

## SECTION 2: OVERVIEW OF AUDIT OUTCOMES

Figure 1: Slight improvement in audit outcomes (all auditees)

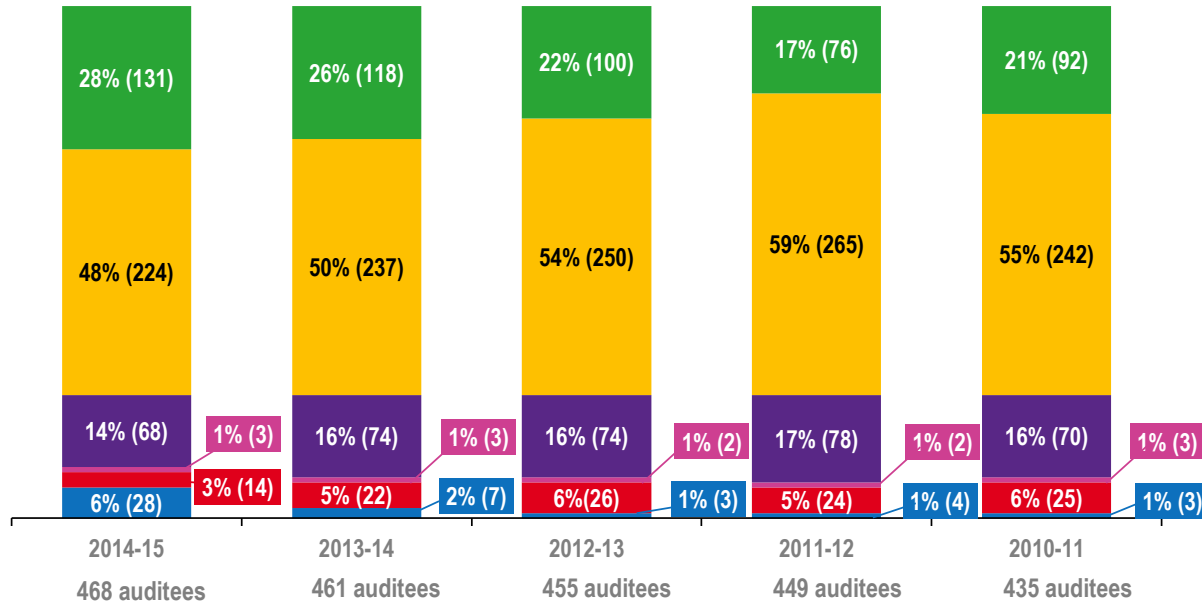


Figure 4: Education, health and public works vs. other departments

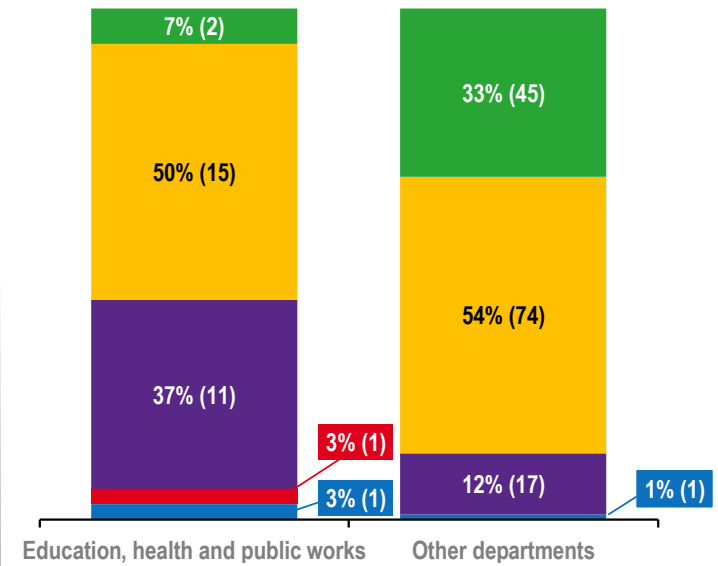


Figure 2: Audit outcomes (departments)

