



25 November 2015

Free State's PFMA 2014-15 audit outcome highlights

The Free State provincial government consists of 13 departments (including the legislature) and eight public entities. The Free State Housing Fund and 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 Political Party Fund was also excluded from the analysis in this report, as they have not yet submitted their annual financial statements.

The total adjusted budgeted expenditure of the province was R28,546 billion in 2014-15. 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 - R17,359 billion
- Goods and services - R5,253 billion
- Transfer payments - R3,897 billion
- Capital expenditure - R2,037 billion.

Overall there has been a year-on-year improvement in the audit outcomes over the past three years with six auditees (32%) attaining clean audit outcomes. Two departments, namely the department of the Premier and Public Works and Infrastructure, improved to a clean audit opinion, while Education improved to an unqualified audit opinion with findings. The progress made at these auditees was due to leadership's commitment and dedication to address prior year audit findings.

The provincial treasury, the department of Sports, Arts, Culture and Recreation, provincial legislature as well as the Fleet Management Trading Entity managed to retain their clean audit opinions.

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

It is commendable that no audit outcomes had regressed in the current year.

The majority of auditees managed to obtain unqualified audit opinions with findings. Although this is the audit outcome where most auditees stagnate, there was a visible improvement in their key control environment.

The overall improvement in the key control environment of the province can be attributed to the increase in the assurance provided by leadership, senior management, internal audit and audit committees.

Eight auditees (44%) submitted financial statements that did not require material adjustments to avoid qualification.

Although compliance with laws and regulations had improved, it was still evident at 67% of auditees. There was an improvement in the number of auditees with no material supply chain management findings.

The province made slow progress in the area of reporting on predetermined objectives to ensure transparent reporting on the status of their service delivery objectives. Although 50% of auditees had no findings on performance information, the quality of submitted annual performance reports regressed as material adjustments had to be made to the annual performance reports of 25% of auditees to avoid findings.

Irregular expenditure has decreased by 30% since the previous year, but remained high at R1,569 billion which was incurred by 14 auditees (78%). The major contributors responsible for 99% of the irregular expenditure were the departments of Health, Human Settlements and Education. Adequate steps were not taken to implement consequences for poor performance and transgressions at these departments. Six auditees disclosed that they still had to review the procurement process undertaken to determine the possibility or full extent of irregular expenditure, which could result in a significant increase in irregular expenditure in the coming year.

Unauthorised expenditure has increased by 28% since the previous year. Unauthorised expenditure of R601 million incurred by three departments (23%) in 2014-15 was due to overspending of the budget. Education was responsible for 98% of the unauthorised expenditure. Unauthorised expenditure would have been higher if accruals older than 30 days of R1,1 billion had been settled before year-end.

The financial health of the province has deteriorated since the previous year as serious concerns relating to financial sustainability were raised at 10 auditees (56%). The 28% increase in unauthorised expenditure, mainly incurred by the department of Education, puts further pressure on the severe cash flow constraints experienced by the province. If the current situation is not addressed, this will have a significant impact on service delivery in future. **End**