

## PART FIVE

### ANNUAL FINANCIAL STATEMENTS: 31 MARCH 2002

CONTENTS	PAGE
Management Report	42
Report of the Auditor-General	47
Statement of Accounting Policies and Related Matters	50
Income Statement	54
Balance Sheet	55
Cash Flow Statement	56
Notes to the Annual Financial Statements	57
Appropriation Statement	63
Notes to the Appropriation Statement	64

**WESTERN CAPE PROVINCE  
DEPARTMENT OF FINANCE  
VOTE 3: DEPARTMENT OF FINANCE**

**MANAGEMENT REPORT  
for the year ended 31 MARCH 2002**

Report by the Accounting Officer to the Executive Authority and Parliament of the Province of the Western Cape

**1. General review of the state of financial affairs**

During the course of this financial year the Department addressed the following key issues:

- Continuous refinement and updating of the Provincial Fiscal Policy Framework reflecting key priorities and deliverables of the Provincial Government.
- The creation of a Directorate Revenue Management to optimise current sources of own revenue and to investigate, quantify and formulate strategies for new sources of own revenue and provincial taxes.
- Ensure that the budget targets set in respect of expenditure, deliverables and transparency were reported on by provincial departments and provincial public entities (when required to do so) and evaluated in their contribution towards efficient and effective utilisation of funds (value for money).
- Ensure that a legal framework for accounting officers, executive authorities and other officials were in place within which they can operate effectively.
- Implementation of further procurement policies/strategies to enhance the participation of small and historically disadvantaged businesses in the provincial procurement process.
- Transformation of budget documentation and processes to promote output and outcome based budgeting and develop a strategy for and implementation of an improved reporting and communication structure.
- Further develop professionalism and excellence in financial management through recruiting, developing and maintaining human resources responsible for finance at the appropriate skills level.
- Promote financial regularity and accountability, including controlling the implementation of the Public Finance Management Act, 1999, in provincial departments.

**WESTERN CAPE PROVINCE  
DEPARTMENT OF FINANCE  
VOTE 3: DEPARTMENT OF FINANCE**

**MANAGEMENT REPORT (continued)  
for the year ended 31 MARCH 2002**

Spending trends

	<b>2000/2001</b>	<b>2001/2002</b>
	<b>R'000</b>	<b>R'000</b>
• Budget allocation		
Total	203 586	62 237
Administration	15 070	19 315
Budgets	18 383	21 706
Provincial Accountant General	19 444	21 216
Information Technology	150 689	-
• Under spending		
Total	42 597	13 773
Administration	1 836	1 630
Budgets	6 423	6 832
Provincial Accountant General	7 361	5 311
Information Technology	26 977	-

For an explanation on Information Technology, refer to paragraph 7 below.

**2. Services rendered by the department**

2.1 On behalf of the MEC for Finance as the head of the Provincial Treasury, the Department is responsible for the execution of the functions and powers as prescribed in Chapter 3 of the Public Finance Management Act, 1999 (Act 1 of 1999).

2.2 Tariff policy

Betting and Gambling

Betting and Gambling consist mainly of casino taxes, bookmakers taxes, totalisator taxes and annual licence fees from bookmakers, the totalisator and casinos and other once-off fees which relate to casino bid fees. All these fees and taxes were determined by the Western Cape Gambling and Racing Board Law, 1996 (Law 4 of 1996), after consultation with the industry.

Functional Financial Training

The Provincial Treasury annually approves tariffs payable for functional financial training rendered to officials from central government departments. These tariffs are calculated as actual expenditure plus 40 %.

**3. Under spending**

The under spending is mainly attributed to the fact that vacant posts could not be filled before the time consuming processes of compiling job descriptions and job evaluations were completed which took between six to nine months.

However, notwithstanding the above, the current staff were prepared to do more than normally expected of them, by working harder and by working overtime for extended periods, to ensure that the impact on programme performance and service delivery was negligible.

**MANAGEMENT REPORT (continued)  
for the year ended 31 MARCH 2002**

To ensure that a recurrence of the afore-mentioned will in future be prevented, a contractual appointment was made with the specific task of compiling a job description for each approved post on the staff establishment, to prepare the applicable job descriptions for job evaluation and to create a template to be used for future job evaluation purposes.

**4. Capacity constraints**

The decentralising of the departmental accountant services to the different Departments, had a detrimental effect on the pool of expertise, especially in the State Accountant cadre and middle management of financial administration. The different departments competed fiercely to appoint the available employees to their departmental accountant services components. Furthermore, the Provincial Treasury lost its host from which the achievers in the accounting field were recruited for appointment.

Although this situation has had no immediate effect on the performance of planned programmes or on service delivery in general, it will without doubt, have a considerable impact on such performance in future should urgent remedial steps not be put in place.