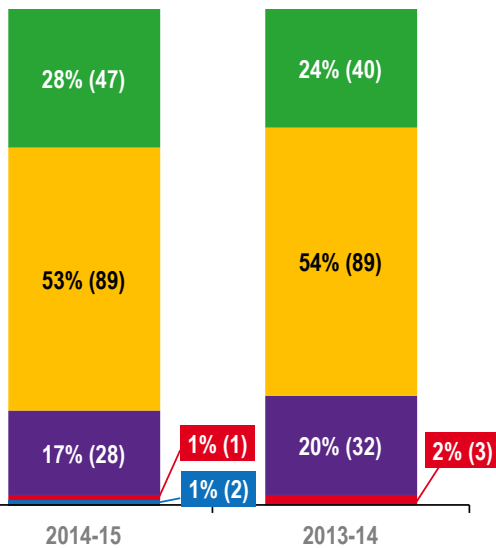


Figure 3: Audit outcomes (public entities)

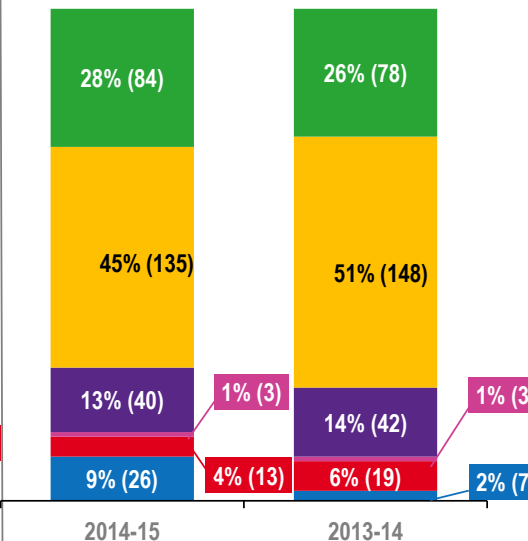
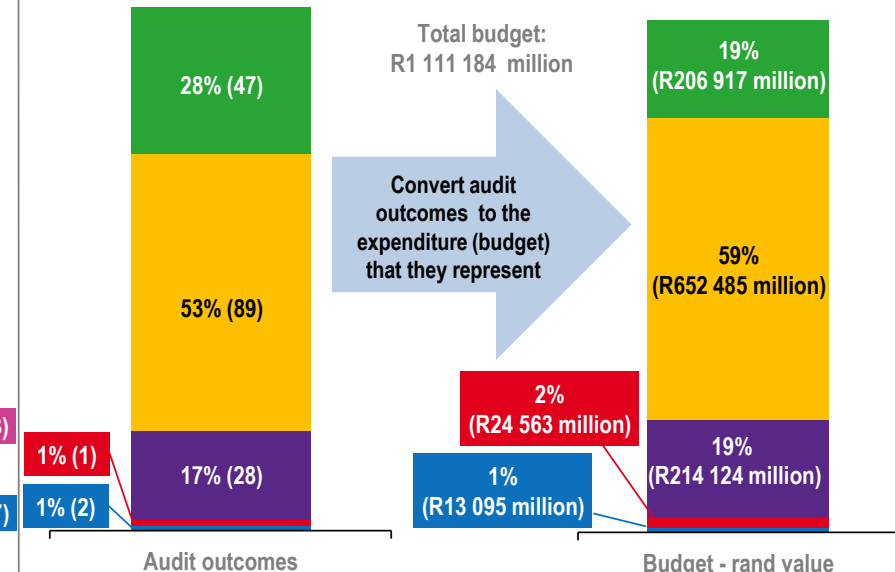


Figure 5: Audit outcomes vs budget allocation (departments)



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

## Overall audit outcomes

National and provincial government consists of 167 departments and 399 public entities. The public entities include 149 national and 68 provincial public entities, 45 major public entities and government business enterprises, 33 constitutional institutions and trading entities, 25 universities, 50 technical and vocational education and training (TVET) colleges and 29 other entities that are not subject to the PFMA.

The audit outcomes of 98 public entities audited by private auditors are not included in the analysis presented in this report, except in the portfolio outcomes (section 9) if a minister has executive responsibility for them and in the annexures to this report.

The establishment of three new departments has increased the number of departments since the previous year. The number of public entities has increased due to the establishment of four new public entities, bringing the number of public entities to 301.

