers and authorities remained in their positions for 54 months and chief financial officers for 72 months.

As also reported in prior years, we often find that the internal audit units and audit committees are not optimally used as resources to improve governance.

Internal audit units should provide independent assurance to the accounting officers and authorities on whether controls have been implemented and risks mitigated. The units work under the oversight of the audit committee – an independent body created in line with legislation that advises the accounting officer or authority, senior management and executive authorities on matters such as internal controls, risk management, performance management and compliance with legislation. The committee is also required to provide assurance on how complete, reliable and accurate the financial and performance information are.

Internal audit units and audit committees are a big investment for auditees – the professionals employed as internal auditors or that serve as members of the committees usually come at a premium. In our experience, most of these professionals are competent and committed to serving auditees well with their skill sets. However, auditees do not get the full value that they can bring to financial and performance management because their influence will always depend on the internal control environment created by the accounting officers and authorities and senior management.

In 2022-23, almost all of the auditees we assessed had internal audit units and audit committees, most of which performed all the functions required by legislation, including evaluating the reliability of financial and performance information and compliance with legislation. However, the audit outcomes at some auditees showed that the work of these governance structures could have greater impact as, despite the improvements in audit outcomes, the quality of the financial statements and performance reports we received for auditing remains a challenge.

At just over a quarter of auditees (26%), internal audit units had little to no impact on financial and performance management and compliance with legislation, mainly because management did not implement their recommendations. The internal auditors experienced the same frustrations that we as external auditors have in this regard. Some internal audit units were not adequately capacitated or were not effective.

While audit committees had slightly more of an impact, management still did not implement their recommendations at 20% of auditees. As detailed in the section on service delivery and financial performance, audit committees and internal audit units are not sufficiently involved in reviewing performance plans and reports. This is an area where they can have a big impact and contribute to resolving the weaknesses in performance planning and reporting.

We will continue to elevate the roles and responsibilities of internal audit units and audit committees and to assess the impact of these structures in their efforts to strengthen the control environment and improve governance.

Inadequate intergovernmental planning, coordination and support

Auditees should not plan in isolation, as government was intended to work together across the national, provincial and local spheres. Intergovernmental fragmentation, coupled with a lack of coordination and support, slows down infrastructure delivery, results in overlapping responsibilities, hampers effective resource management, and hinders efficient service delivery.

We look to the coordinating institutions to enable good intergovernmental planning and coordination. They should also support national and provincial auditees in fulfilling their mandates and achieving government programmes and the targets set out in the Medium-Term Strategic Framework.

In our audits, we continued to focus on the planning, coordinating and supporting role of The Presidency; the Department of Planning, Monitoring and Evaluation; the Department of Public Service and Administration; the cooperative governance departments; the treasuries; and the premier's offices. We also looked at the effectiveness of the oversight function of the legislatures. Most of these coordinating institutions are performing their mandated functions and are planning and launching good initiatives. However, there are often delays in implementing the initiatives and auditees across the different spheres of government are sometimes reluctant to support or participate in them.

Coordinating institutions typically have little recourse if their recommendations, support and instructions

are disregarded due to a lack of an enforcement mandate and an inadequate performance management system for executive authorities

and accounting officers. Where some level of enforcement powers are provided through legislation, it is rarely used.

RECOMMENDATIONS TO THE ACCOUNTABILITY ECOSYSTEM

The roleplayers in the accountability ecosystem all have different but complementary roles to play to address the identified root causes, based on their function, responsibilities and mandates. We share our insights and recommendations to empower

the collective accountability ecosystem to address weaknesses, strengthen transparency, and enable accountability – ultimately improving governance and service delivery.

Executive summary

01 Introduction

02 Overall audit outcomes

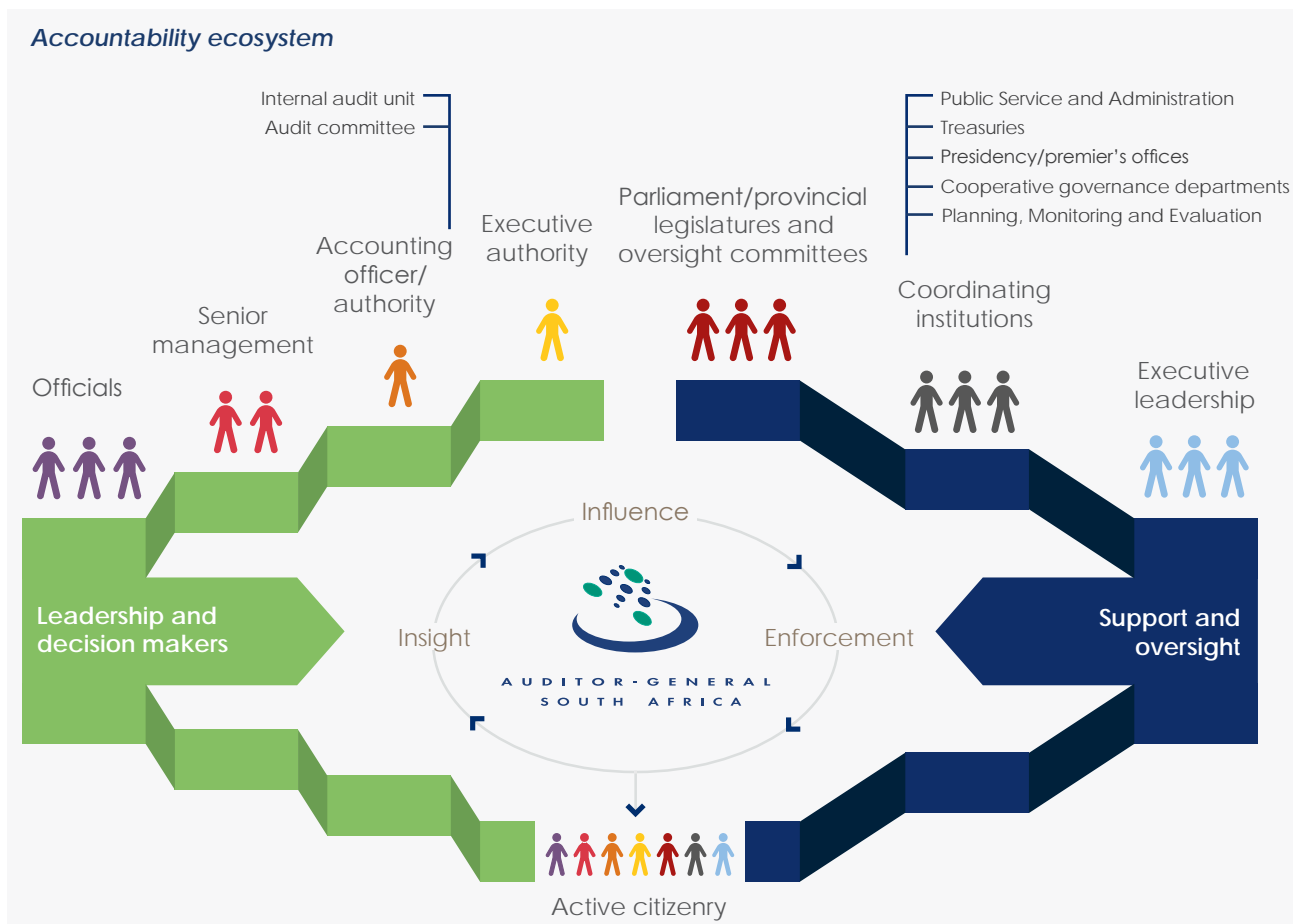
03 Service delivery and financial performance

04 Material irregularities

05 Call to action

06 Provinces

Audit fact sheet



We have already made recommendations to the accounting officers and authorities and their senior management as part of our audits. Each auditee is unique, but there are some common recommendations that we encourage them to implement, and executive authorities and

oversight structures to monitor. Next, we provide these recommendations as well as the key recommendations for executive authorities and leadership, oversight bodies and coordinating institutions.



Coordinating institutions

- Public Service and Administration
- Treasuries
- Presidency/premier's offices
- Cooperative governance departments
- Planning, Monitoring and Evaluation

Intensify interventions that will **improve intergovernmental planning and coordination** to ensure service delivery is planned for in an integrated and effective manner and is accounted for transparently in performance reports



Coordinating institutions



Executive authority



Executive leadership



Parliament/ provincial legislatures & oversight committees

Executive authorities and **committees in Parliament and legislatures** should insist on timely and credible reporting and accountability and take their oversight role seriously ensuring that institutions are transparent and answerable for their actions

Institutions with a mandate for **monitoring and enforcement** (e.g. the National Treasury and the Construction Industry Development Board) should enforce accountability by ensuring that there are consequences for any wrongdoing



Accounting officer/ authority



Coordinating institutions



Executive authority



Executive leadership

Professionalisation of the public sector

This should culminate in qualified and competent officials equipped to perform public functions conscientiously and with a strong sense of public service and ethical disposition. Achieving this goal requires support for the implementation of the national professionalisation framework, which prioritises meritocracy (merit-based management) as its foundation.

Cabinet approved this framework for national, provincial and local government in October 2022.

It deals with five pillars that need to be strengthened in the public sector: recruitment and selection, induction and on-boarding, planning and performance management, continuous learning and professional development, and career progression and succession planning. Training and capacity building for government officials involved in financial and performance management can help improve their ability to manage funds effectively and reduce the risk of financial leakages.

In 2022-23, we found that the implementation of the framework was delayed mainly because its provisions are not clearly empowered by existing legislation, which weakens its enforceability. Further contributing to the delays was the lack of clear lines of accountability between the Department of Public Service and Administration, the National School of Government and the Public Service Commission on the implementation of the framework. The framework, if properly and intentionally planned and coordinated, will lead to an improved and professionalised public sector across all three spheres of government.

Effective use of **audit committees and internal audit units** to improve governance

To get full value from audit committees and internal audit units, accounting officers and authorities should ensure that they implement and monitor the committees' recommendations on financial and performance management and, where this is not done, hold the responsible officials to account.

The National Treasury has a great opportunity via the Office of the Accountant-General to strengthen internal audit units and audit committees through continuous capacitation and by elevating their role.

Improved **quality of spending** through a focus on **economy, efficiency and effectiveness** to make better use of public funds, deliver services more effectively and ultimately benefit the people of South Africa

The focus on spending should not only be on staying within the budget or ensuring expenditure is not irregular or fruitless and wasteful.

Accounting officers and authorities have a responsibility to oversee public spending. They should assess whether there is a positive return on investment for such spending and should report on the value derived. Coordinating institutions and executive authorities should actively monitor the quality of spending to ensure that it delivers value to the public.

06

PROVINCIAL OVERVIEWS

Executive
summary

01
Introduction

02
Overall audit
outcomes

03
Service delivery and
financial performance

04
Material
irregularities

05
Call to
action

06
Provinces

Audit fact
sheet

Each province has a unique story and the audit outcomes often reflect how the provincial government takes care of its people.

This section begins with the key results from our audits in the nine provinces, followed by a summary of the state of provincial government in each province.

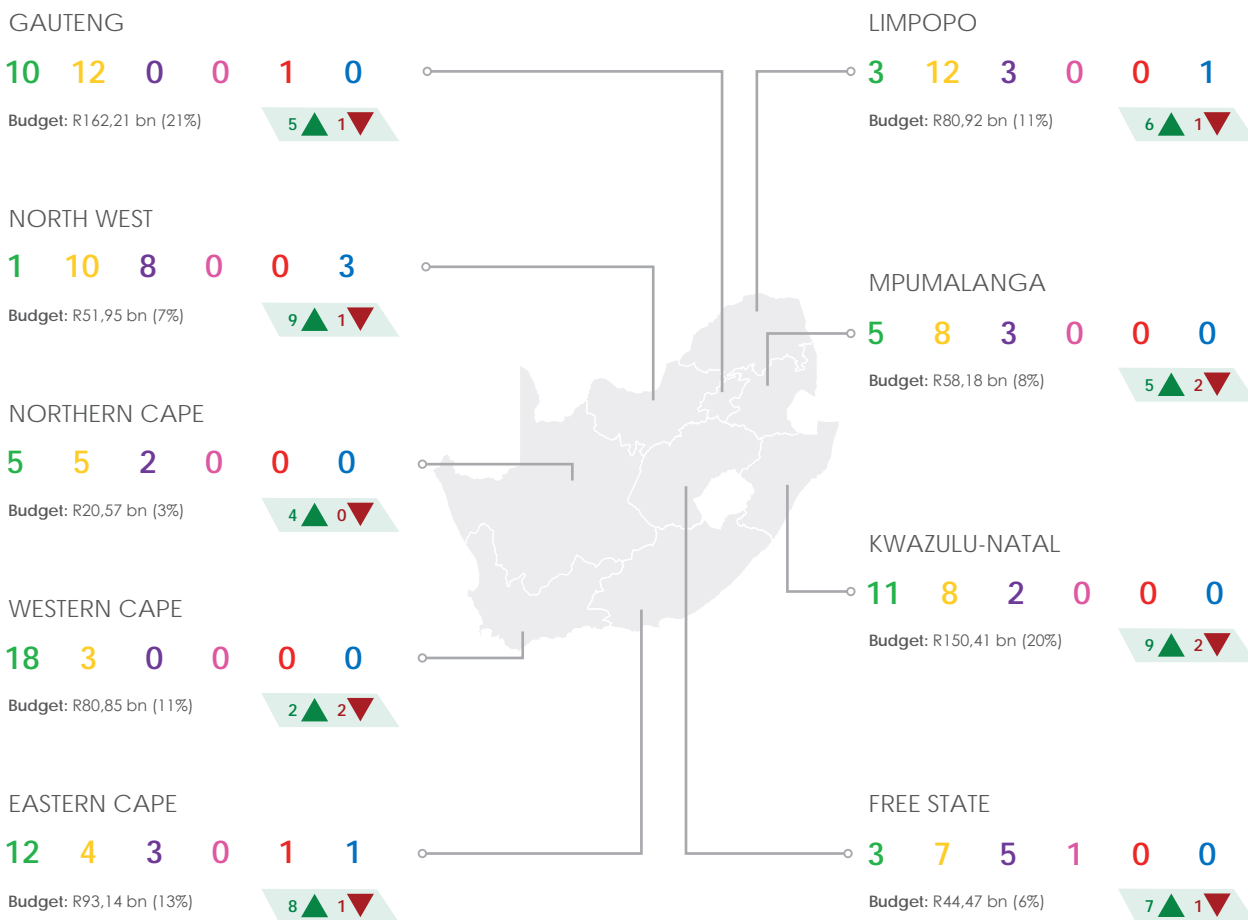
The province-specific overviews summarise our main insights on financial reporting, performance, compliance and consequences, as well as service delivery and infrastructure management; and highlight how we have used our enhanced mandate. We also reflect on what should be done to improve the situation, and by whom; and the commitments made by those with whom we engage. In addition, we include key messages on our audits of the funds used to provide relief to communities in flood-ravaged areas in the Eastern Cape and KwaZulu-Natal.

