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**Status of progress on the audit outcomes**

## 6.1 Overall audit outcomes

National and provincial government consists of 169 departments and 599 public entities. The audit outcomes of 97 public entities audited by private auditors, 67 dormant public entities and 19 public entities with different reporting cycles are not included in the analysis presented in this report. As part of our audit methodology, we classified 163 public entities as small auditees based on the size and nature of their business. The audit outcomes of these public entities are also not included in this general report, but are published in the annexures available on our website.

We set the cut-off date for inclusion of the audit outcomes in this report as 31 August 2017. By this date, 26 audits were still outstanding. More information in this regard is provided in section 6.2.

Figure 1 reflects the audit outcomes of the remaining 422 auditees; figures 2 and 3 show the outcomes for departments and public entities, respectively; while table 1 analyses the movement in audit outcomes from the previous year.

Figure 1: Audit outcomes of auditees

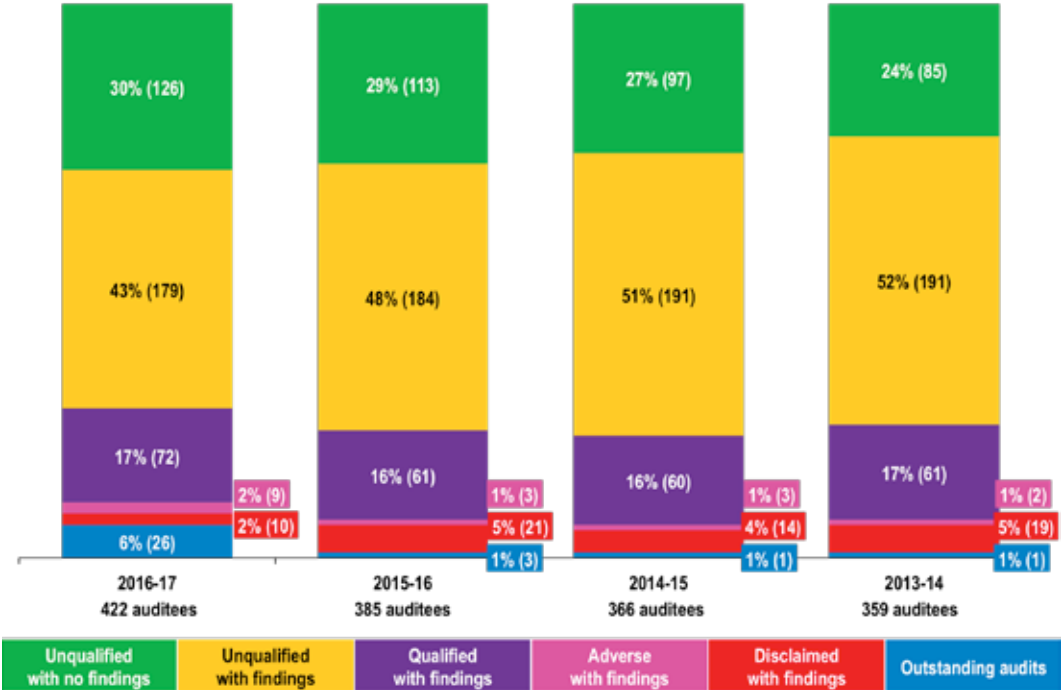


Figure 2: Audit outcomes of departments

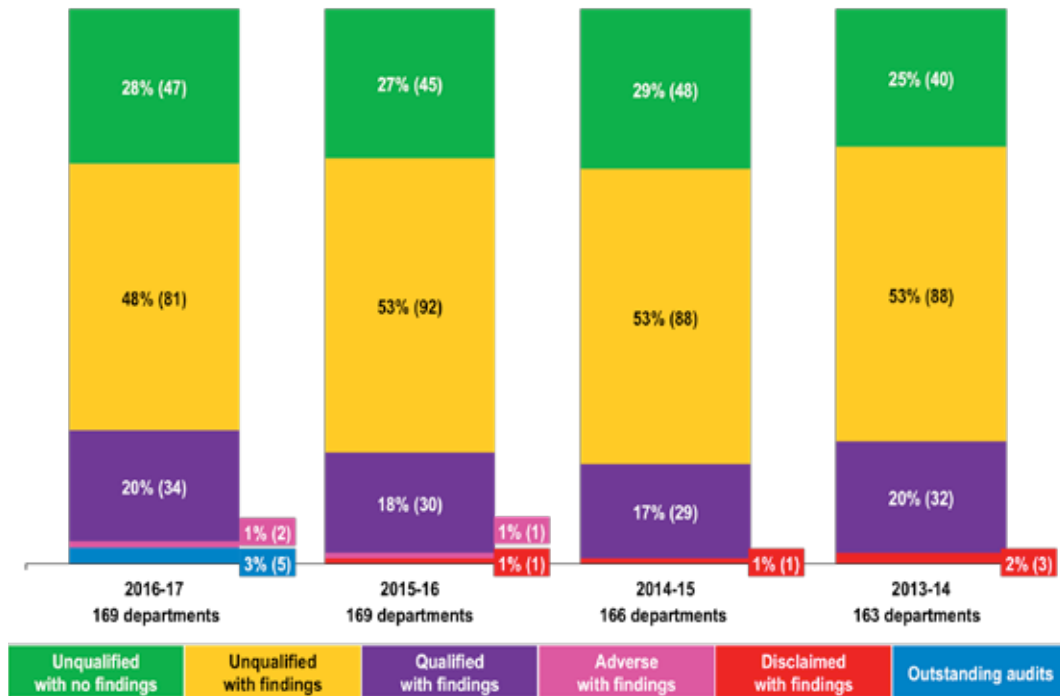


Figure 3: Audit outcomes of public entities



Table 1: Movement in audit outcomes from 2015-16 to 2016-17

Movement Audit outcome	60 Improved	259 Unchanged	47 Regressed	30 New auditee	16 + 10 Outstanding audits (prior year audit outcome)
