CONSOLIDATED GENERAL REPORT

on national and provincial audit outcomes

PFMA

2019-20

AUDITOR-GENERAL
SOUTH AFRICA

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

PFMA
2019-20

CONSOLIDATED
GENERAL REPORT ON NATIONAL AND PROVINCIAL AUDIT OUTCOMES

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

This report also highlights the advances we have made in implementing our enhanced mandate in terms of the Public Audit Act as well as the material irregularities identified and the progress made towards their resolution in accordance with the relevant laws and regulations.

The impact of the covid-19 outbreak has been felt by all. We faced these challenges head-on and found new ways to work in collaboration with our auditees.

I wish to thank the audit teams from my office and the audit firms that assisted with the auditing of national and provincial government for their diligent efforts towards fulfilling our constitutional mandate and the manner in which they continue to strengthen cooperation with the leadership of government.

TMaluleke 31/03/2021

Tsakani Maluleke
Auditor-General

Our reputation promise/mission

The Auditor-General of South Africa has a constitutional mandate and, as the supreme audit institution (SAI) of South Africa, exists to strengthen our country's democracy by enabling oversight, accountability and governance in the public sector through auditing, thereby building public confidence.

PERFORMANCE SNAPSHOT

OVERALL AUDIT OUTCOMES

OVERALL IMPROVEMENT IN AUDIT OUTCOMES

66 Improved
35 Regressed

DEPARTMENTS

30 Improved
10 Regressed

PUBLIC ENTITIES

36 Improved
25 Regressed

Outstanding audits

The audits of **44** auditees had not been finalised by 30 November 2020

Clean audits

26% (2018-19: 23%)

Quality financial statements

74% (2018-19: 71%)

49% (187)
Auditees submitted financial statements without material misstatements

No findings on performance reports

71% (2018-19: 60%)

77% (243)
Achievement reported not reliable

No findings on compliance with legislation

69% (2018-19: 73%)

Unauthorised, irregular, and fruitless and wasteful expenditure (UIFW)

The figures for UIFW are inclusive of outstanding audits

Irregular expenditure
R54,34 billion
(2018-19: R66,90 billion)

Unauthorised expenditure
R18,12 billion
(2018-19: R1,65 billion)

Fruitless and wasteful expenditure
R2,39 billion
(2018-19: R2,36 billion)

MATERIAL IRREGULARITIES (MIs)

By 28 February 2021, we had notified accounting officers and authorities of **75** MIs.
R6 851 067 257 estimated financial loss

Nature of material irregularities

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** MI (< 1%) – **R1,5 million** estimated loss

FINANCIAL HEALTH

Deficit (expenditure exceeded revenue)	Unpaid claims – departments	Cash shortfall – departments	Average creditor – payment period
R92,77 billion 33% (117)	147,12 billion 87% (129)	R16,67 billion 63% (94)	48 days

VULNERABLE FINANCIAL POSITION

Departments	State-owned entities	Other public entities
9% (14)	36% (5)	10% (21)

STATUS OF CONTROLS

50%	49%	43%
Overall internal controls	Leadership	Basic financial and performance management

STATE-OWNED ENTITIES (AUDITED BY AGSA AND AUDIT FIRMS)

	2019-20	MOVEMENT
Quality of published financial statements	70% (7)	►
Quality of published performance reports	89% (8)	▲
Compliance with legislation	30% (3)	▲
Irregular expenditure	R68 bn	▼

Outstanding audits

Independent Development Trust
Land and Agricultural Development Bank of South Africa
South African Nuclear Energy Corporation
South African Post Office
Denel
South African Airways
South African Express Airways
South African Forestry Company
Trans-Caledon Tunnel Authority
Alexkor (audited by audit firm)

ROOT CAUSES

89% ▼
Slow/no response in improving internal controls and addressing risk areas

SLOW RESPONSE – 95%
NO RESPONSE – 5%

34% ▲
Inadequate consequences for poor performance and transgressions

39% ▼
Instability or vacancies in key positions or key officials lacking appropriate competencies

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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

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.

CLEAN AUDITS 2019-20

Unqualified financial statements with no material findings on the quality of the performance report or compliance with key legislation

NATIONAL

DEPARTMENTS

Department of Planning, Monitoring and Evaluation
Department of Public Service and Administration
Department of Science and Technology
Department of Social Development
Department of Sport and Recreation South Africa
Department of Telecommunications and Postal Services
Department of Trade and Industry
Department of Traditional Affairs
Department of Economic Development
Government Communications and Information System
National School of Government
Office of the Chief Justice
Parliament of the Republic of South Africa
Public Service Commission

PUBLIC ENTITIES

African Renaissance and International Cooperation Fund
Armaments Corporation of South Africa
Boland TVET College
Cape Town Community Housing Company
Companies and Intellectual Property Commission
Competition Commission
Council for Scientific and Industrial Research
Cross-Border Road Transport Agency
Deeds Registration Trading Account
Development Bank of Southern Africa
Ditsong: Museums of South Africa
Driving Licence Card Account
Elangeni TVET College
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 African 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

PROVINCIAL

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

DP = DEPARTMENT   PE = PUBLIC ENTITY

NOTES

SECTION 1

Executive summary

1 EXECUTIVE SUMMARY

As the financial year for national and provincial government drew to a close towards the end of March 2020, the country was hit by the covid-19 pandemic, which had a significant impact on the ability of auditees to submit their annual financial statements by the legislated date. The concession granted by the finance minister to submit financial statements two months later, together with the challenges of auditing during a crisis, delayed the finalisation of the audit reports. During this time, we also tabled two special reports on the financial management of government's covid-19 initiatives.

Our message to the new administration that took office in 2019, as contained in the previous general report, the special reports and through our engagements, was a call to action to strengthen accountability through preventing accountability failures and ensuring consequence management. The theme of the previous general report was *Act now on accountability*.

In these reports we highlighted that:

- **Sustainable solutions are required to prevent accountability failures**. It is more effective to invest in preventative controls and measures than to deal with the impact of accountability failures, such as financial loss, fraud and corruption, the misuse of public resources, and poor service delivery.

  We emphasised that in some areas a 'quick fix' will not turn the situation around. Some problems are deep-rooted and will require attention from the centre. For example, a well-considered, coordinated and centralised approach is needed to address legacy issues in the public sector's information technology environment. Another example that will require a sustainable solution relates to ineffective government projects and programmes because of poor planning, execution without oversight and lack of coordination across government, fuelled by poor intergovernmental relations.

- **There must be consequences for accountability failures.** Over the past few years, we emphasised the need to create an environment where transgressions and poor performance are dealt with appropriately to set the standards for the public service and act as a deterrent to wrongdoing. In 2019, we started to implement the material irregularity process and we highlighted the value and importance of supporting this process to strengthen accountability mechanisms. Our special reports also called for swift action to deal with the potential fraud and abuse we identified.

- **Improving the financial management of auditees should be a priority** – a recurring theme in our messages has been that paying attention to the basics will strengthen the ability of auditees to deliver services in the most effective, efficient and economical manner – especially in this time when resources are limited. This continues to be the central challenge in national and provincial government.

- **There are opportunities for progressive and sustainable change** – this was evident from the enthusiasm and commitment displayed in the interactions we had with the new administration and how positively they reacted to our messages in the general and special reports. We were particularly encouraged by the manner in which accounting officers and executive authorities reacted to the material irregularities and the covid-19 audit findings we reported to them and by oversight bodies' commitment to preventative and impactful oversight.

The year 2020 was a difficult one for auditing. The covid-19 pandemic and resultant lockdown measures had a significant impact on our auditees and on our audits. We had to adapt to working remotely – technology has been of great value and we found new ways of working in partnership with our auditees. In this time, we also balanced the 2019-20 regularity audits with the real-time audits of the covid-19 initiatives. We had to be agile and adaptable, prioritise and be resilient to deliver our audit reports with the rigour and quality we always do. We appreciate the support of our auditees and their leadership and applaud them for keeping on course in these difficult times – with 93% submitting their financial statements on time.

Our overall observation based on the audit outcomes is that there are signs of improvement at some auditees, but we cannot yet see the progressive and sustainable improvements required to prevent accountability failures and deal with them appropriately and consistently across national and provincial government. We also do not see the fundamentals being strengthened to enable strong financial management disciplines at all auditees. Hence, the theme of this general report is ***A continued call to act on accountability.***

We now reflect on the content of this general report, namely the overall audit outcomes, financial management, material irregularities and key issues affecting provincial government, all of which we cover in detail in the rest of the report.

OVERALL AUDIT OUTCOMES

Our audits show the beginning of improvements in audit outcomes, albeit still very limited. The outcomes were as follows:

1. Overall, **audit outcomes improved** with 66 auditees improving and 35 regressing. The main reasons for improvements were:
    - Vacant key management positions were filled – most notably those of accounting officers and chief financial officers. We have often observed that stability in key positions has been a driver of improving poor audit outcomes and maintaining good audit outcomes.
    - Accounting officers and senior management were committed and got directly involved to ensure improvements in internal control processes and the implementation of our recommendations.
    - Internal controls improved – including the implementation of preventative controls.

2. In total, 111 of the auditees (26%) managed to produce quality financial statements and performance reports and to comply with key legislation, thereby receiving a **clean audit**. This is a slight improvement from the 98 (23%) in the previous year. These auditees represent 17% of the expenditure budget of R1 706 billion managed by national and provincial government. The total expenditure budget comprises the operating and capital expenditure budgets of the departments and public entities as included in their financial statements.

3. Countrywide, 74% of the auditees received unqualified audit opinions on their **financial statements**, a slight improvement from 71% in the previous year. The number of auditees that submitted quality financial statements increased – 49% of the auditees could give us financial statements without misstatements, but this figure is still very low. The auditees with modified audit opinions (in other words, qualified, disclaimed and adverse) are responsible for 33% of the expenditure budget.

4. The quality of **performance reporting** showed an improvement, with 71% of the auditees now publishing credible reports compared to 60% in the previous year. However, the quality of the performance reports submitted for auditing remained poor (only 39% submitted good-quality reports) and even after auditees corrected the misstatements we identified, we reported material findings on 29% of the performance reports.

5. Overall, 69% of the **auditees materially did not comply with legislation.** This outcome is only slightly better than the 73% of the previous year.

6. **Compliance with supply chain management legislation slightly improved** from the previous year. It remains concerning that only 36% of the auditees are fully complying. This is in spite of all the reporting we have done in this area, the red flags we have raised and the many recommendations we have made. Uncompetitive and unfair procurement processes and inadequate contract management remain common.

    We identified non-compliance with the legislation requiring auditees to procure certain commodities from local producers at 40% of the auditees where we audited this area, which could result in government not achieving the objectives of this initiative.

    There had been little action in addressing the concerns we have raised year after year about contracts being awarded to employees and their families without the necessary declarations of interest. We also found little action being taken to ensure compliance with the Public Service Regulations that prohibits employees of departments from doing business with the state from 1 August 2016.

7. **Irregular expenditure reported in the financial statements decreased to R54,34 billion** from the R66,90 billion in the previous year. It includes the irregular expenditure (R7,71 billion) of those auditees for which the audits were completed after the cut-off date for inclusion in this report (30 November 2020) as well as the unaudited amounts disclosed in the financial statements of the auditees whose audits were still outstanding by the date of this report.

    The amount could be higher, however, as 31% of the auditees were qualified because the amount disclosed was incomplete and/or they disclosed that they had incurred irregular expenditure but the full amount was not known. If the full irregular expenditure had been disclosed, the irregular expenditure amount would not have been lower than in the previous year. In addition, we could not audit R2,08 billion worth of contracts due to missing or incomplete information.

    Auditees have a **poor track record in dealing with irregular expenditure** and ensuring accountability. The year-end balance of irregular expenditure that had accumulated over many years and had not been dealt with (through recovery, condonement or write-off) stood at R262,03 billion.

8. There were still widespread **weaknesses in the basic internal controls** that should be well established by now at all auditees.

This was most apparent in the poor quality of the financial statements and performance reports submitted for auditing. The controls to prevent misstatements are inadequate and the misstatements remain undetected even though the financial statements and performance reports go through various levels of review, including by the chief financial officer (for financial statements) and the audit committee, before being approved by the accounting officer or authority. The pressure is then placed on the auditors to identify the misstatements as part of the audit process – this is not an effective or sustainable practice.

We highlight the status of some of the other basic controls below:

- Action plans of the accounting officer or authority were not yet successful to address the root causes of audit findings proactively – we found effective plans at only 34% of our auditees.
- Proper record keeping remained weak – only 42% of the auditees had good controls in this regard.
- Auditees again did not have proper processes for in-year and year-end reporting on financial matters, performance against targets, and monitoring of compliance – only 24% had good processes in this area.
- The review and monitoring of compliance with legislation was again at a low level – only 25% of the auditees had good controls to ensure compliance.
- Information technology system controls stand out as an area where the controls were particularly poor – only 8% of the auditees had good information technology general controls. Furthermore, we are concerned about the weak information technology governance practices at 65% of the auditees as well as cybersecurity vulnerabilities and the information technology expenditure of departments and public entities.

The above controls are key to preventing accountability failures and it is clear that the necessary investment in preventative controls has not been made. Weaknesses in these controls cause delays in our audits and increase our audit fees.

FINANCIAL MANAGEMENT

At this time of economic upheaval when departments, state-owned entities and public entities need to do more with less and where the demands from the public for service delivery and accountability are increasing, accounting officers and authorities should do everything in their power to get the most value from every rand spent and manage every aspect of their finances with diligence and care. Yet we continue to observe serious weaknesses in the financial management of national and provincial government, which are not receiving the necessary attention.

Credible financial statements are crucial to enable accountability and transparency. The financial statements tell the story of how well an auditee is managed – how it spends its money, where its revenue comes from, its assets and the state of those assets, how much it owes creditors, how much is owed to the auditee, and whether it is expected that the money owed will be received. They also provide crucial information on how the budget was adhered to, the unauthorised, irregular, and fruitless and wasteful expenditure incurred, and the overall financial position of the auditee – whether its operations are financially sustainable.

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

As mentioned earlier, many auditees continued to struggle to prepare and publish quality financial statements. The poorly prepared financial statements and significant activity after their submission to make corrections in response to the audit also raise questions on the credibility of in-year reporting and the effectiveness of financial monitoring and control throughout the year. The treasuries and oversight bodies use in-year reporting for monitoring, and the unreliable information provided to them affects their effectiveness. Auditees' poor monitoring and corrective action throughout the year is one of the main reasons for their concerning financial health status.

Most concerning are the 21 auditees that received disclaimed or adverse opinions on their financial statements. Effectively the information in these financial statements can be discarded, as it is not credible – we also could not analyse the financial health of these auditees, which are responsible for 2% of the expenditure budget.

State-owned entities are in serious financial difficulty. South African Airways and LMT Products (a subsidiary of Denel) are under business rescue and South African Express is under provisional liquidation. These entities did not submit financial statements for auditing – for most of the South African Airways group we have not seen financial statements for three years.

Many state-owned entities disclosed uncertainty in their financial statements about whether they will be able to continue as a going concern, namely the Petroleum Oil and Gas Corporation, the South African Broadcasting Corporation, Denel and three of its subsidiaries (Densecure, Denel Aerostructures and Denel Vehicle Systems), the Independent Development Trust, the Land and Agricultural Development Bank of South Africa, Pelchem and the South African Nuclear Energy Corporation. A similar disclosure was made in the financial statements of Eskom, which is one of the state-owned entities we do not audit.

Government had already issued guarantees of R445 billion to 11 state-owned entities (of which R350 billion was to Eskom) and these entities had used the guarantees to obtain R374 billion in loans.

The financial health of departments continued to be alarming. Unauthorised expenditure, which is mainly as a result of overspending of the budget, increased from R1,65 billion to R18,12 billion – of which R15,13 billion was as a result of the early payment of the April 2020 social grants in response to the covid-19 lockdown measures. The remaining R2,99 billion was overspending by 21 departments. Over a third of departments ended the year in a deficit totalling R21,2 billion.

In addition, over 60% of the departments had insufficient funds to settle all liabilities that existed at year-end if the unpaid expenses at year-end (totalling R22,78 billion) were also taken into account. This means that these departments started the 2020-21 financial year with part of their budget effectively pre-spent – 27 departments will have to use more than 10% of their 2020-21 operational budget (excluding employee cost and transfers) to fund the shortfall.

At year-end, 87% of the departments had claims against them, totalling R147,12 billion. Claims are made against departments through litigation for compensation as a result of a loss caused by the department – the most common claims are medical negligence claims against provincial health departments. The total claims for provincial health departments (including medical claims) stood at R105,8 billion. Departments do not budget for such claims, which means that all successful claims will be paid from funds earmarked for other strategic priorities, including the delivery of services, further eroding the ability of these departments to be financially sustainable. A third of the departments had claims against them in excess of 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.

This continuing trend of using the next year's budget to pay the current year's expenses and claims had a negative impact on departments' ability to pay creditors on time and to deliver services.

Key public entities are also under financial pressure. Fifty-five (29%) public entities incurred expenses that exceeded their revenue. Their combined deficit for the year was R64,95 billion, of which 92% related to the Road Accident Fund. A total of 21 public entities disclosed uncertainty about whether they will be able to continue as a going concern. Many of them are key development and delivery entities that have been disclosing their vulnerable financial position for many years, including the Road Accident Fund, the South African National Roads Agency, the Property Management Trading Entity and a number of provincial public entities. The financial statements of 17 public entities were not reliable enough for financial analysis – these included seven technical and vocational education and training colleges, the Passenger Rail Agency of South Africa and four provincial public entities in North West.

Even though most public entities would be able to continue their operations through obtaining funding (loans, grants and overdrafts), delaying creditor payments, cutting costs and reprioritising projects, these negative indicators raise concerns about their financial viability.

Government cannot afford to lose money because of poor decision-making, neglect or inefficiencies. However, we continued to see a **rise in fruitless and wasteful expenditure**, with 231 auditees losing R2,39 billion in the current year, of which R0,37 billion was to pay penalties and interest as a result of late payment to creditors. Over the last three years, R7,44 billion of government expenditure was fruitless and wasteful.

Often findings on non-compliance with supply chain management legislation are viewed and commented on as procedural issues or possible fraud. But the **potential for losses** to government due to the **correct processes not being followed** is often overlooked.

Two-thirds of departments and 44% of public entities did not comply with supply chain management legislation, resulting in unfair or uncompetitive procurement processes. Most often this means that not all potential suppliers were given a fair chance to compete for work. Less competition often leads to higher prices being paid for goods and services. There were 42% of departments and 21% of public entities that did not comply with legislation on contract management, such as monitoring the performance of suppliers in accordance with contracts – this also often results in financial loss.

Most of the **material irregularities** identified to date were in the area of non-compliance with supply chain management legislation. The non-compliance gave rise to an unfair or uncompetitive procurement process, which resulted in auditees either paying a higher price for goods and services than they should have or appointing suppliers that were not able to deliver the quality and/or quantity required.

We have been reporting on these weaknesses for a number of years and warning about the impact of poor financial management on the public purse. A lack of attention to these matters has resulted in the financial health status of national and provincial government further deteriorating, now reaching critical levels.

MATERIAL IRREGULARITIES

The Public Audit Act was amended with effect from 1 April 2019 to provide us with the mandate to report on material irregularities detected during our audits and take further actions if accounting officers and authorities do not appropriately deal with such reported irregularities. We can refer the matter to a public body to investigate or include recommendations in the audit report on what should be done to address the matter. The amendments further give us the power to take binding remedial action if our recommendations are not implemented and, in certain circumstances, we can recover the money lost from accounting officers or authorities that do not implement the remedial actions.

Rather than being a punitive measure, the amendments are intended to strengthen accountability mechanisms. By reporting material irregularities, we support accounting officers and authorities by bringing to their attention the irregularities that could have a significant impact on finances, resources and service delivery, while also empowering them to take the appropriate steps timeously in terms of legislation. This will lessen the adverse effect of such irregularities on auditees, set the right tone for accountability, highlight the need for consequences, and encourage a behavioural change at the highest levels. As we report the material irregularities in the audit report, we also enable public accounts and portfolio committees to perform their oversight function – focusing on the most material matters affecting auditees.

The amendments to the Public Audit Act and the Material Irregularity Regulations have been shaped in a manner that supports the process of fair, transparent and legally sound administrative justice, by providing an opportunity to the accounting officer or authority to take the actions required to deal with material irregularities.

We use our additional powers only when the accounting officer or authority is not dealing appropriately and swiftly with the material irregularities. Issuing remedial action and certificates of debt is not our measure of success but rather accounting officers and authorities taking the actions they are legally obligated to do.

By 28 February 2021, we had notified accounting officers and authorities of auditees selected for our phased-in approach of **75 material irregularities.** They all related to non-compliance with legislation that resulted in a material financial loss. We estimate the financial loss associated with these material irregularities to be R6,9 billion. We included detailed information on 45 of these material irregularities in the audit reports and also discuss them in this report to enable monitoring and oversight. The remainder will be reported in the 2020-21 audit reports.

In addition, a large number of matters were being considered as potential material irregularities by the date of this report. These included issues identified during our audit of covid-19 expenditure.

Material irregularities emerged in four key areas – **procurement, expenditure management, revenue management and resource management**. We have been highlighting all of these as areas of vulnerability for a number of years, including in this year's audit outcomes. These are not complex matters, but the basic disciplines and processes that should be in place at auditees – procure at the best price, pay only for what was received, make payments on time, recover the revenue owed to the state, safeguard assets, and make use of the resources of the state in the most effective and efficient manner ensuring that value is derived from the money spent. Good preventative controls would have made all the difference. Preventing material irregularities is more effective than having to deal with the consequences thereof – money is lost, costly investigations have to be instituted and officials are subjected to the discomfort and anxiety associated with these processes, which often take a number of years to be finalised.

We concluded that the accounting officers and authorities had resolved three of the 45 material irregularities reported in the audit reports and were dealing appropriately with 33 of them. **It signals a behavioural change towards responding in a decisive and timely manner to our findings**. At some auditees, matters we have been reporting for a number of years are finally receiving the necessary attention.

We included recommendations in the audit reports of four auditees on actions that should be taken to resolve eight material irregularities in total, where we concluded that appropriate action was not being taken. We also referred a material irregularity to the National Treasury for investigation in 2019. This investigation is still in progress.

In this report, we raise our concerns about the **delays at some auditees in resolving material irregularities** as a result of instability at the level of accounting officer or authority. We also highlight that often when a material irregularity is being investigated by another public sector institution or when another institution is dealing with the recovery of losses, the accounting officer or authority has little influence over the timeous completion of the process – some of these matters take years to conclude. There should be urgency in dealing with the material irregularities to prevent further wastage, recover money and effect consequences for wrongdoing – all role players should thus work together to ensure the swift resolution of these matters.

We are fully committed to implementing the enhanced powers given to our office, without fear, favour or prejudice. The success of our amended powers will become evident when a culture of responsiveness, consequence management, good governance and accountability by accounting officers and authorities becomes the norm rather than the ideal.

PROVINCIAL AUDIT OUTCOMES

The provincial leadership and provincial legislatures should pay attention to improving the audit outcomes in the provinces, which are summarised below.

EASTERN CAPE

The audit outcomes improved with four auditees improving and only one regressing. The ***improvements were due to leadership implementing commitments and oversight being more involved and accountable, but preventative controls still need attention.***

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. The levels of tolerance for non-compliance should be minimised further and accountability should be enhanced where transgressions contribute towards irregular expenditure.

The poor internal control environment negatively affected the outcomes at the key service delivery departments of Health, Transport and Education, and transgressions of legislation at these departments had an adverse impact on how they spent the money allocated to them. At R1,59 billion, the unauthorised expenditure of the Eastern Cape is the highest of all the provinces. The Eastern Cape Department of Health made payments of R763 million relating to medical claims that were not budgeted for, which resulted in unauthorised expenditure. 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, one regressed, and for the first time since 2016-17 the province produced a clean audit. This is the ***second consecutive year of improvement, but a lack of accountability continued to result in pervasive non-compliance (especially relating to procurement) and deteriorating financial health.***

A culture of no consequences has been created through the political and administrative leadership's inability to implement consequence management for the pervasive non-compliance with legislation. Thus, the environment was vulnerable to misappropriation, wastage and the abuse of state funds. The continued transgression of supply chain management prescripts was reflected in the significant amount of irregular expenditure incurred annually. Leadership has been unable to curb this behaviour and was slow to respond by investigating the irregularities.

Leadership's lack of accountability for government spending also had a negative impact on auditees' financial sustainability. Funds to be surrendered to the revenue fund and accruals and payables not recognised exceeded cash on hand by R3,9 billion. Therefore, a significant portion of the 2020-21 budget will be required to settle these obligations, reducing departments' ability to effectively deliver on their mandate.

It is only through the strengthening of the control environment and the implementation of preventative controls that the province will be able to maintain its clean audit and ensure that more auditees progress to a sustainable clean audit status. The political leadership should lead from the front and improve the assurance they provide. They should also ensure that the administrative leadership is held accountable for their actions, thus ensuring that they too improve the level of assurance provided. Proper planning and budgeting, effective staff performance management as well as firm and timely consequences for poor performance and transgressions should be implemented.

GAUTENG

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

Encouragingly, there was a continued improvement in the quality of the financial statements submitted for auditing, which can be attributed to regular reporting, adequate review, proper record management, and the use of governance structures to assist with reviews. Compliance findings remained high with material non-compliance 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. 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 as a result of embracing prudent and efficient spending. The province's financial discipline is evidenced by the fact that no unauthorised expenditure was incurred. The Gauteng Department of Health, however, continued to be under financial strain due to unbudgeted medical claims against the department amounting to R23,8 billion.

In order to sustainably improve audit outcomes, 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. There are progressive trends visible in the province but **greater discipline is required in implementing basic preventative controls that will translate into sustainable improvements.***

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. Of concern are the medical claims at the KwaZulu-Natal Department of Health, 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.*

Compliance with laws and regulations remained a challenge, as 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 is concerning - 60% 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 (three auditees improved and one regressed) but **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.** Most accounting officers and authorities did not keep true to the crucial responsibility of implementing a proper system of internal control. **Leadership involvement is required to drive accountability and improve audit outcomes.***

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. When controls are not institutionalised, it also makes it difficult to ensure compliance with legislation. The province again found it difficult 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 result in consequences being meted out against those found to be responsible.

NORTHERN CAPE

A slight improvement in audit outcomes** (two improvements and one regression) **in the province is a step in the right direction, but the journey remains long and winding.

The continued reliance on the audit process was still evident as more than half of the departments could not submit quality financial statements – it also 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 Northern Cape Department of Health – a major service delivery department – was in a particularly vulnerable financial position. In addition, the Northern Cape Department of Education and the Northern Cape Department of Roads and Public Works experienced financial difficulties and may end up in the same position as the provincial department of health if leadership does not attend to the matters reported in their audit reports.

Complying with relevant laws and regulations remained a challenge, as evident from 75% of the departments having 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 and 99% of the prior year balance of irregular expenditure was not investigated for consequence-management purposes.

Overall, the province has taken a step in the right direction – we urge the provincial and administrative leadership once again 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 (two improvements and one regression) and an increase for the first time in two years in departments with financially unqualified opinions, which can be attributed to the implementation of effective action plans. Overall, departments with financially unqualified opinions increased with the provincial treasury managing to maintain its clean audit status. The number of auditees with no findings on their performance reports also increased. 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 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 leadership has not heeded our call to reassess the financial model of public entities, these auditees are relying on operational grants and operating at a deficit. The outstanding medical negligence claims against the North West Department of Health 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 a significant rise in irregular expenditure is of concern.***

The Western Cape continued to produce the best results with 70% clean audits. Every auditee in the province submitted their annual financial statements on time for auditing and, except for a recurring matter on implementing agents at the Western Cape Department of Agriculture without requiring any material corrections.

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

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.

A CONTINUED CALL TO ACT ON ACCOUNTABILITY

In conclusion, our message is consistent with what we have been emphasising in the past:

- Although the improvements in audit outcomes we have seen are encouraging, the **sustainable solutions required to prevent accountability failures** are not yet in place and will require investment from all levels of government.
- Oversight, executive authorities and coordinating departments should pay specific attention to **state-owned entities, struggling public entities and key service delivery departments** such as health and education. The inability of these auditees to sustain themselves and/or continue service delivery is having – and will continue to have – a significant impact on government finances and the lives of citizens.
- The importance of **financial management discipline** in these difficult economic times cannot be emphasised enough – all officials must do their part to ensure that public money is protected and that there is transparency and accountability in the management of state funds.
- **Preventing leakages and recovering money** that has been lost will need to be a key priority of all accounting officers and authorities, even more so now when much must be done with very limited and continually decreasing resources.
- If **consequences for accountability failures** are required, these must be effected swiftly, bravely and consistently.

The introduction of the material irregularity process was intended to strengthen accountability mechanisms overall. Continued support for its implementation and specific focus by oversight bodies and executive authorities on assisting accounting officers or authorities and public bodies in resolving material irregularities will greatly contribute to the success of this process.

In support of a culture in which accountability failures are prevented, we have launched various initiatives over the years to identify risks and timeously address problems at our auditees – most notably we introduced the status-of-records reviews and engagements. Additionally, our real-time audits of the covid-19 initiatives were intended to highlight gaps in preventative controls that can be closed swiftly to prevent further failures. In 2020, we further launched the preventative control guides aimed at capacitating preventative oversight – the guides provide oversight bodies and the executive with the questions they should be asking to check whether preventative controls are in place at auditees. They also aim to assist accounting officers by highlighting the importance of building a strong control environment and the key controls that should be in place in certain business processes to accomplish this.

We remain committed to working tirelessly within our new mandate to strengthen financial and performance management in national and provincial government in South Africa, emphasising the need for accountability and doing the basics right. We encourage Parliament and the provincial legislatures as well as the political and administrative leadership to play their part effectively and without fear or favour to ensure accountability for government spending and an improvement in the lives of our country's citizens.

SECTION 2

Introduction

2 INTRODUCTION

The year 2019-20 was an unusual and challenging one and the covid-19 pandemic had a significant impact on our audits of national and provincial government:

- The finance minister gave auditees subject to the Public Finance Management Act a **two-month extension for the submission of financial statements** – from 31 May 2020 to 31 July 2020.
- The **legislated audit completion date** for these auditees moved – from 31 July 2020 to 30 September 2020.
- We **balanced the normal audits of the 2019-20 financial year with the real-time audits on expenditures related to the response to covid-19**, during which we effectively also performed an advance audit of the 2020-21 financial year at selected auditees.

The outcomes included in this report relate to the financial year ended 31 March 2020 and our focus remains on the **importance of accountability for government spending**. While we are starting to see a slight improvement in the overall audit outcomes, the pace at which our recommendations are being heeded (especially in the area of financial management) remains slow.

This is also the second year in which we are reporting on the material irregularities identified as part of our phased implementation of the amended Public Audit Act.

The central theme of this report continues to focus on our call to ***act on accountability***.

The actions that will enable accountability are well defined in the Public Finance Management Act and other enabling legislation, which are all underpinned by the basic values and principles governing public administration as set out in our constitution. These include the need for high standards of professional ethics, accountability and transparency, as well as the promotion of the efficient, economical and effective use of resources.

Accounting officers and authorities have a legislated obligation as defined in the Public Finance Management Act to implement and maintain effective, efficient and transparent systems of financial and risk management and internal control. Oversight structures and executive authorities should keep accounting officers and authorities accountable for the effectiveness of such internal controls. In this report we again highlight opportunities where an investment in preventative controls can contribute to effective and sustainable improvements in this regard.

In section 3, we report on the second year of implementation of our expanded mandate. We provide comprehensive insight on the material irregularity process and include outcomes of those **material irregularities identified until 28 February 2021.**

In section 4, we reflect on the many weaknesses in the **financial management environment of national and provincial government.**

Section 5 **summarises the audit outcomes** and covers all the areas we had reported on in previous general reports.

Section 6 provides an overview of the **results and reflections per province**.

We explain more about our audit process and terminology in section 7. Our website (www.agsa.co.za) includes **detailed annexures** that provide the key results per department and public entity.

Please note the following important matters when reading this report:

- National and provincial government consists of 770 auditees. The audit outcomes of 82 public entities audited by private auditors, 65 dormant public entities, 2 secret service auditees, 1 South African Revenue Service revenue account, and 18 public entities with different reporting cycles are not included in the analysis presented in this report.
- As part of our audit methodology, we classified 175 public entities as small auditees based on the size and nature of their business. The audit outcomes of these public entities are also not included in this general report, but are published in the annexures available on our website.
- We set the cut-off date for inclusion of audit outcomes in this report as 30 November 2020, at which date 44 audits were still outstanding. Therefore, when studying the figures, please

note that the percentages are calculated based on all completed audits of 383 auditees, unless indicated otherwise – such as in the following instances:

- We applied a **reduced audit approach at seven auditees** in response to the disclaimed opinions they receive year after year and the general limitations experienced in performing audits in these environments.
  In some areas such as assurance providers where we report on internal audit and audit committees, the percentages are calculated based on only 376 of the completed audits (or fewer, in some cases).

The auditees where we applied a reduced audit approach are: Ehlanzeni Technical and Vocational Education and Training College (MP), Tshwane North Technical and Vocational Education and Training College (GP), Golden Leopard Resorts (NW), GL Resorts (NW – subsidiary of Golden Leopard Resorts), North West Development Corporation, National Library of South Africa, and Mmabana Arts, Culture and Sport Foundation (NW).

- In section 5, we also **highlight the outcomes of audits concluded since our initial cut-off date** of 30 November 2020.

- To determine the movements from the previous year, we compared the results of the completed audits for departments and public entities with their results in 2018-19. These movements are depicted as follows:

Improved	Unchanged	Regressed

Movement of **5%** or less: Slightly improved | Slightly regressed

Improved | Regressed

We use the following icons in this report to indicate:

Explanations of terminology – we also explain more about our audit process and terminology in section 7

What we have found

NOTES

SECTION 3

Material irregularities

OUR EXPANDED MANDATE

The responsibilities and duties of accounting officers and authorities are well defined in the Public Finance Management Act and other enabling legislation, which are all underpinned by the basic values and principles governing public administration as set out in our constitution. These include the need for high standards of professional ethics, accountability and transparency as well as the promotion of the efficient, economical and effective use of resources.

Our audits have for many years been highlighting a systemic failure across government to establish the systems, processes and controls required to make the constitutional principles and the requirements of the Public Finance Management Act and similar legislation the norm. Not only are irregularities and the resultant losses, misuse and harm not prevented from happening, they are also not appropriately dealt with when they are identified.

Our mandate has always been to audit and report on these matters in order for corrections to be made by accounting officers and authorities, overseen and supported by executive authorities. Our reporting to oversight bodies enables them to also play their oversight role effectively.

The amendments to the Public Audit Act became effective on 1 April 2019 – which provided us with an expanded mandate to go beyond audit and reporting in an effort to strengthen the accountability mechanisms.

Rather than being a punitive measure, the amendments are intended to act as a complementary mechanism in the broader public sector accountability value chain by strengthening financial and performance management, which in turn will contribute to improved accountability.

The expanded mandate did not change the role and responsibilities of the accounting officers and authorities, executive authorities and oversight. We do not take over the role of the accounting officer or authority who already have the responsibility to prevent irregularities and take action when it occurs.

By identifying material irregularities, we support accounting officers and authorities by bringing to their attention the irregularities that could have a significant impact on finances, resources and service delivery while also empowering them to timeously take the appropriate steps in terms of legislation. This will lessen the adverse effect of such irregularities on auditees, set the right tone for accountability, highlight the need for consequences, and encourage a behavioural change at the highest levels.

The amendments to the Public Audit Act and the Material Irregularity Regulations have been shaped in a manner that supports the process of fair, transparent and legally sound administrative justice, by providing an opportunity to the accounting officer or authority to take the actions required to deal with the material irregularities. We use our additional powers only where the accounting officer or authority is not dealing appropriately with such irregularities. This process can be depicted graphically as follows:

If 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 investigations

Recommend actions to resolve material irregularities in audit report
Take binding remedial action for failure to implement recommendations

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

The oversight and monitoring roles of oversight bodies and executive authorities also remain unchanged by the Public Audit Act amendments. We report the material irregularities in the audit report, which also enables public accounts and portfolio committees to perform their oversight function – focusing on the most material matters affecting auditees.

If accounting officers and authorities, supported by their political leadership, adhere to their legislated responsibilities and commit to take swift action when we notify them of a material irregularity, there will be no need for us to use our remedial and referral powers.

We are fully committed to implementing the enhanced powers given to our office, without fear, favour or prejudice. The success of our amended powers will become evident when a culture of responsiveness, consequence management, good governance and accountability by accounting officers and authorities become the norm.

IMPLEMENTATION OF THE MATERIAL IRREGULARITY PROCESS

The amendments to the Public Audit Act introduced the concept of a material irregularity. But what does this mean?

What is a material irregularity?

Material irregularity

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

As per the definition, there are two main gates that a matter must pass for it to be classified as a material irregularity – there needs to be an **irregularity** (which is the non-compliance, fraud, theft or breach), and that irregularity must have an **impact** (being loss, misuse or harm).

Irregularities are identified during our normal audit process as we audit compliance with key legislation as well as consider governance and control as part of the audit. Our audit processes can also identify possible fraud and theft, which we then report to management for investigation.

However, our audit process generally does not consider the impact of the irregularities identified (for example, if a financial loss is likely), as it is not required by the auditing standards. The requirements and processes to follow for a material irregularity as prescribed by the Public Audit Act and the Material Irregularity Regulations introduce additional steps in the audit process, new processes for referrals and remedial action, and the establishment of new structures and additional capacity.

The impact of the expanded mandate on our audit process and organisation as well as the profound implications thereof requires us to implement the changes in a careful, but progressive manner.

As agreed with the Standing Committee on the Auditor-General, we are phasing in the implementation of our expanded mandate. The phasing-in allows us to responsibly align the organisational resources with the demand placed on us by the Public Audit Act and to establish relationships with the public bodies to which we will be referring material irregularities. A phased-in approach also enables us to manage risks associated with implementation, such as possible disputes and litigation, as well as the costs associated with implementation.

Our phased-in approach is guided by a step-by-step implementation of the material irregularity definition. In 2018-19, our focus was on the non-compliance with legislation scoped in for auditing as part of normal audits that resulted in, or is likely to result in, a material financial loss. In 2019-20, we expanded this to any non-compliance with, or contravention of, legislation that resulted in, or is likely to result in, a material financial loss. We also considered fraud, theft or a breach of a fiduciary duty if it constituted non-compliance with legislation.

