

**Provincial Government Western Cape  
Provincial Treasury**

**Financial Governance Review  
& Outlook  
2007**

**Provincial Departments,  
Public and Trading Entities**



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# Foreword

The Financial Governance Review and Outlook 2007 is a progression from the 2005 version and places emphasis on the financial management capability of individual departments and the entities under its control. This is a shift in focus from the 2005 version, which entailed a consolidated approach to financial governance, based on Provincial Treasury disciplines, namely budget, revenue, expenditure, risk management, normative financial management, internal audit and accounting.

Cabinet Resolution 271/2006 dated 1 November 2006 approved the Provincial Treasury's plan to improve the financial management capability of departments and their entities towards becoming level 4 auditable organisations. Financial management capability improvements were necessitated to address the outcomes of the Auditor-General's reports of departments for the 2005/06 financial year which revealed the following areas that will require urgent corrective action:

- Performance management
- Asset management
- Accounting
- Reconciliations within the control environment
- Transfer payments

As a collective action, the Provincial Treasury engaged with departments in order to identify and address transversal issues by issuing Provincial Treasury Instructions and Practice Notes. This was supported by continuous engagements with departments, and the training of finance and human resource personnel to systematically and timely deal with high staff turnover and competency requirements of current and new staff. As a tool to monitor the progress in addressing the above audit outcomes and address unresolved issues, the Provincial Treasury instituted a Financial Management Improvement Programme.

The Financial Governance Review and Outlook 2007 is a first attempt at assessing the financial capability of departments and their entities, using a tool based on the financial management capability model of the Auditor-General. The financial management capability model is categorized into six levels of which the first four was used to assess departments. The first level is the start-up level, the second level is achieved when internal control frameworks and accounting processes are in place, the third level is achieved through full compliance with policies and procedures and level four assesses the performance of the department. Levels five and six will be considered once level four is achieved.

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The Financial Governance Review and Outlook 2007 is a team effort that drew on the knowledge and expertise of those in the various disciplines within the Provincial Treasury.

A handwritten signature in black ink, appearing to read 'J. Stegmann', followed by a horizontal line.

**DR JC STEGMANN  
HEAD OF DEPARTMENT**

**DATE: 22 APRIL 2008**

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# Abbreviations

AFS	Annual Financial Statements
APP	Annual Performance Plan
A-G	Auditor-General
AO	Accounting Officer
BAS	Basic Accounting System
BEE	Black Economic Empowerment
CASIDRA	Cape Agency for Sustainable Development in Rural Areas
CFO	Chief Financial Officer
CMD	Cape Medical Depot
DBC	Departmental Bid Committee
DORA	Division of Revenue Act
EFT	Electronic Fund Transfer
EMS	Emergency Medical Services
FAS	Foetal Alcohol Syndrome
FMIP	Financial Management Improvement Programme
GAAP	Generally Accepted Accounting Practice
GMT	Government Motor Transport
GRAP	Generally Recognised Accounting Practice
HDI	Historically Disadvantaged Individuals
HoD	Head of Department
IDIP	Infrastructure Delivery Improvement Programme
IFMS	Integrated Financial Management System
IPFA	Institute of Public Finance and Auditing
IYM	In-Year Monitoring
LOGIS	Logistical Information System
MCC	Medical Control Council
MTEF	Medium Term Expenditure Framework
NT	National Treasury
PERSAL	Personnel and Salary Administration System
PFMA	Public Finance Management Act, 1999
PRF	Provincial Revenue Fund
PT	Provincial Treasury
QPR	Quarterly Performance Report
REAL	Revenue, Expenditure, Assets and Liabilities
SAMDI	South African Management Development Institute
SASSA	South African Social Security Agency

SCM	Supply Chain Management
SCoA	Standard Chart of Accounts
SCOPA	Standing Committee on Public Accounts
SITA	State Information Technology Agency
SMME	Small, Medium and Micro Enterprise
SMS	Senior Management System
TR	Treasury Regulations, 2005
UISP	Upgrade of Informal Settlement Programme
WCGRB	Western Cape Gambling and Racing Board
WCHDF	Western Cape Housing Development Fund
WCNCB	Western Cape Nature Conservation Board
WCYC	Western Cape Youth Commission
WESGRO	Western Cape Investment and Trade Promotion Agency

# 1

## Executive Summary

### Introduction

The Financial Governance Review and Outlook 2007 shifts the focus towards the assessment of the financial management capability of departments and their entities.

The modus operandi involved the development of an assessment tool based on the Auditor-General's financial management capability model by the following disciplines within Provincial Treasury:

- Budgets
- Public finance
- Accounting
- Normative Financial Management
- Enterprise Risk Management
- Cash Management
- Movable asset management
- Immovable asset management
- Supporting and interlinked financial systems

All the assessment tools utilized for the assessment of departments are included in Chapter 2 of the Review.

The detailed outcomes of the assessments per department and their entities can be found in Chapter 3 of the Review. While progress made towards improving financial management capability by departments and their entities is acknowledged with gratitude, the following assessment areas per department and their entities requires remedial steps to improve the financial management cabability.

## Department of the Premier

The Department should improve the effectiveness of asset management controls and assess the use of assets to achieve a level 3 financial management capability.

Effective management controls and accounting procedures should be in place to ensure that payments are properly authorised, contingent liabilities are disclosed, supporting documentation is available and that internal controls are effective. Outstanding debts and amounts owing to other government departments must be followed-up.

Enterprise Risk Management of the Department was not assessed on Level 3 and 4 because of the immaturity of enterprise risk management within the provincial government. Although basic structures are in place, these need to be rolled out further.

The credibility of monthly cash flow projections needs to be improved in order to improve cash flow management.

With regard to the management of BAS and LOGIS, officials are not nominated for courses and trained according to their profiles resulting in system controllers not using the systems optimally. Furthermore, many duplicate structures still exist on the system, not all information is captured on the systems, profiles of users in the Department are not kept up to date and not all the registered users utilise the LOGIS system on a regular basis.

## Western Cape Youth Commission

Effective management controls and accounting procedures should be in place to ensure that the fixed asset register provides adequate details of the entity's assets, that payments are made within 30 days of the date of the invoice and that quarterly reports are presented to the Department of the Premier by the WCYC on its activities. All reconciliations must be prepared on a monthly basis and be available for inspection.

The entity needs to institute strict budgetary controls in order to manage expenditure, and report to the Department of the Premier on a monthly basis.

## Provincial Parliament

Enterprise Risk and Cash Management assessments were not undertaken in the Provincial Parliament due to its position in terms of the Constitution.

With regard to the management of PERSAL, only a few officials were nominated for training and some did not attend courses. Officials have not been trained in accordance with their profiles.

## Provincial Treasury

On performance management, Provincial Treasury needs to improve the measurability of its performance measures, quantify a number of its targets in absolute terms, indicate the baseline numbers where percentages are used and ensure that the same unit of measurement is used for the performance measure, target and actual performance.

A lack of effective management controls and accounting procedures exist with regards to verifying of assets, authorisation of payments, over/understating of accruals, internal controls and the implementation of an operating lease register needs to be addressed.

Enterprise Risk Management of the Department was not assessed on Level 3 and 4 because of the immaturity of enterprise risk management within the provincial government, although basic structures at level 2 are in place that needs to be rolled out.

The credibility of monthly cash flow projections needs to be improved in order to improve cash flow management and move towards level 3.

With regard to the management of BAS, PERSAL and LOGIS, officials are not fully trained according to their profiles resulting in system controllers not using the systems optimally.

## Western Cape Gambling and Racing Board

Effective management controls and accounting procedures with regards to valuation of assets, authorisation of payments and approval of thresholds when procuring for goods need to be addressed.

## Department of Community Safety

The Department needs to improve the measurability of its performance measures, i.e. most measurable objectives do not comply with the SMART principle, in that they are not specific, measurable, achievable/attainable, realistic and time bound.

A lack of effective management controls and accounting procedures with regards to asset management, authorisation of payments, supporting documentation, incomplete lease register, claims against the department, unauthorised expenditure and accruals not substantiated need to be addressed.

Enterprise Risk Management of the Department was not assessed on Level 3 and 4 because of the immaturity of enterprise risk management within the provincial government, although basic structures are in place and needs to be rolled out.

The credibility of monthly cash flow projections needs to be improved in order to improve cash flow management.

The Department received a qualified audit opinion once again, albeit on different issues, and has not made enough progress to move to level 3 of financial management capability in terms of normative financial management.

With regard to the management of BAS and LOGIS, officials are not trained according to their profiles resulting in system controllers not using the systems optimally. Furthermore, many duplicate structures still exist on the systems, not all information is captured on the systems, profiles of users in the Department are not kept up to date and password confidentiality is not maintained.

SCM in the Department requires urgent and ongoing attention to address the serious shortcomings in order to elevate the Department from level 1 to level 3 financial management capability.

## Department of Education

To improve performance management the Department needs to implement measurable targets and numbers in the APP and annual report.

Lack of effective management controls and accounting procedures with regards to reconciliations of suspense accounts, expenditure on projects (fixed assets), supporting documentation, payments >30 days, misstatement of outstanding housing guarantees and related party transactions needs to be addressed.

The Enterprise Risk Management of the Department was not assessed on Level 3 and 4 because of the immaturity of enterprise risk management within the provincial government, although basic structures are in place and needs to be rolled out.

The credibility of monthly cash flow projections needs to be improved in order to improve cash flow management.

With regard to the management of BAS, PERSAL and LOGIS, officials are not trained according to their profiles resulting in system controllers not using the systems optimally, and BAS/LOGIS reconciliations were not performed on a monthly basis.

## Department of Health

The Department does not comply with the minimum requirements of an Asset Register in terms of the acquisition, identification, accountability and accounting of assets. The lease commitments register of the Department needs to be updated to reflect all current lease commitments.

Enterprise Risk Management of the Department was not assessed on Level 3 and 4 because of the immaturity of enterprise risk management within the provincial government, although basic structures are in place and needs to be rolled out.

A strategic risk assessment was conducted for the Department, risk response strategies were developed and it was found that the organisational structure supports processes developed, however a risk management philosophy and a management's philosophy were not developed for the Department.

The credibility of monthly cash flow projections needs to be improved in order to improve cash flow management while, at an institutional level the Department remains insufficient in most of the areas that are critical to establish the next level of financial management capability.

With regard to the management of BAS, PERSAL and LOGIS, officials are not trained according to their profiles resulting in system controllers not using the systems optimally. Furthermore, many duplicate structures still exist on the system, not all information is captured on the systems, profiles of users in the Department not kept up to date and not all the registered users utilise the LOGIS system on a regular basis.

The month-end closure rating of level 2 was based on the fact that the Department has not managed to close its books of its own accord consistently on a monthly basis in terms of the predetermined dates prescribed by National Treasury.

### **Cape Medical Depot**

Effective management controls and accounting procedures should be in place to ensure compliance with SA GAAP (Generally Accepted Accounting Practice), thereby making certain that property, plant and equipment is not understated in the financial statements. Furthermore the MEDSAS (Medical Depot Store Administration System) report of the stock balances at year-end must be produced to the auditors, control weaknesses within the payment authorisation process should be addressed, the asset register should be adequately maintained and supporting documentation should be readily available for auditing purposes.

CMD does not have a proper accounting system in place to identify and record transactions according to the accrual basis of accounting. The CMD also has insufficient controls over the authorisation of provisioning advices.

The Depot is presently operating in contravention of the provisions of the Medicines and Related Substances Act, 1965 (Act No. 101 of 1965).

## **Department of Social Development**

Payments made during the year were not correctly classified in terms of the economic classification in relation to the relevant item classification. No state guarantee verification was performed between the specific PERSAL report and the actual information on personal files. A lack of control over the management of state guarantees was also identified.

Enterprise Risk Management of the Department was not assessed on Levels 3 and 4 because of the immaturity of enterprise risk management within the provincial government although basic structures are in place need to be rolled out.

The credibility of monthly cash flow projections needs to be improved in order to improve cash flow management.

With regard to the management of BAS and LOGIS, officials are not trained according to their profiles resulting in system controllers not using the systems optimally.

## **Department of Local Government and Housing**

The Department needs to improve its measurability of performance information and to improve the quality of its explanations and responses to below target performance in the Annual Report and Quarterly Performance Report in order to reach level 4 Financial Management Capability.

The Department should take appropriate steps to ensure that the fixed asset register is updated and maintained to achieve a financial management capability rating of level 3.

Department needs to institute effective internal controls over authorisation of payments and cell phone charges of employees.

Enterprise Risk Management of the Department was not assessed on Levels 3 and 4 because of the immaturity of enterprise risk management within the provincial government although basic structures are in place need to be rolled out.

With regard to general management issues relating to PERSAL the Department received a rating of level 2. Users of BAS are not trained according to their profiles. Certain financial and system controls on LOGIS require improvement in order for the Department to move to level 3.

### **The Western Cape Housing Development Fund**

In order for the Department of Local Government and Housing to close down the WCHDF by 31 March 2008, it needs to focus its attention on sanitation of the property asset registers and debtors balances.

## **Department of Environmental Affairs and Development Planning**

The Department needs to develop suitable performance measurables and targets in order to improve the assessment of APP.

Certain expense transactions were not allocated in terms of the SCoA requirements.

Enterprise Risk Management of the Department was not assessed on Level 3 and 4 because of the immaturity of enterprise risk management within the provincial government, although basic structures are in place and need to be rolled out.



The credibility of monthly cashflow projections need to be improved in order to improve cash flow management.

With regard to general management issues relating to PERSAL, the Department received a rating of level 2 including system users not trained according to their profiles.

Problem areas raised in SCM assessment were lifecycle costing, development of an acquisition plan; operation and maintenance plans.

The Department needs to improve on its oversight role of the WCNCB.

## **Department of Transport and Public Works**

Effective management controls and accounting procedures with regards to fixed assets, procurement, tax revenue debtors, property debtors and lease commitments for buildings and other fixed assets needs to be addressed.