Unqualified with no findings = 126	9 (DEP) 20 (PE) 1 (DEP) 1 (PE)	37 (DEP) 47 (PE)		11 (PE)	1 (DEP) 3 (PE)
Unqualified with findings = 179	5 (DEP) 13 (PE)	71 (DEP) 59 (PE)	5 (DEP) 18 (PE)	8 (PE)	1 (DEP) 4 (PE)
Qualified with findings = 72	1 (DEP) 9 (PE)	21 (DEP) 14 (PE)	1 (DEP) 11 (DEP) 8 (PE)	7 (PE)	3 (DEP) 1 (PE)
Adverse with findings = 9	1 (PE)	1 (DEP) 2 (PE)	1 (DEP) 1 (PE)	3 (PE)	
Disclaimed with findings = 10		7 (PE)	1 (PE) 1 (PE)	1 (PE)	3 (PE)

DEP – departments PE – public entities Colour of the number indicates the audit opinion from which the auditee has moved.  
Of the 26 outstanding audits, three audits remain outstanding since the 2015-16 financial year, with seven new audits outstanding.

The 26 outstanding audits relate to 16 auditees of which the 2016-17 audits had not been completed plus 10 auditees made up of three auditees whose 2015-16 audits were also still outstanding and seven auditees that we audited for the first time in 2016-17.

There had **been an improvement in the overall audit outcomes** since 2013-14 with only a **slight improvement from the previous year**. Figures 2 and 3 show that **public entities improved over the four years** but **departments showed only a slight improvement**. In total, 31 departments (20%) improved their outcomes, but 24 (15%) regressed and 103 (65%) remained the same. The movements for public entities were that 64 (35%) improved their outcomes, 28 (15%) regressed and 91 (50%) remained the same.

