



Analysis of 2017/18 annual reports

The DA has analysed the 2017/18 Annual Reports of government departments and selected entities that have been tabled in Parliament. Our analysis reveals some shocking evidence of mismanaged and wasted public money.

Headline figures

Irregular expenditure is any expenditure that does not follow the processes outlined by the law.

Total irregular expenditure: **R72.6 billion**

Government departments: R17.5 billion

Selected entities: R55.1 billion

Fruitless and wasteful expenditure is money that could have been saved if reasonable care had been taken.

Total fruitless and wasteful expenditure: **R3 billion**

Government departments: R836 million

Selected entities: R2.2 billion

After scrutinising the reports, a number of conclusions can be drawn.

1. The management of departments' and entities' finances is getting worse

The irregular expenditure has doubled from the previous 2016/17 financial year.

Irregular expenditure occurs when expenditure is not properly managed and is sometimes an indicator of corruption. When government spending cannot be properly tracked, it becomes much easier for theft and corruption to be covered up. This is why there are clearly set out legislative processes that must be followed to ensure that public money is being used properly.

Departments and entities with the largest amount of irregular expenditure are:

- Eskom – R19.6 billion
- South African National Roads Agency (SANRAL) – R10.5 billion
- Transnet – R8.1 billion
- Department of Water and Sanitation – R6.2 billion
- South African Broadcasting Corporation (SABC) – R5 billion
- Water Trading Entity – R4.9 billion
- Department of Correctional Services – R3.2 billion
- Property Trading Management Entity (PTME) – R2.3 billion
- Department of Basic Education – R1.7 billion
- Department of Defence – R1.7 billion
- Department of International Relations and Cooperation (DIRCO) – R1.2 billion
- South African Social Security Agency (SASSA) – R1.7 billion
- South African Post Office (SAPO) – R1 billion

However, this is not the full picture. The Auditor-General (A-G) also highlighted departments where irregular expenditure was identified that was *not* included in their reported figures.

For example, the Department of Police was cited for not including irregular expenditure of R968 million in their financial statements – leading to a qualified audit opinion. The A-G was also unable to determine if any further irregular expenditure had occurred, since the Department had failed to evaluate whether any similar instances had transpired.

Clearly, the ANC cannot be trusted with the public's money.

2. The money wasted by the ANC government could have built 75 schools

Fruitless and wasteful expenditure cannot be explained away through misfiling of receipts or harmless delays in implementation. It is expenditure that has no benefit to the public and is wasted due to a lack of reasonable care and the basic requirements of management.

Departments and entities that reported the most fruitless and wasteful expenditure are:

- Water Trading Entity – R1 billion
- Compensation Fund – R446 million
- Department of Defence – R398 million

The total figure for departments and entities is not an abstract figure. R3 billion could have built 75 brand new schools.

Reports of wasted money and dodgy deals appear almost daily.

The Department of Water and Sanitation reportedly spent R700 million to Gupta-linked company SAP, on software licences that it already had. This deal is now under scrutiny by the Special Investigations Unit.

The Road Accident Fund (RAF) engaged in a furniture rental that cost it nearly R500 000 every month to rent 300 office chairs. The office furniture company the chairs were rented from was already under investigation for a similar rip-off of Eskom.

The SABC spent thousands transporting board members to Cape Town for the SABC Board Inquiry who then refused to appear before the Inquiry. Travel costs for spouses of various ministers – notably Malusi Gigaba – are also difficult to justify.

SAPS entered into a contract with controversial businessman Kenneth Keating's Forensic Data Analysts (FDA) and spent R300 000 for one torch. Additional funds were allocated for FDA to "maintain" the torches over time, despite these torches being considered maintenance-free by industry experts.

These examples are almost outrageous in their blatant wastage and corruption. However, the reality is that for every chair the RAF rents, fuel prices increase due to a higher RAF levy. For every duplicate software license, bucket toilets are not eliminated. Every torch that gets "maintained" results in fewer police officers on our streets, and more lives lost.

3. Some departments and entities are on the verge of collapse

In some cases, the A-G has serious questions about the ability of a department or entity to continue as a going concern. The A-G doesn't issue these opinions lightly – it means that there is a serious risk of financial collapse.

One department and seven entities are at serious risk of collapse:

- Department of Water and Sanitation
- Compensation Fund
- PetroSA
- PTME
- Public Protector
- RAF – financial loss of R26.4 billion
- SAPO – financial loss of R908 million
- Water Trading Entity – financial loss of R573 million

The SABC, on the other hand, is considered by the A-G to be commercially insolvent. It posted a loss of R622 million and now sits with a cash flow of negative R1.2 billion. Shockingly, R5 billion was spent irregularly, with another R230 million considered to be wasted. The A-G disclaimed the entity's financial statements, saying that he was not able to gain a clear picture of whether there was more irregular expenditure than was reported, due to a lack of information. And for all this spending, the SABC achieved just 40% of its performance targets.

Additionally, there are some startling financial problems in other departments and entities that are cause for serious concern.