Enterprise Risk Management of the Department was not assessed on Level 3 and 4 because of the immaturity of enterprise risk management within the provincial government, although basic structures are in place and need to be rolled out.

The credibility of monthly cash flow projections need to be improved in order to improve cash flow management.

BAS and LOGIS system users are not trained according to their profiles resulting in system controllers not using the systems optimally.

The Department needs to commence reporting on the SCM dashboard assessment report.

## **Government Motor Transport**

GMT has failed to implement adequate account management processes, e.g. not performing creditor reconciliations, which resulted in all accruals not being appropriately raised as at 31 March 2007. GMT has not adequately consulted the necessary reporting framework to ensure compliance in all respects to the regulated reporting guidelines, thus resulting in GMT not accurately accounting for elements in the financial statements.

## **Department of Agriculture**

Effective management controls and accounting procedures should be in place to ensure that long outstanding debts are followed up, that the asset register is updated to include all the relevant information necessary to agree to the financial statements, invoices are settled within 30 days of receipt, and that supporting documentation is available.

Enterprise Risk Management of the Department was not assessed on Levels 3 and 4 because of the immaturity of enterprise risk management within the provincial government.

Cash flow projections should be submitted timeously and be more credible in order to improve cash flow management.

Officials nominated to attend the BAS and PERSAL courses must attend and the Department should ensure that all officials are trained in accordance with their profiles.

The Department should institute asset management plans in order to move to level 3 financial management capability.

## **CASIDRA**

The entity needs to ensure the correct treatment of Output VAT on specific funding and rectify or update the loan supporting system.

Effective management controls and accounting procedures should be in place to ensure that journals are approved by duly authorised officials.

## **Department of Economic Development and Tourism**

The Department needs to improve the measurability of its performance measures, in absolute terms and ensure that the same unit of measurement is used for the performance measure, target and actual performance to reach a level 3.

Monthly BAS/PERSAL reconciliations should be performed, proper controls must be in place to ensure that calculations in respect of employee benefits are correct, and capped leave and remuneration packages must be correctly updated and disclosed in the AFS.

Enterprise Risk Management of the Department was not assessed on Levels 3 and 4 because of the immaturity of enterprise risk management within the provincial government. Although basic structures are in place, these need to be rolled out further to move towards level 3.

Cash flow projections should be submitted timeously and be more credible in order to improve cash flow management.

With regard to general management issues relating to PERSAL the Department received a rating of level 2 including system users not trained according to their profiles.

## **Western Cape Investment and Trade Promotion Agency**

The entity should implement proper controls, procedures and accounting requirements with regards to asset management, suspense accounts, as well as bank,

creditors and debtors reconciliations in order to achieve a level 3 rating. The entity should also ensure that its accounting policy is in compliance with SA GAAP.

## **Destination Marketing Organisation**

DMO should implement procedures to properly control suspense accounts and bank reconciliations.

The entity should also ensure that its accounting policy is in compliance with SA GAAP.

## **Department of Cultural Affairs and Sport**

The Department needs to improve co-ordination and relations with public entities to enable it to exercise its oversight role. Effective institutional capacity would enable the Department to plan more strategically in an effort to improve service delivery.

Effective management controls and accounting procedures should be in place to ensure that the asset register is properly maintained, LOGIS information is updated timeously, expense transactions are allocated correctly, payments are properly authorised, contingent liabilities are accounted for, supporting documentation is available, proper procurement processes are followed and that internal controls are effective.

Enterprise Risk Management of the Department was not assessed on Levels 3 and 4 because of the immaturity of enterprise risk management within the provincial government. Although basic structures are in place, these need to be rolled out further.

The credibility of cash flow projection needs to be improved in order to improve cash flow management.

BAS and PERSAL officials are not trained according to their profiles resulting in system controllers not using the systems optimally. With regard to PERSAL minimum information requirements must be adhered to in order to move to level 3 financial management capability.

The Department should institute asset management plans in order to move to level 3 financial management capability.

## Conclusion

It should be noted that the assessments used for the Review were mainly based on the status of financial management as at the end of the 2006/07 financial year and that departments and their entities have since implemented remedial steps to address some of the shortcomings that were identified.

The Provincial Treasury will continue to review the financial management capability of departments and their entities as part of its Financial Management Improvement Plan (FMIP) and provide the necessary interventions to improve the financial management capability of departments and their entities.



# 2

## Financial Management Capability Assessment Tools

### 2.1 Introduction

A financial management capability model was developed by the Canadian Government and adapted by the South African national Auditor-General to form a basis for audit opinions. As part of the 2005/06 audit process, the A-G assessed the financial capability of departments on the following model which is progressive from levels 1 to 4:

#### Auditor-General's Financial Management capability model

Capability level	Definition	Detailed characteristics	Criteria
<b>Level 1 – Start-up level</b>	No proper control framework.	<ul style="list-style-type: none"><li>• Mandate and functions of entity not clearly understood.</li><li>• Roles and functions not clearly separated from other entities.</li></ul>	Start-up issues.
<b>Level 2 – Development level</b>	A proper internal control framework and financial accounting processes have been developed.	<p>All elements of an internal control framework required by management are developed and documented. This includes the following:</p> <ul style="list-style-type: none"><li>• The adequate communication of management framework.</li><li>• Systems to integrate the management framework.</li></ul>	<p>Lack of implemented controls are looked at in terms of the following categories:</p> <ul style="list-style-type: none"><li>• Authorisations (for example no proper delegations of responsibilities).</li></ul>

Capability level	Definition	Detailed characteristics	Criteria
		<ul style="list-style-type: none"> <li>• Provision for maintenance and updating.</li> </ul>	<ul style="list-style-type: none"> <li>• Policy framework (for example not documented or approved).</li> <li>• Independent management reconciliations (for example a lack of proper framework for performing independent reconciliations and checks).</li> <li>• Monitoring (for example the lack of framework for monitoring).</li> <li>• Physical security of assets or resources (for example no framework for the physical security of assets or resources).</li> <li>• Control environment issues (for example a lack of capacity).</li> <li>• Internal audit (no internal audit and no reliance on the work of internal audit).</li> <li>• The Audit Committee not functioning properly.</li> </ul>
<b>Level 3 – Control level</b>	Focus is on compliance and control.	<ul style="list-style-type: none"> <li>• The internal control framework designed by management is adequately implemented. This includes the following:</li> <li>• Officials with appropriate training and capacity can carry out their functions effectively.</li> <li>• Information reported can be relied upon.</li> </ul>	<p>Implemented controls that are not functioning appropriately can be broken down into the following categories:</p> <ul style="list-style-type: none"> <li>• Authorisations, (delegations of authority not followed by the employees).</li> <li>• Segregation of duties, (Segregation of duties is not followed during the everyday operations).</li> <li>• Reconciliations, (reconciliation is not performed as required by the policy document).</li> </ul>

Capability level	Definition	Detailed characteristics	Criteria
			<ul style="list-style-type: none"> <li>Monitoring (monitoring has not taken place as required by the management framework).</li> <li>Physical security of assets.</li> </ul>
<b>Level 4 – Information level</b>	Focus on measuring how resources are used.	The economic, efficient and effective utilisation of resources is managed, measured and reflected in reliable financial information.	<p>Integration between financial and non-financial systems, practices and procedures to provide information to meet the 3 E's.</p> <p>Cost management systems must be aligned with financial, operational and reporting systems.</p>
<b>Level 5 – Managed level</b>	Focus on balancing efficient and economical use of resources with quality/effectiveness of results achieved.	<p>Risk management:</p> <ul style="list-style-type: none"> <li>Cost-effective utilisation of resources.</li> <li>Project costing and financing.</li> <li>Continual updating of strategic plans.</li> </ul>	
<b>Level 6 – Optimising level</b>	Focus on continuous improvement and learning.	<ul style="list-style-type: none"> <li>Strategic financial training for non-financial employees.</li> <li>Continuous internal assessment of financial management processes, improvements and measurements.</li> </ul>	

## 2.2 Assessment of Performance Management

### 2.2.1 Non-financial information

#### Assessment methodology for non-financial performance information

A framework similar to that used by the Auditor-General is used by the Budget Office to assess the department's financial performance. Assessments are made across the compliance level (level 3) and focuses, as the name suggests, on the performance of departments (level 4). It further attempts to answer the question as to what is required to achieve a rating that suggest that the department has entered a phase where it can deemed it as a performing department.



A **level 3 competency** is reached by a department, firstly, if adequate performance measures and targets are defined in the APP. Performance measures are adequate if they are measurable; relevant for measuring performance; and if the measurable objectives themselves are logically and consistent with the strategic objectives defined by the department. All the performance measures specified in the relevant sector specific QPR formats also have to be present in the APP. A level 3-competency level is reached, secondly, if the Department reports against all of these targets in its Annual Report and against the specified performance measures in the QPR, and identifies all deviations from target in the AR and its QPRs.

A department is moving towards a **level 4 competency** if: it generates sufficient information in its performance system to allow it to reflect on its performance; identify constraints to meeting its targets; and make the necessary changes to behaviour or to targets to allow it to meet its defined targets. To make this assessment, consideration is given to whether all key activity and strategic areas are covered by performance measures and whether the department has made an assessment of whether all key strategic objectives are achieved.

For purposes of the 2006/07 Financial Governance Review, the table below provides a summary of the assessment framework. It uses the 2006/07 Annual Report and 2006/07 and 2007/08 Annual Performance Plans as a basis for the assessment.

**Table 1: Assessment tool: Non-financial information**

Assessment questions	Competency level where answer to assessment question is positive	
	Level 3: Performance	Level 4: Responsive performance management
<b>Annual report 2006/07</b>		
Are all performance measures defined in the 2006/07 APP reported on in the 2006/07 Annual Report? Are the units of performance measurement (targets and actual) in the APP and annual report the same?	X	
Are all deviations from annual targets adequately identified and quantified in the annual report?	X	
Are all the above conditions met, does the annual report adequately explain all derivations from target and mention remedies for below target performance that the department will take forward in the future?		X
<b>Annual Performance Plan 2007/08</b>		
Does the APP comply with the uniform programme structure as defined nationally?	X	
Are all sector-specific performance measures defined at national level included in the APP (where sector-specific performance measures are themselves relevant and measurable)?	X	
Are the measurable objectives defined logically consistent with the defined strategic objectives and are measurable objectives clearly "mapped" onto strategic objectives?	X	
Are measurable objectives actually measurable i.e. have units that can readily be measured on a quarterly or annual basis been defined for each performance measure?	X	

Assessment questions	Competency level where answer to assessment question is positive	
	Level 3: Performance	Level 4: Responsive performance management
Are all targets defined as numbers and not as percentages, or as “ongoing”, “completed” etc? Where quarterly targets are required for sector-specific performance measures, have they been defined in the APP?	X	
Do the defined measurable objectives cover all key areas of performance and meet characteristics given above?		X
Are only the measurable objectives that are key defined? Have extraneous measurable objectives not been defined? Is the number of measurable objective defined kept to a level, which the Department can manage?		X
Key measurable objectives covered in quarterly performance report by the Department. Challenges and responses are relevant/consistent with performance and realistic and reflected upon in the reports for future quarters.		X

## 2.2.2 Financial Information

### Public Finance inputs on levels 3 and 4 auditable organisation requirements

#### *Level 3 – Compliance level*

From a public finance perspective, a provincial department can only be considered a level 3 auditable organisation if it adheres to the following:

The department -

- has an approved expenditure and revenue budget for the financial year and submits regular progress reports to its stakeholders;
- submits the In-year Monitoring (IYM) report on revenue and expenditure to Treasury on or before the 15th day after the end of a reporting month as per PFMA requirements;
- ensures that reported actuals on expenditure and revenue reconciles to BAS/VULINDLELA and that forecasts are realistic and based on sound planning;
- effects very few virements (almost none close to year-end) and shifts within the vote and ensures that the necessary virement approvals are obtained;
- Given the fact that the Province applies the cash-basis of accounting and to ensure the reliability of reported figures (actual and projected), it effects payments within 30 days of receipt and immediately clears amounts in suspense accounts, which forms a charge against voted funds;
- ensures that all transfer payments are backed by Section 38 agreements, and institutes the necessary monitoring mechanisms;
- complies with DORA and spending of national earmarked and conditional funds are as per approved business plans and payment schedules;

- It ensures that its Adjustments Budget is submitted timeously and that it is comprehensive in terms of Section 31 of the PFMA;
- Its spending outcome for the financial year is within the 2 per cent underspending norm, and roll-overs are limited or non-existent. There is no overspending within the vote, no fiscal dumping, and no unauthorised or irregular expenditure, and
- All revenue due to the department is collected and there are limited over-collections. Tariffs are approved by the relevant authorities and recorded in a tariff register.

#### *Level 4 – Information level*

Once a provincial department complies with the above it is able to move to a level 4 auditable organisation, where the following is relevant:

- The department understands the relationship between its inputs and its outputs. It is effective in defining and achieving its outputs and utilises the most economical and efficient means. It is able to calculate the costs involved in each of its activities. It is aware of its main cost drivers and intervenes to ensure value-for-money and cost-effectiveness in its operations. It is able to compare various input alternatives in terms of its relative cost-effectiveness. Transfer payments are applied because it is a more efficient delivery mechanism. The department is able to minimise “bells-and-whistle” spend within its operations. The department makes use of and tracks pre-determined efficiency ratio’s, e.g. 10-14% professional fee spend per infrastructure project or minimum sick leave utilisation rate acceptable to the sector.
- The ‘March Spike’ is ameliorated through a mid-year spending review, earlier scheduling of supplier payments and transfer payments, as well as proper utilisation of the Adjustments Budget process resulting in shifts from Compensation of Employees (where applicable) to minimise budgetary space for accelerated spending during March, which often results in wastage and poor audit outcomes. In any event, a level 4 auditable organisation should be able to budget properly for Compensation of Employees and shifts from this item, if any, should be on the margin.
- The department has excellent communication channels internally and communicates well with all its stakeholders and sister departments, to ensure optimal co-ordination and to minimise duplication of effort.
- Revenue estimates are credible, i.e. not understated and revenue enhancement initiatives are operationalised where possible.

