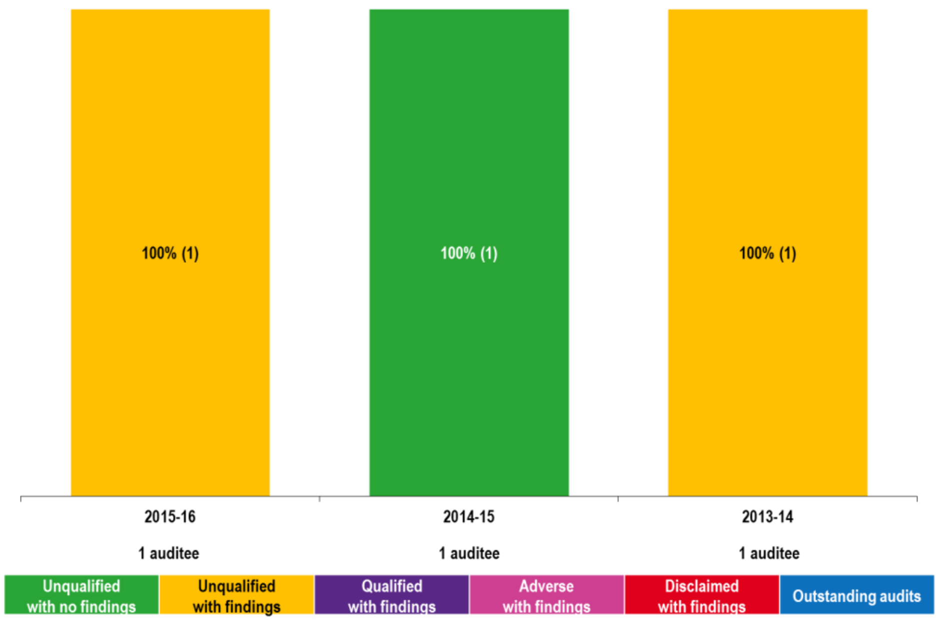
8 Ministerial portfolio overview

Vote 1: The Presidency

Three-year audit outcome



The Presidency regressed from the clean audit outcome received in 2014-15 to an unqualified audit opinion with findings on performance information and compliance with legislation in the 2015-16 financial year. Thus similar to the outcome received in 2013-14. The inability of the Presidency to have sustained their clean audit outcome is of particular concern given the expectation for the Presidency to lead by example and set the tone when it comes to exemplary financial and performance management and good governance.

Material adjustments had to be effected to the financial statements in the areas of current assets and disclosure items to achieve fair presentation and the resultant unqualified audit opinion. This occurred although we had emphasised that management should enhance the review of the financial statements based on the errors noted in the September 2015 interim financial statements. Additionally, at the conclusion of the previous year's audit we emphasised that management should intensify focus on preparing accurate and complete in-year financial statements to sustain the 2014-15 audit outcome. This recommendation was only partially implemented.

There was a regression from 2014-15, with material non-compliance with legislation reported as a result of material amendments to the financial statements subsequent to submission for audit purposes, suppliers not being paid within 30 days and non-adherence to SCM requirements. With the exception of suppliers not having been paid within 30 days, the remaining non-compliance matters were also reported in 2013-14. This is indicative of prevailing deficiencies in the system of internal control as it was incapable of sustainably preventing and detecting non-compliance with legislation.

The department disclosed irregular expenditure of R4 million as well as irregular expenditure under investigation of R6 million due to non-compliance with SCM prescripts and one instance of a payment that was not approved by a delegated official. Despite having failed to prevent irregular expenditure of R11 million in 2013-14, no irregular expenditure was incurred in 2014-15. Compliance with SCM requirements regressed in 2015-16 due to the non-promotion of local content and an invitation for a competitive bid that was not advertised for the required minimum period. The review and monitoring of compliance with SCM legislation were not effective in 2015-16 and going forward the Presidency must confirm on an ongoing basis that officials involved in SCM are abreast of all SCM requirements and how to accurately interpret and apply the legislative requirements. This, together with a preventative approach where compliance is established prior to concluding procurement transactions, will eliminate irregular expenditure.

The state of financial health at the Presidency improved due to the unauthorised expenditure incurred in previous years having been approved with funding. To this effect R43 million was received in the 2015-16 financial year and the department managed to eliminate the bank overdraft reported at the end of the previous financial year.

We noted a regression in the quality of the 2015-16 annual performance report as it contained material misstatements. Some of these misstatements were subsequently corrected; however, we could not confirm the reliability of the reported achievements due to a lack of sufficient and appropriate evidence. The Presidency adopted a new approach to measuring performance in the 2015-16 financial year where the focus shifted to intensively measuring the support provided to the principals instead of the previous practice to mainly measure the occurrence of certain events and meetings in line with predetermined calendars and schedules. However, the Presidency did not properly prepare for the change in approach and this resulted in the regressed outcome in this area.

The overall assessment of the IT environment remained unchanged. The Presidency nevertheless addressed previously reported shortcomings in the firewall configuration standards and developed an appropriate disaster recovery plan (DRP). However, a comprehensive DRP testing was not performed to ensure that critical services in the IT infrastructure environment like the domain, emails and documentation would be recovered during a disruption. The testing of the DRP is envisioned for the near future but due to this being a significant expense for the department and budgetary constraints currently being experienced, the procurement process was delayed.

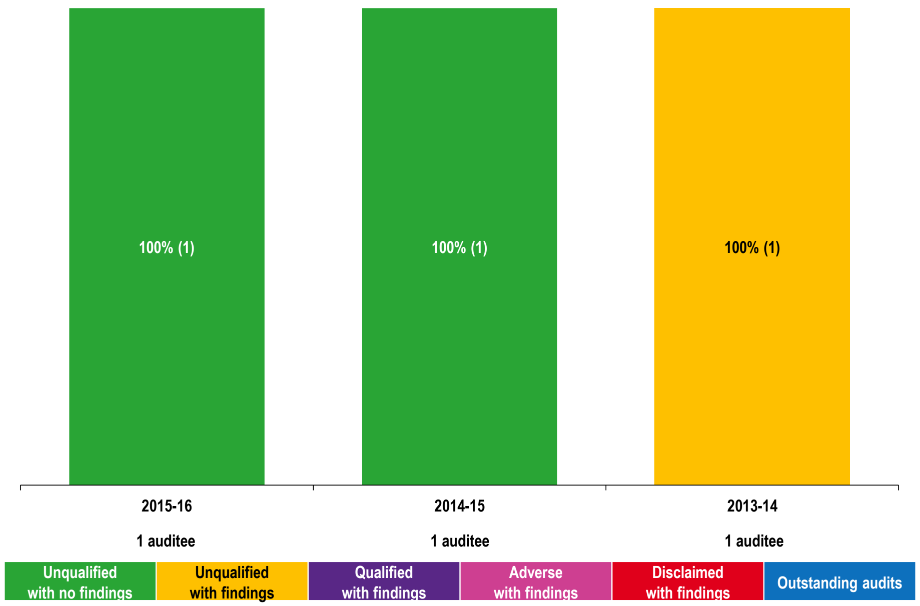
The assurance provided by the director-general, chief operating officer and senior management was not of the required level, which is evidenced by the non-compliance matters reported as well as the matters raised pertaining to performance information. The regression in the overall audit outcome is mainly attributable to the failure by these key assurance providers to timeously and conclusively address previously reported internal control deficiencies. The internal audit unit and audit committee provided the required level of assurance in line with legislative requirements; however, the department did not implement their recommendations in certain instances resulting in the inability to sustain the previous year's clean audit outcome.

The Presidency should, as a matter of urgency, take all steps necessary to regain a clean audit status in order to be in a position to set the right tone, lead from the front and set the appropriate example for their counterparts in government. To this effect we recommend that the overall control environment be strengthened to the point where controls are institutionalised and strong enough to ensure a sustainable clean audit outcome. Immediate corrective action should focus on addressing the specific matters that resulted in the regression in 2014-15 and we reiterate the importance of successfully implementing the following recommendations:

- Formalise the review of financial statements, including interim financial statements. Specific procedures to be performed in the review process and the officials responsible, including the internal audit unit, for performing them should be documented and adhered to. All officials involved in the preparation and review process should be updated on the latest developments and any changes required by the accounting framework at all times.
- Complete the SCM compliance review checklist prior to concluding any procurement transaction. This checklist should be reviewed and enhanced to ensure that it makes provision for all applicable compliance requirements, including local content.
- Improve the discipline surrounding the immediate follow-up and resolution of any disputes with service providers to avoid prolonged delays in paying affected service providers.
- Provide training to all officials on minimum documentation to be included in the portfolio of evidence to support the reliability of performance information. The adequacy of the portfolio of evidence must be confirmed as part of the review process of the quarterly reports. Any deficiencies noted should be addressed immediately after detection. This will enable the Presidency to submit an accurate and complete annual performance report, reflective of actual achievements during the year.

Vote 2: Parliament of the Republic of South Africa

Three-year audit outcome



The Parliament of the Republic of South Africa (Parliament) has sustained its audit outcome of unqualified with no findings of the previous year. This is because the leadership focused on monitoring the implementation of the action plan to address past audit findings and the related processes of performing an adequate risk assessment and addressing identified control weaknesses.

The overall quality of the financial statements submitted for auditing has improved compared to the previous year, mainly due to improved review of, and enhanced reconciling controls over, financial information before its inclusion in the financial statements. Although the financial statements were free of material misstatements, the following controls should be monitored to sustain a control environment that supports reliable financial reporting:

- Management should continue to enhance existing processes for reconciling and reviewing financial information supporting other disclosures in the financial statements.

We did not identify any material findings on compliance with legislation. However, the following controls should be strengthened to sustain a control environment that supports compliance with legislation:

- Management should enforce workflow processes to ensure that all invoices are paid within the prescribed 30 days of receipt.
- Management implemented the new SCM regulations as from April 2015; however, processes and controls around the SCM process should continue to be enhanced to sustain a control environment that supports compliance with the regulations. Irregular expenditure increased slightly from R569 000 in the previous year to R653 000 in the year under review. This is mainly attributed to non-compliance with procurement processes which was not considered material for inclusion in the audit report.

Although Parliament has a stable financial health environment, it had an operating deficit year on year while a net liability position was also realised due to an increase in the provision for post-retirement benefits for members of Parliament. These indicators should be monitored as they could pose sustainability challenges in the longer term. Our assessment indicated that these did not have a negative impact in the short to medium term due to adequate cash reserves.

The previous year's performance reporting action plans and commitments were not fully implemented, and the annual performance report was not adequately reviewed prior to submission for auditing. This resulted in Parliament submitting an annual performance report that contained material misstatements, which were subsequently corrected.

The following controls should be strengthened to establish and sustain a control environment that supports useful and reliable reporting on the performance of Parliament:

- Record management controls that properly maintain supporting documentation for the performance information contained in the annual performance report so that it can be easily retrieved.
- Consequence management measures where performance reporting action plans are not completely implemented.
- Effective oversight, by implementing action plans to ensure that quarterly financial and performance reports are tabled in Parliament within the legislated time frames.

- Monitoring of action plans by implementing processes to ensure that standard operating procedures are managed and implemented for all programmes.
- Systems for planning, collating, and reporting on, performance information.

Although Parliament has reasonable systems of internal control, we encourage them to continuously:

- improve effective human resource management controls
- develop standard operating procedures
- maintain proper records for reporting on predetermined objectives
- monitor the implementation of its action plans for internal control deficiencies reported.

The first level of assurance provided in the area of financial and performance reporting should be strengthened to avoid repeat audit findings. While there has been stability in the leadership of Parliament, the senior management vacancy rate of 29,41% is the same as that of the previous year because of the strategic austerity initiative to freeze certain posts.

Parliament has adequate controls over IT governance, IT service continuity, physical and environmental controls, problem and incident management, change management and user account management.

We did not meet with the executive authority in 2015-16; however, we assessed the executive authority as having performed their oversight functions adequately as evidenced by the sustained clean audit outcome. The executive authority should further ensure continuous monitoring of commitments made by the accounting officer to address audit findings and key controls to ensure the sustainability of the audit outcome.

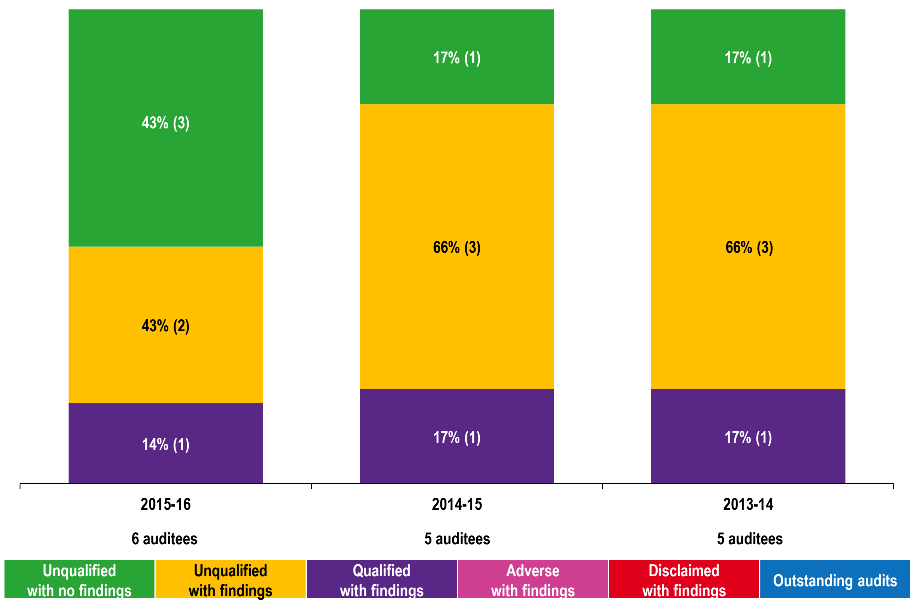
The internal audit unit and the audit committee continued to perform their functions in accordance with their mandate.

The secretary to Parliament and management should continue to work towards improving the key controls, addressing previously identified root causes and ensuring that there are improvements in the key risk areas. This will provide assurance on the quality of the financial statements and performance reports.

The implementation of the above recommendations, coupled with the leadership's continued commitment to maintain and further improve the internal control environment, will ensure that the audit outcome is sustained.

Vote 3: Communications

Three-year audit outcome



This is a new portfolio established in the 2015-16 financial year. The following entities and department form part of this portfolio:

- The Media Development and Diversity Agency (MDDA) was under the Government Communications Information System (GCIS) portfolio in the previous year (vote 9).
- The South African Broadcasting Corporation (SABC) and Independent Communications Authority of South Africa (Icasa) were under the old Communications portfolio (which was changed to Telecommunications and Postal Services) in the previous year (vote 27).
- Brand South Africa (BSA) was under the Presidency portfolio (vote 1).
- The Film and Publication Board (FPB) was under the Home Affairs portfolio (vote 4).
- The Department of Communications (DoC) is a newly established department.

The overall audit outcomes of the entities that form part of the Communications portfolio improved. The improvement was a result of the BSA moving to a financially unqualified audit opinion with no findings. This improvement arose from effective oversight of their compliance with legislation. The GCIS maintained its financially unqualified audit opinion with no findings by producing credible and accurate financial and performance information quarterly, which was adequately reviewed by the oversight structures. The DoC also obtained a financially unqualified audit opinion with no findings by adopting the best practices from the GCIS. The SABC received a qualified audit outcome although it managed to address some of the material matters reported in the previous year. The material matters were addressed by making use of consultants. The SABC's control environment did not improve and remained weak. Icasa, the constitutional institution, received an unqualified audit opinion with other matters.

Although the overall audit outcomes improved, the annual financial statements of two entities that were submitted for auditing had material misstatements that were identified through the audit process. The MDDA relied on the audit process to produce credible financial statements, which resulted in an unqualified audit opinion. However, the SABC could only resolve some of the material misstatements identified during the audit process, which resulted in a repeat qualified audit opinion.

A poor control environment and significant vacancies at the senior management level resulted in poor oversight of compliance with applicable legislation at the SABC and MDDA. There was also a dependency on the work of service providers to resolve previous year qualification areas at the SABC. These resulted in material non-compliance in asset management, procurement and contract management, and in strategic planning and performance management. It is very important that the critical vacancies are filled to provide adequate oversight of the control environment. The leadership must reduce dependencies on service providers by implementing strong policies and procedures.

The department and public entities within this portfolio disclosed irregular expenditure of R769 million in 2015-16. This is more than the R421 million they disclosed in the previous financial year. The majority of this irregular expenditure was incurred by the SABC. However, it should be noted that the irregular expenditure disclosure note for the SABC was qualified as the audit team was unable to determine whether all the irregular expenditure incurred was disclosed in this note. Irregular expenditure was a result of SCM processes and policies not being followed. Poor record management, policies lacking alignment and inadequate compliance monitoring contributed significantly to the portfolio incurring irregular expenditure during the 2015-16 financial year.

The SABC's consequence management processes were not adequate to hold personnel accountable for not adhering to applicable legislation. Part of performance management in the portfolio should include holding the responsible individual accountable for their failure to comply with applicable legislation and policies when performing their tasks.

Overall, there was a slight regression in the quality of annual performance reports submitted for auditing, with the MDDA required to make material amendments to their submitted annual performance report. The key performance indicators and targets at the SABC were not well defined and did not meet the SMART criteria. Furthermore, the reported information in their annual performance report was not reliable because the SABC did not have formally documented standard operating procedures governing predetermined objectives for the majority of the financial year. The result was a material non-compliance matter. The performance information policy and procedures must be implemented during the performance planning and reporting process to correct the material non-compliance.

The status of internal control of the entities within the portfolio improved over the three-year cycle. However, two entities regressed from the previous year. The MDDA regressed in all levels of internal control, mainly due to vacancies in key positions throughout the organisation. The SABC regressed in internal controls over leadership due to instabilities at board and executive levels, including inadequate consequence management relating to irregular, fruitless and wasteful expenditure, oversight of compliance with legislation, timely monitoring of action plans and poor ICT governance. The overall control environment at the SABC remained weak as limited actions were taken to address internal control deficiencies reported in the previous years.

Vacancies in key positions, including at board of directors level and instability at senior management level at the SABC and MDDA were of concern. At the SABC the majority of these vacancies were due to suspension of key management with acting incumbents filling these positions. This resulted in poor oversight of financial and performance reporting, compliance and related internal controls.

ICT controls within the portfolio still require intervention. The control weaknesses were mostly due to slow progress to address previous audit findings and adequate IT controls not being implemented within the following four focus areas: IT governance, security management, and business continuity and user access management. Risks remained in most of the focus areas.

The level of assurance obtained from assurance providers improved over the past three years. However, there is still room for improvement on assurance obtained from the senior management as they provided only some assurance.

The portfolio committee provided only some assurance as a result of instability in the chairperson position. The level of oversight provided by the portfolio committee should be increased to improve audit outcomes and to effectively deal with the internal control deficiencies. The minister provided satisfactory and adequate oversight to the entire portfolio.

The main root cause of material non-compliances in the portfolio was the instability created by vacancies in key positions. We therefore recommend that critical vacancies in the portfolio be filled and eliminating instabilities at the senior management level be prioritised. In addition, we recommend the following to the SABC to ensure that further progress is made on addressing key issues:

- Implement controls over the SCM environment, which includes proper records management, consequence management and compliance monitoring.
- Management should address the control weaknesses, as highlighted in the internal control assessment. Making use of consultants to obtain better audit outcomes without addressing the underlying weaknesses in the control environment will not lead to sustainable good audit outcomes.

Constitutional institution

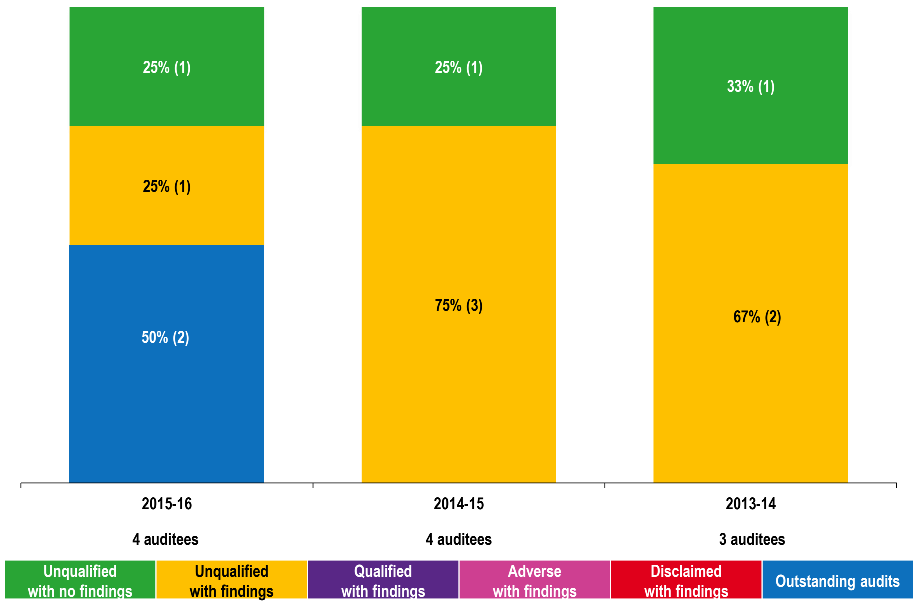
The overall audit outcome of Icasa was stagnant as the institution obtained a financially unqualified audit opinion with findings. We commend Icasa for submitting financial statements that were free from material misstatements. It also improved its internal controls over procurement and contract management, which resulted in addressing non-compliance reported in the previous financial year.

Icasa's key performance indicators and targets were not well defined and did not meet the SMART criteria. This was as a result of the annual performance plan not being prepared according to the applicable framework. In addition, the head of strategy position was vacant when preparing the annual performance plan.

Icasa disclosed irregular expenditure of R2,5 million (2014-15: R30 million). The expenditure resulted from SCM processes not being followed in the previous financial year. Monitoring and oversight of compliance with applicable legislation must be strengthened.

Vote 4: Cooperative Governance and Traditional Affairs

Three-year audit outcome



The audit outcome of the portfolio has been stagnant. The Department of Traditional Affairs (DTA), in its second year of operation, once more received a financially unqualified opinion with findings on compliance with legislation. We commend the South African Local Government Association (Salga) for having received a financially unqualified opinion with no material findings for more than three years in a row.

The audit reports for the Department of Cooperative Governance (DCoG) and the Municipal Infrastructure Support Agent (Misa) were not finalised by the cut-off date for including audit outcomes in this report and are thus dealt with separately in the last part of this report regarding outstanding audits.

The auditees in the portfolio consistently submitted annual financial statements by the legislative deadline for auditing and the quality of the financial statements remained unchanged. The DTA submitted financial statements for audit purposes that contained material misstatements on disclosure notes, which were subsequently corrected. Thus, as was the case in 2014-15, the department would not have received an unqualified opinion had it not been for material adjustments that were made during the audit process. This occurred mainly due to a lack of adequate review of the financial statements and supporting schedules by the relevant role players before submission for auditing. To improve the quality of the financial statements submitted for auditing, management, the internal audit unit and those charged with governance must strengthen their reviews of the quarterly financial statements and supporting information.

The DTA incurred irregular expenditure of R4,2 million, compared to the R6,5 million incurred in the previous year, due to non-compliance with SCM prescripts. The department identified 98% of the irregular expenditure incurred in the 2015-16 financial year and no instances were identified where goods and services were not received for transactions that were classified as irregular. The majority of the irregular expenditure (80%) related to legal fees irregularly incurred in connection with court cases that commenced in the previous financial year. The accounting officer condoned irregular expenditure relating to legal fees before year-end, after consultation with the state attorney. At the time of this report, Salga was investigating potential irregular expenditure of R1,1 million identified during the audit process, whereas no irregular expenditure was incurred in the preceding two financial years.

Financial health in the portfolio remained unchanged and no financial health matters were reported at either the DTA or Salga. However, when considering the accrual adjusted financial position of the DTA, the liabilities of the DTA exceeded the assets. Notwithstanding, the cash shortfall as a percentage of next year's appropriation was negligible at 0,1%. Salga realised a surplus, had a positive bank balance and, based on our assessment, there were sufficient liquid assets to cover any outstanding debt they owed. However, Salga's debt-collection period deteriorated from 27 to 42 days, and net cash flows for the year from operating activities were negative. These two emerging matters of concern at Salga must receive attention during the 2016-17 financial year.

We commend the DTA and Salga for the quality of their annual performance reports. We did not raise material findings on these two reports for the three years. This is attributable to properly crafted annual performance plans which included specific and measurable objectives, indicators and targets as well as comprehensive in-year monitoring processes to ensure that actual performance is reported in an accurate, complete and valid manner throughout the year.

There has been some improvement in the status of internal controls at the DTA since its inception in the previous year. The internal controls should be further enhanced in the area of monitoring and review of compliance with legislation, particularly on SCM compliance and producing complete and accurate financial statements in line with the Modified Cash Standard. We encourage Salga to maintain the effective control environment that has resulted in the clean audit outcomes for the three years.

The DTA's IT environment improved significantly as we did not identify any material shortcomings. Control deficiencies pertaining to data security and back-up processes reported during the 2014-15 audit were conclusively addressed. Salga sustained an effective IT environment and controls. Both the department and Salga have demonstrated ongoing commitment towards continuous improvement in IT governance and controls through timeously implementing internal and external audit recommendations as well as implementing their own initiatives in this area.

Assurance provided by key role players in the portfolio remained unchanged over the period, with the DTA at the levels of accounting officer, senior management, the minister and internal audit unit being assessed as having provided some assurance as a result of the non-compliance identified at the department in 2015-16. The internal audit unit was unable to fulfil all the requirements in terms of its approved annual audit plan due to inadequate capacity. The audit committee provided assurance as an independent oversight body to the department. However, management should implement audit committee recommendations to ensure alignment between the efforts of assurance providers and the audit outcome. The portfolio committee was in the process of implementing the commitments made in respect of their oversight role to drive clean audit outcomes across the whole portfolio, thus the assurance level was assessed as having provided some assurance.

The root cause of the unresolved compliance findings at the DTA was the slow response by management to address key control deficiencies highlighted at the conclusion of the previous year's audit. We therefore reiterate that the following controls be put in place:

- The process to be followed when preparing and reviewing financial statements should be documented, roles and responsibilities should be clarified and employees should be held accountable. Emphasis should be placed on ensuring that all parties are updated on any new reporting requirements. This process should not only be implemented for the year-end financial statements but also for interim financial statements prepared during the course of the financial year.
- A comprehensive SCM compliance checklist should be designed and completed prior to any procurement transaction taking place to prevent irregular expenditure.
- The leadership should monitor the effective implementation of the abovementioned controls on an ongoing basis.

Salga has successfully sustained its clean audit outcome through the implementation of a number of best practices, most notably the following:

- Extensive involvement and commitment displayed by all employees, from leadership level downwards, towards the audit process. Salga has realised the importance of leading by example, given their oversight role in local government, by obtaining a clean audit outcome.
- Placing ongoing emphasis on maintaining an adequately capacitated and skilled staff establishment. Salga regularly reviews their needs with regard to human resources and addresses these without delay. Every effort is made to ensure that key positions are filled at all times. Being well resourced has been a key contributing factor to the sustained clean audit outcome.
- All aspects of internal controls are monitored on an ongoing basis to ensure their continuous effective functioning.
- All role players remaining abreast of changes in legislation and reporting requirements and implementing such changes immediately.
- Recommendations made by the internal audit unit and the audit committee are promptly actioned and robust risk assessment and mitigation are in place.

Constitutional institutions

The Municipal Demarcation Board (MDB) and Commission for the Promotion and Protection of the Rights of Cultural, Religious and Linguistic Communities (CRL Rights Commission) are included in the portfolio, but are not under the authority of the minister.

The audit outcomes for both institutions remained unchanged. The CRL Rights Commission again received an unqualified opinion with findings on compliance with legislation, while the MDB retained its unqualified opinion with findings on predetermined objectives and compliance with legislation.

We commend the CRL Rights Commission and MDB for submitting annual financial statements for auditing that were free from material misstatements. We identified non-compliance with legislation at both institutions in the area of expenditure management, as effective steps were not taken to prevent irregular expenditure. Further, there were material findings on the usefulness and reliability of reported performance information at the MDB. This was mainly because the leadership and management did not adequately review the performance information. The lack of oversight was primarily attributable to the fact that critical leadership positions, including the chief executive officer and chief financial officer positions, were vacant for a significant part of the 2015-16 financial year.

We urge these two institutions to work tirelessly in the upcoming financial year towards obtaining a clean audit outcome by eliminating the remaining stumbling blocks highlighted above. Both the CRL Rights Commission and MDB must strengthen preventative controls to sustainably avoid irregular expenditure. The MDB's leadership must take an active role in driving and continuously monitoring the implementation of the actions required to conclusively resolve the findings raised on performance information in 2015-16.

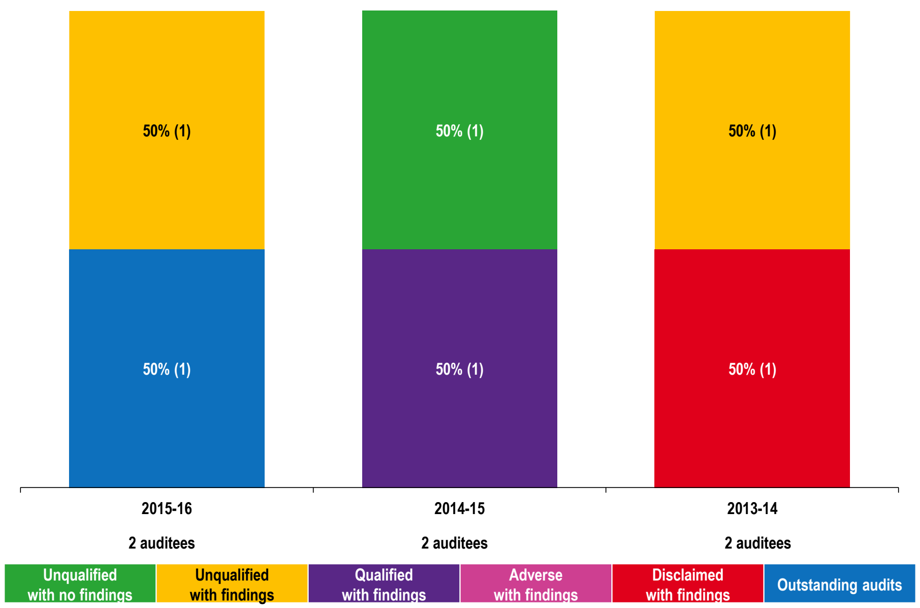
Outstanding audits

The delay at the DCoG was necessitated by the need to appropriately respond to a significant audit risk relating to the community work programme (CWP) that was identified during the audit process. The audit report was subsequently finalised and reflected a regression in the audit outcome. A financially qualified opinion was expressed compared to the financially unqualified opinions of the 2014-15 and 2013-14 financial years, while findings on predetermined objectives and compliance with legislation were again raised, consistent with the previous two financial years. The qualified opinion was expressed as a result of the department's inability to correctly account for movable assets relating to the CWP and to produce sufficient and appropriate audit evidence in support of payments made to CWP implementing agents. The continued failure by the department to prevent irregular expenditure remained a concern. After managing to reduce the amount of irregular expenditure from R589 million in 2013-14 to R155 million in 2014-15 it escalated again to R482 million in 2015-16 due to contravention of SCM legislation. We urge the department to take immediate action to curb the incurrence of further irregular expenditure.

In terms of section 12(1)(b) of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) the AGSA may authorise a private practitioner to perform an audit that must be performed by the AGSA in terms of section 4(1) of the PAA. The audit of Misa was contracted out to a private audit firm in line with the provisions of the PAA. Upon the review of the audit work performed, the AGSA found that the quality requirements as articulated in the International Standard on Quality Control (ISQC) 1 were not met. The AGSA has a legal duty in terms of section 13(1) of the PAA to ensure that all standards are met during an audit and an appropriate audit opinion is expressed. In order to satisfy ourselves that the quality standards were met and the audit conclusion is correct, the audit report has been delayed to date.

Vote 5: Home Affairs

Three-year audit outcome



The audit outcome of the Department of Home Affairs (DHA) is not included in this analysis. The department requested additional time to resolve matters that had an impact on the annual financial statements, and the audit could not be finalised by the cut-off date. The following matters influenced the department's request for additional time to correct the annual financial statements:

- There was disagreement between the AGSA and National Treasury regarding the accounting treatment applied by the DHA to account for foreign revenue. The AGSA and National Treasury only reached consensus on the matter in July 2016 and the resolution required adjustments to the department's annual financial statements.
- The department needed additional time to reconcile information on expenditure from foreign operations and movable tangible capital assets and intangible assets.

The audit of the DHA was still in progress at the date of this general report.

The Government Printing Works (GPW) did not sustain its 2014-15 audit outcome. The GPW audit outcome moved from an unqualified opinion with no findings to an unqualified opinion with findings on compliance with legislation. However, we do commend the GPW for again submitting annual financial statements for auditing that were free from material misstatements.

We identified material non-compliance with legislation where the GPW did not adhere to the requirements of SCM legislation, resulting in irregular expenditure of R32,3 million.

This is a significant regression from the previous year, when the auditee did not incur any irregular expenditure. All of this expenditure was identified by the auditor. The following factors contributed to the irregular expenditure that was incurred:

- There were no justifiable reasons for not following the competitive bidding process.
- The preference point system was not used when evaluating certain quotations.
- Points were awarded to potential suppliers for B-BBEE status without verifying supporting documentation.
- Less than three quotations were obtained without justifiable reasons for deviating from procurement policy requirements.

The entity's financial health and leadership stability status in the 2015-16 financial year remained unchanged as there were no significant risks identified in these areas.

The GPW, as in the previous financial year, submitted an annual performance report for auditing that was free from material misstatements and had no material findings on the usefulness and reliability of their performance information.

The following internal controls should be strengthened to create a control environment that supports compliance with legislation:

- The leadership should ensure that the entity's SCM compliance processes are followed by all levels of management.
- Action plans to address compliance deviations must contain the specific management action required to address the deviations.
- Consequence management should be implemented for employees who fail to comply with the legislated prescripts to avoid recurring non-compliance.

The GPW had no findings on IT management in 2015-16. This is an improvement from the previous financial year.

The actions proposed by the minister were in progress during the 2015-16 financial year. We anticipate that the proposed actions will improve future audit outcomes. However, the level of assurance provided by the leadership and senior management of the entity could improve if the root causes of the regression in the audit outcome are addressed.

The inadequate controls should be addressed by implementing improved oversight processes and monitoring controls to ensure that the GPW complies with the SCM legislation. The GPW's accounting officer and audit committee should monitor whether management implements action plans that adequately address the audit findings.

Constitutional institution

The Electoral Commission (IEC) is included in the portfolio but is not under the authority of the minister. The IEC received an unqualified opinion with findings on compliance with legislation and predetermined objectives. The audit outcome remained unchanged from previous years due to their failure to implement controls over compliance with legislation. We identified material non-compliance with legislation as the IEC did not adhere to the requirements of SCM legislation and therefore incurred R39,3 million in irregular expenditure. This status remained unchanged from the previous financial year.

The irregular expenditure related mainly to non-compliance with procurement and contract management and was a result of the following:

- Deviations from obtaining the minimum prescribed number of written quotations from prospective suppliers that were not approved by a properly delegated official.
- Goods and services that were procured from suppliers whose tax matters had not been declared to be in order by the South African Revenue Service.
- The competitive bidding process not being followed, without justifiable reasons.
- Contracts being awarded to bidders based on points given for criteria that were not clearly stipulated in the original invitation for bidding, in contravention of the Preferential Procurement Regulations.
- An invitation for competitive bids in the procurement of one contract not being advertised for the required minimum number of days.

As was reported in the 2014-15 financial year, we did not identify significant risks relating to financial health at the IEC. The IEC submitted an annual performance report for auditing that contained material misstatements in programme 2: electoral operations and programme 3: outreach. The auditee did not adequately correct misstatements in programme 3, resulting in the information on the performance against predetermined objectives for this programme being unreliable. This unreliability of information in programme 3 had been reported in the previous two financial years.

Although there was stability in leadership positions, the accounting officer's slow response to take corrective action and hold officials accountable resulted in repeat findings. Furthermore, monitoring compliance with legislation, and controls that provide assurance on the reliability of performance information must be strengthened, with the assistance of a properly functioning internal audit unit. The IEC should strengthen the verification and accountability processes and controls that support quarterly performance reporting.

