

6 Outstanding audits

6. Outstanding audits

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 not completed, which makes up 6% of our total audits. This is slightly less than the 28 audits that were outstanding at the same time last year (23 audits were subsequently finalised). Twenty-three of these auditees were either national departments or public entities – the ministerial portfolios in section 8 provide further information on the outstanding audits.

Tables 1 and 2 provide detail on the reasons for the audits not being finalised. The main reasons were:

- non-submission of financial statements (four auditees)
- late submission of financial statements (eight auditees)
- information for audit was outstanding (nine auditees)
- related to audit process (two auditees)
- disagreement on accounting and other matters (four auditees).

In finalisation of a number of these audits we experienced pushback from auditees where they disagreed with our findings and conclusions. It is acceptable that auditees question and challenge the outcome of audits, based on evidence and solid accounting interpretations or legal grounds. However, in a number of cases management and even audit committee chairperson put pressure on the audit teams to change conclusions purely to avoid a negative audit outcome, without having the grounds to do so. And typically such pushback happens in the last few weeks of the audit, when it becomes apparent what the overall outcome will be – even if the findings have been communicated throughout the audit process and even from previous years. Legal action is often threatened.

This is a worrying trend we also observed in our other audits, which is eroding the relationships between auditees and auditors and creating pressure on the audits.

This trend can be reversed if accounting officers fully and correctly address previous year findings and react to new audit findings and recommendations earlier in the audit process. We also need the Office of the Accountant-General to play a more proactive role in resolving these disputes as also mentioned in section 5.4.

Table 1 lists the 18 audits that were not completed by the date of this report and provides the reasons for late finalisation.

Table 2 includes the nine audits that were finalised after 12 August – it provides the reasons for the late finalisation, the outcomes of the audit and the irregular and fruitless and wasteful expenditure incurred.

The irregular and fruitless and wasteful expenditure incurred by these nine auditees, in particular the Passenger Rail Agency of South Africa, was so significant that we included it in the analyses in section 3.2.1 and 3.2.2 of this report.

Table 2: Outstanding audits

No.	Auditee	Portfolio / province	Reason
1 2	Orbit TVET College Vuselela TVET College	Higher Education and Training	The auditees submitted financial statements late as they lacked systems and documentation
3	Sedibeng TVET College	Higher Education and Training	The auditee submitted the financial statements late – on 29 July 2016 – because the chief financial officer’s contract was terminated and the council did not approve the financial statements over concerns over their quality. Consultants were appointed to prepare the financial statements for auditing
4	East Cape Midlands TVET College	Higher Education and Training	The 2014-15 audits were finalised late due to significant disagreements with management over accounting matters. As these audits had to be finalised before the submission of subsequent financial statements, the 2015-16 financial statements were delayed
5	South West Gauteng TVET College	Higher Education and Training	The auditee’s loss of data caused the non-submission of the financial statements. The auditee appointed a consultant to prepare the financial statements
6	National Institute for the Humanities and Social Sciences	Higher Education and Training	This institute is a new higher education institute established in terms of the Higher Education Act in 2013 and has been audited for the first time. We received the 2016 financial statements on 29 July 2016, after the 2015 financial statements were audited
7	Department of Home Affairs (DHA)	Home Affairs	The AGSA and National Treasury disagreed on the accounting treatment applied by the DHA to account for foreign revenue. The resolution required adjustments to the department’s financial statements and the department needed additional time to reconcile information on expenditure from foreign operations and movable tangible capital assets and intangible assets. This department’s audits have been finalised late for the past five years
8	Department of Transport	Transport	The department did not account for e-Natis assets due to litigation with the service provider and was obtaining a technical opinion on the accounting implications of this on its financial statements
9	Department of Environmental Affairs (DEA)	Environmental Affairs	The DEA disagreed with the AGSA and National Treasury on the application of the Modified Cash Standard regarding the accounting treatment for the expanded public works programme (EPWP) projects. The resolution required adjustments to the department’s financial statements and as such DEA has been provided with an opportunity to make the required amendments to their financial statements.
10	Municipal Infrastructure Support Agency	Cooperative Governance	On reviewing the audit work that was contracted to a private firm, we found that the quality requirements were not met. To satisfy ourselves that the audit conclusion is correct, the audit report has been delayed
11	National Radioactive Waste Disposal Institute (NRWDI)	Energy	The minister of Finance declined the NRWDI’s application for exemption from submitting financial statements. The NRWDI is therefore required to compile and submit for auditing financial statements for 2014-15 and 2015-16 which, to date, it has not submitted
12	Government Technical Advisory Centre (GTAC)	Finance (National Treasury)	The AGSA and GTAC disagreed on disclosures of irregular expenditure made in GTAC’s financial statements. The resolution requires adjustments to GTAC’s financial statements and management has requested additional time to submit supporting documentation
13	Compensation Commissioner for Occupational Diseases (CCOD)	Health	The CCOD has not prepared the financial statements since 2010-11 because it lacked systems and processes to generate financial statements. The auditee is expected to submit the financial statements between October 2016 and October 2017

No.	Auditee	Portfolio / province	Reason
14	South African Express Airways	Public Enterprises	Information or documentation relating to critical line items on the financial statements was not provided for auditing on time. In addition, the entity's ability to continue operating as a going concern was still being assessed because the entity did not agree with certain material misstatements identified by the auditors
15	The Property Management Trading Entity (PMTE)	Public Works	Functions were transferred from the Department of Public Works to PMTE in 2013-14. As a result, the entity applied the transitional provisions of Grap directive 2 to measure the assets transferred. Management and the Accounting Standards Board disagreed on the interpretation of directive 2, which was only resolved in September
16	Free State Political Party Fund	Free State	Political parties delayed submitting their financial statements to the fund for consolidation, which led to the fund submitting its financial statements late. The 2014-15 audit was completed after the cut-off date for inclusion in this report. The 2015-16 financial statements have not yet been prepared
17	Ithala Development Finance Corporation	KwaZulu-Natal	On 22 September 2016, the minister of Finance agreed to extend the Ithala Bank's banking licence exemption until 30 September 2017. However, as the reports can only be finalised after the official letter has been received from the South African Reserve Bank, we could not conclude on their going concern and the audit opinion has not been finalised
18	Ithala Limited		

