

Eastern Cape Department of Education

Expenditure Tracking Report

2009/10

Zukiswa Kota

Public Service Accountability Monitor

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Findings And Recommendations

Finding: The overall departmental over expenditure amounts to a variance from the available budget of 3.10% in 2009/10.

Recommendation: As the over expenditure (exceeding 2%) is greatly influenced by the Compensation of Employees line item, the Department must greatly improve upon the management of this line item. It is recommended that in addressing Occupation Specific Dispensation and Human Resource Operational Projects Team challenges in the 2010/11 financial year, the Department pay particular attention to managing expenditure of this line item.

Finding: The Department received a disclaimer of opinion from the Auditor General in the 2009/10 financial year, having received an adverse audit opinion in 2008/09.

Recommendation: The Department must ensure that the recommendations made by the Legislature and Auditor-General are acted upon and implemented. It must also ensure that public servants implicated in expenditure irregularities are disciplined.

Finding: Expenditure of the Provincial Infrastructure Grant changed from over expenditure of 1.26% in 2008/09 to under expenditure of 37.02% in 2009/10 following a 274% budget increase between 2008 and 2009.

Recommendation: In order to justify continued and much-needed increases in this grant, the Department must ensure firstly that effective financial and operational plans

are implemented. Secondly, the findings and recommendations of the ongoing audit of the infrastructure delivery process must be acted upon with expedience on release.

Finding: The Occupation Specific Dispensation remains problematic both from a budgeting and implementation perspective for the Department of Education. The Department has attributed over expenditure in Programme 2 to the Occupation Specific Dispensation in 2009/10 and underfunding.

Recommendation: Owing to the nature of the Occupation Specific Dispensation in as far as it pertains to education personnel, the results of the Human Resources Operational Project Team must become a departmental priority. This is especially important in light of the need to compensate and/or promote personnel in accordance with eligibility and to potentially ameliorate some of the current human resource challenges faced by the Eastern Cape Department of Education. Going forward, a concerted effort to incorporate the programme within both the Department's budget cycle and strategic plans must be made.

Introduction

The South African Constitution commits government departments to the progressive realisation of socio-economic rights, including the right to education, healthcare, housing and social welfare, within available resources. The PSAM defines social accountability as the obligation by public officials and private service providers to justify their performance in progressively addressing the above rights via the provision of effective public services.¹ In order to effectively realise these rights through the delivery of public services, state departments and private service providers responsible for the management of public resources must implement effective accountability and service delivery processes. These include: planning and resource allocation processes; expenditure management processes; performance monitoring processes; integrity management processes; and, oversight processes. Together these processes combine to form a *social accountability system*, which acts as the central pillar of a responsive democratic state. The effectiveness of these processes can be established by monitoring their information outputs. To evaluate the social accountability system, the PSAM has developed a set of evidence-based tools for monitoring the information produced annually by each process.

This report focuses on the implementation of an effective expenditure management process by the Eastern Cape Department of Education. It provides an account of what funds were available and whether they were spent efficiently and effectively during the financial year under review.

The Department of Education is mandated with delivering quality education that % can be easily accessed by all citizens for the duration of a lifetime+.² The Department has 8 programmes; Administration, Public Ordinary School Education, Independent Schools, Public Special School Education, Further Education and Training (FET), Adult Basic Education (ABET), Early Childhood Development (ECD) and Auxiliary and Associated Services.³

- Programme 1: Administration aims to % provide overall management of the education system in accordance with the National Education Policy Act, the Public Finance Management Act and other policies.+
- Programme 2: Public Ordinary Schools aims to % provide public ordinary education for Grades 1 to 12 in accordance with the South African Schools Act.+
- Programme 3: Independent Schoolsq objective is to % support independent schools in accordance with the South African Schools Act.+
- % Programme 4: Public Special School Education aims to % provide compulsory public education in special schools in accordance with the South African Schools Act and White Paper 6 on Inclusive Education.+
- Programme 5: The FET programme aims to provide % Further Education and Training (FET) at Public FET colleges in accordance with the Further Education and Training Act.+
- Programme 6: Adult Basic Education and Training aims to % provide Adult Basic Education and Training (ABET) in accordance with the Adult Basic Education Act.+

¹ *Constitution of the Republic of South Africa*, Act 108 of 1996, Chapter 2, Sections 26, 27 and 29.