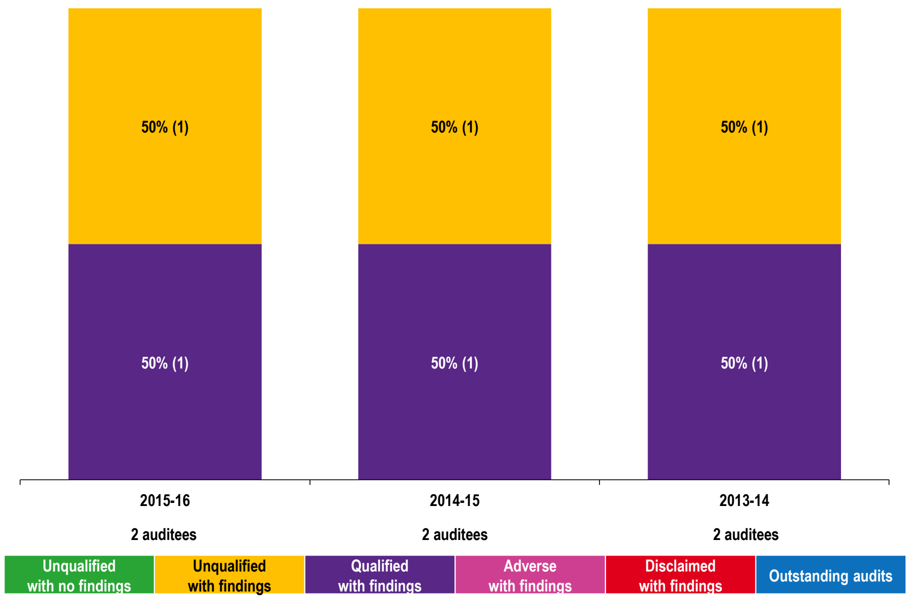
The previous year's commitments were partially implemented and were still in progress.

The level of assurance provided by the leadership, senior management and internal audit unit can be improved if the control environment supports reliable reporting on the performance against predetermined objectives and monitoring compliance with legislation.

The portfolio committee oversees entities in the portfolio and the constitutional institution. Although the committee provided assurance, the audit outcomes of the portfolio did not improve.

Vote 6: International Relations and Cooperation

Three-year audit outcome



The audit outcomes of the International Relations and Cooperation's portfolio remained unchanged with no improvement over the three years.

The lack of improvement in the overall audit outcomes was caused by the Department of International Relations and Cooperation (Dirco) receiving a qualified audit opinion on its financial statements for the third consecutive year. The African Renaissance and International Cooperation Fund (ARF) remained unqualified with findings on compliance with legislation over the three years.

The quality of financial statements submitted for auditing by the portfolio remained unchanged with no improvement and contained material misstatements in the areas of movable tangible assets, irregular expenditure, fruitless and wasteful expenditure, unauthorised expenditure, virements, the appropriation statements, payables, receivables and expenditure. The ARF received an unqualified audit opinion only because they corrected all the misstatements identified during the audit process. Dirco could not make all the corrections due to the lack of a credible asset register and inadequate assessment of works of art and paintings.

Compliance with legislation remained of concern in the portfolio as similar findings have been reported over the three years with no improvement. We identified material non-compliance with legislation by the portfolio in the areas listed below:

- Dirco did not adequately implement proper control systems to safeguard and maintain assets.
- Dirco did not always follow competitive bidding processes or request three quotations when procuring goods and services.
- Dirco did not take effective steps to prevent unauthorised, irregular and fruitless and wasteful expenditure. This resulted in the department reporting an irregular expenditure of R338,8 million, which is an increase of R236,4 million from the previous year. Only 33% of the amount was identified by the auditee. A total of 100% of irregular expenditure in the portfolio related to transgression of SCM legislation. Dirco reported R166,5 million of unauthorised expenditure and R5,5 million of fruitless and wasteful expenditure.
- Dirco did not take effective and appropriate disciplinary steps against officials who made and/or permitted irregular and fruitless and wasteful expenditure, and did not investigate non-compliance with SCM prescripts.
- Dirco borrowed money through a commercial bank forex settlement account without the approval of the minister of Finance or an official authorised by the minister.
- The ARF did not submit the financial statement within two months after year-end.
- The ARF did not invest money from old projects not required for immediate use.
- The ARF did not take effective and appropriate steps to collect all money due to it.

The root causes of non-compliance were the slow response by management to provide the necessary training, lack of consequence management and overall accountability. The ARF's findings on compliance were due to the lack of progress in the implementation of the South African Development Partnership Agency (SADPA), lack of spending by the ARF and delegating the responsibilities of the ARF accounting authority to the chief financial officer of the department.

There were no significant financial health indicators relating to the 2015-16 audit in the portfolio. The depreciation of the rand against major currencies and the difference between forex rates used during the medium term expenditure framework process versus prevailing forex rates could have a negative impact on Dirco's ability to deliver and execute South Africa's foreign policy.

The quality of performance reports in the portfolio improved. This was due to the ARF addressing internal control deficiencies reported in the previous year. The sustained quality at the department was as a result of increased awareness of the performance reporting requirement, which was mostly due to our interactions with the leadership and their willingness to implement our recommendations, including the implementation of performance information system that is managed by competent personnel.

The status of key internal controls indicated that an improvement was required in the areas of leadership and financial and performance management. This was due to slow response to implement the previous year's commitments to improve the audit outcomes.

The accounting officer and senior management still provided limited assurance due to limited progress made in addressing significant internal control deficiencies reported in the previous years. This should be improved by ensuring that our recommendations are implemented promptly. The audit committee should sustain its oversight of the effectiveness of the internal control environment for financial reporting and compliance with legislation.

We met the minister twice in the year under review and these interactions had minimal impact on the audit outcomes. The portfolio committee provided some assurance and did not fully implement the commitments provided to address the internal control deficiencies identified by the auditors.

There were no concerns in the portfolio relating to vacancies as there was stability at senior management level and the finance department. However, effective human resource processes should be implemented.

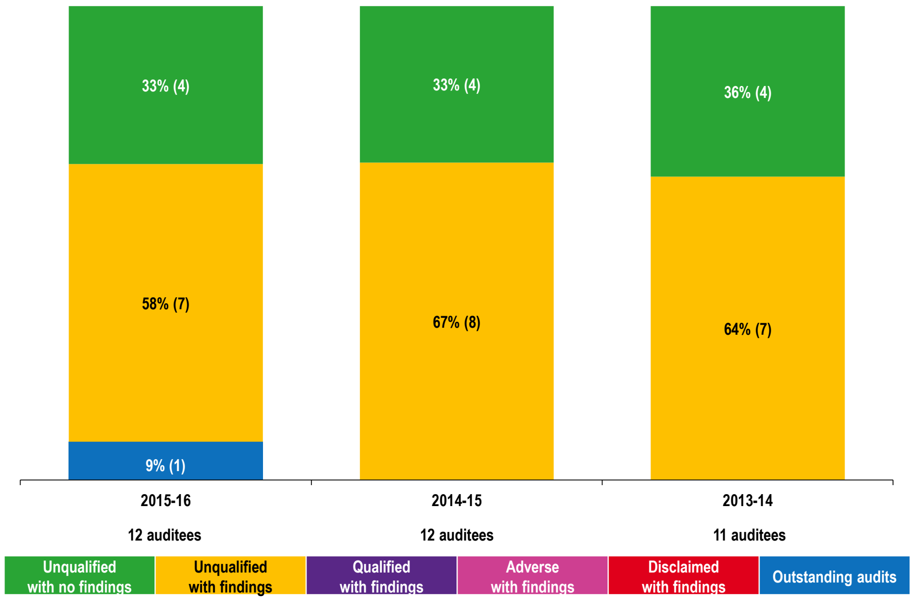
An assessment of IT controls indicated that the portfolio did not improve as they did not address the previous year's IT findings due to slow response by management to implement action plans. As a result, the portfolio still experienced challenges with the design and implementation of IT controls that provide assurance on the confidentiality, integrity and availability of financial information.

The root causes of poor audit outcomes were due to the slow response by management to address significant internal control deficiencies reported in the previous years, lack of consequence management and overall accountability. The accounting officer and senior management should address the root causes of poor audit outcomes as follows:

- Implement our recommendations promptly to avoid repeat findings, including those recommendations relating to asset register clean-up and regular review of financial statements.
- Strengthen the oversight of financial reporting and compliance processes.
- Implement consequences for poor performance and transgressions.
- Implement effective human resource processes to ensure that adequate and sufficiently skilled finance resources are in place and performance is adequately monitored.
- Dirco should implement an asset management strategy that includes:
  - mandatory asset verification
  - disposal of old and/or obsolete assets, including those in storage facilities, if a decision has been made that these assets cannot be used, are un-usable or are surplus to business needs
  - investigate missing assets and write off these assets if they cannot be located after a proper investigation and approval process is followed
  - timely update of the asset register for additions, disposals and retirements or scrapping
  - quality assurance processes to ensure a credible asset register is produced.
- Train heads of mission and corporate service managers on how to apply the SCM policies, financial and asset management.
- Prepare the financial information, including disclosure notes, on a regular basis.
- Implement a checklist which enables the reviewer of financial statements to ensure that each amount presented and disclosed in the financial statements is supported by accurate and complete information.
- Implement basic financial management disciplines and monthly processing such as debtors, creditors reconciliations and regular physical asset verifications.
- Implement a compliance checklist to supplement policies and procedures.

Vote 7: Finance (National Treasury)

Three-year audit outcome



The overall audit outcomes of the portfolio have not improved over the three years. The Financial Services Board (FSB) improved from an unqualified opinion with findings to an unqualified audit opinion with no findings due to proactive implementation of its action plan to address previous year's findings on predetermined objectives, as well as a strong tone at the top. The South African Revenue Service (Sars), Independent Regulatory Board for Auditors (Irba) and Office of the Ombud for Financial Services Providers (FAIS Ombud) sustained unqualified audit outcomes with no findings by ensuring that the monitoring of systems of internal control and action plans is done on a regular basis.

The audit outcome of the National Treasury, Financial Intelligence Centre (FIC), Office of the Pension Funds Adjudicator (PFA), Public Investment Corporation SOC Ltd (PIC), Co-operative Banks Development Agency (CBDA) and Government Pensions Administration Agency (GPAA) remained unchanged as they received unqualified audit opinions with findings. This was mainly due to the slow response by management to implement corrective actions to address previous year's audit findings and key officials lacking appropriate competencies. The Land and Agricultural Development Bank of South Africa (Land Bank Group) also regressed from unqualified opinion with no findings to unqualified opinion with findings due to SCM findings which resulted in material irregular expenditure.

The audit outcome of the Government Technical Advisory Centre (GTAC) is not included in this report. Due to resubmission of information supporting the financial statements, we had not finalised this audit by the cut-off date.

The overall quality of financial statements in the Finance portfolio was relatively good as only the National Treasury, PIC and CBDA submitted financial statements that contained material misstatements, while GPAA and FIC managed to address previous year's findings and improved their quality of financial statements. The National Treasury and PIC submitted financial statements for auditing that contained material misstatements in disclosure items only, while the CBDA had material misstatements in non-current assets, current assets, liabilities, revenue, expenditure and disclosure items. These entities received unqualified audit opinions only because they corrected all the misstatements we had identified during the audit process.

We identified material non-compliance with legislation by the National Treasury, CBDA, FIC, GPAA, Land Bank, PFA, and PIC due to lack of daily financial management disciplines and leadership oversight. The non-compliance was mainly in the following areas:

- Financial reporting, where the financial statements submitted for auditing contained material misstatements, resulting in non-compliance with the PFMA.
- Expenditure management, where effective steps were not taken to prevent irregular expenditure, resulting in non-compliance with the PFMA.
- Procurement management, where the prescripts of the PPPFA and PPR were not complied with.

The portfolio incurred a total of R42,4 million of irregular expenditure as a result of non-compliance with SCM legislation, with R31,8 million of the total irregular expenditure incurred by the Land Bank. The irregular expenditure incurred by the Land Bank increased by 100% compared to the previous year due to non-compliance with the PPPFA and its own SCM policy when appointing consultants to restructure the bank, the bank did not obtain tax clearance certificates prior to awarding contracts and deviations were not approved at an appropriate level. All irregular expenditure by the Land Bank was identified through the audit process. The Land Bank should oversee its SCM process in order to comply with the SCM prescripts.

There were no significant financial health indicators relating to the 2015-16 financial year in the portfolio. This represents an improvement from the previous year, where Sars, the PFA and Land Bank had unfavourable indicators.

The quality of annual performance reports regressed in the portfolio, as the CBDA and FIC had findings compared to the previous year where they did not have findings, the FSB improved and the National Treasury remained unchanged with findings.

In addition, the National Treasury, CBDA, FIC, FSB, GPAA, PFA and Land Bank submitted annual performance reports for auditing that contained material misstatements. With the exception of the CBDA, National Treasury and FIC, all auditees avoided material findings in their audit reports only because they corrected all the misstatements we had identified during the audit process.

The status of key controls indicated that an improvement is required in the areas of leadership and financial and performance management. This is due to inadequate oversight from the leadership to ensure that the portfolio is addressing previous year's findings on compliance with legislation and material misstatements on financial statements. The auditees that maintained clean audits had regular engagements with us, were proactive in monitoring the action plans to sustain the audit outcomes and had stability at leadership level.

There were no concerns in the portfolio relating to vacancies as there was stability in senior management positions and the finance department. However, effective human resource processes to ensure that adequate and sufficiently skilled finance resources are in place, should be implemented.

We have assessed the ICT governance and controls in the portfolio. Year on year, there was limited movement, with improvement mostly in security management. However, the areas of IT governance, user access management and service continuity required full implementation to support reliable financial and performance reporting.

The assurance provided by senior management and accounting authority or officer should be improved further by taking immediate action to address our findings and recommendations. The level of assurance provided by accounting authorities, internal audit units and audit committees should continue with ensuring effective oversight of financial and performance reporting, compliance with key legislation and consequence management for transgressions.

We met the minister once during the financial year. The minister should implement the commitments made in the previous year on the implementation of action plans to address the previous year's findings. Given the magnitude of the IFMS and the related implementation challenges in the previous years, there is a continued need for the minister to play a key oversight role regarding the implementation of the IFMS and obtaining regular feedback from Sita. The standing committee on finance provided assurance through follow-up of the audit findings raised and requesting the department and entities to provide comments and action plans on how they were planning to address the concerns we raised.

The root causes of poor audit outcomes were the slow response by management and key officials lacking appropriate competencies. The accounting officer or authority and senior management should address the root causes of poor audit outcomes as follows:

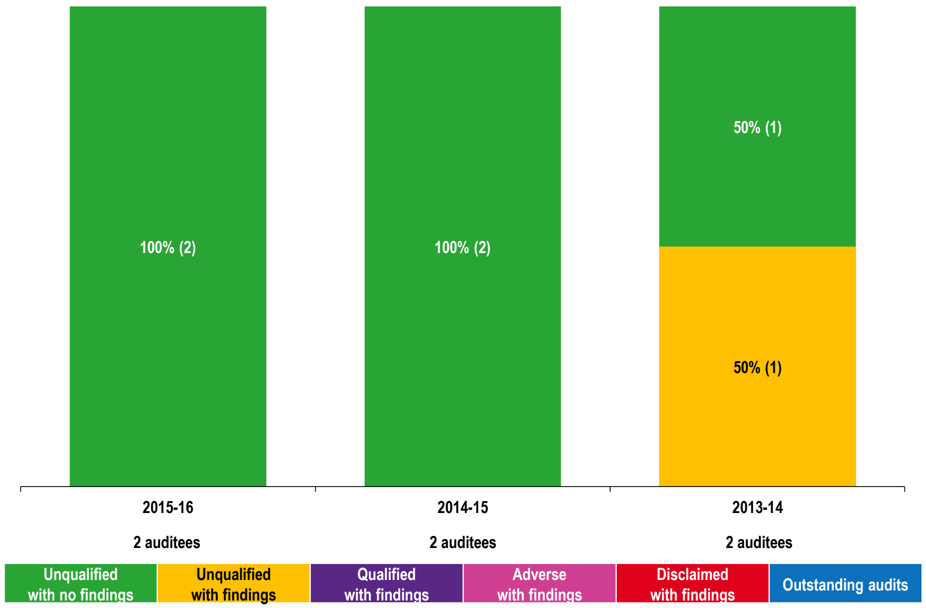
- Adequately train and develop key officials in financial and performance reporting, as well as compliance with legislation.
- Improve technical indicator descriptions of annual performance plans, as well as planned indicators and targets, to be measurable.
- Improve the monitoring of compliance with legislation, especially on SCM prescripts.
- Improve the quality and timing of reviewing financial and performance information used in the preparation of financial statements and annual performance reports.
- Improve the monitoring of the implementation of ICT policies and procedures.
- Improve the monitoring mechanisms for implementing commitments towards improving the audit outcomes of the whole portfolio.

Constitutional institution

The Financial and Fiscal Commission (FFC) is included in the portfolio, but is excluded from our analyses as the FFC does not fall under the authority of the minister. The audit outcomes of the FFC improved from an unqualified audit opinion with findings to an unqualified audit opinion with no findings. They have achieved this by addressing the previous year's material findings on SCM through proactive implementation of its audit action plan.

Vote 8: Planning, Monitoring and Evaluation

Three-year audit outcome



We commend the Planning, Monitoring and Evaluation portfolio for the sustained improvement in audit outcomes over the three years, with the Department of Planning, Monitoring and Evaluation (DPME) receiving a clean opinion for the third consecutive year and the National Youth Development Agency (NYDA) maintaining the clean audit outcome received for the first time in 2014-15.

The positive audit outcomes in the portfolio can be attributed to leadership's unwavering commitment towards clean administration and governance. The leadership is exemplary and is supported by appropriately qualified and experienced staff members. A zero tolerance approach has been adopted towards non-performance and transgressions of any nature, while effective consequence management is applied immediately when required.

Senior management has responded by designing and consistently implementing sustainable daily and monthly controls over financial and performance reporting. Additionally, any recommendations by internal and external audit were effected immediately and the corrective actions implemented and monitored to prevent the recurrence of internal control deficiencies identified.

The department and the NYDA submitted annual financial statements for auditing that were free of material misstatements. This sustainable achievement was realised through systematic review processes by all relevant role players, including the internal audit unit and the audit committee, to ensure that potential errors were identified and appropriately corrected prior to the submission of the financial statements for auditing. Senior management, under the direction of the respective chief financial officers, demonstrated accountability for confirming that the submitted financial statements were substantiated by appropriate audit evidence.

No material non-compliance with legislation has been identified in the portfolio for the past two financial years. The portfolio was able to accomplish this through implementing sound and sustainable controls to ensure that the entities observe key legislation. Furthermore, continuous emphasis was placed on keeping all staff members abreast of legislative requirements to practically facilitate ongoing compliance.

We commend the portfolio for preventing material findings in the area of procurement and contract management for the 2014-15 and 2015-16 financial years; however, further effort is required to completely eradicate irregular expenditure. There has been a noteworthy decline in irregular expenditure over the three years, with the department reflecting a decrease from R0,7 million in 2013-14 to R0,2 million in 2015-16 and the NYDA significantly reducing irregular expenditure from R16,7 million in 2013-14 to R0,3 million in 2015-16. Management's controls were effective in detecting all irregular expenditure incurred in the year under review. The remaining irregular expenditure emanated from procurement transactions concluded without having obtained the required price quotations and non-compliance with local production content requirements. Although the number of instances of non-compliance was limited, preventative controls in these areas must be strengthened to completely eliminate non-compliance.

The financial health of the NYDA was negatively affected by the one-off organisational restructuring project that was undertaken during the 2015-16 financial year. Staff reductions were implemented and employees exited through voluntary settlement packages, which contributed to the deficit of R24,7 million and negative net cash flows from operating activities of R34,6 million. The entity also continued to struggle to recover money owed to them on loans granted in accordance with their mandate. To curb the impact, the NYDA temporarily stopped issuing new loans and management engaged lawyers and debt collectors to assist in recovering as much as possible of the long-outstanding loan book. This is not expected to have a lasting impact on the financial health of the NYDA in future periods as all of these loans have already been provided for as non-recoverable in the previous periods.

At the DPME the accrual adjusted current liabilities exceeded the current assets. Although this is not likely to have an adverse impact on the following year's activities, the accounting officer should continue to closely monitor the expenditure against the budget to ensure that all obligations can be met when they fall due.

The portfolio fittingly continued to lead by example in the area of performance reporting as no material findings were raised on the usefulness and reliability of submitted performance reports over the three years. Overall, there were rigorous processes in place to ensure that the annual plans are in accordance with the framework prescribed by the National Treasury, and at the NYDA appropriate preparatory work was performed to ensure that the annual performance report was adequately supported by evidence. The annual performance report of the department; however, was amended through the audit process to reliably reflect the achievements against predetermined objectives for 2015-16. The department should develop an appropriate action plan to avoid similar adjustments having to be made during the audit process in the upcoming financial year. This should, at minimum, include enhanced monitoring of the accuracy, completeness and validity of quarterly in-year performance reports.

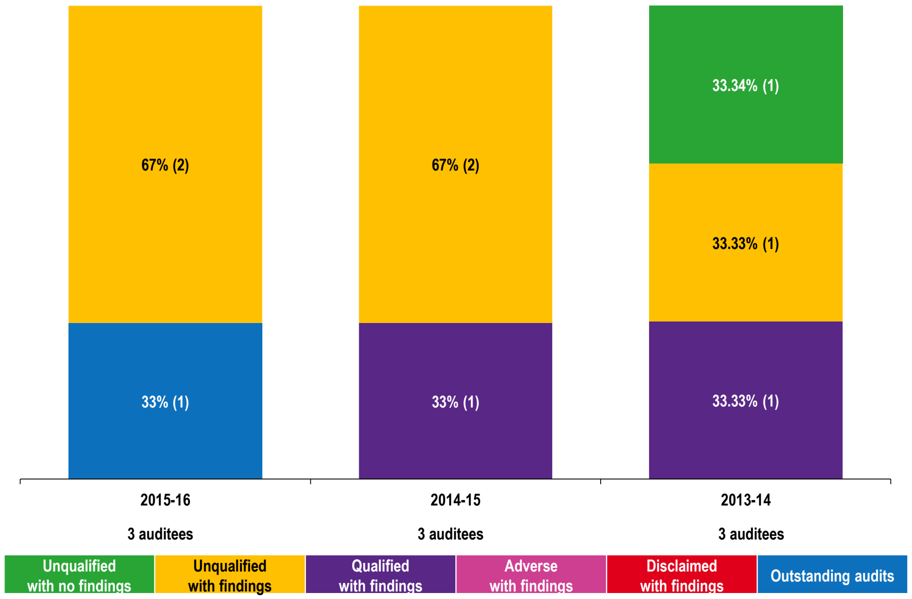
The IT environment at the department has improved over the three years and no significant shortcomings were noted. The NYDA on the other hand has shown some progress over the three years; however, there were still challenges in the areas of IT service continuity, security management and user access control, which were mainly related to inadequate policies and procedures regulating these various components in ensuring an effective IT internal control environment. This was as a result of inadequate coordination between the IT function and the other relevant departments within the NYDA in ensuring a comprehensive risk assessment around IT and the implementation of actions to address these key risks timeously.

Overall, the assurance provided by key role players was adequate except for senior management at the department where assurance relating to reliable performance reporting should be improved. The internal audit unit, audit committee, portfolio committee and the minister provided assurance linked to their legislative mandates and contributed to the overall aim of sustaining an effective control environment and clean audit outcomes in the portfolio.

We encourage the leadership to maintain and further enhance the best practices already entrenched in the portfolio and to also share its insights with other portfolios within government as part of its leadership role in driving the whole of government towards sustainable clean administration and governance.

Vote 9: Public Enterprises

Three-year audit outcome



The audit outcome of the South African Express (SA Express) is not included in this analysis as the audit was not finalised by the cut-off date. The reason for the delay was that the information and documentation relating to critical line items on the financial statements were not provided for auditing in a timely manner. This was as a result of material misstatements that were identified by auditors during the audit process, which the entity did not agree with. Furthermore, the ability of the entity to continue operating as a going concern was still being assessed.

The overall audit outcome for the portfolio regressed over the past three years, mainly due to non-compliance matters identified at the Department of Public Enterprises (DPE).

The DPE and the South African Forestry Company (Safcol) submitted financial statements for auditing that contained material misstatements in the areas of assets, expenses, taxation and liabilities. This was a regression from the previous year. Both auditees received an unqualified opinion subsequent to their correcting all the material misstatements we identified during the audit process.

The prevention of irregular expenditure remained a challenge in the portfolio due to non-compliance with procurement processes and legislation relating to contract management. Management did not fully enforce the requirements of SCM policies and procedures, which should be continuously aligned to all applicable legislation, while the department and the entity maintained the ability to discharge their mandates and respond to business requirements in time.

The DPE incurred R3,1 million in irregular expenditure, a decrease from the R11 million incurred in 2014-15. Similarly, Safcol incurred R44,1 million in irregular expenditure, a decrease from the R72,2 million incurred in 2014-15. The majority of irregular expenditure at both auditees was identified by the auditees.

As in the previous year, we did not identify significant risks regarding the financial health of the DPE and Safcol.

The DPE and Safcol submitted annual performance reports that were useful and reliable. We commend them for sustaining this outcome over the past three years.

There was no significant progress made in the portfolio to address the internal control weaknesses that relate to preparing the financial statements. The financial statements prepared at both auditees were not accurate and complete, and did not agree to supporting schedules. We identified misstatements, which resulted in material adjustments to the financial statements submitted for auditing.

Vacancies in key positions at the DPE (chief financial officer) and Safcol (chief executive officer and chief financial officer) were of concern. These key positions need to be filled promptly to ensure that action plans to improve audit outcomes are developed, implemented and monitored.

The DPE resolved a number of IT weakness that had been reported previously. Improvements were noted in security management and no findings were reported in IT service continuity. The primary findings that were repeated related to IT governance and user account management, which were due to the lack of clearly defined roles and responsibilities for the IT function. Furthermore, there were vacancies in some critical IT positions and no process to hold personnel accountable for implementing agreed IT audit action plans.

Safcol had a number of new IT findings relating to information security management and IT service continuity. Weaknesses were also identified due to the lack of automated controls for the revenue and inventory management modules, while the new financial system was still being implemented and not fully used. Overall, the challenges at Safcol emanated from a lack of adequate expertise and oversight of the implementation of IT controls from governance structures.

The first level of assurance should be improved by enhancing the level of oversight in areas of financial management and compliance with legislation by the accounting officer and senior management. The audit committee and internal audit function; however, provided adequate oversight of the daily and monthly control activities.

We met with the minister three times in the past year and these interactions had some impact on the audit outcomes. At these interactions, commitments were made to address weaknesses in the internal control environment with the objective of achieving improved audit outcomes across the portfolio.

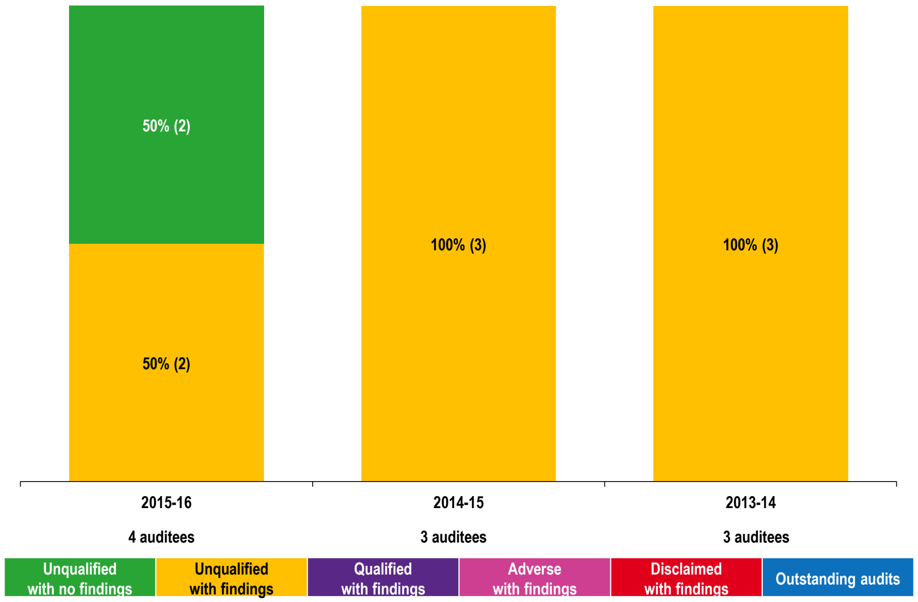
The assurance provided by the portfolio committee was adequate; however, the focus should be on monitoring consequence management and action plans in areas of non-compliance.

The executive authority and accounting officer or authority should address the root causes of the regression in audit outcomes within the portfolio as follows:

- Senior management should take immediate action to implement action plans developed to address irregular expenditure and ensure that officials are held accountable for not adhering to the set policies and procedures.
- The DPE should implement performance management measures that link bonus payments to the audit outcomes.
- Senior management must ensure that year-end processes to prepare financial statements are properly documented and that all involved adhere to these in a timely manner.
- Vacancies should be filled with appropriately qualified individuals who are held accountable for their actions within their responsibilities.

Vote 10: Public Service and Administration

Three-year audit outcome



The overall audit outcome improved as the Department of Public Service and Administration (DPSA) and the Centre for Public Service Innovation (CPSI) achieved clean audit opinions. The audit outcomes for the National School of Government (NSG) and National School of Government Training Trading Entity (NSG TTE) were unchanged.

We commend all the entities in the portfolio for submitting financial statements as per the legislated timeline and free from material misstatements.

During the audit of compliance with legislation and evaluation of procurement activities we identified instances where uncompetitive or unfair procurement processes were not followed, which resulted in irregular expenditure.

The total irregular expenditure by the portfolio amounted to R400 000, with NSG TTE being the largest contributor, incurring R250 000 due to non-compliance with SCM legislation. This represents an 86% reduction in irregular expenditure from the previous financial year and is attributable to the DPSA implementing stringent authorisation controls within the SCM environment.

We did not identify significant risks relating to financial health in the portfolio.

The DPSA and CPSI prepared and submitted annual performance reports that were both useful and reliable. The NSG and NSG TTE; however, had significant findings on the usefulness of their annual performance reports due to significant inconsistencies between the indicators and targets as set out in the annual performance reports and those included in the approved annual performance plans.

There was an overall improvement in the key control environment; however, the following should be done to strengthen internal controls and create a control environment that supports compliance with legislation:

- Management should review and monitor compliance with applicable legislation using compliance checklists that must be signed off before awarding tenders and bids.
- Management should ensure that the approved annual performance plan forms the basis of the annual performance reports as per the National Treasury's annual report guide.

One of the strengths of the portfolio was the stability of leadership in key positions such as accounting officers, chief financial officers and SCM officials.

The DPSA did not resolve the IT issues identified in the previous years. The significant repeated items related to IT governance, information security and IT service continuity. The NSG and NSG TTE had adequately designed IT controls, but were still struggling with implementing these controls. We commend the CPSI for having no IT-related findings across all focus areas.

The lack of integration between the IT units and other business units within entities resulted in IT risk assessments not being managed as part of the enterprise-wide risk management.

The assurance provided by management, accounting officers and the executive authority improved, which also resulted in the improved audit outcome of the portfolio.

We met with the executive authority once in the past year and this interaction had some impact on the portfolio's audit outcomes for the year. The previous year's commitments from the executive authority were still in progress. The slow pace at which these commitments were implemented could mainly be attributed to the instability at the executive authority level. However, we commend the leadership for increasing their momentum and striving towards fully implementing these commitments by the end of the 2016-17 financial year.

The portfolio committee provided assurance and ensured that the audit outcomes of the portfolio continuously improve.

Slow response by management and inadequate consequence management resulted in repeat findings being raised by the auditors.

We recommend that the leadership and management implement the following to address the root causes that prevented the portfolio from achieving clean audits:

- Performance agreements of senior staff should include measures that are linked to the audit outcome.
- Action plans should be specific, measurable and time bound. Management should regularly monitor progress against action plans and, where appropriate, take action against employees.
- The internal audit unit should verify that the root cause, and not just the symptoms, has been addressed when management reports the previous year's audit findings as resolved.

The following best practices enabled the DPSA and CPSI to achieve their first clean audits:

- They compiled full interim financial statements, including the statement of financial position and disclosure notes, which were subject to an audit.
- The accounting officers, chief financial officers and audit committees put pressure on management to ensure that financial statement preparation was done correctly the first time.

Constitutional institution

The Office of the Public Service Commission (OPSC) is included in the portfolio and reports to the Public Service Commission (PSC) as the executive authority. The PSC achieved an unqualified opinion with findings on compliance with legislation. This is a regression from the previous year.

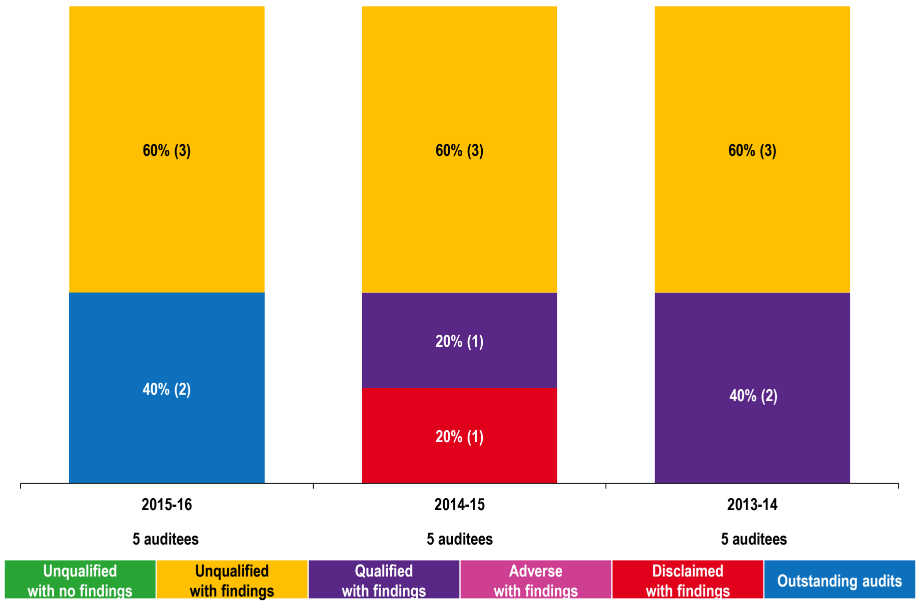
We commend the PSC for preparing financial statements that were free of material misstatements.

We identified one instance of material non-compliance with key legislation as the PSC awarded a contract to a bidder who had not submitted a declaration of past supply chain practices, as prescribed by treasury regulation 16A.9.2.

We also identified a material misstatement in the annual performance report submitted for auditing. This material misstatement was subsequently corrected, resulting in the PSC's published APR being useful and reliable in all material respects. The PSC had no findings across all the IT focus areas.

Vote 11: Public Works

Three-year audit outcome



The audit outcomes of the Public Works portfolio remained unchanged in the three years. The Department of Public Works (DPW), Construction Industry Development Board (CIDB) and the Council for the Build Environment (CBE) remained unchanged with an unqualified audit opinion with findings on predetermined objectives and compliance with legislation between 2013-14 and 2015-16. The 2015-16 audit reports for the Property Management Trading Entity (PMTE) and the Independent Development Trust (IDT) were not finalised by the cut-off date and are thus dealt with separately in the last part of this report regarding outstanding audits.

All the entities in the portfolio have consistently submitted annual financial statements timeously for purposes of external auditing. However, there has not been a significant improvement in the quality of the financial statements submitted for auditing. The disclosure notes to the financial statements of all the entities, except the CIDB, were materially adjusted. Furthermore, the CBE also had material adjustments on the statement of financial position. Although quarterly financial statements were prepared, the disclosure notes contained errors which were not attended to and management, the internal audit unit and the audit committee were ineffective in the review of the financial statements prior to their submission for auditing. Management at the CIDB maintained their internal controls in preparing accurate and complete annual financial statements that are supported and evidenced by reliable information. In addition, the internal audit unit reviewed the financial statements, and management corrected the errors identified before submitting the financial statements for auditing. To improve the quality of financial statements in the portfolio, management, internal audit units and audit committees must strengthen their reviews of quarterly financial statements and all auditees should adopt the best practices implemented by the CIDB.

