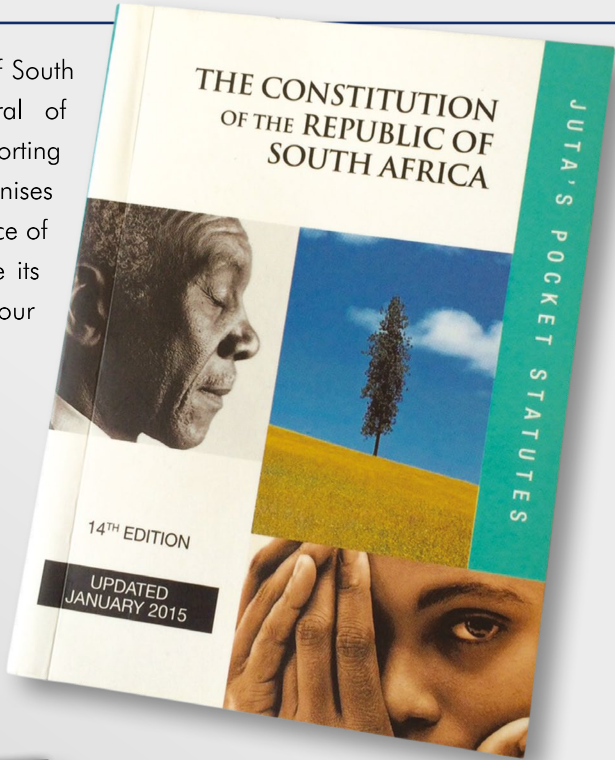
CITIZEN'S REPORT | PFMA 2019-20

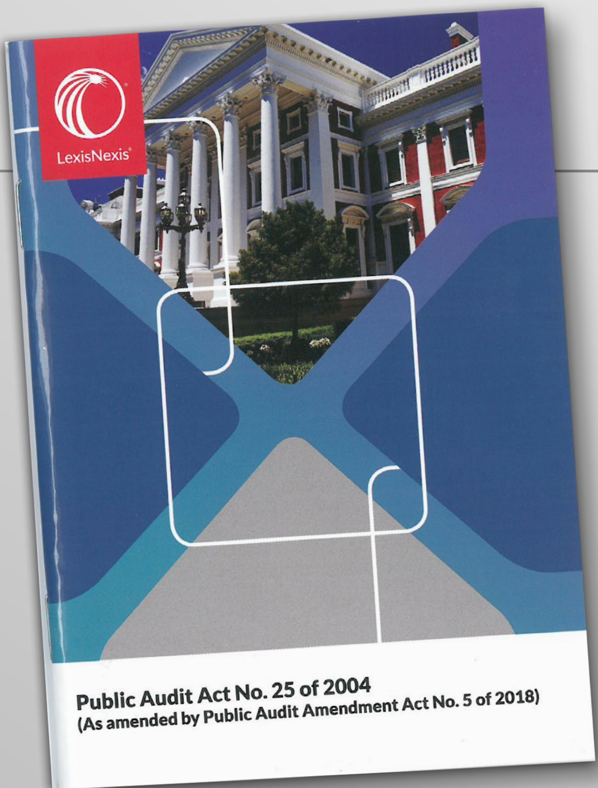
AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

CONSTITUTIONAL AND LEGISLATIVE MANDATE OF THE AGSA

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





The functions of the AGSA are described in section 188 of the constitution and further regulated in the Public Audit Act, 25 of 2004 (PAA) which mandates the AGSA to perform constitutional and other functions.

WHAT THIS REPORT IS ABOUT

Dear fellow citizen

This is a report to you, as a citizen of South Africa, from the Auditor-General of South Africa (AGSA).

The AGSA is the auditor of government and the purpose of this report is to share the insights we gained from our national and provincial audits in the 2019-20 financial year, when the budget for these two spheres of government totalled R1,7 trillion.

This money was collected from taxpayers and it was intended for programmes that improve the quality of life of citizens and support the most vulnerable members of our community. As such, it is in every citizen's best interest to know how responsibly the money was spent.

In this report, you can read about the highlights and lowlights of national and provincial government's spending for the year.

We start off by giving some context about the audit process and how it was affected by the covid-19 pandemic, which reached South Africa in March 2020 and was a constant, complicating presence throughout our subsequent audit.

Next, we move on to an overview of overall audit outcomes in national and provincial government, giving some key facts and figures about the overall state of financial discipline, levels of legal compliance and trends in irregular, unauthorised, and fruitless and wasteful expenditure.

We also take a closer look at auditees that stand out for the right reasons, such as the clean audits they received; and those noticed for the wrong reasons, such as the disclaimed audit opinions they received or other shortcomings such as the inability to practise consequence management when officials waste or misuse taxpayer funds.

After that, we give a breakdown of audit outcomes in each of the nine provinces.

This report would not be complete without an update on how we implemented our expanded mandate. Now in its second year of implementation, this expanded mandate gives the AGSA the authority to take action if accounting officers or authorities do not deal appropriately with material irregularities that we detect during our audits.

What can you do?

Some of the facts and figures in this report might make you wonder what you, as a citizen, can do to make sure government departments and public entities spend public money wisely. Turn to page 42 for some examples of what you can do to hold government to account for its spending.

This report only summarises the state of financial management in national and provincial government for 2019-20. For a more detailed view of the audit outcomes, you can find the full consolidated general report on the AGSA's website at www.agsa.co.za.

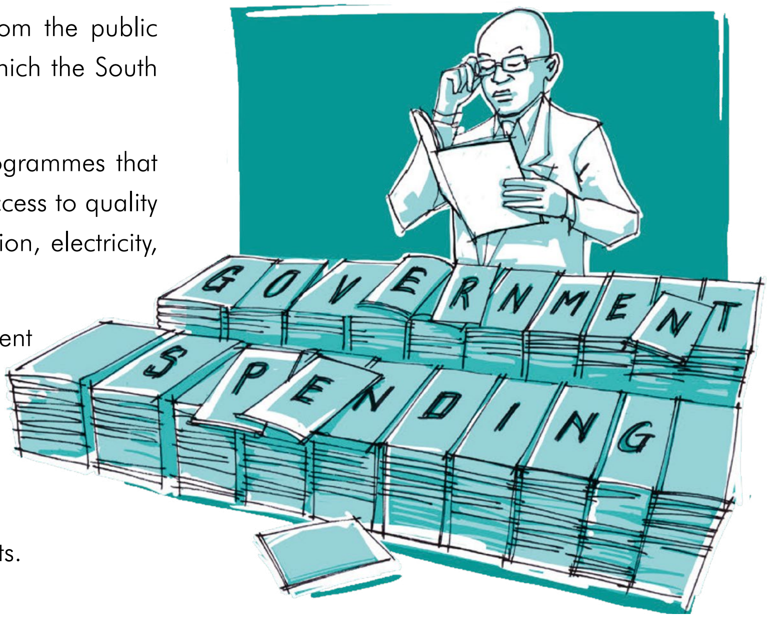
Thank you for your interest in the state of financial management in government.

