

Eastern Cape Department of Human Settlements

## **Expenditure Tracking Report**

2011/12

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Public Service Accountability Monitor

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### **Findings And Recommendations**

- 1. Finding:** The Annual Report reveals the Department's expenditure for the 2011/12 year is R2.14 billion out of a total adjusted budget of R2.61 billion. The Department incurred under expenditure of 18% (R472 million) for the 2011/12 financial year which has been accounted for under accruals/roll overs of invoices/commitments to the value of the R472 million. However according to the Auditor General's Report, the Department understated its commitments by R930 million. This therefore means the Department over-spent its 2011/12 budget possibly by R458 million or 17%.

**Recommendation:** The Department's considerable commitments of R930 million in the 2011/12 financial year may have an adverse effect on cash flow in the next financial year. Adequate oversight from leadership to ensure that

Departmental commitments were reviewed and updated on a regular basis is required to avoid the possibility of over-expenditure to unacceptable levels.

- 2. Finding:** The Department failed to address its high vacancy rate. The vacancy rate has remained between 58% for three consecutive years negatively affecting its ability to meet targets and fulfil its mandate. This financial year the Department only managed to fill 60 out of a total of 600 needed but unfunded vacant posts.

**Recommendation:** The Department's human resource challenges are largely as a result of an insufficient equitable share budget. The Department is working on long-term solutions such as receiving additional funds from Provincial Treasury for critical vacancies in supply chain management and project management which they will be filling over the MTEF. The Department has also been employing interns but this is only a temporary solution. The Department needs to find ways to hire and retain qualified and skilled staff.

- 3. Finding:** Once again, the Department did not meet the housing targets achieving only 94% of all housing planned targets. Furthermore only a quarter of planned sites were serviced in the 2011/12 financial year and an 8% target was achieved for the rectification of pre 1994 units. The Annual Report highlights slow procurement processes, poor municipal planning, poor contractor management and inadequate monitoring capacity as reasons for the Department's failure to meet its planned targets.

**Recommendation:** The setting of low targets and the failure to achieve these targets is a major concern considering that the Department strategic goal is to deliver 123 000 houses and eradicate informal settlements by 2014/15. Currently the Department is under performing and more needs to be done. A boost in supply chain management and project management policies, more inter sectoral and integrated planning can go a long way in attaining better results.

- 4. Finding:** The Department incurred irregular expenditure of R7.2 million in the 2011/12 financial year down from R49.3 million in the previous financial year. On the other hand, fruitless and wasteful expenditure increased to R46 000 this financial year from R37 000 in the 2010/11 financial year. According to the Auditor General, this irregular expenditure was as a result of non-compliance with Treasury regulations and non-adherence to procurement procedures. Fruitless and wasteful expenditure was incurred as a result of non-compliance, payment for services not rendered, traffic fines and interest charged on late payments. It is however unfortunate that the AG's report does not verify the figures provided by Department as irregular and fruitless/wasteful expenditure.

**Recommendation:** The AO is also obliged by the PFMA to take all the necessary steps to prevent irregular and fruitless expenditure as well as take disciplinary measures against officials who are not complying with all legal and regulatory provisions outlined in the PFMA. The Department needs to ensure that irregular expenditure does not occur again in future as the Department is already battling resource shortages and must make effective use of available resources.

5. **Finding:** The Auditor General awarded the Department a qualified audit yet again because of the Department's failure to identify and recognise all commitments outstanding at year-end thereby breaching the requirements of financial reporting framework prescribed by National Treasury. Additional matters included that: Internal controls were not of the standard required by the PFMA and Treasury Regulations; non-compliance with PFMA laws and regulations; poor reporting of financial and performance management processes and failure by the Department to pay creditors within 30 days.

**Recommendation:** The Department's non-compliance with PFMA regulations, inaccurate reporting of commitments and an ineffective internal control system are amongst the Department's most significant and recurring weaknesses. If the Department is to attain an unqualified audit opinion there needs to be compliance with all relevant legislation regarding financial management as well considerable improvement in effectively implementing its internal controls. Poor reporting and failure to pay creditors are also serious and long-standing problems in the Department. Senior management, the Audit Committee and the Legislature need to exercise oversight in this regard and ensure that improvements are realised in these areas. Senior management and the Legislature need to ensure that corrective action is taken where deficiencies are identified and where officials are not complying.