² Eastern Cape Department of Education, *Annual Report 2008/09*, p.32.

³ Eastern Cape Department of Education, *Annual Report 2008/09*, p.27-32.

- Programme 7: Early Childhood Development is mandated to provide Early Childhood Development (ECD) at the Grade R and earlier levels in accordance with White paper 5.+
- Programme 8: Auxiliary and Associated Services aims to provide for projects specified by the Department of Education that is applicable to more than one programme and funded with conditional grants.⁴

Emphasis will be placed not on programme areas but on the following identified key challenge areas of expenditure: the compensation of employees; conditional grants (the School Nutrition Programme (SNP)) and infrastructure expenditure. The overall trends in expenditure will be detailed as well.

Table 1: Department of Education overview of expenditure 2005/06-2009/10⁵

Financial Year	Total Budget (R'000)	Expenditure (R'000)	Variance (over/under expenditure) (R'000)	Percentage over/under expenditure
2005/06	11 557 189	11 523 158	34 031	0.29
2006/07	13 121 367	12 871 868	249 499	1.90
2007/08	14 496 717	14 474 243	22 474	0.16
2008/09	17 919 448	17 873 967	45 481	0.25
2009/10	20 529 488	21 165 545	636 057	-3.10
Total	77 624 209	77 908 781	284 572	-0.37

An overview of the Department's expenditure between 2005/06 and 2008/09 reflects a general expenditure trend in which spending is maintained between 0.1% and 2.0%. With the exception of the year 2006/07, under expenditure has not exceeded 1.0% of the overall budget since 2005/06 as illustrated in Table 1 above and Figure 1 below. In this 4-year period, the overall under expenditure amounted to R 351 million; 0.62% of the budget for the same period. However, as is highlighted above and illustrated in Figure 1 below, in 2009/10, the Department has been unable to maintain this trend. Instead, there has been an over expenditure amounting to R636 million or 3.1% of the R21 billion budget. The Department attributes this over expenditure to the occupation specific dispensation (OSD), under the compensation of employees line item in Programme 2.⁶ This is discussed further below.

Thus, total over expenditure amounts to R285 million; 0.37% of the total R77.6 billion allocated to the Department. Over the 5-year period between 2003/04-2006/07, the Department's total under expenditure amounted to R165 million- 0.36% of the total

⁴ Eastern Cape Department of Education. *Annual Report 2008/09*, p.27-28.

⁵ Eastern Cape Department of Education, *Annual Reports*: (2005/06, p.117), (2006/07, p.117), (2007/08, p.106), (2008/09, p.152), (2009/10, p.108).

⁶ Eastern Cape Department of Education, *Annual Report 2009/10*, p.108.

allocated over the 4 years.⁷ When compared to the 4-year period between 2005/06-2008/09, the Department under spent on the budget by 0.62%. This indicates that while under expenditure has not exceeded the 1% mark since 2006/07, overall expenditure is not being curbed to any significant degree. The spending trends within key areas will be explored in sections to follow. Of exception is the outcome for the year under review; 2009/10. Looking at matters more generally it is apparent that the Department has been able to spend its allocations over the last 5 years despite appreciable year-on-year increases to its budget. This is not to say that resources have been used efficiently and effectively during this period, rather the reports of the Auditor-General have annually raised serious concerns regarding the Department's inability to properly account for its expenditure and maintain adequate documentation with which to support payments made.

