AUDITOR-GENERAL SOUTH AFRICA

PFMA 2021-22

CONSOLIDATED GENERAL REPORT ON NATIONAL AND PROVINCIAL AUDIT OUTCOMES

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PFMA 2021-22

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EXECUTIVE SUMMARY

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

Widespread community protests and outbreaks of violence show just how frustrated the public is with the slow pace of service delivery in the country. These circumstances highlight the need for a shift in the culture of auditees to accelerate government's response to the needs of the public.

We encouraged leadership to pay careful attention to the financial health of departments, especially the key service delivery departments, as well as state-owned enterprises. We shared our concerns about the state of infrastructure and information technology systems, and once again raised concerns about performance management and reporting at key service delivery departments, encouraging leadership to apply the lessons learnt from our real-time audits of government's covid-19 initiatives. We called on all roleplayers to play their part in the accountability ecosystem – specifically in terms of support, monitoring and oversight of the material irregularities identified – and to accelerate improvements in accountability.

This report includes information, statistics, insights and stories on the audit outcomes and state of departments and public entities, with a particular focus on key service delivery portfolios and state-owned enterprises.

KEY MESSAGES

In the third year of the current administration, we continue to see a gradual upward trend in the audit outcomes of national and provincial government. However, key service delivery portfolios and state-owned enterprises continue to receive poor audit outcomes.

Through our expanded mandate, we have enriched our insights and strengthened our ability to influence and enforce accountability and consequence management. There has been a shift at departments and public entities from a slow response to our findings and recommendations over the years to attention now being paid to material irregularities. Auditees are taking action to resolve these by recovering losses, preventing further losses and harm through strengthening internal controls, and effecting consequences for transgressions. However, greater impact will be achieved if accounting officers and authorities resolve the material irregularities quicker. We continue to advocate for investment in good preventative controls, as preventing material irregularities is more effective than having to deal with the consequences thereof.

Poor overall performance leads to poor service delivery – to the detriment of the people of South Africa. Much of this can be attributed to poor planning, insufficient intergovernmental coordination, execution without oversight, and lack of accountability for effective reporting and the achievement of planned service delivery.

Over the past few years, we have highlighted the internal control deficiencies that led to government not deriving value from its spending because of inefficient and ineffective infrastructure delivery. Infrastructure continues to deteriorate because it is not properly maintained and protected against vandalism. This slows down service delivery and results in funds being wasted, which places further pressure on the fiscus. Auditees have not heeded our call to address these deficiencies, and infrastructure projects continue to face the same delivery challenges.

We have also seen little improvement in the area of financial management, despite consistently reporting the same deficiencies. Non-compliance with legislation remains high, resulting in unfair and uncompetitive procurement processes and payments for goods and services not received. These are also the areas where the risk of fraud is highest, hence it is necessary for a culture of compliance and respect for the law to be re-enforced.

KEY MESSAGES *(CONTINUED)*

When government is not careful in its spending practices, it reduces the already limited funds available. Claims against departments, overspending of budgets and poor financial health further deplete the already stretched funds, while bailing out and signing guarantees to cover future obligations of ailing institutions such as state-owned enterprises places additional pressure on the fiscus.

This situation is made worse by the prevailing weaknesses in governance and accountability at national and provincial auditees, coupled with the slow implementation of key reforms that aim to strengthen the governance of state-owned enterprises. Coordinating institutions are key roleplayers in the accountability ecosystem, yet their actions and initiatives have had a limited impact on improving the state of government.

IMPACT

- Deficiencies in financial and performance management may prevent government from achieving the ideals set out in the National Development Plan, such as alleviating poverty, providing access to clean water and sanitation, improving the life expectancy of the people of South Africa, enhancing the quality of teaching and learning through providing education infrastructure, enabling decent employment, and encouraging economic growth.
- Government provided financial guarantees of over R420 billion, with several state-owned enterprises at risk of defaulting on their debts, which would put additional strain on the fiscus. Financial difficulties at these entities also disrupted the delivery of essential services to citizens, such as the payment of social relief grants, rail infrastructure and water supplies.
- Infrastructure projects that are not effectively implemented lead to delays in project completion, increases in project costs and financial losses, defects in building quality, and completed infrastructure not being commissioned or being underused. This may lead to the expected return on investment not being realised, placing further pressure on the fiscus.
- Government launched multiple programmes and initiatives to improve the lived reality of South Africans and address their concerns. These include the Economic Reconstruction and Recovery Plan, the professionalisation of the public service, and commitments to implement the recommendations to combat corruption and unethical behaviour included in the reports issued by the Judicial Commission of Inquiry into Allegations of State Capture, Corruption and Fraud in the Public Sector including Organs of State (Zondo Commission). However, plans only have an impact if successfully implemented. If the current weaknesses in financial, performance and infrastructure management are not addressed, it will also hamper the implementation of these programmes and initiatives.

WHAT SHOULD BE DONE?

Service delivery improvements and the responsible use of the limited funds available will only be enabled by capable, cooperative, accountable and responsive institutions delivering on their mandates.

A culture of accountability will improve service delivery

We recommend the following to leadership and oversight:

- Ensure that vacancies are filled by appointing capable officials and ensure stability in key positions that will enable accountability.
- Refocus and energise performance planning processes to be comprehensive and aligned to auditees' mandates and the Medium-Term Strategic Framework to ensure that service delivery is planned for and reported on.
- 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.
- 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.
- Lead by example and ensure that consequences for non-compliance with legislation and accountability failures are implemented to enable improved performance and service delivery.

A culture of performance, accountability, transparency and integrity should be a shared vision. We urge all roleplayers in the accountability ecosystem to fulfil their designated roles and play their part effectively and without fear or favour to ensure accountability for government spending and improvement in the lives of all South Africans.

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

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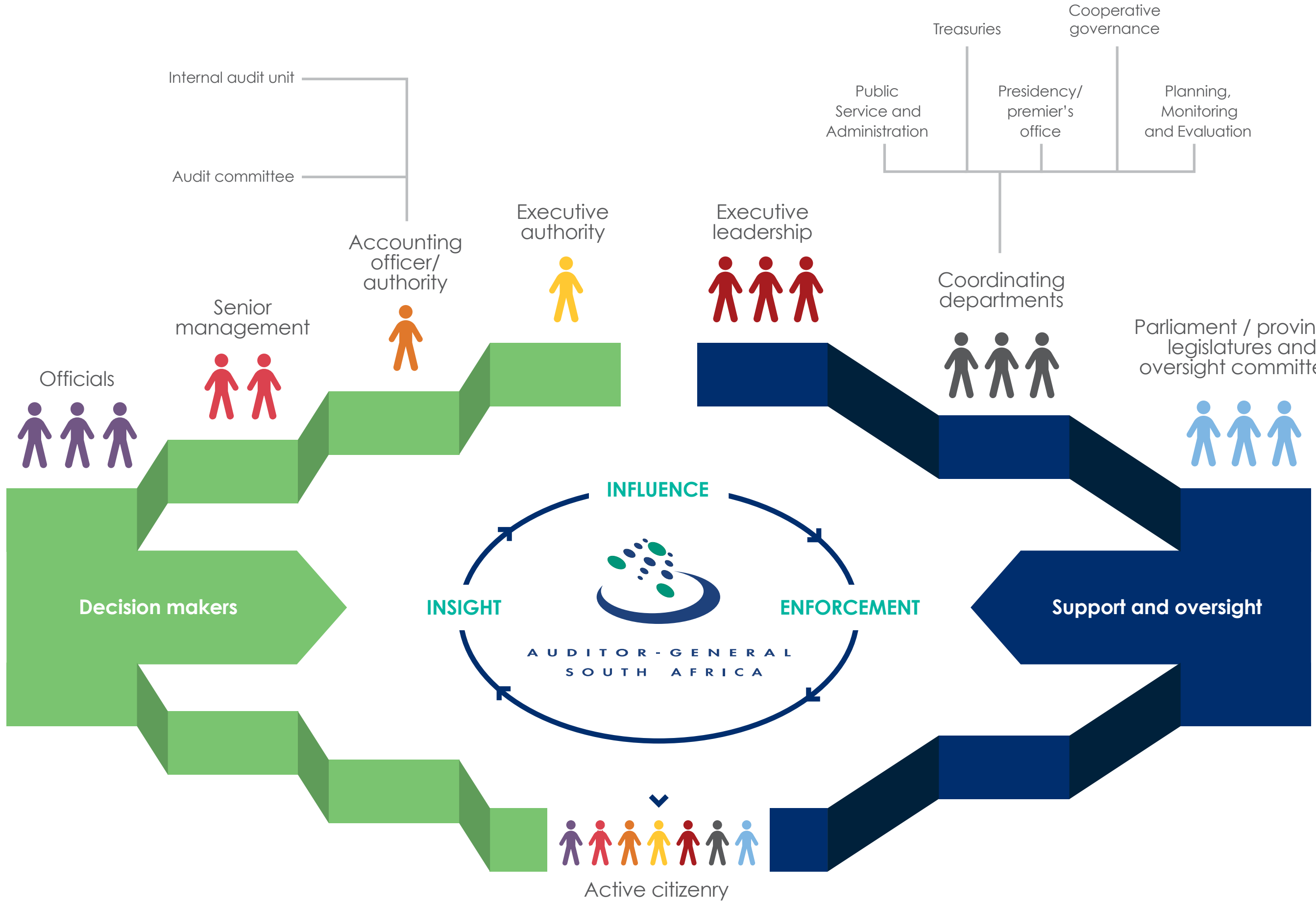
SECTION 1 INTRODUCTION

This report reflects on the audit outcomes of national and provincial government and presents our observations and insights from the audits of the financial year ended 31 March 2022.

Auditees in the national and provincial spheres of government play a key role in delivering services, driving overall government programmes (including those affecting local government), and overseeing a significant portion of the public purse. National and provincial departments are also closely interconnected and play an important role in achieving the vision outlined in the National Development Plan of eliminating poverty and reducing inequality by 2030 through, among others, raising employment through faster economic growth; improving the quality of education; and building state capability in areas such as infrastructure, environmental sustainability, health and community safety.

In this report, we again reference the accountability ecosystem that we introduced in the previous general report. The accountability ecosystem is made up of all roleplayers in national and provincial government that have a part to play in enabling a culture of performance, accountability, transparency and integrity. This includes the Auditor-General of South Africa as the country's supreme audit institution as well as the people of South Africa.

Accountability ecosystem



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Our role is to audit and report on what we have found, and to share our insights to empower the collective accountability ecosystem to address weaknesses, strengthen transparency, and enable accountability – ultimately improving governance and service delivery. This is especially significant if we consider that national and provincial auditees were responsible for an estimated expenditure budget of R2,58 trillion in 2021-22. It is not merely a matter of compliance for us, but a genuine effort to ensure improvement and enforce accountability where it is lacking.

As part of our reporting, we inform executive authorities as well as Parliament and the provincial legislatures of the quality of the financial statements and annual performance reports, the status of compliance with key legislation, and any material irregularities we identified during our audits. We do this as they are key roleplayers in providing oversight and in-year monitoring. They also use the financial statements and annual performance reports to determine whether auditees have used their budgets as intended to achieve service delivery objectives and to assess the impact on the lived experiences of South Africans.

Ultimately, the accounting officers and authorities are responsible and answerable for the finances and performance of auditees for the benefit of all South Africans. Audit committees and internal audit units play an important role in providing an independent view of the effectiveness of auditee controls and processes, while legislation requires coordinating institutions to support auditees by enforcing good financial management and overseeing performance budgeting, planning and monitoring. Active citizenry is also crucial for holding national and provincial leadership accountable to the people of South Africa.

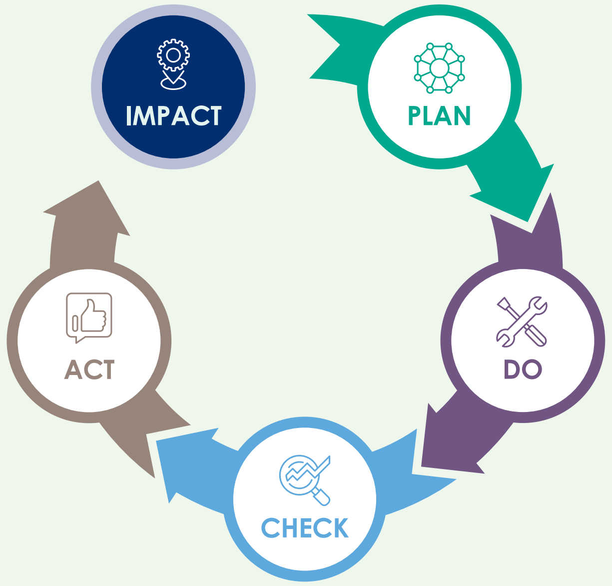
The success of national and provincial government rests on the ability of this whole accountability ecosystem to work together: for all roleplayers to not simply operate within their silos, but function collaboratively with an awareness of how their respective roles influence and affect each other.

This report is therefore directed at all of these roleplayers, further summarising the insights and recommendations we have already shared with them for further action.

We remain encouraged by the commitments roleplayers have made to improve the state of national and provincial government, and we will continue to monitor and report on the implementation, effectiveness and impact of these commitments over the term of the administration.

In this report, we reintroduce the plan-do-check-act process used in previous general reports.

Achieving the goals and objectives included in government's long-term National Development Plan and medium-term strategic plans to improve the lives of the people of South Africa **(IMPACT)** requires a systematic and well-coordinated process of planning **(PLAN)**, disciplined implementation **(DO)**, effective progress monitoring and evaluation **(CHECK)**, and corrective action where delivery does not take place as planned **(ACT)**.



This report summarises our key messages covering the following areas:

1. State of national and provincial government over the first three years of the sixth administration's term, dealing with:
   - audit outcomes
   - material irregularities
   - service delivery – planning, reporting and oversight
   - infrastructure for service delivery
   - pressure on the fiscus
   - governance and accountability
2. A call to action for all roleplayers to activate the accountability ecosystem by reporting on our recommendations and the commitments made in response
3. State of provincial government in each of the nine provinces
4. Information on the audits we performed and an explanation of the numbers used in this report

Detailed annexures that provide the key results per department and public entity are available on our website (www.agsa.co.za).

SECTION 2 STATE OF NATIONAL AND PROVINCIAL GOVERNMENT

AUDIT OUTCOMES

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

In 2021-22, accounting officers and authorities managed an estimated expenditure budget of R2,58 trillion – the budget amount includes all operating and capital expenditure budgets of departments and public entities as obtained through the audit process.

The audit outcomes have shown a gradual upward trend since the previous administration's term ended. Overall, 114 auditees now have a better audit outcome than in 2018-19, with 46 having a worse outcome – an overall net improvement in the outcomes of 68 auditees (17%).

Audit outcomes

	Unqualified with no findings (clean)	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimed with findings	Outstanding audits	
2018-19 LAST YEAR OF PREVIOUS ADMINISTRATION	94	184	100	3	27	4	412
2020-21	117	192	76	2	20	15	422
2021-22	128	184	76	1	9	26	424
	30%	44%	18%	<1%	2%	6%	
2021-22 EXPENDITURE BUDGET R2,58 TRILLION	6%	45%	15%	<1%	1%	33%	

	Improved	Regressed
MOVEMENT FROM PREVIOUS YEAR	65	41
MOVEMENT FROM PREVIOUS ADMINISTRATION	114	46

Overall, the audit outcomes of both departments and public entities have improved from 2018-19. Based on the completed audits of 160 departments, 47 departments had improved and 12 had regressed – a net improvement of 35 (22%). Similarly, of the 238 public entities with completed audits, 67 had improved and 34 had regressed – a net improvement of 33 (14%).

By 15 September 2022 (the cut-off date for audit outcomes to be included in this report), we had not yet completed the audits of 26 auditees. Fifteen of these auditees (58%) – most of them state-owned enterprises – had not yet submitted their financial statements at this date. We elaborate on the worrying trend of late submissions by state-owned enterprises later in this report. Six of the auditees (23%) submitted their financial statements late, which delayed the completion of their audits. The remaining five outstanding audits (19%) were also delayed by the auditees for different reasons.

When an auditee receives a clean audit opinion, it means that its financial statements and annual performance report give a transparent, honest and credible account of its finances and its performance against set targets. In other words, these accountability reports present a reliable picture of that auditee's performance – whether good or bad. This enables everyone with an interest in the auditee – particularly those who need to oversee the auditee's performance and provide support for it to succeed – to judge how the auditee is doing and to take action where necessary. A clean audit opinion also means that the auditee complied with the important legislation that applies to it and, where transgressions did occur, they were rare or not material.

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

Movement in number of clean audits from previous administration

Improved to clean audit status	Sustained clean audit status	Lost clean audit status	Close to clean audit status
55	69	25	30

The number of clean audits increases every year due to significant effort and commitment by the leadership, officials and governance structures of these auditees. However, the 128 auditees (56 departments and 72 public entities) with a clean audit status represent only 6% of the R2,58 trillion expenditure budget managed by national and provincial government.

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It is often difficult for an auditee to sustain a clean audit if it does not have financial and performance management systems that operate consistently and effectively and controls that are embedded properly. We commend the 69 auditees (54%) that have managed to retain their clean audit status since the last year of the previous administration. Some of the common practices enabling them to do so are institutionalising and monitoring key controls (including preventative controls), as well as having all assurance providers (including management and leadership) committed to fulfilling their monitoring, governance and oversight roles. To avoid regressions, these auditees must continue to apply these best practices.

There are another 30 auditees that are very close to obtaining a clean audit, and only need to address one finding on the quality of their financial statements (18 auditees) or performance reporting (12 auditees). For instance, the Mpumalanga Department of Economic Development and Tourism had only one finding on material misstatements in the submitted financial statements.

Some of these auditees have been working towards this goal for many years and we encourage them to persevere in overcoming the last hurdle. If they manage to do so, we expect to see an increase in the number of clean audits for 2022-23.

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

This year, our messages also extend to national public entities included in the key service delivery portfolios, as well as additional portfolios, including basic education, health, human settlements, public works, transport, and water and sanitation.

Our reflections on the outcomes of state-owned enterprises include the five (at group level) audited by private sector auditors in accordance with section 4(3) of the Public Audit Act, namely Air Traffic and Navigation Services, Alexkor, Broadband Infraco, Eskom, and the Industrial Development Corporation.

We report on all subsidiaries of the 15 state-owned enterprises we audit.

Audit outcomes of key service delivery portfolios

	Unqualified with no findings (clean)	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimed with findings	Outstanding audits	
Key service delivery portfolios (basic education, health, human settlements, public works, transport, water and sanitation)	6	39	21	0	1	4	71
	8%	55%	30%	0%	1%	6%	

Basic education portfolio (10)

- National Department of Basic Education
- Education – Free State
- Education – Gauteng
- Education – KwaZulu-Natal
- Education – Mpumalanga
- Education – Northern Cape
- Education – Western Cape

- Education – Eastern Cape
- Education – Limpopo

- Education – North West

Health portfolio (12)

- Health – Western Cape

- Health – Gauteng
- Health – Mpumalanga
- Health – North West
- South African Health Products Regulatory Authority

- National Department of Health
- Health – Eastern Cape
- Health – Free State
- Health – KwaZulu-Natal
- Health – Limpopo
- Health – Northern Cape

- National Health Laboratory Service

Human settlements portfolio (16)

- Human Settlements – KwaZulu-Natal

- National Department of Human Settlements
- Human Settlements – Eastern Cape
- Cooperative Governance, Human Settlements and Traditional Affairs – Limpopo
- Cooperative Governance, Human Settlements and Traditional Affairs – Northern Cape
- Human Settlements – Western Cape
- National Home Builders Registration Council
- National Housing Finance Corporation
- Community Schemes Ombud Service
- Property Practitioners Fidelity Fund

- Human Settlements – Free State
- Human Settlements – Gauteng
- Human Settlements – Mpumalanga
- Human Settlements – North West
- Estate Agency Affairs Board
- Property Practitioners Regulatory Authority

Public works portfolio (12)

- National Department of Public Works and Infrastructure
- Public Works – Eastern Cape
- Public Works and Infrastructure – Free State
- Infrastructure Development – Gauteng
- Public Works – KwaZulu-Natal
- Public Works, Roads and Infrastructure – Limpopo
- Public Works, Roads and Transport – Mpumalanga
- Roads and Public Works – Northern Cape

- Public Works and Roads – North West
- Construction Industry Development Board
- Independent Development Trust

- Property Management Trading Entity

Transport portfolio (18)

- Transport and Public Works – Western Cape
- Driving Licence Card Account
- Railway Safety Regulator
- South African Civil Aviation Authority

- National Department of Transport
- Police, Roads and Transport – Free State
- Transport and Community Safety – Limpopo
- Transport, Safety and Liaison – Northern Cape
- Airports Company South Africa
- South African Maritime Safety Authority
- South African National Roads Agency
- Transnet

- Transport – Eastern Cape
- Roads and Transport – Gauteng
- Transport – KwaZulu-Natal
- Community Safety and Transport Management – North West

- Passenger Rail Agency of South Africa
- Road Accident Fund

Water and sanitation portfolio (3)

- Department of Water and Sanitation
- Trans-Caledon Tunnel Authority
- Water Trading Entity

- Unqualified with no findings (clean)
- Unqualified with findings
- Qualified with findings
- Disclaimed with findings
- Outstanding audits

Audit outcomes of state-owned enterprises (excluding subsidiaries)

	Unqualified with no findings (clean)	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimed with findings	Outstanding audits	Total
State-owned enterprises (we audit)	2	6	2	0	2	3	15
	13%	41%	13%	0%	13%	20%	
State-owned enterprises (audited by private sector auditors)	0	3	0	0	0	2	5
	0%	60%	0%	0%	0%	40%	

We show the audit outcomes of state-owned enterprises and the subsidiaries we audit below:

State-owned enterprises we audit (15)

- Development Bank of Southern Africa
- Land and Agricultural Development Bank of South Africa

- Airports Company South Africa
- Armaments Corporation of South Africa
- Central Energy Fund
- South African Forestry Company
- Trans-Caledon Tunnel Authority
- Transnet

- Independent Development Trust
- South African Broadcasting Corporation

- South African Post Office
- South African Nuclear Energy Corporation

- Denel
- South African Airways
- South African Express Airways

State-owned enterprises audited by private sector auditors (5)

- Air Traffic and Navigation Services Company
- Broadband Infraco
- Industrial Development Corporation of South Africa

- Alexkor
- Eskom

Subsidiaries to state-owned enterprises we audit (17)

- Land Bank Insurance
- Land Bank Life Insurance

- SA Agency for Promotion of Petroleum Exploration and Exploitation
- SFF Association
- Petroleum Oil and Gas Corporation
- Komatiland Forests
- Gammatec NDT Supplies
- NTP Radioisotopes

- Pelchem

- Denel Aerostructures
- Denel Vehicles Systems
- Densecure
- LMT Holdings
- LMT Products
- Air Chefs
- Mango Airlines
- SAA Technical

- Unqualified with no findings (clean)
- Unqualified with findings
- Qualified with findings
- Disclaimed with findings
- Outstanding audits

The key service delivery portfolios and state-owned enterprises are responsible for more than 30% of the expenditure budget, but consistently have the worst outcomes. Auditees from these groups account for 58% of the outstanding audits and 31% of the modified audit opinions (qualified, adverse and disclaimed). We unpack the results from our audits of these important auditees later on in this report, and also look at their planning, reporting, and infrastructure and service delivery, as well as their impact on government finances and the lives of the people of South Africa.

MATERIAL IRREGULARITIES

The audit outcomes and the insights from our audits as detailed in this report reflect the concerning state of financial and performance management in national and provincial government. Our audits have for many years highlighted that not only are irregularities and their resultant impact not prevented from happening, such instances are also not appropriately dealt with when they are identified.

This led to amendments to the Public Audit Act, which came into effect on 1 April 2019 and gave us the mandate to report material irregularities (MIs) and to take action if accounting officers and authorities do not deal with them appropriately.

Definition of material irregularity and expanded powers

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

Material irregularity

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

1. **Refer material irregularities** to relevant public bodies for further investigations
2. **Recommend actions** in the audit report to resolve the material irregularity

   Take binding remedial action for failure to implement recommendations
3. **Issue certificate of debt** for failure to implement remedial action if financial loss was involved

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

The overall aim of our expanded mandate is to:

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

We issue notifications of MIs to accounting officers and authorities to allow them to correct deficiencies, protect public finances and enhance the performance of auditees. By safeguarding and recovering resources, money saved or recovered can be redirected towards delivering much-needed services to South Africans.

Our expanded mandate did not change the role and responsibilities of accounting officers and authorities or the oversight and monitoring roles of executive authorities and oversight structures to prevent and deal with irregularities. Through the MI process, we complement the role and efforts of other roleplayers in the accountability ecosystem.

Roles and responsibilities in material irregularity process

To strengthen accountability mechanisms in the public sector

Accounting officers and authorities

Have legal obligation to **prevent all irregularities and take action when they occur**

AGSA

- **Identify irregularities that could have significant impact** on auditee's finances, resources and delivery
- Notify accounting officer/ authority so they can **take appropriate steps in terms of legislation timeously**
- **Give space to accounting officer/ authority to take required actions** to deal with material irregularities before using our additional powers

Oversight and executive authorities

Oversight and monitoring roles remain unchanged

AGSA

By reporting material irregularities, we highlight **most material matters** and provide information to assist oversight and monitoring roles

Success is: swift action by accounting officer/authority to resolve material irregularities and prevent recurrence

In this fourth year of carrying out our enforcement mandate in national and provincial government, we expanded our work significantly by implementing the process at 202 auditees – from 95 in 2020-21. We plan to further increase this number to 430 in 2022-23.

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Impact of material irregularity process

There has been a shift at departments and public entities: from a slow response to our findings and recommendations over the years to attention now being paid to what we report as MIs and actions being taken to resolve these.

We found that until we issued notifications, no actions were being taken to address 82% of these matters.

An MI is resolved if all steps have been taken to recover financial losses or to recover from substantial harm, when further losses and harm are prevented through strengthening internal controls, when there are consequences for the transgressions (which include disciplinary processes) and, if applicable, the matter has been handed over to a law-enforcement agency.

Where accounting officers and authorities respond to our notifications with commitment and workable plans to implement appropriate action to resolve the MI, the intended impact of the Public Audit Act amendments is achieved – the objective was to enable corrective action to resolve MIs and prevent similar ones in future.

Such impact is evident from the actions taken by the accounting officers and authorities to resolve the MIs that resulted in (or are likely to result in) financial loss.

Actions taken to address financial loss

- **R636 m** – **Prevented financial loss** from taking place
- **R509 m** – Financial loss in **process of recovery**
- **R14 m** – Financial loss **recovered**
- **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

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What follows are examples of the **impact achieved** through the MIs that have been fully resolved and those that are in the process of being resolved. These actions were taken by the accounting officers and authorities in response to the MI notifications.

Examples of impact achieved

- **Financial loss recovered:** The KwaZulu-Natal Department of Health procured sanitiser detergent during the covid-19 pandemic at prices significantly higher than prescribed by the National Treasury at that time, resulting in a R1,3 million financial loss. The Special Investigating Unit investigated the matter and an acknowledgement of debt was signed with the supplier, resulting in R0,5 million of the loss already having been recovered.
- **Financial loss recovered:** The Pietersburg Hospital leased radiology equipment which was not used, resulting in an estimated loss of R3,7 million. The rooms in which the equipment had been installed were not accessible due to environmental safety concerns. To recover from the financial loss, the accounting officer of the Limpopo Department of Health renegotiated an extension of the contract, which allowed the equipment to be used for a further 12 months at no additional cost.
- **Financial loss recovered:** The Property Management Trading Entity made payments to a landlord for leasing properties in excess of the amount payable per the lease agreement, resulting in an estimated R11 million in overpayments. By 31 March 2022, R9,7 million had been recovered from the landlord and the remaining amount was in the process of being recovered.
- **Financial loss in the process of recovery:** The prices paid by the Department of Public Works and Infrastructure for three state events were higher than what had been approved during the quotation process. In response to the recommendations we made, the matter was handed over to the State Attorney for recovery of the R0,83 million overpaid to the supplier.
- **Prevented financial loss, supplier contracts cancelled and disciplinary steps taken:** The Eastern Cape Department of Human Settlements awarded three contracts for housing units to bidders that did not score the highest points in the evaluation process, resulting in higher prices being paid, as the cost of units from the appointed bidders was higher than that of the bidders scoring the highest points. On an application by the accounting officer, the High Court set aside two of the contracts, declaring them to be invalid, which prevented an estimated financial loss of R6,45 million. The accounting officer also took disciplinary steps against the officials found responsible for the non-compliance – the members of the bid adjudication committee were given a written warning for their part and the chief financial officer was dismissed (other charges were also taken into account for the dismissal).
- **Prevented financial loss:** The Gauteng Department of Human Settlements entered into a month-to-month contract amounting to R1,46 million per month from April 2016 for the leasing of temporary residential units instead of going with the cheaper option of purchasing them. The accounting officer cancelled the lease agreement in January 2022 and purchased the temporary residential units in June 2022.
- **Prevented financial loss:** The Department of Defence imported an unregistered drug (Heberon) at a cost of approximately R260 million without approval from the South African Health Products Regulatory Authority. The unused vials were repatriated to Cuba, preventing an estimated financial loss of R227 million.

