WESTERN CAPE

ACCOUNTING REVIEW

2003

Working Paper

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GLOSSARY/ABBREVIATIONS

AFS	Annual Financial Statements
A-G	Auditor-General
APB	Accounting Practices Board of South Africa
ASB	Accounting Standards Board
BAS	Basic Accounting System
CASIDRA	Cape Agency for Sustainable Development in Rural Areas
CFO	Chief Financial Officer
CMD	Cape Medical Depot
CPA	Cape Provincial Administration
DORA	Division of Revenue Act, 2003
EFT	Electronic Fund Transfer
FMS	Financial Management System
GAAP	Generally Accepted Accounting Practice
GFS	Government Finance Statistics
GRAP	Generally Recognised Accounting Practice
IFAC	International Federation of Accounting
IFMS	Integrated Financial Management Solution
IMF	International Monetary Fund
IPSAS	International Public Sector Accounting Standards
IYM	In-Year Monitoring
LOGIS	Logistical Information System
MMS	Maintenance Management System
NaTIS	National Transport Information System
NT	National Treasury
PE	Public Entities
PERSAL	Personnel and Salary Administration System
PFMA	Public Finance Management Act, 1999
PRF	Provincial Revenue Fund
PSA	Public Service Act, 1994
PSR	Public Service Regulations
PT	Provincial Treasury
PTD	Provincial Treasury Directives
PTI	Provincial Treasury Instructions
REAL	Revenue, expenditure, assets and liabilities
SARB	South African Reserve Bank
SCoA	Standard Chart of Accounts
SCOPA	Standing Committee on Public Accounts
SICA	Special Investigation Cabinet Assignment
SOCPEN	Social Pensions System
The Constitution	The Constitution of the Republic of South Africa, 1996
TR	Treasury Regulations, 2002
WC	Western Cape
WCED	Western Cape Education Department
WESGRO	Western Cape Investment and Trade Promotion Agency

EXECUTIVE SUMMARY

Introduction

Good accounting is a prerequisite for providing credible information, performing the management function and accountability.

The Western Cape Provincial Government' s Fiscal Policy 2003 – 2006, Chapter 4, began to address accounting issues.

The Accounting Review 2003 is a new initiative, building on previous work done. It is an effort to begin to develop interpretative accounting skills and offers a reflection on the broad strategic shifts and the consequential challenges facing the provincial government in the accounting environment. Examples of these challenges are the implementation of GRAP, new Standard Chart of Accounts and the new Basic Accounting System - the latter two, both with effect from 1 April 2004.

Purpose

The purpose of this review is to: -

- Begin to develop the analytical capacity of officials in the PT.
- Reflect on the developments and reforms in the public sector accounting environment.
- Identify and record unfinished business emanating from previous government dispensations.
- Identify and record unfinished business emanating from organisational restructuring in the Province.
- Establish links with other disciplines in financial management such as budgeting, cash management and financial systems.
- Identify future challenges forthcoming from the above.

The following summary seeks to capture the *main challenges* derived from the review:

Legal framework

- *To ensure the legislative and regularity amendments in relation to tabling of annual reports and the content of annual financial statements.*

Accounting standards

- *To enhance the frequency and deepen the quality of training and information sessions with departments in order to ensure quality financial statements and future consolidation of the Province's annual financial statements.*
- *To provide on-line assistance via the PT's website, including inter alia frequently asked questions and answers as well as latest developments and updates.*

- *To coordinate inputs/comment on the exposure drafts issued by the ASB from provincial departments and consolidate it with that of the Provincial Treasury for submission to the ASB on or before the cut-off dates.*
- *To actively participate on the NT's task teams in order to express viewpoints in the provincial interest, gain first hand information on new developments and build capacity.*
- *To continuously identify, develop, implement and monitor accounting best practices in provincial departments in order to ensure sound financial management.*
- *To ensure proper training in provincial departments and the PT in order to successfully implement the new SCoA on 1 April 2004 and the maintenance thereof in conjunction with the implementation of BAS.*
- *To actively participate in the development of SCoA to address the specific accounting needs of the Province in order to ensure quality annual financial statements.*

Accounting policies

- *To continuously participate in the development of accounting policies.*

Accounting processes

- *To integrate the accounting and budgetary processes.*
- *To timely provide integrated accounting and budget programmes.*
- *To enhance the parliamentary oversight role.*
- *To timely provide financial performance information to support operational and strategic decision-making.*

Accounting systems

- *To ensure that provincial departments clear all suspense and control accounts of unwarranted balances prior to migrating from FMS to BAS on 1 April 2004.*
- *To further develop the monitoring of the state of accounts of provincial departments and the IYM reports.*
- *To build a proper database of IYM information for analytical and further reporting purposes.*
- *To ensure the proper implementation of the SCoA with effect from 1 April 2004.*
- *To ensure that users are properly trained on the accounting processes related to the new SCoA.*
- *To monitor and ensure that the compilation of departmental asset registers from an accounting perspective progresses in accordance with requirements and timelines to achieve the 2004/05 deadline.*
- *To recognise all assets in the AFS by 2004/05 financial year.*
- *To ensure the effective closure of the Western Cape Housing Development Fund (WCHDF) and the transfer of assets and liabilities into the Provincial Revenue Fund configuration.*
- *To assess the effectiveness of the roads MMS (costing system) against the following criteria:*
    - *The accuracy of the system*
    - *The reliability of the system*

  - *The interfacing of financial transactions with BAS*
  - *The effect of the new SCoA on the system*
- *To provide meaningful inputs on the IFMS from an accounting perspective bearing in mind the following key focus areas:*
  - *On-line system*
  - *New standard chart of accounts*
  - *Annual financial statements and the consolidation thereof*
- *To ensure the appropriate amendment of the Provincial Capital Fund Ordinance, 1962 (Ordinance 3 of 1962).*
- *To participate in the development of national accounting frameworks related to the migration from "trade accounts" to "trading entities".*
- *To assess the current trade accounts towards breaking even annually, i.e. no profit or loss.*
- *To develop and implement monitoring mechanisms and a database to analyse the financial performance of the current trading accounts and appropriately report on results.*
- *To develop and implement a monitoring mechanism and a database for analytical purposes to ensure that all accounting transaction from subsystems interface with FMS/BAS timely and accurately.*
- *To obtain an assessment report from the Department of Health in respect of the Karl Bremer Hospital Trading Account pilot project.*

Financial reporting

- *To build a proper database of financial information of provincial public entities in order to monitor and analyse financial performance and position.*
- *To build a proper database to monitor accounting policies and practices of provincial public entities against PFMA and TR requirements.*
- *To monitor the possible accumulation of surpluses by public entities.*
- *To monitor that an accounting officer who transfers funds to public entity/entities obtain written assurance from the entity that it implements effective, efficient and transparent financial management and internal control systems.*
- *To further develop the formats of and information presented in annual financial statements to improve the analyses and interpretation thereof for performance management and future planning.*
- *To further develop the formats of and information presented in annual financial statements of the PRF.*
- *To prepare for and deliver consolidated financial statements with effect from 1 April 2004.*
- *To ensure that the books of account of departments are in a healthy state and the information provided is consistent, timely, accurate, and relevant.*
- *To build a proper database of information for the in-year monitoring of performance indicators.*
- *To clear the balances of FMS Dept 15 and 70 prior to the final closure of the FMS accounting system on 31 December 2004, taking into account that the transactions will not be carried over to the BAS accounting system with effect from 1 April 2004.*

Intergovernmental arrangements

- *To continue to maintain close ties with and actively participate in relevant provincial and national forums.*

Accounting capacity

- *To develop interpretive accounting skills within the PT and CFO structures of provincial departments.*
- *To recruit, develop and maintain appropriate accounting skills within the PT and assist CFO structures of provincial departments in this regard.*
- *To monitor the accounting capacity in the CFO structures of provincial departments.*

1

INTRODUCTION

1.1 Purpose

The purpose of this review is to: -

a. Begin to develop the analytical accounting capacity of officials in the PT.
b. Reflect on the developments and reforms in the public sector accounting environment.
c. Identify and record unfinished business emanating from previous government dispensations.
d. Identify and record unfinished business emanating from organisational restructuring in the province.
e. Determine and establish links with other disciplines in financial management such as budgeting, cash management and financial systems.
f. Identify future challenges forthcoming from the above.

1.2 Legislation

The Constitution of the Republic of South Africa, 1996 ("the Constitution") sets the scene for the introduction of financial management that is committed to improving transparency, accountability and performance within the public service, and devolving greater responsibility of the various functions, viz. budgeting and financial management, to government departments. Section 216 of the Constitution places the responsibility for implementing the above on the NT, including the development of GRAP. These requirements of the Constitution were addressed through the promulgation of the PFMA that became effective from 1 April 2000.

The PFMA devolves accountability and therefore also assigns greater responsibility for financial management and financial performance to heads of departments. Previously accountability was the sole responsibility of the Director-General of a province in his/her then capacity of accounting officer.

In terms of the PFMA the role of provincial treasuries is, inter alia, to promote and enforce transparency and effective management of revenue, expenditure, assets and liabilities of provincial departments and provincial public entities.[1]

GRAP was introduced to bring public sector accounting in line with private sector accounting principles and practices. Current statements of GAAP, applicable to the private sector, have been used as a foundation for the development of initial GRAP standards.

[1] Section 18(1)(c) of the PFMA

The ASB, established in 2002, sets accounting standards for GRAP. Prior to this, the NT performed the functions of the Board in the interim and prescribed the formats for annual financial statements and gave guidance on the accounting prescripts.

The aims and implementation of the PFMA necessitated institutional and organisational adjustment of the structures of provincial treasuries. To this end a Provincial Accountant-General role similar to that of the Accountant-General within the NT was established within the PT and is fulfilled by the Head: Public Finance and Accounting, supported by the Directorate Accounting in the Western Cape PT.

1.3 Financial statements

In the past, departments submitted their annual appropriation statements to the A-G who audited, collated and published it in the Annual Report of the A-G. These reports and statements mainly focused on the appropriation and the propriety of voted funds spending. To improve accountability and transparency, departments are now required in terms of the PFMA, to submit their own annual reports to the respective legislatures, incorporating their audited financial statements reflecting their financial position, the results of their operations, their cash flows and their performance. The PFMA also requires that consolidated financial statements be prepared on provincial and national level by the respective treasuries. However, the implementation of consolidated financial statements has been delayed until 31 March 2003 to be made applicable to the 2003/04 financial year. The A-G will audit these financial statements, prepared at both departmental and consolidated levels, and provide assurance to the Provincial Parliament and the public as to their reliability.

1.4 Corporate governance

Corporate governance in South Africa was institutionalised by the publication of the King Report on Corporate Governance (“King Report 1994”) in November 1994, which promoted the standards of corporate governance in South Africa. In adopting a participative corporate governance system of enterprise with integrity, the King Report 1994 successfully initiated and also formalised the need for companies to recognise that they no longer act independently from the societies in which they operate. In line with this thinking and development, the PFMA brought into force more stringent provisions for reporting and accountability over a wider spectrum, including public entities. Corporate governance seeks to promote, inter alia, the following:

- Efficient, effective and sustainable corporations that contribute to the welfare of society by creating wealth, employment and solutions to emerging challenges;
- Responsive and accountable corporations, and
- Legitimate corporations that are managed with integrity, probity and transparency.

One of the initiatives introduced by Government, is that a new economic reporting format that will replace the existing standard item classification and will be synchronised with the implementation of a new SCoA for provincial and national government departments to ensure accounting, statistical and economic reporting standards that is in line with international accounting requirements. In line with corporate governance principles, this reform will better provide users of financial reports with quality information on which to assess the performance of government departments.

Further information on corporate governance is furnished in the Western Cape Financial Governance Review 2003.

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LEGAL FRAMEWORK

As previously indicated, section 216 of the Constitution requires the NT to introduce GRAP. This will introduce international 'best practices', lead to the introduction of accrual accounting and move away from the traditional cash basis of accounting.

Chapter 11 of the PFMA provides for the establishment, composition and functions of the ASB. Suffice to say that the ASB, inter alia, provides statutory backing to the accounting standards that will apply in the public sector, sets the standards of GRAP and prepares and publishes directives concerning these standards.

The table below reflects all the sections of the PFMA, DORA (annual) and the TR (2002) that refer to annual financial statements. This table serves as an explanatory guide and explains why much of the information called for reporting in the AFS, has been included.