Sincerely

Communication business unit

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

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



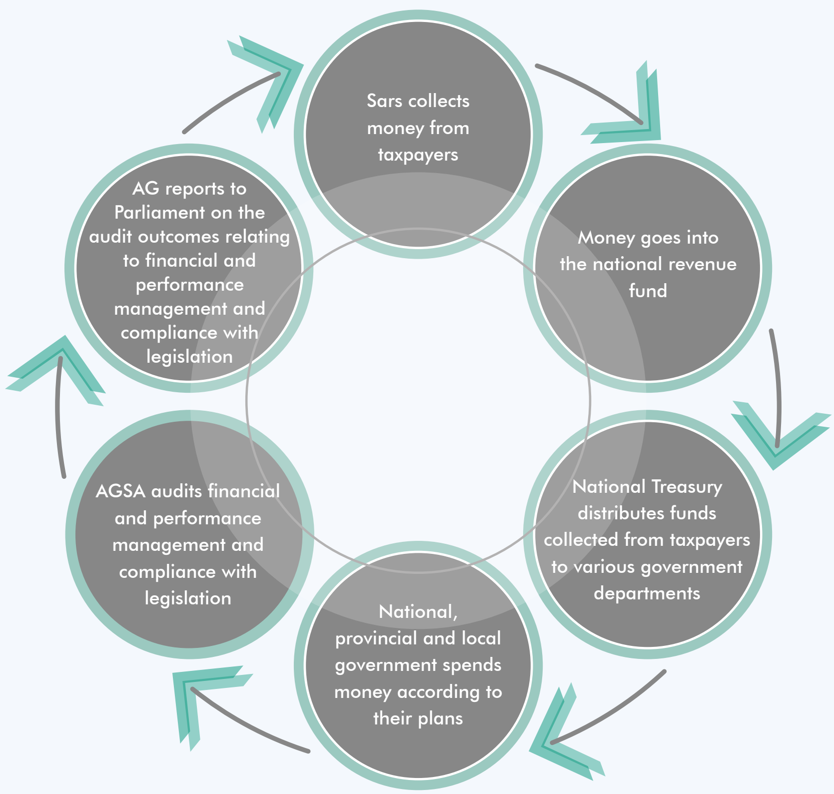
This tax money is intended to be spent on programmes that improve the quality of life of citizens through access to quality health services, education, clean water, sanitation, electricity, safe and reliable transport, and so on.

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

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

The following is a diagram that depicts where the money comes from and how it is spent, from the time Sars collects it from taxpayers to the time the AGSA audits and reports to Parliament on the performance information and compliance with legislation by government departments and public entities.

DIAGRAM 1



SECTION 1

THE ROLE OF THE AGSA

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

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

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

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

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

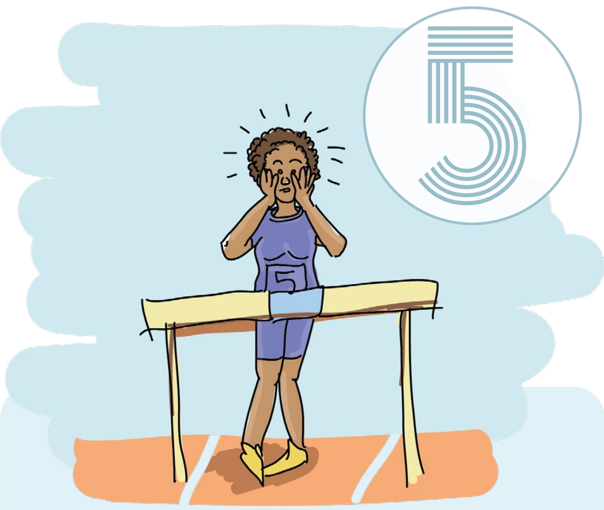
Here is a quick summary of the five audit opinions that the AGSA can give, from best to worst:

Financially unqualified opinion with no findings: the ideal – a clean audit – Everything has been done the way it should be. There are no material misstatements in the financial statements and the auditee has complied with the law and reported properly on its performance objectives. A clean audit means the money has been used ideally and for the intended purpose. A clean audit also confirms that those charged with service delivery have created a solid foundation for the delivery of, - service, and finances are unlikely to be the cause for delayed service where things are going wrong.

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

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

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



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

Then there is a sixth category, **'outstanding audits'**, where financial statements were either submitted too late for the AGSA to audit or were not submitted at all. This category is considered as bad as a disclaimer.

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Sometimes, as you will read later in this report, an audit might show that public money has not been spent the way it should have been or the spender has not provided proper proof of how the money was spent. When this happens, the AGSA points out the problems in an audit report. After reporting on the findings, someone has to take responsibility for acting on our findings and recommendations.

These are the responsible people:

Senior management, including the chief financial officer, chief information officer and head of supply chain management, who are responsible for implementing internal controls.

Accounting officers or accounting authorities: in a department, this would be the director-general; in a public entity, this would be the chief executive officer. Their responsibilities include ensuring that steps are taken against officials who misspend public money. This is called 'effecting consequences'.

Executive authorities (ministers and members of the executive councils (MECs)): they have oversight and monitoring responsibilities, which include managing the performance of accounting officers (head of the department or chief executive officer).

IN AS FAR AS GOVERNMENT SPENDING IS CONCERNED THE AGSA MAY DO THE FOLLOWING:

- Check all public spending yearly by conducting audits of government departments' financial statements.
- Based on our audit findings, we give an opinion on how well or poorly the department concerned fared in the three areas listed on page 10.
- In addition to this, based on the amendments made to the PAA, the auditor-genaral may now do the following:

  - Refer a suspected material irregularity (MI) to a public body with a mandate and powers that are suitable to investigate suspected MIs of that nature. Authorities with requisite investigative capacity and skills include the Public Protector, Special Investigations Unit, the Hawks and several others. The public body would deal with the matter within its own legal mandate and take appropriate action where necessary.

  Or

  - Make recommendations in the audit report on how an MI should be addressed, within a stipulated period of time. If these recommendations have not been implemented by the stipulated date, the AG must take binding remedial action; and if the MI involves a financial loss, issue a directive to the accounting officer or accounting authority to quantify and recover the loss from the responsible person.
  - If the accounting officer or accounting authority fails to implement the remedial action, including a directive to quantify and recover a financial loss, the AG must issue a certificate of debt in the name of the relevant accounting officer or members of an accounting authority. It is the responsibility of the relevant executive authority such as a minister, MEC or a municipal council, to recover the loss from the accounting officer or authority.

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

- Have all the facts and figures been included and are these correct and accurate? This is about making sure that the financial statements give a fair presentation of the department's finances and that there are no material misstatements. (A material misstatement means that important information is wrong or missing, which could mislead the user of the statements.)
- Did the department provide reliable and credible information on the things it was supposed to do during the year (known as performance objectives or pre-determined objectives)?
- Did the department comply with all the laws and regulations governing public finances? One of the most important of these laws is the PFMA, which sets out how departments must manage and report on their finances.

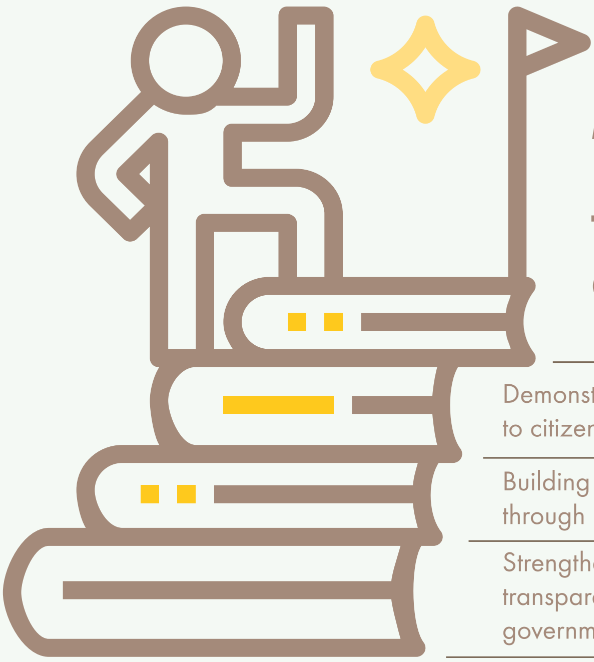
There are three kinds of problems that the auditors might flag about government spending. These are:

Unauthorised expenditure: spending that goes over budget or was not used for the purpose intended. This can be as a result of administration errors or accidents.

Irregular expenditure: spending that was incurred without complying with applicable legislation. This may be caused by procedures not being followed.

Fruitless and wasteful expenditure: pointless spending that could have been avoided. This can be simple things such as not paying suppliers in time and incurring interest.

HOW THE AGSA MAKES A DIFFERENCE



MAKING A DIFFERENCE TO THE LIVES OF CITIZENS

- Demonstrating ongoing relevance to citizens and other stakeholders
- Building a model organisation through leading by example
- Strengthening the accountability, transparency and integrity of government and public entities

SECTION 2

HOW COVID-19 CHANGED THE WAY WE AUDIT

A few days before the end of the 2019-20 financial year, South Africa went into a lockdown to curb the spread of the coronavirus. Like everyone else, the AGSA's plans were turned upside down and we had to adapt, and adapt fast.