The overall stagnation in compliance was as a result of auditees not effectively implementing all recommendations relating to SCM preventative controls, such as approval of deviations and identifying conflicts, before awards were issued. The overall vacancy rate, especially at senior management level has contributed to some of the recommendations not being implemented. These main areas of non-compliance, together with poor expenditure management, are the biggest obstacle to obtaining a clean audit outcome, and should be prioritised.

Encouragingly, irregular expenditure has decreased from R155,3 million in 2013-14 to R6,3 million in 2015-16. Irregular expenditure of R6,2 million (98%) was as a result of non-compliance with SCM prescripts, with the main deviations being three quotations not always obtained or competitive bids not advertised for 21 days. The main contributor to the decrease was the DPW with irregular expenditure decreasing from R152,1 million in the 2013-14 financial year to R1,7 million in the 2015-16 financial year. The reduction is attributed mainly to transfer of functions from the DPW to PMTE and the turnaround strategy implemented by the minister in the 2013-14 financial year. As part of the strategy, management had to enhance the internal control environment and implement preventative controls on SCM matters. SCM compliance checklists were required to be completed prior to awards being made and, in addition, SCM officials were trained regularly to ensure the latest SCM prescripts are included in the checklist used. Priority should be placed on implementing the abovementioned procurement controls in all instances to ensure that irregular expenditure is prevented, and also that officials found responsible for the incurrence of irregular expenditure are held accountable. As stated above, the audit of the PMTE was not finalised during the preparation of this report and as such the irregular expenditure incurred by the PMTE has not been included in this report.

The state of financial health in the portfolio remained stable over the past three years, with no significant areas of concern. Because of effective budget management, the entities in the portfolio did not overspend on their budgets in 2015-16. Although no material underspending was noted that may have a negative impact on service delivery, underspending (16%) of the capital asset budget at the department still occurred, which can lead to a negative impact on infrastructure delivery.

We raised concerns on the annual performance reports submitted by all auditees in the portfolio, with the exception of the CIDB where no material adjustments to the performance information submitted were required. The internal audit unit at the CIDB conducted a review of the performance report, and management was able to correct the errors identified before submitting the performance report for auditing. The misstatements that were not detected and corrected by management during the review process at the DPW and CBE were due to a high vacancy rate at senior management level. These auditees must implement proper record keeping to ensure that the relevant information is accessible, which supports the reported performance. Additionally, action plans must be effectively implemented to address audit findings raised during the previous audit.

The overall assessment of the IT environment within the portfolio has not improved over the past three years. The department did not appoint a permanent chief information officer and the acting chief information officer was responsible for implementing the ICT initiatives of the turnaround strategy. The position should be filled permanently to ensure commitment to the deliverables and initiatives of the turnaround strategy. This issue has been raised in all three years. Management had committed to appointing a chief information officer by 31 March 2015. The matter had not been addressed and remained a major risk due to the department's dependence on consultants to perform key IT functions. In the event that the consultants leave the organisation, the IT department may not be able to adequately provide IT support to meet the department's needs. Furthermore, the high cost of maintaining consultants may not be sustainable.

The key role players in the portfolio provided some assurance, which is evidenced by the non-compliance matters reported as well as the matters pertaining to performance information. The assurance provided by the audit committee improved over the three years, and they provided a level of assurance linked to their legislative mandate. This contributed to an improvement in key controls, particularly those relating to governance. However, management was slow in implementing the recommendations from the audit committee to ensure positive audit outcomes.

Management should ensure that all audit committee recommendations are effectively implemented to see the effect in the outcomes. The portfolio committee provided some assurance in the drive to improve audit outcomes through regular briefing meetings to monitor the implementation of action plans and key controls.

The portfolio is showing some movement in the right direction; however, this is not occurring at the required pace across the board. To improve the outcomes, the root causes of internal control deficiencies regarding compliance with legislation and the annual performance reports must be addressed at certain auditees. The leadership should strive to hold people accountable where weaknesses are identified, to ensure that the audit outcomes are improved. This can be achieved by maintaining stability within senior management of the auditees and continuing to capacitate oversight structures.

Progress on findings reported in the previous year's sector report

In the financial year under review no separate report for public works sector focus areas was prepared. However, a follow up on previous year's findings was performed to determine whether matters raised in previous audits have been adequately addressed.

The sector focus areas in the previous years related to:

- management of accommodation for client departments
- project management of infrastructure projects
- expanded public works programme (EPWP) integrated grant for provinces.

Management of accommodation for client departments

No significant improvement has been noted in the management of accommodation for client departments focus area since the 2013-14 financial year. We noted repeat findings at five provincial departments as well as the national department, where inspection plans to identify the condition and usage of both state-owned and leased properties were inadequate in several instances, resulting in state-owned properties not being properly maintained through planned maintenance schedules. This was due to management not implementing corrective actions recommended in previous audit cycles.

In addition, we raised repeat material findings on compliance with SCM prescripts relating to entering into lease contracts at two provincial departments and the national department, where leases were entered into without a competitive bidding process being followed. This was an improvement from the previous year where non-compliance was reported at three provincial departments and the national department. Proper planning is required in terms of procuring lease accommodation for client departments, so that sufficient time is available to ensure compliance with legislation. In this regard, interaction between the departments in the sector and their client departments must be improved with a long-term focus to ensure that needs are met.

Project management of infrastructure projects

Some improvements were noted in the project management focus area. The repeat findings indicate that the quality and monitoring of projects were not, in all instances, of the desired standard at one provincial department. In the previous year this was reported at two provincial departments and the national department. The improvement at the one provincial department was due to training being provided to existing staff to adequately perform this critical function.

At another provincial department, not all project managers had the requisite qualifications and were therefore not registered with the Project and Construction Management Council. In the previous year this was reported at one provincial department and the national department.

Expanded public works programme

With regard to the EPWP integrated grant for provinces, no material findings were raised in the 2013-14 and 2014-15 financial years. However, based on the audit of the EPWP projects across the country, we noted that not all information regarding the creation of work opportunities was adequately captured on the EPWP reporting system. The department did not effectively implement the action plan to address the finding relating to document retention and records management raised during the previous audits. This was as a result of information being decentralised at municipality level and not available when required, which resulted in unreliable reporting of actual achievements.

The management of accommodation, as well as the management of infrastructure projects, remained a cause for concern, especially since failure to properly manage these areas might also delay service delivery in other sectors of government. With regard to the EPWP, we urge the sector to approach this area with renewed vigour in the new financial year and, most importantly, to ensure that results reported are reliable and verifiable at any point in time.

Outstanding audits

The 2015-16 audit reports for the PMTE and the IDT were not finalised during the preparation of this report as the IDT's was only signed on 2 September 2016 and PMTE was still outstanding. The IDT received a disclaimed audit opinion for the second consecutive year following a qualification in the 2013-14 financial year.

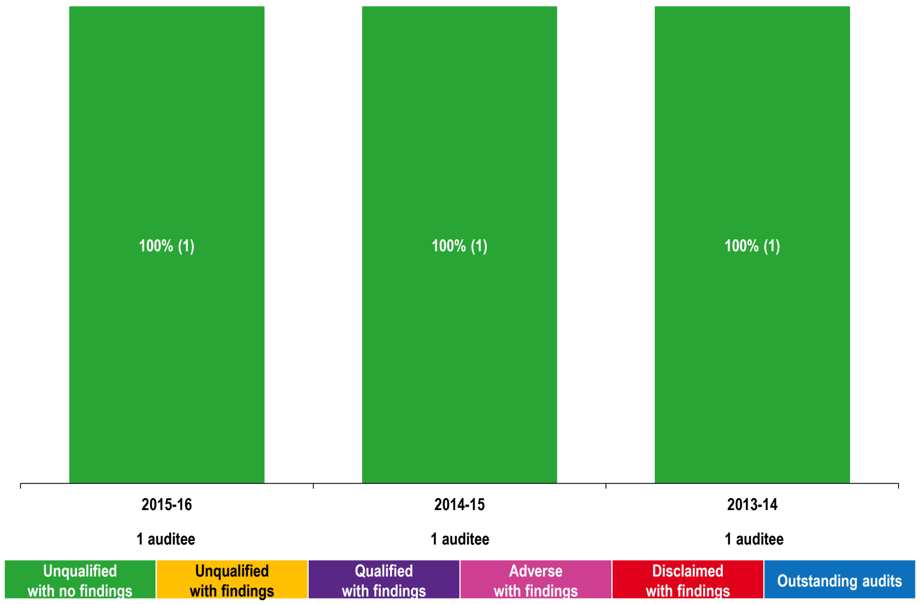
The bulk of the property-related functions residing within the DPW were transferred to the PMTE in the 2013-14 financial year. In terms of Directive 2 of the Grap standards, the PMTE was allowed a transitional period in which to compile a Grap compliant fixed asset register. As a result of a difference of opinion between the PMTE and the Office of the Accountant-General on the application of Directive 2 of the Grap standards, we were unable to complete the audit and issue an audit report within the legislative deadline.

The IDT received a disclaimed opinion in 2014-15 and the 2015-16 opinion remained disclaimed due to the entity's inability to produce accurate, complete and reliable reconciliations for programme expenditure on behalf of client departments. This also resulted in an unfavourable conclusion being reached on its revenue and receivables. Management and the board requested additional time to address the material findings reported; however, the additional time granted proved to be futile as management had not included all accruals in preparing the programme reconciliations. The disclaimer of opinion remained as a reflection of the poor status of their financial management disciplines, inadequate reconciliatory processes of these accounts and management's inability to implement action plans in a timely manner.

The entity incurred irregular expenditure of R6 million as a result of management not following competitive bidding processes, and fruitless and wasteful expenditure amounting to R5 million relating to penalties and interest paid as well as deposits paid for a cancelled event in 2015-16.

Vote 12: Statistics South Africa

Three-year audit outcome



Statistics South Africa (Stats SA) has sustained its unqualified audit opinion with no findings over the three years. This was due to management continuously monitoring the implementation of controls and previous year's action plans aimed at sustaining the clean audit outcome.

Stats SA continued to produce financial statements which are free from material misstatements, through the performance of regular effective reviews and ensuring that the required information for the key disclosure notes, e.g. commitments and accruals, are compiled in a timely manner to support valid, accurate and complete financial reporting.

There has been no improvement in the quality of annual performance reports produced by Stats SA as the report submitted for auditing once again contained material misstatements. This was due to slow response by leadership to honour the previous year's commitments. The department avoided material findings in its audit report only because it corrected all the misstatements identified during the audit process. The accounting officer should oversee the implementation of corrective actions, e.g. the implementation of a system to ensure that calculations on the reports supporting actual performance achieved are accurate, review process on the quarterly and annual performance reports is performed and consequences management for poor performance is implemented.

Stats SA sustained its status in compliance with legislation as it remained unchanged with no findings. This was achieved through the implementation of action plans and monitoring thereof by the internal audit unit, and implementation of consequence management by the department.

The financial health of Stats SA remained unchanged from the previous year with no significant unfavourable indicators. Having said that, Stats SA has an unfunded mandate as it is required to produce key statistical information based on certain key surveys such as master sample survey and living conditions survey. This mandate has been funded through using savings from other programmes; however, this is not sustainable as this may put a financial strain on the department. As a result Stats SA incurred unauthorised expenditure of R6,8 million in 2015-16, an increase of 100% from the previous year. The department should cost the unfunded mandates and begin an engagement with the National Treasury regarding a permanent solution.

The following good practices should be maintained:

- Monitoring of action plans and key controls on a regular basis.
- Basic financial disciplines and monthly processing and reconciling of transactions.
- Regularly preparing credible financial reports.

The senior leadership and oversight structures in the portfolio maintained the status of the previous year by providing the required level of assurance over financial reporting and compliance with legislation.

We were not able to meet the minister during the 2015-16 financial year, and as a result we could not evaluate whether the commitments made by the minister in the previous year were honoured. Similarly, we were unable to meet the portfolio committee during 2015-16, therefore, we were unable to receive commitments to enable us to evaluate the assurance provided by the committee.

There were no concerns noted in Stats SA regarding vacancies as there was stability in key positions, including finance department, for the 2015-16 financial year and this was consistent with the previous years.

An analysis of the IT audit outcomes indicated that the portfolio had designed the IT controls they had committed to in the previous cycle and they were in the process of ensuring that all the designed controls are implemented and operating effectively in the IT focus areas of user access, security management, IT governance and IT service continuity. Such implementation was planned as part of the new building project.

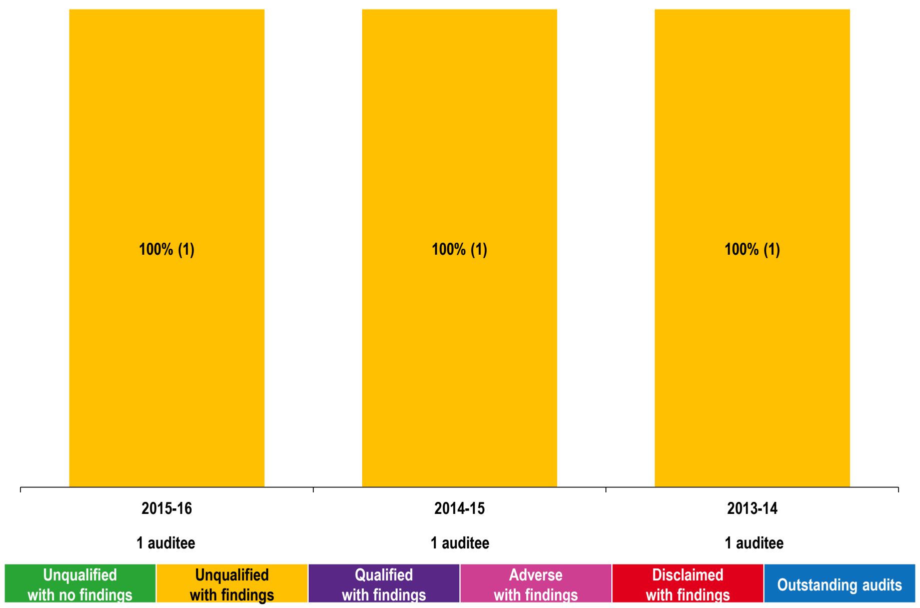
There were shortcomings identified in the IT management structure. These shortcomings were attributed to IT human resource requirements and organisational structure that were not updated to align with the growth in IT service requirements. Stats SA also experienced backup failures during the year under review due to ageing IT infrastructure and inadequate storage capacity.

The following controls should be strengthened to improve Stats SA's IT environment:

- Assess the capacity of human resources at the IT department.
- Capacitate this unit to ensure that Stats SA meets its business requirements effectively and efficiently.

Vote 13: Department of Women

Three-year audit outcome



The audit outcome of the Department of Women (DoW) remained unchanged from 2013-14 at an unqualified audit opinion with findings on performance information and compliance with legislation. The stagnation in the audit outcome is attributed to a lack of commitment by management in implementing actions to address control weaknesses identified in financial reporting, consistency in performance reporting and compliance with legislation. There was also a lack of consequences for transgressors.

There has been no improvement in the quality of the financial statements submitted for auditing over the past three years. This was due to a slow response by senior management to address the findings previously raised relating to misstatements in numerous financial statement items. Due to inadequate controls, the department was unable to prevent, detect or correct material misstatements of current assets, current liabilities and disclosure notes before the audit process. The department must develop systems to enable it to prepare a full set of financial statements, including disclosure notes, on a quarterly basis which is supported by substantiating evidence. Management should continue to enhance the controls based on the quarterly review feedback from the internal audit unit and the audit committee to enable the department to submit complete and accurate financial statements for audit purposes.

The number of material findings on compliance has increased in the past three years. New compliance findings were raised in the areas of budgets, procurement and contract management and expenditure management. Repeat compliance findings were raised in areas of financial statements, annual plans and performance reports. Non-compliance could have been prevented had compliance been properly monitored by senior management and had there been consequence management to prevent recurrence.

Irregular expenditure continued to increase year on year from R4 million in 2013-14 to R14 million in 2015-16. The irregular expenditure incurred was as a result of procurement made without obtaining the required price quotations, not inviting competitive bids and non-compliance with local production content requirements. This was due to the director of the SCM unit position being vacant, disregard of the SCM legislation by senior management and lack of consequences for transgressions. Management should prioritise filling the vacancies at the SCM unit and take action against transgressors.

Unauthorised expenditure of R2 million was incurred in 2015-16 due to overspending of voted funds. This was due to inadequate monitoring of the implemented budgetary controls by the leadership and not implementing consequences for non-adherence to internal controls.

The department incurred fruitless and wasteful expenditure of R2 million in 2015-16 relating to employees who were granted special leave for an extended period due to a change in the organisational structure, which resulted in some positions either being downgraded or removed from the structure and not all staff could be successfully placed in approved positions. This change was necessitated by the transfer of functions to the Department of Social Development.

The financial health of the department has regressed since 2013-14 as the total current liabilities exceeded total current assets and the department had a bank overdraft. The leadership and senior management of the department should address these matters by regularly monitoring the expenditure against the budget.

There has been no improvement in the quality of performance reports since the previous year. The department had findings on the usefulness of performance information in the 2014-15 and 2015-16 financial years. No findings were raised on usefulness in the 2013-14 cycle. The deterioration was due to the department having two annual performance plans in 2014-15 and 2015-16 financial years as there was a transfer of functions in 2014-15 and a change in strategic direction in 2015-16. In 2014-15 the department did not completely report on all objectives and in 2015-16 the department reported on objectives that were not included in the annual performance plan. This oversight was due to the inadequate review of the annual performance reports and plans by senior management. We reviewed the initial annual performance plans prior to approval and we did not identify significant issues. The additional performance plans for 2014-15 and 2015-16 were prepared during the year under review and were not subject to our review.

The overall assessment of the IT environment reflected slow improvement over the past two years and previous recommendations relating to empowering staff with the necessary skills had not been implemented.

The assurance provided by key role players at the level of the accounting officer and senior management regressed as they did not ensure the adequacy of controls over the budget and compliance with the SCM prescripts. Although the internal audit unit completed the audits as per the plan, their processes failed to identify material non-compliance with legislation and the lack of budgetary controls. The assurance provided by the executive authority, the audit committee and the portfolio committee in their support to drive clean administration and improved audit outcomes, was adequate as they performed their oversight as required. However, management did not implement recommendations obtained from the portfolio committee and the audit and risk committee.

To improve the audit outcome, the lack of consequences for unsatisfactory performance and transgressions must be addressed. Management should be held accountable and must timeously respond to audit findings and oversight recommendations by implementing action plans and monitoring their implementation.

Constitutional institution

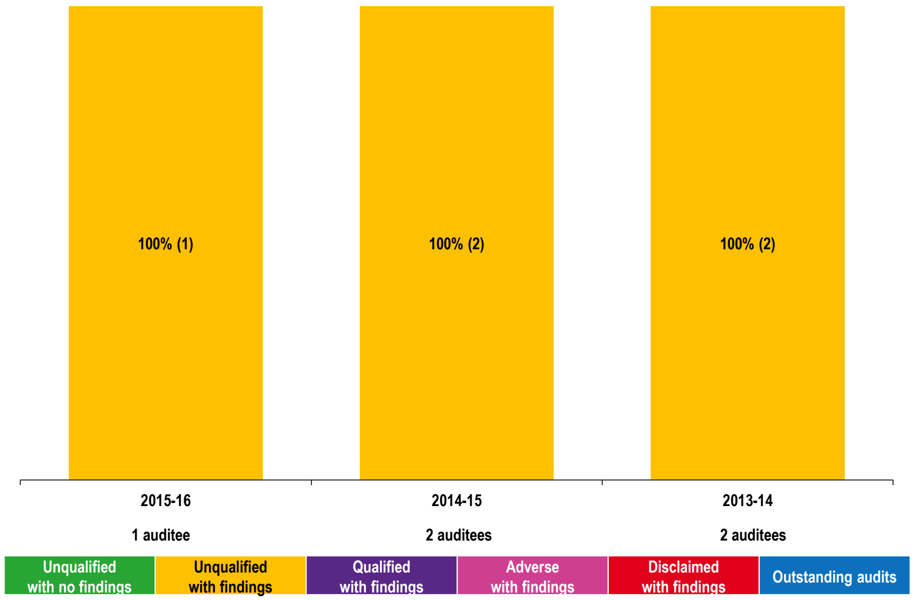
The Commission for Gender Equality is included in the portfolio but is not under the authority of the minister.

The audit outcome of the Commission for Gender Equality improved from an unqualified audit opinion with material findings on compliance with legislation in the previous years to an unqualified audit opinion with no findings in the year under review.

The leadership demonstrated commitment and seriousness in correcting previous year's findings by developing and closely monitoring action plans, with greater direction and guidance from the leadership and the audit committee. Although the audit outcome has improved, the leadership and those charged with governance must continue to enhance their oversight to ensure that the improved audit outcome is sustained.

Vote 14: Basic Education

Three-year audit outcome



In the previous year the portfolio consisted of the Department of Basic Education (DBE) and the Education Labour Relations Council (ELRC). The ELRC was delisted from the PFMA during 2015, and is no longer required to be audited by the AGSA.

The DBE did not address past material audit findings and internal control deficiencies adequately. This resulted in a lack of improvement in the overall audit outcomes of the department for financial reporting, performance reporting and compliance with legislation.

The DBE submitted financial statements for auditing that contained material misstatements in the areas of immovable tangible capital assets, accruals and payables not recognised, commitments, unauthorised expenditure, fruitless and wasteful expenditure and irregular expenditure. The DBE achieved an unqualified audit opinion only because it corrected misstatements identified during the audit process.

The department did not take reasonable steps to prevent unauthorised, irregular and fruitless and wasteful expenditure and this was consistent with the previous year's audit findings. The DBE incurred unauthorised expenditure of R131,8 million. This represents an increase of R103,2 million (361%) when compared to the previous year. This unauthorised expenditure was a result of expenditure incurred in contravention of the provisions of the school infrastructure backlog grant. The approval was not granted by the National Treasury for the DBE to deviate and redirect the grant allocation to other essential goods and services.

The department incurred irregular expenditure of R599,7 million. This compares favourably to the R705,6 million incurred in the previous year. Of this irregular expenditure:

- 37% was a result of services being rendered to the DBE after memorandum of agreements between the DBE and implementing agents had expired and not been extended or renewed. This was as a result of deficiencies in project management
- 63% was as a result of non-compliance with the necessary SCM requirements by implementing agents when appointing contractors on behalf of the department. This was due to the department not always being part of the relevant bid committees when the tenders were awarded as well as a lack of monitoring of implementing agents by the department.

Notwithstanding that goods and services relating to the irregular expenditure incurred were received, there is a high risk that the department may have paid more for such in excess of the value that was received.

Senior management did not determine the disciplinary steps that should be taken against officials who made and permitted irregular and unauthorised expenditure.

The DBE incurred fruitless and wasteful expenditure of R44,3 million increasing from R28 000 incurred in the previous year. All this fruitless and wasteful expenditure was a result of expenditure incurred in the Kha Ri Gude programme where there were overpayments to tutors for stipends, in contravention of the criteria determined by the DBE. This was as a result of inadequate monitoring by the department of the work performed by the appointed external service provider for the implementation of the Kha Ri Gude programme.

The extent of non-compliance by the DBE is indicative of weaknesses in the accounting and internal control environment and lack of robust monitoring disciplines that should ensure compliance with legislative requirements regarding financial management and procurement activities.

The accounting officer should implement the following to address matters that could affect the financial health of the portfolio:

- Timely payments to implementing agents should be made in accordance with the requirements of the signed memorandums of agreement. Timely payment will ensure that budget allocation is used for planned service delivery activities in the current year and the prevention of loss of unspent budgets as a result of non-approval of roll-over surpluses.
- Improve project management of infrastructure budgets and projects to mitigate the potential risk that the money appropriated for infrastructure projects could be overspent.

The published annual performance report of the DBE included information on its performance against predetermined objectives that was not reliable for some of the programmes audited. This was due to inadequate management reviews and supervision relating to information reported in the quarterly reports and annual performance report. The information reported was not supported by verifiable and credible evidence and, in some cases, was inconsistent with the technical indicator descriptions.

The following controls should be strengthened to create a control environment that supports reliable financial reporting, supports useful and reliable reporting on the performance and supports compliance with legislation:

- Implement monthly disciplines of record keeping, reconciling and reviewing of transactions and performance in a timely manner to ensure that complete, relevant and accurate financial and performance information is accessible and available to support information reported and presented to the oversight committees and governance structures.
- Enhance the skills and resources at the infrastructure and internal audit units to address capacity challenges in record keeping and financial reporting. This will also limit the dependency on the implementing agents appointed.
- Implement action plans on time to address control deficiencies identified by the external audit and monitor progress and impact on their implementation on an ongoing basis to ensure that milestones set and deliverables are achieved.
- Reconcile reported performance results to verifiable evidence and against the technical indicator descriptions monthly to provide assurance on the credibility of the evidence supporting performance reporting.
- Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support performance reported.
- Monitor and enforce compliance with procurement processes when appointing implementing agents and ensure that the procurement processes followed by implementing agents are aligned to the department's legislative requirements and SCM policy.

There were no concerns over vacancies or instability in key positions at the department. However, there was high dependence on consultants who were not adequately monitored, particularly in the area of infrastructure management.

The controls over the financial systems were generally well designed. However, these were not implemented consistently during the year as a result of lack of monitoring by senior management. In addition, controls over performance information systems, specifically regarding user access management, could still be improved. We identified recurring weaknesses on the network security controls. The DBE still experienced challenges with the development of a departmental business continuity plan due to a lack of prioritisation of its importance.

The level of assurance provided by senior management and the accounting officer should improve. Slow response by senior management, especially in the area of proper record keeping relating to infrastructure and performance reporting, contributed to material adjustments made to financial and performance reports and non-compliance with applicable legislation. The accounting officer has made commitments to ensure that the department is steered in the right direction and shows improvement in all audited areas.

Engagements regarding commitments made to address deficiencies reported and status of key controls were held with the minister twice during the year. Numerous other engagements were held with the accounting officer. The minister was also proactive in directing the efforts of the department to improve audit outcomes. This involved influencing and holding the department's senior management accountable for achievements, stricter monitoring and reporting interventions. .

The performance of the internal audit unit against the annual internal audit plan was not satisfactory due to challenges in the staffing of the unit and some matters relating to human resources and labour relations. The audit committee operated effectively and executed their responsibilities as required during the year.

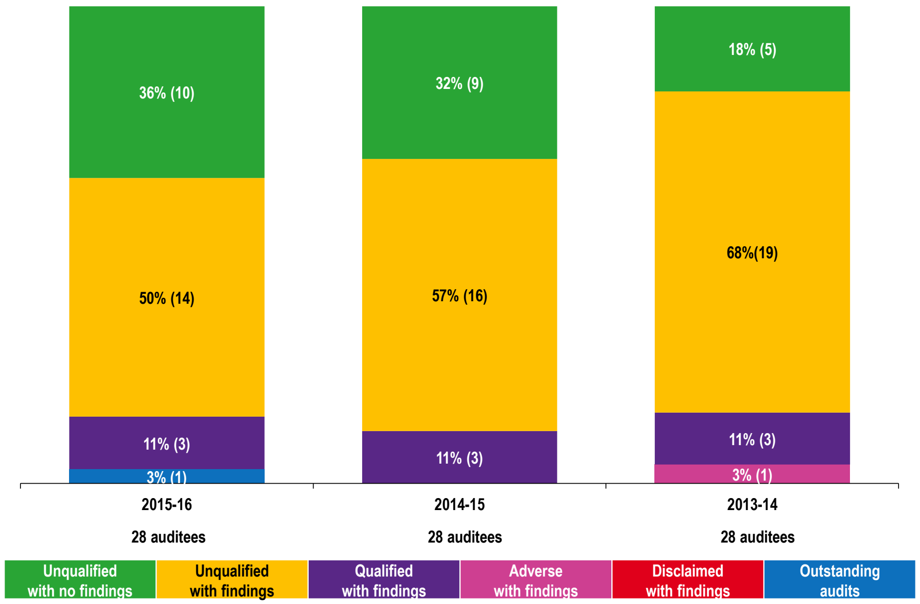
The executive authority, accounting officer and senior management should address the root causes of poor audit outcomes and inadequate controls as follows:

- Prioritise slow response by management to address the previous recommendations by promptly compiling action plans arising from auditors' recommendations for the year under review and previous year.
- Address internal control deficiencies by regularly monitoring progress on the action plans.
- Strengthen the performance management processes and the performance contracts should incorporate internal control responsibilities for all staff.
- Implement consequence management for non-performance.

The newly appointed accounting officer undertook to personally oversee the implementation of these recommendations and assess progress on a quarterly basis to improve the control environment.

Vote 15: Higher Education and Training

Three-year audit outcome



The Higher Education and Training portfolio (excluding technical and vocational education and training [TVET] colleges and universities) consists of 28 auditees being the Department of Higher Education and Training (DHET) and 26 public entities and one institute. The entities include 21 sector education and training authorities (Setas). The audit of the National Institute for the Humanities and Social Sciences (NIHSS) was not finalised by the cut-off date. The NIHSS is a new higher education institute established in terms of the Higher Education Act in 2013 and was audited for the first time. Two years' financial statements (2015 and 2016) were submitted for auditing. The financial statements for 2016 could only be submitted after the completion of the audit of the 2015 financial statements, and were thus only received on 29 July 2016.

The portfolio reflected an overall improvement in the audit outcomes over the past three years due to the implementation of action plans to address the previous year's internal control deficiencies identified in the areas of leadership, financial and performance management and governance.

Clean audits in the portfolio have doubled over the three years, increasing from five auditees in 2013-14 to 10 auditees in 2015-16, with a corresponding decrease of five auditees in the unqualified audits with findings. The qualified audit outcomes remained unchanged at 11% (three auditees) over the period. The National Institute for Higher Education: Northern Cape, which received an adverse audit opinion in 2013-14 and qualified audit opinion in 2014-15, was disestablished on 31 December 2014 due to the establishment of the Sol Plaatje University.

Sustainability of clean audits remained a challenge. Four Setas managed to maintain clean audits in each of the last three years and two Setas maintained clean audits in each of the last two years. Four Setas achieved clean audits for the first time in 2015-16. One Seta regressed from an unqualified opinion with findings to a qualified opinion in 2015-16, while three entities, including one Seta, regressed from a clean audit to an unqualified opinion with findings. The regressions were mainly due to a lack of implementation of action plans to address internal controls, inadequate management of discretionary grants, inadequate reviews of financial statements and non-monitoring of compliance with procurement regulations. The audit outcomes of 19 auditees remained consistent when compared to the previous year. Areas of qualifications for the three Setas during 2015-16 related to liabilities, disclosures and expenditure.

The quality of financial statements submitted for auditing improved when compared to the previous year. The improvement was due to implementation of action plans to address previous year's reported internal control deficiencies. Staff were held accountable for implementation of internal controls through incorporating audit outcomes as part of the key performance areas in the staff performance agreements. Eleven auditees in the portfolio submitted financial statements that contained material misstatements and/or limitations indicating that there was still reliance on the audit process to produce credible financial statements. Eight of the 11 auditees received an unqualified audit opinion only because they corrected all the misstatements we had identified during the audit process. Most of the identified misstatements were in the area of commitments disclosure notes.

There was a slight improvement in compliance with legislation in the portfolio, although this was still an area of great concern. Half of the auditees in the portfolio had significant findings on compliance in 2015-16 compared to 18 auditees (64%) in the previous year. Six auditees had findings on compliance with procurement and contract management requirements, which included uncompetitive bidding processes, not adhering to SCM prescripts on awards, bids not advertised for required period and not obtaining the required minimum documentation prior to awards being made. Six auditees had findings on irregular expenditure due to inadequate monitoring of compliance with SCM prescripts, and one auditee (NSFAS) had a recurring finding on revenue management as effective steps were not taken to collect money due, as required by PFMA .

Irregular expenditure within the portfolio increased by 62% from R351 million in the previous year to R569 million in 2015-16. The National Skills Fund and the Safety and Security Seta combined contributed 59% of the total irregular expenditure incurred. Fifty-six per cent of irregular expenditure incurred was as a result of non-compliance with procurement and contract management. Ninety-two per cent of irregular expenditure was identified by management. Controls should be implemented to monitor compliance with SCM processes to prevent irregular expenditure, promote fairness in procurement processes and ensure that value for money is achieved when goods and services are procured.

The financial health assessment of the portfolio has improved when compared to the previous year due to improvements in creditor-payment periods, reduction in debt impairment provision, realisation of surpluses during 2015-16 and improved net cash flows from operating activities. Concerns, although not significant, were noted with four auditees varying from auditees being in net current liability position, non-payment of invoices within 30 days, negative cash flows from operating activities and non-recovery of student loans.

The quality of submitted annual performance reports remained unchanged when compared to the previous year and the management of performance information should be improved. Nineteen auditees within the portfolio submitted annual performance reports for auditing that contained material misstatements. This was largely due to the auditees not having appropriate systems to collect, collate, verify and store performance information to ensure reliable reporting of actual achievements against planned objectives, indicators and targets. Some auditees also did not correctly apply the requirements of the FMPPI in the development of their indicators and the setting of their targets due to differing and incorrect interpretation and understanding of the requirements of the FMPPI.

Ultimately, the published annual performance reports of 12 of these auditees included information on their performance against predetermined objectives, which was not useful and/or reliable for some of the programmes or objectives selected for auditing. Seven auditees avoided material findings in their audit reports through correcting all the misstatements we had identified during the audit process.

The following controls should be strengthened to create and sustain a control environment that supports reliable financial and performance reporting and improvement in compliance:

- Daily and monthly processing and reconciling of transactions should take place throughout the year to ensure that accurate financial statements are prepared.
- Financial statements, including disclosure notes, and performance reports should be prepared at regular intervals during the year. Adequate reviews of financial statements and performance reports should be performed against relevant supporting information. We recommend that the internal audit units should perform independent reviews to provide additional assurance on the in-year reporting.
- Management should improve their record management systems to ensure that appropriate records supporting the financial statements and performance reports are readily available.
- The leadership should effectively oversee performance management processes. This includes implementing and monitoring effective and efficient processes to collect, collate and verify performance information to ensure valid, accurate and complete reporting of actual achievements against predetermined objectives, indicators and targets. Action plans to address internal control deficiencies identified by internal and external audits should be developed and implemented within one month of receipt of audit reports. The progress made on implementation of the action plans should be monitored on a regular basis. Management should be held accountable for implementing action plans and monitoring their effectiveness.
- Processes should be in place to monitor compliance with legislation. Attention should be given to compliance with SCM processes in order to prevent irregular and fruitless and wasteful expenditure, promote fairness in procurement processes and ensure that value for money is achieved when goods and services are procured.

Six entities had vacancies and instability at senior management level during 2015-16 compared to four entities during the previous year, which contributed to significant audit findings on financial statements, performance information and compliance. The department's failure to supervise and monitor its entities and higher education institutions (approximately 100 entities or institutions in the minister's portfolio) was, in some instances, due to a lack of appropriate skills and insufficient human resource capacity for monitoring and oversight responsibilities within the department. As a result, some achievements reported by the entities and institutions in the portfolio were consolidated into the department's annual performance report without being verified.

At the department, most ICT controls over the financial systems were adequate and operating effectively. Some weaknesses identified on performance information systems and outdated network infrastructure at the department contributed to security management findings. Most of the Setas and other public entities had challenges with the adequacy of controls in the focus areas of IT governance, user access management, IT service continuity and security management. This was mainly due to a lack of capacity or required skills to design and implement such controls, inadequate management oversight and lack of consequences for not resolving audit findings.

