SECTION 1: EXECUTIVE SUMMARY

Our audit and reporting process

We audit the country's 167 departments and 301 of its public entities, also called *auditees* in this report. The aim of our audits is to report on the **quality of auditees' financial statements** and **annual performance reports,** and on their **compliance with key legislation**. In addition, we audit and report on **aspects of key programmes in the education, health, public works and human settlements sectors.**

We also assess the root cause of any error or non-compliance, based on the internal control that had failed to prevent or detect it. We report in the following three types of reports:

- We report our findings, root causes and recommendations in **management reports** to the senior management and accounting officers or authorities of auditees. These reports are also shared with the ministers, members of management and audit committees.
- Our opinion on the financial statements, material findings on the annual performance reports and compliance with key legislation, as well as significant deficiencies in internal control are included in an **audit report**. The audit report is published with the auditee's annual report and dealt with by the public accounts committees and portfolio committees, as applicable.
- Annually, we report on the audit outcomes of all auditees in nine provincial **general reports** and a **consolidated general report** (such as this one). In all the general reports, we also analyse the root causes that need to be addressed to improve audit outcomes. Before the general reports are published, we share the outcomes and root causes with the national and provincial leadership, Parliament and the legislatures as well as key role players in national and provincial government.

Over the past few years, we have intensified our efforts to assist in improving audit outcomes by identifying the **key controls** that should be in place at auditees; assessing these on a regular basis; and sharing the assessment with ministers, accounting officers and authorities, as well as audit committees.

We further identified **key risk areas** that need to be addressed to improve audit outcomes and financial and performance management. We specifically audit the following key risk areas so that we can report on their status:

- quality of submitted financial statements and performance reports
- supply chain management (SCM)
- financial health
- human resource management (including the use of consultants)
- information technology (IT) controls.

During the audit process, we work closely with the accounting officer or authority, senior management, audit committees and internal audit units, as they are **key role players** in providing assurance on the credibility of the auditee's financial statements, performance report and compliance with legislation.

We also continue to strengthen our relationships with coordinating and monitoring departments (such as the treasuries and the Department of Planning, Monitoring and Evaluation), premiers, ministers, Parliament and provincial legislatures, as we are convinced that their involvement and oversight have played – and will continue to play – a crucial role in performance at departments and public entities. We share our messages on key controls, risk areas and root causes with them, and obtain and monitor their commitments to implement initiatives that can improve audit outcomes.

Figure 1 gives an **overview of our message** on the 2014-15 audit outcomes, which is a continuation of what we had reported and recommended in our last report on the audit outcomes.

The overall audit outcomes in figure 1 show our opinion on auditees' financial statements and whether we had raised material audit findings on the quality of their annual performance reports (APRs) and compliance with key legislation.

The audit outcomes of 440 auditees (165 departments and 275 public entities) are included in this consolidated general report. The audit outcomes of two departments were not finalised by 14 August 2015 (the cut-off date set for this report), while the audit outcomes of 26 public entities are not included in this report for the same reason.

The audit outcomes fall into five categories:

1. Auditees that received a **financially unqualified opinion with no findings** are those that:
   - produced financial statements free from material misstatements (material misstatements mean errors or omissions that are so significant that they affect the credibility and reliability of the financial statements)
   - measured and reported on their performance in line with the predetermined objectives in their annual performance plan, and in a manner that is useful and reliable
   - complied with key legislation.

We also refer to this audit outcome as a *clean audit*.

2. Auditees that received a **financially unqualified opinion with findings** are those that produced financial statements without material misstatements, but were struggling to:
   - align their performance reports to the predetermined objectives they committed to in their annual performance plans
   - set clear performance indicators and targets to measure their performance against their predetermined objectives

- report reliably on whether they had achieved their performance targets
- determine which legislation they should comply with, and implement the required policies, procedures and controls to ensure that they comply.

3. Auditees that received a **financially qualified opinion with findings** face the same challenges as those that received a financially unqualified opinion with findings in the areas of reporting on performance and compliance with key legislation. In addition, they were unable to produce credible and reliable financial statements. There are material misstatements in their financial statements, which they could not correct before the financial statements were published.
4. The financial statements of auditees that received an **adverse opinion with findings** include so many material misstatements that we disagree with virtually all the amounts and disclosures in the financial statements.
5. Those auditees that received a **disclaimed opinion with findings** could not provide us with evidence for most of the amounts and disclosures in the financial statements. We were unable to conclude or express an opinion on the credibility of their financial statements.

   Auditees with adverse and disclaimed opinions are typically also:

   - unable to provide sufficient supporting documentation for the achievements they report in their APRs
   - not complying with key legislation.

When studying the figures and reading the report, please note that the percentages are calculated based on the 440 completed audits, unless indicated otherwise. Only a movement of more than 5% in the number of auditees is regarded as an improvement or a regression. Movement is depicted as follows:

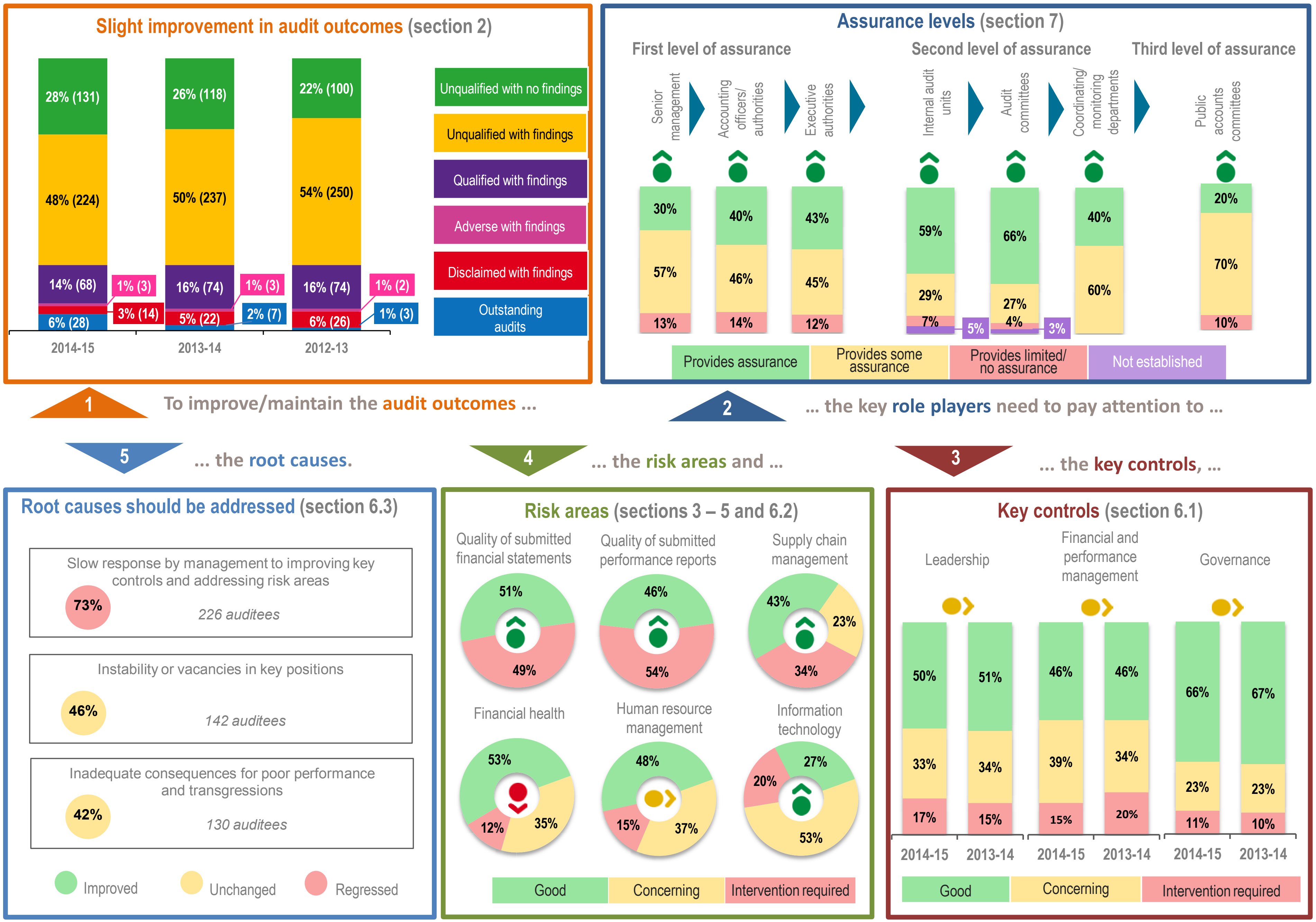
Improved   Stagnant or little progress   Regressed

The comparative figures for 2013-14 have been updated with the audit outcomes of those auditees that was shown as outstanding in the 2013-14 consolidated general report. The rest of this section summarises the audit outcomes and our key recommendations for improvement, and concludes by summarising the characteristics of auditees within the different categories of audit outcomes.

In section 2 of this consolidated general report you will find an overview of the overall audit outcomes of national and provincial government. Sections 3 and 4 provide an overview of the quality of compliance with key legislation and the management of service delivery respectively, as we reported on it in the audit reports. Section 5 provides the outcome of our audits of resource management, while section 6 provides our assessment of the status of internal controls and the root causes of poor audit outcomes. Section 7 provides our assessment of the assurance provided by the role players in national and provincial government. Section 8 includes the outcomes of our audits of sectors (education, health, public works and human settlements), while section 9 presents the results of our national government audits per ministerial portfolio.

Our provincial general reports contain similar information.

Figure 1: Overview of audit outcomes and key recommendations for improvement



Audit outcomes are improving

The number of auditees that received a **financially unqualified opinion with no findings (clean audits) increased** to 131 (28%). These auditees comprise 47 departments and 84 public entities. The biggest moves towards clean audit opinions in 2014-15 were by departments, increasing their total from 40 to 47.

Among the provinces, the biggest contributors to the total number of clean audits were the Free State (six – 32% of their auditees), KwaZulu-Natal (eight – 22% of their auditees) , Gauteng (19 – 54% of their auditees), and the Western Cape (20 – 83% of their auditees), while 23 of the 35 **ministerial portfolios** (66%) contributed to the 65 clean audits at national government. The economic sectors, employment and infrastructure development cluster performed the best of the five **government clusters**, with 19 financially unqualified audit opinions that included five clean audits. None of the seven departments in the justice, crime prevention and security cluster obtained a clean audit, although four were financially unqualified.

Six provinces had net **improvements** (i.e. more improvements than regressions) while in Gauteng, the audit outcomes showed little movement and in Mpumalanga and the Northern Cape, the audit outcomes regressed. At national government the outcomes also improved.

The increase in clean audits and the net improvement in audit outcomes is a good indicator that overall, **audit outcomes are improving, albeit slightly**. The results in the different areas that we audit provide a more detailed view of the improvements and the remaining challenges.