### *Submission of financial statements for auditing and completion of the audits*

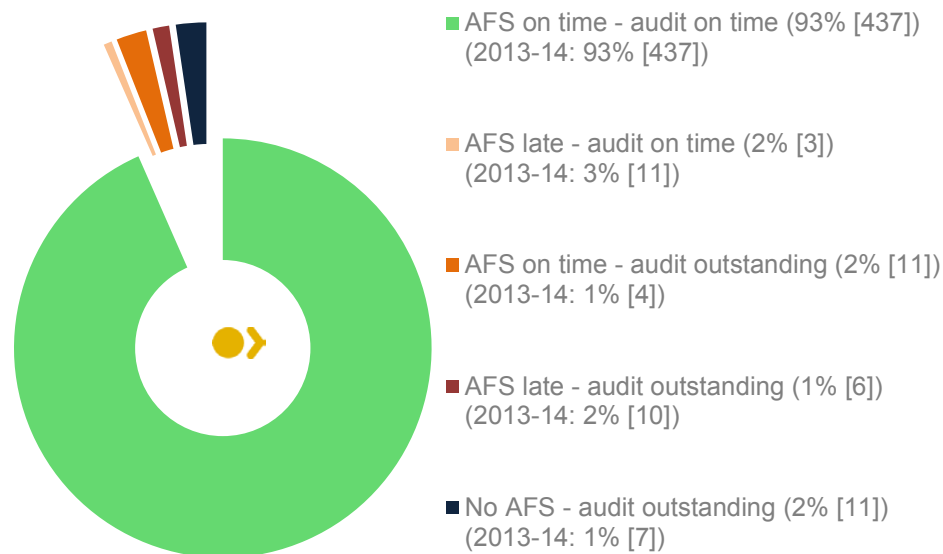
Figure 6 shows that 448 auditees (95%) (2013-14: 94%) submitted their financial statements for auditing by 31 May 2015, as required by legislation. The Eastern Cape, Mpumalanga and the Western Cape had a 100% submission rate by the deadline, while those with the most delayed submissions were in the Free State (5% of auditees did not submit on time), the Northern Cape (5%) and North West (15%).

The cut-off date that we set for the inclusion of audit outcomes in this report was 14 August 2015. By this date:

- the financial statements of the following 11 public entities were still outstanding:
  - four national auditees (Compensation Commissioner for Occupational Diseases, East Cape Midlands TVET College, Tshwane North TVET College and National Radioactive Waste Disposal Institute)
  - one auditee each in the Free State (Free State Political Party Fund) and KwaZulu-Natal (KwaZulu-Natal Business Rehabilitation Trust Fund)
  - five auditees in North West (North West Parks and Tourism Board, Agribank, Agribank Creditors Settlement Trust, North West Tribal and Trust Fund and Dirapeng)
- the following auditees were still being audited, as their financial statements had not been received by the legislated date:

- Gauteng Enterprise Propeller (GP)
- Gateway Airport Authority (LP)
- four national auditees (Performing Arts Centre of the Free State, The Property Management Trading Entity, South African Express Airways and the Northlink TVET College)
- we had completed the audits of McGregor Museum (NC) and two national auditees (South African Qualifications Authority and Orbit TVET College) even though their financial statements had not been received by the legislated date
- the following two departments and nine public entities were still being audited, although the financial statements had been received by the legislated date:
  - one national department (Home Affairs)
  - one department in the Western Cape (Transport and Public Works)
  - four national auditees (Independent Development Trust, Special Defence Account, South African Post Office, and Government Pensions Administration Agency)
  - two auditees in KwaZulu-Natal (Ithala Development Finance Corporation and Ithala)
  - one auditee each in the Eastern Cape (COEGA Development Corporation), Limpopo (Limpopo Economic Development Agency) and the Northern Cape (Northern Cape Fleet Management).
- Sixteen of the 28 outstanding audits have subsequently been finalised, resulting in the following audit outcomes:
  - three auditees with clean audits
  - five auditees received an unqualified audit opinion
  - six auditees received a qualified audit opinion
  - one auditee received an adverse audit opinion
  - one auditee received a disclaimed audit opinion.
- The audit of 12 auditees have not been finalised as 11 auditees' annual financial statements are still outstanding and one auditee has unresolved going concern matters.

**Figure 6: Submission of financial statements and completion of audits**



## Movement in audit outcomes

Figure 1 indicates that there has been a slight overall improvement in the audit outcomes when compared to the previous year. Figures 2 and 3 show that there was little change in the overall outcomes of public entities, but that departments improved. The table that follows analyses the movement in audit outcomes of the different auditees since the previous year.

The number of auditees with clean audits increased to 131 (28%), which represents 28% of the national departments, 28% of the provincial departments, 27% of national public entities and 29% of the provincial public entities. The 47 departments with clean audit opinions represent 19% of the total expenditure budget of R1,1 billion, as reflected in figure 5.