## **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.<sup>1</sup> 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 government department under review. It provides an account of what funds were available and whether they were spent during the financial year under review.

The Eastern Cape Department of Human Settlements is responsible for facilitating and coordinating the provision of quality, integrated and sustainable human settlements

The Department operates through four main programmes:

- Programme 1, Administration, provides essential services relating to finance and supply chain management, strategic management, monitoring and evaluation, communication and information services
- Programme 2, Housing Planning and Research, is responsible for a number of important activities, namely facilitating the development of housing policy and legislation, coordinating housing planning, undertaking research which will inform planning.
- Programme 3, Development, seeks to respond to the housing question in the Province by planning and administering provision of housing subsidies as well as facilitating, coordinating and managing social housing.

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

- Programme 3.1, Project Management and Quality Assurance, The programme is also responsible for ensuring that housing projects are well located and that quality housing infrastructures are constructed within building regulations, housing norms and standards
- Programme 4, Housing Assets Management, manages rental and social housing stock, maintains housing assets and an asset register, and assists in the acquisition of land for housing development

### **Broad overview of Expenditure**

**Table 1: Expenditure over the last five years<sup>2</sup>**

<b>Financial Year</b>	<b>Total Budget R'000</b>	<b>Expenditure R'000</b>	<b>Variance: (over)/ under expenditure R'000</b>	<b>% of (over)/under expenditure R'000</b>
2007/08	616,082	395,340	220,742	35.8
2008/09	1,168,801	1,228,255	(59,454)	(5.1)
2009/10	1,531 715	1,530,764	951	0.06
2010/11	1,865,939	1,725,515	140,424	7.5
2011/12	2,615,470	2,143,154	472,316	18
<b>Total</b>	<b>7,798,007</b>	<b>7,023,028</b>	<b>893,887</b>	<b>11</b>

As Table 1 illustrates, the Department spent R2.14 billion of its R2.61 billion budget which is an under- expenditure of 18% of its total allocation. Table 1 also reflects a general history of under expenditure of the overall budget. The table shows that the under-expenditure is somewhat volatile in that it has ranged from as little as 7% and to 35% , with one exception of 5% over expenditure in the 2008/09 financial year. For the last 5 years, the Department's total budget allocation has increased steadily however the trend shows that the Department has been inconsistent in effectively and efficiently spending the budget. The table shows the Department has on average under spent its budget over the last 5 years by 11%.

The Department attributes the 2011/12 financial year's under expenditure being due to accruals/commitments and rollovers amounting to the 18% within the Conditional Grant and Goods and Services lines . these accruals/commitments could not be processed before the financial year end.<sup>3</sup> In contrast however, the report of the Auditor General emphasized certain issues with regard to financial reporting, misstatements of corresponding figures and the Departments failure to disclose all possible obligations

<sup>2</sup> Eastern Cape Department of Housing Annual Reports, 2007/08, 2008/09, 2009/10, 2010/11, 2011/12

<sup>3</sup> Eastern Cape Department of Human Settlements, Annual Report 2011/12, p.30

and commitments to the value of R930 million.<sup>4</sup> The Auditor General's report does seem to suggest over expenditure and the need for huge improvement in expenditure management. In order to see where the budget needs to be spent more efficiently, effectively or even appropriately, the budget will be considered in greater detail below.

