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The status of progress on the audit outcomes

2. Overall audit outcomes

National and provincial government consists of 169 departments and 594 public entities. The audit outcomes of 68 public entities audited by private auditors and 211 smaller and dormant entities are not included in the analysis presented in this report. The number of auditees increased over the past three years as a result of the establishment of six new departments and eight public entities in this period.

We set the cut-off date for inclusion of the audit outcomes in this report as 12 August 2016. By this date, 27 audits were still outstanding – more information is provided in section 6.

Figure 1 reflects the audit outcomes of the 484 auditees over five years, figure 2 over three years for departments and public entities and table 1 analyses the movement in audit outcomes in the 2014-15 financial year.

Figure 1: Improvement in audit outcomes of auditees

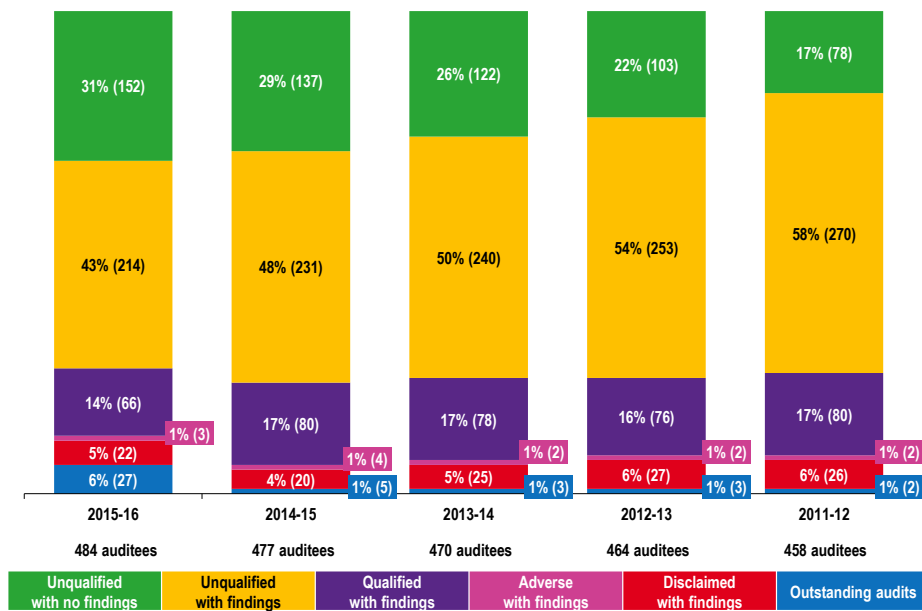


Figure 2: Audit outcomes of departments and public entities

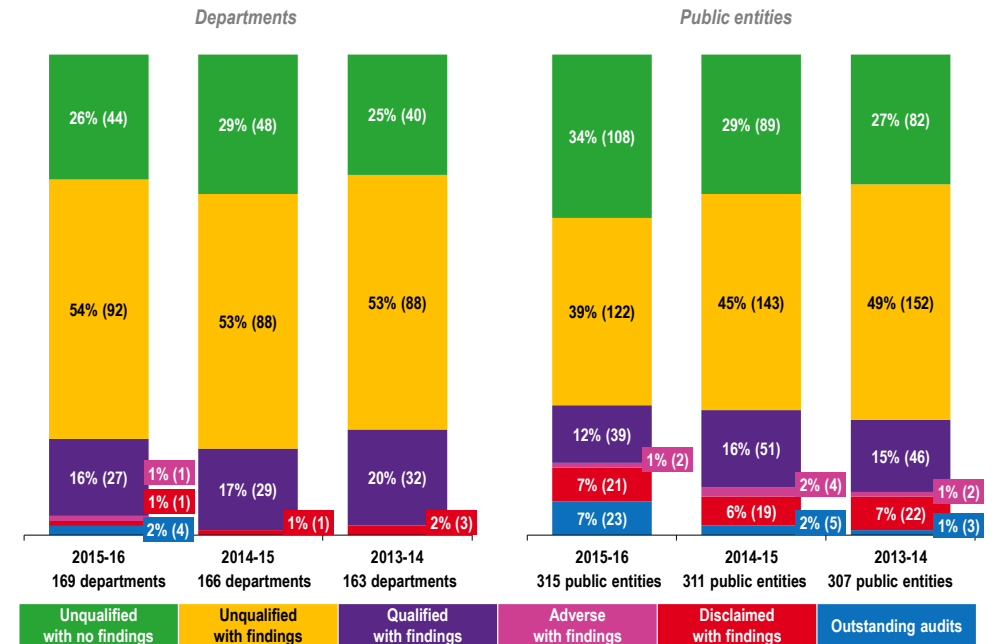


Table 1: Movement in audit outcomes over 2014-15

Movement Audit outcome	79 Improved	313 Unchanged	59 Regressed	6 New auditee	21 + 6 Outstanding audits
Unqualified with no findings = 152	9 (DEP) 38 (PE) 1 (PE)	34 (DEP) 68 (PE)		1 (DEP) 1 (PE)	1 (DEP) 2 (PE)
Unqualified with findings = 214	12 (DEP) 13 (PE) 1 (PE)	67 (DEP) 92 (PE)	11 (DEP) 15 (PE)	2 (DEP) 1 (PE)	2 (DEP) 6 (PE)
Qualified with findings = 66	2 (PE) 3 (PE)	16 (DEP) 23 (PE)	2 (DEP) 4 (PE) 9 (DEP) 6 (PE)	1 (PE)	1 (DEP) 6 (PE)
Adverse with findings = 3			1 (DEP) 1 (PE) 1 (PE)		
Disclaimed with findings = 22		1 (DEP) 12 (PE)	7 (PE) 2 (PE)		3 (PE)

DEP – departments PE – public entities Colour of the number indicates the audit opinion from which the auditee has moved.
Of the 27 outstanding audits, five audits remain outstanding since the 2014-15 financial year, with one new audit outstanding.