## 2.3 Accounting systems, policies and standards

From an accounting perspective, the assessment tool below is based on levels 2, 3 and 4 of the AG's model, where level 2 requires a department to have all its systems, policies and procedures in place, while level 3 requires full compliance by the department with the systems, policies and procedures and level 4 is attained when departments are able to utilise accurate accounting information for management decision making.

**Table 2: Accounting: Levels 2, 3 and 4 assessment tool**

Assessment area	Level 2	Level 3	Level 4
1. Management of and reporting on suspense accounts	Controls over the management of and monthly reporting on suspense accounts are in place.	Officials are trained and sufficiently capacitated to ensure compliance with management and reporting requirements.	Assets and liabilities are identified, analysed and cleared to provide financial information that measures the financial position of the reporting entity.
2. Accounting of assets	Asset management controls, accounting requirements and delegations are in place.	Officials capacitated to manage and account for all asset management transactions in terms of prescribed accounting policy requirements.	Cost management systems are in place in order to manage and assess the use of assets.
3. Financial reconciliations	The necessary guidelines and processes are in place aligned to prescribed methodologies in order to perform daily as well as monthly reconciliations timeously (within the relevant reporting month).	Continuous development of staff on current practices and legislative requirements of monthly reconciliations iro compilation, verification, approval and submission timeously as prescribed. Exceptions are corrected and reconciled/accounted within the following month.	Timeous clearance of all exceptions and reconciling on daily/monthly basis to ensure the integrity of REAL financial data.
4. Supporting documentation	Relevant guidelines and/or policies issued and implemented and reviewed regularly to ensure management control and safekeeping of all processed supporting documentation.	All staff fully capacitated to ensure that supporting documentation complies with prescribed requirements.	Information on supporting documentation supports management planning and decision-making – been backed by high quality audit trail (manual and online).
5. Expenditure – Payments and journals	Guidelines, circulars and/or policies issued to manage expenditure i.e. current, transfers and capital.	Capacity of staff to effectively implement guidelines, circulars, and related legislation to ensure compliance.	Accurate and timeous reporting (i.e. IYM) on expenditure transactions.

Assessment area	Level 2	Level 3	Level 4
5.1 Allocations to Standard Chart of Accounts (SCoA).	Necessary guidelines, procedures and training in place in order to address accounting requirements.	Staff capacitated to correctly allocate transactions to SCoA.	Optimal understanding and application of SCoA resulting in REAL time processing of transactions based on integrated activities of the department holistically.
5.2 Delegations (N&S)	Delegations revised, approved and issued by the MEC/AO.	Delegations implemented by staff.	Delegations effectively interpreted and applied by officials in promoting the optimal and appropriate use of resources.
5.3 Authorisations	Frameworks and processes in place to ensure that authorisations are executed to delegations	Authorisations are executed by duly assigned officials to of frameworks and processes.	Authorisations executed only after the three e's are evaluated against service delivery standards.
5.4 Accounting treatment of transactions	Accounting treatment frameworks and guidance issued by department.	REAL transactions accounted correctly to TRs and additional best practices issued.	AFS - integrity of data reliable and readily available.
6. Procedures for the identification and reporting of: <ul style="list-style-type: none"> <li>o unauthorised expenditure</li> <li>o fruitless and wasteful expenditure</li> <li>o irregular expenditure</li> </ul>	Reporting requirements developed, implemented and monitored.	Officials fully capacitated to identify cases. Cases are recorded and followed up consistently.	All relevant cases timeously identified and reported, must be a resolved within the next financial year.
7. Recording and maintenance of State Guarantees	Institute a guideline for the management of state guarantees.	All staff capacitated to administer procedures and guidelines to ensure accurate reporting on guarantees.	All state guarantees updated immediately on PERSAL to ensure integrity of financial information.
8. Management of lease liabilities	Institute a guideline for the management of lease liabilities	All staff capacitated to administer procedures and guidelines to ensure accurate reporting on lease liabilities	Lease liabilities updated in the lease asset register to ensure integrity of financial information.
9. Management of thefts and losses	Relevant policies and operational procedures are instituted to ensure timeous notification and recording of Thefts and Losses.	Staff capacitated to comply with policy procedures and legislative requirements.	

Assessment area	Level 2	Level 3	Level 4
10. Management of contingent liabilities	Appropriate and proper guidelines for the identification, monitoring and control of contingent liabilities instituted.	Officials are able to report on all contingent liabilities within their scope of responsibility.	Appropriate risk management strategy put in place to manage contingent liabilities.
11. Monthly reporting of financial information to the CFO/AO/EA/Department	Reporting mechanisms in place.	Monthly/quarterly/annual reporting taking place according to legislative requirements.	All levels of reporting fully informed.

## 2.4 Normative Financial Management: Framework for Compliance with PFMA

From a normative measures perspective, the assessment tool below is based on levels 2 and 3 of the AGs model, where level 2 requires a department to have all its systems, policies and procedures in place and level 3 requires full compliance by the department with the systems, policies and procedures.

**Table 3: Normative Financial Management: Levels 2 and 3 assessment tool**

Assessment Area	Capability level 2	Capability level 3
<b>Management Reports</b>		
CFO tables 12 management reports on financial issues	X	
<b>Policies</b>		
Debt, Debt Write-Off, Debt Recovery, Risk Management, Asset Management, Procurement, Bid Administration, Internal Control, Cash Management, Creditor Management policies and procedures within the finance component documented and approved?	X	
<b>Debt Management</b>		
Does the department comply with the policy and procedures to ensure effective collection of outstanding debt? [TR.11.2.1]		X
<b>Debt Management</b>		
Does the department produce a debtor's age analysis on a regular basis?		X
The number of days before payment is received not exceeding 30 days.		X
% of debt in terms of own revenue.		X
Amount in arrears exceeding 6 months. [R 0]		X
Does the department comply with the policy and procedures on debt write-off?		X
% of bad debt not exceeding 0.5%		X
<b>Asset Management</b>		
Does the department comply with the policy and procedure manual to ensure effective management of assets? [Sec 38(1)(d) of the PFMA & TR10.1.2]		X

Assessment Area	Capability level 2	Capability level 3
<b>Credit Management</b>		
Are all payments due to creditors settled within the prescribed period [TR8.2.3]?		X
Effective utilisation of the creditors' age analysis?		X
Are interest free facilities and possible discount utilised to the fullest extent? [TR.15.10.1.2]		X
<b>Information Sessions</b>		
Are regular information sessions held with the rest of the management team to explain the principles of financial management and to emphasise their responsibility for financial management? [Sec 44 & 45 of PFMA]	X	
<b>Cash Management</b>		
Is the collection of revenue monitored on a regular basis and reported to the executive authority? [Sec 39 (2)(b) of the PFMA]		X
Is cash received deposited on a regular basis, where possible? [TR 15.10]		X
Are bank reconciliation's done on a daily basis by the department? [TR15.10.1.2(j)]		X
<b>Travel and Subsistence Policy</b>		
Is there an approved policy on Subsistence and Travel?	X	
Is S&T payments done in terms of the policy.		X
<b>Delegations</b>		
Complete set of Delegations compiled and approved in terms of current NTRs	X	
Authorisations, (delegations of authority followed by the employees)		X
Segregation of duties followed during everyday operations		X
<b>Performance Measurement</b>		
Has the AO established procedures to facilitate effective performance measurement? [TR 5.3.1]	X	
Is the AO monitoring and evaluating performance and ensuring that corrective actions are taken? [TR 5.3.1]		X
Is the Strategic plan consistent with the medium term expenditure estimates? [TR5.2.2 (a)]	X	
<b>Inventory</b>		
Is there a formal documented procedure providing for management to monitor stock losses?	X	
<b>Accounting</b>		
Are control measures in place to ensure that all transactions are supported by authentic and verifiable source documents, clearly indicating the approved accounting allocation [TR.17.1.1]	X	
Are all transactions supported by authentic and verifiable source documents, which clearly indicate the approved accounting allocation?		X
<b>Organisational Issues</b>		
Signed agreement within 3 months from date of appointment on or before 30 April and aligned with objectives in the strategic plan		X

Assessment Area	Capability level 2	Capability level 3
Is there an effective Recruitment and Selection Plan in place?	X	
The vacancy rate does not exceed 5%. [PSR, Chapter 1, Part III]		X
The average period of vacancy not exceeding 3 months.		X
<b>Planning</b>		
Is the content of the strategic plan in accordance with the requirements of the Treasury Regulations and Public Service Regulations? [TR 5.2.2 and PSR, Chapter 1, Part III.B]	X	
Strategic plans approved and tabled in legislator in the Legislature? [TR 5.2.1]		X
Is the strategic plan performance based? [TR 5.2.2 (d)]		X
<b>Planning</b>		
Is reporting on performance against the strategic plan done on a regular basis? [TR.5.3.1]		X
Is the strategic plan updated and revised on a regular basis? [TR.5.1.1]		X
<b>Expenditure Management</b>		
Is over/under-spending monitored on a regular basis to ensure that it's within acceptable percentages and reported to the relevant executive authority? [Sec 39 of the PFMA]		X
Are the certified payroll reports returned to the CFO as required? [TR 8.3.5]		X
<b>Quarterly Reporting</b>		
Do Schedule 3A & 3C Public entities under the control of the department report on a regular basis regarding actual revenue and expenditure? [TR.26.1.1]		X
Do Schedule 3A & 3C Public entities report on a regular basis on the extent of compliance with the PFMA and Treasury Regulations? [TR.26.1.2]		X
<b>Annual Reporting</b>		
Has the department submitted the annual report, including, the audited financial statements and the audit report, timeously to the executive authority?		X
Has the executive authority tabled the department's annual report including the financial statements and audit report thereon in the legislature? [Sec 65(1) of PFMA]		X
Has the executive authority tabled the annual reports of public entities under his/her control in the legislature? [Sec 65(1) of PFMA]		X
Is a schedule regarding disciplinary procedures and criminal charges submitted to the relevant treasury and the Auditor-General? [TR 4.3.3]		X



## 2.5 Enterprise Risk Management and Governance Systems

From an Enterprise Risk Management (ERM) perspective, the assessment tool below is based on levels 1, 2, 3 and 4 of the AG's model, where at level 1 no control framework is in place, level 2, internal control framework and accounting processes developed, level 3 requires full compliance and control and level 4 measures how resources are used.

**Table 4: Enterprise Risk Management: Levels 1, 2, 3 and 4**

Capability level	Outline	Governance Criteria & Norms and Standards
Level 1: <i>Start-up level</i>	No proper control framework	
Level 2: <i>Development level</i>	A proper internal control framework and financial accounting processes have been developed	<p><b>ENTERPRISE RISK MANAGEMENT SYSTEMS</b></p> <p><b>Strategic Risk Assessment:</b></p> <ul style="list-style-type: none"> <li>• Strategic risks identified</li> <li>• Risk response strategies developed and relevant processes developed</li> <li>• Organisational structure supports developed processes</li> </ul> <p><b>Internal Environment:</b></p> <ul style="list-style-type: none"> <li>• Commitment to competence displayed in appointment and development practices</li> <li>• Assignment of authority and responsibility</li> <li>• Risk Management Philosophy is articulated in writing and communicated to staff</li> <li>• Management's philosophy and operating style reflects acceptance of risk management principles</li> <li>• Risk appetite defined.</li> </ul> <p><b>Operational Risk Assessment:</b></p> <ul style="list-style-type: none"> <li>• Risk events identified and assessed on an inherent level</li> <li>• Existing controls identified and documented (process and control maps)</li> <li>• Control gaps identified and action plans developed</li> </ul>
Level 3: <i>Control level</i>	Focus is on compliance and control	<p><b>ENTERPRISE RISK MANAGEMENT SYSTEMS</b></p> <p><b>Internal Environment:</b></p> <ul style="list-style-type: none"> <li>• Compliance to Commitment to competence displayed in appointment and development practices</li> <li>• Compliance to the Assignment of authority and responsibility</li> <li>• Compliance to the Risk Management Philosophy articulated in writing and communicated to staff</li> <li>• Compliance to Management's philosophy and operating style that reflects acceptance of risk management principles</li> <li>• Compliance to Risk appetite defined.</li> </ul> <p><b>Event Identification:</b></p> <ul style="list-style-type: none"> <li>• Risk events are identified at least annually and are incorporated into daily activities</li> <li>• Risk events are grouped in terms of event categories</li> </ul> <p><b>Risk Assessment:</b></p> <ul style="list-style-type: none"> <li>• Risks are assessed on a residual risk basis</li> </ul>

Capability level	Outline	Governance Criteria & Norms and Standards
		<p><b>Control Activities:</b></p> <ul style="list-style-type: none"> <li>Control activities are designed to address risk events</li> <li>Control activities are designed using a recognised control framework</li> </ul> <p><b>Information and Communication:</b></p> <ul style="list-style-type: none"> <li>Pertinent information is collected</li> <li>Integrated systems to analyse information is available</li> <li>Information is communicated in the right quantity to the right person at the right time</li> </ul> <p><b>Monitoring:</b></p> <ul style="list-style-type: none"> <li>The risk management process is subject to ongoing internal evaluation</li> </ul> <p>The risk management process is subject to regular internal audit evaluation</p>
Level 4: <i>Information level</i>	Focus on measuring how resources are used	<p><b>ENTERPRISE RISK MANAGEMENT SYSTEMS</b></p> <p><b>Risk Response:</b></p> <ul style="list-style-type: none"> <li>Risk responses strategies take into account the cost of risk vs cost of control</li> </ul> <p><b>Information and Communication:</b></p> <ul style="list-style-type: none"> <li>Communication of risk to external stakeholders</li> <li>Attain explicit information required for evaluating accountability</li> </ul>
Level 5: <i>Managed level</i>	Focus on balancing efficient and economical use of resources with quality/effectiveness of results achieved	
Level 6: <i>Optimising level</i>	Focus on continuous improvement and learning	

## 2.6 Cash Management

Section 21(1) of the PFMA stipulates that the Provincial Treasury (PT) is in control of the Province's Provincial Revenue Fund (PRF). The creation and practise of sound cash flow management by the PT is therefore imperative for maintaining and improving the service delivery to the various communities within the Western Cape.