We incrementally increased the number of auditees in national and provincial government where the material irregularity process was implemented from 16 in 2018-19 to 89 in 2019-20. We focused on those auditees where we were most likely to have the greatest impact without spreading our resources too thin or compromising on the quality of our processes. The selected 89 auditees were state-owed entities as well as departments and public entities that are key contributors to government priorities.

They covered 57% of the expenditure budget, 75% of the irregular expenditure incurred, and 87% of the irregular expenditure balance. We specifically looked at irregular expenditure as an indicator of the level of non-compliance with legislation at an auditee and the potential for material financial losses. This does not mean that irregular expenditure and material irregularities are the same thing, as explained later on in this section.

SELECTED AUDITEES

Health sector	Human settlements sector
National and provincial departments of health (10)	Provincial departments responsible for human settlements (9) National Home Builders Registration Council

Education sector	Transport and public works sector
National and provincial departments of education (10) Department of Higher Education and Training National Student Financial Aid Scheme National Skills Fund	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	Other national and provincial departments
Department of Water and Sanitation Water Trading Entity Water boards (9)	Department of Defence Department of Cooperative Governance Department of Correctional Services National Treasury Agriculture, Rural Development, Land and Environmental Affairs (MP)

State-owned entities	Other national and provincial public 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	State Information Technology Agency Compensation Fund Free State Development Corporation Coega Development Corporation (EC)

IDENTIFYING AND REPORTING ON MATERIAL IRREGULARITIES

Our annual regularity audit process has distinct phases, including planning and execution. As the legislated reporting date comes closer, we finalise and conclude on our audits, allowing for the audit report to be signed on time. Thereafter we interact with oversight committees and undertake engagements on the overall audit outcomes and the general report.

The material irregularity process is integrated into the audit process, but is not bound to the audit cycle in the same way as our regularity audits. It does not have a distinct start and stop date, which is quite a different approach than what our auditees are used to. We can identify matters that can potentially be material irregularities at any time of the audit – even right before the audit report is signed. We then do not leave it to the next annual audit, but rather follow our structured material irregularity route to confirm whether the matter meets the definition and commence with the process so as not to delay the accountability process.

What did we do to identify material irregularities?

The material irregularity process was applied from 1 April 2019 at the selected auditees, when the amendments became effective. The auditor-general used the discretion allowed by the Public Audit Act to direct that the audit teams only consider material irregularities where they continued to have a financial impact from the effective date. This means that we did not consider non-compliance that took place in prior years except where it continued to financially affect the auditee; for example, if payments were still being made on a contract that had been irregularly awarded in prior years, or if a debt owed to the auditee was still in its books.

We also made sure that we applied the definition of a material irregularity correctly by only reporting it if the non-compliance directly resulted in a financial loss or is likely to result in a financial loss. We considered whether a financial loss was material through considering its value, nature and impact. The value of the financial loss had often already been determined by the auditee and disclosed in the financial statements, such as fruitless and wasteful expenditure (what we refer to as a known financial loss). But for some material irregularities, we estimated the potential financial loss to consider if it was material (what we refer to as an estimated financial loss).

What did we do when we identified a material irregularity?

When we identified a material irregularity, the accounting officer or authority was notified without delay. We gave them 20 working days to respond to the notification by giving us a written submission and evidence on what they have done to address the material irregularity and what their further planned actions are.

We assessed the responses provided and concluded whether their actions (taken or planned) and the outcomes thereof were appropriate in line with their legal obligations. If we found this to be the case, we gave the accounting officer or authority space to implement the further planned actions. We follow up on the progress made with resolving the material irregularity in the next audit cycle.

Legal obligations of accounting officer/authority to address irregularity

If accounting officer/authority is made aware of irregularity (non-compliance, fraud, theft or breach of fiduciary duty), **Public Finance Management Act, Treasury Regulations and instruction notes typically prescribe** following steps to be taken:

1. Perform preliminary investigation to determine facts and collect information on what caused transgression, who is responsible and whether financial loss was (or will be) suffered

If applicable

2. Prevent any losses or further losses
3. Institute formal investigation if there are indications of fraud, corruption or other criminal conduct; if confirmed, take further action (e.g. report matter to South African Police Service)
4. Recover any financial losses from external party
5. Take steps against responsible officials (which can include financial misconduct investigation)
6. Recover any financial losses from responsible officials

Auditee's policies and procedures typically describe how these steps should be taken and the timing thereof

Same steps should be taken if accounting officer/authority is notified of material irregularity

If we conclude that the steps taken are not appropriate, we include recommendations in the audit report on what the accounting officer or authority should do to address the material irregularity. We also include a deadline by when these recommendations should be implemented.

In addition, we refer a material irregularity to a public body if it requires further investigation.

What happens with the identified material irregularities?

A material irregularity is only fully resolved if (1) the loss (or further losses) is prevented and/or any losses incurred have been recovered or all possible steps have been taken to recover the losses; and (2) appropriate steps have been taken against the official or party (e.g. supplier) responsible for the loss.

The material irregularities and the progress made in resolving them will be reported in the audit report of the auditee and in general reports until they have been fully resolved to enable accountability and oversight. When an audit report is signed, we report based on the status of the material irregularities that are confirmed at that date. What we typically include are:

- New material irregularities identified and the actions the accounting officer or authority is taking to address them – or we include the recommendations or information on referral (as applicable)
- Whether there are other material irregularities in process (if we have not concluded the notification and response process)
- Progress made in resolving material irregularities reported in the previous audit report

The responsibilities for the further steps to be taken by the accounting officer or authority, executive authorities, public bodies and oversight to resolve an identified material irregularity are detailed on the following page.

	ACCOUNTING OFFICER/AUTHORITY (AO/AA) AND AUDITOR-GENERAL OF SOUTH AFRICA (AGSA)	EXECUTIVE AND OVERSIGHT
AO/AA is dealing with material irregularity	**AO/AA** implements committed actions to address material irregularity and improves controls to prevent reoccurrence **AGSA** follows up in next audit if actions were implemented and if outcomes were reasonable; if not, can result in referral or recommendation in audit report	**Executive** monitors progress and supports AO/AA in addressing material irregularity and improving controls **Oversight** monitors progress and calls AO/AA to account for actions taken and outcomes
Material irregularity is referred to public body	**AO/AA** cooperates with public body and implements any remedial actions / recommendations made; improves controls to prevent reoccurrence **AGSA** provides information on material irregularity to public body, monitors progress with investigation and follows up in audits on implementation of any remedial actions / recommendations	**Executive** supports public body investigation and AO/AA in improving controls; if responsible for public body, monitors progress with investigation **Oversight** monitors progress with investigation and calls public body to account for undue delays in investigation
Recommendation included in audit report	**AO/AA** implements recommendations by date stipulated in audit report and improves controls to prevent reoccurrence **AGSA** follows up by stipulated date if recommendations were implemented and if outcomes were reasonable; if not, issues remedial action	**Executive** monitors progress and supports AO/AA in implementing recommendations and improving controls **Oversight** monitors progress and calls AO/AA to account for actions taken and outcomes

What did we do to follow up on the progress?

The 2019-20 year was the first time we followed up and reported on the progress with the material irregularities reported in the previous year.

We wrote to the accounting officers and authorities to enquire on the progress and request evidence on the actions they had planned to take. We also asked what their further planned actions were.

We assessed the responses provided and concluded whether their actions (taken or planned) and the outcomes thereof were appropriate in line with their legal obligations. If we found these to be appropriate, we gave the accounting officer or authority space to implement the further planned actions, with an undertaking to follow up on the progress with resolving the material irregularity in the next audit cycle. If we concluded that these were not appropriate, we included recommendations in the audit report on what the accounting officer or authority should do to address the material irregularity. We also included a deadline by when these recommendations should be implemented.

If we included recommendations in the audit report in 2018-19, we followed a similar approach to obtain feedback and evidence from the auditee. As recommendations are to be implemented by a certain date, we requested written submissions from the accounting officer or authority by that date, including reasons for recommendations not having been implemented. If the recommendations had not been implemented by the stipulated date, we went through a rigorous process before concluding whether the accounting officer or authority should be allowed more time or if remedial action should be implemented.

It is important to clarify that the accounting officers or members of the accounting authority against whom we can take remedial action and ultimately issue a certificate of debt are not those who entered into the transactions that resulted in financial loss – they are those who did not take action to recover the money, stop further losses and act against the officials involved. Hence we must provide them with the time to take the required action. We will only use our remedial or referral powers when such action is not taken or not taken timeously, or the outcome of the action is not appropriate.

We appreciate our stakeholders' frustration regarding the long time it takes from identifying a material irregularity to issuing a certificate of debt. But we have to be fair, reasonable and adhere to the principles of administrative justice, by providing accounting officers and authorities sufficient time to take action, implement recommendations and remedial steps as well as state their case for not taking the required action.

The timeline below demonstrates the extent and timing of this process by using an example of a material irregularity identified in April 2020 during our 2019-20 audit. Please note that this is a 'best case scenario' as there are often delays in the process – some within the control of the accounting officer or authority and some outside the control of either the accounting officer or authority or ourselves.

Process from identifying material irregularity that caused material financial loss to issuing certificate of debt – an example

1 **April 2020**
Identify MI during 2019-20 audit

2 **May 2020**
Notify AO/AA of MI – provide 20 working days to respond on actions taken and planned

3 **June 2020**
Conclude based on AO/AA response if appropriate action is taken or planned

4 **July 2020**
If actions were not appropriate, include recommendations in audit report on how MI should be addressed by specific date (e.g. within 6 months)

5 **February 2021**
Follow up whether recommendations have been implemented; if not, issue remedial action to AO/AA that must be implemented by specific date (e.g. within 3 months)

6 **July 2021**
Follow up whether remedial actions have been implemented; if not, issue notice of intention to issue CoD to AO/AA

Request written submission on reasons not to issue CoD within 20 working days

7 **August 2021**
Conclude based on written submission whether CoD process should continue

If it continues, request AO/AA to give oral representation at MI advisory committee on reasons not to issue CoD

8 **September 2021**
MI advisory committee meets to hear oral representation and recommend course of action to auditor-general

9 **October 2021**
Auditor-general issues CoD to AO/AA

AO/AA = accounting officer/authority **CoD** = certificate of debt **MI** = material irregularity

MATERIAL IRREGULARITIES IDENTIFIED

By 28 February 2021, we had notified the accounting officers and authorities of the selected auditees of 75 material irregularities. They all related to non-compliance with legislation that resulted in a material financial loss. We estimate the financial loss associated with these material irregularities to be R6,9 billion.

Of these material irregularities, 45 were reported in detail in the audit reports of the applicable auditees – 35 in 2018-19 and 10 in 2019-20. We originally reported 39 in 2018-19, but closed four based on information subsequently provided by the accounting officer. As these four are no longer active material irregularities, we have excluded them from our discussion in the rest of this section.

The remaining 30 material irregularities have not yet been reported in detail in the audit reports of the applicable auditees as the notification, response and assessment process had not been completed by the time we signed the audit reports. As explained earlier, the material irregularity process is continuous and not bound by the audit cycle, which means that it continues even after an audit report has been signed. Details on these material irregularities and the actions taken to resolve them will be included in the 2020-21 audit reports and next general report.

By 28 February 2021, there were also a high number of matters being considered as potential material irregularities. These include issues identified during our audit of covid-19 expenditure. These material irregularities, if confirmed and after the accounting officers and authorities have been notified, will also be reported in the 2020-21 audit reports and next general report.

Material irregularities emerged in four key areas – procurement, expenditure management, revenue management and resource management. We have highlighted all of these as areas of vulnerability for a number of years, including in this year's audit outcomes.

These are not complex matters, but the basic disciplines and processes that should be in place at auditees – procure at the best price, pay only for what was received, make payments on time, recover revenue owed to the state, safeguard assets, and effectively and efficiently use the resources of the state to derive value from the money spent.

Nature of identified material irregularities (MIs)

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 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** MI (< 1%) – **R1,5 million** estimated loss

STATUS OF REPORTED MATERIAL IRREGULARITIES BY AUDIT REPORT DATE

Status of 45 material irregularities reported by audit report date

- **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

We followed up the progress made in the past year with the material irregularities reported in 2018-19 and concluded that three had been resolved. We were satisfied that the accounting officer had adequately investigated the matters and took appropriate actions to resolve the material irregularities.

The 33 material irregularities where appropriate actions are being taken include 25 reported in 2018-19. Most of these are being dealt with diligently by the accounting officers or authorities and are in various stages of resolution.

We would have wanted to see more material irregularities being resolved but progress overall has been affected by three main matters:

1. Instability at accounting officer or authority level severely affects the process. If there are changes while dealing with a material irregularity, we need to afford the next accounting officer or authority reasonable time to take the further actions required.

   The impact of instability was most evident at the Passenger Rail Agency of South Africa where we raised nine material irregularities last year – one for which we included recommendations in the audit report. We notified the previous board of the material irregularities in July 2019. Due to changes in the accounting authority, the investigations were delayed and could only commence in September 2020 after resources were seconded from the Special Investigating Unit to deal with the multiple investigations.

2. The lockdown measures and instability caused by the covid-19 pandemic affected the speed at which accounting officers and authorities were able to finalise investigations in-house and take the required steps.

3. Some of the material irregularities were referred by the accounting officers and authorities to other public bodies such as the Directorate for Priority Crime Investigation (commonly known as the Hawks) or a treasury for investigation; while others were already under investigation by, for example, the Special Investigating Unit. In these circumstances, the accounting officer or authority is mostly dependent on such a body to complete the investigation timeously and has little influence over its finalisation. In the case of the locomotives purchased by the Passenger Rail Agency of South Africa, for instance, the matter had already been referred to the Hawks in 2015 for investigation but was still outstanding. Where money must be recovered from a supplier that no longer has a contract with the auditee or from liable officials, there is also a dependency on the State Attorney's office. These factors contribute to the lengthy time it takes to complete investigations and recover losses.

The material irregularity that we referred to the National Treasury is still being investigated.

The eight material irregularities for which we included recommendations in the audit report include the following:

- For one material irregularity at the Passenger Rail Agency of South Africa, we had already included recommendations in the 2018-19 report but gave an extension for implementation due to the reasons as detailed earlier.
- When following up five material irregularities at the Free State Department of Human Settlements reported in 2018-19, we found that the accounting officer was not timeously taking the actions committed to in order to resolve the matters.
- We issued recommendations on two material irregularities identified and reported in 2019-20 – one each at the Department of Defence and the Free State Department of Education.

If the above four auditees do not implement the recommendations in the audit reports by the date stipulated, it could result in remedial action.

We now discuss the status of the 45 reported material irregularities in more detail.

DETAIL OF REPORTED MATERIAL IRREGULARITIES

Resolved material irregularities

MATERIAL IRREGULARITY	ACTIONS TAKEN TO RESOLVE MATERIAL IRREGULARITY
Department of Water and Sanitation – **2018-19**	
Delayed payments in 2018-19 to water board responsible for water infrastructure project **resulted in temporary suspension of project. Contractor charged for standing time and interest** on outstanding invoices. **Financial loss:** R13,4 million **Notified:** 17 July 2019	Investigation by department's internal risk management unit completed in August 2020 found that reason for delayed payment was insufficient funds at the time and that no officials can be held responsible.
Department of Health (GP) – **2018-19**	
Medical claims not paid within period specified in court judgements, resulting in interest being charged. **Financial loss:** R8 million **Notified:** 24 June 2019	Accounting officer did not take appropriate actions in response to being notified of material irregularity. We recommended following action to be implemented by 31 January 2020: • Accounting officer should investigate fruitless and wasteful expenditure incurred as result of interest paid. • Effective and appropriate disciplinary steps should be taken against any official that investigation finds to be responsible in line with section 38(1)(h) of Public Finance Management Act and treasury regulation 9.1.3. • Appropriate action should be taken to determine whether responsible official is liable by law for losses suffered by department for purpose of recovery, as required by treasury regulations 9.1.4 and 12.7.1. Delays were experienced with implementation of recommendations, due to – amongst others – impact of lockdown measures in response to covid-19 pandemic. Investigation into fruitless and wasteful expenditure was completed in August 2020 and concluded that cash-flow challenges resulted in delays in settling medial claims within period specified in court judgment and interest being incurred. No officials could therefore be held responsible. Investigation also found that system of internal control was ineffective to track medical claims received, processed and settled, which contributed to accumulation of interest. Department is taking appropriate action to address internal control weaknesses identified.
Department of Human Settlements (FS) – **2018-19**	
Payments in 2018-19 to contractor **for houses not completed or of substandard quality** on Thaba Nchu 400 housing project. **Financial loss:** To be quantified by accounting officer **Notified:** 12 July 2019	Department's security management and anti-corruption unit started investigating matter in July 2019 and identified responsible officials. Disciplinary hearings were conducted against these officials in August 2019 and they were issued with written warnings. Contractor committed in September 2019 to rectify matter and subsequently corrected issues and completed houses, at no additional cost.

Appropriate action being taken

MATERIAL IRREGULARITY	ACTION TAKEN BY AUDIT REPORT DATE
Department of Defence – **2019-20**	
Contract awarded in July 2019 for supply and delivery of fuel **using evaluation criteria that differed from those stipulated in original request** for quotations, resulting in higher prices being paid. **Financial loss:** R2,57 million **Notified:** 11 August 2020	Accounting officer instituted investigation in September 2020 and will take action against responsible officials and steps to recover financial loss based on outcome.
Department of Defence – **2019-20**	
Lease payments made from 2015-16 to 2019-20 **for unoccupied office buildings.** **Financial loss:** R108,3 million **Notified:** 11 August 2020	Accounting officer instituted investigation in September 2020 and will take action against responsible officials and steps to recover financial loss based on outcome.
Department of Cooperative Governance – **2018-19**	
Incorrect grant payment to supplier in July 2018 and August 2018 due to ineffective internal controls for approval and processing of payments – department was unable to recover all money from supplier. **Financial loss:** R103 million **Notified:** 24 July 2019	Hawks, State Attorney and Special Investigating Unit took matter to court to recover financial loss from supplier – currently in process. Accounting officer tasked internal audit unit to conduct investigation to identify responsible officials – except for one instance, disciplinary hearings were conducted and consequences effected.
Department of Cooperative Governance – **2018-19**	
Payments made in 2018-19 to deceased participants in community work programme due to ineffective internal controls for approval and processing of payments. **Financial loss:** R0,2 million **Notified:** 13 August 2019	Accounting officer appointed service provider to perform investigation (expected to be finalised in 2020-21) and will institute disciplinary actions based on outcome. Financial losses were quantified and accounting officer plans to recover it from non-profit organisation; deceased participants were removed from community work programme system.
Department of Cooperative Governance – **2018-19**	
Payments made in 2018-19 to non-qualifying government employees as part of community work programme due to ineffective internal controls for approval and processing of payments. **Financial loss:** R7,1 million **Notified:** 13 August 2019	Accounting officer appointed service provider to perform investigation. Financial loss was quantified and disclosed as fruitless and wasteful, which will be recovered from non-eligible participants.
Department of Cooperative Governance – **2018-19**	
Payments made in advance to implementing agents, without evidence of goods and services being received due to ineffective internal controls for approval and processing of payments. **Financial loss:** To be quantified by accounting officer **Notified:** 13 August 2019	Evidence that goods and services were received was subsequently provided, except for amount of R12,3 million, which is being followed up and considered for possible recovery from non-profit organisations. Some non-complying non-profit organisations were referred to internal audit unit for investigation; subsequently, some contracts were terminated.

MATERIAL IRREGULARITY	ACTION TAKEN BY AUDIT REPORT DATE
Department of Cooperative Governance – **2018-19**	
Project management fees paid to implementing agents with contract periods from 1 April 2014 to 31 March 2018, **without evidence of goods and services being received** due to ineffective internal controls for approval and processing of payments. **Financial loss:** To be quantified by accounting officer **Notified:** 26 August 2019	Accounting officer appointed investigators in October 2019 (investigation is still ongoing and will be finalised in 2020-21) and plans to recover any financial losses and take disciplinary steps against responsible officials based on outcome.
Department of Cooperative Governance – **2018-19**	
Project management fees paid to implementing agents with contracts commencing on 1 April 2018 and ending in March 2021, **without evidence of goods and services being received** due to ineffective internal controls for approval and processing of payments. **Financial loss:** To be quantified by accounting officer **Notified:** 26 August 2019	Accounting officer appointed investigators in October 2019 (investigation is still ongoing and will be finalised in 2020-21) and plans to recover any financial losses and take disciplinary steps against responsible officials based on outcome.
Department of Basic Education – **2018-19**	
Contractor was paid although work undertaken was not at required standard of quality. Further payments had to be made to another contractor for remedial construction work. **Financial loss:** R2,8 million **Notification:** 22 July 2019	Departmental investigation committee concluded their investigation during 2017-18. Accounting officer issued letter of demand for cost of remedial work, which contractor rejected. Facilitator was appointed in July 2020 to mediate matter.
Department of Water and Sanitation – **2018-19**	
Payment made in 2018-19 to consulting firm for financial management services **without evidence of work performed.** **Financial loss:** R17,9million **Notified:** 17 July 2019	Based on investigation concluded in July 2018, accounting officer initiated disciplinary procedures in October 2018 against officials involved and opened criminal case with South African Police Service in July 2018. Officials resigned but one official joined another department – request was submitted in June 2020 for that department to continue with disciplinary process. Summons filed with High Court to declare contract invalid and recover losses in November 2018 – application to declare contract invalid has since been withdrawn as it was no longer relevant, but court proceedings to recover financial loss continue.
Water Trading Entity – **2018-19**	
Customers not billed for water usage for number of years. **Financial loss:** R334,6 million (original loss) R11,6 million (remaining loss) **Notified:** 18 July 2019	Investigation was completed in February 2021, which identified significant control weaknesses that caused material irregularity. Billing of customers commenced and will continue until completed. Legal opinion is being obtained on potential impact of Prescription Act on old water debts. Appropriate actions are planned against officials found to be responsible.

MATERIAL IRREGULARITY	ACTION TAKEN BY AUDIT REPORT DATE
Water Trading Entity – **2018-19**	
Advance payment not made to service provider as required by contract – court found in favour of service provider and ordered entity to pay interest as well as legal cost. **Financial loss:** R2,2 million (interest) **Notified:** 18 July 2019	Investigation was completed in June 2020 and identified officials responsible for incurring fruitless and wasteful expenditure. Accounting officer requested legal advice, which confirmed in December 2020 that losses can be recovered from identified officials – actions are planned from February 2021 for recovery process.
South African Broadcasting Corporation – **2019-20**	
Contract for security services awarded in August 2017 **to bidder that did not score highest points** in evaluation process, resulting in higher prices being paid. **Financial loss:** To be quantified by accounting authority **Notified:** 7 July 2020	Losing bidder instituted court proceedings in December 2017 and, after investigating and concluding on the matter in June 2019, Special Investigating Unit joined court case with motion to set aside contract. Accounting authority plans to take appropriate actions to recover financial loss and prevent further losses depending on outcome of court case.
Passenger Rail Agency of South Africa – **2018-19**	
Competitive bidding processes not followed to appoint contractors for general overhaul and upgrade services – first awarded before 2008 and extended multiple times without following competitive bidding processes. Likely to result in material financial losses, as market-related prices are not being secured. **Financial loss:** To be quantified by board **Notification:** 17 July 2019	Accounting authority requested investigation by Special Investigating Unit – approved by President in August 2019 and in progress.
Passenger Rail Agency of South Africa – **2018-19**	
Non-compliance with supply chain management legislation led to **unfair procurement process** for new signalling system in Western Cape (July 2012); value of contract awarded was also higher than what had been approved. Likely to result in material financial losses, as fair and transparent process was not followed and there was no justification for contract value exceeding approved amount. **Financial loss:** To be quantified by board **Notification:** 17 July 2019	Initiation of investigation delayed due to changes in accounting authority. Special Investigating Unit was requested to assist with finalisation of investigation through secondment of resources to entity for six months, with option to extend – agreement to this effect signed in September 2020 and investigation is in progress.

MATERIAL IRREGULARITY	ACTION TAKEN BY AUDIT REPORT DATE
Passenger Rail Agency of South Africa – **2018-19**	
Competitive bidding processes not followed to appoint contractors for provision of bus services in Western Cape – first awarded in 2005 and extended multiple times without following competitive bidding processes. Likely to result in material financial losses, as market-related prices are not being secured. Financial loss: To be quantified by board Notification: 18 July 2019	Initiation of investigation delayed due to changes in accounting authority. Special Investigating Unit was requested to assist with finalisation of investigation through secondment of resources to entity for six months, with option to extend – agreement to this effect signed in September 2020 and investigation is in progress.
Passenger Rail Agency of South Africa – **2018-19**	
Competitive bidding processes not followed to appoint contractors for provision of surveillance services (drones) (February 2018). Likely to result in material financial losses, as market-related prices are not being secured and contract was extended without required approvals. **Financial loss:** To be quantified by board **Notification:** 18 July 2019	Initiation of investigation delayed due to changes in accounting authority. Special Investigating Unit was requested to assist with finalisation of investigation through secondment of resources to entity for six months, with option to extend – agreement to this effect signed in September 2020 and investigation is in progress.
Passenger Rail Agency of South Africa – **2018-19**	
Competitive bidding processes not followed to appoint contractors for provision of security services (February 2018). Likely to result in material financial losses, as market-related prices are not being secured and contract was extended without required approvals. **Financial loss:** To be quantified by board **Notification:** 18 July 2019	Initiation of investigation delayed due to changes in accounting authority. Special Investigating Unit was requested to assist with finalisation of investigation through secondment of resources to entity for six months, with option to extend – agreement to this effect signed in September 2020 and investigation is in progress.
Passenger Rail Agency of South Africa – **2018-19**	
Competitive bidding processes not followed for repair, supply and delivery of signalling equipment (July 2018); value of contract awarded was also higher than what had been approved. Likely to result in material financial loss, as market-related prices are not being secured. **Financial loss:** To be quantified by board **Notification:** 18 July 2019	Initiation of investigation delayed due to changes in accounting authority. Special Investigating Unit was requested to assist with finalisation of investigation through secondment of resources to entity for six months, with option to extend – agreement to this effect signed in September 2020 and investigation is in progress.
Passenger Rail Agency of South Africa – **2018-19**	
Contract for control of vegetation awarded in August 2018 **to bidder that did not score highest points i**n evaluation process, resulting in higher prices being paid. **Financial loss:** To be quantified by board **Notification:** 11 July 2019	Initiation of investigation delayed due to changes in accounting authority. Special Investigating Unit was requested to assist with finalisation of investigation through secondment of resources to entity for six months, with option to extend – agreement to this effect signed in September 2020 and investigation is in progress.

MATERIAL IRREGULARITY	ACTION TAKEN BY AUDIT REPORT DATE
Passenger Rail Agency of South Africa – **2018-19**	
Competitive bidding processes not followed for contract awarded in July 2018 for repair and replacement of signalling equipment; value of contract awarded was also higher than what had been approved. Likely to result in material financial loss, as market-related prices are not being secured. **Financial loss:** To be quantified by board **Notification:** 18 July 2019	Initiation of investigation delayed due to changes in accounting authority. Special Investigating Unit was requested to assist with finalisation of investigation through secondment of resources to entity for six months, with option to extend – agreement to this effect signed in September 2020 and investigation is in progress.
Department of Human Settlements (GP) – **2019-20**	
Payment made in October 2019 **to incorrect contractor** due to ineffective internal controls for approval and processing of payments. **Financial loss:** R2,5 million **Notified:** 7 September 2020	Criminal case was opened against contractor in November 2019. Contractor was arrested in September 2020 and subsequently released on bail. In March 2020, Asset Forfeiture Unit within National Prosecuting Authority served forfeiture application on contractor and an order was obtained to preserve some of the funds. Department is assessing responses by identified officials received in October 2020 on reasons for breakdown in internal controls to determine required disciplinary steps.
Department of Health (GP) – **2018-19**	
Information technology infrastructure procured without inviting competitive bids, resulting in financial loss as cheaper alternatives were available. **Financial loss:** R148,9 million **Notification:** 24 June 2019	Based on outcome of investigation completed in September 2018, accounting officer took disciplinary actions against two of the implicated officials and plans to finalise process with remaining official by 31 March 2021. In July 2019, matter was referred to National Prosecuting Authority to consider possible criminal charges and to State Attorney to consider possible civil claims.
Department of Community Safety and Transport Management (NW) – **2019-20**	
Contract awarded in March 2015 for introduction of scheduled flights to Mahikeng and Pilanesberg airports without effective internal controls for approving and processing payments for flight subsidies, operational costs for airports and route marketing services, resulting in **suppliers being paid for services not delivered**. **Financial loss:** To be quantified by accounting officer **Notified:** 13 February 2020	Contract was terminated in June 2018 and no further payments were made. Two criminal cases were opened, one with South African Police Service in 2017 and one with Hawks in May 2020; both cases still in progress. Department approached National Treasury in September 2019 to investigate matter, resulting in commissioning of external forensic investigation in October 2019; still in progress. Upon completion of investigation, accounting officer plans to institute disciplinary action against officials found responsible for loss and recover all money lost.

MATERIAL IRREGULARITY	ACTION TAKEN BY AUDIT REPORT DATE
Department of Community Safety and Transport Management (NW) – **2018-19**	
Through participating in contract of Free State department, contract was awarded to supplier for learner driver training and capacitation programme in October 2015 without complying with legislative requirements for such participation. As competitive bidding process was not followed, ability of supplier to deliver services was not assessed. **Prepayment was made in November 2015 to supplier for which services have not been received** to date. **Financial loss:** R21,3 million **Notified:** 15 July 2019	Criminal case opened with Hawks in 2017; investigation still ongoing. Civil claim instituted against supplier in September 2017 through State Attorney to recover loss. Accounting officer performed detailed review of relevant documentation to identify all responsible officials. Upon completion of investigation, accounting officer plans to institute disciplinary action against officials found responsible for loss.
Department of Community Safety and Transport Management (NW) – **2018-19**	
Scholar transport **suppliers were paid** in 2017-18 and 2018-19 **directly without following procurement process** – price paid for scholar transport was significantly higher than market price. **Financial loss:** To be quantified by accounting officer **Notified:** 15 July 2019	High Court ruled in December 2019 that contract must be set aside, any service-level agreement with suppliers must be declared void, and department must publish new invitation to bid by 30 November 2020. Special Investigating Unit extended scope of investigation into previous scholar transport tender to current scholar transport matter; investigation still in progress. Accounting officer requested National Treasury in November 2018 to conduct forensic investigation and is currently considering outcome of September 2020 report with provincial treasury. Accounting officer plans to institute disciplinary action against officials found responsible for loss and recover all money lost.
Department of Community Safety and Transport Management (NW) – **2018-19**	
Effective internal controls not in place for approval and processing of payments to scholar transport suppliers in 2017-18 and 2018-19, resulting in **suppliers being paid for services not delivered.** **Financial loss:** To be quantified by accounting officer **Notified:** 15 July 2019	Special Investigating Unit extended scope of investigation into previous scholar transport tender to current scholar transport matter; investigation still in progress. Accounting officer requested National Treasury in November 2018 to conduct forensic investigation and is currently considering outcome of September 2020 report with provincial treasury. Accounting officer plans to institute disciplinary action against officials found responsible for loss and recover all money lost. Department commissioned route verifications through provincial internal auditors, resulting in payments to suppliers from 15 October 2019 being based on actual verified kilometres and rate per kilometre being adjusted to correct bus capacities.

MATERIAL IRREGULARITY	ACTION TAKEN BY AUDIT REPORT DATE
Department of Transport (EC) – **2019-20**	
Construction grader was stolen in July 2019 as it was not properly safeguarded. **Financial loss:** R1,5 million **Notified:** 7 July 2020	Departmental investigation committee concluded investigation in August 2020. Theft reported to South African Police Service, which has reportedly found the grader in Lesotho. Accounting officer aims to recover asset and take necessary disciplinary actions against responsible officials.
Department of Health (LP) – **2019-20**	
Lease payments made at Pietersburg Hospital from May 2015 to February 2020 **for radiology equipment not licensed for use** due to safety concerns. **Financial loss:** R2,6 million **Notified:** 20 July 2020	Accounting officer addressed environmental challenges by deep-cleaning trauma room and further re-launched licensing of equipment. Formal investigation commenced in July 2020 to identify responsible officials. Supplier was engaged in July 2020 to recover financial loss – supplier agreed to provide equipment to department at no cost for 24 months from 8 September 2020.
Roads Agency Limpopo – **2019-20**	
Agency obtained permit to perform road construction work in 2017 only after contractor took site – contractor claimed and **was paid standing time while construction was delayed.** **Financial loss:** R1,3 million **Notified:** 27 August 2020	Based on outcome of preliminary investigation, accounting authority instituted formal investigation with planned completion date of 31 March 2021 to identify cause of transgression and responsible officials.
Department of Education (LP) – **2018-19**	
Goods and services were received from supplier of information technology services, but **invoices were not paid** as contract was cancelled when department was placed under administration, resulting in litigation and order against department to pay outstanding amount plus interest. **Financial loss:** R85,2 million **Notified:** 8 July 2019	Accounting officer's preliminary investigation determined that different public sector institutions played a role in material irregularity; premier's office advised that matter be referred to intergovernmental relations forum. In December 2019, former accounting officer requested Limpopo Department of Cooperative Governance and Traditional Affairs to assist in this regard. New acting accounting officer followed this up and department committed in September 2020 to facilitate mediation process to identify responsible parties.
Department of Health (NC) – **2018-19**	
Payments made for radiology services from April 2014 to September 2018 but contract contained mathematical error that resulted in **overpayments**. Payments also made for mammogram services even though hospital where services were rendered did not have mammogram machine. **Financial loss:** To be quantified by accounting officer **Notification:** 17 July 2019	Accounting officer did preliminary investigation, which resulted in full-scale investigation instituted in August 2019. Investigation delayed due to change in accounting officer and key staff in department. Acting accounting officer undertook to re-appoint investigation team to complete investigation and to consult with Hawks. Planned completion date of investigation was 1 December 2020.

MATERIAL IRREGULARITY	ACTION TAKEN BY AUDIT REPORT DATE
Department of Health (KZN) – **2018-19**	
Contracts for radiology equipment awarded in September 2017 **to bidders that did not score highest points** in evaluation process, resulting in higher prices being paid. **Financial loss:** To be quantified by accounting officer **Notification:** 25 June 2019	Based on preliminary investigation by department's special investigation unit concluded in July 2019, acting accounting officer requested provincial treasury's forensic investigation unit in August 2019 to comprehensively investigate matter. Investigation completed in June 2020 concluded that there was no non-compliance based on different interpretation of requirements of Preferential Procurement Policy Framework Act. National Treasury was requested to resolve disagreement and provided their view in November 2020, which investigation unit (which now falls under premier's office) is currently reviewing. Accounting officer plans to take necessary action based on revised outcome and recommendation of investigation.

Recommendations in audit report **and referrals** to public body for investigation

MATERIAL IRREGULARITY	RECOMMENDATION/REFERRAL AS REPORTED IN AUDIT REPORT
Department of Defence – **2019-20**	
Contract for inventory and asset verification awarded in February 2017 **to two bidders on 50/50 basis and not to one bidder that scored highest points** in evaluation process, resulting in increased project cost. **Financial loss:** R250,6 million **Notified:** 18 July 2019	Accounting officer did not take any action in response to being notified of material irregularity. Recommendations to be implemented by 30 November 2020: • Accounting officer should investigate irregular expenditure and quantify amount of financial loss incurred, in accordance with National Treasury instruction notes dealing with irregular expenditure. • Department should take effective and appropriate disciplinary steps against any official found to be responsible through investigation in terms of section 38(1)(h) of Public Finance Management Act and treasury regulation 9.1.3. • Department should take appropriate action to determine whether responsible official is liable by law for losses suffered by department for purpose of recovery, as required by treasury regulations 9.1.4 and 12.7.1.

MATERIAL IRREGULARITY	RECOMMENDATION/REFERRAL AS REPORTED IN AUDIT REPORT
Passenger Rail Agency of South Africa – **2018-19**	
Multiple instances of non-compliance in procurement process for locomotives in July 2012 resulted in **contract being unfairly awarded. Prepayment** of R2 600 million was made to supplier, **but auditee derived no value** as locomotives were not fit for purpose. Supplier applied for liquidation in December 2018, making recovery of financial loss unlikely and resulting in R2 200 million in debt owed by supplier to auditee being impaired in 2018-19. Investigation by board in 2015 resulted in referral to Hawks for investigation and contract being set aside by court in May 2019. Second phase of investigation into implicated officials still in progress. **Financial loss:** R2 200 million **Notified:** 17 July 2019	Accounting authority cancelled contract with supplier and Special Investigating Unit has been investigating matter since 2015. No further actions were taken. Recommendations for implementation by 31 March 2020 were included in 2018-19 audit report, but implementation was delayed due to changes at accounting authority level and lockdown measures in response to covid-19 pandemic. Extension for implementing following recommendations was granted until 18 August 2020: • Appropriate action should be taken to ensure that second phase of investigation is concluded. • Effective and appropriate disciplinary steps should commence against any employee that second phase of investigation finds to be responsible, as required by section 51(1)(e) of Public Finance Management Act. To implement recommendations, entity requested Special Investigating Unit to assist with finalisation of investigation through secondment of resources to entity for six months, with option to extend – agreement to this effect was signed in September 2020.
Department of Education (FS) – **2019-20**	
Contracts for supply of sanitary towels **awarded** on 30 October 2019 **to eight bidders, instead of one bidder that scored highest points** in evaluation process, resulting in higher prices per item. **Financial loss:** To be quantified by accounting officer **Notified:** 16 July 2020	Accounting officer responded by disagreeing that there was any non-compliance with legislation in awarding contract. Recommendations to be implemented by 31 March 2021: • Accounting officer should investigate irregular expenditure and quantify amount of financial loss incurred, in accordance with National Treasury instruction notes dealing with irregular expenditure. • Effective and appropriate disciplinary steps should commence against any official that investigation finds to be responsible in terms of section 38(1)(h) of Public Finance Management Act and treasury regulation 9.1.3. • Appropriate action should be taken to determine whether responsible official is liable by law for losses suffered by department for purpose of recovery, as required by treasury regulations 9.1.4 and 12.7.1.