**Table 2: Expenditure by Economic Classification<sup>5</sup>**

Economic Classification	Adjusted			Final Appropriation R'000	Actual Expenditure R'000	Variance R'000	Variance as a % of Final Appropriation
	Voted For 2011/12 R'000	Appropriation R'000	Virement R'000				
<b>Current payments</b>							
Compensation of Employees	170,486	170,486	0	170,261	170,255	6	0.01%
Goods and Services	72,701	72,008	-693	71,695	71,408	287	0.40%
<b>Transfers and Subsidies</b>							
Households	2,178,954	2,369,482	190,528	2,369,427	1,897,431	471,996	20%
<b>Payments for Capital Assets</b>							
Machinery & equipment	2,800	3,494	694	3,778	3,751	27	1%
Payment for financial assets				309	309		
<b>Total</b>	<b>2,424,941</b>	<b>2,615,470</b>	<b>190,529</b>	<b>2,615,470</b>	<b>2,143,154</b>	<b>472,316</b>	<b>18.00%</b>

A review of the Department's expenditure by economic classification reveals that spending largely occurs in the Compensation of Employees, Goods and Services and Households line items. Due to the high vacancy rate, the Department has made greater effort to allocate more funds and hire the skilled staff needed in the 2011/12 financial year. However the vacancy rate still remains high at 58%, only 455 posts have been filled out of a total of 1088 posts.<sup>6</sup> As a result the Department has not been operating at its maximum capacity and has therefore been under-performing and failing to achieving targets.<sup>7</sup> According to the Accounting Officer, limited human resources have mostly affected project management, supply chain management and contracts management services. These services have impacted negatively on procurement processes which have caused delays in implementation and completion of housing projects.<sup>8</sup>

Table 2 also reveals an improvement in the Goods and Services line item. In the previous financial year, the Department over spent this line item by R 5.6 million or

<sup>4</sup> Ibid, p.105

<sup>5</sup> Eastern Cape Department of Human Settlements, Annual Report 2011/12, p. 112

<sup>6</sup> Ibid, p.165

<sup>7</sup> Ibid, p.96

<sup>8</sup> Eastern Cape Department of Human Settlements, Annual Report 2011/12, p.96

8.4%.<sup>9</sup> This was as a result of an insufficient equitable share budget which has a direct impact on the Goods and Services budget.<sup>10</sup> For the 2011/12 financial year, this line item has not incurred any over-expenditure. The Department has managed to spend efficiently and effectively within their budget by cutting expenditure of non-core goods and services.<sup>11</sup> The Department is encouraged to continue to relieve pressure on the Goods and Services budget by continuously cutting expenditure on non-core items.

The under expenditure of R472 million or 20% under the %Households+ line item is troubling. This line item incorporates the Integrated Housing and Human Settlement Development (IHSDG) which consisted of 88% of the entire Human Settlements budget.<sup>12</sup> The under . expenditure has therefore occurred within the IHSDG.<sup>13</sup> This is disappointing considering that the previous financial year this line item reflected under-expenditure of less than 7.5%.<sup>14</sup> This was as a result of accruals and rollovers of expenses which could not be processed within the 2010/11 financial year. Once again, the Department accounts for the 2011/12 expenditure as a result of accruals and roll overs for commitments to the value of the under-expenditure not processed before financial year end.<sup>15</sup> However the report of the Auditor General states that %ontrary to the requirements of the Departmental financial reporting framework prescribed by National Treasury, the Department has not identified and recognized all commitments outstanding at year end. Commitments approved but not yet contractedō are understated by an amount of R930 million.<sup>16</sup> If this is the case then the Department has managed to over spend its entire 2011/12 budget possibly by R458 million. The rollovers of expenses from the 2011/12 financial year therefore may have an adverse effect on cash flow in the next financial year.

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<sup>9</sup> Eastern Cape Department of Human Settlements, Annual Report 2010/11, p. 123

<sup>10</sup> Ibid, p.29

<sup>11</sup> Budget Speech by MEC for Finance, M. Jonas delivered on 3 March 2010, p.10

<sup>12</sup> Eastern Cape Department of Human Settlements, Annual Report 2011/12, p.152

<sup>13</sup> Ibid, p.30

<sup>14</sup> Eastern Cape Department of Human Settlements, Annual Report 2010/11, p.123

<sup>15</sup> Eastern Cape Department of Human Settlements, Annual Report 2011/12, p.30

