

# NATIONAL AND PROVINCIAL AUDIT OUTCOMES

**PFMA  
2021-22**

Audit outcomes for financial year ended 31 March 2022  
Status of material irregularities at 30 September 2022

A culture of accountability will improve service delivery



AUDITOR-GENERAL  
SOUTH AFRICA



## MISSION

The Auditor-General of South Africa has a constitutional mandate and, as the supreme audit institution 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

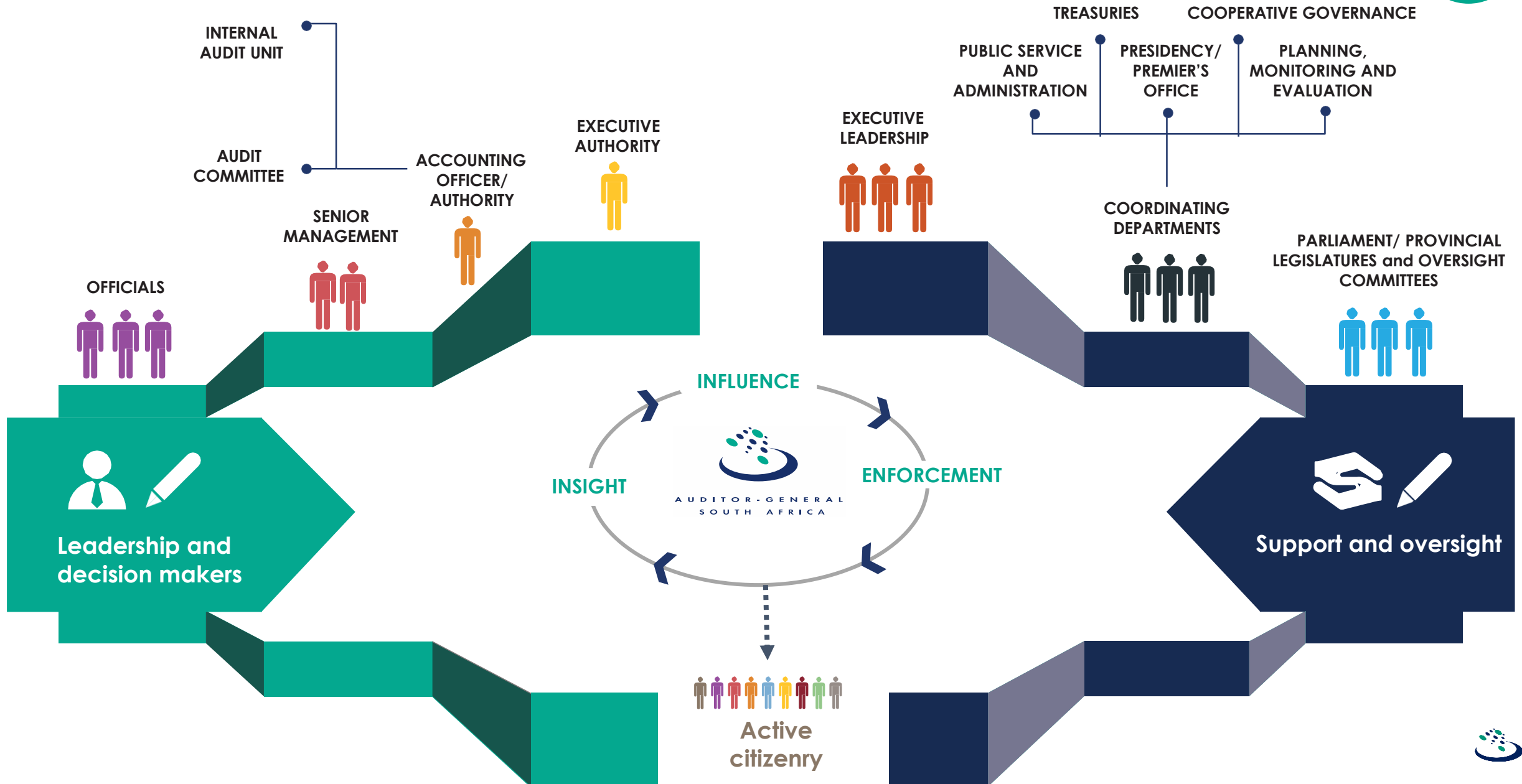


## VISION

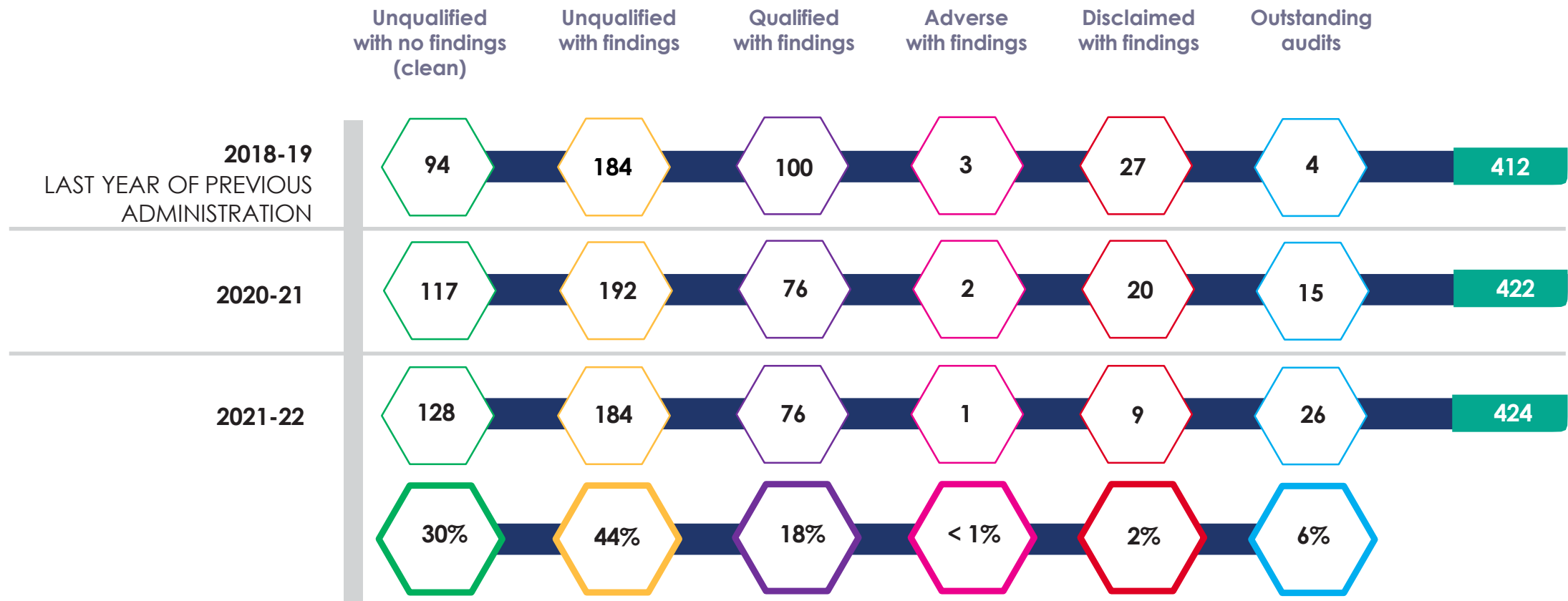
To be recognised by all our stakeholders as a relevant supreme audit institution that enhances public sector accountability