Provincial government is responsible for approximately 24% (or R742,70 billion) of the estimated expenditure budget and plays a significant role in implementing government's service delivery priorities.

The provincial audit outcomes have shown a gradual upward trend over the term of this administration – 55 auditees improved while 11 regressed over this period. We saw the biggest improvements in North West, KwaZulu-Natal and the Eastern Cape. The Western Cape, the Eastern Cape, KwaZulu-Natal and Gauteng are the provinces with the most clean audits.



Provincial audit outcomes and percentage of provincial budget



▲ Unqualified with no findings (clean)
 ▲ Unqualified with findings
 ▲ Qualified with findings
 ▲ Adverse with findings
 ▲ Disclaimed with findings
 ▲ Outstanding audit

Movement from last year of previous administration

▲ Improvement
 ▼ Regression

The provinces continued to struggle to prepare credible financial statements and performance reports, limiting the effectiveness of monitoring and oversight processes and compromising service delivery. In total, 32% of auditees submitted poor-quality financial statements, an improvement from

last year's 43%, while 62% submitted poor-quality performance reports, compared to 56% last year. Many auditees managed to publish good-quality documents after making corrections in response to our audit findings.

Quality of financial statements and performance reports before and after audit adjustments

Executive summary

01 Introduction

02 Overall audit outcomes

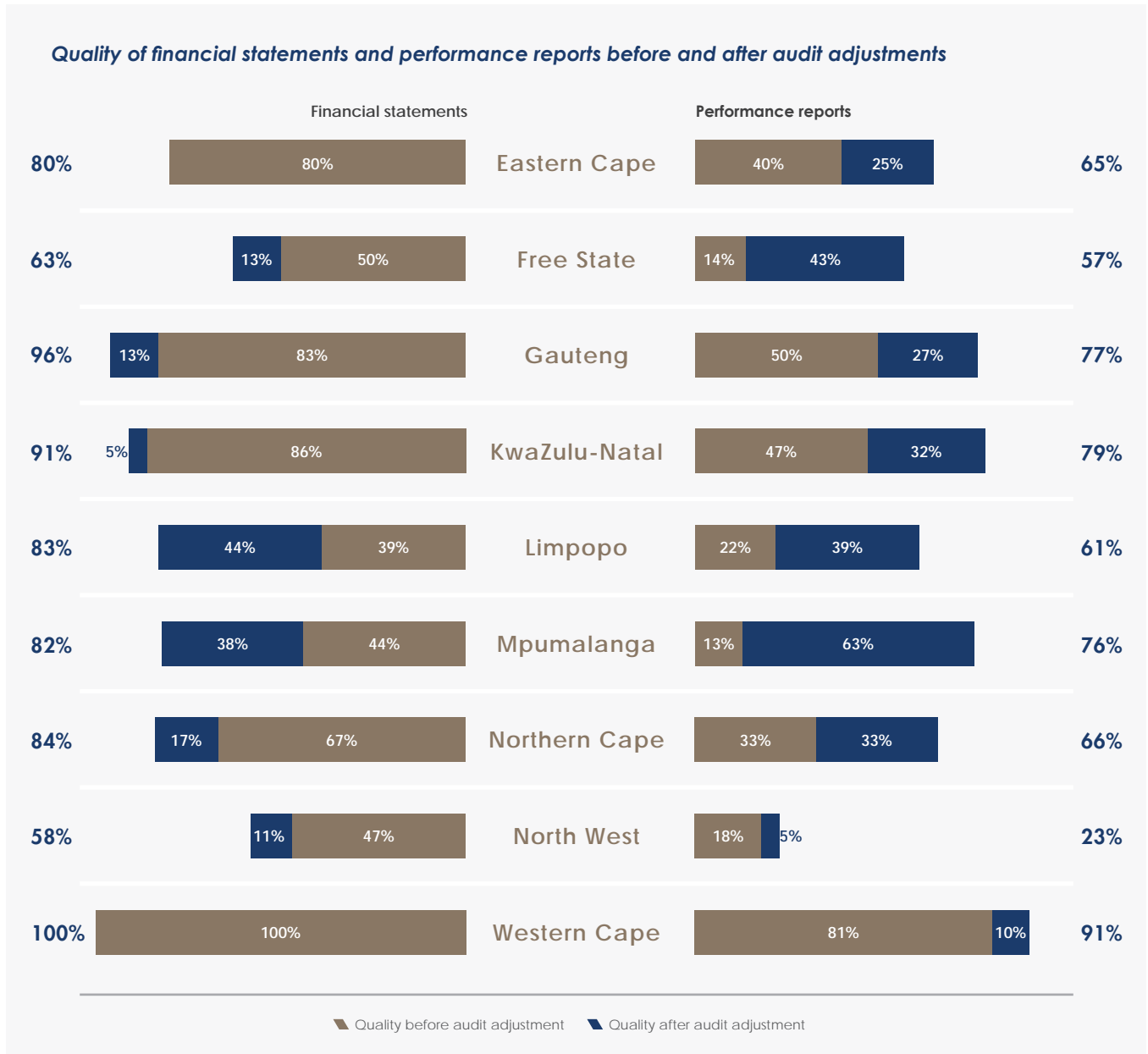
03 Service delivery and financial performance

04 Material irregularities

05 Call to action

06 Provinces

Audit fact sheet



The provinces also continued to show signs of significant financial difficulty, with 21 auditees being in such a dire position that there is significant doubt about whether they will be able to continue operating in the near future. This, along with other

indicators of poor financial health such as deficits, cash shortfalls, unpaid claims, fruitless and wasteful expenditure, and overspending of the budget, affected their ability to deliver services and honour their commitments.

Financial health indicators in the provinces

Province	21 auditees with going concern issues	Other financial health indicators
Eastern Cape	2 auditees 10% of auditees in province	 <ul style="list-style-type: none"> R4,72 bn (8 auditees) R4,96 bn (8 auditees) R27,14 bn (12 auditees) R0,17 bn (11 auditees) R0,33 bn (2 auditees)
Free State	8 auditees 50% of auditees in province	 <ul style="list-style-type: none"> R1,17 bn (4 auditees) R2,74 bn (11 auditees) R5,78 bn (12 auditees) R0,10 bn (11 auditees) R0,20 bn (2 auditees)
Gauteng	0 auditees 0% of auditees in province	 <ul style="list-style-type: none"> R1,98 bn (4 auditees) R0,36 bn (9 auditees) R23,15 bn (12 auditees) R0,11 bn (10 auditees)
KwaZulu-Natal	3 auditees 14% of auditees in province	 <ul style="list-style-type: none"> R2,92 bn (11 auditees) R1,29 bn (11 auditees) R9,87 bn (13 auditees) R0,01 bn (9 auditees) R0,01 bn (3 auditees)
Limpopo	3 auditees 17% of auditees in province	 <ul style="list-style-type: none"> R1,17 bn (4 auditees) R0,22 bn (4 auditees) R0,80 bn (9 auditees) R0,04 bn (13 auditees) R0,44 bn (1 auditee)
Mpumalanga	1 auditee 6% of auditees in province	 <ul style="list-style-type: none"> R0,29 bn (7 auditees) R1,08 bn (8 auditees) R9,48 bn (11 auditees) R0,001 bn (8 auditees) R0,02 bn (1 auditee)
Northern Cape	1 auditee 8% of auditees in province	 <ul style="list-style-type: none"> R1,59 bn (3 auditees) R0,80 bn (10 auditees) R0,98 bn (11 auditees) R0,02 bn (9 auditees) R0,04 bn (2 auditees)
North West	3 auditees 16% of auditees in province	 <ul style="list-style-type: none"> R0,19 bn (6 auditees) R0,25 bn (6 auditees) R5,01 bn (10 auditees) R0,02 bn (17 auditees) R0,21 bn (1 auditee)
Western Cape	0 auditees 0% of auditees in province	 <ul style="list-style-type: none"> R0,11 bn (4 auditees) R0,24 bn (7 auditees) R0,82 bn (10 auditees) R0,002 bn (7 auditees)

■ Deficit
 ■ Cash shortfall
 ■ Unpaid claims
 ■ Fruitless and wasteful expenditure
 ■ Overspending of budget

Putting further strain on the provincial purse was the R28,96 billion in irregular expenditure disclosed by provincial auditees in 2022-23. The closing balance of all provincial irregular expenditure stood at R209,63 billion.

Irregular expenditure in the provinces

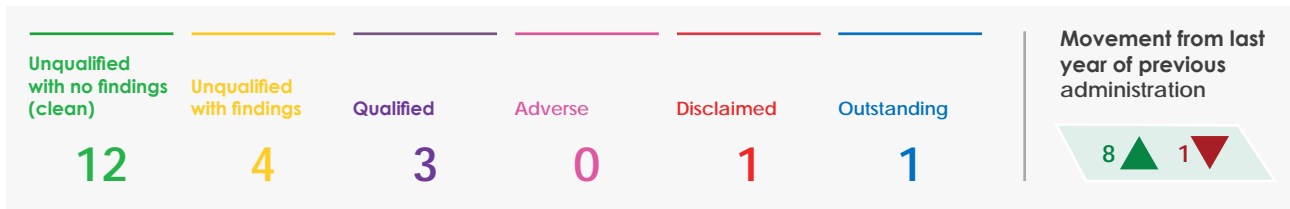
Province	2022-23 irregular expenditure*	Percentage of provincial expenditure budget irregularly spent	Percentage of total irregular provincial expenditure	Closing balance at 2022-23 year-end*
Eastern Cape	R0,91 bn	1%	3%	R8,23 bn 10% ▲
Free State	R1,14 bn	3%	4%	R18,48 bn 2% ▲
Gauteng	R5,78 bn	4%	20%	R42,03 bn 2% ▲
KwaZulu-Natal	R7,37 bn	5%	26%	R60,60 bn 13% ▲
Limpopo	R3,61 bn	4%	12%	R14,33 bn 10% ▲
Mpumalanga	R1,63 bn	3%	6%	R10,36 bn 7% ▲
Northern Cape	R1,99 bn	9%	7%	R20,19 bn 2% ▲
North West	R6,17 bn	7%	21%	R34,90 bn 20% ▲
Western Cape	R0,36 bn	<1%	1%	R0,51 bn 58% ▲
TOTAL	R28,96 bn		100%	R209,63 bn

▲ Increase from previous year

* In terms of National Treasury Instruction Note 4 of 2022-23, auditees do not have to include irregular expenditure incurred in prior years or the closing balance of irregular expenditure in their financial statements. Therefore, the actual amounts may differ where these amounts were not disclosed in the annual report or where we did not receive the annual report before completing the audit.

EASTERN CAPE

Continued efforts and collaboration are necessary to strengthen accountability and to drive meaningful impact through better service delivery



In last year's general report, we encouraged provincial leadership to take decisive action to meaningfully improve service delivery, with a focus on monitoring preventative controls, addressing transgressions, and filling critical vacant positions. We also emphasised the importance of oversight, urging all roleplayers to collaborate in improving the audit outcomes of the three departments that received qualified audit opinions and those that had stagnated on unqualified audit opinions with findings. In response, the premier's office improved to a clean audit due to strong leadership and effective governance by the accounting officer and senior management, as well as enhanced reporting and accountability to citizens by implementing more outcome-based performance indicators.

AUDIT OUTCOMES

Clean audits have more than doubled over the term of this administration to 60% (12 of the 20 completed audits), due to a strong leadership tone that enables prompt responses to rectify control weaknesses and can therefore be sustained. The filling of vacancies

in critical positions and the involvement of the audit committees in following up audit findings have made management's efforts to implement and monitor the audit action plans more effective. The continuous strengthening of the preventative control environment, a culture of accountability, proper in-year monitoring and a sound control environment will be a strong foundation to sustain these clean audit outcomes and to drive the service delivery objectives of government.

There has been no improvement in the qualified audit opinions of the education, health and transport departments due to poor record keeping and a weak leadership tone, as actions were not taken swiftly to rectify the recurring control weaknesses. To enable improvement, provincial leadership must prioritise strengthening preventative controls and demonstrating zero tolerance for transgressions through consequence management processes. The Eastern Cape Rural Development Agency regressed to a disclaimed audit opinion as its financial statements were not supported by underlying records. The lack of stability in key management

positions, along with the absence of an appropriate succession plan, weakened oversight of financial reporting controls. The audit of the Mayibuye Transport Corporation has not yet been finalised because the auditee disputed our findings.

FLOOD-RELIEF RESPONSE

In April 2022, floods caused extensive damage to schools, health facilities, roads and houses across the province. This required the education, health, transport and human settlements departments to repair school infrastructure, restore healthcare facilities, and fix roads and bridges. The departments responded slowly to address the damage. Some delays were caused by ongoing rains and the affected areas being inaccessible, while we saw poor project management as the quality of work was not adequately monitored at certain departments. The human settlements department was tasked with building temporary residential units for displaced people. The department paid the supplier the full price for the units built even though they did not include all the items required in the tender specifications, resulting in a financial loss. We notified the accounting officer of a material irregularity in this regard.

PERFORMANCE PLANNING, REPORTING AND ACHIEVEMENT

The province faces socioeconomic challenges, with the health, education, transport and human settlements departments struggling to meet planned key service delivery targets despite spending the full budgets for some programmes. This raises doubt about whether the province will achieve the five-year planned outcomes of the Medium-Term Strategic Framework to reduce unemployment, poverty and inequality. The poor financial discipline at the service delivery departments resulted in the health, education and transport departments requiring bank overdrafts totalling R2,34 billion to meet their obligations in 2022-23. The lack of accountability in spending has also led to uncertainty about their ability to deliver the required services in future.

The education department achieved only 20% of its public ordinary school education targets and reported that at least 30% of learners did not have access to English and mathematics textbooks.

The department also forfeited R100 million of the education infrastructure grant because it did not achieve several infrastructure development targets. This resulted in some school infrastructure not being properly maintained and not meeting the minimum norms and standards for a conducive teaching and learning environment, leading to overcrowded classrooms and health and safety concerns. We identified an overpayment of R7,40 million to a contractor for a renovation and construction project at Asherville Public School in Graaff-Reinet, for which we issued a material irregularity notification.