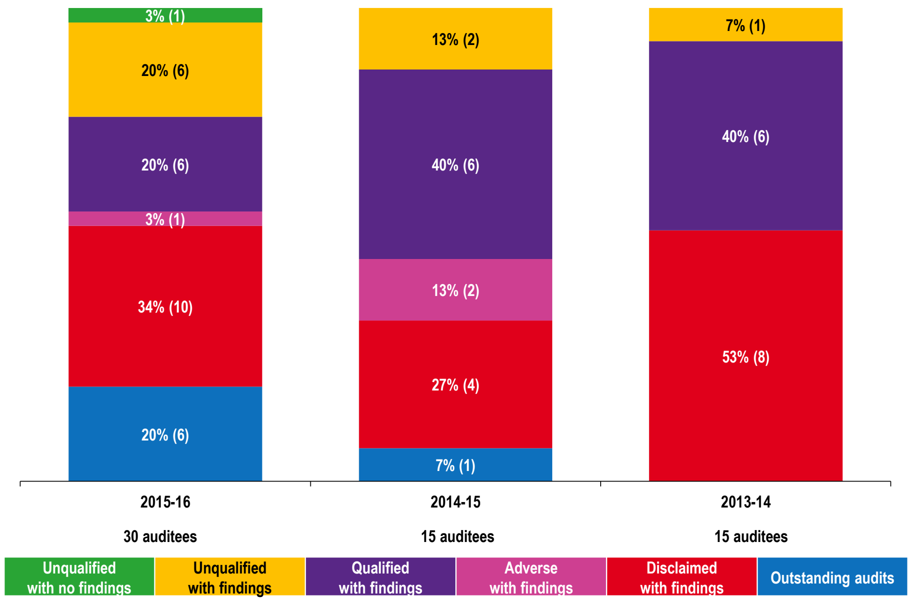
There have been some improvements in the portfolio in the assurance provided by senior management, accounting officer and accounting authorities, internal audit units and audit committees. We met with the minister once in the past year. We discussed the outcomes and status of implementation of commitments with the minister and noted some progress in the implementation of previous year's commitments. The assurance provided by senior management should be improved by implementing the recommendations of external and internal audits to strengthen the internal control environment. The accounting officer, accounting authorities and senior management should implement consequence management to hold staff accountable for improvement and maintenance of internal controls. They should assess the status of key controls regularly. Assurance by the internal audit units and audit committees can be strengthened by evaluating the adequacy of action plans, reliability of progress against action plans, status of key controls, credibility of monthly financial statements and quarterly performance reports and compliance with legislation that has a direct impact on the department and entities. The minister has been assessed as providing some assurance, consistent with the previous year. Although progress has been made in addressing ministerial commitments, improvement was still required to ensure intended outcomes are achieved. Quicker responses to commitments and ongoing monitoring of effectiveness of implemented actions were required to ensure positive impact on audit outcomes. The portfolio committee executed their functions adequately in the areas of reviewing the budgets, financial statements, performance information and service delivery of the portfolio.

The accounting officer, accounting authorities and senior management, should address the root causes of poor audit outcomes and inadequate controls as follows:

- Slow response by management should be addressed by promptly compiling action plans that address root causes, regularly monitoring progress made to address internal control deficiencies and communicating the action plan to all levels of staff. The internal audit unit should review progress on, and effectiveness of, the implementation of actions plans quarterly. This will provide an independent assurance on progress made by management in addressing internal control deficiencies.
- The performance management processes should be strengthened and performance contracts should incorporate internal control responsibilities for all staff. Consequence management should be implemented for non-performance.
- All funded vacant positions should be filled urgently with individuals who have the appropriate qualifications and skills. In addition, a gap analysis should be performed in relation to the current level of skills and competencies. An action plan should be developed to address the gaps identified.

Technical and vocational education and training colleges

Three-year audit outcome



During 2015-16 we audited 15 additional colleges for the first time. The 2015-16 financial year was the third of the four-year phased-in approach to take over the audits of colleges by the AGSA as agreed with the DHET. This brought the number of colleges audited by the AGSA to 30. The audits of six of these 30 colleges (East Cape Midlands, Motheo, Orbit, Sedibeng, South West Gauteng and Vuselela) had not been finalised by the cut-off date.

Twenty colleges were not audited by the AGSA, but by private firms, and their audit outcomes are not included in this report. We would undertake the audits of the remaining 20 colleges in the 2016-17 financial year, resulting in all 50 colleges being audited by the AGSA.

The trend in audit outcomes over the past three years indicates that the colleges have started to make some headway in the quality of their financial statements, resulting in improvement in the overall audit outcomes. TVET colleges have moved from having one college obtaining an unqualified audit opinion in 2013-14 to seven colleges (four from the first batch of 15 TVET colleges audited since 2013-14) obtaining unqualified audit opinions in 2015-16. Seventeen (71%) of the 24 colleges whose audits have been completed received a modified opinion, i.e. qualified, adverse or disclaimer of audit opinion. This picture may change once the remaining six audits are finalised. The areas which mostly informed qualified and disclaimed audit opinions were on property, plant and equipment, student receivables, trade payables, revenue and expenditure. These were mainly due to the failure by affected colleges to produce sufficient, appropriate evidence for the recorded transactions, balances and disclosures in the financial statements as a result of inadequate systems, processes and/or poor records management practices.

Notably, Ekurhuleni East is the only college to have received an unqualified opinion and also avoided findings on compliance with legislation. It is also noteworthy that, of the colleges that have been audited by the AGSA since the first year of the phased-in approach, Esayidi, Maluti and Northern Cape Urban colleges avoided a qualified audit opinion for the first time. The improvement in their outcomes is attributable to improving skills and capacity within finance units, record keeping, controls over daily and monthly processing and reconciliation of transactions, implementation of action plans and governance.

Mnambithi remained the only college to have avoided a qualified opinion in all three years of being audited by the AGSA, although it has had compliance findings in each of these years. The other colleges that avoided modified audit opinions are Mthashana and South Cape. However, both these colleges, together with Northern Cape Urban and Ekurhuleni East, avoided qualified opinions through correcting all the material misstatements that we had identified during the audit. We commend Esayidi, Maluti and Mnambithi for submitting financial statements that were free of material misstatements. Notwithstanding the improvement noted above, the percentage of colleges with qualified, disclaimed and/or adverse opinions was still of great concern and significant improvements in controls were still required, as indicated further below.

Compliance with legislation has shown little improvement in the past two years. The main area of non-compliance was the failure to keep complete and adequate accounting records in support of the transactions, balances and disclosures in the financial statements. This was a challenge in the previous years as well, hence the high number of qualified and disclaimed opinions in the previous years. Internal audit and risk management systems at most colleges were also not of the required standard. Colleges are not subject to the procurement requirements of the PFMA, Treasury Regulations and PPPFA, hence no reporting on compliance in this area.

The financial health of the colleges was of great concern. The colleges were struggling to collect amounts due from outstanding student fees, with the result that the recoverability of significant portions of these amounts was in doubt. Also as a consequence of these struggles nearly 33% of the colleges had negative net cash flows from operating activities. Fifty per cent of the colleges had a net deficit for the year. These challenges already existed in the previous year, but the fact that most of the students are from low to middle income families has made it difficult for the colleges to make progress in this area.

Colleges are not required in terms of the Continuing Education and Training Act, 2006 (Act No. 16 of 2006) to report on their performance against predetermined objectives.

The following controls should be strengthened to create and sustain a control environment that supports reliable financial reporting and compliance with legislation:

- The DHET should fast track the appointment of permanent chief financial officers at some of the colleges to ensure that there is adequate supervision and direction at the finance units. The capacity within the finance units should be reviewed periodically to ensure that they are sufficiently capacitated with appropriately skilled personnel. This will create and ensure sustainable improvement in the control environment.
- Significant improvements in record keeping are required to ensure that complete, relevant and accurate information is accessible and available to support financial reporting.
- Controls over the daily and monthly processing and reconciliation of transactions should be enhanced. This will ensure credible in-year financial reporting that will support the preparation of credible financial statements.
- There should be regular review and monitoring of compliance with applicable legislation. Adequately resourced and functioning internal audit units can play an important role in this regard.
- Policies and procedures should be established and communicated to enable and support the understanding and execution of internal control objectives, processes and responsibilities.

The above controls were highlighted in the previous year, but have generally shown little improvement due to critical vacancies that have not yet been filled, and other deficiencies in the skills and competencies of staff that have not yet been fully addressed.

The IT environment within the colleges remained of great concern and required urgent attention. We identified significant weaknesses in IT governance, user access management, security management and IT service continuity, as in the previous year.

The level of assurance provided by the councils, senior management, internal audit units and audit committees should improve. Councils must hold management accountable for the development and implementation of action plans to address unfavourable audit outcomes. Councils should receive regular monitoring reports on progress made with the implementation of action plans. Councils should also ensure that there are policies and procedures that enable and support understanding and execution of internal control objectives, processes and responsibilities and that functioning internal audit units and audit committees are in place. Senior management must develop action plans to address deficiencies in internal control and monitor their implementation. Some colleges still did not have an internal audit unit and/or audit committee, which undermines effective governance. Management did not always implement the recommendations made by internal audit units, where they exist, and some internal audit units were not adequately and appropriately staffed.

Councils should address the root causes of poor audit outcomes and weak internal controls, which have shown little improvement from the previous year, as follows:

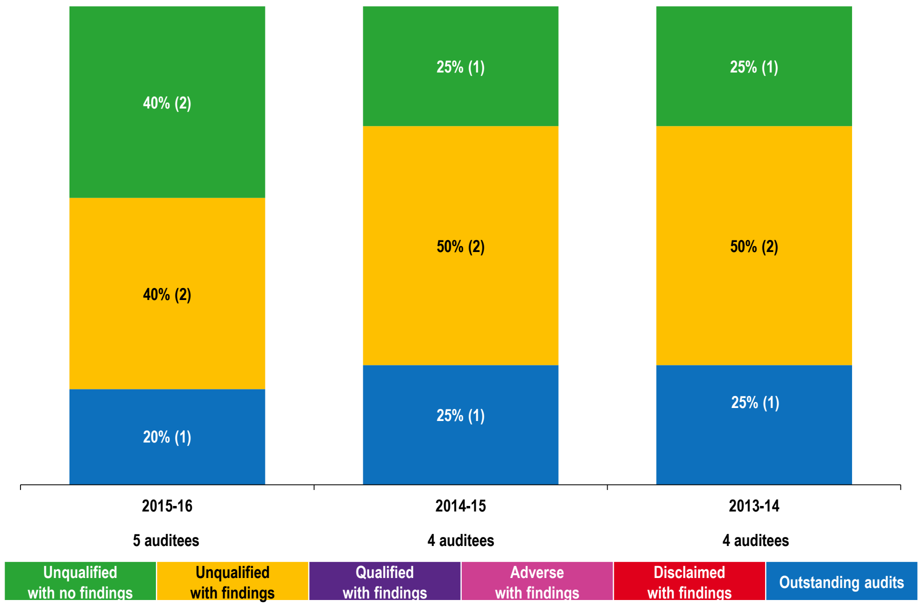
- Hold management accountable for slow responses to implement recommendations of internal and external audits and rectify any other identified weaknesses in internal controls. This requires councils to take appropriate steps and ensure consequence management for poor performance by staff and management.
- Ensure that critical vacancies are filled.
- Ensure that staff have the required skills and competencies for their areas of responsibility.

Outstanding audits

The financial statements of Orbit, South West Gauteng and Vuselela were submitted late for auditing due to challenges around the accounting systems and/or documentation. The previous years' audits of East Cape Midlands were finalised late due to significant disagreements with management over accounting matters during the first year that the college was audited by the AGSA. This had a negative impact on the timing of the submission of the year under review's financial statements as the audits of previous year's financial statements had to be finalised before the year under review's financial statements could be finalised and submitted for auditing. The audit of Motheo for the year under review was similarly affected due delays in finalising the previous year's audit as a result of system and documentation deficiencies that ultimately resulted in the previous auditors expressing a disclaimer of opinion. The audit of the year under review's financial statements has since been concluded, with the financial statements again receiving a disclaimer of opinion. Sedibeng parted ways with its chief financial officer during a critical period for the preparation of the financial statements for auditing. Its finance unit had been heavily reliant on the chief financial officer, and the remaining resources at the unit could not independently continue with the process and produce financial statements of the quality that would have enabled the council to confidently submit them for auditing. The college engaged external consultants to assist with the preparation of the financial statements while recruiting a new chief financial officer, who has since been appointed.

Vote 16: Health

Three-year audit outcome



The overall audit outcomes for the portfolio have improved. This can be attributed to the Council for Medical Schemes (CMS) receiving an unqualified opinion with no findings in 2015-16. The CMS strengthened their monitoring controls over compliance with legislation.

The audit outcome of the Compensation Commissioner for Occupational Diseases in Mines and Works (CCOD) is outstanding as financial statements had not been submitted for audit for the past five financial years. This can be attributed to a lack of adequate skills and capacity and a lack of appropriate internal controls and systems to properly account for provisions and contingent liabilities. Consultants have been appointed to assist the finance unit to address the audit concerns that resulted in the previous disclaimers of opinion. The entity expected to re-submit the 2010-11 and submit the 2011-12 financial statements for the first time later in the year for auditing.

The Medical Research Council (MRC) maintained its outcomes of unqualified opinions with no findings over the three years. The Department of Health (DoH) had unqualified audit opinions with findings on compliance with legislation and the audit of performance information over the three years. The Office of Health Standards Compliance (OHSC) was established and operated independently for the first time during the 2015-16 financial year. They received an unqualified opinion with findings on compliance with legislation.

The DoH and the OHSC had material findings on compliance with legislation. Both made material corrections to the financial statements submitted for auditing to prevent qualifications. The implementation of daily and monthly internal controls must be strengthened to ensure that errors are detected and corrected prior to submission of the financial statements for auditing.

The portfolio had shown an improvement in compliance with SCM legislation, with only the OHSC having material non-compliance matters reported. This was a result of one contract, with a transaction value above R500 000, being procured without inviting competitive bids.

The portfolio incurred irregular expenditure of R7,36 million (2014-15: R407,4 million). The noticeable reduction in irregular expenditure resulted from one instance of non-compliance with Dora by the DoH in the previous year, which did not recur.

The financial health analysis showed that the entities in the portfolio were in a favourable position. However, the DoH had unfavourable indicators that need to be addressed to ensure a better financial position is attained. The DoH should manage its cash resources to ensure that sufficient funding is available to pay creditors as they fall due, and improve budgeting on conditional grants to prevent material underspending on programmes.

It is commendable that we have not raised findings on usefulness in the portfolio for the second consecutive year. The quality of annual performance reports submitted for auditing remained a concern as three auditees made corrections for material errors identified during the auditing. The MRC and OHSC were able to avoid material reliability findings only as a result of these corrections. Despite making material amendments, the DoH still had findings on reliability of performance information. The reliability of information was primarily affected by inadequate information systems for the collection of data, as well as manual internal control processes at facilities (clinics and hospitals) under the control of provincial departments. The DoH approved policies and procedures for primary transversal reporting systems; however, the provincial departments did not adequately implement these policies and procedures at facilities across the country. The CMS submitted an annual performance report that did not require any corrections.

Although we noted an improvement in the portfolio’s audit outcomes, inadequate daily and monthly processing and reconciling controls to prevent material misstatements in the financial statements and to report reliable performance information on the annual performance report remained of concern. The OHSC operated in its first year of existence and was in the process of designing and establishing internal controls over financial reporting. Implementation of these internal controls must be strengthened in the next year. The key controls at the remaining two entities were acceptable.

Vacancies at chief executive officer positions must be filled at both the CMS and the OHSC to create a stable leadership environment. Other key senior management and finance positions remained stable in the portfolio.

The existence and adequacy of business continuity and disaster recoverability plans remained of concern in the portfolio. However, general IT controls over IT governance, security management and user access management improved at three entities in the portfolio. The OHSC was in the process of developing and implementing proper internal controls in these areas.

Overall, the level of assurance provided by senior management for the auditees in the portfolio was adequate, but improvements were still required to ensure financial statements submitted for auditing are free from material misstatements. Management must strengthen their oversight of the financial and performance management controls to address internal control weaknesses identified during the audit. Overall, the accounting authorities or officer provided assurance that addressed key audit outcomes. The accounting authority of the OHSC was still in the process of establishing policies and procedures for the new entity. This had some impact on the level of assurance that they provided during the audit. Some improvements were noted in the level of assurance provided by the internal audit units; however, there were still weaknesses that should be addressed. Producing timely reports that can assist management to address audit risks early in the process should remain a priority. The level of assurance provided by audit committees remained good, which is evident in the improvements noted on the audit outcomes.

We met with the minister twice in the past year and these interactions had a positive impact on the audit outcomes. The DoH implemented an action plan to submit long-outstanding financial statements for the CCOD. The portfolio committee provided assurance and this should be maintained to improve audit outcomes.

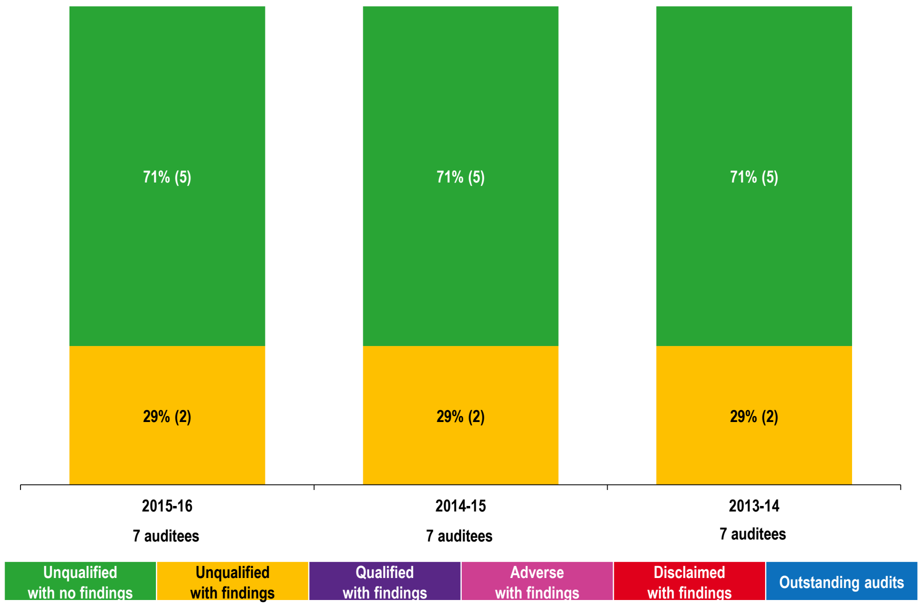
We noted that the portfolio was slow to address the challenges affecting the CCOD and the significant IT and internal control weaknesses of reporting on performance information at the DoH. The portfolio must focus on addressing the root causes of audit findings. In this respect, the following recommendations should be implemented:

- The CCOD must submit all outstanding financial statements for auditing in accordance with the action plan developed by management.
- Internal controls at the finance units of the DoH and the OHSC must be improved to prevent material misstatements in the financial statements.
- The DoH has begun a project to implement an electronic patient registration system. This project is only expected to be fully implemented in the long term. The DoH must continue with its efforts to implement an efficient, integrated and well-functioning information system as soon as possible to report reliable performance information.

The DoH, through the minister, has engaged extensively with provincial health departments to address audit and service delivery challenges at provincial level. They have intervened in key projects through the administration of tenders and management of infrastructure projects. It is imperative that the DoH continues with this drive to assist the health sector in their effort to achieve the country’s healthcare goals.

Vote 17: Social Development

Three-year audit outcome



The audit outcome of the portfolio remained unchanged over the three years. The Department of Social Development (DSD) retained its clean audit status, while the South African Social Security Agency (Sassa) and the National Development Agency (NDA), which are public entities of the department, retained their unqualified opinions with findings on compliance with legislation. Furthermore, the Disaster Relief Fund, Refugee Relief Fund, Social Relief Fund and State President Fund (relief funds) retained their clean audit status.

The DSD, Sassa and the relief funds submitted financial statements that were free from material adjustments. The NDA submitted financial statements for auditing that contained material misstatements in the areas of provisions and accruals. The NDA received an unqualified audit opinion as it corrected the misstatements identified during the audit process.

Sassa and the NDA had material non-compliance with legislation relating to the prevention and management of irregular and fruitless and wasteful expenditure and the NDA had material non-compliance with legislation regarding material misstatements in its submitted financial statements, procurement and contract management and strategic planning and performance management.

Sassa incurred R1,047 billion in irregular expenditure as compared to R41 million in 2014-15, R1,046 billion of which was identified by Sassa's management. This represented 97% of the irregular expenditure in the portfolio. The NDA incurred R19 million in irregular expenditure, R0,5 million of which was identified by NDA's management, as compared to R1,7 million in 2014-15. This represented 2% of the irregular expenditure in the portfolio. The irregular expenditure was mainly due to SCM prescripts not being followed because there was a lack of management oversight and monitoring of proper implementation of these prescripts.

The portfolio did not have any matters relating to the risk indicators of financial health; however, the going concern status of the relief funds was emphasised in their audit reports because of the process that was initiated for the amendment of their enabling legislation, which may result in the closure or amalgamation of the four funds.

The annual performance reports for the DSD and Sassa were not materially misstated, but the NDA submitted an annual performance report for auditing that contained material misstatements. The NDA avoided material findings in its audit report as it corrected all the misstatements identified during the audit process. The relief funds are not subject to the PFMA; therefore, reporting on predetermined objectives is not a legal requirement and, therefore, they did not report on them.

The overall assessment of the internal controls for the DSD and the relief funds remained unchanged for leadership, financial and performance management and governance, which were assessed as good. The assessment of the internal controls at Sassa regressed for leadership and financial and performance management, which were assessed as concerning. However, improvement has been noted in governance with regard to the internal audit unit and the audit committee. Leadership, financial and performance management and governance were assessed as concerning at the NDA, which is a regression from the previous year.

Key vacancies continued to exist in the portfolio. The DSD had an overall vacancy rate of 16%, with the accounting officer position being vacant from July 2014. Sassa had an overall vacancy rate of 8,1% in funded positions, with the chief executive officer position being vacant after year-end. The NDA had an overall vacancy rate of 5,2%, with both the chief executive officer and chief financial officer positions remaining vacant since September 2015 and October 2015, respectively.

The information system controls outcome of the portfolio regressed. Improvement is required at the DSD and its agencies in the key areas of user access controls, which relate to the asset management system of the DSD, administration of users on the performance systems, active directory maintenance at Sassa, and at the NDA employee access was not reviewed to ensure that access was in line with job responsibilities. The DSD and Sassa had findings on security management and information systems continuity, while Sassa and the NDA had findings on IT governance.

The portfolio committee provided adequate assurance regarding the entities in the portfolio.

The minister was assessed as providing assurance, as there was achievement in fulfilling the mandates of the DSD and Sassa (including social assistance), and ensuring that there was regular communication with us. Progress was made on commitments undertaken to address audit issues highlighted.

The acting accounting officer and senior management of the DSD and the four relief funds were assessed as providing assurance based on the sustainability of the audit outcome.

The accounting authority of Sassa was assessed as providing assurance; however, senior management was assessed as providing some assurance, as improvements were still required in addressing the root causes of findings on financial statements, performance reporting, and procurement and contract management compliance. The accounting authority and senior management of the NDA were assessed as providing some assurance, as improvements were still required in addressing the root causes of findings on financial statements, performance reporting, and procurement and contract management.

Internal audit units and the audit committees were assessed as providing assurance at the DSD, the four relief funds and Sassa. At the NDA, the internal audit unit was assessed as providing some assurance and the audit committee had not been established.

The key root cause of significant findings was the slow response by management in implementing corrective measures. The accounting authorities of Sassa and the NDA should address the root causes of poor audit outcomes and inadequate controls by exercising value-adding review processes and apply appropriate management of consequences for poor performance and transgressions in a swift and efficient manner.

The acting accounting officer exerted appropriate leadership and oversight of senior management at the DSD and Sassa in the preparation of quality financial and performance reports that complied with applicable legislation and were supported by reliable source documentation.

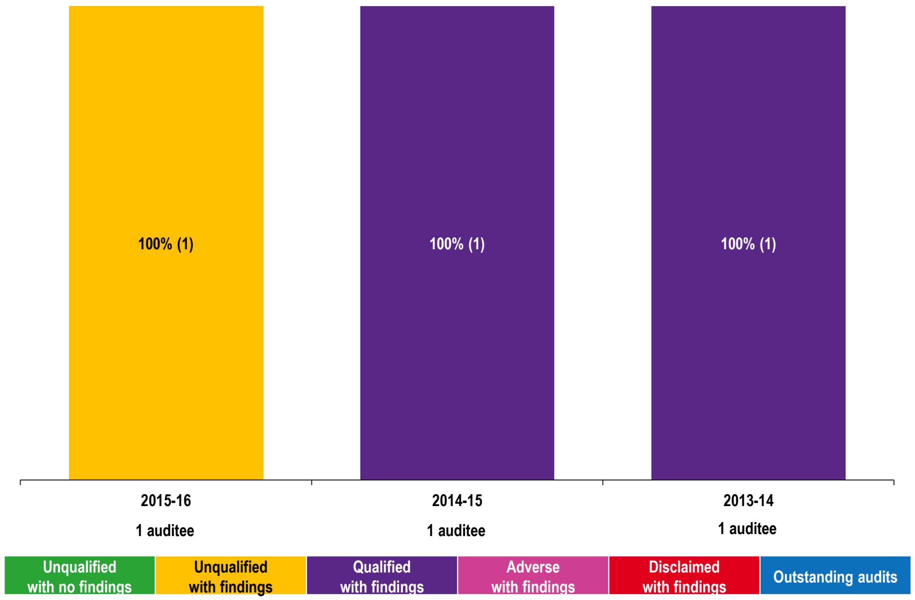
The accounting authority of the NDA should exercise oversight and strengthen the internal controls to create a control environment that supports reliable financial reporting and useful and reliable reporting on the performance information by implementing proper record keeping. The annual financial statements should be reviewed to ensure that they are aligned to the reporting framework and are free from material misstatements.

The accounting authorities of Sassa and the NDA should strengthen the internal controls to create a control environment that supports compliance with legislation by implementing proper record keeping and regular review processes that are supported by appropriate documentation.

The accounting officer must continue to ensure effective leadership and appropriate oversight of senior management of the DSD in the preparation of quality financial and performance reports that comply with applicable legislation and that are supported by source documentation.

Vote 18: Correctional Services

Three-year audit outcome



There was an improvement in the Department of Correctional Services' 2015-16 overall audit outcome. The department has moved from qualified with findings to unqualified with findings. The improvement in the audit outcome is attributable to stability in leadership and commitment to implement the action plan to resolve the previous year's qualifications.

Although the audit outcome improved, the quality of the submitted financial statements remained poor, as material adjustments were made to the financial statements submitted for auditing. These adjustments resulted in the department receiving an unqualified audit opinion. The poor quality of the financial statements was due to weak key internal controls over the daily and monthly processing of financial information.

The non-compliance in the area of strategic planning and performance management was due to systems of financial risk and internal control not supporting the departmental systems to collate, and report on, performance information. Specific information systems were not adequate to monitor progress made towards achieving targets. Money owed to the department was not timely collected.

Persons in the service of the department who had a private or business interest in contracts awarded by the department failed to disclose such interest. These cases were under investigation at the time of the report.

Senior management did not set the appropriate tone with regard to SCM transgressions and the related irregular expenditure. In the year under review, the department incurred R219 million (2014-15: R164 million) of irregular expenditure. Of this, 97% (2014-15: 99%) of the irregular expenditure was identified during the audit process and not detected by the department's monitoring processes. This was mainly due to the department's officials not adhering to SCM legislation, which included IT procurement without the involvement of Sita.

Management did not prevent and detect the irregular expenditure due to incorrect interpretation and application of SCM requirements and legislation.

The instability in leadership in the previous years resulted in the slow response and lack of resources at the department's investigations unit to investigate and conclude on cases reported. The president proclaimed investigations by the Special Investigations Unit into irregularities in the procurement of an electronic monitoring system, the appointment of a service provider to render project management services and condition assessments in respect of correctional facilities. At the time of this report these investigations were under way.

On 15 June 2016, the National Treasury issued a report to the national commissioner on a review of the bidding process for the appointment of a service provider for the supply, installation, commission and maintenance of a development framework for an integrated inmate management system. This matter was still the subject of legal processes at the reporting date.

The department's financial health continued to be of concern because the bank account was overdrawn by R194 million and, at year-end, it was in an accrual-adjusted net current liability position. The main reason for the bank account to be overdrawn was the payment made in previous financial years to the public-private partnership in Mangaung that was being claimed back by the department (R160 million).

The department was unable to submit performance reports that are useful and reliable. The performance report submitted for auditing was materially misstated in terms of reliability.

Weak internal controls were still evident at the department. The accounting officer did not adequately oversee financial and performance reporting and compliance with legislation. The performance and financial reports of the department were not reviewed adequately; therefore, the reports submitted were materially misstated. In a number of instances the department did not comply with legislation.

Evaluation and monitoring of risk assessments were not effective due to insufficient resources and lack of skills at the department's internal audit function.

Information was not always readily available on request, especially information relating to predetermined objectives. The department did not always implement controls over daily and monthly processing and reconciling of transactions.

Key vacancies within the department were still a cause for concern. Although the vacancies of national commissioner and chief financial officer have been filled, the vacancies of two regional commissioners and three chief directors have been vacant for more than 12 months.

The department made progress in approving and partially implementing the IT governance framework. This resulted in improvements in the internal control environment. Although improvements were made, more work needs to be done to complete the implementation of the IT governance framework. The adequate implementation of the IT governance framework will have a pivotal role to play in the successful delivery of the integrated inmate management system project.

The IT department has reduced its reliance on consultants and has begun a process of appointing skilled personnel. The IT control environment relating to IT service continuity management and IT security management remained unchanged. IT security continued to be a challenge for the department.

The government information technology officer should implement formal controls over IT systems to ensure the reliability of the systems and the availability, accuracy and protection of information. This officer should establish an IT governance framework that supports and enables the business to deliver value services and improve performance.

The portfolio committee provided adequate assurance over the portfolio.

The minister has adequate insight into the department and provided oversight of the implementation of the strategic objectives of the department.

The national commissioner had adequate insight into the risks and internal control deficiencies; however, the national commissioner did not ensure that action plans were implemented adequately to ensure accurate and complete financial statements and performance reports, and compliance with legislation. Senior management's review of financial and performance reports was inadequate, as it did not identify errors efficiently. Therefore, senior management provided limited assurance.

The department had an internal audit function; however, the internal audit unit was not effective because of the lack of skills within the unit.

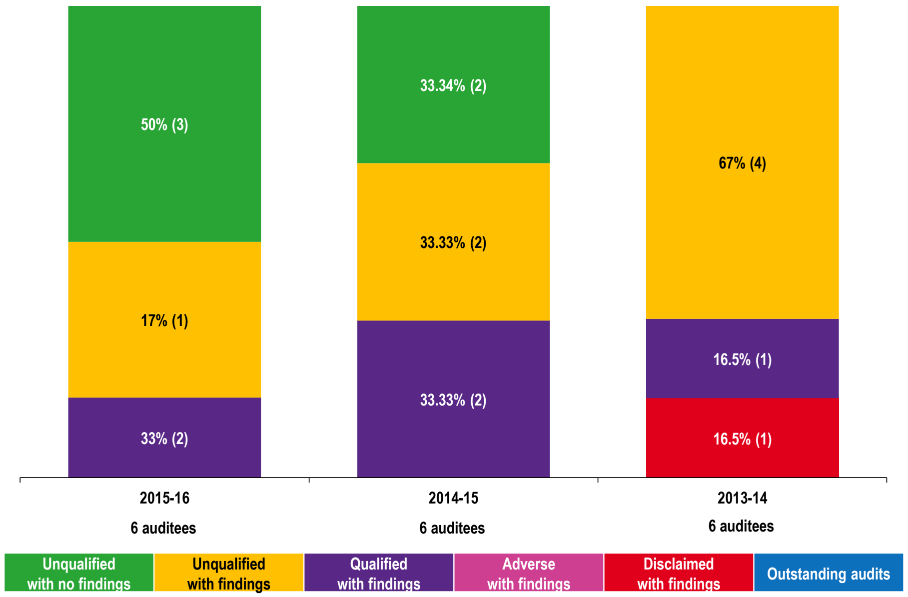
The audit committee was composed of highly competent members in the field of accounting and law. They scrutinised reports submitted by management and the internal audit unit.

The root causes of the outcome on compliance and predetermined objectives were a lack of consequence management and inadequate training.

To improve the audit outcomes, action plans to address audit findings must be implemented, key vacancies must be filled and training on the collation and review of performance information must be provided to all staff. A culture of consequence management must be instilled.

Vote 19: Defence and Military Veterans

Three-year audit outcome



The improvement in the overall audit outcome was because the Castle Control Board improved from an unqualified opinion with findings to a clean audit opinion. There has been a steady improvement in the portfolio over the last three years, due to implementation of audit action plans by management. The Armaments Corporation of South Africa (Armscor) and South African National Defence Force Fund (SANDF) maintained their clean audit status. The Department of Military Veterans (DMV) and Special Defence Account (SDA) remained with a qualified opinion with findings, while the Department of Defence (DoD) remained with an unqualified opinion with findings.

The chief financial officer position remained vacant for the greater part of the financial year and the asset management function and policies were not in place at the DMV. This resulted in the DMV being qualified on movable assets for the third time because there was no complete and accurate asset register to support amounts disclosed in the financial statements. The basis for a qualified opinion at the SDA was because of the inherent scope limitation linked to the sensitivity of the environment in which the SDA operates.

The lack of sufficient reviews of financial statements prior to submission for auditing resulted in the DoD and the DMV submitting financial statements that contained material misstatements and were not fully supported by audit evidence. Subsequent to the audit, the DoD submitted the required supporting documents, resulting in an unqualified audit opinion, while the DMV was unable to provide a complete and accurate asset register, which resulted in a qualified audit opinion.

Although there was a slight improvement in compliance with legislation, there was still insufficient review and monitoring of compliance with legislation and policies at both departments. This resulted in failure to prevent irregular and fruitless and wasteful expenditure, implementation of proper expenditure management and adherence to procurement and contract management practices. The DMV also lacked effective, efficient and transparent systems of risk management and internal control with respect to performance information.

The SCM-related irregularities and other cases of non-compliance with legislation resulted in irregular expenditure of R917 million for the portfolio. This is a 22,5% increase from the previous year. A total of R810 million of the irregular expenditure was due to non-compliance with the procurement processes and the remaining R107 million related to other cases of non-compliance. The entities in the portfolio should strengthen controls over SCM processes and consequence management should be implemented.

The DoD and the DMV did not ensure that proper expenditure management controls were implemented, which resulted in long-outstanding creditors at year-end. If not managed properly, this could lead to the departments incurring unauthorised expenditure as the previous year's creditors may be paid using current year budgets.

The lack of effective and efficient systems to manage performance information continued to have a negative impact on the DMV's performance reporting. The annual performance plan and annual performance report of the DMV included information that was not useful and reliable for the socio-economic support, and empowerment and stakeholder management programmes.

The DoD submitted an annual performance report for auditing, which contained material misstatements in the reported performance information. Management avoided material findings on reliability by correcting the misstatements identified during the audit. The SANDF is not subject to the PFMA and is therefore not required to report on performance information, while the SDA's performance information is included in that of the DoD.

The overall assessment of internal controls in the portfolio remained the same, except for the departments that showed a notable regression in the areas of leadership and financial and performance management. This was mainly caused by vacancies in key positions at the DMV, which resulted in a lack of effective leadership and oversight, and audit action plans not being implemented. These internal control deficiencies had a negative impact on financial and performance reporting, compliance and internal controls. With regard to the DoD, the oversight of financial reporting and compliance was inadequate. The ICT strategy of the department was not approved while the security policy was still undergoing various review processes prior to the recommendation and approval thereof.

Vacancies were not a concern in the portfolio, except for the DMV, which had an overall vacancy rate of 21%, with senior management at 29%. The position of the accounting officer was vacant for eight months during the year and remained vacant at year-end. The chief financial officer position has been vacant for 11 months during the financial year; it was only filled during March 2016.

Overall, there was a slight regression in the portfolio's IT environment. This was because of repeat findings on IT governance, IT security and IT service continuity management reported at the DoD. There was also a slight regression at Armscor because of the manner in which IT controls were implemented and operated. The DMV did not implement formal controls to ensure accuracy and protection of information contained in the military veterans' database, which is the source of benefits provided by the department.

The overall level of assurance provided in the portfolio has improved. The portfolio committee provided adequate assurance on the entities in the portfolio.