MATERIAL IRREGULARITY	RECOMMENDATION/REFERRAL AS REPORTED IN AUDIT REPORT
Department of Human Settlements (FS) – **2018-19**	
Contractor paid from 2014-15 to 2016-17 **for development** of community residential units in Thabong **that was not completed.** New contractor had to be appointed to complete work. **Financial loss:** R20,2 million **Notified:** 12 July 2019	Accounting officer did not take any appropriate actions to resolve material irregularity. Recommendations to be implemented by 28 July 2021: • Appropriate action should be taken to recover financial loss suffered by department from supplier; alternatively, from insurance company where contract was insured, if liable. • Appropriate action should be taken to investigate non-compliance to determine if any official should be held responsible. • Effective and appropriate disciplinary steps should commence against any official that investigation finds to be responsible, as required by section 38(1)(h) of Public Finance Management Act.
Department of Human Settlements (FS) – **2018-19**	
Payments made in 2018-19 **on duplicate claims submitted by supplier** on Kroonstad 350 housing project. **Financial loss:** R6,6 million **Notified:** 12 July 2019	Accounting officer instituted recovery process from supplier through State Attorney on 8 August 2019. No further actions were taken. Recommendations to be implemented by 28 July 2021: • Appropriate action should be taken to investigate non-compliance if investigation has not already commenced within department, in order to determine if any official should be held liable for losses suffered by department. • If it appears that department suffered financial loss through criminal acts, possible criminal acts or omission, this should be reported to South African Police Service, as required by treasury regulation 12.5.1. • Effective and appropriate disciplinary steps should be taken against any official that investigation finds to be responsible, as required by section 38(1)(h) of Public Finance Management Act.

MATERIAL IRREGULARITY	RECOMMENDATION/REFERRAL AS REPORTED IN AUDIT REPORT
Department of Human Settlements (FS) – **2018-19**	
Retention payments made in 2018-19 to contractor on Ventersburg 200 housing project **in excess of retention amount withheld by department**. **Financial loss:** R0,5 million **Notified:** 26 July 2019	Accounting officer instituted recovery process from supplier through State Attorney on 14 August 2019. No further actions were taken. Recommendations to be implemented by 23 August 2021: • Appropriate action should be taken to investigate non-compliance if investigation has not already commenced within department, in order to determine if any official should be held liable for losses suffered by department. • If it appears that department suffered financial loss through criminal acts, possible criminal acts or omission, this should be reported to South African Police Service, as required by treasury regulation 12.5.1. • Effective and appropriate disciplinary steps should be taken against any official that investigation finds to be responsible, as required by section 38(1)(h) of Public Finance Management Act.
Department of Human Settlements (FS) – **2018-19**	
Retention payments made in 2018-19 to contractor on Bloemfontein 393 housing project **in excess of retention amount withheld by department.** **Financial loss:** R1,4 million **Notified:** 26 July 2019	Accounting officer instituted recovery process from supplier through State Attorney on 14 August 2019. No further actions were taken. Recommendations to be implemented by 28 July 2021: • Appropriate action should be taken to investigate non-compliance if investigation has not already commenced within department, in order to determine if any official should be held liable for losses suffered by department. • If it appears that department suffered financial loss through criminal acts, possible criminal acts or omission, this should be reported to South African Police Service, as required by treasury regulation 12.5.1. • Effective and appropriate disciplinary steps should be taken against any official that investigation finds to be responsible, as required by section 38(1)(h) of Public Finance Management Act.

MATERIAL IRREGULARITY	RECOMMENDATION/REFERRAL AS REPORTED IN AUDIT REPORT
Department of Human Settlements (FS) – **2018-19**	
Retention payments made in 2018-19 to contractor on Odensdaalsrus 300 housing project **in excess of retention amount withheld by department.** **Financial loss:** R0,7 million **Notified:** 26 July 2019	Accounting officer instituted recovery process from supplier through State Attorney on 14 August 2019. No further actions were taken. Recommendations to be implemented by 28 July 2021: • Appropriate action should be taken to investigate non-compliance if investigation has not already commenced within department, in order to determine if any official should be held liable for losses suffered by department. • If it appears that department suffered financial loss through criminal acts, possible criminal acts or omission, this should be reported to South African Police Service, as required by treasury regulation 12.5.1. • Effective and appropriate disciplinary steps should be taken against any official that investigation finds to be responsible, as required by section 38(1)(h) of Public Finance Management Act.
Department of Health (NC) – **2018-19**	
Three-year **contract** for medical waste collection **awarded** in November 2018 **to supplier based on criteria** applied in evaluation process, which were **different from those in original bidding invitation.** Non-compliance likely to result in material financial loss, as fixed monthly pricing awarded to supplier differed significantly from variable costing pricing included in original bidding invitation. **Financial loss:** To be determined as part of investigation **Notification:** 18 July 2019	Accounting officer did not agree that there was any non-compliance in procurement process. We referred matter to National Treasury in October 2019 for investigation. After discussions and engagements, National Treasury accepted referral for investigation in March 2020 following hold-ups caused by engagements on memorandum of understanding to facilitate referral being delayed. In March 2021, National Treasury provided feedback that they will commence with investigation.

MATERIAL IRREGULARITIES VERSUS IRREGULAR EXPENDITURE

Now that we have looked at the material irregularities in detail, let's address a question that we frequently get asked on the correlation between irregular expenditure and material irregularities. Our stakeholders often expect that all irregular expenditure will also be material irregularities. This is not the case, however, as explained below by looking at differences in nature and in value.

Material irregularities versus irregular expenditure - nature

	Irregular expenditure	Expenditure incurred in contravention of, or that is not in accordance with, a requirement of any applicable legislation
	Difference: irregularity	Irregular expenditure: Irregularity is only **non-compliance with legislation when incurring expenditure** Material irregularity: Irregularity is **any non-compliance (not limited to expenditure)** as well as **fraud, theft or breach of fiduciary duty**
	Difference: impact	Impact is not specified, as Public Finance Management Act requires accounting officer/authority to determine impact There can be **irregular expenditure that did not result in any financial losses,** misuse or harm

The main differences are in the **nature** of irregular expenditure and material irregularities. As mentioned earlier, a material irregularity needs to pass two gates: there needs to be an irregularity and an impact. For a matter to be irregular expenditure, only the irregularity element is required. The irregularity is also limited to only non-compliance with legislation when incurring expenditure, while the irregularity element of a material irregularity is much broader.

With irregular expenditure, the non-compliance and the resultant value of the expenditure incurred are disclosed. The accounting officer or authority is then required to determine if there was any impact in terms of, for example, a financial loss; and take further action as appropriate.

Earlier we highlighted some non-compliance with legislation classified as irregular expenditure that can result in financial losses; for example, non-compliance with supply chain management legislation in the procurement process resulting in an auditee missing the opportunity to get the best price for goods and then paying too high a price, or the money paid for remedial work when a supplier did not deliver a service at the required level.

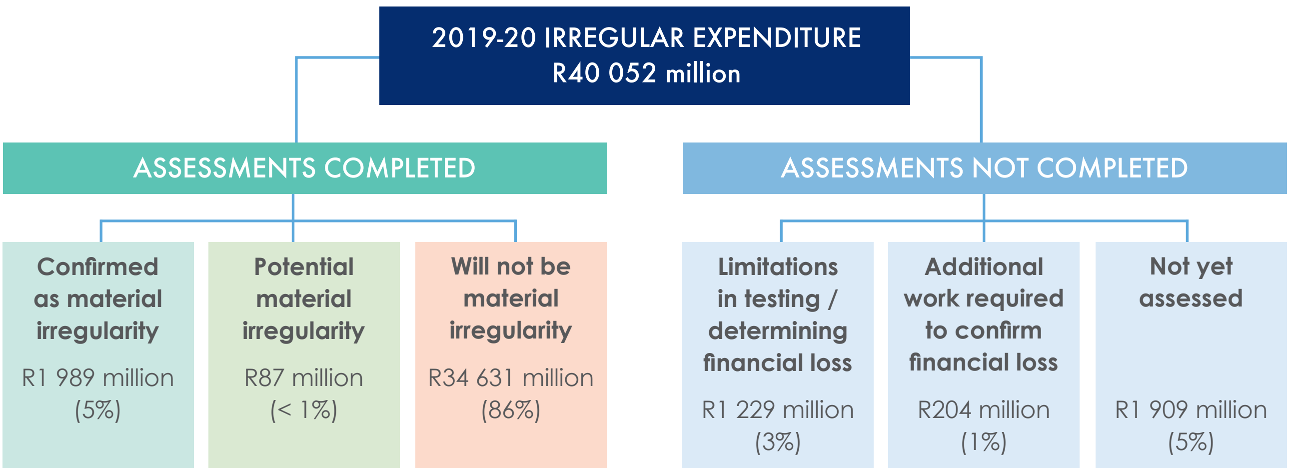
BUT it is possible that there was no financial loss if the goods and services were reasonably priced and delivered on time and at the right quality. So all transactions or contracts considered to involve irregular expenditure do not always mean money was lost – this can only be determined through investigating the matter.

There are also matters deemed as irregular expenditure that rarely result in financial loss, such as a supplier not submitting an updated tax certificate or an advert not including the specifications for local content.

A further difference between irregular expenditure and material irregularities has to do with **values**. The value of the material irregularities we report on is the estimated financial loss from a procurement process, while the value of irregular expenditure is the total amount expensed. We illustrate this distinction below.

	IRREGULAR EXPENDITURE	MATERIAL IRREGULARITY
Difference: value	Value is expenditure to date	Does not necessarily have a value, but if impact is financial loss, value we report is estimated financial loss
Example	Lack of competitive bidding process for awarding contract of R20 million Irregular expenditure is all payments made on contract to date (e.g. R10 million)	Lack of competitive bidding process for awarding contract of R20 million, resulting in material financial loss as same service could have been delivered at lower price (e.g. R18 million) Financial loss is R2 million (what was lost and what can still be lost)

One of the sources of potential material irregularities we use is the irregular expenditure disclosure in the financial statements of auditees and the register of instances they keep. Below we show how we assessed the R40 052 million in irregular expenditure incurred in 2019-20 as disclosed by the selected auditees.



Some assessment work (9% of the value) still needs to be completed due to various reasons such as limitations in determining the loss or additional work that must still be done.

Based on the assessments completed, however, 86% of the irregular expenditure will not translate into material irregularities. There were three main reasons for this:

1. It did not meet the definition of a material irregularity as we confirmed that the non-compliance did not result in a financial loss (75%). There was also a small portion (< 1%) that was non-compliance from a prior year that did not continue to have an impact.
2. The value of some of the non-compliance was very low (1%) – these cases typically related to quotations. It is unlikely that only financial loss will be considered material.
3. The amounts disclosed were not irregular expenditure but rather corrections of prior period errors on the disclosure note (10%).

CONCLUSION

We have already seen great value from the implementation of the material irregularity process. Based on our experiences to date, the following are our key observations:

- Most **accounting officers and authorities are taking appropriate action** to address the material irregularities identified. They had already started taking action in some cases by the time we formally notified them of the material irregularity. At least preliminary investigations were done within the 20 working days we gave them to respond to our notification.

- In following up the progress with the material irregularities we reported in 2018-19, we also found that most accounting officers and authorities were actively working on resolving the material irregularities. It signals **a behavioural change towards responding in a decisive and timely manner to our findings**. At some auditees, matters we have been reporting for a number of years are finally receiving attention.

- The timely resolution of material irregularities will be **dependent on investigations** that are thorough but also speedily completed. The accounting officers and authorities can monitor the progress made on the investigations they commissioned, and can ensure that the completion is not unduly delayed. However, when a material irregularity is referred to another public sector institution, the accounting officer or authority has little influence. The executive authorities and committees in Parliament and legislatures will need to monitor progress on such investigations and hold the institutions to which they were referred accountable.

- We have been reporting for a number of years on the impact of instability at the level of accounting officer and authority on the control environment and audit outcomes of an auditee. This **instability also has an impact on the resolution of material irregularities and often leads to delays in resolving the material irregularity**. What plays a definite role is the handover process to the new accounting officer and the rigour with which the new accounting officer follows through on the actions committed to by his/her predecessor. At the Department of Cooperative Governance, for example, the newly appointed accounting officer took ownership of resolving the material irregularities reported to her predecessor and has taken strong action to date. On the other hand, the change in accounting officer alongside most of the staff in his office at the Northern Cape Department of Health resulted in the new accounting officer not being aware of the material irregularities reported in the previous year and little action being taken.

- Most of the material irregularities identified were money lost as a result of payments that should not have been made. These material irregularities **are not complex accounting or procurement issues and could have been prevented through basic controls**. The material irregularities resulting from supply chain management non-compliance were also mostly not complex or ambiguous and could have been prevented – or at least detected and dealt with – before they resulted in such material financial losses for the auditees. None of the material irregularities were as a result of human error, but were rather due to poor processes and judgement. There were most definitely indicators of fraud in some of these material irregularities, which have been (or will still be) uncovered by the investigations.

Preventing material irregularities is more effective than having to deal with the consequences thereof – money is lost, costly investigations have to be instituted and officials are subjected to the discomfort and anxieties associated with these processes, which often take a number of years to be concluded.

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.

SECTION 4

Financial management in national and provincial government

Accounting officers and authorities managed an estimated expenditure budget of R1 706 billion in 2019-20.

Our responsibility with regard to financial management is to audit the financial statements to determine whether they fairly present the financial state of affairs of auditees and to audit auditees' compliance with legislation relating to financial management. In addition, we assess and comment on the financial health and internal controls of auditees.

Over the past years, we have consistently reported on the same deficiencies in financial management in national and provincial government and made recommendations to the auditees, national and provincial role players as well as oversight structures – but improvements in this area have been very slow.

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

As in previous years, we again highlight our concerns on the current state of financial management in this section of the report – in particular, by looking at auditees' financial statements, financial health and financial losses.

FINANCIAL STATEMENTS

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

Why are the financial statements important?

The financial statements of an auditee show how it spends its money, where its revenue comes from, its assets and the state of those assets, how much it owes creditors, how much is owed to the auditee, and whether it is expected that the money owed will be received.

The financial statements also provide crucial information on how the budget was adhered to, the unauthorised, irregular, and fruitless and wasteful expenditure incurred, as well as the overall financial position of the auditee – whether its operations are financially sustainable.

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

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

What did we find on the submission of financial statements for auditing?

As in the previous year, 7% of the **auditees did not submit their financial statements for auditing by the legislated date.**

The following 11 auditees had still not submitted their financial statements for auditing by the cut-off date for inclusion in this report of 30 November 2020:

AUDITEES	REASONS FOR NON-SUBMISSION
State-owned entities	
South African Airways Air Chefs Mango Airlines SAA Technical	South African Airways did not submit financial statements due to material uncertainties around its going concern. The entity has been under business rescue since 5 December 2019, following a board resolution. Air Chefs, Mango Airlines and SAA Technical did not submit financial statements due to the ongoing business rescue proceedings at South African Airways and interdependencies of the subsidiaries within the group. The financial statements of Mango for 2018-19 are also still outstanding and for South African Airways, SAA Technical and Air Chefs, both the 2017-18 and 2018-19 financial statements are outstanding.
South African Express Airways	Operations were disrupted following the entity being placed under business rescue and subsequently in provisional liquidation as of 9 June 2020.
LMT Holdings SOC Limited (subsidiary of Denel) LMT Products SOC Limited (subsidiary of LMT Holdings)	LMT Products has been under business rescue since September 2019. LMT Holdings decided to discontinue its operations due to the interdependency it had with LMT Products.
Other national public entities	
Compensation Commissioner for Occupational Diseases	Inadequate financial systems and internal controls resulted in inaccurate financial information, which led to the late submission of financial statements for a number of years, resulting in a backlog that dates back to 2011. Significant progress has been made in addressing the backlog and the financial statements for 2018-19 were submitted on 1 February 2021.
North West provincial public entities	
North West Transport Investments Atteridgeville Bus Services North West Star	The North West Transport Investments group was placed under provisional liquidation in 2018-19, resulting in uncertainty on the accounting framework to use. There was also a lack of capacity to prepare financial statements within the group.

The number of auditees that submitted quality financial statements increased – the bar still remains low with only 49% of the auditees being able to give us financial statements without misstatements. Of the 196 auditees that gave us poor financial statements, 97 could correct all the material misstatements we identified – resulting in 74% of the auditees receiving unqualified audit opinions. This means that if we had not identified the misstatements for the auditees and allowed them to correct these, 51% of the auditees (72 departments and 124 public entities) would have published financial statements that were not credible.

The controls to prevent misstatements are inadequate and the misstatements remain undetected even though the financial statements go through various levels of review, including the chief financial officer and the audit committee, before it is approved by the accounting officer or authority. Pressure is then placed on the auditors to identify the misstatements as part of the audit process. The continued reliance on the auditors to identify corrections to be made to the financial statements to obtain an unqualified audit opinion is not an effective or sustainable practice.

Over the years, this has placed undue pressure on the audit teams to meet the legislated deadlines for the completion of the audits, with an accompanying impact on the audit fees.

Who is over-relying on the audit process to prepare credible financial statements?

Accounting for the transactions, assets and liabilities of departments and public entities using the public sector accounting frameworks is generally not complex. In a specific financial year, however, there could be unique or complex transactions, arrangements or events that are difficult to account for. There could also be changes in the accounting framework or new interpretations and guidance on particular areas. It is thus to a degree acceptable that an auditee could struggle in that year to produce financial statements without material misstatements. But some auditees give us poor financial statements every year and only achieve an unqualified audit opinion as a result of us identifying the corrections they should make.

The following 10 auditees have given us poor financial statements every year for the past five years, but obtained unqualified opinions every year because they corrected their misstatements:

DEPARTMENTS	PUBLIC ENTITIES	STATE-OWNED ENTITIES
National departments • Labour • Rural Development and Land Reform • Health Gauteng • Infrastructure Development Mpumalanga • Office of the Premier Northern Cape • Cooperative Governance, Human Settlements and Traditional Affairs	National public entities • Energy and Water Sector Education and Training Authority Limpopo • Corridor Mining Resources	Central Energy Fund and one of its subsidiaries, SFF Association NPC

What did we find on the quality of the financial statements?

The number of auditees that obtained unqualified audit opinions remained at 74% (284) – the same as in the previous year.

These auditees could not correct some or all of the material misstatements we identified during the audit, which resulted in qualified, adverse or disclaimed audit opinions (collectively called 'modified audit opinions').

Adverse and disclaimed audit opinions are the worst opinions an auditee can receive. An adverse opinion means that the financial statements included so many material misstatements that we disagree with virtually all the amounts and disclosures in the financial statements. A disclaimed opinion means those auditees could not provide us with evidence for most of the amounts and disclosures in the financial statements. Effectively the information in financial statements with adverse or disclaimed opinions can be discarded, as it is not credible – in our audit reports, we tell oversight structures and other users of the financial statements that the information cannot be trusted.	One department, the North West Department of Human Settlements obtained a disclaimed opinion as a result of insufficient appropriate audit evidence for various line items, including transfers and subsidies as well as goods and services. This department was responsible for R2 227 million of the expenditure budget. Two subsidiaries of Denel (Denel Aerostructures and Denel Vehicle Systems) obtained disclaimed opinions as a result of insufficient appropriate audit evidence for various line items, including trade and other payables as well as inventories at both state-owned entities. These types of opinions were more common at public entities, with three adverse opinions (Densecure, the Commission on Restitution of Land Rights, and the Ingonyama Trust) and 15 disclaimed opinions – seven technical and vocational education and training colleges; the Passenger Rail Agency of South Africa and its subsidiary, Autopax; four provincial public entities in North West; and one provincial public entity each in the Free State (Free State Development Corporation) and Gauteng (Gauteng Housing Fund). The Gauteng Housing Fund and Mmabana Arts, Culture and Sport Foundation have been in this group for the past five years. An additional nine disclaimed audit opinions are expected from the outstanding audits.
A qualified audit opinion means that there were areas in the financial statements that we found to be materially misstated. In our audit reports, we point out which areas of the financial statements cannot be trusted.	In 2019-20, 33 departments obtained qualified audit opinions – an improvement from 47 in the previous year. Fewer public entities (45) had qualified opinions than in the previous year (56). One state-owned entity, the South African Broadcasting Corporation, obtained a qualified audit opinion – the same as in the previous year.

The poorly prepared financial statements and significant activity after their submission to make corrections in response to the audit also raise questions on the credibility of in-year reporting and the effectiveness of financial monitoring and control throughout the year. The treasuries and oversight bodies (such as portfolio committees) use in-year reporting for monitoring, and the unreliable information provided to them affects their effectiveness. Auditees' poor monitoring and corrective action throughout the year is one of the main reasons for the concerning financial health status of departments and public entities and the high amount of unauthorised, irregular and fruitless and wasteful expenditure.

Investing in preventative controls and measures provides the sustainable solutions required to prevent accountability failures. In 2020, we launched the preventative control guides aimed at capacitating preventative oversight. The guide on the preparation of financial statements specifically deals with the key controls that should be in place to ensure quality and credible financial reporting. Oversight structures and executive authorities should use this guide to acquire assurance from accounting officers and authorities that these preventative controls have been implemented and are working effectively.

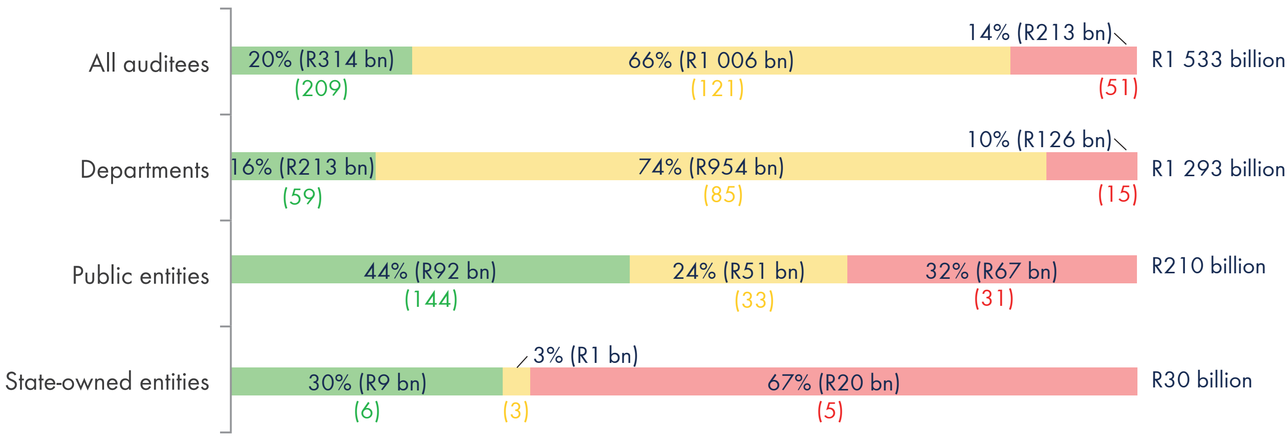
All auditees in the Western Cape, except for the department of agriculture that had a recurring matter on implementing agents, submitted financial statements with no material misstatements. This is a reflection of the institutionalised controls over the financial statements preparation processes. The province also continued to achieve a high number of clean audit outcomes in 2019-20 as leadership set a strong tone at the top to maintain a sound control environment – particularly effective preventative controls.

FINANCIAL HEALTH AND UNAUTHORISED EXPENDITURE

Our audits included a high-level analysis of **12 financial health indicators for departments** and **nine financial health indicators for public entities** to provide management with an overview of selected aspects of their current financial management and to enable timely remedial action where the auditees' operations and service delivery may be at risk. We also performed audit procedures to assess whether there were any events or conditions that might cast significant doubt on an auditee's ability to continue its operations in the near future. Based on the analysis, we gave each auditee an overall assessment as follows:

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

The auditees we analysed were responsible for managing an estimated expenditure budget of R1 533 billion. As can be seen below, the financial health of auditees in proportion to the expenditure budget for which they are responsible, shows pressure on the finances of the auditees that are responsible for the bulk of the budget. Only 20% of the budget is managed by auditees with good financial health.



The auditees where intervention is required include:

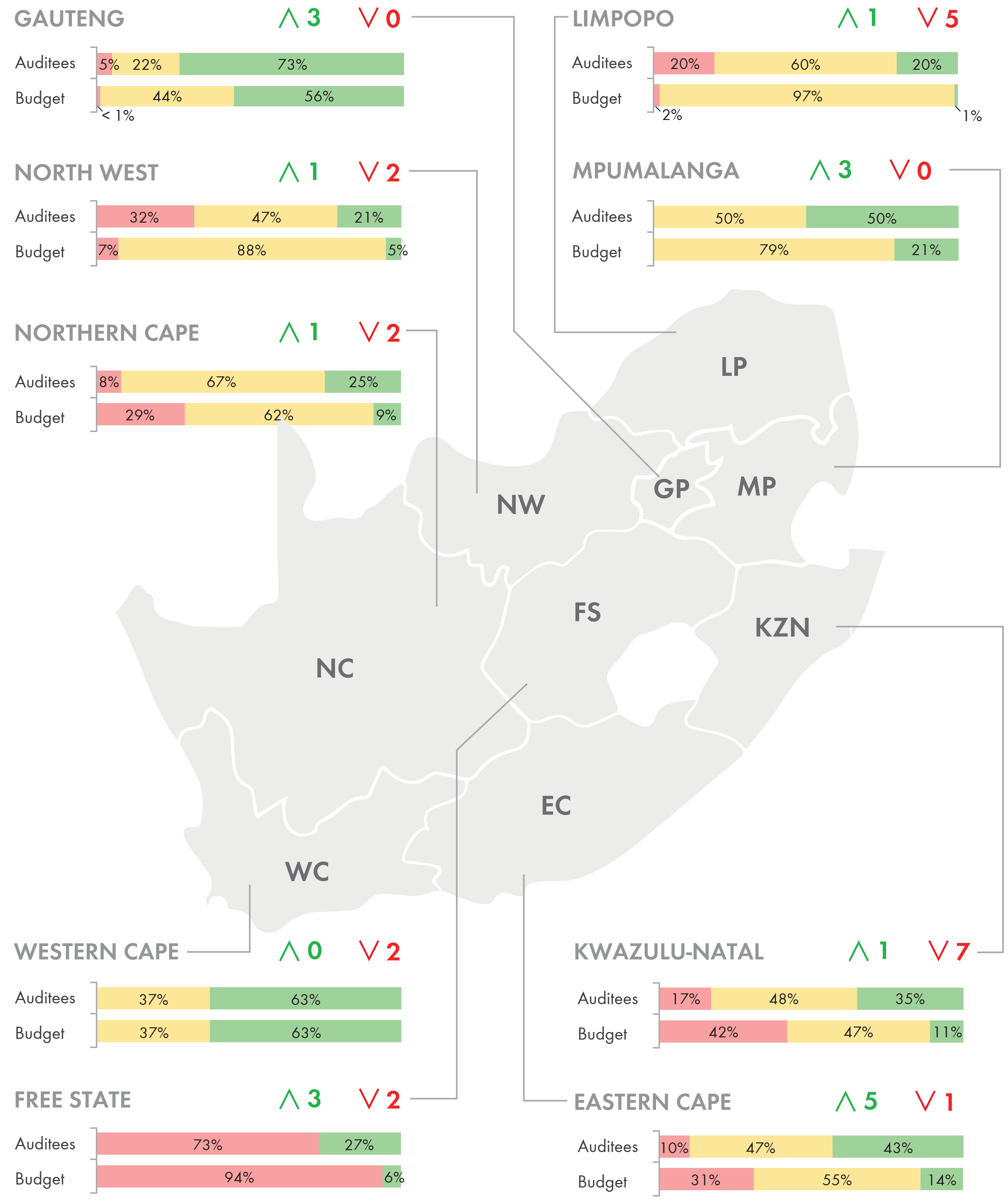
- Twenty-one auditees responsible for 2% of the budget that received adverse or disclaimed opinions on their financial statements, which means that they were not reliable enough to analyse.

- Forty auditees responsible for 12% of the budget disclosed in their financial statements that, based on the state of their finances, there is significant doubt that they will be able to continue with their operations in future. These auditees often need to scale down on operations and obtain financing or even bailouts to keep them going.

- Auditees responsible for 66% of the budget were not yet in a position where they would not be able to operate, but there are indicators that this might soon be the case. We normally conclude that the financial health of an auditee is of concern if there are multiple indicators of financial strain such as deficits, an inability to pay creditors or paying them late, not being able to recover debt, or dipping into the next year's budget to cover the current year's expenditure.

Provincial overview

The financial health of auditees in provinces such as the Free State shows that there was still a significant number of auditees (almost 100% of the total expenditure budget) that required urgent intervention. Similarly, in Limpopo and North West, auditees with a good financial health status were responsible for only 5% or less of the expenditure budget.

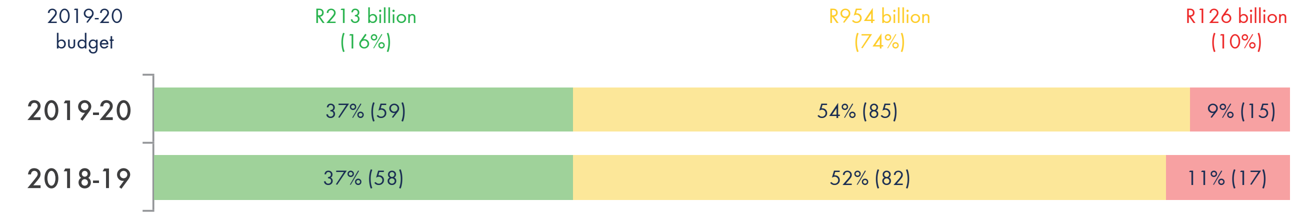


Good | Of concern | Intervention required

Auditees represent % of auditees' financial health status in relation to total number of auditees

Budget represents % of auditees' financial health status in relation to expenditure budget

Financial health of departments



The financial health of departments remained the same as in the previous year, with 20 departments (responsible for 9% of the budget) having a worse status than in the previous year and 20 (responsible for 11% of the budget) improving their status.

The 59 departments with a good financial health status and responsible for only 16% of the budget, mostly included departments responsible for coordination, monitoring, policy and oversight such as treasuries, legislatures, offices of the premier, economic development departments and cooperative governance departments.

The 15 departments where intervention is required include the department of human settlements in North West whose financial statements were not reliable enough for financial analysis. The other 14 departments, responsible for 10% of the budget, signalled their vulnerable position by disclosing in their financial statements that they might find it difficult to continue operating. Although these departments continued with their operations, they were reporting that they were in a particularly vulnerable position at the end of the financial year.

The departments responsible for 74% of the budget are not yet in the same vulnerable position, but there are indicators that this might soon be the case.

The status of unauthorised expenditure also provides a view of the financial health of departments. Unauthorised expenditure means that departments:

- used more funds than what had been allocated, usually resulting in a bank overdraft (in other words, overspending)
- used allocated funds for purposes other than those intended.

The unauthorised expenditure significantly increased from the previous year. As shown below, R15,13 billion thereof was incurred by the Department of Social Development – the significant overspending was as a result of the earlier payment of the April 2020 social grants in response to the covid-19 lockdown measures. Excluding this anomaly, the unauthorised expenditure increased from R1,65 billion to R2,99 billion. Almost all of the unauthorised expenditure was as a result of overspending.

Annual unauthorised expenditure increased from R1,65 billion to R18,12 billion

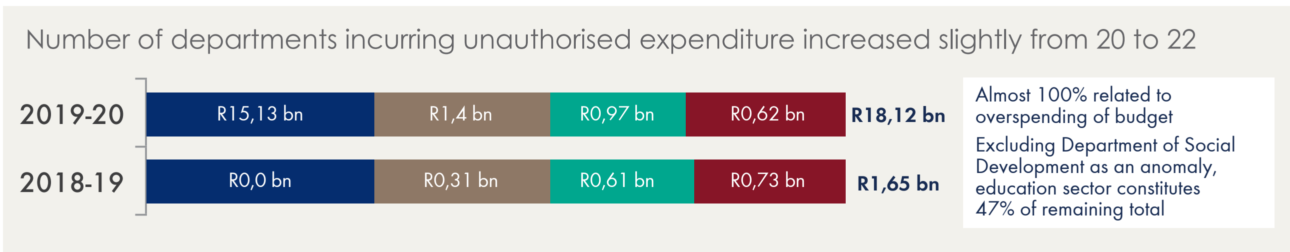


Figure also includes information of audits not completed by 30 November 2020 (i.e. cut-off date of this report)

Seven of the departments that incurred unauthorised expenditure in the current year, also incurred this type of expenditure for the past three years, namely the departments of Education (EC), Education (FS), Education (KZN), Education (NC), Human Settlements (KZN), Police, Roads and Transport (FS), and Statistics South Africa.

Departments from the Eastern Cape, Free State, KwaZulu-Natal and national government were the major contributors to this expenditure (excluding that incurred by the Department of Social Development), constituting 91% of the remaining R2,99 billion.

Departments usually do not budget for claims. Especially in the health sector, not budgeting for medical negligence claims means that all successful claims will be paid from funds earmarked for the delivery of services, resulting in these departments using more than what had been allocated to them.

The provincial health and education departments alone incurred R2,37 billion (79%) in unauthorised expenditure – the concerning financial state of these key service delivery departments is discussed later in this section.

Five of the top 10 contributors of unauthorised expenditure overspent on employee cost. Section 5 includes more detail on unauthorised expenditure, including information on this overspending.

We provide further details on the reasons for the unauthorised expenditure and the indicators we used to analyse the financial health of departments below, but first it is important to understand how the financial analysis of departments is different from that of other auditees and private sector entities.

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

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

Key financial health indicators at departments – sustainability

INDICATORS	2019-20
Sustainability	
Deficit (expenditure exceeded revenue)	R21,20 billion
Number of departments with deficit	35% (56)
Cash shortfall (bank overdraft less prepaid expenses/advances plus money to be surrendered to treasury)	R16,67 billion
Number of departments with cash shortfall	63% (94)
> 10 % of next year's budget (excluding employee cost and transfers) **will fund current year's shortfall**	18% (27)
Bank in overdraft	18% (28)
Unpaid claims at year-end	R147,12 billion
Number of departments with unpaid claims	87% (129)
Claims > 10% of next year's budget (excluding employee cost and transfers)	33% (49)

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

The budgets of departments have been reduced significantly over the past few years and many departments struggle to stay within these reduced budgets – especially in the area of employee cost.

The main contributors to the R21,2 billion deficit at departments were:

- Department of Public Enterprises – R7,8 billion (37%)
- Department of Police – R3,54 billion (17%)
- Gauteng Department of Health – R2,24 billion (11%)

Over 60% of the departments had insufficient funds to settle all liabilities that existed at year-end if the unpaid expenses at year-end were also taken into account. This means that these departments started the 2020-21 financial year with part of their budget effectively pre-spent.

The consolidated cash shortfall of the 27 departments that had already spent more than 10% of their 2020-21 operating expenditure budget amounted to R12,42 billion. The highest percentage shortfalls were:

- Department of Social Development – 3 676% (as a result of the prepayment of social grants)
- Northern Cape Department of Cooperative Governance, Human Settlements and Traditional Affairs – 238%
- KwaZulu-Natal Department of Public Works – 92%
- Northern Cape Department of Transport, Safety and Liaison – 86%
- Free State Department of Education – 72%

We also continued to see an increase in litigation and claims against departments, and have flagged this as an emerging risk for the third year now. Let's first see what this involves.

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

These claims totalled R147,12 billion at the 2019-20 year-end. As in the previous year, the provincial health departments remained the highest contributors (72%) to this amount, with total claims amounting to R105,83 billion.

A third of the departments had claims against them in excess of 10% of their next year's operating budget (excluding employee cost and transfers). If paid out in 2020-21, this would use up more than 10% of these departments' budget meant for other strategic priorities. As detailed later in this section, the unpaid claims at year-end at some provincial health departments were more than their total operating budget for the next year. In addition to the health sector, the following departments will have to contribute a very high percentage of their budget to paying claims:

- Gauteng Department of Human Settlements – 1 098% (claims of R2,78 billion made against the budget)
- Department of Higher Education and Training – 712% (claims of R5,16 billion made against the budget)
- Eastern Cape Department of Human Settlements – 325% (claims of R0,15 billion made against the budget)

The reasons for the claims at these departments include damages following the termination of an agreement relating to a piece of land that was supposed to be used for construction of housing units and an intellectual property infringement relating to the National Student Financial Aid Scheme's payment system for student grants.

If claims are not paid out to beneficiaries by the time as ordered by the court, the department is also ordered to pay interest. Such interest is then a further financial loss to the department.

EXAMPLE: How do claims against the state negatively affect service delivery?

The **Gauteng Department of Health's** budget for claims in 2019-20 was R2,6 million, but total claims of R501 million were paid out for the year. The department transferred savings from other line items within the budget to claims from the state to enable them to pay the R501 million. As a result, vacant positions of senior managers and healthcare workers were not filled timeously at some hospitals. The construction, maintenance and upgrade of hospitals and other health facilities were also affected negatively, which in turn had an impact on the services rendered by these health institutions.

Key financial health indicators at departments – revenue management

INDICATORS	2019-20
Revenue management	
Debt-collection period > 90 days	25% (39)
Average debt-collection period	112 days
More than 10% of debt irrecoverable	19% (30)

Departments receive a budget from government as their key source of revenue. Some departments also generate revenue and depend on the collection of that revenue to provide them with the cash to operate. Any surpluses at year-end are paid back into the National Revenue Fund or provincial revenue funds, which in turn fund the budgets of departments in the following year. Although there has been some improvement in this area, the ability to collect the debt owed to departments continued to be below par, as indicated by the long debt-collection periods and the significant portion of debt that is deemed irrecoverable. The failure to collect debt not only affects the operation of the specific department but also the funds available for government initiatives in following years.

Key financial health indicators at departments – creditors

INDICATORS	2019-20
Creditors	
Creditor-payment period > 30 days	30% (47)
Average creditor-payment period	33 days
Unpaid expenditure at year-end	R22,78 billion
Number of departments with unpaid expenditure at year-end	99% (147)
Unpaid expenses at year-end that should have been paid within 30 days > 10%	50% (74)

Almost all departments had unpaid expenses at year-end, totalling R22,78 billion. Although the average creditor-payment period is edging closer to the required 30 days, the inability of auditees to pay their creditors on time affects the cash flow of the suppliers that government is doing business with and is in sharp contrast with the objectives of stimulating the economy and supporting especially smaller businesses. The interest charged on late payments is also a financial loss that departments can ill afford. Although delayed payments are typically as a result of poor controls and processes, it can be concluded that the financial difficulty of some departments and the lack of cash to honour their obligations (as described earlier in this section) are also contributing factors in this regard.