Table 1 on the next page shows the number of auditees per audit opinion in the national and provincial government.

The status of financial management

No improvement in audit opinions on financial statements, but the quality of the financial statements submitted for auditing improved

The number of auditees with unqualified audit opinions on financial statements **remains unchanged** since the previous year at 355 (76%). Twenty-eight departments received a qualified audit opinion and one department a disclaimer of opinion. These **departments** are responsible for 21% of the total budget allocated to departments. Sixteen **public entities** received audit opinions in the disclaimed/adverse category and 40 received qualified opinions.

Forty per cent of the national and provincial departments of **education, health and public works'** financial statements were qualified or disclaimed.

The number of auditees that received financially unqualified audit opinions was high in the Western Cape (96%) and Gauteng (94%). Mpumalanga and the Northern Cape regressed, while most of the other **provinces** improved.

In total, 131 auditees (30% of the completed audits) received a financially unqualified audit opinion only because they **corrected all the misstatements we had identified** during the audit. Had we not identified the misstatements and allowed them to make the corrections, only 51% (instead of 81%) of the auditees with completed audits would have received an unqualified audit opinion.

There has, however, been an **improvement in the quality of financial statements submitted for auditing**, as 51% of auditees submitted financial statements without material misstatements compared to the 43% of auditees in the previous year

The main reason for qualified, adverse and disclaimed opinions was **inadequate or missing supporting documentation** for the values included in the financial statements. The financial statement item **property, infrastructure, plant and equipment** has consistently over the past few years been the item most commonly qualified. Auditees for whom matters arose on this item decreased from 52 to 47 since the previous year. Fewer auditees had matters arising in the other two most common qualification areas of **revenue** and **receivables**.

Table 1: Audit opinions per national and provincial government

Portfolio	Clean (131)	Financially unqualified with findings (224)	Qualified with findings (68)	Adverse with findings (3)	Disclaimed with findings (14)	Outstanding audits (28)
National auditees	65	118	30	1	8	13
Eastern Cape	4	15	5			1
Free State	6	10	2			1
Gauteng	19	13	1		1	1
KwaZulu-Natal	8	20	6			3
Limpopo	1	14	4	1	1	2
Mpumalanga	4	7	6			
Northern Cape	3	9	7			1
North West	1	16	6	1	4	5
Western Cape	20	2	1			1
TOTAL	**131**	**224**	**68**	**3**	**14**	**28**

Non-compliance with key legislation remains at high levels, but is improving

The number of auditees with material findings on compliance **decreased** from 330 (72%) to 300 (64%), with both departments and public entities improving. At 77% of these auditees, their non-compliance caused, or could potentially cause, **financial loss**.

While 88 of 119 auditees (74%) retained their previous year's status of having no material findings on compliance, 27 of the 29 departments with completed audits **in education, health and public works** had repeat findings. The number of auditees with findings on compliance reduced in four provinces and eight ministerial portfolios. However, **regressions** occurred in three provinces and seven ministerial portfolios.

Over the last several years, the areas with the most non-compliance were:

- material misstatements in submitted financial statements
- SCM
- prevention of unauthorised, irregular as well as fruitless and wasteful expenditure.

Slight improvement in supply chain management

The number of auditees with findings on SCM **decreased** from 259 to 252. Although the number of auditees with material findings reduced (from 166 to 151), it is of concern that **44% of departments and 29% of public entities had material findings on compliance with SCM legislation**.

We experienced **limitations in auditing SCM** again this year, although at fewer auditees. A total of 32 auditees (7%) (2013-14: 40 [9%]) could not provide us with evidence that all their procurement processes for awards to the value of R1 330 million (2013-14: R1 219 million) complied with SCM legislation.

Thirty-one departments (19%) awarded contracts to the value of R53 million to suppliers in which **employees** had an interest (2013-14: R74 million [22%]) while 41 departments (25%) awarded contracts to the value of R452 million to suppliers in which **close family members** had an interest (2013-14: R538 million [27%]). Although such awards are not prohibited, we identified non-compliance with the legislative requirements for suppliers and employees to declare the interest at 84% of these departments.

Instances of non-compliance with legislation resulted from **uncompetitive or unfair procurement processes** at 51% of auditees. Some of the most common findings were that three written quotations had not been invited, or a competitive bidding process was not followed, and the deviation was not approved; or the approved deviation was not reasonable or justified. Non-compliance with legislative requirements on contract management was also identified at 18% of auditees.

The high level of non-compliance with SCM legislation was the cause of 93% of irregular expenditure.

Reduction in irregular, fruitless and wasteful, and unauthorised expenditure

Irregular expenditure of R25 682 million was incurred by 287 auditees – an **improvement** from the R35 286 million incurred by 310 auditees in the previous year. As described above, non-compliance with procurement process requirements was the main contributor to irregular expenditure. We did not investigate the irregular expenditure as that is the role of management.

Through our normal audits we determined that goods and services were received for 86% of the R23 912 million in irregular expenditure relating to SCM non-compliance, despite the normal processes governing procurement not being followed. However, we cannot attest to the goods and services being delivered at the best price and value being received. Two per cent of the irregular expenditure could not be audited as a result of a lack of documentation, while the remaining 12% was not audited.

Fruitless and wasteful expenditure of R936 million was incurred by 240 auditees – an **improvement** from the R1 242 million incurred by 247 auditees in the previous year.

Unauthorised expenditure of R1 641 million was incurred by 23 departments – an **improvement** from the R2 644 million incurred by 30 departments in the previous year.