Section	Requirement
PUBLIC FINANCE MANAGEMENT ACT, 1999 (Act 1 of 1999)	
1	Definition: "financial statements" means statements consisting of at least - • a balance sheet • an income statement • a cash flow statement • any other statements as may be prescribed • any notes to these statements
19 (1)(a)	A provincial treasury must prepare consolidated financial statements in accordance with generally recognised accounting practise, for each financial year in respect of – • Provincial departments • Public entities under the ownership control of the provincial executive • The provincial legislature in the province
40 (1) (b)	Must prepare financial statements for each year in accordance with generally recognised accounting practice.
40 (3) (a)	The annual report and audited financial statements referred to in subsection (1)(d) must - Fairly present • the state of affairs of the department, trading entity or constitutional institution, • its business, • its financial results, • its performance against predetermined objectives and • its financial position as at the end of the financial year concerned
40 (3) (b) (i)	Include particulars of – • Any material losses through criminal conduct, • any unauthorised expenditure, • irregular expenditure, and • fruitless and wasteful expenditure that occurred during the financial year.

Section	Requirement
40 (3) (b) (ii)	Include particulars of – Any criminal or disciplinary steps taken as a result of such losses, unauthorised expenditure, irregular expenditure and fruitless and wasteful expenditure.
40 (3) (b) (iii)	Include particulars of – Any material losses recovered or written off.
40 (3) (b) (iv)	Include particulars of – Any other matters that may be prescribed.
55(1)(b)	The accounting authority for a public entity must prepare financial statements for each financial year in accordance with generally recognised accounting practice, unless the ASB approves the application of GRAP for that public entity.
TREASURY REGULATIONS, 2002	
3.1. 13 (a)	The audit committee must report on the effectiveness of internal control in the annual report of the institution.
3.1. 13 (c)	The audit committee must evaluate the financial statements of the institution.
4.3.3	The accounting officer must, on an annual basis, submit to the provincial treasury (if applicable), National Treasury and Auditor-General a schedule of - the name and rank of officials facing disciplinary hearings or criminal charges; the outcome of any disciplinary hearings and/or criminal charges; and the sanctions and any further action taken against the relevant official; Such report must refer to any changes in the institution's system of financial and risk management or any other matter dealt with in the PFMA, as the result of the investigation.
7.3.2	Information on the tariff policy must be disclosed in the annual report, including information on any free service(s) rendered, but not taken into account in the budget and which could have yielded significant revenue.
9.1.5	The amount of the unauthorised, irregular, fruitless and wasteful expenditure must be disclosed as a note to the annual financial statements of the institution.
11.4.3	Any debt written off by the accounting officer must be disclosed in the annual financial statements, indicating the policy in terms of which the debt was written off.
13.1.4	The accounting officer must report on all known contingent liabilities of his or her department in its annual report.
14.3.1(d)	The accounting officer must for each separate portion of trust money annually prepare separate financial statements in accordance with GAAP.
18.2	For the financial year ending 31 March 2003, the following reporting standards comprise generally recognised accounting practice- For departments, Parliament and provincial legislatures - a balance sheet an income statement a cash flow statement notes to the annual financial statements, and such other statements as may be determined by the Accounting Standards Board. The statements must be prepared on a modified cash basis and be accompanied by the audit opinion of the Auditor-General. The annual financial statements must, by means of figures and a descriptive report, explain any other matters and information material to the affairs of the institution.
18.4.1	A department's annual report must include a list of trading and/or public entities controlled by the department, together with: • an indication of the legislation under which the trading and/or public entity was established; • a statement of the functions of each trading and/or public entity; and • the accountability arrangements between the accounting officer and the management of the trading entity and/or public entity.
18.3.1 (c)	Include information on transfer payments per organisation for the entire financial year as well as a report on the compliance with Section 38 (1) (j) of the PFMA.
18.3.1(e)	Include any additional information required by Parliament or the provincial legislature.
18.3.1 (f)	Report on the use of foreign aid assistance, detailing the source and intended use of the assistance (including the value of any aid-in-kind in rand), performance information on the institution's use of the assistance, and any pending applications for assistance.
18.3.1 (g)	A report from the audit committee commenting on the effectiveness of internal control in the institution, as required by paragraph 3.1.3(b).
19.8.4	The annual financial statements in respect of a trading entity must be complied in accordance with paragraph 18.2.

Section	Requirement
20.2.4	The remuneration of all members of a commission or committee must be disclosed as notes to the financial statements of the institution.
21.2.4	All gifts, donations and sponsorships received [and made] during the course of a financial year must be disclosed as a note to the annual financial statements of the institution.
22.1.4	All remissions, refunds or payments made as an act of grace during the financial year must be disclosed as a note to the annual financial statements of the institution.
DIVISION OF REVENUE ACT, No. 5 of 2002	
18.(1)	A department transferring funds in respect of an allocation set out in Schedules 3, 4, 5, and 6 must, in its annual report and financial statements, also- • indicate the total amount of that allocation transferred to a province or municipality during the financial year; • indicate the funds, if any, which were delayed or withheld, and the reasons for such delay or withholding; • certify that all transfers to a province or municipality were deposited into the accredited bank account of that province or municipality; • certify that, except in respect of allocations contemplated in Schedule 6, no other funds were transferred to a province or municipality, directly, or through a public or private entity; • indicate to what extent a province or municipality was monitored for compliance with the conditions of an allocation and the provisions of DORA; • indicate to what extent the allocation achieved its purpose and outputs; • indicate whether any portion of the allocation was retained by the transferring department for administration costs; and • indicate any non-compliance with DORA, and the steps taken to deal with such non-compliance.
18.(2)	The annual report and financial statements must, for a department or municipality receiving an allocation in terms of DORA, also- • indicate the total amount of that allocation received during the financial year; • certify that all transfers in terms of DORA to a province or municipality were deposited into the accredited bank account; • indicate to what extent a province or municipality met the conditions of such an allocation and complied with the provisions of DORA; • indicate to what extent outputs were achieved; and • contain such other information as the National Treasury may determine.
24.2	For the purposes of this section, the following conduct may be taken into account to determine whether a serious breach of the measures contemplated in section 216 (1) of the Constitution has been committed.

TR 18.2 prescribes the reporting standards for each financial year that must be revised and updated by the NT on an annual basis. The TR regulations now need to be amended by the NT to deal with the financial year ending 2003/04.

It must be noted that sections 40 and 65 of the PFMA does not correlate with regard to the timeframes for the submission and tabling of annual reports (annual financial statements included) by departments and the executive authorities in the Provincial Parliament. Section 40 prescribes a period of five months for the tabling of annual reports after the end of the financial year, whereas section 65 allows the executive authority six months. This may require legislative amendment.

Challenges in relation to the legal framework

- *To ensure the legislative and regularity amendments in relation to tabling of annual reports and the content of annual financial statements.*

3

ACCOUNTING STANDARDS

3.1 Accounting Standards Board (ASB)

The PFMA provides for the establishment of an ASB, to give statutory backing to the accounting standards that will apply in the public sector. Consequently, and as part of the implementation of the PFMA, the ASB was established during 2002 in terms of Section 91 of the said legislation. The main objectives of the Board are to:

- Set standards of GRAP for the annual financial statements;
- Prepare and publish directives and guidelines concerning the standards;
- Recommend effective dates for the implementation of these standards;
- Perform any other function incidental to advancing financial reporting in the public sector.

The first exposure drafts published on the ASB's website, as well as notice given of their publication in the Government Gazette, are:

- Presentation of Financial Statements
- Cash Flow Statements
- Accounting Policies, Changes in Accounting Estimates and Errors
- Preface to Statements of Generally Recognised Accounting Practice

Provincial treasuries, through national forums, were invited to comment on these drafts. This also poses an opportunity for departments to become part of the accounting reform processes by providing constructive inputs to improve accounting standards. By being part of the development process builds capacity and smoothes the implementation of new accounting standards approved by the ASB.

The Preface to Statements of GRAP sets out the objectives and operating procedures of the ASB and explains the scope and authority of the Statements of GRAP. Once the statements referred to above are finalised by the ASB it will be issued as Statements of GRAP, which must be complied with.

Although the ASB faces a large number of challenges in becoming part of global accounting practices and international developments, the test will be if provincial treasuries have the capacity and ability to implement these accounting reforms in provincial departments amidst the inadequacies of the current enabling accounting system. However, the NT is currently investigating an Integrated Financial Management Solution for government, which will assist the endeavours of the ASB.

3.2 Provincial Treasury involvement with National Treasury

In fulfilling the need for improved accounting policies and practices, against a backdrop of co-operative government and in the spirit of 'team finance', officials of the PT have been specifically nominated and are actively participating in the task teams established by NT, mandated to formulate and provide guidelines on the following:

- Formats of and disclosures in AFS
- Accounting of cash in the PRF
- Migration from so-called Trading Accounts to Trading Entities

3.3 Accounting practices

In essence the PFMA has shifted the focus from a rule-driven approach to financial management, as was the case with the Western Cape Exchequer Law, 1994 (Law 4 of 1994)(the Exchequer Law), to one that is output (performance) and accountability driven on a decentralised basis. During this switchover phase in April 2000, from Exchequer Law to the PFMA, the PT issued PTDs (inclusive of accounting procedures) to assist departments during the transition phase. These replaced the Treasury Instructions issued in terms of the Exchequer Law. Subsequently the PTD's were replaced by much more streamlined PTI's during December 2001, allowing more discretion and autonomy to accounting officers.

In order to further support departments with accounting matters the PT issued a number of circulars and policy guidelines in lieu of practice notes received from the Office of the Accountant-General at the NT. These range from reporting requirements to accounting practices which includes, inter alia, the following:

- Month and year close procedures
- Reporting formats of AFS
- Debt follow-up policies
- Debt write-off policies
- IYM reporting (Suspense accounts)

The PT has thus far been fairly successful with the implementation of the aforementioned as is evident with the manner in which departments have complied with the reporting requirements of the AFS. The A-G reports for the 2002/03 financial-year revealed only one qualification.

The evolving process of developing GRAP standards will require further reforms in the field of AFS. The AFS task team referred to earlier as well as the ASB is currently developing best practices in the following areas:

- Operating and finance leases
- Inventory of items held for sale and/or distribution
- Accounts payable and accruals of invoices received and commitments
- Provisions, contingencies, assets and liabilities

The envisaged practices and policies mentioned above will flow through the normal consultative processes in place with departments, viz. CFO forums, provincial financial accountants forums etc. before being issued. Since PE's comply with GAAP standards, which have already been determined by the Accounting Practices Board of South Africa, the PT played a fairly distant role in this regard. However, the implementation of the PFMA requires the PT to play a stronger and more focused role with regard to financial policy issues surrounding financial management of PE's.

3.4 Reporting frameworks

Section 40 of the PFMA clearly spells out the reporting requirements of accounting officers. Although these requirements are coupled closely to timelines it is important to note that the manner in which reporting takes place will depend on the evolving process of GRAP standards and accounting practices.

Since the inception of the PFMA in April 2000, and the implementation of GRAP standards, accounting reporting formats have evolved, improving the quality of reporting through financial statements. The quality of reporting will progressively improve as the basis of accounting moves through the transitional phases, i.e. from cash basis, to modified cash basis, to modified accrual basis and finally accrual basis.

In the 2002/03 annual financial statements departments disclosed all deferred payments, i.e. payments not yet settled for the 2002/03 financial year, which is an indication that the public sector is currently operating on the modified cash basis of accounting.

In order to assist departments the PT together with the A-G have held intensive workshops and information sessions with CFO's of provincial departments and financial accountants within those institutions to assist with the implementation of the evolving formats of the AFS. These interventions together with the outstanding effort and cooperation of provincial departments resulted in all departments timely compiling and tabling their annual reports (inclusive of annual financial statements) in the Provincial Parliament since 2000.

3.5 Standard Chart of Accounts

The NT embarked on a budget reform programme in 1999 to improve accountability and modernise the accounts of government by bringing budget and expenditure reporting in line with international best practice. The ultimate aim of this reform is to provide better quality economic information to legislatures to assist them in the legislative making process and to reinforce the parliamentary oversight role.

Part of this reform is the introduction of a standard chart of accounts for government to be implemented in the financial systems that will be synchronised with the implementation of the new economic reporting format.

In the new chart, a standard list of expenditure items will be provided that is in line with international accounting and economic reporting standards.

A SCoA signifies standardisation on item level. The new SCoA will ultimately apply to national and provincial government. All provinces have to adopt the new chart irrespective of their operating systems.

The introduction of a SCoA will facilitate uniformity in classification and reporting of REAL in the government. This will equip government with convenient, user-friendly access to financial information for reporting and management purposes.