The minister implemented some of the commitments that were made to address 2014-15 audit findings and, thus, provided some assurance. Swift decision-making is required to assist in improving audit outcomes, in particular the filling of vacancies at the DMV. The accounting officers of the DoD and the DMV did not ensure that complete and accurate financial statements were compiled, thus did not provide the desired level of assurance that improves audit outcomes.

In some cases, senior management did not timeously implement key controls that should enhance the credibility of information provided and prevent non-compliance with legislation. This resulted in lower levels of assurance being provided, hence, the internal control environment was not strengthened sufficiently to address recurring audit findings at the DoD, the DMV and the SDA.

The issue of capacity constraints at the DoD and the DMV's internal audit units continued to have a negative effect on the level of assurance provided by the internal audit unit. Although the audit committee of the DMV made recommendations to address internal control deficiencies, these were not implemented because of the absence of leadership for a significant part of the financial year. For the rest of the portfolio, the audit committees of the entities provided assurance and for the DoD and the DMV they provided some assurance.

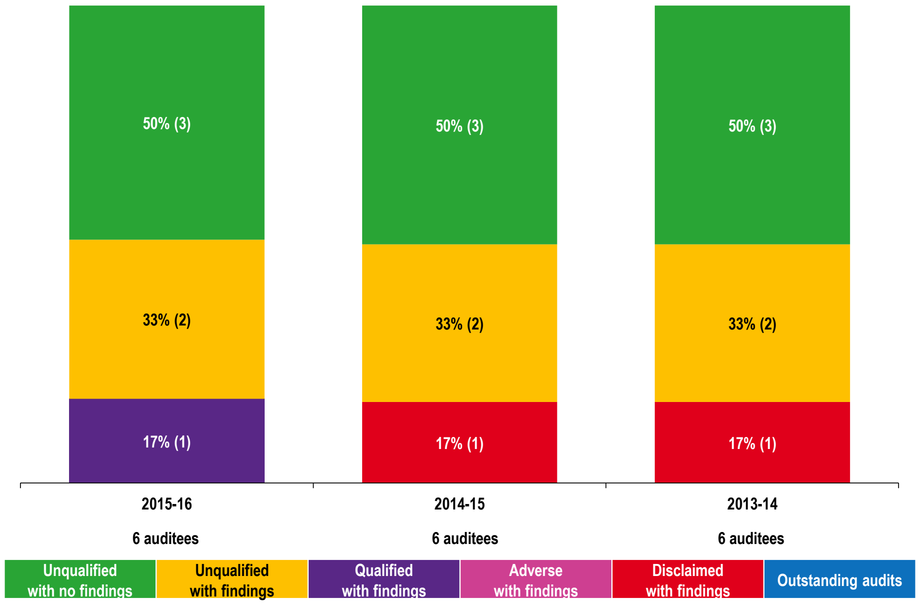
Measures should be put in place to address the recurring root causes of slow response by management, instability in key positions, officials lacking competencies and a lack of consequence management. Those charged with governance should oversee and monitor the audit action plans to ensure that audit recommendations are implemented. Consequence management should be implemented in instances where management fails to address audit recommendations. This will result in speedy response by management to implement audit recommendations.

Vacancies in senior positions should be filled timeously to ensure that the control environment is strengthened and to enhance timely decision-making. In filling vacancies, management and the political leadership should ensure that vacancies are filled with competent officials that would be able to deal with financial and performance reporting. There should also be continuous interventions to provide training and updates to officials to enhance their skills regarding the accounting framework and performance reporting requirements.

The good practices displayed by Armscor, the SANDF and the CCB should be continued to sustain clean audit outcomes. These practices include regular preparation and review of financial and performance reports, basic financial disciplines, using effective governance structures and implementing consequence management against transgressors.

Vote 21: Justice and Constitutional Development

Three-year audit outcome



The audit outcome of the portfolio has generally remained unchanged over the past three years, with the exception of the Third Party Funds (TPF) which improved from a disclaimer of audit opinion to a qualified audit opinion in 2015-16.

It is commendable that Legal Aid South Africa (Lasa), Guardian's Fund and President's Fund sustained their clean audit outcomes over the three years through institutionalised internal controls, sound in-year financial management disciplines and detailed review of financial statements by management prior to submission for auditing.

The stagnation in the overall audit outcome (excluding the qualification for the TPF) was as a result of the leadership at the Department of Justice and Constitutional Development (DoJ&CD) and the SIU not adequately addressing some of the material findings raised in the past on compliance with legislation. The TPF historically did not have adequate information systems and proper record keeping processes and reconciliations to support the financial results presented in its financial statements. To address these challenges, which led to the disclaimer of audit opinion in the previous years, management undertook an exercise to separately disclose balances which could not be supported. The unverifiable balances due to an absence of supporting documentation resulted in a qualified audit opinion in 2015-16. The challenge therefore remains with management to investigate these unsubstantiated amounts and to rectify them either through the provision of supporting documentation or through the engagement of the National Treasury to determine an appropriate accounting treatment for these amounts.

All the auditees have consistently submitted annual financial statements timeously for purposes of external auditing. The number of entities at which the internal controls did not prevent, detect or correct material misstatements before the audit process remained unchanged as the DoJ&CD and the SIU had material adjustments to their submitted financial statements. While management has been stable within the portfolio for the three years, there were critical positions that were not filled at the DoJ&CD for a period in excess of 12 months. The SIU also had management positions which had been vacant for a period in excess of 12 months and the chief financial officer position was vacant at 31 March 2016. This contributed to the material misstatements that had to be corrected subsequent to submission for auditing. To improve the quality of the financial statements submitted for auditing, the administrative leadership and oversight structures must strengthen their reviews of the financial statements. An action plan should be developed, which should include a diligent review of the in-year financial statements that should be verified against supporting documentation, to determine the credibility of the amounts disclosed in the financial statements.

In addition, the main areas of repetitive non-compliance identified were at the DoJ&CD with respect to non-adherence to SCM prescripts mainly around local content procurement and declarations by bidders, creditors not being paid within the prescribed period of 30 days from receiving an invoice, as well as its inability to prevent irregular expenditure. Officials should be held accountable for transgressions, and disciplinary action should be taken against transgressors. The DoJ&CD should implement a tracking register to track the movement of invoices across the various line functions from the date of receipt until date of payment to identify the reasons for delayed payments to suppliers.

The DoJ&CD incurred irregular expenditure of R14 million (which represents 71% of the total irregular expenditure incurred in this portfolio). The irregular expenditure incurred was mainly as a result of non-compliance with legislation governing procurement, prescripts regarding requests for bids not complied with and incomplete or inadequate documentation submitted by bidders. The total amount of irregular expenditure decreased in 2015-16 when compared to R45 million incurred in the previous year, which was also a reduction from

2013-14. Management developed checklists and issued circulars which contributed to the reduction in irregular expenditure, but the focus should move to prevention of irregular expenditure and consequence management.

The leadership and senior management of the DoJ&CD and the SIU should address the following matters, which could affect their auditees' financial health :

- The DoJ&CD should implement more effective monthly cash flow management to eliminate incurring a bank overdraft and to manage the accruals and payments of creditors, specifically at year-end.
- The SIU should improve its debt-collection rate by considering litigation on debtors to ensure that all amounts billed will be recovered. Non-recovery of debts could put a financial strain on the entity's ability to meet its liabilities in the future.

The DoJ&CD, SIU and Lasa have consistently submitted annual performance reports on time. The remaining entities in the portfolio are funds administered by the DoJ&CD and are not required to submit annual performance reports. There has been a regression in the quality of the annual performance reports submitted for auditing in 2015-16 as the DoJ&CD had to effect material changes to its annual performance report during the audit process. The process of setting the indicators should be reviewed and monitored. Employees should be trained in reporting appropriately and accurately against the indicators by clarifying the expectations and the intention behind the crafting of the indicators for performance reporting.

The overall assessment of the IT environment within the portfolio has improved over the past three years. Although improvements have been noted at the SIU, the entity has been experiencing challenges in the documentation and implementation of IT controls over governance, service continuity, security management and user access management.

There has been an overall stagnation in assurance provided at the level of the executive authority, accounting officer or authority and senior management. We noted improvements within the environment of the TPF, which were due to commitment of management and the leadership in achieving an improved audit outcome. However, the assurance provided at these levels as well as by the internal audit unit has regressed at the SIU due to the repeat audit findings raised and also due to the internal audit function only being operational for part of the 2015-16 financial year. The audit committees have provided the expected level of assurance. The level of assurance provided at the portfolio committee level has also improved over the three years as a result of more effective oversight by the committee.

Auditees which have sustained the good audit outcomes have an entrenched culture of accountability and commitment to address audit findings. To improve the poor audit outcomes, these auditees must address the root causes of weaknesses. Although there has been an improvement in addressing the weaknesses, there was still a lack of consequence management at some auditees, especially in relation to the inadequate implementation of action plans and slow response to address unsatisfactory performance and transgressions.

Constitutional institutions

The Public Protector South Africa (PPSA) and the South African Human Rights Commission (SAHRC) are included in the portfolio, but are not under the authority of the minister.

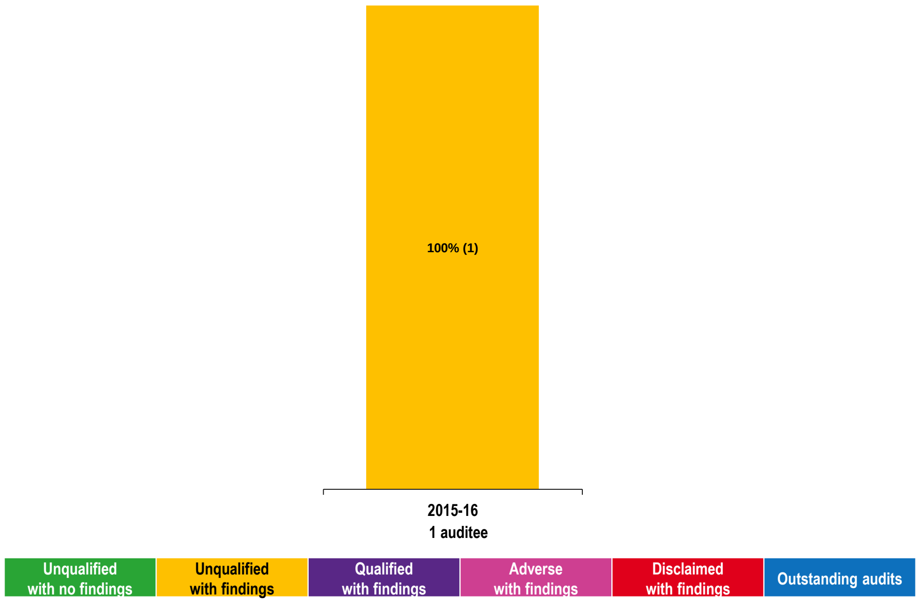
The audit outcome of the PPSA remained unchanged with an unqualified audit opinion with findings on compliance with legislation. We commend the SAHRC on its improved audit outcome from an unqualified audit opinion with findings on compliance with legislation to an unqualified opinion with no findings.

The PPSA made material adjustments to the financial statements and annual performance report submitted due to misstatements identified during the audit process. These were as a result of a key position being vacant at the finance unit, as well as a lack of consequence management for repeat findings and slow response by management to develop action plans to adequately address all findings raised in the previous years. The administrative leadership and oversight structures must enhance the in-year financial statement reviews to improve the quality of the annual financial statements.

The improvement to a clean audit outcome at the SAHRC is attributable to leadership implementing a clear plan of action to address previous audit findings. The leadership provided timeous guidance, reviewed and monitored the action plan to ensure that root causes of the previous audit findings were addressed satisfactorily. This continued commitment is required from management and those charged with governance to ensure that the improved audit outcome is sustained.

Vote 22: Office of the Chief Justice

Audit outcome



The Office of the Chief Justice (OCJ) received a financially unqualified audit opinion with findings on predetermined objectives and compliance with legislation in the 2015-16 financial year, its first year of operation. The functions of the OCJ were previously incorporated within the mandate and the programmes of the DoJ&CD. The OCJ was established in terms of the Superior Court Act, 2013 (Act No. 10 of 2013) and is responsible for the administration and judicial support for higher courts and special courts.

The financial statements submitted for auditing contained a number of material misstatements in the disclosure items due to inadequate review processes prior to submission. These misstatements were identified and corrected during the audit process, resulting in the department receiving a financial unqualified opinion. To improve the quality of the financial statements submitted for auditing, diligent reviews must be performed on the in-year financial statements, including the verification thereof against supporting documentation, to ensure the credibility of amounts disclosed in the year-end financial statements. These review processes will require active participation by senior management and leadership as well as the internal audit unit and audit committee to successfully address the deficiencies identified in 2015-16.

In view of the OCJ being a newly established department, it is commendable that material non-compliance with legislation was only identified in two focus areas. The first being the material adjustments to the financial statements highlighted in the preceding paragraph and the second being creditors that were not always paid within the prescribed period of 30 days from receipt of invoice. The 30 days non-compliance was as a result of the accounting and procurement systems that were not fully functional when the department started its operations. This was caused by delays in transferring suppliers' information from the DoJ&CD to the OCJ. Given that initial system shortcomings pertaining to supplier payments were substantially resolved by the end of the 2015-16 financial year, this non-compliance is not expected to be repeated during 2016-17.

There were no concerns on the financial health of the department. The department realised a surplus and its cash flow position was positive at the end of the 2015-16 financial year. This was achieved through regular reviews of the financial position of the department by management and the audit committee, combined with strict monitoring of spending in line with the approved budget.

We raised material findings on the usefulness of the predetermined indicators. These indicators were not well defined and thus did not enable consistent performance reporting. This occurred due to a lack of understanding and experience in applying the requirements of the FMPPI. The reported actual performance against the predetermined objectives was also not reliable when compared to the source information presented by the department. The reliability of actual achievements could not be confirmed because of the exclusion of some court files from the reported information. Staff members directly involved in collecting and collating information at court level did not have the appropriate skills or understanding of the process to ensure complete and accurate reporting, and the error was not detected by management's review processes. Comprehensive training on all elements of performance reporting must be conducted across the board during the 2016-17 financial year to avoid repeat findings in this area.

The department experienced challenges with IT system controls due to inadequate planning for the movement from the DoJ&CD to its own platform. Management did not implement adequate security management controls, which could expose the department to unauthorised access to the network and information systems that generate the information used to prepare the financial statements. However, a follow-up review on the IT environment was performed after year-end and we have established that the majority of the deficiencies have been addressed.

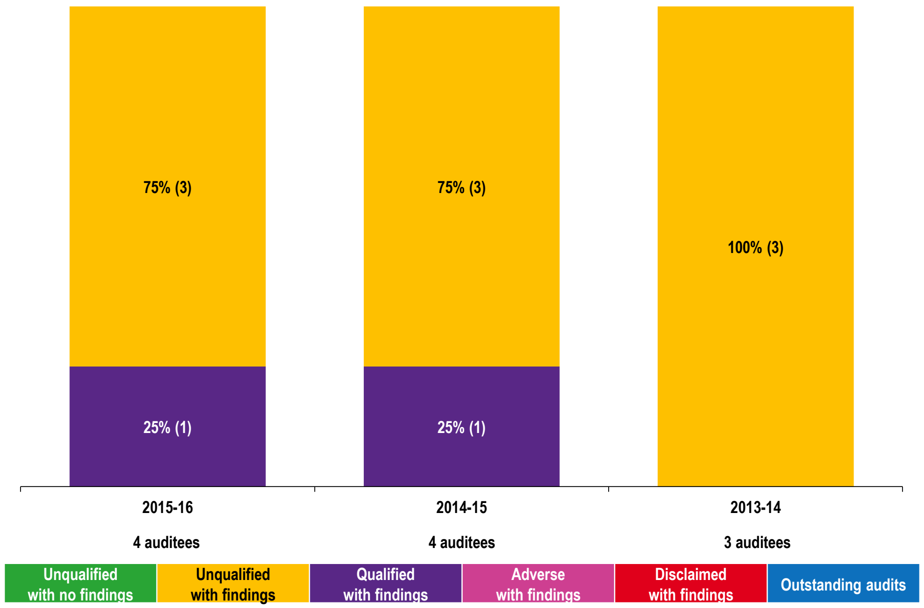
The assurance provided by the accounting officer and senior management was not of the required level, this is evident from the material adjustments to the financial statements as well as the matters raised on performance information. The executive authority, audit committee and internal audit unit were assessed as having provided the assurance linked to their legislative mandates.

Despite the assurance provided by the executive authority, audit committee and internal audit unit, their effectiveness was hampered by management's slow response to implement recommendations. Senior management should urgently attend to the design and implementation of required controls to comprehensively address the limitations in the internal control environment that resulted in the findings. Furthermore, they should ensure that recommendations from the internal audit unit and the audit committee are implemented throughout the year. The accounting officer should monitor these corrective actions.

To enable the sustainable improvement of the audit outcome, the leadership must set an appropriate tone at the top and lead by example to drive the appropriate behaviour that will expedite clean administration and governance.

Vote 23: Police

Three-year audit outcome



The portfolio consists of three departments and one public entity. The Civilian Secretariat for Police (CSP) department has received a qualified audit opinion since its establishment in 2014-15. The 2014-15 qualification was for the CSP that was newly created, and where internal controls had not yet been implemented effectively to substantiate amounts recorded in the annual financial statements. The audit outcomes of the remainder of the portfolio remained unchanged for the three years. The lack of improvement from the previous year was a result of action plans being inadequately implemented to clear key matters as well as key vacancies at the finance department. The stagnation in the audit outcomes of the remaining three auditees in the portfolio was due to their inability to submit reliable performance reports and having weaknesses in controls that ensure compliance with legislation.

The CSP did not improve its audit outcomes on predetermined objectives because it did not implement action plans, incurred a limitation of scope and could not define indicators as contained in the annual performance plans.

The quality of three auditees' financial statements submitted for auditing did not improve and they still required material amendments. The auditees only achieved unqualified audit opinions as a result of these amendments. This indicates that the auditees were still reliant on the audit process to identify misstatements as they did not have proper internal controls and systems to support financial reporting. The CSP was unable to make all the corrections, which resulted in a qualified audit opinion.

Auditees' compliance with legislation remained a concern as material findings were noted at all four auditees. The stagnation was due to the auditees' controls being inadequate to monitor compliance. There was a regression in the portfolio's ability to settle creditors within 30 days of receipt of invoices. Two auditees were not able to do so due to the cash flow problems at the CSP and the Independent Police Investigative Directorate's (IPID) controls being inadequate to ensure that invoices were paid within 30 days of receipt.

The leadership did not set an appropriate tone with regard to SCM compliance, as material SCM transgressions were reported at the CSP. The irregular expenditure increased in the portfolio from R9 million in 2014-15 to R17 million in 2015-16 due to non-compliance with the SCM prescripts. The CSP contributed R8 million (2014-15) and R15 million (2015-16) to the irregular expenditure. The irregular expenditure was a result of a lack of understanding of the SCM regulations. SCM officials were not adequately trained and the leadership did not follow the established SCM policies. Consequence management was also of concern as the entity and the IPID reported that sufficient appropriate disciplinary action was not taken against officials who made or permitted irregular and fruitless and wasteful expenditure.

The portfolio's financial health remained a concern as three of the four auditees had a net current liability position. The three departments in the portfolio had a negative bank balance at year-end, with two indicating that they had difficulties in paying their contractual obligations and money owed to suppliers on time. The South African Police Service (SAPS) paid its obligations on time.

Although there has been a slight improvement in the quality of the annual performance plans, with only the CSP having material findings raised on the usefulness of its annual performance plan, the quality of the annual performance reports submitted for auditing remained of concern. Three auditees had repeat findings raised on the validity, accuracy and completeness of their actual performance reported for the year under review, while one auditee was able to avoid material reliability findings only by making material amendments to the annual performance reports. The controls that should be strengthened to create a control environment that supports useful and reliable reporting on the performance of the portfolio include:

- reviewing the technical indicator frameworks

- enhancing systems to enable data to be collected and verified for reporting
- designing and implementing appropriate action plans to address audit findings.

The key controls over leadership, financial and performance management and governance regressed and remained inadequate. This is evidenced by overall stagnation in the audit outcomes over the three years. This was the result of a lack of competencies in financial and performance reporting, vacancies and instability in key positions. The performance internal control drivers at the SAPS regressed as reflected in increased audit findings on predetermined objectives.

The overall vacancy rate for the portfolio decreased. All three departments operated under acting accounting officers, with two of these acting officers being appointed as a result of suspensions (DoP and IPID).

The portfolio's ICT controls have not improved. The auditees in the portfolio struggled to put the required controls in place to create a proper IT governance control environment. The CSP did not have an ICT department and, as a result, did not oversee the IT environment.

Although some assurance was provided by the accounting officers or authorities and senior management, this should be improved as a slight regression occurred in the year under review. The accounting officers or authorities should focus on monitoring action plans and fulfilling their commitments. Senior management should implement recommendations made by external audit and closely monitor the effectiveness of internal controls. Assurance provided by internal audit units remained unchanged as two auditees had internal audit functions that should be improved to be more effective and functional. The level of assurance provided by audit committees within the portfolio improved to *provided assurance*, and should be sustained if better audit outcomes are desired. The portfolio committee provided assurance and this should be maintained to improve audit outcomes.

Management's response to implement corrective action for the portfolio was slow. Instability and vacancies in key positions also contributed to the stagnation of outcomes. The leadership did not take immediate and decisive action to hold officials accountable for non-compliance with legislation or internal policies. For the portfolio to achieve clean audit opinions, they must make a greater effort to strengthen key controls. Skilled staff should be appointed in critical posts at the finance, ICT and monitoring and evaluation sections.

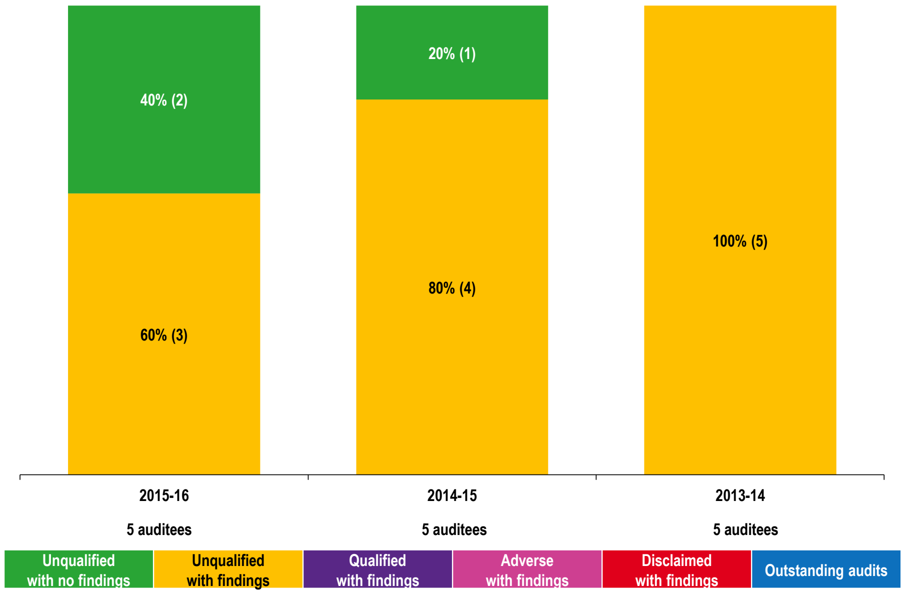
Consequence management should be implemented, in relation to financial statements, performance reporting and compliance with legislation. The first and second levels of assurance should be improved by ensuring that action plans and commitments to address previous year's findings are implemented and monitored throughout the year to prevent repeat findings.

The following controls should be strengthened to create a control environment that supports useful and reliable reporting:

- Placing committed and competent staff at the finance division.
- Adequately review information supporting the financial statements and annual performance reports and verify its accuracy and validity.
- Holding staff accountable for non-performance.
- Focusing on interim reports to allow management to identify any challenges in advance.
- Adequate reviews to ensure that reports are supported by sufficient and appropriate schedules.

Vote 24: Agriculture, Forestry and Fisheries

Three-year audit outcome



The portfolio consists of the department and four public entities.

There has been an improvement in the overall audit outcomes for the portfolio over the last three years. Two auditees made significant progress from where they were in 2014 by addressing past material findings on their annual performance reports and compliance with legislation, resulting in them improving to an unqualified opinion with no findings. This was achieved by improved functioning and effectiveness of internal controls that were continuously enhanced, proper record management and enforcement of accountability by the leadership.

All auditees' financial statements received a financially unqualified opinion. However, the department submitted financial statements for auditing that contained material misstatements in biological assets as well as accruals and payables. This was a regression from the previous year and this was due to a lack of monitoring and review of information received from regions and branches of the department. The Agricultural Research Council's (ARC) audit outcomes remained unchanged mainly due to financial statements submitted for auditing that contained material misstatements in property, plant and equipment, receivables from exchange transactions, inventories, payables from exchange transactions, leave provision and revenue from exchange transactions. This was mainly because of slow response by management to address control deficiencies identified during the previous year's audits. The Department of Agriculture, Forestry and Fisheries (DAFF) and the ARC received an unqualified audit opinion through correcting all the misstatements we had identified during the audit process. The other three entities in the portfolio submitted financial statements that were free from material misstatements.

We raised material findings on compliance with legislation relating to procurement and contract management. The irregular expenditure for the portfolio has decreased significantly over the past three years from R135 million in 2014 to R13,5 million in 2016. The Marine Living Resources Fund (MLRF), which has by far been the biggest contributor with over 93% of the irregular expenditure for the portfolio in each of the past two years, reduced its irregular expenditure by over 90% from the previous year. The reduction is attributable to the expiry of the contract which previously resulted in irregular expenditure. In 2015-16, the MLRF still contributed 92% of the irregular expenditure as a result of a failure to follow competitive bidding processes. The DAFF contributed 6% of the irregular expenditure due to non-compliance with prescribed procurement process.

Overall, the financial health of the portfolio was of concern, and there was a slight negative trend compared to the previous year. Improvements were required in debt collection and management of the levels of cash reserves and liabilities. Furthermore, three entities had negative cash flows from operating activities (ARC with R103 million, Onderstepoort Biological Products with R2 million and MLRF with R258 million), while three entities realised net deficits for the period, indicating an urgent need to manage expenditures and/or improve revenues.

The quality of the annual performance reports submitted for auditing has improved over the past three years. This was achieved through addressing control deficiencies previously identified in the process of collating and preparing the annual performance reports. Notwithstanding the improvement noted, the DAFF submitted an annual performance report for auditing that contained material misstatements, some of which management subsequently corrected. The DAFF did not adequately address all findings on usefulness, which resulted in material findings being raised.

We raised repeat material findings on compliance, completeness and accuracy of disclosure notes and predetermined objectives. This was due to ineffective action plans that were developed to address the actual findings raised but not the underlying control deficiencies. The leadership of the department and entities must take ownership of the process of monthly reporting and monitoring compliance by ensuring that daily checks and balances are in place to produce complete and credible monthly reports on financial statements, including disclosure notes, and predetermined objectives. The department must reinforce the importance of implementing and sustaining monthly control disciplines and year-end processes.

We assessed vacancies in key positions and stability in those positions during the year. These key positions include heads of department or chief executive officers, chief financial officers, heads of SCM unit and senior managers responsible for strategic planning as well as monitoring and evaluation. None of these key positions were vacant and there was stability.

IT governance within the portfolio required attention. We raised findings in the areas of user access management, IT service continuity and security management. Due to budget limitations, the DAFF could not support the ICT master systems plan, initiatives and projects. The testing of the disaster recovery plan at the DAFF was a challenge due to network infrastructure upgrades which were still in progress. At the ARC, the challenges with regard to the implementation of controls in most focus areas were due to management's main focus being on the ERP implementation project.

The level of assurance provided by the minister, accounting officer or authorities, senior management, internal audit units and audit committees should be improved. Effective leadership must be provided; financial and performance reporting as well as compliance with legislation be overseen; and the proper implementation of action plans to address remaining internal control deficiencies be monitored.

The portfolio committee executed their functions adequately and effectively in the areas of reviewing the budgets, financial statements, performance information and service delivery of the portfolio. During 2015-16 the portfolio committee made the following two commitments which were still in progress:

- Obtaining independent assurance from the internal audit unit and audit committee that quarterly reports presented at portfolio committee meetings are produced by reliable and credible control systems.
- Holding the accounting officer accountable for implementing an effective performance management process within the department and holding staff accountable for their actions.

We did not meet with the minister and met only once with the accounting officer during 2015-16. We were therefore unable to track commitments to support improvement of the audit outcomes of the portfolio made by the minister. Although some improvements were noted in the portfolio, the assurance levels provided by the minister, accounting officers or authorities and senior management should be improved, especially in the areas of performance information and compliance with legislation.

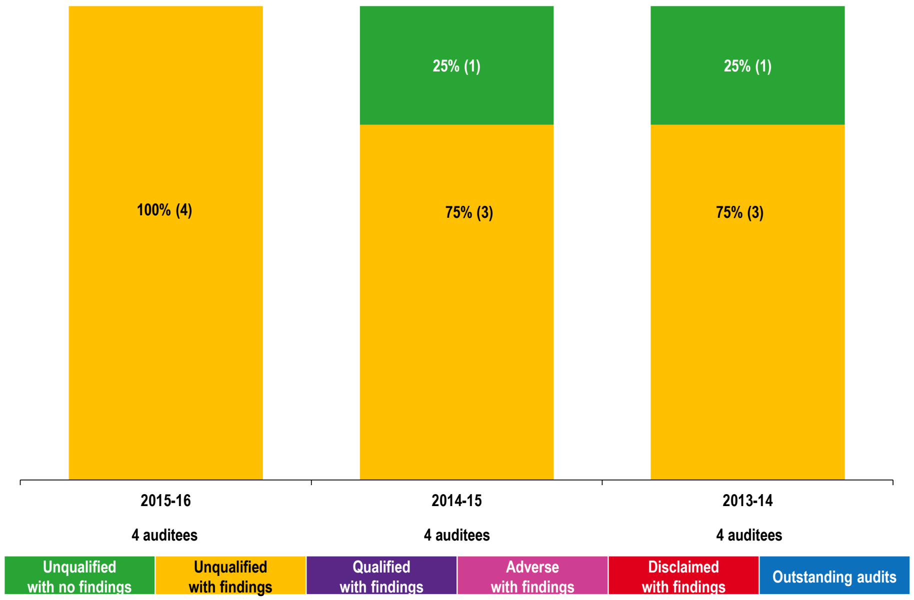
To create environments that support reliable financial reporting, useful performance reporting and compliance with legislation, accounting authorities should hold senior management accountable for implementing the necessary improvements in the control environment to bring about better outcomes. Senior management should further pay attention to the implementation of action plans, controls over record keeping, processing and reconciliation of transactions and monitoring of compliance with legislation and create an environment where these daily, weekly or monthly disciplines are carried out seamlessly.

The internal audit function at the DAFF must be capacitated to be fully effective and functional to assist the audit committee to fulfil its duties in terms of the PFMA and to direct the work of the audit committee towards evaluating performance information.

The key root causes that required immediate attention of the leadership and oversight structures were slow response by management to monitor and evaluate the quarterly reporting as well as lack of continuous training interventions to upskill staff at the finance unit to support the chief financial officer effectively.

Vote 25: Economic Development

Three-year audit outcome



The overall audit outcomes of the Economic Development portfolio have regressed from 2013-14 to 2015-16. Although the entire portfolio has consistently submitted annual financial statements and annual performance reports timeously over the past three years for purposes of external auditing, their quality still remained of concern. Two entities (50%) in 2015-16, compared to three entities (75%) in 2013-14, did not adequately review and monitor financial statement preparation internal controls as the financial statements were not agreed to supporting schedules. This resulted in these internal controls not preventing and detecting material misstatements before the audit process.

On reflection, none of the entities have been able to successfully sustain their clean audit status for longer than a year, with the Competition Tribunal and Competition Commission obtaining clean audits only in 2013-14 and 2014-15, respectively. Improvement to achieve and sustain clean audit outcomes is not insurmountable, and only requires a concerted effort by the leadership and management to address the root causes at the auditees as highlighted. Although the leadership has been effective in the development and implementation of action plans and audit recommendations as evidenced by the reduction in repeat audit findings, findings were raised in other areas where management did not focus.

The overall status of internal controls has been satisfactory for the portfolio over the three years. However, internal controls over the change in banking details of suppliers must be improved as this area has proven to be susceptible to fraud at both the Competition Commission and the International Trade and Administration Commission (Itac). Both entities must ensure that confirmation is obtained directly from known members of suppliers before changes are authorised and effected to ensure that payments are made to the correct and valid suppliers. Increased dedication is also required on financial management controls at the Economic Development Department (EDD) and Itac, which both obtained unqualified opinions as a result of the audit process allowing adjustments on inaccurate reporting of items such as expenditure, current assets, current liabilities and disclosure items. Management must improve on ensuring that the financial statements are agreed to supporting schedules.

Compliance has regressed over the past three financial years due to the continued poor quality of the submitted financial statements and a lack of preventative controls over procurement and contract management. The combined irregular expenditure for the entire portfolio amounted to R4 million, a steady decrease from R8 million in 2013-14, due to non-compliance with SCM legislation. An inability to identify conflicts before awards were issued and inadequate monitoring and review processes when approving deviations and quotations lead to the non-compliance with SCM legislation. Improving on the effective review and monitoring of transactions prior to their approval to ensure compliance with SCM legislation, and avoiding deviations from SCM legislation where practicably possible, should be prioritised.

Itac and the Competition Tribunal incurred a deficit for two of the three financial years (total expenditure exceeded total revenue). A high-level overview of the financial viability of the portfolio was performed as at year-end and the overall financial health has remained favourable since 2013-14, notwithstanding that it is an environment characterised by deficits. In 2013-14, Itac and the Competition Tribunal incurred a deficit, with Competition Tribunal's total expenditure also exceeding revenue again in 2014-15 due to increased staff training in that year. Itac incurred a deficit of R4 million in 2015-16 with the additional expenditure relating mainly to increased lease costs and legal fees.

Although the annual performance reports were successfully submitted for auditing throughout the three years, their quality has regressed slightly from 2013-14 to 2015-16. Important indicators and targets at the EDD were not specific, measurable or well defined as they were too open-ended. We appreciate the dynamics of the economic environment having an impact on the department's performance information environment and its ability to predetermine the objectives. This consequently had an impact on the department's ability to report reliably on the related indicators and targets. Enhanced, finalised and approved technical indicator descriptions and standard operating procedures at the EDD will assist in providing a better understanding of its predetermined objectives in a complex, dynamic economic environment.

Itac did not have proper systems to ensure that evidence to support its reported performance information is complete and reliable, resulting in a material finding on the reliability of the performance report. A proper implementation process of the performance information management system at Itac will aid the entity to produce credible and reliable supporting evidence for its reported performance.

The department has been successful in reducing the number of vacancies from 2013-14 and key management positions at the remaining entities have been stable over the three years. Despite the dedication of the acting personnel, the accounting officer position and vacancies in key positions at the department necessitate continuous intervention to stabilise the internal control environment to ensure that basic accounting disciplines are enforced. The chief financial officer position at the Competition Commission was filled on 1 April 2016, after the incumbent acted for six months and the vacancy did not have a negative impact on the financial statements of the entity. Vacancies at the Competition Tribunal and Itac of tribunal members and deputy commissioner levels, which have been vacant from the previous year, continued to pose significant challenges to the operations of these entities as the tribunal runs the risk of not being able to convene if there are no sufficient members to adjudicate over cases. The minister noted that the inability to attract the right calibre of people was the stumbling block to the filling of these positions.

The overall assessment of the IT environment within the portfolio has remained stagnant from 2013-14 as the entities have been sharing IT infrastructure with the Department of Trade and Industry (DTI). However, we raised concerns relating to approved user access policies and procedures at the EDD and lack of a service level agreement (SLA) with the DTI to ensure that services provided by the DTI to EDD are stipulated and agreed upon. Itac has not honoured its commitments as it did not implement an IT strategic plan and governance framework. The leadership at the department should ensure that an SLA with the DTI is in place to ensure that the service of the DTI system controller is stipulated and agreed upon and Itac should focus on finalising, developing and implementing the IT strategic plan to govern IT goals and activities.