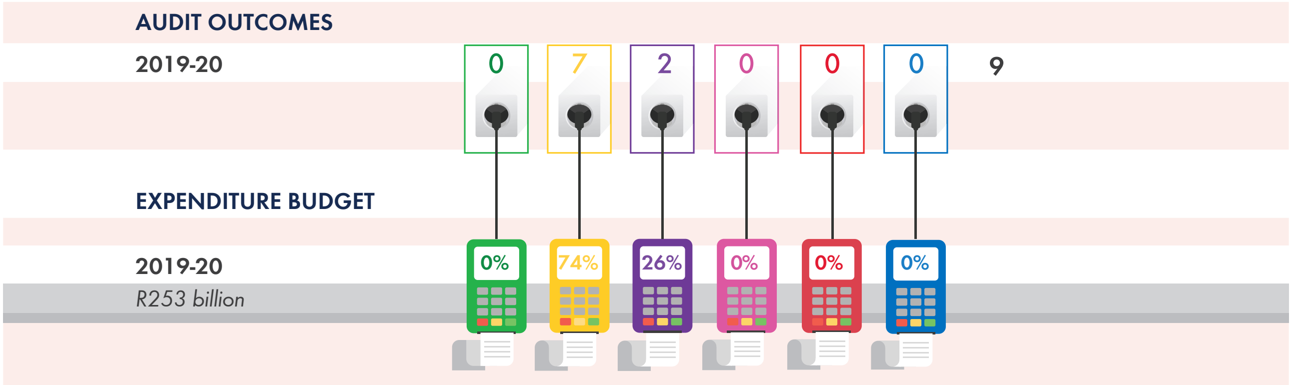
Which departments' financial health needs the most attention?

The financial state of provincial health and education departments needs urgent intervention to prevent the collapse of these key service delivery departments. In comparison with the other departments, these sectors (which constitute 30,2% of the total expenditure budget) are in a particularly bad state.

KEY INDICATORS SHOW PRESSURE IN PROVINCIAL EDUCATION DEPARTMENTS

The education sector is responsible for 16,5% of the budget of departments. The education sector is vulnerable to unauthorised expenditure and cash shortfalls, while the departments in the Free State and KwaZulu-Natal disclosed that they were in a vulnerable financial position. The highest amounts of claims against departments were made in KwaZulu-Natal, Gauteng, Mpumalanga and the Western Cape, mostly due to injuries or damages suffered by learners and corporal punishment by teachers.

We highlight the most concerning health indicators of this sector below.



PROVINCIAL DEPARTMENTS	UNAUTHORISED EXPENDITURE INCURRED (R MILLION)	VULNERABLE POSITION	DEFICIT (R MILLION)	% OF CASH SHORTFALL FUNDED BY NEXT YEAR'S OPERATIONAL BUDGET*	CLAIMS AS PERCENTAGE OF NEXT YEAR'S BUDGET	
					PERCENTAGE	R MILLION
Education	**1 398**					**3 102**
Eastern Cape	990	No	-	38,3	0,28	34
Free State	97	Yes	37	72,1	4,74	72
Gauteng	-	No	-	3,0	12,84	1 039
KwaZulu-Natal	236	Yes	217	16,9	16,77	1 083
Limpopo	1	No	241	3,5	2,24	95
Mpumalanga	56	No	-	22,7	6,93	212
Northern Cape	18	No	13	31,5	8,67	85
North West	-	No	-	11,0	8,08	197
Western Cape	-	No	-	0,4	7,85	285

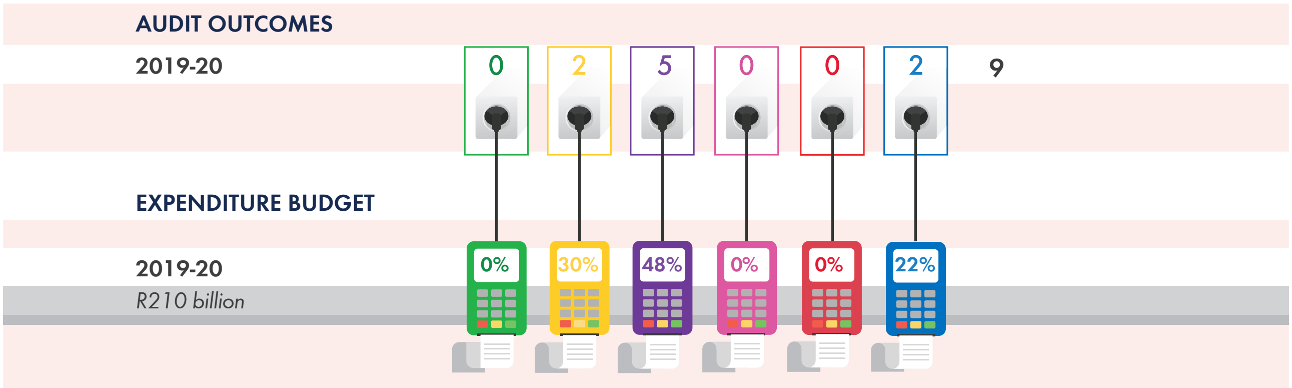
** These departments will start the 2021-22 financial year with part of their budget effectively pre-spent*

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

KEY INDICATORS SHOW PRESSURE IN PROVINCIAL HEALTH DEPARTMENTS

The health sector is responsible for 13,7% of the budget of departments. It is in an even worse state than the education sector. Deficits and unauthorised expenditure are common, and the departments in the Eastern Cape, Free State and Northern Cape disclosed significant doubt whether they will be able to continue with their operations as planned based on their current financial position. The biggest risk to this sector's ability to operate is medical claims.

We highlight the most concerning health indicators of this sector below (the information on the Limpopo and Western Cape health departments is not included as the audits were still outstanding at the cut-off date of this report).



PROVINCIAL DEPARTMENTS	UNAUTHORISED EXPENDITURE INCURRED (R MILLION)	VULNERABLE POSITION	DEFICIT (R MILLION)	% OF CASH SHORTFALL FUNDED BY NEXT YEAR'S OPERATIONAL BUDGET*	CLAIMS AS PERCENTAGE OF NEXT YEAR'S BUDGET	
					PERCENTAGE	R MILLION
Health	**974**					**69 110**
Eastern Cape	598	Yes	4	11,5	459,90	36 751
Free State	80	Yes	-	7,5	26,95	3 431
Gauteng	-	No	2 242	9,5	114,9	23 793
KwaZulu-Natal	92	No	1 368	0,3	117,31	24 419
Mpumalanga	-	No	-	4,5	174,72	9 637
Northern Cape	-	Yes	448	21,9	122,58	2 317
North West	204	No	598	0,0	92,39	5 477

** These departments will start the 2021-22 financial year with part of their budget effectively pre-spent*

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

The health and education sectors are not the only departments about which we are concerned. The following table highlights some of the other departments with financial health concerns due to the reasons as shown:

DEPARTMENT	VULNERABLE POSITION	UNAUTHORISED EXPENDITURE INCURRED (R MILLION)	DEFICIT (R MILLION)	% OF CASH SHORTFALL FUNDED BY NEXT YEAR'S OPERATIONAL BUDGET	CLAIMS AS PERCENTAGE OF NEXT YEAR'S BUDGET	
					PERCENTAGE	R MILLION
Home Affairs	No	-	-	33,5	79,69	2 189
Justice and Constitutional Development	No	-	-	38,1	49,88	3 104
Social Development	No	15 134	15	3 676,2	108,11	-
Transport	No	-	-	66,8	31,2	276
Water and Sanitation	No	-	-	10,3	15,41	964
Police, Roads and Transport (FS)	Yes	96	-	20,6	15,39	259
Sport, Arts, Culture and Recreation (FS)	Yes	-	-	27	47,24	-
Human Settlements (KZN)	No	3	112	11,6	10,64	23
Cooperative Governance, Human Settlements and Traditional Affairs (LP)	No	-	174	28,4	120,78	-
Cooperative Governance, Human Settlements and Traditional Affairs (NC)	No	-	-	238,4	16,31	9
Transport, Safety and Liaison (NC)	No	-	-	85,8	11,40	6

Overall, the trend of departments failing to properly manage their finances continued. The highest percentage in terms of cash shortfalls related to the Department of Social Development (this was an anomaly caused by the early payment of April 2020 social grants due to the covid-19 pandemic) as well as the department of cooperative governance, human settlements and traditional affairs in the Northern Cape (because of a high bank overdraft emanating from continuing overspending in prior years).

Some departments did not pay their creditors when their budgets started running out and thereby avoided unauthorised expenditure, but the payments were then made in the following year, effectively using money intended for other purposes. Some departments overspent their budgets and still had outstanding liabilities at year-end. This continuing 'rollover' of budgets is having a negative impact on departments' ability to pay creditors on time and to deliver services. The education and health departments are affected the most, and the possible effect on service delivery will have an impact on the most vulnerable in society.

Financial health of state-owned entities

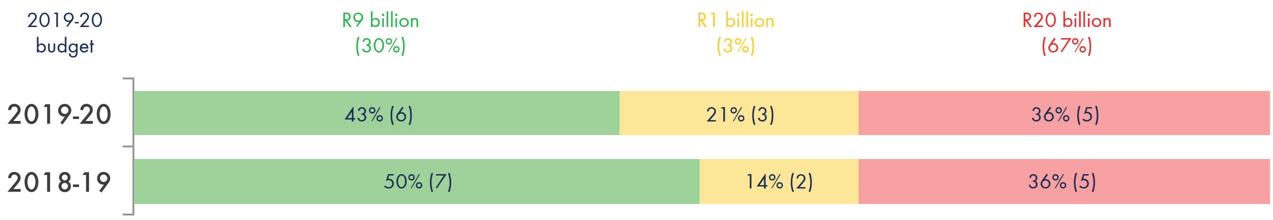
State-owned entities, commonly referred to as SOEs, are independent entities that are partially or fully owned by the state to achieve various socioeconomic goals. They are expected to fulfil a dual commercial and developmental role. We audit 14 of the 20 SOEs (if their subsidiaries are excluded). Including subsidiaries, we are responsible for the audit of 32 SOEs.

The economic conditions in which these SOEs need to operate have worsened over the past few years and many of them are in serious financial difficulty.

As mentioned earlier in this section, the following SOEs are either under business rescue or provisional liquidation and we could thus not audit them:

- South African Airways
- South African Express Airways
- LMT Products (subsidiary of Denel)

In addition, the audits of 15 other SOEs had not been completed by the cut-off date of this report. Hence, the analyses below are limited to 14 SOEs responsible for an expenditure budget of R30 billion.



The five SOEs that disclosed uncertainty about whether they will be able to continue as a going concern were the Petroleum Oil and Gas Corporation, the South African Broadcasting Corporation, and three Denel subsidiaries (Densecure, Denel Aerostructures and Denel Vehicle Systems).

Based on the financial statements of the SOEs where the audits are outstanding, such disclosures were also made by the Independent Development Trust, Denel, the Land and Agricultural Development Bank of South Africa, Pelchem, and the South African Nuclear Energy Corporation.

In addition, a similar disclosure was made in the financial statements of Eskom, which is one of the SOEs we do not audit.

The auditees where we did not identify many negative financial indicators and thus concluded that they were in good financial health, are responsible for 30% of the budget. Those auditees are the Development Bank of Southern Africa, the Armaments Corporation of South Africa, the Central Energy Fund, Airports Company South Africa, Land Bank Life Insurance, the South African Agency for Promotion of Petroleum Exploration and Exploitation, and SFF Association NPC.

Key financial health indicators at SOEs

INDICATORS	2019-20
Sustainability	
Deficit (expenditure exceeded revenue)	R6,62 billion
Number of auditees with deficit	55% (6)
Revenue management	
Debt-collection period > 90 days	18% (2)
Average debt-collection period	129 days
More than 10% of debt irrecoverable	55% (6)
Creditors	
Creditor-payment period > 30 days	64% (7)
Average creditor-payment period	53 days

The six SOEs that had a deficit at year-end were:

- Petroleum Oil and Gas Corporation – R5 579 million
- South African Broadcasting Corporation – R511 million
- Central Energy Fund – R334 million
- Komatiland Forests – R115 million
- Land Bank Life Insurance – R44 million
- Land Bank Insurance – R39 million

According to the financial statements of Eskom, it had a deficit of R20,5 billion at year-end.

The inability to pay creditors on time is another indicator of pressure on the finances of these SOEs, which in turn has a negative impact on their suppliers. The increase in the debt-collection period and in irrecoverable debts also affected the ability of SOEs to pay their creditors on time.

Government provided financial guarantees over several years amounting to R445 billion to 11 of the SOEs (including four not audited by us), R350 billion of which was issued to Eskom. The total government exposure relating to these guarantees amounted to R374 billion (exposure means that the SOEs have used the guarantees to obtain loans from lenders).

What does it mean when the state gives a guarantee to an SOE?

By granting a guarantee, the state is providing surety to a lender that the state will repay amounts due to the lender in terms of the agreement if the SOE is not in a position to do so. A guarantee is typically a commitment by the state to take responsibility for a loan in the event of default by the SOE.

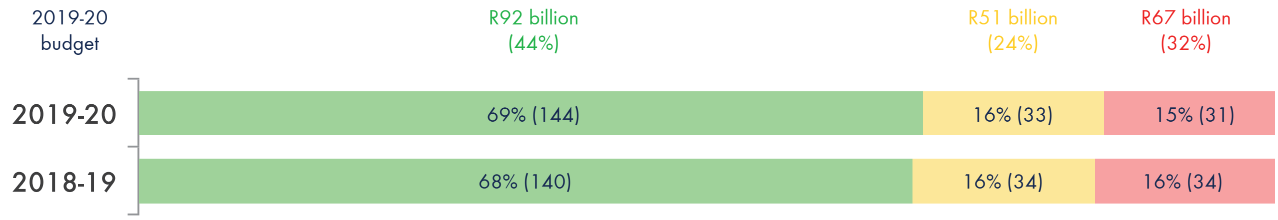
Providing a guarantee is not necessarily negative, such as when government decides to provide support to an SOE established in a specific industry or sector, due to that key industry or sector struggling to grow as expected in the South African economy.

These guarantees can be a direct charge to the National Revenue Fund should the SOEs default on their guarantee liabilities. Records of guarantees issued and the total exposure to government are kept by the fund.

Financial health of other public entities

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

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



We assessed the financial health status of almost 70% of these public entities as good. Those where intervention is required are responsible for almost a third of the budget, inclusive of the 17 (8%) whose financial statements were not reliable enough for financial analysis. These included seven technical and vocational education and training colleges, the Passenger Rail Agency of South Africa, and four provincial public entities in North West. A total of 21 public entities (10%) disclosed uncertainty about whether they will be able to continue as a going concern.

Key financial health indicators at other public entities

INDICATORS	2019-20
Sustainability	
Deficit (expenditure exceeded revenue)	R64,95 billion
Number of auditees with deficit	29% (55)
Net current liability position	13% (24)
Creditors as % of cash and cash equivalents > 100%	6% (11)
Revenue management	
Debt-collection period > 90 days	23% (44)
Average debt-collection period	103 days
More than 10% of debt irrecoverable	54% (103)
Creditors	
Creditor-payment period > 30 days	64% (123)
Average creditor-payment period	58 days

The deficit of R64,95 billion was incurred by 55 public entities whose expenditure exceeded their revenue – 95% thereof by schedule 3A public entities that are funded through revenue such as levies and taxes and that will need additional funding. Of the total deficit, 92% related to the Road Accident Fund. The major contributors to the R64,95 billion deficit were:

- Road Accident Fund – R59,62 billion (92%)
- Gautrain Management Agency – R1,06 billion (2%)
- Roads Agency Limpopo – R0,99 billion (2%)
- South African Revenue Service – R0,78 billion (1%)

A total of 24 public entities were in a net current liability position, which meant that they had more short-term debt than assets such as cash and debtors.

The public entities in the most difficult position were the 11 that owed more money at year-end than they had in the bank. Those with the highest percentages were:

- Road Accident Fund – 4 432%
- Corridor Mining Resources – 2 138%
- Mpumalanga Economic Growth Agency – 373%

The inability to pay creditors on time is another indicator of pressure in the finances of these public entities and, as mentioned earlier in this section, has a negative impact on their suppliers. Late payments are more common at public entities than departments, with the former taking an average of 58 days to pay their creditors. The public entities that took the longest were:

- National Student Financial Aid Scheme – 1 038 days
- Mayibuye Transport Corporation – 323 days
- King Sabatha Dalindyebo Technical and Vocational Education and Training College – 263 days

In order to pay creditors, public entities need revenue, but for over half of them more than 10% of their debt was not recoverable and their debt-collection periods were very high. The public entities affected most by this inability to collect debts are technical and vocational education and training colleges as well as the following entities:

- Eastern Cape Development Corporation – 99,5%
- South African Social Security Agency – 99,3%
- Freedom Park Trust – 97%
- KZN Housing Fund – 95%
- South African National Roads Agency – 94,8%
- Roads Agency Limpopo – 91%

On the next page, we highlight the public entities whose financial health is of greatest concern, based on their disclosure in the financial statements that there is significant doubt that they will be able to continue their operations.

Public entities with serious financial health concerns

PUBLIC ENTITY	DEFICIT
Disclosed for 6 years	
*Golden Leopard Resorts (North West)	Not available
*GL Resorts (subsidiary of Golden Leopard Resorts) (North West)	Not available
Road Accident Fund	R59 624 million
South African National Roads Agency	-
Disclosed for 5 years	
*Autopax	Not available
Corridor Mining (Limpopo)	R14 million
Motheo Technical and Vocational Education and Training College	-
Mayibuye Transport Corporation (Eastern Cape)	R1 million
North West Development Corporation	Not available
Disclosed for 4 years	
Agricultural Research Council	-
Cross-Border Road Transport Agency	-
Ithala Limited (KwaZulu-Natal)	R75 million
Property Management Trading Entity	-
Disclosed for 3 years	
*Free State Development Corporation	Not available
Gateway Airport Authority (Limpopo)	R26 million
Great North Transport (Limpopo)	R62 million
Private Security Industry Regulatory Authority	-
Disclosed for 2 years	
Northern Cape Rural Technical and Vocational Education and Training College	R13 million
Disclosed for the first time in 2019-20	
KwaZulu-Natal Nature Conservation Board	R91 million
North West Parks Board	R59 million
South African Civil Aviation Authority	-

** Apart from obtaining disclaimed audit opinions, the audit opinions of these public entities were modified as there is significant doubt that they will be able to continue their operations*

Even though most of the public entities would be able to continue their operations, the negative indicators raise concerns about the financial viability of some and the pressure to acquire additional funding from government. These entities were able to continue operating mainly due to the following reasons:

- Historic cash reserves
- Bank overdrafts
- Non-payment or late payment of creditors (e.g. entities such as the Road Accident Fund pay claims only when cash is available)
- Government grants (transferred from either national or provincial departments)
- Loans from parent/holding companies to some subsidiaries (e.g. Great North Transport and Corridor Mining Resources, Autopax and GL Resorts)
- Shifting of funds earmarked for projects (e.g. funds earmarked for the non-toll segment were shifted to the toll segment at the South African National Roads Agency)
- Cutting of costs (e.g. some vacant positions are not filled; and travelling expenditure and consultant fees are significantly cut)

POTENTIAL AND ACTUAL FINANCIAL LOSSES

Government cannot afford to lose money because of poor decision-making, neglect or inefficiencies. However, we continued to see a rise in **fruitless and wasteful expenditure**. The figure below shows that the fruitless and wasteful expenditure slightly increased from the previous year.

Annual fruitless and wasteful expenditure slightly increased to R2,39 billion

Figure also includes information of audits not completed by 30 November 2020 (i.e. cut-off date of this report)

A total of 199 auditees incurred fruitless and wasteful expenditure in both the current and the previous year, of which 171 had incurred such expenditure for the past three years. Section 5 includes more detail on the fruitless and wasteful expenditure incurred.

Except for the work done on material irregularities (as discussed in section 3), our audits in 2019-20 did not include an assessment of the actual financial impact of non-compliance by auditees. It is the role of those charged with governance to investigate non-compliance and the impact thereof, which could include financial loss through excessive expenditure (uneconomical use of funds), fruitless and wasteful expenditure, lost revenue, failure to recover debt, and avoidable penalties and interest.

Often findings on non-compliance with supply chain management legislation are viewed and commented on as procedural issues or possible fraud. But the **potential for losses** to government due to the **correct processes not being followed** is often overlooked.

In 2019-20, 106 departments (67%) and 99 public entities (44%) did not comply with supply chain management legislation, resulting in unfair or uncompetitive procurement processes. Most often this means that all potential suppliers were not given a fair chance to compete for work. Less competition often leads to higher prices being paid for goods and services. Similarly, the 67 departments (42%) and 46 public entities (21%) that did not comply with legislation on contract management open up the state to losses when contracts are not in place or performance is not monitored.

As detailed in section 3, the most material irregularities identified to date were in the area of non-compliance with supply chain management legislation – we identified 29 such instances with an estimated financial loss of R3,2 billion. The non-compliance resulted in an unfair or uncompetitive procurement process, leading to auditees either paying a higher price for the goods and services than they should have or appointing a supplier that could not deliver at the quality required.

EXAMPLE: What is the effect of unfair or uncompetitive procurement processes and non-compliance with contract management legislation?

A project of the **North West Department of Health** involved the construction of the Mmabatho Nursing College in Mahikeng, with a contract value of R241 million. The project had a commencement date of 5 February 2016 and a planned completion date of 4 May 2017. The project was extended various times due to contract instructions not being issued or being issued late, which ultimately resulted in a revised completion date of 31 March 2019. However, the project had still not been completed at the time of the 2019-20 audit. No evidence could be provided of a revised timeline or the impact on project costs and deliverables. As a result, the delays cost the department an additional R8,5 million (over and above the R241 million). This is indicative of inadequate project and contract management.

Further examples are included in section 3 that deals with material irregularities.

CONCLUSION

The recommendations we made last year on improving the different aspects of financial management did not receive the necessary attention. Dealing with the consequences of poor financial management is costly and time-consuming, and often the results cannot be reversed. We therefore again highlight the following:

Planning

Investing in good planning is an effective preventative control. The budgeting processes of some departments and public entities are inadequate – partly because of their inability to plan effectively what needs to be expensed in the year and the level of revenue expected. But there are also inherent problems with the budgeting by departments, as they cannot budget for claims and their budgets do not effectively take unpaid expenses into account at year-end. We found that good audit action plans, which addressed the root causes of the audit findings on financial management and were implemented and monitored, were in place at only 34% of the auditees.

We recommend the following:

1. The budget and performance planning processes should be informed by a solid analysis and forecast, based on credible historical information and knowledge of the funding constraints and expected performance pressures. Auditees in financial difficulty should set clear targets for improvement and plan systematically towards achieving these.

2. The implementation of audit action plans and the quarterly monitoring thereof to support financial management and governance at auditees should be prioritised.

3. The matters requiring attention by accounting officers and senior managers include the following:

- Devise action plans to specifically address the external and internal audit findings.
- Assign clear responsibilities to specific staff members to carry out action plans and ensure that these responsibilities are executed effectively and consistently through monitoring.
- Develop audit action plans early enough in the financial year to resolve matters by year-end.
- Ensure that audit action plans address all three areas of audit outcomes, namely qualifications, findings on performance reports, and non-compliance with legislation.
- Focus the actions to be taken on the root causes of findings, thereby ensuring that sustainable solutions are found.

Preventative controls

At the heart of the deficiencies in financial management identified during our audits are auditees that failed to institutionalise preventative internal control mechanisms that were mature and responsive enough to prevent and detect misstatements, non-compliance, losses and signs of financial distress during the year, and to correct these timeously. There has been some improvement in the financial and performance management controls over the past two years, with 43% of the auditees having good controls in place. However, 21% are significantly failing in this area. Furthermore, vacancies and a lack of financial management skills in finance units often had a significant impact on the quality of the financial statements. At year-end, chief financial officers had been in their positions for an average of just over four and half years, while 17% of the chief financial officer positions were vacant.

We recommend the following:

1. Ensure that there is adequate capacity and skills to perform accounting and reporting activities.

2. Implement effective and standardised processes for daily and monthly accounting disciplines.

3. Implement proper record keeping by processing transactions in a complete, accurate and timely manner and facilitating the availability of sound and up-to-date records to support in-year and year-end financial reporting.

4. Keep documents used for processing transactions in an orderly filing or record management system to allow for easy retrieval when those assigned the responsibility for monitoring the accounting and reporting activities are performing checks and reviews.

5. Reviewers with the appropriate knowledge, skills and experience should regularly perform independent reviews and reconciliations of accounting records.

6. Ensure that in-year financial statements are prepared to facilitate the monitoring of financial reporting.

7. Ensure the timely preparation and submission of financial statements at year-end to enable proper reviews before submission for auditing. Reviewers should focus on the financial audit areas that had modified opinions in the previous year to ensure improvement in the quality of reporting in those areas.

Monitoring

A key element of internal control is monitoring by the different assurance providers to ensure that internal controls are adhered to, risks are managed, and outcomes are achieved. Early detection allows for timeous correction, which prevents financial management failures. It is important that all the assurance providers understand their roles, are equipped to perform their functions and are given the authority their role requires, while the outcomes of their monitoring and oversight should also be responded to appropriately. Our assessment of the assurance provided by senior management through their monitoring actions shows very low assurance levels, with only 14% of the auditees having strong oversight by senior management.

We recommend the following:

1. The financial position of departments will only improve if expenditure is monitored more effectively in-year, as and when incurred (and not just when paid), and by improving systems to promptly account for liabilities incurred. The National Treasury, provincial treasuries and relevant portfolio committees should monitor actual spending patterns and identify the departments with serious cash shortfall issues to intervene where necessary.

2. The monitoring and oversight by senior management (and the chief financial officer in particular) needs to improve by using credible in-year reports.

3. Internal audit units should be used to provide assurance on key areas of the financial statements – focusing on those that were misstated in prior years. Audit committees also need to intensify their review of the financial statements to prevent material misstatements in the versions submitted to us for auditing.

Consequences

Accountability means that those performing actions or making decisions are answerable for them, but also that there should be consequences for transgressions, a lack of action and poor performance. Auditees should institute consequences against officials who fail to comply with applicable legislation, continuously underperform or are negligent as well as against those whose actions and decisions cause financial losses.

We recommend the following:

1. Officials should be clear on their responsibilities and the performance expected from them as well as on the consequences for transgressions and poor performance.
2. Leadership should consistently but fairly implement the policies and procedures of the auditee relating to consequences.

SECTION 5

Summary of audit outcomes

Improvement in audit outcomes

AUDIT OUTCOMES

	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimed with findings	Outstanding audits	TOTAL
2018-19	98	188	103	3	24	8	424
2019-20	111	173	78	3	18	44	427

AUDIT OUTCOMES IN PROPORTION TO EXPENDITURE BUDGET

	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimed with findings	Outstanding audits
2019-20 *R1 706 BILLION*	17%	40%	31%	< 1%	2%	10%

MOVEMENT

66 (16% of budget) ∧ *Improved*

35 (2% of budget) ∨ *Regressed*

CLEAN AUDIT MOVEMENTS

74 > *Remained clean*

37 ∧ New clean audits

19 ∨ Regressed

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

OUTSTANDING AUDITS

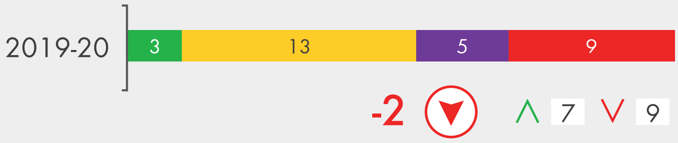
Cut-off date for inclusion of 2019-20 audit outcomes in this report was **30 November 2020**

(40 of the 48 outstanding audits reported in 2018-19 were completed by the date of this report)

REASONS FOR **44** *OUTSTANDING AUDITS*

- Auditee delays/inefficiencies – **11 (25%)**
- Annual financial statements outstanding – **11 (25%)**
- Disagreement on technical/legal matters – **11 (25%)**
- Covid-19-related information delays – **7 (16%)**
- Annual financial statements submitted late – **4 (9%)**

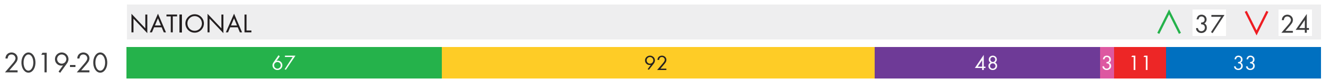
RESULTS OF **30** *AUDITS SUBSEQUENTLY FINALISED AS AT 5 MARCH 2021*

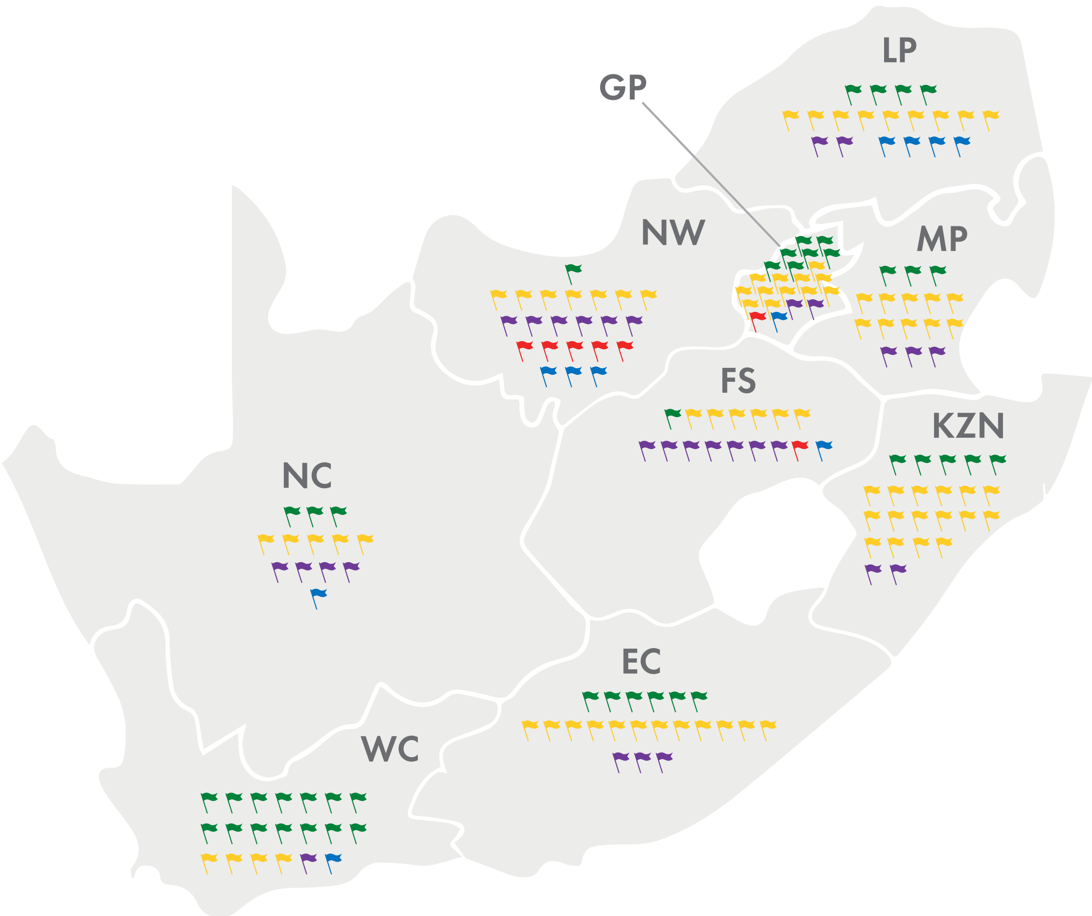


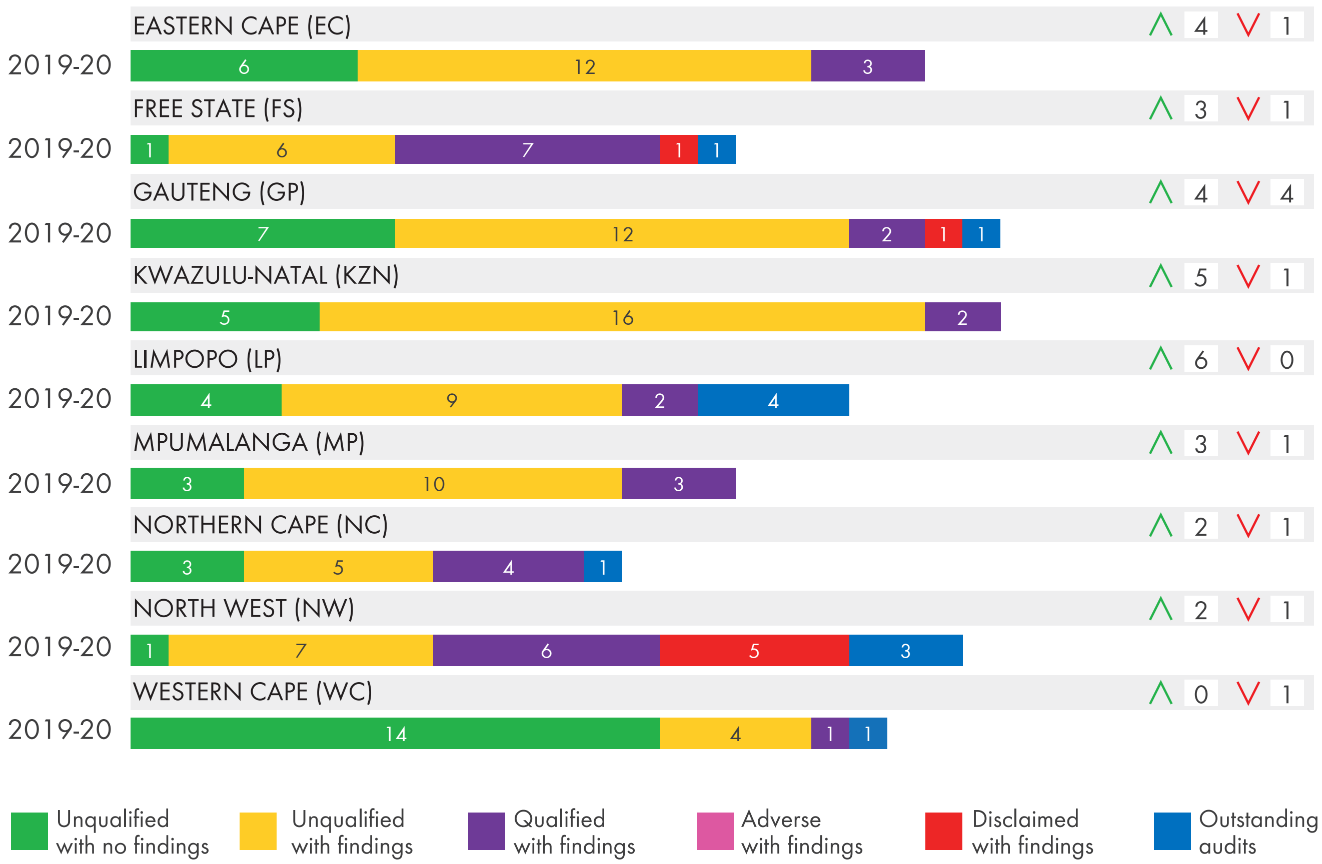
AUDITS SUBSEQUENTLY FINALISED AS AT 5 MARCH 2021	MOVEMENT FROM PREVIOUS YEAR'S AUDIT OUTCOME	2019-20 AUDIT OUTCOMES		
		Audit opinion	Performance reports	Compliance with legislation
Department of Agriculture and Rural Development (LP)	▶	Unqualified with findings		■
Compensation Fund	▶	Disclaimed with findings	■	■
Department of Health (LP)	▲	Unqualified with findings	■	■
Independent Development Trust	▼	Disclaimed with findings	■	■
Independent Electoral Commission	▶	Unqualified with findings		■
Land and Agricultural Development Bank of South Africa	▼	Disclaimed with findings		■
National Lotteries Commission	▶	Unqualified with no findings		
National Regulator for Compulsory Specifications	▶	Qualified with findings		■
National Skills Fund	▼	Disclaimed with findings	■	■
National Treasury	▶	Unqualified with findings		■
NTP Radioisotopes	▶	Unqualified with findings		■
Safety and Security Seta	▼	Unqualified with findings		■
Trans-Caledon Tunnel Authority	▲	Unqualified with findings	■	■
Denel	▶	Disclaimed with findings	■	■
South African Forestry Company	▲	Unqualified with findings		■
Gammatec NDT Supplies	▶	Unqualified with findings		■
Road Traffic Infringement Agency	▼	Disclaimed with findings	■	■
Department of Environmental Affairs	▶	Qualified with findings	■	■
Gauteng Enterprise Propeller	▼	Qualified with findings	■	■
Agricultural Land Holding Account	▼	Qualified with findings		■
Northern Cape Urban TVET College	▼	Qualified with findings		■
Government Printing Works	▼	Disclaimed with findings	■	■
Department of Health (WC)	▶	Unqualified with no findings		
Office of the Premier (LP)	▲	Unqualified with no findings		
Pelchem	▶	Disclaimed with findings	■	■
Provincial Legislature (NC)	▶	Unqualified with findings		■
South African Nuclear Energy Corporation	▶	Disclaimed with findings	■	■
Water Trading Entity	▲	Unqualified with findings		■
Department of Human Settlements (FS)	▲	Unqualified with findings		■
Department of Public Works, Roads and Infrastructure (LP)	▲	Unqualified with findings	■	■

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

NATIONAL AND PROVINCIAL AUDIT OUTCOMES AS WELL AS MOVEMENTS

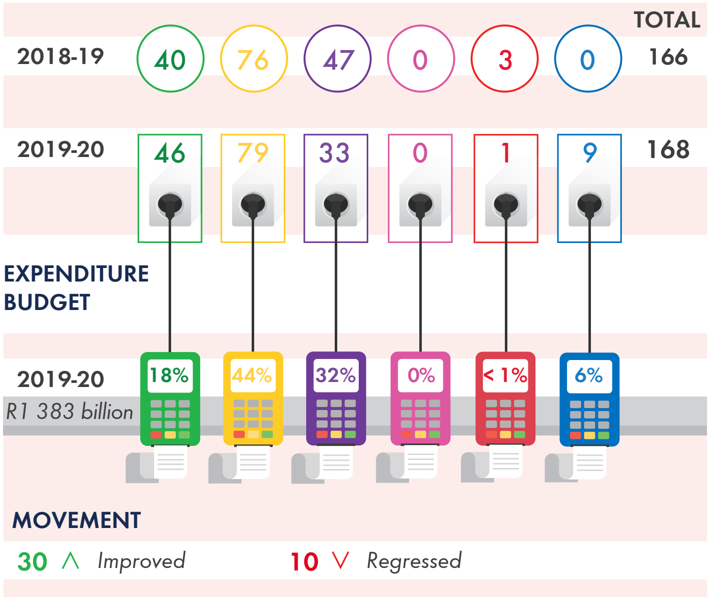




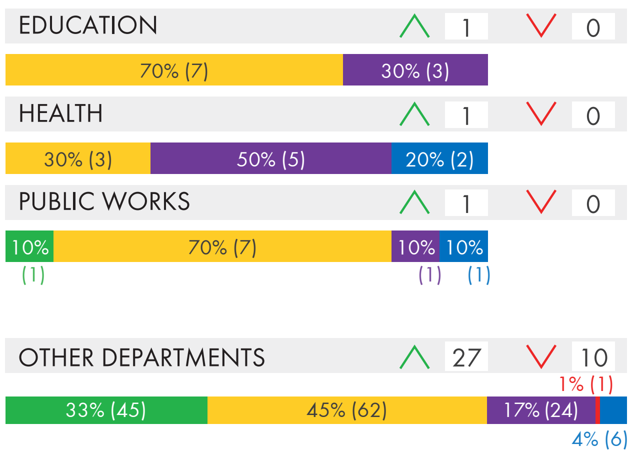


DEPARTMENTS

AUDIT OUTCOMES



Education, health and public works departments versus other departments

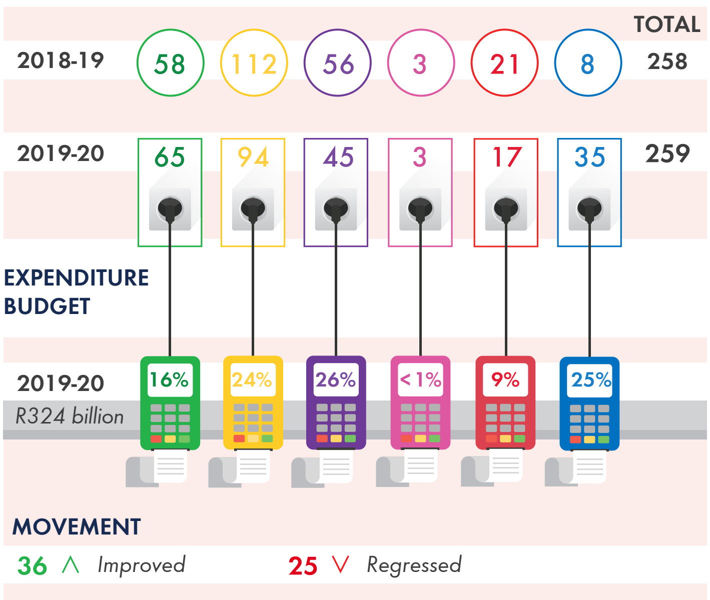


The audits of all 13 outstanding departments reported in 2018-19 were completed by the date of this report.