The health department also faced infrastructure challenges due to inadequate planning for equipment and infrastructure maintenance as well as weak project planning and contract management. Delays in infrastructure projects led to escalated costs and slowed down the delivery of healthcare to residents. For example, the St Barnabas Hospital's mental health unit in Libode was not operational because construction had been delayed by six years due to late payments by the department, resulting in the contractor suspending work and costs increasing by R18,70 million. Such cost escalations, combined with medical negligence claims against the department and interest on overdue accounts, cast significant doubt on the department's long-term financial sustainability. The department's financial discipline remained poor even with all these challenges, as some employees received allowances they were not entitled to and others were paid after they had stopped working for the department. We notified the accounting officer of these material irregularities.

The transport department spent its entire allocated budget for transport infrastructure, but achieved only 41% of its targets in this area (such as upgrading, rehabilitating and resealing provincial roads). For example, the consulting engineer on a road project around Umlamli Hospital in Sterkspruit used an agent that did not have the necessary qualifications. The department also paid a contractor and a consultant without receiving equivalent value for the money spent and we issued two material irregularity notifications as a result.

MATERIAL IRREGULARITIES

We have issued 31 material irregularities since we began implementing the material irregularity process, and we have seen a positive impact across the accountability ecosystem. Several accounting officers and authorities have taken appropriate action to address the material irregularities we identified, and 13 of these irregularities (42%) had been resolved by the 2022-23 year-end. A notable example is the Coega Development Corporation, where the accounting authority took all the necessary actions and recovered R5,40 million of the R6,80 million financial loss. The employee found guilty of defrauding the entity was also handed a 10-year prison sentence.

FINANCIAL HEALTH

At the end of the previous financial year, the premier committed to strengthening consequence management processes to reduce irregular expenditure and to improve systems at the health, education and transport departments. The irregular expenditure incurred in the province decreased to R911 million from R1,35 billion last year, with the transport department being responsible for more than half of this amount (R535 million). The executive council member for finance pledged that the provincial treasury would track the audit improvement plans of provincial auditees. The premier's office and the social development department improved the quality of their submitted financial statements. Consequently, 16 auditees (80%) had no findings on material adjustments to the submitted financial statements compared to 14 (70%) last year. However, the health, education and transport departments failed to improve because their audit improvement plans were not adequately implemented and monitored, while the Eastern Cape Rural Development Agency regressed due to leadership instability.

The speaker previously committed to enhancing oversight of annual performance planning, but the

quality of performance reports regressed slightly, with seven auditees (35%) having material findings in this area compared to five (25%) last year. As a result of weaknesses in record keeping, auditees could not provide adequate evidence to support their reported achievements.

ACTIVATING THE ACCOUNTABILITY ECOSYSTEM

To build a culture in which resources are used efficiently, economically and effectively to benefit the people in the province, all roleplayers in the accountability ecosystem must contribute to instilling discipline and accountability. Strong preventative controls must be implemented, and the executive authorities should show an unwavering commitment to ensuring that accounting officers adhere to these principles. The premier's office, provincial treasury and provincial legislature must continue to work together to strengthen the accountability ecosystem, focusing on the efficient and transparent use of state funds and on improved service delivery. We encourage portfolio committees to enhance their oversight processes so that they can hold departments and state-owned enterprises accountable for unfavourable audit results and for successfully implementing critical infrastructure projects.

In response to the 2022-23 outcomes, the premier indicated that the province is putting its full weight behind collaborating within the political and administrative spheres to address challenges at the health, education and transport departments. The premier also indicated that he fully supports our call to action to institutionalise preventative controls, instil discipline and accountability, implement suitable risk management, and ensure that oversight by the executive authorities improves the control environment to overcome financial challenges and ensure better service delivery.

FREE STATE

Accountability ecosystem roleplayers should coordinate efforts to fulfil their responsibilities to better the lives of communities

Executive summary

01 Introduction

02 Overall audit outcomes

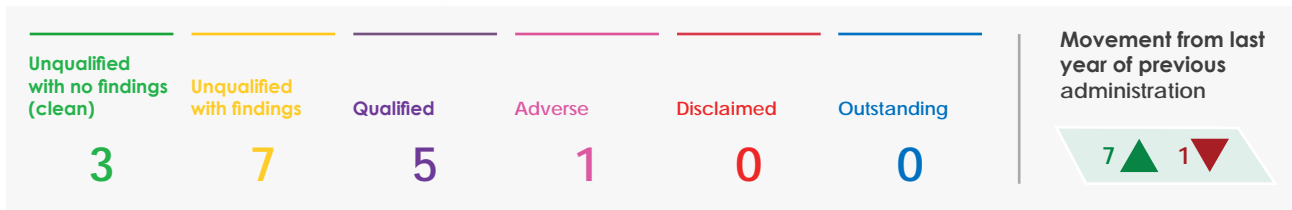
03 Service delivery and financial performance

04 Material irregularities

05 Call to action

06 Provinces

Audit fact sheet



In last year’s general report, our message highlighted to leadership that at the heart of achieving sustained clean audit outcomes is a leadership tone that promotes ethical behaviour and an embedded discipline of monitoring preventative controls, such as tracking the initiatives developed in action plans. We also indicated that political and administrative leadership should promote accountability by prioritising consequence management, improving financial health and focusing on service delivery to better the lives of all people in the province. We urged the coordinating institutions to continue strengthening their interventions and support to sustain the improving trends and to address the lack of consequences. In response to our call to action, some auditees intensified their efforts and followed through on the premier’s commitments to sustain clean audit outcomes and improve modified audit outcomes.

AUDIT OUTCOMES

We commend the efforts of seven auditees who heeded our call and improved their audit outcomes

over the term of this administration. Last year, the provincial treasury improved to a clean audit and both the Fleet Management Trading Entity and the provincial treasury sustained this status in 2022-23. The provincial legislature improved from an unqualified audit opinion with findings to a clean audit, while the agriculture and rural development; social development; and economic, small business development, tourism and environmental affairs departments improved from qualified to unqualified opinions with findings. Lastly, the premier’s office improved from a disclaimed opinion to a qualified opinion over the administrative term.

In contrast, the Free State Development Corporation regressed from a qualified opinion in 2018-19 to an adverse opinion in 2022-23. Although we cautioned the cooperative governance and traditional affairs department on its internal control deficiencies last year, the department did not take the necessary action to sustain its clean audit as it did not ensure that its standardised indicators met national guidelines.

Senior management continued to evade responsibility for submitting credible performance information by processing material adjustments based on the audit process to correct reported achievements before the annual reports of most auditees were published. The departments of agriculture and rural development; education; and cooperative governance and traditional affairs received unqualified audit opinions with findings, but we highlighted to management that their planning documents did not include all indicators relating to their core functions of improving the social and economic prospects of the province. The Free State Development Corporation and the provincial treasury did not prioritise all of their core functions.

PERFORMANCE PLANNING, REPORTING AND ACHIEVEMENT

Some departments did not apply prudent financial controls as they either under- or overspent their planned budgets and did not achieve most of their planned targets. For example, the health department spent 102% of its planned budget on the district health services programme, but achieved only 41,30% of its planned targets to deliver quality primary healthcare and district hospital services to the people of the province.

The human settlements department spent 36,70% of its planned budget on the housing development programme in support of its goal to facilitate access to adequate housing opportunities, but achieved only 18,75% of its planned targets. Although we do not encourage the underspending, we commend the accounting officer for first addressing previously identified deficiencies relating to contract management in this programme and for starting to implement consequence management against responsible officials before commencing with new projects in 2022-23.

The education department did not adequately implement the national school nutrition programme, as schools did not maintain the required hygiene and safety standards when storing food supplies or when preparing and serving meals. Some schools did not provide meals on all school days or provided meals that either did not include all three nutritional groups or did not comply with approved menu specifications in terms of quality and quantity. As a result, learners did not always receive nutritious meals

to enhance their development, learning capacity and concentration.

Turning to the health sector, an ideal clinic should have adequate staff, medication, infrastructure, administrative processes and bulk supplies. However, the health department's primary healthcare facilities did not meet ideal clinic status. We informed the accounting officer of various shortcomings at the healthcare facilities we visited. Most did not comply with occupational health and safety regulations and did not maintain backup supplies for electricity or safe drinking water. Medicine was not stored at the required temperature, expired medication was not always removed and stored separately from other medication, and essential medication was not always readily available to patients.

These shortcomings could have devastating consequences in future, as non-compliant facilities might not be able to provide the necessary treatment and medication to communities and address patient healthcare needs. We continue to engage the accounting officer to influence the department's efforts to address these shortcomings, as we have seen that his interventions have brought about a positive shift in the culture and responsiveness of the department.

INFRASTRUCTURE

Ineffective project management and poor-quality work on projects under construction also had a negative effect on service delivery. Accounting officers did not penalise defaulting contractors, which led to delayed projects, increased costs and modifications to address poor-quality work. In some instances, work was further delayed because community business forums demanded to sub-contract on projects. For example, the education department's project to build the Tshetso Primary School in Bothaville/Kgotsong had still not been completed by the end of March 2023 – more than two years after the planned completion date. The contractor was paid despite not having installed roof coverings for all buildings and not having started with the construction of the hall structure. Thus, teaching and learning took place in overcrowded classrooms that were not conducive to learning.

MATERIAL IRREGULARITIES

Since we began implementing our expanded powers in 2018-19, we have notified accounting officers of 21 material irregularities with a combined estimated financial loss of R321 million. This includes four notifications we issued in 2022-23 for which we have already received responses from the accounting officers. Three of these four material irregularities related to the education department paying for standing time not included in the terms of project contracts and the remaining one related to the premier's office overpaying suppliers for transport services.

In total, 12 of the 21 material irregularities have been resolved, including some relating to overpayments on housing projects and payments for goods that were not received. In some instances, contracts were cancelled before further losses were incurred. Accounting officers have prevented financial losses of R47,63 million and recovered R70,43 million from third parties. Accounting officers and an accounting authority are also busy recovering a further R59,45 million. We commend those accounting officers who have instituted appropriate action and implemented internal controls to prevent irregularities from recurring. Some of their investigations have also identified the responsible officials – who subsequently went through disciplinary processes.

Some auditees were proactive and referred material irregularities to public bodies themselves – three were referred to both the Special Investigating Unit and the South African Police Service, and another two to the Office of the State Attorney. Where accounting officers did not take appropriate action to resolve the material irregularities, we were decisive and included recommendations for six material irregularities in the audit reports to ensure that they will be addressed. We regularly follow up on how accounting officers are implementing these recommendations.

FINANCIAL HEALTH

Although the province's financial health improved slightly, we remain concerned about the eight auditees (50%) with significant financial health constraints. While the education department

reduced its bank overdraft to R574,62 million, the health department's overdraft increased to R742,64 million. Eleven departments reported a total cash shortfall of R2,74 billion, while auditees also owe more than R8 billion. We find it concerning that some departments had to use their 2023-24 budgets to meet their 2022-23 commitments. Although the provincial treasury tracked the quarterly spending of departments and cautioned them where exceptions were noted, the departments were not always receptive to this. These auditees are likely to face significant pressure to pay their short-term debts and to deliver adequate services that meet community needs.

Medical negligence claims against the health department put further pressure on the province's already strained finances. These claims increased from R4,56 billion last year to R5,01 billion in 2022-23. This has a significant impact on the lives of patients, who may require full-time care and treatment, as well as on their immediate family members. The department only settled a few claims because of delays in negotiating final settlement amounts.

ACTIVATING THE ACCOUNTABILITY ECOSYSTEM

Despite some improvement in the province's overall audit outcomes, we remain concerned that most auditees have not fully embraced our call to action, as we continued to see widespread non-compliance and lack of consequences. We are especially worried about auditees' lack of concerted effort to deal with the closing balance of unauthorised, irregular, and fruitless and wasteful expenditure, which increased to R21,67 billion from R21,28 billion last year because auditees did not properly investigate all such instances.

We are delighted to note the progress the provincial treasury has made in fulfilling its commitment to reduce the province's irregular expenditure by at least 30%. The amount did decrease in 2022-23 but R1,13 billion was still incurred because of the continued disregard for procurement processes. The provincial treasury should now focus on improving auditees' procurement practices and on addressing the backlog in irregular expenditure investigations by 2024-25.

The tone set by the premier and the interventions by the coordinating institutions, including the provincial legislature, are commendable and led to an improved submission rate for municipal financial statements. Coordinating institutions should continue to focus on establishing effective disciplinary boards at municipalities. However, the provincial legislature again did not adequately follow up on resolutions and recommendations in 2022-23 to ensure that they were being implemented.

We call on the provincial treasury to increase its support and instil a greater sense of urgency to improve the control environment by eliminating material findings at auditees. Accounting officers, supported by coordinating institutions, should take responsibility to drive credible performance reporting by submitting quality performance reports and prioritising proper record management. Coordinating institutions should strengthen their support to ensure that auditees investigate unauthorised, irregular, and fruitless and wasteful expenditure, and implement consequences for those found responsible.

We urge all roleplayers in the accountability ecosystem to take decisive action to address infrastructure challenges by applying penalties against defaulting contractors and reporting them to the National Treasury for inclusion on the database of restricted suppliers. Accounting officers should also deal decisively with the concerns of interested parties in infrastructure to avoid project delays and the cost to the government purse that is so often associated with such delays.

Audit committees and internal audit units should provide the required assurance on the quality, adequacy, accuracy and reliability of financial and performance information, and should drive auditees to improve their internal control environments to achieve sustainable change.

If all roleplayers in the accountability ecosystem coordinate their efforts and fulfil their responsibilities by addressing shortcomings and proactively dealing with current obstacles, the lived realities of the people in the province will improve.

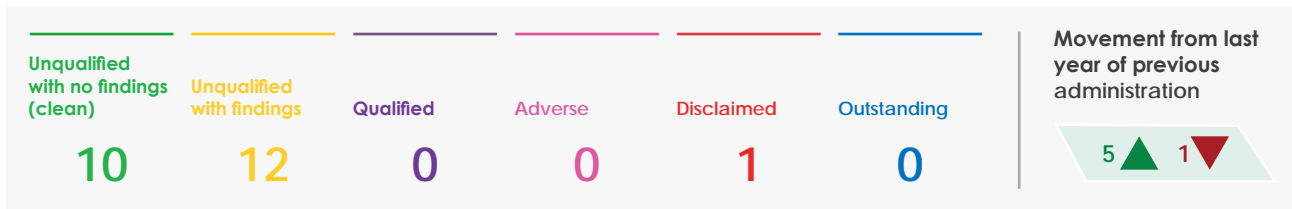
GAUTENG



Executive summary

Outcomes improved due to strong leadership tone, but more is needed to address non-compliance and further improve service delivery

01 Introduction



02 Overall audit outcomes

In our previous general report, we called on leadership and oversight bodies to instil a culture of effective monitoring and accountability that will strengthen the basic control disciplines and address service delivery in the province.

