

SA state depts and SOEs waste R2,5bn – AG

The Auditor-General of South Africa (AGSA) found R2,5 billion worth of fruitless and wasteful expenditure in South African state departments and state-owned entities (SOEs)

By DESTINY Reporter -

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This figure increased by more than 200% from the previous year, Auditor-General Kimi Makwetla said on Wednesday as he presented the AGSA's general report on national and provincial audit outcomes for 2017-18.

“Government cannot afford to lose money because of poor decision-making, neglect or inefficiencies,” Makwetla said. “However, we continue to see a rise in fruitless and wasteful expenditure. This expenditure, which is effectively money lost, increased by over 200% from the previous year.

“The overall increase was mostly a result of the R1 022m loss by the Water Trading Entity, where payments were made without resultant progress on water infrastructure projects.”

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Makwetla said these were avoidable costs that could be contained by following the correct processes.

Furthermore, R5,1 billion was recorded as irregular expenditure over the past financial year.

“This total includes the irregular expenditure of auditees where AGSA had completed the audits after the cut-off date of this report (R5,4 billion). It is worth noting that the R51 billion excludes the SOEs that are not audited by the AGSA, whose total irregular expenditure totalled R28,4 billion, which included R19,6 billion at Eskom and R8,1 billion at Transnet.”

The departments of education, health and public works continued to have the poorest audit results of all departments – 33% of these departments received qualified opinions, compared to only 16% of the other departments.

Only two of the departments in these sectors received clean audit opinions.

This cluster of departments is responsible for just over half of the departmental budgets and for implementing key programmes to improve the health and welfare of citizens.

Makwetu warned that the financial health of the provincial departments of health and education “needs urgent intervention to prevent the collapse of these key service delivery departments”.

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He said these departments are “in a bad state” compared to other departments.

For example, the unauthorised expenditure by provincial education departments stood at almost R1 billion and the deficit incurred by the Eastern Cape education department alone was R1,7 billion.

He is even more concerned about health departments.

All the provincial health departments except the Western Cape and Free State have claims against them that is more than their 2018-19 operational budget #AGreport @TeamNews24 @Fin24 pic.twitter.com/MpKAjothlq— Jan Gerber (@gerbjan) November 21, 2018

The provincial health departments of the Eastern Cape, Free State and Northern Cape are in a “vulnerable position”.

The total deficit of the health departments stood at R8.4bn

All the health departments, except the Western Cape and Free State, had claims against them that were more than their 2018-19 total operational budget.

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The claims of the Eastern Cape health department was more than three times more than its operational budget.

The report also had the following findings: The quality of the performance reports improved slightly so that 65% of the auditees are now publishing credible reports.

However, the AGSA received performance reports for auditing with substantial misstatements.

At a national level, there was a regression in audit outcomes, with the number of clean audits decreasing to 23% of the total audited population compared to 30% in the previous financial year. Provincially, the Western Cape and Gauteng continued to produce the best results – with 83% and 52% clean audits, respectively.

There were serious weaknesses in the financial management of national and provincial government that had not been addressed over the past four years. Unauthorised expenditure increased by 38% from the previous year to R2,1 billion, 86% of which was a result of overspending. The financial health of auditees continued to deteriorate. There was an emerging risk of increased litigation and claims against departments.

Almost a third of the departments had claims against them in excess of 10% of their next year's budget. "Departments do not budget for such claims, which means that all successful claims will be paid from funds earmarked for the delivery of services, further eroding the ability of these departments to be financially sustainable," Makwetu warned.

A total deficit of R35,1 billion was incurred by the 41% of public entities whose expenditure exceeded their revenue – 75% of this was the deficit of the Road Accident Fund. The AG's report cautioned that "even though the majority of public entities that incurred deficits would be able to continue their operations, these negative indicators raise concerns about their financial viability, which could result in pressure to acquire additional funding from government".

The auditees that substantially did not comply with legislation increased from 64% to 72%. The AG said the lapse in oversight and controls in the area of compliance was

evident in a number of areas, including supply chain management (SCM), and led to increased irregular expenditure.

The non-compliance with SCM legislation increased. Makwetu stressed that the status “was even worse than in 2014-15”.