Overall, 10% of departments improved their outcomes from the previous year, 11% regressed and the remainder did not change – which means that there was a **slight regression in the outcomes of departments from the previous year**. **Public entities showed a slight improvement** from the previous year, as 22% improved and 14% regressed.

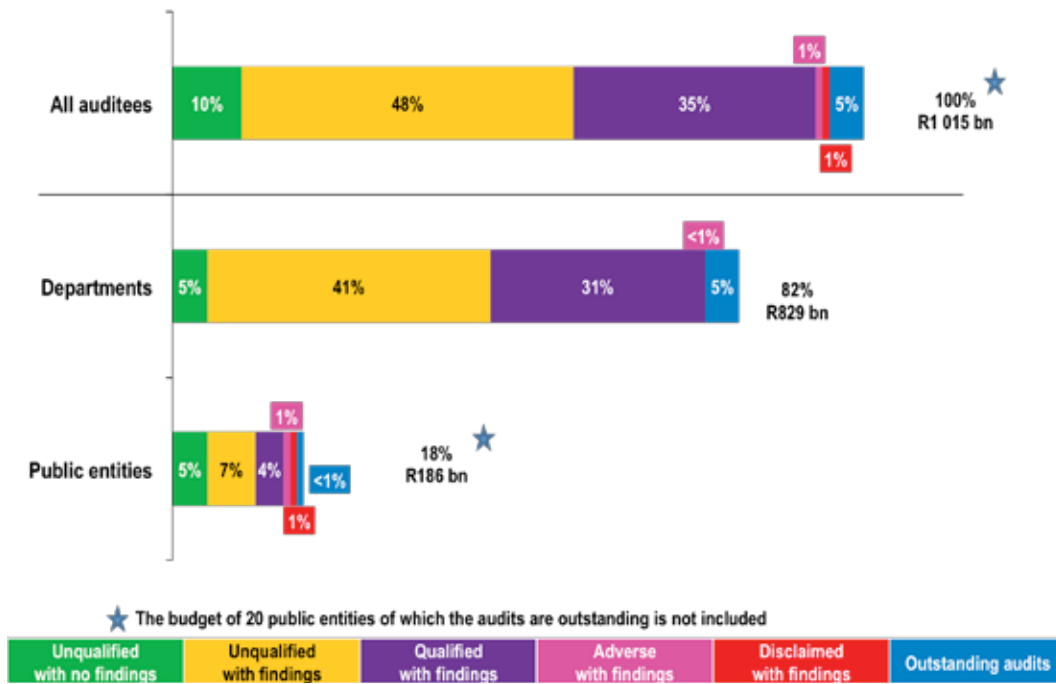
The number of **auditees with clean audits** increased to 126 (30%), of which 57 had also received clean audit opinions in 2013-14. These include Parliament, provincial treasuries and legislatures, and 65% of the auditees in the Western Cape. Maintaining a strong control environment and being vigilant about responding correctly and timeously to any changes in accounting standards or legislation were some of the key contributors to sustaining the outcomes. The clean audits in 2016-17 represented 31% of the national departments, 28% of the provincial departments, and 34% each of national and provincial public entities.

In total, 67% (84) of the **auditees with clean audit opinions** in 2015-16 obtained this outcome again in 2016-17, which is an encouraging sign that improvements at these auditees are sustainable. A total of 31 auditees moved into this category but unfortunately 25 auditees lost their clean audit status, resulting in only a slight increase in the number of auditees with clean audit opinions.

Overall, 130 (73%) of the 179 auditees that received an **unqualified audit opinion with findings** in 2016-17 had recorded the same opinion in 2015-16. Only 29 of these auditees could progress to a clean audit this year. Although some progress had been made towards financially unqualified audit opinions as detailed in section 7, auditees still need to address their material findings on the quality of the performance reports and compliance with legislation. The leadership is responding too slowly to our recommendations to improve these critical aspects of administration.