AUDIT OUTCOMES

Encouragingly, in 2022-23, provincial leadership responded to our call with an overall improvement in audit outcomes and an increase in the number of clean audits. Eight auditees sustained their clean audit status, while two auditees improved to a clean audit and three improved from qualified to unqualified audit opinions with findings. However, to further sustain and translate these improvements into better lived realities for the people of the province, we call on leadership to intensify and coordinate efforts to eliminate non-compliance and improve oversight of the departments entrusted with key service delivery mandates in the province.

The provincial legislature, premier's office, treasury, and cooperative governance and traditional affairs department are leading by example, having sustained their clean audit status for a number of years. They have consistently demonstrated their

commitment to account transparently for public funds and to discharge their mandates responsibly and in compliance with the relevant laws and regulations. The consistent drive to improve and sustain good financial reporting disciplines, such as regular reviews and good monitoring processes by management and governance structures, saw 83% of auditees submitting good-quality financial statements, compared to 65% last year.

In 2022-23, the education and the economic development departments improved to clean audits as a result of having stable and effective leadership that diligently focused on institutionalising good internal control disciplines, as well as having effective governance structures that tracked the implementation of audit action plans. We commend the human settlements and the roads and transport departments as well as g-Fleet Management for responding to our messages from last year and improving their opinions from qualified to unqualified with findings by addressing the matters on which they were qualified. This showed the responsiveness of the accounting officers and authority at these auditees when it comes to setting the right tone and shifting towards a desirable culture. We urge them to continue to track and monitor the financial control disciplines; and the audit committees, supported by

03 Service delivery and financial performance

04 Material irregularities

05 Call to action

06 Provinces

Audit fact sheet

the internal audit units and the treasury, to continue monitoring the post-audit action plans to sustain the improved audit outcomes.

PERFORMANCE PLANNING, REPORTING AND ACHIEVEMENT

Although the quality of published performance reports improved slightly to 78% from last year's 74%, we remain concerned about the credibility of performance reports as auditees continue to rely on the audit process to identify misstatements. This hampers the effectiveness of in-year monitoring and decision making by leadership, as can be seen from those departments (such as health, human settlements, and infrastructure development) where the achievement of targets did not align to the budget spent. The medium-term strategic plans of these departments were mostly aligned to the Medium-Term Strategic Framework, but to have a more positive impact, departmental leadership and the premier's office need to strengthen and monitor the achievement of targets and to ensure that budgets spent align to actual service delivery.

We acknowledge the extensive strides the health department has made to address the previous year's challenges with record management at the Steve Biko, Rahima Moosa, Chris Hani Baragwanath and Charlotte Maxeke hospitals and to improve on the disclaimed conclusion on its reported performance information. However, we urge the accounting officer to pay further attention to the accuracy and completeness of information that supports the performance report, as the lack of adequate systems for reliable reporting could harm the institution. We notified the accounting officer of a material irregularity relating to this matter. We also call upon all key sector departments (except for the education department that achieved its targets) to improve on – and ensure that they achieve – the key targets within their core mandates. If these targets are not achieved, this could harm the institutions and the general public.

INFRASTRUCTURE

We visited critical projects in the health, education, human settlements, and roads and transport sectors and found that some of these projects were not adequately monitored to ensure they stayed within the project timelines and amounts outlined in contracts. Some projects were also delayed by ineffective planning, inadequate intergovernmental

coordination and a lack of accountability to implement contract management disciplines.

We are concerned about the health department's readiness to implement government's National Health Insurance due to inadequate infrastructure delivery, safety and security concerns, and the slow pace of repairs and maintenance. The department also did not perform due diligence reviews on infrastructure projects funded by the health facility revitalisation grant. Projects were poorly managed, resulting in projects being delayed, abandoned or – where completed – not being fully utilised, limiting communities' access to healthcare facilities. For example, the department completed the construction of bed facilities for the intensive care units at Chris Hani Baragwanath and Dr George Mukhari hospitals in 2021, but neither were optimally used. Similarly, the bed facility for Kopanong Hospital's intensive care unit was built to accommodate covid-19 patients, but was not completed and left abandoned. We notified the accounting officer of a material irregularity and urged him to promptly implement actions to resolve the material irregularity.

The infrastructure development department coordinated the procurement and implementation of most infrastructure projects, in line with its mandate, and is thus a key roleplayer when it comes to addressing provincial infrastructure concerns. As a result of poor project management and inadequate coordination, we notified the accounting officer of four infrastructure-related material irregularities relating to the Mayibuye Clinic, Mayibuye Primary School, Khutsong South Clinic and Nancefield Primary School. We urge the accounting officer to implement action plans to address these material irregularities promptly. We also recommend that the province evaluate and, where needed, strengthen the infrastructure delivery model to fully address infrastructure requirements.

Although the roads and transport department has improved its contract management disciplines on infrastructure projects, the prolonged process for appointing contractors to continue and complete projects leads to roads and related infrastructure deteriorating – and in some cases, additional costs. For example, the department was late in appointing a replacement contractor for the K46 road in Diepsloot and has not yet completed the construction of the Sebokeng drivers' licence testing station. We notified the accounting officer of material irregularities for both instances and urged

him to implement his actions promptly to resolve these material irregularities.

We are concerned that the human settlements department continued to substantially underdeliver housing in the province, despite the increasing housing backlog and the delay in allocating houses to beneficiaries. This was due to inadequate planning, ineffective contract management, delays in procurement and ineffective intergovernmental processes, with municipalities acting as implementing agents. If the department does not achieve targets within its core mandate, this is likely to cause harm to the institution and the general public, resulting in a material irregularity. We urge the accounting officer and executive authority to regularly and closely monitor the achievement of targets to identify challenges and to respond to them within a reasonable time.

MATERIAL IRREGULARITIES

Since we began implementing our expanded powers, we have issued notifications for 22 material irregularities linked to various instances of non-compliance in the province, with a total estimated financial loss of R1,20 billion. The material irregularity process continues to gain traction as most accounting officers have taken, or are busy taking, corrective steps. These include conducting investigations, improving internal controls, instituting disciplinary processes, attending to abandoned and incomplete infrastructure projects, and recovering funds. For example, the accounting officer of the infrastructure department has committed to appoint a contractor to complete the construction of the Mayibuye Primary School in Tembisa that was abandoned and is incurring costs. The accounting officer of the health department responded immediately to a material irregularity relating to the Finetown Clinic project in Ennerdale that had been completed but was not operational – the clinic was opened within a week after the material irregularity was communicated. Oversight and governance structures need to continue to monitor the implementation of actions by accounting officers to ensure that all material irregularities are quickly resolved.

FINANCIAL HEALTH

The province's financial health remains viable, reflecting good disciplines of effective budgeting and spending at 10 departments and five entities

(65% of auditees). However, legal claims continue to pose a risk to the province's financial sustainability, having increased to R23,15 billion in 2022-23. The health department accounted for 78% of this amount due to increasing contingent liabilities (potential payment obligations) arising from medical negligence claims against which it is often unable to defend itself, leading to cases being settled but not budgeted for.

Irregular expenditure incurred in the province decreased from R7,03 billion last year to R5,78 billion in 2022-23, but remained high because of non-compliance with procurement and contract management legislation. However, we acknowledge the responsiveness by leadership and oversight structures to strengthen consequence management processes by promptly investigating irregular expenditure and using condonation processes to reduce the closing balance. Leadership should continue to strengthen compliance monitoring to further reduce instances of non-compliance.

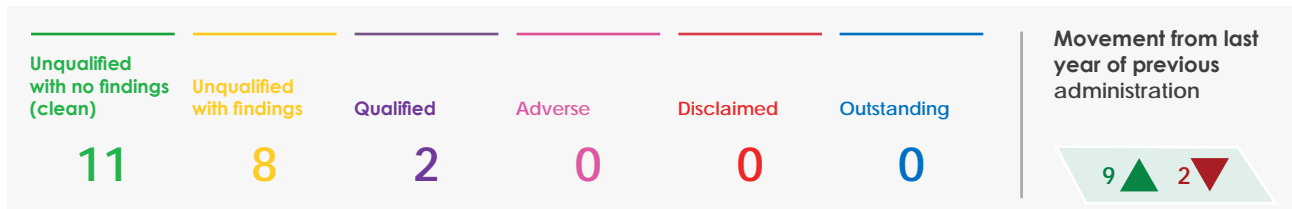
ACTIVATING THE ACCOUNTABILITY ECOSYSTEM

The positive tone set by provincial leadership in restoring clean governance is yielding the desired results. In response to our previous recommendations, the premier institutionalised service delivery agreements with executive council members and strengthened the integrity initiatives within the province. We call on provincial leadership to further focus on addressing non-compliance through purposeful interventions and by evaluating service delivery models affecting key infrastructure projects. While the provincial legislature has continued to lead by example, we call upon the legislature to strengthen the monitoring and evaluation of house resolutions as well as the quarterly oversight process over both departments and local government. We encourage coordinating departments, such as treasury and cooperative governance and traditional affairs, to continue focusing on initiatives that aim to improve accountability and transparency at local government level.

Overall, the province is making positive strides and the premier, through coordinated efforts such as the premier's forum and other intergovernmental relation initiatives, should continue to elevate the commitment to transparency, accountability and meaningful service delivery.

KWAZULU-NATAL

Institutionalisation of controls brings about improved audit outcomes while lack of consequence management hinders service delivery



Over the term of this administration, the province has faced persistent challenges in effectively delivering services to communities, despite improved audit outcomes. Last year, we emphasised to provincial leadership the importance of proactively addressing the root causes of the unfavourable audit outcomes of key service delivery departments and the lack of improvement in the quality of service delivery. We also emphasised the need for leadership to adopt a strict zero-tolerance approach towards non-compliance and to enforce accountability consistently at all levels.

AUDIT OUTCOMES

Leadership responded to our call to improve audit outcomes over the administrative term and, in 2022-23, 11 auditees (52%) achieved clean audits. It is encouraging that 86% of auditees submitted financial statements that were free from material misstatements, compared to 50% in the last year of the previous administration. Similarly, there has been a marked improvement in compliance with legislation over the administrative term, as 75% of

auditees reported material non-compliance in 2018-19 compared to 48% in 2022-23. The quality of submitted performance reports also improved from 17% to 47% over the same period.

Stability in key positions, coupled with experienced personnel, played a pivotal role in enabling auditees to establish and strengthen their control environments to improve audit outcomes. These environments have been characterised by thorough reviews, meticulous record keeping, diligent reconciliations and ongoing in-year monitoring. If maintained, they have the potential to sustain the positive audit outcomes.

The improvement at the health department is particularly notable, as it received an unqualified audit opinion with findings for the first time since 2008-09 due to management's efforts and engagements with the provincial treasury to revisit its asset methodology.

In contrast, the transport department could not improve its audit outcome, remaining qualified throughout the administrative term because

management did not maintain and review underlying schedules to support financial statement disclosures and because of the impact of the high vacancy rate in key financial positions, including that of chief financial officer.

The provincial coordinating departments (premier's office and treasury) have maintained their clean audit status, setting a commendable example for the province. They also implemented initiatives to assist other departments in improving undesirable, or sustaining positive, audit outcomes. The provincial treasury made good on its commitment in the previous year to assist departments in improving their audit outcomes. The treasury's crucial role in monitoring compliance during flood-relief initiative procurement at the transport department resulted in the prevention of further irregular expenditure. However, departments that have shown little positive progress in improving their audit outcomes and service delivery need heightened attention.

We commend the provincial legislature, as an oversight institution, for maintaining its clean audit status. There is, however, a need for the legislature's portfolio committees to improve their review of departments' performance plans and budgets and to regularly track departments' implementation of resolutions.

FINANCIAL HEALTH

The financial health of departments remained stable over the administrative term. However, most departments continued to experience challenges related to cash-flow management and financial sustainability. For example, the education department could not collect staff debt of R539 million and relied on a bank overdraft to sustain the cash flow and cover expenses, which hindered its ability to meet future commitments and service delivery performance targets. At year-end, the provincial departments reported that they owed creditors a combined R3,88 billion after most of their budget for the year had been spent. This amount will thus need to be paid out of next year's budget, adding pressure on future service delivery and financial planning.

Similarly, claims arising from medical negligence against the health department put a significant strain on its finances and redirected funds away from healthcare services. The department must promptly investigate and resolve these cases, and must implement measures to eradicate the circumstances leading to such cases and the associated legal claims.

While compliance with legislation has improved over the administration's term, some key departments continue to struggle to implement adequate consequence management. This has led to an environment characterised by a lack of discipline and accountability for transgressions. All the province's irregular expenditure was due to non-compliance with procurement and contract management legislation. The accumulated irregular expenditure from prior years has also not been properly addressed through recovery, condonement or write-off processes, as some departments could not demonstrate to the provincial treasury that all instances of irregular expenditure had been investigated and disciplinary actions taken against those found to be responsible.

PERFORMANCE PLANNING, REPORTING AND ACHIEVEMENT

The key service delivery departments could not achieve their service delivery performance targets despite spending most of their budgets. These departments should improve their budget planning and management processes and set realistic performance targets aligned to available resources to enable better service delivery.

The education and human settlements departments did not include all key performance indicators in terms of the Medium-Term Strategic Framework priorities for their core functions, such as providing learners with access to a quality education and contributing to sustainable livelihoods.

The health department faced significant challenges in achieving its planned emergency response targets, stemming from issues such as long

ambulance response times, a shortage of available ambulances, a lack of essential life-support equipment, and non-compliance with hygiene practices. The department's reported achievement of targets also lacked credibility because it did not have an adequate system for managing and maintaining patient records. The department is busy developing and implementing an e-health system at some healthcare facilities, which should improve the digitisation, automation and integration of patient records.