The benefits of the SCoA include, amongst others, the following:

- It forms a basis for various methods of information analysis;
- It includes comparative reporting and analysis;
- It facilitates the standardised process for transaction capturing across and within all national and provincial departments improving mobility of finance personnel across departments;
- It allows for meaningful and easy consolidation at various levels; and
- It offers transparency in both the reporting and comparative analysis and will provide a single data source for the whole of government.

The SCoA signifies a harmonisation between the IMF's, GFS classification and IPSAS standards issued by IFAC.

From the PT's perspective, further work needs to be done by NT on the following prior to the new SCoA being implemented with effect from 1 April 2004:

- Items relevant to provincial revenue funds be included in the new SCoA in order for provinces to prepare consolidated AFS, which becomes a legal requirement when the 2003/04 AFS are prepared as per section 19 of the PFMA.
- Provision be made for the recording and accounting of transactions relevant to trading accounts.
- Items contained in the SCoA be properly defined to avoid inconsistencies regarding the interpretation thereof.
- Training programme be developed and implemented to equip users to fully understand the accounting issues.

Provincial departments need to be prepared for the implementation of the SCoA to ensure that accounting transactions are allocated correctly on BAS from 1 April 2004. It is imperative that systems unique to specific departments are compatible with BAS and SCoA requirements for interface purposes to ensure that transactions are correctly accounted for.

Challenges in relation to accounting standards

- *To enhance the frequency and deepen the quality of training and information sessions with departments in order to ensure quality financial statements and future consolidation of the Province's annual financial statements.*
- *To provide on-line assistance via the PT's website, including inter alia frequently asked questions and answers as well as latest developments and updates.*
- *To coordinate inputs/comment on the exposure drafts issued by the ASB from provincial departments and consolidate it with that of the Provincial Treasury for submission to the ASB on or before the cut-off dates.*
- *To actively participate on the NT's task teams in order to express viewpoints in the provincial interest, gain first hand information on new developments and build capacity.*
- *To continuously identify, develop, implement and monitor accounting best practices in provincial departments to ensure sound financial management.*
- *To ensure proper training in provincial departments and the PT in order to successfully implement the new SCoA on 1 April 2004 and the maintenance thereof in conjunction with the implementation of BAS.*
- *To actively participate in the development of SCoA to address the specific accounting needs of the province in order to ensure quality annual financial statements.*

4

ACCOUNTING POLICIES

The criteria for selection and application of accounting policies is to ensure that the substance of the underlying transactions or other events is reported in the financial statements in accordance with GRAP standards. Accounting policies must be selected and applied in a manner, which ensures that the resulting financial information satisfies the concepts of relevance and reliability.

The financial statements are prepared in accordance with the below policies, which are applied consistently to all material aspects, unless otherwise indicated. However, where appropriate and meaningful, additional information has been disclosed to enhance the usefulness of the financial statements and to comply with the statutory requirements of the PFMA, the TR and DORA.

The following national accounting policies represent those currently applied, but are subject to revision pending new or revised accounting standards issued by the ASB. These policies are only applicable to national and provincial departments, and not to public entities and provincial business enterprises that comply with GAAP standards.

Basis of preparation

The financial statements are prepared on a modified cash basis of accounting, except where stated otherwise. The reporting entity is in transition from reporting on a cash basis of accounting to reporting on an accrual basis of accounting. Under the cash basis of accounting transactions and other events are recognised when cash is received or paid. Under the accrual basis of accounting transactions and other events are recognised when incurred and not when cash is received or paid.

Revenue

Voted funds are the amounts appropriated to a department in accordance with the final budget known as the Adjusted Estimates of National/Provincial Expenditure. Unexpended voted funds are surrendered to the National/Provincial Revenue Fund.

Interest and dividends received are recognised upon receipt of the funds, and no accrual is made for interest or dividends receivable from the last receipt date to the end of the reporting period. They are recognised as revenue in the financial statements of the department and then transferred to the National/Provincial Revenue Fund.

Donor aid

Donor Aid is recognised in the income statement in accordance with the cash basis of accounting.

Current expenditure

Current expenditure is recognised in the income statement when the payment is made.

Unauthorised, irregular and fruitless and wasteful expenditure

Unauthorised expenditure means:

- The overspending of a vote or a main division within a vote, or
- Expenditure that was not made in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

Unauthorised expenditure is treated as a current asset in the balance sheet until such expenditure is recovered from a third party or funded from future voted funds.

Irregular expenditure means expenditure, other than unauthorised expenditure, incurred in contravention of or not in accordance with a requirement of any applicable legislation, including:

- The Public Finance Management Act,
- The State Tender Board Act, or any regulations made in terms of this act, or
- Any provincial legislation providing for procurement procedures in that provincial government.

Irregular expenditure is treated as expenditure in the income statement.

Fruitless and wasteful expenditure means expenditure that was made in vain and would have been avoided had reasonable care been exercised. Fruitless and wasteful must be recovered from a responsible official (a debtor account should be raised), or the vote if responsibility cannot be determined.

Debts written off

Debts are written off when identified as irrecoverable. No provision is made for irrecoverable amounts.

Capital expenditure

Expenditure for physical items on hand at year end to be consumed in the following financial year, is written off in full when they are received and are accounted for as expenditure in the income statement. Physical assets acquired are expensed i.e. written off in the income statement when the payment is made.

Investments

Marketable securities are carried at market value. Market value is calculated by reference to stock exchange quoted selling prices at the close of business on the balance sheet date.

Non-current investments excluding marketable securities are shown at cost and adjustments are made only where in the opinion of the directors, the investment is impaired. Where an investment has been impaired, it is recognised as an expense in the period in which the impairment is identified.

Increases in the carrying amount of marketable securities classified as non-current assets are credited to revaluation and other reserves in shareholders' equity. Decreases that offset previous increases of the same marketable security are charged to the income statement. Increases/decreases in the carrying amount of marketable securities classified as current assets are credited/charged to the income statement.

On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to the income statement. On disposal of a marketable security classified as a non-current asset, amounts in revaluation and other reserves relating to that marketable security, are transferred to retained earnings.

Investments in controlled entities

Investments in controlled entities are those entities where the reporting entity has the ability to exercise any of the following powers to govern the financial and operating policies of the entity in order to obtain benefits from its activities:

- To appoint or remove all, or the majority of, the members of that entity's board of directors or equivalent governing body;
- To appoint or remove the entity's chief executive officer;
- To cast all, or the majority of, the votes at meetings of that board of directors or equivalent governing body; or
- To control all, or the majority of, the voting rights at a general meeting of that entity.

Investments in controlled entities are shown at cost.

Receivables

Receivables are not normally recognised under the cash basis of accounting. However, receivables included in the balance sheet arise from cash payments that are recoverable from another party.

Receivables for services delivered are not recognised in the balance sheet as a current asset or as income in the income statement, as the financial statements are prepared on a cash basis of accounting, but are disclosed separately in the notes to enhance the usefulness of the financial statements.

Payables

Payables are not normally recognised under the cash basis of accounting. However, payables included in the balance sheet arise from cash receipts that are due to either the Provincial/National Revenue Fund or another party.

Provisions

A provision is a liability of uncertain timing or amount. Provisions are not normally recognised under the cash basis of accounting, but are disclosed separately in the notes to enhance the usefulness of the financial statements.

Lease commitments

Lease commitments for the period remaining from the accounting date until the end of the lease contract are disclosed as a note to the financial statements. These commitments are not recognised in the balance sheet as a liability or as expenditure in the income statement as the financial statements are prepared on the cash basis of accounting.

Accruals

This amount represents goods/services that have been delivered, but no invoice has been received from the supplier at year-end, OR an invoice has been received but remains unpaid at year-end. These amounts are not recognised in the balance sheet as a liability or as expenditure in the income statement as the financial statements are prepared on a cash basis of accounting, but are however disclosed.

Employee benefits

Short-term employee benefits

The cost of short-term employee benefits is expensed in the income statement in the reporting period that the payment is made. Short-term employee benefits, that give rise to a present legal or constructive obligation, are deferred until they can be reliably measured and then expensed. Details of these benefits and the potential liabilities are disclosed as a note to the financial statements and are not recognised in the income statement.

Termination benefits

Termination benefits are recognised and expensed only when the payment is made.

Retirement benefits

The department provides retirement benefits for its employees through a defined benefit plan for government employees. These benefits are funded by both employer and employee contributions. Employer contributions to the fund are expensed when money is paid to the fund. No provision is made for retirement benefits in the financial statements of the department. Any potential liabilities are disclosed in the financial statements of the National/Provincial Revenue Fund and not in the financial statements of the employer department.

Medical benefits

The department provides medical benefits for (certain/all) its employees through defined benefit plans. These benefits are funded by employer and/or employee contributions. Employer contributions to the fund are expensed when money is paid to the fund. No provision is made for medical benefits in the financial statements of the department.
Retirement medical benefits for retired members are expensed when the payment is made to the fund.

Capitalisation reserve

The capitalisation reserve represents an amount equal to the value of the investments and/or loans capitalised, or deposits paid on behalf of employees of a foreign mission, for the first time in the previous financial year. On disposal, repayment or recovery, such amounts are transferable to the Revenue Fund.

Recoverable revenue

Recoverable revenue represents payments made and recognised in the income statement as an expense in previous years, which have now become recoverable from a debtor due to non-performance in accordance with an agreement. Repayments are transferred to the Revenue Fund as and when the repayment is received.

Comparative figures

Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year.
The comparative figures shown in these financial statements are limited to the figures shown in the previous year's audited financial statements and such other comparative figures that the department may reasonably have available for reporting.

Challenges in relation to accounting policies

- *To continuously participate in the development of accounting policies.*

5

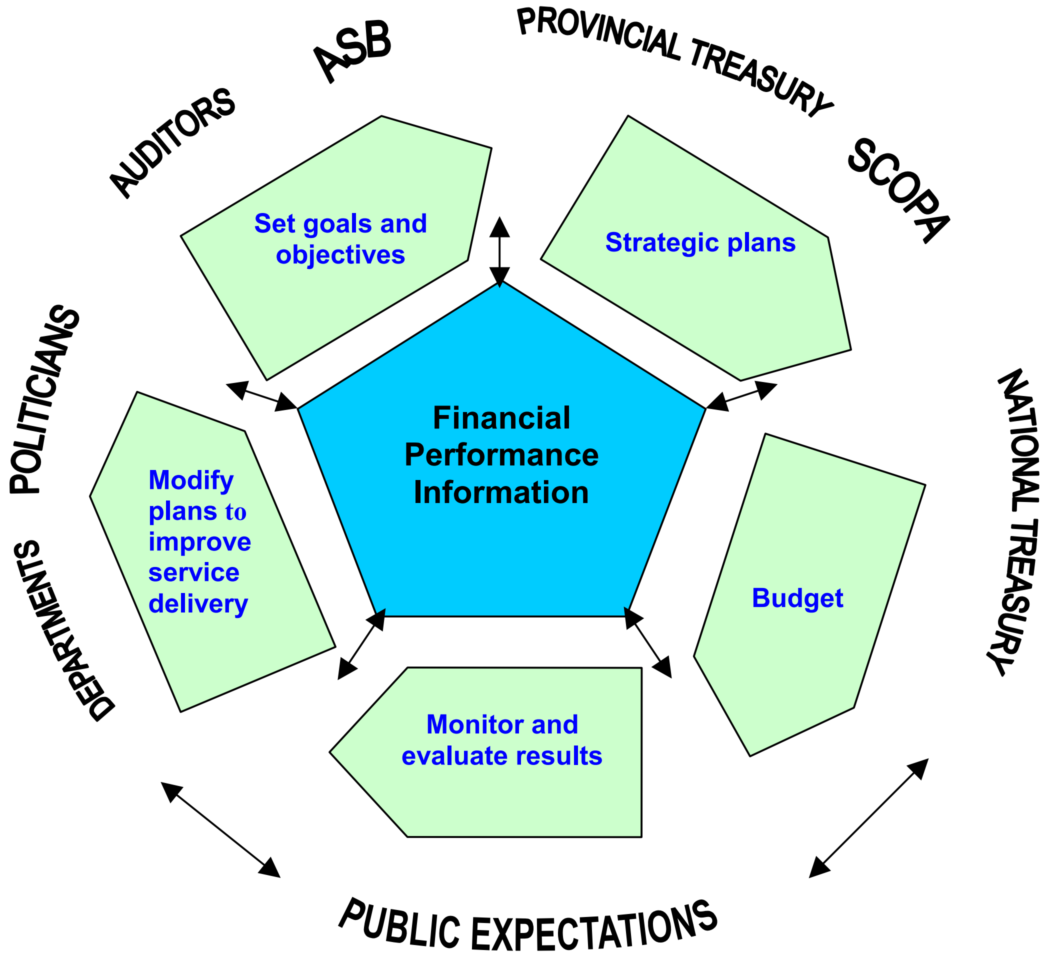
ACCOUNTING PROCESS

5.1 Key events

The accounting and reporting cycle for each financial year starts before the beginning of the financial year in April and finishes six months after the financial year ends in March of the following year. The process is tabulated below:

Accounting timetable for a financial year	
Year 0 - 1	Preparation for next financial year
March	Main budget for the next financial year is tabled in Provincial Parliament.
Year 0 starts 1 April	Financial year starts. Beginning of reporting period.
Prior to 1 April	Annual budget captured in the accounting records
Daily	Actual transactions and events are recorded.
Monthly (15^{th}) Monthly (22^{nd})	Departments submit In Year Monitoring (IYM) reports to PT PT submits consolidated IYM (accounting) report to the NT.
January	PT rolls out revised formats for annual financial statements.
Year 0 ends 31 March	End of financial year. End of reporting period.
	Further actions pertaining to Year 0
Year 0 + 1. April	Books of accounts for March accounting month for year 0 are still open. Departments record expenditure, revenue and general ledger account balances for March accounting month, determining whether the books of account are ready for provisional system closure.
30 April	The financial year (year 0) is provisionally closed on the accounting system. Accounts are extracted from the system, for the preparation of annual financial statements.
31 May	Final certifying date for issue of annual financial statements by Accounting officer/Accounting authority to the Auditor-General and the PT (PFMA sections 40(1)(b) & 55(1)(b))
30 June	Final certifying date for issue of consolidated annual financial statements by the Head Official, Provincial Treasury, to the Auditor-General.
31 July	Final date for Audit report to be issued to Accounting Officer/ Accounting authority by Auditor-General/External Auditor in terms of PFMA sections 40(1)(c) and 55(1)(c). Final Annual Financial Statements of departments submitted to the PT, for forwarding to the NT.
	Final financial year closure on the accounting system.
Within 7 days of A-G Report date Final date 08/08	Audit Committee meets to evaluation of Annual Financial Statements, to meet 31 August deadline
Within 7 days of Audit Committee meeting date. Final date 15/08	Submission to Auditor-General of Final Annual Report, to meet the 31 August deadline
31 August	Accounting officer/Accounting authority submits annual report to Executive Authority and PT in terms of PFMA sections 40(1)(d) and 55(1)(d) Provincial Revenue Fund annual financial statements submitted to Auditor-General
30 September (latest)	Executive authority (MEC / Cabinet member) table annual report in Provincial Parliament
During October/ November	AFS included in the Annual Report is considered by SCOPA.

5.2 **Role players**



The accounting process illustrated above is not an isolated process. It is in synergy with its surroundings, which is both dependent upon its financial performance information and which also feeds into it. The ultimate aim is to satisfy public expectations with the available resources realising that expectations exceed resources. Role players producing or users of performance information should therefore focus on combining useful management information, such as budget information and cost information, with financial statement and financial system information to support operational and strategic decision-making in order to maximise service delivery within the available resource envelop.

Budget information has traditionally been the most coveted and important type of financial information for determining policy and for financial officials. Given the intention of the PFMA and the emphasis on rational management in government, the importance of management accounting and performance information has increased. An important role of management accounting is to present accounting information to facilitate decision-making that is aimed at key elements of the

overall management system. The availability of an enabling system is a prerequisite for managing this information and such an integrated system is currently under investigation by the NT.
Within the accounting process there are a number of role players, each of which forms a link in the accounting chain.

The following role-players can be identified:

- **Accounting Standards Board**

  Issues GRAP accounting standards for government. These standards facilitate the introduction of accrual accounting principles.

- **National Treasury**

  Takes responsibility for:

  (a) Developing new, and enhancing existing accounting policies and practices.

  (b) Ensuring compliance with GRAP accounting standards.

  (c) Improving the timeliness, accuracy and efficiency of financial reporting;

  (d) Providing mechanisms for improved financial accountability in the public sector.

  (e) Accounting of the National Revenue and Reconstruction and Development Programme Fund

  (f) Banking services for national Government

  (g) Developing and implementing accounting policies,

  (h) Preparing consolidated financial statements

  (i) Transversal accounting systems

- **Provincial Treasury**

  By applying an integrated approach to promote sound financial management by enhancing the national norms and standards and ensuring compliance.

  The Accounting component ensures that financial reporting is a full and true reflection of the financial position of the Province and its functions are as follows:

  (a) Ensure the development of accounting practices that will promote effective and efficient capturing of REAL movements/accountability.

  (b) Ensure integrity of financial data.

  (c) Roll out and assess GRAP formats.

  (d) Develop and promote the use of cost accounting principles.

  (e) Improve financial performance through the development and application of interpretive accounting.

  (f) Assess accounting trends, co-ordinate and compile reports.

  (g) Compile annual consolidated financial statements.

(h) Provide technical assistance and training.

- **Accounting Officers**

  Assumes accountability for their respective departments as per the PFMA and is accountable to the Provincial Parliament for achieving the outputs agreed upon.

- **Chief Financial Officers**

  Assists accounting officers in achieving agreed outputs of department. Must combine timely, materially accurate, relevant, complete and suitably presented financial results and trends with interpretive professional advice. Also plays a major role in preparing strategic plans and ensuring that best practice is followed.

- **Auditor-General**

  Expresses an opinion. Uses norms and standards derived from the PFMA and other financial legislation to audit compliance by accounting officers/authorities.

- **Internal Audit**

  Must identify risks, highlight specific issues requiring attention, minimise the cost of auditing and ensure that the services of its auditing function are optimised.

- **Audit Committees**

  Evaluates, inter alia, whether Internal Audit performs satisfactorily, and that systems of accounting and financial control are established and maintained to manage risk.

- **The Standing Committee/s on Public Accounts (SCOPA) and the relevant Portfolio Committee of the Legislature (Provincial Parliament)**

  These two are parliamentary committees that jointly perform an oversight function in terms of the Constitution. Being the last pillar in the accountability chain they play no part in the management of departments and public entities, but oversees their actions. To this end the two Committees interrogate and investigate, and subsequently pass resolutions on matters reported on by the A-G and by other functionaries.

  They also exercise control over the effective spending of voted funds and through this oversight role, assess that REAL is being managed properly.

  Good results are dependent on matters reported to them and they must thus be sufficiently informed in order to perform their role effectively. A well-informed legislature will thus be able to make well informed decisions on policy matters and also provide the legitimate check on executive policies and actions. It would therefore be prudent for the PT to advise parliamentary committees such as SCOPA and the relevant Portfolio Committee on the interpretation of the annual financial statements, to enable them to evaluate and assess provincial departments' (and public entities') performance.

Challenges in relation to the accounting process

- *To integrate the accounting and budgetary processes.*
- *To timely provide integrated accounting and budget programmes.*
- *To enhance the parliamentary oversight role.*
- *To timely provide financial performance information to support operational and strategic decision-making.*

6

ACCOUNTING SYSTEMS

6.1 Migrating: FMS to BAS

The national transversal financial administration systems, namely FMS, PERSAL, LOGIS, and Vulindlela utilised by this Province were initially developed to meet the legislative requirements of the National and Provincial Exchequer Act/laws. To a large extent these systems do not fully support the requirements of the PFMA in the sense that they do not fully comply with GRAP requirements, in meeting business process re-engineering requirements to introduce best practice in government and to align government business with the PFMA. Furthermore, provincial departments generally experience problems with the FMS such as the debtor's sub-system.

Due to the phasing out of the FMS in favour of BAS, of which implementation has commenced with effect from 1 April 2003, the NT also no longer considers it a priority to enhance or to further develop the FMS. As early as 1992, NT decided that there was a need for a new improved Basic Accounting System, hence the name BAS. The objectives for BAS are as follows:

- The facilities of the system should be of a basic nature, and should be user friendly to government departments;
- Due to possible changes in government, the system should be as flexible as possible;
- The system should be implemented in the shortest possible time-span;
- The system should provide interfaces to management information systems;
- The architectural design of the system should be flexible, so as to accommodate any structural changes in government; and
- The technical architecture should be dictated by business needs.

BAS was developed with improved financial control in mind. In addition, it was built to support the capacity building drive within government, by providing the user with a simple-to-use graphical user interface. This improved user interface on BAS helps to facilitate learning and orientation of new employees using the system.

One of the main benefits of BAS is that it is an online system that always reflects updated transactional information on the financial records of departments. BAS has been designed to improve accounting efficiency. Less time is taken for transactions to be reflected in a department's financial records. As a result of real-time verification and validation of data entries, information only needs to be captured once before it is authorised. This provides further time saving as compared to the batch system of the FMS, which has to be captured twice before it is accepted.

Since departments will be fully migrating from FMS to BAS from 1 April 2004 and implementing the latter together with the new SCoA, it is imperative that the transition be monitored continuously. Every attempt must be made to clear outstanding entries in the current ledger accounts and that suspense accounts are cleared of unwarranted balances so that the bare minimum of entries are transferred from the FMS to the BAS accounting system.

It is also important that the origins of all transactions are established and that supporting documentation be available for all amounts that the departments transfer to BAS. It should be noted that FMS and BAS will run concurrently until final closure of the 2003/04 financial year.

Although the BAS manual is available on the Internet at http://bas.pwv.gov.za, BAS also provides users with an on-line help facility as well as a guideline manual per function. The migration from FMS to BAS will require adaptation to the new accounting system, inclusive of mindsets that will have to change to embrace the new on line system. The implementing of BAS will thus require effective and robust functional training of all users prior to and during the implementation process. The training will be initiated by PT and will be centered around equipping users to fully understand the system regarding the accounting processes and the interpretation of the required system reports available on BAS. Further training will focus on equipping users to perform an oversight function in monitoring the integrity of accounting transactions as well as to monitor the interface of sub-systems, e.g. Persal, Logis etc. into BAS.

6.2 Trade Accounts (FMS) migration to Trading Entities (GAAP)

Prior to the implementation of the PFMA, the Western Cape Exchequer Law, 1994, provided for the institution of so-called "trade accounts" in respect of services and goods rendered to other departments and institutions within the public sector. However, with the inception of the PFMA in April 2000, no provision was made in the said Act for these trade accounts. The PFMA does, however, provide for the establishment of "trading entities". For all intents and purposes of the PFMA, trade accounts under the control of departments should have migrated to Trading Entities. In the absence of guidelines for the migration process departments continued to make use of existing trade accounts to account for revenue and expenditure of specialised services rendered to other departments and institutions.

In an attempt to be cost effective and to maximise on the economies of scale, certain departments centrally manage goods and services that are provided to other departments and institutions such as medical supplies and government motor transport. Generally, the manner in which these trade accounts are managed may lead to poor accountability. The following are cited as some of the causes:

(a) Trade accounts do not function within a proper legal framework thus leading to the lack of prescribed accountability.

(b) Ineffective management of aims and objectives lead to inadequate planning and budgeting to achieve desired outcomes.

(c) Inefficient cost recovery due to an ineffective system to calculate cost and tariffs accurately and timely.

(d) Trade accounts are currently accounted for as separate "entities" in the books of the departments.

(e) Currently no structured mechanism for regular reporting to monitor the financial performance (deficits /surpluses) of these trade accounts on a continuous basis.

Recognising that the gap between trading accounts and trading entities needs to be closed, a NT driven work group has been established and is in progress with investigating ways to improve the accounting and accountability of services rendered to departments as well as the migration process from trading accounts to trading entities. A PT official has been nominated to participate in the Trading Entity task team. The PT's voluntary involvement will be to ensure that the needs of provinces are appropriately addressed through the development of an accounting procedure/manual based on the specific requirements of departments that could be implemented uniformly in provinces.

In table 6.1 below the financial results of the three provincial trade accounts currently still in operation is provided over the period 2000/01 to 2002/03.

Table 6.1: Profits and losses recorded by provincial trade accounts

Trade Account	Profit/(Loss) 2000/01	Profit/(Loss) 2001/02	Profit/(Loss) 2002/03
	R'000	R'000	R'000
Cape Medical Depot	3,657	592	(2,392)
Government Motor Transport	17,333	3,552	1
Karl Bremer Hospital	4,817	(2,358)	(3,422)

The purpose of these trade accounts as stated above is to provide services to utilise the economies of scale involved and recover costs from users, excluding the Karl Bremer Hospital trade account, which is discussed in the following paragraph. It therefore follows that, in respect of the Cape Medical Depot and Government Motor Transport trade accounts, a profit constitutes excessive cost recovery that places a financial burden on the user department. On the other hand, a loss signifies inadequate cost recovery from users resulting in costs not being accounted for at the institution where the service is being utilised. The ideal would be for the trade accounts to break-even year on year, which may be achievable if management responsible for trade accounts is held accountable as discussed above. From table 6.1 above, it is clear that the Government Motor Transport trade account is moving in the right direction towards a break even situation.

