

Departments and entities with clean audits on the rise



Auditor-General Kimi Makwetu.

An increasing number of national and provincial government departments and state-owned entities are getting their houses in order.

This was reflected in the audit results of departments and entities released by Auditor-General (A-G) Kimi Makwetu recently.

His report revealed that there was an increase in national and provincial departments, and their entities, that received clean audits for the 2013/14 financial year.

The A-G said the outcomes reflected an improvement.

"I am pleased to report that the audit outcomes ... show an improvement, with 119 (25 per cent) of the 469 auditees attaining clean audit outcomes compared to (96 or) 22 per cent in the previous year," he said.

"The 40 departments and 79 public entities (provinces and nationally) in this category have control environments characterised by strong leadership control, good governance and financial and performance management controls that prevent or detect and correct errors and non-compliance," Makwetu noted.

Fifty-one per cent of departments and entities (238) achieved unqualified audits with findings in 2013/14 compared to 56 per cent, or 242, that achieved the same outcome in 2012/13.

Sixteen per cent, or 73, of the departments and entities achieved

a qualified audit outcome – the same number as the previous financial year.

Those with an adverse or disclaimer audit outcome with findings dropped to four per cent, or 18, in the year under review from five per cent, or 21, in 2012/13.

Makwetu said what set apart the best performing departments and entities from the rest was the fact that they had managers and principals who understood their responsibilities and also carried out their duties in an ethical and effective manner.

Some R1 035 billion was allocated to national and provincial governments, including their entities, for 2013/14.

National departments that received clean audits included Environmental Affairs; Performance, Monitoring and Evaluation; Public Enterprises; Social Development; Sport and Recreation, and Tourism.

How departments got it right

The A-G said it was encouraging to see departments and entities getting it right in areas that auditors previ-

ously red-flagged as areas that needed improvement.

"We are seeing positive improvements in ... the fair presentation and the absence of material misstatements in the financial statements. Material misstatements refer to errors or omissions that are so significant that they affect the credibility of the financial statements," he explained.

Another positive trend was departments meeting their targets as set out in their annual performance plans.

"[We are seeing] useful and reliable measurement and reporting by auditees on their performance in the annual performance report in accordance with the predetermined objectives in their annual performance plan."

He said the improvement in the quality of their annual performance reports was a year-on-year improvement, adding that 62 per cent of all auditees now reported their performance in a useful and reliable manner.

"However, only 42 per cent of auditees submitted annual performance reports without material misstatements.

"This means that 20 per cent of the auditees had good outcomes only because they corrected the misstatements identified during the audit."

Makwetu added that he was pleased with the presence of strong financial accounting capabilities although "a concern still exists on the stability of these disciplines as evidenced by material corrections to financial statements that are processed during the audit".

He said 80 per cent of the financial statements received a financially unqualified audit opinion but, most importantly, "37 per cent received such an opinion only because they corrected all the misstatements that we identified during the audit".

If these corrections had not been made, only 43 per cent of the auditees, instead of 80 per cent, would have received an unqualified audit opinion, he said.

Pleasing response from government

The A-G said he was pleased with how those in the higher echelons of government were responding to and supporting the work of his office through their action plans to respond to various challenges his pre-

decessor Terence Nombembe had raised in his audits over the years.

The Office of the Auditor-General has become a Chapter 9 institution that government has come to rely on as a credible partner to improve matters of governance.

"I am encouraged by the responses and commitments of the executive and oversight to continuously work on solutions with the auditees, key role players and my office to drive financial and performance management in national and provincial government in order to build the public's confidence in government.

"My office remains firmly committed to making a positive contribution towards this journey and we will continue to make ourselves available to provide proactive insights and recommendations," he said.

Senior managers must address audit concerns

The A-G called on all government leaders to play a crucial role in ensuring that government departments and entities improve their audit outcomes.

He raised concerns over irregular expenditure, non-compliance with legislation, auditees with financial risk indicators and financial misstatements – where auditors have to help auditees correct their annual performance reports to achieve better outcomes.

While audit outcomes had improved, much still needed to be done to ensure that all departments achieved better outcomes, the A-G noted.

"We again emphasise that particular attention should be given to the assurance provided by senior management, as the accounting officers and executive authorities are relying on senior management to implement financial and performance management controls. Accounting officers must also improve the level of assurance they are providing."