Overall, there was an improvement in the audit outcomes in 2015-16 – departments showing a slight regression and a steady improvement in public entities. Of the 152 auditees with clean audit opinions in 2015-16, 67% had also received clean audit opinions in 2014-15. In total, 159 (74%) of the 214 auditees that received an unqualified audit opinion with findings in 2015-16, had received the same opinion last year. Only 47 auditees that received an unqualified audit opinion with findings in the previous year were able to improve to clean audits, while some auditees still need to address their material findings on compliance with legislation and the quality of the annual performance reports (APRs).

The expenditure budget for departments in 2015-16 was R1 218 billion, of which R669 billion was for operating expenditure, R70 billion for capital expenditure and R479 billion for transfers and subsidies. The 44 departments with clean audit opinions represent 17% of the total expenditure budget, while the four departments that are outstanding represent 11% of the total expenditure budget.

Figure 3 illustrates the national and provincial audit outcomes of 2014-15 compared to 2015-16 for all auditees.

There has been an overall improvement in the audit outcomes since 2011-12, with a slight improvement from 2013-14 when the current administration commenced.

Over the three years (2013-14 to 2015-16), 19% of departments and 26% of public entities improved. A total of 61 auditees (14%) (11% of departments and 15% of public entities) regressed, while 278 auditees (63%) (70% of departments and 58% of public entities) remained unchanged. The number of auditees with clean audits increased to 152 (31%), of which 84 had also received clean audit opinions in 2013-14. The clean audits in 2015-16 represent 24% of the national departments, 28% of the provincial departments, 35% of national public entities and 40% of the provincial public entities.

The provinces with the biggest improvement over the three years were the Eastern Cape (36%), KwaZulu-Natal (26%), Limpopo (26%) and Gauteng (14%). Two provinces (Free State and Mpumalanga) regressed over the three years. There was also an overall improvement in the national auditees (9%).

Figure 3: National and provincial audit outcomes (all auditees)