<sup>16</sup> Ibid, p.105

Departmental Expenditure by Programmes

**Table 3: Budget and Expenditure per programme for the Department of Human Settlement, 2011/12<sup>17</sup>**

<b>Programme</b>	<b>Adjusted Budget (R'000)</b>	<b>Expenditure (R'000)</b>	<b>Variance (R'000)</b>	<b>Percentage of (over) / under expenditure</b>
<b>1 Administration</b>	<b>105,529</b>	<b>104,411</b>	<b>1,118</b>	<b>1.05%</b>
<b>2 Housing Planning &amp; Research</b>	<b>18,130</b>	<b>17,961</b>	<b>169</b>	<b>0.93%</b>
<b>3 Housing Development</b>	<b>2,484,044</b>	<b>2,013,386</b>	<b>470,658</b>	<b>18.94%</b>
<b>4 Housing Asset Management</b>	<b>7,767</b>	<b>7,396</b>	<b>371</b>	<b>4.77%</b>
<b>Total</b>	<b>2,615,470</b>	<b>2,143,154</b>	<b>472,316</b>	<b>18.05%</b>

Almost all the Department's programmes under spent on their budget but within acceptable ranges of 0-5% with one exception - the Housing Development Programme which houses the IHSDG under spent its budget by 18%. The Annual Report does explain the failure to process invoices and commitments before year-end as a reason for this under expenditure. The Annual Report also provides information of virements or shifting of funds between programmes. Table 4 below provides a programmatic breakdown of the virements within the 2011/12 year.

<sup>17</sup> Eastern Cape Department of Human Settlements, Annual Report 2011/12, p.30



**Table 4: Virements between Programmes**

Programmes	Adjusted Appropriation R' 000 2011/12	Virement	Final Appropriation R' 000
Administration	105,529	-1,069	104,460
Housing Planning and Research	18,130	-122	19,008
Housing Development	2,484,044	1,461	2,485,505
Housing Assets Management	7,767	-270	7,497
<b>Total</b>	<b>2,615,470</b>		<b>2,615,470</b>

The table above shows that money was moved from the Administration Programme , Housing Planning Programme and the Housing Assets Programme to augment over . expenditure in the Housing Development Programme<sup>18</sup> The Department is urged to continue to ensure that as few of the Department's expenses are accrued and subsequently rolled over into the next financial year as this increases the possibility of over . expenditure. The Auditor General also highlighted inadequate processes and continuous controls<sup>19</sup> throughout the year that ensure accuracy and completeness of expenditure/commitments which resulted in management encountering time constraints which lead to material misstatements in the financial statements.<sup>20</sup> This can be avoided by the Department spending the significantly larger budget allocated at the beginning at the year and committing to monitoring and accounting for expenditure throughout the year and not towards year end.

The Annual Report does also include information regarding the performance of individual programmes and their objectives. In addition to the spending and financial management challenges highlighted by the Auditor General, the Department is also facing systemic problems such as delayed appointment of contractors and procurement of services ,staff capacity constraints, inadequate budgets particularly in Programme 1 and Programme 3.<sup>21</sup> These are all factors that have affected performance, completion of projects and the delivery of services. The Department managed to complete 94% or 14 498 units out of a target of 15 419 units due to the challenges stated.<sup>22</sup> The Department only managed to achieve 27% or 5 990 services out of target of 21 728<sup>23</sup> and rectify 8% or 36 units pre 1994 housing units out of a target of 441 units.<sup>24</sup> Multiple factors listed above have affected the Department's ability to achieve these targets. These systemic problems need to be addressed over the MTEF to improve spending and performance over time

<sup>18</sup> Eastern Cape Department of Human Settlements, Annual Report 2011/12, p.31

<sup>19</sup> Ibid, p.108

<sup>20</sup> Ibid p.108

<sup>21</sup> Ibid p.55 & 75

<sup>22</sup> Ibid, p.76

<sup>23</sup> Ibid, p.77

<sup>24</sup> Ibid

The expenditure of the conditional grant will now be considered.