The Department of Social Development has a negative cash flow balance of R12.7 billion, and the Department of Water and Sanitation has admitted that it is essentially broke.

Ironically, the institution that is supposed to protect citizens from instances of mismanagement and corruption is itself failing. The Public Protector reported an R18 million loss for the 2017/18 financial year. At the same time, the balance of irregular expenditure at the vital Chapter 9 institution nearly doubled to R42 million, while reporting wasteful expenditure of over a million. In another worry for the legal profession, the Department of Justice and Constitutional Development reported a loss of R1.2 billion.

These are not unimportant departments and entities. They are crucial to governance and to service delivery, yet they are treated as little more than piggy banks for a select few – with devastating consequences.

4. Mismanagement translates into poor service delivery

Financial information for these departments and entities should not be treated as a high-level, technical exercise that does not reflect the real-world situation. Poor financial management translates into poor service delivery and a failure to meet performance targets.

Crucial institutions are crumbling through mismanagement.

Eskom

Eskom is tasked with providing one of the basic building blocks of our economy: electricity. Eskom has struggled to keep the lights on over the past five years, reporting massive financial losses and

mismanagement which has prevented investment in the infrastructure and resources needed for power generation. The entity met only 45% of its performance targets for the 2017/18 year.

When rolling blackouts cut power to homes and businesses, economic activity comes to a standstill and growth plummets. It also means that South Africans are being asked to pay more and more for their electricity. The National Energy Regulator has given Eskom four years to recover R32.7 billion and has allowed it to increase tariffs by 4.41% this coming April. Eskom wants a higher increase though and has applied for an *additional* 15% increase for next year. This just adds to the economic burden South Africans are currently carrying.

Road Accident Fund

The RAF made a financial loss of R26.4 billion in 2017/18. Startlingly, the entity's total liabilities exceeded its total assets by R206.3 billion. These are unthinkable numbers, particularly for a fund that is supposed to support the victims of the carnage on South African roads.

In an effort to bail out the RAF, the ANC government has raised the RAF levy in the fuel price – South Africans must now pay more for fuel in order to fix the ANC's failure to manage the RAF properly. This has merely lumped an additional burden on the private sector and consumers, during a recession.

NSFAS

The National Student Financial Aid Scheme (NSFAS) achieved a whopping 7% of their performance targets this year. NSFAS was already struggling to handle managing student funding through its new 'student-centred' funding model before former President Jacob Zuma made a surprise announcement that the Scheme would have to fund thousands more students, just a month before the start of the 2018 academic year. Instead of delaying the implementation of this blatantly populist promise, NSFAS and the Department of Higher Education and Training dived in head first, without putting the proper controls and processes in place.

This has resulted in a near total collapse of the Scheme, and the appointment of an administrator who has the unenviable task of sorting out the funding backlog before next year. In the meantime, NSFAS reported over R300 million in irregular expenditure, and received a qualified opinion of its financials, with the size of the student loan book causing particular concern.

NSFAS is the only source of funding available to many poor students – when it failed to pay tens of thousands of students on time, these students found themselves abandoned without money for food and accommodation.

Department of Basic Education

The Accelerated School Infrastructure Delivery Programme (ASIDI) is the source of ongoing irregular expenditure at the Department of Basic Education. Poor performance by Implementing Agents (IAs) – who continue to be used for delivering projects despite this – have directly caused the Department's failure to deliver quality school infrastructure.

For the second year running, not one of the ASIDI performance targets were met. This is entirely unsurprising, as President Cyril Ramaphosa earlier this year admitted that targets for providing safe sanitation at schools would only be met in 12 years' time. In the meantime, children are simply left to continue to risk their lives by using dangerous pit toilets at schools.

Department of Water and Sanitation

The Department of Water and Sanitation is drowning in debt as a result of the tenure of Nomvula Mokonyane as Minister. The War on Leaks programme – for which there was no real allocated budget

– cost nearly R600 million. The Department has now taken the extraordinary step of asking Parliament to revise its budget so that it can meet basic service delivery targets.

This was made clear during the height of the Western Cape’s drought. Despite months and months of pleas for assistance, the ANC’s input was to find ways to blame the provincial government for the situation – despite the national department carrying the responsibility for the provision of bulk water. The City of Cape Town managed – through the exceptional efforts of residents in response to the urging of the City administration – to avoid Day Zero, without the help of the national government.

Unfortunately, the City has had to increase tariffs to finance a more secure water future, since the national government can clearly not be relied upon to do their job.

SASSA and SAPO

All South Africans will be familiar with the drama at SASSA and SAPO. SASSA’s finances are a shambles – it posted a loss of R3.1 billion in 2017/18, and irregular expenditure of R1.7 billion. At the same time, SAPO failed to turn a profit, reporting a loss of R908 million and R1 billion in irregular expenditure. The A-G is unconvinced that SAPO can remain a going concern.