From a financial asset management (cash flow) perspective, the assessment tool below is based on levels 3 and 4 of the AG's model, where at level 3 there is full compliance with the minimum prescribed requirements and at level 4, performance exceeds the prescribed minimum requirements.

**Table 5: Cash Management: Levels 3 and 4 assessment tool**

Requirements	Standard Level 3	Standard Level 4
1 Staff skilled & Capacitated in Cash Management	In accordance with profile	All functions on C.M.S.
2 Submission of Annual Provincial Cashflow Projections	By 28 February	By 15 February
3 Deviation between monthly projections & actual expenses	2%	1%
4 Monthly Own Revenue Payover	2 w/days prior to month end	3 w/days prior to m/end
5 Repayment of Surplus Funds	31 May	15 May
6 Submission of monthly Bank Reconciliation	Within 30 days after m/end	Within 15 days after m/end
7 Beneficiary Payments (Direct Transfers)	0.1% of Total Payments	0.05% of Total Payments

## 2.7 Supply Chain Management

From a supply chain management perspective, the assessment tool below is based on levels 3 and 4 of the AG's model, where at level 3 there is full compliance and control with the minimum prescribed requirements and at level 4, measuring how resources are used.

**Table 6: Supply Chain Management (Moveable Asset Management): Levels 3 and 4 assessment tool**

Capability level	Definition	Detailed characteristics	Criteria	SCM Criteria
<b>Level 3 – Control level</b>	Focus is on compliance and control	<ul style="list-style-type: none"> <li>➤ The internal control framework designed by management is “adequately” implemented. This includes the following: <ul style="list-style-type: none"> <li>• Officials with appropriate training and capacity can carry out their functions effectively</li> <li>• Information reported can be relied upon.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>➤ Implemented controls that are not functioning appropriately can be broken down into the following categories. <ul style="list-style-type: none"> <li>➤ Authorisations, (delegations of authority not followed by the employees)</li> <li>➤ Segregation of duties, (Segregation of duties is not followed during the everyday operations).</li> <li>➤ Reconciliations, (reconciliation is not performed as required by the policy document).</li> </ul> </li> </ul>	<p>LEGISLATIVE AND POLICY FRAMEWORKS IN PLACE</p> <ul style="list-style-type: none"> <li>➤ Organisation meets statutory and regulatory obligations.</li> <li>➤ Delegations in place.</li> <li>➤ AO System in terms of section 38 (1) (iii) (a) of the PFMA.</li> <li>➤ Standard Operating procedural manuals and policy in place.</li> </ul> <p>ORGANISATIONAL STRUCTURE AND CAPACITY</p> <ul style="list-style-type: none"> <li>➤ Control framework in place to safeguard assets (acquisitions, operations and maintenance and disposal management systems in place).</li> <li>➤ SCM Training (operational, systems, bid committees, contract management.</li> </ul>

Capability level	Definition	Detailed characteristics	Criteria	SCM Criteria
			<ul style="list-style-type: none"> <li>➤ Monitoring (monitoring has not taken place as required by the management framework).</li> <li>➤ Physical security of assets.</li> </ul>	<ul style="list-style-type: none"> <li>➤ Adequate resources available.</li> </ul> <p>MONITORING AND REPORTING AND GOOD GOVERNANCE</p> <p>Satisfactory SCM reporting</p>
				<ul style="list-style-type: none"> <li>➤ SCM operations are monitored and controlled.</li> <li>➤ Facilitating and arranging transversal contracts to enable the leveraging power of provincial departments and to take full advantage of the economies of scale. (PT only)</li> <li>➤ Finalised all project dashboard assessments and reporting thereon.</li> <li>➤ Compliance assessment on SCM and asset management completed. . (PT only)</li> </ul> <p>CREDIBLE KNOWLEDGE AND INFORMATION MANAGEMENT SYSTEM</p> <ul style="list-style-type: none"> <li>➤ Integrity of SCM data supports SCM operational planning decisions and monitoring activities.</li> <li>➤ Contract Repository/ warehouse in place.</li> </ul>
<b>Level 4 – Information level</b>	Focus on measuring how resources are used.	<ul style="list-style-type: none"> <li>➤ The economic, efficient and effective utilisation of resources is managed, measured and reflected in reliable financial information.</li> </ul>		<p>FINANCIAL AND NON FINANCIAL SYSTEMS</p> <ul style="list-style-type: none"> <li>➤ Integration of financial and non-financial systems.</li> </ul> <p>CAPACITY AND FUNCTIONALITY</p> <ul style="list-style-type: none"> <li>➤ SCM Officials received training in SCM.</li> <li>➤ Effective usage of resources.</li> <li>➤ Achievement of operational functionality in SCM.</li> <li>➤ Maintain and facilitate further development of the supplier database.</li> </ul>

Capability level	Definition	Detailed characteristics	Criteria	SCM Criteria
				<p>REPORTING</p> <ul style="list-style-type: none"> <li>➤ Consistent and comparable SCM reporting</li> <li>➤ Value for money assessments that reflect a cost an efficient, effective and economical SCM system in place.</li> </ul> <p>INFORMATION MANAGEMENT</p> <ul style="list-style-type: none"> <li>➤ Generation of information providing a basis for performance management indicators, cost and quality measures are in place as well as ensuring that the intended measures are being achieved thereby defining accountability.</li> </ul>

## 2.8 Immovable Asset Management

From an asset management (immovable assets) perspective, the assessment tool below is based on levels 3 and 4 of the AG's model, where at level 3 the focus is on the proper implementation and functioning of financial accounting and internal control systems, including compliance with PFMA, DORA and other reporting requirements, and at level 4, the focus is on how resources are used with reliable and sufficient financial information

**Table 7: Asset Management (Immoveable Assets): Levels 1 – 4 assessment tool**

Requirements	Level 1	Level 2	Level 3	Level 4
<b>Property Management:</b>				
- Organisation's process complies with prescribed legislative requirements.	No processes complied with legislative requirements.	Some processes complied with legislative requirements.	Processes complied with legislative requirements.	Measuring effectiveness and efficiency of processes on outputs achieved.
- Procedures are applied consistently throughout the process according to the pre-established criteria.	No processes had applied consistently.	Some processes had applied consistently.	Processes had applied consistently.	Measuring the effectiveness and efficiency of processes to targeted outputs.

Requirements	Level 1	Level 2	Level 3	Level 4
- Reviewing and assessing relevant documentation to gauge accountability of the process.	Documents have not been reviewed and assess for the past year.	Documents have been reviewed and assess for a year ago.	Documents are reviewed and assess on an ongoing basis.	Measuring the effectiveness and efficiency of current documentation in use.
- Adequate documentation is maintained to substantiate compliance with the requirements of relevant prescripts.	Documents have not been maintained and resulted into non-compliance submissions.	Documents have somewhat been maintained but still lack compliance.	Documents are compliant.	Measuring the effectiveness and efficiency of documentation.
- Formulation of an acquisition and disposal plan for all assets, as part of an overall asset strategy and reviewing and updating the plan as necessary as part of the strategic planning cycle.	Acquisition and Disposal Plan not formulated.	Some effort has been made to formulate a acquisition and disposal plan.	Acquisition and disposal plan in place.	Measuring the effectiveness and efficiency of the Acquisition and Disposal plan to targeted outputs.
- Establishing appropriate performance standards for the assets and monitor and report against those standards.	No performance standards have been identified.	Some performance standards have been identified.	Performance standards have been identified and measured against outputs and outcomes.	Measuring the effectiveness and efficiency of performance standards that have been met against outputs and outcomes.
- Ensuring staff involved are provided with adequate training and guidance.	Staff lacked adequate training and guidance.	Some staff are adequately trained and guidance are provided.	Staff are adequately trained and apply the guidance provided.	Measuring staff effectiveness efficiency and according assistance and guidance provided.

**Infrastructure Management:**

- Processes complied with prescribed legislative requirements (Infrastructure Deliver Improvement Plan -IDIP).	No processes complied with legislative requirements.	Some processes complied with legislative requirements.	Processes complied with legislative requirements.	Measuring the effectiveness and efficiency of current processes complied with legislative requirements.
- Infrastructure Plans, as per DORA are timeously received from departments.	Infrastructure Plans not yet finalised by departments.	Infrastructure Plans partially finalised and received late by PT.	Infrastructure Plans received timeously by PT.	Measuring the Quality of Infrastructure Plans received by departments.

Requirements	Level 1	Level 2	Level 3	Level 4
- Infrastructure Plans are aligned with other strategic objectives.	Infrastructure Plans not aligned with other strategic objectives.	Infrastructure Plans partially aligned with other strategic objectives.	Infrastructure Plans aligned with other strategic objectives.	Measuring the effectiveness and efficiency of Infrastructure Plans alignment with other strategic objectives.
- Infrastructure Plans, as per DORA are timeously submitted to National Treasury (NT).	No Infrastructure Plans submitted to NT.	Partially completed Infrastructure Plans submitted to NT.	Infrastructure Plan submitted to NT.	Measuring the effectiveness and efficiency of infrastructure projects on Infrastructure Plan for value for money.
- Quarterly Infrastructure Expenditure Reports are timeously received from departments.	Quarterly Infrastructure Expenditure Report received late and lack quality in most areas.	Quarterly Infrastructure Expenditure Report received on time but lack quality in some areas.	Quarterly Infrastructure Expenditure Report received on time.	Measuring the Quality Quarterly Infrastructure Expenditure data.
- Infrastructure Expenditure Reports are timeously submitted to National Treasury.	Quarterly Infrastructure Expenditure Report not submitted to NT.	Quarterly Infrastructure Expenditure Report submitted late to NT, late receiving of funds.	Quarterly Infrastructure Expenditure Report submitted timeously to NT.	Measuring the Quality Quarterly Infrastructure Expenditure data for efficiency..
- Performance expectations both outputs and outcomes are met.	Outputs and outcomes are not met.	Outputs and outcomes are partially met.	Outputs and outcomes are met.	Measuring the effective and efficiency of outputs and outcomes.
- Staff involved is provided with adequate training and guidance.	Staff lacked adequate training and guidance.	Some staff is adequately trained and guidance is provided.	Staff is adequately trained and apply the guidance provided.	Measuring the effectiveness and efficiency of advice and support of staff.

## 2.9 Supporting and Interlinked Financial Systems

From a supporting and interlinked systems (financial systems) perspective, the assessment tool below is based on levels 3 and 4 of the AG's model, where at level 3 there is full compliance with the minimum prescribed requirements and at level 4, performance exceeds the prescribed minimum requirements.

**Table 8: Management of Supporting and Interlinked Systems: Levels 3 and 4 assessment tool**

	Requirements	Standard Level 3	Standard Level 4
<b>BAS</b>			
1	Skilled and capacitated system users	In accordance with profile	Various Modules
2	Month-end closure	Own accord - due date	Own accord - prior date
3	Year-end closure	Own accord - due date	Own accord - prior date
4	System Controller Functions	80 - 90%	91 - 100%
5	Monitor Applicable Interfaces	Intermittantly	Daily
<b>PERSAL</b>			
1	Skilled and capacitated system users	In accordance with profile	Various Modules
2	System Controller Functions	80 - 90%	91 - 100%
3	Establishment Management	Quarterly	Monthly
4	PERSAL/BAS Reconciliation	Monthly by the 20th	Prior to the 20th
5	Adhere to Minimum Information Requirements	Annually	Continuous process
6	Leave Audit	Annually	Continuous process
<b>LOGIS</b>			
1	Skilled and capacitated system users	In accordance with profile	All Modules
2	Days per issues (Service standard)	5 Days	3 Days
3	Stock Management	15.26%	6.06%
4	Financial Controls	Monthly	Continuous process
5	System Control Functions	80 - 90%	91 - 100%





# 3

## Financial Management Capability Assessments of departments and entities

### 3.1 Office of the Premier

#### 3.1.1 Performance Management

##### 3.1.1.1 Non-financial information

This section provides a high level assessment of the department's non-financial performance and makes a judgment on the level of that performance, in line with the financial management framework. The assessment includes the Strategic and Performance Plan; and Annual and Quarterly Performance Reports. The former two documents are tabled in the Legislature, while Quarterly Performance Reports, as of 2007, are tabled in Cabinet.

The Departmental Annual Performance Plan (APP) 2006/07 and the Annual Report 2006/07 therefore provides a starting point for moving towards achieving the desired performance deliverables. The introduction of the requirement for government departments to submit a report on the non-financial performance posed a challenge for many government departments.

For the period under review emphasis has been ensuring that the Department formulates clear measurable objectives and set realistic and measurable targets. The aim is to ensure that the departmental APP when read together with the Annual Report reflects clearly and concretely stated performance expectations; performance accomplishments reported against expectations; demonstrated capacity to learn and adapt; and the information obtained and communicated is fair and reliable.

The emphasis was more on compliance side than determining whether the Department performance is responsive to the needs of the broader society. The Department measurable objectives in the APP are not determined per programme instead have been outlined and aligned with the strategic goals. In most cases the Department uses percentage as a unit measure to determine targets. Percentage changes in the unit of measurement are useful in the context of established baselines. It is therefore recommended that, in instances where the department had used percentage increases, that these be informed by established baselines.

The Department of the Premier plays a policy co-ordination and oversight role and given its oversight responsibility finds it difficult to develop measurable targets as the Department is not delivering tangible outputs. Their outputs are significantly different from those such as building roads, houses, schools, clinics, etc. produced by line departments.