In order to test an incentive scheme for hospitals to generate and retain more revenue, the joint MINMEC of Finance and Health accepted the proposal to launch a hospital trade account as a pilot project. In the Western Cape, the Karl

Bremer Hospital was selected and the pilot project was implemented on 1 April 1999. No assessment has been forthcoming on the success of the pilot project. In view of the Department of Health's intention to close down the trade account with effect from 1 April 2004 the submission of a final assessment report will be an appropriate action to evaluate the results against the original objective of the pilot project.

To improve the management of trade accounts it is imperative that the factors contributing towards profits or losses be investigated in order to determine the most appropriate and effective way of managing trade accounts.

6.3 Ordinance 3/62

The Provincial Capital Fund was established in 1962 in terms of the Provincial Capital Fund Ordinance, 1962 (Ordinance 3 of 1962). The Provincial Capital Fund consists of the following:

- The Roads Capital Account
- The Stores Branch and Requisites Depot
- The Pharmaceutical Store
- The Hospital Regional Stores

At the time of the democratisation of the country in 1994 the Provincial Capital Fund Ordinance, 1962 was drawn up as a national competency. This competency was only assigned to the relevant provinces on 24 November 2001, as per the President's Minute 676.

This Ordinance, read together with section 12 of the Western Cape Exchequer Law 1994 initially gave effect to the establishment of the Roads Capital Trade Account; Requisites Stores Trade Account and the Cape Medical Depot Trade Account all of which are treated as trading accounts. The Roads Capital Trade account and the Requisite Stores Trade Account have since been closed.

As previously mentioned trade accounts are inconsistent with the PFMA and need to migrate to the prescribed "trading entities". Notwithstanding the aforementioned the legislative provisions relating to trade accounts still need to be maintained until the transition has materialised. Consequently certain sections of Provincial Capital Fund Ordinance may require amendment or repeal. Provisions to be considered are those that pertain to the:

- The charging of interest on capital amounts.
- The charging of rental on government owned accommodation in respect of trade account operations.
- Legal closure of the Stores Branch and Requisites Depot trading account.

6.4 Integrated systems

The current national transversal financial administration systems, namely BAS, Persal, Logis and Vulindlela are compatible with one another in the sence that

BAS being the integral accounting system allows financial information from the abovementioned systems to interface with it.

However, there are other national systems such as SOCPEN and NaTIS that are utilised by specific provincial departments that are not compatible with BAS. In other words interfacing between these systems and BAS is currently not possible. The required financial information is recorded and maintained by these independent respective side systems. The same applies to provincial systems such as HIS.

Apart from the aforementioned shortcomings there are also inadequacies in the existing national transversal systems to the extent that it does not fully address GRAP standards, consolidation of AFS, asset management etc. There is thus a growing need for an integrated financial system that will address these issues.

NT is currently investigating the development of an IFMS that will be based on the requirements of user departments. The various disciplines within the PT will be actively involved with NT in the development of this system by providing inputs on user requirements related to accounting, budgets, systems, etc.

Table 6.2 below reflects some of the non-transversal sub-systems that incorporate financial transactions and are maintained by provincial departments as indicated.

Table 6.2: Non-transversal sub-systems

DEPARTMENT	SUB-SYSTEMS IN USE
Health	• Medical Provisioning Administration System (MEDPAS) • Hospital Information System (HIS) • Delta 9
Social Services	• Social Services Pensions (SOCPEN)
Housing	• Debtor System
Transport and Public Works	• Local Transport Permit System (LTPS) • Management Maintenance System (MMS) • Management Accounting System (MDA) • EWORKS (Capital projects) • National Traffic Information System (NATIS) • Internet Number Plate Administration System (INPAS) • Debtors Management System (DMS) • PABX telephone system.

6.5 Data capturing

The migration from FMS to BAS can only be viewed positively in light of the many advantages it has for the processing of accounting transactions. These include, inter alia, timely financial information, ensuring accounting efficiency and real-time verification and validation of data. Being an on-line system BAS can only be effective if data is captured timely and accurately. The data capturing benefits of BAS are as follows:

Graphical user interface: Financial information can be captured quickly since the system offers window style, menu, button and mouse driven screens. This makes it easy to learn and use. It also leads to the reduction of errors.

Security: Each user is issued with a User ID and a password that provides access to only the functional area and portions of the code block that the particular user is required to access. This seeks to reduce the number of posting errors as well as prevent unauthorised transactions from taking place. In addition an audit trail has been built into the system to keep track of transactions so that they may be traced at any stage.

On-line processing: One of the main benefits of the system is that as soon as transactional information has been captured and authorised, it is immediately reflected in the financial records of the relevant department. All information extracted is therefore up-to-date.

Time saving: The system has been designed to improve accounting efficiency. Less time is taken for transactions to be reflected in a department's financial records. As a result of real-time verification and validation of data entries, information has to be captured only once before it is authorised. This provides further time saving.

Reduced paperwork: The system allows for reports to be generated on-line. This means that reports do not have to be printed out on paper. Information is available at the point of need since reports may be requested, viewed or even printed at any time. System report information may also be downloaded into text files for use in other applications.

Code Block: Rather than using "code numbers" to represent different pieces of the Code Block, the system uses descriptions that are easy to identify. This reduces the likelihood of the user making accounting allocation errors.

6.6 Asset management

In adherence to PFMA requirements, NT has compiled a draft Asset Management Guideline ("the Guide") in an attempt to promote the effective management of the assets of departments, public entities and constitutional institutions. It has been designed to provide a contextual view of asset management and clarity on the fundamental concepts involved with the emphasis placed on financial management accounting and reporting of assets.

The Guide approaches asset management as part of the continuous improvement of financial performance of the public sector and recognises the significant benefits of applying a consistent set of asset management principles across the public sector.

Apart from the broad Guide, NT is also developing a practical guide to address the implications emanating from it. The primary objective of the practical guide is to ensure that the principles and methodologies embedded in the Guide are internalised and adopted by asset management practitioners and officials responsible for asset management in the public sector.

As an initial step towards implementing the Guide, assets were for the first time disclosed in the 2002/03 AFS as a reporting requirement. Of importance is that the disclosure for assets (disclosure note) was done globally and not per category, e.g. equipment, furniture, land and building, motor vehicle etc. Further practical guidelines in this regard need to be developed before assets can be recognised, i.e. reflected on the face of the financial statements. The GRAP implementation timelines require assets to be recognised by the 2004/05 financial year.

The recognition of assets in the AFS will in effect mean that proper asset registers must be maintained to enable the identification of ongoing costs such as depreciation and maintenance of assets. The asset register serves as a database that provides the basis for the figures in the AFS. It includes information on asset purchase prices and the expected life of the assets. It may also include information on current replacement cost. All assets should be recorded in the asset register, regardless of the funding source. The asset register should contain non-financial data on acquisition such as identity, accountability, performance and disposal, in addition to the financial data necessary to discharge statutory reporting obligations. The fixed asset register should be categorised, containing more detail needed for depreciation, useful life etc.

In order to comply with the reporting requirements, all assets must be captured by March 2004. Departments must capture the actual values of assets purchased during the last three financial years (2000/01,2001/02 & 2002/03), and capture the older assets at nominal values. These older assets will then be re-valued at a later stage, in accordance with the practical guideline being developed by NT.

The Logik call center at NT has developed an asset-capturing tool that could be used for the capturing of assets on-line by departments by registering as a user (the programme is web based and cannot be downloaded). The said call center provides the service free of charge (users will however be liable for internet costs) and will meet any current or future reporting requirements. NT indicated that the said call center will also be able to generate fixed asset reports and fixed asset movement reports that can be attached to the balance sheet. The use of this facility is not enforceable, i.e. departments need not make use of the facility and may use other asset management recording methods/systems. None of the provincial departments are currently making use of the Logik capturing tool, however it is still available if required. Nine of the fourteen departments in the Western Cape are currently using Logis to record assets, whilst the remaining five departments are making use of manual systems for the recording of assets. It is envisaged that the remaining five departments will implement Logis in the near future.

It was originally envisaged that there would be an interface between Logis (which is a procurement system, rather than an asset management system) and Logik, but this, however, did not materialise. Consequently departments will have to recapture the data, using the data that is available on Logis, should they prefer to make use of Logik, as the asset management and financial reporting tool.

Section 40(1) (b), of the PFMA and the implementation plan as developed by NT requires that assets purchased during the year should form part of the accounting records as from 2002/03 financial year. Assets acquired from 1 April 2002 be capitalised and reflected on the financial statements for 2002/2003. Departments should take account of the following past, present and future timelines for the capturing of assets:

- December 2002 for assets bought in 2001/2002
- March 2003 for assets bought in 2000/2001
- September 2003 for assets bought in 1999/2000
- March 2004 for assets bought prior to 1999/2000

These time lines will be monitored by PT to be able to adhere to the requirements based on the Guide and AFS reporting requirements.

Based on the Guide and AFS reporting requirements the PT has also requested departments to develop their own asset register using Logik, Logis or Excel spreadsheet or a combination thereof as an interim measure until NT develops a suitable system. All fixed assets must be recorded in this asset register as a starting point. Departments should at least ensure that all their fixed assets are properly identified and catagorised in the asset register. The register should be regularly updated and continuously verified by the departmental Internal Control Unit (future Risk Management Unit) for correctness and completeness. Internal Audit should be approached to audit the effectiveness and adequacy of asset management. This will include the recording and classifying of assets according to the various categories, viz. equipment, furniture, land and buildings and motor vehicles. The accuracy of the asset register cannot be over emphasised, as the values for assets will be recognised in the AFS. This will include the following:

- The recognition of values in the balance sheet reflecting the net effect of book value less depreciation.
- A note to the balance sheet disclosing asset categories.
- Accounting policy reflecting the straight depreciation method being utilised.

6.7 Closure of Provincial Housing Fund

The Housing Act, 1997 necessitates the amendment of the Western Cape Housing Development Act, 1997 (Act 3 of 1997) the amendments of which intend to provide for the closure of the Western Cape Housing Development Fund and the transfer of assets, liabilities, etc. into the configuration of the Provincial Revenue Fund. To bring the said Fund to closure will require an appropriate closing down accounting framework and procedure that should be cleared with the A-G.

6.8 Roads cost accounting

The Department of Transport and Public Works manages the costing of roads infrastructure projects on MMS, a separate costing system. The purpose of the MMS is to measure the works (where, who, resources used, costing calculation) performed on provincial roads infrastructure.

The system is complex and takes into account all cost related to the particular project such as materials, vehicles, equipment, etc. The costing of each item has its own built-in controls to ensure the accuracy of costing. For example, the system validates the end and opening kilometer reading of rented vehicles to ensure that the costing of the vehicle usage is not overstated.

The system provides the required information to be able to journalise the costing calculation (expenditure) in respect of machine rental and recoverable works on to the FMS/BAS.

Data is also gathered in respect of machinery and equipment (fuel, hours worked, maintenance cost plus history). Productivity is also captured on the database.

The information provided by the system is also used in the planning process for budgeting purposes.

Management reports are available to assist management to perform the maintenance task effectively.

Challenges in relation to the accounting system

- To ensure that provincial departments clear all suspense and control accounts of unwarranted balances prior to migrating from FMS to BAS on 1 April 2004.
- To further develop the monitoring of the state of accounts of provincial departments and the IYM reports.
- To build a proper database of IYM information for analytical and further reporting purposes.
- To ensure the proper implementation of the SCoA with effect from 1 April 2004.