Inadequate consequences for transgressions

The Public Finance Management Act (PFMA) and its regulations clearly stipulate that matters such as incurring unauthorised, irregular and fruitless and wasteful expenditure; the possible abuse of the SCM system (including fraud and improper conduct); and allegations of financial misconduct should be investigated.

We identified **non-compliance** with these legislated requirements in the manner in which auditees dealt with irregular expenditure (20%), fruitless and wasteful expenditure (15%) and financial misconduct (6%).

We reported **material non-compliance with legislation** on consequence management at 75 (17%) of the auditees, which is more than in the previous year (2013-14: 49 [11%]).

We reported all our findings on compliance in SCM and weaknesses for management to follow up. Where indicators of **possible fraud or improper**

conduct in the SCM processes were found, we recommended an investigation by management. In 2013-14, we reported such findings for investigation at 76 auditees. The management of only 20 of these auditees (5%) did not investigate all the incidents, which is an encouraging sign that action is being taken.

However, these findings continued to increase. Furthermore, 58 auditees that had such findings in 2013-14 had similar findings in 2014-15. This means that although incidents were investigated, the investigations have not yet had the desired impact of discouraging fraud and improper behaviour.

Financial health of auditees is deteriorating

The number of auditees with a good financial health status, as determined by a high-level analysis of auditees' financial health indicators, decreased. The **financial health of 47% of auditees was rated as either of concern or requiring intervention.**

Thirty-three **public entities** (13%) were in a particularly **poor financial position** with material uncertainty about their ability to continue operating in the foreseeable future. The true financial health status of a further five public entities could not be determined as they received adverse or disclaimed audit opinions.

Important findings arising from our analyses included the following:

- The financial statements of 22% of departments (2013-14: 20%) would have shown a **deficit instead of a surplus** had they been prepared in the same manner as those of public entities and local government. Twenty per cent of departments had an **overdraft** at year-end (2013-14: 25%).
- Although the majority of departments spent within their approved budgets, 96 departments (58%) technically had **insufficient funds to settle all liabilities at year-end if taking into account the unpaid expenses at year-end**. For most departments, this will have a minor impact, but 21 departments (13%) started the year with more than 10% of their operating expenditure budget (excluding the budget for employee cost) effectively pre-spent.
- Forty-three per cent of departments **underspent** on their capital budget and 8% on their conditional grants by more than 10%.
- The number of public entities that took more than 90 days to recover money owed to them increased. **Extended debt collection periods** remained a challenge for 22% of public entities (2013-14: 19%). The weakness in debt management is further highlighted by the 33% of public entities (2013-14: 32%) who estimated that **more than 10% of their debtors would be unable to pay them**.
- In total, 36% of public entities **spent more than they had** in resources (and therefore incurred a net deficit), while almost 18% of the value of their current assets was less than that of their current liabilities at year-end (**net current liability** position). The year-end bank balance was in **overdraft** at three public entities.

Weaknesses in the effective use of grants

While R82 billion was available to 67 departments in 2014-15 through grants, of which R80,2 billion (98%) was spent, close to 20% of these departments **did not achieve their planned targets** for the projects and programmes funded by the grants.

We continue to identify auditees that **do not comply with the requirements for using these grants,** as defined by the annual Division of Revenue Act (DoRA). Material non-compliance reported included six departments (9%) that used their grant allocations for purposes other than those allowed by DoRA and nine (13%) that did not evaluate the performance of the programmes funded by the budget allocations.

The status of service delivery reporting

Steady progress in the quality of annual performance reports

The **quality of APRs improved slightly**, with the number of auditees with no material findings in this regard increasing from 252 to 264.

Although 66% of the auditees had no material findings, only 46% of the auditees submitted APRs without material misstatements. This means that more than 19% of the auditees had **good outcomes only because they corrected the misstatements identified during the audit**.

While 221 auditees retained their previous year's status of no material findings on their APRs, 23 departments in **education, health and public works** had repeat findings.

The number of auditees with findings on their APRs reduced in four provinces and in seven ministerial portfolios. However, regressions occurred in two provinces and in three ministerial portfolios.

The most common findings on **usefulness** reported at 22% of the auditees that had prepared APRs were that they reported on indicators that were not well defined or verifiable. Some targets were also not measurable or specific enough to ensure that the required performance could be measured and reported in a useful manner. A total of 26% of auditees had findings on the **reliability** of the information on which they reported.

The status of resource management

Human resource management showed some improvement

The number of auditees whose human resource management controls we **assessed as being good increased marginally**, from 202 to 210.

Vacancies and stability in key positions have notably **improved** from the previous year. While this is encouraging, vacancies remained too high for the positions of head of department (15%), chief executive officer (19%), chief financial officer (16% at departments and 18% at public entities) and, especially, head of SCM unit (21% at departments and 19% at public entities).

On average heads of departments/chief executive officers remained in their positions for 39 months at departments and 51 months at public entities. Chief financial officers remained in their positions on average 48 months at departments and 39 months at public entities. The vacancy levels overall (16%) and at senior management level (17%) remained pronounced.

We also considered whether there were senior managers at the auditees that were responsible for **strategic planning** and for **monitoring and evaluation.** Although not all auditees had created a specific position for strategic planning or to perform the monitoring and evaluation function, 349 auditees (79%) had appointed or designated a senior manager to be responsible for strategic planning and 336 (76 %) for monitoring and evaluation. It is of concern that not all auditees had allocated these very important functions to senior managers to oversee.

Although there has been some improvement, there were still weaknesses in the **performance management** of senior management, such as key officials and other senior managers not having performance contracts.