# All have a role to play in accountability ecosystem



# Overall audit outcomes show gradual upward trend



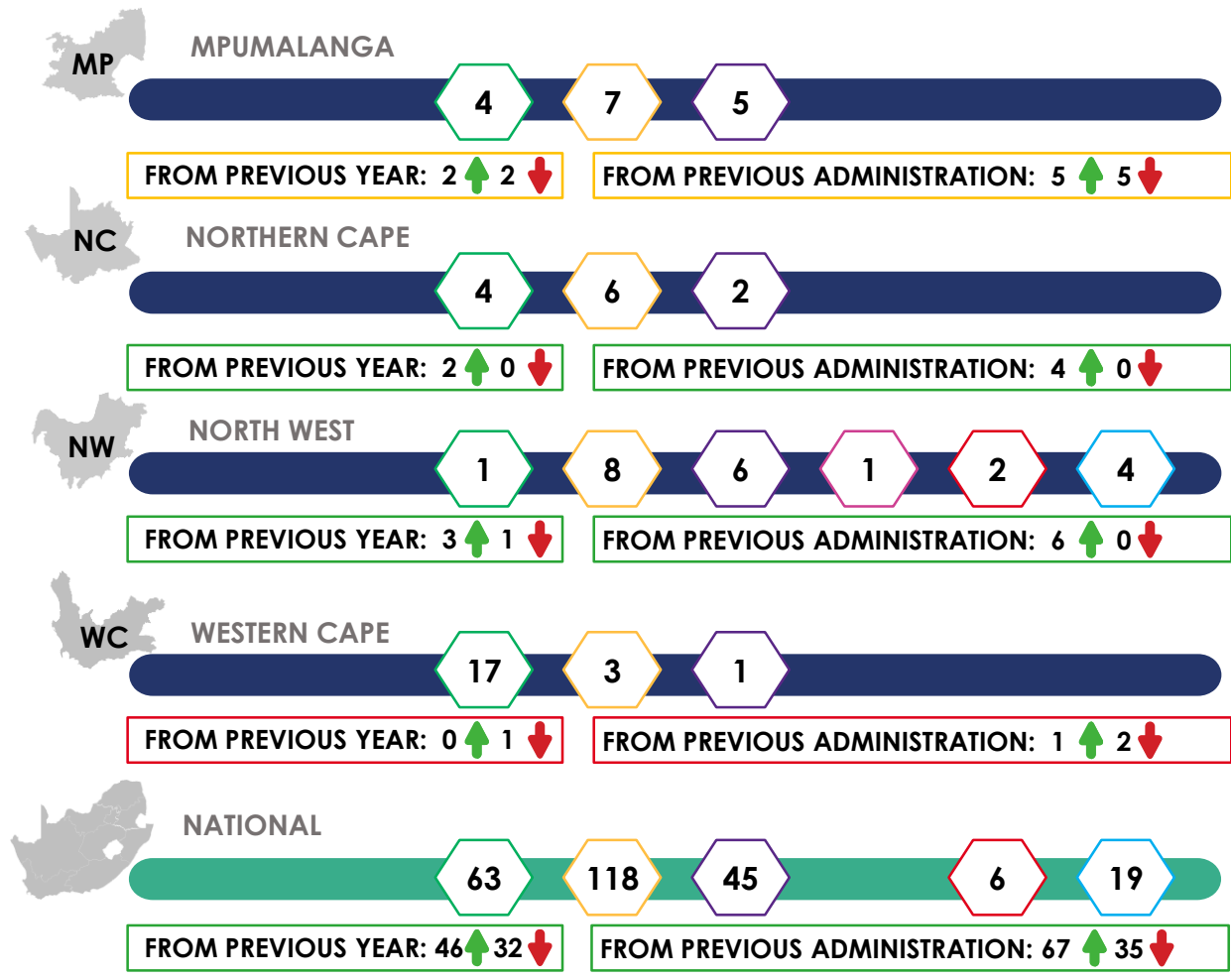