The ideal clinic standards aim to improve primary healthcare facilities and the quality of care they provide. However, during our visits to the KwaMsane, Madwaleni and Khaylihle clinics, we found that some vital elements were not present or functioning optimally, which could result in fatalities, prolonged recovery periods for patients, and other adverse effects on the health of communities. Clinics should implement quality improvement plans and the district offices should monitor the implementation of these plans. Where non-compliance is identified, the accounting officer should implement consequence management.

INFRASTRUCTURE

Critical infrastructure projects were marred by inadequate project planning, cost overruns and excessive delays. At the human settlements department, for example, the Umbulwane housing project in Ladysmith experienced significant delays of more than 17 years. These delays were mainly due to land being unavailable and changes being made to the site layout plan at the start of the project. The community continued to experience poor living conditions and resorted to vandalising completed houses that were ready for occupation to vent their frustration. To prevent additional and avoidable costs, the department should improve its project planning, implementation and monitoring controls. Furthermore, there is a need to strengthen coordination between the department and the municipalities and to implement consequence management against officials conducting inadequate needs assessments and feasibility studies. This will help streamline the project execution process and mitigate the challenges that have led to extended timelines and increased expenses.

FLOOD-RELIEF RESPONSE

A lack of routine infrastructure maintenance aggravated the impact of the damage caused by the April 2022 floods in the province. A year after the disaster, various infrastructure projects to repair hospitals, schools and roads were falling behind due to poor planning, failure to identify and address all risks, as well as the scope of repairs not having been properly defined. Although the human settlements department provided the initial batch of temporary residential units to displaced people, it has halted this initiative to explore alternative options, such as a transitional emergency housing project.

Departments were also not ready to deal with the disaster and did not have formalised and/or updated disaster management plans. To improve the response to future disasters and better serve the people of the province, departments need to implement the provisions of disaster management legislation, which require them to decisively implement preventative, proactive and emergency responses, as well as post-disaster recovery and rehabilitation processes.

MATERIAL IRREGULARITIES

On a positive note, the material irregularity process is shifting the public sector culture in the right direction, as most accounting officers are responding positively and are taking appropriate action to address these irregularities. Since we began implementing the process, we have notified accounting officers of 23 material irregularities with a total estimated financial loss of R517,20 million.

Eleven of these irregularities have already been resolved by accounting officers improving internal controls, in some instances taking disciplinary action against responsible officials, and recovering material financial losses. At the sport, arts and culture department, for example, the contractor has now completed and handed over the Dukuduku library project in Mtubatuba, after the department had initially paid for infrastructure goods that were not received.

Through the material irregularity process, we continue to focus on matters that directly affect the lived experiences of communities.

One such material irregularity we identified at the education department related to learners not being provided with meals at schools because the supplier failed to deliver on its contract with the department. We considered the representations and substantiating documents provided by the accounting officer and concluded that appropriate action was not being taken to address the irregularity. At the time of this report, we were busy determining our best course of action going forward.

ACTIVATING THE ACCOUNTABILITY ECOSYSTEM

We actively engaged with key stakeholders in the accountability ecosystem, including the premier's office and the provincial treasury, to ensure that they provide the necessary support to accounting officers to resolve material irregularities and prevent them from recurring. The premier specifically committed to developing and monitoring audit improvement plans aimed at assisting departments in improving their audit outcomes.

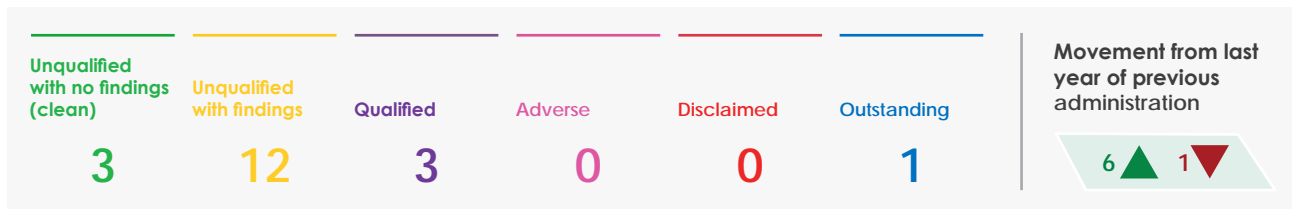
Accounting officers, together with senior management, should regularly monitor the effectiveness of preventative measures to improve the overall control environment. Audit committees and internal audit units should diligently review and evaluate controls related to financial and performance reports, as well as compliance with legislation. These efforts will play a critical role in improving audit outcomes and service delivery to the people of the province.

Consequence management must be enforced at all levels to foster a culture of zero tolerance and accountability. Coordinating departments should work together to support auditees in addressing the root causes of undesirable audit outcomes and should regularly monitor the progress being made. The provincial legislature should provide effective oversight to the provincial government and should hold leadership accountable for underperformance and non-compliance.

These joint efforts will contribute significantly to the province fulfilling its mandate and improving the quality of life of its people.

LIMPOPO

Executive authorities and accounting officers should enforce consequence management to drive service delivery and improve audit outcomes



In last year’s general report, we called on provincial leadership to act decisively to reduce irregular expenditure and stop the regression in audit outcomes by addressing repeat findings. We emphasised the importance of infrastructure in service delivery and its impact on the lived realities of the people of the province. We also encouraged different roleplayers in the accountability ecosystem to play their part in implementing sound financial management disciplines, and urged leadership to take appropriate steps to address the culture of transgressions and poor performance.

AUDIT OUTCOMES

In 2022-23, the province’s overall audit outcomes again regressed, signalling almost no improvement in the control environment. Ten auditees had material findings on all three areas in which proper disciplines are crucial – finance, performance and compliance. We find it concerning that the coordinating departments (premier’s office and provincial treasury) were among those auditees that regressed, which could hamper these departments’ contributions to shifting the culture of poor performance within the province.

Compliance with legislation remains a challenge overall, with 15 auditees (83%) receiving material compliance findings in 2022-23, compared to 13 auditees (72%) in the first year of this administration. In 2022-23, seven auditees had material procurement and contract management findings, compared to eight last year. Although some auditees investigated instances of non-compliance with laws and regulations, we remain concerned about the significant delay between when investigations start and end, and when consequences are implemented.

FINANCIAL HEALTH

On a positive note, the province did not incur any unauthorised expenditure in 2022-23. However, it continued to incur significant irregular expenditure, mostly due to non-compliance with procurement legislation, which increased to R3,61 billion in 2022-23 from R2,12 billion last year. The top two contributors to irregular expenditure – the education department (R1,96 billion) and Roads Agency Limpopo (R1,38 billion) – were responsible for 93% of all irregular expenditure incurred in the province in 2022-23. These same entities were also among the

top contributors to fruitless and wasteful expenditure (education department was responsible for R23,48 million and Roads Agency Limpopo for R8,04 million), as was Great North Transport (R8,04 million). To decrease such unwanted expenditure, provincial leadership must adopt a culture of zero tolerance for non-compliance with legislation by consistently – and swiftly – implementing consequences for those involved.

Three public entities (Gateway Airport Authority Limpopo, Great North Transport and Corridor Mining Resources) are experiencing financial health issues and in their audit reports, we reported potential challenges to their ability to continue operating. All three auditees are in financial distress and do not collect enough revenue to fund their operations. Our prior-year call to action for provincial leadership to intervene and support these entities with developing and implementing turnaround strategies to improve their financial health, remains unanswered.

INFRASTRUCTURE

Sound infrastructure is crucial for delivering basic services to the public. Every year, the province invests a significant portion of its allocated budget in developing and maintaining critical infrastructure. However, in many cases, communities do not experience the benefit of these investments. Some auditees continue to experience significant delays in completing projects because they do not properly manage these projects or spend all of their allocated funds. Some of these infrastructure projects are not monitored and supervised to ensure that they comply with quality standard specifications. Poor workmanship on projects results in structural defects that increase project costs and place a burden on future maintenance budgets.

Lemana College just outside Makhado is considered a part of the province's heritage and has produced several eminent leaders over the years. In 2013, the departments of education and of public works, roads and infrastructure began planning to refurbish the college and convert it into a high school. However, more than eight years after construction began, it remains incomplete. The project has also been marred by serious acts of vandalism, adding to the already excessive delays. The community is bearing the brunt of this negligence and learners are deprived of an environment that is conducive to quality learning. Despite all of our prior-year recommendations, management has still not

developed and implemented proper action plans to address the deficiencies noted on the project.

The cooperative governance, human settlements and traditional affairs department undertook a project intended to give low-to-middle income households in the Lephalale area access to safe and secure houses. In 2016, residents of the Marapong community were moved to an informal settlement in Altoostyd so that the project could start. More than five years after construction began, the project had still not been completed and residents have yet to move into decent accommodation. An unbearable sewage stench and poor living conditions are part of the daily lives of this community. Last year, we urged management to take corrective action to deal with the challenges on the project and to implement consequences for those responsible. Although more still needs to be done, we commend the department for implementing some of our recommendations, such as concluding an investigation into the project and appointing an external panel to conduct disciplinary proceedings against implicated officials.

PERFORMANCE PLANNING, REPORTING AND ACHIEVEMENT

The quality of submitted performance reports declined and the number of auditees that submitted good-quality performance reports halved over the administrative term – only four auditees (22%) submitted good-quality performance reports in 2022-23, compared to eight (44%) in the first year of the administration. Credible performance reports are critical to inform decision making for service delivery. While reliable performance reporting is essential, it yields little benefit to the community if auditees are consistently reporting that they have failed to achieve their targets.

We find it concerning that some auditees are still failing to meet key service delivery targets. Last year, we called on provincial leadership to regularly monitor how their commitments were being implemented and to apply consequence management for service delivery failures. Despite our call, various departments again failed to achieve their targets for key service delivery indicators, including the department of cooperative governance, human settlements and traditional affairs. This is particularly concerning because the department has also not spent all of its allocated budget for the past three financial years. The

agriculture and rural development department has also not spent all the funds earmarked for agricultural support and development, and has returned more than R200 million in unspent funds for this programme to the provincial treasury over the past two years (R121,10 million in 2022-23 and R90,63 million last year). The continuous underspending by these departments is not only depriving communities of their right to good-quality housing; it is also leaving poor households in poverty and denying smallholder farmers the development and commercialisation they have been promised. We urge the provincial legislature and its oversight committees to exercise their oversight role and hold regular sittings to ensure accountability and corrective action that will remedy deficiencies and ensure that basic services are delivered to the people of the province.

MATERIAL IRREGULARITIES

Since we began implementing the material irregularity process, we have issued notifications for seven material irregularities in the provincial government relating to non-compliance with laws and regulations, resulting in a combined estimated financial loss of R120,79 million. By 30 September 2023, three of the seven irregularities had been resolved. Consequence management was implemented and, in some cases, financial losses were recovered. We are encouraged that accounting officers and authorities are taking appropriate action to resolve these irregularities once notified. In 2022-23, we issued notifications for two new material irregularities. One relates to electricity charges that were not billed to tenants by the department of public works, roads and infrastructure, and the other to penalties that the department of transport and community safety charged Great North Transport for contravening a contract between the two parties. At the date of this report, we were still assessing the response to the first notification and had not yet received a response to the second.

ACTIVATING THE ACCOUNTABILITY ECOSYSTEM

Every year, the province commits to improving its internal control environment and service delivery, particularly in the areas of financial health and performance achievement. However, there seems to be no sense of urgency from the roleplayers in the accountability ecosystem to implement these

commitments. Audit outcomes in the province continue to worsen, despite our call last year for provincial leadership to implement sound performance disciplines and enhance their control environments. The province's transport sector is in a particularly dire state, with both Gateway Airport Authority Limpopo and Great North Transport facing financial health challenges and having no prospects for increasing their own revenue in the near future. These entities constantly rely on bailouts from provincial government, which is not sustainable and diverts money away from economic growth and social development in the province.

We are encouraged by the commitment from the coordinating institutions to monitor incomplete projects, take action to prevent financial losses, and implement a consequence management framework that will allow the head of the provincial treasury to escalate matters directly to the premier. We are also encouraged that the provincial treasury established a professional hub of experts to provide training and build capacity so as to address the dire lack of adequate finance skills at municipalities.

We again call on the provincial legislature to exercise the oversight responsibility of its committees for the 2022-23 reports; they should also recommend and enforce drastic action against auditees that do not improve their financial and performance management. Executive authorities should lead from the front by demonstrating a sense of duty to improve financial and performance management. Accounting officers and authorities must put in place sound infrastructure implementation plans to ensure that grants are fully used to improve service delivery and that infrastructure projects are completed on time and within budget. Accounting officers should also take due care when producing financial statements and performance reports to ensure that they are credible and appropriately supported by proper records. Senior managers should monitor all ongoing projects to avoid poor workmanship and unnecessary delays. Provincial leadership should insist that financially strained institutions have sound revenue-enhancement strategies.

All roleplayers in the accountability ecosystem must do their part to ensure that the province overcomes its financial challenges, enhances its control environment, implements appropriate consequence management, and ensures better service delivery – thereby improving the lived realities of the people in the province.

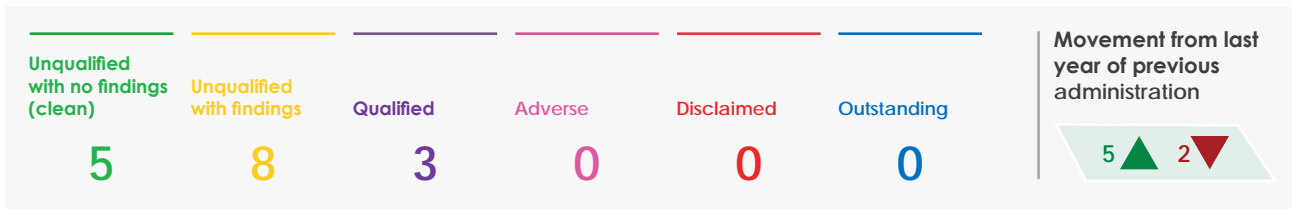
MPUMALANGA

Executive summary

Strengthen internal capacity, and enforce meaningful consequences to ensure lasting audit improvements, accountability and quality service delivery

01 Introduction

02 Overall audit outcomes



03 Service delivery and financial performance

Since the first year of this administration, we have made a consistent call for provincial leadership and all roleplayers in the accountability ecosystem to play their roles effectively and work together to implement sustainable solutions that will address these four critical areas: implementing effective preventative controls; strengthening the state of financial health; planning and managing infrastructure projects effectively; and complying with legislation, especially as it relates to procurement and consequences. In response to last year's audit results, provincial leadership committed to improving audit outcomes and oversight, build internal capacity and ensure accountability.

significant improvements in service delivery, as commitments by provincial leadership are still in progress and there is a lack of accountability in the four critical areas.