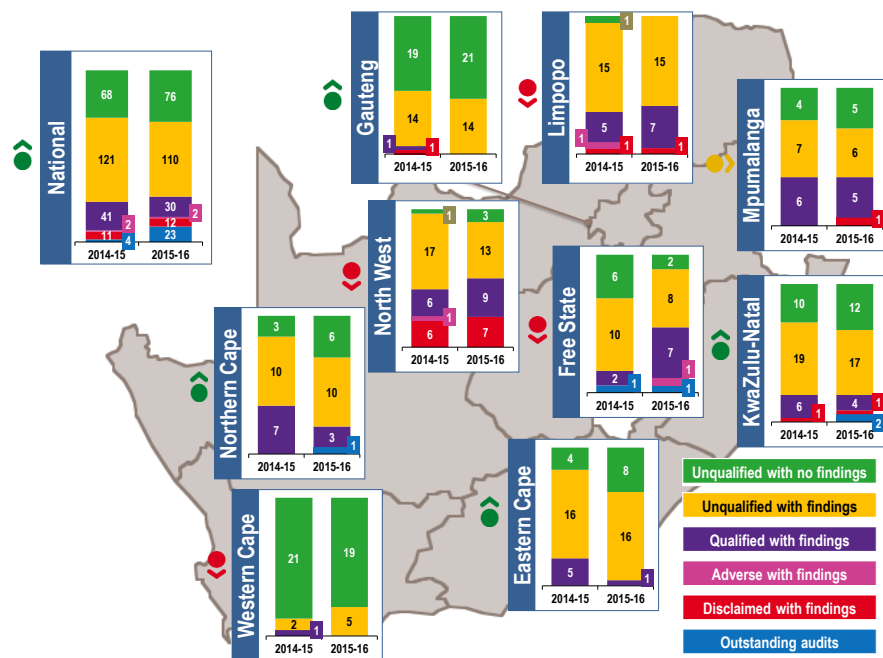
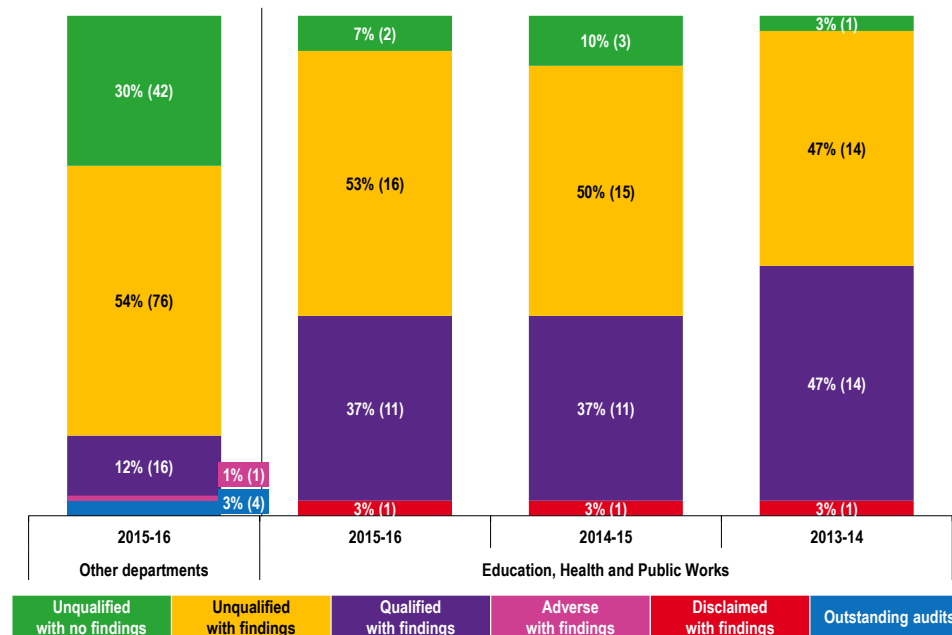


Figure 4 shows the audit outcomes of the Education, Health and Public Works departments versus the audit outcomes of the rest of the departments.

Figure 4: Education, Health and Public Works versus other departments



In total, 40% of these departments' financial statements received a financially qualified or disclaimed opinion compared to 13% 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. The audit outcomes improved over the past three years but there was a slight regression from 2014-15 with the Free State Public Works and Infrastructure department losing its clean audit status.

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.

The audit outcomes of the national sphere and four provinces improved, four provinces regressed and one remained unchanged from the previous year. The provinces with the highest number of auditees (departments and public entities) with clean audit opinions in 2015-16 were the Western Cape (79%), Gauteng (60%) and KwaZulu-Natal (35%). The provinces with the poorest outcomes, based on the number of auditees with disclaimed and adverse opinions or outstanding audits, were North West (22%) and the Free State (11%). The percentage of auditees with disclaimed and adverse opinions or outstanding audits in national government was 15%.

Refer to sections 8 and 9 for more detail on the movement in audit outcomes of ministerial portfolios and provinces, respectively.