First, our audit timetable changed. Normally, in step with the PFMA, we start the annual national and provincial government audits on 31 May and complete them on 31 July.

This time, in the midst of a pandemic, the finance minister gave our auditees two extra months to complete and submit their financial statements, until 31 July 2020. The legislated date for completing the annual audit was then moved to 30 September 2020.

Over and above this late start, we accepted the president of South Africa's instruction to do a real-time audit of government's covid-19 initiatives, which meant we were doing two very different and demanding audits at the same time.

We also changed the way we worked. Visiting our auditees' offices was not an option and we conducted our audits remotely, relying on technology and finding new ways of working in partnership with our auditees.

To their credit, 93% of auditees submitted their financial statements on time. We appreciate the support we received from our auditees and their leadership and applaud them for staying on course during this crisis.

WHO WE AUDITED

Overall, national and provincial government consists of 770 auditees.

The audit outcomes of 82 public entities audited by private auditors are not included in the analysis presented in the consolidated general report. Also not included were the outcomes of 65 dormant entities, two secret service auditees, one South African Revenue Service revenue account and 18 public entities with different reporting cycles.

We classified a further 175 public entities as small auditees. Although we audited them, we did not include them in our general report on the 2019-20 audit outcomes because of their size or the nature of their business.

The audit outcomes of another 44 auditees were still outstanding when we reached the cut-off date of 30 November 2020 for including outcomes in the general report.

This left a total of 383 completed audits that were included in the general report. Together, these auditees were responsible for an estimated expenditure budget of R1,5 trillion. This is 90% of the total national and provincial budget of R1,7 trillion for 2019-20.

In this citizen's report, we report on these 383 completed audits.

SIGNS OF IMPROVEMENT BUT IT IS TOO SOON TO CELEBRATE

For the previous five years, audit outcomes in national and provincial government declined steadily each year, reaching a low point towards the fifth year. In 2019-20, for the first time, our audits revealed small signs of improvement.

For example, 66 auditees improved their audit outcomes in 2019-20, while 35 auditees regressed and received worse audit outcomes than in the previous year.

When this is compared to the outcomes for 2018-19, when 54 auditees improved but 52 regressed, it becomes clear that audit outcomes were stagnating.

The relatively large gap between auditees with better outcomes and those who regressed in 2019-20 is an encouraging sign of progress. However, it is too soon to celebrate.

Consider the following statistics. While they show that small steps are being taken in the right direction, they also reveal how much work still needs to be done before we can say with confidence that government's financial management is on the mend:

Clean audits still very rare: There was a small increase (from 98 up to 111) in the number of auditees with clean audits – meaning they produced good-quality financial statements and credible performance reports and complied with key legislation.

Despite the improvement, the number of auditees with clean audits is still very low. Only 26% of provincial and national government auditees received clean audits in 2019-20.

What is more, auditees with clean audits represent only 17% of the total national expenditure budget, while auditees with modified audit opinions (qualified, adverse or disclaimed) account for 33% of the budget.

Unqualified audits increase – on the second attempt: There was also an improvement from 71% to 74% in auditees receiving unqualified audit opinions on their financial statements.

Again, this was an improvement; however, when auditees first submitted their financial statements to us, only 49% could give us financial statements without material misstatements. It was only when we pointed out these material misstatements and they were corrected that the number rose to 74%.

This position was similar for the quality of performance reporting. When auditees initially submitted their performance reports, only 39% gave us good-quality reports. This increased to 71% after the auditees corrected the misstatements.

Some auditees habitually rely on our annual audits to correct their mistakes. Examples are the national departments of Health, Labour, and Rural Development and Land Reform.

Compliance with legislation is better but not much: Non-compliance with key legislation such as the PFMA has been a major problem in government's finances for many years. The biggest problem areas have been the quality of financial statements, lack of action in dealing with unauthorised, irregular and fruitless, and wasteful expenditure, as well as shortcomings in procurement and contract management.

There was a slight improvement in compliance levels in 2019-20, when the percentage of compliant auditees edged up from 27% to 31%. This was mainly because of the relatively strong improvement in auditees submitting quality financial statements, which improved from only 58% to 50%.

We should not lose sight of the fact that the vast majority of auditees (69%) are still not complying with the laws governing public sector financial management and procurement.

Supply chain management (SCM) compliance is still very low: Non-compliance with SCM legislation is another big and persistent deficiency in national and provincial government. Although a slight improvement in compliance was recorded in 2019-20, it remains concerning that only 36% of auditees are complying fully. This is a very low rate and it is not surprising that uncompetitive and unfair procurement processes remain common.

Local content and government contracts: Two of the many SCM requirements that are being disregarded, despite the concerns we have raised year after year, have to do with local procurement and government employees doing business with the state.

In 2019-20, during our audit of local procurement, we found that only 40% of auditees were procuring certain commodities from local producers.

Since August 2016, the Public Service Regulations have prohibited government employees from doing business with government. In 2019-20, we identified 553 employees, compared to 530 in the previous year, who were contravening this prohibition.

Collectively, these 553 employees had been awarded government contracts – some before and some after August 2016 – to the value of R438 million.

More to irregular spending than meets the eye: In 2019-20, there was an apparent improvement in irregular spending, which is another major shortcoming in government's finances.

In their financial statements, auditees reported a decrease in irregular expenditure from R66,90 billion in the previous year to R54,34 billion. This may not be a true reflection of the situation and the actual irregular expenditure could be higher. The reason is that 31% of auditors either disclosed incomplete amounts or did not know the full extent of their irregular spending. (Turn to page 18 for more details of our findings on irregular expenditure.)

Fruitless and wasteful expenditure: more mixed results: Government cannot afford to lose money through poor decision-making, neglect or inefficiencies. The good news for 2019-20 was that fewer government departments spent money fruitlessly and wastefully, with the number dropping from 127 to 115. However, there was an increase in the amount incurred, from R0,87 billion to R0,89 billion.

Among state-owned enterprises (SOEs), the amount spent fruitlessly and wastefully decreased from R0,54 billion in the previous year to R0,35 billion, but more SOEs were incurring this expenditure than before (21 compared to 18 before).

At other public entities, the position was worse than in the previous year. Fruitless and wasteful expenditure increased from R0,96 billion to R1,14 billion. The number of public entities incurring this kind of expenditure remained the same at 98.

All in all, 231 auditees lost R2,39 billion in fruitless and wasteful expenditure in 2019-20. This brought the three-year total to R7,44 billion.

Turn to the next page to see who stood out in 2019-20 for their clean audits, exemplifying good financial management, credible performance reporting and compliance with legislation. Then turn the page again to find out who the worst performers were in irregular expenditure, unauthorised expenditure, and fruitless and wasteful expenditure.

CLEAN AUDITS

The 111 auditees that earned clean audits in 2019-20 consisted of 14 national departments, 23 provincial departments, 53 national public entities and 12 provincial public entities.

NATIONAL DEPARTMENTS	*NATIONAL PUBLIC ENTITIES*
Department of Planning, Monitoring and Evaluation	African Renaissance and International Cooperation Fund
Department of Public Service and Administration	Armaments Corporation of South Africa
Department of Science and Technology	Boland TVET College
Department of Social Development	Cape Town Community Housing Company
Department of Sport and Recreation South Africa	Companies and Intellectual Property Commission
Department of Telecommunications and Postal Services	Competition Commission
Department of Trade and Industry	Council for Scientific and Industrial Research
Department of Traditional Affairs	Cross-Border Road Transport Agency
Department of Economic Development	Deeds Registration Trading Account
Government Communications and Information System	Development Bank of Southern Africa
National School of Government	Ditsong: Museums of South Africa
Office of the Chief Justice	Driving Licence Card Account
Parliament of the Republic of South Africa	Elangeni TVET College
Public Service Commission	Esayidi TVET College
	Estate Agents Fidelity Fund
	False Bay TVET College
	Fibre Processing Manufacturing Sector Education and Training Authority
	Financial Intelligence Centre
	Financial Sector Conduct Authority
	Guardians Fund
	Human Sciences Research Council
	Independent Regulatory Board for Auditors
	International Trade Administration Commission
	Iziko Museums of South Africa
	Justice Administered Funds
	Legal Aid South Africa
	Media Development Diversity Agency
	Medical Research Council of South Africa
	Municipal Infrastructure Support Agency
	National Credit Regulator
	National Lottery Distribution Trust Fund
	National Research Foundation
	National Youth Development Agency
	Northlink TVET College
	Office of the Ombud for Financial Service Providers
	Office of the Pension Funds Adjudicator
	Office of the Valuer-General
	Private Security Industry Regulatory Authority