Examples of impact achieved *(continued)*

- **Prevented financial loss:** The North West Department of Health wrote off R65,64 million in patient debt without taking reasonable steps to recover the debt and first applying the requirements of its revenue and debt management policy. The accounting officer reversed the write-off, allowing for a proper process to be followed to collect the debt.
- **Disciplinary processes underway:** Multiple instances of non-compliance in the procurement process for locomotives in July 2012 by the Passenger Rail Agency of South Africa resulted in the contract being unfairly awarded. In response to the remedial action we instituted against the agency to implement consequence management, investigations were completed. Seven officials were charged with procurement irregularities and they are being subjected to disciplinary processes; so far, one official has been dismissed and another has resigned.
- **Fraud/criminal investigations instituted:** The Department of Cooperative Governance made payments to non-qualifying government employees as part of the Community Work Programme due to ineffective internal controls for approving and processing payments. In response to the recommendations we made and an internal investigation into the matter, the accounting officer referred the matter to the Directorate for Priority Crime Investigation (the Hawks) for investigation.
- **Internal controls improved:** The KwaZulu-Natal Department of Health awarded contracts for radiology equipment to suppliers that did not score the highest points in the evaluation process without predefined, objective criteria for such deviation. To prevent a recurrence, the department updated its standard operating procedures and bid documents for supply chain management to address the application of objective criteria; and officials attended refresher training on supply chain management prescripts.
- **Internal controls improved:** The Mpumalanga Economic Growth Agency impaired debts by R292,21 million without following all the required actions provided for in its debt management policy. The accounting authority capacitated the credit control unit to enable improved debt collection by appointing legal interns, a panel of legal practitioners and an external debt collector.
- **Internal controls improved:** The Western Cape Department of Human Settlements did not correctly apply the evaluation criteria in the National Housing Code, resulting in beneficiaries receiving subsidies they were not entitled to and valid beneficiaries being overpaid. The accounting officer implemented an additional review by the department's internal control function before any subsidies are approved.

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Nature and status of material irregularities

By 31 August 2022 (which was the cut-off date for MIs to be included in this report), we had identified 179 MIs. We estimate the total financial loss of these MIs to be R12 billion.

Nature of material irregularities

Procurement and payment

- **33** – Non-compliance in procurement processes resulting in **overpricing of goods and services procured or appointed supplier not delivering**
- **7** – Uneconomical procurement resulting in **overpricing of goods and services procured**
- **66** – Payment for **goods or services not received/of poor quality/not in line with contract** or to **ineligible beneficiaries**

Resource management

- **2** – **Assets not safeguarded,** resulting in loss
- **18** – **Inefficient use of resources –** no/limited benefit derived for money spent

Revenue management

- **2** – Revenue **not billed**
- **4** – Debt **not recovered**
- **1** – Receipts **not recorded/** deposited

Interest and penalties

- **22** – Payment **not paid in time** resulting in interest, standing time and penalties
- **9** – Payroll and value-added tax returns **not paid on time** or incorrectly calculated resulting in South African Revenue Service interest and penalties

Fraud and compliance

- **3** – **Suspected fraud**, resulting in loss
- **2** – **Non-compliance**, resulting in penalties

Misuse of a material public resource

- **1** – **Under-utilisation** of a material public resource

Harm to public institution

- **9** – **Non-submission** of financial statements

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We have highlighted all of these areas of vulnerability for a number of years, including in previous general reports and the special reports we tabled on the management of government's covid-19 and flood-relief initiatives.

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

- procure at the best price
- pay only for what was received
- make payments on time to avoid unnecessary interest or penalties
- recover revenue owed to the state
- safeguard assets
- effectively and efficiently use the resources of the state to derive value from the money spent
- prevent fraud
- comply with legislation.

Financial losses mean that there is less money available to deliver much-needed services to South Africans and for government to achieve its strategic priorities. In addition, some of the MIs had a direct impact on the ability of auditees to deliver on projects and services.

MI

Throughout this report, we include examples of the MIs identified to show just how detrimental their impact can be.

Thirteen of the identified 179 MIs were resolved in prior years, bringing us to 166 active MIs. We only recently notified accounting officers and authorities of eight of these; and by 30 September 2022, their responses were not yet due. At that date, we were also still evaluating the responses to 34 of the newly identified MIs. This means we have evaluated and can report on the status of 124 MIs.

Status of remaining 124 material irregularities

- **14 (11%)** – **Resolved MI**
- **91 (74%)** – **Appropriate action being taken to resolve MI**
- **19 (15%)** – **No appropriate action taken – invoked our powers**

We provided examples of the resolved MIs earlier in the section.

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

Different MIs need different actions (and sometimes a combination of actions) for them to be resolved. Some require financial losses to be recovered while others also require further financial losses to be prevented. Some require consequences against responsible officials and others also require fraud or criminal investigations and reporting the outcome of such investigations to the South African Police Service.

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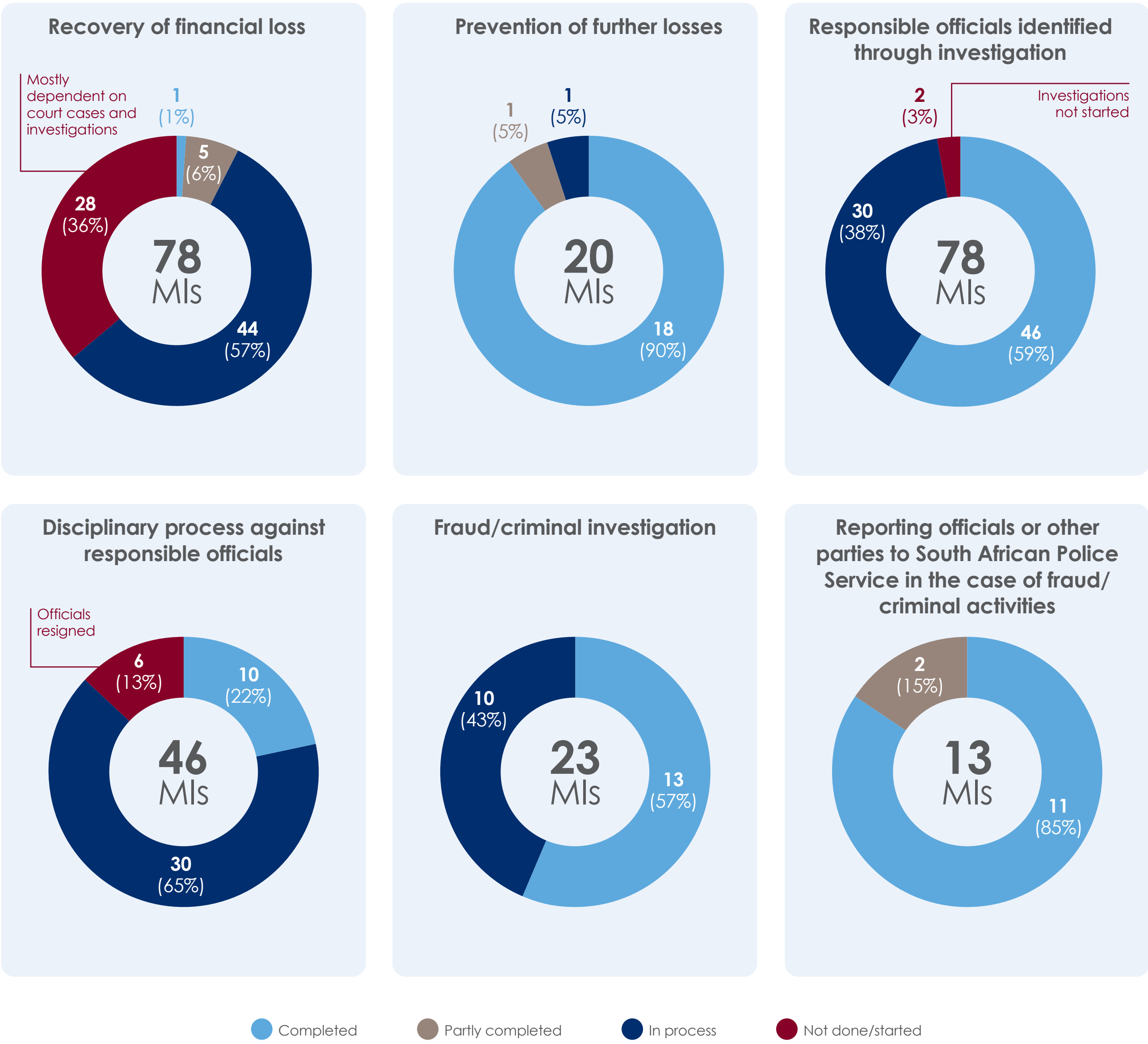
Material irregularities requiring specific actions to resolve – status



Some MIs can be resolved within a short period, while others require auditees to correct deep-rooted issues or to quantify multiple years of financial loss – which will necessarily take longer to address. For example, we issued MIs on overpayments by the National Student Financial Aid Scheme to students and tertiary institutions. To identify and quantify the full extent of the financial loss, requires the scheme to interrogate hundreds of thousands of student records and to reconcile data from 76 institutions for four academic cycles.

The average 'age' of the 91 MIs where appropriate action is being taken to resolve the MI, is 19 months from date of notification. The ageing of MIs is influenced by delays in implementing the necessary action. Where we assessed such delays to be reasonable, we did not invoke our powers. However, the delayed resolution of MIs highlights challenges in national and provincial government, some of which we describe below.

A common reason for delayed resolution is prolonged investigations or delays by public bodies, which hamper timeous financial loss recoveries, consequence management processes and criminal proceedings.

Examples of prolonged investigations and delays

- The North West Department of Community Safety and Transport Management spent R203 million on a contract to introduce scheduled flights to the Mahikeng and Pilansberg airports, without any services being delivered by the suppliers. Two criminal cases were opened, one with the South African Police Service in 2017 and one with the Hawks in May 2020. The Judicial Commission of Inquiry into Allegations of State Capture, Corruption and Fraud in the Public Sector including Organs of State (Zondo Commission) raised a concern during its hearings in 2019 about the lack of progress on these matters. The MI was issued in February 2020. Four suspects have since been charged. The department also approached the National Treasury in September 2019 to investigate the matter. The external forensic investigation commissioned by the National Treasury in October 2019 is still ongoing.
- The Gauteng Department of Health awarded a contract for information technology infrastructure in March 2015 without inviting competitive bids, resulting in a financial loss of R148,9 million, as cheaper alternatives were available. Based on the outcome of a departmental investigation, the accounting officer referred the matter in July 2019 to the National Prosecuting Authority for possible criminal charges and the State Attorney for civil claims against the implicated officials. Limited progress has been made since then.
- The Department of Basic Education distributed learner materials to volunteer educators for learners who did not qualify for the Kha Ri Gude literacy programme. After a departmental investigation, the matter was referred to the Hawks in May 2017 – the investigation is still ongoing.

The speedy recovery of lost funds is often hampered by suppliers being liquidated or the loss-recovery processes of the State Attorney taking a long time to complete.

Examples of liquidation and loss-recovery delays

- In 2014 and 2018, the South African Social Security Agency made payments to a service provider for services not delivered. The service provider is currently under liquidation, making it unlikely that the total financial loss of R391,2 million will be recovered. The slow finalisation of the liquidation process also delays any processes of recovering the remaining losses from liable officials.
- During the evaluation process for a contract to service, repair and maintain equipment at health facilities, the North West Department of Health incorrectly disqualified a supplier, which resulted in higher prices being paid for the services. The official identified through an investigation to be responsible for the financial loss resigned. The accounting officer handed the matter over to the State Attorney in August 2021 for civil recovery from the official. By July 2022, no progress had been made and the accounting officer consequently withdrew the mandate from the State Attorney and appointed a legal firm to commence with recovery on behalf of the department.

Instability continues to have an impact on resolving MIs. After we have issued an MI notification, we often have to re-issue the notification, or the progress of resolving the MI comes to a halt, if the original accounting officer or authority changes.

Example of instability

We notified the board of the Passenger Rail Agency of South Africa of nine MIs in 2019. The resolution of these MIs has shown little progress over the past three years as the entity has been plagued with instability at both board and key management level. After the board was disbanded, the High Court set aside the appointment of an administrator. An accounting authority functionary was then appointed as well as a new board in October 2020 to return some level of stability to the entity. The instability at chief executive level continued throughout this period though, with the last appointee being removed from office and the position currently being filled in an acting capacity.

The area in which we often see delays is in disciplining officials responsible for MIs. Either the investigation to identify the responsible officials takes too long or the disciplinary processes against implicated officials are delayed. We have also identified stumbling blocks in the disciplinary processes caused by complexities in accountability arrangements as defined in legislation.

Examples of delays in disciplinary processes

- Four of the MIs at the Department of Defence are not being resolved as the Defence Act does not provide for the defence secretary (who is the accounting officer of the department) to take disciplinary steps against military officials, as they fall under the command of the chief of the defence force. Based on the defence secretary's investigations, she referred the matters to the chief of the defence force to deal with, but the chief did not take any action or the military board of inquiry found that the military officials should not be held accountable. For some of the MIs, the defence secretary also did not take action against the civilian officials.
- After we issued two MIs to the Property Management Trading Entity relating to the Beitbridge border post infrastructure project, the accounting officer initiated disciplinary action against the implicated officials. The State Attorney handled the case. The first hearing scheduled for April 2021 was postponed due to the legal representative of one of the officials not attending, pending a court application for reviewing the investigations report, the directive issued by the minister, and the disciplinary enquiry. A second hearing for the senior official implicated was subsequently scheduled for May 2021, during which the chairperson ruled that the court application had a bearing on the disciplinary action. The disciplinary proceedings against the three senior managers were postponed indefinitely, pending the outcome of the judicial review.

Using our expanded mandate

We are fully committed to implementing the enhanced powers given to our office – without fear, favour or prejudice. If accounting officers and authorities, supported by their political leadership, fulfil their legislated responsibilities and commit to taking swift action when we notify them of an MI, there is no need for us to use our remedial and referral powers. Yet, we do not hesitate to use these powers when accounting officers or authorities do not deal with MIs with the required seriousness.

In 19 cases where accounting officers and authorities did not appropriately address the MIs we reported to them, we used our expanded mandate by including recommendations in the audit reports or the auditor-general invoked her additional powers of referral and remedial action. The departments and public entities where we took further action (as depicted below), are also where we typically experience a slow response to our findings and to improving the control environment.

Further action taken

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

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

Remedial action issued as our recommendations were not implemented

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

Remedial action issued and **referred to public bodies**

- 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

The circumstances of a **referral** we made in the past year are included as an example below.

Example of referral made

The National Treasury paid for software licences and annual technical support and maintenance for the Integrated Financial Management System, which was not operational. Care was not taken to ensure that the expenditure incurred was aligned to the implementation of the project.

The auditor-general approved the referral of the MI to the Special Investigating Unit in January 2022 for further investigation. The matter forms part of an investigation currently underway, in terms of a proclamation issued by the President.

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

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

We included recommendations on eight MIs in the audit reports of six auditees. Examples of recommendations included in the 2021-22 audit reports, summarised for this report, follow.

Examples of recommendations included in audit reports

The **South African Social Security Agency** paid covid-19 social relief of distress grants to ineligible individuals due to inadequate internal controls to perform validations and prevent such payments.

Appropriate actions were not taken to resolve the MI. We notified the accounting officer of the following recommendations, which should be implemented by January 2023:

- Implement internal controls to prevent and detect payments to ineligible beneficiaries.
- Recover payments made to ineligible beneficiaries who were working for the state at the time of applying for the grant.
- Make an informed decision on the process, feasibility and cost effectiveness of recovering money paid to ineligible beneficiaries not employed by the state; and implement decision.

The **Property Management Trading Entity** did not appropriately safeguard boilers at Leeuwkop Prison during construction, resulting in them being damaged due to exposure to severe weather conditions.

Appropriate actions were not taken to resolve the MI. We notified the accounting officer of the following recommendations, which should be implemented by January 2023:

- Perform an investigation to determine if any official(s) should be held responsible and initiate disciplinary steps against the official(s).
- Quantify the financial loss and determine if the responsible official(s) are liable by law for losses suffered.
- Implement preventative mechanisms to eliminate further damage and losses as a result of inadequate safeguarding of construction site assets.

If our recommendations are not implemented, we issue remedial actions that cover the same areas of recovery, prevention and consequences. Remedial action is a binding instruction issued by the auditor-general. If the MI caused a financial loss for the state, the remedial action also includes a directive for the financial loss to be quantified and recovered.

The circumstances of one **remedial action** we issued are included as an example below.

Example of remedial action issued

The Free State Development Corporation appointed a service provider for electricity billing and collection services, but then did not ensure that all revenue collected was paid over to the corporation. The service provider was placed under voluntary liquidation from May 2020. By March 2021, the service provider owed the corporation R109 million.

The matter was referred to the Hawks for investigation on 15 November 2021, and is still ongoing.

The accounting authority failed to make progress with the recommendations on consequences we issued for implementation by January 2022, namely to determine whether any official(s) should be held responsible and to take the necessary disciplinary steps. The auditor-general issued remedial action to ensure that consequences are effected as recommended. We gave the accounting authority until 30 November 2022 to fully implement the remedial action.

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If a directive was issued for the financial loss to be quantified and recovered and it is not implemented by the stipulated date, we can move towards the certificate of debt stage. The MIs currently in the remedial action stage do not qualify to be considered for a certificate of debt.

A culture of responsiveness, consequence management, good governance and accountability should be a shared vision for all involved, including executive authorities, Parliament and legislatures, and coordinating institutions. We urge them to also play their designated roles in the accountability ecosystem by supporting, monitoring and overseeing the much-needed improvement in – and resolution of – MIs.

When the auditor-general's powers of referral and remedial action (and the issuing of certificates of debt in future) are invoked, it not only reflects poorly on the accounting officer or authority, but also means that other roleplayers in the accountability ecosystem have failed to act in accordance with their given responsibilities.

SERVICE DELIVERY – PLANNING, REPORTING AND OVERSIGHT

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

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

For government to successfully implement the National Development Plan and deliver on its service delivery mandate, requires multiple departments and public entities to systematically and purposefully **plan** and work together across the national and provincial spheres. They then need to report transparently on what they have achieved so that government can **monitor** and oversee their performance and provide opportunities for correction if they are not on track and **address** any shortcomings as early as possible.

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

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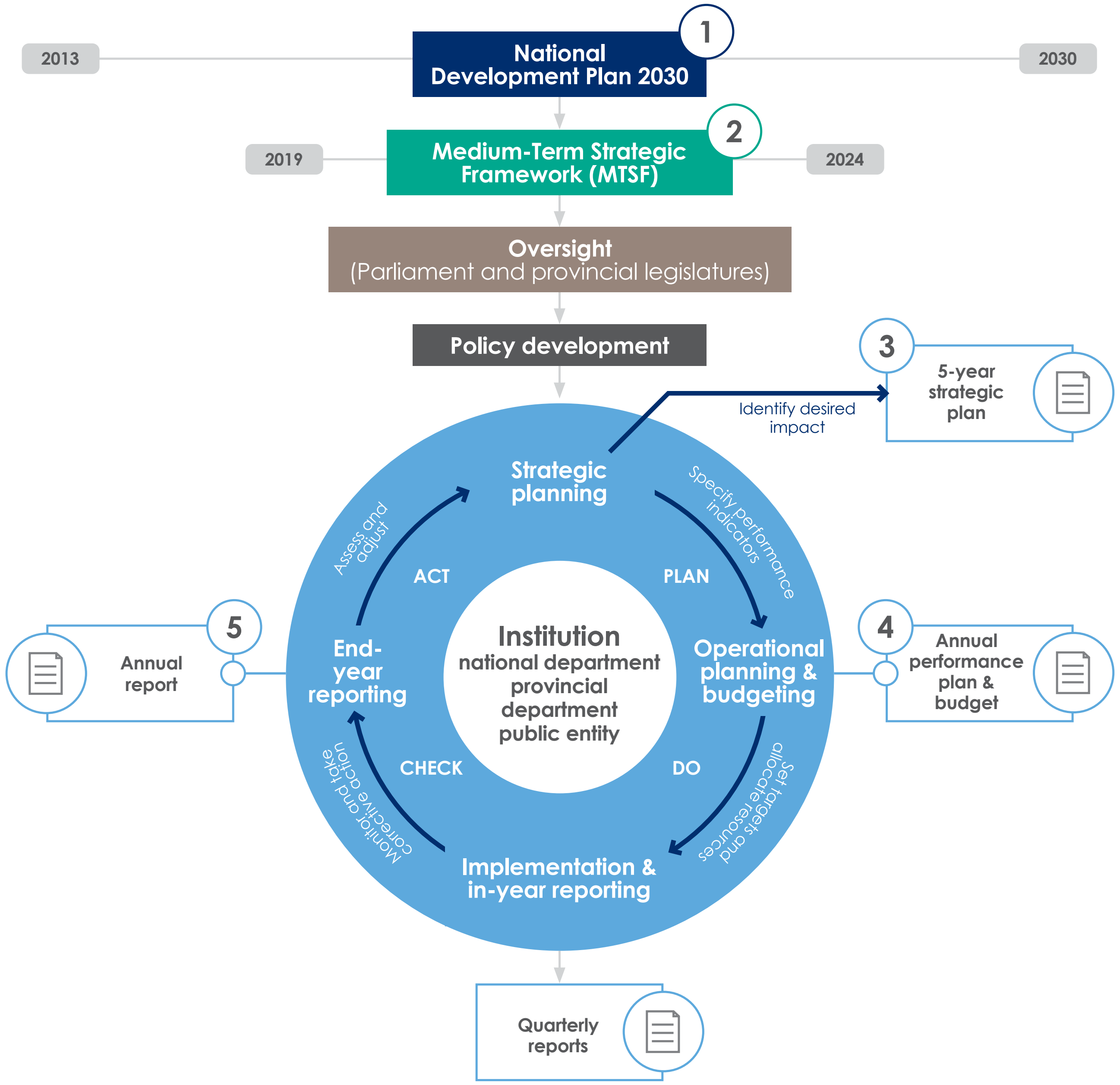
Planning, budgeting, monitoring and reporting process



1 **National Development Plan** (country-level plan) – overall long-term plan for South Africa

2 **Medium-Term Strategic Framework** (administration-specific plan) – overall five-year strategic plan established at start of each administration, setting out government's planned actions and targets to be achieved over five years and reflecting outcomes that administration plans to achieve in line with the electoral mandate and overall commitment to implement National Development Plan

3 **Five-year strategic plan** (departments and public entities) [required] – plan defining strategic goals and objectives, actions to achieve these, and performance indicators and targets to be measured and monitored; must reflect plans to deliver on core functions (as derived from legislative and political mandate) and include, where applicable, contribution to achieving Medium-Term Strategic Framework targets and specific government programmes and initiatives

4 **Annual performance plan** (departments and public entities) – plan showing indicators and targets set to achieve multiyear targets in five-year strategic plan; informs budget needed to deliver on objectives

5 **Annual report** (departments and public entities) [includes financial statements and performance report] – report on auditee's financial affairs, overall financial position (financial sustainability), and performance against planned objectives, indicators and targets

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Auditees do not plan in isolation, as government was intended to work in a coordinated manner across the national, provincial and local spheres. Planning is done within specific portfolios, across delivery value chains and within sectors. Sectors are national and provincial departments that have the same (concurrent) functions, such as education, health and human settlements.

Key roleplayers in ensuring government coordination

Institutions

Lead institutions

Main institutions responsible for ensuring coordination, monitoring and reporting of efforts to achieve Medium-Term Strategic Framework deliverables

Medium-Term Strategic Framework 2019-24

Contributing institutions

Supporting institutions working together to support lead institution in achieving Medium-Term Strategic Framework deliverables

Medium-Term Strategic Framework 2019-24

National / provincial departments

National sector departments

Responsible for policy making and developing sector plans aligned with Medium-Term Strategic Framework; must consult with respective provincial institutions to agree on sector priorities, including standardising performance indicators to ensure relevant Medium-Term Strategic Framework indicators are included in provincial departments' short- and medium-term plans

Guidelines for the standardisation for sectors with concurrent functions issued by the Department of Planning, Monitoring and Evaluation in 2020

Department of Planning, Monitoring and Evaluation

Mandated to plan, monitor and evaluate implementation of government priorities (e.g. National Development Plan, Medium-Term Strategic Framework); supports and coordinates development of standardised indicators in sectors

Section 85(2) of Constitution

National Treasury / provincial treasuries

- National Treasury – responsible for financial and fiscal matters across all spheres of government
- Provincial treasuries – responsible for managing provincial and municipal fiscal resources

Chapter 2, section 5 of Public Finance Management Act

Presidency / premiers' offices

- Presidency – plays key role in executive management, coordinating government on policy issues and aligning sector priorities with national strategic policy frameworks and other government priorities
- Premiers' offices – play pivotal role in providing strategic leadership and coordination in provincial policy formulation and review, and in supporting, planning and overseeing service delivery planning and implementation in support of provincial and national priorities and plans

Section 85(2) of Constitution

Parliament/ provincial legislatures and portfolio committees

Parliament / provincial legislatures

Constitutionally mandated to oversee executive action and ensure compliance with legislation through committees established in line with their respective roles

Sections 55(2)(a)-(b) & 114 of Constitution

Portfolio committees

Responsible for ultimately approving annual performance plan and recommending budget; and for quarterly monitoring of progress on achievement of targets

Rule Number 227 of National Assembly

Accounting officers/ authorities and executive authorities

Accounting officers and authorities

Responsible for planning and budgeting, delivering on plans within allocated budgets, and accounting for performance through quarterly and year-end reporting

Sections 39, 51, 52 & 55 of Public Finance Management Act

Executive authorities

Responsible for approvals and quarterly performance monitoring to ensure accounting officers and authorities are focusing on right areas and performance is measured and reported in a way that provides for transparency and accountability and enables corrective action

Section 63 of Public Finance Management Act

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Even though there are well-designed processes with defined responsibilities for planning, achieving and reporting on auditees' delivery on their mandates and on the Medium-Term Strategic Framework, these processes are poorly implemented and the public continues to experience a lack of delivery, particularly in the key service delivery portfolios.

In the remainder of this section, we focus on different matters characterising this poor implementation, namely inadequate annual planning; ineffective reporting, oversight and accountability processes; and underachievement on planned service delivery improvement.

Inadequate annual planning

In our audits, we assess the completeness of the performance indicators included in auditees' annual performance plans to determine if the auditees are planning for delivering on their core mandated functions and for their role in achieving the Medium-Term Strategic Framework targets. We also audit whether the performance indicators and related targets are relevant and measurable. Our main findings on planning are outlined below.

Incomplete annual performance plans

The key service delivery portfolios play a vital role in achieving the Medium-Term Strategic Framework 2019-24 targets, but the annual performance plans of some of the auditees within these portfolios did not include indicators that measure their contribution to the Medium-Term Strategic Framework, their core functions, or the jobs they were created to perform.

We found that many auditees excluded Medium-Term Strategic Framework deliverables and indicators from their annual performance plans because the national sector departments could not ensure that the provinces follow a common and consistent approach in planning delivery on the Medium-Term Strategic Framework. We discuss this a little later in the section.

Some auditees also did their planning and reporting 'off the books'. Although they continued to work towards delivery, they did not include this work in their plans or report on their achievements in this area; thereby not subjecting it to executive and oversight scrutiny as well as auditing. These auditees prefer to show good achievements on easier targets. For example, the Mpumalanga Department of Education included Medium-Term Strategic Framework indicators in its operational plan but not in the annual performance plan that it is required to report on.

IMPACT

- If departments and public entities exclude indicators from their annual performance plans and reports, they risk not being able to achieve the Medium-Term Strategic Framework targets. This means the administration may not be able to deliver on its promised services and improve the lives of the people of South Africa. A target that is not measured or accounted for, is unlikely to be delivered.
- Incomplete annual performance plans also mean auditees do not transparently report on how they perform their core functions and on their contributions to government programmes and initiatives. This weakens the accountability process because those who need to monitor and make decisions about government-wide deliverables, are not working with complete and reliable (audited) information.