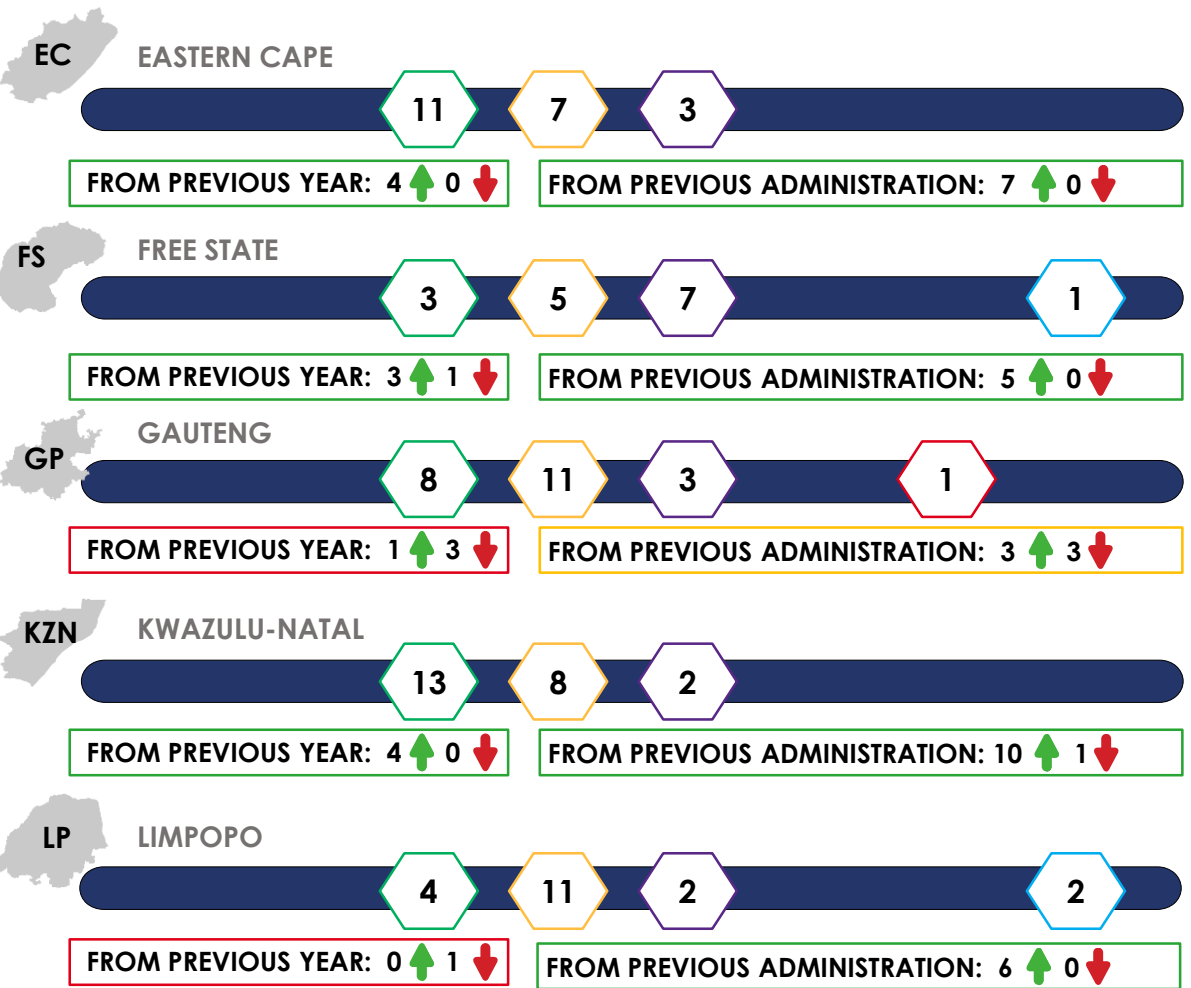
Non-submission of financial statements – 15  
 Late submission of financial statements – 6  
 Delays by auditee – 5