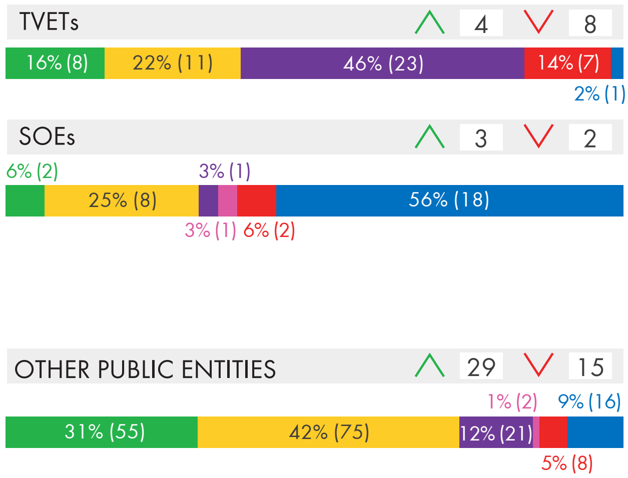
The expenditure of the national and provincial departments of education, health and public works contributed to around 42% of the total spending by all departments.

PUBLIC ENTITIES

AUDIT OUTCOMES



Technical and vocational education and training colleges (TVETs) & state-owned entities (SOEs) versus other public entities



The audits of 27 of the 35 outstanding public entities reported in 2018-19 were completed by the date of this report.

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

FINANCIAL STATEMENTS

Slight improvement in quality of published financial statements

TARGET	MOVEMENT	2019-20	2018-19	2019-20 with movement: DEPARTMENTS		2019-20 with movement: PUBLIC ENTITIES	
Timely submission of financial statements (all auditees)	▼	93% (397)	94% (397)	▼	97% (163)	▼	90% (234)
Quality of financial statements submitted for auditing	▲	49% (187)	40% (153)	▲	55% (87)	▲	45% (100)
Quality of published financial statements	▲	74% (284)	71% (270)	▲	79% (125)	►	71% (159)

97 auditees (25%) *achieved unqualified audit opinions only because they* ***corrected all misstatements*** *identified during the audit*

QUALIFICATION AREAS
(on audited financial statements)

	MOVEMENT	2019-20	2018-19
Property, infrastructure, plant and equipment	▲	13% (49)	16% (61)
Expenditure	▲	12% (47)	13% (48)
Receivables	▼	10% (38)	9% (35)
Payables, accruals and borrowings	▼	10% (38)	9% (36)

DEPARTMENTS		2019-20 with movement
Expenditure	▲	10% (16)
Irregular expenditure	▲	9% (14)
Property, infrastructure, plant and equipment	▲	8% (12)
Contingent liabilities and commitments	▲	6% (9)

PUBLIC ENTITIES		2019-20 with movement
Property, infrastructure, plant and equipment	▲	17% (37)
Receivables	▼	15% (34)
Payables, accruals and borrowings	▼	15% (33)
Expenditure	▼	14% (31)

NATIONAL AND PROVINCIAL VIEW

	TIMELY SUBMISSION OF FINANCIAL STATEMENTS		QUALITY OF FINANCIAL STATEMENTS SUBMITTED FOR AUDITING		QUALITY OF PUBLISHED FINANCIAL STATEMENTS	
	Number	Movement	Number	Movement	Number	Movement
National	235 (93%)	▲	103 (47%)	▲	159 (72%)	►
Eastern Cape	19 (90%)	▼	13 (62%)	►	18 (86%)	▲
Free State	16 (100%)	►	6 (40%)	▲	7 (47%)	▲
Gauteng	23 (100%)	►	14 (64%)	▲	19 (86%)	▼
KwaZulu-Natal	23 (100%)	►	16 (70%)	▲	21 (91%)	▲
Limpopo	19 (100%)	►	5 (33%)	▲	13 (87%)	▲
Mpumalanga	16 (100%)	►	5 (31%)	▲	13 (81%)	▲
Northern Cape	11 (85%)	▼	5 (42%)	▲	8 (67%)	►
North West	15 (68%)	▼	2 (11%)	▼	8 (42%)	▲
Western Cape	20 (100%)	►	18 (95%)	▲	18 (95%)	►
Total	397 (93%)	▼	187 (49%)	▲	284 (74%)	▲

Outcomes of less than 50% are highlighted in red

PERFORMANCE REPORTS

Improvement in quality of published performance reports

TARGET	MOVEMENT	2019-20	2018-19	2019-20 with movement: DEPARTMENTS	2019-20 with movement: PUBLIC ENTITIES
Performance reports prepared	►	100% (317)	100% (315)	► 100% (159)	► 100% (158)
Quality of performance reports submitted for auditing	▲	39% (125)	31% (97)	▲ 34% (54)	▲ 45% (71)
Quality of published performance reports	▲	71% (226)	60% (190)	▲ 63% (100)	▲ 80% (126)

***101 auditees (32%)** had no material findings only because they **corrected all misstatements** identified during the audit*

FINDINGS ON PERFORMANCE REPORTS

	MOVEMENT	2019-20	2018-19	2019-20 with movement: DEPARTMENTS	2019-20 with movement: PUBLIC ENTITIES
Achievement reported not reliable	▲	23% (74)	33% (103)	▲ 34% (54)	▲ 13% (20)
Performance reporting not useful	▲	18% (56)	23% (71)	▲ 23% (36)	▲ 13% (20)
No underlying records or planning documents	▲	2% (5)	3% (8)	▲ 1% (2)	▲ 2% (3)

Most common usefulness findings

10% Not well defined	**5%** Reasons reported for variances not reliable	**5%** Not verifiable	**5%** Not consistent

NATIONAL AND PROVINCIAL VIEW

	PERFORMANCE REPORTS PREPARED		QUALITY OF PERFORMANCE REPORTS SUBMITTED FOR AUDITING		QUALITY OF PUBLISHED PERFORMANCE REPORTS	
	Number	Movement	Number	Movement	Number	Movement
National	161 (100%)	►	71 (44%)	▲	128 (80%)	▲
Eastern Cape	21 (100%)	►	10 (48%)	▲	15 (71%)	▲
Free State	13 (100%)	►	2 (15%)	▼	5 (38%)	▼
Gauteng	21 (100%)	►	11 (52%)	▲	15 (71%)	▲
KwaZulu-Natal	21 (100%)	►	5 (24%)	▲	14 (67%)	▲
Limpopo	15 (100%)	►	6 (40%)	▲	8 (53%)	►
Mpumalanga	16 (100%)	►	3 (19%)	▼	10 (63%)	▲
Northern Cape	12 (100%)	►	3 (25%)	▼	8 (67%)	▲
North West	18 (100%)	►	1 (6%)	▼	6 (33%)	▲
Western Cape	19 (100%)	►	13 (68%)	▲	17 (89%)	►
Total	317 (100%)	►	125 (39%)	▲	226 (71%)	▲

Outcomes of less than 50% are highlighted in red

COMPLIANCE WITH KEY LEGISLATION

SLIGHT DECREASE IN NON-COMPLIANCE

TARGET	MOVEMENT	2019-20	2018-19	2019-20 with movement: DEPARTMENTS	2019-20 with movement: PUBLIC ENTITIES
Compliance with legislation	▲	31% (118)	27% (101)	▲ 31% (49)	▲ 31% (69)

MOST COMMON NON-COMPLIANCE AREAS	MOVEMENT	2019-20	2018-19
Quality of financial statements	▲	50% (192)	58% (222)
Prevention of unauthorised, irregular, and fruitless and wasteful expenditure	▲	39% (149)	42% (161)
Management of procurement and contract management	▲	37% (140)	42% (158)

OTHER NOTABLE NON-COMPLIANCE AREAS	MOVEMENT	2019-20	MOST COMMON FINDING PER AREA
Effecting consequences	▲	25% (97)	Irregular expenditure not investigated to determine if any person is liable for the expenditure – 14% (52)
Expenditure management	▼	19% (71)	Payments to creditors not settled within 30 days from receipt of an invoice – 13% (50)
Strategic planning and performance management	▼	15% (59)	No specific information systems to enable monitoring of targets and core objectives – 11% (41)

NATIONAL AND PROVINCIAL VIEW

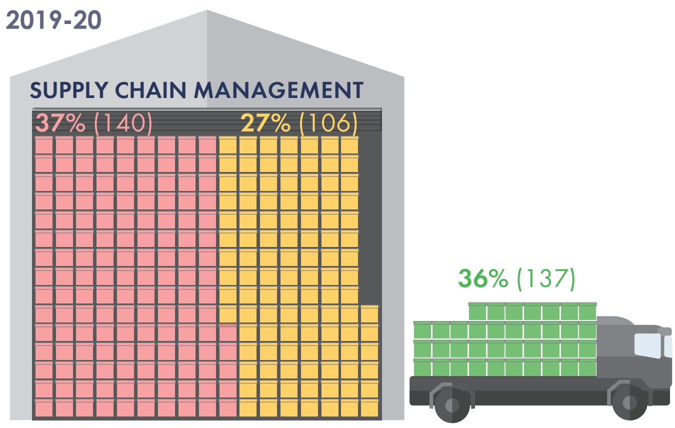
AUDITEES WITH NO FINDINGS ON COMPLIANCE

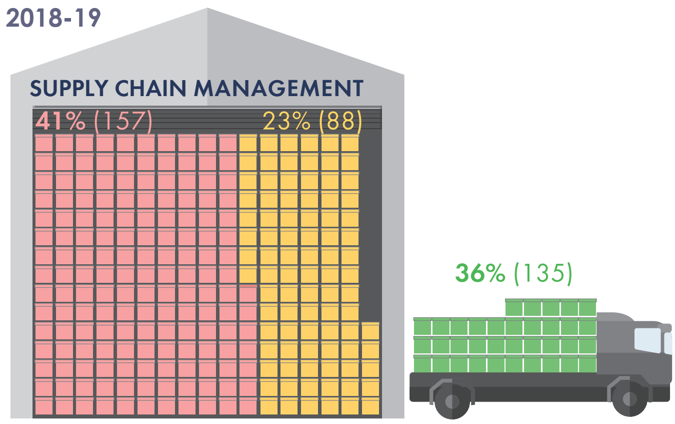
	NAT*	EC	FS	GP	KZN	LP	MP	NC	NW	WC
NUMBER	72 (33%)	6 (29%)	1 (7%)	7 (32%)	6 (26%)	4 (27%)	3 (19%)	3 (25%)	1 (5%)	15 (79%)
MOVEMENT	▲	►	▲	►	▲	▲	▲	▲	▼	▼
									Total 118 (31%)	▲

*NATIONAL

SUPPLY CHAIN MANAGEMENT (SCM)

MATERIAL SCM FINDINGS STILL HIGH





With no findings With findings With material findings

MATERIAL FINDINGS		
	DEPARTMENTS	PUBLIC ENTITIES
% of findings (2019-20)	48%	28%
% of findings (2018-19)	54%	33%
MOVEMENT	▲	▲

Not able to audit procurement of **R2 076 million** due to **missing or incomplete information** at 27 auditees (7%)

Highest contributors **(98% of rand value)** were:

- **Department of Defence – R1 751 million:** Relates to supply and delivery of triaxle trailers, outsourcing of service provider to grade fire breaks, unified communication solution, cleaning and garden services as well as establishment and implementation of national communication backbone solution, due to poor record management
- **Department of Health (NW) – R167 million:** Mostly relates to one contract (R160 million) for construction of new community health centre where no tender documents were available, due to poor internal controls and inappropriate record management
- **Department of Social Development (KZN) – R51 million:** Relates to construction contracts (construction of Ndumo Inkhululeko youth centre and Madadeni rehabilitation centre) requested for auditing that could not be submitted due to poor record management
- **Denel Aerostructures – R44 million:** Documents requested for auditing were not made available in time as agreed, mainly due to the unavailability of auditee staff to retrieve the requested information
- **Airports Company South Africa – R16 million:** Documents for one of the bidders appointed to a panel of consulting engineers were not made available for audit purposes due to poor document management

AWARDS TO EMPLOYEES AND CLOSE FAMILY MEMBERS

AWARDS/FINDINGS	MOVEMENT	NUMBER OF AUDITEES WITH FINDINGS	AWARDS (NUMBER OF AWARDS)
Awards to employees and political office-bearers	►	9% (36)	R116 million (249)
SCM legislation was not materially complied with in procurement process of **27** awards amounting to **R56 million**			
Awards to close family members of employees	▼	15% (58)	R1 027 million (1 160)
SCM legislation was not materially complied with in the procurement process of **293** awards amounting to **R142 million**			

DEPARTMENTS' EMPLOYEES DOING BUSINESS WITH THE STATE

The amended Public Service Regulations prohibit employees of departments from doing business with the state with effect from 1 August 2016. The regulations allowed employees until February 2017 to stop doing the business or resign as employee. We identified 553 employees that were still doing business with the state (an increase from 530 in the previous year). The onus of complying with these regulations is on the employees, but departments have a responsibility to monitor such compliance.

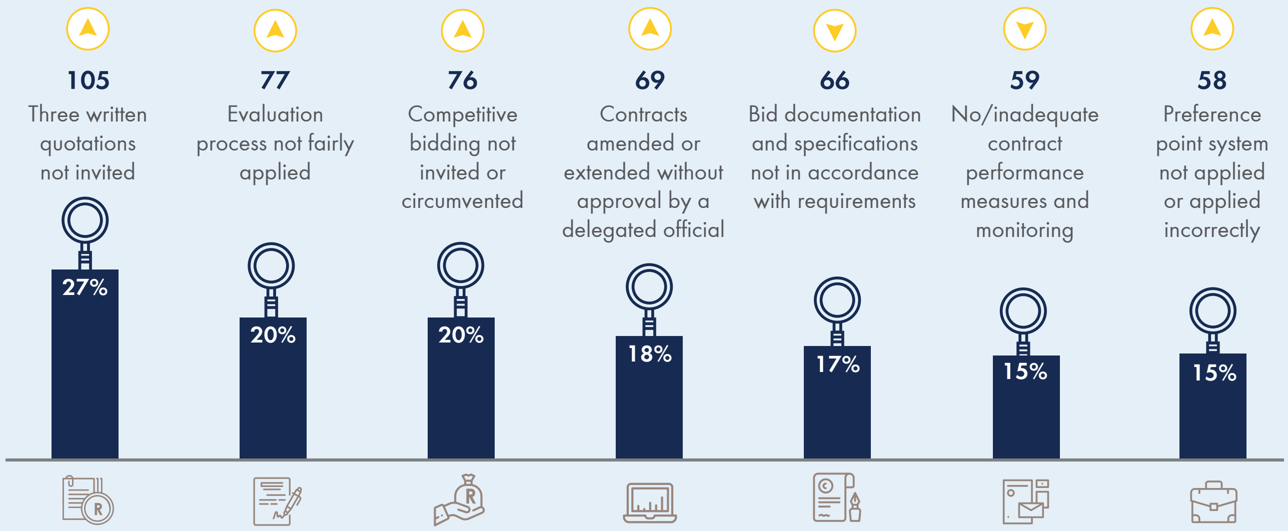
FINDINGS	MOVEMENT	NUMBER OF DEPARTMENTS	NUMBER OF EMPLOYEES	AMOUNT
Employees doing business with **own department** – contracts awarded after 1 August 2016	►	8% (12)	92	R207 million
Employees doing business with **own department** – contracts awarded before 1 August 2016 – did not resign or stop doing business	►	1% (1)	2	R55 million
Employees doing business with **other state institutions** – contracts awarded after 1 August 2016	▲	16% (25)	458	R175 million
Employees doing business with **other state institutions** – contracts awarded before 1 August 2016	▲	1% (1)	1	R1 million

UNCOMPETITIVE OR UNFAIR PROCUREMENT PROCESSES AND CONTRACT MANAGEMENT

Findings on **uncompetitive and unfair procurement processes** at **54%** of auditees, 32% of which was material non-compliance. This is a slight regression from 53% in the previous year.

Findings on **contract management** at **30%** of auditees, **10%** of which was material non-compliance. This is a slight regression from 29% in the previous year.

Most common findings were the following:



At only **8 auditees (2%)**, goods and services were procured through **contract secured by other organs of state** without complying with prescribed requirements.

The aim of the Preferential Procurement Regulations is to support socioeconomic transformation. The public sector should lead by example to achieve this goal, but we again found that some auditees are failing in this area. At **58 auditees (15%)**, the **preference point system** was incorrectly applied or not applied at all.

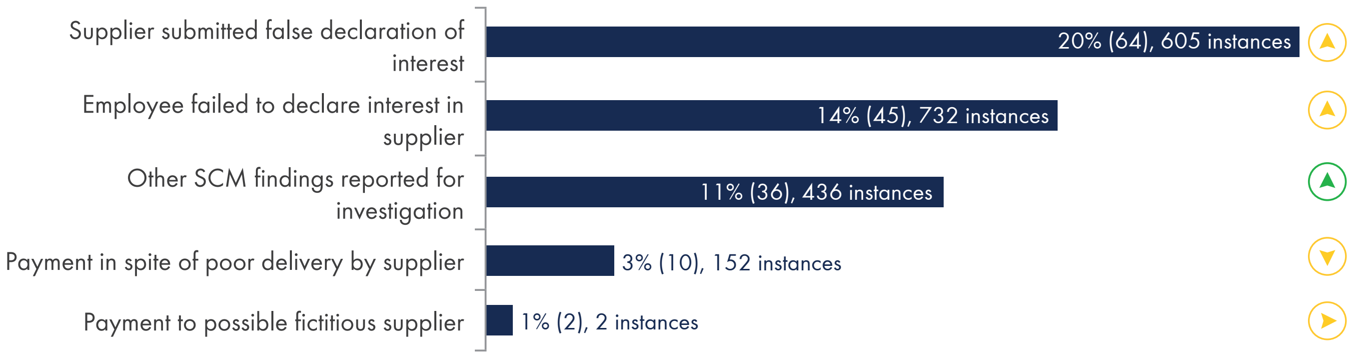
LOCAL CONTENT

Auditees are required to procure certain commodities from local producers; **67** of the 166 auditees where local content was audited, failed to comply with the regulation on promotion of local producers on awards amounting to **R2 616 million**.

FALSE DECLARATIONS BY SUPPLIERS AND NON-DISCLOSURE BY EMPLOYEES

FINDINGS	MOVEMENT	NUMBER OF AUDITEES	NUMBER OF SUPPLIERS/ EMPLOYEES	AMOUNT
Suppliers owned or managed by **employees of another state institution** made false declarations		8% (29)	201	R162 million
Suppliers owned or managed by **employees of the auditee** made false declarations		4% (15)	76	R28 million
Suppliers owned or managed by **close family members** of employees of the auditee made false declarations		10% (40)	400	R228 million
Employees of the auditee failed to declare their **own interest** either as part of procurement processes or through annual declarations		5% (21)	138	R151 million
Employees of the auditee failed to declare their **family members' interest**		8% (31)	497	R362 million

SCM FINDINGS REPORTED FOR INVESTIGATION AT 118 AUDITEES (36%) – IMPROVEMENT FROM 42% IN 2018-19



91 (67%) of the 135 auditees that had such findings in 2018-19 had similar findings in 2019-20. Of the 118 auditees where we reported SCM findings for investigation, 82 were departments and 36 were public entities.

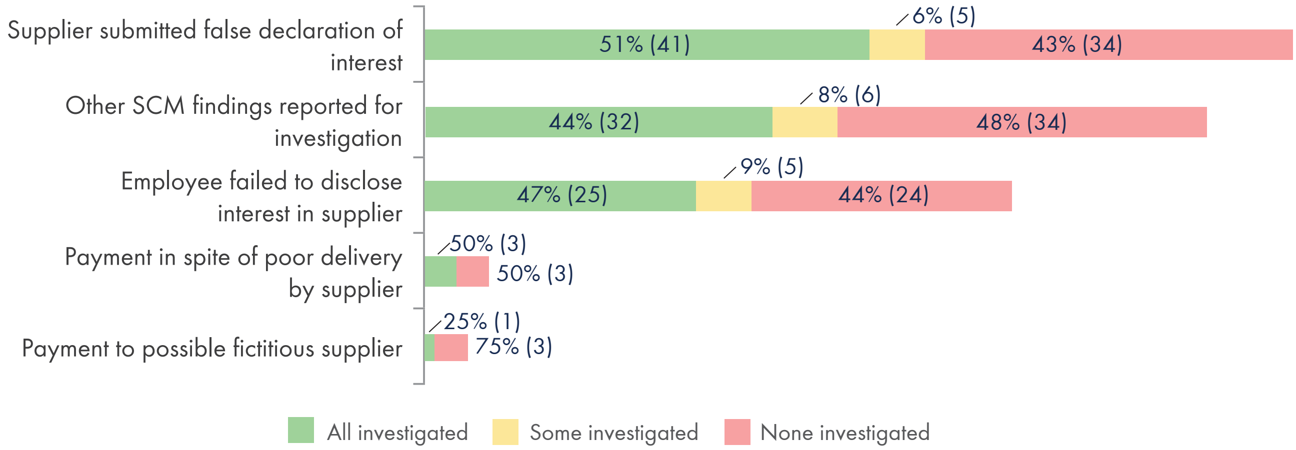
Departments of Education (NW), Health (EC) and Education (KZN) were the highest contributors in terms of false declarations by suppliers, with 156, 54 and 32 suppliers, respectively.

Departments of Education (NW), Education (FS) and Public Works and Roads (NW) were the highest contributors in terms of employees that failed to declare interests, with 163, 100 and 82 employees, respectively.

FOLLOW-UP OF SCM FINDINGS REPORTED FOR INVESTIGATION IN PREVIOUS YEAR AT 135 AUDITEES

68 (50%) of these auditees investigated all the findings we reported, while **16 (12%)** investigated some of the findings and **51 (38%)** investigated none of the findings.

56 (67%) of the **84** auditees that investigated all or some of the findings, satisfactorily resolved all the investigations conducted.



UNAUTHORISED, IRREGULAR, AND FRUITLESS AND WASTEFUL EXPENDITURE (UIFW)

Irregular *Non-compliance with legislation in process leading to expenditure*	**Unauthorised** *Expenditure by departments more than budget or not in accordance with purpose of budget*	**Fruitless and wasteful** *Expenditure made in vain – could have been avoided if reasonable care was taken*
How much was disclosed in 2019-20?		
R54,11 billion at 285 auditees (67%) * Includes irregular expenditure of 44 outstanding audits based on unaudited financial statements as well as audits subsequently finalised – **R7,71 billion (2018-19: R6,39 billion)**	**R18,12 billion at 22 departments (13%)** * Includes unauthorised expenditure of 9 outstanding audits based on unaudited financial statements as well as audits subsequently finalised – **R0,14 billion (2018-19: < R0,01 billion)**	**R2,39 billion at 231 auditees (54%)** * Includes fruitless and wasteful expenditure of 44 outstanding audits based on unaudited financial statements as well as audits subsequently finalised – **R1,21 billion (2018-19: R1,08 billion)**
What was the movement from previous year?		
▲ Decrease of 19% from R66,90 billion in 2018-19 Although the amount decreased significantly, it is almost at the same level as in 2017-18 (R52,88 billion) Significant amounts were not disclosed by auditees, leading to qualifications as detailed later in this table; if the full irregular expenditure had been disclosed, there would not have been a decrease from the previous year	▼ Increase of 998% from R1,65 billion in 2018-19 The Department of Social Development was responsible for a significant portion but the overspending related to the early payment of social grants and is therefore an anomaly for 2019-20	▼ Slight increase of 1% from R2,36 billion in 2018-19
The analysis that follows is based on the R46,63 billion incurred by 383 auditees where we completed the audits	The analysis that follows is based on the R17,98 billion incurred by departments where we completed the 159 audits	The analysis that follows is based on the R1,18 billion incurred by 383 auditees where we completed the audits
Is this the total amount?		
No *118 auditees (31%) were either qualified on the completeness of their disclosure and/or did not know the total amount and were still investigating to determine the total amount* *We could also not audit procurement processes for contracts valued at R2,08 billion due to missing or incomplete documentation – it is not known whether any part of this amount might represent irregular expenditure* *Although we did not audit Transnet and Eskom in 2019-20, their combined irregular expenditure as disclosed in the financial statements is more than the irregular expenditure of all of national and provincial government*	**Possibly** *None of the departments were qualified on their disclosure*	**No** *4 auditees (1%) were qualified on the completeness of their disclosure*

Irregular *Non-compliance with legislation in process leading to expenditure*	**Unauthorised** *Expenditure by departments more than budget or not in accordance with purpose of budget*	**Fruitless and wasteful** *Expenditure made in vain – could have been avoided if reasonable care was taken*
Is all of it 2019-20 expenditure?		
No R10,26 billion (22%) was expenditure in prior years only uncovered and disclosed in 2019-20 R36,37 billion (78%) was expenses in 2019-20, including: • payments made on ongoing contracts irregularly awarded in prior years – R16,30 billion (45%) • R20,07 billion (55%) representing non-compliance in 2019-20	**Yes**	**No** R0,60 billion (51%) was expenditure in prior years only uncovered and disclosed in 2019-20 R0,58 billion (49%) was expenses in 2019-20
How much of the 2019-20 budget does it represent?		
2%	1%	< 1%
What was the main cause?		
Non-compliance with supply chain management legislation (91%), related to: • procurement without following competitive bidding or quotation process – R6,52 billion (16%) • non-compliance with other procurement process requirements – R25,11 billion (61%) • inadequate contract management – R9,65 billion (23%) The main causes of the remaining R5,35 billion (11%) were: • overspending of budgets and grants by public entities (public entities do not incur unauthorised expenditure) or by departments in circumstances not deemed to be unauthorised expenditure • expenditure-related non-compliance (e.g. various errors in disbursements made by National Student Financial Aid Scheme to students)	**Almost 100% related to overspending of budget**	**Penalties and interest** on overdue accounts and late payments **(31%)** – R0,37 billion **Litigation and claims (1%)** – R0,02 billion **Other (68%)** – R0,79 billion The main causes are included in the top 10 contributor table
Did the auditees detect this expenditure?		
79% was identified by auditees and the remainder in the audit process Many auditees put processes in place to fully uncover irregularities of prior years – partly to address prior year qualifications on irregular expenditure (R1,46 billion) but also to correct and address past irregularities	**99% was identified by auditees** and the remainder in the audit process	**83% was identified by auditees** and the remainder in the audit process
Does it mean this money was wasted?		
Possibly – it can only be determined through an investigation by the accounting officer/authority Goods and services were received for R28,38 billion (69%) of the expenditure related to supply chain management, but were not received for R0,02 billion (< 1%), while we did not audit the remaining 31% We cannot confirm if value for money was received for all of these goods and services	**No**	**Yes**
How much of the current and prior year expenditure has not yet been dealt with (i.e. what is the closing balance)?		
R262,03 billion	**R26,20 billion**	**R4,59 billion**

NATIONAL AND PROVINCIAL OVERVIEW

Note: The analysis below is based on completed audits

Irregular	Unauthorised	Fruitless and wasteful
National		
R15,00 billion 32% of total irregular expenditure 1% of national budget Closing balance – R101,35 billion	R15,43 billion 86% of total unauthorised expenditure 2% of national budget for departments Closing balance – R18,33 billion	R0,88 billion 73% of total fruitless and wasteful expenditure < 1% of national budget Closing balance – R2,66 billion
Eastern Cape		
R0,84 billion 2% of total irregular expenditure 1% of provincial budget Closing balance – R4,27 billion	R1,59 billion 9% of total unauthorised expenditure 2% of provincial budget for departments Closing balance – R2,52 billion	R0,04 billion 4% of total fruitless and wasteful expenditure < 1% of provincial budget Closing balance – R0,2 billion
Free State		
R2,38 billion 5% of total irregular expenditure **5% of provincial budget** Closing balance – R10,74 billion	R0,35 billion 2% of total unauthorised expenditure 1% of provincial budget for departments Closing balance – R1,86 billion	R0,07 billion 6% of total fruitless and wasteful expenditure < 1% of provincial budget Closing balance – R0,22 billion
Gauteng		
R7,45 billion 16% of total irregular expenditure **5% of provincial budget** Closing balance – R36,64 billion	None Closing balance – R0,02 billion	R0,10 billion 9% of total fruitless and wasteful expenditure < 1% of provincial budget Closing balance – R0,20 billion
KwaZulu-Natal		
R9,75 billion 21% of total irregular expenditure **5% of provincial budget** Closing balance – R44,55 billion	R0,33 billion 2% of total unauthorised expenditure < 1% of provincial budget for departments Closing balance – R0,87 billion	R0,02 billion 2% of total fruitless and wasteful expenditure < 1% of provincial budget Closing balance – R0,22 billion
Limpopo		
R2,98 billion 6% of total irregular expenditure **5% of provincial budget** Closing balance – R12,40 billion	< R0,01 billion < 1% of total unauthorised expenditure < 1% of provincial budget for departments Closing balance – R0,06 billion	R0,03 billion 3% of total fruitless and wasteful expenditure < 1% of provincial budget Closing balance – R0,61 billion
Mpumalanga		
R2,49 billion 5% of total irregular expenditure **5% of provincial budget** Closing balance – R11,32 billion	R0,06 billion < 1% of total unauthorised expenditure < 1% of provincial budget for departments Closing balance – R0,94 billion	R0,01 billion 1% of total fruitless and wasteful expenditure < 1% of provincial budget Closing balance – R0,04 billion
Northern Cape		
R1,44 billion 3% of total irregular expenditure **7% of provincial budget** Closing balance – R13,29 billion	R0,02 billion < 1% of total unauthorised expenditure < 1% of provincial budget for departments Closing balance – R0,98 billion	R0,01 billion 1% of total fruitless and wasteful expenditure < 1% of provincial budget Closing balance – R0,15 billion
North West		
R4,02 billion 9% of total irregular expenditure **7% of provincial budget** Closing balance – R27,17 billion	R0,2 billion 1% of total unauthorised expenditure < 1% of provincial budget for departments Closing balance – R0,63 billion	R0,02 billion 2% of total fruitless and wasteful expenditure < 1% of provincial budget Closing balance – R0,24 billion
Western Cape		
R0,28 billion 1% of total irregular expenditure < 1% of provincial budget Closing balance – R0,30 billion	None Closing balance – none	< R0,01 billion < 1% of total fruitless and wasteful expenditure < 1% of provincial budget Closing balance – < R0,01 billion

Expenditure of 5% or higher of the national or provincial budget is highlighted in red

TOP 10 CONTRIBUTORS – IRREGULAR EXPENDITURE

All of these auditees had incurred irregular expenditure **for the past 3 years**

Disclosed	Incurred in 2019-20	Main non-compliance	Key projects / contracts affected	Grants * affected
Department of Transport (KZN)				
R5,47 billion	R2,39 billion (44%), of which R1,99 billion represents irregular expenditure incurred on ongoing multi-year contracts awarded in prior years	50% related to non-compliance with legislation on contracts, while 48% related to non-compliance with other procurement process requirements	Bus subsidies	R3,20 billion (PTOG)
Department of Defence				
R2,84 billion	R2,84 billion (100%), of which R0,19 billion represents irregular expenditure incurred on ongoing multi-year contracts awarded in prior years	92% related to non-compliance with legislation restricting overspending on budget for employee compensation		
Department of Health (GP)				
R2,32 billion	R1,84 billion (79%), of which R0,07 billion represents irregular expenditure incurred on ongoing multi-year contracts awarded in prior years	58% related to procurement without following competitive bidding or quotation processes	Consignment stock, security contracts, outsourced nursing staff, etc.	
Department of Roads and Transport (GP)				
R2,17 billion	R2,17 billion (100%), of which the whole amount represents irregular expenditure incurred on ongoing multi-year contracts awarded in prior years	100% related to non-compliance with other procurement process requirements	Bus contracts	R2,17 billion (PTOG)
Department of Education (KZN)				
R1,58 billion	R1,58 billion (100%), of which R1,37 billion represents irregular expenditure incurred on ongoing multi-year contracts awarded in prior years	87% related to non-compliance with legislation on contracts	School feeding scheme	R1,4 billion (NSNPG)
Department of Health (KZN)				
R1,43 billion	R1,43 billion (100%), of which R1,24 billion represents irregular expenditure incurred on ongoing multi-year contracts awarded in prior years	86% related to non-compliance with legislation on contracts	Cleaning, security and catering services as well as removal of medical waste	
Passenger Rail Agency of South Africa				
R1,33 billion	R1,33 billion (100%), of which R0,58 billion represents irregular expenditure incurred on ongoing multi-year contracts awarded in prior years	52% related to procurement without following competitive bidding or quotation processes	Design, construction and implementation of new railway signalling system in Western Cape	

Disclosed	Incurred in 2019-20	Main non-compliance	Key projects / contracts affected	Grants * affected
Department of Community Safety and Transport Management (NW)				
R1,29 billion	R1,27 billion (98%), of which R1,24 billion represents irregular expenditure incurred on ongoing multi-year contracts awarded in prior years	93% related to non-compliance with other procurement process requirements	Scholar transport and commuter bus contracts	R0,62 billion (PTOG)
Department of Cooperative Governance, Human Settlements and Traditional Affairs (LP)				
R1,19 billion	R1,19 billion (100%), of which the whole amount represents irregular expenditure incurred on ongoing multi-year contracts awarded in prior years	100% related to non-compliance with other procurement process requirements	Housing finance and human settlements projects	R0,96 billion (HSDG)
Roads Agency Limpopo				
R1,17 billion	R0,90 billion (77%), of which none represents irregular expenditure incurred on ongoing multi-year contracts awarded in prior years	54% related to non-compliance with other procurement process requirements	Road infrastructure projects	
Total for top 10				
R20,79 billion	**This constitutes 45% of the total irregular expenditure** R9,35 billion (45%) of the top 10 irregular expenditure resulted from non-compliance with other procurement process requirements, while R6,01 billion (29%) related to non-compliance with legislation on contracts *Excluded from these top contributors is irregular expenditure of Department of Environmental Affairs amounting to R2,52 billion – the amount is based on the audited financial statements of the audit completed after the cut-off date of this report*			

*** HSDG – human settlements development grant**

*** NSNPG – national school nutrition programme grant**

*** PTOG – public transport operations grant**

TOP 10 CONTRIBUTORS – UNAUTHORISED EXPENDITURE

Four of these departments had incurred unauthorised expenditure for **the past 3 years**, namely the departments of Education (EC), Education (KZN), Education (FS) and Police, Roads and Transport (FS)

Disclosed	Nature
Department of Social Development	
R15,13 billion	Overspending of budget: related to social assistance programme due to early payment of April 2020 social grants (old age and disability) in response to covid-19 lockdown measures
Department of Education (EC)	
R0,99 billion	Overspending of budget: related to public ordinary schools (R0,98 billion) and public special schools (R0,01 billion) programmes mostly due to overspending on compensation of employees and goods and services as a result of budget cuts and inadequate financial management
Department of Health (EC)	
R0,60 billion	Overspending of budget: related to district health services (R0,31 billion), provincial hospital services (R0,26 billion) and central hospital services (R0,02 billion) programmes due to settlement of medical claims not budgeted for
Department of International Relations and Cooperation	
R0,25 billion	Overspending of budget: mainly on employee costs
Department of Education (KZN)	
R0,24 billion	Overspending of budget: mainly on infrastructure development (R0,11 billion) and public ordinary schools (R0,06 billion) programmes due to overspending on compensation of employees as a result of fluctuating educator headcount numbers and salaries for specialist educators and therapists in special schools, repairs to schools damaged by storms, and transfers and subsidies
Department of Health (NW)	
R0,20 billion	Overspending of budget: mainly on district health services (R0,15 billion) and central hospital services (R0,05 billion) programmes due to filling of vacant positions
Department of Education (FS)	
R0,10 billion	Overspending of budget: related to public ordinary school education programme (R0,10 billion) due to overspending on employee costs
Department of Police, Roads and Transport (FS)	
R0,10 billion	Overspending of budget: related to transport operations (R0,02 billion) and transport regulations (R0,08 billion) programmes mainly relating to compensation of employees, learner transport and operating leases
Department of Health (KZN)	
R0,09 billion	Overspending of budget: mainly on district health services programme (R0,07 billion) for HIV medication
Department of Health (FS)	
R0,08 billion	Overspending of budget: related to emergency medical services (R0,01billion), provincial hospital services (R0,04 billion) and central hospital services (R0,03) programmes due to compensation of medical personnel and increase in laboratory services
Total for top 10	
R17,78 billion	**This constitutes 99% of the total unauthorised expenditure** *Excluded from these top contributors is unauthorised expenditure of Department of Environmental Affairs amounting to R0,13 billion – the amount is based on the audited financial statements of the audit completed after the cut-off date of this report*

TOP 10 CONTRIBUTORS – FRUITLESS AND WASTEFUL EXPENDITURE

All of these auditees had incurred fruitless and wasteful expenditure **for the past 3 years**, except g-FleeT Management (GP)

Disclosed	Nature of main incidents
South African Social Security Agency	
R0,32 billion	Payments to supplier for services not delivered
Department of Energy	
R0,09 billion	Storage costs paid to supplier for goods not taken receipt of within contract period
Department of Basic Education	
R0,08 billion	Expenditure on school infrastructure projects subsequently 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 South African Revenue Service
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 sub-standard work on infrastructure projects that had to be re-performed
Department of Agriculture, Forestry and Fisheries	
R0,03 billion	Payments for mobile veterinary clinics not delivered
g-FleeT Management (GP)	
R0,03 billion	Duplicate payments to various car manufacturers
Total for top 10	
R0,80 billion	**This constitutes 68% of the total fruitless and wasteful expenditure** *Excluded from these top contributors is fruitless and wasteful expenditure of Water Trading Entity (R0,57 billion), National Treasury (R0,27 billion), Postbank (R0,12 billion), Department of Environmental Affairs (R0,08 billion), Land and Agricultural Development Bank of South Africa (R0,07 billion), Denel (R0,03 billion) and Compensation Fund (R0,03 billion) – the amounts are based on either unaudited financial statements or audited financial statements of audits completed after the cut-off date of this report*

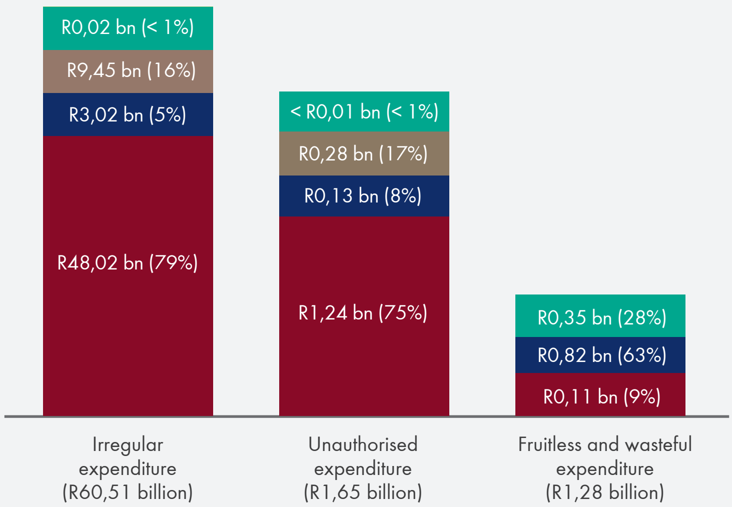
INVESTIGATION AND FOLLOW-UP OF PRIOR YEAR UIFW

Investigations by auditees of all prior year instances slightly regressed from **76%** to **71%**

UIFW disclosed must be investigated to determine its impact and who is responsible. Based on the outcome of the investigation, the next steps can include condonement/authorisation, recovery, or write-off. It may also include the cancellation of contracts irregularly awarded.