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Examples of Medium-Term Strategic Framework deliverables not included in annual performance plans

- The Department of Water and Sanitation did not include the Medium-Term Strategic Framework deliverable on eradicating the bucket sanitation system in its annual performance plan.
- More than half of the auditees in the key sectors did not include indicators in their plans for the following important Medium-Term Strategic Framework deliverables:
  - Five of the nine auditees in the education sector did not include an indicator relating to grade 6 and 9 learners with access to required mathematics and English first additional language textbooks.
  - Eight of the 10 auditees in the public works sector did not include an indicator for government-owned land parcels released towards spatial transformation and spatial justice.
  - Eight of the 10 auditees in the human settlements sector did not include all four of the indicators related to the registration of title deeds.

Examples of core functions not included in plans

- One of the core legislated functions of the Department of Basic Education is to ensure the continued innovation of the school curriculum, but the department did not include indicators in its annual performance plan related to the revision of, and training in, the history curriculum that are due by 2023.
- The Eastern Cape Department of Health did not include the patient safety incident case closure rate in its annual performance plan, which is a key prioritised function within the district health services programme.

Indicators are activity based or not relevant and annual targets are set too low to achieve multiyear targets

The performance indicators that auditees include in their plans should be relevant for enabling accountability and assessing whether they will achieve the outcomes for which they are responsible. Achievement targets for these indicators should be informed by the desired level of performance and the allocated budget, and should be directed towards achieving the five-year targets.

Some auditees in the key service delivery portfolios, or coordinating institutions, included indicators in their annual performance plans that are mainly activity based (input driven) with limited or no focus on measuring output or outcomes that drive impact. In some cases, despite the urgent need for service delivery, the target was lower than required to achieve the Medium-Term Strategic Framework target. We have found that this is done often to create the perception that the auditee is performing well and that service delivery is taking place.

IMPACT

Reported performance is therefore not an accurate barometer for monitoring progress towards achieving Medium-Term Strategic Framework targets; and so, appropriate corrective action is not implemented in time.

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Examples of annual target set too low to enable achievement of multiyear targets

The 31 March 2024 Medium-Term Strategic Framework target in the human settlements sector is the delivery of 300 000 serviced sites. However, over the first three years of the five-year plan, the sector's target was 141 278 sites and not the proportional 180 000 that would have been expected. This lower than anticipated target creates a risk that the Medium-Term Strategic Framework target may not be achieved over the five-year period.

Examples of indicator not relevant

The South African Police Service is responsible for improving the processing of forensic services. In its annual performance plan, it measured the turnaround time in days taken to finalise fingerprint, ballistic and DNA samples received from the date of capturing evidence on the Forensic Scientific Laboratories System up to the final processing by the laboratory. However, laboratories only measured the time from when samples were sent for processing, and not immediately upon receipt. The turnaround time from when samples were collected from victims or suspects to when they were submitted for processing was also not measured. This means that the auditee did not measure or report on the actual time taken to finalise samples from the collection of these samples to the samples being processed and ready for court.

Examples of activity-based indicators

An important deliverable in the Medium-Term Strategic Framework is the creation of jobs through Operation Phakisa. The Department of Planning, Monitoring and Evaluation annually measures and reports on the number of integrated Operation Phakisa reports produced instead of the number of jobs created.

Limited consistency in planning and reporting across provinces for service delivery

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

The Department of Planning, Monitoring and Evaluation issued new guidelines in 2020 on standardising indicators across sectors with concurrent functions to improve intergovernmental coordination on what and how to measure. Despite these guidelines, we found inconsistencies in how sector departments standardise indicators across provinces because of existing deficiencies and disagreements in coordination that had still not been addressed.

IMPACT

The lack of consistent planning and reporting within sectors makes it very difficult for national government to compare the performance of sector departments across provinces and to monitor and report on relevant government programmes and priorities.

Examples of challenges and inconsistencies in planning and reporting sector indicators across provinces

- The public works sector could not agree on standardised indicators and so key indicators such as the maintenance of properties and completion of infrastructure projects on time and within budget were not tracked consistently.
- The human settlements sector could not agree on standardised indicators and so some departments did not include indicators such as the number of title deeds registered and the number of serviced sites delivered.

Ineffective reporting, oversight and accountability processes

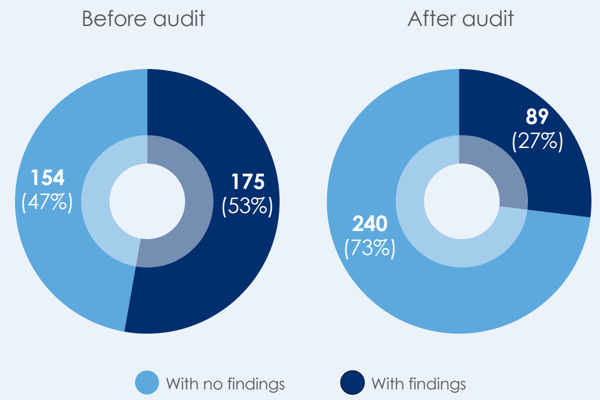
Every year, we audit selected material programmes of departments and objectives of public entities to determine whether the information in the annual performance reports is useful and reliable enough to enable oversight bodies, the public and other users of the reports to assess the auditee's performance.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

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

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

It does not bode well for service delivery that more than half of the 329 auditees that prepared annual performance reports submitted poor-quality performance reports for auditing.

Quality of annual performance reports before and after audits – all auditees



Although there are performance management and reporting frameworks that clarify definitions and standards for performance information, including the requirements for systems and processes to manage such information, most departments and public entities did not have adequate systems to collate and report on their performance information. Performance management and reporting requirements were also not properly applied.

IMPACT

The poorly prepared annual performance reports and significant activity to make corrections in response to our audits also raise questions about the credibility of in-year reporting and the effectiveness of performance reporting throughout the year. Poor monitoring and corrective action throughout the year contribute to auditees being unable to achieve their performance targets or reliably report on their performance. Accounting officers and authorities and oversight bodies (such as portfolio committees) also use in-year reporting for monitoring purposes; without reliable information, their monitoring process will be ineffective.

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The most prevalent material findings on performance reports were that information was **not reliable or not useful**.

IMPACT

- If information was **not reliable,** this means that either we had proof that the achievement as reported was not correct, or we could not find evidence to support it. In other words, the achievements reported may not have taken place at all or were fewer than those reported.
- If information was **not useful,** this means that what was reported had little relevance to the auditees' original commitments in their planning documents, and anyone attempting to establish whether the commitments had been honoured would struggle to get a credible answer from the report.

The auditees in the key service delivery portfolios in particular struggled to produce useful and reliable reports, with 45% receiving material findings on the quality of their performance reporting, while 40% included information that was not reliable and 25% included information that was not useful.

While most auditees have adequate systems to collate and report on their performance information, officials did not properly apply the performance management and reporting requirements. The controls to prevent reporting on unreliable information were inadequate and the misstatements remained undetected even though the annual performance reports went through various levels of review.

This not only has a detrimental effect on service delivery, it also puts pressure on the auditors (and consequently on the audit fees) to identify matters that need to be corrected as part of the audit process.

IMPACT

When auditees do not have credible data and information, or adequate performance information systems, it affects their ability to plan for service delivery, respond to any potential challenges and make decisions. For example, if a department cannot reliably measure the number of schools that has access to sanitation facilities, they cannot respond to the needs of learners.

Examples of unreliable reporting

Auditee	Indicator	Target	Reported achievement	What we found
Education (KZN)	Number of learners benefitting from learner transport	60 000	67 163	Not all evidence could be obtained; and evidence that was obtained, did not support reported achievement
Health (GP)	Immunisation under one year coverage	90%	88%	Evidence could not be obtained for reported achievement

The deficiencies we identified in performance reporting during our audits show that the accountability value chain is not functioning as it should.

Problems with accountability value chain

Senior management, internal audit units and audit committees (responsible for designing and implementing required performance management controls):

- did not prevent and detect misstatements during the year due to the poor control environment
- did not promptly correct identified misstatements.

Accounting officers and authorities (depend on senior management for designing and implementing the required performance management controls, but are responsible for creating an environment that helps improve performance management controls):

- do not always create a conducive environment for performance management controls
- continue to sign off on annual performance reports that are not credible.

Those responsible for support, oversight, accountability and governance (executive authorities; Department of Planning, Monitoring and Evaluation; offices of the premier; legislatures; and portfolio committees):

- make decisions based on annual performance reports that are not credible because they:
  - do not always pay sufficient attention or ask the right questions by interrogating information to identify the issues
  - do not follow up on identified issues.

There are two aspects to accountability: firstly, those who take actions or make decisions must answer for those actions or decisions; and secondly, those who do wrong (transgress), do nothing (fail to act) or perform poorly should face consequences. If reporting, oversight and accountability processes are not effective, this inevitably leads to poor performance and thus deprives South Africans of much-needed services.

Underachievement on planned service delivery improvement

To ensure that service delivery is on track, auditees must regularly monitor and report on how they are performing against their expenditure plans and targets. There could be valid reasons for targets not being achieved in a specific year. However, what was achieved should be compared against the budget because if not all targets were met, then not all funds should have been spent and there should be savings. Therefore, questions should be asked about the correlation between what was achieved and the budget used. Yet, we found that in some cases, all or almost all of the related budget had been spent even though planned targets were not fully achieved.

IMPACT

If the reported performance is not as expected and does not correlate with the budget spent, it will compromise the achievement of government's priorities and erode future budgets meant for service delivery.

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Examples of reported achievements not aligned to budget spent

Key service delivery portfolio/auditee	% of budget spent	% of targets achieved
Health – average for district health services programme across all nine provincial departments	100%	47%
Department of Water and Sanitation – water services management programme	82%	71%

There are some warning signs that key Medium-Term Strategic Framework targets may not be achieved, despite the 2019-24 targets having been revised.

Examples of Medium-Term Strategic Framework targets at risk of not being achieved

Key service delivery portfolio/auditee	What should be achieved?	Medium-Term Strategic Framework 5-year target by 31 March 2024	Achievement after 3 years (31 March 2022)
Department of Water and Sanitation	Rehabilitate dams	9 dams	1 dam (11%)
Transport (South African National Roads Agency)	Upgrade, refurbish and maintain road network	7 995 km	744 km (9%)
Transport (Passenger Rail Agency of South Africa)	Modernise train stations	33	0 (0%)
Human settlements portfolio	Register title deeds	1 193 222	80 938 (7%)
Human settlements portfolio	Deliver houses through breaking-new-ground initiative (construction of fully subsidised houses by government)	300 000 (revised)	146 994 (49%)

Our recommendations to enable complete annual and multiyear planning and reporting, accountability for effective reporting, and achievement of planned service delivery are as follows:

- Roleplayers responsible for government coordination must ensure that key service delivery targets are planned for by refocusing and energising performance planning processes so that they are comprehensive and include relevant targets aligned to auditee mandates, national strategic plans and sector priorities.
- Relevant roleplayers must strengthen the components of intergovernmental coordination across concurrent functions to avoid disagreements and inconsistencies in the planning and reporting of sector indicators so that sector priorities can be achieved.
- Auditees must have policies, procedures and monitoring mechanisms for proper record keeping and good internal controls to ensure that complete, relevant and accurate information is accessible and available to support performance reporting and to enable senior management to hold staff accountable for their actions.
- Accounting officers and authorities must enable and insist on in-year monitoring controls and project management disciplines so that planned service delivery targets can be achieved on time, within budget and at the required quality.
- Executive authorities must renew their commitment to accountability by enabling consequence management – starting with the performance agreements of accounting officers and authorities.
- Oversight structures must assess the strategic and performance plans of departments and public entities with the necessary vigour to effectively fulfil their oversight role and interrogate quarterly performance reports to ensure achievement of performance plans, strategic plans and the Medium-Term Strategic Framework.

INFRASTRUCTURE FOR SERVICE DELIVERY

The basic services that the people of South Africa are entitled to receive – education, healthcare, housing, transport, water and other government services – cannot be delivered without infrastructure. However, the existing infrastructure cannot support the growing demands in the country and there is a backlog in providing the required infrastructure for basic services such as water and sanitation. The country's existing infrastructure must also be properly maintained to ensure that it remains in a workable and safe condition throughout its lifespan.

Government has responded to these needs through aggressive infrastructure investment programmes, which are a critical catalyst for creating the multiplier effect that drives economic activity (through which government spending intended to stimulate the economy increases private spending that additionally stimulates the economy). Infrastructure investment is also a key component of the Economic Reconstruction and Recovery Plan introduced in 2020 to improve economic growth. In 2021-22, government budgeted R161,5 billion for infrastructure spending as per the public sector infrastructure expenditure and estimates issued by the National Treasury.

Every year, we audit infrastructure and report to accounting officers and authorities and their executive authorities on the status of selected projects as well as on deficiencies and inadequate infrastructure maintenance. We focus on critical infrastructure such as health facilities, schools, housing, roads, railways, and water infrastructure, as failure to deliver on the promised new infrastructure in these areas directly affects the public and deprives them of the basic services they are entitled to. We also share our findings with Parliament and provincial legislatures, and emphasise the money being lost due to poor project management and limited maintenance, report what we observe to be causing the weaknesses, and make recommendations for improvement. But despite this, we see little improvement year on year. Everyone in the accountability ecosystem should urgently play their part to address these issues. Where weaknesses in infrastructure management resulted in financial loss, we issued material irregularities – examples are included in the section on pressure on the fiscus.

In the remainder of this section, we share findings from our audits of infrastructure projects and maintenance in the key service delivery portfolios.

Infrastructure project delivery

There is consensus that the significant investment being made in infrastructure development is needed to supply basic services for the people of South Africa and that there must be consistent and tangible returns on this money spent.

Our audit work incorporates numerous site visits to inspect progress and quality of projects. We have found that all too often, infrastructure delivery projects have been delayed, are costing more than planned or are of poor quality. There are also delays in newly constructed infrastructure being put to use.

Delays in projects

Of the projects selected for auditing, 83% were completed late or were still under construction after the contractual completion dates. The average delay on these projects is 34 months.

Average delay in completion of projects in each sector (period between planned and actual completion date, or project still ongoing)

Public works projects	Human settlements projects	Health projects	Education projects
46 months	32 months	29 months	27 months

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Examples of project delays

New wing to administration building – KwaZulu-Natal Department of Public Works

The first contractor for this project was appointed in April 2007 to complete the project by November 2007. The contract was terminated in 2010 due to poor performance.

The second contractor appointed also did not perform, and that contract was consequently also terminated in 2010. However, because the department did not give notice of its intent to terminate the contract 14 days before the date of termination, the contractor exercised its right to maintain possession of the site and opted to take legal action against the department. The site was returned to the contractor, and the department could only successfully terminate the contract in June 2014. The project was on hold for approximately five years.

In August 2019, the department appointed a third contractor, with a planned practical completion date of April 2021.

Fifteen years after the project started, construction has still not been completed. The department is still not able to use the building and consequently could not address the accommodation needs of its staff.

Obed housing development – Gauteng Department of Human Settlements

The department approved a project to construct 6 000 houses in November 2004, but the project only commenced in 2010 and has since gone through nine different contractors. By 2019, the project had only produced 1 069 serviced stands and 979 houses.

In 2019, the department appointed a developer to complete the outstanding houses at a cost of R1,3 billion. The site was handed over in March 2019 with a projected completion date of February 2024. Expenditure on this project is already at R0,93 billion and only 3 275 more houses have been delivered. During our site inspection, we found that some of the houses were illegally occupied even though a court order for eviction had been granted in 2019.

The community's frustration with the lack of delivery on this project has resulted in a number of riots, during which a municipal building and schools were set alight, shops were looted and lives were put in danger.

Sekhing Community Health Centre – North West Department of Health

The project, which started in October 2012, was planned to take 22 months and be completed by August 2014. At the time of our site visit in May 2022, the project had still not been completed. The following contributed to the eight-year delay in finalisation:

- The site handover to the contractor was delayed.
- Not all the construction information was made available to the contractor at the site handover and shared timeously during the project.
- Variation orders took a long time to approve – in one instance, the order was approved nine months after the meeting between the department and the contractor.
- The department did not adequately monitor the work of the original project consultant and the project team. The consultant was not performing in line with its scope of services and failed to attend to some of the queries raised by the contractor. The department did not intervene sooner to address the non-performance and did not terminate the contract with the consultant in time to ensure progress on the project.
- Multiple extensions of time were granted to the contractor. Of the 284 days of extension, 216 were due to contractual claims where the department or the project manager was at fault.
- Construction work progressed slowly and then came to a standstill between February 2019 and May 2022 (over three years).

The delay negatively affected the community, as they have to travel from their local area at great cost to access healthcare services at other public healthcare facilities.

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In 2021-22, the public works portfolio reported that 342 of its projects are significantly delayed (i.e. delayed by more than 50% of the planned project period). The delays in construction and refurbishment projects affect the ability of the departments that require the infrastructure to deliver services and operate effectively. Because of late delivery, some departments are opting to do their own construction and building maintenance even though this is not within their mandates. One example is the South African Police Service, which opted to build police stations without involving the public works portfolio.

Cost overruns

Delayed projects and poor project management often result in increased costs.

Examples of cost overruns

Dr Pixley Ka Isaka Seme Memorial Hospital – KwaZulu-Natal Department of Health

Based on service delivery requirements, in 2005 the department made this its top-priority hospital. The design was originally for a 450-bed district (level 1) hospital, but in 2010 this was changed to a 500-bed regional (level 2) hospital, and a new design process had to commence.

The contractor was appointed in November 2014 at a cost of R1,9 billion with a contract period of 45 months. The practical completion date was subsequently revised to 10 January 2022.

When we visited the site in March 2022, construction was still in progress. By then, the completion of the project had been delayed by approximately 42 months from the original planned completion date and the contractor had already been paid R2,3 billion.

The delay in completion of the hospital was because construction began before important construction information was ready to be issued to the contractor. Throughout the project, there were also significant delays in providing information to the contractor. In addition, the department's supply chain management unit was unable to align the timing of procuring hospital equipment with the construction of the hospital, which caused further delays.

We identified irregular expenditure of R304,5 million for acceleration costs, extension of time and adjustment to the professional fees budget. Delayed payments to the contractor resulted in fruitless and wasteful expenditure of R2 million in the form of interest payments.

The cost increases (R2,3 billion already paid compared to the R1,9 billion contract value) were due to inefficiencies and poor project planning and management, such as:

- delays in providing construction information and in the approval processes – the contractor was paid standing time in these periods
- interest due to late payments to the contractor
- additional design costs
- purchasing additional equipment that was not originally required or planned for, such as a magnetic resonance imaging machine at a cost of R11,8 million
- an additional R6,4 million spent to strengthen a newly constructed service ramp.

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Examples of cost overruns *(continued)*

Caleb Motshabi and Khotsong – Free State Department of Human Settlements

A project to deliver water and sewerage networks to 5 690 stands in Caleb Motshabi and Khotsong was planned to be completed within 12 months, by April 2018. However, it was only completed in March 2022, more than three years later and the cost increased by 47% (R91,7 million) – from R196,2 million to R287,9 million.

The project encountered many challenges that contributed to the delay and increased cost, including:

- late establishment and/or appointment of social structure, project steering committee, community liaison officers, and local labourers, as well as engagements and/or facilitation with ward counsel, during the planning stages
- termination of the contractor due to poor performance
- increased scope of work
- disruptions caused by community protest action and strikes.

Cost overruns and financial losses are commonplace for projects in the public works sector, and projects are also sometimes stopped after money has already been spent.

Over the past five years, 44 projects with combined contract values of R300 million have been cancelled and impaired (their value diminished). Most of the projects were cancelled at the design stage and the spending relates to consultant fees. The reasons for cancellations included budget constraints, the cost of work being deemed too high, and projects that were being investigated. This is an indication that needs analyses were not properly done at the design stage.

Examples of cost overruns and cancellation of projects in the public works sector are included in the section on pressure on the fiscus.

Poor build quality

Contractors are appointed to undertake their work in accordance with quality standards, ensuring that the building is safe, functional and can have a long lifespan. Departments do not always identify quality defects during construction; or, if they are identified, the contractors are not held accountable.

Examples of poor build quality

Mmabatho Nurses College – North West Department of Health

During our site visit in May 2022, we observed instances of poor workmanship and substandard construction work. The architect on the project also reported that extensive remedial work needs to be done on a section of the building.

Concrete beams cast separately in parts, with visible cracks and concrete overlap in attempt to repair cracks

Inadequate load-bearing columns for span of concrete floor slab above

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Examples of poor build quality *(continued)*

Douglas Primary School – Northern Cape Department of Education

The project entailed building a new, full-service school that the department began using in February 2021. When we visited the school in May 2022, we identified the following quality issues:

- Poor stormwater drainage resulted in water becoming stagnant and seeping under the doors into the hall, causing water damage and eroding the west side of hall.
- Retaining wall blocks were not properly secured and the top of the blocks were on the same level as the ground level, allowing loose soil to fall into the combi courts (sports grounds) when it rained.
- Leaks around the ventilation units in the hall, leading to water damage – when it rained, water seeped through the joints around the ventilation units.
- Artificial grass at the children's playground was not properly laid and was lifting from the ground.
- Sections of the walkways were disintegrating.

Top retaining wall blocks loose

Leaks around ventilation units due to poor waterproofing

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Commissioning

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

There was a lack of coordination and collaboration between roleplayers at different levels of government, or even within the same institution. They did not work together to synchronise project completion, staff appointments and the availability of completed infrastructure and municipal services to ensure comprehensive infrastructure delivery.

Examples of poor commissioning of projects

Ntsongeni 130 and Lesseyton 752 housing projects – Eastern Cape Department of Human Settlements

We inspected 30 housing units during our site visit and found the following:

- Three housing units were handed over to beneficiaries in 2021 and early 2022 but were not being used.
- Two housing units were given to people who already had houses.
- Two housing units were rented out and there were tenants on the day of the visit; one was rented out to a company that does fibre installation.
- Two housing units handed over to beneficiaries in November 2021 did not have toilets.

The project is still ongoing 4,5 years after the original intended completion date.

Kidston Junior Primary School – Department of Basic Education

The construction of the new school in the Eastern Cape, designed to accommodate 974 learners, was completed in October 2021.

During our site visit in May 2022, we confirmed that only approximately 375 learners attend the school – less than half its capacity. This is due to a lack of intergovernmental relationships to ensure that suitable resources are acquired in time to use the school to its full capacity. The Eastern Cape Department of Education is responsible for the use of the school facilities.

Causes

In short, these failures in infrastructure delivery are due to the following matters which we have raised before and which need urgent attention:

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

Maintenance of infrastructure

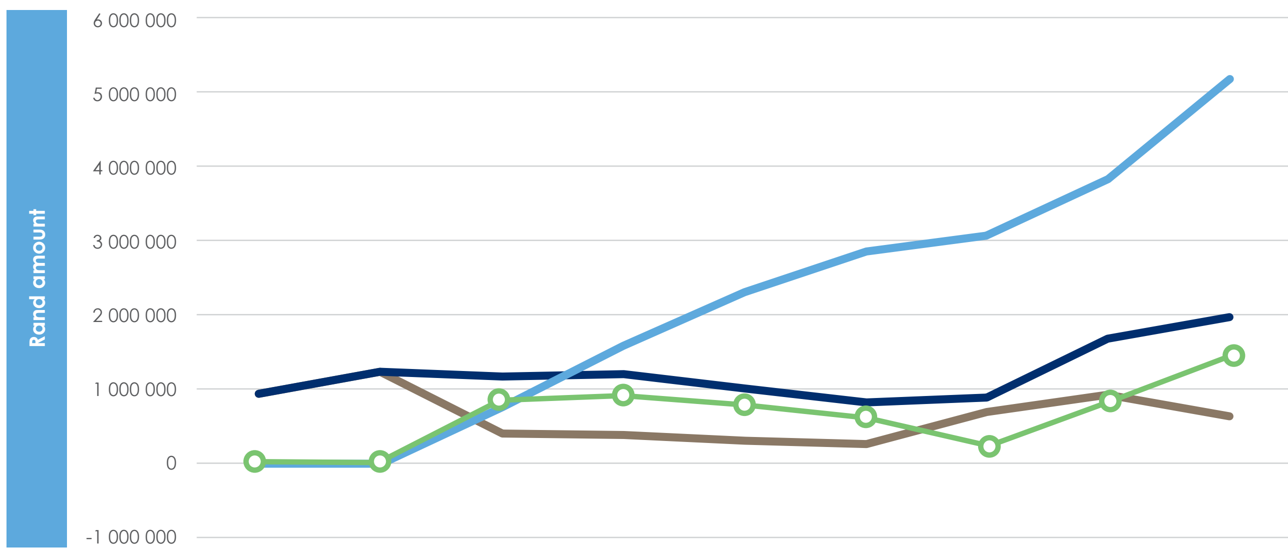
While it is important to invest significantly in developing new infrastructure, it is equally important to maintain the existing infrastructure.

The general public experiences the impact of poor maintenance when using provincial roads. The Department of Transport assessed the overall extent of the road maintenance backlog for the sector during an indaba on provincial road maintenance in February 2022. It was reported that an estimated R75 billion investment is needed over the next five years to arrest the decline of the road network, with approximately 80% of the road network now being older than the 20-year design life. The total paved and gravelled network at provincial level is 184 816 kilometres.

The worsening condition of roads is caused by a backlog of maintenance that continues to grow because provinces do not make sufficient budget available for road maintenance and depend to a large extent on the grant received from the Department of Transport.

The poor maintenance of water infrastructure also has a direct impact on people's lives. The budgets allocated for maintenance are not enough to catch up on the maintenance backlog, with the gap widening year after year.

Maintenance backlog for water infrastructure



	2013-14 R	2014-15 R	2015-16 R	2016-17 R	2017-18 R	2018-19 R	2019-20 R	2020-21 R	2021-22 R
Budget required	976 650	1 278 468	1 218 264	1 256 649	1 057 524	860 318	930 000	1 746 279	2 048 874
Approved budget	976 650	1 285 832	420 150	400 000	316 613	284 000	717 571	961 587	653 232
Difference	0	-7 364	798 114	856 649	740 911	576 318	212 429	784 692	1 395 642
Cumulative backlog	0	-7 364	790 750	1 647 399	2 388 310	2 964 628	3 177 057	3 961 749	5 357 391

The continuing backlog resulted in dilapidated water infrastructure that may not be able to meet the demands of the population.

We will report in more detail on the state of water infrastructure and maintenance in a comprehensive water sector report planned for 2023.

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

Examples of poor maintenance of infrastructure

Police station – cracked column

Fishmeal factory – abandoned and stripped by looters

Preventative maintenance can only be effective if the condition of buildings is regularly assessed. The Government Immovable Asset Management Act requires conditional assessments to be conducted every five years, but some properties were only assessed after eight years, leaving these assets to deteriorate without issues being rectified timeously. For example, the Property Management Trading Entity performed conditional assessments at 236 properties in 2021-22 – only 5% of the 66 115 properties in its portfolio.

Government officials and the public continue to use properties that are in poor condition, which has a negative impact on the effectiveness of the working environment and puts the safety of officials and the public at risk. In 2021-22, there were 1 867 properties in use that were classified by the Property Management Trading Entity as being in poor condition based on conditional assessments performed. There are currently 12 claims against the Property Management Trading Entity for harm caused by these poor conditions. One example of such harm is the death of a minor in a South African Police Service building due to a non-functioning elevator.

There are currently 1 510 government properties that are not being used. In most cases, these properties are unoccupied because they have not been maintained and are in a bad state. Unoccupied buildings are also often subject to vandalism, looting and illegal occupation.

Even though these properties are not used, costs such as property rates tax still need to be paid. When there are not enough fit-for-use properties available to departments, the Property Management Trading Entity signs lease agreements at high costs – which could have been avoided if properties had been properly maintained.

Inadequate maintenance and poor delivery on infrastructure projects not only affect government's ability to deliver services to the public, but also have a significant cost implication, which puts further pressure on the fiscus as detailed in the next section.

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PRESSURE ON THE FISCUS

There are many challenges on the road ahead for South Africa to return to the necessary growth path. While the country embarks on economic recovery and fiscal sustainability measures following the effects of the covid-19 pandemic, the July 2021 unrest and the devastating April 2022 floods in KwaZulu-Natal and the Eastern Cape, the path ahead is still riddled with many obstacles, and balancing the fiscal challenges is a daunting task. The pressure on the fiscus is not making it easy to promptly roll out the vast planned economic reforms. Unless government successfully manages these pressures by making impactful decisions, South Africa will find itself in an untenable fiscal position.

Accounting officers and authorities managed an estimated expenditure budget of R2,58 trillion in 2021-22. At a time when departments and public entities need to do more with less, and the public's demands for service delivery and accountability are increasing, accounting officers and authorities should do everything in their power to get the most value from every rand spent and to manage every aspect of their finances with diligence and care.