MOVEMENT FROM PREVIOUS YEAR  
 65 ↑ 41 ↓

MOVEMENT FROM PREVIOUS ADMINISTRATION  
 114 ↑ 46 ↓



# National and most provincial audit outcomes show similar upward trend



■ Unqualified with no findings (clean)  
 ■ Unqualified with findings  
 ■ Qualified with findings  
 ■ Adverse with findings  
 ■ Disclaimed with findings  
 ■ Outstanding audits

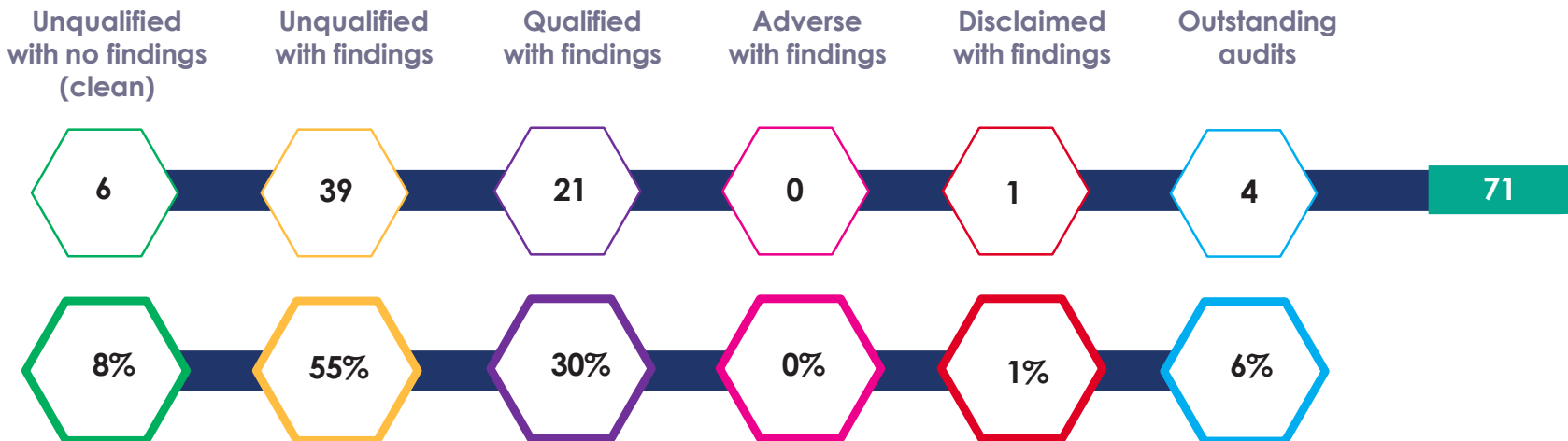


# Continued poor audit outcomes in key service delivery portfolios and state-owned enterprises

## Key service delivery portfolios

- Public works
- Human settlements
- Water and sanitation
- Transport
- Health
- Education

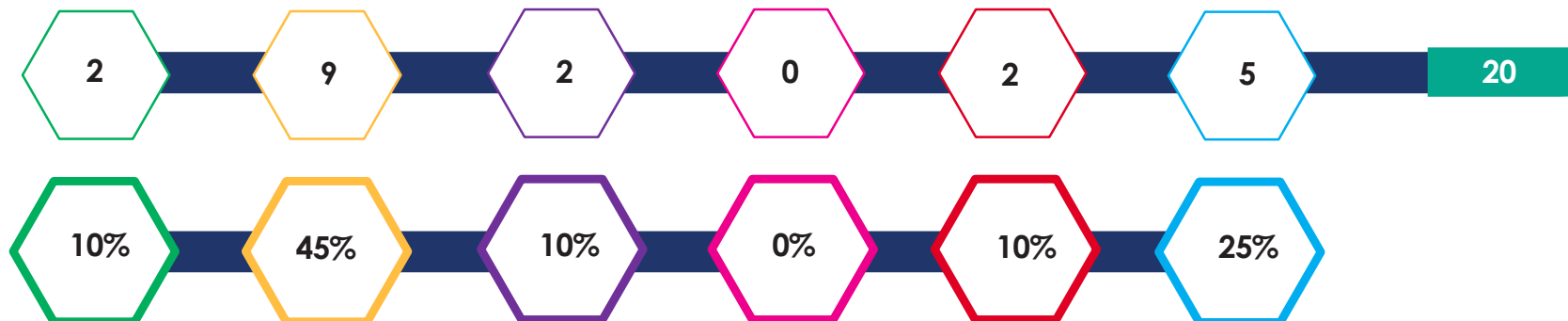
2021-22



## State-owned enterprises

- Audited by AGSA = 15
- Not audited by AGSA = 5

2021-22



**Material irregularities identified could have been prevented by basic disciplines and processes**  
Through material irregularity process we highlight these internal control weaknesses and track improvements to prevent recurrence

## FROM INACTION TO ACTION

179 material irregularities on **non-compliance and fraud** resulting in:

- material **financial loss** **169** (estimated R12 billion)
- substantial **harm to public sector institution** **9**
- **misuse of material public sector resource** **1**

**No actions** were taken to address 82% of these matters until we issued notifications



## ACTIONS TAKEN BY AUDITEES

- R14 m** Financial loss **recovered**
- R636 m** **Prevented financial loss** from taking place
- R509 m** Financial loss **in process of recovery**
- 39** **Internal controls improved** to prevent recurrence
- 36** Responsible officials identified and **disciplinary process** completed or in process
- 15** **Fraud/criminal investigations** instituted
- 5** **Stopped supplier contracts** where money is being lost



