

## Department of Education Mpumalanga

### Conditional Grants & Capital Expenditure

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## Structure of presentation

1. Outcomes of 2006/07 annual financial statements & expenditure trends
2. 2006/07 Auditor-General's report
3. 2007/08 Allocations, expenditure and transfers (Conditional grants, Capital Projects & challenges)
4. Department's monitoring and reporting capacity

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# 1. Outcomes of 2006/07 annual financial statements & expenditure trends

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## 1.1 2006/07 Expenditure per Programme

Programme	Adjusted Budget Rand	Actual Expenditure Rand	% spent
Administration	592,102	574,430	97.0%
Public ordinary schools	5,274,755	5,245,458	99.5%
Independent Schools	9,465	9,445	99.8%
Special schools	99,910	99,346	99.4%
FET	169,296	168,181	99.3%
ABET	79,456	75,472	95.0%
ECD	45,427	45,252	99.6%
Auxiliary Services	55,646	55,302	99.4%
<b>Total</b>	<b>6,325,857</b>	<b>6,272,886</b>	<b>99.2%</b>

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## 1.2 2006/2007 Expenditure trend

- The department has spent 99,2% of its total allocation of R6,325 billion.
- The variance of 0.8% is due to an under expenditure in:
  - Capital projects @ R45,4m.
  - NSNP @ R1,4m
- Personnel budget overspent by 3%

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## 1.3 Conditional Grants 2006/07

Conditional Grants	Main Appropriation	Additional funds	Adjusted Budget	Actual Expenditure	% spent	Motivation
	R'000	R'000	R'000	R'000		
	1	2	3 (1+2)	4	5 (4/3)	
HIV/AIDS	10,936	-	10,936	11,603	106.1%	Supplemented with equitable share
School Nutrition	84,549	-	84,549	83,097	98.3%	
Infrastructure Development	126,638	54,506	181,144	120,912	66.7%	Rollover requested due to incomplete projects
FET recapitalisation	32,000	-	32,000	32,000	100.0%	
<b>TOTAL</b>	<b>254,123</b>	<b>54,506</b>	<b>308,629</b>	<b>247,612</b>	<b>80.2%</b>	

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## 2. 2006/07 Auditor-General's report

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### 2.1 History of MDE's Audit reports

	2004/05	2005/06	2006/07
Status	Disclaimer	Qualification	Qualification
Limitation of scope	<ol style="list-style-type: none"> <li>1. Disclosure notes (6)</li> <li>2. Asset management</li> <li>3. Goods &amp; Services</li> <li>4. Compensation of employees</li> </ol>	<ol style="list-style-type: none"> <li>1. Disclosure note (2)</li> <li>2. Supporting documents not available</li> </ol>	<ol style="list-style-type: none"> <li>1. Supporting documents not submitted (2)</li> </ol>
	<ol style="list-style-type: none"> <li>1. Receivables</li> </ol>	<ol style="list-style-type: none"> <li>1. Asset management</li> <li>2. Compensation of employees</li> </ol>	<ol style="list-style-type: none"> <li>1. Capital Assets (6)</li> <li>2. Irregular expenditure</li> </ol>
Emphasis of Matter	<ol style="list-style-type: none"> <li>1. Internal Audit</li> <li>2. Compliance with laws</li> <li>3. Fruitless &amp; wasteful expenditure</li> <li>4. Vacant positions</li> <li>5. Suspense accounts</li> <li>6. Vehicle fleet management</li> <li>7. Tax deductions and payments</li> <li>8. Transfer payments</li> <li>9. Special audit</li> <li>10. Submission of audit report</li> </ol>	<ol style="list-style-type: none"> <li>1. Internal Audit</li> <li>2. Supply Chain management</li> <li>3. Payment VAT to non-vendors</li> <li>4. Transfer payments</li> <li>5. Accounts receivables</li> <li>6. Submission of audit report</li> <li>7. Special audit</li> </ol>	<p><u>Other matters</u></p> <ol style="list-style-type: none"> <li>1. Material corrections</li> <li>2. Special investigation</li> </ol> <p><u>Governance</u></p> <ol style="list-style-type: none"> <li>1. Internal Audit</li> <li>2. Audit committee</li> <li>3. Policies &amp; procedures</li> <li>4. Value-for-money: NSNP, Infrastructure, HR Management, M&amp;E vehicle fleet, delay of audit</li> </ol>