Institutional capacity poses a further constraint to realise fully its constitutional and legislative mandate. The re-engineering initiative, which the Department of the Premier had embarked on, will improve coordination and planning.

In conclusion, for the period under review, the Department has demonstrated capacity to learn and adapt to the present challenges presented by national requirement to report credible performance information in order to improve decision making and government performance. Institutional capacity poses a further constraint in order the Department to realise fully its constitutional and legislative mandate. The re-engineering initiative, which the Department of the Premier had embarked on, will improve coordination and planning.

#### **3.1.1.2 Performance management assessed based on financial information**

From a public finance perspective, the following has been noted regarding the performance of the Department of the Premier:

- The Department submits its In-year Monitoring (IYM) report on revenue and expenditure to Treasury on or before the 15<sup>th</sup> day after the end of a reporting month in terms of the requirements in section 40(4)(c) of the Public Finance Management Act, 1999 (Act 1 of 1999).
- The Department ensured that the reported actuals on expenditure and revenue reconciled to the BAS/Vulindlela financial system consistently on a monthly basis. The table below compares the projected expenditure to the actual expenditure on a quarterly basis for 2006/07.

**Table 1: Quarterly Analysis on projections: 2006/07**

R'000	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total
First Quarter	24 902	26 342	24 821	23 823	24 907	27 529	21 503	27 916	28 114	26 269	25 818	28 983	310 927
%	8.01%	8.47%	7.98%	7.66%	8.01%	8.85%	6.92%	8.98%	9.04%	8.45%	8.30%	9.32%	100.00%
Second Quarter	24 902	26 342	24 634	31 603	28 846	22 905	24 451	25 281	25 736	23 468	26 394	26 265	310 827
%	8.01%	8.47%	7.93%	10.17%	9.28%	7.37%	7.87%	8.13%	8.28%	7.55%	8.49%	8.45%	100.00%
Third Quarter	24 902	26 342	24 634	31 603	28 846	22 941	27 329	31 592	27 349	24 087	24 083	26 619	320 327
%	7.77%	8.22%	7.69%	9.87%	9.01%	7.16%	8.53%	9.86%	8.54%	7.52%	7.52%	8.31%	100.00%
Fourth Quarter	24 902	26 342	24 634	31 603	28 846	22 941	27 329	31 594	28 451	26 422	23 180	21 916	318 160
%	7.83%	8.28%	7.74%	9.93%	9.07%	7.21%	8.59%	9.93%	8.94%	8.30%	7.29%	6.89%	100.00%

*Shaded: Actuals*

*Unshaded: Projections*

It appears from the table above that the Department needs to improve its forecasts to be more realistic, as forecasts in prior quarters differ from actual expenditure. Actual expenditure (shaded) tends to be higher than the projected expenditure (unshaded) consistently on a monthly basis.

The Department's original budget allocation for the 2006/07 financial year was R310.927 million. In the Adjustment Estimate it was increased with R9.400 million to R320.327 million. R19.814 million, i.e. 6.1 per cent of the adjusted budget, was shifted between programmes within the vote, while R1.888 million was shifted within programmes i.e. 0.5 per cent of the adjusted budget. Notably the shift between programmes exceeds the 2 per cent threshold standing at 6.1 per cent. As indicated by the Department, this is largely due to the re-engineering process that took effect in 2006/07 not budgeted for; resulting in the need for reprioritisation within programmes.

In terms of virements affected, the Department adhered to the prescribed limit of not exceeding 8 per cent of the amount appropriated under the main division for 2006/07 as stipulated and required in terms of section 43(2) of the PFMA. The total amount of virements affected in Rand-value amounts to R3.405 million as shown in Table 2 below.

The table below reflects the virements effected between programmes in 2006/07 as per the Annual Financial Statement for 2006/07.

**Table 2: Virements 2006/07**

From Programme	To Programme	Amount R'000
Corporate Support	Administration	1 131
Financial Governance	Administration	2 076
Corporate Support	Financial Governance	147
Financial Governance	Corporate Support	51
<b>Total</b>		<b>3 405</b>

The Department obtained the necessary virement approvals.

The Department submitted the Adjustments Budget timeously and it was comprehensive in terms of Section 31 of the PFMA.

The total expenditure incurred in 2006/07 for the Department amounted to R318.160 million constituting 99.32 per cent of the Adjusted Budget. This effectively indicates that the Department underspent by 0.68 per cent. In view of the aforementioned savings the Department requested a roll-over of funds for utilisation in 2007/08.

There was no fiscal dumping and no reported irregular or unauthorised expenditure in 2006/07.

The Department of the Premier collected R744 000 in provincial own receipts compared to the R510 000 adjusted budget for the 2006/07 financial year. This over-recovery amounted to R234 000 or 45.9 per cent more than the adjusted budget, which was mainly due to increased sales of the Provincial Gazette and a donation received for the announcement of the top 20 learners in the Western Cape Province.

The main appropriation for provincial own receipts for the 2007/08 financial year is R522 000, which is R222 000 less than the actual collection of R744 000 in the 2006/07 financial year.

The Department revised the tariffs for the use of the training facilities at Kromme Rhee for Human Resource Development in the 2006/07 financial year.

The Department did not experience a March spike in 2006/07. This is indicated by the fact that the spending for March 2006/07 (R21.916 million) in relation to the total expenditure in 2006/07 (R318.160 million) makes up 6.9 per cent of the total.

The Department of the Premier generally operates on level 3 and is moving towards a level 4 financial management capability rating.

### **3.1.2 Compliance with accounting policies and standards**

An assessment of the financial management capability of the department based on audit findings and IYM reporting revealed the following:

#### **Management and reporting on suspense accounts**

That:

- Outstanding debts and amounts owing to other government departments were not followed up timeously.

The Department needs to take cognisance of the above issue raised by the A-G and put remedial steps in place to achieve a level 3 financial management capability rating.

#### **Accounting of assets**

That:

- Current year adjustments to prior year Property, Plant and Equipment balances amounting to R129.3 million were identified. This amount represents the cost of assets that were recorded on LOGIS during previous years but the transfer or

disposal of these assets could not be verified through an audit performed. These assets do not appear in the asset register provided for the audit;

- Inventories on the AFS amounting to R211 800 held at year end, could not be identified as held on premises during the auditor's visits to location, and
- Assets listed in the asset register provided could not be verified at locations listed in the register.

This implies that effective asset management controls and accounting requirements are not in place, hence the entity is currently performing at a level 2 financial management capability. The entity should improve the effectiveness of asset management controls and assess the use of assets to achieve a level 3 financial management capability.

### **Financial reconciliations**

All the prescribed financial reconciliations have been complied and the department achieved a level 3 financial management capability.

### **Supporting documentation**

That:

- Supporting documentation (purchase vouchers) could not be provided in order to value 120 assets, valued at R3.3 million in total;
- There was insufficient information on the asset register to trace the purchase vouchers and vouchers were not available although the assets were purchased within the last five years;
- An audit of purchases and payables revealed no quotations, no invoices and no authorisation on certain invoices, and
- Supporting documentation for payments amounting to R314 000 were not provided for audit purposes.

The Department is performing on a level 2 financial management capability and needs to ensure that internal control procedures are effective to ensure that all supporting documentation is available and complies with prescribed requirements in order to move to a level 3 financial management capability.

### **Expenditure – Payments and journals**

That:

- Invoices amounting to R4.8 million were not paid within 30 days of receipt as required in terms of section 38(1)(f) of PFMA and TR 8.2.3, and
- An employee was overpaid due to inadequate monitoring controls regarding employees on leave and the termination of service.

The Department is currently performing at a level 2 financial management capability, and should implement effective internal controls to ensure that all payments are settled within 30 days in order to achieve level 3 financial management capability.

### **Authorisations**

That:

- Subsistence and travel claims (S & T claims) processed during the year were not properly approved;
- Advances were made to personnel, however the approved advance application forms were not attached, and
- The bank adjustment report was not reviewed on a daily basis and signed off by the delegated official.

The Department is currently performing on a level 2 financial management capability and would require implementing effective internal controls to achieve a rating of level 3. Procedures to ensure that supporting documentation is checked and verified and that only claims that are verified are captured and processed should be introduced.

### **Procedures for the identification and reporting of:**

**unauthorised expenditure, fruitless and wasteful expenditure and irregular expenditure.**

The Department reported that procedures are in place and is currently performing at a rating of level 3 financial management capability.

### **Management of contingent liabilities**

Interdepartmental claims need to be reconciled on a monthly basis to ensure that contingent liabilities are accurately reflected. During the audit process the A-G identified insufficient controls over the management of contingent liabilities.

The Department is currently performing at a level 2 financial management capability rating.

### **Monthly reporting of financial information to the CFO/AO/EA/Department**

The dept of Premier is at level 3 financial management capability for monthly reporting of financial information, since all levels of reporting are fully informed.

### **Western Cape Youth Commission**

The WCYC is a public entity that resorts under the control of the Office of the Premier.

### **Accounting of Assets**

The WCYC's Fixed Asset Register did not provide adequate details of the assets resulting in these assets on hand not being easily identifiable. It is recommended that the entity's Fixed Asset Register be maintained in such a manner so that it clearly identifies the assets of the WCYC, in order to move towards a financial management capability Level 3.

### **Financial Reconciliations**

During the audit, creditors' reconciliations were not available for inspection as it is not prepared on a monthly basis. This points to a lack of proper controls, which is indicative of a financial management capability level 2. It is recommended that Creditors' reconciliations be prepared on a monthly basis prior to making payments in order to ensure that only valid purchases are paid for.

The entity did not properly maintain and reconcile the leave records of commissioners. This could lead to commissioners being granted leave which is not due to them resulting in a financial loss to the entity. It is recommended that the WCYC maintain proper leave records and that these records should be reconciled on a regular basis, in order to achieve a financial management capability level 3 rating.

### **Accounting treatment of transactions**

The WCYC treated cellphone contracts entered into by the Commission as operating leases and not as finance leases. It is recommended that all payments made in terms of finance leases should result in an asset being raised and the creditor being recognised in the statement of financial position in the annual financial statements in terms of GAAP.

### **Expenditure – Payments and journals**

The Auditor-General reported that volunteer workers did not sign for payments received. This could result in invalid amounts being paid to volunteers, which could result in a financial loss to the WCYC. It is recommended that the entity develop policies and procedures to assist coordinators and team leaders in following a standardised payment process.

It was also reported that certain invoices due for payment by the WCYC were only settled after 30 days of the date of the invoice due to ineffective internal controls. It is recommended that the entity implement adequate internal controls to ensure that creditors are settled within 30 days.

The above will assist the entity to achieve a financial management capability level 3 rating.



### **Procedures for the identification and reporting of unauthorised expenditure**

The WCYC's budget for 2006-07, amounting to R8 900 000, was exceeded by R1 107 026. It is recommended that the entity institute in year monitoring measures for budget and expenditure control, in order to achieve a financial management capability level 3 rating.

### **Monthly reporting of financial information to the CFO/AO/EA/Department**

In terms of section 13(1) of the Western Cape Youth Commission Act, 2004, quarterly reports should be presented to the Premier by the WCYC on all its activities. These reports were not prepared or submitted as required. This resulted from inadequate training being provided to enable staff members to achieve their required objectives and provide the applicable reports. It is recommended that the entity should adequately train staff members to be made aware of their duties and deliverables. This will enable the WCYC to move towards a financial management capability rating of level 3.

### **Public Entity: Provincial Development Council**

The Provincial Development Council is a public entity that resorts under the control of the Office of the Premier.

### **Management of and reporting on suspense accounts**

The managing of suspense accounts is performed at a rating of level 3 financial management capability.

### **Accounting of assets (Asset Management)**

The entity is currently performing asset management at a level 3 financial management capability.

### **Financial reconciliations**

The entity is performing financial reconciliations as prescribed and is currently performing at a level 3 financial management capability.

### **Supporting documentation**

The entity's transactions is supported by authentic and verifiable source documents as prescribed and is currently performing at a level 3 financial management capability.

### **Accounting treatment of transactions**

The entity's accounting treatment of transactions are in accordance with Statements of Generally Accepted Accounting Practices (GAAP) as adapted to accommodate the prescribed Standards of Generally Recognised Accounting Practice (GRAP), and thus level 3 compliance is attained.

## **Monthly reporting of financial information to the CFO/AO/EA/Department**

Monthly reports are submitted as prescribed, thus a level 3 financial management capability is attained.

### **3.1.3 Normative Financial Management**

#### **Introduction**

The findings discussed in this section provide a review of the PFMA implementation and financial management improvement of the department in line with the provincial strategy of reaching a level 4 auditable organisation (financial management capability model).

The source documents used were the Normative Measures for Financial Management for departments for the quarter ending 30 June 2007 and the Auditor-General's report for the 2006/07 financial year.

#### **Analysis of the Normative Financial Management**

Appointments have been made in the key positions of the Chief Financial Officer structure and the current vacancy rate is at 5 per cent, which is well within the national norm. Should these skills be retained, the department will be in an excellent position to deliver on its key mandates in the province. The Department has also indicated that it has put in place processes to collect outstanding debt in terms of Treasury Regulation 11.2.1.

#### **Analysis of the 2005/06 Audit Report**

For the 2005/06 financial year, the department received an unqualified audit opinion with two issues, classified as emphasis of matter. Emphasis of matter was placed on performance information and reporting arrangements with the Western Cape Youth Commission. On request of the Provincial Treasury the department compiled an action plan through which issues were tackled and progress tracked throughout the year. The Provincial Treasury will continue to monitor the performance information and reporting arrangements.

Overall the 2005/06 financial year reflected a more favorable picture for the department.

#### **Analysis of the 2006/07 Audit Report**

The Department received a qualified audit opinion in the 2006/07 financial year. While this represents a deterioration compared to the unqualified audit opinion in 2005/06 financial year, it must be noted that the adjustment made to the disclosure note: Computer asset was a correction that could not be supported by the required supporting documentation.