	Public Service Sector Education and Training Authority Quality Council for Trades and Occupations Road Accident Fund Small Enterprise Development Agency South Africa Diamond and Precious Metals Regulator South African Civil Aviation Authority South African Local Government Association South African Qualifications Authority South Cape TVET College Special Investigating Unit The Municipal Demarcation Board The Public Protector of South Africa Transport Education and Training Authority West Coast TVET College Western College for TVET

CLEAN AUDITS IN THE PROVINCES

EASTERN CAPE	DP	Provincial Treasury Safety and Liaison
	PE	Coega Development Corporation East London Industrial Development Zone Eastern Cape Development Corporation Eastern Cape Parks and Tourism Agency
FREE STATE	DP	Provincial Treasury
GAUTENG	DP	Community Safety Cooperative Governance and Traditional Affairs Economic Development Office of the Premier Provincial Legislature Provincial Treasury
	PE	Gautrain Management Agency
KWAZULU-NATAL	DP	Cooperative Governance and Traditional Affairs Provincial Treasury
	PE	Dube TradePort Corporation KwaZulu-Natal Housing Fund Traditional Levies and Trust Account
LIMPOPO	DP	Provincial Legislature Provincial Treasury Transport and Community Safety
	PE	Limpopo Gambling Board

MPUMALANGA	DP	Cooperative Governance and Traditional Affairs Provincial Legislature Provincial Treasury
NORTHERN CAPE	DP	Office of the Premier Provincial Treasury Social Development
NORTH WEST	DP	Provincial Treasury
WESTERN CAPE	DP	Community Safety Cultural Affairs and Sport Economic Development and Tourism Environmental Affairs and Development Planning Human Settlements Local Government Office of the Premier Provincial Parliament Provincial Treasury Social Development Transport and Public Works
	PE	Government Motor Transport Saldanha Bay IDZ Licencing Company Western Cape Nature Conservation Board

DP = DEPARTMENT PE = PUBLIC ENTITIY

IRREGULAR SPENDING: THE 10 POOREST PERFORMERS

All the entities listed in the table have incurred irregular expenditure for the past three years. The main reasons for the irregular spending were non-compliance with legislation on contracts or with procurement processes, such as failing to follow competitive bidding or quotation.

Who?	How much?	On what?
KwaZulu-Natal Transport	R5,47 billion disclosed 44% incurred in 2019-20	Bus subsidies
Department of Defence	R2,84 billion 100% incurred in 2019-20	Employee compensation
Gauteng health department	R2,32 billion disclosed 79% incurred in 2019-20	Consignment stock, security contracts, outsourced nursing staff, etc.
Gauteng roads and transport department	R2,17 billion 100% incurred in 2019-20	Bus contracts
KwaZulu-Natal education department	R1,58 billion 100% incurred in 2019-20	School feeding scheme
KwaZulu-Natal health department	R1,43 billion 100% incurred in 2019-20	Cleaning, security, catering and removal of medical waste
Passenger Rail Agency of South Africa	R1,33 billion 100% incurred in 2019-20	New railway signalling system in the Western Cape
North-West Community Safety and Transport Management	R1,29 billion 98% incurred in 2019-20	Scholar bus and commuter transport contracts
Limpopo cooperative governance, human settlements and traditional affairs department	R1,19 billion 100% incurred in 2019-20	Housing finance and human settlements projects
Limpopo Roads Agency	R1,17 billion 77% incurred in 2019-20	Road infrastructure projects
Total	**R20,79 billion**	

UNAUTHORISED SPENDING: THE 10 POOREST PERFORMERS

Unauthorised expenditure is a result of overspending of the budget. This increased from R1,65 billion in the previous year to R18,12 billion in 2019-20. The bulk of this (R15,13 billion) resulted from the early payment of the April 2020 social grants in response to the covid-19 lockdown measures.

Note that four of the 10 departments listed in the table have incurred unauthorised expenditure for the past three years. They are the education departments in the Eastern Cape, KwaZulu-Natal and the Free State as well as the Free State police, roads and transport department.

Who?	How much?	Where was the overspending?
Department of Social Development	R15,13 billion disclosed	Early payment of old-age and disability grants in response to covid-19
Eastern Cape education department	R0,99 billion	Programmes for public schools and public special schools
Eastern Cape health department	R0,60 billion	District health services and provincial and central hospital services
Department of International Relations and Cooperation	R0,25 billion	Employee costs
KwaZulu-Natal education department	R0,24 billion	Infrastructure development and programmes for public schools
North-West health department	R0,20 billion	District health and central hospital services, mainly to fill vacancies
Free State education department	R0,10 billion	Public school education programmes
Free State police, roads and transport department	R0,10 billion	Transport operations and regulations programmes
Free State health department	R0,08 billion	Emergency medical services and provincial and central hospital services or programmes
Total	**R17,78 billion**	**Legislature operations**

FRUITLESS AND WASTEFUL SPENDING: THE 10 POOREST PERFORMERS

Collectively, these 10 departments incurred R0,8 billion in fruitless and wasteful expenditure. This was 68% of the total amount spent fruitlessly or wastefully in 209-20. What is more, all but one – Gauteng Fleet Management – have incurred fruitless and wasteful expenditure for the past three years.

Who?	How much?	How was the money wasted?
South African Social Security Agency	R0,32 billion	Payments to suppliers for services not delivered
Department of Energy	R0,9 billion	Storage costs paid for goods not received within the contract period
Department of Basic Education	R0,08 billion	Infrastructure projects that were cancelled
Department of Tourism	R0,07 billion	Overpayments on expanded public works programme projects
Petroleum Oil and Gas Corporation	R0,05 billion	Interest and penalties due to SARS
Passenger Rail Agency of South Africa	R0,05 billion	Interest and penalties on late payments to suppliers and other creditors
Free State Development Corporation	R0,04 billion	Interest on overdue accounts
Department of Arts and Culture	R0,04 billion	Payments for substandard work on infrastructure projects that had to be redone
Department of Agriculture, Forestry and Fisheries	R0,03 billion	Payments for mobile veterinary clinics not delivered
Gauteng g-Fleet Management	R0,03 billion	Duplicate payments to various car manufacturers
Total	**R0,80 billion**	

POOR FINANCIAL HEALTH THREATENS SERVICE DELIVERY

Some of the auditees we audited are in alarming financial difficulties, including departments in the provinces responsible for delivering critical services such as basic education and health, and a number of key public entities.

An extremely worrying fact is that only 20% of the R1 553 billion expenditure budget for 2019-20 was in the hands of auditees in good financial health. The bulk of the budget (80%) was the responsibility of auditees under financial pressure.

Dipping into next year's budget to pay for today

Many departments are overspending on their budgets and dipping into their operational budgets for 2020-21 to cover their shortfalls. A total of 27 departments will have to use more than 10% of their budgets for 2020-21 for costs incurred in 2019-20.

Among them are:

- education department of the Free State, which had already spent 72,1% of its 2021-21 budget, the Eastern Cape (383% of next year's budget) and Northern Cape (31,5%)
- health departments in the Eastern Cape and Northern Cape, which had already spent 11,5% and 21,9%, respectively, of their 2020-21 budget
- national departments such as home affairs, which had already spent 33,5% of next year's budget, transport (66,8%), justice and constitutional development (38,1%) and water and sanitation (10,3%).

Claims against departments exceeded R105 billion

Unpaid claims against provincial and national departments soared to R147,12 billion in 2019-20. The most common claims are medical negligence claims against provincial health departments, which had claims against them totalling R105,83 billion.

This is a huge financial risk. Departments do not budget for such claims, which means that all successful claims must be paid from funds earmarked for other strategic priorities, including the delivery of services.