He said senior managers and executive authorities should take a leadership role in ensuring that all departments implement and embrace measures to improve audit outcomes to achieve better results. Measures to improve outcomes include:

- Responding to the A-G's recommendations through action plans in order to improve key controls and address these risk areas – the quality of submitted annual performance reports, supply chain management (SCM), financial health, human resource management and information technology controls.
- Focusing more on getting the basics right, including filling vacant posts with competent officials, implementing basic internal controls and insisting on regular and credible reports on the state of their finances and performance in accordance with their performance plans.
- Enforcing compliance with legislation by implementing processes and procedures that will make it part of the daily disciplines and monitor to determine whether auditees have complied.

Makwetu added that public servants should be held accountable for poor performance and transgressions, which would go a long way in showing non-performance was unacceptable and in order to encourage a responsible, accountable and transparent administration.

He also called on all departments to encourage and support robust and proactive audit committees and internal audit functions to ensure that their recommendations and reports are responded to.

Audit concerns

The A-G said there were several audit observations that needed the attention of those in leadership.

He pointed out that 72 per cent of all auditees failed to comply with key legislation.

If departments addressed issues like misstatements in submitted financial statements, non-compliance with SCM, recurring unauthorised, irregular, fruitless and wasteful expenditure, the results would be better, the A-G said.

The number of auditees bearing negative financial risk indicators had increased, and attention should be given to entities where “significant uncertainty exists about their ability to operate in the foreseeable future”.

However, the A-G noted that there was commitment to address these issues.

“I am encouraged by the responses and commitments of the executive and oversight to continuously work on solutions with the auditees, key role players and my office to drive financial and performance management in national and provincial government in order to build the public’s confidence in government,” he said.

A look at the provincial outcome audits

Eastern Cape - In the Eastern Cape, Provincial Treasury, the Office of the Premier and Eastern Cape Socio-economic Consultative Council retained clean audits. The Eastern Cape Department of Local Government and Traditional Affairs improved to a clean audit.

Free State - In the Free State, Provincial Treasury, the provincial Department of Sports, Arts, Culture and Recreation and Free State Fleet Management Trading Entity retained clean audits. The Provincial Legislature improved to a clean audit.

Gauteng - The province retained eight clean audits, which included the Office of the Premier; Provincial Legislature; Provincial Treasury, Social Development, Sport, Arts, Culture and Recreation, Gauteng

Funding Agency, Gautrain Management Agency and Gauteng Partnership Fund.

Ten entities improved to obtain clean audits.

KwaZulu-Natal – The province retained seven clean audits - Provincial Treasury, Amafa aKwaZulu-Natali, Dube TradePort Corporation, Growth Fund Managers, Natal Joint Municipal Pension Fund: Provident, Natal Joint Municipal Pension Fund: Retirement and Natal Joint Municipal Pension Fund: Superannuation.

The Ithala Ltd and Ithala Development Finance Corporation Ltd, which received praise for its performance when it recently appeared before Parliament’s Portfolio

Committee on Small Business Development, improved to get clean audits.

Limpopo - The province, which recently had a Section 100 (b) intervention lifted after it showed signs of stability, saw one department – Cooperative Governance, Human Settlements and Traditional Affairs – improve to a clean audit.

Mpumalanga - The Department of Finance and the Mpumalanga Gambling Board – retained clean audits, while

three others improved to clean audits.

Northern Cape - The Department of Social Development retained a clean audit, while four others - Economic Development and Tourism, Environment and Nature Conservation, the Provincial Treasury and Northern Cape Tourism Authority - improved to receive clean audits.

North West - The Provincial Treasury Department received a clean audit.

Western Cape - Ten departments and entities in the province retained clean audits. These included Agriculture, Cultural Affairs and Sport, Community Safety, Economic Development and Tourism, Transport and Public Works, the Gambling and Racing Board, Government Motor Transport, the Western Cape Cultural Commission, Western Cape Investment and Trade Agency and Western Cape Language Committee.

Eight departments and entities - Human Settlements, Local Government, Office of the Premier, Provincial Legislature, Provincial Treasury, Social Development, Heritage Western Cape and Western Cape Nature Conservation Board – improved to achieve clean audits. 📄

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