As detailed in the rest of this section, however, we are seeing a lack of prudence in spending and government practices that erode the limited funds available. This is caused by inadequate financial management and limited accountability for financial performance.

Lack of prudence in spending limited funds

Over the three-year term of the current administration, auditees have disclosed fruitless and wasteful expenditure totalling R5,83 billion.

Since 2019, we have also identified non-compliance and fraud resulting in an estimated R12 billion in financial loss through our material irregularity process. The main reasons that money is being lost include:

- poor payment practices to suppliers of goods and services
- unfair or uncompetitive procurement practices when procuring goods and services
- no or limited benefits received for money spent and properties owned
- infrastructure not maintained and secured
- uneconomical practices for leasing properties
- inadequate needs analysis and project management.

Poor payment practices

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

At some auditees, poor payment practices such as late payments, overpayments and payments for goods not received resulted in (or are likely to result in) financial losses. It is common for government to have to pay interest incurred due to late payments, such as when auditees do not pay their creditors within 30 days. We have notified the accounting officers and authorities of these material irregularities.

Examples of interest paid due to late payments

MI

- The Department of Basic Education did not pay a contractor within the required 30 days for a construction project in the Eastern Cape, resulting in interest charges of R7 million.
- The Department of Correctional Services did not make payments to a supplier as instructed by a court judgment, resulting in interest of R1,18 million.

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Examples of payments made for goods and services not received

- The National Skills Fund entered into a project-funding agreement with an academy for a learnership programme. The fund approved and paid R3,19 million for three credits of 'additional modules' that had already been included in the original modules.
- The State Information Technology Agency entered into a contract with a service provider for assistance with a stakeholder engagement event. In April 2019, the agency made an advance payment of R1,5 million to the supplier. No services were received for the money spent.
- In 2018-19, the Department of Water and Sanitation paid a consulting firm R17,9 million for financial management services without evidence that work had been done.
- In 2020-21, the KwaZulu-Natal Department of Education did not promptly remove ex-employees from the human resource and payroll systems. As a result, the department approved and processed salary payments of R142,49 million to people it no longer employed.

Examples of overpayments

- The North West Department of Human Settlements overpaid a supplier appointed to provide project management services by R2,98 million because it did not have appropriate internal controls.
- In November 2013, the Northern Cape Department of Health entered into a radiology services contract that was extended multiple times. The contract contained a mathematical error that resulted in overpayments estimated at more than R4 million.
- Between May 2018 and December 2018, the Department of Public Works and Infrastructure spent more than the contract amount on state funerals, and the services paid for differed from those provided for in the contracts. We estimate the likely financial loss to be R9,1 million.

Unfair or uncompetitive procurement practices

Fair and competitive procurement processes enable auditees to get the best value for the limited funds available and give suppliers fair and equitable access to government business. Unfair or uncompetitive procurement processes result in auditees paying higher prices or appointing suppliers that do not deliver.

At some auditees, unfair or uncompetitive procurement practices resulted in (or are likely to result in) financial losses, as goods and services could have been obtained at a lower price. We notified the accounting officers and authorities of these material irregularities.

Examples of higher prices paid

- In July 2019, Transnet advertised a tender for the leasing of equipment. The contract was not awarded to bidders that scored the highest points, resulting in a likely loss of R29,4 million.
- In July 2019, the Department of Defence awarded a contract for the supply and delivery of fuel to a supplier using different evaluation criteria from those stipulated in the original request for quotations, which specified that the contract would be awarded to the bidder with the lower price. The mode of transport was also changed after the award, causing a further price increase. The non-compliance caused a material financial loss of R2,6 million due to the higher price being paid for fuel.
- The Property Management Trading Entity did not follow competitive bidding processes to appoint contractors and a consultant for the Beitbridge border post infrastructure project in March 2020. This is likely to result in material financial losses, as the entity did not secure market-related prices.

No or limited benefit received for money spent and properties owned

For auditees to get the maximum benefit from contracts with suppliers, the decisions they make must be economical and in their own best interest.

The public works sector rents out properties that it owns and that it leases from landlords to client service departments and other lessees for office and residential accommodation, respectively. At 31 March 2022, the sector had 1 510 unused properties because client departments opted not to extend their leases for these properties due to the lack of preventative maintenance (as discussed in the previous section).

Some auditees received limited benefit for money spent, which resulted in (or is likely to result in) financial losses because the goods and services were not required and should not have been acquired. We notified the accounting officers and authorities of these material irregularities.

Example of lease payments on unoccupied government properties

From 2015-16 to 2019-20, the Department of Defence made R108,3 million in lease payments for unoccupied office buildings.

Example of unused government properties

From 2008, the local municipality responsible for Bethulie, a small town in the Free State, used a property as a clinic before surrendering it to the Free State Department of Public Works and Infrastructure due to a lack of maintenance. The latter department concluded a lease agreement with the Free State Department of Social Development, located in the same geographical area, for a property from a private landlord at an annual cost of R392 050, increasing by 7,5% per year. If the public works department had adequately maintained the Bethulie office, it could have been the preferred building for the social development department, but the public works department had no budget available to maintain the building.

Example of software licences in excess

The State Information Technology Agency paid a service provider for 31 898 software licences – significantly more than the 2 500 licences deployed by the agency and its clients.

Auditees did not conclude contracts in their own best interest, resulting in expenditure that could have been avoided. Of the 125 software contracts we reviewed at 102 auditees, we found that for close to 20% of these contracts, the auditees did not derive the intended value. Common weaknesses across the selected contracts include contracting for more software licences than required, contracting for professional licences instead of the cheaper limited licences that would be sufficient for users to perform their job functions, and making payments for software licences that are not used due to delayed system implementation projects. This demonstrates a lack of prudent spending.

Examples of information technology systems and software not used

- The modernisation programme of the Department of Home Affairs is significantly behind schedule, with the biggest concern being the Automated Biometric Identification System project. At 31 March 2022, phase 1 of the project was three years and four months behind schedule and R294 million of the total budget of R475 million was disclosed as irregular expenditure, with R12,8 million being disclosed as irregular expenditure for 2021-22.
- In February 2017, the Department of Employment and Labour entered into a R434,23 million contract to implement SAP S/4HANA enterprise resource planning software. Due to inadequate needs analysis and project monitoring, the department paid for licences that are not being used. The system has still not been implemented and the department has incurred fruitless and wasteful expenditure of R23,03 million.
- The Integrated Financial Management System project was intended to replace ageing financial transversal systems, namely BAS, Persal and Logis. Cabinet approved the project, which was intended to commence in 2005 with an estimated timeline of seven years. Despite having an approved programme plan, programme milestones were delayed because of challenges in the appointment of a suitable service provider to perform implementation of already procured licences, which may lead to further delays in implementing the programme, currently scheduled for 31 March 2024. In 2021-22, the National Treasury disclosed R68,23 million for technical support and maintenance. There is, however, an ongoing dispute with the National Treasury regarding the non-disclosure of this expenditure as fruitless and wasteful expenditure. The dispute had not yet been resolved at the time of this report.

Infrastructure not maintained and secured

Government properties are not always safeguarded due to budget constraints. An estimated 51 properties in the public works sector were vandalised across all provincial departments, with approximately half of the vandalised properties located in the Northern Cape. The properties will now need to be extensively refurbished at additional cost to be fit for future occupancy.

Examples of vandalism to government properties

- Eleven schools in the Northern Cape were reported to have been set alight or vandalised between 2014 and 2022, resulting in learners having to be accommodated at other schools.
- A property in Cape Town was previously leased to a global fishing company that terminated the lease agreement and handed over the property to the Department of Public Works and Infrastructure in March 2021 due to a fall in production. The property was vandalised because there was no asset management or security in place, and its current poor condition represents not only a danger to the community, but also a loss of potential revenue.

Uneconomical practices for leasing of properties

Because of an overreliance on month-to-month leases, the public works sector paid rental rates that were higher than the average market rate.

Although the number of month-to-month leases across the sector has decreased due to short-term contracts (one to two years) being negotiated with landlords, this did not result in savings. When landlords refused to renegotiate rentals for month-to-month leases, the public works and infrastructure minister decided to stop payment. However, this led to a number of auditees being locked out of their offices and a court order instructing payments to be made.

Lease rates were already higher than the market price and contract terms with landlords were not concluded to the benefit of tenants, with high annual increases. Converting from month-to-month leases to contracts of between one to two years presented an ideal opportunity to renegotiate the terms of the lease to be in line with market prices. Instances of savings were noted after renegotiating lease terms, such as the Armscor building occupied by the Department of Defence, which resulted in an annual saving of R32 million and R182 million over the five-year lease term.

Examples of overreliance on month-to-month leases and higher-than-market rates paid

- The Department of Home Affairs leased and occupied the Hallmark building from November 2009 to October 2017 at a rate of R77 per square metre, with an annual increase of 10%. From November 2017 when the lease expired until February 2022, the department was on a month-to-month lease with the same terms and conditions as the original lease agreement. In an attempt to reduce month-to-month leases, in March 2022 the department extended the lease agreement by one year on the same lease terms. On 1 March 2022, the rate per square metre had risen to R241, compared to the average market rate of R60 per square metre for a similar building in the same area. This means the department has paid (and lost) approximately R44,6 million above the market rate for the year.
- The Johannesburg regional office of the Property Management Trading Entity has occupied the Mineralia building on a month-to-month lease for nine years. On 31 March 2022, the rate increased to R206 per square metre with a 10% annual increase. The Department of Mineral Resources and Energy, which is in the same building with similar lease terms, asked to move due to the high cost of the lease. It then followed a competitive process to lease new office space within a 500-metre radius and entered into a lease agreement at a rate of R95 per square metre with an annual increase of 6%, resulting in a significant saving. The Property Management Trading Entity did not renegotiate its lease term to be in line with market rates and continues to pay R11 million per year more than it should.

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Inadequate needs analysis and project management resulting in escalating costs due to delays and standing time

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

Poor planning and project management resulted in suppliers being paid for standing time on projects, as well as increased completion costs due to delays and projects being cancelled after substantial payments had already been made.

Examples of standing-time payments to contractors and delays in project completion with escalating costs

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- The KwaZulu-Natal Department of Transport paid a contractor R2,35 million for standing time after suspending a project that was due to start on 8 June 2019 because it did not have the required approved environmental management programme at that date.
- The Free State Department of Human Settlements paid a supplier for standing time during the covid-19 lockdown period, even though it had no contractual obligation to do so.
- Construction of a magistrate court project with an initial budget of R94,74 million was delayed by more than six years due to late site handover to contractors, delays in issuing working drawings, and extension of time due to civil unrest. This resulted in overspending of R23,72 million. To date, 12 extension-of-time claims amounting to R15,88 million (654 days) have been submitted to the Property Management Trading Entity.

Example of delays in project completion with escalating costs

The Malebogo Primary School in the Free State was only partially completed by 31 March 2022, approximately five years after the planned practical completion. During our site visit on 21 June 2022, we noted that some deliverables, such as the hall, were still outstanding as the contractor prioritised completing the learning and teaching facilities. These prolonged delays exposed the Department of Basic Education to cost escalations and/or cost overruns as the project cost rose by R23,97 million (54%) from the initial cost of R67,97 million.

Examples of suppliers not delivering

- The project management team at Dinizulu Senior Secondary School in the Eastern Cape did not swiftly and effectively address project quality issues, enforce quality control, or address the contractor's poor workmanship. This project was also delayed by 40 months.
- At Batlharo Tlhaping Secondary School in the Northern Cape, the contractor's work was certified as being practically completed and fit for use even though there was no electrical connection to the main supply. The value of the electrical installations was R2,38 million.

For years we have highlighted these areas of vulnerability in terms of financial losses and prudent spending, but the shortcomings indicated above clearly show that government is not getting a good return on the investments made.

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Eroding of funds and future obligations

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

Claims against departments

Claims are made against departments through litigation for compensation as a result of a loss caused by the department. The most common type of claim is medico-legal claims (in other words, medical negligence and malpractice claims) against provincial health departments. Departments do not normally budget for such claims; and those that do, often do not budget enough. The measures implemented by departments to manage and defend medico-legal claims are also flawed. As a result, all successful claims will be paid from funds earmarked for service delivery, further eroding departments' ability to be financially sustainable and to deliver on their service delivery commitments.

In 2021-22, the estimated settlement value of claims against departments totalled R153,64 billion. This amount represents claims that have not yet been settled (by court order or mutually between the parties). In accordance with the Modified Cash Standard, departments report an estimated value of the claim based on the most likely outcome of the process. As in the previous year, the provincial health departments accounted for the largest portion of this amount (67%).

Sixty departments (40%) had claims against them with an estimated settlement value that exceeded 10% of their budget for the following year. If paid out in 2022-23, these claims would use up more than 10% of these departments' budgets meant for other strategic priorities, including service delivery.

The financial health of the health sector has been under immense pressure for years because of limited budget and poor financial management. This situation is made worse by medical negligence and malpractice claims, with the sector having paid R855,66 million in claims in 2021-22. Total claims against the sector currently stand at R103,64 billion.

In our previous general reports, we consistently highlighted the need for the health sector to pay specific attention to medical record keeping, because claims often cannot be successfully defended without these records – and then need to be paid out. Departments are also ordered to pay interest on claims not paid out to beneficiaries by the time ordered by the court. This interest is then a further financial loss for departments.

In 2015, the health minister approved a strategy to address the increasing medico-legal claims. We audited the implementation of the strategy and found the following:

- In 67% of healthcare facilities inspected, administrative staff shortages affected medical record keeping because vacant posts could not be filled due to financial constraints. Insufficient storage space increased the risk of being unable to access medical records when they were required to defend against claims. The facilities did not record patient safety incidents on registers, which also contained errors, because staff did not adhere to policies and procedures when recording the incidents.
- The national litigation strategy required provincial departments to take early action upon receipt of letters of demand of medico-legal claims to ensure prompt action and early resolution. Policies and procedures were developed across all nine provinces, but there were shortcomings in the measures implemented by management for medico-legal claims.
- The national litigation strategy required a uniform, national reporting system of adverse events related to patient safety and that district specialist teams must be empowered to promote and enforce patient safety. However, patient safety incidents were not effectively managed and were not always recorded on the monitoring system in accordance with the relevant policies and procedures.

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- The Department of Health entered into a three-year contract with a service provider to develop a case management system to keep records of medico-legal claims. The expected completion date for the project was March 2020, but by September 2022 the system had only been rolled out to four of the eight provinces (excluding the Western Cape) and was only being used in one province. Those with access to the system were seeing very little benefit because they were not ready and willing to use it and the system did not support the objective of managing medico-legal claims. The system needs further development because no feasibility study was conducted before it was implemented.
- A shortages of medico-legal officers in six provinces (Eastern Cape, Free State, Gauteng, Limpopo, Mpumalanga and Northern Cape) and a lack of medical expertise in two provinces (Free State and Mpumalanga) contributed to delays in finalising medico-legal claims.

If the health sector challenges relating to record keeping, staff shortages, and policies and legal frameworks are not addressed, they will have a detrimental long-term effect on the sector's ability to deliver swift, good-quality healthcare services.

Overspending of budgets and poor financial health

When departments overspend their budgets, they disclose this as unauthorised expenditure. In 2021-22, 9% of departments incurred unauthorised expenditure totalling R2,3 billion, of which 97% was incurred by key service delivery portfolios. Almost all of the unauthorised expenditure related to budget overspending. If this type of expenditure is condoned, it means that the department needs to either appropriate more money or absorb the overspent amount, which erodes the budget for following years.

Departments have to submit their budget vote to parliamentary committee hearings to be approved. After the finance minister presents the budget, the committee asks the department what it plans to achieve with its budget. The committee can also check whether the department kept the promises it made for the previous year and whether it spent taxpayers' money properly. Unlike departments, public entities do not have a separate vote and hence their overspending is disclosed as irregular expenditure. Seven public entities disclosed irregular expenditure incurred as a result of overspending.

Overspending of budget	2021-22
Departments (unauthorised expenditure)	R2,29 billion
Public entities (irregular expenditure)	R2,59 billion

When an auditee has a deficit at year-end, it means that it did not have sufficient revenue to cover all its expenses – the auditee thus ended the financial year in the red. This most often means that the following year's revenue is used to cover the shortfall. Overall, public entities (including state-owned enterprises) ended 2021-22 with deficits totalling R7,61 billion. Of this amount, over 40% was incurred by state-owned enterprises and schedule 3A public entities that are funded through revenue such as levies and taxes and will either need additional funding or will need to use their reserves.

Deficit (expenditure exceeded revenue)	2021-22
77 public entities had deficit	R7,61 billion
State-owned enterprises	20% (R1,51 billion)
Schedule 3A public entities	21% (R1,63 billion)

The public entity with the highest deficit over the past few years is the Road Accident Fund, but the audit of the fund had not been completed by 15 September 2022 and thus its information is not included in this report.

The major contributors to the deficit of R7,61 billion were:

- Roads Agency Limpopo – R1,73 billion (23%)
- Gautrain Management Agency – R0,80 billion (10%)
- Airports Company South Africa – R0,66 billion (9%)
- Petroleum Oil and Gas Corporation – R0,39 billion (5%)
- Autopax – R0,37 billion (5%)

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

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

Based on these reconstructed financial statements, a picture emerges of deficits and cash shortfalls at departments that could not operate within their budgets.

Deficit (expenditure exceeded revenue)	2021-22
53 departments had deficit	R104,69 billion
Key service delivery departments	24% (R25,56 billion)

More than 60% of departments did not have enough funds to settle all their liabilities at year-end – in other words, they had cash shortfalls. This means that these departments started the 2022-23 financial year with part of their budget effectively pre-spent.

Cash shortfalls	2021-22
92 departments had cash shortfalls	R32,43 billion
35 key service delivery departments had cash shortfalls	34% (R10,88 billion)
More than 10% of operating budget spent (excluding employee costs and transfers)	16% (R29,38 billion)
Number of departments that spent more than 10% of operating budget	24

The departments that incurred the highest percentages in this regard were:

- **Department of Social Development (national)**
  3 539% (cash shortfall: R15,171 billion; following year's operating budget: R428,70 million)

  Reason: Some April 2020 grants were paid in March 2020 following the announcement of the covid-19 lockdown in March 2020, resulting in a R15 billion overpayment in grants for the 2019-20 financial year as well as a bank overdraft of R16,15 billion. The shortfall has not been funded from the 2020-21 and 2021-22 allocation and will need a resolution from the Standing Committee on Public Accounts to regularise the unauthorised expenditure.

- **KwaZulu-Natal Department of Public Works**
  213% (cash shortfall: R582,46 million; following year's operating budget: R273,01 million)

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

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- **Free State Office of the Premier**
  163% (cash shortfall: R205,39 million; following year's operating budget: R126,14 million)

  Reason: Mainly attributable to insufficient funds to repay voted funds that have to be surrendered back to the provincial revenue fund, largely due to underspending on goods and services as a result of the covid-19 pandemic and unclaimed funds for the public information platform.

Departments get most of their revenue through budgeted funds from government. Some departments also generate revenue, which they need to collect. Any surpluses at year-end are paid back into the National Revenue Fund or into provincial revenue funds, which then fund departments' budgets in the following year.

Departments continued to struggle to collect the debt owed to them, such as patient fees owed to health departments, as can be seen in long debt-collection periods and the significant portion of debt that is deemed irrecoverable. If a department does not collect the debt owed to it, this affects not only its operations, but also the funds available for future government initiatives.

Debt collection – departments	2021-22
Debt-collection period > 90 days	28% (44 departments)
More than 10% of debt irrecoverable	23% (37 departments)

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Most public entities are self-funded, which means they need to ensure that all the goods or services they sell or the levies and taxes they are responsible for collecting, are billed and the debt is collected. However, public entities also struggled with debt collection, as can be seen from their average debt-collection period. Some of these entities also did not bill the revenue.

Debt collection – public entities	2021-22
Average debt-collection period	110 days
More than 10% of debt irrecoverable	61% (138 public entities)

Example of revenue not billed

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According to the policy of the National Student Financial Aid Scheme, interest on student loans is supposed to be charged one year after students graduate or leave the tertiary institution. The scheme did not have up-to-date information on students' status, resulting in loan recipients being recognised as students for many years after they had stopped studying, without interest being charged on their loans. This non-compliance is likely to result in a material financial loss of just over R1 billion if the interest is not recovered.

The financial position of 23 public entities is so dire that there is significant doubt that they will be able to continue operating as a going concern in the near future. This effectively means that these public entities do not have enough revenue to cover their expenditure and that they owe more money than they have. Many of these public entities have been in this dire financial position multiple times over the past five years.

Public entities with serious financial health concerns

Disclosed for

5 years
- Corridor Mining Resources (LP)
- Great North Transport (LP)
- South African National Roads Agency
- Petroleum Oil and Gas Corporation
- Autopax
- South African Broadcasting Corporation
- Pelchem
- North West Development Corporation
- Property Management Trading Entity
- South African Post Office
- Golden Leopard Resorts (NW)
- GL Resorts (subsidiary of Golden Leopard Resorts) (NW)

4 years
- Ithala Limited (KZN)
- Northern Cape Rural TVET College
- Motheo TVET College
- South African Nuclear Energy Corporation

3 years
- Land and Agricultural Bank of South Africa
- Independent Development Trust

2 years
- Eastern Cape Development Corporation
- KwaZulu-Natal Nature Conservation Board

1 year

2021-22 was first year of disclosure

- Ingonyama Trust Board
- Mpumalanga Regional Training Trust
- Postbank

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State-owned enterprises

Government has made it clear that it intends to reduce the continual demands of state-owned enterprises on South Africa's limited public resources. Most state-owned enterprises are still battling with going concern challenges, with three having disclosed material uncertainties about whether they would be able to continue operating (Independent Development Trust, Land and Agricultural Development Bank of South Africa, and South African Broadcasting Corporation) while two (South African Post Office and South African Nuclear Energy Corporation) received modified audit opinions because they did not have sufficient evidence to show that they would be able to continue operating. The South African Post Office, the South African Nuclear Energy Corporation and the South African Broadcasting Corporation need their respective accounting authorities to intervene, with the support of the shareholders. Their continued going concern challenges, coupled with successive losses, indicate that their turnaround plans either are not effective or have not been fully implemented.

State-owned enterprises should not rely on government bailouts as they are expected to implement sustainable turnaround plans that will ensure the creation of public value. Government provided financial guarantees of over R420 billion over several years to these entities. The total government exposure relating to these guarantees is over R328 billion (exposure means that the entities have used the guarantees to obtain loans from lenders). Eskom is the single biggest fiscal risk to the National Revenue Fund, accounting for over 80% of government guarantees to state-owned enterprises.

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

Slow progress has been made in the implementation of key reforms announced by government, such as the Shareholder Management Bill and the funding criteria for state-owned enterprises. There is an urgent need to finalise these reforms to ensure policy certainty and empowerment of state-owned enterprises to deliver on their developmental mandates.

Financial management

Credible financial statements are crucial for enabling accountability and transparency, but many auditees are failing in this area. Auditees are required by legislation to submit their financial statements on time. The goal of this requirement is to ensure that auditees account for their financial affairs when this information is still relevant to stakeholders for decision making and oversight.

Parliamentary committees and legislatures use financial statements to hold accounting officers and authorities accountable and to make decisions on, for example, the allocation of the budget. For some public entities, creditors, banks and rating agencies also use the financial statements to determine the level of risk in lending money to the entity. Members of the public can further use the financial statements to see how well the departments and public entities are using the taxes they pay to provide services.

A total of 92% of auditees submitted their financial statements by the legislated date – a slight regression from 93% in the last year of the previous administration.

The table below shows the 15 public entities that had not submitted their financial statements for auditing by 15 September 2022, which was the cut-off date for inclusion in this report. Most of these public entities are state-owned enterprises.

Auditee	Reason for non-submission
State-owned enterprises	
Denel and subsidiaries • Denel Aerostructures • Densecure • Denel Vehicles Systems • LMT Holdings • LMT Products (subsidiary of LMT Holdings)	The group did not submit its financial statements for the past two years due to financial and operational challenges. It committed to submit the 2020-21 financial statements by 30 November 2022.
Mango Airlines	The auditee has not submitted financial statements for the past four financial years as it is currently in business rescue.
South African Express Airways	The auditee has not been submitting financial statements for the past three financial years and has been liquidated.
Other national public entities	
Compensation Fund	The auditee did not submit financial statements due to an inadequate control environment.
Government Printing Works	Due to a loss of data during the past two financial years, the auditee submitted financial statements for 2020-21 late and did not submit financial statements for 2021-22.
Unemployment Insurance Fund	The auditee did not submit financial statements as it was still addressing prior year qualifications.
Coastal TVET College	An administrator was appointed to oversee the college's operations in December 2020. The audit report for the 2020 financial year was only finalised in April 2022 because the financial statements were submitted late. The college committed to submit the 2021 financial statements by 31 August 2022, but the administrator was recalled by the higher education minister on 17 August 2021, leaving the college without a principal and chief financial officer. There was no proper handover from the administrative team and current chief financial officer, which affected the preparation of the financial statements.
North West provincial public entities	
• North West Transport Investments • Atteridgeville Bus Services • North West Star	The group has not submitted financial statements for the 2019-20, 2020-21 and 2021-22 financial years. On 20 July 2022, the group adopted a resolution in terms of the Companies Act and started voluntarily business rescue proceedings and appointed a business rescue practitioner.

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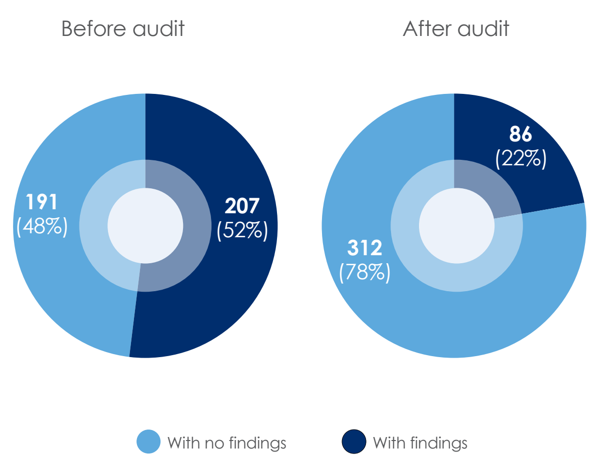
For the past three years we have reported that the three North West provincial public entities have not submitted their financial statements. We have also informed the provincial leadership, treasury and legislature. Our audit leadership has repeatedly engaged with the boards, chief executive officers and chief financial officers of these public entities to encourage them to submit their financial statements. When all of this failed, we invoked our powers to hold the accounting authorities of these three public entities, as well as of those of six others, accountable by notifying them that not submitting financial statements constitutes a material irregularity, as the delays in the accountability processes are causing substantial harm to these public entities. This lack of transparency in the use of funds and the financial position should not be tolerated.

IMPACT

When departments and public entities do not submit their financial statements, this negatively affects the accountability chain because the various stakeholders cannot evaluate the state of these auditees.

Credible financial statements are crucial for enabling accountability and transparency, but more than half of the auditees continue to submit poor-quality financial statements for auditing. This means that if we had not identified misstatements in these financial statements and given the auditees the chance to correct them, only 48% of auditees with completed audits would have received unqualified audit opinions, compared to the 78% that ultimately received this outcome.

Quality of financial statements before and after audits – all auditees



A **qualified audit opinion** means that there were areas in the financial statements that we found to be materially misstated (meaning that there are material errors or omissions that are so significant that they affect the credibility and reliability of the financial statements). In our audit reports, we point out which areas of the financial statements cannot be trusted. In total, 76 auditees (31 departments and 45 public entities) received qualified audit opinions.

Adverse and disclaimed audit opinions are the worst opinions an auditee can receive. An **adverse** opinion means that the financial statements included so many material misstatements that we disagree with virtually all the amounts and disclosures. A **disclaimed** opinion means that those auditees could not provide us with evidence for most of the amounts and disclosures in the financial statements. Effectively, the information in financial statements with adverse or disclaimed opinions can be discarded because it is not credible. In our audit reports, we tell oversight structures and other users of the financial statements that the information cannot be trusted. In 2021-22, only the North West Development Corporation received an adverse opinion.

Over the years, we have called on national and provincial leadership and oversight to direct their efforts towards auditees that continue to receive disclaimed opinions. In 2021-22, nine public entities received disclaimed opinions. Seven of these public entities had also received disclaimed opinions in 2020-21 and six had also received this type of opinion in 2019-20. No department received a disclaimed audit opinion in 2021-22.