For this reason the Provincial Treasury will with effect from the 2002/2003 financial year, embark on a dedicated human resource development programme, inter alia, determining the skills gap of current staff and developing and implementing accredited training programmes.

**5. Public entities**

The public entities under the control of this Department are the Western Cape Gambling and Racing Board and the Western Cape Provincial Tender Board as listed in Schedule 3 of the Public Finance Management Act, 1999 (Act 1 of 1999).

The Western Cape Gambling and Racing Board

The function of the Board is to control all gambling, racing and activities incidental thereto in the Western Cape.

The accountability arrangements of the Board are strictly dealt with in terms of the Public Finance Management Act, 1999 (Act 1 of 1999) and the Western Cape Gambling and Racing Board Law, 1996 (Law 4 of 1996).

The positive financial performance by the Board is reflected in the fact that due to a determined effort the Board was able to curtail overhead costs and to maximise the generation of own revenue and resultantly requested a transfer payment of R4 million less than was budgeted for, i.e. R10 million. Also refer to page 53 of the financial statements.

The financial statements of the Western Cape Gambling and Racing Board does not form part of the Department's financial statements, due to a separate annual report being tabled for the said Board.

**MANAGEMENT REPORT (continued)  
for the year ended 31 MARCH 2002**

The Western Cape Provincial Tender Board

The function of the Board is to procure supplies and services for the Province and, subject to the provisions of any other act of Parliament or a law of the Provincial Legislature, to arrange the hiring and letting of anything or the acquisition or granting of any right for or on behalf of the Province, and to dispose of Provincial property.

The accountability arrangements of the Board are that funds are budgeted as a sub-programme of the programme Budgets of the Department in terms of the Public Finance Management Act, 1999 (Act 1 of 1999) and, therefore the figures for the Board are incorporated in the financial statements of the Department.

Although the funds budgeted for the day to day activities of the Board form part of the Departmental budget, the Board members were remunerated for their services rendered at an amount stated on page 53 of the financial statements. The value added by these members in the execution of their functions can be described by the fact that 123 tenders to the value of R442 million were approved of which R102 million went to entrepreneurs from the historically disadvantaged communities. This achievement was brought about by the implementation of a preference procurement policy compiled by the Board members.

In a letter dated 1 March 2002, National Treasury informed Provincial Treasuries that all Tender Boards will be delisted as public entities, as they function within their respective departments and also receive funding from those departments. National Treasury also indicated that the delisting would not take place before 31 March 2002.

## **6. Corporate governance arrangements**

An internal control component was introduced in the Department with the task of continuously monitoring day to day financial activities and to report to the Chief Financial Officer monthly and also to execute formal financial inspections and to report these findings to the Accounting Officer quarterly. The Internal Audit component was requested to assist in this task by determining the possible high risk areas for unauthorised expenditure. The outcome of this investigation is still pending.

A fraud prevention policy was compiled and approved and a subsequent fraud prevention plan introduced together with a code of conduct to train and sensitise members of staff to foster a culture of zero tolerance to corruption, fraud, theft and mal-administration.

As a contribution to sound financial practice, all senior managers declared their financial and other interests and these were submitted to the Executive Authority and the Department of Public Service and Administration.

An occupational health and safety committee was established for the Department to effectuate the conditions of the Occupational Health and Safety Act.

## **7. Discontinued activities**

The Chief Directorate Information Technology was abolished at this Department with effect from 1 April 2001 and created at the Department: Provincial Administration with effect from the same date. The budget of the Chief Directorate was also carried over in full.

**MANAGEMENT REPORT (continued)  
for the year ended 31 MARCH 2002**

**8. New activities**

With effect from 1 April 2001 a departmental accountant services function and a human resource management function were created for the Department, as a result of the decentralisation of these functions formerly performed centrally within the Province. This means that the Department now has full responsibility regarding both general financial administration and human resource management. The budgets of these components were received in full.

**9. Progress with financial management improvements**

The implementation of the Public Finance Management Act (PFMA) 1999, (Act 1 of 1999) within the Department initially comprised seven immediate steps. During the 2001/2002 financial year these were expanded to 10 steps to ensure that financial prescripts as set out in the PFMA are being adhered to. This also enabled the Department to put monitoring mechanisms in place to ensure sound financial management. An example is the in year-monitoring programme which improved control over revenue and expenditure.

Provincial Treasury Instructions (PTI's) were implemented and delegations of authority were introduced in order to enhance the practical execution of the financial prescripts.

A highlight during the year was the submission of the financial statements and the annual report on the previous year, on the due dates prescribed by the PFMA.