Of the 224 auditees that received an unqualified audit opinion with findings, 77% had received the same opinion last year. Only 42 auditees were able to improve to clean audits since the previous year (they had previously received unqualified opinion with findings). Although there has been some progress towards financially unqualified audit opinions (as detailed in section 3.1), the remaining challenge is to address the material findings on the quality of the APRs and compliance with legislation. The progress over the past three years and the key findings in these areas are provided in sections 4 and 3.2 respectively.

Annexure 1 lists all auditees with their current and previous year's audit outcomes.

## Consolidated general report on national and provincial audit outcomes for 2014-15

Figure 1 shows the five-year audit outcomes of national and provincial government. The overall 2014-15 audit outcomes improved from 2010-11; auditees with clean audit opinions increased from 92 (21 departments and 71 public entities) to 131 (47 departments and 84 public entities).

Annexure 2 lists the audit outcomes for the past five years.

## Education, health and public works

In 2014-15, the expenditure of the national and provincial departments of education, health and public works contributed to almost 37% of the total spending by departments. Figure 4 shows that 40% of these departments' financial statements were financially qualified or disclaimed compared to 12% of the other departments. Except for two clean audits, all these departments had material findings on the quality of their APRs and/or compliance with legislation.

These sectors receive a substantial portion of the budget and are responsible for implementing key programmes to improve the health and welfare of citizens. Their poor audit outcomes should receive urgent attention from all role players to ensure accountability and improved service delivery.

## Legislatures

The legislature sector consists of the Parliament of the Republic of South Africa (Parliament), i.e. the National Assembly and the National Council of Provinces, and the nine provincial legislatures.

The legislatures' audit outcomes in 2014-15 were positive with six of the 10 legislatures receiving clean audit opinions. The audit opinions of the legislatures of North-West, the Northern Cape and Limpopo were unqualified with findings and only KwaZulu-Natal received a qualified audit opinion.

The Financial Management of Parliament and Legislatures Act (FMPPLA) was effective from 1 April 2015 and introduced a number of key requirements applicable to legislatures. These include:

- Implementation of the standards of Generally Recognised Accounting Practice (GRAP) as an accounting framework
- Changes to the preparation and submission of APRs and annual budgets
- Changes in other legislated requirements, especially to align or develop regulations, policies and procedures to comply with SCM and other related matters in terms of the act.

We conducted a readiness assessment as part of our audits to evaluate the progress made by Parliament and legislatures to adhere to the requirements of the FMPPLA that may have an impact on the future audit outcomes from 2015-16. The objective of the assessment was to assist auditees in identifying shortcomings in their processes and addressing these areas through an

implementation plan that includes target dates for the various milestones and that is adequately monitored by the oversight bodies.

The outcomes of the assessment in the above three areas required by the act are provided below.

### *Implementation of Generally Recognised Accounting Practice*

Parliament and the Gauteng legislature have fully implemented GRAP with no significant concerns related to the quality of their submitted financial statements. The Mpumalanga legislature has implemented GRAP with transitional provisions that allow a period of three years to fully implement all requirements, particularly those relating to the valuation of certain financial statement items.

At the time of concluding the 2014-15 audit reports, the Limpopo legislature had not initiated the processes required to implement GRAP.

The remaining six legislatures had started the process of developing implementation plans for the required changes. Matters considered important for the implementation plan include the following:

- A skilled project team to drive the implementation plan
- Effective monitoring and oversight from the accounting officers, executive authorities and audit committees
- Detailed scoping and planning to determine the appropriate information system for financial recording and reporting
- Training all relevant staff to apply GRAP
- Appropriate data migration and conversion processes where appropriate
- Preparing interim financial statements to determine the state of readiness for the financial year-end.

### *Annual performance reports and annual budgets*

Most legislatures are ready for reporting on predetermined objectives and have adequate plans to approve annual performance plans and report on these plans through relevant systems on a programme level.

Challenges were highlighted regarding approving the annual performance plans and annual budgets in good time.

### *Other legislated requirements*

Parliament and the Gauteng legislature were assessed as being ready to comply with the FMPPLA. Areas of concern for the remaining eight legislatures related

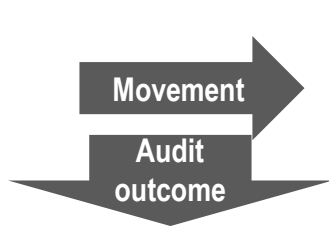
to the quality of financial statements, procurement and contract management, and expenditure management.