**Table 5: Eastern Cape Department of Human Settlements, Conditional Grant Expenditure during 2011/12.<sup>25</sup>**

Name of grant	Division of Revenue Act	Rollovers & Adjustments	Total Available	Amount Received by Department	Amount Spent by Department	Variance as % of total available funding
	R'000	R'000	R'000	R'000	R'000	
IHSDG	2,177,676	133,828	2,311,504	1,911,992	1,897,075	17.9%
EPWP	711		711			
Housing Disaster	-		56,700			
<b>Total</b>	<b>2,178,387</b>	<b>133,828</b>	<b>2,368,915</b>	<b>1,911,992</b>	<b>1,897,075</b>	<b>19.9%</b>

For the 2011/12 financial year, the Department was allocated R 2,17 billion and received an additional R56 million to address disasters in the province plus another R711 000 for the Expanded Public Works Programme.<sup>26</sup> The total grant therefore increased to R 2,36 billion and total spent by Department was R 1.89 billion which represents expenditure of 82% of the total R2.36 billion grant allocation. The Accounting Officer explained that the 18% or R472 million grant under expenditure has been accounted for under the accruals/roll over processes as there were invoices/commitments to the value of the under-expenditure not processed before the financial year end closure.<sup>27</sup> Furthermore, the Department failed to use the additional R56 million to address disasters in the province which the Department has consequently applied for a roll over for the 2012/13 financial year.<sup>28</sup> The Auditor General however has stated that the basis for the qualified opinion is due to the fact that the Department did not disclose all approved commitments. Consequently, commitments are understated by an amount of R930 million.<sup>29</sup> Therefore the Department over spent its conditional grant allocation. It is however unclear from the Auditor General's statement whether the R930 million of the Department's commitments is inclusive or excluding the R472 million worth of commitments previously stated. If the Department understated its commitments by

<sup>25</sup> Eastern Cape Department of Human Settlements, Annual Report 2011/12, p.152

<sup>26</sup> Ibid, p.32-33

<sup>27</sup> Ibid, p.30

<sup>28</sup> Ibid, p.33

<sup>29</sup> Ibid, p.105

R930 million including the R472 million worth of commitments, the Department over spent its grant by R 458 million or 19%. On the other hand, if the R930 million worth of commitments is additional to the other commitments of R472 million, the Department therefore over spent its grant allocation by R930 million or 39%.

The Integrated Housing and Human Settlements Development Grant (IHSDG) is slightly more than 80% of the total Human Settlements budget. This is because the Grant funds the majority of departmental housing projects such as the construction of the top structures and informal settlement upgrading services.<sup>30</sup> The Department has a history of under-spending its grant allocation. In 2007/08 the Department underspent its grant allocation by 49.3%<sup>31</sup> and in 2008/09, R270 million was withheld by Treasury.<sup>32</sup> However, over the last two financial years, the Department has managed to spend its grant allocation effectively with under expenditure of between 0% and 8% respectively.<sup>33</sup> The possible massive over-expenditure by the Department in the 2011/12 financial year is a disappointment considering that much progress has been made by the Department in improving its efficient grant expenditure over the last two financial years. The Auditor General attributes the 2011/12 possible over expenditure to inadequate processes and continuous controls in place to ensure accuracy and completeness of commitments.<sup>34</sup> Better in year monitoring of grant expenditure is needed in order to avoid over-spending beyond the acceptable range of 0-5%.

Over- expenditure of this magnitude could add financial strain on the 2012/13 budget - negatively affecting projects planned for the next financial year. Spending within the authorized budget could have reduced opportunities for irregular expenditure/fruitless or wasteful expenditure highlighted by the Auditor General.<sup>35</sup> The Accounting Officer is urged to take reasonable steps to prevent irregular and/or wasteful expenditure as well as to take appropriate disciplinary action against officials who permit irregular/fruitless expenditure in accordance to PFMA and Treasury Regulations.<sup>36</sup>

With regards to performance of grant activities, the challenges highlighted in the 2010/11 financial year unfortunately resurfaced with serious implications on the Department's ability to meet targets. In order to improve grant activity performance, the Department needs to pay attention to the following problematic areas:<sup>37</sup>