**10. Other**

**10.1 Financial statements: Submittance of comparative figures**

Except for the income statement and the notes thereto, the financial statements of the 2000/2001 financial year reflected consolidated figures (FMS department code 70). Therefore, no comparative figures for the cashflow statement and balance sheet for the mentioned year are available. Subsequently, no such figures are being reflected for these statements on pages 50 and 51 and the notes thereto.

**10.2 Statement of changes in net assets/equity**

This Department did not include this statement in the financial statements due to it being attuned more to accrual accounting to which the Department is not yet geared to complete.

**Approval**

The annual financial statements set out on pages 50 to 67 are hereby approved by the Accounting Officer.



**KP PRETORIUS  
ACCOUNTING OFFICER**

**DATE: 31 MAY 2002**



A U D I T O R - G E N E R A L

**REPORT OF THE AUDITOR-GENERAL TO THE PROVINCIAL PARLIAMENT  
OF THE WESTERN CAPE ON THE FINANCIAL STATEMENTS OF THE  
DEPARTMENT OF FINANCE (VOTE 3)  
FOR THE YEAR ENDED 31 MARCH 2002**

**1. Audit Assignment**

The financial statements as set out on pages 50 to 67, for the year ended 31 March 2002, have been audited in terms of section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996), read with sections 3 and 5 of the Auditor-General Act, 1995 (Act No. 12 of 1995). These financial statements, the maintenance of effective control measures and compliance with relevant laws and regulations are the responsibility of the accounting officer. My responsibility is to express an opinion on these financial statements, based on the audit.

**2. Nature and scope**

The audit was conducted in accordance with Statements of South African Auditing Standards. Those standards require that I plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement.

An audit includes:

- examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements,
- assessing the accounting principles used and significant estimates made by management, and
- evaluating the overall financial statement presentation.

Furthermore, an audit includes an examination, on a test basis, of evidence supporting compliance in all material respects with the relevant laws and regulations which came to my attention and are applicable to financial matters.

I believe that the audit provides a reasonable basis for my opinion.

**3. Unqualified audit opinion**

In my opinion, the financial statements fairly present, in all material respects, the financial position of the department at 31 March 2002 and the results of its operations and cash flows for the year then ended in accordance with prescribed accounting practice and in the manner required by the relevant act.

**4. Emphasis of matter**

Without qualifying the audit opinion expressed above, attention is drawn to the following matters:

## **4.1 Matters affecting the financial statements**

### **Reconciliation between the personnel and salary (PERSAL) system and the financial management system (FMS)**

The department's human resource management and salary administration information is recorded and processed on the national transversal PERSAL computerised system. Information stored on this system pertains mainly to salary payments and related processes. Expenditure processed within the PERSAL system is programmatically transferred to the national transversal FMS. However, certain transactions in respect of personnel expenditure are processed directly through the FMS, without transferring the information to the PERSAL system. In practice a discrepancy may, therefore, be found between the PERSAL system and the FMS as far as information on personnel expenditure is concerned.

A difference of approximately R1,3 million (4.57%) was detected between the PERSAL system and the FMS at 31 March 2002, i.e. the PERSAL system being less than the FMS. In reply to a management letter the accounting officer indicated that monthly reconciliations between the PERSAL system and the FMS are performed and that errors are rectified timeously, but that no hard copies as evidence of such reconciliations are kept for audit purposes. It was therefore not possible for audit to conclude that the difference between the PERSAL system and the FMS are adequately reconciled.

## **4.2 Matters not affecting the financial statements**

### **(a) Internal audit**

At a Cabinet meeting held on 29 September 1999, it was approved that certain support services should be delivered on a centralised basis, and that this situation would be reviewed after two years. Based on this, the internal audit function of the Western Cape Province was established as a centralised (shared) function for all the respective departments within the province. During the 2001-02 financial year the internal audit department formed part of Vote 1 – Premier, Director-General and Corporate Services. An evaluation of the internal audit function of the Western Cape Province is included in the Report of the Auditor-General on the financial statements of the aforementioned vote for the year ended 31 March 2002.

### **(b) Audit committee**

On 4 May 2000, the Minister of Finance, in accordance with the powers assigned to him in terms of sections 17(2) and 77(c) of the PFMA, established a centralised audit committee for the Western Cape Province for a period of two years. An overview of the audit committee of the province is included in the Report of the Auditor-General on the financial statements of Vote 1 – Premier, Director-General and Corporate Services for the year ended 31 March 2002.



5. **APPRECIATION**

The assistance rendered by the staff of the department during the audit is sincerely appreciated.

A handwritten signature in black ink, appearing to read 'WJ Brits', written in a cursive style.

**WJ BRITS**  
*for* **AUDITOR-GENERAL**

**BELLVILLE**  
**30 JULY 2002**