Table 2: Audits subsequently finalised

Number	Auditee	Portfolio / province	Reason for late finalisation of audits	2015-16 audit outcomes			2014-15 audit outcomes			2015-16 irregular and fruitless and wasteful expenditure		2014-15 irregular and fruitless and wasteful expenditure	
				Audit opinion	Predetermined objectives	Compliance with legislation	Audit opinion	Predetermined objectives	Compliance with legislation	Irregular expenditure Amount R	Fruitless and wasteful expenditure Amount R	Irregular expenditure Amount R	Fruitless and wasteful expenditure Amount R
1	Airports Company South Africa (Acsa)	Transport	Acsa embarked on an intensive asset verification project for the 2015-16 financial year, which could not be completed on time for the submission of financial statements within the legislated deadline. The audit was finalised on 5 September 2016		R	R		N	N	134,14m	18,87m	230,03m	12,57m
2	Passenger Rail Agency of South Africa	Transport	Investigations of SCM contracts and accounting for irregular expenditure in the financial statements could not be finalised within the legislated deadline. The audit was finalised on 18 August 2016		N	R			R	13 970,91m	255,32m	550,57m	19,91m
3	The South African Nuclear Energy Corporation (Necsa)	Energy	There was a disagreement between Necsa and the Department of Energy (DoE) on who should account for the decontamination and decommissioning (D&D) liability related to the operational strategic nuclear facilities at Necsa. Based on a legal opinion from senior legal counsel, the minister of Energy instructed Necsa in April 2016 to disclose the decontamination liabilities which means that Necsa should account for all D&D liabilities not only the operational strategic nuclear liabilities, but also for the historical strategic nuclear facilities. Necsa therefore requested an extension to submit their financial statements and submitted the financial statements for both the 2014-15 and 2015-16 financial years on 25 July 2016. The audits for 2014-15 and 2015-16 were finalised on 20 September 2016			R			R	43,64m	1,02m	33,79m	0,17m
4	Northern Cape Economic Development, Trade and Investment Promotion Agency	Northern Cape	New information was submitted late by the auditee to address the previous year qualification on revenue and fixed assets. The audit was finalised on 8 September 2016		R	R		R	R	0,07m	0,08m	0,65m	0,03m
5	Department of Cooperative Governance	Cooperative Governance	The audit was delayed in order to appropriately conclude on a fraud risk detected during the audit. The audit was finalised on 9 September 2016		R	R		R	R	482,28m	-	155,38m	-

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6	South African Post Office (Sapo)	Telecommunication and Postal Services	Sapo submitted the financial statements for the 2015-16 financial year after the legislated 31 May 2016 due to a lack of skills and number of resignations within the finance unit after year-end. The auditee required more time as there was still a number of adjustments required to the financial statements in respect of taxation (where consultants were sourced), pension and provident fund information, heritage asset verification was still incomplete, provision for the possible divisionalisation of the Courier Freight Group and clearing accounts in Postbank. The audit was finalised on 19 September 2016		R	R		R	R	127,10m	7,05m	363,21m	53,86m
7	Ingonyama Trust Board (ITB)	Rural Development	The ITB formed a separate trust, namely the Ingonyama Trust entity in 1998, which required separate financial statements for the Ingonyama Trust to be prepared based on enabling legislation. Management and the board of the ITB were of the view that separate financial statements should have been prepared for the Ingonyama Trust, but did not exclude the trust from the financial statements submitted for auditing. The board requested that the corrected financial statements be resubmitted during the audit process based on material misstatements that were identified, which were not permitted based on the agreed audit terms of engagement. Subsequent to several engagements with the board and management, it was agreed that the ITB did not maintain accurate and complete reconciliations for the trust account, which pervasively impacted on the fair presentation of the ITB financial statements. The audit was finalised on 26 September 2016			R		A	R	3,12m	-	2,02m	-
8	Motheo TVET College	Higher Education and Training	The 2014-15 audit was only finalised on 9 May 2016 as a result of late submission of the financial statements, which delayed the 2015-16 audit. The audit was finalised on 25 September 2016			R			R	-	-	-	-

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9	Independent Development Trust (IDT)	Public Works	The IDT received a disclaimed opinion in 2014-15 and material findings in the same areas resulted in a disclaimer opinion being concluded upon for the 2015-16 financial year. The audit was delayed as a result of management's unwillingness to accept the disclaimer of opinion. Although the opinion itself and the supporting findings were not disputed by management as well as the board, they believed that additional time (two weeks to a month) was required to address material findings that resulted in the disclaimer which would at least move them to a qualification. A request for an extension on the 31 July deadline was submitted by management during the last week of July 2016. Management was given the opportunity to submit updated financial statements; however, upon further testing material findings were still raised. Subsequent to the additional testing, the audit report was signed on 2 September 2016 and the disclaimer opinion accepted by management, the board and audit committee as a reflection of the status of their financial management and accounts		R	R		N	R	6,08m	4,89m	14,98m	0,25m

Legend (audit outcomes)	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimed with findings
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Addressed (A)	New (N)	Repeat (R)
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