For departments with claims against them, a third had claims exceeding 10% of their next year's operational budget. For five health departments, the unpaid claims at year-end were more than the next year's entire operational budget. For example, claims against the Eastern Cape health department exceeded its budget by 459,90%.

The SOEs that are in serious financial trouble

South Africa has 20 SOEs that are partly or wholly owned by the state and are expected to achieve socioeconomic and commercial goals. We audit 14 of these SOEs and their subsidiaries adding up to 32 SOEs. A sizeable number of them are in serious financial trouble.

Two of the SOEs we audit, South African Airways and LMT Products (a subsidiary of Denel), are in business rescue and South African Express is in provisional liquidation. None of these three submitted financial statements for auditing in 2019-20.

In their financial statements, 10 other SOEs disclosed doubt about whether they will be able to continue as a going concern. They are the South African Broadcasting Corporation, the Petroleum Oil and Gas Corporation, Pelchem, the Independent Development Trust, the Land and Agricultural Development Bank of South Africa, the South African Nuclear Energy Corporation, Denel and three of its subsidiaries (Densecure, Denel Aerostructures and Denel Vehicle Systems).

We do not audit Eskom, which made a similar disclosure in its financial statements, underlining the scale of the financial woes of SOEs in South Africa.

Some public entities also in a crisis

Besides the major SOEs and their subsidiaries, South Africa has hundreds of other public entities, including constitutional institutions, regulators, government business enterprises, trading entities, public entities that are not profit driven and the technical and vocational education and training (TVET) colleges.

We completed audits for 208 of these public entities in 2019-20 and found that, overall, there has been a slight improvement in their financial health. In fact, 69% are in good financial health, slightly better than the previous year's 68%.

However, the exceptions are in a crisis, as the following figures illustrate:

- The financial health of 33 is of concern and 31 others require intervention. They include the Passenger Rail Agency of South Africa (PRASA), the Road Accident Fund and the South African National Roads Agency.
- Twenty-one public entities (10%) disclosed uncertainty over whether they will be able to continue as a going concern.
- Fifty-five public entities were spending more than they earned or received in funding, resulting in a total deficit of R64,95 billion. Ninety-two per cent of this deficit related to the Road Accident Fund.

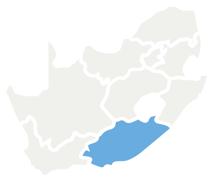
It should be clear from the types of services that SOEs and public entities provide that their potential failure would have enormous adverse consequences for the South African economy.

AUDIT OUTCOMES IN THE PROVINCES

Eight of the nine provinces succeeded in improving their audit outcomes in 2019-20, with the improvements ranging from slight to substantial. In one province (Gauteng) there was no movement from the previous year.

The following is a brief summary of the audit outcomes of the provinces, in alphabetical order.

Eastern Cape



The audit outcomes improved, with four auditees improving and only one regressing. As a result, the province had six clean audits, 12 financially unqualified audit opinions and three qualified opinions.

The improvements were due to the leadership implementing commitments and oversight being more involved and accountable, but preventative controls still need attention.

Overall, only 43% of auditees in the province had adequate internal controls. The poor control environment negatively affected the outcomes at the key service delivery departments of Health, Transport and Education. Transgressions of legislation at these departments had an adverse impact on how they spent the money allocated to them.

Levels of compliance with SCM legislation in the province were already low at 33%, and deteriorated to 29% in 2019-20.

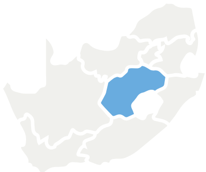
The most common areas of non-compliance with legislation were a failure to prevent irregular and fruitless and wasteful expenditure, as well as inadequate procurement and contract management.

Fruitless and wasteful expenditure amounted to R44 million, the main contributors to which were the departments of Health, Education and Rural Development and Agrarian Reform. Irregular expenditure amounted to R837 million, which is an improvement on the previous year's R982 million.

The unauthorised expenditure of the Eastern Cape is the highest of all the provinces at R1,59 billion. The biggest contributor was the health department with the unauthorised expenditure of R598 million. The department also paid R763 million in medical claims that were not budgeted for.

By year-end, the department still had R36,75 billion in unpaid medical claims – the highest of all national and provincial auditees.

Free State



Three auditees improved their audit outcomes and one regressed, and for the first time since 2016-17, the province produced a clean audit.

The other outcomes consisted of six unqualified audit opinions, seven qualified opinions and one disclaimed opinion received by the Free State Development Corporation, which was commercially insolvent at 30 June 2020. There was one outstanding audit, namely that of the human settlements department.

With more auditees improving than regressing, this was the second consecutive year of improvement in the province. However, a lack of accountability continued to result in pervasive non-compliance (especially around procurement) and deteriorating financial health.

The continued transgression of supply chain management prescripts was reflected in the significant amount of irregular expenditure incurred annually, totalling R3,181 billion in 2019-20. The biggest contributor was the police, roads and transport department, which incurred R1 billion in irregular expenditure.

At the health department, preventative controls were not in place to ensure that payments on infrastructure projects were only made for infrastructure assets actually received. The department investigated and identified significant overpayments on infrastructure projects, but these were not resolved or corrected as the full extent of the overpayments was still under investigation.

A culture of no consequences has been created through the political and administrative leadership's inability to implement consequence management for non-compliance with legislation. Therefore, the environment was vulnerable to misappropriation, wastage and the abuse of state funds.

It is only through the strengthening of the control environment and the implementation of preventative controls and consequence management that the province will be able to maintain its single clean audit and ensure that more auditees progress to a sustainable clean audit status.

Gauteng

Inadequate monitoring of preventative controls and insufficient consequence management resulted in the stagnation of the audit outcomes, with four auditees improving but also four regressing.

Overall, the province had seven clean audits, 12 unqualified audit opinions, two qualified opinions, one disclaimed opinion (the Gauteng Housing Fund), and one outstanding audit (the Gauteng Enterprise Propeller).

Encouragingly, the quality of the financial statements submitted for auditing improved. This can be attributed to regular reporting, adequate review, proper records management and the use of governance structures to assist with reviews.

On the other hand, compliance findings remained high and material non-compliance was reported at 68% of the auditees.

Non-compliance with supply chain prescripts remained a concern, with the resultant irregular expenditure increasing to R7,49 billion, with a closing balance of R36,6 billion.

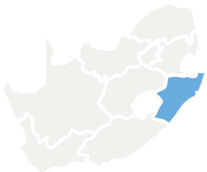
Fruitless and wasteful expenditure totalled R103 million, which was better than in the previous year. Notably, the province put in greater effort to deal with the closing balance of fruitless and wasteful expenditure through investigations. A similar effort should be extended to the high closing balance of irregular expenditure.

The financial health of the province improved, as 73% of the auditees reflected good financial health because they embraced prudent and efficient spending.

Evidence of the province's financial discipline is that no unauthorised expenditure was incurred. The health department, however, continued to be under financial strain due to unbudgeted medical claims amounting to R23,8 billion.

In order to improve audit outcomes sustainably, we again encourage leadership to focus on the monitoring of preventative controls and to ensure that transgressions are addressed through timely investigations and consequence management.

KwaZulu-Natal



The audit outcomes improved, with five auditees improving and only one regressing. As a result, the province had five clean audits, 16 unqualified audit opinions and two qualified opinions.

Progressive trends are visible in the province, but greater discipline is required in implementing basic preventative controls that will translate into sustainable improvements.

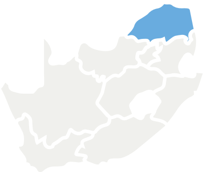
We found that 52% of auditees have good internal control environments. However, compliance with SCM prescripts remains poor at 22%. The most common SCM findings are procurement from suppliers without Sars tax clearance, bid documentation that fails to stipulate minimum local content requirements and failure to obtain three written quotations.

At R9,75 billion, the irregular expenditure of KwaZulu-Natal is the highest of all the provinces. Its closing balance of R44,55 billion is also the highest of all the provinces. A lack of consequence management continued to trigger the high levels of non-compliance and irregular expenditure.