Basic financial management processes do not always function as they should. These include institutionalising a culture of compliance and controls, such as implementing standardised, effective accounting processes for daily and monthly accounting disciplines; ensuring proper record keeping and document control; performing independent reviews and reconciliations of account records; and ensuring that in-year reporting and monitoring (including proper project management) take place. Dealing with the consequences of poor financial management is costly and time-consuming and the results often cannot be reversed. If auditees do not implement these basic processes, it can lead to a lack of prudence and eroding of funds, placing government's economic recovery initiatives at risk.

Economic recovery

In pursuit of the National Development Plan goals and amidst the deepening economic crisis following the covid-19 pandemic, government introduced the Economic Reconstruction and Recovery Plan for the South African economy in 2020 with the aim of stimulating equitable and inclusive growth. The plan includes a number of priority interventions such as aggressive infrastructure investment, which is a critical catalyst for creating the multiplier effect that drives economic activity. As detailed in the section on infrastructure, the success of the infrastructure programme will depend on government's ability to urgently address the weaknesses in infrastructure delivery so that value for money is received for every rand spent.

Another key intervention includes employment initiatives such as Presidential Employment Stimulus programmes, which aim to protect jobs and livelihoods and to support meaningful work while the labour market recovers from the covid-19 pandemic. We have identified risks of funding being received late, which affected the implementation of some projects, resulting in the planned targets for job creation not being achieved for some initiatives. Work opportunities were also mostly short term and related to unskilled labour, which does not result in sustainable job opportunities. Going forward, our audits will have an increased focus on these initiatives so that we can provide insights on how they have been implemented.

It is increasingly important that the identified risks are addressed through good financial management practices and improved governance. Auditees should be intentional about the implementation of set programmes; hence, these reforms should be implemented with a sense of urgency to ensure value for money and return on investment. The more pressure there is on the fiscus, the less money is available for service delivery which negatively affects the lives of the people of South Africa.

GOVERNANCE AND ACCOUNTABILITY

The continued increase in the irregular expenditure balance that is not being dealt with, coupled with the lack of action on potential fraud and corruption and the continued disregard for our findings and recommendations at some auditees, clearly show weakness in governance and accountability at national and provincial auditees – further hampering their ability to deliver services. As highlighted in the preceding sections, we used the material irregularity process where accounting officers and authorities did not take action to deal appropriately with irregularities identified.

Earlier in this report, we also highlighted the roleplayers in the accountability ecosystem responsible for governance. Over the past few years, we have called for a more responsive system of governance and made continued calls for accountability.

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Accountability is two-fold:

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

In this section, we examine:

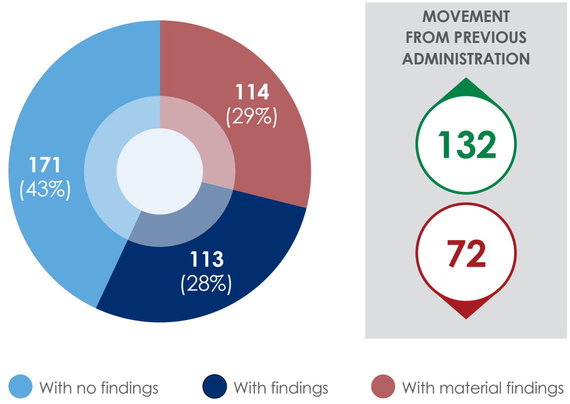
- the status of non-compliance with procurement legislation and resultant irregular expenditure, and the lack of consequences that leads to an environment in which further non-compliance is likely
- the vulnerability of government systems to cybersecurity attacks because of weak information technology governance and security controls
- the need to pay specific attention to governance and oversight of state-owned enterprises because of the impact they have on government's financial health.

Procurement – consequence management

Fair and competitive procurement processes enable government to get the best value for the limited funds available and give suppliers fair and equitable access to government business. Such requirements are not only standard financial management practices, they are also included in the legislation that makes accounting officers and authorities responsible for ensuring that the required processes and controls are implemented.

The procurement process is also where the risk of fraud is highest, which is why we pay particular attention to procurement and contract management during our audits.

Status of compliance with supply chain management legislation



We continued to identify and report findings on compliance with procurement and contract management legislation at auditees. We identified findings across all key service delivery portfolios and 16 state-owned enterprises.

The irregular expenditure disclosed in 2021-22 was R51,22 billion. It is significantly less than the R136,67 billion disclosed in the previous year, but the R77,49 billion irregular expenditure incurred by the National Student Financial Aid Scheme in that year was an anomaly.

In total, R40,16 billion of the R51,22 billion was expenditure incurred in 2021-22 (representing 2% of the R2,58 trillion expenditure budget) and R11,06 billion was prior year expenditure that was only identified and disclosed in 2021-22.

The total irregular expenditure could be even higher, as 25% of auditees did not report all irregular expenditure that should have been reported in their financial statements. In some cases, the amount of irregular expenditure reported was incorrect. We also could not audit contracts worth R2,53 billion because of missing or incomplete information.

As part of our audits, and to assist oversight and portfolio committees with areas on which to focus their attention, we assessed the impact of irregular expenditure. We identified that R38,68 billion arose from breaches of legislation, which requires that procurement be fair, equitable, transparent, competitive and cost-effective. This resulted in goods and services being acquired at unreasonable prices because auditees either did not adequately test market prices or did not choose the most cost-effective options. Government's socioeconomic objectives, such as advancing previously disadvantaged individuals and small businesses, were also not achieved. This could lead to exposure to litigation arising from breaches of procurement and, as a result, funds intended for service delivery might be shifted to pay legal fees.

Instituting consequences against officials responsible for non-compliance helps auditees to recover the losses that those officials incurred and to deter other officials from contravening legislation. In this way, auditees demonstrate their commitment to prudent financial management practices.

However, 44% of auditees did not comply with legislation on implementing consequences. At 35% of auditees, this non-compliance was material. As a result, the year-end balances of these types of unwanted expenditure continue to grow. A culture of consequence management has not materialised because the right tone has not been set to encourage a behavioural change at the highest levels.

The balances of unauthorised, irregular, and fruitless and wasteful expenditure remain high at R461,05 billion due to the slow pace of investigations. Taking irregular expenditure as an example, by the end of the 2021-22 financial year very little had been done about the previous year's closing balance of R408,52 billion.

Closing balances of irregular expenditure and dealing with prior year irregular expenditure

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The first step that auditees must take is to investigate the non-compliance – why did it happen; who is responsible; was money lost; and, if it was, can that money be recovered? Almost a third of auditees did not perform these investigations, and where action was taken, it was mostly to condone or write off the irregular expenditure.

Where there have been allegations of financial and supply chain misconduct and fraud, accountability should also come into play. We audited 99 auditees at which allegations of fraud and misconduct were flagged to management to see if this was the case, and found the following:

49% of auditees took longer than three months to complete investigations

21% of auditees did not investigate allegations

11% of auditees did not impose sanctions or did not implement recommendations based on completed investigations

Instances of alleged fraud or improper conduct in supply chain management processes

In the previous year, we reported such indicators at 146 auditees for accounting officers and authorities to follow up and take action.

73 (50%) auditees investigated **all** the findings we reported

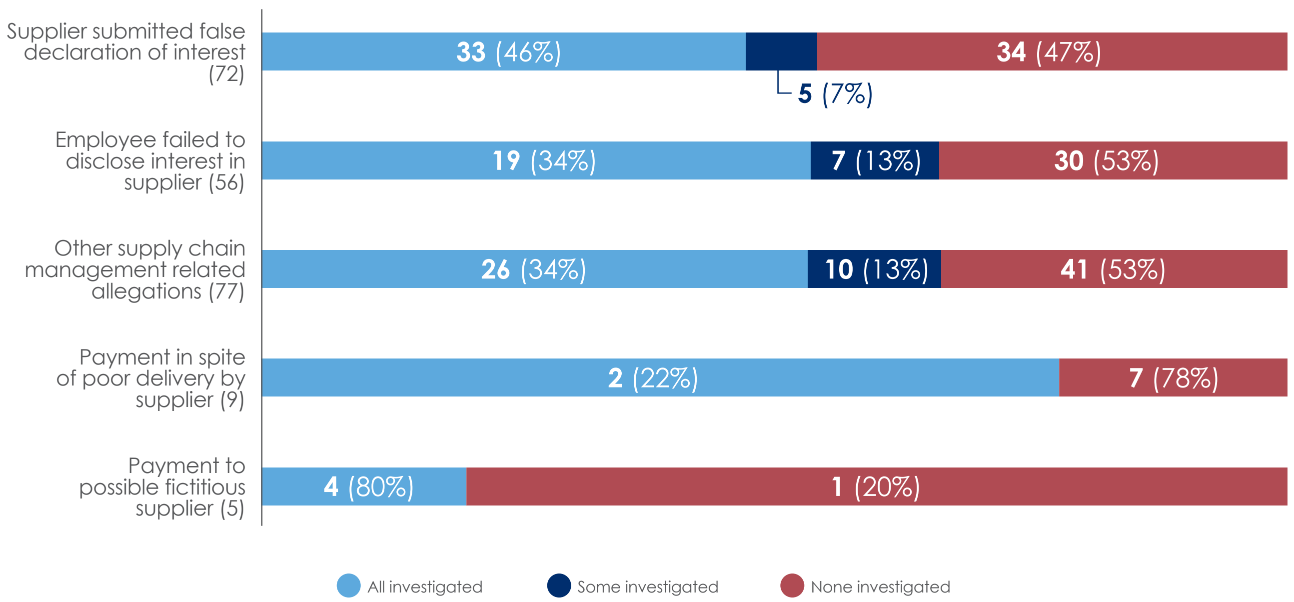
23 (16%) auditees investigated **some** of the findings we reported

50 (34%) auditees investigated **none** of the findings we reported

Of the 96 auditees that investigated some or all findings, 59 (61%) had satisfactory resolutions to these investigations, while 39% did not (for example, the investigation recommended that contracts in which employees failed to declare their interest be cancelled, but the auditee did not do so).

Every year, we also report indicators of possible fraud or improper conduct in supply chain management processes and recommend that management further investigate these matters.

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

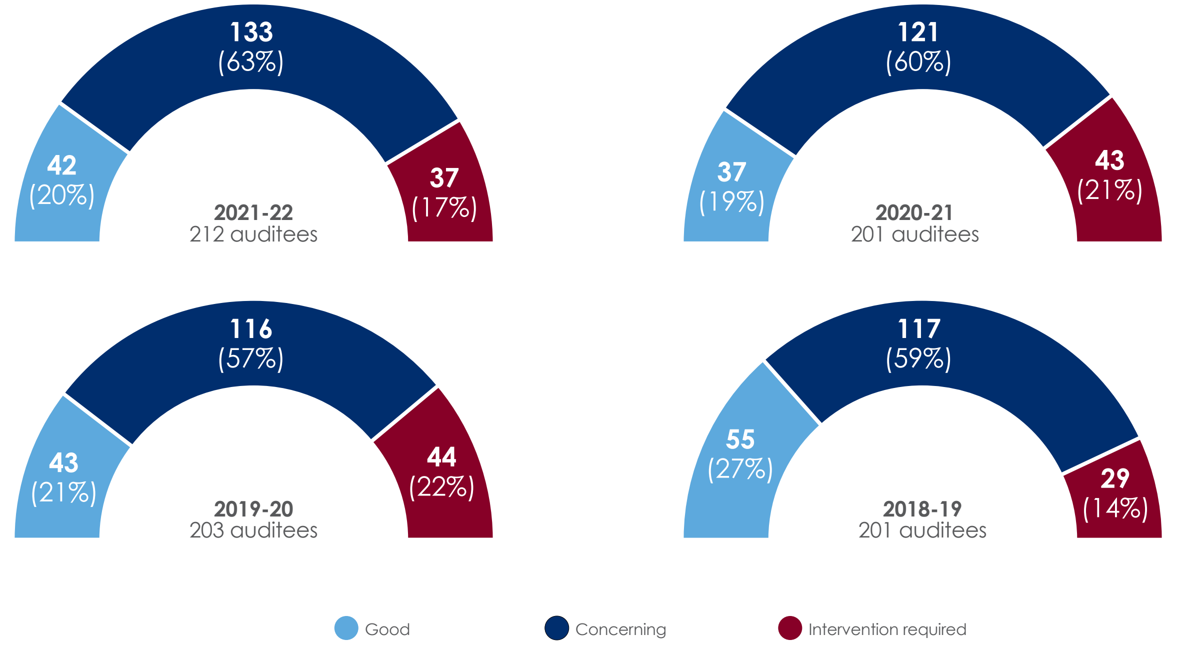


Cybersecurity

Government departments and entities use information systems to process critical business transactions and reports on operational and financial performance. Information security measures are therefore critical to ensure that government information systems are not vulnerable to cyberattacks and to prevent people from performing system activities that are unauthorised so as to limit fraud incidents.

Our role is to assess the control environment supporting these systems to determine if there are any risks of unauthorised access to the systems and data, whether we can rely on the controls for audit purposes, and whether government is deriving value from its investment in information technology.

Status of information security controls



We identified that 80% of auditees had ineffective security controls. This area has shown a negligible movement over the past year and since the end of the previous administration's term.

The National Cybersecurity Policy Framework was gazetted in 2015 and outlines policy guidelines related to cybersecurity in South Africa, requiring government to develop detailed cybersecurity policies and strategies. Neither the State Security Agency, nor any other security and justice related departments, have made much progress in achieving the objectives contained in the framework. This was due to limited oversight of the framework, its complexity and a lack of consequence management because there were no implementation timelines. This has impaired government's ability to coordinate cybersecurity efforts and inherently affected its cybersecurity spend.

Departments and entities had no choice but to use the State Information Technology Agency's unsupported and vulnerable infrastructure to access their financial systems, which exposed the government to cyberthreats.

There has been an increased trend of high-profile cybersecurity failures. Hackers have successfully exploited the security weaknesses at some of the auditees that we rated as weak in this area. This resulted in some key government services not being available for a prolonged period and, in some cases, hackers demanding ransom or significant fraud being perpetuated. Among the auditees most recently affected are the Department of Justice and Constitutional Development, Transnet and Postbank.

The prevailing root cause of information technology security weaknesses is poor information technology governance processes. We identified that 144 auditees (68%) had ineffective information technology governance processes, and noted the following deficiencies at many auditees:

- Although auditees had adequate, and in some cases well-defined, information technology governance frameworks, these were not implemented or operating effectively.
- Where information technology steering committees had been established, they were not operating effectively. Either these committees did not have the required level of representation or they did not meet regularly to discharge their oversight responsibilities.
- Information technology budgets and plans were not well defined or monitored to ensure that they delivered the expected value and benefits.
- Service level agreements with third parties were lacking or, where they existed, services were not monitored.
- Information technology risks were not well articulated in risk registers and management did not monitor action plans to mitigate the risk. In some cases, internal auditors did not perform required information technology risk assessments, especially around key processes and significant projects.

The cybersecurity and information technology environment at government departments and public entities is weak because accounting officers and authorities have not discharged their responsibility to effectively manage and implement these governance processes over a number of years. A cybersecurity culture shift is required to mitigate risks and improve controls as system automation continues to increase. We will continue to focus and report on cybersecurity risk in future.

Governance and oversight of state-owned enterprises

The performance by state-owned enterprises is key to the economy but most state-owned enterprises are in a dire state, receive poor audit outcomes and are struggling to deliver against their legislated mandates. Many are in financial distress with collapsing infrastructure that weakens their ability to deliver key services. All of this has a significant impact on the day-to-day experiences of businesses and the lived reality of the people of South Africa.

The overall control environment within state-owned enterprises also remains weak in the areas of financial reporting, performance reporting, and compliance with legislation. The key contributors to the unfavourable audit outcomes include poor governance processes, instability at senior management and executive levels, lack of consequence management, ineffective strategic planning and monitoring, and lack of regular reconciliation, review and reporting.

There is slow progress in implementing the key reforms aimed at strengthening governance at state-owned enterprises, such as finalising the Shareholder Management Bill and clarifying the as yet unfinalised funding criteria for state-owned enterprises, creating policy uncertainty in the state-owned enterprise environment.

In June 2021, the state announced that it plans to sell 51% of South African Airways to a private consortium and retain a minority stake, while Eskom permitted independent power producers to increase self-generation from 1 MW to 100 MW without needing a licence. However, the persistent financial and operational challenges confronting state-owned enterprises cast doubt on their ability to survive without continued financial support from government – when they should be paying dividends to government.

To improve the governance of state-owned enterprises, we made detailed recommendations in their management reports, which can only succeed if:

- key reforms are implemented and the entities have sound internal control environments and effective governance structures and processes in place
- competent people of integrity are appointed to boards and executive positions via transparent and robust processes
- lessons are learnt from the various investigative commissions of enquiry and their recommendations are implemented.

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SECTION 3 ACTIVATING THE ACCOUNTABILITY ECOSYSTEM – A CALL TO ACTION

While we are encouraged by the upward trend in audit outcomes, focused attention needs to be directed urgently towards the key service delivery portfolios and state-owned enterprises to relieve pressure on the fiscus and to improve the lived experience of the people of South Africa.

As stated in the Reconstruction and Development Programme and reiterated in the National Development Plan, attacking poverty and deprivation must be the first priority of a democratic government. We call on all our stakeholders that play a pivotal role in the accountability ecosystem to stimulate and promote a culture of accountability that will improve service delivery and create tangible prospects for a better life for our people.

Where audit outcomes remain poor and service delivery failures persist, we assessed the key reasons underpinning this state, and found the following:

- Poor planning and budgeting, as well as a lack of setting quality indicators and targets that are measurable and aligned to auditees' mandates, hampers sustainable improvements in performance management and service delivery.
- Compromised control environments and a failure to embed preventative controls and implement basic financial management disciplines hinder auditees' ability to properly manage their finances and performance, leading to poor service delivery.
- Pre-existing system and process deficiencies, including poor project management and capacity constraints, weaken service delivery even with the best action plans.
- Intergovernmental fragmentation and lack of coordination further hamper service delivery.
- Limited commitment from assurance providers, including management and leadership, to fulfil their monitoring, governance and oversight roles creates a culture of no accountability and consequence management leading to poor performance.

While a clean audit is not always an indicator of good service delivery, a well-functioning control environment and good systems form a solid foundation that will enable auditees to move one step closer to improving performance and service delivery. Some auditees are making a concerted effort to improve their audit outcomes, but the pace at which deficiencies in financial and performance management and compliance with legislation are addressed needs to be accelerated.

Accounting officers and authorities know what must be done – they have received our messages and recommendations for many years. We gave them reports, notified them of material irregularities and regularly engaged with them to share risks that need to be addressed and good controls that need to be implemented. Yet, a slow – or even no – response by accounting officers and authorities and senior management to our recommendations on improving controls and addressing risk areas was the most common root cause for poor audit outcomes during the term of the administration.

If the root causes of deficiencies identified remain unaddressed, it could mean that those responsible for addressing them do not understand these root causes well enough to correct them; that they do understand the root causes but do not know how to deal with them; or that they are not willing to deal with them at all. We therefore encourage all roleplayers in the accountability ecosystem to interrogate the deficiencies we have identified at auditees to fully understand what sits at the heart of the problem. There are many auditees that are on the cusp of achieving a clean audit and improved service delivery but that struggle to bridge the gap simply because the real root causes of the identified deficiencies are not properly dealt with.

We have particularly emphasised that the direction, supervision and review role of senior management must be strengthened. Although many auditees have improved in this area over the term of the administration, in our assessment, only 20% of auditees had a senior management team that was fully effective.

Vacancies and instability at senior management level had an impact on the effectiveness of management functions. Instability at accounting officer and authority level was also common, which affected decision making; the completion of action plans, projects and initiatives; and consequence management.

Internal audit units should provide independent assurance to the accounting officers and authorities on the implementation of controls and the mitigation of risks. The units work under the oversight of the audit committee, which is made up of independent experts who can advise the accounting officers and authorities. In our assessment, internal audit units and audit committees had been established and were operational, and the vast majority performed all the functions required by legislation, including evaluating the reliability of financial and performance information and compliance with legislation. However, the audit outcomes showed that the work of these governance structures did not always have an impact, as the quality of the financial statements

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and annual performance reports we received for auditing remained poor. The value that can be derived from their independent assurance has not materialised at all auditees, most often because management was just not implementing their recommendations. The internal auditors experienced the same frustrations we have as external auditors in this regard.

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

Executive authorities and national and provincial leadership are responsible for monitoring and overseeing portfolios. Through these specific responsibilities, they must continue to bring about improvements in the audit outcomes of their portfolios by becoming more actively involved in key governance matters, particularly those faced by state-owned enterprises and key service delivery portfolios.

Coordinating institutions remain an integral part of the accountability ecosystem and we continue to advocate for full implementation of their mandates and legal obligations. We also engaged on the effectiveness of their initiatives across national and provincial government and reported our findings and recommendations in this regard. As reported in the sections on service delivery and on governance and accountability, intergovernmental relationships must be strengthened to ensure appropriate, swift and impactful interventions and support.

Parliament and provincial legislatures have a constitutional mandate to oversee executive action and ensure compliance with legislation, which they do through committees established in line with their respective roles. Portfolio committees are required to assess the strategic and annual performance plans of departments and public entities to effectively fulfil their oversight role. These oversight structures should strengthen their monitoring processes to hold auditees accountable for implementing audit action plans and oversight resolutions to enable improved audit outcomes and service delivery.

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. Through these oversight and portfolio committee engagements, we presented and discussed key controls and compliance findings arising from the audit process, as well as the related root causes. The discussions included our recommendations for focus areas that require oversight intervention.

We made specific recommendations to the accounting officers and authorities of auditees and we are encouraged by their responsiveness to our findings and their commitments to take action. These commitments are important to ensure that steady progress is made towards improving auditees' performance. We will continue to track and monitor these commitments closely as part of the audit process.

If the findings and risks we reported are not addressed, we will continue to issue notifications of material irregularities. If the matters that can lead to financial losses and/or substantial harm to the public are not resolved, we will use our enforcement mandate.

We also obtained the following commitments from government leaders that operate at the centre of government in response to the insights on material irregularities and the achievement of service delivery targets:

- The Presidency: The director-general committed to fast-track the review, approval and publication of Special Investigating Unit investigations to reduce the current longstanding backlog of investigation reports finalised by the unit. In order to improve service delivery, planning and reporting, the director-general further committed to developing a performance management system for ministers and directors-general to be readily available for evaluation by the President, as these are currently communicated to The Presidency in the form of a report.

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- Department of Planning, Monitoring and Evaluation: The director-general committed to escalate a recommendation to the minister that all performance agreements of directors-general and acting directors-general be completed and their assessments conducted to enable accountability and consequence management in relation to the implementation of Medium-Term Strategic Framework and other targets set by the President.

Call to action

We assert that when national and provincial leaders fully commit to transforming government into the capable, efficient, ethical and development-oriented institutions envisaged by the Constitution, a culture of accountability will flourish, leading to significant improvements in service delivery.

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

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

- 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

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

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The improvements we seek do not only reside within the domain and responsibility of the accounting officer or authority and of the auditors – they depend on the entire accountability ecosystem.

To enable the implementation of these actions in a focused manner and to build a capable, effective and visionary leadership that is aligned across all three spheres of government, national and provincial leadership should:

- prioritise professionalising the public service by implementing the National Implementation Framework, as approved by Cabinet in October 2022
- strengthen the components of oversight coordination, including the role of the Department of Planning, Monitoring and Evaluation
- commit to consequences, starting with the performance agreements of accounting officers
- prevent the eroding of funds budgeted for service delivery through medico-legal claims, by implementing policies and procedures to prevent further claims against departments; and implement proper record keeping so that information is accessible to defend existing claims.

Active citizenry is crucial to ensure that the needs of the public are heard and acted on. We call on the public to use the available channels to report any indicators of abuse, mismanagement, fraud and service delivery failures.

We call on government to create opportunities to listen and react to feedback from the public on whether their initiatives and efforts are succeeding in meeting their needs. Civil society organisations and the voices of the people on the ground are powerful tools to prompt much-needed action. Where poor performance and service delivery failures persist, Parliament and the provincial legislatures, as representatives of the public, should call government leaders to account for the matters we have raised in this report and for their subsequent actions.

A culture of performance, accountability, transparency and integrity should be a shared vision for all involved and we urge all roleplayers to fulfil their designated roles in the accountability ecosystem and to play their part effectively, without fear or favour, to ensure accountability for government spending and improvement in the lives of all South Africans.

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

South Africa remains a highly unequal society where too many people live in poverty and too few work. These immense challenges can only be addressed through a step change in the country's performance. To accelerate progress, deepen democracy and build a more cohesive society, South Africa must translate political emancipation into economic wellbeing for all. It is up to all South Africans to fix the future, starting today.

National Development Plan 2030

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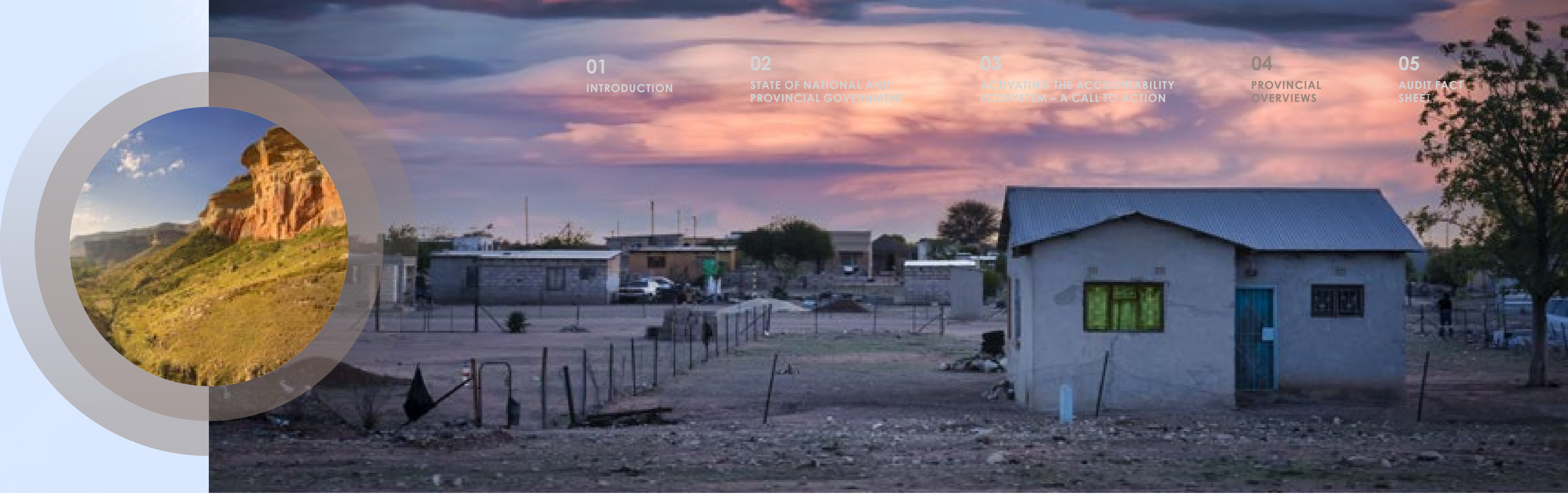
SECTION 4
PROVINCIAL OVERVIEWS



Every province has a unique story and the provincial outcomes often reflect the experiences of the people in that province.

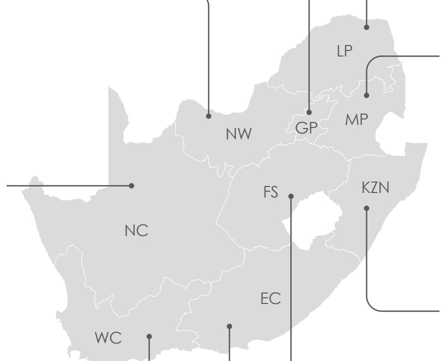
We begin this section with the key results from our audits in the provinces, followed by an overview of the state of provincial government in each of the nine provinces. The overviews summarise our main insights on financial, performance and infrastructure management, and how we have used our enhanced mandate. We also reflect on what should be done to improve the situation, and by whom; and the commitments made by those with whom we engage.

Provincial government is responsible for approximately 28% (or R711,41 billion) of the total national and provincial budget and plays a significant role in implementing government's service delivery priorities.

The provincial audit outcomes have shown a gradual upward trend since the end of the previous administration's term – 47 auditees have improved and 11 auditees have regressed over this period, with the Eastern Cape and KwaZulu-Natal showing significant improvement.