04 Material irregularities

AUDIT OUTCOMES

In the fourth year of the current administration, it is encouraging to see a net improvement in overall audit outcomes, with three improvements and no regressions. This progress is the result of dedicated leadership efforts to address the previous year's findings. However, sustainable solutions are still lacking, and citizens have yet to experience

Despite the improving trend in provincial audit outcomes, we remain concerned that the key service delivery departments (education; health; human settlements; and public works, roads and transport), which account for 83% of the provincial budget, have not fully embraced our call to improve control environments by incorporating preventative measures, fostering a culture of corrective action and implementing consequences for lapses.

Despite their efforts and initiatives to enhance accountability, the provincial legislature and coordinating institutions (premier's office, cooperative governance and traditional affairs department, and provincial treasury) proved ineffective in offering solutions, providing oversight and enforcing accountability among accounting officers in these key service delivery departments.

05 Call to action

06 Provinces

Audit fact sheet

INFRASTRUCTURE

Weaknesses in financial and project management practices negatively affected infrastructure projects, which had an impact on service delivery. The public works, roads and transport department, which is responsible for procuring and monitoring construction work in the province, still did not have the internal capacity to oversee construction on projects, leading it to rely heavily on consultants. Provincial leadership did not follow through on its previous year's commitment to develop internal capacity to address project management deficiencies that affect quality and timeliness. As a result, the department did not comply with procurement and contract management legislation, experienced ongoing project delays, made payments for work not done and for substandard infrastructure, and incurred irregular expenditure of R591,27 million. For example, delays in the construction of the new Ermelo Primary School caused classroom overcrowding and reduced teaching quality. We are considering a possible material irregularity because of this.

PERFORMANCE PLANNING, REPORTING AND ACHIEVEMENT

Weaknesses in performance planning and reporting processes can be attributed to a poor control environment and the ineffective review of performance information by internal audit units and audit committees. This resulted in a decline in the quality of performance reports, with only two departments submitting good-quality reports for auditing.

Some departments did not include crucial indicators related to their core mandates in their performance plans. For example, the social development department excluded essential indicators relating to child abuse cases, registered partial care facilities, and children accessing care facilities. As these indicators were only found in the operational plan, they were not properly monitored and overseen.

Some auditees included all relevant key indicators in their performance plans but significantly underperformed on their targets. For example, the education department spent 100% of its budget on the infrastructure development programme but achieved only 20% of its targets due to delays in appointing some contractors and the slow progress

of specific contractors, which had a negative impact on the quality of education provided.

The national Department of Health set a target of 80% for the ideal health clinic status, which includes having fit-for-purpose infrastructure, adequate staff, and sufficient medicine and supplies. The provincial health department reported an achievement of 80% but the actual audited achievement was lower, resulting in a material finding on this indicator.

The provincial health department also faced ongoing challenges with staffing and hospital capacity, exemplified by Witbank Hospital's lack of medical specialists and nurses, with some positions having been vacant for up to five years. Consequently, the neonatal high-care unit remained non-operational for at least six years, leading to overcrowding, increased risks of infant mortality, nurse burnout and surgery backlogs of two to three months. We notified the accounting officer of a material irregularity relating to this. Although the accounting officer's formal response is pending, we received verbal confirmation during a briefing session that the department has taken steps to staff the unit and get it up and running. We have since confirmed that the unit has been staffed and is operational.

FINANCIAL HEALTH

Continued deficiencies in financial management and budget controls have led to persistent financial health issues, hampering service delivery across the province. Departments and entities continued to spend money that they did not have, and seven auditees (44%) had a combined deficit of R295 million. At year-end, departments had approximately R1,30 billion in unpaid expenses that will need to be covered by next year's budget, which will compromise future priorities.

Revenue-generating departments and entities are struggling to manage their debt and collect the money they are owed, hindering their ability to become self-sustaining and boost the strained provincial finances. Instead of pursuing revenue collection, they often write off revenue they consider uncollectable. For example, the safety, security and liaison department managed to collect only R651 million of billed revenue and wrote off

R1,24 billion. This led to the department receiving a qualified audit opinion because it could not provide supporting evidence for this write-off.

Approximately two-thirds (67%) of provincial revenue is deemed irrecoverable, with auditees taking an average of 210 days to collect the money they are owed. The Mpumalanga Regional Training Trust again disclosed financial sustainability uncertainties in its financial statements.

Claims against the province stand at R9,48 billion. More than three-quarters of these claims (R7,20 billion or 76%) are against the health department, due partly to medical negligence claims. Unbudgeted claims divert funds meant for service delivery, with the health department alone paying R99 million to claimants in 2022-23. This is money that could have been used to fill vacancies and improve healthcare services for citizens.

When monitoring controls are not institutionalised, it is difficult to ensure compliance with applicable laws and regulations. The province again found it difficult to prevent irregular expenditure from being incurred, with auditees racking up R1,63 billion in 2022-23, mainly due to non-compliance with procurement and contract management legislation. A further concern is the failure to investigate the increasing closing balance of irregular expenditure, which totalled R10,36 billion at year-end, so that consequences can be implemented and those responsible can be held accountable.

We are, however, encouraged by the proactiveness of some accounting officers in implementing consequences. For instance, at the Mpumalanga Tourism and Parks Agency, the accounting authority conducted a forensic investigation, initiated disciplinary action against implicated cashiers, and improved reconciliations between gate entrance records and collected fees. After the controls were improved, revenue increased from R13,80 million last year to R36 million in 2022-23. The agency also announced that, starting from 1 September 2023, it would be implementing a cashless services system at its nature reserves to prevent theft.

MATERIAL IRREGULARITIES

By 30 September 2023, we had notified accounting officers and authorities of 16 material irregularities with a total estimated financial loss of R489 million in the province. In 2022-23, we identified four material irregularities at the health department and premier's office, stemming from control weaknesses in financial management and from assets being underused. These material irregularities are at various stages in the process and accounting officers are making efforts to address some of them. However, the provincial leadership's response to these issues is not always sufficiently supported by credible information, which leads to delays in resolving the material irregularities.

We included recommendations in the audit report of the Mpumalanga Economic Growth Agency due to leadership's failure to address a material irregularity related to financial management controls in the government nutrition programme.

ACTIVATING THE ACCOUNTABILITY ECOSYSTEM

In response to the 2022-23 audit outcomes, executive council members for various departments, the premier and the speaker made commitments to improve audit outcomes by developing and implementing effective action plans, and by implementing our recommendations. We will follow up on the province's progress in implementing these commitments in the next audit cycle.

The premier specifically committed to the following:

- A culture of accountability will be entrenched at all provincial departments and agencies.
- Executive council members must review their in-year monitoring reports together with their audit action plans before submitting them to the provincial treasury. The reports must also be a standing item at all provincial management committee meetings convened by the director-general.

- Cabinet will be briefed monthly on the financial health of departments. This briefing must encompass progress reports on financial performance and indicate alignment with departmental performance plans.
- The treasury must continue to develop practical and effective audit action plans, monitor progress, and provide monthly progress reports.
- Accounting officers will be requested to formally commit to improving audit outcomes. This will be augmented by the practical implementation of the amended Public Audit Act in terms of which accounting officers will take personal responsibility for failing to align departmental expenditure to approved performance plans.

In addition, the speaker made the following commitments:

- District speakers will meet up once a quarter to report on the functionality of section 79 committees and monitor progress.
- The legislature will monitor the mandates of departments in their performance plans through quarterly engagements with portfolio committees.
- Material irregularities and the implementation of audit action plans will be standing items at portfolio committee meetings.
- Commitments on project timeframes will be part of house resolutions and the speaker will make sure that departments are accountable for their implementation plans.

While there has been some improvement in audit outcomes, much work remains for the province to achieve excellence. We urge the administration to bolster internal capacity in posts critical to service delivery, such as accounting officers and chief financial officers, and enforce consequences to support sustained audit improvements, accountability and quality service delivery.

We call on all stakeholders in the accountability ecosystem (officials, senior management, accounting officers, provincial leadership, governance structures, assurance providers such as internal audit, coordinating departments and oversight) to fulfil their roles effectively and to collaborate on sustainable solutions for the four critical areas we have highlighted throughout the administrative term.

This collective effort is crucial for fostering a culture of heightened accountability in government spending that is mirrored in the improved wellbeing of the people in the province.



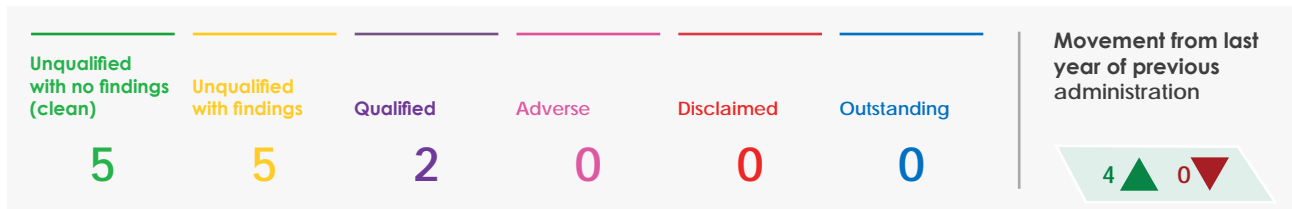
NORTHERN CAPE

Executive summary

Enhanced oversight with consequence management is required for sustainable improvement in service delivery

01 Introduction

02 Overall audit outcomes



03 Service delivery and financial performance

Our message in last year’s general report focused on the overall improvement since the start of the current administration, but we also highlighted our concerns around discipline and accountability for managing public funds. In 2022-23, the overall outcomes continued to improve and while this administration has made commendable strides, we have yet to see a culture of financial and performance reporting disciplines and of institutionalising preventative controls at some departments. We remain cautiously optimistic about the improvements over the past four years. However, some accounting officers had still not instilled a culture of producing good-quality financial statements (33% of departments made material adjustments to their financial statements after the audit) and did not regularly and attentively monitor post-audit action plans.

04 Material irregularities

action plans, regular reviews and reconciliations to produce credible financial statements and performance reports, as well as robust oversight throughout the year. Except for the cooperative governance, human settlements and traditional affairs department, all coordinating and oversight departments now have clean audits, and should work together to effectively support ailing departments and municipalities to improve their control environments. The departments of economic development and tourism and of social development attained clean audits because leadership created a strong internal control environment and ensured that previously reported key risk areas were addressed.

05 Call to action

There needs to be a clear focus on the departments of health and of agriculture. These two service delivery departments, which represent 33% of the provincial budget, once again received qualified audit opinions, mainly because they did not effectively manage consequences for wrongdoing, keep full and proper records, and adequately review financial and performance information. We continued to stress the need for intervention at these departments throughout the administrative term.

06 Provinces

AUDIT OUTCOMES

The coordinating departments (premier’s office and provincial treasury) maintained their clean audit status, while the provincial legislature improved to a clean audit. These results were due to the diligent implementation and monitoring of

Audit fact sheet

PERFORMANCE PLANNING, REPORTING AND ACHIEVEMENT

Departments use performance planning and reporting to achieve the objectives of economic growth, job creation and improved service delivery set out in the Medium-Term Strategic Framework. They do this by setting planned indicators and targets based on the framework to improve the lives of the people of South Africa.

However, budget spending is not aligned to actual service delivery, with the key service delivery departments (health; education; roads and public works; and cooperative governance, human settlements and traditional affairs) having spent almost all of their budgets (99%) while achieving, on average, a little over half of their targets (55%). This raises questions about the departments' ability to properly manage budgets, accruals (expenses incurred in a financial year but not yet paid by year-end) and infrastructure projects.

The education department spent 100% of its budget, but achieved only 56% of its targets. The department also excluded most of the mandatory framework indicators (for example, the number of learners achieving subject passes towards a matric qualification and the percentage of learners with access to required mathematics and English textbooks in grades 6 and 9) from its performance plan. When such critical priorities are not tracked, the quality of education is negatively affected.

Unreliable performance reporting is adding to the challenge of poor service delivery in the province. The fact that a third of departments managed to avoid material findings in their performance reports only because they corrected the material misstatements we identified during our audit, highlights the need for the premier's office to improve its monitoring and evaluation in this key area.

The departments of health and of transport, safety and liaison continued to struggle with performance management because they did not have proper record-keeping systems in place. Two other departments (agriculture; and cooperative governance, human settlements and traditional affairs) regressed in 2022-23 after we raised material findings on their performance information because senior management did not implement and monitor

proper systems for reporting reliably on new targets. The lack of reliable performance reporting hinders accounting officers' ability to make informed decisions about the resources needed for service delivery.

INFRASTRUCTURE

Adequate and well-maintained infrastructure assets are key for delivering good-quality services to communities. Yet, non-performing contractors and delayed progress payments had a significant impact on project timelines. For example, the health department has still not completed the Bankhara/Bodulong Clinic in Kuruman, which was initially planned to be completed in 2018 at an initial total project value of R19,80 million. The appointed contractors could not complete the project within the agreed timeframes and abandoned the site when the department did not pay them on time. This means that residents still do not have access to proper healthcare services and must visit the local mobile clinic, which poses hygiene challenges because it does not always have access to basic water services.

We found similar project management shortcomings at the education department. For example, the state-of-the-art Redirile Primary School in Kimberley, with a total project value of R187,66 million, had been delayed by over two years because construction work was left unprotected from the weather for long periods, which affected the quality of the concrete finishing. Learners thus had to attend neighbouring schools, which became overcrowded and did not provide a conducive learning environment.

The public works and roads department, as an implementing agent in the province, should be managing these infrastructure projects but is failing to execute on its mandate and is incurring irregular expenditure concerning the user departments. While the health and education departments do not have the skills required to manage the projects themselves, the public works and roads department does not have the capacity to assist them. To simplify accountability for these infrastructure projects, provincial leadership should capacitate the public works and roads department to deliver on its mandate, and move the budget for health and education projects to the department.

FINANCIAL HEALTH

The health department faced financial sustainability issues, largely due to spending pressures arising from service delivery demands and project delays causing significant overspending on projects. This could make it difficult for the department to meet its foreseeable payment and service delivery obligations. The department owed its suppliers R908,47 million at year-end, and will spend 18% of its budget for the next three years (excluding transfers and subsidies, and compensation of employees) paying these suppliers. This situation was made worse by medical negligence claims against the department, which came to R600,61 million in 2022-23.