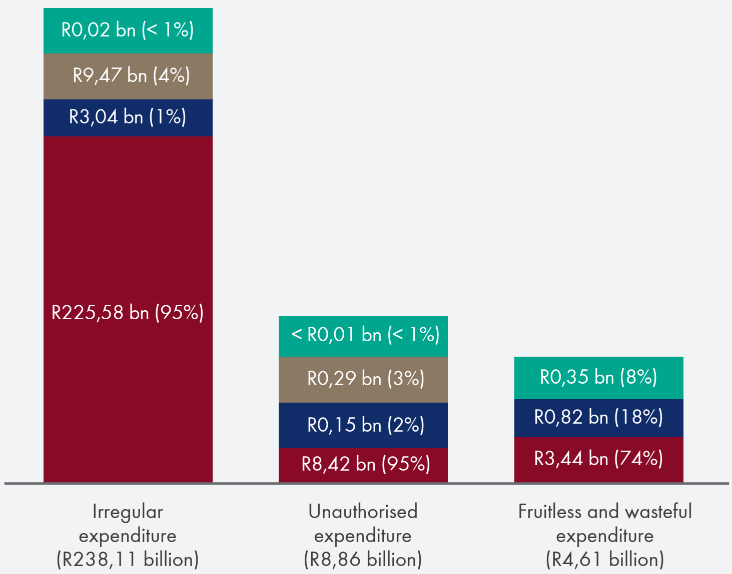
Most (over 70%) of the auditees investigated UIFW as required but sufficient steps were not taken to recover, write off, approve or condone the UIFW. As a result, the year-end balance of irregular expenditure that had accumulated over many years and had not been dealt with totalled R262,03 billion, while that of unauthorised expenditure was R26,20 billion and that of fruitless and wasteful expenditure was R4,59 billion.

How have auditees dealt with UIFW incurred in 2018-19



How have auditees dealt with all prior year UIFW to date

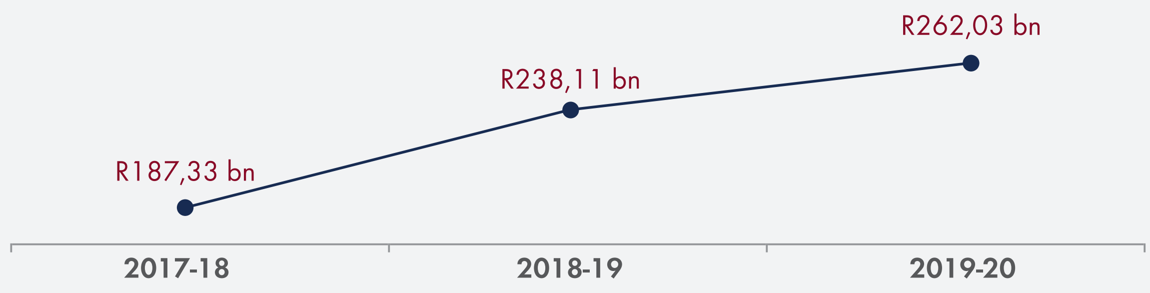
Note: *Figures below are expressed as percentage of previous year closing balance*



Money recovered or in process of recovery | Condoned or authorised | Written off | Not dealt with

IRREGULAR EXPENDITURE IS NOT DEALT WITH SPEEDILY

Growing balance of irregular expenditure not dealt with



Top 10 contributors (R116,37 billion) to irregular expenditure not dealt with constitutes 52% of R225,58 billion

Auditee	2018-19 irregular expenditure closing balance (R billion)	Portion of closing balance not dealt with in 2019-20 (R billion) (%)
Passenger Rail Agency of South Africa	27,29	27,29 (100%)
Department of Health (GP)	13,55	13,55 (100%)
Department of Health (KZN)	13,44	13,44 (100%)
Department of Transport (KZN)	14,11	12,37 (88%)
South African National Roads Agency	10,90	10,90 (100%)
Department of Water and Sanitation	9,29	8,94 (96%)
Department of Health (NW)	8,86	8,86 (100%)
National Student Financial Aid Scheme	7,58	7,58 (100%)
Department of Health (NC)	6,87	6,87 (100%)
Department of Education (KZN)	6,57	6,57 (100%)

Most common reasons for not **dealing with irregular expenditure** by either **condoning the expenditure, recovering the money, or writing off the expenditure:**

- Delays caused by instability at accounting officer/authority level and prolonged vacancies in key senior management positions
- Culture of a lack of accountability and consequence management at auditees – due to tone set by leadership
- Slow processes – delays in starting or completing investigations and dealing with outcome of investigations
- Dealing with irregular expenditure caused by multi-year contracts delayed by court actions taken by suppliers
- Condonement not approved by treasuries as requests from auditees are not supported by sufficient evidence/ information

FRAUD AND LACK OF CONSEQUENCES

SLIGHT DECREASE IN MATERIAL NON-COMPLIANCE WITH LEGISLATION ON IMPLEMENTING CONSEQUENCES

NON-COMPLIANCE WITH LEGISLATION ON IMPLEMENTING CONSEQUENCES – TESTED AT 325 AUDITEES

Most common findings were the following:

- Irregular expenditure identified in previous year not investigated – **74 auditees (23%)**
- Fruitless and wasteful expenditure identified in previous year not investigated – **59 auditees (18%)**
- Effective and appropriate disciplinary steps not taken against officials who made and/or permitted irregular expenditure – **42 auditees (13%)**

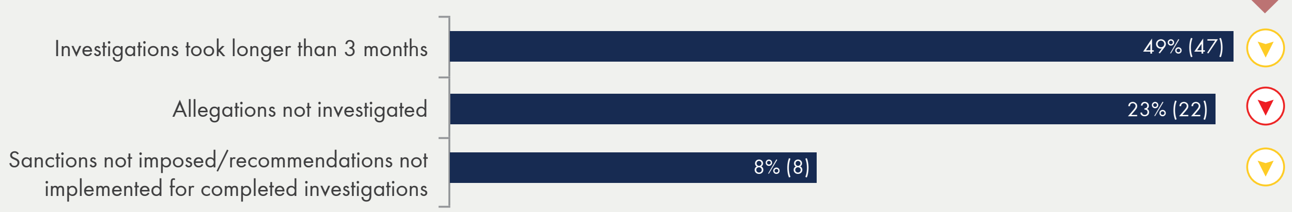
MECHANISMS TO DEAL WITH LACK OF CONSEQUENCES

Inadequate mechanisms for reporting and investigating transgressions and possible fraud at 37 auditees (11%)

Although 89% had the required mechanisms, these had not necessarily been implemented successfully, as evidenced by the little improvement in auditees with material non-compliance with legislation on implementing consequences.

CONTRIBUTED TO

INADEQUATE FOLLOW-UP OF ALLEGATIONS OF FINANCIAL AND SUPPLY CHAIN MANAGEMENT MISCONDUCT AND FRAUD – TESTED AT 95 AUDITEES



AND

Unauthorised, irregular, and fruitless and wasteful expenditure (UIFW) not followed up and dealt with – refer to section on UIFW

Supply chain management (SCM) findings we reported to management for investigation not followed up – refer to section on SCM

INTERNAL CONTROL

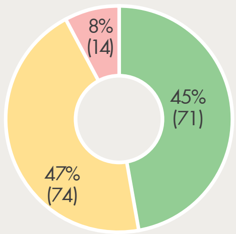
SLIGHT IMPROVEMENT IN OVERALL STATUS OF INTERNAL CONTROL

OVERALL STATUS OF INTERNAL CONTROL

	Good	Of concern	Intervention required
2019-20	50% (188)	37% (143)	13% (51)
2018-19	44% (163)	41% (151)	15% (57)

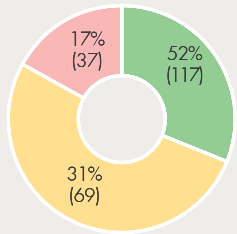
54 auditees ⋀ *Improved* **26 auditees** ⋁ *Regressed*

DEPARTMENTS (159)



22 ⋀ 10 ⋁

PUBLIC ENTITIES (223)



32 ⋀ 16 ⋁

DRIVERS OF INTERNAL CONTROL

Good internal control is the key to ensuring that auditees deliver on their priorities in an effective, efficient and economical manner.
It will also ensure that auditees produce quality financial statements and performance reports, and comply with applicable legislation.

	Good	Of concern	Intervention required	MOVEMENT
Leadership	49% (189)	34% (128)	17% (65)	57 ⋀ 33 ⋁
Financial and performance management	43% (163)	36% (139)	21% (80)	66 ⋀ 31 ⋁
Governance	65% (247)	23% (87)	12% (48)	45 ⋀ 22 ⋁

BASIC CONTROLS

Analysis shows six of the seven basic controls that should receive specific attention to improve and sustain audit outcomes.
Refer to the human resource (HR) management section for HR controls and information technology (IT) controls section for IT governance controls.

	Good	Of concern	Intervention required	MOVEMENT
Effective leadership	64% (243)	27% (104)	9% (35)	37 ⋀ 30 ⋁
Review and monitor compliance	25% (96)	45% (171)	30% (115)	66 ⋀ 54 ⋁
Audit action plans	34% (131)	46% (172)	20% (76)	40 ⋀ 45 ⋁
Proper record keeping	42% (159)	37% (142)	21% (81)	57 ⋀ 42 ⋁
Daily and monthly controls	42% (157)	37% (143)	21% (82)	64 ⋀ 37 ⋁
In-year and year-end reporting	24% (91)	51% (194)	25% (97)	43 ⋀ 88 ⋁

There are still widespread weaknesses in the basic controls.
These are also the controls that are key in preventing accountability failures – the necessary investment has not yet been made in prevention.

Good Of concern Intervention required

PROGRESS MADE IN IMPROVING DRIVERS OF INTERNAL CONTROL

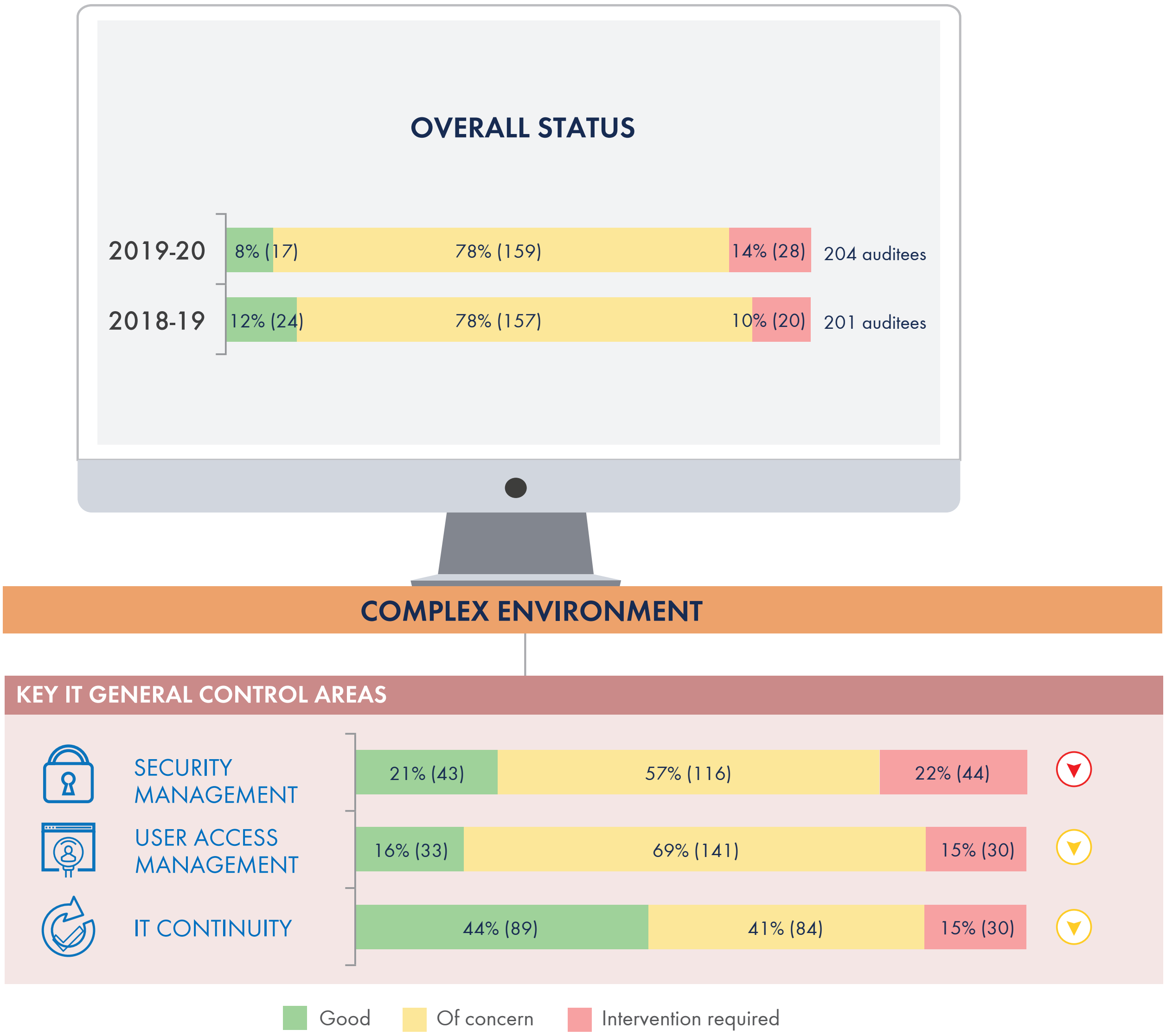
Auditees must invest in preventative controls to strengthen their control environment

	Leadership	Financial and performance management	Governance
National	38 ∧ 18 ∨	42 ∧ 22 ∨	29 ∧ 17 ∨
Eastern Cape	4 ∧ 1 ∨	5 ∧ 1 ∨	3 ∧ 2 ∨
Free State	3 ∧ 3 ∨	3 ∧ 0 ∨	3 ∧ 0 ∨
Gauteng	2 ∧ 5 ∨	3 ∧ 2 ∨	3 ∧ 1 ∨
KwaZulu-Natal	4 ∧ 3 ∨	5 ∧ 1 ∨	4 ∧ 0 ∨
Limpopo	4 ∧ 2 ∨	5 ∧ 0 ∨	1 ∧ 0 ∨
Mpumalanga	1 ∧ 1 ∨	1 ∧ 2 ∨	1 ∧ 2 ∨
Northern Cape	No movement	No movement	No movement
North West	No movement	1 ∧ 2 ∨	1 ∧ 0 ∨
Western Cape	1 ∧ 0 ∨	1 ∧ 1 ∨	No movement
Total	57 ∧ 33 ∨	66 ∧ 31 ∨	45 ∧ 22 ∨

INFORMATION TECHNOLOGY (IT) CONTROLS

SLIGHT REGRESSION IN IT CONTROLS

Information systems in the public sector are used to record and process data and to report on financial and business information. Various stakeholders (including executives and oversight committees) rely on that information to make critical decisions.



STATUS OF IT GENERAL CONTROLS

IT general controls relate to the control environment within which computer-based application systems are developed, maintained and operated. These controls include policies, procedures and practices established by management to provide comfort that specific business objectives are achieved; in other words, that these controls can be relied upon to ensure the integrity of financial information and data processed by these systems.

Of the 339 national and provincial auditees, 204 have more complex IT environments that support key financial reporting and service delivery processes. Overall, their general control environment slightly regressed in the areas of security management, user access management, and IT service continuity.

Auditees with weak general controls increased from 88% to a staggering 92%, which could potentially increase the risk of unauthorised and/or fraudulent transactions being processed on the systems. The main contributory factors have remained the same during the past few years, thereby demonstrating a lack of accountability by those charged with governance and oversight responsibilities.

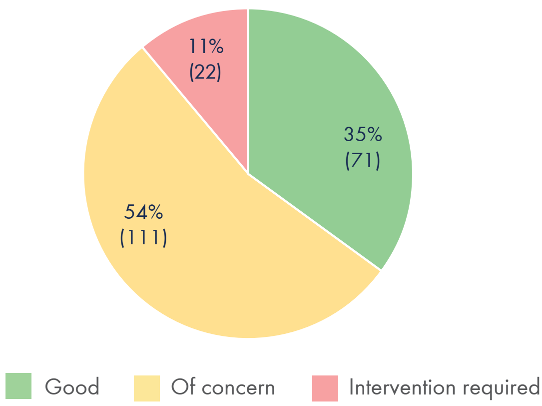
MAIN CONTRIBUTORY FACTORS TO WEAK GENERAL CONTROLS

- **Ineffectiveness of those charged with governance** – not proactive in addressing audit findings and preventing recurrences.
- Chief information officers, IT managers and IT staff **did not fulfil their responsibilities** by ensuring compliance with controls established to secure and regulate IT environments, due to lack of consequence management.
- Accounting officers/authorities **did not prioritise approval of IT policies and procedures** to ensure establishment, enforcement and monitoring of proper internal controls.
- **Performance monitoring processes** of IT service providers not adequately enforced to ensure that services were rendered at agreed level of quality or standards.
- Most auditees were **fixing symptoms** rather than implementing improved IT controls.
- **Insufficient funding** to replace outdated infrastructure and software to improve IT controls.

IT GOVERNANCE

IT governance is a set of organisational processes, procedures and standards that ensure executive oversight of IT spending in relation to value for money, the effectiveness of IT risk management, and the allocation of adequate resources to deliver on business goals. The accounting officer/authority, audit committee and internal auditors are generally accountable for effective governance processes.

IT governance practices



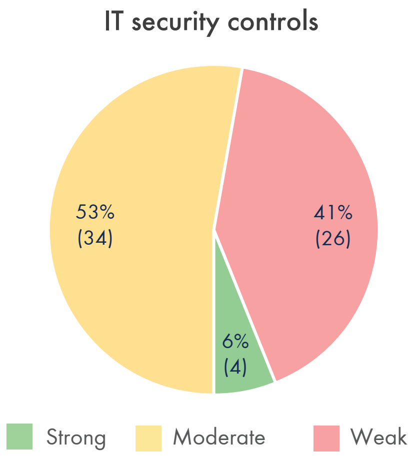
Overall, **65% of auditees had weak IT governance practices**, thereby demonstrating a lack of accountability and oversight by those charged with overseeing IT performance and risk management.

MAIN CONTRIBUTORY FACTORS TO WEAK IT GOVERNANCE PRACTICES

- **Governance framework:** All elements of framework not implemented or no framework existed (28%).
- **Benefits delivery:** Project benefits realisation (e.g. IT spend on infrastructure, software, external service providers and system developments) not identified and/or monitored (17%).
- **Risk optimisation:** IT steering committees ineffective as they often lack appropriate structures and processes to evaluate IT performance against strategic plans and delivery of key IT programs/projects (19%).
- **Resource optimisation:** IT resource structures inadequate to deliver and support current and future business needs (36%).

CYBERSECURITY

Cybersecurity posture (strength) at 64 national departments, provincial departments and public entities where network security reviews were performed



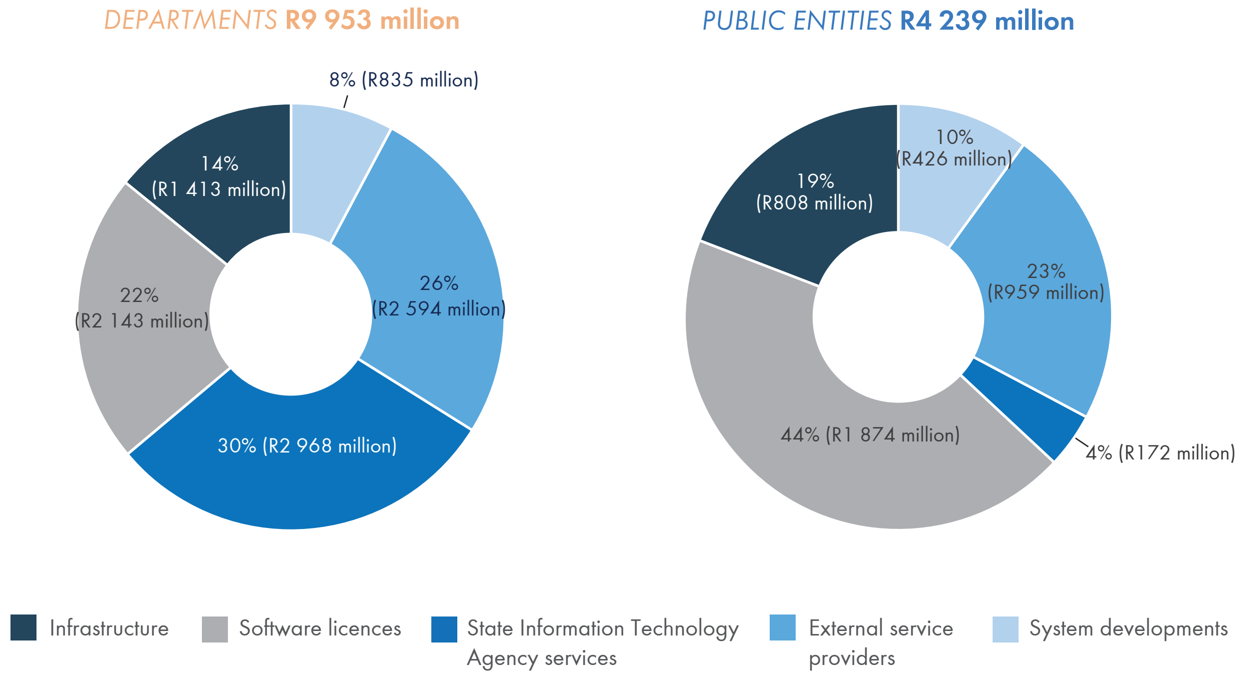
A significant increase in internet access combined with a growing reliance on e-governance, commercial services, social networks and the 'internet of things' (a system of interrelated, internet-connected objects that are able to collect and transfer data over a wireless network without human intervention) has increased the cyber-vulnerability of both citizens and governments. Although cyber-incidents moved down two places due to the covid-19 pandemic (according to the Allianz Global Corporate & Speciality risk barometer published in 2021), it is still ranked as the third-highest business risk facing businesses in South Africa and globally.

Similarly, auditees are facing a growing number of cyber-challenges, including larger and more expensive data breaches, an increase in ransomware and business email compromise (spoofing) incidents, as well as the prospect of litigation after a major security breach. Three of the 64 auditees (5%) audited, experienced **security breaches** in 2019-20.

MAIN CONTRIBUTORY FACTORS TO WEAK IT SECURITY CONTROLS

- **Long-standing shortage of IT security skills** and appropriate budget allocation.
- **Ageing/redundant IT infrastructure** and lack of adequate investment in defence mechanisms.

APPROXIMATE IT EXPENDITURE



At four auditees (2%), **software licences** were procured and paid for, but were not used.

A total of 19 auditees incurred approximately R1 576 million on 76 **IT consultants**, mainly due to a lack of skills within the IT environment, the need to deliver value-added IT services, and emergency arrangements due to capacity problems. The IT units of the 204 auditees audited had 8 262 positions, of which 1 835 (22%) were vacant. Only 15 IT consultants were used to fill these vacant positions, while the remaining 61 were used to support auditees in other areas.

Auditees spent approximately R1 261 million on 102 **system development** projects.

FINDINGS RELATING TO IT PROJECTS / SYSTEM DEVELOPMENT AND ACQUISITION

- **Department of Correctional Services** implemented the Integrated Inmate Management System with a project budget of R378 084 206. To date, R285 518 966 had been spent but only one system module had been delivered and implemented at seven of the 22 centres targeted in the current project phase.
- **Department of Public Works (KZN)** planned to implement an Archibus system by 2018 but this has not been completed yet. The department is involved in an arbitration process with the previous service provider and a new service provider has been appointed to complete the system implementation. The amount spent to date on the project is R36 034 435.
- **Ithala SOC Limited** planned to implement a new banking system with a project budget of R98 million. The project was put on hold due to an internal investigation, with R34 206 750 already having been spent. No further payments were made during 2019-20.

HUMAN RESOURCE (HR) MANAGEMENT

Slight improvement in HR management controls

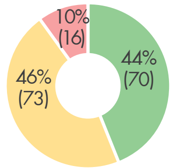
OVERALL STATUS OF HR CONTROLS

	Good	Of concern	Intervention required
2019-20	50% (190)	39% (148)	11% (44)
2018-19	47% (176)	41% (152)	11% (41)

130 auditees Improved **36 auditees** Regressed

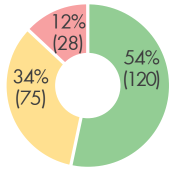
Good Of concern Intervention required

DEPARTMENTS (159)



56 ⋀ 16 ⋁

PUBLIC ENTITIES (223)



74 ⋀ 20 ⋁

KEY POSITIONS – VACANCIES AND STABILITY

HEAD OF DEPARTMENT

VACANCIES 26% (42)

Vacant for less than 6 months – 9% (15)

Vacant for 6 months or more – 17% (27)

STABILITY* 47 months

**Average number of months in position*

CHIEF EXECUTIVE OFFICER

VACANCIES 24% (47)

Vacant for less than 6 months – 5% (9)

Vacant for 6 months or more – 19% (38)

STABILITY* 50 months

**Average number of months in position*

STABILITY* IN KEY POSITIONS PRODUCED BETTER AUDIT OUTCOMES

HEAD OF DEPARTMENT

**Average number of months in position*

Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse and disclaimed with findings
60	40	45	6

CHIEF EXECUTIVE OFFICER

**Average number of months in position*

Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse and disclaimed with findings
69	37	48	47

Unqualified with no findings Unqualified with findings Qualified with findings Adverse and disclaimed with findings

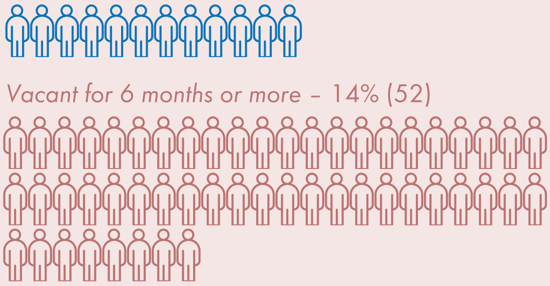
KEY POSITIONS – VACANCIES AND STABILITY

CHIEF FINANCIAL OFFICER

VACANCIES 17% (64)

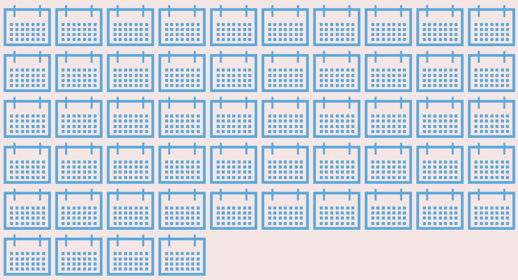
Vacant for less than 6 months – 3% (12)

Vacant for 6 months or more – 14% (52)



STABILITY* 54 months

**Average number of months in position*

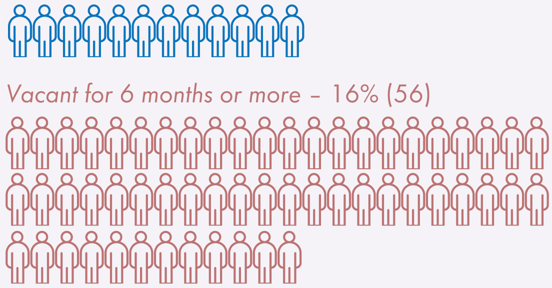


HEAD OF SUPPLY CHAIN MANAGEMENT UNIT

VACANCIES 19% (68)

Vacant for less than 6 months – 3% (12)

Vacant for 6 months or more – 16% (56)



STABILITY* 61 months

**Average number of months in position*

STABILITY* IN KEY POSITIONS PRODUCED BETTER AUDIT OUTCOMES

CHIEF FINANCIAL OFFICER

**Average number of months in position*

Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse and disclaimed with findings
60	59	41	22

VACANCY RATES AND RESOURCING OF FINANCE UNITS

OVERALL **14%** SENIOR MANAGEMENT **19%** FINANCE UNIT **13%**

The resourcing of 122 finance units (32%) was either concerning or requiring intervention, due to:

- Staff vacancies (93)
- Inadequate skills (13)
- Combination of staff vacancies and inadequate skills (16)

ASSURANCE PROVIDERS

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

ASSURANCE PROVIDED BY MANAGEMENT / LEADERSHIP

	Provides assurance	Provides some assurance	Provides limited/no assurance	MOVEMENT ▲	MOVEMENT ▼
Senior management	14%	66%	20%	23	180
Accounting officers/authorities	34%	53%	13%	39	101
Executive authorities	48%	44%	8%	42	42

INTERNAL INDEPENDENT ASSURANCE AND OVERSIGHT

	Provides assurance	Provides some assurance	Provides limited/no assurance	MOVEMENT ▲	MOVEMENT ▼
Internal audit units	65%	28%	7%	95	37
Audit committees	68%	25%	7%	100	32
COORDINATING/MONITORING DEPARTMENTS	47%	53%			
Offices of the premier / Department of Planning, Monitoring and Evaluation	50%	50%		5	0
Treasuries	44%	56%		3	0

EXTERNAL INDEPENDENT ASSURANCE AND OVERSIGHT

	Provides assurance	Provides some assurance	Provides limited/no assurance	MOVEMENT ▲	MOVEMENT ▼
Public accounts committees / Standing Committee on Public Accounts	40%	60%		4	0
Portfolio committees	66%	34%		26	1

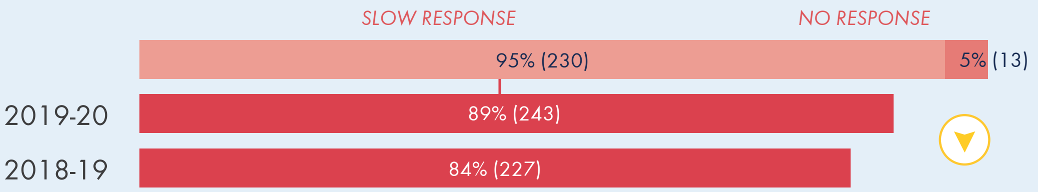
Provides assurance Provides some assurance Provides limited/no assurance

FINDINGS	INTERNAL AUDIT UNITS		AUDIT COMMITTEES	
Fully compliant with legislation	93% (343)	▲	93% (332)	▲
Evaluates the following key areas:				
- Internal control	95% (349)	▼	94% (337)	▼
- Reliability of financial information	93% (343)	▲	95% (340)	▼
- Reliability of performance information	89% (327)	▲	90% (322)	▲
- Compliance with key legislation	94% (347)	▲	94% (337)	▼
- Supply chain management	92% (340)	▲	94% (336)	▲
Interacts with executive authority	N/A		90% (322)	▲
Has positive impact on audit outcomes	66% (242)	▲	79% (284)	▲

Reasons for internal audit units not having a positive impact:
- Internal audit unit not adequate and/or effective – **55 (44%)**
- Management did not implement internal audit recommendations – **71 (56%)**

SLOW OR NO RESPONSE IN IMPROVING INTERNAL CONTROLS AND ADDRESSING RISK AREAS

No response most evident in North West (5 auditees), national government (4 auditees) and Limpopo (2 auditees)

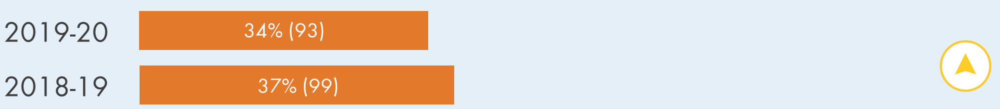


INSTABILITY OR VACANCIES IN KEY POSITIONS OR KEY OFFICIALS LACKING APPROPRIATE COMPETENCIES

Vacancies, instability or lack of competencies most prominent in North West (89%), Mpumalanga (69%) and Free State (64%)

INADEQUATE CONSEQUENCES FOR POOR PERFORMANCE AND TRANSGRESSIONS

Lack of consequences most evident in North West (89%), Northern Cape (89%), Limpopo (82%) and Free State (79%)



STATE-OWNED ENTITIES (SOEs)

The snapshot shows the audit outcomes of 20 public entities listed in schedule 2 of the Public Finance Management Act, commonly known as SOEs. The outcomes are shown at group level. We audit 14 of the SOEs – the remainder is audited by audit firms.

The audits of South African Airways and South African Express Airways have not commenced as we have not received financial statements for auditing. The audits of Denel, Independent Development Trust, Land and Agricultural Development Bank of South Africa, South African Forestry Company, South African Post Office, South African Nuclear Energy Corporation, Trans-Caledon Tunnel Authority and Alexkor were still in progress at the cut-off date of this report. The outcomes of these auditees are not included in the snapshot.