## 2.2 Analysis of 2006/07 Audit Report

Audit finding	Details	Unpack/Challenges
Limitation of Scope		
Supporting documents not submitted	<ol style="list-style-type: none"> <li>1. R45m tender documents not submitted</li> <li>2. R20m disclosed as receivables in note 10; doubt validity and accuracy</li> </ol>	<ol style="list-style-type: none"> <li>1. Public Works,</li> <li>2. Filing and registry</li> </ol>
Capital Assets	<ol style="list-style-type: none"> <li>1. Fixed Asset Register not updated</li> <li>2. No reconciliations between BAS and Logis</li> <li>3. Disclosure note does not reconcile note 23</li> <li>4. Capital WIP not disclosed note 23</li> <li>5. Non-residential buildings not registered in name of Department, note 23.</li> <li>6. Equipment above R5 000 not capitalised</li> </ol>	<ol style="list-style-type: none"> <li>1. Technical knowledge</li> <li>2. Shortage of people</li> <li>3. Treasury's assistance needed</li> <li>4. Training to be provided</li> <li>5. Research about Asset Management</li> <li>6. Procedure manuals to be drafted</li> </ol>
Irregular expenditure	<ol style="list-style-type: none"> <li>1. Compensation of employees overspent by R139m</li> </ol>	<ol style="list-style-type: none"> <li>1. Reconciliation done</li> <li>2. Treasury to assist</li> </ol>

## 2.2 Analysis of 2006/07 Audit Report continues . . .

Audit finding	Details	Unpack/Challenges
<u>Other matters</u>		
<ol style="list-style-type: none"> <li>1. Material corrections</li> <li>2. Special investigation</li> </ol>	<ol style="list-style-type: none"> <li>1. Disclosure notes in the past, better reporting now</li> <li>2. Scholar transport</li> </ol>	<ol style="list-style-type: none"> <li>1. Knowledge of GAAP &amp; GRAP, training</li> <li>2. New policy and procedure or administration to be drafted</li> </ol>
<u>Governance</u>		
<ol style="list-style-type: none"> <li>1. Internal Audit</li> <li>2. Audit committee</li> <li>3. Policies &amp; procedures</li> <li>4. Value-for-money: <ul style="list-style-type: none"> <li>- NSNP,</li> <li>- Infrastructure,</li> <li>- HR Management,</li> <li>- M&amp;E vehicle fleet,</li> <li>- Delay of audit</li> </ul> </li> </ol>	<ol style="list-style-type: none"> <li>1. No audits done</li> <li>2. Two members only</li> <li>3. No policies to guide certain activities</li> <li>4. Value-for-money audits being carried out</li> </ol>	<ol style="list-style-type: none"> <li>1. Governance</li> <li>2. Governance</li> <li>3. Knowledge, implementation and maintenance/applying could pose a challenge</li> </ol>

## 2.3 Underlying causes to problems id

1. Operational: ( $\pm 10\%$ )
  - ✓ Most – if not all – of the findings can be resolved by **US!**
2. Organisational Architecture: ( $\pm 30\%$ )
  - ✓ Internal Audit & vacant positions
3. Attitudes & Values: ( $\pm 60\%$ )
  - ✓ Can be related directly to the operational problems!

2006/07	
Qualification	
<u>Limitation of scope</u>	
1.	Supporting documents not submitted (2)
1.	Capital Assets (6)
2.	Irregular expenditure
<u>Other matters</u>	
1.	Material corrections
2.	Special investigation
<u>Governance</u>	
1.	Internal Audit
2.	Audit committee
3.	Policies & procedures
4.	Value-for-money: NSNP, Infrastructure, HR Management, M&E vehicle fleet, Delay of audit <sup>1</sup>

## 2.4 Thrust of the strategy

1. Establish a task team	30 Oct 2007
2. Director/Chief Director is accountable	30 Oct 2007
3. Policies drafted/reviewed	30 Nov 2007
4. Procedure Manuals <ul style="list-style-type: none"> <li>▪ including Process Flow per sub-directorate</li> <li>▪ Head of unit is responsible</li> </ul>	31 Dec 2007
5. Monitoring & Evaluation <ul style="list-style-type: none"> <li>▪ Progress through monthly reports</li> <li>▪ SCOPA</li> </ul>	30 Nov 2007

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### 3. 2007/08 Allocations, expenditure and transfers (Conditional grants, Capital Projects & challenges)

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#### 3.1 Allocations, expenditure and transfers

- Conditional Grants are allocated by National Treasury & NDoE
  - Conditional grants are transferred to PDoE by Provincial Treasury on request by PDoE.
  - Only FET Recap funds are transferred to FET Colleges based on Recapitalisation plans
  - Allocations for Capital Projects are based on the projections against planned projects.