Table 2: Department of Education expenditure by Economic Classification 2009/10⁸

Economic Classification 2008/09	Adjusted Appropriation R'000	Shifting of Funds R'000	Virement R'000	Final Appropriation R'000	Actual Expenditure R'000	Variance R'000	Variance as % of Final Appropriation
Compensation of employees	16 256 769		-3 581	16 254 598	17 110 845	-856 252	-5.27
Goods and Services	2 069 642			1 998 928	1 912 521	86 407	4.32
Interest and Rent on Land							
Financial Transactions in Assets and Liabilities					919	-919	-100.00
Transfers and Subsidies							
Provinces and Municipalities							
Departmental Agencies and Accounts	8 011			8 011	8 011	0	0.00
Universities and Technikon							
Foreign Governments and International Organisations							
Public Corporations and Private Enterprises							
Non-Profit Institutions	1 261 248			1 227 357	1 162 924	64 433	5.54
Households	64 813			100 880	100 880	0	0.00
Gifts and Donations							
Payments for Capital Assets							
Building and Other Fixed Structures	838 917		3 581	923 269	852 995	70 274	8.24
Machinery and Equipment	27 528			14 254	14 254	0	0.00
Biological Assets							
Software and Other Intangible Assets	1 139			775	775	0	0.00
Land and Subsoil Assets							
Total	20 528 067			20 528 067	21 164 124	-636 057	-3.10

Overall the Department over spent by R636 million, having received a total of R20.5 billion for 2009/10. In 2007/08, the Department underspent on its budget by R22.47 million⁹ (a variance of 0.15% of the total received by the Department). In 2006/07, the Department under spent by 1.9%, equating to R249 million as Table 1 and Figure 1 highlight. As illustrated in Table 2, the Department experienced the most significant under expenditure in relation to the Buildings and Other Fixed Structures line item;

⁷ Fumba, L. *Eastern Cape Department of Education Expenditure Tracking Report*, Public Service Accountability Monitor, 2006/07, p.3.

⁸ Eastern Cape Department of Education, *Annual Report 2009/10*, p.127.

⁹ Eastern Cape Department of Education, *Annual Report 2007/08*, p.107.

8.24%. Of particular focus, however, is the sole and considerable over expenditure in the compensation of employees line item.

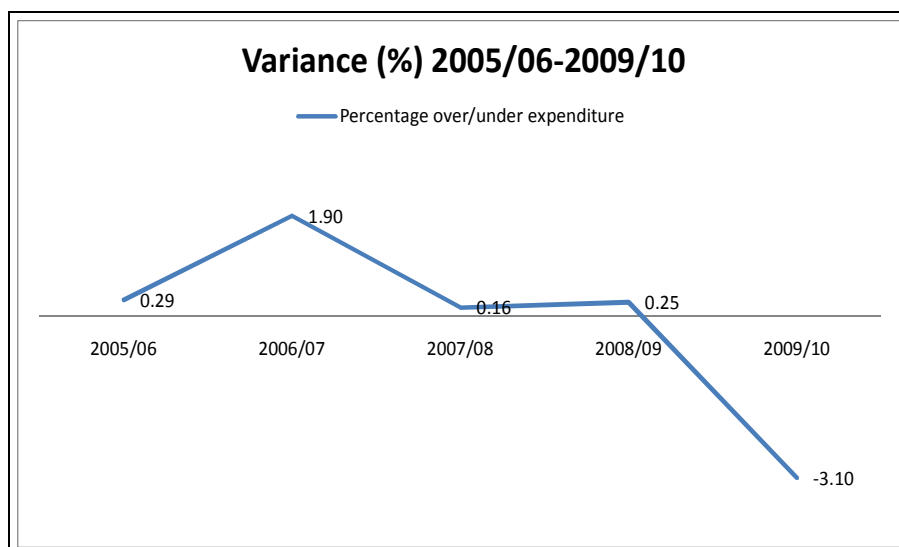


Figure 1: Trend line depicting expenditure patterns in equitable share for the Eastern Cape Department of Education¹⁰