Overall audit outcomes improved

2019-20: 2 | 5 | 3 | 10 — 2 improved, 0 regressed

	Audited by AGSA	Audited by audit firms
Improved	Armaments Corporation of South Africa, Development Bank of Southern Africa	
Unchanged	Airports Company South Africa, Central Energy Fund, South African Broadcasting Corporation	Air Traffic and Navigation Services Company, Broadband Infraco, Industrial Development Corporation of South Africa, Eskom, Transnet

Financially unqualified financial statements

70% (7)

2018-19: 70%

South African Broadcasting Corporation, Eskom and Transnet were qualified on completeness of irregular expenditure disclosed

No findings on performance report

89% (8)

2018-19: 44%

Achievement reported for Air Traffic and Navigation Services Company was not reliable

No findings on compliance with legislation

30% (3)

2018-19: 10%

COMMON NON-COMPLIANCE AREAS

Prevention of irregular and fruitless and wasteful expenditure	60% (6)
Quality of financial statements	40% (4)
Consequence management	40% (4)

Irregular and fruitless and wasteful expenditure

Irregular expenditure

R68 billion

2018-19: R57 billion

CLOSING BALANCE

R154 billion

2018-19: R90 billion

TOP THREE CONTRIBUTORS

*Transnet	R56,3 billion
*Eskom	R11,2 billion
Airports Company South Africa	R0,6 billion

Fruitless and wasteful expenditure

R2,5 billion

2018-19: R1,4 billion

CLOSING BALANCE

R3,9 billion

2018-19: R1,6 billion

TOP THREE CONTRIBUTORS

*Eskom	R2,3 billion
Transnet	R0,1 billion
South African Broadcasting Corporation	R0,03 billion

* Most of the expenditure discovered relates to prior years

Compliance with supply chain management (SCM) legislation

NO MATERIAL SCM FINDINGS

60%

2018-19: 40%

MOST COMMON MATERIAL SCM FINDINGS

Procurement process not fair, equitable, transparent and competitive	30%
Thresholds for local content on designated sectors' procurement not properly applied	20%
Construction contract awarded to contractor not registered with Construction Industry Development Board and/or who did not qualify for contract	20%

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

NOTES

SECTION 6

Provincial overviews

EASTERN CAPE: PERFORMANCE SNAPSHOT

The snapshot shows the audit outcomes of 21 auditees in the province – 14 departments and 7 public entities. The outcomes of 4 small public entities are excluded.

Overall audit outcomes improved

2019-20: 6 | 12 | 3 — 4 ⋀ 1 ⋁

Improved	EC Development Corporation, Coega Development Corporation, EC Government Fleet Management Services, Social Development
Regressed	Provincial Legislature
Unchanged	East London Industrial Development Zone, EC Parks and Tourism Agency, Provincial Treasury, Safety and Liaison, Cooperative Governance and Traditional Affairs, EC Rural Development Agency, Economic Development, Environmental Affairs and Tourism, Human Settlements, Mayibuye Transport Corporation, Office of the Premier, Public Works, Rural Development and Agrarian Reform, Sport, Recreation, Arts and Culture, Transport, Education, Health

Financially unqualified financial statements

86%

2018-19: 76%

Auditees submitted financial statements without material misstatements:

62% (13)

No findings on performance report

71%

2018-19: 57%

Reported achievement reliable:

71% (15)

No findings on compliance with legislation

29%

2018-19: 29%

Unauthorised and fruitless and wasteful expenditure

Unauthorised expenditure

R1 589 m

TOP TWO CONTRIBUTORS

Education	R991 m
Health	R598 m

Fruitless and wasteful expenditure

R44 m

TOP THREE CONTRIBUTORS

Health	R24 m
Education	R17 m
Rural Development and Agrarian Reform	1 m

Financial health indicators

Vulnerable position	2
Deficit	R143 m (8)
Cash shortfall	R1 371 m (8)
Unpaid claims	R37 555 m (12)
Average creditor-payment period	48 days

Irregular expenditure

R837 m

2018-19: R982 m

CLOSING BALANCE

R4 266 m

2018-19: R4 230 m

TOP THREE CONTRIBUTORS

Health	R338 m
Education	R141 m
Public Works	R132 m

Compliance with supply chain management (SCM) legislation

Auditees that complied with SCM legislation:

29%

2018-19: 33%

MOST COMMON SCM FINDINGS

No/inadequate contract performance measures and monitoring	24%
Contracts amended/extended without approval by delegated official	24%
Awards to suppliers owned by close family members – supplier did not declare interest (false declarations)	19%

Status of good controls

43%	38%	48%
Overall internal control	Leadership	Basic financial and performance management

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

Improvements due to leadership implementing commitments and oversight being more involved and accountable; preventative controls still need attention

In our previous general report, we urged the province to take appropriate action towards instilling a strong culture of basic financial management discipline, and further enforce adherence to good controls. In the current year, the audit outcomes reflect an overall improvement. The involvement of oversight and implementation of commitments by leadership contributed to this improvement, as evidenced by the six auditees that achieved clean audit opinions. Most auditees, however, stagnated on an unqualified audit opinion with findings due to repeat transgressions of legislative requirements. The provincial legislature also fell in this category of audit opinion after regressing from a clean audit in the previous year.

The most common transgressions related to a failure to prevent irregular and fruitless and wasteful expenditure as well as inadequate procurement and contract management. Leadership at these auditees did not take the appropriate actions to address our continued calls for improved controls and did not provide effective and independent oversight of procurement processes and financial disciplines. The quality of submitted financial statements also remained a concern as auditees relied on the audit process to produce credible financial statements, indicating that controls were mostly reactive in nature.

The poor internal control environment negatively affected outcomes at the key service delivery departments, namely the Eastern Cape departments of Health, Education and Transport, which again received qualified audit opinions. Transgressions of legislation at these departments also had an adverse impact on how they spent the money allocated to them. The provincial department of health incurred irregular expenditure of R338 million mainly due to extending contracts without obtaining the necessary approvals. The provincial department of education was the second highest contributor to irregular expenditure in the province (R141 million), most of which related to deviations on infrastructure projects that were not adequately justified. The provincial department of transport did not have adequate monitoring controls in place to ensure that contracts entered into were compliant with applicable legislation. The resultant irregular expenditure on these contracts was not correctly disclosed in the financial statements, which led to a qualification.

Unauthorised expenditure was incurred only at the provincial departments of education and health. The provincial department of education incurred unauthorised expenditure of R991 million due to overspending on compensation of employees and goods and services. This was as a result of budget cuts and poor financial disciplines. As a result, an overdraft facility of R1 billion was required to enable them to finance the over-expenditure. The provincial department of health incurred unauthorised expenditure of R598 million due to payments for medical claims that were not budgeted for. These payments depleted expenditure budgets meant for service delivery, which placed further pressure on the provincial fiscus.

In addition, the provincial department of transport incurred fruitless and wasteful expenditure as a result of overpayments on services related to scholar transport. The amount of this fruitless and wasteful expenditure could not be determined reliably due to inaccurate records - which resulted in another area of qualification for the department.

The material irregularity process was carried out at six auditees in the province as part of our second phase of implementation. Nine material irregularities were identified at four auditees. The accounting officers reacted positively to the notifications they received and most of them are taking appropriate action to address these.

In order to improve and sustain audit outcomes, we urge leadership in the province to ensure that control environments are strengthened and that all the necessary preventative controls are implemented and monitored consistently. The levels of tolerance for non-compliance should be minimised further and accountability should be enhanced where transgressions contribute towards irregular expenditure.

FREE STATE: PERFORMANCE SNAPSHOT

The snapshot shows the audit outcomes of 16 auditees in the province – 13 departments and 3 public entities. The outcomes of 3 small public entities are excluded. The audit of the provincial department of human settlements was still in progress at the cut-off date of this report – with the exception of annual unauthorised, irregular, and fruitless and wasteful expenditure, the outcomes of this auditee are not included in the snapshot.

Overall audit outcomes improved

2019-20: 1 | 6 | 7 | 1 | 1 — 3 improved, 1 regressed

Improved	Provincial Treasury, FS Fleet Management Trading Entity, Office of the Premier
Regressed	FS Development Corporation
Unchanged	Cooperative Governance and Traditional Affairs, Education, Police, Roads and Transport, Provincial Legislature, Public Works and Infrastructure, Agriculture and Rural Development, Central Medical Trading Account, Economic, Small Business Development, Tourism and Environmental Affairs, Health, Social Development, Sport, Arts, Culture and Recreation

Financially unqualified financial statements

47% (improved)

2018-19: 40%

Auditees submitted financial statements without material misstatements:

40% (6) (improved)

No findings on performance report

38% (regressed)

2018-19: 46%

Reported achievement reliable:

38% (5) (regressed)

No findings on compliance with legislation

7% (improved)

2018-19: 0%

Unauthorised and fruitless and wasteful expenditure

Unauthorised expenditure

R353 m (improved)

TOP THREE CONTRIBUTORS

Education	R97 m
Police, Roads and Transport	R96 m
Health	R80 m

Fruitless and wasteful expenditure

R71 m (improved)

TOP THREE CONTRIBUTORS

Free State Development Corporation	R38 m
Office of the Premier	R21 m
Agriculture and Rural Development	R6 m

Financial health indicators

Vulnerable position	11
Deficit	R1 109 m (5)
Cash shortfall	R1 878 m (11)
Unpaid claims	R3 856 m (11)
Average creditor-payment period	58 days

Irregular expenditure

R3 181 m (improved)

2018-19: R4 134 m

CLOSING BALANCE

R10 735 m

2018-19: R10 983 m

TOP THREE CONTRIBUTORS

Police, Roads and Transport	R1 042 m
Health	R433 m
Agriculture and Rural Development	R284 m

Compliance with supply chain management (SCM) legislation

Auditees that complied with SCM legislation:

7% (improved)

2018-19: 0%

MOST COMMON SCM FINDINGS

Three written quotations not obtained – deviation not approved	47%
Procurement from suppliers without Sars tax clearance	47%
Bid documentation did not stipulate minimum threshold for local production and content	47%

Status of good controls

13%	13%	7%
Overall internal control	Leadership	Basic financial and performance management

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

Second consecutive year of improvement, but lack of accountability continued to result in pervasive non-compliance, especially relating to procurement, and deteriorating financial health

For the second consecutive year, the province's audit outcomes improved. It is commendable that the provincial treasury was able to obtain a clean audit – a first for the province since 2016-17. The improvement at the provincial treasury could be attributed to them no longer procuring through transversal contracts, the implementation of our previous year's recommendations relating to contract management, and a more proactive attitude to deal with audit matters as and when they were raised. The Fleet Management Trading Entity and the premier's office were also able to improve their audit outcomes, but the Free State Development Corporation's audit outcome regressed.

Despite the overall improvement, most auditees did not respond to our key message shared in the previous year. They did not implement basic key and preventative controls and did not prioritise compliance with legislation, especially those auditees whose audit outcomes stagnated. In addition, auditees did not ensure that goods and services were received for all payments made, the province's financial health continued to fail, and there were still limited consequences for transgressions.

This culture of no consequences has been created through the political and administrative leadership's inability to implement consequence management for the pervasive non-compliance with legislation. Thus, the environment was vulnerable to misappropriation, wastage and the abuse of state funds. The continued transgression of supply chain management prescripts was reflected in the significant amount of irregular expenditure incurred annually.

The Free State Department of Police, Roads and Transport serves as an example of the continued disregard for procurement prescripts, and was the highest contributor of irregular expenditure (R1 billion). The department irregularly appointed a panel of suppliers for the repair and maintenance of roads. It was concerning that, in the previous year, the department had cancelled contracts relating to the irregular appointment of a panel. Yet, in the current year, the department appointed another panel irregularly, for similar services as the previously cancelled contracts. In addition, at the provincial department of education, material irregularities were identified due to non-compliance with supply chain management prescripts, resulting in likely financial losses.

There had been an improvement in the level of assurance provided by the political leadership at some auditees. However, the administrative leadership and senior management did not create a culture that promoted accountable, effective and efficient provincial government. This compromised effective monitoring and oversight by all assurance providers. We applaud the provincial treasury for the support they provided to auditees throughout the year and their assistance with coordinating the audit process.

Leadership's lack of accountability for government spending had a negative impact on auditees' financial sustainability. Funds to be surrendered to the revenue fund and accruals and payables not recognised exceeded cash on hand by R3,9 billion (2018-19: R4 billion). Therefore, a significant portion of the 2020-21 budget will be required to settle these obligations, reducing departments' ability to effectively deliver on their mandate. The combined bank overdraft balances of the provincial departments of education and health and the premier's office of R1,1 billion (2018-19: R1,3 billion) furthermore put pressure on the entire province's financial well-being. The Free State Development Corporation was commercially insolvent at 30 June 2020. The entity's board was also unable to provide evidence to support the reasonableness of their turnaround strategy, resulting in the entity being the only auditee with a disclaimed opinion.

At the Free State Department of Health, preventative controls were not in place to ensure that adequate supporting documentation was available so that payments were only made for infrastructure assets actually received. The department investigated the matter and identified significant overpayments on infrastructure projects, but it was not resolved or corrected as the full extent of these overpayments was still under investigation.

It is only through the strengthening of the control environment and the implementation of preventative controls that the province will be able to maintain its clean audit and ensure that more auditees progress to a sustainable clean audit status. The political leadership should lead from the front and improve the assurance they provide. They should also ensure that the administrative leadership is held accountable for their actions, thus ensuring that they too improve the level of assurance provided. Proper planning and budgeting, effective staff performance management as well as firm and timely consequences for poor performance and transgressions should be implemented.

GAUTENG: PERFORMANCE SNAPSHOT

The snapshot shows the audit outcomes of 23 auditees in the province – 15 departments and 8 public entities. The outcomes of 11 small public entities are excluded. The audit of Gauteng Enterprise Propeller was finalised after the cut-off date of this report – with the exception of annual irregular and fruitless and wasteful expenditure, the outcomes of this auditee are not included in the snapshot.

Overall audit outcomes unchanged

2019-20: 7 | 12 | 2 | 1 | 1 — 4 ⋀ 4 ⋁

Improved	Community Safety, Economic Development, Provincial Legislature, Human Settlements
Regressed	Gauteng Growth and Development Agency, Gauteng Partnership Fund, Supplier Park Development Company, e-Government
Unchanged	Cooperative Governance and Traditional Affairs, Gautrain Management Agency, Office of the Premier, Provincial Treasury, Agriculture and Rural Development, Education, Gauteng Medical Supplies Depot, g-FleeT Management, Health, Infrastructure Development, Roads and Transport, Social Development, Sport, Arts, Culture and Recreation, Gauteng Housing Fund

Financially unqualified financial statements

86% (down)

2018-19: 91%

Auditees submitted financial statements without material misstatements:

64% (14) (up)

No findings on performance report

71% (up)

2018-19: 62%

Reported achievement reliable:

76% (16) (up)

No findings on compliance with legislation

32% (unchanged)

2018-19: 32%

Fruitless and wasteful expenditure

R103 m (up)

TOP THREE CONTRIBUTORS

g-FleeT Management	R28 m
e-Government	R27 m
Human Settlements	R18 m

Financial health indicators

Deficit	R3 568 m (3)
Cash shortfall	R2 216 m (7)
Unpaid claims	R28 377 m (9)
Average creditor-payment period	69 days

Irregular expenditure

R7 494 m (down)

2018-19: R7 134 m

CLOSING BALANCE

R36 642 m

2018-19: R29 200 m

TOP THREE CONTRIBUTORS

Education	R1 031 m
Health	R2 319 m
Roads and Transport	R2 168 m

Compliance with supply chain management (SCM) legislation

Auditees that complied with SCM legislation:

41% (up)

2018-19: 32%

MOST COMMON SCM FINDINGS

Three written quotations not obtained – deviation not approved	23%
Awards to suppliers owned by employees – persons with interest failed to disclose it as part of process and/or through annual declarations	18%
Competitive bids not invited – deviation not approved	14%

Status of good controls

50% Overall internal control	50% Leadership	41% Basic financial and performance management

Unqualified with no findings | Unqualified with findings | Qualified with findings | Adverse with findings | Disclaimed with findings | Finalised after cut-off date of this report

Inadequate monitoring of preventative controls and insufficient consequence management, resulting in stagnation

The 2018-19 financial year was a year of emerging trends of disclaimed audit opinions and decreasing clean audits. The provincial leadership was urged to effectively monitor preventative controls and positively influence accountability and basic control disciplines. In response to our call to act, the province maintained its overall audit outcomes, where three auditees improved to clean audits and disclaimed opinions decreased from two to one.

Encouragingly, there was a continued improvement in the quality of the financial statements submitted for auditing, as the financial statements of 64% of the auditees did not have material misstatements. This can be attributed to regular reporting, adequate review, proper record management, and the use of governance structures to assist with reviews. However, we remain concerned about the 36% of auditees that submitted financials with material errors and recommend that accounting officers strengthen monitoring over the review of financial statements as well as timely asset counts, regular reconciliations and effective record management.

Compliance outcomes remained stagnant with material non-compliance 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. The main contributors to the irregular expenditure were the Gauteng departments of Health, Roads and Transport, Education, Human Settlements and e-Government – which accounted for 92% of the incurred irregular expenditure, due to non-adherence to standardised procurement processes. The open tender system initiative, although not fully effective yet, continues to assist with the transparency and credibility of the procurement process by opening the process up to public observation and publishing the outcomes of each stage – thus ensuring greater public scrutiny. 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.

We selected five auditees for the implementation of the amended Public Audit Act. We identified one material irregularity at the provincial department of human settlements relating to a payment to an incorrect supplier. The accounting officer has been responsive and is taking appropriate action. Similarly, the accounting officer at the provincial department of health has been responsive to the two material irregularities identified in the previous year and has taken appropriate actions. The oversight and executive authorities should continue to monitor the progress on these material irregularities.

The financial health of the province improved, as 73% of auditees reflected good financial health as a result of embracing prudent and efficient spending. The province's financial discipline is evidenced by the fact that no unauthorised expenditure was incurred. The provincial department of health, however, continued to be under financial strain due to unbudgeted medical claims against the department, amounting to R23,8 billion, which affected service delivery. The province should extend its good financial management practices to further focus on deficits, unpaid claims, cash management and the timely payment of suppliers.

The provincial leadership has been responsive, where some improvements were notable. In order to sustainably improve audit outcomes, we encourage leadership to focus on the monitoring of preventative controls and to ensure that transgressions are addressed through timely investigations and consequence management. We urge oversight, in turn, to monitor and hold accounting officers accountable for effective action plans that will ensure the adequate implementation of controls over financial reporting, financial management and compliance as well as effective responses to material irregularities.

KWAZULU-NATAL: PERFORMANCE SNAPSHOT

The snapshot shows the audit outcomes of 23 auditees in the province – 15 departments and 8 public entities. The outcomes of 16 small public entities are excluded.

Overall audit outcomes improved

2019-20: 5 | 16 | 2 — 5 ⋀ 1 ⋁

Improved	Cooperative Governance and Traditional Affairs, Agriculture and Rural Development, Office of the Premier, Provincial Legislature, Public Works
Regressed	Social Development
Unchanged	Dube TradePort Corporation, KZN Housing Fund, Provincial Treasury, Traditional Levies and Trust Account, Arts and Culture, Community Safety and Liaison, Economic Development, Environmental Affairs and Tourism, Education, Human Settlements, Ithala Development Finance Corporation, Ithala Limited, KZN Gaming and Betting Board, KZN Conservation Board, Natal Sharks Board, Sport and Recreation, Health, Transport

Financially unqualified financial statements

91%
2018-19: 74%

Auditees submitted financial statements without material misstatements:

70% (16)

No findings on performance report

67%
2018-19: 62%

Reported achievement reliable:

67% (14)

No findings on compliance with legislation

26%
2018-19: 22%

Unauthorised and fruitless and wasteful expenditure

Unauthorised expenditure

R331 m

TOP THREE CONTRIBUTORS

Education	R338 m
Health	R92 m
Human Settlements	R3 m

Fruitless and wasteful expenditure

R19 m

TOP THREE CONTRIBUTORS

Education	R7 m
Arts and Culture	R5 m
Ithala Ltd	R2 m

Financial health indicators

Vulnerable position	4
Deficit	R2 244 m (13)
Cash shortfall	R1 704 m (10)
Unpaid claims	R25 928 m (3)
Average creditor-payment period	29 days

Irregular expenditure

R9 745 m
2018-19: R12 448 m

CLOSING BALANCE
R44 548 m
2018-19: R41 968 m

TOP THREE CONTRIBUTORS

Transport	R5 475 m
Education	R1 584 m
Health	R1 434 m

Compliance with supply chain management (SCM) legislation

Auditees that complied with SCM legislation:

22%
2018-19: 22%

MOST COMMON SCM FINDINGS

Procurement from suppliers without Sars tax clearance	35%
Bid documentation did not stipulate minimum threshold for local production and content	30%
Three written quotations not obtained – deviation not approved	30%

Status of good controls

52%	52%	39%
Overall internal control	Leadership	Basic financial and performance management

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

Improving trends – greater discipline required in implementing basic preventative controls to translate into sustainable improvements

During 2018-19, we regularly and robustly engaged with accounting officers and senior management on the importance of implementing preventative controls to address identified key risk areas. Some accounting officers duly considered our calls for action to address significant internal control deficiencies and fill key vacant posts. This contributed to the improved audit outcomes at five departments (33%), most notably the KwaZulu-Natal Department of Cooperative Governance and Traditional Affairs which progressed to a clean audit. In spite of the overall improvements in outcomes, accounting officers and senior management at most auditees did not effectively implement and monitor progress on their action plans. The slow response by management in addressing audit issues, breakdowns in basic reconciliation and review processes, poor record management and a disregard for compliance with legislation were still widespread.

The KwaZulu-Natal departments of Health and Transport were again unable to clear past qualifications as they did not address audit findings from prior years and disciplinary steps were not taken, as investigations against officials who had transgressed were either not started or not concluded timeously. The provincial department of health, being at the centre of service delivery, could still not account for its reported performance, due to basic lapses in record management.

The quality of financial statements reflected improvements due to leadership commitment to appoint competent staff together with the implementation of improved transactional level controls. However, we remain concerned that basic reconciliation and review checks failed at 21% of the auditees, as illustrated by the significant changes required to the submitted financial statements for them to receive unqualified opinions. Our assessment of the financial health at certain departments reflected poor cash-flow management and budgeting along with adverse key ratios. Of concern are the claims of R24,4 billion against the provincial department of health, most of which related to medical claims, which increased from R20,1 billion in the previous year to R23,4 billion. This indicates that the department is not implementing adequate steps to prevent claims, thus placing possible further pressure on its finances when these claims become payable. The levels of unauthorised expenditure increased as well, with the KwaZulu-Natal Department of Education as the highest contributor due to overspending on maintenance costs to repair storm-damaged schools and employee costs relating to fluctuating educator numbers.

A lack of consequence management continued to trigger high levels of non-compliance and irregular expenditure. Poor planning, inadequate contract management and disregard for compliance with supply chain management prescripts led to the high levels of irregular expenditure. This is indicative of failed preventative controls in the form of proper document management practices, standardised policies and procedures as well as stringent consequences for transgressions.

Audit outcomes can improve further if leadership promotes a culture of accountability through embedding preventative controls in daily and monthly processes. It is also essential for risk-assessment processes to be relevant and richer – in collaboration with internal audit – and for audit committees to derive value from assurance on systems and controls. It is vital for emerging technical issues and uncertainties to be channelled and deliberated early enough with the provincial accountant-general so that they can be resolved timeously. In this way, accounting officers can pay closer attention to addressing other key issues that arise during the audit process. Managing financial viability and cash flows is also critical, which will require reinforcing controls over procurement and strengthening value creation. Where blatant transgressions occur that contribute towards irregular expenditure, investigations must be timely, robust and attract consequences.

As we continue to implement the material irregularity process, we call on accounting officers to solidify the basic building blocks for driving a culture of accountability, consequence management and sustainable compliance reform.

LIMPOPO: PERFORMANCE SNAPSHOT

The snapshot shows the audit outcomes of 19 auditees in the province – 12 departments and 7 public entities. The outcomes of 12 small public entities are excluded. The audits of the Limpopo departments of Agriculture and Rural Development; Health; and Public Works, Roads and Infrastructure; as well as of the Office of the Premier were still in progress at the cut-off date of this report – with the exception of annual unauthorised, irregular, and fruitless and wasteful expenditure, the outcomes of these auditees are not included in the snapshot.

Overall audit outcomes improved

2019-20: 4 | 9 | 2 | 4 | 6 ⋀

Improved: Limpopo Gambling Board, Provincial Legislature, Transport and Community Safety, Limpopo Economic Development Agency, Social Development, Sport, Arts and Culture

Unchanged: Provincial Treasury, Cooperative Governance, Human Settlements and Traditional Affairs, Corridor Mining Resources, Economic Development, Environment and Tourism, Great North Transport, Limpopo Tourism Agency, Roads Agency Limpopo, Education, Gateway Airport Authority Limited

Financially unqualified financial statements

87%
2018-19: 67%

Auditees submitted financial statements without material misstatements:

33% (5)

No findings on performance report

53%
2018-19: 53%

Reported achievement reliable:

60% (9)

No findings on compliance with legislation

27%
2018-19: 7%

Unauthorised and fruitless and wasteful expenditure

Unauthorised expenditure

R3 m

TOP TWO CONTRIBUTORS

Education	R0,93 m
Transport and Community Safety	R0,20 m

Fruitless and wasteful expenditure

R32 m

TOP THREE CONTRIBUTORS

Great North Transport	R25 m
Education	R2 m
Limpopo Economic Development Agency	R1 m

Financial health indicators

Vulnerable position	3
Deficit	R1 763 m (9)
Cash shortfall	R167 m (2)
Unpaid claims	R482 m (7)
Average creditor-payment period	44 days

Irregular expenditure

R3 390 m
2018-19: R2 816 m

CLOSING BALANCE
R12 401 m
2018-19: R10 204 m

TOP THREE CONTRIBUTORS

Cooperative Governance, Human Settlements and Traditional Affairs	R1 190 m
Roads Agency Limpopo	R1 171 m
Education	R329 m

Compliance with supply chain management (SCM) legislation

Auditees that complied with SCM legislation:

13%
2018-19: 20%

MOST COMMON SCM FINDINGS

Awards to suppliers owned by close family members – supplier did not declare interest (false declarations)	27%
Preference point system not applied	20%
Three written quotations not obtained – approved deviation not reasonable/justified	20%

Status of good controls

60%	47%	60%
Overall internal control	Leadership	Basic financial and performance management

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

Notable improvement in audit outcomes as auditees continue to enhance their control environment and provincial treasury strengthens oversight

The overall audit outcomes improved significantly over the last year, with six auditees (40%) improving. The province is commended for this achievement – specifically the provincial treasury for maintaining its clean audit status for the fourth consecutive year. The improvements are the result of notable commitment and diligence by governance structures as well as the administrative and senior leadership addressing internal control deficiencies and root causes of prior year findings. The provincial treasury, as a coordinating department, also played a critical role in supporting auditees in this regard. Eight auditees remained stagnant due to inadequate effort to improve basic financial and performance management controls and their continued lack of compliance with legislation.

Compliance with laws and regulations remained a challenge, as evidenced by 11 auditees (73%) that had material compliance findings. The administrative leadership and senior management were slow in implementing corrective actions to address such findings, resulting in repeat audit findings. Credible financial statements are crucial for sound financial management disciplines, but only five auditees (33%) did not have to make material adjustments to their financial statements.

In the current year, we witnessed an unsettling increase in irregular expenditure to R3,4 billion (2018-19: R2,8 billion). Management continued to blatantly disregard laws and regulations, particularly those relating to procurement and contract management. This was enabled by a lack of, or inadequate, corrective actions and consequence management for repetitive transgressions. The main contributors to this undesired increase were yet again the provincial department of cooperative governance, human settlements and traditional affairs with R1,2 billion (2018-19: R845 million) and Roads Agency Limpopo with R1,2 billion (2018-19: R945 million), mainly as a result of non-compliance with supply chain management prescripts and earmarked funds not being utilised for their intended purpose by Roads Agency Limpopo. We call on the administrative leadership, provincial treasury and provincial leadership to adopt a culture of zero tolerance towards transgressions and take decisive action to hold the responsible officials accountable with the intention to recover any losses incurred.

The status of financial health in the province has regressed and remains concerning, with only three auditees (20%) reporting a good financial health status while nine (60%) showed a deficit for the year as their total expenditure exceeded their total revenue. There is an emerging trend of departments and entities failing to manage their finances properly. The signs of financial failure should receive urgent attention from the political and administrative leadership.

Fruitless and wasteful expenditure decreased from R118 million in 2018-19 to R32 million in the year under review. The reduction is encouraging, but this unwanted expenditure cannot be tolerated and must be prevented at all costs – even more so following the budget cuts due to the re-prioritisation of funds towards the covid-19 stimulus package and the concerning state of the provincial financial health. The unchecked incurrence of such expenditure entrenches a wrong culture that is likely to affect the overall performance of departments and public entities going forward.

We selected six auditees to implement the amendments to the Public Audit Act. We identified material irregularities at the provincial department of health, Roads Agency Limpopo, and the provincial department of public works, roads and infrastructure. The irregularities at the first two auditees related to payments for goods or services not received, which resulted in a combined financial loss of R4 million. A notification was issued to the accounting officer of the provincial department of public works, roads and infrastructure but a response was not yet due by the date of the audit report. We followed up a material irregularity identified at the Limpopo Department of Education in 2018-19 involving a payment that was not made within 30 days, which resulted in a financial loss amounting to R85 million due to interest charges. We will follow up these material irregularities in the 2020-21 audit cycle. Also refer to section 3 for detailed progress on the material irregularities.

Provincial outcomes continue to improve and bode well for future success. However, 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 where deficiencies and non-compliance are noted in order to sustain and improve on these outcomes.

MPUMALANGA: PERFORMANCE SNAPSHOT

The snapshot shows the audit outcomes of 16 auditees in the province – 13 departments and 3 public entities. The outcomes of 1 small public entity are excluded.

Overall audit outcomes improved

2019-20: 3 | 10 | 3 — 3 improved, 1 regressed

Improved	Provincial Legislature, Agriculture, Rural Development, Land and Environmental Affairs, Health
Regressed	Social Development
Unchanged	Cooperative Governance and Traditional Affairs, Provincial Treasury, Culture, Sport and Recreation, Economic Development and Tourism, Education, Human Settlements, Mpumalanga Regional Training Trust, Mpumalanga Tourism and Parks Agency, Office of the Premier, Public Works, Roads and Transport, Community Safety, Security and Liaison, Mpumalanga Economic Growth Agency

Financially unqualified financial statements

81% (improved)
2018-19: 75%

Auditees submitted financial statements without material misstatements:

31% (5) (improved)

No findings on performance report

63% (improved)
2018-19: 44%

Reported achievement reliable:

63% (10) (improved)

No findings on compliance with legislation

19% (improved)
2018-19: 13%

Unauthorised and fruitless and wasteful expenditure

Unauthorised expenditure

R56 m (regressed)

TOP CONTRIBUTOR

Education	R56 m

Fruitless and wasteful expenditure

R9,9 m (improved)

TOP THREE CONTRIBUTORS

Health	R4,89 m
Social Development	R4,19 m
Mpumalanga Tourism and Parks Agency	R0,70 m

Financial health indicators

Deficit	R236 m (7)
Cash shortfall	R1 098 m (8)
Unpaid claims	R10 414 m (11)
Average creditor-payment period	38 days

Irregular expenditure

R2 494 m (improved)
2018-19: R2 734 m

CLOSING BALANCE
R11 321 m
2018-19: R12 403 m

TOP THREE CONTRIBUTORS

Human Settlements	R997 m
Community Safety, Security and Liaison	R689 m
Education	R251 m

Compliance with supply chain management (SCM) legislation

Auditees that complied with SCM legislation:

13% (unchanged)
2018-19: 13%

MOST COMMON SCM FINDINGS

Bid documentation did not stipulate minimum threshold for local production and content	56%
No/inadequate contract performance measures and monitoring	38%
Three written quotations not obtained – deviation not approved	38%

Status of good controls

31% Overall internal control	31% Leadership	31% Basic financial and performance management

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

Preventative controls, a critical element of accountability, still not embedded at most auditees, resulting in erratic audit outcomes – leadership involvement is required to drive accountability and improve audit outcomes

Our message in prior years has been a consistent call to the leadership of the province to take urgent action to deal with what we themed 'deteriorating accountability'. However, the province continued to struggle to produce credible reports due to the same failures in the accountability value chain as we had previously highlighted. A culture of 'doing things right' is not embedded at most of the auditees.

Although the audit outcomes reflect a net improvement, these pockets of improvements are not sustainable as the province has a history of producing erratic audit outcomes. Most auditees have been receiving unqualified audit opinions as a result of material adjustments allowed by the audit process. This is concerning and points to a lack of, or ineffective, preventative controls. Most accounting officers and authorities did not keep true to the crucial responsibility of implementing a proper system of internal control. Emergency procurement in response to the covid-19 pandemic exposed just how weak the state of controls is. Notwithstanding all auditees having internal audit units and audit committees, these assurance providers can never be effective in their roles until the accounting officers and authorities address the challenges around the internal control system.

Infrastructure delivery remains at the centre of service delivery; yet we continued to raise concerns about weaknesses in controls around planning, as not all aspects of the value chain were considered before discharging financial resources to construct or buy assets. As a consequence, there were inadequate maintenance plans and insufficient budgets for maintenance needs at some departments. We recommended a more diligent, integrated and realistic approach when developing performance plans and assigning budgets. The other aspect that compromised infrastructure delivery was the continuing inadequate monitoring and/or project management controls. Some projects were not delivered at the required quality and in other instances payments were made without proof that work had been performed, some of which contributed to the reported fruitless and wasteful expenditure of R9,9 million.

The poor state of controls also contributed to a deterioration in the financial state of the province. Auditees committed and spent more than their available funds. Overall, 10 departments had already committed more than 10% of their next three years' budget. This has the potential to compromise emerging strategic priorities and cripple the province's ability to respond swiftly to emergencies, such as the current covid-19 global pandemic and damage caused by tropical storm Eloise, which left a trail of destruction, damaging infrastructure and homes and leaving many families displaced. We remain concerned about the financial performance of the Mpumalanga Department of Community Safety, Security and Liaison as well as public entities such as the Mpumalanga Economic Growth Agency and the Mpumalanga Tourism and Parks Agency, which have been tasked to collect more revenue for the province as part of their responsibilities. The department struggled to properly account for generated revenue and thus continues to be qualified on this aspect year after year, while the two public entities operated at a deficit.

When controls are not institutionalised, it also makes it difficult to ensure compliance with applicable laws and regulations. The province again found it difficult to prevent unauthorised, irregular, and fruitless and wasteful expenditure. The irregular expenditure was mainly as a result of non-compliance with the National Treasury's regulations on supply chain management. The province had also not yet dealt with its high balance of irregular expenditure amounting to R11 321 million. Included in this balance was R2 494 million reported in 2019-20. The regulations do prescribe how such expenditure should be dealt with appropriately upon discovery. However, the regulations were disregarded, with little or no consequences. We recommended to the executive authorities to not only ensure that investigations into such unwanted expenditure were ordered, but to also make sure that the investigation process was credible, completed swiftly and resulted in consequences being meted out against those found to be responsible.

We extended the implementation of the Material Irregularity Regulations from only one to five departments as part of the phased-in approach. At the time of finalising the audit reports, one material irregularity notification had been issued at the Mpumalanga Department of Health. Other irregularities identified were still being analysed at the time of finalising the audit reports.

In order to change the status quo, the provincial leadership must strengthen the internal control environment. The first step is to ensure that critical positions, such as those of accounting officers and authorities, are always filled to achieve stability. This will form a basis for the effectiveness of the other levels of management and assurance providers, including internal audit units and audit committees. The oversight committees must monitor progress in this regard and hold the executives accountable where progress is inadequate.

NORTHERN CAPE: PERFORMANCE SNAPSHOT

The snapshot shows the audit outcomes of 13 departments in the province. The outcomes of 12 small public entities are excluded. The audit of the Provincial Legislature was still in progress at the cut-off date of this report – with the exception of annual unauthorised, irregular, and fruitless, and wasteful expenditure, the outcomes of this auditee are not included in the snapshot.

Overall audit outcomes improved

2019-20: 3 | 5 | 4 | 1 — 2 ⋀ 1 ⋁

Improved	Social Development, Education
Regressed	Transport, Safety and Liaison
Unchanged	Office of the Premier, Provincial Treasury, Cooperative Governance, Human Settlements and Traditional Affairs, Environment and Nature Conservation, Roads and Public Works, Sport, Arts and Culture, Agriculture, Land Reform and Rural Development, Economic Development and Tourism, Health

Financially unqualified financial statements

67%

2018-19: 67%

Auditees submitted financial statements without material misstatements:

42% (5)

No findings on performance report

67%

2018-19: 58%

Reported achievement reliable:

67% (8)

No findings on compliance with legislation

25%

2018-19: 17%

Unauthorised and fruitless and wasteful expenditure

Unauthorised expenditure

R18 m

TOP CONTRIBUTOR

Education	R18 m

Fruitless and wasteful expenditure

R9 m

TOP THREE CONTRIBUTORS

Health	R7,38 m
Agriculture, Land Reform and Rural Development	R0,48 m
Education	R0,35 m

Financial health indicators

Vulnerable position	1
Deficit	R1 259 m (5)
Cash shortfall	R1 007 m (9)
Unpaid claims	R2 559 m (12)
Average creditor-payment period	36 days

Irregular expenditure

R1 442 m

2018-19: R1 300 m

CLOSING BALANCE

R13 287 m

2018-19: R11 944 m

TOP THREE CONTRIBUTORS

Education	R657 m
Health	R537 m
Roads and Public Works	R109 m

Compliance with supply chain management (SCM) legislation

Auditees that complied with SCM legislation:

17%

2018-19: 8%

MOST COMMON SCM FINDINGS

Three written quotations not obtained – deviation not approved	42%
Procurement from suppliers without Sars tax clearance	33%
Contracts amended/extended without approval by delegated official	33%

Status of good controls

25%	25%	17%
Overall internal control	Leadership	Basic financial and performance management

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

Step in right direction, but journey remains long and winding

In the past, we continuously emphasised the message of accountability, leadership responsiveness to internal and external audit findings, and strengthening controls around the prevention and detection of irregular expenditure. Although the audit outcomes have shown an overall improvement, we remain concerned that our prior year messages have not been heeded. This was made worse by the portfolio committees and public accounts committee not following up on their resolutions and the commitments made by departments in response. Further challenges faced by the province are highlighted below.

Leadership's continued reliance on the audit process to identify key control deficiencies was evident from three departments achieving unqualified opinions only because they corrected all misstatements identified during the audit. Although the quality of submitted financial statements improved, the fact that more than half of the departments could not submit quality financial statements 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 provincial department of health – a major service delivery department – was in a vulnerable financial position because of, amongst other things, their current liabilities exceeding current assets by R20 million and their bank overdraft standing at R459 million, resulting in the department's inability to pay their service providers. Furthermore, the department will use more than 10% of their next year's budget to meet current obligations, which will affect the implementation of planned initiatives and – consequently – service delivery. In addition, the provincial departments of education as well as roads and public works experienced financial difficulties and may end up in the same position as the provincial department of health if leadership does not attend to the matters reported in their audit reports. We highlight these three departments as they account for 77% of the provincial budget and are experiencing serious challenges in managing their finances.