The department's leadership, together with the operation clean audit committee, should carefully assess the risks relating to the claims lodged and paid out, and should formulate preventative controls using medical, legal and financial expertise to reduce avoidable losses. The department should also adhere to the principles outlined by government's ideal clinic programme to ensure the optimal functioning of clinics, thereby improving the quality of healthcare in the province.

Overall, compliance with legislation improved due to the three departments that progressed to clean audits over the administrative term. Despite this improvement, three departments did not prevent irregular expenditure over the same term. For the past four years, the departments of health (R3,84 billion), public works and roads (R3,60 billion), and education (R2,26 billion) repeatedly incurred the most irregular expenditure in the province.

These three departments did not address their continued supply chain management weaknesses, nor did they hold officials accountable to prevent irregular expenditure. Some departments also did not investigate irregular expenditure, which made it difficult for them to determine losses, assign responsibility and implement consequences. The lack of consequences over the years has ingrained a culture of disregard for the rule of law at all levels of staff, negatively affecting service delivery.

MATERIAL IRREGULARITIES

Since we began implementing our expanded mandate, we have issued 16 material irregularities linked to various instances of non-compliance in the province, with an estimated financial loss of R152,24 million. Fourteen of these irregularities have not been fully resolved. While we are seeing some traction, we are concerned that a number of accounting officers are not proactively responding to material irregularities. Their responses are often delayed, and we sometimes struggle to obtain information to support the responses we do receive. Executive authorities need to insist on progress updates to ensure that accounting officers are diligently and effectively implementing the actions to which they have committed.

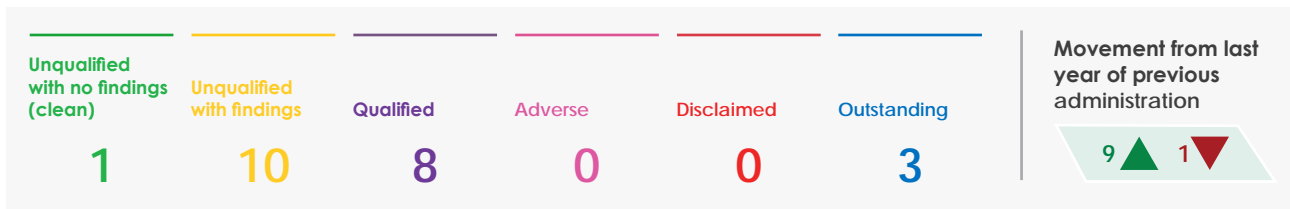
ACTIVATING THE ACCOUNTABILITY ECOSYSTEM

Although the provincial coordinating departments continued to lead by example, the key service delivery departments (especially health and agriculture) struggled to achieve the results required to improve the lives of residents. We call on the provincial treasury to focus the work of internal audit units on areas that will result in improved service delivery, such as infrastructure projects, and on making sure important service delivery matters are covered in departments' performance reports. Provincial oversight bodies need to increase their focus on the health and agriculture departments as their leadership seems unable to respond to the challenges their departments face and the action taken to date has had very limited impact.

The drive from the operation clean audit committee to move departments towards clean audit outcomes before the end of this administration's term contributed to the province having five auditees that have achieved this status, compared to two at the beginning of the term. While we encourage the committee to continue its efforts, we want to stress the importance of increasing the focus on service delivery. As recommended to provincial oversight bodies, the committee needs to shift its focus to struggling service delivery departments to have a more direct impact on the quality of life for the people of the Northern Cape.

NORTH WEST

Executive authorities to collaborate in driving the right culture and instilling a sense of duty towards improving service delivery



In line with our message from last year's general report, we urged provincial leadership to continue to prioritise strengthening financial and performance reporting disciplines to facilitate the preparation of dependable financial statements and performance reports. We also called on all key stakeholders to extend their support for the initiatives led by coordinating institutions and oversight structures with the aim of improving the lives of the people in the province. We further called upon coordinating departments and oversight structures to diligently monitor, support and strengthen governance. Additionally, we called on the premier to enhance the process aimed at holding responsible executives accountable for implementing corrective action.

AUDIT OUTCOMES

In response to our call to action, the premier specifically entered into performance agreements with all executive council members for the first time in 2022-23. These agreements are aligned with departments' functions and performance goals.

The overall provincial response has also been positive, as evident in five auditees improving their audit outcomes in 2022-23. In this regard, the departments of human settlements and of economic development, environment, conservation and tourism improved from qualified to unqualified audit opinions, while two entities (Golden Leopard Resorts and GL Resorts) improved from disclaimed to qualified audit opinions. The North West Development Corporation improved from an adverse to a qualified audit opinion. These changes reflect progress in enhancing financial reporting and performance. We are also encouraged that, for the first time since the start of this administration, there are no disclaimed audit opinions in the province. This is partly because Golden Leopard Resorts and GL Resorts improved their record management after a competent accounting authority was assigned by the provincial tourism board.

Notwithstanding these improvements, we remain concerned that the audit outcomes of the three critical service delivery departments (education,

health, and public works and roads) did not improve. There is also still much room to further enhance service delivery.

Similar to last year, 18 auditees (82%) submitted their financial statements on time, while 16 auditees (73%) submitted their performance reports on time. These key reporting instruments enabled oversight structures to play a critical role in overseeing performance by departments and public entities.

Regrettably, the Northwest Transport Investment (NTI) Group has not submitted its financial statements and performance reports to be audited for four consecutive years. We raised a material irregularity relating to the non-submission of the financial statements and the subsequent non-tabling of the annual report, as it hinders the oversight and accountability process and causes harm to institutions.

We acknowledge the provincial treasury's attempts to support the NTI but this has not yet resulted in any submissions. We will continue to address this lack of accountability and transparency within the group with the premier and the executive council members responsible for finance, community safety, and transport management.

PERFORMANCE PLANNING, REPORTING AND ACHIEVEMENT

We remain concerned that 82% of the auditees could not provide credible performance reports. The poor monitoring throughout the year contributes to auditees being unable to achieve their performance targets or reliably report on their performance, which ultimately affects service delivery negatively.

An example of weak in-year monitoring was evident at the human settlements department, which completed only 3 661 of 4 879 planned houses despite fully utilising the human settlements development grant. The department could not meet its target because the budgeted cost per house was significantly increased due to exorbitant geo-tech allowances. The escalation in the budgeted price per house resulted in fewer houses being constructed within the allocated budget.

To improve in this area, accounting officers and executive authorities must implement in-year monitoring controls to ensure that planned service delivery targets are met.

Residents heavily rely on the 308 primary healthcare clinics in the province for medical care, making it crucial for community health services. These clinics aim for an 'ideal clinic' status, which signifies compliance with key criteria such as the availability of emergency medication, clean facilities, and qualified personnel. This status is also pivotal for the implementation of government's National Health Insurance.

Though there has been some progress in reaching this goal, a comprehensive clinic development plan is needed to boost the rate from 66% to 100% by 31 March 2024. The Medium-Term Strategic Framework aims for 3 467 ideal clinics across the country by 2024, but the provincial health department's target remains at 60%, making it unlikely for the province to contribute to meeting this goal. The portfolio committee on health positively affirmed the recommendations made for the department to achieve the ideal clinic status.

INFRASTRUCTURE

Poor service delivery is directly linked to the failing infrastructure in the province. As an example, the education department's Loretlweng Primary School construction project in Ganyesa, with a budget of R47 million, was handed over to the public works and roads department for implementation. A contractor was appointed in 2016, but poor work quality led to the project being suspended and the contract being terminated. The project has been abandoned, and walls and roofing have collapsed, despite the department having paid the contractor over R12 million. This stems from the responsible departments not having the required capacity in their infrastructure divisions to ensure that projects are properly planned and monitored, that they are completed on time, and that contractors are only paid for good-quality work. The uncompleted project means that learners in the area do not have sufficient access to quality teaching and learning. We are currently assessing whether this poor contract management will result in a material irregularity.

The poorly maintained road infrastructure in the province affects economic activities and poses safety risks. The roads continue to deteriorate because of a growing maintenance backlog. We notified the accounting officer of the public works and roads department of a material irregularity as the department did not fully use the allocated grant.

To improve the lives of people in the province, accounting officers need to strengthen project management in key service delivery departments to ensure that they get the most value from the money they spend on infrastructure.

FINANCIAL HEALTH

The health department continued to overspend its budget because it has an organisational structure that is not fully funded. This resulted in unauthorised expenditure of R209,63 million, which meant that funds that could have been used for service delivery initiatives had to be used to cover operational costs. Medical negligence claims also remain a concern with 365 claims totalling R3,67 billion being active in 2022-23. However, only R62,70 million has been paid out for 10 cases. These unplanned payments contribute to the department's strained budget, further burdening the already overstretched system and scarce funds available for healthcare services. To improve service delivery, the department should rigorously monitor its finances and seek long-term solutions for budget issues to ensure that there are adequate resources for medical facilities and healthcare.

The financial position of public entities remains dire, despite interventions by the provincial treasury. For example, in the GLR Group, both Golden Leopard Resorts and GL Resorts had unapproved budgets, leading to irregular spending of R77,22 million. The North West Development Corporation relies on the provincial treasury for financial support due to poor revenue management, while the NTI Group is currently under business rescue. The GLR Group's financial challenges were so critical that it required a R24,70 million bailout from the provincial tourism board to cover salaries. We raised material irregularities at the GLR Group due to the accounting authority's failure to act in the entities' best interests. This highlights the need for strict financial oversight, robust revenue enhancements and stringent approval processes to maintain financial responsibility.

The province continued to flout procurement and contract management legislation, resulting in 16 auditees incurring a combined R3,74 billion in irregular expenditure in 2022-23, with the health, human settlements, and public works and roads departments accounting for R2,89 billion of this amount. The culture of non-compliance persisted due to a continued lack of consequences for transgressions. This ultimately results in an ever-growing irregular expenditure balance, which currently stands at R34,90 billion.

Accounting officers should be deliberate in promoting a culture of compliance and accountability and should focus on improving transparency. Addressing this issue will not only improve financial transparency and accountability but will also contribute to the effective and efficient use of public resources.

MATERIAL IRREGULARITIES

We continued to enforce accountability through our expanded mandate and have notified eight accounting officers and authorities of 34 material irregularities since we began implementing the material irregularity process. The impact has been positive. In response to these notifications, auditees in the province have recovered R90,37 million in financial losses, with an additional R237,13 million in the process of being recovered across four departments.

At the health department, where we previously issued a material irregularity on the Jouberton Community Health Centre, we saw critical positions being filled by February 2023, resulting in the theatre and crisis centre being fully operational by May 2023 after having been underused since September 2021. This facility has significantly improved healthcare access for the residents in the Klerksdorp area.

The material irregularity process has also led to internal controls being strengthened at seven auditees, with the education department successfully recovering R1,10 million in overpaid funds, implementing standardised procedures to prevent future overpayments on infrastructure projects, and providing comprehensive training to staff.

Despite these positive strides, accounting officers continue to respond slowly to our recommended corrective action, often due to instability at accounting officer level, unavailability of records to quantify financial losses, delays in internal and public body investigations, and protracted disciplinary proceedings. We urge the premier's forensic coordination unit to stay close to public bodies doing investigations to ensure that material irregularities are resolved quickly for greater impact. Auditees also need to invest in good preventative controls and focus on preventing material irregularities and further losses and harm.

ACTIVATING THE ACCOUNTABILITY ECOSYSTEM

The provincial treasury remains the only department in the province with a clean audit. Despite the treasury diligently evaluating departmental spending, certain departments continued to underspend on their infrastructure and conditional grant funding, which negatively affected service delivery. As part of the provincial executive leadership's ongoing commitment to ensure clean administration and improve audit outcomes, the coordinating institutions and the legislature have implemented initiatives to support auditees. The provincial treasury, through the province's clean audit programme, implemented entity-specific solutions to help identified departments improve their audit outcomes. One of these initiatives is payment population verifications and reviews of all tenders above R10 million to identify any potential non-

compliance early on. However, these initiatives have not yet yielded the desired results and require strong support from the relevant executive authorities.

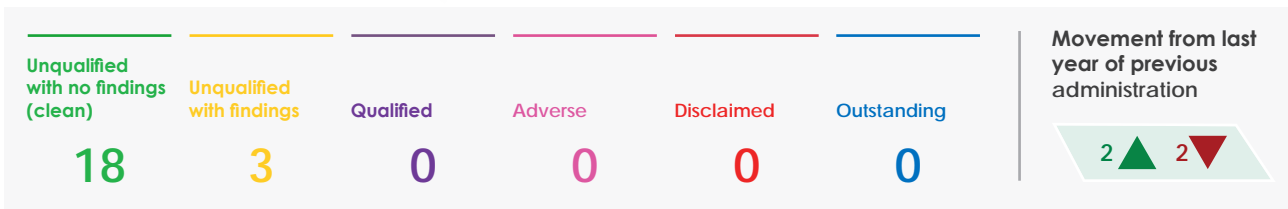
Audit committees and internal audit units should be intentional in their reviews of financial and performance reports as well as compliance with legislation. The provincial treasury should enhance its oversight of the quality of financial statements and performance reports. This oversight will ensure transparency and accuracy, which are essential components of effective governance and informed decision making.

To initiate meaningful change, coordinating institutions must provide unwavering support to accounting officers in their quest to thoroughly investigate unauthorised, irregular, and fruitless and wasteful expenditure. This collaborative effort extends to enforcing consequences for non-compliance and ensuring that accountability remains at the forefront.

The provincial executive council, executive authorities and accounting officers should deal decisively with infrastructure challenges to improve service delivery. They should collaborate in driving the right culture and instilling a sense of duty towards improving service delivery. In this regard, our dedication to partnering with all key stakeholders for enhanced governance and improved service delivery within the province remains unwavering.

WESTERN CAPE

Continue leveraging stable control environment and financial governance practices for greater impact on service delivery



The province’s outcomes for 2022-23 improved slightly, continuing to reflect the consistent positive pattern from prior years of a sustained and robust control environment supported by good financial governance practices.

AUDIT OUTCOMES

Eighteen auditees achieved clean audits, up from 17 last year. Two auditees also improved: Wesgro addressed its qualification on property, plant and equipment through appropriate reviews of the asset register to achieve an unqualified audit opinion with findings; while Casidra improved to a clean audit because it performed continuous reviews to ensure its reported performance information was reliable.

We attribute the consistent achievement of clean audit outcomes to the provincial government setting a strong tone of good governance and to the accounting officers and authorities driving a culture of accountability and striving to continuously improve the control environment.