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<sup>30</sup> Eastern Cape Department of Human Settlements, Annual Report 2011/12, p.32

<sup>31</sup> The initial 2007/08 conditional grant allocation was R1.05 billion. R543 million was taken back by the National Department of Housing due to under spending. Eastern Cape Department of Housing, Local Government and Traditional Affairs 2007/08 Annual Report, p. 124

<sup>32</sup> Eastern Cape Department of Housing Annual Report 2008/09, p.96

<sup>33</sup> Eastern Cape Department of Human Settlements, Annual Report 2009/10, p.140; Eastern Cape Department of Human Settlements, Annual Report 2010/11, p. 40

<sup>34</sup> Eastern Cape Department of Human Settlements, Annual Report 2011/12, p.108

<sup>35</sup> Ibid,

<sup>36</sup> Ibid

<sup>37</sup> Eastern Cape Department of Human Settlements, Annual Report p.71-77

- Delays in procurement
- Late appointment of contractors and other service providers
- Poor performance by contractors
- Lack of skilled financial and project management capacity
- Poor municipal planning
- Bulk infrastructure challenges

Unless these challenges are addressed, the Department will continue to under-perform.

### Internal Control

The system of internal controls is an important mechanism aimed at guarding against fruitless and wasteful expenditure and/or other kinds of mismanagement of public resources. Internal controls and internal audit mechanisms are prescribed in sections 38,76 and 77 of the PFMA.<sup>38</sup> The Department now has an internal audit function which reports to the AO regarding the Department's internal controls, risk management and governance processes. This is encouraging after years of using a Shared Internal Audit Services (SIAS) which was administered by the Provincial Treasury.<sup>39</sup> The AO reported 'reasonable satisfaction' with the work performed by the internal audit unit.<sup>40</sup> The concern of inadequate human resources within the SIAS was constantly highlighted by the Audit Committee.<sup>41</sup> This financial year the Department must be commended for finally addressing this problem by establishing its own internal audit committee.<sup>42</sup> The AO also reported 'satisfaction' with the advice, support and guidance received from the new committee.<sup>43</sup>

The Auditor General (AG) is responsible for monitoring and evaluating both the Audit Committee's and the Department's expenditure and senior management decisions. During the year under review the following concerns were raised regarding the effectiveness of these mechanisms by the following entities and persons:

The Audit committee reported that the system of internal controls for the period under review was 'adequate and partially effective'.<sup>44</sup> After an evaluation of the risk management, the committee found that the Department had not yet implemented a

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<sup>38</sup> Audit Committees Sections 76 (4) (d) and 77 of the PFMA; Internal Controls and Internal Audit (Sections 38(1)(a)(i) and 76(4)(e) of the PFMA

<sup>39</sup> Eastern Cape Department of Human Settlements, Annual Report 2010/11, p.105

<sup>40</sup> Eastern Cape Department of Human Settlements, Annual Report 2011/12, p.99

<sup>41</sup> Ibid

<sup>42</sup> Eastern Cape Department of Human Settlements, Annual Report 2011/12, p.99

<sup>43</sup> Ibid

<sup>44</sup> Eastern Cape Department of Human Settlements, Annual Report 2011/12, p.88

the Fraud Prevention Strategy<sup>45</sup> and identified corrective actions and provided recommendations on how to further enhance risk controls and processes.<sup>46</sup> Unfortunately the report of the Audit Committee does not detail the problematic areas and suggestions for improvement. It is pertinent that the Department implements a Fraud Prevention Strategy as soon as possible. It is also disappointing that the Audit Committee notes that management still need to manage risks towards a satisfactory level<sup>47</sup> despite having an internal risk assessment committee.<sup>48</sup> This committee clearly needs to better fulfill its duties in relation to oversight and assurance of material risks and compliance obligations.