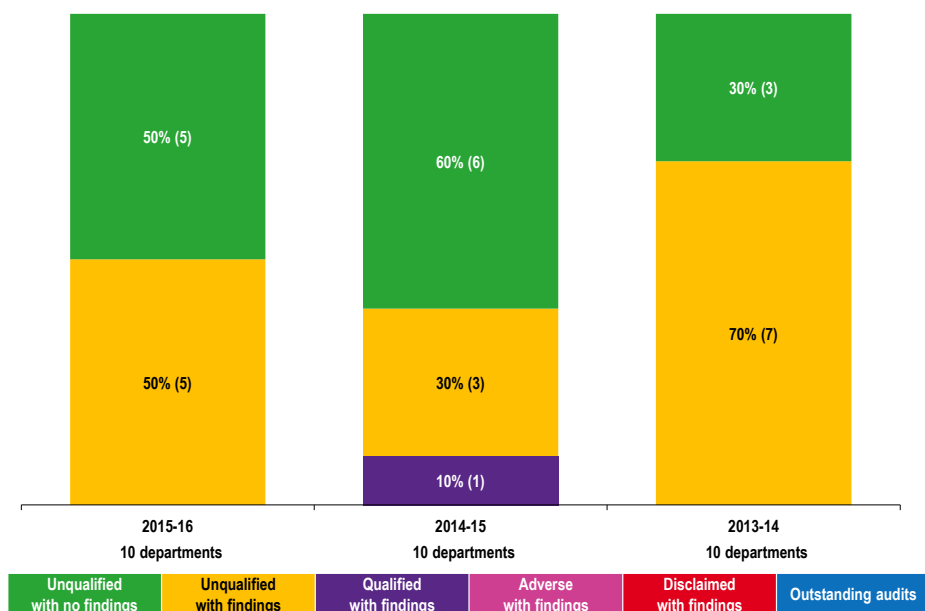
Education, Health and Public Works

In 2015-16, the expenditure of the national and provincial departments of Education, Health and Public Works contributed to almost 37% of the total spending by departments.

Legislatures

Figure 5 reflects the audit outcomes of the legislature sector that consists of the Parliament of the Republic of South Africa (Parliament) and the nine provincial legislatures.

Figure 5: Three-year audit outcome – legislatures



The audit outcomes of legislatures were inconsistent in the last three years and there has been a regression in the number of clean audits from the previous year with five auditees (50%) having a clean audit opinion. The remaining five auditees (50%) had a financially unqualified audit opinion with findings (an improvement from the previous year), with material non-compliance reported for all five auditees.

The Financial Management of Parliament and Legislatures Act, 2009 (Act No. 10 of 2009) (FMPPLA) came into effect on 1 April 2015 and is applicable to the legislature sector. The FMPPLA introduced a number of key requirements applicable to legislatures. These include the adoption of Standards of Generally Recognised Accounting Practice (Grap) as a financial reporting framework, changes to the preparation and submission of APRs and annual

budgets and legislated prescripts such as the supply chain management (SCM) regulations.

Based on our readiness assessment performed in the previous year, we highlighted the risks of material misstatement of the financial statements with the first time implementation of Grap, material non-compliance with the FMPPLA, specifically SCM regulations effective from 1 April 2015, and inadequate planning, systems and processes for, and reporting on, predetermined objectives.

For the period, 1 April 2014 to 31 March 2015, there was no legislative framework applicable to provincial legislatures regulating their financial management. Limited areas of compliance could be considered for reporting resulting in an improvement in the 2014-15 audit outcomes that was not sustained in 2015-16.

Most legislatures were not able to submit financial statements that are free from material misstatements and adjustments had to be made to avoid a qualified audit opinion. Although no material findings were reported on the usefulness or reliability of performance information, seven auditees made adjustments to the submitted performance information to avoid these findings.

The most concerning area of non-compliance for 2015-16 was procurement and contract management. Eight auditees had findings in this area. For three of these auditees the findings were assessed as not material for inclusion in the audit report.

Schedule 4 to the FMPPLA includes further transitional provisions and if risk areas, in particular the submission of accurate and complete financial statements, are not adequately addressed, it could lead to a further regression in the audit outcomes in 2016-17.

We recommend that the speakers' forum should continue to monitor the progress made with implementation plans to respond to the FMPPLA requirements and ensure that the executive authorities are provided with regular feedback on the progress.

Legislatures should also maintain a consultative relationship to leverage knowledge concerning financial management, performance management and compliance with legislation. The executive authority of Parliament should also draft other required regulations, as required by section 65 of the FMPPLA, within a reasonable period.

A Annexure 1 lists all auditees with their current and previous year audit outcomes, while annexure 3 lists the audit outcomes for the past five years.