### *Recommendations*

Recommendations for the successful implementation of the FMPPLA include:

- the Speakers' Forum developing appropriate mechanisms to monitor the implementation of readiness plans to respond to the FMPPLA requirements
- regular feedback to the executive authorities on implementing the FMPPLA
- establishing a consultative relationship between Parliament, provincial legislatures and the treasuries, respecting the separation of powers, to prevent duplicating processes concerning financial management, performance management and compliance with legislation
- developing a coordinated legislative sector approach to implementing the FMPPLA
- expediting the review of governance and oversight models to establish appropriate oversight mechanisms
- reviewing existing systems, processes and procedures to prepare an annual performance plan and annual budget
- rolling out SCM regulations that were effective from 1 April 2015, supported by appropriate training for consistent understanding and implementation to ensure compliance
- the executive authority of Parliament drafting other required regulations within a reasonable period of time, preferably within the 2015-16 financial year.

Table 1: Movement in audit outcomes



	75 Improved	312 Unchanged	47 Regressed	6 New auditee	20 + 8 Outstanding audits
Unqualified with no findings = 131	17 (DEP) 25 (PE) 1 (DEP) 1 (PE)	29 (DEP) 56 (PE)		2 (PE)	1 (DEP) 3 (PE)
Unqualified with findings = 224	12 (DEP) 12 (PE)	65 (DEP) 107 (PE)	10 (DEP) 15 (PE)	2 (DEP) 1 (PE)	7 (PE)
Qualified with findings = 68	1 (PE) 1 (DEP) 3 (PE)	19 (DEP) 24 (PE)	4 (PE) 7 (DEP) 8 (PE)	1 (DEP)	4 (PE)
Adverse with findings = 3	2 (PE)	1 (PE)			
Disclaimed with findings = 14		1 (DEP) 10 (PE)	1 (PE) 1 (PE) 1 (PE)		1 (DEP) 4 (PE)

DEP – departments PE – public entities Colour of the number indicates the audit opinion from which the auditee has moved.

Of the 28 outstanding audits, seven audits remain outstanding since the 2013-14 financial year, with one new audit outstanding.