Figure 1 depicts the fluctuating variance in the expenditure of the equitable share allocated to the Department between 2005/06 and 2009/10. In the year under review, the Department reported over expenditure of 3.10%. As mentioned previously, this is attributed to the compensation of employees line item. Ironically, in 2008/09, the Department's *under* expenditure was explained as primarily a result of compensation of employees and the School Nutrition Programme. In the case of the former, approximately R 204 million was deducted from employees in 2008 following strike action in June 2007.¹¹ Personnel spending thus appears to dominate the spending trends in the Department- seemingly regardless of whether this refers to under or over expenditure. While this may be partially accounted for by the fact that payment of personnel amounts to approximately 79%¹² of total Departmental spending, this line item is deserving of more stringent financial monitoring. This is of particular importance for the 2010/11 financial year which involved nation-wide public service strikes that also had an impact on the education sector.

Planning relating to the OSD is also a problem area for the Department as, for instance the 2009/10 over expenditure in Programme 2 equates to a variance of R 856 million (see Table 1). This is a result of underfunding for the OSD in which the Department % received fewer funds than requested both for the carry-through costs of the OSD collective agreement for 2008/09 and the funding for the OSD agreement for 2009/10.¹³ In addition, the Department is currently awaiting the findings of the process referred to

¹⁰ Eastern Cape Department of Education, *Annual Reports:* (2005/06, p.117), (2006/07, p.117), (2007/08, p.106), (2008/09, p.152), (2009/10, p.108).

¹¹ Eastern Cape Department of Education, *Annual Report 2008/09*, p.118.

¹² Eastern Cape Department of Education, *Annual Report 2009/10*, p.127.

¹³ Eastern Cape Department of Education, *Annual Report 2009/10*, p.149.

as the Human Resource Operational Projects Team (HROPT). The aim of the task team is to verify employee claims for occupational eligibility for promotion. The process will have financial implications for the Department; the Auditor General has already highlighted that these have been identified as a contingent liability of approximately R64 million.¹⁴ In addition to the self-evident recommendation that the Department needs to tighten overall management of employee compensation processes and employee databases, it is critical that all outstanding risk management, Special Investigations Unit (SIU) probes and performance audits are completed expeditiously and recommendations implemented with as much respect for time and resources. In essence, such investigations, no matter how thorough, are futile sans the requisite follow-through.

Table 3a: Eastern Cape Department of Education Expenditure by Conditional Grant 2009/10¹⁵

Grant	Division of Revenue Act Provincial Grant R'000	Rollovers and Adjustments R'000	Total Available R'000	Amount Received by Department R'000	Amount Spent by Department R'000	Variance from Total Available %
School Nutrition Programme (SNP)	486 695	156	486 851	486 851	475 939	2.24
Further Education Training (FET) Recapitalisation						
HIV/AIDS	30 168		30 168	30 168	27 576	8.59
Provincial Infrastructure Grant (PIG)	202 141		202 141	202 141	127 313	37.02
Total	719 004	156	719 160	719 160	630 828	12.28

Table 3b: Eastern Cape Department of Education Expenditure by Conditional Grant 2008/09¹⁶

Grant	Division of Revenue Act Provincial Grant R'000	Rollovers and Adjustments R'000	Total Available R'000	Amount Received by Department R'000	Amount Spent by Department R'000	Variance from Total Available %
School Nutrition Programme (SNP)	339 816	73 842	413 658	413 658	405 664	1.93
Further Education Training (FET) Recapitalisation	115 506	165	115 671	115 671	114 937	0.63
HIV/AIDS	28 542		28 542	28 542	29 479	-3.28
Provincial Infrastructure Grant (PIG)	132 432	22 301	154 733	154 733	156 679	-1.26
Total	616 296	96 308	712 604	712 604	706 759	0.82

¹⁴ Eastern Cape Department of Education, *Annual Report 2009/10*, p.119.

¹⁵ Eastern Cape Department of Education, *Annual Report 2009/10*, p.207.