Our assessment of the financial health reflected poor cash-flow management and budgeting, along with adverse key ratios at some departments and an increase in unauthorised expenditure, which amounted to R331 million. The three biggest contributors were the departments of Health, Education and Human Settlements.

Of concern are the medical claims at the health department, which increased from R20,1 billion to R23,4 billion, placing further pressure on the department's finances when these claims become payable.

Limpopo



There was a notable improvement in audit outcomes as auditees continued to enhance their control environment and the provincial treasury strengthened oversight. The audit outcomes of six auditees improved, with four auditees achieving clean audits.

Previously, only the provincial treasury received a clean audit. The three "newcomers" with clean audits were the Limpopo Gambling Board, the provincial legislature and the transport and community safety department.

There were also nine unqualified audit outcomes, two qualified outcomes, and four audit outcomes were outstanding (for Agriculture and Rural Development, Health, Public Works, Roads and Infrastructure, and the Office of the Premier).

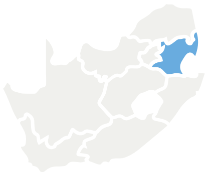
Despite the improvements in audit outcomes, compliance with laws and regulations remained a challenge. The administrative leadership and senior management were slow in implementing corrective actions to address shortcomings, resulting in repeat audit findings.

Irregular expenditure increased significantly from R2,8 billion to R3,4 billion. This was enabled by a lack of, or inadequate, corrective actions and consequence management for repetitive transgressions of laws and regulations, particularly those relating to procurement and contract management.

The status of financial health in the province remains concerning. Sixty per cent of the auditees showed a deficit for the year as their total expenditure exceeded their total revenue. Consequently, these auditees struggled to make payments within the good-practice period of 30 days, negatively affecting timely service delivery and the sustainability of small to medium businesses.

The provincial leadership must continue to strengthen preventative, detective and corrective controls at those auditees that have not achieved clean audits; and must intensify corrective actions and consequence management to deal with deficiencies and non-compliance in order to sustain and improve on these outcomes. We call on the administrative leadership, provincial treasury and provincial leadership to adopt a culture of zero tolerance against transgressions and take decisive action to hold the responsible officials accountable to recover any losses incurred.

Mpumalanga



The audit outcomes reflected a slight improvement as three auditees improved and one regressed. Overall, the province delivered three clean audits, 10 unqualified audits and three qualified audits.

Despite the improvements, preventative controls are still not embedded at most auditees, resulting in erratic audit outcomes. This is concerning and points to a lack of, or ineffective, preventative controls. Leadership involvement is required to drive accountability and improve audit outcomes, but most accounting officers and authorities did not stay true to the crucial responsibility of implementing a proper system of internal control.

We continued to raise concerns about weaknesses in controls around planning for infrastructure development and inadequate monitoring and/or project management controls. We recommend a more diligent, integrated and realistic approach when developing performance plans and assigning budgets. Attention should also be paid to ensuring that projects are delivered at the required quality and that payments are only made based on proof that work has been performed.

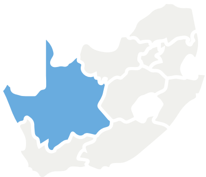
The poor state of controls contributed to a deterioration in the financial health of the province. Auditees committed and spent more than their available funds. Overall, 10 departments had already committed more than 10% of their budgets for the next three years.

Unauthorised expenditure increased to R56 million, all of which was incurred by the education department. Fruitless and wasteful expenditure stood at R9,9 million, which was an improvement on the previous year. Irregular expenditure, although lower than in 2018-19, amounted to R2,49 billion, with a closing balance of R11,32 billion.

When controls are not institutionalised, it is difficult to ensure compliance with applicable legislation. The province again found it challenging to prevent unauthorised, irregular, and fruitless and wasteful expenditure and has not yet dealt with its high balance of irregular expenditure as required by legislation, with little or no consequences.

Credible investigations into these types of expenditure should be undertaken, completed swiftly and should result in consequences being meted out against those found to be responsible.

Northern Cape



With two improvements and one regression, there was a slight improvement in audit outcomes. This is a step in the right direction for the Northern Cape, but the journey remains long and winding.

Overall, the province had three clean audits, five unqualified audit opinions and four qualified opinions, and one audit outcome was outstanding – the provincial legislature.

The Northern Cape continues to rely on the audit process to correct shortcomings in financial statements. More than half of the departments could not submit quality financial statements, which clearly indicates that the required key daily disciplines, record management and controls were not in place.

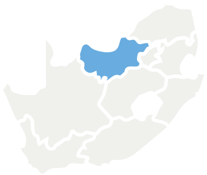
The financial health of the province continued to deteriorate. The health department – a major service delivery department – was in a particularly vulnerable financial position. In addition, the provincial departments of Education and Roads and Public Works experienced financial difficulties and may end up in the same position as Health if their leadership does not attend to the matters reported in their audit reports.

Complying with relevant laws and regulations remained a challenge in that 75% of the departments had material findings due to non-compliance with legislation – mainly as a result of non-adherence to procurement and contract management requirements.

Non-compliance with legislation has been a concern for a number of years and the executive and senior leadership continued to ignore the need to act decisively against transgressors, especially those who failed to comply with supply chain management prescripts. As a result, irregular expenditure increased to R1,44 billion and 99% of the prior year balance of irregular expenditure was not investigated for consequence management purposes.

Once again, we urge the provincial and administrative leadership to ensure that accounting officers strengthen preventative controls, with a focus on the prevention and detection of irregular expenditure.

North West



The province showed a slight improvement in audit outcomes, with two improvements and one regression. For the first time in two years, there was an increase in departments with financially unqualified opinions, which can be attributed to the implementation of effective action plans.

Overall, the province produced one clean audit (the provincial treasury), seven unqualified outcomes, six qualified outcomes and five disclaimers – the highest number of all the provinces. In addition, the audits of three auditees have not been completed, namely North West Transport Investments, North West Star and Atteridgeville Bus Services.

Overall, departments with financially unqualified opinions increased, as did the number of auditees with no findings on their performance reports. This is an encouraging trend, but there is a need to embed preventative controls and promote a culture of consequence management. Good preventative controls will address the poor quality of financial statements submitted for auditing and the repeat qualifications and disclaimers at most auditees.

The levels of irregular expenditure continued to be very high due to the culture of non-compliance created by the lack of investigations and consequences against those responsible. The irregular expenditure for the year was R4 billion and the cumulative balance of irregular expenditure stood at R27,2 billion.

A total of 95% of the auditees failed to comply with supply chain management legislation.

Overall, financial health regressed, with 32% of the auditees requiring intervention to remain viable.

As the leadership has not heeded our call to reassess the financial model of public entities, these auditees are relying on operational grants and are operating at a deficit.

The outstanding medical negligence claims against the health department amounted to R5,5 billion, which is more than 92% of the department's budget for the next year and will negatively affect its service delivery.

To improve financial health in the province, we reiterate our recommendation that the funding model of public entities be reassessed and that budgeting and financial management disciplines be instilled at all auditees.

Western Cape

There has been a solid and consistent pattern of good audit outcomes in the Western Cape, but the significant rise in irregular expenditure is of concern.

The Western Cape continued to produce the best results with 14 clean audits, representing 70% of auditees. There were also four unqualified audit opinions and one qualified audit opinion (agriculture department). One audit outcome, for the health department, was still outstanding.

Every auditee in the province submitted their annual financial statements on time for auditing and, except for a recurring matter on implementing agents at Agriculture, without requiring any material corrections.

This is a reflection of the institutionalised controls in the preparation of financial statements.

The financial health of the province showed that the principles of budget and expenditure management were sound and able to prevent any unauthorised expenditure and limit fruitless and wasteful expenditure – putting auditees in a position to surrender surplus voted funds back to the provincial revenue fund.

Irregular expenditure increased from R21 million in the previous year to R288 million.

The increase in irregular expenditure was due to non-compliance with supply chain management prescripts. The number of supply chain management findings also increased.

If not addressed, these could result in an increase in future irregular expenditure and a regression in audit outcomes.