Provincial audit outcomes and percentage of provincial budget

Province	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimed with findings	Outstanding audits	Budget	Improvement	Regression
GAUTENG	8	11	3	0	1	0	Budget: R155,01 bn (21%)	3	3
NORTH WEST	1	8	6	1	2	4	Budget: R49,61 bn (7%)	6	0
NORTHERN CAPE	4	6	2	0	0	0	Budget: R19,99 bn (3%)	4	0
WESTERN CAPE	17	3	1	0	0	0	Budget: R76,39 bn (11%)	1	2
EASTERN CAPE	11	7	3	0	0	0	Budget: R89,22 bn (13%)	7	0
LIMPOPO	4	11	2	0	0	2	Budget: R78,38 bn (11%)	6	0
MPUMALANGA	4	7	5	0	0	0	Budget: R56,27 bn (8%)	5	5
KWAZULU-NATAL	13	8	2	0	0	0	Budget: R144,75 bn (20%)	10	1
FREE STATE	3	5	7	0	0	1	Budget: R41,8 bn (6%)	5	0



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

Movement from previous administration
Improvement
Regression

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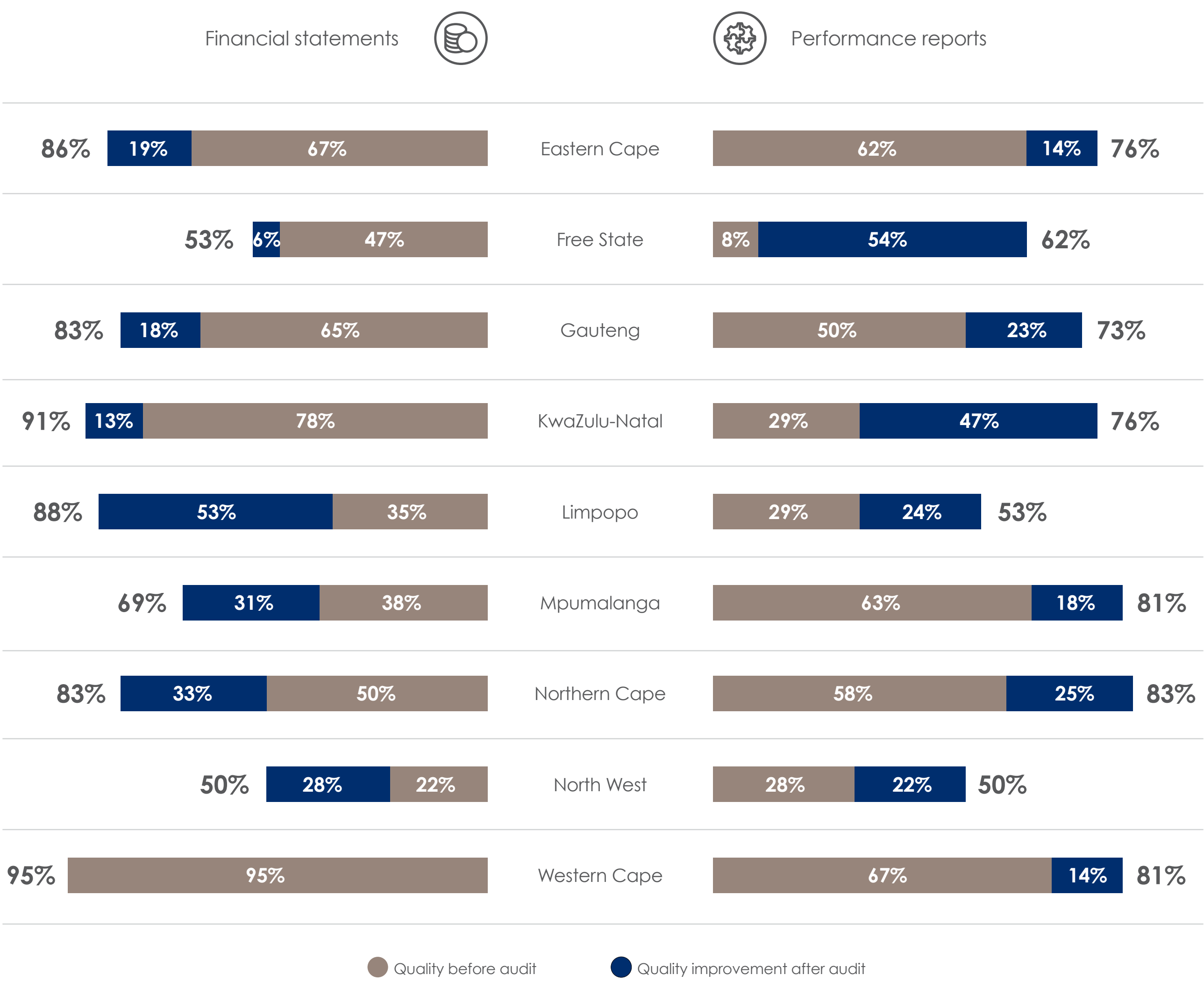
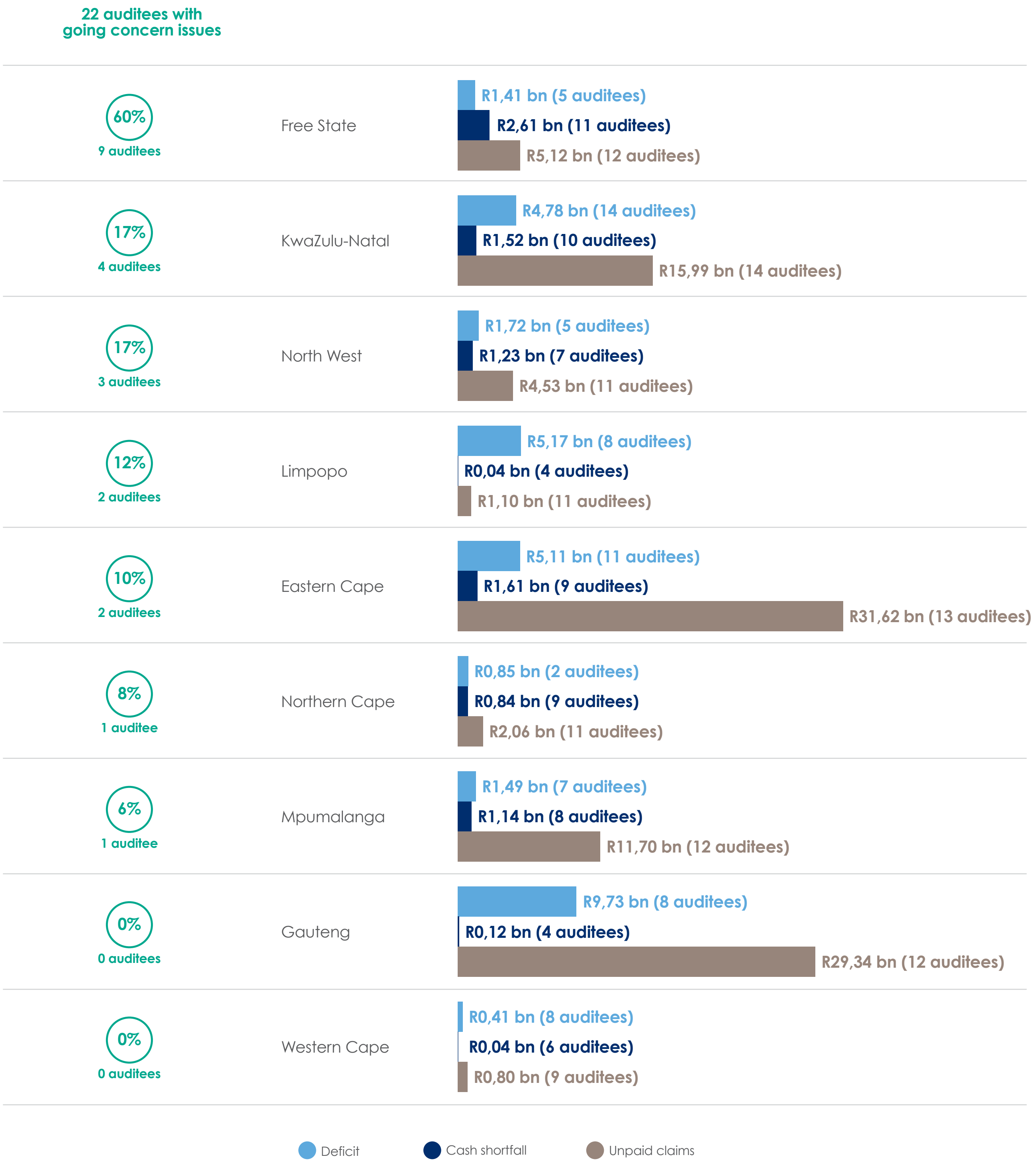
The provinces continued to struggle with the preparation of credible financial statements and annual performance reports, thus reducing the effectiveness of monitoring and oversight processes and compromising service delivery. In total, 58% of provincial auditees submitted poor-quality financial statements and 54% submitted poor-quality performance reports for auditing.

Quality of financial statements and annual performance reports before and after auditing in the provinces



Some provinces showed signs of significant financial difficulty, with **22 auditees** being in such a dire position that there is significant doubt as to whether they will be able to continue operating as a going concern in the near future. This, and other indicators of poor financial health such as **deficits**, **cash shortfalls** and **unpaid claims**, would have affected their ability to deliver services.

Financial health indicators in the provinces



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Putting further strain on the provincial purse, was the **R30,84 billion** in irregular expenditure disclosed by provincial auditees in 2021-22. The closing balance of all provincial irregular expenditure stood at **R192,99 billion**.

Irregular expenditure in the provinces

% of total irregular provincial expenditure	Irregular expenditure as % of provincial budget	Province	Disclosed in 2021-22	Closing balance at 2021-22 year-end	Movement from previous year
31%	7%	KwaZulu-Natal	R9,53 bn	R54,31 bn	12% (increase)
23%	5%	Gauteng	R7,03 bn	R41,09 bn	2% (decrease)
12%	8%	North West	R3,75 bn	R29,08 bn	7% (decrease)
9%	5%	Mpumalanga	R2,69 bn	R9,70 bn	16% (decrease)
8%	6%	Free State	R2,42 bn	R18,19 bn	13% (increase)
7%	3%	Limpopo	R2,12 bn	R13,07 bn	7% (decrease)
5%	8%	Northern Cape	R1,63 bn	R19,75 bn	9% (increase)
4%	2%	Eastern Cape	R1,35 bn	R7,48 bn	15% (increase)
1%	0%	Western Cape	R0,33 bn	R0,32 bn	41% (decrease)

Disclosed in 2021-22
Closing balance at 2021-22 year-end
Movement from previous year
Percentage increase
Percentage decrease

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EASTERN CAPE

Decisive action is still required by leadership to meaningfully improve service delivery

In our previous general report, we urged provincial leadership to instil a greater sense of urgency when it comes to improving the audit outcomes of the three departments that received qualified audit opinions and for those that had stagnated on unqualified opinions with findings. Leadership committed to improve audit outcomes and accountability and there has been some progress in responding to our message. Four auditees improved to clean audit opinions and there were no regressions. As a result, the current term of administration has seen a continuous increase in the number of clean audits. Currently, there are 11 clean audits (52%), which is the highest number of clean audits in the history of the province.

The provincial legislature; provincial departments of rural development and agrarian reform, and of economic development, environmental affairs and tourism; and the Eastern Cape Government Fleet Management Services improved to clean audits by addressing findings on material compliance with legislation and performance reporting. The common trend at auditees that obtained or sustained a clean audit was:

- a strong leadership tone at the top
- prompt improvement of controls where weaknesses were identified
- timeous implementation and monitoring of audit action plans and prior year recommendations
- commitment to ensuring that critical positions are filled promptly
- audit committee follow-up on internal audit findings.

Two of the public entities in the province – Coega and the East London Industrial Development Zone – maintained their clean audits and exceeded their targets for the number of new investors, signing a combined 19 new investors with an investment value of over R1,5 billion. The provincial rural development and agricultural reform department also spent 99,7% of its budget and achieved 85% of its planned targets relating to agricultural producer support and development, assisting with drought-relief initiatives that included providing boreholes to farmers, and supporting red meat and citrus farmers. However, some departments did not deliver on all of their performance targets, which put the province at risk of falling behind on its plans to meet the objectives of the Medium-Term Strategic Framework.

The provincial education department had substantial misstatements and omissions in the financial statements it submitted for auditing. The department's finance unit had a high vacancy rate (48%), but positions could not be filled because of budgetary restrictions. The department also had material misstatements in its submitted performance information and could not submit supporting evidence for some of the information reported in its annual performance report. The right to quality education includes access to textbooks and a safe and adequate learning environment, but this is not the reality for many learners in the province, and in 2021-22 the department achieved only 15% of its planned targets relating to public ordinary school education. In its annual performance report, the department reported that 22% of schools did not receive learner material for maths and languages, and this percentage could be even higher, as it could not provide evidence for most of the schools reported as having received the material. The department was also slow to finalise the construction and upgrading of schools as most of its infrastructure projects were still in progress at year-end, with some projects having been cancelled or halted because contractors suspended work due to non-payment. This slow progress resulted in the National Treasury stopping education infrastructure grant funding of R205,1 million to the Eastern Cape Department of Education, and reallocating the money to the KwaZulu-Natal Department of Education. We also notified the accounting officer of a material irregularity resulting from an extension-of-time claim made by a contractor due to late payment.

We again reported findings on financial and performance reporting as well as non-compliance with legislation at the provincial health department due to the department's reliance on manual record keeping. This resulted in the department receiving a qualified opinion because it could not provide evidence to support what was reported in the annual performance report. The department was also unable to offer a defence against increasing medical negligence and malpractice claims due to a lack of records. This contributed to the department's dismal record when it comes to defending against such claims, with 75% of cases leading to judgments against the department. The department's budget was significantly reduced even before the start of the financial year because of these claims and commitments on other projects. At the beginning of 2021-22, only R6 billion of its R28 billion allocated budget was uncommitted and thus available for service delivery. These financial challenges directly resulted in the poor state of the primary healthcare system, as there were inadequate funds for building and maintaining healthcare facilities and providing adequate staff and medical supplies. The department reported, for instance, that only 178 of its 775 clinics (23%) met the ideal clinic standard.

The provincial transport department received a qualified opinion because of overpayments to scholar transport service providers based on inaccurate data for the distances claimed due to inadequate monitoring controls. Transportation is a key enabler for economic growth, and the province's inability to maintain and improve its road networks is a serious problem that will hinder efforts to stimulate the economy, reduce spatial disparities and promote rural development. The department achieved only 50% of its planned targets relating to transport infrastructure despite spending 100% of its approved budget. The disproportionate relationship between programme expenditure and performance (with services being budgeted for and budgets being spent but services not being delivered) is a cause for concern and affects the daily lives of people in the province. There were significant delays in certain road infrastructure projects due to poor performance by contractors. For instance, one contractor abandoned a project due to financial challenges and went into business rescue because of a lack of technical and financial capacity to carry out the project. An overpayment to another contractor for work not done on upgrading a road resulted in us notifying the accounting officer of a material irregularity in this regard.

The provincial human settlements department had a capital budget of R2,2 billion and transferred R870 million (40%) of this amount to implementing agents to fast-track service delivery. The department had planned to upgrade 115 informal settlements, but due to inadequate planning and coordination between the implementing agents, affected municipalities and the department, it reported zero upgrades at year-end.

The premier's office started its broadband project in 2019 and the plan at inception was to have 2 700 active sites by March 2021, with the contract being structured so that the province would pay monthly rental fees per active site for access to broadband services until 2029. However, only 258 sites were indicated as active and being paid for at year-end due to project delays. New milestones have now been defined and all sites are projected to be active by June 2024. These delays slow down the goal of having a connected province in which all the people in the province are connected to each other and to services and opportunities via broadband internet.

The province's irregular expenditure incurred decreased from R3,03 billion in the previous year to R1,35 billion in 2021-22, largely because of the provincial transport department's prior period adjustment of R2,1 billion in the previous year due to non-compliance in procuring bus services. This department was the highest contributor to irregular expenditure in 2021-22 at R415,4 million, mainly due to an ongoing bus contract awarded irregularly in prior years. Most (79%) of the irregular expenditure in 2021-22 related to non-compliance with the supply chain management requirements of competitiveness and transparency. The irregular expenditure closing balance increased from R6,5 billion in the previous year to R7,5 billion in 2021-22. Investigations into irregular expenditure also took longer to conclude,

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which affected accountability processes – an issue that we have repeatedly highlighted over the last few years.

Since we began implementing the material irregularity process in 2018-19, we have notified accounting officers and authorities of 17 material irregularities in provincial government with an estimated financial loss totalling R167 million. These material irregularities include payments for goods not received, non-compliance with procurement processes leading to incorrect suppliers being appointed, interest and standing-time payments due to late payments, and suspected fraud. The material irregularity process has resulted in accounting officers and authorities taking action against wrongdoing by applying to the court to set aside contracts incorrectly awarded, taking disciplinary action against responsible officials, and laying criminal charges against employees suspected of fraud and who approved payments when goods were not received. In most cases, accounting officers and authorities took action to address the root causes and limit further losses. Where this did not happen, we did not shy away from using our expanded powers by, for example, including a recommendation in the audit report of the provincial health department because the accounting officer did not adequately address a material irregularity arising from late payments to a supplier.

The provincial treasury and cooperative governance and traditional affairs department implemented initiatives to improve municipalities' audit outcomes, but these did not yield the desired results because municipalities did not implement the recommendations. The challenges faced included resistance at certain municipalities or unwillingness to implement corrective action. Some municipalities even took legal action against the department. The performance indicators for the treasury and the department were mostly based on activity rather than service delivery output, which raised questions as to how the actual implementation of initiatives reported on in the annual performance reports would positively affect the lives of the people in the province.

To sustain and further improve audit outcomes and make progress in delivering on the objectives of the Medium-Term Strategic Framework, all roleplayers must first and foremost have service delivery in mind when performing their daily activities. Leakages from the fiscus must be prevented to ensure that funds are available to deliver on the priorities of the province, with adequate planning and implementation of provincial service delivery objectives. We encourage provincial leadership to focus on monitoring preventative controls, ensuring that transgressions are addressed through timely investigations and consequence management, and filling vacant critical posts. Accounting officers and senior management must carry out their duties as prescribed by legislation, and members of the executive council and audit committees must play their oversight role to ensure that administrative leadership is held accountable. The audit outcomes of the three departments that received qualified audit opinions need to be urgently improved.

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FREE STATE

Effective oversight and consequence management is needed to improve accountability for a sustainable impact on service delivery

In our previous general report, we urged leadership to ensure sound financial management to improve audit outcomes and enhance the lives of the people in the province through firm commitments from political leadership, supported by decisive action from the administration and monitoring by portfolio committees. We indicated that sustainable improvements in audit outcomes would only be achieved when all roleplayers in the accountability ecosystem did what they needed to do. The lived experience of the people in the province has not significantly changed as the provincial executive leadership's commitments are all still in progress. Financial management improved slightly due to the administrative leadership's action, but at a very slow pace.

Over the past three years, the number of auditees that received clean audits increased from none in 2019-20 to three in 2021-22. The highlight of 2021-22 was the provincial cooperative governance and traditional affairs department achieving its first clean audit, the Fleet Management Trading Entity sustaining its clean outcome for a second year, and the provincial treasury reclaiming its clean audit status after a regression in the previous year. The achievements of the Fleet Management Trading Entity and the provincial treasury were driven by staff commitment and effective leadership in monitoring compliance with laws and regulations and action plans throughout the year – practices that should be replicated across the province. To sustain its outcome, the cooperative governance and traditional affairs department should now prioritise the daily disciplines relating to record keeping, review and monitor performance information, and fill critical positions that are vacant.

The provincial social development department improved to an unqualified opinion with findings due to the administrative leadership's determination to address the previous year's qualification. To sustain this improvement, the department will have to implement preventative controls to address internal control weaknesses relating to performance reporting as well as compliance with laws and regulations.

Most auditees were not able to reach the desired clean audit status and stagnated on either financially unqualified opinions with findings (27%) or qualified opinions (40%). The quality of financial statements remains a concern as material adjustments were required to 53% of the financial statements submitted for auditing. Political and administrative leadership did not institutionalise internal controls to ensure that they created an environment conducive to credible financial reporting, as not all misstatements could be corrected, which was an indication that action plans developed to improve audit outcomes were not effective. This was attributable to a lack of effective oversight and consequence management to improve accountability for a sustainable impact on service delivery and contributed to the poor quality of the financial statements, continued irregular expenditure, and poor financial health at most auditees.

Performance information also did not receive the required attention over the past three years as only eight auditees (62%) were able to credibly report on their performance in 2021-22. The Free State Development Corporation did not submit its annual performance report due to the delayed submission of its financial statements. The annual performance reports of seven auditees (54%) required material corrections so as not to have a negative impact on

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their audit outcomes. This points to an overreliance on the audit process to identify the errors that need to be corrected for auditees to publish credible performance reports. The achievement of planned performance indicators also remained a challenge due to poor financial and project planning and management, which slowed down service delivery and had a negative impact on the lived experience of the people in the province. For example, the provincial human settlements department spent most of the housing grants received but delivered significantly fewer houses than the target, while some of the completed housing units did not have running water or a functioning sewer system. Overall, poor project planning and management hampered auditees' ability to successfully deliver projects on time and within budget, as there were no consequences for their poor performance. They also did not hold contractors accountable for poor performance as they did not levy penalties and terminate contracts timeously.

The provincial education department did not achieve its targets for the National School Nutrition Programme, as learners at 90% of the schools we visited did not receive meals on the days they were required to attend school during the covid-19 pandemic. At 50% of the schools we visited, learners did not receive meals that met their daily recommended nutritional requirements. The provincial health department also underspent on medicine and health services due to inadequate procurement planning and contract management, facilities being under resourced, and a backlog in procuring and supplying medical prosthetics, which resulted in people in the province not receiving essential medication on time or at all. Departments' reported achievements contradicted the lived experience of people in the province. For instance, the poor condition of provincial roads led to continuing community protests, but the provincial police, roads and transport department overachieved on its road maintenance targets in 2021-22 and has spent 95% of the grant funding received for road maintenance since 2019-20. The cumulative impact of poor procurement decisions and the incorrect use of panels of suppliers over a number of years resulted in the department being unable to make up road maintenance backlogs.

We have notified accounting officers and authorities in the province of 14 material irregularities since we began implementing our expanded powers in 2018-19. Six of these material irregularities were resolved as the accounting officers took appropriate action. The unresolved matters related to debts not recovered, payments for goods or services not received, and standing-time extensions not in terms of the contract. Most accounting officers and authorities took the material irregularity process seriously and were responsive in addressing the reported instances. Some were proactive and referred irregularities, which have not yet been confirmed as material irregularities, to public bodies for further investigation.

The accounting officer of the provincial health department is taking appropriate action to address the two material irregularities raised on infrastructure projects for payments made on work not done, by implementing controls to prevent similar instances. These include appointing building professionals in the infrastructure unit to ensure that each staff member oversees a manageable number of projects. The accounting officer also terminated the contract of the implementing agent responsible for the projects and reported the two material irregularities to the South African Police Service and the Special Investigating Unit for investigation. The contractors were back on site to complete the project and correct the discrepancies between the work done and the payments made, which should ultimately result in the prevention of losses on these projects.

The accounting officer of the provincial human settlements department and the accounting authority of the Free State Development Corporation were slow to address the material irregularities we raised, which resulted in one material irregularity being referred to a public body for further investigation, two being issued with remedial action, and one being referred and having remedial action issued. We engaged the executive authorities responsible for these two auditees to urge them to intervene and to oversee the material irregularities for which remedial actions were issued. Failure to implement the remedial actions will trigger further mechanisms in terms of our expanded mandate.

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There was an overall improvement in compliance with legislation, attributable mostly to the auditees that improved to a clean audit status. Irregular expenditure has fluctuated over the three-year term, decreasing from 2019-20 to 2020-21 but increasing again from R2,22 billion to R2,42 billion in 2021-22 due to irregular expenditure incurred in prior years reported and identified in 2021-22 at the provincial public works and infrastructure department (R0,44 billion).

Over the past three years, the provincial departments of human settlements and of police, roads and transport repeatedly incurred some of the highest irregular expenditure in the province. These two departments did not address their continued supply chain management weaknesses nor hold officials accountable to prevent irregular expenditure from being incurred. Implementing consequences remained a challenge for most auditees as investigations were often not performed, making it more difficult for auditees to identify losses incurred, and negatively affecting service delivery. The lack of consequences over a number of years has ingrained a culture of impunity and a complete disregard for the rule of law at all levels of staff.

Urgent intervention is required to improve the province's financial health, with most departments exhibiting negative indicators in this regard, creating significant uncertainty about their ability to deliver services in future. The province's financial health continued to deteriorate due to a lack of accountability for government spending. Therefore, a significant portion of departments' 2022-23 budget will be required to settle their current obligations, reducing their ability to effectively deliver on their mandate. Departments had a cash shortfall of R5 billion, including funds to be surrendered exceeding cash on hand by R2,64 billion. The combined bank overdraft balances of the provincial departments of education and health, which increased from R1,13 billion in 2019-20 to R1,26 billion in 2021-22, put further pressure on the entire province's financial wellbeing. Outstanding claims against the provincial health department amounted to R4,58 billion, increasing from R3,43 billion in 2019-20, with R551,47 million that had not been budgeted for being paid out in 2021-22, compared to R200,54 million in 2019-20. The total claims represented more than 100% of the next year's budget, excluding employee costs. If these claims materialise, it could further derail service delivery. The provincial treasury, in particular, should promote effective financial management at all auditees to direct the already shrinking public purse to key service delivery imperatives. Without improved fiscal discipline, the departments' financial health will continue to deteriorate.

The provincial treasury supported some departments to address the previous year's audit findings, which contributed to improved audit outcomes. However, the support provided to prevent and investigate unauthorised, irregular, and fruitless and wasteful expenditure was not successful, as limited investigations were conducted, consequence management was not applied, and high amounts of such expenditure were incurred again. The provincial treasury has committed to implement action plans to clear the backlog of irregular expenditure investigations by 2024-25, to reduce unwanted expenditure by at least 30%, and to pay focused attention to procurement practices to reduce irregular expenditure.

Support provided to municipalities by the provincial treasury and cooperative governance and traditional affairs department also did not achieve the desired effect as unfavourable audit outcomes persisted. These two ministries committed to support municipalities to develop and adhere to basic disciplines, safeguard information, and submit financial statements within legislated deadlines. The provincial treasury also committed to capacitate disciplinary boards at municipalities to enable consequence management.

The premier's office continued to emphasise consolidating the department's leadership and oversight role by strengthening provincial decision-making capabilities at various stakeholder levels, such as the president's coordinating council, heads of department forum and provincial clusters, as well as holding frequent provincial and local government interactions. The quality and relevance of the performance indicators set as targets hampered these efforts, as the focus was on measuring, for example, the number of reports issued instead of the quality of content and the successful implementation of proposed actions. The provincial legislature should also improve its follow-up procedures to

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ensure that resolutions and recommendations are implemented. The premier has committed to a continued improvement in all audit outcomes (qualified auditees to move to unqualified opinions with findings); sustained clean audit outcomes at the provincial treasury, the Fleet Management Trading Entity and the provincial cooperative governance and traditional affairs department; and increasing the number of clean audits to an additional four, including at the provincial legislature. In addition, to ensure accountability, all auditees will be required to submit their financial statements by 31 May 2023 and their annual reports will be tabled in the legislature within the legislated timeframe.

At the heart of achieving sustained clean audit outcomes is a leadership tone that promotes ethical behaviour and embeds the discipline of monitoring preventative controls, such as keeping track of the initiatives developed in action plans. Political and administrative leadership should promote accountability by prioritising consequence management, improve financial health, and focus on service delivery to better the lives of all people in the province. Coordinating ministries should continue to strengthen their interventions and support to sustain the improving trends and address the lack of consequences.

GAUTENG

Lack of discipline in sustaining a culture that drives accountability and consequence management resulting in stagnant outcomes

In 2018-19, the last year of the previous administration, we reported on an overall regression in audit outcomes, with a noted emerging trend of disclaimed opinions returning and clean audits disappearing. We urged provincial leadership and oversight to effectively monitor preventative controls and positively influence a culture of accountability, improving financial governance and reducing irregular expenditure. Over the term of the administration, we have noted a stagnation in the audit outcomes mainly due to a slow response and lack of effective monitoring and accountability. We urge leadership and oversight to further promote accountability at the right level to strengthen the province so as to better serve its citizens. We continue to encourage leadership to create a tone at the top that shifts the culture towards a preventative and proactive response.

Notably, the provincial premier's office, legislature, treasury and cooperative governance and traditional affairs department continued to lead by example by embedding a culture of good governance practices and effective control environments to sustain their clean audit outcomes over the term of the administration. However, we remain concerned about the provincial roads and transport and human settlements departments, as key service delivery departments that received negative audit outcomes primarily because of a lack of proper record keeping and senior management reviews of the financial and performance reports submitted for auditing that should form part of the basic control disciplines in financial and performance reporting.