- To ensure that users are properly trained on the accounting processes related to the new SCoA.
- To monitor and ensure that the compilation of departmental asset registers from an accounting perspective progresses in accordance with requirements and timelines to achieve the 2004/05 deadline.
- To recognise all assets in the AFS by 2004/05 financial year.
- To ensure the effective closure of the Western Cape Housing Development Fund (WCHDF) and the transfer of assets and liabilities into the Provincial Revenue Fund configuration.
- To assess the effectiveness of the roads MMS (costing system) against the following criteria:
  - The accuracy of the system;
  - The reliability of the system; and
  - The interfacing of financial transactions with BAS
  - The effect of the new SCoA on the system
- To provide meaningful inputs on the IFMS from an accounting perspective bearing in mind the following key focus areas:
  - On-line system
  - New standard chart of accounts
  - Annual financial statements and the consolidation thereof
- To ensure the appropriate amendment of the Provincial Capital Fund Ordinance, 1962 (Ordinance 3 of 1962).
- To participate in the development of national accounting frameworks related to the migration from “trade accounts” to “trading entities”.
- To assess the current trade accounts towards breaking even annually, i.e. no profit or loss.
- To develop and implement monitoring mechanisms and a database to analyse the financial performance of the current trading accounts and appropriately report on results.
- To develop and implement a monitoring mechanism and a database for analytical purposes to ensure that all accounting transaction from subsystems interface with FMS/BAS timely and accurately.
- To obtain an assessment report from the Department of Health in respect of the Karl Bremer Hospital Trading Account *pilot project.*

7

FINANCIAL REPORTING

7.1 Western Cape Public Entities

The following public entities listed in Schedule 3, Part C of the PFMA pertain to the Province of the Western Cape:

- WC Gambling and Racing Board
- WC Housing Development Board
- WC Investment and Trade Promotion Agency (WESGRO)
- WC Liquor Board
- WC Provincial Development Council
- WC Provincial Tender Board
- WC Tourism Board

Subsequent to the inception of the PFMA on 1 April 2000 the following additions were approved for listing:

- WC Cultural Commission
- WC Language Commission
- WC Nature Conservation Board

Furthermore the following de-listings were approved

- WC Provincial Tender Board (with effect from 1 August 2002)
- WC Housing Development Board (with effect from 1 August 2002)

Shareholding in LANOK (Pty) Ltd, formerly a national government business enterprise was transferred to the Western Cape Province during 2002/03, and the entity is now listed as a provincial government business enterprise entity under the name Casidra (Pty) Ltd in Schedule 3, Part D of the PFMA.

Unlike provincial departments, provincial public entities prepare annual financial statements in terms of the PFMA[2] in accordance with GAAP.

Table 7.1 below presents an overview of the main sources of funding, expenditure and surplus or loss incurred by each public entity for the 2001/02 and 2002/03 financial years.

The WC Liquor Board has not been included in the table as its financial transactions form part of the activities of the provincial Department of Economic Development and Tourism and is included in its annual financial statements.

[2] Section 55(1)(b) of the PFMA

Table 7.1: Public entities: Funding and expenditure

Public Entity	Grants		Interest		Own revenue		Expenditure		Surplus/(Deficit)	
	2001/02	2002/03	2001/02	2002/03	2001/02	2002/03	2001/02	2002/03	2001/02	2002/03
Gambling Board	6,466,405	4,178,278	455,041	619,244	9,369,078	12,617,853	14,339,540	15,788,972	1,950,984	1,626,403
Nature Conservation Board	86,404,667	89,440,357	1,067,619	1,492,777	14,555,400	18,867,282	98,398,236	110,737,846	3,629,450	-937,430
Development Council	2,638,000	3,092,003	6,353	15,205	-	-	2,479,839	3,138,320	164,514	-31,112
Tourism Board	6,340,000	8,741,597	71,939	204,508	3,135,375	3,414,138	9,518,280	11,153,800	29,034	1,206,443
Cultural Commission	5,723,579	9,113,659	1,251,617	1,398,008	1,690,555	1,888,194	7,217,140	10,831,368	1,448,611	1,568,493
Language Committee	602,000	602,000	113,396	79,809	-	81,026	1,464,891	643,943	-749,495	118,892
WESGRO	9,179,408	7,150,329	664,329	488,658	695,663	1,063,565	12,244,559	11,072,821	-1,705,159	-2,370,269
Total	117,354,059	122,318,223	3,630,294	4,298,209	29,446,071	37,932,058	145,662,485	163,367,070	4,767,939	1,181,420

Funding consists mainly of government grants, interest and own revenue, representing respectively 78%, 2,4% and 19,6% of the total funding that amounted to R150,430 million for 2001/02. For 2002/03 the total funding compared to 2001/02, increased by 9,38% to R164,548 million, consisting of 74% from grants, 2,6% from interest and 23,4% from own revenue sources.

Although there are some exceptions like the WC Gambling and Racing Board, provincial public entities in aggregate are substantially dependent on funding (voted by the Provincial Parliament) from the PRF for their operations.

The increases of 18,4% in interest earned can be attributed to a number of variables and activities such as

- High interest rates over the period of reporting.
- Increase in own revenue collected (28,82% from 2001/02 to 2002/03).
- Slack cash flow management from provincial transferring departments.
- Building of cash reserves.

In order to come to a conclusion on the above variables, the variable requires further analysis.

The aggregate net surplus of R4,767 million for 2001/02, decreased to R1,181 million at the end of 2002/03. This can be interpreted as an indication that public entities are becoming better at managing their financial activities.

Table 7.2 below presents information on the assets and liabilities of the public entities referred to above.

Table 7.2: Assets and liabilities

Public Entity	Total assets		Cash deposits		Receivables		Current liabilities	
	2001/02	2002/03	2001/02	2002/03	2001/02	2002/03	2001/02	2002/03
Gambling Board	6,314,303	5,916,404	2,889,862	2,883,021	742,477	632,888	1,752,085	1,897,917
Nature Conservation Board	13,439,317	19,610,977	2,646,453	10,064,132	7,837,514	5,595,069	12,330,450	16,720,889
Development Council	345,556	597,782	444,867	50,332	13,475	15,700	238,124	17,010
Tourism Board	2,525,292	3,147,643	1,480,617	2,444,387	910,627	464,103	1,636,108	1,052,015
Cultural Commission	18,347,654	18,236,920	17,436,052	17,526,937	790,924	605,312	4,947,693	580,587
Language Committee	503,264	372,947	472,129	337,145	18,695	29,352	4,294	31,514
WESGRO	10,615,600	6,335,158	7,214,407	456,726	2,791,786	5,107,976	2,408,477	498,304
Total	52,090,986	53,217,831	32,584,387	33,563,661	13,105,498	12,450,400	23,317,231	20,798,236

Table 7.3 below presents ratio's that illustrate the solvency of public entities, expressed in cash as part of the total assets, current assets, including cash to cover currently liabilities and cash to cover operating expenditure.

Table 7.3: Cash deposits and reserves

Public Entity	Cash/ Total assets				Current assets/ Current liabilities				Cash/ Operating expenses			
	1999/00	2000/02	2001/02	2002/03	1999/00	2000/01	2001/02	2002/03	1999/00	2000/01	2001/02	2002/03
Gambling Board	0,2:1	0,4:1	0,5:1	0,5:1	4:1	4:1	3:1	3:1	0,09:1	0,20:1	0,20:1	0,20:1
Nature Conser-vation Board		0,4:1	0,2:1	0,5:1		1,1:1	0,9:1	1:1		0,06:1	0,3:1	0,09:1
Develop-ment Council	0,7:1	0,9:1	0,5:1	0,1:1	1,1:1	2,4:1	1,9:1	11:01	0,04:1	0,13:1	0,11:1	0,01:1
Tourism Board	0,8:1	0,7:1	0,4:1	0,4:1	5,4:1	1,3:1	2,4:1	4,9:1	0,40:1	0,08:1	0,09:1	0,20:1
Cultural Commission	1:1	1:1	1:1	1:1	1,3:1	1,3:1	3,7:1	31,23:1			2,41:1	1,61:1
Language Committee	1:1	1:1	1:1	1:1		11:1	11:1	11:1		2,8:1	0,3:1	0,5:1
WESGRO	0,8:1	0,7:1	0,7:1	0,07:1	8:1	7:1	4:1	2:1	0,9:1	0,7:1	0,6:1	0,04:1

From Tables 7.2 and 7.3 above, the following observations:

Aggregate cash deposits at 2001/02 financial year-end amounted to R32,584 million compared to R33,563 million for 2002/03, increasing marginally by 3%.

Cash deposits constituted 62.55% of the total assets held for 2001/02, which increased to 63.07% in the following financial year. Of this, 52% or R17,527 million was held by the Cultural Commission, whilst the Gambling and Racing Board, Nature Conservation Board and the Tourism Board held cash deposits of R2,8 million, R10 million and R2,4 million respectively at the end of 2002/03.

In aggregate, funds receivable decreased from R13,1 million to R12,450 million from 2001/02 to 2002/03 and current liabilities followed a similar trend decreasing from R23,317 million to R20,798 million. This indicates an improvement in financial management.

However, it is noticed that increased receivables to the tune of R5,107 million in 2002/03 in respect of WESGRO is due to the withholding of funding by the contributing transferring provincial department and municipality after a formal review of the entity's activities and that WESGRO depleted its cash reserves as a result thereof to finance its activities.

A minimum of cash balances should be maintained to cover the net of amounts payable and receivable. The ratio of current assets: current liabilities should be optimal at 1:1. Only the Nature Conservation Board complied with this minimum ratio of 1:1. All the others exceeded this ratio by holding high levels of cash - apparently to cover future liabilities.

The PFMA (section 53(3)) provides that a public entity may not accumulate surpluses unless prior written approval of the NT has been obtained. It is clear that the monitoring of this provision should be improved upon as well as the analysis thereof.

7.2 Departmental Annual Reports and Financial Statements

One of the final steps within the accountability chain is the legislative requirement that every accounting officer must publish an annual report inclusive of annual financial statements that fairly presents the state of affairs of its department, its business, its financial results, its performance against predetermined objectives and its financial position.[3]

Due to newly established departments not having balance sheets for 2001/02, merging of old and new departments during the 2002/03 financial year and the resultant lack of comparative information, it is difficult to perform a comparative analysis of the financial position per department for the 2002/03. This situation should be improved upon in the future.

Table 7.4 below benchmarks the surpluses of provincial departments in respect of 2001/02 and 2002/03 against the provincial average and the national norm for under spending which is set at 2% of the amount voted. On the other hand deficits are measured against the national norm of 0% on the amount voted.

[3] Section 40(2) of the PFMA
[3] 2002 South African Budget Guide and Dictionary published by IDASA

Table 7.4: Departmental surpluses and deficits for the 2002/03 financial year (including revenue collected above estimates)

Departments	Total Revenue	Total expenditure	Surplus/(Deficit)	Percentage of total revenue	Provincial average	National Norm
Provincial Administration Western Cape	401,272	335,762	65,510	16.33%	3.90%	2%
Provincial Parliament	37,048	35,227	1,821	4.92%	3.90%	2%
Provincial Treasury	292,286	56,267	236,019	80.75%	3.90%	2%
Community Safety	119,294	118,751	543	0.46%	3.90%	2%
Education	4,682,183	4,632,111	50,072	1.07%	3.90%	2%
Health	3,933,433	3,909,522	23,911	0.61%	3.90%	2%
Social Services and Poverty Alleviation	3,212,870	3,138,474	76,503	2.38%	3.90%	2%
Housing	485,063	458,178	26,885	5.54%	3.90%	2%
Environmental Affairs and Development Planning	141,481	139,837	1,644	1.16%	3.90%	2%
Transport and Public Works	1,402,520	1,327,326	75,194	5.36%	3.90%	2%
Agriculture	166,390	157,796	8,594	5.16%	3.90%	2%
Local Government	55,882	37,816	18,066	32.33%	3.90%	2%
Economic Affairs and Tourism	117,005	111,455	5,550	4.74%	3.90%	2%
Cultural Affairs and Sport	84,970	84,437	533	0.63%	3.90%	2%
Total	15,133,804	14,542,959	590,845	3.90%		2%

From the above table the aggregate surplus funds not spent by departments equal R590,845 million or 3.9% of total revenue (including total own revenue collected). Of the fourteen departments, seven ended the 2002/03 financial years with surplus funds that exceed the provincial average of 3.9%. 50% of departments are not performing within the norm of 2%. Under spending of appropriated funds and under estimation of revenue to be collected translates into delays in service delivery of which some have economic benefits such as the providing of jobs through infrastructure spending.

Table 7.5 below benchmarks the surpluses of provincial departments in respect of 2002/03 against the provincial average and the national norm for under spending which is set at 2% of the amount voted when accruals are also taken into account. On the other hand deficits are measured against the national norm of 0% on the amount voted.