There were no issues classified as emphasis of matter, however there were two, which were classified as other matters, and one as other reporting responsibility.

### **Other matters**

- Non-compliance with PFMA and Regulations with the paying of invoices.
- Lack of effective of control activities over asset processes.

### **Other reporting responsibility**

The measurable objectives in the strategic/annual performance plan were not determined per programme, as per National Treasury Regulations, but were documented per strategic goal. This issue was also reported in the previous year as emphasis of matter.

### **Financial Management Capability**

The strides made by the department are not significant enough to move it to the next level. Despite some highlighted problems, the department is much better placed to improve on the strides made over the last two years. The Financial Management Improvement Plan that was introduced in 2005/06 will assist in solidifying some of the progress already made in entrenching good financial management in the Department. To this end the Provincial Treasury has committed to assist the Department by lending expertise where necessary. The issues raised by the Auditor-General in his report will be vigorously addressed with the department during the course of the 2007/08 financial year.

## **3.1.4 Enterprise Risk Management and Governance Systems**

The section provides guidance, criteria, and norms and standards for the attainment of levels of enterprise risk management in terms of the financial management capability model. It is anticipated that this will assist management in being able to identify underlying problems and focus on areas to improve the enterprise risk management processes.

Departments will not be assessed on level 3 and 4 because of the immaturity of enterprise risk management within the provincial government.

### **Proper Control Framework (Level 1)**

Includes all scenarios where the Department has not implemented all the criteria required to obtain a level 2 assessment.

### **A Proper Internal Control Framework and Financial Accounting Processes have been developed (Level 2)**

### **Strategic Risk Assessment**

A Strategic risk assessment was conducted for the Department and risk response strategies were developed. It was found that the organisational structure supports processes developed for risk strategies.

### **Way forward**

The Chief Risk Officer need to assign strategic risks identified to senior management (risk owners) for the required management attention and treatment. Once risks are allocated to SMS members, their performance agreements should be amended to include their responsibility for the management of risk.

The Department obtained a level 2 (partial compliance) rating on the above.

### **Internal Environment**

A risk management philosophy and a management's philosophy were not developed for the Department. The risk appetite of the Department is also not defined.

### **Way forward**

A risk management and management philosophy needs to be developed for the Department, to emphasise the importance of risk management and to hold management accountable to the management of risk. The Department must define their risk appetite, i.e. the amount of risk the Department is willing to accept in the pursuit of their objectives. All vacancies in the ERMGS unit need to be filled to ensure the success of risk management in the Department.

**The Department obtained a level 1 rating on the above.**

### **Operational Risk Assessment**

The risk event identified during the operational risk assessment in 2004 was assessed on an inherent level. Existing controls, gaps, control gaps are identified on a continuous basis by means of process and control mapping initiatives.

### **Way forward**

The Department should conduct annual risk assessment and the risk events identified, should be allocated to the relevant risk owners for the required management attention and treatment.

The Department obtained a level 2 (partial compliance) rating on the above.

### **How will the department move to level 3?**

The Department needs to address the shortcomings/way forward discussed above as well as the following:

### **Internal Environment**

- Compliance to commitment to competence displayed in appointment and development practices.
- Compliance to assignment of authority and responsibility.

- Compliance to writing and communicating the Risk Management Philosophy to staff.
- Compliance to Management's philosophy and operating style reflecting acceptance of risk management principles.
- Compliance to define the Departments risk appetite.

#### **Event Identification**

- Risk events are identified at least annually and are incorporated into daily activities.
- Risk events are grouped in terms of event categories.

#### **Risk Assessment**

Risks are assessed on a residual risk basis.

#### **Control Activities**

- Control activities are designed to address risk events.
- Control activities are designed using a recognised control framework.

#### **Information and Communication**

- Pertinent information is collected.
- Integrated systems to analyse information is available
- Information is communicated in the right quantity to the right person at the right time.

#### **Monitoring**

The risk management processes are subjected to ongoing internal evaluation and regular internal audit evaluation.

### **3.1.5 Cash Management**

This section deals with the implementation and management of sound cash flow practices as well as the provision of assistance and training in respect of the official banking system within the Provincial Government of the Western Cape.

The financial management capability assessment was based on the activities of the Office of the Premier during the 2006/2007 financial year and the findings were as follows:

**Table 3: Assessment of cash management**

Requirements	Standard Level 3	Standard Level 4	Rating
Staff skilled & Capacitated in Cash Management	In accordance with profile	All functions on the Cash Management System	3
Submission of Annual Provincial Cashflow Projections	By 28 February	By 15 February	2
Deviation between monthly projections & actual expenses	5%	3%	2
Monthly Own Revenue Payover	2 working days prior to month end	3 working days prior to month end	3
Repayment of Surplus Funds	31 May	15 May	3
Submission of monthly Bank Reconciliation	Within 30 days after month end	Within 15 days after month end	3
Beneficiary Payments (Direct Transfers)	1% of Total Payments	0.50% of Total Payments	4
<b>Average rating</b>			<b>3</b>

*The Department achieved an overall rating of level 3 (nominal compliance) financial management capability.*

### Skilled and capacitated system users

The Department obtained a rating of level 3 (nominal compliance) financial management capability. All system users were trained in accordance with their profiles, during the implementation of the new official banker's system.

### Submission of Annual Provincial Cashflow Projections

The Department obtained a rating of level 2 (partial compliance) financial management capability. The Annual projections of expenditure were received on 12 March 2007. PT will support and assist the department to ensure that Annual Provincial Cashflow Projections are submitted timeously.

**Table 4: Deviation between monthly projections and actual expenses**

Original Forecast

	Project R000	Actual R000	%	Rating
APRIL'06	19,917	21,941	(10)	2
MAY'06	24,330	24,934	(2)	3
JUNE'06	25,915	29,074	(12)	2
JULY'06	24,328	32,321	(33)	2
AUG'06	25,914	26,243	(1)	4
SEP'06	27,325	27,745	(2)	3
OCT'06	22,911	23,850	(4)	2

	<b>Project R000</b>	<b>Actual R000</b>	<b>%</b>	<b>Rating</b>
NOV'06	29,322	35,248	(20)	2
DEC'06	27,907	27,073	3	2
JAN'07	27,318	25,779	6	2
FEB'07	27,215	23,798	13	2
MRC'07	28,525	12,921	55	2
<b>Sub-Total</b>	<b>310,927</b>	<b>310,927</b>		<b>2</b>
Revised Forecast (after adjustment budget)				
MRC'07 Adjustment	9,400	9,400		
<b>Total</b>	<b>320,327</b>	<b>320,327</b>	<b>100</b>	

The Department achieved a rating of level 2 (partial compliance) financial management capability. PT will support and assist the department to determine reasons for the variances and to compile more credible projections in future.

#### **Monthly Own Revenue Payover**

The Department obtained an average rating of level 3 (nominal compliance) financial management capability. Revenue is being paid over monthly 2 working days prior to month end.

#### **Repayment of Surplus funds**

The Department obtained a rating of level 3 (nominal compliance) financial management capability. Surplus funds were paid to the PRF on 30 May 2007.

#### **Submission of monthly Bank Reconciliations**

The Department obtained a rating of level 3 (nominal compliance) financial management capability. The monthly bank reconciliation is submitted within 30 days after month end.

#### **Beneficiary Payments (Direct Transfers)**

The Department achieved a rating of level 4 (full compliance) financial management capability.

**Table 5: Beneficiary Payments**

<b>Payments</b>	<b>Beneficiary Payments</b>	<b>%</b>
5412	20	0.37

### 3.1.6 Supply Chain Management

In assessing the Department of the Premier in terms of the SCM requirements, the following documents were reviewed: Auditor-General's reports; the department management report for the 2006/07 financial year; the SCM compliance for the period 2005/06 as well the Project Dashboard Reporting framework and Risk Log for moveable asset management implementation plan. It must be noted that an SCM Compliance and Value for money assessment was not completed in the 2006/07 financial year and the Department may have made further progress since the last assessment.

The Findings in respect of the above indicated that the department met the financial management capability criteria in respect of the following:

- The Department meets the legislative and policy framework requirement, in that it has updated its Accounting Officers system in terms of Section 38(1)(iii)(c) of the PFMA as well as its SCM Delegations;
- The Department has the necessary Bid committee system in place and committee members;
- The Department is in the process of finalising a standard operating procedural manual on contract management;
- 7 Formal Bids have been awarded to HDIs to the value of R2.2 million representing 32 per cent of the value of the bids awarded in the period under review.

During the audit of supply chain management, the A-G's report determined the following:

#### Compliance to Legislative and Policy Frameworks

- Tax clearance certificates were not in all instances obtained to ensure compliance with Treasury Regulation 16A9.1(d);
- Particulars of successful bidders were not in all instances published in the Government Tender Bulletin;
- Successful bidders did not in all instances sign the contract form, which is part of the standard bidding documents issued by the National Treasury, whereby they enter into a contract under the conditions specified in the bidding documentation;
- There was no evidence to show that the departmental bid committee declared their interest before the sitting of every bid committee meeting;
- There is no evidence of active vendor management;
- The bar-coding of assets is a problem as there are groups of assets that were not traceable back to the asset register;
- Vouchers could not be provided to verify accuracy of asset balances due to the difficulty of tracing the documents from the system;
- Inadequate control and approval over the necessary write-offs due to loss, transfer and redundancy;



- The Department also does not have a cell-phone policy;
- Reconciliation between BAS/LOGIS and the asset register continues to prove to being a problem, and
- The Department does not have a credible gifts register.

### **Moveable Asset Management**

Following an assessment done at the Department of the Premier in line with the project dashboard tool throughout the period under review, the following was discovered:

- The Department did not have an acquisition plan governing how the department was to structure its acquisition of assets and how these were to feed the greater department's Annual Performance Plan in assisting the attainment of the overall delivery of services;
- Receipt and acceptance of assets at decentralised offices are problematic in that there are assets that could not be accounted for in terms of the official to whom these are assigned and the exact area where these are supposed to be housed. This results in assets placed all over an institution and not where it is meant to reside in terms of marking/bar-coding attached to the actual asset control;
- Establishing performance indicators is still a problem in that there is no clear planning of how to look after an asset and what to expect from category of assets as there no standards clearly stating the level of performance to be expected from the asset;
- Asset Management plans were not produced for this audit period which meant that the department does not have strategic control on the performance of its assets and cannot make any long term plans in this regard to determine the contribution that can be made by the department's assets in meeting its delivery obligations.
- There is a problem with the reconciliation of BAS/LOGIS to the asset register resulting in both overstatement and understatement in different aspects of the Annual Financial Statement, and
- There is evidence of problems being experienced by the department in respect of the valuation of certain categories of assets that are still captured at R1 value despite the existence of National Treasury guidance on how to go about valuing assets whose original values cannot be determined from original documentation.

Based on the fact that the Department has not undergone a complete SCM compliance assessment in the preceding financial year, it is difficult to arrive at a credible rating. However, based on the Auditor-General's report and the fact that the department has failed to complete a single dashboard assessment report, it is safe to say that the department barely meets the requirement if a level 3 in terms of the capability model for SCM.

### **Steps to be taken to ensure that the department establishes itself at the next auditable level**

From a Provincial Treasury perspective the following interventions steps are planned in the next financial year:

- Training on bid committees and contract management as provided and funded by the National Treasury;
- An integration of the financial and non-financial systems with the implementation of the Integrated Financial Management System (IFMS)
- Linkages with other disciplines within the Provincial Treasury to enable an integrated approach to enable a supporting environment that maintains the credibility of the level;
- Addressing and implementing a supplier development initiative with other role-players to impact on the socio-economic aspects of procurement by achieving the desired outputs in respect of procurement to HDIs, SMMEs or BEE companies;
- Engaging and compiling business cases and feasibility research to enable departments to leverage their buying power in participating in transversal contracts thereby impacting on economies of scale and value for money considerations, and
- A specific full-blown performance covering both SCM compliance and a dashboard assessment that will determine the status of the department as far as Asset Management is concerned.

From a departmental perspective the following interventions need to be instituted so that the department sustains itself at the achieved level and also enables the department to elevate itself to the next level:

- Ensure that internal control measures are in place for the cost efficient and effective management of SCM not only at the head office level but also at the institutional level;
- Ensure that control systems are in place and are followed stringently by all officials of the department at all times, and
- A concerted effort must be placed on training and a skills audit undertaken to improve the internal capacity and resources of the SCM unit.

### **3.1.7 Supporting and Interlinked Financial Systems**

This section deals with the implementation and maintenance of Financial Systems as well as the provision of functional assistance and training, to all system users.

The assessment was based on the activities of the 2006/2007 financial year and the findings were as follows:

**Table 6: Assessment of the Basic Accounting System (BAS)**

Requirements	Standard Level 3	Standard Level 4	Rating
Skilled and capacitated system users	In accordance with profile	Various Modules	2
Month-end closure	Own accord – due date	Own accord – prior date	3
Year-end closure	Own accord – due date	Own accord – prior date	3
System Controller Functions	80 – 90%	91 – 100%	3
Monitor Applicable Interfaces	Weekly	Daily	3
<b>Overall rating</b>			<b>3</b>

The Department obtained an overall rating of level 3 (nominal compliance) financial management capability.

**Table 7: Assessment of skilled and capacitated system users: training**

Number of officials nominated	Number of officials attended	Number of officials cancelled	Number of officials qualified for a certificate (70% pass rate)	Number of officials not qualifying for a certificate
12	10	2	8	2

The Department obtained a rating of level 2 (partial compliance) financial management capability, mainly due to not all officials being trained in accordance with their profiles.

The Directorate Supporting and Interlinked Financial Systems is in the process of identifying the training gap of all users and will in co-operation with the Chief Financial Officer nominate their users for training in accordance with their profiles as a matter of urgency.

#### **Month end closure**

The Department achieved a rating of level 3 (nominal compliance) financial management capability as their books were closed on a monthly basis in accordance with the predetermined dates by National Treasury.