Regression in the management of consultants

In total, 28% of the departments used **consultants to assist them with financial reporting** (an increase from the 26% in the previous year). The estimated cost of consultancy services was R500 million, which is a reduction from the amount spent in the previous year (R555 million).

Overall, 71% of the assisted departments received financially unqualified audit opinions – an improvement from the 65% in 2013-14.

Our audits of the management of consultants at 129 departments identified weaknesses at 56 (43%) of these departments, which is a **regression** from the 47 (38%) in 2013-14. Our findings included skills not being transferred, poor performance management and monitoring, as well as inadequate planning and appointment processes.

The status of controls and assurance

Internal control is not improving

As part of our audit process, we continue to assess internal controls to determine the effectiveness of their design and implementation in ensuring reliable financial and performance reporting and compliance with legislation. Overall, there was a lack of improvement as, while some national and provincial auditees progressed, this was offset by the regression and stagnation in the controls of other auditees. In addition, movements in opposite directions by departments and public entities on some of the internal controls caused the overall stagnation in the controls of national and provincial government as a whole.

The following basic controls and disciplines should be strengthened to ensure that errors, omissions and non-compliance are prevented, or detected and promptly corrected:

- Effective leadership based on a culture of honesty, ethical practices and good governance – in place at 67% of auditees.
- Use of audit action plans to address internal control deficiencies – in place at only 48% of auditees.
- Proper record keeping and document control – in place at only 46% of auditees.
- Controls over daily and monthly processing and reconciling of transactions – in place at only 46% of auditees.
- Review and monitor compliance with legislation – in place at only 32% of auditees.

Information technology controls show a slight improvement

There has been an **improvement** since last year in the number of auditees with findings on the status of their IT controls, and IT governance has now been incorporated into the overall assessment. Most auditees are implementing the **IT governance framework** approved by cabinet for national and provincial government, as well as for public entities. When fully implemented, this framework should have a positive impact on the functioning of the IT control environment and service delivery in the public service domain.

Public entities have been more successful than the departments in designing, implementing and effectively operating their IT governance frameworks and structures. As previously reported, legislatures have opted not to adopt the cabinet-approved framework. Most legislatures have nevertheless shown improvement in the adoption of an IT governance framework.

The status of IT controls in the areas of security management, user access and service continuity has improved in most provinces and at national level. However, some national and provincial departments have struggled with the design of these controls and have not yet begun to implement them, while the controls at the four focus areas have been operating effectively at 40% to 53% of the public entities. A lack of effective controls in these areas poses a risk in terms of the confidentiality, integrity and availability of the information on the IT systems concerned.

We have also identified a number of risks in the manner in which systems are being developed and changed. Weaknesses such as user requirements not being clearly defined and poor planning, governance and project management create challenges that affect major system developments, such as the integrated financial management system. Robust internal controls would create an enabling environment to increase the likelihood of IT projects progressing economically, efficiently and effectively and delivering positive results.

Continued focus on the root causes is required

Many auditees did not receive a clean audit opinion because their financial and performance reports were of a poor quality and they had high levels of non-compliance with legislation. The most common root causes of poor audit outcomes that need to be addressed remain the following:

- The **slow response by management** in addressing weaknesses in internal controls and the six risk areas
- **Instability or vacancies in key positions**
- **Inadequate consequences** for transgressions and poor performance.

All role players should increase the level of assurance they provide

To sustain improvements in audit outcomes, auditee management and leadership and those that perform an oversight or governance function should work towards improving the key controls. They should address the root causes again highlighted in this report and ensure that there is an improvement in the six key risk areas. This will provide assurance on the quality of the financial statements and performance reports as well as compliance with legislation. Although we assessed that there was an **overall improvement** in the assurance levels, still too few of the role players are providing the necessary assurance. Our assessment also showed the following:

- **Senior management** at 13% of the auditees did not provide assurance in that they did not ensure that the basic financial and performance management controls were in place.
- **Accounting officers/authorities** at 14% of the auditees did not provide assurance in that they did not (i) create strong control environments through their leadership and oversight; (ii) establish policies, procedures and action plans; and (iii) ensure that human resource management, IT governance, risk management, internal audit units and audit committees were effective.
- The assurance provided by **executive authorities** was inadequate at 12% of auditees, as there were significant weaknesses in the leadership controls of these auditees. Such controls include maintaining an effective leadership culture, effective human resource policy and practice management, and implementing effective audit action plans. Based on regular interactions with them and the status of the previous year's commitments they had made to ensure that audit outcomes improve, we determined that the executive authorities at these auditees did not have the impact they should have had on the performance of their departments.
- Although the assurance provided by **internal audit units and audit committees** was higher than that of the other role players at 59% and 66% of the auditees respectively, they were not yet effective at all auditees in providing internal assurance and oversight. They did not focus enough on the reliability of performance information and the evaluation of IT controls and compliance.
- **National and provincial government** has a constitutional responsibility to support and strengthen departments and public entities and to monitor compliance with the legislation that governs national and provincial government. Our assessment revealed that the departments with a direct role to play (the treasuries and offices of the premier) were not yet providing sufficient assurance through their mandated functions, although the level of assurance they provided had improved from the previous year.
- The oversight provided by **public accounts committees** continued to improve, but weaknesses in adopting and following up resolutions hamper the assurance provided by 80% of committees.

We have received support from **national portfolio committee** chairpersons and, in turn, supported the oversight role of these committees through various engagements, including the budgetary review and recommedation report (BRRR) process and capacity-building workshops. We did not formally assess the level of assurance provided by the portfolio committees as our focus in the past year was on embedding activities to enable strong relationships with these committees.