Upon reviewing the Department's corporate governance the Audit Committee stated that as per discussions with management, they confirm they confirm that the content and the quality of monthly and quarterly reports prepared and issued were properly formulated and have complied with the PFMA and the Division of Revenue Act in this regard.<sup>49</sup> According to Treasury Regulation 3.1.11. the audit committee must have explicit authority to investigate matters within its powers. It is disappointing to note however that the Audit committee did not operate according to written terms of reference. It is also PSAM's view that it is not sufficient for the Audit Committee to base its solely on discussions with management.

Based on the Auditor General's findings on non-compliance, it is the PSAM's view, that the Audit Committee failed to sufficiently monitor the Department's expenditure against legal frameworks such as the PFMA and DoRA. The AG could not obtain sufficient audit evidence that goods and services of a transaction value above R500 000 were procured by means of inviting competitive bids and/or that deviations approved by the accounting officer were only approved if it was impractical to invite competitive bids as required by Treasury Regulations.<sup>50</sup> The AG's report highlighted the fact that the financial statements submitted for auditing were not prepared in accordance with the requirements of the PFMA, which resulted in the financial misstatements receiving a qualified opinion.<sup>51</sup> The Audit Committee similarly missed the fact that the Department were appointing employees without following proper regulations in accordance to the Public Service Regulations and that employees were being compensated for overtime work which was not approved in advance as required by the Public Service Regulations.<sup>52</sup> It is thus very important that the Audit Committee verifies and probes the institutions compliance with legal and regulatory provisions thoroughly throughout the year.

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<sup>45</sup> Ibid

<sup>46</sup> Ibid

<sup>47</sup> Ibid

<sup>48</sup> Ibid, p.97

<sup>49</sup> Ibid, p.88

<sup>50</sup> Ibid, p.107

<sup>51</sup> Ibid, p.107.

<sup>52</sup> Eastern Cape Department of Annual Report, 2011/12, p.108

Furthermore, the Audit Committee failed in its responsibility to provide adequate oversight over management to ensure that Departmental commitments were reviewed and updated on a regular basis.<sup>53</sup>

In addition to these deficiencies, the report of the AG discovered that the Department incurred irregular expenditure totaling R7.2 million for the year under review.<sup>54</sup> The expenditure incurred was in contravention of the Public Service Regulation relating to human resource management practices.<sup>55</sup> Fruitless and wasteful expenditure of R46 000 was incurred as a result of non-compliance, payment for services not rendered, traffic fines and interest charged on late payments.<sup>56</sup> Fruitless and wasteful expenditure increased to R46 000 this financial year from R37 000 in the 2010/11 financial year.<sup>57</sup> It is however unfortunate that the AG's report does not verify the figures provided by Department for irregular and fruitless/wasteful expenditure.

According to the PFMA, the AO must report in the Annual report any unauthorized, irregular or fruitless and wasteful expenditure that occurred during the financial year, in addition, the AO must take criminal or disciplinary steps as a result of such expenditure. It is pleasing to note that the AO has taken effective and appropriate steps to deal with this irregular expenditure.<sup>58</sup> In addition, the AO has managed to reduce irregular spending from R49.3 in the previous financial year to R7.2 million in the 2011/12 financial year.<sup>59</sup> The AO however needs to give more attention to the Human Resource Management processes in order to prevent irregular expenditure from occurring again.

In conclusion, based on the AG's report, in order for the Department to receive an unqualified audit opinion, the Department will require that:

- The audit committee and internal audit execute all their responsibilities as the internal audit report on government processes and the control environment
- The Department's controls and processes are updated nor reviewed on a regular basis
- Sufficient monitoring of the Department's expenditure against pre-determined objectives and in compliance with legal frameworks
- Effective manual and automated controls to identify and accurately record irregular expenditure particularly in human resource management

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<sup>53</sup> Ibid

<sup>54</sup> Ibid, p.108 & p.147

<sup>55</sup> Ibid, p.108

<sup>56</sup> Ibid, p.148

<sup>57</sup> Ibid

<sup>58</sup> Ibid, p.147

<sup>59</sup> Ibid

- Adequate oversight from leadership to ensure that Departmental commitments were reviewed and updated on a regular basis
- And finally that management prepares regular, accurate and complete financial and performance reports that are supported by evidence and reliable information.