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

ANNEXURES

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

- **Annexure 1**: Auditees' audit outcomes; areas qualified; and findings on predetermined objectives, non-compliance, specific risk areas and unauthorised, irregular as well as fruitless and wasteful expenditure
- **Annexure 2**: Auditees' financial health indicators, supply chain management findings and root causes
- **Annexure 3**: Auditees' audit opinions over the past five years
- **Annexure 4**: Assessment of auditees' key controls at the time of the audit (per audit outcome)

The QR code can also be scanned for easy access to the annexures .

SECTION 3

IMPLEMENTING OUR EXPANDED MANDATE

Ideally, the preventative controls in government should be so effective that it would be difficult to sidestep or manipulate them, and it should be easy to detect and deal with any attempts to do so. Furthermore, if an attempt to misuse public money were to actually succeed, the accounting officers or authorities concerned would act swiftly to recover the money and take the necessary action.

This is not the norm. Our 2019-20 audits yet again revealed widespread weaknesses in internal controls in national and provincial government. For example, only 8% of auditees had good information technology (IT) controls, only 25% had good controls to ensure compliance with legislation and only 42% had good recordkeeping controls.

We have also been reporting for many years that accounting officers and authorities are sometimes slow to respond to the recommendations in our audit reports, while some take no action at all.

That is beginning to change.

Strengthening the accountability mechanisms

On 1 April 2019, amendments to the Public Audit Act became effective, giving the AGSA an expanded mandate to go beyond auditing and reporting in an effort to strengthen the accountability mechanisms.

This expanded mandate deals specifically with material irregularities.

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

In the end, our expanded powers do not change the roles and responsibilities of the accounting officers and authorities, executive authorities and oversight bodies. For example, accounting officers and authorities have the responsibility to prevent irregularities and take action when it occurs. We only use our expanded mandate when we detected and reported on a material irregularity and no action has been taken.

If the accounting officer/authority does not appropriately deal with material irregularities, our expanded mandate allows us to:

Refer material irregularities to relevant public bodies for further investigation

Recommend actions to resolve material irregularities in audit report

Taking building remedial action for failure to implement recommendations

Issue certificate of debt for failure to implement remedial action if financial loss was involved

How the process works

When we identify a material irregularity, we notify the accounting officer or authority without delay. They then have 20 working days to give us a written submission and evidence on what they have done to address the material irregularity and what further action they are planning.

We assess these responses and come to a conclusion about the appropriateness of the actions taken or planned, as well as the outcomes. The key criterion of an appropriate action is that it should be in line with the legal obligations of the accounting officer or authority.

If we find the actions to be appropriate, we give the accounting officer or authority space to implement them. During the next audit cycle, we then follow up on the progress made.

If we conclude that an action is not appropriate, we include recommendations in the audit report on what the accounting officer or authority should do to address the material irregularity. A deadline for implementing these recommendations is also included.

If the material irregularity requires further investigation, we refer it to a public body to take this further.

It is important to note that a material irregularity is only fully resolved when:

- The loss (or further losses) is prevented and any losses already incurred have either been recovered or all possible steps have been taken to recover them.
- Appropriate steps have been taken against the person or party responsible for the loss.

Progress made

We have been implementing these expanded powers in phases, starting on 1 April 2019, when we conducted material irregularities audits at 16 national and provincial auditees. The second phase commenced on 1 April 2020.

By 28 February 2021, we had identified 75 material irregularities at 89 auditees. The estimated financial loss associated with these material irregularities was R6,9 billion.

We selected these 89 auditees for auditing because they covered 57% of the expenditure budget, 75% of the irregular expenditure incurred and 87% of the irregular expenditure balance.

Selected auditees	
Health sector National and provincial departments of health (10	**Human settlement sector** Provincial departments responsible for human settlements (9) National Home Builders Registration Council
Education sector National and provincial departments of Education (10) Department of Higher Education and Training National Student Financial Aid Scheme National Skills Fund	**Transport and public works sector** National and provincial departments responsible for transport and public works (16) South African National Roads Agency Roads Agency Limpopo Passenger Rail Agency of South Africa Property Management Trading Entity
Water portfolio Department of Water and Sanitation Water Trading Entity Water boards (9)	**Other national and provincial departments** Department of Defence Department of Cooperative Governance Department of Correctional Services National Treasury Agriculture, Rural Development, Land and Environmental Affairs (MP)
State-owned entities South African Broadcasting Corporation South African Post Office Trans-Caledon Tunnel Authority Airports Company South Africa Development Bank of Southern Africa Independent Development Trust Armaments Corporation of South Africa Denel and its subsidiaries (3) South African Express Airways South African Airways and its subsidiaries (4) Komatiland Forests	**Other national and provincial public entities** State Information Technology Agency Compensation Fund Free State Development Corporation Coega Development Corporation (EC)

All 75 of the material irregularities we dealt with in 2019-20 had to do with non-compliance with legislation. In most of these cases, money was lost as a result of payments that should not have been made.

The table below gives details.

Procurement	
Non-compliance in procurement processes resulting in **overpricing of goods and services procured** **27** MIs (14%) – **R983 million** estimated loss.	Non-compliance in procurement processes resulting in **appointed supplier not delivering** **2** MIs (32%) – **R2 221 million** estimated loss.

Expenditure management	
Payment for **goods or services not received** or **of poor quality** **24** MIs (21%) – **R1 447 million** estimated loss.	Invoices or claims **not paid on time** resulting in interest or penalties **11** MIs (2%) – **R151 million** estimated loss.

Revenue management	
Revenue **not billed** **2** MIs (10%) – **R666 million** estimated loss.	Debt **not recovered** **2** MIs (16%) – **R1 096 million** estimated loss.

Resource management	
Inefficiencies – no benefit derived from cost **6** MIs (4%) – **R285 million** estimated loss.	**Assets not safeguarded** resulting in loss **1** MIs (<1%) – **R1,5 million** estimated loss.

Where these material irregularities stand

Of the 75 material irregularities we had identified, we reported in detail on 45 in the audit reports of the auditees concerned – 35 in the previous year (2018-19) and 10 in 2019-20.

Status of 45 material irregularities reported

- **33** Accounting officer/authority is taking appropriate action
- **8** Recommendations included in audit report for accounting officer/authority action
- **3** Accounting officer/authority resolved material irregularity
- **1** Referral to public body for investigation

The following is some more detail on these 45 material irregularities:

- The 33 material irregularities where appropriate action is being taken are in various stages of resolution. Most of these are being dealt with diligently by the accounting officers or authorities.
- The three resolved material irregularities were at the Department of Water and Sanitation, the Gauteng health department and the Free State human settlements department.
  - o The Department of Water and Sanitation's internal risk management unit investigated the financial loss of R13,4 million. This was incurred when a water project was temporarily suspended after payments to the contractor were delayed and the contractor then charged for standing time and interest. The investigation, completed in August 2020, found that the payments were delayed because of insufficient funds at the time and that no officials could be held responsible.
  - o The material irregularity at the Gauteng health department concerned fruitless and wasteful expenditure of R8 million as a result of medical claims not paid within the period specified in court judgements. This resulted in interest being charged. The department's investigation, which was completed in August 2020, found that the payment delays were due to cash flow challenges. Therefore, no officials could be held responsible. However, the department is taking steps to deal with internal controls that were ineffective in monitoring medical claims received, processed and settled.
  - o At the Free State human settlements department, payments were made in 2018-19 to a contractor for houses not completed or of substandard quality. The department's security management and anti-corruption unit started investigating in July 2019 and identified the officials responsible. Disciplinary hearings were conducted in August 2019 and the officials were issued with written warnings. In September 2019, the contractor committed to rectifying the matter. This was carried out and houses were completed at no additional cost.
- The single material irregularity that we referred concerned a non-compliant medical waste collection tender that the Northern Cape health department issued in November 2018. The tender was awarded to a supplier based on criteria that differed from the original bidding criteria. We referred the matter to the National Treasury in October 2019 to investigate. National Treasury informed us in March 2021 that they will commence with the investigation.

Expanded powers are adding value

We have already seen great value from the implementation of the material irregularity process.

Our observation is that most accounting officers and authorities are taking appropriate action to address the material irregularities identified. Some had already started taking action by the time we formally notified them.

In following up on the progress with the material irregularities we reported on in the previous year, we also found that these were being actively worked on to resolve the material irregularities.