Controls in key national programmes require further attention

Our audits included a specific assessment of service delivery aspects relevant to the programmes of the health, basic and higher education, human settlements and public works sectors.

Unique aspects of these sectors include the necessity of appropriate policies and procedures to ensure efficient and effective service delivery. Also of importance is effective and functional monitoring and evaluation systems to ensure relevant and continuous service delivery of good quality. Building and maintaining sound infrastructure is a further requirement.

We raised key findings on our sector audit focus areas that include the following:

Health

- The comprehensive HIV and Aids grant: Health information systems and monitoring controls were not well designed and implemented, resulting in shortages in anti-retroviral treatment and non-adherence to the grant conditions.
- Health care waste management: Environmental legislation relevant to the handling, storing and disposal of health care waste was not complied with. This increased the risk to health and safety and negatively impacted communities and the environment.
- Information systems: The network infrastructure was outdated in seven provinces, with weaknesses in network security and basic controls. Key accounting systems used for billing, revenue and managing pharmaceuticals did not interface with primary accounting systems. Poor connectivity and slow system response times at six provinces had a further impact on the effective use of information systems.
- Infrastructure development and maintenance: Health infrastructure projects were not managed effectively in all nine provinces. This resulted in slow progress on construction, poor quality of work, structural defects not detected timely, cost escalations and delays in the commissioning and use of new and upgraded health facilities.

Basic education

- The professional development of teachers: There was a mismatch between the provision and demand for teacher development, inefficient and poorly monitored funding mechanisms, and a lack of quality education for practicing teachers.
- Learner transport: Learners have difficulty accessing education institutions due to inadequate learner transport. This was mainly due to insufficient project management of learner transport and non-compliance with SCM processes.
- Information system: Provinces divert education information system (EIS) funds to cover other operating costs, data quality audits are not always conducted and provinces are not all adequately resourced to meet EIS priorities.
- Learner teacher support material (LTSM): Deficiencies were identified in areas that include identifying LTSM needs, procuring according to budget, complying with SCM requirements and delivering materials to schools.
- National school nutrition programme (NSNP): Deficiencies were identified in procuring service providers, complying with the grant requirements and monitoring and managing food handlers.
- School finance management: All schools did not have audited financial statements as required by legislation.
- Infrastructure development and maintenance: Deficiencies were noted in addressing matters related to planning school infrastructure, procuring contractors, effective project management, delays in using completed classrooms because furniture and equipment were not delivered, and poor maintenance of existing school infrastructure.

Higher education

- Skills development by sector education training authorities (SETAs): Scarce and critical skills identified in the sector skills plan were not included or not aligned to the indicators and targets in the annual performance plans of all SETAs. This can result in the skills needs of the country not being addressed.

Human settlements

- Management of individual subsidies: There has been a reduction in the number of audit findings since the previous year. Findings relevant to housing projects exceeding project budgets and payments not being made in line with contract milestones were raised in two provinces.
- Management of transfer payments to municipalities: Payments continued to be made for houses that do not meet the specified quality requirements. A lack of proper needs analysis and inadequate planning continued to impact the level of service delivery at municipalities to effectively use transfer payments for building houses. Project monitoring and controls were not always effective in ensuring that quality houses were delivered in an efficient manner.

Public works

- Management of accommodation for client departments: Poor coordination between the public works sector and client departments meant that accurate accommodation needs could not be established, resulting in the sector being unable to plan strategically for these needs.
- Project management of infrastructure projects: The quality and monitoring of infrastructure projects managed by the department were not always of the desired standard.

Characteristics of each of the categories of audit outcomes

The table provided on the following pages summarises the characteristics of auditees that fall within the different categories of audit outcomes. The purpose of this summary is the following:

Assist the reader to understand the different audit outcomes.

Highlight the good practices of auditees with clean audit opinions.

Emphasise that auditees with an unqualified audit opinion with findings still have serious weaknesses that should be dealt with.

Explain why auditees with qualified, adverse and disclaimed opinions are failing.

Area	Best practices for clean audits (131)	Unqualified with findings (224)	Qualified with findings (68)	Adverse or disclaimed with findings (17)
Financial statements	Produced financial statements **free from material misstatements**.	A total of 131 (58%) produced financial statements **with material misstatements**, but **corrected** these during the audit process. The most common areas in which department made corrections were: • commitments and contingent liabilities • irregular expenditure. The most common areas in which public entities made corrections were: • payables, accruals and borrowings • commitments and contingent liabilities. • irregular expenditure.	Produced financial statements **with material misstatements**, which they **could not correct** before the financial statements were published. The most common areas in which departments could not make corrections were: • property, infrastructure, plant and equipment • irregular expenditure • Commitments and contingent liabilities. The most common areas in which public entities could not make corrections were: • property, infrastructure, plant and equipment • receivables • revenue.	Adverse (3): Produced financial statements that included so **many material misstatements** that we **disagreed** with virtually all the amounts and disclosures in the financial statements. Disclaimed (14): Could not provide us with evidence for most of the amounts and disclosures in the financial statements. We were **unable to conclude** or express an opinion on the credibility of their financial statements.
Annual performance report	Measured and reported on their performance in the APR against the predetermined objectives in their integrated development plan and/or service delivery and budget implementation plan, and in a manner that was **useful and reliable**. Of the 119 auditees required to report on their performance, 25 (21%) obtained good outcomes only because they corrected the misstatements identified during the audit. These may regress if the control environment to prepare performance reports is not strengthened.	Ninety-nine per cent of the auditees **prepared** an APR. Of the 214 auditees required to report on their performance, 90 (42%) APRs were **not useful and/or reliable**. In total, 47 (22%) obtained good outcomes only because they **corrected the misstatements** identified during the audit.	A total of three (5%) of the 59 auditees required to report on their performance **did not prepare** an APR. The APRs of 40 (68%) were **not useful and/or reliable**.	A total of four (40%) of the 10 auditees required to report on their performance **did not prepare** an APR. The APRs of eight (80%) were **not useful and/or reliable**.