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### 3.2 Economic classification April to Sep 2007

	Original Budget	Expenditure Up to 30 Sep 2007	% Spent
	Rand	Rand	
Compensation of employees	5,847,664	2,917,352	50%
Goods and services	1,391,768	485,634	35%
Transfer payments	359,493	213,694	59%
Capital expenditure	357,097	114,799	32%
<b>Total</b>	<b>7,956,022</b>	<b>3,731,479</b>	<b>47%</b> <sup>5</sup>

### 3.3 2007/08 spending performance as at 30 September 2007

Programme	Budget 2007/08	Actual As At 30 Sept '07	% Spent	Explanation For Variance
	Rand	Rand		
Administration	866,337	332,436	38%	Challenges to fill vacant posts – structure only approved on 28.05.'07
Public ordinary schools	6,553,830	3,169,518	48%	
Independent Schools	21,404	5,993	28%	Budget allocation more than actual need (13 schools budgeted for)
Special schools	115,360	55,076	48%	
FET	184,126	89,879	49%	
ABET	87,476	27,490	31%	Not all claims for this financial year have been submitted and processed
ECD	67,297	26,476	39%	Unpaid stipends
Auxiliary Services	60,192	24,611	42%	
<b>Total</b>	<b>7,956,022</b>	<b>3,731,479</b>	<b>47%</b>	



### 3.4 Conditional Grants Spending

Conditional Grants	Budget 2007/08 R` 000	Actual as at 30 Sep 2007 R` 000	% spent	Reasons for not being on 50%
HIV/AIDS	13,010	4,290	33%	Activities scheduled for June were postponed
NSNP	106,604	46,429	44%	
FET	40,055	20,028	50%	
Infrastructure	200,979	17,010	8%	Turnaround plan being implemented to fast-track proceedings
<b>Total</b>	<b>360,648</b>	<b>87,757</b>	<b>24%</b>	

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### 3.5 Analysis of expenditure trends

Overall expenditure = 47%

- Personnel expenditure = 50%
- Under-expenditure in ABET and ECD due to delay in payments of stipends
- Independent schools under-spent due to a 4% projection (13 schools of the 326 schools qualifying for a subsidy in BBR) Only 1 school qualified.
- Infrastructure grant: underperforming due to delays in adjudication and implementation of projects

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### 3.6 Personnel vs. Non-Personnel Expenditure

	Budget 2007/08	Expenditure as at 30 Sept 2007	% Spent
	Rand	Rand	
<b>Personnel Expenditure</b>	<b>5,847,664</b>	<b>2,917,351</b>	<b>49.9%</b>
<b>Non- personnel:</b>	<b>2,108,358</b>	<b>814,128</b>	<b>38.6%</b>
■ Goods & Services	1,391,768	485,636	34.9%
■ Transfers & Subsidies	359,493	213,693	59.4%
■ Payment of Capital Assets	357,097	114,799	32.2%
<b>Total</b>	<b>7,956,022</b>	<b>3,731,569</b>	<b>47%</b>

## 3.7 Challenges

### 3.7.1 Personnel expenditure = 49.9%

- R69 m for increase in annual salary adjustments (1,5%)
- Vacancies of R69,651m at Bushbuckridge
- Increase in payment of housing rental, from R244 to R500 (budget deficit=R26 m)
- Increase in Govt contribution to GEMS (budget deficit – R9,2m)

**Additional Personnel Costs = R173,851m was addressed during Adjustment process**

## 3.7 Challenges continues

### 3.7.2 Infrastructure

- Disconnect between planning, implementation and monitoring
- Technical capacity limitation in strategic functions
- Over-commitment of funds at start of Financial Year
- 2001-2004 backlog projects (retention & near-complete projects)

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### 3.7.2 Infrastructure backlogs in '07

Component	Number of units	Estimated current cost
Classrooms	3203	R 608 570 000
Admin blocks	793	R 756 522 000
Laboratories	612	R 389 232 000
Libraries	1161	R 738 396 000
Computer centres	1230	R 782 280 000
School halls	1843	R 1 758 222 000
Toilets (seats)	4921	R 275 576 000
Fencing	376	R 358 704 000
Electricity	317	R 50 403 000
Water	386	R 65 234 000
Kitchens	1146	R 728 856 000
Grade R classrooms	To be quantified (+/- 3 000)	R 900 000 000
<b>TOTAL</b>		<b>R 7 411 995 000</b>

### 3.7.2 Infrastructure: Proposed Remedial Action

- Improve planning procedures – adopt circuit based planning in the context of regional IDPs
- Capitalise on PTAT and OST intervention – enhance internal programme management procedures
- Strengthen internal capacity – skills transfer and targeted recruitment
- Enhance inter-departmental co-operation
- Implement strategy to address backlogs – close retention projects
- Improve cash flow – improved financial management procedures
- Benchmarking against best practice provinces – KZN fast track and FS – PPP

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## 4. Monitoring and Reporting Capacity

### 1. Institutional capacity:

- Internal Audit
- Audit Committee
- Supported by: Provincial Treasury and National Departments' monitoring & visits

### 2. Monitoring Instruments

- Financial data:
  - IYM & IRM provide early warning system on finances
- Non-financial data:
  - Quarterly Performance Reports & Annual Report

**Thank you**

**Mpumalanga  
Dept of Education**

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