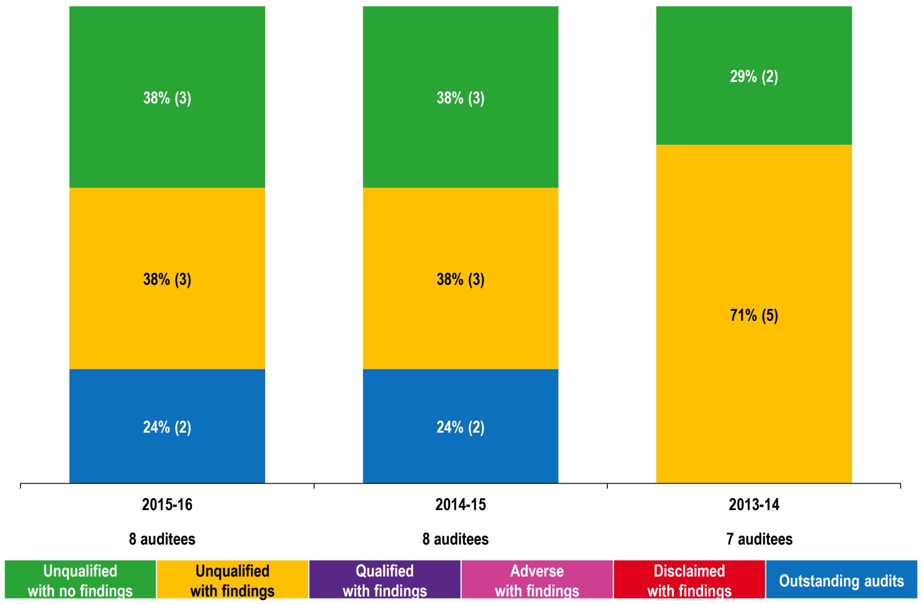
The level of assurance provided has improved over the three years. We commend the minister for ensuring that senior management develops and implements post audit plans and audit recommendations. However, in focusing on previous period's findings, other areas have not received the required attention resulting in new audit findings. The internal audit unit, audit committee, portfolio committee have provided assurance linked to their legislative mandates and contributed towards the overall aim of sustaining key controls, particularly those relating to financial and performance management. However, the focus of these governance structures must be further intensified in the area of robust review of financial management disciplines and rigorous review of compliance with legislation, especially where there have been deviations from SCM legislation.

Accounting officers or authorities at the entities have provided assurance in their ability to comply with the policies and procedures as well as the implemented internal controls to support credible financial and performance reporting and compliance with legislation, except for Itac and the EDD. In addressing findings and developing or improving those related internal controls, management within the portfolio should maintain a holistic view and not lose sight of other internal controls to ensure that there are no new audit findings in subsequent audits.

Vigilance is required to ensure diligent compliance with legislation, which should also be reinforced by continuing to implement consequences for unsatisfactory performance and transgressions. Management and the internal audit unit are required to improve on already implemented monthly financial management disciplines and review processes, as these are not successful in sustaining clean administration, through more consistent and robust financial management review processes, to produce credible, accurate and reliable financial statements .

Vote 26: Energy

Three- year audit outcome



The overall audit outcome improved slightly over the past three years. However, the audits of the South African Nuclear Energy Corporation (Necsa) and the National Radioactive Waste Disposal Institute (NRWDI) are not included in this report as their audits were not finalised by the cut-off date. The NRWDI did not submit annual financial statements for auditing for both the 2014-15 and 2015-16 financial years as it is not yet fully capacitated.

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. The DoE obtained a legal opinion from senior legal counsel in March 2016 in this regard. At the end of April 2016 the minister of Energy instructed Necsa to disclose and account for all D&D liabilities, including the historical strategic nuclear facilities. Necsa therefore requested an extension from the minister of Energy, National Treasury and the AGSA to submit their annual financial statements. Necsa submitted the annual financial statements for the 2014-15 and 2015-16 financial years on 25 July 2016, which included the D&D liabilities. The audits for 2014-15 and 2015-16 were finalised on 21 September 2016.

We commend the DoE, the National Energy Regulator of South Africa (Nersa) and the National Nuclear Regulator (NNR) for submitting financial statements that were free from material misstatements. The Central Energy Fund (CEF), Equalisation Fund (EQF) and the South African National Energy Development Institute (Sanedi) submitted financial statements for auditing that contained material misstatements, and received unqualified audit opinions subsequent to them correcting all the misstatements we identified during the audit process.

The number of compliance audit findings within the portfolio improved slightly as compared to the previous year. At Sanedi, goods and services with a transaction value of below R500 000 were procured without obtaining the quotations, as required by treasury regulation 16A6.1. Invitations for competitive bidding were not always advertised in the government tender bulletin, as required by treasury regulation 16A6.3(c).

Non-compliance at Sanedi in the area of strategic planning and performance management was as a result of the approved strategic plan not forming the basis of the annual performance report.

The Strategic Fuel Fund Association (SFF), a subsidiary of the CEF, did not comply with section 54(2)(d) of the PFMA when it did not inform the National Treasury of its decision to dispose of a significant portion of its strategic crude oil reserves. It also did not take reasonable care to safeguard assets, as required by section 51(1)(c) of the PFMA and, as a result, they are likely to suffer financial losses due to some transactions they undertook.

Irregular expenditure for the portfolio decreased from R192,5 million in the previous year to R127,4 million in 2015-16; 98% of which was identified by the auditees. The largest contributor was the Necsa group, which incurred R43,6 million due to awarding contracts to bidders based on points given for criteria that were not clearly stipulated in the original invitation for bidding and quotations, in contravention of the Preferential Procurement Regulations.

Fruitless and wasteful expenditure in the portfolio totalled R12,5 million, which is a significant increase from the previous year’s expenditure of R5 million, all of which was identified by the auditees. The fruitless and wasteful expenditure was mainly a result of interest and penalties incurred due to late payments.

Although we did not identify significant risks on the financial health of the portfolio; the NNR realised a deficit and negative cash flows due to a reduction of the government grant received from the DoE. The Petroleum Oil and Gas Corporation (PetroSA), a subsidiary of CEF, also has an obligation of approximately R10,7 billion to rehabilitate its offshore and onshore operations, which are currently not fully funded. In terms of the National Environmental

Management Act, 1998 (Act No. 107 of 1998) (Nema), PetroSA is required to have a fully-funded rehabilitation liability within 12 months from year-end. PetroSA appointed technical advisers to undertake the review and assessment of the abandonment liability in order to fully quantify the value of its financial obligations. The CEF has committed to assist PetroSA through various support and oversight mechanisms to close the funding gap.

Necsa's ability to continue as a going concern is dependent on the grant funding from government. Government funding for the 2016-17 financial year was approved as per the medium term expenditure framework. Although the group has adequate cash reserves, Necsa has experienced short-term cash flow shortages because its operations (commercial, research and development and state mandated obligations) are integrated, resulting in interdependencies and cross-subsidisation. The minister and National Treasury were aware of the constraints and the discussions were ongoing. The short-term shortages were funded with an overdraft facility of R60 million. Necsa also had to recognise the D&D liabilities in its financial statements. The recognition of the liabilities has impacted negatively on the equity of the company and the group to the amount of R209 million in 2014-15 and a further R255 million in the year under review. Despite the issues raised above, the group and Necsa remained solvent.

Sanedi's published annual performance report included information that was not consistent with its annual performance plan. The CEF, Sanedi and NNR submitted annual performance reports for auditing that contained material misstatements, which were identified and corrected during the audit process.

The EQF is not a listed entity in the PFMA and did not submit a performance report for auditing at it is not required to prepare performance information. The entity should resolve its legal status with the National Treasury, in consultation with the DoE.

Internal control disciplines, such as daily and monthly processing controls and performing regular reconciliations to ensure accurate and complete annual financial statements and annual performance reports, need to be strengthened to achieve clean audits.

Certain vacancies in key positions were not filled with appropriately skilled and competent people and in time to address instability in leadership and governance structures.

An accounting officer was appointed at the DoE during the financial year. The CEF had an overall vacancy rate of 8,1% and the chief executive officer position remained vacant for the full financial year. Although it did not have a significant impact on the current audit outcomes, it might affect the achievement of the objectives in the future.

There was an overall reduction in IT findings for the portfolio as the majority of previous findings relating to IT governance and security were addressed. The primary repeat findings related to user account management and IT service continuity. Due to the size of some entities within the portfolio, IT was not viewed as of strategic importance, which resulted in the formal structures not adequately overseeing IT to ensure that requisite processes were implemented. There was also a lack of clarity of roles and responsibilities between IT and business to ensure that IT controls were adequately implemented.

The first and second levels of assurance should be improved further through management taking immediate action to address internal control deficiencies and leadership implementing consequence management.

The internal audit unit effectively communicated the significance and impact of management not adhering to internal controls to the audit committee. The audit committee monitored risks and the implementation of management's commitments in corrective action plans.

We met with the minister once in the past year and the interaction had little impact on the portfolio's audit outcomes. The portfolio is subject to intense scrutiny due to the current energy shortages and the planned nuclear build programme. In the process of government considering options in respect of the nuclear programme, it is critical that the portfolio demonstrates good governance and strong internal controls that support credible financial and performance reporting and compliance with SCM regulations.

It is imperative for the to improve its audit outcomes and stabilise its governance structures before the country embarks on the nuclear build programme.

The level of assurance provided by the portfolio committee should be maintained. The committee should continue to hold the leadership and senior management accountable for performance and audit outcomes.

There was slow response by management and political leadership to implement consequence management for employees who did not effectively implement internal controls. At auditees such as Necsa there were vacancies in governance structures and this resulted in a lack of accountability for audit issues raised in the previous years.

The following controls and oversight responsibilities should be strengthened to create a control environment that supports reliable financial reporting, compliance with legislation and corrective actions that are effective in preventing a recurrence of findings:

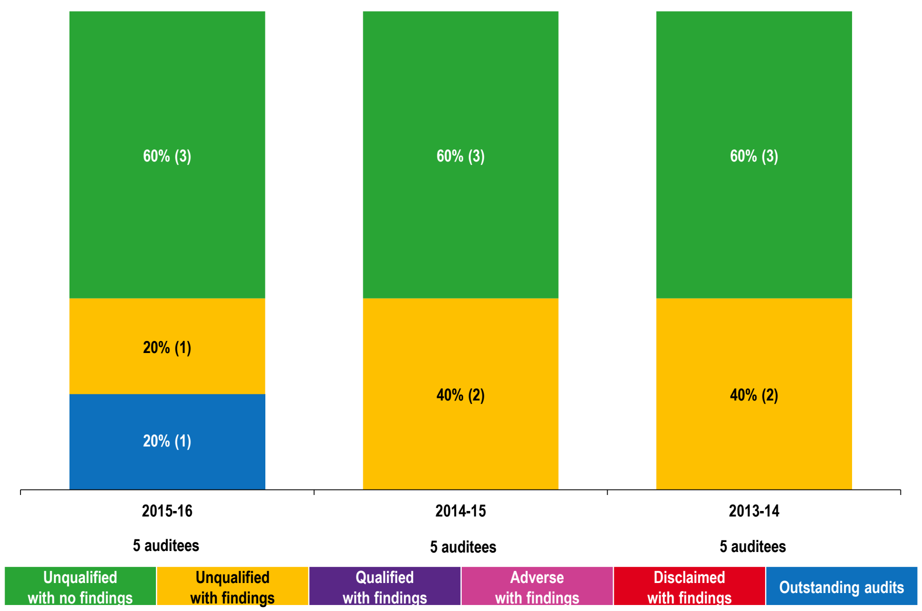
- Review annual financial statements adequately to ensure that they are reliable and supported by sufficient and appropriate information.
- Implement key commitments to address the root causes of findings promptly.
- Implement adequate controls to properly review and monitor compliance with legislation, mainly in the area of SCM.
- Take appropriate and prompt action against transgressors.
- Align procurement policies and procedures with the relevant legislation and include monitoring controls.

The following controls should be strengthened to create a control environment that supports the useful and reliable reporting of performance information:

- Competent personnel should implement and manage performance reporting systems.
- Senior management should thoroughly review quarterly reports to ensure that the information is credible.

Vote 27: Environmental Affairs

Three-year audit outcome



The portfolio consists of one national department and four entities. The analysis above indicates the audit outcomes of the portfolio over three years.

The Department of Environmental Affairs (DEA) is responsible for implementing a high number of EPWP and has implemented controls to ensure that money is spent for its intended purpose. The Modified Cash Standard requires these expenditures to be disclosed in the annual financial statements in a particular way. The department did not follow the Modified Cash Standard in disclosing the expenditure. We have therefore excluded the department in the analysis that follows as the opinion is in dispute and the minister has not tabled the report for the department.

The South African National Parks (Sanparks) and South African Weather Service (Saws) improved their outcomes to obtain clean audit opinions as a result of improved controls in SCM and/or the quality of their submitted annual performance reports. The iSimangaliso Wetland Park Authority sustained its clean audit opinion as a result of maintaining adequate controls throughout the period. The South African Biodiversity Institute (Sanbi) regressed from a clean audit opinion to an unqualified opinion with findings on compliance with legislation. This was the result of material misstatements in its submitted financial statements.

Three of the four auditees submitted financial statements that required no corrections. Sanbi received an unqualified opinion only as a result of correcting errors identified during the audit process. Sanbi submitted financial statements for auditing that were not prepared in accordance with the prescribed financial reporting framework due to management not having adequate controls over preparing and reviewing financial statements.

We commend the portfolio for maintaining a strong control environment of SCM practices. For the second year in a row, the portfolio had no material matters reported. A strong control environment was evident as the portfolio had minimal irregular expenditure to report and the amounts reported for the year were detected by their internal systems and controls.

The financial health of the portfolio was assessed as good, with no unfavourable indicators noted during the assessment.

The quality of the annual performance reports submitted for auditing improved from the previous year, with entities having no material findings on usefulness or reliability. Only one entity (Sanparks), as opposed to two in the previous year, required and made material amendments to the annual performance reports, which resulted in it avoiding material findings. This improvement can be attributed to enhanced controls over preparing and reviewing annual performance reports.

The key controls over financial and performance management regressed as management at Sanbi was unable to detect material deviations from the accounting framework. These controls should be strengthened by ensuring relevant staff are adequately trained.

Stability in key leadership positions and the capacity of finance divisions across the portfolio were sustained over the period, with no concerns relating to vacancies in key positions. This stability in leadership had a positive impact on achieving and sustaining clean audit opinions.

Risks surrounding the IT environment in the portfolio remained stagnant for the year. IT controls were designed and approved, but the auditees experienced challenges with the implementation of these policies and procedures for three of the four focus areas; i.e. IT governance, security management and user access management. The portfolio implemented IT continuity controls and these have been working effectively across the portfolio. Saws displayed noticeable improvement in the implementation of IT controls as there were no significant findings raised in the focus areas of IT governance, user account management and IT continuity. This was a result of an active audit committee and executive management, i.e. chief executive officer and chief financial officer's involvement in the implementation of IT controls. The control weaknesses identified within the portfolio were driven by the lack of expertise and skills, which resulted in IT being mostly outsourced. Budget constraints were a challenge to ensuring adequate IT controls were implemented.

Generally, assurance provided by governance structures was sufficient and remained unchanged. Assurance provided by senior management and the accounting authority at Sanbi should be improved by implementing adequate preparation and review controls that ensure that financial statements adhere to the prescribed financial reporting framework. We met the minister in the past year, which had an impact on the audit outcomes as one entity improved and two entities maintained their clean audit outcomes. The portfolio committee provided assurance and this should be maintained to improve audit outcomes.

Slow response by management to address audit findings was still a concern. The executive authority and accounting authorities should address the root cause of poor audit outcomes and inadequate controls as follows:

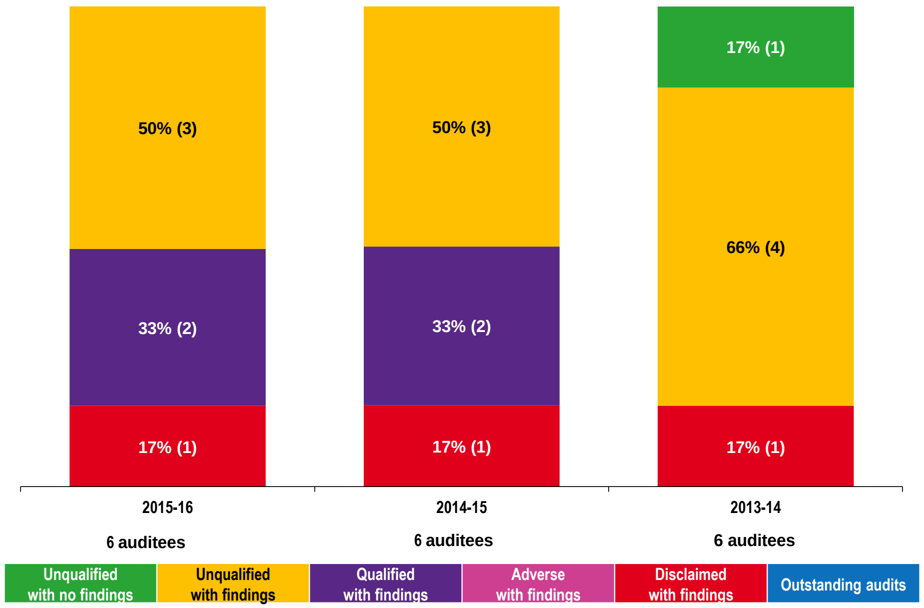
- Ensure key officials at auditees where material findings were noted have the appropriate competencies to accurately report on financial and/or performance information.
- Ensure management implements recommendations for material audit findings on time.

The following good practices within the portfolio should be maintained and enhanced:

- Implementing and monitoring action plans that monitor and improve the control weaknesses identified.
- Regularly preparing credible financial and performance reports.

Vote 28: Labour

Three-year audit outcome



The Labour portfolio consists of the Department of Labour (DoL) and five entities.

Overall, the portfolio has experienced a regression in audit outcomes over the past three years with auditees unable to improve the quality of their financial statements and/or address past material findings on their annual performance reports and/or compliance with legislation.

The published financial statements of the Compensation Fund were not supported by appropriate documents and we were unable to express an audit opinion on them for the fourth consecutive year. The existing accounting system and internal controls were not adequate and reliable to produce complete and credible financial statements and related appropriate supporting evidence. Management's inability to hold staff accountable resulted in lack of response to internal and external audit findings. Inadequate skills at the finance unit resulted in the entity being unable to account for the transactions in accordance with the relevant accounting standards relating to revenue and benefit claims.

The National Economic Development and Labour Council (Nedlac) and Sheltered Employment Factories (SEF) did not comply with the requirements of the applicable accounting standards in the following areas: revenue and receivables from exchange transactions (SEF), cost of sales (SEF), inventory (SEF), cash flow statements (SEF) and property, plant and equipment (Nedlac) and thus received a qualified audit opinion.

With the exception of the Unemployment Insurance Fund (UIF), all auditees submitted financial statements for auditing that contained material misstatements. The DoL and Commission for Conciliation, Mediation and Arbitration (CCMA) subsequently corrected all the misstatements identified in their financial statements, resulting in them receiving an unqualified audit opinion.

Management at these auditees did not sufficiently address the control deficiencies identified in the past to ensure that the material misstatements do not recur.

Compliance with legislation within the portfolio has deteriorated over the past three years. The main areas of non-compliance were the following:

- All six auditees failed to take effective steps to prevent irregular and/or fruitless and wasteful expenditure. This is concerning as only two auditees had findings in this area in the previous year.
- The Compensation Fund and Nedlac did not take effective and appropriate disciplinary steps against officials who permitted irregular and/or fruitless and wasteful expenditure. Furthermore, the Compensation Fund did not investigate all allegations of financial misconduct committed by officials, or hold disciplinary hearings for confirmed cases of financial misconduct committed by officials.
- The CCMA, Compensation Fund, SEF and UIF did not follow the SCM regulations. The Compensation Fund, CCMA and UIF did not adhere to legislation on the competitive bidding processes in all cases audited and the SEF did not always obtain the required three quotations. The Compensation Fund also did not always advertise its invitations for competitive bidding in at least the government tender bulletin, as required.
- The Compensation Fund and SEF did not establish systems, procedures and processes to ensure efficient and effective cash management.

The portfolio incurred R139,7 million of irregular expenditure, with the major contributors being the UIF at R64,6 million, CCMA at R37,5 million and DoL at R25,3 million. This was a decrease of 69% from the previous year. Of the total irregular expenditure incurred, R48 million was identified through the audit process. The Compensation Fund further incurred R404 million of fruitless and wasteful expenditure as a result of a breach of contract by the fund which resulted in them losing a court case.

Overall, the financial health of the portfolio was assessed as good. Although the financial statements of the Compensation Fund reflected significant reserves, the extent of its financial health could not be reliably determined due to its disclaimed audit opinion. The SEF and Compensation Fund had challenges in collecting outstanding debts. Furthermore, the SEF had a possible going concern risk as a result of decreased sales, non-recoverability of long-outstanding debts and overdependence on the DoL for funding.

The quality of annual performance reports has remained unchanged over the three years. All auditees submitted annual performance reports for auditing that contained material misstatements. Nedlac and the SEF avoided material findings on their performance reports by correcting all the misstatements identified during the audit. The published annual performance reports of the DoL, Compensation Fund, CCMA, and UIF included information on their performance against predetermined objectives that was not useful and/or reliable for the programmes or objectives audited.

All levels of assurance should be improved by providing effective leadership and overseeing financial and performance reporting and compliance with legislation.

Management should strengthen the following controls to create a control environment that supports reliable financial reporting, useful and reliable reporting on the performance of the portfolio and compliance with legislation:

- Enhance processes to ensure and monitor compliance with legislation, especially SCM, including relevant training interventions to ensure the understanding of the legislative requirements.
- Develop action plans and monitor their implementation to address internal control deficiencies.
- Ensure that there are policies and procedures to enable and support understanding and execution of internal control objectives, processes and responsibilities.
- Improve record keeping to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting, and also improve controls over the daily and monthly processing and reconciliation of transactions.
- Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.

Interventions to recruit adequately qualified and skilled staff started too late in the financial year to have a positive impact on the audit outcomes of the Compensation Fund, SEF and Nedlac. This resulted in minimal improvement in key controls over the processing of claims, debt collection, compliance with legislation and the quality of the financial statements.

The portfolio has made some progress in addressing the findings previously raised on IT as a specific driver of audit outcomes; however, a number of control deficiencies still remained.

The portfolio still experienced challenges regarding the adequacy of controls over IT governance, security management, user access management and IT service continuity.

Senior management, accounting and executive authorities should implement consequence management for poor performance and enforce accountability. Action plans had been developed but their implementation remained slow, and as a result the control deficiencies remained unresolved. Accounting authorities did not hold officials accountable and create an environment that would support clean administration and service delivery.

The portfolio committee executed their functions adequately in the areas of reviewing the budgets, financial statements, performance information and service delivery of the portfolio. During 2015-16 the portfolio committee made the following two commitments which were still in progress:

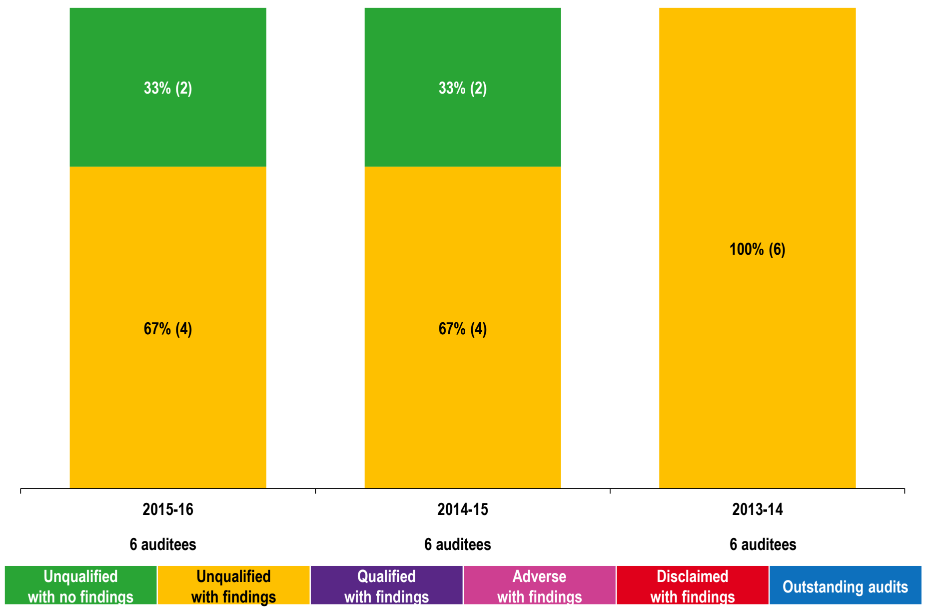
- Obtaining independent assurance from the internal audit unit and audit committee that quarterly reports presented at portfolio committee meetings were produced through reliable and credible control systems.
- Holding the accounting officer accountable for implementing an effective performance management process within the department and holding staff accountable for their actions.

The executive authority, accounting officers or authorities and senior management should address the root causes of poor audit outcomes and inadequate controls as follows:

- Implement effective human resource management processes to ensure that key management vacancies are filled with appropriately skilled and qualified personnel.
- Incorporate consequence management, and develop and implement adequate action plans in time to address control deficiencies and ensure compliance with relevant standards at all entities.

Vote 29: Mineral Resources

Three-year audit outcome



The overall audit outcome improved over the past three years, with the Council of Mineral Technology (Mintek) sustaining its clean audit status in the year under review. The South African Diamond and Precious Metal Regulator (SADPMR) improved from an unqualified opinion with findings on compliance to a clean audit opinion. The State Diamond Trader (SDT) regressed from a clean audit opinion to an unqualified opinion with findings on compliance. The audit opinions of the remaining auditees in the portfolio were unchanged because of their failure to implement the designed controls that would ensure compliance with legislation and financial statements that were free of material misstatements.

The Department of Mineral Resources (DMR), the Council for Geoscience (CGS) and the Mine Health and Safety Council (MHSC) submitted financial statements for auditing that contained material misstatements. This was due to inadequate review of financial statements by senior management and other assurance structures prior to submission for auditing. They received unqualified audit opinions subsequent to them correcting all the misstatements that we identified during the audit process.

The number of compliance audit findings within the portfolio decreased significantly compared to the previous year. The SDT, however, awarded contracts to bidders based on points given for functionality that were not stipulated in the original invitation for quotations, which was in contravention of the Preferential Procurement Regulations.

Irregular expenditure in the portfolio was R1,07 million, which is a significant decrease of R12 million from the previous year. The irregular expenditure was a result of non-compliance with SCM legislation identified during the previous year's audit. These contracts came to an end in the year under review, hence the decrease.

There were no significant risks relating to financial health assessment for the entities in the portfolio. This indicates that the entities had sound management of their resources. The DMR's financial health assessment, however, reflected an unfavourable indicator relating to the debt-collection period.

The published annual performance reports of all entities in the portfolio included information on their performance against predetermined objectives that was useful and reliable. Although three (50%) of the entities submitted annual performance reports for auditing that contained material misstatements, they avoided material findings in their audit reports because they corrected all the misstatements that we identified during the audit process.

The portfolio should improve on key controls that relate to reviewing of annual financial statements by senior management and other assurance players to ensure compliance with the requirements of the accounting framework and monitoring of compliance with legislation. The financial reporting framework should be applied correctly and monitored regularly.

The senior management vacancy rate of 16% at the DMR was of concern. Although it did not have a significant impact on the current audit outcomes, it might affect the achievement of the objectives in the future.

The IT control weaknesses identified at the DMR related to inadequate disaster recovery processes, non-participation in recovery test procedures performed by Sita for the transversal systems, and the lack of review of user activities. The weaknesses identified at Mintek related to officials not adhering to defined internal processes, the lack of review of administrator activities, and business continuity requirements that were not clearly articulated. The weakness identified at the SADPMR related to the lack of review of administrator activities and user access rights, which were also reported in the previous year. The weaknesses at the CGS related to a lack of documented user account management processes and the service performed by service providers not being reviewed.

Overall, the portfolio had implemented good IT governance structures and processes, with notable improvements in implementing corrective actions at Mintek and the SADPMR. The DMR and SADPMR further maintained good IT security and IT service continuity practices respectively. The control weaknesses identified in the portfolio were driven, primarily, by the limited resources at both the department and the entities.

The levels of assurance provided by senior management, audit committees and internal audit units improved steadily over the past three years; however, the first level of assurance should be improved by ensuring stability at the level of senior management. The internal audit units and audit committees should implement an effective and consistent method of following up on actions taken to address audit findings relating to internal control weaknesses. Adequately reviewing financial statements and monitoring compliance with legislation cannot be overemphasised.

We have noted a significant improvement in the portfolio committee's assurance level through their prompt analysis of strategic plans, annual reports and audit outcomes of the auditees in the portfolio. The committee's regular visits to communities and mining companies ensured that members gathered valuable information that assisted in identifying risks within the portfolio, which improved their oversight function.

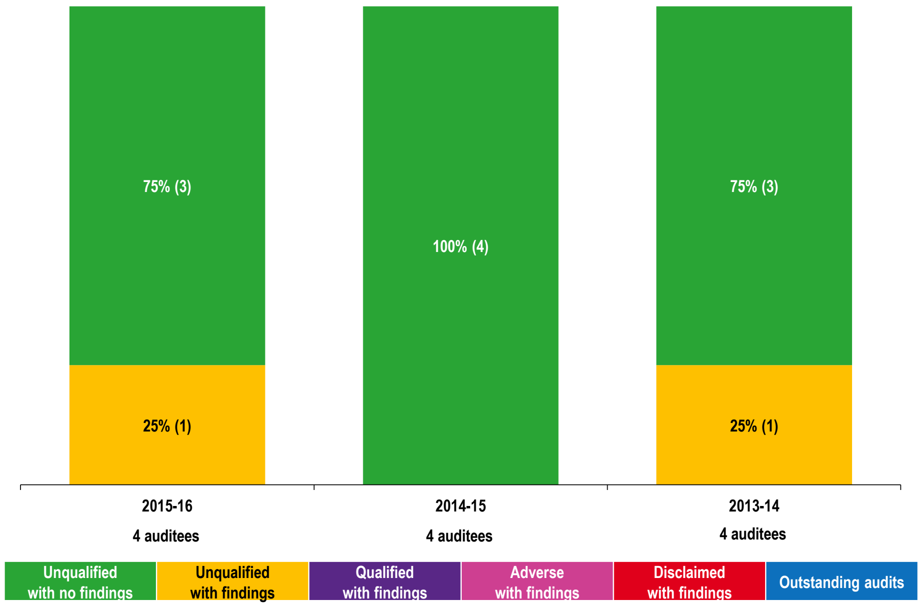
We met the minister once during the financial year. We noted a slight improvement in the minister's implementation of the previous year's commitments. We were very encouraged by the commitment and spirit of cooperation that the minister displayed. We recommend that the leadership strive towards fully implementing the remaining commitments by the end of the 2016-17 financial year.

The executive authority, accounting officer or authorities of these entities should address the root causes of poor audit outcomes and inadequate controls by ensuring that senior management responds quickly to audit findings and provides an effective review and monitoring of compliance with legislation.

Furthermore, senior management should fill all vacancies with people possessing the requisite skills, and provide training to address gaps in the development of existing staff.

Vote 30: Science and Technology

Three-year audit outcome



The portfolio's overall outcomes have regressed in 2015-16 as the Department of Science and Technology (DST) moved from a clean opinion to an unqualified audit opinion with findings on compliance with legislation. The National Research Foundation (NRF), the Council for Scientific and Industrial Research (CSIR) and the Human Sciences Research Council (HSRC) retained their clean audit status.

The entire portfolio has consistently submitted quality annual financial statements timeously and no material adjustments were made to any of the submitted financial statements.

Overall compliance within the portfolio has regressed because of the material non-compliance with legislation identified at the DST, whereby the department did not always settle its creditors within the prescribed period of 30 days from receiving an invoice. As a result, the portfolio did not maintain its clean audit status.

There has been an overall improvement in the SCM findings because management in the portfolio increased the level of monitoring to enhance compliance with legislation; therefore, no material non-compliance was reported in the audit reports on SCM.

The portfolio incurred R11,6 million (2014-15: R24,3 million) of irregular expenditure as a result of non-compliance with SCM regulations, 35% of which was identified by the auditees. There was an overall decrease in irregular expenditure by 52% from the previous year, due to the improvement in monitoring and implementation of controls within the SCM processes as well as awareness workshops held for all relevant staff.

The financial health of the portfolio remained good with the exception of the DST being unable to settle its creditors timeously, resulting in a significant increase in its accruals and payables. This was due to inadequate systems to enable proper tracking of invoices by the finance unit.

The quality of the annual performance reports still remained a concern at the DST and the NRF as they managed to avoid findings on reported performance only because they corrected material misstatements identified through the audit process. This is attributable to the lack of appropriate systems to collect, collate and verify information that supports reliability of performance reports.

The key internal controls relating to leadership remained a concern as senior management's oversight roles of reviewing and monitoring compliance with legislation at the DST and the NRF have still not been fully implemented since the previous year. However, the key internal controls over financial and performance management regressed. This was as a result of the expenditure management non-compliance identified at the DST, which requires intervention.

There was an overall stability at key management level within the portfolio. The competency levels of those in key positions have also improved because of training interventions and filling vacancies with competent staff.

The portfolio showed an improvement with no significant matters noted in the IT environment at the CSIR and the NRF; however, the HSRC regressed on formal controls over IT systems as there were weaknesses relating to the proper implementation of IT controls and IT policies that were not approved. Management was in the process of reviewing and implementing the relevant IT policies.

The portfolio committee provided adequate assurance over the entities in the portfolio. The minister, accounting officer, accounting authorities, audit committees and internal audit unit provided the necessary assurance, which contributed to the sustained key internal controls, particularly those relating to leadership, financial and performance management and governance. Senior management also provided the necessary assurance, with the exception of the DST and the NRF senior management who provided only some assurance with regard to performance information.

The slow response by management and the ineffective review and monitoring of compliance with legislation were the most significant root causes in the portfolio.

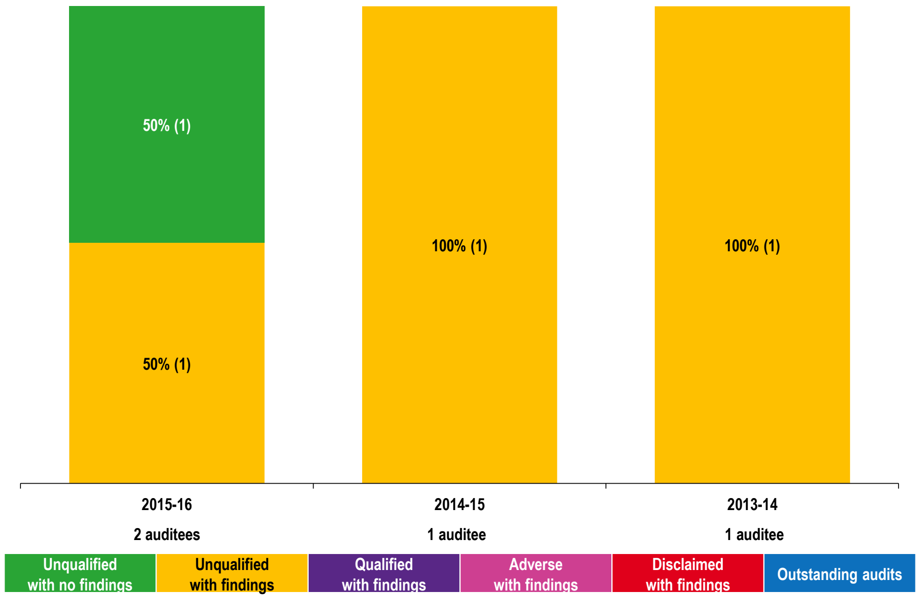
To improve and sustain the audit outcomes in the portfolio, senior management should implement key internal controls and the recommendations of various oversight structures. This will serve as the foundation for the following recommendations to improve and sustain the audit outcomes in the portfolio:

- Implement audit action plans that are based on the audit findings, root causes and recommendations.
- Ensure basic financial disciplines and monthly processing and reconciling of transactions.
- Continue to prepare credible financial and performance reports regularly.
- Hold officials accountable for non-compliance with legislation and track irregular expenditure, with proactive preventative measures being implemented.

