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## **Northern Cape's PFMA 2014-15 audit outcomes highlights**

The provincial government consists of 13 departments (including the legislature), six listed public entities and one trading entity. The audit outcomes of the four unlisted entities (Northern Cape Housing Fund, Ngwao Boswa Kapa Bokone, Northern Cape Arts and Culture Council and Northern Cape Political Party Fund) audited by us are excluded from this report as they are considered too insignificant for inclusion. The revenue fund is also excluded as the audit only commenced after the audit outcomes of the departments were finalised.

The Fleet Management Trading Entity submitted their financial statements on time, but the execution of the audit was delayed due to a revaluing process that involved the use of a management expert. The revaluation process was initiated after year-end and resulted in the auditors accepting an updated asset register. The audit team could not audit all the adjustments in time and was unable to conclude their audit by the legislated deadline. The audit outcomes of this auditee were therefore also excluded from this report.

The total adjusted budgeted expenditure of the province was R13 390 million 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 – R7 267 million
- Goods and services – R3 246 million
- Capital expenditure – R1 411 million
- Transfer payments – R1 464 million.

The regression in the overall audit outcomes of the year under review follows two years of improvements. The six regressions include two departments (provincial treasury and Economic Development and Tourism) that received clean audit opinions in the previous year, but were not able to maintain this status due to a regression in their compliance with legislation. The management of the four auditees that had regressed to a qualified audit opinion was not able to respond to concerns that in most instances were highlighted as risk factors during the previous

audit (the departments of Agriculture, Land Reform and Rural Development; Cooperative Governance, Human Settlements and Traditional Affairs (CoGHSTA); Transport, Safety and Liaison; and the McGregor Museum).

Six auditees remained unchanged with an unqualified audit opinion and four auditees with a qualified opinion. Education was able to improve from a qualified opinion to an unqualified opinion with findings.

The fact that three auditees (the departments of Environment and Nature Conservation and Social Development; and the Northern Cape Tourism Authority) received a clean audit opinion for the past two consecutive years indicates that a culture of proper internal control and compliance with prescripts and legislation was instilled at these auditees. This can be attributed to leadership identifying and responding to risk in a proactive way.

Only seven auditees (37%) submitted financial statements that did not require material adjustments to avoid a qualification.

Audit reports of 16 auditees (84%) contain significant compliance findings. This is a cause for concern and capacity needs to be built within departments and public entities to ensure compliance with legislation.

Irregular expenditure of R1 472 million was incurred by 14 auditees (84%) for the 2014-15 financial year, with the major contributors responsible for R1 191 million (81%) of this expenditure being the departments of Health, Education and CoGHSTA. The significant irregular expenditure incurred in the province was caused mainly by non-compliance with supply chain management regulations.

Unauthorised expenditure of R97 million incurred in 2014-15 was due to overspending the budget. Although only three departments incurred this unauthorised expenditure, the amount increased by R19 million since 2013-14. Health was responsible for R91 million (94%) of this expenditure.

A strong tone and a committed leadership are required from the executive to deal decisively with the following:

- The quality of financial statements submitted by 63% of auditees contained material misstatements
- The big-spending departments (Education, Health, Public Works and CoGHSTA) are unable to produce quality performance reports
- Eighty-four percent (84%) of auditees have significant compliance findings requiring urgent intervention. focusing in particular on SCM-related non-compliance
- A proper performance contracting and performance management structure must be put in place to improve the audit outcomes

- Previous commitments were either not implemented or are at various levels of progress – leadership needs to keep a commitment register for implementation and tracking purposes
- The shared internal audit unit and audit committee should be capacitated to extend their services to the public entities. **End**