We find it encouraging that 65% of the financial statements submitted for auditing were free from material misstatements, compared to 48% in 2018-19. This improvement can mainly be attributed to improved review and monitoring processes and controls implemented by management and governance structures. However, we remain concerned about the diligence in dealing with findings relating to supply chain management and performance reporting, which then results in the stagnation in the overall audit outcomes. The accounting officers have to drive a culture that further embeds good financial reporting disciplines that will enable good decision making, transparency and accountability.

Performance planning and reporting aim to achieve the objectives of the Medium-Term Strategic Framework, but unreliable performance reporting is adding to the challenge of poor service delivery. Five departments and one public entity (27% of auditees) continued to struggle with performance management and reporting, as can be seen from the material findings we identified, such as reported indicators not agreeing to supporting evidence. This has remained unchanged over the past three years because accounting officers and senior management have been slow to implement action plans and effectively address significant internal control deficiencies. The lack of reliable performance reporting hinders the accounting officers' ability to make informed decisions about resources to deliver the required services to people in the province. Although auditees set planned indicators and targets to improve the lives of citizens, with approved budgets allocated for this purpose, some of the key service delivery departments did not achieve these targets despite spending most of the allocated budgets. This shows that there is misalignment between budget spending and actual service delivery, as well as budget inefficiencies. In particular, the provincial health department shifted

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funds intended for goods and services to pay medical negligence and malpractice claims, which reduced the amount of money it had available to treat patients.

Notably, the strategic plans and annual performance plans of all of the key service delivery departments in the province were aligned to the approved Medium-Term Strategic Framework, except for the human settlements and education departments, which did not include some of the Medium-Term Strategic Framework output indicators in their annual performance plans. However, this alignment did not always result in services being delivered. The provincial health department spent more than 90% of its budget for the district health services programme but its overall achievement on planned performance targets was below 50%. This had a negative effect on the people in the province because the department struggled to provide quality public health services, as can be seen from long queues at healthcare facilities, inadequate infrastructure, insufficient equipment and a number of security incidents. Insufficient storage space and storage practices of medical records also remained a challenge. The department should consider improving the maintenance of health infrastructure, filling vacancies at health institutions and improving the related safety conditions to ensure that citizens of the province have access to quality public health services.

The provincial human settlements department is another example of where the planned performance targets set were not always achieved while budget allocations were spent, as evident with the human settlements development grant. Despite the department progressing with the Gauteng Spatial Master Plan, the province continued to face an increasing housing backlog and demand. We urge the department to continue to monitor the implementation protocols between the various stakeholders so that it can fast-track service delivery to address the backlog in housing and have a positive impact on citizens.

Encouragingly, the provincial education department has demonstrated good practice in delivering quality education services by planning performance indicators and targets intended for positive impact, and achieving most of the targets set. However, during infrastructure project visits, we noted that some projects did not attain contractual completion and the department did not impose penalties on contractors at the correct values. Delays in building projects were also still evident, which further contributed to the overall challenge of overcrowding in schools.

The provincial infrastructure development department acts as a procurement agent for the province's infrastructure needs. However, we were concerned to note that the related performance targets were not achieved, which resulted in infrastructure projects being significantly delayed, particularly on education and healthcare projects, due to delays by both suppliers and service departments. This caused service delivery delays, which contribute to the challenges faced by the health and education sectors.

The provincial economic development department is positioned to ensure that unemployment is reduced, jobs are created, economic growth is attained and investment in the province is increased. However, the department achieved less than 50% of its key performance indicators. Because the targets for capital infrastructure projects were not achieved, jobs were not created and fewer local contractors benefitted from small business development than the planned targets. The slow implementation of plans and lack of adequate job creation had a negative impact on citizens in the province, as unemployment remains high.

The province has kept its financial health viable by continuing to reflect good principles and disciplines of effective budgeting and spending, with 65% of auditees (representing 55% of the province's allocated budget) maintaining good financial health, although this is down from 70% in 2018-19. The financial health of the provincial health department remains strained due to the settlement of legacy accruals and an increasing accrual-adjusted deficit of R8,13 billion. Legal claims continue to pose a risk to the department's financial sustainability, with increasing contingent liabilities arising from medical negligence and malpractice claims. Due to poor management of medical records, the department is often unable to defend itself in cases, which leads to cases being settled and unbudgeted expenditure being incurred.

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Although irregular expenditure incurred in the province decreased from R9,73 billion in the previous year to R7,03 billion, the province continued to struggle with non-compliance with supply chain management regulations. We call on provincial leadership to focus on preventing such irregular expenditure rather than detecting it. Identified instances of non-compliance should also be investigated swiftly to ensure that the closing balance of irregular expenditure, which amounts to R41,09 billion, is dealt with through consequence management and condonation processes.

Since we began implementing our expanded powers, we have issued 10 material irregularities linked to non-compliance. Eight of the material irregularities, with an estimated financial loss of R793 million, have not been fully resolved. We have begun to see the impact of the material irregularity process, as most accounting officers responsible for these material irregularities are in the process of implementing corrective steps, taking disciplinary action against officials who were found to be responsible, and are busy recovering the financial losses. The provincial leadership has since referred some of these matters to the Special Investigating Unit and subsequently to the Competition Commission. One material irregularity at the provincial human settlements department relating to the excessive rental period of temporary residential units has been fully resolved. The department cancelled the leasing contract and bought temporary residential units, thereby preventing further financial losses.

We find it encouraging that the provincial premier's office, legislature, treasury and cooperative governance and traditional affairs department sustained their good audit outcomes and had limited irregular expenditure. This serves as a good example for setting the correct culture. Although these departments had plans and processes in place to implement their mandate, the initiatives and interventions they implemented can be further strengthened to improve audit outcomes and the impact on service delivery for the province as a whole, and to have a greater impact on local government. The agreed-upon service level agreements between the premier and the members of the executive council also create an opportunity for the premier to monitor and track the performance of each member and hold them accountable.

Although provincial leadership should continue to respond to our call for action by implementing preventative controls for producing quality financial reporting, we remain concerned about the area of supply chain management and performance reporting. In response, the premier's office has established both a war room, with a key focus area being on improving audit outcomes, and an integrity unit to address irregularities and corruption, focusing on accountability and transparency. Accounting officers should promote an effective monitoring and accountability culture that will ensure senior management is consistent in implementing the basics in financial and performance reporting and compliance monitoring. Oversight, executive authorities and governance structures need to direct accountability at the right level for timely implementation of audit action plans, timely service delivery, effective consequence management and improved reporting, to ultimately strengthen the province's ability to better serve its people.

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KWAZULU-NATAL

Encouraging trend of improvements in audit outcomes, yet lack of impactful actions to shift outcomes of key service delivery departments

Overall, audit outcomes in the province reflect a net improvement since the previous administration. Nine auditees improved to clean audits, three of which were qualified in 2018-19. Effective oversight, good governance and diligence by all roleplayers in the accountability ecosystem, combined with stability in key management positions, were instrumental in this improvement.

In our previous general report, we urged provincial leadership to enforce a culture of accountability and consequence management to realise further improvements, and we appealed to them to make a concerted effort to improve outcomes and the service delivery experience of people in the province. Leadership responded positively to our call to action, as evident in the 13 auditees (which account for 11% of the provincial budget) that obtained a clean audit in 2021-22. However, the larger service delivery departments of health and transport remained qualified and, together with the provincial education department, although it received an unqualified opinion, continued to struggle with performance reporting and compliance. As these departments account for 83% of the provincial budget, there must be commitment and greater attention by leadership and management to proactively address their challenges.

Two of the provincial coordinating departments, namely treasury and cooperative governance and traditional affairs, maintained their clean audit status, while the premier's office improved to a clean audit. The provincial legislature also maintained its clean audit. The diligent implementation and monitoring of action plans, regular reviews and reconciliations to produce credible financial statements and annual performance reports, as well as robust oversight throughout the year, contributed to the clean administration at these departments. We find it reassuring that all coordinating departments led by example and reported a clean bill of health. These departments should now work together to effectively support ailing departments and municipalities to improve their control environments.

The clean audits at the provincial agriculture and human settlements departments can be attributed to leadership creating a strong internal control environment, ensuring that previously reported key risk areas were addressed, and filling key vacancies.

The improvement in the audit outcomes is also reflected in the quality of the published annual performance reports over the three-year period. However, the departments with the highest spending in the province (namely education and health) continued to struggle with credible performance reporting. Poor record keeping and highly manual processes with large data volumes (lack of automation), as well as the inadequate application of standard operating procedures, continued to plague these departments and resulted in reported achievements not being supported by reliable evidence. The unreliability of performance information at these departments affected service delivery to communities, as decisions about targets and budgets were made based on information that was not credible. The provincial education department also did not include key performance indicators for its core functions in terms of the Medium-Term Strategic Framework, specifically those relating to priorities for education, skills and health, social wages, and cohesion and safer communities.

Providing sufficient, affordable and good-quality basic services in the areas of health, education and infrastructure should be at the centre of service delivery to people in the province, yet we continue to raise concerns around control weaknesses in project management. For instance, during site visits to clinics run by the provincial health department, we noted that patients had to wait a long time to access healthcare services. In addition, poor project management arising from inefficient supply chain management processes due to a lack of coordination between departmental officials and the contractors resulted in delays in the construction of a hospital. These delays further limited the access of people in the province to much-needed healthcare. At the provincial education department, poor project management – together with quality defects at schools under construction – also resulted in delays in project completion. This affected learning and teaching, as classrooms were overcrowded, especially for learners with special needs.

Despite the provincial human settlements department's clean audit, there was slow progress and significant delays in the construction and completion of community residential units. This resulted in community protests, illegal occupation and prospective beneficiaries residing in informal settlements prone to flooding and disasters. The department achieved only 45% of the targets of the housing development programme. This can partly be attributed to a shortage in construction material stemming from the July 2021 unrest, which affected project progress and ultimately service delivery. The provincial transport department did not achieve some of the targets relating to transport infrastructure due to delays in procurement processes as well as the cancellation of some contracts. Poorly maintained roads pose a danger to road users and the lack of road development affects communities' safe access to schools and hospitals, as well as the overall economy.

Departments should effectively manage their budgets and adhere to sound financial principles to ensure that they meet their service delivery objectives. However, the deteriorating state of financial health in the province over the three-year period hindered service delivery, as evidenced by poor cash flow management and budgeting along with other negative financial health indicators at some departments. The provincial education department relied on a bank overdraft to fund expenditure and sustain its cash flow, which would make it difficult to meet future commitments and deliver on promises to people in the province. The provincial health department did not implement adequate steps to prevent medical negligence and malpractice claims, which continued to escalate, placing further pressure on the department's finances when these claims became payable. The department should promptly investigate and address these cases and institute consequence management to reduce further claims – the money spent on paying out claims could instead be channelled towards improving service delivery.

The province improved its monitoring and review of compliance with legislation over the three-year period, mainly because it institutionalised key preventative controls in the form of well-established, effective and standardised processes, and upskilled officials. The number of auditees with material findings on the quality of submitted financial statements decreased from 48% to 22% over the three-year period due to stability in key positions and adequately resourced finance units, together with diligent and robust review processes. The number of auditees with material findings on procurement and contract management also showed significant improvement, dropping from 61% to 17% over the same period, as compliance with supply chain management regulations was strictly monitored. Leadership and senior management led by example and set the correct tone at the top, holding management accountable and implementing consequences where necessary. At auditees where we noted improvements, management was receptive to external audit recommendations, implemented preventative controls, and ensured that officials involved in supply chain management processes were properly trained.

Although there has been some improvement in the compliance related to unauthorised, irregular, and fruitless and wasteful expenditure since 2018-19, we continued to raise findings in this area at 35% of auditees. Consequence management failures and the non-prevention of such expenditure remained the top contributors to material non-compliance.

Irregular expenditure has decreased since the previous administration. This was mainly due to irregular expenditure on housing contracts that was incorrectly recorded at the provincial human settlements department instead of at municipalities, and due to the provincial education department

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finalising the procurement processes for the National School Nutrition Programme panel and no longer using month-to-month contracts. In total, R9,46 billion (99%) of the irregular expenditure was caused by non-compliance with supply chain management legislation, mostly relating to prior year transgressions. This shows that departments are making strides in implementing and monitoring controls over new contracts and quotations. The highest contributors to irregular expenditure were the provincial transport and health departments, at R4,3 billion and R4,6 billion, respectively. The irregular expenditure at the transport department was mainly due to prior year non-compliance relating to panel contracts and expired contracts, while the main cause at the health department was the continued use of expired contracts largely relating to security services.

We assessed whether value for money was derived from the irregular expenditure incurred. The provincial transport department purchased goods and services of R505,16 million at prices higher than market values – we raised a material irregularity in this regard. The department also made payments of R1,61 million for goods and services not received.

The province continued with its poor track record in dealing with irregular expenditure and enforcing accountability at some auditees. The cumulative balance of irregular expenditure continued to grow without being resolved: at year-end, 93% of the prior year closing balance of R48,46 billion had not been dealt with. The provincial transport and health departments were responsible for 83% of the 2021-22 closing balance not having been dealt with. The provincial treasury could not condone most of the prior year irregular expenditure, primarily because the departments did not submit supporting documentation. We found that investigations into irregular expenditure were slow and corrective actions were not taken where required. Departments also did not take effective and appropriate disciplinary action against responsible officials (or could not provide evidence that such actions had been taken).

We have seen a positive response to the material irregularity notifications issued, and accounting officers are committed to investigating and implementing actions to address these irregularities.

In most instances, we concluded that accounting officers are taking appropriate action to resolve matters. We urge accounting officers to promptly investigate, recover and prevent financial losses and to implement effective consequence management against those responsible to create a culture of zero tolerance and deter future transgressions and losses.

As part of building the accountability ecosystem and improving the lived reality of people in the province, coordinating and oversight departments must set the tone for accountability and good governance. Central to coordination are strategic oversight, governance and monitoring of planned support initiatives, and impact assessments to sustainably improve outcomes in all spheres of government, especially at local government level. Coordinating departments should strengthen their support to the provincial health and transport departments and hold executives accountable for non-performance. The premier committed to bolstering efforts to work collectively with the provincial treasury and cooperative governance and traditional affairs department to support all spheres of government. The committees of the legislature must also continue to strengthen their oversight processes in holding departments, entities and municipalities accountable.

All roleplayers in the accountability ecosystem must proactively respond to the root causes of unfavourable outcomes that hamper service delivery, as well as set a tone of zero tolerance for transgressions. Political and administrative leadership must clearly communicate the importance of preventative controls and proactively address key risk areas to strengthen the control environment. Leadership must implement and monitor audit action plans to address the root causes of poor financial and performance management, as well as non-compliance with legislation. Consequence management and accountability must also be enforced at all levels to further improve audit outcomes. Coordinating departments must collaborate and work in an integrated manner to develop risk-based support initiatives and share good practices to create a culture of accountability, transparency and good governance. This, in turn, will contribute to institutions delivering on their mandates and improving the lived experience of people in the province.

LIMPOPO

Decisive leadership must be sustained to further reduce irregular expenditure and eliminate repeat findings to improve audit outcomes

The province improved its overall audit outcomes over the three years since the previous administration. However, the 2021-22 audit outcomes regressed from the previous year because the provincial transport and community safety department could not sustain its clean audit status due to material findings on performance reporting and compliance with legislation. Our general report messages consistently emphasise the need to implement a strong and sustainable control environment. Although auditees develop action plans to address internal control weaknesses that lead to repeat findings, accounting officers, internal audit units and audit committees do not consistently monitor the implementation of these plans. Oversight structures must play a more prominent role in ensuring that accounting officers take responsibility for implementing sound financial management disciplines.

The provincial treasury; the premier's office; the provincial economic development, environment and tourism department; and the Limpopo Gambling Board were able to sustain their clean audit outcomes because they had embedded a culture of basic accounting disciplines. We commend the provincial treasury for maintaining its clean audit status over the three years since the previous administration. We remain concerned that the provincial health and education departments, which share the bulk of the provincial budget, are still receiving qualified audit opinions.

The province improved its compliance with laws and regulations over the administration period, with 12 auditees (71%) having material non-compliance findings in 2021-22, compared to 16 auditees (94%) in 2018-19. We find it encouraging that improved compliance translated into a notable reduction in irregular expenditure incurred. However, we urge leadership to develop a culture of zero tolerance towards non-compliance with legislation by consistently implementing consequences. Although the audit outcomes improved over the current administration period, the quality of financial statements submitted for auditing remained poor, with only six auditees (35%) submitting financial statements that did not require material adjustments (although this is an improvement from the two (12%) in 2018-19). This is an indication that auditees are not adequately dealing with the root causes of poor internal controls, but are rather relying on the audit process to identify misstatements.

Auditees are required to plan according to the Medium-Term Strategic Framework and the provincial development plan to track the progress made towards achieving their medium-term objectives and long-term goals. The outcomes on annual performance reporting improved during the administration period, but only five auditees (29%) submitted quality performance reports that did not require material adjustments; compared to six auditees (35%) in 2018-19, which further indicates their overreliance on the audit process to identify errors. The general lack of credible performance reporting resulted in poor-quality information being submitted to portfolio committees, which hampered their ability to make sound decisions to improve on key service delivery matters in the province.

Infrastructure is a critical element of effective service delivery and is crucial for supporting and intensifying the productive capacity of the province. Some of the infrastructure projects at the provincial health department were not completed in time due to inadequate contract and project management, such as the upgrading of Letaba Hospital that has been delayed by more than two years from the planned

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completion date. The delays were primarily because, on more than one occasion, the service provider did not obtain materials on time. Providing good-quality basic healthcare services is essential; and the lack of adequate infrastructure has a direct impact on the lived reality of people in the province, as it limits their access to basic and urgent medical care.

Overall, the financial health status of the province improved slightly but some auditees still require intervention. The financial health of Great North Transport and Corridor Mining Resources did not improve over the past three years. However, the Roads Agency Limpopo managed to resolve its cash flow challenges by implementing processes to ensure the optimal use of cash resources and the payment of creditors.

The provincial health department, which is one of the key service delivery departments, faces medical negligence and malpractice claims amounting to R14,29 billion. If these claims translate into actual liabilities, funds earmarked for strategic and service delivery objectives will need to be used to settle them. The premier must enforce the implementation of robust strategies to generate revenue and curb expenditure to prevent much-needed resources from being wasted and to ensure their efficient use. This will place the province in a better position to achieve its service delivery objectives and have a positive impact on the lived realities of the province's people.

In a province where agriculture is one of the key economic drivers, we find it concerning that the provincial agriculture and rural development department underspent R90,63 million (10%) of the funds aimed at agricultural support and development (and these funds will thus have to be returned to treasury). The funds were intended to provide assistance to upcoming farmers, and its underspending negatively affects the livelihoods of people who depend on this sector. Leadership should focus on proper project management, including monitoring processes to detect project failures and targets not being achieved so that they can take corrective action as early as possible.

As highlighted above, it is commendable that irregular expenditure in the province decreased over the administration term. Over the previous two years, the irregular expenditure incurred averaged R3,38 billion. In 2021-22, this decreased by almost R1,26 billion to R2,12 billion. The decrease is largely due to non-complying contracts that came to an end in the previous year at the provincial departments of public works, roads and infrastructure, and of cooperative governance, human settlements and traditional affairs; as well as the Roads Agency Limpopo managing to reduce the approval of standing-time variation orders relating to delayed projects. The culture of non-compliance with supply chain management regulations is still prevalent at some auditees, and measures must be put in place to ensure consistent compliance with these regulations. Decisive leadership must be sustained to further reduce irregular expenditure and eliminate repeat findings to improve audit outcomes. Auditees must also develop processes to ensure that implementing agents are held accountable as per their service level agreements and must promptly impose sanctions for non-justifiable deviations. The provincial treasury must ensure that proper and timely investigations are conducted and that disciplinary actions are taken against officials before it approves any requests to condone irregular expenditure.

Since the implementation of our expanded mandate in 2018-19, we have issued notifications for five material irregularities, with an estimated financial loss of R120,35 million; of which two have been resolved. The material irregularity issued in 2021-22 relates to the provincial education department failing to calculate and withhold employees' tax for leave gratuities paid when officials retired. This resulted in the South African Revenue Service imposing penalties and interest of R21,82 million on the department. While the best course of action would be to prevent these material irregularities from occurring, we are encouraged that accounting officers and authorities are taking appropriate actions to resolve the irregularities once notified. The Roads Agency Limpopo prevented a potential financial loss of R1,30 million while the provincial health department managed to recover financial losses of R3,71 million.

The premier is committed to ensuring a culture of accountable and transparent leadership in the province, by entering into service delivery agreements with the members of the executive council. This includes the agreed-upon service delivery initiatives and projects to be implemented over the Medium-Term Strategic Framework period. Provincial leadership must implement – and continuously monitor the implementation of – their commitment for improved service delivery and must apply consequences for service delivery failures. We once again urge provincial and administrative leadership to implement measures to strengthen preventative controls, focusing on auditees that received qualified opinions and on the key service delivery departments. We commend the legislature for holding members of the executive to account by adopting a recommendation of the Standing Committee on Public Accounts to report on the status of implementation of resolutions to the house on a quarterly basis. The repeated qualification areas at the provincial health and education departments are not insurmountable, and we are confident that these departments can move out of the qualified space in the next audit cycle if they implement basic financial management disciplines.

MPUMALANGA

A lack of leadership commitment to establish a strong control environment and enforce accountability

For the last three years, our message to the current administration has been that to change the status quo and achieve the desired accountability and service delivery in the province, it needs to focus on four key areas, namely:

- implementing effective preventative controls
- strengthening the state of financial health
- effective project planning and management
- compliance with legislation, especially as it relates to procurement and consequences.

While provincial leadership committed to work on these critical areas in the previous year, the slow response to honouring these commitments led to stagnant audit outcomes and gaps in service delivery. A culture of not doing things right persisted due to a lack of leadership commitment to establish a strong control environment and enforce accountability.

Audit outcomes in the province have continued to fluctuate, while remaining stagnant overall over the current administration term. This was largely because provincial leadership failed to ensure that management and other parties in the accountability ecosystem, such as internal auditors and audit committees, effectively addressed the warning signals that we reported in prior years and that auditees institutionalised strong financial management and reporting internal controls. Consequently, auditees continue to produce poor-quality financial statements, with only six auditees (38%) submitting credible financial statements for auditing. Auditees also continue to rely on the audit process to identify and correct misstatements, with five auditees (31%) receiving unqualified audit opinions only because we allowed them to correct misstatements we identified in their submitted financial statements. Three of these auditees were key service delivery departments (health, education, and public works, roads and transport) that, together, are responsible for 80% (R45 billion) of the provincial budget.

We would like to commend both the Mpumalanga Tourism and Parks Agency, which improved from an unqualified opinion with findings to a clean audit, and the Mpumalanga Economic Growth Agency, which received an unqualified opinion with findings after having received a modified opinion since its inception in 2010-11. Both these auditees were able to address significant deficiencies in their internal controls. At the Mpumalanga Tourism and Parks Agency, the newly appointed chief financial officer implemented strong monitoring controls over financial, performance and compliance areas, while the improvement at the Mpumalanga Economic Growth Agency was mainly due to better record keeping for loan agreements. The provincial treasury was unable to maintain its clean audit status and regressed to an unqualified opinion with findings due to material non-compliance findings relating to supply chain management. The Mpumalanga Regional Training Trust regressed from an unqualified to a qualified opinion because management did not design and implement a credible action plan as well as instability in the position of the chief executive officer.

Persistent weak financial management and budgeting controls led to the financial health status of auditees in the province deteriorating, which negatively affected their ability to deliver services. Departments and entities continued to spend money that they did not have, and seven auditees had a combined R1,5 billion deficit. The departments also disclosed a total of R11,6 billion in legal action against the state. The provincial health department was responsible for R10,2 billion of this amount (88%), mainly due to medical negligence claims. This is not surprising given the surge in nursing, medical and clinical vacancies, made worse by the budget cuts. When these claims are settled, it is with funds earmarked for service delivery. The provincial education department is struggling with good financial management, as can be seen from negative financial indicators such as an overdraft of R90 million, an accrual-adjusted net deficit of R129 million and unauthorised expenditure of R130,9 million. This department is expected to use 25% of its 2022-23 budget to fund the 2021-22 cash shortfall, which negatively affects its ability to meet future service delivery needs. The Mpumalanga Regional Training Trust experienced serious liquidity and cash flow challenges, which caused it to use funding that was earmarked for strategic objectives such as establishing the Mpumalanga Innovation and Skills Hub to fund its own operations. As a result, the public entity reported financial sustainability issues in its financial statements. These financial woes are typical examples of service delivery being compromised due to accountability failures.

Revenue-generating departments, such as the provincial community safety, security and liaison department, and public entities, such as the Mpumalanga Economic Growth Agency and the Mpumalanga Tourism and Parks Agency, are not optimising their role to increase revenue for the province. The department struggled to properly account for generated revenue and thus continues to be qualified on this aspect year after year, while the entities operated at a deficit. These auditees continue to rely on grants from the state when they could be self-sufficient.

Weaknesses in financial and project management controls continue to negatively affect the delivery of infrastructure projects in the province. The provincial public works, roads and transport department is responsible for procuring and implementing infrastructure projects, and is thus central to the province's project management failures. The department struggled to ensure that its project management unit was capable of monitoring and overseeing infrastructure projects and continued to rely heavily on consultants to perform this function without scrutinising their work. The department's failures continued to cause glaring project management deficiencies and non-compliance with supply chain management legislation, which resulted in irregular expenditure. Consequently, the department ranked as the highest contributor to irregular expenditure, incurring R1,02 billion (38%) of the total irregular expenditure in the province in 2021-22. We remain concerned about this department overpaying contractors for work that is not done, as this takes away funds that could have been used for other service delivery initiatives, and we have issued two material irregularities in this regard. Ultimately, these failures negatively affect the timely and cost-effective delivery of the infrastructure that is needed for service delivery. Provincial government urgently needs to build internal capacity and not rely so much on consultants.

Although the overall quality of performance reporting improved, with only three of the province's 16 auditees having material findings compared to six in the previous year, this does not tell the full story. Auditees do not always have indicators for all of the critical needs (lived realities) of people in the province, and in some cases did not include mandatory Medium-Term Strategic Framework indicators in their annual performance plans, meaning that resources are not planned for these needs. And while some auditees did include all relevant key indicators in their annual performance plans, they underperformed substantially on the targets set. For example, the provincial health department did not include indicators relating to human resource needs and filling critical posts despite its struggle with staffing issues, which causes long queues and deprives people in the province of the best possible patient care. It also only achieved 37% of its planned targets. This level of performance could actually be lower due to the material findings raised on the district health services programme, which is one of the department's core mandates as it relates to comprehensive primary healthcare services. The provincial education department excluded some mandatory Medium-Term Strategic Framework indicators from its annual performance plan; when such critical priorities are not tracked, the quality of education is negatively affected. It also achieved only 73% of its targets relating to the public ordinary schools programme, despite overspending on the programme budget. This affected critical priorities such as placing teachers, which left some schools operating with skeleton staff and overcrowded classes. At the Mpumalanga Tourism and Parks Agency, one of the indicators that plays a key role in biodiversity is the Management Effectiveness Tracking Tool score. The target for 2021-22 was for

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40% of the sites to receive a score of at least 67%; however, not one nature reserve achieved this score. One of the aspects that affects the score is road infrastructure, and the bad state of roads leading to key tourist attractions negatively affected the tourism and tourism-related businesses in the province. The provincial human settlements department had an indicator relating to the enrolment of houses with the National Home Builders Registration Council targeted at 3 266, but only enrolled 1 697. This underachievement created a backlog in service delivery.

Some indicators are also not output driven and therefore not aimed at driving service delivery, or do not focus on the right priorities. For example, the provincial public works department reported that it had achieved the indicator for scholar transport, which focused on the number of routes monitored and not on the safety of the learners. During our audit, we found buses that were operating with expired licences and drivers who did not have driver's licences, which endangers the safety of learners. The department is not implementing any consequences for such transgressions. The departments and entities in the province need to enhance their planning process and focus on identifying priorities to ensure credible, good-quality annual performance plans.

Information technology controls in provincial departments regressed in 2021-22 and there were still challenges in ensuring effective controls for information technology governance, user access management and security management. This compromised the financial and performance management systems used to produce financial and performance information and to meet service delivery objectives. The provincial health department decided to invest in a queue management system at five hospital facilities – a good initiative that is meant to respond to the long patient waiting times. However, due to deficiencies in information technology governance controls (lack of oversight by the information technology steering committee) and project management failures (no feasibility analysis study and no clear project owner), only two hospitals ended up partially using the system.