#### **Year closure**

The Department achieved a rating of level 3 (nominal compliance) financial management capability as their year-end closure was done in accordance with the predetermined date by National Treasury.

## System Controller Functions

The Department achieved a rating of level 3 (nominal compliance) financial management capability, based on the following criteria:

- Logging of calls to the Provincial Helpdesk
- Maintenance of Security Profiles
- The reinstate of Transaction Processing Rules
- Requesting/monitoring and distributing of automated Basic Accounting System reports
- Maintenance of segment details
- Maintenance/update of departmental parameters
- Provide practical individual training to users
- Monitor Technical stability of work station including Local area network
- Assisting non-financial users of Basic Accounting System.

## Monitor applicable interfaces

The Department achieved a rating of level 3 (nominal compliance) financial management capability as their interfaces were monitored and reported on, at least on a weekly basis.

**Table 8: Assessment of the Personnel and Salary Administration System (PERSAL)**

Requirements	Standard Level 3	Standard Level 4	Rating
Skilled and capacitated system users	In accordance with profile	Various Modules	2
System Controller Functions	80 – 90%	91 – 100%	2
Establishment Management	Quarterly	Monthly	2
PERSAL/BAS Reconciliation	Monthly by the 20 <sup>th</sup>	Prior to the 20 <sup>th</sup>	3
Adhere to Minimum Information Requirements	Annually	Continuous process	2
Leave Audit	Annually	Continuous process	3
<b>Average rating</b>			<b>2</b>

The Department achieved an overall rating of level 2 (partial compliance) financial management capability which is a performance of below standard.

## Skilled and capacitated system users

The Department obtained a rating of level 2 (partial compliance) financial management capability due to the officials not being nominated for courses as well as not all officials being trained in accordance with their profiles.

The Directorate Supporting and Interlinked Financial Systems is currently in the process of identifying the training gap of all system users and will in co-operation with the department nominate system users for training in accordance with their profiles. In addition issues of poor attendance will be addressed with the department.

### **System Controller Functions**

The Department obtained a rating of level 2 due to the system users not optimally utilising the system.

The Directorate Supporting and Interlinked Financial Systems will in co-operation with the department provide individual training to the system controller.

### **Establishment Management**

The Department achieved a rating of level 2 (partial compliance) due to the fact that many duplicate structures still exist on the system.

The Directorate Supporting and Interlinked Financial Systems will be providing to the department reports indicating the duplicate structures and will assist the department in correcting their establishment.

### **Adhere to Minimum Information Requirements**

As not all information is captured on the system, the department achieved a rating of a level 2 (partial compliance) financial management capability.

Reports indicating the outstanding information are available and are provided by Provincial Treasury to departments on request. The situation will be monitored by the Provincial Treasury to ensure compliance.

### **Leave Audit**

The Department achieved a rating of level 3 (nominal compliance) financial management capability as the leave audit is updated on at least an annual basis.

**Table 9: Assessment of the Logistical Information System (LOGIS)**

Requirements	Standard Level 3	Standard Level 4	Rating
Skilled and capacitated system users	In accordance with profile	All Modules	2
Days per issue (Service standard)	5 Days	3 Days	2
Stock Management	15.61%	6.19%	4
Financial Controls	Monthly	Continuous process	3
System Control Functions	80 – 90%	91 – 100%	2
<b>Average rating</b>			<b>3</b>

The Department achieved an overall rating of level 3 (nominal compliance) financial management capability, which although it is acceptable, is a weak 3.

**Table 10: Assessment of skilled and capacitated system users: training**

Number of officials nominated	Number of officials attended	Number of officials cancelled	Number of officials qualified for a certificate (70% pass rate)	Number of officials not qualifying for a certificate
12	8	4	6	2

The Department obtained a rating of level 2 (partial compliance) financial management capability, mainly due to the high percentage of officials being nominated and not attending courses.

#### **Days per issue (service standard)**

In accordance with national norms and standards, the days per issue should be less than 3 days to achieve full compliance (level 4), less than 5 days for nominal compliance (level 3) and less than 20 days for partial compliance (level 2).

The average days per issues during 2006/07 was 12 days, the department therefore achieved a rating of 2 (partial compliance).

The Directorate Supporting and Interlinked Financial Systems will assist the Chief Financial Officer in re-visiting the current procedures and processes regarding the issue of goods, to ensure compliance.

#### **Stock Management**

The Department achieved a rating of level 4 (full compliance) financial management capability for its control over inventories and assets.

#### **Financial Controls**

The Department achieved a rating of level 3 (nominal compliance) financial management capability as the financial controls are executed on at least a monthly basis.

#### **System Control functions**

The Department achieved a rating of level 2 (partial compliance) financial management capability mainly due to profiles of users in the department not kept up to date.

This issue will be addressed by the Directorate Supporting and Interlinked Financial Systems as part of the training of users in accordance with their profiles, which will take place in co-operation with the Chief Financial Officer.

**Table 11: Assessment of the Management Information System (Vulindlela)**

Requirements	Standard Level 3	Standard Level 4	Rating
Percentage of registered users using the system on a regular basis	80 – 90%	100%	2

**Table 12: Assessment of usage of the Management Information System (Vulindlela)**

Number of registered users	Number of registered users using the system on a regular basis	Number of registered users not using the system on a regular basis	Percentage active users
27	15	12	56%

The Department obtained a rating of level 2 (partial compliance) due to the fact that only 56 per cent of registered users utilise the system on a regular basis.

The Directorate Supporting and Interlinked Financial Systems will, in cooperation with the Chief Financial Officer, re-evaluate the need of the 12 registered users who do not use the system on a regular basis. In addition, discuss the further role out of Vulindlela within the department and address any further user requirements they might have.

## 3.2 Provincial Parliament

When assessing the level of financial management capability of the Provincial Parliament it must be noted that it is not governed by the PFMA. It is however governed by the Constitution of South Africa (Act 108 of 1996), particularly by Section 217 subsection 1 of the Act. In view thereof only certain disciplines in Treasury undertook an assessment of Provincial Parliament in terms of the financial management capability model.

### 3.2.1 Performance Management

#### 3.2.1.1 Non-financial information (Budget Office)

This assessment was not undertaken on the Provincial Parliament due to its position in terms of the Constitution.

#### 3.2.1.2 Financial Information (Public Finance)

From a public finance perspective, the following has been noted regarding the performance of the Provincial Parliament:

The Provincial Parliament submits its In-year Monitoring (IYM) report on revenue and expenditure to Treasury on or before the 15th day after the end of a reporting month in terms of the requirements in section 40(4)(c) of the Public Finance Management Act, 1999 (Act 1 of 1999).

It seems as if the Provincial Parliament needs to improve on making its forecasts more realistic, as forecasts in a prior quarter differs from actual expenditure. This can be viewed in the table below, where the actuals and projections are compared on a quarterly basis. Projections (unshaded) seem to increase on a monthly basis, as actual expenditure (shaded) is mostly lower than projected expenditure.

**Table 13: Quarterly analysis on projections: 2006/07**

R'000	April	May	June	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Total
First Quarter	3 856	4 094	5 322	4 431	5 055	5 641	9 464	4 883	4 292	7 264	4 324	4 786	63 422
%	6.08%	6.46%	8.39%	6.99%	7.97%	8.89%	14.92%	7.71%	6.77%	11.45%	6.82%	7.55%	100.00%
Second Quarter	3 856	4 094	5 322	4 431	4 161	6 609	6 729	8 326	3 954	5 608	6 569	5 422	65 081
%	5.92%	6.29%	8.18%	6.81%	6.39%	10.16%	10.34%	12.79%	6.08%	8.62%	10.09%	8.33%	100.00%
Third Quarter	3 856	4 094	5 322	4 431	4 161	6 605	4 703	3 791	5 494	4 304	6 172	5 083	58 016
%	6.65%	7.06%	9.17%	7.64%	7.17%	11.38%	8.11%	6.53%	9.47%	7.42%	10.64%	8.76%	100.00%
Fourth Quarter	3 856	4 094	5 322	4 431	4 161	6 605	4 703	3 791	5 743	3 243	3 585	5 447	54 981
%	7.01%	7.45%	9.68%	8.06%	7.57%	12.01%	8.55%	6.90%	10.45%	5.90%	6.52%	9.91%	100.00%

*Shaded: Actual*

*Unshaded: Projections*

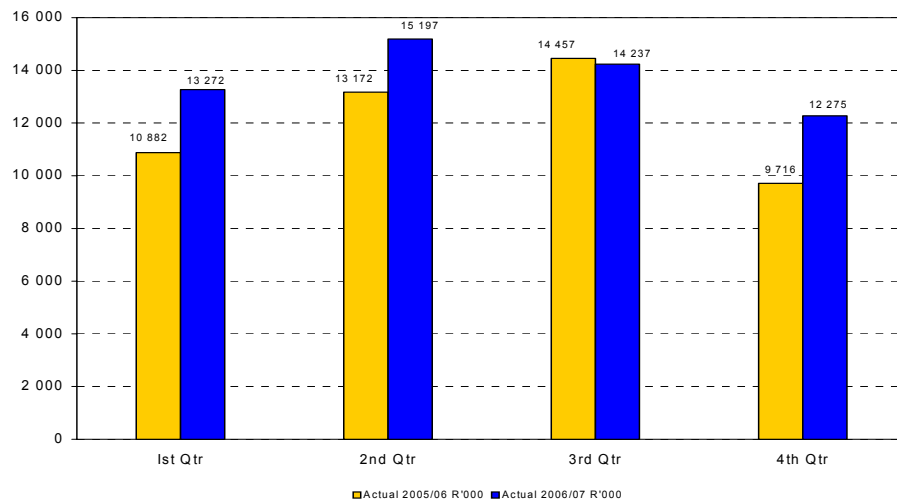
The 2006/07 financial year's original budget allocation for the Provincial Parliament was R63.422 million. In the Adjustments Estimate it was decreased by R5.388 million to R58.034 million. The total decrease of R5.388 million includes a decrease in the Direct Charge to the amount of R1.290 million. R2.905 million or 4.58 per cent, of the adjusted budget was shifted between programmes of the vote.



The Provincial Parliament submitted its Adjustments Budget on time and it was comprehensive in terms of Section 31 of the PFMA.

The figure below compares the quarterly actual expenditure for 2005/06 with 2006/07.

**Figure 1: Quarterly actual expenditure – 2005/06 and 2006/07**



The Provincial Parliament spent R54.981 million or 94.74 per cent of its adjusted budget as at 31 March 2007. With an underspending of R3.053 million or 5.26 per cent of the adjusted budget in 2006/07, the Provincial Parliament's spending outcome for the financial year is above the 2 per cent underspending norm. When compared to the 2005/06 financial year the underspending has decreased, in that, the underspending was R7.771 million or 13.87 per cent of R55.998 million in 2005/06.

There was no fiscal dumping, and no reported unauthorised or irregular expenditure.

Provincial Parliament collected R453 000 in provincial over-own receipts of the R58 000 adjusted budget for the 2006/07 financial year. This recovery was R395 000 or 681 per cent more than the adjusted budget, which was mainly due to increased interest generated on the bank account and financial transactions in assets and liabilities, which was not budgeted for. Most financial transactions are not considered revenue items, but it is still necessary to provide for these transactions. The repayment of loans and advances previously extended to employees, households, private sector and public corporations for policy purposes are treated as receipts within this item. Because of the uncertainty of these transactions most Votes do not provide for income from this source of revenue.

The Provincial Parliament did not revise any tariffs in the 2006/07 financial year.

The Provincial Parliament did not have an actual 'March Spike'. Average monthly spending for the Provincial Parliament amounts to 8.33 per cent, while spending for the month was slightly higher at 9.9 per cent. The Provincial Parliament's spending in March is below the Province's 11.5 per cent spending for March.

The Provincial Parliament generally operates on level 3 and is moving towards a level 4 financial management capability rating.

### **3.2.2 Compliance with Accounting policies and standards**

An assessment of the financial management capability of the department was based on audit findings and IYM monthly reporting, that revealed the following:

#### **Management of and reporting on suspense accounts**

The Provincial Parliament's monthly IYM report indicates that its suspense accounts are cleared on a monthly basis.

#### **Accounting of assets (Asset Management)**

Also the monthly IYM report reflects compliance with the minimum requirements of an Asset Register (Movable Assets).

The acquisition information in the asset register is in the process of being updated and identification, accountability, accounting of assets and disposal of assets information were completed.

#### **Financial reconciliations**

All bank reconciliation's have been performed and reconciling items were cleared.

BAS vs PERSAL, BAS vs LOGIS Assets Register and BAS vs PMG are prepared and signed off by the Chief Financial Officer (CFO).

#### **Supporting documentation**

Management letters of the A-G indicate that all transactions are supported by authentic and verifiable source documents.

The Provincial Parliament has controls in place to ensure that the filing system is effective.

#### **Allocations of transactions in terms of Standard Chart of Accounts**

All expenditure is allocated in terms of the Standard Chart of Accounts.

#### **Accounting treatment of transactions**

The Provincial Parliament's policy is to prepare financial statements on a modified cash basis of accounting as determined by the National Treasury, as set out in accounting policy 1.1 to the financial statements.

## **Procedures for the identification and reporting of:**

### **unauthorised expenditure, fruitless and wasteful expenditure, irregular expenditure**

Steps are in place to ensure that unauthorised, irregular or fruitless and wasteful expenditure are identified and prevented.

### **Management of lease liabilities**

The Provincial Parliament is in the process of implementing an operating lease register.

### **Management of thefts and losses**

Operational procedures are in place to ensure that officials notify and record thefts and losses.

The entity has a measurement tool in place to prevent thefts and losses

### **Monthly reporting of financial information to the CFO/AO**

Monthly reports are prepared by the Chief Financial Officer and submitted to the Accounting Officer on the state of books of account.

### **Assessment**

The Provincial Parliament currently complies with all the prescribed accounting requirements, except for the implementation of an operating lease register, and therefore achieves an overall level 3 financial management capability rating.

