



25 November 2015

Western Cape PFMA 2014-15 audit outcome highlights

The provincial government consists of 14 departments (including the provincial parliament) and 11 public entities. The number of public entities has increased from 10 to 11 since the previous year, due to the establishment of the Saldanha Bay Industrial Development Zone.

The total adjusted budgeted expenditure of the province was R49 billion in 2014-15. The budgeted figure only includes voted departmental funds (in other words, public entities are not included). The following were the main areas of expenditure:

- Employee cost: R26 billion
- Goods and services: R10 billion
- Capital expenditure: R5 billion
- Transfer payments: R8 billion.

The positive trend towards clean administration in the province, which started gaining momentum in 2012, continued through to 2015 with 20 (83%) of the 24 auditees (2013-14: 18 of 23 ([78%]) in the province achieving clean audit outcomes.

Two departments and one entity improved to clean audit outcomes; 10 departments and seven entities maintained a clean audit outcome, and the one newly formed entity attained a clean audit outcome. Two auditees (9%) received a financially unqualified opinion with findings, while one auditee (4%) regressed from a financially unqualified opinion with findings to a qualified opinion.

At the cut-off date for inclusion of audit outcomes in the general report, the audit of the Department of Transport and Public Works had not been finalised. The audit has since been completed, with the department maintaining a clean audit status. Had the audit outcome of this auditee been included in our analysis of the audit outcomes, the auditees with clean audit outcomes would have increased to 87%.

The continued improvement in audit outcomes is as a result of the continuing commitment by the executives to the corporate governance and review outlook (CGRO) process as well as the proactive approach followed by

accounting officers, accounting authorities and senior management in driving action plans to instil a culture of good financial management and governance. The accounting officers and authorities adhered to good human resource management practices, which ensured stability at senior management level and the availability of adequately and sufficiently skilled resources, specifically within finance units, while the performance of officials was regularly monitored.

The Western Cape Housing Development Fund regressed to a qualified opinion due to errors in the financial information on assets. The leadership should embark on a clean-up process of the asset register to ensure that all properties included in the register belong to the entity. They should also confirm the categories and sizes of the properties to enable the accurate valuation thereof.

Two auditees (9%) submitted financial statements that required material adjustments to avoid a qualification, and four auditees (19%) submitted annual performance reports that required material adjustment to avoid material findings. The improvement in the audit outcomes since the prior year is due to the implementation of improved reviewing and reconciling controls before information is reported and submitted for auditing. Even though there has been an overall improvement in the quality of the submitted annual performance reports, there is a need to institutionalise internal controls through guidance and standard operating procedures across all performance information areas, in particular when new indicators are introduced.

Budgetary control and the monitoring of monthly reports by the provincial treasury contributed to the province not incurring any unauthorised expenditure for the third consecutive year.

Irregular expenditure decreased by 52% when compared to the previous year due to senior management taking accountability to monitor compliance with legislation, in particular in relation to procurement processes. This expenditure does not necessarily mean that money was wasted or that fraud was committed, based on the fact that we have not done specific work to ascertain this. However, the essence of the matters giving rise to irregular expenditure still requires the leadership to investigate these matters further to determine the underlying causes of transgressions to enable appropriate steps to be taken to prevent a recurrence and to hold accountable those who may be systematically circumventing controls. In the financial year under review, irregular expenditure amounted to R79 million, of which R57 million (72%) related to non-compliance with legislation aimed at ensuring that procurement processes are competitive and fair. Through our normal audits we determined, however, that goods and services had been received.

The continued commitment by the provincial executive leadership to ensure the sustainability and further improvement of audit outcomes is crucial in sustaining the good audit outcomes through the institutionalisation of budgetary control, monitoring of monthly reports as well as enforcement of financial and performance

management principles, including compliance with legislation. This is done through the CGRO process and the ongoing coordination of this process by the department of the Premier and the provincial treasury.

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