The portfolio remained largely on track and was moving in the right direction. The leadership and senior management must ensure that effective leadership, which is based on a culture of honesty, ethical business practice and good governance is maintained to ensure good audit outcomes.

Vote 31: Small Business Development

Three-year audit outcome



The audit outcome of the Small Business Development portfolio improved from 2013-14 to 2015-16. The 2015-16 financial year was the department's first year of operation and it received a financially unqualified opinion with findings on predetermined objectives and compliance with legislation. The Small Enterprise Development Agency (Seda) that previously reported to the DTI improved from a financially unqualified opinion with findings on compliance with legislation over the past two years to a clean audit. The improvement in the audit outcome of Seda can be attributed to leadership's response to implement and monitor action plans to address the findings raised in the previous years.

Department of Small Business Development

The quality of financial statements should be improved as the department submitted financial statements that contained material misstatements in the appropriation statement, expenditure and disclosure items, which were later corrected. This was due to the department not having a chief financial officer for most of the year under review. As a result, in-year financial statements were not prepared and reviewed to identify weaknesses in the preparation of financial statements.

Similarly, compliance with legislation also required attention as non-compliance was identified in the areas of financial statements, strategic planning and procurement and contract management. This could have been prevented had the department been adequately resourced to perform appropriate reviews. Irregular expenditure of R1,8 million was incurred due to non-compliance with SCM prescripts relating to procurement made without following competitive bidding processes. This was due to key vacancies at the SCM unit, which were in the process of being filled subsequent to year-end.

The quality of annual performance reports also required attention as material findings were raised on the usefulness of reported information. This was mainly due to a lack of understanding of the framework prescribed by the National Treasury and there were also vacancies in critical positions, which resulted in a lack of adequate review of the planning processes for performance information.

There were no significant concerns relating to financial health. However, on the accrual basis of accounting, total expenses exceeded total revenue by R146 865 and total liabilities exceeded total assets by R169 891. The accounting officer and senior management should continue monitoring expenditure against the budget.

The accounting officer has set a tone and culture of integrity and high performance. However, this has not yet been entrenched in the culture of the department as there was no chief financial officer during the year, and monthly disciplines of record keeping and reconciling of transactions to ensure the credibility of financial and performance reports presented to oversight committees were not fully effective. This was the first year of existence for the department and it had vacancies in senior management positions for most of the financial year, once these vacancies have been filled it will enable sufficient monitoring which may contribute to an improvement in the audit outcomes.

The department relied on the DTI for IT infrastructure and systems hosting. The department did not develop user account management procedures as there were no clearly defined responsibilities between the DTI and the department.

The assurance provided by key role players at the level of the accounting officer and senior management should be improved. The finance, performance reporting and internal audit units must be capacitated with skilled and knowledgeable staff to strengthen the review processes and enhance the quality of reports produced. Furthermore, the impact of the audit committee was limited as members were appointed late in the financial year. The assurance provided by the portfolio committee was adequate as they performed their oversight responsibilities as required.

Small Enterprise Development Agency

Seda achieved a clean audit in 2015-16. In addition, there has been no irregular expenditure over the three years and they were able to maintain good quality performance reports. A notable improvement has been in the quality of financial statements over the three years, which has been the only barrier in achieving a clean audit. The improvement in the quality of the financial statements was due to leadership implementing detailed reviews of the supporting schedules before the audit process.

The positive audit outcome can be attributed to leadership who timely implemented internal and external audit recommendations, rigorously monitored compliance with legislation, held staff accountable and ensured that the organisation employed skilled officials.

Improved assurance provided by key role players contributed towards the clean audit. This is clearly reflected in the improved key controls, particularly those relating to the preparation and review of financial reports.

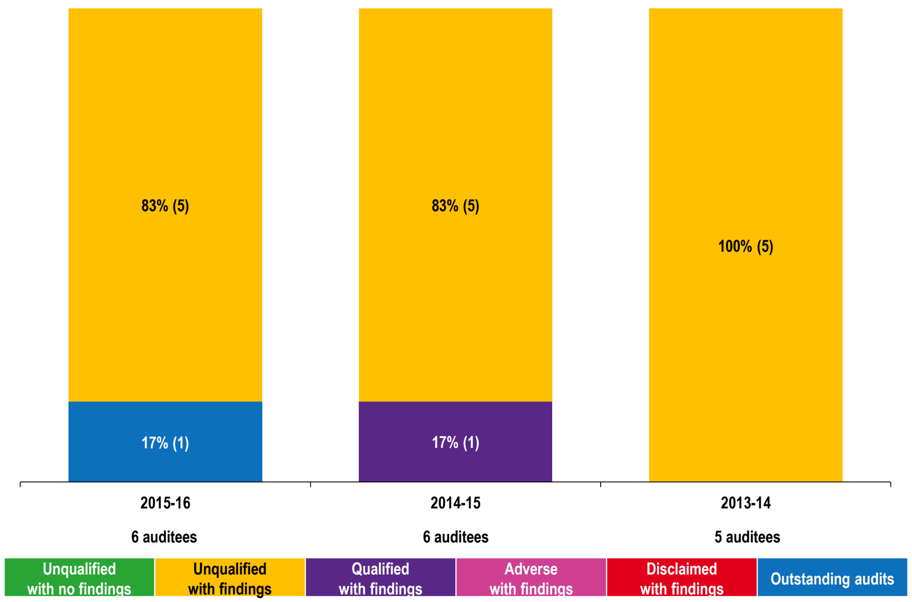
Recommendations

To improve and sustain the audit outcomes of the portfolio, the leadership must:

- address the internal control weaknesses identified
- fill vacancies in key positions
- develop, implement and monitor action plans to address matters raised by internal and external audit.

Vote 32: Telecommunications and Postal Services

Three-year audit outcome



Telecommunications and Postal Services is a newly established portfolio. The president signed a proclamation to restructure the national Department of Communications on 25 May 2014. This resulted in a change of name to the Department of Telecommunications and Postal Services (DTPS) and the creation of a new national Department of Communications allocated under vote 3. The proclamation also resulted in the department being allocated an additional state-owned entity: Sita. Sita previously reported to the DPSA portfolio. The SABC has been reallocated and is now included in the newly established Communications portfolio.

The portfolio's audit outcomes stagnated over the past three years, with the exception of 2014-15 when the South African Post Office (Sapo) was included in the portfolio as an entity audited by the AGSA. Sapo received a qualified opinion in 2014-15 and its 2015-16 audit outcome has not been included because the audit was still underway by the cut-off date for inclusion in this report. This was due to the annual financial statements being submitted late, mainly due to capacity and skills constraints at the finance unit. The report was subsequently completed and Sapo received a repeat qualified audit opinion. The significant amount of irregular and fruitless and wasteful expenditure incurred by Sapo remained a concern. Although a significant portion of this expenditure related to previous years, it is critical to ensure the completeness of these amounts and to regularise the expenditure through condonement.

The quality of the financial statements submitted for auditing regressed and is of concern. Eighty per cent (2014-15: 50%) of auditees submitted financial statements that required material amendments and were able to avoid qualified audit opinions only by making material amendments. The regression resulted from a lack of systems and procedures to deal effectively and accurately with new business developments, vacancies in key positions at finance departments and the lack of internal controls to validate and verify evidence supporting the financial statements. Although the quality of financial statements submitted regressed, the DTPS made some progress as no material corrections were required during the audit process. This was due to the DTPS implementing the auditor's recommendation to appoint a skilled chief financial officer who could perform adequate reviews.

Compliance with legislation remained a concern, with the portfolio seeing an increase in material findings on irregular expenditure and procurement management.

Irregular expenditure reported for the portfolio increased in 2015-16 to R282 million, evidenced by the increase in material findings on compliance relating to SCM management. Of the irregular expenditure reported, 91% related to non-compliance with SCM legislation and 77% was not detected by the auditees' internal control systems This was a result of the lack of monitoring and oversight of compliance with policies and legislation, and capacity constraints at SCM divisions. Of the portfolio's irregular expenditure, 67% relates to the Universal Service and Access Fund (USAF), which relates to the broadcasting digital migration contracts, where the contracts awarded to bidders were based on points given for criteria that differed from those stipulated in the original invitation for bidding and contracts were awarded to bidders that did not score the highest points in the evaluation process. This was a result of poor planning for procurement processes and a lack of oversight by leadership of the procurement process.

The financial health of the portfolio has been assessed as good, with a slight improvement in 2015-16. The National Electronic Media Institute of South Africa (Nemisa) did not maintain good cash flow practises and had a high percentage of bad debts when compared to the trade receivables balance at year-end.

The quality of the annual performance reports submitted for auditing remained a concern, USAASA required material amendments as a result of audit findings. Despite having made certain corrections to the information reported in the annual performance reports, Nemisa still had material findings on the reliability of actual performance reported, which was a regression from the previous year. The auditees that did not require material amendments maintained the implemented good performance management processes. The quality of annual performance plans submitted for auditing regressed, with two auditees receiving findings on usefulness in 2015-16. This was a result of insufficient controls and processes for planning and reporting performance information.

The key controls relating to leadership and financial and performance management remained stagnant as a result of instability in key positions and a lack of monitoring of compliance with policies and legislation. If this is not addressed it could lead to regression in the audit outcomes of the portfolio.

Stability in key leadership positions and the capacity at finance units were of concern. Nemisa, USAASA and USAF did not have chief financial officers. The USAASA, USAF and Sita did not have chairpersons of the board and the department had an acting director-general. Two deputy directors-general were still not appointed as at year-end. Twenty-three per cent of auditees had vacancies in key leadership positions, which regressed from the previous year (19% vacancy rate). Twenty-four per cent of auditees had finance and/or SCM units that were understaffed (2014-15: 9%). The instability in key positions was the main driver of the regression in audit outcomes.

The department did not have adequate firewall configurations and Sita did not implement adequate controls over application and operating system securities, which makes it vulnerable to attacks from external sources. Sita did not monitor and review access rights controls over their systems, which led to excessive access rights given to users and job responsibilities not aligned to rights granted to users. However, no significant findings were raised for IT governance, and IT continuity focus areas for the portfolio. This was a result of an active internal audit function and the audit committee. The control weaknesses identified were driven by the lack of expertise and skills and inadequate segregation of duties within the portfolio.

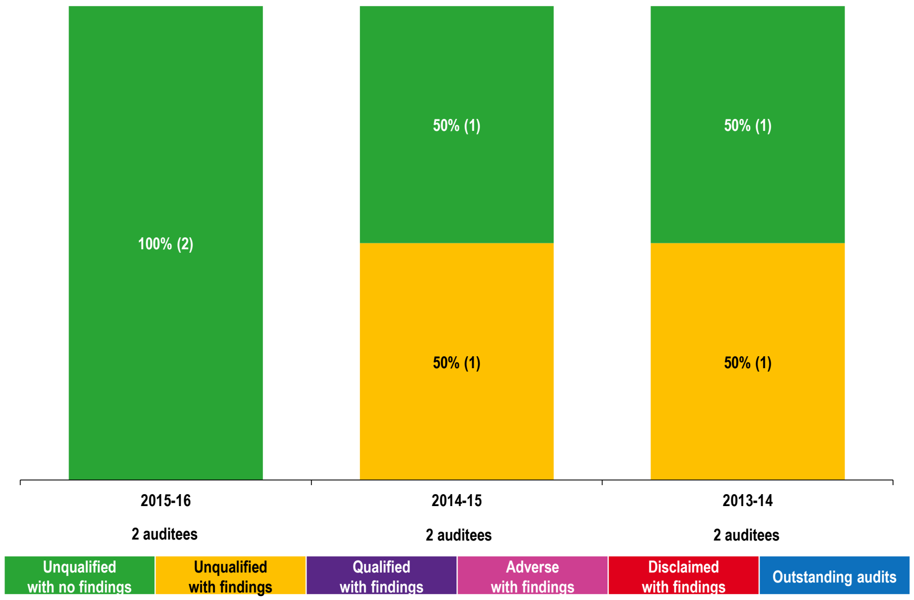
The level of assurance provided by senior management and the accounting officers or authorities should be improved by ensuring that processes and procedures adequately address all deficiencies in controls, and that recommendations by auditors are implemented on time. The audit committee and internal audit unit maintain effective and functional oversight by monitoring the implementation of commitments on corrective action through quarterly progress reporting on the action plans. However, these structures have to ensure that actions plans are updated as the audit process continues to surface new concerns that could have been prevented. We met with the minister twice during the year. Although these engagements led to the filling of some critical vacancies at the department, further action is required to prioritise filling key vacant executive positions in the portfolio. The portfolio committee provided assurance and this should be maintained to improve audit outcomes.

The executive authority and accounting officers or authorities should address the root causes of poor audit outcomes as follows:

- Oversee performance information and compliance management to ensure compliance with relevant legislation.
- Prioritise effective human resource management, resulting in stability in key positions. Vacant executive positions should be filled to ensure that there is adequate oversight of financial and performance reporting and compliance, as well as internal controls.
- Consistently monitor the implementation of action plans to address audit findings and internal control deficiencies.
- Implement effective processes of consequence management against those who allow irregular and fruitless and wasteful expenditure.

Vote 33: Tourism

Three-year audit outcome



The audit outcomes of the Tourism portfolio have improved over the three years. This was due to the improvement of the department from an unqualified audit opinion with findings to unqualified audit opinion with no findings. The department has addressed the previous year's findings through close monitoring of action plans to ensure that there are no repeat findings. The South African Tourism (SAT) sustained its audit opinion of unqualified with no findings.

The quality of the financial statements has improved from the previous year, as the department addressed the material misstatements in the area of disclosure notes (commitments) and further implemented controls to ensure that the accounting treatment for the infrastructure assets of the EPWP are accounted for in terms of the accounting framework.

The department implemented the following commitments from the previous year that led to a control environment that supported reliable financial reporting:

- Strengthened financial reporting and related controls to prevent misstatements.
- Enhanced oversight to detect misstatements prior to commencement of the audit process.
- Implemented proper record keeping for the collection and consolidation of information supporting disclosure notes.
- Engaged with the National Treasury regarding the correct accounting treatment for the EPWP infrastructure expenditure and assets.

The portfolio maintained its status of producing high quality and credible performance reports that are supported by sufficient appropriate evidence. The sustained quality in the portfolio was as a result of increased awareness of the requirement to report on performance. The leadership implemented our recommendations and monitored action plans to address our findings on a regular basis.

The Tourism portfolio has sustained the status of not having findings on compliance with legislation in the 2015-16 financial year. The sustained compliance in the portfolio was as a result of management's discipline to implement internal controls which include compliance checklists that were implemented as a tool to supplement policies and procedures. These enabled officials, supervisors and monitoring units (e.g. internal audit units) to independently determine whether all legislative requirements were met in the daily transactional management as well as SCM processes.

The financial health of the portfolio has remained acceptable with no unfavourable financial indicators.

The status of key control in the portfolio has improved as a result of an improvement in audit outcomes of the department. The leadership implemented and monitored internal controls by ensuring that there is proper oversight and financial and performance management.

The portfolio should continue to closely monitor good practices of:

- a culture of ethical behaviour
- commitment and good governance
- good human resource practices to ensure that adequate and sufficiently skilled officials are in place and that their performance is managed
- having basic disciplines and controls for daily and monthly processing and reconciling of transactions.

The senior leadership and oversight structures in the portfolio continued to provide the required level of assurance over financial, performance reporting and compliance with legislation. The assurance provided by senior management at the department improved from the previous year, which supported the improved audit outcomes of the portfolio. The portfolio committee provided the required assurance through following up on commitments provided during our engagements. We met with the minister once in 2015-16 and the minister has honoured the commitments made in the previous year.

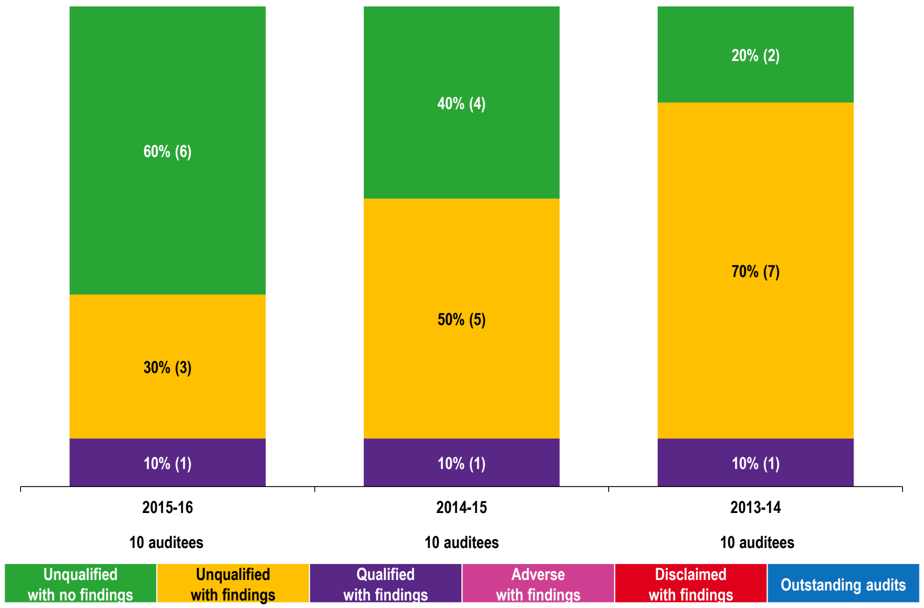
Overall, stability in senior management posts and the finance components were sustained over the period, with no concerns relating to vacancies in key positions.

The overall assessment of the IT environment within the portfolio has improved as the SAT addressed the key deficiencies in IT controls identified during the previous year. This improvement was as a result of continued efforts made towards implementing the IT governance framework.

The portfolio's leadership should continue with the discipline of good practices of proper oversight, monitoring controls and action plans to ensure sustained audit outcomes.

Vote 34: Trade and Industry

Three-year audit outcome



The audit outcomes of the Trade and Industry portfolio improved over the past three years. Six entities within the portfolio achieved clean audit opinions in 2015-16, which is a significant increase from only two clean audits achieved in 2013-14. It should however be noted that the audit outcome of the DTI regressed from a clean opinion to an unqualified opinion with findings on compliance with legislation in the year under review. Furthermore, the audit outcomes of the Companies and Intellectual Property Commission (CIPC) and the National Consumer Commission (NCC) remained unchanged at unqualified with findings on compliance with legislation.

The overall improvement in the audit outcomes is attributed to the leadership and management at the National Gambling Board (NGB), National Lotteries Commission (NLC) and Companies Tribunal implementing and monitoring adequate action plans, which addressed previously identified deficiencies. The portfolio's leadership also managed to appoint skilled staff in key positions, within the past three years, which further contributed to the stability and, ultimately, the improved audit outcomes.

The minister embraced the concept of clean audits and, with the support of the leadership at the National Credit Regulator (NCR), National Consumer Tribunal (NCT) and South African Bureau of Standards (SABS), the NCT and SABS, managed to maintain the clean audit outcomes for three consecutive years and the NCR since 2014-15. The leadership at these entities instilled a culture of continuously enhancing key controls, implementing recommendations timeously and holding staff accountable.

The National Regulator for Compulsory Specifications (NRCS) received a qualified audit opinion for the third consecutive year. Although controls over the management of the levy database have improved, challenges still remained with regard to the recognition of levy revenue and receivables in the correct period and the completeness of such transactions. Importers whose products were subject to compulsory specifications were identified during physical inspections and levies due on these products were not paid by some of these importers. This was due to the internal processes of the NRCS not ensuring that invoices were issued and followed up for collection purposes, as the current performance and financial management systems were not linked.

Although the internal control environment remained stable during the year, the DTI's audit outcomes regressed due to the ineffective review and monitoring of compliance with the disclosure requirements of the accounting framework at year-end. This resulted in instances of material misstatements in the annual financial statements being identified during the year-end audit process. Furthermore, a material finding was raised on the reliability of a selected programme presented in the annual performance report due to management not confirming the reliability of the source information prior to compilation of the annual performance report.

It is commendable that the overall compliance outcomes have improved since 2013-14. This was mainly because the Companies Tribunal, NGB, NLC and NCR implemented the audit recommendations by implementing adequate controls which addressed compliance findings. The most common areas of non-compliance in 2015-16 related to material adjustments to the financial statements and expenditure management, which resulted in irregular expenditure.

There has been a marked improvement in the quality of the financial statements submitted for auditing. The number of entities where the internal controls did not prevent or detect material misstatements prior to submission for auditing has decreased gradually over the past three years from seven (70%) in 2013-14 to three (30%) in 2015-16. These entities were the DTI, NRCS and the NCC. This improvement is attributed to management's efforts of introducing the preparation of quarterly financial statements and thorough reviews of the annual financial statements by management and the internal audit prior to submission for auditing.

In 2015-16 irregular expenditure of R17,3 million was incurred at portfolio level, R11,3 million related to non-compliance with SCM prescripts and R6 million related to non-compliance with other legislation. This was significantly lower than the R40,2 million reported in the 2014-15 financial year. In all instances goods and/or services were received. The highest irregular expenditure of R9,5 million was reported at the NCC due to inadequate segregation which resulted in reviews not identifying non-compliance with the procurement processes. The CIPC incurred irregular expenditure of R6 million resulting from overpayments to staff due to incorrect application of the approved remuneration framework. The minister instituted an investigation to determine accountability for the salary overpayments.

At the DTI, NLC and NCR the current liabilities exceeded the current assets, which may result in an inability to pay debts as they fall due. This resulted in a regression in the financial viability at portfolio level. Management should implement adequate processes to ensure that the auditees remain liquid.

Since 2013-14 the audit outcomes in relation to predetermined objectives improved. Eight entities had no material findings and/or material adjustments reported during 2015-16. This is a steady improvement from six entities in 2013-14 and three entities in 2014-15. These entities focused on improving the design of the indicators and targets to ensure useful and reliable reporting. This resulted in no material findings on the usefulness of the indicators and targets within portfolio. The DTI was the only entity where evidence could not be provided to confirm the reliability of the achievements reported. The CIPC managed to resolve the material findings raised in the previous years by upgrading the system database to provide for reliable recording of actual performance. The quality of the reported information of the DTI and the NCC was of concern, and only NCC management was able to correct all misstatements to avoid material findings. Management at the DTI and NCC should implement proper reviews and improved record keeping processes.

The overall assessment of the IT environment within the portfolio reflected slow but steady improvement over the past three years. However, key IT matters at the NRCS should be addressed to allow the performance systems to integrate with the financial management systems. This will allow for inspections conducted to be completely and accurately recorded as revenue. The NCC had repeat findings on IT governance, user access management and IT service continuity. Management did not prioritise the action plan relating to these matters.

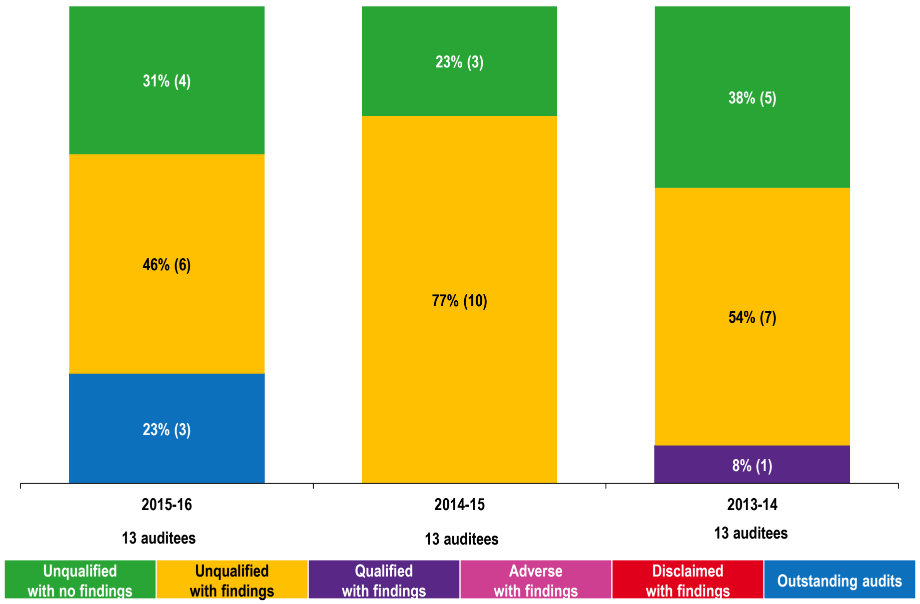
Improved assurance provided at the level of the accounting officer or authority and senior management contributed towards sustained and improved key controls through implementation and monitoring of action plans to address internal and external audit findings, timeous filing of key vacancies, appointing skilled staff, implementing and maintaining controls to ensure that irregular expenditure is prevented and transgressors are held accountable. The internal audit units and the audit committees played a key role in ensuring that work was done on key focus areas to improve the internal control environment. The assurance provided by the executive authority in monitoring the progress of the portfolio's performance through quarterly reporting has improved as reflected in the improved audit outcomes. The portfolio committee supported the drive to clean administration and improved audit outcomes through regular briefing meetings with the DTI and other entities within the portfolio to monitor the implementation of action plans and key controls.

The assurance provided by key role players at the NCC has not improved adequately as it provided some assurance. The role players should focus on addressing the previous year's findings. At the NRCS, interventions and commitments should be intensified to address the qualification. The assurance providers at the NCC and NRCS must assess and monitor the action plans implemented more frequently and prioritise the repeat findings raised during these audits. Staff should be held accountable for not meeting the deliverables as per the action plans. Furthermore, the assurance provided by the NCC's internal audit unit regressed as it did not identify instances of material non-compliance with SCM legislation.

In order to sustain or improve the current audit outcomes, there should be regular and timeous monitoring of action plans to ensure that the identified deficiencies are addressed to avoid repeat findings and continued non-compliance, and consequence management for transgressions should be implemented.

Vote 35: Transport

Three-year audit outcome



The audit outcomes have improved slightly over the past three years.

The Cross Border Road Transport Agency (CBRTA) and Road Traffic Management Corporation (RTMC) improved from an unqualified audit opinion with findings to unqualified audit opinion with no findings. These auditees honoured previous year's commitments by implementing the action plans to address our previous year's findings and recommendations. The South African Civil Aviation Authority (SACAA) and Ports Regulator South Africa (PRSA) remained unchanged at unqualified audit opinion with no findings on compliance and/or predetermined objectives due to implementation of action plans to sustain the clean audit outcome. South African National Roads Agency SOC Ltd (Sanral), Road Traffic Infringement Agency (RTIA), Railway Safety Regulator (RSR), Driver's License Card Account (DLCA) and South African Maritime Safety Authority (Samsa) remained unchanged as they received an unqualified audit opinion with findings on compliance and/or predetermined objectives. The Road Accident Fund (RAF) regressed from unqualified audit opinion with no findings to unqualified audit opinion with findings due to compliance findings on irregular expenditure.

The audit outcomes of the Department of Transport (DoT), Passenger Rail Agency of South Africa (Prasa), and Airports Company South Africa SOC Limited (Acsa) are not included in this report. Due to resubmissions of financial statements, we had not finalised these audits by the cut-off date. The following are the reasons for resubmission of financial statements:

- Due to litigation with the service provider, the DoT did not account for e-Natis assets and was in the process of getting a technical opinion on the accounting implications regarding this on its financial statements.
- 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.
- Prasa embarked on the investigation of SCM contracts and accounting for irregular expenditure in the financial statements could not be finalised within the legislated deadline.

The audits of Prasa and Acsa were subsequently finalised and the outcomes remained unchanged at unqualified audit opinion with findings. Prasa incurred irregular expenditure of R13,97 billion in the year under review as a result of significant non-compliance with its own SCM policy and legislation. Included in this amount is R9,8 billion relating to irregular expenditure identified in the year under review, which related to previous years. Prasa fully disclosed all irregular expenditure identified. Several investigations into contracts previously awarded were ongoing. Furthermore, Prasa incurred fruitless and wasteful expenditure of R255 million in the year under review, mainly relating to the procurement of new locomotives that cannot be used optimally on the South African rail network. The root causes of the unchanged audit outcome at Prasa were instability in key positions and lack of financial and performance reporting discipline.

Acsa incurred irregular expenditure of R134 million in the year under review as a result of non-compliance with SCM policy and legislation. The root causes of the unchanged audit outcome at Acsa include slow response by management to address previous years' audit findings and lack of oversight by leadership to ensure proper monitoring of controls and compliance with legislation.

Due to late completion of both Acsa and Prasa audits, the total irregular expenditure incurred by these entities is not included in the portfolio amount reported in the paragraph below.

If Prasa and Acsa audits were finalised within the cut-off date, the audit outcomes of the portfolio would remain the same with slight improvement.

There was an improvement in the quality of the financial statements submitted for auditing in the portfolio. This was due to the RTIA, RSR and RTMC implementing our previous year's recommendations. The financial statements submitted for auditing by the DLCA, Samsa and Sanral contained material misstatements. These entities received an unqualified audit opinion only because they corrected all the misstatements that we identified during the audit process. This was due to slow response to implement the previous year's recommendations.

The following controls should be strengthened to support reliable financial reporting and ensure further improvement in the quality of financial statements:

- Relevant governance structures should promptly implement and monitor key commitments made to implement the AGSA's recommendations to address the root causes.
- Enhance a review process of financial statements to detect and correct errors prior to submitting financial statements for auditing.
- Fill key vacancies at the finance departments timely to avoid instability.
- Implement proper record keeping for the collection and consolidation of information supporting disclosure notes which are only finalised at year-end.

Compliance with key applicable legislation continued to be a challenge in the portfolio, especially in the areas of SCM, prevention of irregular and fruitless and wasteful expenditure, as well as consequence management. There was a slight improvement as the CBRTA and RTMC addressed the previous year's compliance findings.

The portfolio incurred irregular expenditure of R1,4 billion as a result of non-compliance with SCM legislation, with R1,2 billion of the total irregular expenditure incurred by Sanral. The irregular expenditure by Sanral decreased by 28% from the previous year because most of its irregular expenditure related to the existing contracts that were awarded based on preference points that were not calculated in accordance with the requirements of the PPPFA and its regulations and, therefore, on expiry of these contracts the expenditure decreased. Of the total irregular expenditure incurred, 67% was identified by Sanral while the remainder was identified through the audit process.

The portfolio also incurred fruitless and wasteful expenditure of R38 million, with R31 million of this expenditure being incurred by the RAF. All of the fruitless and wasteful expenditure was identified by the RAF. This expenditure by RAF was due interest as a result of delay in payment of claims and sheriff costs.

The following controls should be strengthened to create a control environment that supports compliance with legislation:

- Stricter monitoring controls and training of staff on the SCM legislation.
- Review and monitoring of compliance with applicable legislation.
- Implement consequence management for staff members who fail to comply with applicable legislation.

The financial health of the portfolio was of concern and the accounting authorities of Sanral, Samsa, the RAF and CBRTA should closely monitor their turnaround strategies to improve their asset, liability and cash management.

The quality of submitted performance reports of the CBRTA, DLCA, Prasa, RTIA, and RTMC regressed; Sanral and Samsa had repeat findings which resulted in the regression in the portfolio. The following auditees had findings on usefulness and/or reliability: the RTIA, RSR, Samsa and Sanral. The regression was due to inadequate record and document management processes and the lack of oversight and monitoring of performance reporting by the senior leadership in the portfolio.

The following controls should be strengthened to create a control environment that supports useful and reliable reporting on the performance of the portfolio:

- Proper record keeping of evidence to support the achievement or non-achievement of targets.
- Prepare regular, accurate and complete performance reports that are supported and evidenced by reliable information.
- Perform quality reviews in a timely manner prior to submission of such reports for auditing.

The status of key controls indicated that an improvement was required in the areas of leadership and financial and performance management. This was due to slow response to implement action plans to address our findings and lack of consequences for poor performance and transgressions.

There were still concerns at Samsa, Sanral and the DLCA in the management of vacancies of key posts within the portfolio to ensure that there are fully capacitated units that support financial, performance reporting and compliance with key applicable legislation.

The IT environment in the portfolio required improvement in the areas of IT governance, security management, user access management and IT service continuity, which could compromise the confidentiality, integrity and availability of financial information.

The assurance provided by management should be improved further by taking immediate action to address our findings and recommendations. The level of assurance provided by accounting authorities, internal audit units and audit committees should be improved by ensuring more effective oversight of financial and performance reporting, compliance with key legislation and consequence management for transgressions.

We held three engagements with the minister during the past year and through honouring commitments made during these engagements, there was an improvement in the overall audit outcomes of the portfolio. The minister should continue monitoring matters in the portfolio through:

- requesting updates on preparation for the take-over of major information system contracts and reports on progress of the infrastructure projects worth billions of rand
- obtaining presentations on the implementation of action plans to improve audit outcomes regularly
- requesting compliance reports to have a view on SCM and contract management
- obtaining progress reports on implementation of consequence management
- requesting the evaluation of the effectiveness of audit committees and internal audit units within the portfolio.

The following were the overall root causes of material findings on compliance with legislation and/or predetermined objectives:

- Slow response by management (accounting officer or authorities and senior management) to implement action plans to address audit findings.
- Instability or vacancies in key positions and inadequate skills at some of the auditees created a weak control environment that resulted in the basic financial, performance reporting and compliance with legislation not being enforced.
- Lack of consequences for poor performance and transgressions.

The accounting officer and accounting authorities should address the root causes of poor audit outcomes and inadequate controls as follows:

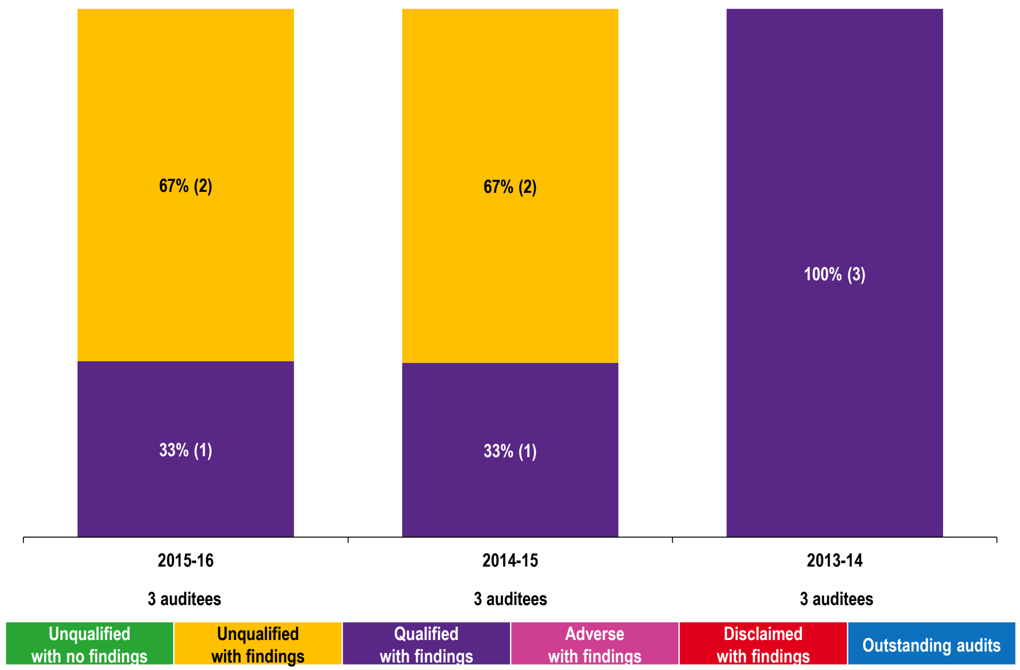
- Address the issue of slow response by management to address the concerns raised.
- Action the appointment process for key vacancies within the department and request regular updates on the process.
- Monitor progress on all consequence management cases and ensure implementation of recommendations.
- Monitor implementation of the IT governance framework and IT controls.

The accounting authorities and senior management of the entities that improved and/or sustained their audit outcomes implemented the following best practices:

- Had regular engagements with the AGSA on the key controls and internal control improvements.
- Took appropriate corrective action to address the previous year's audit findings and implemented our recommendations.
- Enhanced consequence management for transgressions and poor performance.

Vote 36: Water and Sanitation

Three-year audit outcome



There was some improvement in the audit outcomes over the past three years. Two of the three auditees achieved an unqualified opinion in the past two years compared to three qualifications in 2013-14. The Department of Water and Sanitation (DWS) improved as it successfully resolved its qualification areas with the assistance of consultants. The Water Trading Entity's (WTE) outcome regressed to a qualified opinion in the year under review as material misstatements were identified on the useful lives of property, plant and equipment and some items of property, plant and equipment could not be verified.