Complying with relevant laws and regulations remained a challenge – 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.

Irregular expenditure increased, with the current year's amount possibly being incomplete as six auditees (50%) were still investigating the full extent of their irregular expenditure. The top three contributing departments (Education, Health, and Roads and Public Works) – which are also the three biggest budget spenders and key service delivery departments – collectively accounted for 90% (2018-19: 85%) of the irregular expenditure in the province.

The bulk (R11 845 million or 99%) of the prior year irregular expenditure balance was not investigated for consequence-management purposes. Where such investigations did take place, there were no instances that resulted in officials being held liable for the irregular expenditure. The lack of consequences meant that corrective measures were not implemented to ensure that supply chain accountability failures were appropriately investigated.

We continued to implement our extended powers following the amendment of the Public Audit Act and implemented these amendments at four departments. We raised two material irregularities at the provincial department of health in the previous year, but did not raise any confirmed material irregularities in the current year. However, five potential material irregularities are currently being assessed. Two of these relate to proactive audit work done on covid-19 expenditure, two to overpayments on contracts, and one to inadequate contract management.

In conclusion, the province has taken a step in the right direction. Best practices at departments that achieved clean audits should be replicated throughout the province, while the efforts of the operation clean audit committee should be continued and further enhanced. We need to acknowledge and be vigilant that the journey remains long and winding, as we urge the provincial and administrative leadership once again to ensure that accounting officers strengthen preventative controls, with a focus on the prevention and detection of irregular expenditure. In addition, the provincial leadership should put measures in place to ensure that senior management implements the recommendations of internal audit units and audit committees at departments.

NORTH WEST: PERFORMANCE SNAPSHOT

The snapshot shows the audit outcomes of 22 auditees in the province – 13 departments and 9 public entities. This includes 2 new auditees: the North West Department of Cooperative Governance and Traditional Affairs and the North West Department of Economic Development, Environment Conservation and Tourism due to the reconfiguration of departments from 1 April 2019. The outcomes of 11 small public entities are excluded. The audits of North West Transport Investments, North West Star and Atteridgeville Bus Services have not been completed, as the auditees had not submitted financial statements at the cut-off date of this report.

Overall audit outcomes improved

2019-20: 1 | 7 | 6 | 5 | 3 — 2 ⋀ 1 ⋁

Improved Office of the Premier, Social Development

Regressed Human Settlements

Unchanged Provincial Treasury, Arts, Culture, Sports and Recreation, Education, Provincial Legislature, Agriculture and Rural Development, Community Safety and Transport Management, Health, North West Parks Board, North West Tourism Board, Public Works and Roads, GL Resorts, Golden Leopard Resorts, Mmabana Arts, Culture and Sport Foundation, North West Development Corporation

Financially unqualified financial statements

42% ▲

2018-19: 24%

Auditees submitted financial statements without material misstatements:

11% (2) ▼

No findings on performance report

33% ▲

2018-19: 25%

Reported achievement reliable:

33% (6) ▲

No findings on compliance with legislation

5% ▼

2018-19: 6%

Unauthorised and fruitless and wasteful expenditure

Unauthorised expenditure

R204 m ▼

TOP CONTRIBUTOR

Health	R204 m

Fruitless and wasteful expenditure

R22 m ▲

TOP THREE CONTRIBUTORS

Public Works and Roads	R4,4 m
Health	R3,36 m
North West Development Corporation	R3,06 m

Financial health indicators

Vulnerable position	4
Deficit	R939 m (5)
Cash shortfall	R299 m (6)
Unpaid claims	R6 878 m (11)
Average creditor-payment period	38 days

Irregular expenditure

R4 015 m ▲

2018-19: R4 831 m

CLOSING BALANCE

R27 167 m

2018-19: R24 808 m

TOP THREE CONTRIBUTORS

Community Safety and Transport Management	R1 295 m
Health	R940 m
Cooperative Governance and Traditional Affairs	R548 m

Compliance with supply chain management (SCM) legislation

Auditees that complied with SCM legislation:

11% ▲

2018-19: 6%

MOST COMMON SCM FINDINGS

Awards to providers who are in service of other state institutions	58%
Contracts amended/extended without approval by delegated official	47%
Awards to suppliers owned by close family members - supplier did not declare interest (false declarations)	47%

Status of good controls

5% Overall internal control	5% Leadership	5% Basic financial and performance management

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

Encouraging trend, but need to embed preventative controls and promote culture of consequence management

In the previous general report, we urged leadership to focus on reversing negative trends in the province and to intensify efforts to sustainably improve the audit outcomes. We emphasised the need to continue setting the right tone for accountability through implementing appropriate preventative controls, institutionalising disciplines of credible financial reporting, and effecting consequences timeously. The current audit outcomes indicate an encouraging trend of departments with financially unqualified opinions increasing for the first time in two years, which can be attributed to the implementation of effective action plans. Nonetheless, the repeat qualifications and disclaimers at most auditees in the province are indicative of a slow response to our recommendations, resulting in inadequate improvements in the underlying control environment.

The quality of financial statements submitted for auditing deteriorated, as evidenced by the increased number of material misstatements identified. The over-reliance on the audit process shows that the appropriate disciplines and preventative controls required to create credible financial statements were not in place, which poses a risk to the sustainability of the audit outcomes. We call on the accounting officers to attend to the deficiencies in the control environment immediately by putting in place daily, monthly, periodic in-year and year-end reconciliations of accounting records as a start to strengthen preventative controls. Furthermore, senior management and accounting officers should adequately and timeously review the financial statements, while the review of financial statements by governance structures (including the provincial treasury) should be strengthened.

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 cumulative balance of irregular expenditure stood at R27,2 billion. Auditees under administration made slight progress in dealing with irregular expenditure with the cancellation of certain irregular contracts. However, the inability of leadership to implement corrective action to ensure that non-compliance is swiftly attended to has seen the provincial department of health once again listed as a top contributor to irregular expenditure, with a cumulative balance of R9,80 billion. This has further contributed to the province's financial distress. A total of 95% of the auditees failed to comply with supply chain management legislation – we therefore urge the province to overcome the hurdle of non-adherence to laws and regulations.

We continued with the implementation of the amended Public Audit Act at five auditees, resulting in 10 material irregularities being reported at three departments with financial losses amounting to R477 million. During the current year, we identified five material irregularities at the provincial department of health and one at the North West Department of Public Works and Roads that are still in progress, and one at the North West Department of Community Safety and Transport Management. The accounting officers should implement the appropriate actions to deal with the identified material irregularities.

Overall, financial health regressed with 32% of the auditees, being the North West Department of Human Settlements and five public entities, requiring intervention to remain viable. As leadership has not heeded our call to reassess the financial model of public entities, these auditees are relying on operational grants and operating at a deficit. The outstanding medical negligence claims against the provincial department of health amounted to R5,5 billion, which is more than 92% of next year's budget and will negatively affect the department's service delivery. Furthermore, if settled, these amounts will result in unauthorised expenditure as it has not been budgeted for. 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.

We have been consistently calling for greater accountability in the management of public funds through the reduction and investigation of unauthorised, irregular, and fruitless and wasteful expenditure and a demonstration of how public funds are spent through the timely submission of quality financial statements for auditing. There is a need for drastic change in the province and we thus also implore leadership to take an anti-corruption stance to restore the rule of law through implementing corrective mechanisms and the necessary preventative controls.

WESTERN CAPE: PERFORMANCE SNAPSHOT

The snapshot shows the audit outcomes of 20 auditees in the province – 14 departments and 6 public entities. The outcomes of 23 small public entities are excluded. The audit of the Western Cape Department of Health was still in progress at the cut-off date of this report – with the exception of annual irregular and fruitless and wasteful expenditure, the outcomes of this auditee are not included in the snapshot.

Overall audit outcomes regressed

2019-20

1 ↓

Regressed WC Tourism, Trade and Investment Promotion Agency

Unchanged Community Safety, Cultural Affairs and Sport, Economic Development and Tourism, Environmental Affairs and Development Planning, Government Motor Transport, Human Settlements, Local Government, Department of the Premier, Provincial Parliament, Provincial Treasury, Saldanha Bay IDZ Licencing Company, Social Development, Transport and Public Works, WC Nature Conservation Board, Casidra, Education, WC Gambling and Racing Board, Agriculture

Financially unqualified financial statements

95% ►

2018-19: 95%

Auditees submitted financial statements without material misstatements:

95% (18) ▲

No findings on performance report

89% ►

2018-19: 89%

Reported achievement reliable:

89% (17) ►

No findings on compliance with legislation

79% ▼

2018-19: 84%

Fruitless and wasteful expenditure

R0,11 m ▲

TOP THREE CONTRIBUTORS

Department of the Premier	R0,05 m
Agriculture	R0,02 m
Provincial Treasury	R0,02 m

Financial health indicators

Deficit	R140 m (4)
Cash shortfall	R36 m (8)
Unpaid claims	R597 m (7)
Average creditor-payment period	28 days

Irregular expenditure

R288 m ▼

2018-19: R21 m

CLOSING BALANCE

R303 m

2018-19: R23 m

TOP THREE CONTRIBUTORS

Human Settlements	R265 m
Provincial Parliament	R3 m
Education	R3 m

Compliance with supply chain management (SCM) legislation

Auditees that complied with SCM legislation:

32% ▼

2018-19: 58%

MOST COMMON SCM FINDINGS

Three written quotations not obtained – approved deviation not reasonable/justified	21%
Procurement from suppliers without Sars tax clearance	21%
Competitive bids not invited – approved deviation not reasonable/justified	21%

Status of good controls

95%	100%	74%
Overall internal control	Leadership	Basic financial and performance management

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

PROVINCIAL OVERVIEW

Solid consistent pattern, but significant rise in irregular expenditure is of concern

In our 2018-19 message, we highlighted that embedded good practices and preventative controls were driving good audit outcomes. We also acknowledged the reduction in irregular expenditure, but drew attention to concerns around the assurance provided by senior management. These concerns related mainly to supply chain management findings that did not have an impact on the audit report, but which could affect future outcomes if left unattended.

We commend the province on maintaining the trend of achieving a high number of clean audit outcomes in 2019-20. This was achieved during a troubled 2020 with disruptions to normal operations, by leadership setting a strong tone at the top to maintain a sound control environment – particularly effective preventative controls. When we reflect again on the 2018-19 message, however, we see irregular expenditure increasing, supply chain management findings growing, and performance information issues recurring.

Overall, 14 auditees were able to maintain their clean audit status. The provincial department of health also received a clean audit outcome but does not form part of the mentioned 14 auditees, as their audit had not been finalised in time for reporting in this report. The Western Cape Department of Education remained unqualified with findings as the department had recurring findings on the quality of their performance information. At the provincial department of agriculture, the continuous disagreement over the accounting for transfers and subsidies resulted in a repeat qualified opinion.

It is encouraging that every auditee in the province submitted their annual financial statements on time for auditing, without requiring any material corrections thereto. This is a reflection of the institutionalised controls over the financial statements preparation processes. 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 significantly to R288 million due to non-compliance with supply chain management prescripts. The Western Cape Department of Human Settlements accounted for 92% of the provincial irregular expenditure reported as a result of awards made in prior years where we concluded in the current year that the bid specifications had been biased. The number of supply chain management findings also increased – if not addressed, these could result in an increase in future irregular expenditure. Entities represent 75% of the auditees in the unqualified with findings zone and thus require specific focus, especially relating to the supply chain management deficiencies identified.

While we commend the outcomes of the province, we recommend the following to improve accountability even further:

- Strengthen the assurance provided by senior management in the area of supply chain management and address control weaknesses as soon as identified.
- Maintain the strong controls in the area of financial and performance reporting. The provincial department of education should create credible action plans, of which the implementation should be monitored, to address control weaknesses around performance reporting.
- Maintain the effective functioning of oversight structures that oversee performance and governance at departments and entities.

NOTES

SECTION 7

Need to know

7.1 OUR AUDIT PROCESS AND FOCUS

What is our audit and reporting process?

We audit every department and most of the public entities in the country (also called auditees in this report) to report on the quality of their financial statements and performance reports, as well as on their compliance with key legislation.

We further assess the root cause of any error or non-compliance, based on the internal control that has failed to prevent or detect it. We report in the following three types of reports:

- We report our findings, the root causes of such findings and our recommendations in **management reports** to the senior management and accounting officers or authorities of auditees. These reports are also shared with the ministers, members of the executive councils and audit committees.
- Our opinion on the financial statements, material findings on the performance reports and compliance with key legislation, as well as significant deficiencies in internal control, are included in an **audit report**, which is published with the auditee's annual report and dealt with by the public accounts committees and portfolio committees, as applicable.
- Annually, we report on the audit outcomes of all auditees in a **consolidated report** (such as this one), in which we also analyse the root causes that need to be addressed to improve audit outcomes. Before the general report is published, we share the outcomes and root causes with the national and provincial leadership, Parliament and the legislatures, as well as key role players in national and provincial government.

Over the past few years, we have intensified our efforts to assist in improving audit outcomes by identifying the **key controls** that should be in place at auditees, regularly assessing these and sharing the results of the assessments with ministers, accounting officers and authorities, as well as audit committees.

During the audit process, we work closely with accounting officers or authorities, senior management, audit committees and internal audit units, as they are **key role players** in providing assurance on the credibility of the auditees' financial statements and performance reports, as well as on their compliance with legislation.

We also continue to strengthen our relationship with the coordinating and monitoring departments (such as the treasuries, premier's offices and the Department of Planning, Monitoring and Evaluation) as well as Parliament and provincial legislatures, as we are convinced that their involvement and oversight have played – and will continue to play – a crucial role in the performance of departments and public entities.

We have further increased our efforts by using the **status-of-records review** to engage with accounting officers and authorities. Such a review is an assessment of records, risks and progress made by the auditee to address prior year issues early in the financial year.

The overall audit outcomes fall into five categories:

1. Auditees that receive a **financially unqualified opinion with no findings** are those that are able to:
   - produce financial statements free of material misstatements (material misstatements mean errors or omissions that are so significant that they affect the credibility and reliability of the financial statements)
   - measure and report on their performance in line with the predetermined objectives in their annual performance plan, and in a manner that is useful and reliable
   - comply with key legislation.

   This audit outcome is also commonly referred to as a 'clean audit'.

2. Auditees that receive a **financially unqualified opinion with findings** are those that are able to produce financial statements without material misstatements, but are struggling to:
   - align their performance reports to the predetermined objectives to which they have committed in their annual performance plans

- set clear performance indicators and targets to measure their performance against their predetermined objectives
- report reliably on whether they have achieved their performance targets
- determine which legislation they should comply with, and implement the required policies, procedures and controls to ensure that they do comply.

3. Auditees that receive a **financially qualified opinion with findings** face the same challenges as those that are financially unqualified with findings in the areas of reporting on performance and compliance with key legislation. In addition, they are unable to produce credible and reliable financial statements. Their financial statements contain misstatements that they cannot correct before the financial statements are published.

4. The financial statements of auditees that receive an **adverse opinion with findings** include so many material misstatements that we disagree with virtually all the amounts and disclosures in the financial statements.

5. Those auditees with a **disclaimed opinion with findings** cannot provide us with evidence for most of the amounts and disclosures in the financial statements. We are therefore unable to conclude or express an opinion on the credibility of their financial statements.

Auditees with adverse and disclaimed opinions are typically also:

- unable to provide sufficient supporting documentation for the achievements they report in their performance reports
- not complying with key legislation.

What is the purpose of the annual audit of the financial statements?

The purpose of the annual audit of the **financial statements** is to provide the users thereof with an **opinion** on whether the financial statements fairly present, in all material respects, the key financial information for the reporting period in accordance with the financial reporting framework and applicable legislation. The audit provides the users with reasonable assurance regarding the degree to which the financial statements are reliable and credible on the basis that the audit procedures performed did not reveal any material errors or omissions in the financial statements. We use the term 'material misstatement' to refer to such material errors or omissions.

We report the **poor quality of the financial statements** we receive in the audit reports of some auditees as a material finding on compliance, as it also constitutes non-compliance with the Public Finance Management Act. The finding is only reported for auditees that are subject to this act if the financial statements we receive for auditing include material misstatements that could have been prevented or detected if the auditee had an effective internal control system. We do not report a finding if the misstatement resulted from an isolated incident or if it relates to the disclosure of unauthorised, irregular, or fruitless and wasteful expenditure identified after the financial statements had been submitted.

What does compliance with key legislation mean?

We annually audit and report on **compliance by auditees with key legislation** applicable to financial and performance management and related matters. We focus on the following areas in our compliance audits, if they apply to the particular auditee: ■ the quality of financial statements submitted for auditing ■ expenditure management ■ unauthorised, irregular, and fruitless and wasteful expenditure ■ effecting consequences ■ strategic planning and performance management ■ financial statements and annual report ■ procurement and contract management (in other words, supply chain management).

In our audit reports, we report findings that are material enough to be brought to the attention of auditee management, oversight bodies and the public.

What is the scope of supply chain management audits?

We test whether the **prescribed procurement processes have been followed** to ensure that all suppliers are given equal opportunity to compete and that some suppliers are not favoured above others. The principles of a fair, equitable, transparent, competitive and cost-effective supply chain management process are fundamental to the procurement practices of the public sector, as enshrined in the country's constitution and prescribed in the Public Finance Management Act and its regulations. The act and these regulations define what processes should be followed to adhere to the constitutional principles, the level of flexibility available and the documentation requirements.

We also focus on **contract management,** as shortcomings in this area can result in delays, wastage, and fruitless and wasteful expenditure, which in turn have a direct impact on service delivery.

We further assess the **financial interests of employees of the auditee and their close family members** in suppliers to the auditee. Although there is no legislation that prohibits making awards to suppliers in which state officials have an interest, the **amended Public Service Regulations prohibit employees of departments from doing business with the state** from 1 August 2016. The regulations allowed employees that were doing business with the state on 1 August 2016 time until February 2017 to stop the business or resign as an employee.

What is irregular expenditure?

Irregular expenditure is expenditure that was **not incurred in the manner prescribed by legislation**; in other words, somewhere in the process that led to the expenditure, the auditee did not comply with the applicable legislation.

Such expenditure does **not necessarily mean that money had been wasted or that fraud had been committed**. It is an indicator of non-compliance in the process that needs to be investigated by management to determine whether it was an unintended error, negligence or done with the intention to work against the requirements of legislation (which, for example, require that procurement should be fair, equitable, transparent, competitive and cost-effective).

Such **investigation** also determines who is responsible and what the impact of the non-compliance is. Based on the investigation, the next steps are determined. If the non compliance had no impact and negligence was not proven, one of the steps can be condonement. Alternatively, if negligence was proven, the steps can be disciplinary steps, the recovery of any losses from the implicated officials, or even cancelling a contract or reporting it to the police or an investigating authority.

The Public Finance Management Act is clear that **accounting officers and authorities are responsible** for preventing irregular expenditure as well as for which process to follow if it has been incurred.

In order to promote transparency and accountability, auditees **should disclose all irregular expenditure identified (whether by the auditee or through the audit process)** in their financial statements, along with detail on how it was resolved; in other words, how much had been investigated, recovered or condoned.

What is fruitless and wasteful expenditure?

Fruitless and wasteful expenditure is expenditure that was made in vain and that could have been avoided had reasonable care been taken. This includes penalties and interest on the late payment of creditors or statutory obligations, as well as payments made for services not used or goods not received.

The Public Finance Management Act requires accounting officers and accounting authorities to take all **reasonable steps to prevent fruitless and wasteful expenditure**. Auditees should have processes to detect fruitless and wasteful expenditure and disclose the amounts in the financial statements. Fruitless and wasteful expenditure is reported when it is identified – even if the expenditure was incurred in a previous year.

The act also sets out the steps that accounting officers and oversight bodies should take to investigate fruitless and wasteful expenditure to determine whether any officials are liable for the expenditure and to recover the money if liability is proven.

What is unauthorised expenditure?

Unauthorised expenditure means that the departments:

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

The Public Finance Management Act requires accounting officers to take all **reasonable steps to prevent unauthorised expenditure.** Auditees should have processes to identify any unauthorised expenditure and disclose the amounts in the financial statements. The act also includes the steps that accounting officers and oversight bodies should take to investigate unauthorised expenditure to determine whether any officials are liable for the expenditure and to recover the money if liability is proven.

What is the purpose and nature of the annual audit of the performance reports?

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

On an annual basis, we audit **selected material programmes** of departments **and objectives** of public entities to determine whether the information in the performance reports is useful and reliable enough to enable oversight bodies, the public and other users of the reports to assess the performance of the auditee. The programmes and objectives we select are those that are important for the auditee to deliver on its mandate. In the audit report, we report findings that are material enough to be brought to the attention of these users.

As part of the annual audits, we audit the **usefulness of the reported performance information** to determine whether it is presented in the annual report in the prescribed manner and is consistent with the auditee's planned objectives as defined in strategic and annual performance plans. We also assess whether the performance indicators and targets set to measure the achievement of the objectives are:

- well defined (the indicator needs to have a clear, unambiguous definition so that data can be collected consistently, and is easy to understand and use)
- verifiable (it must be possible to validate the processes and systems that produce the indicator)
- specific (so that the nature and the required level of performance can be clearly identified)
- time bound (the time period or deadline for delivery must be specific)
- measurable (so that the required performance can be measured)
- consistent (with the objective, measures and/or targets)
- relevant (so that the required performance can be linked to the achievement of a goal).

We further audit the **reliability of the reported information** to determine whether it can be traced back to the source data or documentation and whether it is accurate, complete and valid.

When is human resource management effective?

Human resource management refers to the **management of an auditee's employees or human resources.** Human resource management is effective if adequate and sufficiently skilled staff members are in place and if their performance and productivity are properly managed.

Our audits include an assessment of human resource management, focusing on the following areas: ■ management of vacancies ■ stability in key positions ■ finance department resourcing.

Our audits also look at the management of vacancies and stability in key positions, the competencies of key officials, performance management, and consequences for transgressions, as these matters directly influence the quality of auditees' financial and performance reports and their compliance with legislation.

Based on the results of these audits, we assess the status of auditees' human resource management controls.

When are internal controls effective and efficient?

A key responsibility of accounting officers, senior managers and officials is to **implement and maintain effective and efficient systems of internal control.**

We assess the internal controls to determine the effectiveness of their design and implementation in ensuring reliable financial and performance reporting and compliance with legislation. This consists of all the policies and procedures implemented by management to assist in achieving the orderly and efficient conduct of business, including adhering to policies, safeguarding assets, preventing and detecting fraud and error, ensuring the accuracy and completeness of accounting records, and timeously preparing reliable financial and service delivery information. To make it easier to implement corrective action, we categorise the principles of the different components of internal control under leadership, financial and performance management, or governance. We call these the **drivers of internal control**.

The key **basic controls** that auditees should focus on are outlined below.

PROVIDING EFFECTIVE LEADERSHIP

In order to improve and sustain audit outcomes, auditees require **effective leadership** that is based on a culture of honesty, ethical business practices and good governance to protect and enhance the interests of the auditee.

AUDIT ACTION PLANS TO ADDRESS INTERNAL CONTROL DEFICIENCIES

Developing and monitoring the implementation of action plans to address identified internal control deficiencies are key elements of internal control, which is the responsibility of heads of departments, chief executive officers and their senior management team.

Some of the matters requiring attention include:

- setting action plans to specifically address the external and internal audit findings
- assigning clear responsibility to specific staff to carry out action plans
- monitoring audit action plans to ensure that the responsibilities assigned are carried out effectively and consistently
- developing audit action plans early enough in the financial year to resolve matters by year-end.

PROPER RECORD KEEPING AND DOCUMENT CONTROL

Proper and timely record keeping ensures that **complete, relevant and accurate information** is accessible and available to support financial and performance reporting. Sound record keeping will also enable senior management to hold staff accountable for their actions. A lack of documentation affects all areas of the audit outcomes.

Some of the matters requiring attention include the following:

- Establishing proper record keeping so that records supporting financial and performance information as well as compliance with key legislation can be made available when required for audit purposes.
- Implementing policies, procedures and monitoring mechanisms to manage records, and making staff members aware of their responsibilities in this regard.

IMPLEMENTING CONTROLS OVER DAILY AND MONTHLY PROCESSING AND RECONCILING OF TRANSACTIONS

Controls should be in place to ensure that **transactions are processed accurately, completely and timeously**, which in turn will reduce errors and omissions in financial and performance reports.

Some of the matters requiring attention include the following:

- Daily capturing of financial transactions, supervisory reviews of captured information and independent monthly reconciliations of key accounts.
- Collecting performance information at intervals appropriate for monitoring, setting service delivery targets and milestones, and validating recorded information.
- Confirming that legislative requirements and policies have been complied with before initiating transactions.

REVIEWING AND MONITORING COMPLIANCE WITH LEGISLATION

Auditees need to have mechanisms that can **identify applicable legislation as well as changes to legislation**, assess the requirements of legislation, and implement processes to ensure and monitor compliance with legislation.

What is information technology and what are information technology controls?

Information technology, or IT, refers to the computer systems used for recording, processing and reporting financial and non-financial transactions. IT controls ensure the confidentiality, integrity and availability of state information, enable service delivery, and promote national security. Good IT governance, effective IT management and a secure IT infrastructure are therefore essential.

NON-COMPLEX AND COMPLEX INFORMATION TECHNOLOGY ENVIRONMENTS

As per our new audit methodology, we differentiate between **non-complex** and **complex** IT environments, as follows:

Non-complex environment – level 1 (low risk)

This is the lower end of the spectrum for IT sophistication and relevance. The auditee uses one server associated with financial reporting and/or performance information, a limited number of workstations, no remote locations, commercial off-the-shelf applications and infrastructure, vendors to perform updates and maintenance on the system, little emerging or advanced technology, and few or no online and e-commerce transactions.

Key controls over financial reporting and/or performance information are not overly reliant on IT, are embedded in the commercial off-the-shelf applications, or are limited to very few manual processes and controls. Many small to medium-sized entities fall into this category.

Complex environment – levels 2 and 3 (medium and high risk)

This is the middle to high end of the spectrum. These auditees:

- use more than one server associated with financial reporting and/or performance information
- have remote locations

- employ one or more network operating systems, or use non-standard ones
- have more workstations in total
- use some customisation of application software or have a relatively complex configuration of commercial off-the-shelf applications
- use enterprise resource planning systems and/or write their own custom software
- perform updates and maintenance on the system centrally onsite or through vendors, or perform centralised updates and maintenance on the system and distribute these to decentralised sites or through onsite vendors
- employ a few to a moderate or a large number of emerging or advanced technologies
- enter into either a few or a large number of online and e-commerce transactions
- rely heavily on IT key controls over financial and/or performance information.

An auditee running transversal systems would also fall into this category. Information systems for which certain IT processes are managed centrally, but which are used by various auditees that have limited responsibility regarding the design and enhancement of the system, will also be classified as high risk at a national level.

Which information technology controls do we audit?

During our audits, we assess the IT controls that focus on IT governance, security management, user access management and IT service continuity, as discussed further down. To evaluate the status of the IT controls in the areas we audit, we group them into the following three categories, with reference to the control measures that should be in place:

1. **Where IT controls are being designed**, management should ensure that the controls would reduce risks and threats to IT systems.

2. **Where IT controls are being implemented**, management should ensure that the designed controls are implemented and embedded in IT processes and systems. Particular attention should be paid to ensuring that staff members are aware of and understand the IT controls being implemented, as well as their roles and responsibilities in this regard.

3. **Where IT controls have been embedded and are functioning effectively**, management should ensure that the IT controls that have been designed and implemented are functioning effectively at all times. Management should sustain these IT controls through disciplined and consistent daily, monthly and quarterly IT operational practices.

INFORMATION TECHNOLOGY GOVERNANCE

This refers to the leadership, organisational structures and processes which ensure that the auditee's IT resources will sustain its business strategies and objectives. Effective IT governance is essential for the overall well-being of an auditee's IT function and ensures that the auditee's IT control environment functions well and enables service delivery.

SECURITY MANAGEMENT

This refers to the controls preventing unauthorised access to the computer networks, computer operating systems and application systems that generate and prepare financial and performance information.

USER ACCESS MANAGEMENT

These are measures designed by business management to prevent and detect the risk of unauthorised access to, and the creation or amendment of, financial and performance information stored in the application systems.

INFORMATION TECHNOLOGY SERVICE CONTINUITY

These controls enable auditees to recover within a reasonable time the critical business operations and application systems that would be affected by disasters or major system disruptions.

What are root causes?

Root causes are the **underlying causes or drivers of audit findings**; in other words, the reason why the problem occurred. Addressing the root cause helps to ensure that the actions address the real issue, thus preventing or reducing incidents of recurrence, rather than simply providing a one-time or short-term solution.

Our audits include an **assessment of the root causes of audit findings**, based on the identification of internal controls that have failed to prevent or detect the error in the financial statements and performance reports, or that have led to non-compliance with legislation. These root causes are confirmed with management and shared in the management report with the accounting officer and the executive authorities.

We also include the root causes of material findings reported as internal control deficiencies in the audit report, classified under the key drivers of leadership, financial and performance management, or governance.

Who provides assurance?

Ministers, members of the executive councils and accounting officers use the **annual report** to report on the financial position of auditees, their performance against predetermined objectives and overall governance, while one of the important **oversight functions of legislatures is to consider auditees' annual reports**. To perform their oversight function, they need assurance that the information in the annual report is credible. To this end, the annual report also includes our audit report, which provides assurance on the credibility of the financial statements, the performance report and the auditee's compliance with legislation.

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

The mandates of these role players differ from ours, and we have categorised them as follows:

- Those directly involved in the management of the auditee (management or leadership assurance).
- Those that perform an oversight or governance function, either as an internal governance function or as an external monitoring function (internal independent assurance and oversight).
- The independent assurance providers that give an objective assessment of the auditee's reporting (external independent assurance and oversight).

We **assess the level of assurance** provided by the role players based on the **status of auditees' internal controls and the impact of the different role players on these controls**. In the current environment, which is characterised by inadequate internal controls, corrected and uncorrected material misstatements in financial and performance information, and widespread non-compliance with legislation, all role players need to provide an extensive level of assurance.

What is the role of each key role player in providing assurance?

SENIOR MANAGEMENT

Senior management, which includes the chief financial officer, chief information officer and head of the supply chain management unit, provides assurance by implementing the following basic financial and performance controls:

- Ensure proper record keeping so that complete, relevant and accurate information is accessible and available to support financial and performance reporting.
- Implement controls over daily and monthly processing and reconciling of transactions.
- Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.
- Review and monitor compliance with applicable legislation.
- Design and implement formal controls over IT systems.

ACCOUNTING OFFICERS OR ACCOUNTING AUTHORITIES

While we recognise that accounting officers and authorities depend on senior management for designing and implementing the required financial and performance management controls, they are responsible for creating an environment that helps to improve such controls.

The responsibilities of accounting officers and authorities are clearly described in section 38 (for departments) and section 51 (for public entities) of the Public Finance Management Act. This includes their responsibility to ensure that:

- there are consequences for transgressions through disciplinary steps against officials who contravene the Public Finance Management Act and make or permit unauthorised, irregular, and fruitless and wasteful expenditure
- appropriate, efficient and effective systems or policies are implemented and maintained for, among others, internal control, internal audit and supply chain management
- resources are used effectively, efficiently, economically and transparently

- effective and appropriate steps are taken to collect all money due to the auditee
- assets and liabilities are properly managed, including the safeguarding thereof
- expenditure is in accordance with the budget (including steps to prevent overspending).

EXECUTIVE AUTHORITIES

The executive authorities (ministers and members of the executive councils) have specific monitoring and oversight responsibilities in their portfolios in terms of the Public Finance Management Act and the Public Service Act. They are well placed to bring about improvements in the audit outcomes by becoming more actively involved in key governance matters and by managing the performance of the accounting officers and authorities.

We are convinced that the oversight and monitoring roles of the executive strengthen the assurance processes significantly, and this has had a positive impact on the audit outcomes in the past year. We therefore undertake to carry on with our engagements with them, but with greater emphasis on quality conversations that will yield a stronger impact.

INTERNAL AUDIT UNITS

The internal audit units assist accounting officers and authorities in the execution of their duties by providing independent assurance on internal controls, financial information, risk management, performance management and compliance with legislation. The establishment of internal audit units is a requirement of legislation.

AUDIT COMMITTEES

An audit committee is an independent body, created in terms of legislation, which 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 further required to provide assurance on the adequacy, reliability and accuracy of financial and performance information.

COORDINATING OR MONITORING DEPARTMENTS

At national and provincial level, some departments play a coordinating and monitoring role as defined in legislation and in their mandates, which should contribute to the overall assurance process. These departments are the National Treasury, the provincial treasuries, the offices of the premier, and the Department of Planning, Monitoring and Evaluation. We assess the impact of these departments on the controls of the auditees based on our interactions with them, commitments given and honoured, as well as the impact of their actions and initiatives.

PUBLIC ACCOUNTS COMMITTEES AND PORTFOLIO COMMITTEES

Parliament and the provincial legislatures have a constitutional mandate to oversee executive action and ensure compliance with legislation. These institutions conduct oversight through committees established in line with the rules of Parliament and the provincial legislatures. Portfolio committees are required to assess the strategic and annual performance plans of departments and public entities to effectively fulfil their oversight role.

Informed by our constitutional mandate, we enable oversight, accountability and governance in the public sector through our regular engagements with Parliament and the provincial legislatures. We do this through oversight leadership and portfolio committee engagements, during which we present and discuss key controls and compliance findings arising from the audit process and the related root causes. The discussions include our recommendations on focus areas that require oversight intervention. We hope that through these interactions, specific oversight efforts will lead to improved governance and accountability in the public sector.

7.2 GLOSSARY OF KEY TERMINOLOGY USED IN THIS REPORT

Asset (in financial statements)	Any item belonging to the auditee, including property, infrastructure, equipment, cash, and debt due to the auditee.
Cash flow (in financial statements)	The flow of money from operations: incoming funds are revenue (cash inflow) and outgoing funds are expenses (cash outflow).
Chief information officer or government information technology officer (information technology)	The most senior official of the auditee who is accountable for aligning IT and business strategies; for planning, resourcing and managing the delivery of IT services and information; and for deploying the associated human resources. The chief information officers in the South African public sector are referred to as government IT officers. The position was established by a cabinet memorandum in 2000.
Commitments from role players	Initiatives and courses of action communicated to us by role players in national and provincial government aimed at improving the audit outcomes.
Creditors	Persons, companies or organisations to whom the auditee owes money for goods and services procured.
Current assets (in financial statements)	These assets are made up of cash and other assets, such as inventory or debt for credit extended, which will be traded, used or converted into cash within 12 months. All other assets are classified as non-current, and typically include property, plant and equipment as well as long-term investments.
Current liability (in financial statements)	Money owed by the auditee to companies, organisations or persons who have supplied goods and services to the auditee.
Cybersecurity (information technology)	The protection of information assets by addressing threats to information processed, stored and transported by internet-worked information systems.
Financial and performance management (as one of the drivers of internal control)	The performance of tasks relating to internal control and monitoring by management and other employees to achieve the financial management, reporting and service delivery objectives of the auditee. These controls include the basic daily and monthly controls for processing and reconciling transactions, the preparation of regular and credible financial and performance reports as well as the review and monitoring of compliance with key legislation.
Governance (as one of the drivers of internal control)	The governance structures (audit committees) and processes (internal audit and risk management) of an auditee.
Implementing agent	Government institutions (e.g. the Independent Development Trust), non-governmental organisations or private sector entities appointed by the auditee to manage, implement and deliver on projects.
IT infrastructure (information technology)	The hardware, software, computer-related communications, documentation and skills that are required to support the provision of IT services, together with the environmental infrastructure on which it is built.
Leadership (as one of the drivers of internal control)	The administrative leaders of an auditee, such as heads of departments, chief executive officers and senior management. It can also refer to the political leadership or the leadership in the province (such as the premier).

Material finding (from the audit) — An audit finding on the quality of the performance report or compliance with key legislation that is significant enough in terms of either its amount or its nature, or both these aspects, to be reported in the audit report.

Material misstatement (in financial statements or performance reports) — An error or omission that is significant enough to influence the opinions or decisions of users of the reported information. Materiality is considered in terms of either its rand value or the nature and cause of the misstatement, or both these aspects.

Misstatement (in financial statements or performance reports) — Incorrect or omitted information in the financial statements or performance report.

Property, infrastructure and equipment (in financial statements) — Assets that physically exist and are expected to be used for more than one year, including land, buildings, leasehold improvements, equipment, furniture, fixtures and vehicles.

Public Audit Act (Act No. 25 of 2004) — This is the Auditor-General of South Africa's enabling legislation. The objective of the act is to give effect to the provisions of our country's constitution by establishing and assigning functions to an auditor-general and by providing for the auditing of institutions in the public sector.

Reconciliation (of accounting records) — The process of matching one set of data to another; for example, the bank statement to the cheque register, or the accounts payable journal to the general ledger.

Receivables or debtors (in financial statements) — Money owed to the auditee by companies, organisations or persons who have procured goods and services from the auditee.

Status-of-records review — A process whereby the auditor performs basic review procedures to identify risks and areas of concern for discussion with the accounting officer. The purpose of the status-of-records review is to:

- ensure that there is a system of early warning to the accounting officer on challenges that may compromise good financial and performance management and compliance with legislation
- demonstrate to the accounting officer a deepened level of understanding of the business of the auditee and the value added by the auditor
- contribute to capacitating the accounting officer and senior management in instilling good practices of regular reporting, review and oversight
- identify risks early and throughout the audit cycle to respond to these timeously and correctly.

System development (information technology) — The development of an integrated set of computer programs designed to serve a particular function that has specific input, processing and output activities.

Virement — The utilisation (transfer) of a saving from one programme towards the defrayment of excess expenditure under another programme within the same vote (department).

Vulnerability (information technology) — In information security, a weakness or flaw (in location, physical layout, organisation, management, procedures, personnel, hardware or software) that may be exploited by an attacker to cause an adverse impact.

Vulnerable financial position (going concern) — The presumption that an auditee will continue to operate in the near future, and will not go out of business and liquidate its assets. For the going concern presumption to be reasonable, the auditee must have the capacity and prospect to raise enough financial resources to stay operational.

NOTES

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