Figure 7: National and provincial audit outcomes

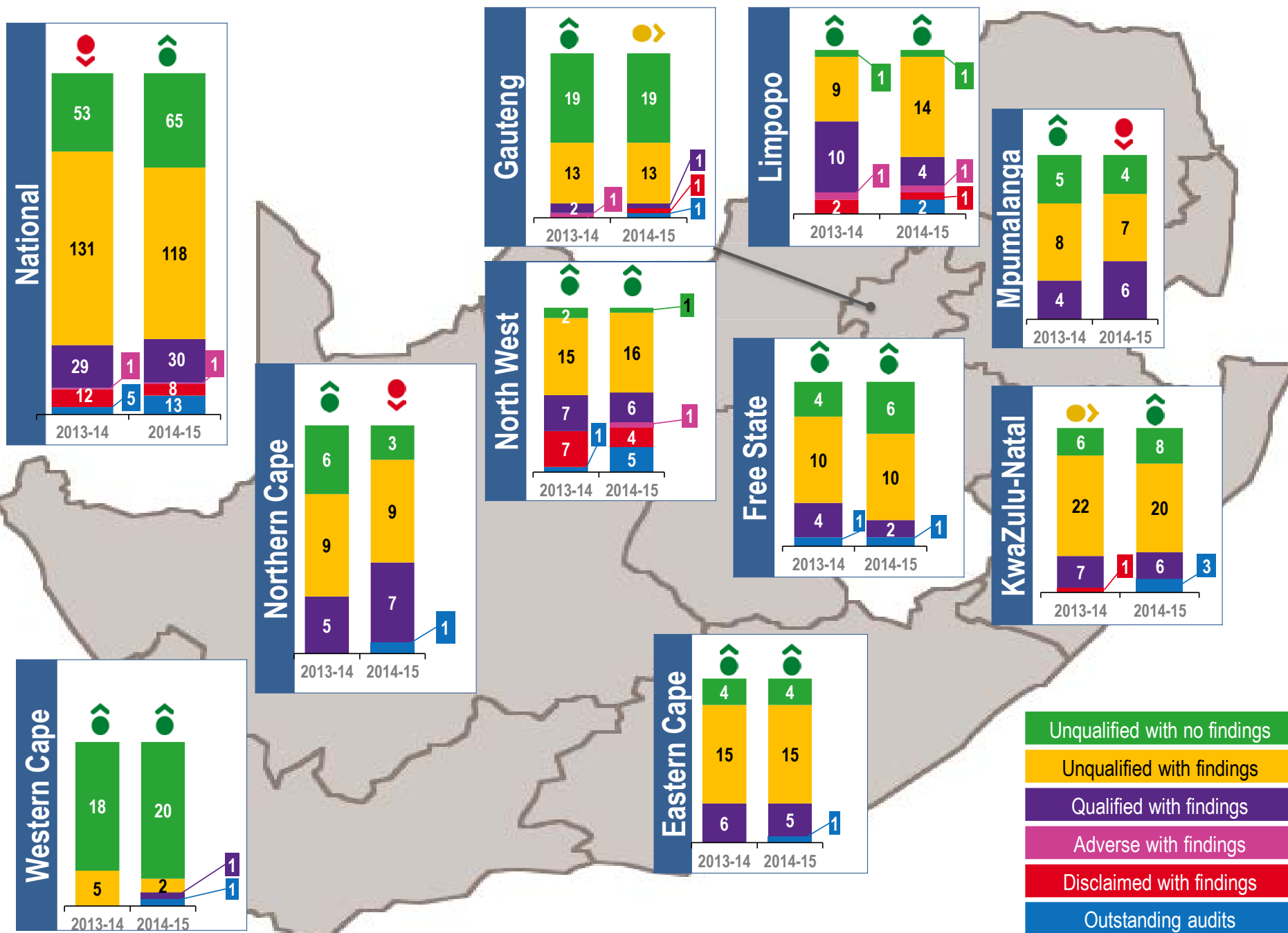


Table 2: Movement in national and provincial audit outcomes

Portfolio	Clean (131)			Financially unqualified with findings (224)				Qualified with findings (68)				Adverse with findings (3)		Disclaimed with findings (14)		Out- standing audits (28)
	Improved	Unchanged	New	Improved	Unchanged	New	Regressed	Improved	Unchanged	New	Regressed	Improved	Unchanged	Unchanged	Regressed	
National auditees	28	37		8	94	2	14	4	17	1	8	1		7	1	13
Eastern Cape	3	1		1	11		3		5							1
Free State	2	4		1	9				2							1
Gauteng	3	16		1	9		3		1						1	1
KwaZulu-Natal	3	4	1	3	17				4		2					3
Limpopo	1			6	7		1		4				1	1		2
Mpumalanga	1	3		1	5		1		3		3					
Northern Cape		3		1	6		2		3		4					1
North West		1		2	13	1		1	4		1	1		3	1	5
Western Cape	3	16	1		1		1				1					1
<b>TOTAL</b>	<b>44</b>	<b>85</b>	<b>2</b>	<b>24</b>	<b>172</b>	<b>3</b>	<b>25</b>	<b>5</b>	<b>43</b>	<b>1</b>	<b>19</b>	<b>2</b>	<b>1</b>	<b>11</b>	<b>3</b>	<b>28</b>



## National and provincial audit outcomes

Figure 7 shows an improvement in the audit outcomes in national government and most provinces, but a regression in the audit outcomes of Mpumalanga and the Northern Cape, with Gauteng's audit outcomes of unchanged. The number of auditees with an unqualified audit opinion with no findings (clean audit) improved from 118 in the previous year to 131 (47 departments and 84 public entities) (28%) in 2014-15, with the highest contributors being Gauteng and the Western Cape. Regressions in the number of auditees with clean audit opinions were noted in Mpumalanga, the Northern Cape and North West. Seventy-two per cent of auditees (85) with clean audits in the previous year were able to sustain their clean audit status.

Table 2 summarises the movement in the audit outcomes per portfolio, which is discussed further below.