The coordinating institutions (the departments of the premier, treasury and local government) continued

with their oversight and support roles through the corporate governance and review outlook processes, supported by robust oversight from audit committees. These ongoing interventions played a crucial role in sustaining the audit outcomes by institutionalising budgetary controls, monitoring monthly reports, and enforcing financial and performance management principles, including compliance with legislation.

All 21 auditees in the province submitted their financial statements on time and we raised no findings on the quality of the submissions. Since the start of this administration’s term, the province has improved slightly in the areas of performance information and procurement compliance. However, some instances of unreliable performance information and non-compliant procurement practices persist.

In the first year of the administration, four auditees received financially unqualified audit opinions with findings – the education department, Casidra, the Gambling and Racing Board, and Wesgro.

Executive summary

01 Introduction

02 Overall audit outcomes

03 Service delivery and financial performance

04 Material irregularities

05 Call to action

06 Provinces

Audit fact sheet

Despite some improvements in the controls over performance information, the education department received the same outcome in 2022-23. The department could not correct one indicator because different officials had to gather information from various sources and some officials did not fully understand how to review the accuracy and validity of the evidence supporting the reported achievement.

The human settlements department regressed from a clean audit in 2019-20 to an unqualified audit opinion with findings on performance information in 2022-23 because officials did not adequately confirm reported performance information against supporting documentation. Wesgro also remained in this category because it did not comply with procurement legislation or prevent irregular expenditure.

INFRASTRUCTURE

The four key service delivery departments (education, health, human settlements, and transport and public works) spent 96% of their combined R11,16 billion infrastructure budget.

In some areas, targets were met and budgets were spent. For example, the transport and public works department upgraded, refurbished and maintained 48 616 kilometres of roads against an annual target of 35 383 kilometres. The department has thus met 90% of its five-year target for this indicator over a four-year period and is on track to meet the remaining 10% by the end of 2023-24. The department's professional team, which includes management consulting service providers, effectively oversaw contractor performance on projects, and project managers actively monitored projects by participating in site meetings. The department also allocated most projects to contractors with a good track record of completing infrastructure projects. The department adheres to government's Infrastructure Delivery Management System for planning, budgeting, procuring, delivering, maintaining, operating, monitoring and evaluating infrastructure in the province.

The human settlements department was responsible for most of the underspending on infrastructure. This was due to significant delays caused by poor contractor performance, resulting in new contractors having to be appointed, as well

as delays in obtaining the relevant municipal approvals, including land acquisition and land use management applications needed before construction can start. The underspending and delays affected the delivery of housing units to citizens and contributed to the department completing only 5 380 of the 8 463 housing units it had planned for the year. Although the department successfully delivered some projects, capacity issues resulted in others not being managed properly.

A project that has experienced significant delays is the Kosovo housing project in Mitchells Plain, initiated in August 2019. By 31 March 2023, only 323 of the planned 434 houses (74%) had been handed over to beneficiaries. Delays were caused by approved top-structure and construction drawings being issued to the contractor late, no official being responsible for overseeing the external project manager, and the project manager not implementing quality control measures in line with project specifications. This ultimately resulted in poor-quality work, such as uneven floors at some of the housing units. These delays meant that citizens had to wait approximately 19 months longer to receive proper housing and that project costs increased by R16,70 million.

The newly established infrastructure department should focus on effective project management to ensure that projects are completed on time and within budget. We also call on provincial leadership to optimise their future planning on project delivery and to effectively use dedicated capabilities within the new department to support key service delivery departments in transitioning to manage their own projects. This will not only improve citizens' living conditions, but will also enhance their trust in government's ability to deliver on its promises.

The national Department of Health initiated the ideal clinic programme to systematically improve and correct deficiencies in primary healthcare clinics in the public sector. An 'ideal clinic' has adequate staff, medication, infrastructure, administrative processes and bulk supplies; uses applicable clinical policies, protocols and guidelines; and partners with stakeholders to provide high-quality health services to communities.

The provincial health department achieved ideal clinic status at 207 of its 256 healthcare facilities (80,9%) against a target of 79,1%. This

was made possible by leadership commitment and accountability, including a commitment to addressing audit findings and observations and to partnering with the external auditors to achieve a common vision.

The department is also able to attract and retain skilled individuals, resulting in key positions being stable – with some officials having been in their positions for more than 10 years. Chief executive officers at hospitals are mostly medical doctors and some are at the forefront of the country's health industry.

PERFORMANCE PLANNING, REPORTING AND ACHIEVEMENT

In 2022-23, only 19% of auditees had to correct material misstatements we identified in their performance information, compared to the 35% that had to do so in the administration's first year. This is because auditees responded to prior-year findings and management followed through on its commitment to produce useful and reliable performance information for decision making.

Auditees that submitted good-quality performance information did so largely by getting the basics right, including having enough skilled staff and clear standard operating procedures to guide officials. Consequences were also implemented when standards were not met, while regular reviews and monitoring were built into the performance reporting systems.

Because the health department's performance reporting systems are complex and decentralised, the department had to do more than just the basics to reliably report on its performance. The districts collaborated on an audit action plan after each audit, taking into account all past findings. The department strictly monitored a compliance monitoring checklist throughout the year to prevent regressions in areas previously addressed. It also has an ongoing project to digitise and computerise – and ultimately improve the retention of – supporting information. The department understands that performance information is not the responsibility of one individual or facility and has established collaboration between facility heads, clinicians, medical staff, clerks and officials involved in managing patient records.

FINANCIAL HEALTH

We commend the province for having incurred no unauthorised expenditure since the start of the administration's term. This was due to appropriate budgeting through yearly and adjustment budgets, combined with strict expenditure control processes that prevented overspending and contributed to stable financial health.

Irregular expenditure, while relatively low at R359,88 million (representing 0,4% of the total provincial budget) increased slightly from R329,99 million last year – provincial leadership and oversight bodies need to focus their efforts on preventing all such instances.

The main contributors to irregular expenditure were the departments of human settlements (R171,16 million) and education (R98,18 million), which together accounted for 75% of all irregular expenditure in the province. At these two departments, 96% of the irregular expenditure for 2022-23 related to non-compliance that occurred in prior years on multi-year contracts. Management at these two departments implemented additional monitoring controls in response to prior-year audit findings, thus reducing instances of non-compliance in 2022-23.

ACTIVATING THE ACCOUNTABILITY ECOSYSTEM

The province continued to respond well to our audit insights and took our previous year's call to action to heart, as can be seen from fewer compliance findings and better-quality information being submitted for auditing.

However, more should be done to maintain and improve the procurement processes and prevent irregular expenditure. This is specifically true for the human settlements department (which has now been incorporated into the newly formed infrastructure department) and the education department.

Provincial leadership should intensify their reviews of performance reports in line with the requirements of the performance management and reporting framework to ensure that auditees collect sufficient and relevant information to properly support their

reported performance. This will enable specifically the education department to improve its audit outcome.

Audit committees and internal audit units should continue to proactively review the effectiveness of audit action plans and the quality of information submitted for auditing. Audit committees, supported by internal audit units, should also continue to regularly engage with management, external auditors and others, as appropriate, to discuss the effectiveness of internal controls over financial reporting, performance reporting and compliance with legislation.

The provincial leadership committed to robust reviews of performance reports to assure their credibility and to ensure that indicators and targets are measured for the output and quality of services that are being delivered to citizens. We encourage the province to continue implementing corrective action in the areas where we have made recommendations based on our insights,

and to sustain and continue to promote a culture of good governance and sound controls, to which the provincial leadership pledged their continued commitment.

The provincial leadership further undertook to re-evaluate, strengthen and focus their role on the key sectors to be more efficient. They should also raise difficult questions and pursue answers from management when necessary. The citizen-centric culture driven by the premier and other key roleplayers in the accountability ecosystem, which includes engaging with citizens on various platforms, demonstrates commitment and action to improve service delivery to the people of the province. Focusing on the citizen rather than the processes will lead to improved service delivery.

We call on provincial leadership to pay special attention during strategic planning processes to ensure that performance indicators and targets are measured for the output and quality of services delivered to citizens.



Executive
summary

01
Introduction

02
Overall audit
outcomes

03
Service delivery and
financial performance

04
Material
irregularities

05
Call to
action

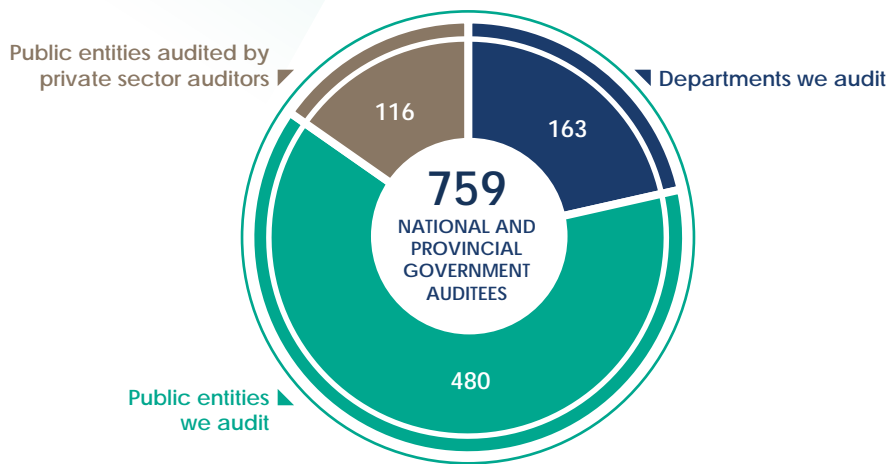
06
Provinces

Audit fact
sheet

AUDIT FACT SHEET

Executive summary
01 Introduction
02 Overall audit outcomes
03 Service delivery and financial performance
04 Material irregularities
05 Call to action
06 Provinces
Audit fact sheet

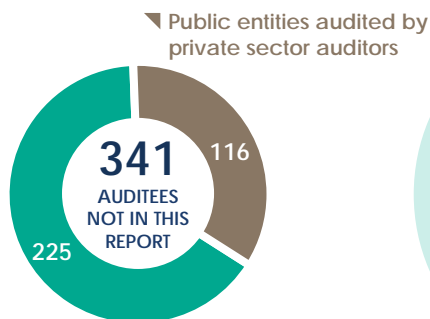
GOVERNMENT AUDITEES AND WHO AUDITS THEM



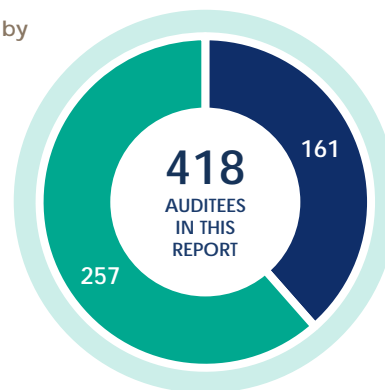
AUDITEES COVERED, AND NOT COVERED, IN THIS REPORT

Not included in this report

- ▼ **Dormant or small public entities** (audit outcomes available on our website) (205 auditees)
- ▼ **Auditees with different reporting cycle** (e.g. water boards) and **other public entities** (18 auditees)
- ▼ **Auditees in the secret service environment** (2 departments)



Included in this report



- ▼ **Departments**
National – 41
Provincial – 120
- ▼ **Public entities**
National – 206
Provincial – 51

NUMBERS AND PERCENTAGES ARE BASED ON

387 COMPLETED AUDITS

EXCEPT FOR:

Performance reporting	Unauthorised expenditure	Irregular expenditure	Fruitless and wasteful expenditure	Financial health (indicator assessment)	Assurance providers	Root causes	Consequence management
▼	▼	▼	▼	▼	▼	▼	▼
322	161	418	418	378	385	240	327
Auditees required to submit performance reports	Departments (including outstanding audits where financial statements were available)	Auditees (including outstanding audits where financial statements were available)	Auditees (including outstanding audits where financial statements were available)	Auditees assessed, excluding those with adverse or disclaimed audit opinions	Auditees, excluding auditees at which a reduced audit approach was applied	Auditees, excluding clean audits	Auditees, excluding auditees where consequence management was not audited

OVERALL BUDGET

Includes outstanding audits (where budget information was available)

193 HIGH-IMPACT AUDITEES

178 COMPLETED AUDITS

- ▶ **Auditees contributing to delivery of:**
 - Health services
 - Energy
 - Environmental sustainability
 - Financial sustainability
 - Infrastructure development
 - Safety and security
 - Skills development and employment
 - Water and sanitation
- ▶ **State-owned enterprises**
- ▶ **Other key public entities**

HOW WE SHOW MOVEMENT

Where we indicate improvement or regression in outcomes and findings, we compare the results of completed audits for 2022-23 to their results in 2021-22 (previous year) and 2018-19 (last year of previous administration)

- ▲ Improvement
- ▼ Regression

WHAT THE DIFFERENT AUDIT OPINIONS MEAN



A financially unqualified opinion with no findings (**clean audit**) means the auditee:

- produced quality financial statements free of material misstatements (in other words, errors or omissions that are so significant that they affect the credibility and reliability of the financial statements)
- produced quality performance reports that measure and report on performance in a manner that is useful and reliable
- complied with key legislation relating to financial and performance management.



A **financially unqualified opinion with findings** means the auditee was able to produce good-quality financial statements that had no material misstatements, but struggled to produce good-quality performance reports and/or to comply with all relevant key legislation.



A **financially qualified opinion with findings** means the auditee produced financial statements that contained material misstatements that were not corrected before the financial statements were published. The auditee also had challenges with the quality of its performance report and/or compliance with key legislation.



An **adverse opinion** with findings means that the auditee's financial statements included so many material misstatements that we disagreed with virtually all the amounts and disclosures included there.



A **disclaimed opinion** with findings means that we could not conclude or express an opinion on the credibility of the auditee's financial statements because there was no evidence to support most of the amounts and disclosures included there. Usually, auditees with adverse and disclaimed opinions also cannot provide supporting documents for the achievements they report in their performance reports, and do not comply with key legislation.





AUDITOR-GENERAL
SOUTH AFRICA

AUDITING TO BUILD PUBLIC CONFIDENCE

Physical Address: 4 Daventry Road
Lynnwood Manor
Pretoria, SA

Postal Address: PO Box 446,
Pretoria, 0001

Telephone: 012 426 8000
Fax to Email: 012 426 8257
Email: agsa@agsa.co.za
Website: www.agsa.co.za

RP371/2023
ISBN: 978-0-621-51608-1



Auditor-General of South Africa



@AuditorGen_SA



Auditor-General of South Africa