# Greater impact will be achieved by quicker resolution of material irregularities

MI is resolved only when all possible steps have been taken to:

- ✓ **Recover** financial losses or remove/address harm caused
- ✓ Effect **consequences** – for officials and third parties involved
- ✓ **Prevent** any further losses and harm – also through improved internal controls

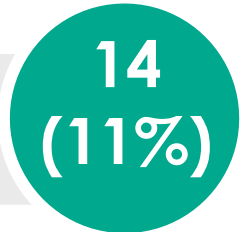
Resolution of MI is often delayed by:

- ✓ **Public bodies completing investigations**
- ✓ **Delays in recovery process, including liquidation of suppliers**
- ✓ **Instability at accounting officer/authority level**
- ✓ **Delays in identifying responsible officials and completing disciplinary process**

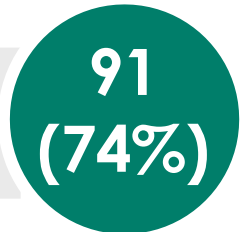
## Status of 124 active and assessed MIs



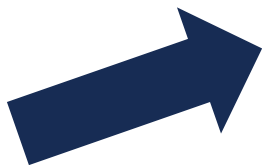
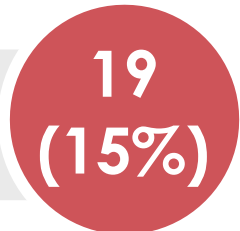
Resolved MI



Appropriate action being taken to resolve MI



No appropriate action taken – invoked our powers



### Recommendations in audit report

as AO/AA took little or no action to address MI

- Health (EC)
- National Student Financial Aid Scheme – 3
- Property Management Trading Entity
- South African Social Security Agency
- National Skills Fund
- Department of Defence

### Remedial action issued

as our recommendations were not implemented

- Human Settlements (FS) – 2
- Department of Defence

### Remedial actions and referral

- Free State Development Corporation

### Referred matter to public bodies for further investigation

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

Our recommendations and remedial actions deal with **prevention, recovery** and **consequences**





## Planning, budgeting and reporting cycle of government

## What we found

### 1. Incomplete annual and multiyear planning and reporting

Our findings at service delivery portfolios and coordinating institutions included:

- Key **MTSF indicators** not included in annual performance plans
- Key functions auditee is responsible for, **not planned and reported on**
- Indicators are **activity based or not relevant** and **annual targets are set too low to enable achievement of multiyear target**
- **Limited consistency in planning and reporting across provinces** for service delivery

#### Examples – inclusion of key MTSF indicators in plans of responsible auditees



Eradication of bucket sanitation system

0 auditees in water portfolio



Grade 6 and 9 learners with access to required maths and English first additional language textbooks

