



Auditing to build public confidence

MEDIA RELEASE

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Auditor-general announces steady improvements in national and provincial government audit outcomes, but emphasises that there are still areas of great concern

Free State PFMA 2013-14 audit outcome highlights

The provincial government consists of 13 departments (including the legislature) and eight public entities. The Free State Housing Fund and the Nature Conservation Trust Fund are not included in the general report as they are dormant. Both funds received unqualified audit opinions with no findings. The Provincial Revenue Fund was also excluded from the general report.

The total adjusted budgeted expenditure of the province was R27,7 billion in 2013-14. The budget figure only includes voted departmental funds (in other words, public entities are not included). The following were the main areas of expenditure:

- Employee cost – R15,9 billion
- Goods and services – R4,6 billion
- Transfer payments – R2,9 billion
- Capital expenditure – R4,3 billion

Overall, there has been a slight year-on-year improvement in the audit outcomes. The progress towards better outcomes has been slowed down by the lack of improvement in basic key internal controls in day-to-day operations, which casts doubt on the sustainability of the progress made; however, the number of clean audit opinions remained unchanged.

The provincial treasury, Department of Sports, Arts, Culture and Recreation as well as the Fleet Management Trading Entity managed to retain clean audit opinions. The provincial legislature reclaimed its clean audit status from an unqualified audit opinion with findings, while the Department of the Premier regressed from a clean audit to a qualified audit opinion. The Department of Education also regressed from an unqualified audit opinion with findings to a qualified audit opinion.

Four auditees were able to improve from a qualified opinion to an unqualified opinion on their financial statements, namely Economic Development, Tourism and Environmental Affairs; Public Works; Free State Development Corporation; and Free State Tourism Authority.

Human Settlements and Health remained unchanged with a qualified audit opinion.

Where improvements were noted, the progress can be attributed to members of the executive council enhancing oversight and management responding timeously, whereas regressions and stagnations were the result of a slow response by management to address prior year matters at 78% of the auditees.

The majority of auditees managed to obtain unqualified audit opinions with findings. This is the audit outcome that showed the most improvements but it is also where most auditees stagnate after they had managed to improve to an unqualified audit opinion with findings. This is an indication that there is a greater focus by auditees to obtain an unqualified audit opinion, but not the same drive to address findings on the annual performance report and compliance with legislation. This is one of the main reasons why auditees are unable to improve to clean audit outcomes. Findings on the quality of the financial statements and annual performance reports are not addressed due to a lack of competencies and systems to support the collation and reporting of financial and performance information.

Only six auditees (33%) submitted financial statements that did not require material adjustments to avoid qualification.

Irregular expenditure of R2,429 billion was incurred by 17 auditees (94%) for the period under review, with the major contributors responsible for 92% of this expenditure being Health, Human Settlements and Education. The significant irregular expenditure incurred in the province was caused mainly by non-compliance with supply chain management requirements. This was due to a lack of credible procurement plans, which hampered the fairness, transparency and competitiveness of procurement processes.

Unauthorised expenditure of R470 million incurred in 2013-14 was due to overspending the budget. There was a significant year-on-year upward trend in unauthorised expenditure, which increased by 87% in the current year when compared to the previous year. Health and Education were responsible for 98% of the unauthorised expenditure.

The financial health of the province has deteriorated since previous years. Due to inadequate budgetary controls, nine auditees (50%) encountered serious concerns relating to their financial sustainability. This can put pressure on the allocated budget for service delivery priorities in future years.