Weak control environments and a lack of consequences have created a culture of impunity and a blatant disregard for the rule of law, especially when it comes to procurement. As a result, nearly all (98%) of the province's R2,7 billion in irregular expenditure related to supply chain management. Auditees also have a poor track record when it comes to dealing with irregular expenditure swiftly and ensuring accountability, with a total of R7 billion in prior year irregular expenditure not yet having been dealt with.

Since phasing in our expanded powers four years ago, we have implemented the material irregularity process at 10 auditees in the province. By 31 August 2022, we had notified accounting officers and authorities of 10 material irregularities with a combined estimated financial loss of R458 million. In 2021-22, we notified the accounting officers or authorities of four auditees (provincial departments of education, and public works, roads and transport; Mpumalanga Regional Training Trust; Mpumalanga Economic Growth Agency) of a total of seven material irregularities with a combined estimated financial loss of R348 million. These material irregularities were due to weaknesses in financial management controls, such as reconciliations of source information, reviews of payments to suppliers, and strict implementation of debt management policies. Accounting officers and authorities are taking appropriate action (such as implementing controls to prevent further losses and reporting the matters to relevant authorities for investigation) to address three of the 10 material irregularities, and we find the response of the Mpumalanga Economic Growth Agency particularly encouraging. Through diligent and decisive actions, the agency was able to resolve a material irregularity on non-adherence to its debt management policy. Leadership within the province is responsive to the matters raised as material irregularities; however, this responsiveness is not always adequate or sufficiently supported by credible information to allow for the swift conclusion of the actions taken or planned.

Overall, we found that the various roleplayers in the accountability ecosystem, including the coordinating ministries, were not effective in their roles. The coordinating ministries set input-based indicators rather than impact-based ones for their interventions and support roles. And, in some instances, the ministries did not include indicators that measure the interventions and support in their annual performance plans. We engaged the leadership of the coordinating ministries on the quality and completeness of indicators with the sole aim of

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influencing them to play their role effectively to bring tangible improvements in provincial administration.

In response to the 2021-22 audit outcomes, members of the executive councils of various departments, the premier and the speaker of the legislature made commitments to improve audit outcomes by developing and implementing effective action plans, and by implementing our recommendations. Accounting officers made specific commitments to the premier, including the following:

- Increase clean audits to six provincial departments (social development; economic development and tourism; human settlements; sports, arts and culture; health; and the premier's office).
- Build internal capacity as a permanent solution to address project management issues affecting the quality and timeliness of service delivery.
- Closely monitor performance against targets, especially at the provincial departments of education and health.
- Ensure that audit action plans are developed and shared with the premier's office so that the office can monitor how these action plans are implemented.

Furthermore, the speaker committed to the following:

- Departments and public entities (assisted by the provincial treasury) will be requested to draft internal control turnaround strategies, including plans to improve the state of financial health, and to submit quarterly progress reports to the portfolio committees.
- Portfolio committees will increase the number of planned oversight visits to projects (in progress and completed) to check the amount paid against the stages of completion and the quality of workmanship on these projects.
- Departments and entities will be expected to submit progress reports to the legislature on the implementation of house resolutions emanating from annual reports (audit outcomes) with appropriate evidence.
- Portfolio committees will develop a mechanism to ensure that the non-implementation of house resolutions is addressed.

We will follow up on the province's progress in implementing these commitments in the next audit cycle.

We call upon all roleplayers in the accountability ecosystem to play their roles effectively and work together to implement sustainable solutions that will address the four critical areas highlighted in our yearly messages. Only then will we see a public sector culture shift towards increased accountability for government spending and improved lived experiences for the people in the province.

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NORTHERN CAPE

Enhanced culture of accountability for the improvement of people's lives

Our message in the previous general report focused on accountability, leadership responsiveness to internal and external audit findings, and strengthening controls around preventing and detecting irregular expenditure. We urged provincial and administrative leadership to focus on those auditees that received qualified audit opinions and on the key service delivery departments to ensure that a culture of consequence management is embedded, and we recommended that best practices be extracted and replicated throughout to ensure improved audit outcomes and better service delivery.

The highlights of 2021-22 were the provincial sport, arts and culture department achieving its first clean audit and the premier's office, provincial treasury and provincial social development department all maintaining their clean audit status. The provincial transport, safety and liaison department managed to improve from a qualified to an unqualified audit opinion with findings. Over the term of the administration, the number of auditees receiving clean audits improved from three in 2019-20 to four in 2021-22, while the provincial education and economic development and tourism departments managed to improve from qualified to unqualified audit opinions.

The operation clean audit committee established by the premier focused on improving audit outcomes. The provincial treasury provided support to selected departments by assisting with the development of audit action plans and attending audit steering meetings. These initiatives are commendable and should be continued, but with increased focus by oversight structures on service delivery matters.

While most key service delivery departments (education; roads and public works; and cooperative governance, human settlements and traditional affairs) remained unqualified with findings in the area of compliance, the state of the provincial health department remains a key concern. There was no consequence management at the department because of a lack of a clear and consistent tone from the top, combined with instability in key positions. The accounting officer's position was vacant for more than two years and senior management positions (all at chief director level) were vacant during 2021-22, resulting in a lack of accountability and proper segregation of duties.

The quality of financial statements remained concerning, as only half of the departments could submit quality financial statements, while a third obtained an unqualified opinion only by correcting all the material misstatements we identified during our audit. This confirms that leadership continued to be reactive, placed too much reliance on the audit process (which is neither prudent nor sustainable), and had not yet instilled a culture of financial discipline (including reconciliations and key controls) and accountability at all departments. Going forward, accounting officers should strengthen the internal control environment around reliable financial reporting and prepare interim financial statements.

Although departments' published annual performance reports showed improvement, this did not necessarily translate into improved service delivery and increased quality of life for the people in the province. Most departments got record keeping and reporting right, but the service delivery departments underachieved their targets by 27% on average and underspent their budgets by 5% on average, raising questions about their ability to properly manage budgets and projects. Furthermore, the four key service delivery departments included only 48% of the Medium-Term Strategic Framework indicators in their annual performance plans, meaning that most of these core indicators were not measured. The provincial education department included only 16% of the framework's indicators in its annual performance plan, raising doubt about the completeness of its performance plan. In addition, some departments did not compile key performance indicators in a manner that measured the actual impact, but instead focused on secondary or administrative tasks (such as the number of meetings held or reports issued) rather than on basic service delivery results. Departments focused on the inputs that were mostly within their control, rather than on the eventual outcomes that are more difficult to achieve, less predictable, and require good leadership and oversight.

Adequate and well-maintained infrastructure assets are key to delivering quality services to the province's people. Yet, during our site visits to key service delivery departments, we observed project delays, poor-quality work, weak project management, and the non-delivery of infrastructure already paid for. For example, construction of the Boegoeberg Clinic near Groblershoop started in September 2017 with an estimated project duration of 12 months and a budgeted project cost of R26,20 million. By April 2022, work on the project was still continuing, with R18,83 million already having been spent. This meant that the community still did not have access to primary healthcare services. The delays were caused by a hold-up in processing payments to the contractor, the department not providing the contractor with the correct set of drawings, a lack of a construction programme of works on site, electrical works such as lights not being installed according to the design, and paved areas sloping towards the clinic with a resultant risk of flooding. Consequences need to follow where projects are delayed to avoid potential overspending and losses due to interest on late payments to contractors.

We also visited the construction site of 458 community residential units in Lerato Park, Kimberley. This contract was originally awarded in 2014, but when the owner of the contracting company passed away in 2017, the project was abandoned for two years while the company went through liquidation, which had to be concluded before the department could take back the site. During this period, the partly built units deteriorated due to theft, vandalism and weathering because the site was not adequately protected. A second contractor, appointed in 2019, identified that the original contractor had done substandard work, resulting in major structural defects, vertical joints that had not been prepared for sealer, and various cracks in the plaster of inside and outside walls.

We notified the accounting officer of the provincial cooperative governance, human settlements and traditional affairs department of a material irregularity arising from losses identified on the Lerato Park project because of poor workmanship, amounting to R26,56 million. Although the department had controls in place to ensure that officials signed off on the quality of work before payment was made, the supplier was paid even though there were indications of poor workmanship, pointing to project managers not carrying out their duties with due diligence. The accounting officer needs to investigate the matter and take appropriate remedial action.

Delays in project completion due to appointing contractors that did not have the required skills, poor planning and a lack of project management also resulted in increased project-related costs, eroding the financial health of departments. Although the overall financial health status of the province improved, some departments continued to inadequately manage their cash flow. One such department is health, which faced financial sustainability issues largely arising from spending pressures due to service delivery demands and budget constraints, which could make it difficult for the department to meet its foreseeable payment and service delivery obligations. The department owed suppliers R397,23 million at year-end, which represented 17% of its budget for the following year (excluding transfers and subsidies as well as compensation of employees). This situation was made even worse by medical negligence and malpractice claims against the department, which totalled R1,56 billion in 2021-22. The department's leadership, together with the operation clean audit committee, should undertake a diligent risk assessment of such claims lodged and paid out, and formulate preventative controls using medical, legal and financial expertise to reduce avoidable losses.

The province's compliance with legislation improved over the term of the administration, with fewer supply chain management findings, but deficiencies in procurement processes persisted, including a lack

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of required quotation or tender processes, proper contract extension processes, and valid contracts. As a result, irregular expenditure incurred increased over the term of the administration, from R1,43 billion in 2019-20 to R1,63 billion in 2021-22. The 2021-22 amount might be even higher because the provincial health department was qualified on the completeness of its irregular expenditure disclosure.

Accounting officers were still reactive when it came to the material irregularities we issued. We therefore urge political leadership and provincial oversight to become more involved in ensuring that these matters receive urgent attention to strengthen the integrity of public institutions, recover and prevent losses, implement consequences for misconduct, and drive a change in behaviour to prevent similar matters from recurring. Since 2018-19, we have notified accounting officers of 12 material irregularities, two of which have been closed as the accounting officers took appropriate action (including performing internal investigations; consulting with the State Attorney; and referring the matter for specialist investigation, recovery and possible litigation). Two of the remaining 10 material irregularities were reported in the 2019-20 general report and eight were issued in 2021-22. These material irregularities have a combined estimated financial loss of R88,17 million and relate to payments for goods and services not received, payments not made or not made in time resulting in interest, payments for substandard work, and non-compliance in procurement processes resulting in the overpricing of goods and services. In two instances, the accounting officer did not take appropriate action and we are busy assessing the way forward.

The coordinating departments in the province continued to lead by example, with the premier's office and provincial treasury obtaining clean audits and the provincial legislature and provincial cooperative governance, human settlements and traditional affairs department receiving financially unqualified audit opinions with no findings on performance information. The achieved performance reported by these departments against their mandates largely related to administrative targets. If departments are to drive real change and accountability, indicators should rather focus on outcomes. The fact that a quarter of departments corrected the material misstatements we identified in their annual performance reports to avoid material findings, highlights the fact that the premier's office still needs to do more to ensure proper oversight by improving its monitoring and evaluation in this key area.

The provincial legislature did not assist departments by tracking the implementation of resolutions or creating capacity to support the portfolio committees and public accounts committee. The provincial cooperative governance, human settlements and traditional affairs department did not achieve targets linked to supporting municipalities to maintain functional municipal public accounts committees, which might compromise municipalities' ability to appropriately deal with unauthorised, irregular, and fruitless and wasteful expenditure.

In the previous year, provincial oversight and the speaker committed to achieving clean audits at 10 municipalities, ensuring that financial statements were submitted on time and working closely with us to ensure that audit recommendations were implemented. These commitments are either still in progress or have not yet started. We therefore encourage these roleplayers in the accountability ecosystem to ensure that mechanisms are put in place to properly track the progress on commitments and respond swiftly to any shortcomings.

Although the province has showed an overall improvement over the past three years, we cannot overlook the concerns highlighted above, which reaffirm the need for an enhanced culture of accountability for the improvement of people's lives. The province should continue to improve its audit outcomes, but with greater accountability and discipline in managing public funds. Provincial leadership should focus its efforts on instilling a culture of financial and performance reporting disciplines and corrective measures, and on insisting on preventative controls. This should translate into improved control environments, consistently improved audit outcomes, and proper service delivery to the people of the province.

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NORTH WEST

Intensify the role of coordinating and oversight structures to improve the lived experiences of people in the province

In previous general reports, we reiterated the need for provincial leadership to be deliberate in its efforts to build skills and capacity within financial and performance reporting directorates and to hold all relevant roleplayers accountable for implementing corrective action in response to weak control environments, transgressions and poor performance. Over the three-year period, there were some gains and traction, as evident in improvements in the audit outcomes of four departments and two entities. However, a sustainable control environment to improve service delivery will require extra effort by all roleplayers in the accountability ecosystem.

The audit outcomes for 2021-22 reflect one clean audit and eight unqualified opinions with findings, as well as six qualified, one adverse and two disclaimed opinions. The sustainability of the improvements over the past three years is yet to be seen, however, as accounting officers had not yet instilled a culture of producing quality financial statements, officials did not attend to recurring findings, and key roleplayers did not diligently and regularly monitor post-audit action plans. Senior managers and officials also did not attend to basic control activities such as proper record keeping, processing and reconciling controls as well as performing timely reviews because there were no consequences for them not doing so. Executive leadership should be concerned that the provincial treasury remains the only department with a sustained clean audit outcome over the three years of the current administration.

To address the above concerns, accounting officers should capacitate finance units with skilled individuals who will carefully and consistently implement day-to-day financial and compliance disciplines. Accounting officers should also strive for maximum benefit from governance structures by insisting on the timely submission of quarterly reports for review by internal audit units and audit committees. To enhance accountability, executive authorities should hold accounting officers answerable for not adhering to their basic responsibilities as contained in the Public Finance Management Act.

The annual performance plans of the key service delivery departments were aligned to the approved Medium-Term Strategic Framework, except for the provincial education department, which had not included all output indicators. Nine auditees were able to report accurately on their performance information with no findings, an improvement from only five in 2018-19. However, reporting accurately does not necessarily mean that services were delivered. For example, the provincial public works and roads department reported accurately on its performance, but did not achieve most of its planned targets. The roads within the province and some government buildings under its management are in a poor state. Despite this, the department underspent its budget on transport infrastructure by R466 million, mostly relating to road construction and maintenance, due to a lack of proper planning in the procurement process to ensure that a panel of prequalified contractors with the required Construction Industry Development Board grading was available.

Conversely, at the provincial health department, we could not audit a number of indicators relating to HIV/Aids and tuberculosis surveillance and treatment due to differences between the reported achievement and the patient information in primary healthcare facility registers. This lack of credible performance data made it difficult to measure how the department delivered on its mandate and the overall primary healthcare in the province. The

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accounting officer should hold facility and sub-district managers accountable for the lack of corrective action for such poor-quality performance reporting.

As part of our work, we audited the management of infrastructure projects at various departments and found that poor project management continued to be a significant contributor to delayed projects. The provincial human settlements department had still not completed the Geluksoord housing project in Lekwa-Teemane or the Matlosana extension 5 project, both of which were supposed to have been completed in 2019. The department also underspent its budget for housing development by R271,3 million, most of which related to the human settlements development grant, because it did not have adequate capacity in its project management unit to monitor and timeously inspect projects. This meant that people continued to live in poor conditions while waiting for proper housing.

We found similar project management shortcomings at the provincial health department. For example, the Excelsius Nursing College project had been delayed by 46 months, during which time the department spent more than R50 million on renting office and teaching space as an alternative arrangement. Likewise, the provincial education department had not completed Loretlweng Primary School and Tlotlang Thuto Secondary School four years after their planned completion dates. Learners thus had to attend neighbouring schools, which became overcrowded and did not provide a conducive learning environment.

Ordinarily, the provincial public works and roads department should manage these infrastructure projects, but due to its failure to execute its mandate in the past, user departments started taking over their own projects. Unfortunately, user departments did not have the required project management capabilities, such as determining the skilled workforce required on each project. Provincial leadership should capacitate the responsible department to deliver on its mandate or, alternatively, formally decentralise the responsibility to user departments and equip them with the necessary project management skills.

The financial health of the province remains a concern, more so at public entities, as evident from the North West Transport Investment group being placed under business rescue and the Golden Leopard Resorts group of subsidiaries being dependent on government bailouts and loans to run its daily operations and settle its financial obligations. The poor performance of these entities hampers the delivery of bus services to communities and the recovery of the tourism-driven economy. Provincial leadership should reassess whether these entities are still an effective instrument to address economic development and job creation in the province.

At departmental level, the provincial health department also showed indicators of financial sustainability concerns. The department overspent its budget by R389 million despite having received additional funding during the year to deal with its growing accrual balance, which increased to R1,3 billion despite the additional funds. Even though it overspent on employee costs, the department did not have enough personnel to address the health needs of the people in the province, specifically at primary healthcare and district hospitals. For example, at Sunrise Park Clinic, professional nurses were overworked as each nurse had to provide clinical services to over 35 patients a day, which is not sustainable. The department, taking into account the current budget constraints, needs to reorganise its organisational structure to ensure that all facilities are sufficiently staffed with the right balance of medical and administrative staff.

The province's annual irregular expenditure decreased slightly over the three-year period, but remained high with R3,75 billion being incurred in 2021-22. This was mainly due to non-compliance, specifically a lack of transparency or competitiveness in procurement processes, such as the extension of expired contracts or deviations not being properly approved. While not all irregular expenditure results in financial losses, it heightens the risk of corruption and process weaknesses. This makes it even more important for departments to investigate irregular expenditure. Yet, departments lacked the capacity to do so and the initiative of the premier's office to assist with investigations and disciplinary processes did not yield positive results due to a lack of sufficient and skilled resources.

Since our mandate was expanded in 2018-19, we have issued 29 material irregularities to accounting officers. Through these material irregularities, we have managed to influence accountability and enforce corrective action. At the provincial health department, for instance, this included the prevention of a possible loss of R65,6 million; disciplinary action against responsible officials; recovery of R9,4 million from a contractor; and recovery of further losses totalling R15 million being initiated. However, some accounting officers are reactive and only start corrective action once we have notified them of a material irregularity. Executive authorities need to insist on progress updates to ensure that accounting officers are diligently and effectively implementing the committed actions.

Coordinating departments and oversight structures should aim to monitor, support and strengthen governance within the province. The legislature reviewed departments' strategic plans and raised recommendations, but departments' lack of implementation of resolutions hindered the impact of legislature committees. The speaker should support committee chairpersons by getting members of the executive council to buy into, and agree to fully implement, these resolutions. The provincial treasury actively supported departments in line with its legislated mandate. The treasury's initiatives can be enhanced by customising them to address entity-specific root causes with a focus on financial difficulties. Although the premier's office identified non-performing departments (despite no agreements being in place between the premier and some of the members of the executive council), no corrective action was enforced. The premier should thus enhance the process aimed at holding responsible executives accountable for implementing corrective action.

Coordinating departments and oversight structures should focus on key service delivery departments to ensure that their initiatives, projects and spending are aligned to their allocated budgets and that any deviations are addressed immediately to ensure a positive impact on service delivery.

It is now more than four years since the national intervention in terms of section 100(1)(a) and (b) of the Constitution at 10 departments. Since then, the premier's office; provincial health, social development, and agriculture and rural development departments; Mmabana Arts, Culture and Sports Foundation; and North West Development Corporation have all improved their audit outcomes, with the provincial education department regressing over the period. Provincial leadership should assess and build on the gains driving these improvements.

We urge provincial leadership to focus on improving financial and performance reporting disciplines to enable the preparation and submission of credible financial statements and annual performance reports. As coordinating departments and oversight structures form the cornerstone for better outcomes and improved service delivery, we continue our call for all key roleplayers to support and intensify the role of the coordinating departments and oversight structures to improve the lived experiences of people in the province. A culture of responsiveness, consequence management, good governance and accountability should be a shared vision for all, including executive authorities, the legislature and the coordinating departments.

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WESTERN CAPE

Leverage the stable control environment and financial governance practices to have a greater impact on service delivery to the people of the province

In 2021-22, the consistent positive pattern of prior years continued, reflecting an overall 'robust control environment, with a solid and consistent pattern of good financial governance'. This positive reflection highlighted the tone set by the accounting officers and authorities, instilling a culture of doing the right thing, being accountable, and improving controls as key elements in achieving and sustaining clean audit outcomes.

This year, 17 auditees obtained clean audits, with 15 maintaining this status over the three-year period. The province sustained this level of maturity by institutionalising daily and monthly controls, appointing competent staff, maintaining stability in key positions and ensuring that action plans effectively addressed any control weaknesses identified. These good practices supported the timeous submission of quality financial statements by all auditees, except for Wesgro, which was qualified due to asset management issues. This also resulted in material non-compliance relating to financial statement preparation. The remaining 20 auditees all achieved financially unqualified audit outcomes.

The province's overall financial health was good, demonstrating its ability to manage financial resources in a manner that maintains favourable financial ratios as a result of their best practices. Every year, each department submits its first and second draft budget to the provincial treasury to determine whether the budget is in line with the regulatory framework and allocation letters, based on previous expenditure trends and capacity to spend. The province has also not incurred any unauthorised expenditure for the past three years.

Seven auditees submitted annual performance reports containing material errors in 2021-22, an improvement from 10 in 2018-19. Misstatements were mainly due to management not adequately reviewing the reported performance against supporting documentation. When performance information is unreliable, it may negatively affect the decisions made by users who rely on this information. Of these seven auditees, three were able to re-perform the verification process and resubmit accurate information, effectively correcting the misstatements. The provincial education and human settlements departments (two of the four key service delivery departments), Casidra and Wesgro were unable to correct all these errors, which resulted in reported achievements not being supported by appropriate evidence, as well as indicators not being well defined. For example, the provincial education department again struggled to collate information for reporting on the percentage of learners with textbooks, and the provincial human settlements department could not report accurately on the number of title deeds registered for new developments. The audit opinions for these two departments thus remained financially unqualified with findings.

The remaining two key service delivery departments – health, and transport and public works – maintained their clean audit outcomes and submitted annual performance reports that were free from material errors. The service departments' mandates were generally aligned to the Medium-Term Strategic Framework, and indicators and targets were aligned to sector indicators. Such alignment has the benefit of positively affecting the use of public resources and promoting improved service delivery outcomes for all people in the province.

Two of the key service delivery departments (education and human settlements) experienced significant delays on infrastructure projects, which translated into delayed service delivery to people in the province. We performed audit work on three schools and two housing projects. Housing units were not allocated to beneficiaries as planned because poor contract management at the provincial human settlements department resulted in the contractor's access to the site being delayed due to another contractor's poor performance and construction drawings being submitted late. The provincial education department also experienced delays in the construction of schools, mainly due to a combination of events outside of the department's control, such as the continued impact of covid-19 lockdowns on multiyear projects and poor performance by contractors. Where poor contractor performance caused the delays, departments and implementing agents exercised effective project and contract management in response.

In addition to the work we conducted on service delivery, we visited some health facilities to determine the efficiency of services provided to people in the province. On a positive note, we found that inpatient areas were clean, there were sufficient nurses to take care of patients, patients were treated in a friendly manner, and the number of patients waiting in line decreased significantly during the course of the day as patients were attended to. Shortcomings included relaxed security in rural areas, limited services due to staff shortages or broken machinery, substandard ablution facilities, and inadequate signage to guide patients to the correct services. We also looked at the extent of medical negligence and malpractice claims against the provincial health department, as such claims have the potential to divert money away from critically needed healthcare for people in the province. We found that the department is managing this exposure through a competent team assessing the merits of each claim, with the settlement of claims amounting to R47,6 million for 2021-22 and the total provided at year-end amounting to R426,5 million.

Our visits to schools identified shortcomings in the implementation of the National School Nutrition Programme, such as complete and accurate monthly stock registers not being kept, expired stock in storerooms, and food not being suitably stored. In some cases, this led to wastage, a lack of a balanced meal and learners not always receiving meals as intended. This greatly affected the programme's purpose of serving a balanced meal to boost the concentration of learners and ensuring that teachers get the maximum out of the available teaching time.

In the area of compliance with legislation, the province's robust control environment has decreased the number of matters identified at departments. We raised material findings at only three auditees, mainly relating to the prevention of irregular expenditure, transfers and conditional grants, and strategic planning.

The province incurred irregular expenditure of R330 million in 2021-22 (with R156 million being identified by auditees and R174 million through the audit process), which is relatively unchanged from the previous year's R329 million. Of the total, R90 million related to prior year irregular expenditure identified in 2021-22. The provincial human settlements department was again the highest contributor to the total irregular expenditure, accounting for R222 million. The bulk of this amount (R180 million) related to prior year contracts that were still active in 2021-22, while R22 million related to non-compliance with the National Housing Code. The department should implement monitoring controls to ensure that all procurement regulations are complied with to reduce irregular expenditure, as this could have an impact on future audit outcomes.

In November 2021, we notified the accounting officer of the provincial human settlements department of a material irregularity relating to incorrect housing subsidy payments. The accounting officer implemented actions based on the issued material irregularity, and quantified the overpayments to beneficiaries to have resulted in a financial loss of R22 million. We assessed the accounting officer's response to address the material irregularity and found it to be adequate to prevent any further losses.

The coordinating departments of the premier, treasury and local government continued with their oversight and support by promoting a culture of good governance through the corporate governance and review outlook processes implemented in the past, as well as assisting with skills shortages at outlying municipalities. These ongoing support interventions played a crucial role in sustaining the audit outcomes through institutionalising budgetary control, monitoring monthly reports, and enforcing financial

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and performance management principles, including compliance with legislation. The provincial premier's department also implemented additional controls through its monitoring and evaluation component, which included evaluating performance indicators of departments and entities against usefulness criteria and verifying the quarterly reported information against supporting schedules after auditees had validated it against their supporting evidence. In light of the performance reporting outcomes, the premier's department should consider enhancing the support intervention to improve systems so that it is clear exactly what information needs to be collected and collated, with an emphasis on auditees where we raised material findings on usefulness and reliability. This would also result in more credible annual performance reports being provided to the legislature for oversight purposes.

We again engaged with portfolio committees, during which they focused on all critical areas within departments and public entities and followed up all resolutions taken during the annual report hearings, which significantly contributed to the good audit outcomes. The public accounts committee holds hearings every year, shortly after the tabling of annual reports. Resolutions are taken during the hearings and tabled in the house by the end of December each year. All resolutions are subsequently followed up and departments and entities are called on to further account to the committee.

We encourage the province to implement actions based on the recommendations provided in the areas where challenges were experienced, while continuing to promote – and where necessary, improve on – the culture of good governance and maintaining controls. The good foundation laid by the mature control environment is commendable, but should be leveraged further to enhance the impact on service delivery to people in the province.

The provincial leadership has committed to:

- intensify the reviews of the annual performance plans and report in line with the requirements of the performance management and reporting framework to ensure that the processes of information gathering for predetermined objectives are aligned to the technical indicator descriptions
- use the skills and best practices already in place at departments to assist those that have matters on contract and procurement management
- continue to support and engage the chairperson of the accounting authority and chief executive officer of Wesgro to address the qualification and compliance root causes and aim to achieve a clean audit.

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SECTION 5 AUDIT FACT SHEET

765 national and provincial government auditees
- **164** departments
- **601** public entities

424 audits in this report
- **162** departments
- **262** public entities

341 audits not in this report
- **259**
  - Auditees in the secret service environment
  - Auditees with different reporting cycle (e.g. water boards)
  - Dormant or small public entities (audit outcomes available on our website)
- **82**
  - Public entities audited by private sector auditors

Number and percentages calculated based on:

398 audits completed by 15 September 2022
- **160** departments
- **238** public entities

Movement over administration calculated by comparing 2021-22 results of completed audits against 2018-19 results

2018-19 Last year of previous administration

2021-22 Latest completed audits

Number and percentages calculated differently in these areas:

PERFORMANCE REPORTING	UNAUTHORISED, IRREGULAR, AND FRUITLESS & WASTEFUL EXPENDITURE	FINANCIAL HEALTH	INFORMATION TECHNOLOGY	OVERALL BUDGET
329 auditees required to submit performance reports	**424 auditees** including outstanding audits	**395 auditees** assessed in this area	**212 auditees** assessed in this area	includes outstanding audits (where budget information was available)

KEY SERVICE DELIVERY PORTFOLIOS

71 auditees in basic education, health, human settlements, public works, transport, and water and sanitation portfolios

STATE-OWNED ENTERPRISES

20 public entities listed in schedule 2 of Public Finance Management Act (excluding Telkom)
- **5** SOEs audited by private sector auditors (reporting limited to their holding companies)
- **15** SOEs we audit, including their subsidiaries (total: 32)

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