Only 4 out of 9 auditees in education sector



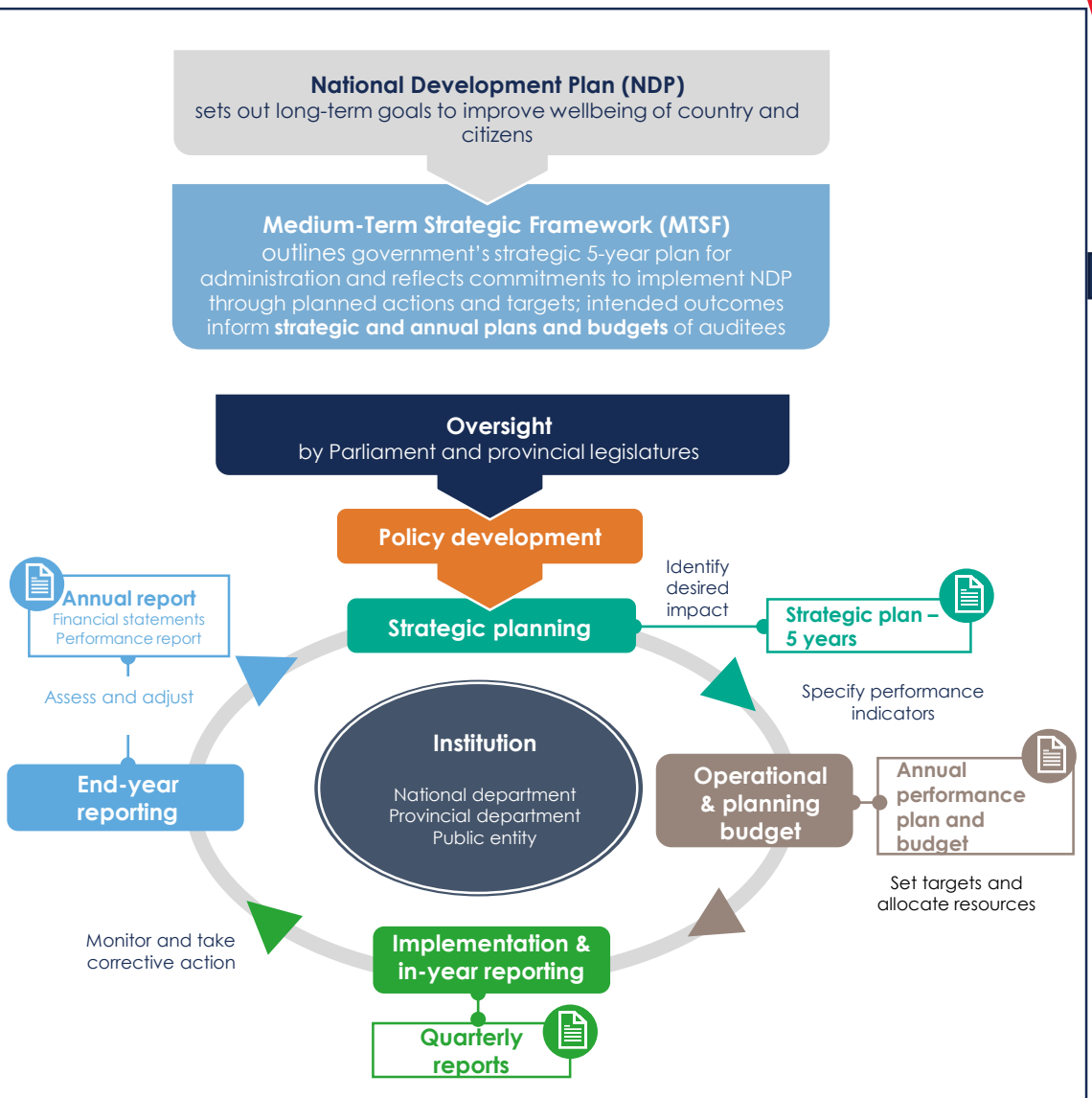
Government-owned land parcels released towards spatial transformation and spatial justice

Only 2 out of 10 auditees in public works sector



Title deeds registered

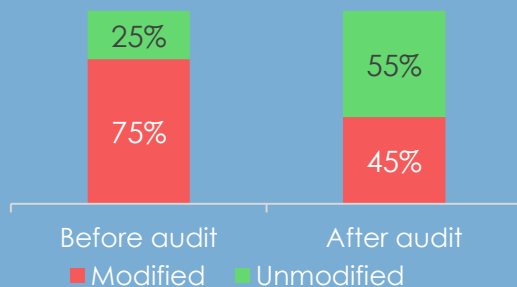
Only 2 out of 10 auditees in human settlements sector



## 2. Ineffective reporting and accountability processes

### Example – key service delivery portfolios

- **Poor quality performance reports** submitted for auditing
- Quality of in-year reporting **ineffective**
- Achievement reported by 40% of auditees **not reliable** (incorrect or no evidence)



### Accountability value chain ineffective

Accountability value chain not functioning as it should, due to **poor control environment**

**Monitoring ineffective as misstatements not prevented and detected** by senior management, internal audit units and audit committees

Ineffective **support, oversight, accountability and governance** by executive authorities, Department of Planning, Monitoring and Evaluation, premier's offices, legislatures and portfolio committees

## 3. Underachievement on service delivery improvements

- All or most of **budget spent but annual targets not achieved**
- **MTSF targets at risk** of not being achieved