Table 7.5: Departmental surpluses, deficits and accruals for the 2002/03 financial year (including revenue collected above estimates)

Departments	Total Revenue	Total expenditure	Surplus/ (Deficit)	Accruals	Surplus/ (Deficit) Post accruals	Percentage of total revenue	Provincial average	National Norm
Provincial Administration Western Cape	401,272	335,762	65,510	9,832	55,678	13.88%	3.09%	2%
Provincial Parliament	37,048	35,227	1,821	72	1,749	4.72%	3.09%	2%
Provincial Treasury	292,286	56,267	236,019	401	235,618	80.61%	3.09%	2%
Community Safety	119,294	118,751	543	1,334	(791)	(0.66%)	3.09%	2%
Education	4,682,183	4,632,111	50,072	4,633	45,439	0.97%	3.09%	2%
Health	3,933,433	3,909,522	23,911	89,678	(65,767)	(1.67%)	3.09%	2%
Social Services and Poverty Alleviation	3,212,870	3,138,474	76,503	5,452	71,051	2.21%	3.09%	2%
Housing	485,063	458,178	26,885	136	26,749	5.51%	3.09%	2%
Environmental Affairs and Development Planning	141,481	139,837	1,644	518	1,126	0.80%	3.09%	2%
Transport and Public Works	1,402,520	1,327,326	75,194	11,275	63,919	4.56%	3.09%	2%
Agriculture	166,390	157,796	8,594	-	8,594	5.16%	3.09%	2%
Local Government	55,882	37,816	18,066	114	17,952	32.12%	3.09%	2%
Economic Affairs and Tourism	117,005	111,455	5,550	144	5,406	4.62%	3.09%	2%
Cultural Affairs and Sport	84,970	84,437	533	4	529	0.62%	3.09%	2%
Total	**15,133,804**	**14,542,959**	**590,845**	**123,593**	**467,252**	**3.09%**		**2%**

The amounts reflected in the annual financial statements as accruals represent the cost of goods and services that have been delivered prior to year-end, but no invoice has been received from the supplier at year-end, or where the goods/services have been delivered, and an invoice is on hand but remains unpaid at year end. It thus follows that when accruals as reflected above are subtracted from the surplus of each department it provides a revised surplus that represents the total expenditure incurred for the financial year. In the table above it is reflected that with accruals taken into account two of the fourteen departments would have closed the 2002/03 financial year with deficits.

Systems need to be developed to record accruals consistently for monitoring purposes.

7.3 Consolidated annual financial statements

Section 19 (1) of the PFMA requires provincial treasuries to prepare consolidated financial statements, in accordance with GRAP, for each financial year. Due to the delaying of the implementation of this section, consolidated annual financial statements will for the first time be prepared in respect of the 2003/04 financial year. A National Treasury workgroup, on which the PT is represented, has been established to prepare the revised guidelines and prescribed formats for annual financial statements, as well as for consolidated annual financial statements, for 2003/04.

As departments must submit their annual financial statements to the A-G as well as the PT within two months after the end of a financial year, the PT is afforded only one month to prepare quality consolidate financial statements. It is thus imperative that the statements forwarded by departments to the PT are in accordance with the prescribed formats and that the accompanying instructions are executed meticulously by departments.

As a pre-cursor to the consolidation of AFS, aggregate AFS was prepared for the 2002/03 financial year and forwarded to NT.

7.4 Provincial Revenue Fund

The Constitution, 1996 provides that all money raised or received by the Provincial Government must be paid into the PRF except money reasonably excluded by an Act of Parliament. On the other hand monies may be withdrawn from the PRF only in terms of an appropriation act or as a direct charge against the PRF[4].

Receivables in the balance sheet of the PRF arise from unspent appropriations of departments to be surrendered at year end or conditional grants to be received as well as own revenue collected by departments during the accounting period, but not yet transferred by the end of March. Payables on the other hand arise from appropriations to departments who fail to request the funding.

The PRF annual financial statements have for the first time been prepared for the 2002/03 financial year. These were submitted to the A-G at the end of August 2003 and of which the outcome is pending. The reporting formats applicable to the 2003/04 financial year will be further developed by a National Treasury task team on which the PT is represented.

[4] Section 24(1)(a) of the PFMA

7.5 In-Year monitoring

The PFMA requires accounting officers to keep full and proper records of the financial affairs of their departments in accordance with any prescribed norms and standards. To ensure the completeness and accuracy of the information supplied accounting officers must certify and report on a monthly basis, before the closure of the accounting month, compliance to minimum financial performance indicators.

Provincial departments were subsequently requested to submit monthly reports to the PT in order to monitor the accounting practices and procedures with the emphasis being on the clearing and timely follow-up of amounts in suspense accounts. The assessment of these monthly compliance reports is based on the following measurable indicators:

(a) All transactions are supported by authentic and verifiable source documents.

(b) All deposits and receipts have been recorded in the general ledger of the department and reconciled.

(c) All departmental revenue has been paid timely to the Provincial Revenue Fund.

(d) All cheques/EFT/bank credits have been recorded in the general ledger of the department and the EFT control account reconciled.

(e) The bank adjustment/exception account has been reconciled.

(f) All bank reconciliations have been performed and reconciling items cleared.

(g) All interfaces for the month have taken place and reconciled.

(h) All journals have been recorded and authorised on the Financial System of the department.

(i) All inter-departmental balances and debts have been recorded, reconciled and paid within the prescribed or agreed period.

(j) All staff debts have been recorded and reconciled.

(k) All reporting requirements of DORA have been adhered to.

(l) The sources of the transactions are readily identifiable.

(m) Monthly reconciliation of all control and suspense accounts are performed to confirm the balance of each account.

(n) Amounts included in control or suspense accounts are cleared and correctly allocated to the relevant cost centres on a monthly basis.

(o) Reports are provided to the Accounting Officer about uncleared items, and followed up on a monthly basis by the CFO.

A snap shot as at 31 July 2003 of whether departments are complying with the above-mentioned performance indicators is illustrated in the table 7.6 below:

Table 7.6: Measurable Indicators as at 31 July 2003

DEPART-MENT	MEASURABLE INDICATORS															
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)	(n)	(o)	Complied
PAWC	1	1	1	1	1	1	1	1	1	1	1	1	0	0	0	80%
Parliament	1	1	1	0	1	1	0	1	0	1	1	1	1	1	1	80%
Provincial Treasury	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	100%
Community Safety	1	1	1	1	1	0	1	1	1	1	1	1	1	1	1	93%
Education	1	0	1	1	1	0	1	1	0	1	1	1	0	1	0	67%
Health	0	1	1	1	1	1	1	0	0	0	1	0	0	0	1	53%
Social Services	0	1	1	1	1	1	1	1	0	0	0	0	1	0	1	60%
Housing	1	1	1	1	1	1	0	1	1	1	1	1	1	1	1	93%
Environmental Affairs and Development Planning	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	100%
Transport and Public Works	1	1	1	1	1	1	1	1	1	1	0	1	1	1	1	93%
Agriculture	1	1	1	1	1	0	1	1	1	1	1	1	1	1	1	93%
Local Government	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	100%
Economic Development and Tourism	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	100%
Cultural Affairs and Sport	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	100%
% Compliance per indicator	86%	93%	100%	93%	100%	79%	86%	93%	71%	86%	86%	86%	79%	79%	86%	

1 - Compliance
0 - Non-compliance

From the above it is clear that

- Departments generally comply with the minimum measurable performance indicators.
- The bigger departments, viz. Health, Education and Social Services and Poverty alleviation are experiencing difficulty with compliance. This is largely due to the outside regions that form part of their departments. These departments need to bring their regions within the compliance specifications by introducing the necessary control measures.

- Some departments are experiencing difficulty to record, reconcile and pay within the prescribed or agreed period all inter-departmental balances and debts.

It is of paramount importance that provincial departments submit credible monthly performance reports to enable the PT to access and further report accurately on any non-compliance issues, as well as to advice departments on the necessary corrective steps to be taken.

7.6 Project 15/50/70

Early in 2002 a Project Team, Project 15/50/70, was established and became functional to deal with unadjusted and uncleared remaining balances pertaining to Education (FMS-Dept. 15), the former Cape Provincial Administration (FMS-Dept. 50), and the Centralised Provincial Administration Western Cape (FMS-Dept. 70). The Project Team was abolished from 1 July 2003 after it completed its mandate. The objectives of the Project Team were to: -

(a) Assist with clearance of old account balances pertaining to the former House of Representatives, still reflected in the books of FMS-Dept. 15.

(b) Ensure that balances within the books of FMS-Dept. 50 have been accommodated within the books of FMS-Dept. 70.

(c) Efficiently and effectively clear all account balances in the books of FMS-Dept. 70 for transfer to the books of the relevant provincial departments each having their own FMS-Depart. code.

Education (FMS Dept. 15)

With the rationalisation of the ex Administrations' House of Assembly; House of Representatives and House of Delegates during July 1994, the Health, Welfare, Local Government, Housing and Agriculture functions were incorporated into the various branches of the former CPA, resulting in the then newly structured Western Cape Province.

However, the former Education and Culture function did not amalgamate at that stage. It retained its ex House of Representatives' bank account with the South African Reserve Bank and continued to work in the books of the ex House of Representatives namely, FMS-Dept.15, whilst rendering service to schools and offices in the Western Cape as well as other provinces.

At the time the latter was being scaled down to an Education component only. In addition most of the nine provinces, which came into being in July 1994, did not have the infrastructure to immediately take over the function of providing for the schools administered by the ex House of Representatives. The Education component of the ex House of Representatives was thus burdened with the personnel expenditure of staff which were transferred to other departments, within the province, as well as personnel expenditure of educators of other provinces including the operational expenditure of the ex House of Representatives schools located in other provinces. Efforts to recover these amounts have to date proved fruitless.

With the legislative competences for Education being assigned to the Province in terms of the Interim Constitution (Constitution of the Republic of South Africa, 1993 (Act 200 of 1993)) the WCED came into being in April 1995. Although a new banking account was opened with a commercial bank the WCED continued to work in the books of the ex House of Representatives, namely FMS-Dept. 15. This resulted in the WCED inheriting all the balances of the ex House of Representatives relating to unauthorised expenditure, staff debts, uncleared control accounts and irrecoverable claims. These balances amounting to R112 724 769.73 are the direct result of cash outflow from the South African Reserve Bank Account held by the ex -House of Representatives.

The National Treasury has assumed responsibility for all amounts relating to the ex-House of Representatives since the responsibility for managing the applicable South African Reserve Bank accounts is that of the NT. In view thereof, NT is in the process of drafting a finance bill with the objective of clearing the balances in question in the books of the WCED. It is envisaged that the bill will be promulgated before the end of the 2003/04 financial year.

The WCED has in the meanwhile created a separate vote fund (code 3100) in its books to distinguish the old balances from the current. All balances pertaining to the ex-House of Representatives have been transferred to vote fund 3100. These balances will not be transferred to the BAS accounting system with effect from 1 April 2004, but must be cleared from the books of FMS-Dept 15 before the switch-off date for the FMS accounting system on 31 December 2004.

Ex - Cape Provincial Administration (FMS Depart 50)

As indicated earlier under “Education (FMS Department 15)” the rationalisation process of the tri-cameral system in 1994 resulted in the functions of the various ex Administrations being incorporated into the former CPA, excluding education. Being an established administration the former CPA retained its bank account with the South African Reserve Bank and continued to provide the additional functions using its existing books of account, namely FMS-Dept. 50. This being an interim arrangement the functions of the former CPA were later split in July 1994 as required by the then Interim Constitution into the four newly established regions, namely the Western Cape, Eastern Cape, Northern Cape and North West provinces. The Western Cape Province was responsible for providing the services that were rendered by the ex CPA to the newly established provinces, using the then existing bank account (Reserve Bank) and books of account (FMS Dept- 50) until March 1995.

Only on 1 April 1995 could the four provinces operate independently with their own banking accounts opened with respective commercial banks and their own separate set of books. As far as possible accounting transactions in the ex - CPA books were transferred into the books of these nascent provinces.

There, however, remained in the books of the former CPA (FMS-Dept. 50) uncleared control accounts, staff debts, unauthorised expenditure and irrecoverable claims. These balances were subsequently transferred to the Western Cape Provincial Administration's books, FMS-Dept. 70 and the books of FMS-Dept. 50 were permanently closed with effect from October 2002.

Provincial Administration Western Cape (FMS-Dept. 70)

Subsequent to the first democratic government coming into being in May 1994, the accounting functions of the various Western Cape provincial departments were performed on a centralised basis by the Departmental Accounting Services component (FMS-Dept. 70) of the former Department of Finance with the exception of that for Education.

However, as a vehicle to improve the quality of financial management within provincial departments, as well as an empowerment initiative, the Provincial Treasury identified the decentralisation of financial accounting functions to provincial departments as a priority. This decentralisation process entailed the transferring of functions, personnel and equipment.