The **expenditure budget** in 2016-17 was R1 015 billion, of which R927 billion was operating expenditure and R88 billion was capital expenditure. Figure 4 reflects the audit outcomes of departments and public entities versus their budget allocations, rounded to the nearest billion.

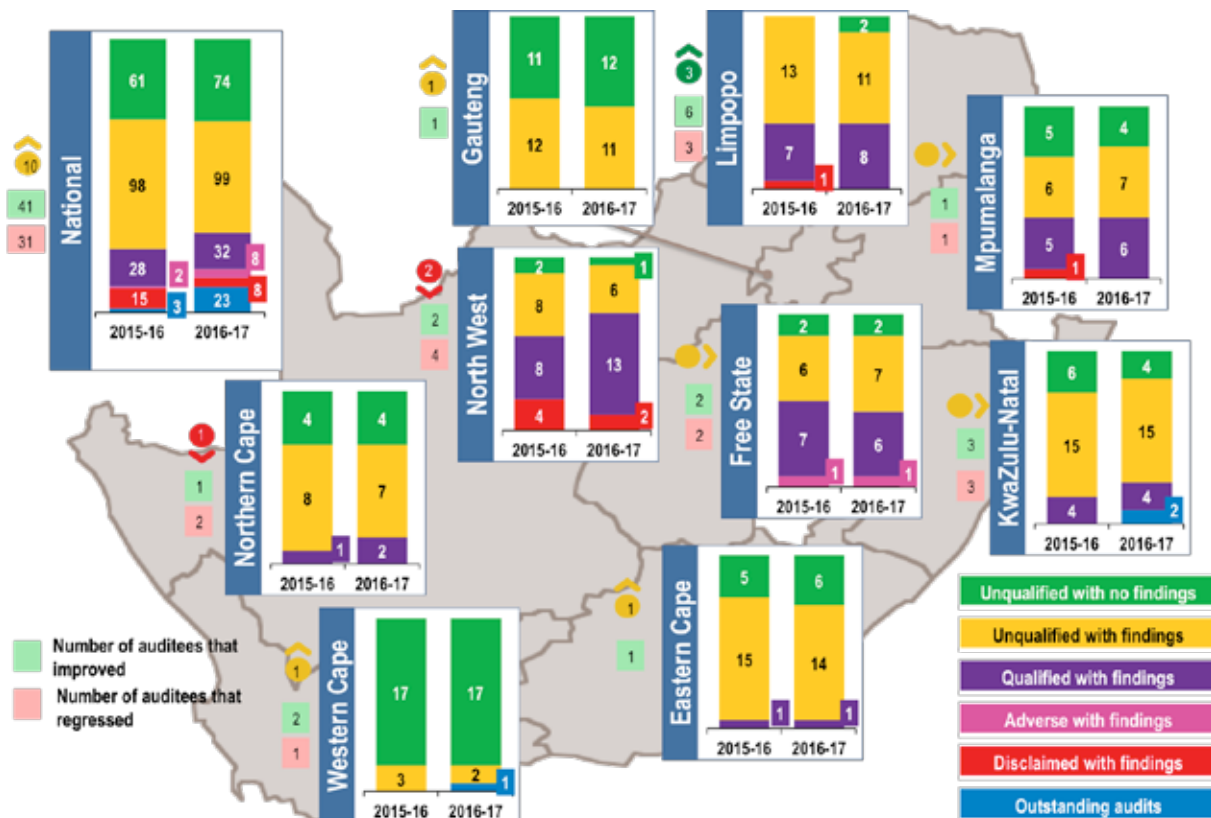
Figure 4: Audit outcomes versus budget allocations



As can be seen in figure 4, the 126 auditees with clean audit opinions represented only 10% of the total expenditure budget. Only 58% of the budget was accounted for in financial statements that fairly presented the finances of the auditees and could be relied upon by the users thereof.