This signals a behavioural change towards responding decisively and in a timely manner to our findings. At some auditees, matters we have been reporting for several years are finally receiving attention.

However, at the end of the day, preventing material irregularities is more effective than having to deal with the consequences of correcting them when they have already taken place. Acting after the fact results in money lost, costly investigations being instituted and officials being subjected to the discomfort and anxieties associated with investigations – which often take a number of years to conclude.

All that is really needed is to put in place and enforce basic preventative controls.

The material irregularities resulting from supply chain management non-compliance are not complex accounting or procurement issues, and could easily have been prevented – or at least detected and dealt with – before they resulted in material financial losses.

As we continue on our journey to implement the material irregularity process, we hope to see a definite move towards the prevention of material irregularities to the benefit of the financial management, reputation and service delivery of our auditees – and ultimately the lives of the citizens they serve.

WHAT WE NEED TO FOCUS ON NOW

It should be clear that the signs of improvement we saw in 2019-20 are small, encouraging steps in the right direction, but they need to be seen in context. Government finances have, overall, been in a perilous condition for almost a decade and the slight improvements made recently will have to be accelerated significantly and sustained over time.

In the words of the auditor-general, Tsakane Maluleke, we do not "yet see the progressive and sustainable improvements required to prevent accountability failures and deal with them appropriately and consistently across national and provincial government".

What is needed to achieve sustainable improvements is a concerted effort across government to:

- ensure every official does their part to protect public money
- prevent leakages and recovery money that has been lost
- effect consequences swiftly, bravely and consistently where there are accountability failures.

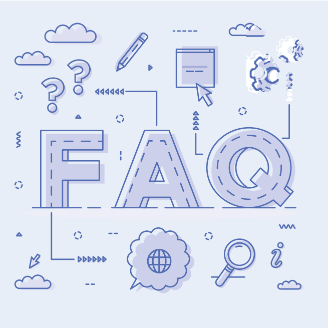
Furthermore, oversight, executive authorities and coordinating departments should be paying specific attention to SOEs, struggling public entities and the key service delivery departments such as Health and Education.

The inability of these auditees to sustain their operations and continue to deliver services will have – and is having – a significant impact on government finances and the lives of citizens.

Concerted action is needed urgently across all levels of government as there are concerning signs of worsening financial health among many auditees, with severe repercussions for government service delivery.

Let the small improvements made in 2019-20 not go to waste.

FREQUENTLY ASKED QUESTIONS



Q. What is the extended mandate of the AGSA?

A: The AG has the power to:

- refer material irregularities to the relevant bodies for further investigation in accordance with their mandate
- take binding remedial action for failure to implement the AG's recommendations regarding material irregularities.
- issue a certificate of debt for failure to implement the remedial action if financial loss was involved.

Q. What is a material irregularity?

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

Q. What process will be followed when material irregularities are identified during an audit?

A:

- Identify the MI during the 2018-19 audit.
- Notify the accounting officer or accounting authority (AO/AA) of the MI and provide 20 working days to respond on actions taken and planned (regulation 3(2)).
- Conclude based on AO/AA response whether appropriate action was taken or is planned.
- If actions were not appropriate, include recommendations in the audit report on how the MI should be addressed by a specific date (e.g. within six months) (regulation 4(3)).
- Follow up to determine whether the recommendations have been implemented. If not, issue notice for remedial action to the AO/AA, which must be implemented by a specific date (e.g. within three months) (regulation 9(1)).

Q. How will the referral process work?

A:

- Identify appropriate body and submit referral and supporting documents.
- Receive acknowledgement of receipt and an indication of whether referral is accepted, with a commencement date.
- Notify AO/AA and executive authority of referral.
- Receive progress updates from public body.
- Receive report on outcome of investigation.
- Public body publishes the report or findings.

Q. How long is the referral process?

A: The PAA does not prescribe specific timelines within which the public bodies must conduct the investigations referred to them by the AG. The duration of an investigation depends on a number of factors. Each investigation must be assessed on its own merits by considering, among others, the following: the nature and extent of allegations; scope of the investigation (i.e. if allegations relate to multiple periods); complexity of matters to be investigated; and availability of information and systems. Therefore, the duration of a referred investigation cannot be determined by following a blanket, one-size-fits-all approach.

Q. When does the AGSA issue remedial actions?

A: The remedial action is triggered by the lack of implementation of the recommendations included in the audit reports.

Q. What process will be followed when issuing a certificate of debt?

A:

- Determine financial loss if not determined or inaccurately determined by the AO/AA and notify the AO or individual members of the AA who had failed to implement remedial actions of the intent to issue a certificate of debt (CoD) and request written representation within 20 days.
- Receive written representation and assess whether the AG should continue with CoD.
- Notify the AO or individual members of the AA of the intent to issue a CoD and invite to make an oral presentation to the advisory committee (an external independent committee) by the stipulated date.
- Receive recommendations from advisory committee, consider the recommendations, make a decision and inform the AO or individual members of the AA accordingly.
- Serve CoD on the AO or individual members of the AA in a prescribed form, signed by AG, and present a copy thereof on executive authority, which should recover the debt and provide feedback on progress.

Q. What is the difference between a material irregularity and irregular expenditure?

A:

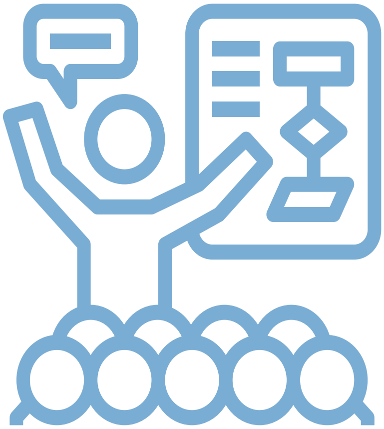
- Irregular expenditure is expenditure incurred in contravention of, or not in accordance with, a requirement of any applicable legislation.
- An MI is any non-compliance with, or contravention of legislation, fraud, theft or a breach of a fiduciary duty identified during an audit performed under the PAA which resulted in, or is likely to result in, a material financial loss, the misuse or loss of a material public resource or substantial harm to a public sector institution or the general public.

Q. Is the certificate of debt issued to the accounting officer for payment using public funds?

A: No, the amount on the certificate of debt will be paid by the AO in his/her personal capacity using his/her own funds. The money is paid to the state and will become available to spend on matters that benefit the public.

Q. What is the role of the minister after the certificate of debt has been issued to the accounting officer?

A: Section 5B(2) of the PAA provides that the responsible minister must collect the amount specified in the certificate of debt from the AO in terms of the applicable debt recovery processes. Therefore, the role of the minister is to collect the money and to keep the AG informed of the recovery progress. It is important to note that the responsible minister's efforts to collect the money will be monitored and reported to Parliament. This is done in the AGSA's general reports and annual reports. Regulation 20 of the MI Regulations deals in detail with the collection of the amount specified in the certificate of debt.



WAYS FOR CITIZENS TO PARTICIPATE ACTIVELY

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

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

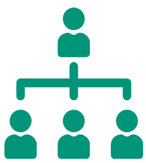
Here are a few suggestions about what you can do:

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

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

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

Participate at local government level by attending ward committee meetings.



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

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

PRODUCTS OF THE AGSA

The AGSA annually produces audit reports on all government departments, public entities, municipalities and municipal entities.

Over and above these entity specific reports, the audit outcomes are analysed in the general reports that cover both the Public Finance Management Act (PFMA) and Municipal Finance Management Act (MFMA) cycles.

The AGSA tables reports to the legislature with a direct interest in the audit, namely Parliament, provincial legislature or municipal councils. The reports are then used in accordance with their own rules and procedures for oversight.

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

CONTACT INFORMATION

HEAD OFFICE

Physical address
4 Daventry Street
Lynnwood Bridge Office Park
Lynnwood Manor
Pretoria
South Africa

Postal address
PO Box 446
Pretoria
South Africa
0001

Telephone: +27(0)12-426-8000
Fax: +27(0)12-426-8257

General Information
agsa@agsa.co.za

www.agsa.co.za
@AuditorGen_SA
Auditor-General of South Africa
Auditor-General of South Africa