### Examples – MTSF targets at risk



#### Dams rehabilitated

MTSF target = 9  
Achievement after 3 years = 1  
**11%**



#### Upgrading, refurbishing and maintenance of road network

MTSF target = 7 995 km  
Achievement after 3 years = 744 km  
**9%**



#### Breaking New Ground houses delivered (construction of fully subsidised houses by government)

MTSF target = 300 000  
Achievement after 3 years = 146 994  
**49%**

#### Train stations modernized

MTSF target = 33  
Achievement after 3 years = 0  
**0%**

#### Title deeds registered

MTSF target = 1 193 222  
Achievement after 3 years = 80 938  
**7%**



## Project deficiencies left unattended

- Inadequate needs assessment and project planning
- Contractors appointed that cannot perform the work
- Ineffective monitoring of project milestones and quality of work performed
- Failure in intergovernmental coordination and collaboration
- Underperformance by contractors without consequences
- Contractors not paid on time or overpaid



## Resulting in

- Delayed completion of projects
- Abandoned projects
- Increased project cost and financial losses
- Quality defects
- Completed infrastructure not commissioned or not utilised
- Damage as result of vandalism and service delivery protests



Stripped grade R classroom – refurbishment delayed



Nursing college – defects in concrete beams causing cracks



Foundation and brickwork defects causing water seepage into house



## Impact



Available facilities insufficient to address demand for health services



Learners continue to be deprived of suitable and safe learning environment by delays in refurbishment of schools



Slow delivery of housing  
Houses delivered without access to water and electricity



Insufficient road and rail infrastructure for public and freight transport, affecting all other sectors including tourism and police



Continued backlog in providing water to households and businesses



Delays in delivery of infrastructure by public works compromise service delivery by user departments



Increased cost and financial losses  
Economic reconstruction and recovery plan at risk



# Pressure on government finances

More money would be available for service delivery if funds used showed better return on investment

Lack of **prudence** in spending of limited funds

**R5,83 billion** Fruitless and wasteful expenditure

**R12 billion** Estimated financial loss from non-compliance and fraud

## Financial losses as a result of:

### Poor payment practices

- Late payment of suppliers resulting in interest
- Payments for goods and services not received or overpayments

### Unfair/uncompetitive procurement processes

- Higher prices paid

### Inadequate **needs analyses and project management**

- Standing time payments to contractors
- Delays in project completion with escalating costs
- Appointed supplier/contractor not delivering

### No/limited benefit received from money spent – examples:

- Lease payments on unutilised government properties
- On month-to-month basis
- At higher than market rates

### Ineffective maintenance on infrastructure

- Poor infrastructure = services not delivered
- Safety of public compromised
- Increased cost and financial losses
- Claims against the state
- Theft and vandalism

### Cybersecurity failures – remain concerning with numerous recent attacks

- Weak IT security control
- Weak IT governance practices
- Software licences and IT systems not used

Eroding of funds and future obligations

Over **R420 billion** Government guarantees provided with exposure of over **R328 billion** for SOEs' borrowing programmes  
*SOEs have reported poor growth, unsustainable operational challenges and high debt-servicing costs, and several appear to be at risk of defaulting on their debts*

**R153,64 billion** Owed for claims made against departments

**R103,64 billion** Claims against the health sector

*Government is self insured and does not budget in full for claims*

*Payments are made from funds budgeted for service delivery*



## *A culture of accountability will improve service delivery*



### Plan

- **Refocus and energise** performance **planning processes** to be comprehensive and aligned to auditees' mandate and the Medium-Term Strategic Framework to ensure that service delivery is planned for and reported on

### Do / implement

- Ensure that vacancies are filled by appointing **capable officials** and ensure **stability in key positions** that will enable accountability
- Maintain a **robust financial management culture**, which includes ensuring effective revenue collection, prudent spending, and the prevention and swift recovery of financial loss and wastage

### Check / monitor

- Enable and insist on in-year monitoring **controls** and project management disciplines to achieve planned service delivery on time, within budget and at the required quality

### Act

- Lead by example and ensure that **consequences for non-compliance with legislation and accountability failures** are implemented to enable improved performance and service delivery



**Improved service delivery enabled by capable, cooperative, accountable and responsive institutions delivering on their mandates**



# THANK YOU



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