Figure 5 illustrates the national and provincial audit outcomes of 2015-16 compared to those of 2016-17 for all auditees.

Figure 5: National and provincial audit outcomes (all auditees)



The audit outcomes of Limpopo improved, with a slight improvement in the national sphere and in three provinces, while two provinces regressed and three remained unchanged from the previous year. The provinces with the highest percentage of auditees (departments and public entities) with clean audit opinions in 2016-17 were the Western Cape (85%) and Gauteng (52%). Common in both provinces was the role of the leadership in instilling a culture of accountability and expecting nothing less than sound administration. The provinces with the poorest outcomes, based on the percentage of auditees with disclaimed and adverse opinions or outstanding audits, were North West (9%), KwaZulu-Natal (8%) and the Free State (6%), but the majority of the poor outcomes were in the national sphere (16%). A lack of accountability and commitment towards clean administration was evident in North West and the Free State – the audit outcomes in these provinces regressed over the four years.

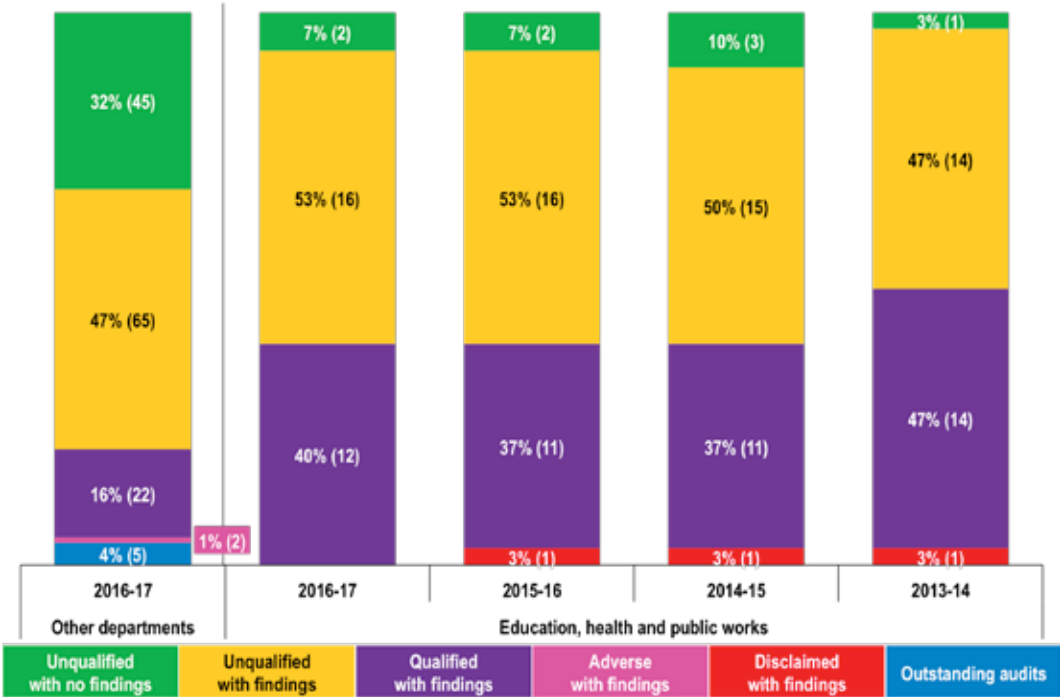
The provincial overview in section 16 provides detail on the reasons for the audit outcomes in the provinces.

### Education, health and public works

In 2016-17, the expenditure of the national and provincial departments of education, health and public works contributed to almost 38% of the total spending by auditees.

Figure 6 shows the audit outcomes of these departments versus those of the other departments.