### National government

<b>Retained clean audit (37)</b>	<p>Departments of Social Development, Sport and Recreation South Africa, Statistics South Africa, Environmental Affairs, Planning, Monitoring and Evaluation.</p> <p>Thirty-two public entities, which includes SARS, the CSIR, four SETAs, Landbank, SALGA and the Roads Accident fund. Eleven public entities received clean audits for five or more years.</p>
<b>Improved to clean audit (28)</b>	<p>Departments of Science and Technology, Trade and Industry, Government Communication and Information System, Public Service Commission, Parliament, The Presidency, Department of Energy and 21 public entities, which includes ARMSCOR, three SETAs and the National Youth Development Agency.</p>
<b>Qualified opinion (30)</b>	<p>Departments of Correctional Services and Water Affairs (both for five years or more), International Relations and Cooperation, Military Veterans and Secretariat for Police (new auditee).</p> <p>Twenty-five public entities, which includes the SABC, 10 auditees in the arts and culture portfolio and six TVET colleges.</p>
<b>Adverse opinion (1)</b>	Ikhala TVET College.

<b>Regressed to disclaimed opinion (1)</b>	The South African Nuclear Energy Corporation.
<b>Repeat disclaimed opinion (7)</b>	Compensation Fund, Pan South African Language Board, Third Party Funds (five years or more), King Hintsa TVET College, Tshwane South TVET College, Western College for TVET and Letaba TVET College.

There was a net improvement in the audit outcomes of national government with 41 auditees improving on their audit opinions and 23 regressing. Seventy per cent of the auditees received the same audit opinion as in the previous year, with the majority receiving a financially unqualified audit opinion with findings.

### Eastern Cape

<b>Retained clean audit (1)</b>	Eastern Cape Socio-Economic Consultative Council.
<b>Improved to clean audit (3)</b>	Provincial legislature, Department of Safety and Liaison and Eastern Cape Gambling and Betting Board.
<b>Qualified opinion (5)</b>	<p>Departments of Education, Health (five years or more) and Roads and Public Works.</p> <p>Eastern Cape Development Corporation and Mayibuye Transport Corporation.</p>

A total of 17% of auditees obtained a clean audit outcome, 63% received financially unqualified opinions with findings, while only 21% received qualified opinions.

Overall, the audit outcomes improved, with four auditees (17%) improving (three of which achieved a clean audit for the first time) while three auditees (13%) regressing from having clean audits in the previous year to financially unqualified opinions with findings in 2014-15.

### Free State

<b>Retained clean audit (4)</b>	Provincial legislature, Provincial Treasury, Department of Sport, Arts, Culture and Recreation, and the Free State Fleet Management Trading Entity.
<b>Improved to clean audit (2)</b>	Office of the Premier and the Department of Public Works.

**Qualified opinion (2)**

Departments of Health (five years or more) and Human Settlements.

In total, 53% of the auditees received financially unqualified opinions with findings, while only two auditees (11%) received qualified opinions.

Overall, the audit outcomes improved with three auditees (16%) improving, no regressions and 15 auditees (79%) obtaining the same audit opinion as in the previous year.

## Gauteng

<b>Retained clean audit (16)</b>	Department of Cooperative Governance and Traditional Affairs, Office of the Premier, Provincial legislature, Provincial Treasury, Department of Social Development and 11 public entities.
<b>Improved to clean audit (3)</b>	Department of Economic Development, Provincial Treasury and the Gauteng Gambling Board.
<b>Qualified auditees (1)</b>	Department of Health.
<b>Regressed to disclaimed opinion (1)</b>	g-FleeT Management.

A total of 54% of auditees obtained a clean audit outcome; the Gauteng Partnership Fund had obtained a clean audit for the past five or more years. Except for the national auditees, Gauteng is one of the two provinces with the highest number of clean audits (19). Thirty-seven per cent (13 of 35) of the auditees received financially unqualified opinions with findings, of which three had regressed from a clean opinion in the previous year.

Overall, the audit outcomes remained unchanged (74%) from the previous year with four improvements and four regressions.

## KwaZulu-Natal

<b>Retained clean audit (4)</b>	Provincial Treasury, Dube Tradeport Company, KwaZulu-Natal Growth Fund Managers and Amafa Akwazulu-Natali.
<b>Improved to clean audit (3)</b>	Department of Cooperative Governance and Traditional Affairs, KwaZulu-Natal Tourism Authority and Trade and Investment KwaZulu-Natal.

**Qualified auditees (6)**

Departments of Arts and Culture, Health, Social Development, Transport, the Provincial legislature and the Traditional Levies and Trust Account.

Most of the auditees received financially unqualified opinions with findings (54%), while 16% received qualified opinions. Apart from the national auditees, the province is also one of two provinces with the highest number of auditees (six auditees, or 16%) that improved their audit outcomes. Two auditees regressed; the legislature regressed from having a financially unqualified opinion with findings in the previous year to receiving a qualified opinion.