¹⁶ Eastern Cape Department of Education, *Annual Report 2008/09*, p.195.

In 2008/09, overall spending on conditional grants was showing signs of improvement from previous years. Table 3b depicts the Department's under expenditure in 2008/09 on two of the four conditional grants; namely the SNP and the Further Education and Training (FET) grant. Of the R713 million received by the Department for conditional grants, a total of R5.84 million was not spent; a 0.82% variance from allocated amount.¹⁷ Each of the conditional grants received roll-overs with the exception of the HIV/AIDS grant which experienced over expenditure of 3.28%; the highest of all the grants in percentage terms.

The SNP, being the largest conditional grant allocated, accounted for 57% of the total spent by the Department for conditional grants in 2008/09. In 2009/10, the SNP accounted for 75% of total conditional grant expenditure. However, it must be noted that the FET grant was not made available in 2009/10.

The Department under spent on the SNP grant by nearly R 8 million, equating to 1.93% of the total received for the SNP. This is a significant improvement from previous years when in 2006/07 the Department under spent on the SNP by 36%; equating to approximately R 96 million¹⁸ Whereas in 2007/08 the Department received R 339 million of which R 47 million was not spent.¹⁹ It is evident that there has been improved spending of this conditional grant. One of the priority areas that was identified for 2008/09 was "to improve delivery of the school nutrition programme"²⁰ which may have seen some important changes in the financial management of the conditional grant. No explanation, however, was provided in the 2008/09 Annual Report for the under expenditure on the SNP.

A comparative glance at the PIG in tables 3a and 3b above shows that actual expenditure has changed drastically from one year to the next. In 2008/09, the Department over spent on this grant by 1.26% and under spent by 37.02% in 2009/10. The differences in expenditure against total available funds is depicted in Figure 2 below. This figure better illustrates the notable change in spending for the PIG from a relatively conservative over expenditure to the current under expenditure and, by extension, a change in the variance of the total budget spending. The growth in under spending is disheartening, particularly in light of both the aforementioned improvements in 2008/09 and the 274% increase in the PIG budget in real terms between 2008 and 2009.²¹

¹⁷ Eastern Cape Department of Education, *Annual Report, 2008/09*, p.195.

¹⁸ Fumba, L. *Eastern Cape Department of Education Expenditure Tracking Report*, Public Service Accountability Monitor, 2006/07, p.9.

¹⁹ Eastern Cape Department of Education, *Annual Report, 2007/08*, p.150.

²⁰ Eastern Cape Department of Education, *Annual Report, 2008/09*, p.49.

²¹ PSAM, *Budget Analysis 2009/10*, Table 4. Available at www.psam.org.za.