**Figure 6: Education, health and public works versus other departments**



In total, 40% of the education, health and public works departments’ financial statements received a financially qualified opinion compared to 17% of the other departments. Except for two clean audits, all these departments had material findings on the quality of their performance reports and/or compliance with legislation. The audit outcomes slightly improved over the past four years with the Limpopo education department improving from disclaimed opinions for three years to a qualified opinion in 2016-17. This improvement can be attributed to the appointment in 2016-17 of an official from the provincial treasury to lead the administration team who set the right tone at the top and, through collaborating with departmental officials, could produce improved results.

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

## Conclusion



Improvements in **audit outcomes** can be achieved if all elements of the **PLAN+DO+CHECK+ACT** cycle are implemented. Section 15 provides recommendations in this regard.

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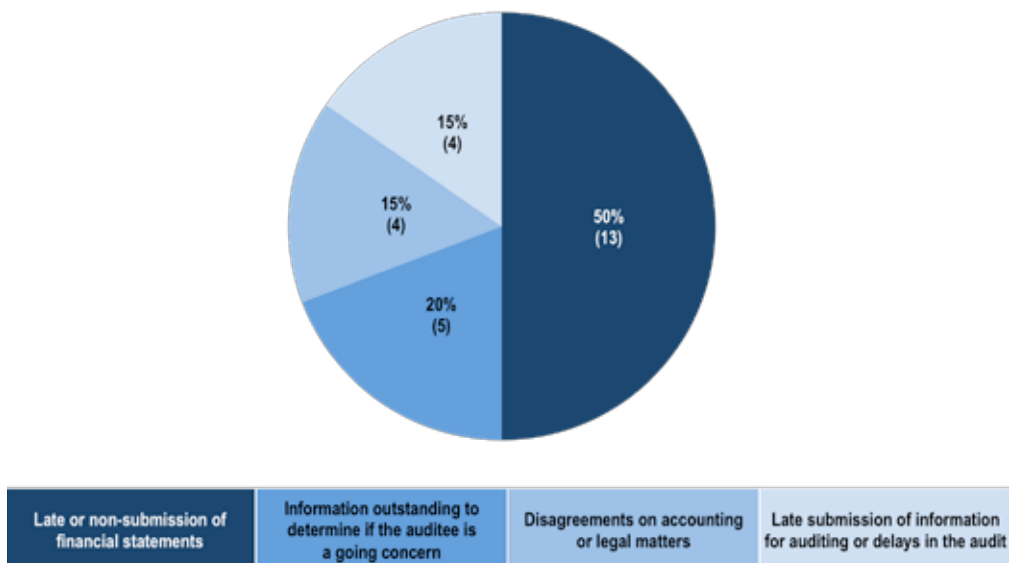
On our website, annexure 1 lists all auditees with their current and prior year audit outcomes, while annexure 3 lists the audit outcomes for the past five years.

## 6.2 Outstanding audits

We set the cut-off date for inclusion of the audit outcomes in this report as 31 August 2017. By this date, **26 audits had not been completed** (6% of our total national and provincial audits), compared to 11 audits that had been outstanding at the same time last year. Of these, 23 were national auditees (four departments and 19 public entities).

Tables 1 and 2 provide detail on the **reasons for the audits not having been finalised**, with the main reasons being indicated in figure 1.

**Figure 1: Main reasons for the outstanding audits**



Some of the outstanding audits were as a result of the contestation we experienced, as described in section 2.

Table 1 lists the 19 audits that had not been completed by the date of this report and provides the reasons for the late finalisation.