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Compliance with key legislation	**Complied** with key legislation.	A total of 218 (97%) **did not comply** with key legislation. Close to half of these auditees (49%) did not prevent unauthorised, irregular, as well as fruitless and wasteful expenditure. At 26 of these auditees the only material instances of non-compliance we reported were the poor quality of the financial statements they had submitted for auditing. They would have received a clean audit outcome had it not been for this compliance finding.	A total of 66 auditees (97%) had findings on **compliance** with key legislation. Forty-seven of these auditees (70%) did not prevent unauthorised, irregular, as well as fruitless and wasteful expenditure. Twenty-nine (43%) had findings related to consequence management.	A total of 16 (94%) **did not comply** with key legislation. Nine of these auditees (53%) did not prevent unauthorised, irregular, as well as fruitless and wasteful expenditure Nine (53%) had findings related to consequence management.

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Controls	Had good controls or were working on the areas that needed further attention to ensure that their clean audit status was maintained: Their continued focus on these **basic controls** contributed to their success: • The leadership established a culture of **ethical behaviour, commitment** and **good governance** (98%). • **Good human resource practices** ensured that adequate and sufficiently skilled officials were in place and that their performance was managed (89%). • **Attention to information and communication technology (ICT)** ensured that it supported objectives and processes, and maintained the confidentiality, integrity and availability of information (53%). • **Audit action plans** were used to address internal control weaknesses (89%). • **Proper record keeping** ensured that information was accessible and available to support financial and performance reporting (83%). • **Basic disciplines and controls** were in place for daily and monthly processing and reconciling of transactions (86%). • Mechanisms were in place to identify applicable legislation, changes and processes to ensure and monitor **compliance with legislation** (78%).	Had good controls in some areas but should pay more attention to the basic controls, as the number of auditees with good controls in the following areas was limited: • Effective leadership culture (64%) • Good human resource controls (38%) • Good ICT governance and controls (19%) • Effective audit action plans (39%) • Proper record keeping (40%) • Strong daily and monthly controls (38%) • Review and monitor compliance (16%).	Very few auditees had good basic controls, ranging from 4% to 32%. Only 4% and 9% respectively of auditees had good controls to monitor compliance with legislation or had good audit action plans.	The basic controls were in a poor state. We assessed the status of controls at most of these auditees as requiring intervention. The weakest controls that needed intervention were in the following areas: • Proper record keeping (76%) • Review and monitor compliance (88%) • Daily and monthly controls (88%).

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Assurance providers	**Key role players worked together to provide assurance** on the credibility of the financial statements and performance reports and to ensure compliance with key legislation. These auditees understood that assurance on the **credibility of the information in the financial statements and performance reports** came primarily from the **actions of management / leadership and their governance partners** – internal audit units and audit committees. Their political leadership provided a **strong monitoring and oversight role** and held the administration to account. The percentage of auditees where role players provided full assurance was: • Senior management (73%) • Accounting officers/chief executive officers (89%) • Executive authorities (81%) • Internal audit units (91%) • Audit committees (96%).	**All role players did not provide the required level of assurance**. As a result, the financial statements and APRs prepared, reviewed and signed off by the senior management and accounting officers or authorities of these auditees were materially misstated. The internal audit units and the audit committees did not add to the credibility of these reports, while monitoring and oversight by the political leadership did not have the desired impact. These role players did also not ensure or insist on strong controls to ensure compliance with key legislation and to prevent, or detect and correct, material misstatements. The auditees where role players provided full assurance were limited: • Senior management (16%) • Accounting officers / chief executive officers (26%) • Executive authorities (33%) • Internal audit units (50%) • Audit committees (60%).	**The role players at very few auditees provided the required assurance**: 4% of the accounting officers or authorities, 12% of the executive authorities, 32% of the internal audit units, and 34% of the audit committees. The rest of the role players provided **some or limited to no assurance**. Internal audit units had not been established at 13% and audit committees at 7% of these auditees.	**The contributions to assurance by the role players at these auditees were minimal**. The role players that provided the least assurance were at the first and third level of assurance: • Senior management (100% provided limited to no assurance) • Accounting officers/chief executive officers (94% provided limited to no assurance) • Executive authorities (65% provided limited to no assurance). Internal audit units had not been established at 18% of these auditees, and provided limited or no assurance at 41%. Furthermore, 18% of these auditees did not have audit committees, while the audit committees at 35% provided limited or no assurance.