Never has there been a collision of mismanagement and corruption that has had such a profound impact on the lives of the poorest South Africans than that of the SASSA grants debacle. If SAPO cannot deliver letters, how will it deliver grants? Has Cash Paymaster Services sabotaged any change of service provider? Will former Minister of Social Development, Bathabile Dlamini, be held accountable? These are serious uncertainties that have led to hours in queues at pay points and delays in paying the grants that South Africans rely on to survive.

Hand-in-hand with a lack of service delivery has come higher costs across the board for citizens in order to bail out state entities. The ANC needs to stop making the public pay for its terrible mismanagement and corruption, in higher electricity and water prices, VAT and fuel taxes.

5. Reports not tabled - The situation is likely to be worse

While our analysis has revealed astounding amounts of wasted funds, there are still some annual reports which have not yet been tabled and among them are some the biggest serial culprits of financial mismanagement and waste.

Annual reports have not been tabled to Parliament by:

- Department of Energy
- Department of Cooperative Governance and Traditional Affairs (COGTA)
- State Security
- Passenger Rail Agency of South Africa (Prasa)
- Denel
- South African Airways (SAA)
- SA Express

These reports are likely to increase the total amount of public money wasted and mismanaged substantially.

COGTA racked up irregular expenditure of R1.3 billion in 2016/17. In the same year, the Department of Energy reported R76 million in irregular expenditure. The questionable clandestine activities of the Department of State Security remain hidden.

Prasa's Metrorail rolling stock has been decimated by arson over the past few years, and the entity has suffered a near-complete institutional breakdown due to lack of leadership. In 2016/17, it reported R20.3 billion in irregular expenditure and R988 million in fruitless and wasteful expenditure.

Denel was flagged by the A-G who has serious doubts over its ability to remain a going concern in 2016/17, with a total of R116 million in irregular expenditure. The collapse of shady Gupta company VR Laser has left the entity scrambling to recover more than R400 million in losses and deregister Denel Asia, set up without Treasury approval.

After years of corruption and mismanagement under Dudu Myeni, SAA can no longer proudly be considered South Africa's national carrier. In 2016/17, the airline posted a loss of over R5 billion, with R114 million in irregular expenditure – unsurprisingly, there were questions over this entity's ability to remain a going concern too.

If the balance of irregular expenditure is as high at these departments and entities for the latest financial year as it was in their previous annual report, the total figure for **irregular expenditure could rise to an eye-watering R94.5 billion**. If these departments and entities wasted as much money as they did in 2016/17, the total figure for **fruitless and wasteful expenditure could rise to R4 billion** – enough money to build 100 schools.

One can't really estimate just how problematic SA Express' financials will be for 2017/18, since the entity has not only failed to table their latest annual report, but also has not released their annual report for 2016/17. Since the airline was grounded for some of this year after protracted safety difficulties and has lost most of its fleet, a poor performance and financial outcome is entirely expected.

Out of those departments and entities that *have* tabled their reports, seven departments and seven entities received qualified audits:

- Department of Basic Education
- Department of Correctional Services
- Department of Defence
- DIRCO
- Department of Justice and Constitutional Development
- Department of Police
- Department of Water and Sanitation
- Eskom
- NSFAS
- PTME
- South African Reserve Bank (SARB)
- SASSA
- Transnet
- Water Trading Entity

In addition, the SABC and the Compensation Fund had disclaimed audits.

In these instances, the A-G referred to various concerns including significant uncertainties about the outcomes of pending lawsuits; missing or incomplete information in the financial statements; and incorrect or misleading information in the statements.

Hidden information and missing reports make it easier to cover up corruption and mismanagement. South Africans have an opportunity in the coming election to refuse to reward this lack of accountability, and instead, choose a party that has an absolute commitment to transparency and good governance.

The DA difference

The country's finances are in a dire state. Not only did they ANC get us to this point, but they have no plan to fix what they have broken.

Where the DA has taken over failing ANC governments, we have succeeded in sorting out the financial mess and improving service delivery in remarkably short periods of time.

The City of Cape Town went from being almost bankrupt to be the investment capital of South Africa, with the best service delivery out of any metro in the country. In the Western Cape, the DA has made an example of the best-run province in South Africa, with the A-G frequently praising the clean audits that are the hallmark of DA governments.

In just the short time since the 2016 local government elections, the DA has taken the failing metros of Johannesburg, Tshwane and Nelson Mandela Bay to new heights, reversing deficits, rooting out corruption and delivering services to more residents than the ANC before them.

It is clear that in order to get South African back on the right track, the ANC must be removed.

The DA's plan to fight corruption focuses on:

1. Establishing an independent unit dedicated to identifying, fighting and prosecuting corruption;
2. Ensuring the payment of all public money is transparent;
3. Introducing direct elections for all political office holders so that the South African people can hold their President, Premiers and Mayors directly accountable;
4. Implementing regular lifestyle audits for all politicians and government officials; and
5. Protecting and encouraging "whistle blowers" who identify and report on corrupt activities.

The DA wants to build One South African for All, not just the politically connected friends of the ANC.