**Table 1: Outstanding audits**

No.	Auditee	Portfolio	Reason
1	Defence	Defence and military veterans	Separate financial statements were prepared and submitted on 31 May 2017 for the Department of Defence and the Special Defence Account. However, the department received a letter from the National Treasury on 28 June 2017 indicating that the Special Defence Account is not a separate legal entity, which meant that their financial information should be consolidated into the financial statements of the department. The department did not agree with this position and obtained a legal opinion on 28 August 2017 from the state law advisors in this regard. It confirmed that the Special Defence Account is not a separate legal entity. Interactions are currently still underway between the National Treasury and the department regarding the appropriate accounting treatment of the Special Defence Account. The final outcome of this matter is delaying the finalisation of the audit of the department.
2	SAA	Finance (treasury)	The auditees did not submit financial statements, as management and the board could not conclude on whether these companies were a going concern.
3	Air Chefs SOC Limited		
4	SAA Technical SOC Limited		
5	Mango Airlines SOC Limited	Finance (treasury)	Financial statements were received on 31 May 2017 but the finalisation of the audit is dependent on the finalisation of the SAA going concern assessment.
6	South African Revenue Service (Own Account)	Finance (treasury)	A legal disagreement on the approval of performance bonuses is delaying the finalisation of the audit.
7	SA Express	Public enterprises	The 2015-16 audit of SA Express was finalised late due to the processes that needed to be finalised between SA Express, the Department of Public Enterprises and the National Treasury on a government guarantee. This had an impact on finalising the financial statements, which were then submitted on 4 July 2017, but without all the supporting documentation. The final financial statements were only submitted on 31 August 2017.
8	Compensation Commissioner for Occupational Diseases	Health	The auditee had a huge backlog due to not having captured data files for mine workers to enable a valuation of the provision for compensation commission claims in 2010-11. The capturing of backlog data took a couple of years to resolve and actuarial valuations needed to be done. Because the initial backlog was six years, the auditee is still catching up with submitting backlog financial statements. No financial statements have been submitted since 2012-13.
9	East Cape Midlands TVET College	Higher education and training	No financial statements were submitted for the following reasons: East Cape Midlands TVET College – instability in the position of chief financial officer affecting the preparation of financial statements. Northern Cape Rural TVET College – system problems experienced close to year-end. Tshwane North TVET College – inadequate financial systems and internal controls.
10	Northern Cape Rural TVET College		
11	Tshwane North TVET College		
12	Sedibeng TVET College	Higher education and training	Financial statements were only received on 4 September 2017 due to instability in the accounting officer position and a lack of oversight to keep finance staff accountable for complete and accurate asset records.
13	Tshwane South TVET College	Higher education and training	The auditee did not have a complete and accurate fixed asset register. The reconstruction of the asset register took longer than anticipated, which delayed the submission of the financial statements. Financial statements were only received on 3 July 2017.
14	Autopax	Transport	We identified a going concern issue that is dependent on the holding company, Prasa, providing subordination and approved financial commitments, which is delaying the finalisation of the audit.
15	Driving Licence Card Account	Transport	A disagreement on SCM findings we raised is delaying the finalisation of the audit.
16	Prasa	Transport	No financial statements were submitted as there is no board at the auditee.
17	South African Maritime Safety Authority	Transport	Financial statements were only submitted on 7 June 2017, as the auditee did not have all the supporting documentation ready.



No.	Auditee	Portfolio	Reason
18	South African National Roads Agency	Transport	The audit has been delayed as information is outstanding to determine whether the agency is a going concern.
19	Agriculture	Western Cape	A disagreement on the accounting for certain transfers made by the department is delaying the finalisation of the audit.

Table 2 includes the **seven audits that were finalised after 31 August** – it provides the reasons for the late finalisation, the outcomes of the audit and the unauthorised, irregular as well as fruitless and wasteful expenditure incurred (the 2015-16 amounts are indicated in *italics*).