The financial statements submitted for auditing in the portfolio were materially misstated in the areas of commitments and property, plant and equipment. The WTE could not revisit the entire population of infrastructure assets and review the useful lives of assets still in use, but previously carried at nil values, to clear their qualification due to the magnitude of the number of assets and the geographical allocation of sites.

Contractual obligations and money owed were not always settled within 30 days. The portfolio did not maintain, in all instances, effective, efficient and transparent systems of risk management and internal control with respect to performance information and performance management.

Non-compliance with SCM regulations in the portfolio included:

- not taking effective steps to prevent irregular and fruitless and wasteful expenditure
- procuring goods and services of a transaction value above R500 000 without inviting competitive bids
- awarding contracts to bidders based on preference points that were not calculated correctly
- not properly applying the thresholds for local content on procurement by designated sectors, as a specification committee was not established for a portion of the year.

The portfolio incurred R1,8 billion (2014-15: R94 million) of irregular expenditure, of which R1,3 billion (74%) related to payments made by the DWS to a contractor that was appointed by an implementing agent. The appointment was on the basis of it being an emergency without following proper SCM processes. Our audit identified that the multi-year project did not meet the definition of emergency procurement and as a result the implementing agent needed to apply the principles of an open tender.

Fruitless and wasteful expenditure of R60,3 million (2014-15: R2,1 million) was incurred and for the DWS a major portion related to possible double payments of R46,6 million made to implementing agents for the 2014-15 book year identified in 2015-16. At the time of this report, the double payments were under investigation to determine their validity. The department identified 68% of the expenditure while the remaining 32% was identified during the audit process.

The DWS' year-end accruals included accruals older than 30 days, which may have a negative impact on the following year's available funds. Impairment of WTE's debt was high mainly as a result of non-payment by municipalities and water boards. The cash that the WTE had on hand decreased significantly compared to the creditors' balance at year-end. This indicates inadequate managing of working capital, and that effective controls were not in place to ensure prompt payments in the portfolio.

The published annual performance report of the DWS was not useful and reliable for programmes 3 and 5, in all instances. Management also made material adjustments to the annual performance report.

The drivers of internal control over performance and compliance have improved slightly. This is evidenced by the overall improvement in the audit outcomes over the three years, reduction of compliance findings and improvement in matters relating to predetermined objectives. The financial internal control drivers at the WTE regressed as reflected in the qualification.

The overall vacancy rate for the portfolio increased. The senior management vacancy rate also increased, specifically at regional level. Subsequent to year-end, the director-general resigned resulting in the chief financial officer of the DWS being appointed as the acting director-general.

The department did not fully implement the IT governance framework and did not review user access rights and administrators' activities on a regular basis. Adequate progress had not been made in addressing previous findings as risks remained in most of the focus areas.

The Water Research Commission improved by establishing and implementing controls over IT governance framework. We identified control weaknesses in the design and implementation of IT controls at the DWS. The portfolio was still vulnerable to attacks from external sources due to inadequate firewall configurations, SAP database configurations, operating system security settings and lack of patch management implementation, which could lead to exploitation of sensitive information. The control weaknesses identified were driven by the lack of expertise and skills as IT processes were mostly outsourced to professional service providers. There was also no governance information technology officer at the DWS and WTE.

Senior management, the accounting officer, audit committee and internal audit functions provided some assurance. The portfolio committee provided assurance and this should be maintained. We met with the minister once in the past year and this interaction had some impact. One of the three commitments made by the minister in the previous year was implemented.

The slow response by management to address audit findings and implementation of internal controls remained the top root causes for the portfolio.

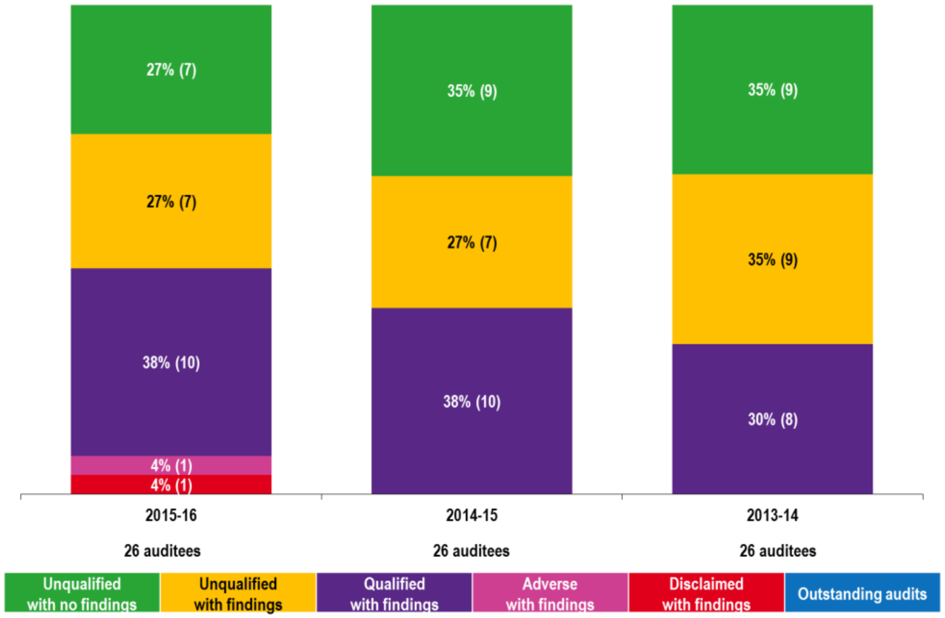
Management should enhance communication channels between the finance section and infrastructure project managers. Management should provide support to all regional staff responsible for infrastructure grants to ensure that regions are able to produce reliable commitment schedules and other related information. Implementing agencies' compliance with applicable legislation should be monitored. The internal controls should be monitored and exceptions noted should be followed up and cleared in a timely manner.

The following controls should be strengthened to create a control environment that supports useful and reliable reporting:

- Adequate reviews of information supporting the financial statements and annual performance reports and verify its accuracy and validity.
- Holding staff accountable for non-performance.
- Focusing on interim reports to allow management to identify any challenges in advance.
- Adequate reviews to ensure that reports are supported by sufficient and appropriate schedules. Management of documentation should be enhanced.
- Implementing or strengthening controls over implementing agents to ensure that SCM legislation is adhered to and that funds are used for their intended purpose.
- Ensuring integrated planning, proper communication and coordination to achieve the vision and mission of the DWS.
- Implementing and strengthening basic internal controls and accounting disciplines that are monitored on a regular basis to ensure compliance. Implement consequence management, where necessary.

Vote 37: Arts and Culture

Three-year audit outcome



The overall audit outcomes of the Arts and Culture portfolio regressed over the three years. The major contributor to this regression has been the requirements of GRAP 103, *Heritage assets* which came into effect in 2014-15 and affected 38% of the entities in the portfolio in 2015-16 (2014-15: 31%). The entities received exemption from the National Treasury to not comply with the measurement and recognition requirements of the standard. The exemption was assessed against the criteria for fair presentation of financial statements and was found wanting. Notwithstanding the exemption on measurement, the auditees were required to determine the classification of assets between heritage assets and other classes of assets, which were unfortunately also not done or not done adequately. The standard requires that heritage assets should only be recognised if the cost or fair value can be measured reliably. The entities faced the following challenges:

- They were unable to prove impracticability to comply with the measurement criteria.
- The budget to ensure compliance with the standard would only be available from the National Treasury in the 2017-18 financial year, even though the standard indicates that cost should not be a reason for not complying with the standard.
- Different measurement techniques and experts were used in valuating heritage assets.
- Some entities did not have adequate documentation and controls to account for all heritage assets.
- Although there was no clear guidance from the Accounting Standards Board and National Treasury, the entities did not individually engage these structures to support them in their plight to implement the standard.

Eight auditees regressed, three improved and 15 remained unchanged. The Ditsong Museum of South Africa regressed from a qualified to an adverse audit opinion and the South African State Theatre regressed from an unqualified opinion with findings to a disclaimer of audit opinion. The Iziko Museum, KwaZulu-Natal Museum and War Museum of the Boer Republics regressed from an unqualified opinion with no findings to a qualified audit opinion. The National Museum, Performing Arts Centre of Free State and William Humprey Art Gallery regressed from an unqualified opinion with findings to a qualified audit opinion. This was due to poor recording keeping, inadequate effort to comply with the accounting standards and instability in leadership. Three entities (DAC, National Arts Council of South Africa and Windybrow Theatre) improved from a qualified audit opinion to an unqualified audit opinion. The entities strengthened their internal controls over record keeping and consequence management was implemented for poor performance.

Sixteen auditees (62%) submitted financial statements that contained material misstatements and four auditees (15%) received an unqualified audit opinion after correcting all the misstatements identified during the audit process. Vacancies and instability in key positions contributed to a weak control environment at some entities. It is very important to fill the critical vacancies and provide training.

Although the overall audit outcomes regressed in the portfolio, the response to improve key controls and address risk areas was slow in the portfolio. These resulted in material non-compliance, mainly in the areas of expenditure management, procurement and contract management, strategic planning, and performance management. Compliance with legislation within the portfolio remained an area of concern as 18 auditees (69%) (2014-15: 65%) did not comply. Nine auditees (35%) that did not comply with the requirements of SCM regulations in 2014-15 remained non-compliant in 2015-16. This resulted in the portfolio incurring irregular expenditure of R163 million (2014-15: R178 million).

Internal controls were inadequate or not implemented to ensure compliance with SCM regulations. The leadership should design SCM procedures that are effective to reduce irregular expenditure to a minimum.

The overall financial health of the portfolio improved slightly as most entities were in a favourable position compared to the previous year. The contributing factors were the sound cash management systems implemented by the entities, and budget monitoring. However, 10 entities had concerning indicators as their operational costs exceeded revenues. This was a result of the lack of oversight from the leadership, as variances were not analysed and corrective action not taken. The leadership should monitor budgets, analyse variances and take corrective action. Furthermore, the leadership should design and implement sound cash management systems that will improve liquidity.

The quality of annual performance reports submitted regressed. More auditees were required to make material adjustments to obtain good audit outcomes on performance reports. Key performance indicators and targets at the National Heritage Council of South Africa were not well defined and did not meet the SMART criteria. Indicators were not verifiable at the South African State Theatre. Reasons for variances between planned targets and actual achievements were not provided at the Performing Arts Centre of the Free State and targets and indicators were not consistent between planning and reporting documents at the Ditsong Museum. Furthermore, information reported on the annual performance report was not reliable at five entities. This led to material non-compliance as the entities did not have formal documented standard operating procedures that governed their predetermined objectives or processes and systems of collecting, collating and storing information. Performance information policies and procedures must be implemented as a corrective measure for the material non-compliance.

Internal controls, especially over leadership and governance, have improved; however, financial and performance management remained a concern as evidenced by the overall regression of the audit outcomes.

There were key vacancies, including the director-general at the department and vacancies at some entities' financial components. These were either occupied by acting persons or filled late in the financial year. Filling vacancies must be prioritised at senior management level to strengthen the oversight of financial and performance reporting, compliance and related internal controls.

IT controls have regressed in the portfolio. Weaknesses were due to IT controls not being implemented within the four focus areas – IT governance, security management, business continuity and user access management.

The controls were designed and formalised, but management struggled to implement them; therefore, risks remained in all the focus areas. The department progressed, as the control weaknesses had moved from the design to the implementation of IT controls.

Senior leadership and oversight structures provided the required level of assurance of financial and performance reporting and compliance with legislation. The portfolio committee provided assurance and this should be maintained to improve audit outcomes.

The minister, accounting officers or authorities and senior management should address the following root causes to improve the audit outcomes:

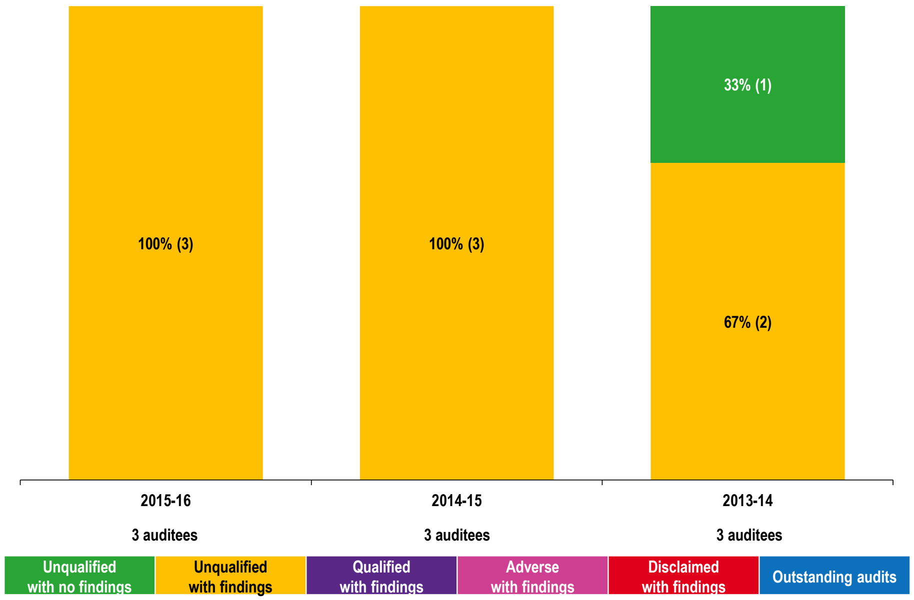
- Slow response to improve key controls and address risk areas.
- Instability or vacancies in key positions, or key officials lacking competencies.
- Inadequate consequences for poor performance and transgressions.

Constitutional institution

The overall audit outcome of the Pan South African Language Board (Pansalb), which is a constitutional institution, improved over the three years. The institution moved from a disclaimer of audit opinion in 2013-14 to a qualified audit opinion in 2015-16, as some material misstatements identified were subsequently corrected. Financial statements were not reviewed for completeness and accuracy prior to submission for auditing. Pansalb did not submit an annual performance report, strategic plan and annual performance plan for audit purposes. The institution incurred irregular expenditure of R8,3 million (2014-15: R8,7 million) as a result of not complying with the requirements of SCM regulations. These non-compliance matters were a result of a lack of oversight of financial and performance reports, compliance and internal controls, and instability in leadership positions. The board and audit committee were disbanded during the year.

Vote 38: Human Settlements

Three-year audit outcome



The audit outcome of the Human Settlements portfolio has regressed from 2013-14 to 2015-16 as the Community Schemes Ombuds Services (CSOS) moved from a clean audit in the 2013-14 financial year to an unqualified opinion with findings on predetermined objectives and compliance with legislation. The regression in CSOS' audit outcome was due to an increase in operational activities over the three years as 2013-14 was its first year of operation and staff had not been adequately trained.

There has been stagnation in the quality of the financial statements submitted for auditing over the three years. Two auditees (67%) submitted financial statements that contained material misstatements that were subsequently corrected in the areas of non-current assets, revenue, current liabilities, non-current liabilities, budget statement, cash flow statement, appropriation statement and disclosure notes. These misstatements were due to entities not having adequate controls and processes during the year to ensure complete and accurate financial statements that are supported by substantiating evidence, inadequate year-end reviews by management, staff who did not understand the requirements of the financial reporting framework, and critical positions in financial reporting vacant for more than 12 months. Management should ensure that staff are regularly trained on the relevant reporting framework, and should enhance year-end reviews to ensure that quality financial statements are submitted for auditing.

Similarly, there has been a regression since 2013-14 in compliance with legislation as non-compliance was reported in the areas of material misstatements in financial statements, irregular expenditure not prevented, payments not made to suppliers within 30 days, procurement from suppliers without Sars clearance, preference points incorrectly allocated, suppliers scoring highest points not selected, competitive bids not invited where the deviation was not justified, three written quotations not obtained and awards made to providers who were in service of the auditee without interest being declared. There was a significant increase in non-compliance with legislation reported at the CSOS and this was mainly due to insufficiently skilled and trained staff. At the department and the National Home Builders Registration Council (NHBRC) non-compliance persisted due to inadequate oversight and lack of monitoring and review of compliance with legislation.

Irregular expenditure in the portfolio decreased from R132 million in 2013-14 to R22 million in 2015-16. The amount identified through the audit process has also decreased from 20% to 13% over the three years. At the NHBRC irregular expenditure has decreased by R117 million over the three years as the leadership has implemented and monitored action plans to address the non-compliance. However, the irregular expenditure at the CSOS increased from R600 000 in 2014-15 to R8 million in 2015-16 because of non-compliance with SCM prescripts. This was due to inadequate oversight, lack of monitoring and review of compliance with legislation and inadequate skills. Since the establishment of the CSOS in 2013-14, procurement activities have increased. The irregular expenditure at both the NHBRC and CSOS has not yet been condoned as the processes to determine accountability have not been finalised. The leadership should timeously investigate instances of non-compliance and hold transgressors accountable.

The status of financial health for the portfolio has slightly regressed over the three financial years. The CSOS' state of financial health was of concern as a significant deficit was incurred in 2015-16. The funding of the CSOS' operations was, in part, reliant on the community scheme levies. However, there were delays in the approval of the regulations and this, together with the reduction in the transfer payment from the department, has had a negative impact on the financial health of the entity. The board and management of the CSOS should diligently manage the current budget to ensure that the entity does not overspend.

The quality of annual performance reports submitted for auditing has regressed since 2013-14. All entities had to effect material changes to their annual performance reports during the audit process. The number of entities with material findings over the three years remained unchanged (two entities). The NHBRC had material findings on the reliability of reported performance information and the CSOS had material findings on the usefulness of performance information. This was due to staff not being adequately trained on the framework prescribed by the National Treasury, senior management positions vacant for more than 12 months and leadership not implementing and regularly reviewing the progress on action plans to address audit findings previously raised.

The IT environment within the portfolio has remained a concern over the three years. There were findings relating to IT governance, IT service continuity, security management and user access control. There has been an improvement in the department's IT environment as there were findings in four of the focus areas in 2013-14 compared to two in 2015-16. This improvement was due to management implementing previous year's recommendations. The NHBRC has remained stagnant with findings in four focus areas over the three years. The CSOS was assessed for the first time in 2015-16 and had findings in two focus areas.

Assurance provided by senior management and accounting authorities has remained stagnant at providing some assurance and this can be improved by management overseeing financial and performance reporting, monitoring compliance with legislation and ensuring that adequate internal controls are implemented throughout the year.

The executive authority provided some assurance over the three years and this can be improved through regular interactions with the relevant audit committee chairpersons to discuss matters of concern identified by the committees. The audit committee, internal audit unit and the portfolio committee's support to drive clean administration and improved audit outcomes was adequate as they performed their oversight responsibilities as required. Management should implement the recommendations from the oversight structures to ensure positive audit outcomes.

Interventions and commitments still needed to be intensified for the portfolio. The findings included in the audit reports were largely due to management not regularly monitoring implementation of action plans to ensure resolution of findings raised by internal and external audit. Furthermore, there was inadequate consequence management. If these issues are firmly acknowledged by management and commitments followed up timeously, positive audit outcomes can be achieved.

Progress on findings reported in the previous year's sector report

In the year under review there was no separate sector audit performed on Human Settlements. A follow up on previous year's findings was performed to determine whether matters raised in the previous year sector report have been addressed adequately.

The sector focus areas in the previous year related to adequate housing and improved quality living environments as per outcome 8 of the MTSF. The focus areas were as follows:

- Compliance with Dora
- Management of individual housing subsidies
- Management of transfer and advance payments to municipalities and contractors.

Compliance with the Division of Revenue Act

The sector was still experiencing challenges with the focus areas relating to compliance with legislation and the management of transfer and advance payments to municipalities and contractors. There has been a reduction in the overall challenges identified in the compliance with legislation focus area from five provinces in 2013-14 to two provinces in 2015-16. The overall improvement was due to leadership's implementation of action plans and recommendations made in the previous years' sector reports. The only issue which recurred in this focus area related to expenditure that was incurred in contravention of the conditions of Dora in Gauteng and the Northern Cape, which was due to insufficient review and monitoring by management to ensure compliance with the applicable legislation.

Management of transfer and advance payments

Overall, there has been an improvement in the management of transfer and advance payments focus area, which can be attributed to improved project management controls and audit recommendations appropriately implemented. However, concerns were still raised in three provinces relating to the quality of houses built compared to five provinces in 2013-14. Furthermore, relating to the monitoring of, and controls over, projects, findings were identified in four provinces in 2015-16 compared to three in 2013-14. This was due to a lack of monitoring of projects and leadership not holding poor performers and transgressors accountable. Gauteng did not achieve its planned housing delivery targets as it only delivered 68% of the planned targets compared to 86% last year. This was due to R908 million of the allocated R4,9 billion which was withheld from Gauteng due to significant underspending in the first two quarters of the year. The underspending was due to ineffective planning and project management for the effective usage of the grant and poor intergovernmental relations. In the previous year the non-achievement of planned targets was identified in Limpopo and the Free State, but subsequently addressed.

Management of individual housing subsidies

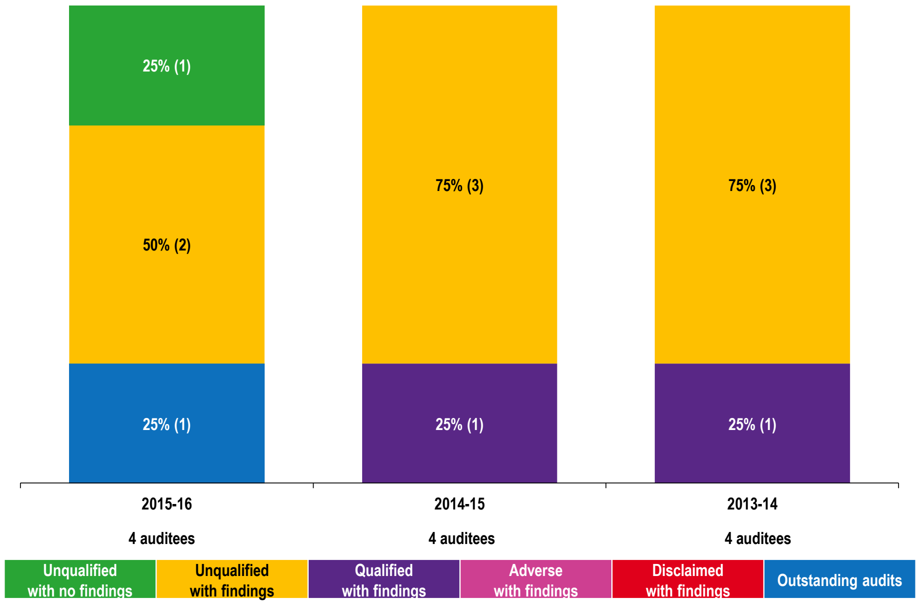
We did not note any challenges in the management of individual subsidies focus area for 2015-16. Previously, challenges regarding subsidies to beneficiaries not complying with the specified grant entry requirements were identified in the Western Cape, the Northern Cape, Mpumalanga and the Free State. Furthermore, no challenges were identified regarding subsidies approved and paid after applicant's date of death, as well as limitations of scope, which were previously common in the Western Cape. The overall improvement was due to management's response to recommendations made.

Payments to suppliers made within 30 days of receipt of the invoice

Although this was not a specific sector focus area, the sector was still experiencing challenges with non-compliance relating to payments to suppliers made within 30 days of receipt of the invoice. This has been stagnant over the three years despite the minister's intervention in 2015-16. In 2013-14, five provinces (Northern Cape, Free State, KwaZulu-Natal, Gauteng and North West) reported the non-compliance and in 2015-16 the non-compliance was reported at the Eastern Cape, Gauteng, KwaZulu-Natal, Northern West and the Free State, which is a repeat finding in four of the provinces. The delays in payments were mainly due to responsible officials disregarding the payment policy. We recommend that projects should be closely monitored to ensure that unsatisfactory performance is timeously identified and communicated to the suppliers, and that transgressors should be held accountable.

Vote 39: Rural Development and Land Reform

Three-year audit outcome



The portfolio consists of the Department of Rural Development and Land Reform (DRDLR) and three entities, being the Agricultural Land Holding Account (ALHA), the Deeds Registration Trading Account (Deeds) and the Ingonyama Trust Board (ITB).

The audit of the ITB was not finalised by the cut-off date. The ITB formed a separate trust, namely the Ingonyama Trust entity in 1998. The trust was required to produce annual financial statements, which were required to be audited by the AGSA. This had not been identified in our previous audits as management did not disclose the existence of a separate trust. The ITB prepared financial statements which included account balances and classes of transactions that should have been recognised in the financial statements of the trust. As a result of this there was a delay in the finalisation of the audit for the ITB. The audit of the ITB has since been finalised and financial statements received an adverse opinion as the trust account was not separated from the ITB accounts.

The trend in audit outcomes over the past three years indicated that the department and its entities have been able to demonstrate slight improvements in the audit outcomes of the portfolio. The department and Deeds received an unqualified opinion with findings on compliance, the ALHA received an unqualified opinion with no findings in 2015-16 and one audit (ITB) was not finalised at the time of this report. The department and Deeds did not have findings on performance information.

The quality of the ALHA's financial statements submitted for auditing improved and they were free from material misstatement due to management implementing its action plans to address controls over financial reporting. The DRDLR and Deeds submitted financial statements for auditing that contained material misstatements in the areas of assets, commitments, cash flow statement, accruals, payables, unspent conditional grants and contingencies. The DRDLR and Deeds received an unqualified audit opinion through correcting all the misstatements we identified during the audit process. This was mainly due to inadequate monitoring and reviewing of processes to ensure complete and reliable reporting.

The portfolio incurred R3 million in irregular expenditure as a result of non-compliance with SCM regulations, majority of these instances being not obtaining the required three quotations as well as approval for services subsequent to the services being rendered, all of the irregular expenditure was identified by the auditees. Irregular expenditure decreased by 78% from the previous year and decreased by 85% when compared to the 2013-14 financial period. Fruitless and wasteful expenditure of R12,9 million was incurred within the portfolio, an increase of R6,7 million (108%) from the R6,2 million incurred in the previous year. The department contributed R11,9 million (92%) of this expenditure. The department's fruitless and wasteful expenditure mainly related to stipends paid to students on the department's National Rural Youth Service Corps programme, who did not attend training as required.

Overall, the financial health of the portfolio was assessed as good. However, it should be noted that the restitution commitment balance of R3 440 million disclosed in the financial statements of the DRDLR was more than the 2016-17 budget of R3 168 million for the restitution programme. This might result in the department not meeting all of its restitution commitments in the 2016-17 financial year. This could have a potential financial impact on settlement of future restitution claims if not monitored and managed well.

The quality of the annual performance report of the DRDLR has improved over the past three years due to management successfully implementing action plans relating to performance reporting. The annual performance report included information on performance against predetermined objectives that was useful and reliable for the programmes and objectives that were selected for auditing, and no material misstatements were identified during the audit. Furthermore, in 2015-16 there were no material adjustments to the performance report of the department, which also covers the performance of Deeds and ALHA.

There has been some improvement in the control environment of the portfolio; however, the following controls should be strengthened to create an environment that supports compliance with legislation:

- Develop and implement processes and procedures to monitor compliance with legislation, including establishing a compliance framework.
- Implement daily and monthly controls to proactively track and prevent non-compliance with legislation and related SCM regulations.

The overall and senior management vacancy rates were 10,5% and 19%, respectively. Although these did not have a negative impact on the audit outcomes in 2015-16, they should be monitored and managed to reduce the risk of a deterioration of the control environment due to inadequate human resources.

Information system deficiencies previously identified regarding the design and implementation of controls, mainly in the areas of security management, user access management and IT service continuity remained unaddressed.

The audit revealed significant weaknesses in the information system environment, which are not ideal for the preparation of complete and credible financial reports (monthly, quarterly and annual reports).

The assurance provided by the minister, accounting officer, internal audit unit and audit committee should be improved by reviewing and monitoring the implementation of action plans to ensure that the control deficiencies are being addressed to prevent repeat findings.

We met with the minister once during the period. Through our interactions with the minister regarding control deficiencies, key action plans have been developed. However, a quicker response is needed on the implementation of these action plans to see better outcomes on financial reporting.

The slow response by management, ineffective review and monitoring of compliance with legislation were the most significant root causes in the portfolio.

The portfolio committee executed their functions adequately and effectively in the areas of reviewing the budgets, financial statements, performance information and service delivery of the portfolio. During 2015-16 the portfolio committee made the following two commitments which were still in progress:

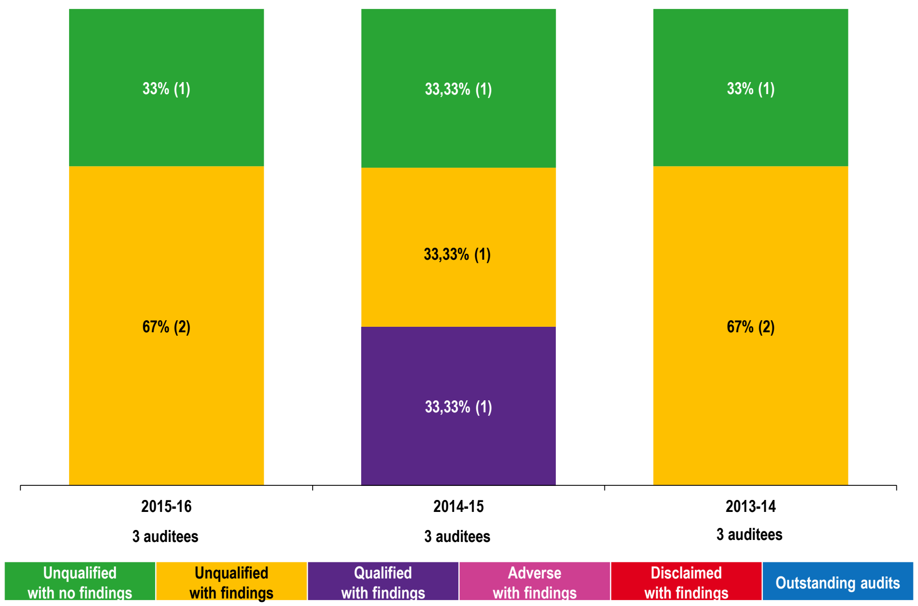
- Obtaining independent assurance from the internal audit unit and audit committee that quarterly reports presented at portfolio committee meetings were produced by reliable and credible control systems.
- Holding the accounting officer accountable for implementing an effective performance management process within the department and holding staff accountable for their actions.

To improve the audit outcomes in the portfolio, senior management should implement key internal controls and the recommendations of various oversight structures:

- Implement audit action plans that are based on addressing control deficiencies and are based on recommendations. Specific focus must be placed on implementing preventative controls over irregular and fruitless and wasteful expenditure.
- Implement basic financial disciplines, including monitoring and reviewing, and monthly processing and reconciling of transactions.
- Regularly prepare credible financial reports as well as controls that will ensure credibility of information submitted from branches within the department.

Vote 40: Sport and Recreation South Africa

Three-year audit outcome



Overall, there has been an improvement in the audit outcomes of the portfolio. The Department of Sport and Recreation South Africa (SRSA) maintained its clean audit status. The South African Institute for Drug Free Sport (Saids) received an unqualified opinion with findings on compliance, which has remained unchanged from previous years. Boxing South Africa (BSA) received an unqualified audit opinion with findings, which was an improvement from the previous year.

The SRSA maintained its clean audit opinion due to the strict implementation of daily and monthly monitoring of financial and performance reporting disciplines within the department. Governance structures that interrogate financial and performance reporting information ensured oversight of submitted reports.

The improved audit outcome at the BSA was due to the involvement of the SRSA's senior leadership in the governance structure of the BSA to ensure stability where there were key vacancies in the entity.

Although there were improvements in the overall audit outcomes, we identified some weak internal controls in the preparation of financial statements during the audit process for both Saids and the BSA. This was as a result of the lack of financial disciplines such as poor record keeping and inadequate review of financial statements before submission. The entities received an unqualified audit opinion only because they corrected the misstatements.

There was no improvement in compliance with legislation, resulting in compliance findings on revenue management as a result of effective and appropriate steps not taken to collect money due by the BSA and Saids. The BSA and Saids did not adhere to SCM regulations. The BSA did not submit financial statements on the legislated deadline and Saids did not manage expenses, resulting in expenditure incurred exceeding the budgeted amount.

The BSA incurred R2,69 million (2014-15: R1,92 million) in irregular expenditure and R0,24 million (2014-15: R0,39 million) in fruitless and wasteful expenditure, which represent 29% and 100%, respectively, of the total incurred by the portfolio. The BSA incurred irregular expenditure because of non-compliance with SCM regulations. Saids incurred irregular expenditure of R6,56 million (2014-15: R1 million), which represents 71% of the total incurred by the portfolio. A total of R4,56 million of the irregular expenditure incurred by Saids was as a result of expenditure exceeding budgeted amounts. A lack of consequence management for transgressors contributed to the findings on compliance with SCM regulations at the BSA and Saids. Fruitless and wasteful expenditure at the BSA was due to inadequate contract management.

The BSA and Saids should improve the management of their working capital to ensure that creditors are paid within 30 days. The creditor payment days for the BSA and Saids were 129 days and 64 days, respectively. Controls should be implemented to ensure that money owed to the entities is collected timeously. The BSA and Saids only collected debts within 341 days and 208 days, respectively. Saids should improve management of budgets to ensure that expenditure does not exceed the budget. If these weaknesses are not addressed it could have a negative impact on the entity's ability to achieve its performance targets.

The SRSA and Saids did not have any findings on the annual performance report; however, material misstatements had been identified on the SRSA's annual performance report, which were corrected by the department. The misstatements were due to sector indicators introduced for the first time. The leadership must ensure that controls over the collation of supporting documentation from the provinces are strengthened.

The BSA had material findings and was unable to set useful indicators and targets at the beginning of the year and report reliably on actual achievements against those targets at the end of the year. Management should ensure that reliable evidence is available to support performance information and that the oversight responsibility regarding performance reporting is fulfilled.

There was stagnation in the key controls of the portfolio. In order to achieve clean audit outcomes at the BSA and Saids, the leadership must ensure that action plans are developed, implemented and progress assessed regularly, and that key vacancies are filled at the BSA.

SRSA's stability in key positions resulted in the adequate implementation and monitoring of action plans to address the previous year's audit findings and timeously address the weaknesses in key controls identified by internal and external audit.

Key vacancies at chief executive officer and chief financial officer levels at the BSA were filled after year-end and a month before year-end, respectively. The chief operations officer position still needed to be filled. There was stability in the key positions at the department and Saids. There was regression in the IT control environment, and management had not implemented all the required preventative or detective controls to ensure that IT risks were adequately managed. This can be attributed to the slow response to audit findings by the leadership at the department and its entities.

The portfolio committee provided adequate assurance over the entities in the portfolio. The executive authority provided assurance at the SRSA and Saids, with some assurance at the BSA. The accounting officer provided assurance at the department, but only some assurance was provided by the accounting authority at the entities.

Senior management provided some assurance at the SRSA and Saids that financial statements and performance reports were reviewed and accurately prepared. Limited assurance was provided at the BSA. The BSA's chief executive officer and senior management must implement the audit recommendations to address the root causes reported by the internal and external auditors.

The second level of assurance, being the audit committee and internal audit unit at the SRSA and Saids, has provided assurance, particularly relating to financial and performance management. However, the focus of these governance structures must be intensified in the area of compliance with legislation at Saids and the BSA. The internal audit function at the BSA has not provided any assurance because there was a lack of adequately skilled personnel. The executive authority must ensure that the BSA's audit committee is well capacitated.

The root cause of these outcomes was the slow implementation of action plans developed, due to vacancies at the BSA and a lack of consequence management at Saids. The accounting authorities at the BSA and Saids must implement performance management systems to enhance accountability and create a culture of zero tolerance for poor performance and non-compliance with legislation. Performance contracts must define what needs to be delivered and should be monitored regularly. A culture of basic financial management disciplines should be enforced, which includes preparation of reliable monthly and quarterly financial statements and performance reports supported by schedules and reconciliations.

Best practices such as adequate review of financial statements, daily monitoring of internal controls, review of compliance with legislation, implementation and monitoring of action plans by a well-capacitated and skilled internal audit function and audit committee, which were embedded at the SRSA, should be applied at the BSA and Saids to enable them to improve their audit outcomes.