## Limpopo

<b>Improved to clean audit (1)</b>	Office of the Premier.
<b>Qualified auditees (4)</b>	Departments of Public Works, Roads and Infrastructure; Sport, Arts and Culture. Limpopo Tourism Agency and the Corridor Mining Resources.
<b>Adverse opinion (1)</b>	Limpopo Roads Agency.
<b>Repeat disclaimed opinion (1)</b>	Department of Education.

Limpopo is one of two provinces with only one clean audit. In total, 61% of the auditees received financially unqualified opinions with findings, with one adverse and one disclaimed opinion. The Department of Education (as listed above) had obtained a disclaimed opinion for the past four years.

Overall, the audit outcomes improved, with seven auditees (30%) improving and only one regressing (from having a clean audit in the previous year to receiving a financially unqualified opinion with findings). The audit outcomes in Limpopo improved the most of all the provinces.

## Mpumalanga

<b>Retained clean audit (3)</b>	Provincial Treasury, Department of Cooperative Governance and Traditional Affairs, and Mpumalanga Gambling Board.
<b>Improved to clean audit (1)</b>	Provincial legislature.

<b>Qualified auditees (6)</b>	Departments of Education, Health and Community Safety, Security and Liaison.
	Mpumalanga Regional Training Trust, Mpumalanga Tourism and Parks Agency, and Mpumalanga Economic Growth Agency.

Three auditees (18%) in Mpumalanga retained their clean audit outcome. A total of 41% of the auditees received financially unqualified opinions with findings, while 35% received qualified opinions. Three of these auditees had also received a qualified opinion in the previous year. The Department of Health had obtained a qualified opinion for the past five or more years.

Overall, the audit outcomes regressed with four auditees (24%) regressing and only two (12%) improving, one from receiving a financially unqualified opinion with findings to having a clean audit, and one from receiving a qualified opinion to receiving a financially unqualified opinion with findings.

### Northern Cape

<b>Retained clean audit (3)</b>	Department of Social Development, Environment and Nature Conservation, and Northern Cape Tourism Authority.
<b>Qualified auditees (7)</b>	Departments of Agriculture, Land Reform and Rural Development; Health; Transport, Safety and Liaison; Cooperative Governance, Human Settlements and Traditional Affairs; Sport, Arts and Culture.
	McGregor Museum and Northern Cape Economic Development, Trade and Investment Promotion Agency.

The Northern Cape had six auditees (30%) with clean audit opinions in the previous year, but only three could retained their clean audit status. Of the seven auditees with qualified opinions, three had retained the opinion from the previous year.

Of all the provinces, the Northern Cape had the most regressions (30%) with 60% obtaining the same opinion as the previous year and one auditee improving from a qualified opinion to receiving a financially unqualified opinion with findings.

### North West

<b>Retained clean audit (1)</b>	Provincial Treasury.
<b>Qualified auditees (6)</b>	Departments of Public Works and Roads and of Community Safety and Transport Management, NW Development Corporation, NW Transport Investments, NW Youth Development Trust, and NW Provincial Arts and Cultural Council.
<b>Adverse opinion (1)</b>	Madikwe River Lodge.
<b>Regressed to disclaimed opinion (1)</b>	North West Housing Corporation.
<b>Repeat disclaimed opinion (3)</b>	Mmabana Arts, Culture and Sport Foundation, Golden Leopard Resorts, and Signal Developments.

North West is one of two provinces with only one clean audit. A total of only 48% of the auditees received a financially unqualified opinion with findings.

Overall, the audit outcomes improved slightly with four auditees (12%) improving and two regressing.

### Western Cape

<b>Retained clean audit (16)</b>	Departments of Agriculture, Community Safety, Cultural Affairs and Sport, Economic Development and Tourism, Human Settlements, Office of the Premier, provincial Parliament, provincial treasury, Social Development and Local Government and six public entities.
<b>Improved to clean audit (3)</b>	Departments of Education and of Environmental Affairs and Development Planning, and the Western Cape Liquor Authority.
<b>Qualified auditees (1)</b>	Western Cape Housing Development Fund.

Most of the auditees in the Western Cape (83%) obtained clean audit outcomes, with two receiving a financially unqualified opinion with findings and one receiving a qualified opinion as listed above.

The outcomes show an overall improvement with three auditees (13%) improving and two (8%) regressing.