**Table 2: Audits subsequently finalised**

Number	Auditee	Reason for late finalisation of audit	Movement from previous year's audit outcome	2016-17 audit outcomes			2015-16 audit outcomes			2016-17 unauthorised, irregular and fruitless and wasteful expenditure		
				Audit opinion	Predetermined objectives	Compliance with legislation	Audit opinion	Predetermined objectives	Compliance with legislation	Unauthorised expenditure R million	Irregular expenditure R million	Fruitless and wasteful expenditure R million
1	Cooperative Governance	Inability to perform required work at an interim phase as the auditee was still trying to address prior year qualifications on the community work programme. Thus, work normally concluded by May could only be performed subsequent to the submission of financial statements. This was the majority of audit work on the community work programme, which included regional visits.	Unchanged	R	R	R	R	R	0 (0)	330 (344)	0,35 (0)	
2	International Relations and Cooperation	Department needed to do additional work on assets.	Improved	N	R	R	R	R	34 (167)	368 (344)	2,7 (5,5)	
3	Independent Development Trust	Delay in submission of supporting documentation.	Unchanged	R	R	R	R	R	0 (0)	4,9 (6)	0 (4,9)	
4	Property Management Trading Entity	Late submission of financial statements as the auditee was required to provide financial statements in full compliance with Generally Recognised Accounting Practice for the first time during the current year. The implementation process of the deemed cost allocation for immovable assets needed to be addressed.	Regressed	R	R	R	N	R	0 (0)	268 (510)	0,2 (0,07)	
5	Transport	Department needed to do additional work on eNatis assets.	Improved	A	N	R	A	R	177 (0)	94 (123)	1 (0,1)	
6	Ithala Development Finance Corporation	Delay in banking licence exemption from minister of Finance.	Regressed	R	N	R	R	R	0 (0)	23 (0,6)	0 (0,05)	
7	Ithala	Delay in banking licence exemption from minister of Finance.	Regressed	R	N	R	R	R	0 (0)	2,6 (0,6)	0 (0)	

Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimed with findings	Addressed (A)	New (N)	Repeat (R)
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## *Traditional leaders and councils*

The Traditional Leadership and Governance Framework Act called for the establishment of traditional councils. It stipulates that once the premier has recognised a traditional community, that community must establish a council in line with the principles set out in provincial legislation. The provincial legislation, which is in place in all provinces except the Western Cape that does not currently have recognised traditional communities, regulates the performance and functions of traditional councils by requiring that the council at least keeps proper records and has its financial statements audited. It also requires the council to meet at least once a year with the community to give account of its activities and finances.

Except for Mpumalanga's legislation, all the legislation specifically requires us to audit the 'books of accounts' or 'financial statements' of these structures. There is no consistency in the legislation on the nature of the 'records' that must be submitted to us for auditing, and in most provinces the legislation does not prescribe the accounting framework to be used.

There are an estimated 940 formally recognised traditional authorities across the eight provinces, predominantly in rural areas where there are very few or no people with the requisite financial skills to assist these authorities to prepare financial records – especially if a sophisticated accounting framework is used. The National Treasury is defining the most appropriate accounting frameworks for these councils. In the absence thereof, **most councils are not preparing any accounts or financial statements that we can audit.**

In North West, one central bank account is maintained by the provincial treasury with individual ledger accounts, comprising the various trust accounts and a total of 92 traditional authority accounts. The financial statements of the North West Tribal and Trust Fund (D-account) have remained outstanding since 2001, with the last audit as at 31 March 2001 resulting in a disclaimed opinion.

In Limpopo, there is a similar set-up with a central bank account also maintained by the provincial treasury. The provincial treasury currently compiles an income and expenditure statement for the trust account. The source for the preparation of this statement is the transactions appearing in the bank statements and, as a result, we were not in a position to provide assurance that all monies that should have been collected had in fact been collected. This was primarily due to the poor status of record keeping and the lack of adequate monitoring controls at the individual tribal authorities. Furthermore, the books and accounts of the individual tribal authorities have not been submitted for auditing since 1994.

We have raised our concerns on the lack of accountability for the activities and finances of the traditional councils at provincial level as well as with the National Treasury and the Departments of Cooperative Governance and of Traditional Affairs. It is expected that the Traditional and Khoi-San Leadership Bill will eventually clear some of the inconsistencies and uncertainties but urgent intervention is required by national and provincial role players to ensure that the funds allocated to, or generated for, traditional communities are accounted for.