Amendments to the PSA inclusive of the PSR, effective from 1 July 1999, and more specifically the implementation of the PFMA, with effect from 1 April 2000, paved the way to proceed with the decentralisation process, as follows:

Phase 1 took effect on 1 April 2000 in respect of the then Departments of Health and Social Services, Economic Affairs, Agriculture and Tourism as well as the Provincial Parliament.

Phase 2 took effect on 1 April 2001 in respect of the then Departments of Finance as well as Planning, Local Government and Housing.

Phase 3 took effect on 1 April 2002 in respect of the Departments of Community Safety, Provincial Administration: Western Cape as well as Environmental and Cultural Affairs and Sport.

The project team was introduced during the last phase of the decentralisation process. Their immediate focus was to identify and transfer balances and personnel pertaining to the last three departments. The project team's focus thereafter was to systematically identify and transfer all outstanding balances in FMS-Dept. 70 to the respective decentralised departments and where possible to clear all account balances.

As the decentralisation process took effect according to the three phases at the beginning of the financial year (April), the balances as at end of March the previous financial year had to be finalised and transferred to the decentralised department. The accounting process entailed the opening of a March Balances account in the books of FMS – Dept. 70 to monitor and control the transfer of balances to the decentralised departments. A similar account was created at the decentralised departments to keep track of all balances transferred to it. In effect the contra accounting entries are lying in the books of two departments, i.e. the transferring and receiving departments. To bring final closure to the March Balances account in the books of FMS – Dept. 70 and the decentralised departments various options were considered. One of them being the settlement of balances through the flow of cash. This option was ruled out as some departments like Health do not have R270 million spare to settle their balance and besides, no cash should in fact flow because the cash had initially flowed when the transactions were recorded in the books of FMS – Dept. 70. This predicament, however, still needs to be resolved. This will be done in consultation with the various disciplines within the PT and the respective departments.

Table 7.7 below reflects the balances as transferred to the decentralised departments.

Table 7.7: Schedule of settlement balance

Decentralised Department	FMS Department Code	Amount R
Economic Affairs, Agriculture and Tourism	U2	(2 953 892.67)
Health	U3	269 620 447.25
Provincial Parliament	U4	1 273.32
Social Services	U8	133 063.47
Environmental and Cultural Affairs and Sport	W4	3 012 558.97
Community Safety	W5	764 689.13
PAWC	W6	1 046 488.64
Education	15	560 080.93
TOTAL		**272 184 709.04**

Apart from the above what remain to be further addressed is the outstanding balances appearing in the books of FMS-Dept. 70. This is made up of the over drawn balance of R799 million on the SARB account emanating from the former CPA. The NT is in the process of drafting a finance bill that will provide the funding of this amount. It is envisaged that the bill will be enacted before the end of the 2003/04 financial year. The remaining net balance of R1,1 million in the books of FMS-Dept. 70 remains a liability that still needs to be considered in its full consequence, i.e. assets and liabilities separately and for funding/financing purposes. This balance however will not be transferred to the BAS accounting system with effect from 1 April 2004 but must be cleared before the final switch-off of the FMS accounting system on 31 December 2004. It may also require the voting of funds for this purpose in this 2004/05 adjustments budget.

7.7 Annual Financial Statements Reforms

Financial reporting provides accountability and decision-making information primarily by providing information that assists users in assessing whether financial resources were expended in compliance with the budget and whether outputs are being achieved. To be reliable, it must be ensured that the books of account of departments are in a healthy state and the information provided should be consistent, timely, accurate, and relevant.

The formulation of GRAP standards by the ASB will facilitate the development of new, and enhance existing, accounting policies and practices, that will enable government to make a transition from the cash basis of accounting to an accrual basis, which can be compared as follows:

Cash basis of accounting

- transactions and events are recognised when cash is received or paid,
- cash receipts, disbursements and balances are measured at historical cost,
- financial results are measured as the difference between cash received and cash disbursed,
- information is provided about the sources of cash raised, the uses to which those funds are applied and cash balances at the reporting date, and
- does not provide all the information that is needed to accurately measure performance and the true cost of goods and services rendered, thereby reducing accountability information.

Accrual basis of accounting

- transactions and events are recognised when they occur rather than when cash is paid or received,
- assets, liabilities, revenues and expenses, as well as net assets, are recognised,
- assets and liabilities are measured on the historical cost basis, but can be re-valued. The measurement focus is on economic resources or service potential and changes therein,
- information is provided about the resources controlled by the entity, the cost of operations or providing services, the financial position and changes in the financial position and operational efficiency,
- provides information about the resources controlled by the entity and the actual cost of its operations, and
- provides information that is needed to more accurately measure performance and the true cost of goods and services rendered.

To make a transition towards an accrual basis of accounting, the timelines below have been suggested for incorporating additional or modified reporting. At the national AFS working group meeting held on 2 September 2003, it was, however, decided that the formats as were prescribed for the 2002/03 financial year should be applicable for 2003/04 as well, and that changes should be limited to the refining of the said formats, for the reason that the necessary systems have not kept up with the additional reporting requirements. Although this will impede the progress of implementing GRAP according to the timelines, it was felt expedient to maintain the status quo in order to allow time for systems changes to be made to catch up with the reporting requirements. It was also decided that the consolidation of annual financial statements will commence with the 2003/04 statements. It is therefore possible that some of the timelines will be amended.

Apart from the PT, provincial departments should be constantly aware of the additional reporting requirements and enhance their internal record keeping to facilitate possible additional requirements, but should refrain from acquiring additional in-house systems that will increase the cost of reporting.

However, departments should continue to move towards improving the quality of the reporting such as accuracy, details presented in disclosure notes whilst at the same time improving the state of ledger accounts that are being reported on and more specifically records kept for intergovernmental and inter departmental claims.

GRAP IMPLEMENTATION TIMELINE			
2001/02	**2002/03**	**2003/04**	**2004/05**
			Consolidation
			Segment reporting
			Recognition of **Equity**
		Disclosure of **Long-term Employee Benefits**	Recognition of **Long-term Employee Benefits**
		Disclosure of **Non-Exchange Revenue**	Recognition of **Non-Exchange Revenue**
		Disclosure of **Non-Exchange Receivables**	Recognition of **Non-Exchange Receivables**
		Disclosure of **Financial Instruments**	Recognition of **Financial Instruments**
		Disclosure of **Foreign Currency Transactions** *Moved out from 2002/03*	Recognition of **Foreign Currency Transactions**
Disclosure of **Related Party Transactions**	Disclosure of **Related Party Transactions** *Continued from 2001/02*	Disclosure of **Related Party Transactions** *Continued from 2002/03*	Disclosure of **Related Party Transactions** *Continued from 2003/04*
	Disclosure of **Exchange Revenue**	Recognition of **Exchange Revenue**	
	Disclosure of **Exchange Receivables**	Recognition of **Exchange Receivables**	
	Disclosure of **Additions to Fixed Assets** (including Intangibles and Investment Properties) **during 2002/03**		

GRAP IMPLEMENTATION TIMELINE			
2001/02	**2002/03**	**2003/04**	**2004/05**
	Disclosure of **Depreciation on Additions to Fixed Assets** (including Intangibles and Investment Properties) **in 2002/03**	Disclosure of **Depreciation on ALL Fixed Assets** (including Intangibles and Investment Properties)	Recognition of **Depreciation on ALL Fixed Assets** (including Intangibles and Investment Properties)
		Disclosure of **ALL Fixed Assets** (including Intangibles & Investment Properties) **< 2000/01**	Recognition of **ALL Fixed Assets** (including Intangibles and Investment Properties)
	Disclosure of **Inventories**	Recognition of I**nventories**	
	Enhancement of **Transfer Payments** Recognition		
	Recognition of **Cash and Cash Equivalents**		
	Recognition of **Loans/Borrowings**		
Disclosure of **Subsequent Payments/Accruals**	Disclosure of **Subsequent Payments/ Accruals** *Continued from 2001/02*	Recognition of **Subsequent Payments/ Accruals**	
Disclosure of **Leases**	Disclosure of **Leases** *Continued from 2001/02*	Recognition of **Leases**	
Disclosure of **Payables**	Disclosure of **Payables**	Recognition of **Payables**	
Disclosure of **Investments, Loans and Advances to Public Entities**	Recognition/Disclosure of **Investments, Loans and Advances to Public Entities**	Recognition/Disclosure of **Investments, Loans and Advances to Public Entities** *Continued from 2002/03*	
Disclosure of **Provisions, Contingent Assets and Contingent Liabilities**	Disclosure of **Provisions, Contingent Assets and Contingent Liabilities** *Continued from 2001/02*	Recognition of **Provisions, Contingent Assets and Contingent Liabilities**	
Disclosure of **Short-term Employee Benefits**	Disclosure of **Short-term Employee Benefits** *Continued from 2001/02*	Recognition of **Short-term Employee Benefits**	

Challenges in relation to financial reporting

- *To build a proper database of financial information of provincial public entities in order to monitor and analyse financial performance and position.*
- *To build a proper database to monitor accounting policies and practices of provincial public entities against PFMA and TR requirements.*
- *To monitor the possible accumulation of surpluses by public entities*
- *To monitor that an accounting officer who transfers funds to public entity/entities obtain written assurance from the entity that it implements effective, efficient and transparent financial management and internal control systems.*
- *To further develop the formats of and information presented in annual financial statements to improve the analyses and interpretation thereof for performance management and future planning.*
- *To further develop the formats of and information presented in annual financial statements of the PRF.*

- *To prepare for and deliver consolidated financial statements with effect from 1 April 2004.*
- *To ensure that the books of account of departments are in a healthy state and the information provided is consistent, timely, accurate, and relevant.*
- *To build a proper database of information for the in-year monitoring of performance indicators.*
- *To clear the balances of FMS Dept.-15 and -70 prior to the final closure of the FMS accounting system on 31 December 2004, taking into account that the transactions will not be carried over to the BAS accounting system with effect from 1 April 2004.*

8

INTERGOVERNMENTAL RELATIONS

Within the framework set by the Intergovernmental Fiscal Relations Act, 1997 (Act 97 of 1997) the Directorate Accounting of the PT in its endeavours to continue to play a meaning full role in the development on of sound accounting policies participates in the following technical forums that ultimately support and advises the Budget Council:

- Technical Committee on Finance
- National CFO Forum
- Accountant General's Forum
- NT workgroup on annual financial statements
- NT workgroup on trading entities/trading accounts
- NT workgroup on PRF annual financial statements

In the Province itself, it actively participates in the Provincial CFO Forum and the Financial Accountants Forum and on a quarterly basis with the Auditor-General.

Challenges in relation to intergovernmental relations

- *To continue to maintain close ties with and actively participate in the relevant provincial and national forums.*

9

ACCOUNTING CAPACITY

Resultant from the restructuring of the PT with effect from 1 May 2003 the Directorate Accounting was strengthened with an additional two posts increasing the number of posts from 9 to 11. This demonstrates the commitment of the executive to, inter alia, invest in and develop the interpretive accounting capacity of the PT. The current vacancy rate of 50% is being addressed to ensure a full staff complement.

Within provincial departments there are also accounting capacity constraints. The guidelines pertaining to the organisational structure of the CFO function in departments, issued by the PT are aimed at addressing many of the constraints experienced by departments. However, indications are that it could take some time before departments employ the appropriate staff members, since vacancy rates are currently very high ranging at a 35% average for all departments. This could impact negatively on the migration from FMS to BAS as well as on the implementation of the new SCoA, both of which are set for implementation on 1 April 2004. Table 9.1 below reflect the vacancy rates experienced by provincial departments within CFO structures as reported in the June 2003 Normative Measures for Financial Management and serves as an indication of areas of anticipated instability.

Table 9.1: Vacancy rates within CFO components

Vote	Department	Approximate % vacancy rate within CFO components
1	Provincial Administration Western Cape	39
2	Provincial Parliament	Not available
3	Provincial Treasury	22
4	Community Safety	6
5	Education	25
6	Health	4
7	Social Services and Poverty Alleviation	13
8	Housing	40
9	Environmental Affairs and Development Planning	15
10	Transport and Public Works	48
11	Agriculture	30
12	Local Government	95
13	Economic Development and Tourism	75
14	Cultural Affairs and Sport	50

Challenges in relation to accounting capacity

- *To develop interpretive accounting skills within the PT and CFO structures of provincial departments.*
- *To recruit, develop and maintain appropriate accounting skills within the PT and CFO structures of provincial departments.*
- *To monitor the accounting capacity in the CFO structures of provincial departments.*

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