



25 November 2015

## **Eastern Cape's PFMA 2014-15 audit outcome highlights**

The Eastern Cape Provincial Administration consists of 14 departments and 10 public entities, with total budgeted expenditure of R65 billion for 2014-15. All 24 auditees submitted financial statements and audits thereof were completed within the legislated timelines.

The province achieved a net improvement of one audit outcome during the year under review, recording four improvements and three regressions. While it is encouraging to note that three of the four improvements relate to auditees that progressed to the 'unqualified with no findings' category, it is concerning that only one of the four auditees with clean audits in the prior year managed to sustain this outcome.

At an overall level the quality of financial statements improved. Four audits (17%) received unqualified outcomes with no findings on reporting on predetermined objectives or compliance with legislation; 15 (62%) received unqualified outcomes with findings on reporting on predetermined objectives and/or compliance with legislation while five (21%) stagnated on qualified outcomes.

Seventy-seven per cent (77%) or R50 billion of the provincial budget relates to Education, Health and Roads and Public Works, which were once again unable to report transparently on how they had used the money allocated to them. All these departments received qualified audit outcomes and had findings on the reliability of their reporting on actual performance contained in their annual performance reports. They also had numerous findings on non-compliance with legislation, including legislation applicable to supply chain management. These auditees were also responsible for incurring 84% of the irregular expenditure reported by the province.

There has been an improvement in the usefulness of the objectives, indicators and targets contained in the planning documents of the provincial departments and public entities. The one notable exception, however, is the Department of Education whose budget of R28,2 billion makes up 43% of the total budget allocated to the province.

Compliance with legislation remains a challenge, as 83% of auditees still had findings in this area. The most common compliance areas reported on included the failure to prevent unauthorised, irregular as well as fruitless and wasteful expenditure (63% of auditees), procurement and contract management (54% of auditees), and the submission of financial statements for audit that contained material errors (50% of auditee). The leadership of the

province should set an appropriate tone by dealing decisively with those responsible for non-compliance with legislation and supply chain management prescripts in particular.

Although the amount of irregular expenditure reported on by the province has declined from R2,45 billion in the previous year to R1,43 billion during the year under review, it remains high. The supply chain management transgressions account for 94% of the irregular expenditure reported on in the province. These transgressions need urgent leadership attention if this type of expenditure is to be eliminated.

The challenge remains for the province to build a public service characterised by transparent financial and performance reporting. This should be led by accounting officers with the support of all governance structures. The accounting officers must appreciate and lead with ethical and professional behaviour, showing zero tolerance towards deliberate internal control breaches and deviation from applicable legislation.

In response to the outcomes, the provincial role players have undertaken to implement processes that enforce accountability, enhance compliance with legislation and improve the quality and credibility of in-year reporting and monitoring. If enforced, this will create a foundation for the province to move forward. **End**