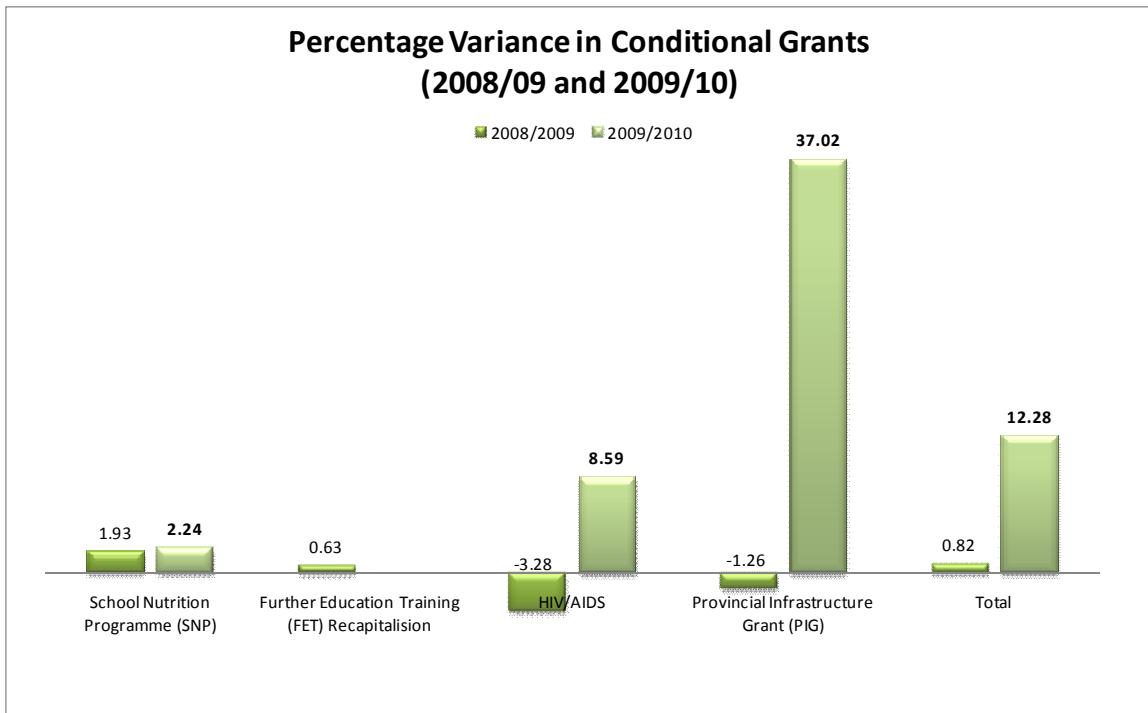


Figure 2: Comparison of variances between 2008/09 and 2009/10 for all conditional grants for the Eastern Cape Department of Education (Note: the FET grant was not funded under conditional grants in 2009/10)

Depicted in Figure 2 is also a continued under spending in the province's SNP (see also Tables 3a and 3b). Notable, however is the significant budget rollover in 2009/10 from the previous year. While the Department is likely to receive a rollover once again going into 2010/11, current expenditure trends mean that justification for such an adjustment are weakened. According to the Auditor General, at the time of release of his report, the performance audit of the infrastructure delivery process was ongoing.²² The results of this audit are likely to be of great value to improving both the planning for and delivery of infrastructure in the education sector.

Conclusion

Improvements in the expenditure of the Department's budget will only be achieved where there is proper functioning of internal controls, alongside internal audit. Both of these mechanisms are overseen by the Audit Committee and AO with the latter being heavily dependent upon these mechanisms to make expenditure and senior management decisions.

During the year under review, a number of concerns were raised regarding the effectiveness of these mechanisms by the Audit Committee, the Accounting Officer, and the Auditor General, with the latter concluding by issuing a disclaimed audit opinion for 2009/10. The Audit Committee placed importance on a synchronized effort in terms of

²² Eastern Cape Department of Education, *Annual Report 2009/10*, p.122.

achieving financial management turnaround in the Department.²³ In particular, the Audit Committee raised concerns about the lack of policies, control mechanisms and capacity at district level to produce proper financial statements. In addition to this, the Accounting Officer has acknowledged that the internal audit has been under resourced during the year.²⁴

This inability thus not only constrains the quality of in-year financial management but also means that the Department is non-compliant with Public Finance Management Act (PFMA) requirements.²⁵ As previously mentioned, the main reason for over expenditure can be accounted for by spending for the Compensation of Employees within Programme 2. Late and/or non-payment of suppliers as well as delays in infrastructure projects are attributable, according to the Accounting Officer, to decreased funding following the implementation of Treasury Circular 7 of 2009 . Other impacts of the circular include, delays in spending on Goods and Services and increased accruals at the end of the year.²⁶

²³ Eastern Cape Department of Education *Annual Report 2009/10*, p. 105.

²⁴ Eastern Cape Department of Education, *Annual Report 2009/10*, p.112.

²⁵ Eastern Cape Department of Education *Annual Report 2009/10*, p.105.

²⁶ Eastern Cape Department of Education *Annual Report 2009/10*, p.108.