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Key officials	There were **limited vacancies** in key positions, with the following vacancies in key positions at these auditees: • Head of department – 7 (15%) • Chief executive officer – 11 (13%) • Chief financial officer – 10 (8%) • Head of the SCM unit – 6 (5%). There was **stability** at the level of the accounting officer or chief executive officer, chief financial officer and head of the SCM unit – officials had been in these positions **between three to six years.**	The **vacancies** in key positions were **more pronounced** at these auditees: • Head of department – 13 (15%) • Chief executive officer – 18 (13%) • Chief financial officer – 39 (17%) • Head of the SCM unit – 45 (20%). There was **less stability**, at the level of the accounting officer or chief executive officer, chief financial officer and head of the SCM unit – officials had been in these positions **between three to four years**.	The **vacancies** in key positions were **more pronounced** at these auditees: • Head of department – 5 (18%) • Chief executive officer – 8 (20%) • Chief financial officer – 14 (21%) • Head of the SCM unit – 16 (24%). There was **less stability**, at the level of the accounting officer or chief executive officer, chief financial officer and head of the SCM unit – officials had been in these positions **between two-and-a-half years to three years**.	The vacancies in key positions were the **highest** at these auditees: • Chief executive officer – 7 (44%) • Chief financial officer – 10 (59%) • Head of the SCM unit – 6 (35%). There was **less stability**, at the level of the accounting officer or chief executive officer, chief financial officer and head of the SCM unit – officials had been in these positions **between one to three years**.

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Use of consultants by departments	They used consultants for financial reporting services but **used them effectively**. A total of eight (6%) of these auditees were assisted by consultants to the amount of R14 million. They appointed the consultants in time, provided them with the required records and documents, and managed the process effectively.	They used consultants for financial reporting services, but **most could not produce financial statements without material misstatements** – these material misstatements were corrected through the audit process. A total of 25 (11%) of these auditees were assisted by consultants to the amount of R359 million. Their practices to **manage consultants (not limited to financial reporting) need attention**: • No transfer of skills at 27% of the auditees • Poor performance management and monitoring at 17% of the auditees • Inadequate planning and appointment processes at 20% of the auditees.	A total of 14 (21%) auditees were assisted by consultants for financial reporting services to the amount of R127 million. They had **poor audit outcomes** in spite of using consultants, mainly due to the following: • Poor project management by 21% of the auditees • A total of 21% auditees could not provide the records and documents consultants needed to perform their services. Poor practices to **manage consultants (not limited to financial reporting) were widespread**: • No transfer of skills at 68% of the auditees • Poor performance management and monitoring at 52% of the auditees • Inadequate planning and appointment processes at 56% of the auditees.	No consultants were appointed at the departments with adverse or disclaimed opinions.
Use of grants	The departments **effectively used** their conditional grants: • Only 0,5% of these grants were not spent. • All the targets for the grants were achieved.	The departments used the conditional grants but with a **slightly higher underspending and lower achievement** than auditees with clean audit opinions: • A total of 2% of these grants were not spent • Targets were not achieved at 15% of the departments.	The use of grants by departments was **less effective** in this category: • Two per cent of the total grants received by 20 departments were not spent • Targets were not achieved at 30% of the departments.	The department in this category **struggled to use their grants effectively**: • Two per cent of the total grants received by the department were not spent • The targets set for the department, were not achieved.

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Supply chain management and irregular expenditure	They had **no material instances of non-compliance** with SCM legislation; 76% had good SCM practices but 24% still needed to improve in some of the SCM areas. Their **irregular expenditure levels were low** as a result of their good SCM practices. They incurred only 1% (R357 million) of the irregular expenditure of all auditees. The accounting officer **did not investigate the irregular expenditure of the previous year** to determine if anyone was liable for the expenditure at only two auditees (2%).	In total, **42% of these auditees had material instances of non-compliance** with SCM legislation. Only 29% had good SCM practices. Their **irregular expenditure levels were high** as a result of their poor SCM practices. They incurred 56% (R14 438 million) of the total irregular expenditure. At 34 auditees (15%), the accounting officer **did not investigate the irregular expenditure of the previous year** to determine if anyone was liable for the expenditure.	Sixty-nine per cent **of these auditees had material instances of non-compliance** with SCM legislation. Their **irregular expenditure levels were high** as a result of their poor SCM practices. They incurred 35% (R8 966 million) of total irregular expenditure. The lack of investigations was more pronounced: At 27 auditees (40%), the accounting officer **did not investigate the irregular expenditure of the previous year** to determine if anyone was liable for the expenditure.	In total, **53% of these auditees had material instances of non-compliance** with SCM legislation. We experienced **limitations in performing the SCM audits at 12%** of these auditees. Their **irregular expenditure levels were high** as a result of their poor SCM practices and, had it not been for the audit limitations, it could have been even higher. These auditees incurred 8% (R1 921 million) of the total irregular expenditure. The lack of investigations was more pronounced: At six auditees (35%), the accounting officer **did not investigate the irregular expenditure of the previous year** to determine if anyone was liable for the expenditure.

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Financial health and unauthorised expenditure	Only 2% of these auditees' financial health status was assessed as **'requiring intervention'**; 73% had good status of financial health. Although responsible for 19% of the departmental budget, these auditees did incur less than 1% (R710 000) of the total unauthorised expenditure.	Nine per cent of these auditees' financial health status was assessed as **requiring intervention**; 53% had good status of financial health. They incurred 77% of the unauthorised expenditure, while being responsible for only 59% of the departmental budget.	Fifteen per cent of these auditees' financial health status was assessed as **requiring intervention**; 24% had good status of financial health. They incurred only 22% of the unauthorised expenditure, while being responsible for only 19% of the departmental budget.	Eighty-eight per cent of these auditees' financial health status was assessed as **requiring intervention**; 6% had good status of financial health. They incurred 1% of the unauthorised expenditure, while being responsible for 2% of the departmental budget.
Fruitless and wasteful expenditure	They incurred only 5% of the fruitless and wasteful expenditure.	They incurred 50% of the fruitless and wasteful expenditure.	They incurred 35% of the fruitless and wasteful expenditure.	They incurred 10% of the fruitless and wasteful expenditure. .

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