## **3.2.3 Normative Financial Management**

This assessment was not undertaken on the Provincial Parliament due to its position in terms of the Constitution.

## **3.2.4 Enterprise Risk Management**

This assessment was not undertaken on the Provincial Parliament due to its position in terms of the Constitution.

## **3.2.5 Cash Management**

This assessment was not undertaken on the Provincial Parliament due to its position in terms of the Constitution.

### 3.2.6 Supporting and Interlinked Financial Systems

This section deals with the implementation and maintenance of Financial Systems as well as the provision of functional assistance and training, to all system users.

#### Review

The evaluation was based on the activities of the 2006/07 financial year and the financial management capability findings were as follows:

**Table 14: Assessment of the Basic Accounting System (BAS)**

Requirements	Standard Level 3	Standard Level 4	Rating
Skilled and capacitated system users	In accordance with profile	Various Modules	4
Month-end closure	Own accord – due date	Own accord – prior date	4
Year-end closure	Own accord – due date	Own accord – prior date	4
System Controller Functions	80 – 90%	91 – 100%	3
Monitor Applicable Interfaces	Weekly	Daily	4
<b>Overall rating</b>			<b>4</b>

The Provincial Parliament obtained an overall rating of level 4 (full compliance) financial management capability.

**Table 15: Assessment of skilled and capacitated system users: training**

Number of officials nominated	Number of officials attended	Number of officials cancelled	Number of officials qualified for a certificate (70% pass rate)	Number of officials not qualifying for a certificate
1	1	0	1	0

Based on statistics provided, 1 delegate was nominated, attended and passed successfully and in addition users are trained in various modules, therefore the Provincial Parliament has been rated as level 4 (full compliance) financial management capability.

#### Month end closure

The Provincial Parliament achieved a rating of level 4 (full compliance) financial management capability as their books were closed on a monthly basis prior to the predetermined dates by National Treasury.

#### Year closure

The Provincial Parliament achieved a rating of 4 (full compliance) financial management capability as their year-end closure was done prior to the predetermined date of the National Treasury.

## System Controller Functions

Based on the following criteria the System Controller function was rated as level 3 (nominal compliance) financial management capability:

- Logging of calls to the Provincial Helpdesk
- Maintenance of Security Profiles
- The reinstate of Transaction Processing Rules
- Requesting/monitoring and distributing of automated Basic Accounting System reports
- Maintenance of segment details
- Maintenance/update of departmental parameters
- Provide practical individual training to users
- Monitor Technical stability of work station including Local area network
- Assisting non-financial users of Basic Accounting System.

## Monitor applicable interfaces

The Provincial Parliament achieved a rating of 4 (full compliance) financial management capability as their interfaces were monitored and reported on a daily basis.

**Table 16: Assessment of Personnel and Salary Administration System (PERSAL)**

Requirements	Standard Level 3	Standard Level 4	Rating
Skilled and capacitated system users	In accordance with profile	Various Modules	2
System Controller Functions	80 – 90%	91 – 100%	3
Establishment Management	Quarterly	Monthly	3
PERSAL/BAS Reconciliation	Monthly by the 20 <sup>th</sup>	Prior to the 20 <sup>th</sup>	3
Adhere to Minimum Information Requirements	Annually	Continuous process	3
Leave Audit	Annually	Continuous process	3
<b>Average rating</b>			<b>3</b>

The Provincial Parliament achieved an overall rating of level 3 (nominal compliance) financial management capability.

**Table 17: Assessment of skilled and capacitated system users: training**

Number of officials nominated	Number of officials attended	Number of officials cancelled	Number of officials qualified for a certificate (70% pass rate)	Number of officials not qualifying for a certificate
1	0	1	0	0

The Provincial Parliament obtained a rating of level 2 financial management capability due to the low number of officials being nominated and not attending courses, as well as not all officials being trained in accordance with their profiles.

The Directorate Supporting and Interlinked Financial Systems is currently in the process of identifying the training gap of all system users and will in co-operation with the Provincial Parliament nominate system users for training in accordance with their profiles. In addition issues of poor attendance will be addressed with the Provincial Parliament.

### **System Controller Functions**

The Provincial Parliament achieved a rating of 3 (nominal compliance) financial management capability for the execution of its system control functions.

### **Establishment Management**

The Provincial Parliament achieved a rating of 3 (nominal compliance) financial management capability as the establishment is maintained on at least a quarterly basis.

### **Adhere to Minimum Information Requirements**

The Provincial Parliament achieved a rating of 3 (nominal compliance) financial management capability as the majority of information is captured on the system.

### **Leave Audit**

The Provincial Parliament achieved a rating of 3 (nominal compliance) financial management capability as the leave audit is updated on at least an annual basis.

**Table 18: Logistical Information System (LOGIS)**

<b>Requirements</b>	<b>Standard Level 3</b>	<b>Standard Level 4</b>	<b>Rating</b>
Skilled and capacitated system users	In accordance with profile	All Modules	3
Days per issue (Service standard)	5 Days	3 Days	3
Stock Management	15.61%	6.19%	3
Financial Controls	Monthly	Continuous process	3
System Control Functions	80 – 90%	91 – 100%	3
<b>Average rating</b>			<b>3</b>

The Provincial Parliament achieved an overall rating of 3 (nominal compliance).

**Table 19: Assessment of skilled and capacitated system users: training**

Number of officials nominated	Number of officials attended	Number of officials cancelled	Number of officials qualified for a certificate (70% pass rate)	Number of officials not qualifying for a certificate
1	1	0	1	0

The Provincial Parliament achieved an overall rating of level 3 (nominal compliance) financial management capability as users are trained in accordance with their current profiles.

#### **Days per issue (service standard)**

The Provincial Parliament achieved a rating of level 3 (nominal compliance) financial management capability as stock is issued within five (5) days.

#### **Stock Management**

The Provincial Parliament achieved a rating of level 3 (nominal compliance) financial management capability for its control over inventories and assets.

#### **Financial Controls**

The Provincial Parliament achieved a rating of level 3 (nominal compliance) financial management capability as financial controls are executed on at least a monthly basis.

#### **System Control functions**

The Provincial Parliament achieved a rating of level 3 (nominal compliance) financial management capability for its system control functions.

**Table 20: Management Information System (Vulindlela)**

Requirements	Standard Level 3	Standard Level 4	Rating
Percentage of registered users using the system on a regular basis	80 – 90%	100%	3

**Table 21: Usage of the Management Information System (Vulindlela)**

Number of registered users	Number of registered users using the system on a regular basis	Number of registered users not using the system on a regular basis	Percentage active users
5	4	1	80%

The Provincial Parliament obtained a rating of level 3 (nominal compliance) financial management capability due to the fact that only 80 per cent of registered users utilise the system on a regular basis.



### **Provincial Treasury intervention**

The Directorate Supporting and Interlinked Financial Systems will discuss the further role out of Vulindlela with the Provincial Parliament and address any further user requirements they might have.



## 3.3 Provincial Treasury

### 3.3.1 Performance Management

#### 3.3.1.1 Non-financial Information

This section provides a high level assessment of the Department's non-financial performance and makes a judgment on the level of that performance, in line with the financial management framework. As mentioned in the methodology section, this framework is evolutionary and its refinement iterative. The assessment includes the Strategic and Performance Plan; and Annual and Quarterly Performance Reports. The former two documents are tabled in the Legislature, while Quarterly Performance Reports, as of 2007, are tabled in Cabinet.

The assessment gauges key aspects of the Department's performance management system, and considers whether the Department has reached a level 3 competency level, and expresses a view on the extent to which the Department is moving towards a level 4 organisation. This evaluation assesses the 2006/07 Annual Report and the 2006/07 and 2007/08 Annual Performance Plans. There may, however, be some areas of a Department's performance framework that display a level 4 competency, while others have yet to reach a level 3-competency level.

The departmental APP 2006/07 and Annual Report 2006/07 have been used as the base documents for this assessment. The introduction of the requirement for government departments to submit progress reports on their non-financial performance offers an opportunity to assess how far government departments are in implementing government programmes and policies to improve service delivery.

For the period under review, emphasis has been on ensuring that the Department formulates clear measurable objectives and set realistic and measurable targets. The aim is to ensure that the departmental APP when read together with the Annual Report reflects clearly and concretely stated performance expectations; performance accomplishments reported against expectations; demonstrated capacity to learn and adapt; and the information obtained and communicated is fair and reliable. The emphasis in this assessment is more on the compliance side than determining whether the Department performance is responsive to the needs of the broader society.

#### **Annual Report 2006/07 and Annual Performance Plan 2006/07**

The performance measures defined in the 2006/07 Annual Performance Plan (APP) are generally consistent with the performance measures reported in the 2006/07 Annual Report. However, the performance targets cited in both documents are not always consistent in terms of the unit of measurement (e.g. percentages versus numbers). Reasons for not achieving sub programme targets are identified at sub programme level. These reasons for deviations between planned and actual outputs are more generic and do not refer specifically to the relevant targets.

## APP 2007/08

The APP conforms to the generic format for APPs prescribed by National Treasury for Provincial Treasuries with measurable objectives and performance measures assigned to budget programmes and corresponding sub-programmes.

The Department has clearly mapped its strategic objectives to the measurable objectives in the APP in a logically consistent manner. The measurable objectives in turn have been clearly mapped to the performance measure indicators and targets in the APP. However, in some cases the performance measure indicators are not clearly defined and/or measurable. The mapping is illustrated in the APP by means of tables for each sub-programme, which define strategic objectives for each strategic goal. The table below illustrates the above by means of an example from the APP.

Sub-programme 2.5: Budget management		Strategic Goal 8: To promote effective financial resource allocation.						
Strategic Objective	Measurable Objective	Performance Measure Indicator	Actual 2004/05	Actual 2005/06	2006/07 Estimate	2007/08 Budget	2008/09 Target	2009/10 Target
1. To co-ordinate and guide the process to determine provincial priorities and recommend financial resource allocation, which effectively contributes to accelerated and shared economic growth in the province.	1.1 Drive strategy and publication of medium term fiscal policy which activates/enables implementation of national, provincial and departmental policy priorities and achievement of desired socio-economic outcomes.	Date of tabling of the MTBPS.	WC-MTBPS 2005 – 2008 tabled during November 2004.	WC-MTBPS 2006 – 2009 tabled in Nov 2005.	WC-MTBPS 2007 – 2010 tabled in Nov 2006.	WC-MTBPS 2008 – 2011 tabled in Nov 2007.	WC-MTBPS 2009 – 2012 tabled in Nov 2008.	WC-MTBPS 2009 – 2012 tabled in Nov 2009.
		Quality of MTBPS.	WC-MTBPS 2005 – 2008 accepted by executive.	Executive approval of MTBPS.	Executive approval of MTBPS.	Executive approval of MTBPS.	Executive approval of MTBPS.	Executive approval of MTBPS.
		Quality of discussion at bilateral MTEC 1 engagements with provincial departments and extent to which they impact on quality of policy and budget planning for upcoming MTEF.	MTEC reports completed.	MTEC reports completed.	MTEC reports completed.	MTEC reports completed and recommendations considered by departments.	MTEC reports and their recommendations considered by departments.	MTEC reports and their recommendations considered by departments.

A number of the other performance indicator targets in the APP are expressed as percentages and according to National Treasury these targets should comprise of baseline numbers. The Department also provides quarterly targets for all performance measure indicators in its APP.

### Conclusion

The Department is close to a competency level 3 in relation to the key aspects of the performance management system examined in this assessment. The Treasury needs to improve the measurability of its performance measures, quantify a number of its targets in absolute terms, indicate the baseline numbers where percentages are used and ensure that the same unit of measurement is used for the performance measure, target and actual performance.

#### 3.3.1.2 Financial Information

From a public finance perspective, the following has been noted regarding the performance of Provincial Treasury:

- The Department submits its In-year Monitoring (IYM) report on revenue and expenditure to Treasury on or before the 15th day after the end of a reporting month in terms of the requirements in section 40(4)(c) of the Public Finance Management Act, 1999 (Act 1 of 1999).
- The Department ensured that the expenditure reconciled to the BAS/Vulindlela financial system consistently on a monthly basis.

The table below compares the actual expenditure against the projections on a quarterly basis for 2006/07:

**Table 22: Quarterly Analysis on projections: 2006/07**

R000	April	May	June	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Total
First Quarter	7 589	8 780	10 519	11 680	11 473	11 184	10 963	11 564	11 304	11 280	10 662	15 233	132 231
%	5.74%	6.64%	7.96%	8.83%	8.68%	8.46%	8.29%	8.75%	8.55%	8.53%	8.06%	11.52%	100.00%
Second Quarter	7 589	8 780	10 520	10 289	8 741	11 712	11 913	12 157	11 968	11 422	12 211	16 944	134 246
%	5.65%	6.54%	7.84%	7.66%	6.51%	8.72%	8.87%	9.06%	8.91%	8.51%	9.10%	12.62%	100.00%
Third Quarter	7 589	8 780	10 520	10 289	8 741	10 686	11 043	10 467	9 071	15 750	16 362	13 206	132 504
%	5.73%	6.63%	7.94%	7.77%	6.60%	8.06%	8.33%	7.90%	6.85%	11.89%	12.35%	9.97%	100.00%
Fourth Quarter	7 589	8 780	10 520	10 289	8 741	10 686	11 043	10 467	9 071	13 390	13 172	20 188	133 936
%	5.67%	6.56%	7.85%	7.68%	6.53%	7.98%	8.24%	7.81%	6.77%	10.00%	9.83%	15.07%	100.00%

*Shaded: Actuals*

*Unshaded: Projections*

- The Department needs to make its forecasts more realistic, as the forecast in a prior quarter differs from actual expenditure. Projections (unshaded) seem to increase on a monthly basis, while actual expenditure (shaded) is mostly lower than projected expenditure.
- The Department's original budget for the 2006/07 financial year was R134.246 million. No additional funds were requested during the Adjusted Estimate process, however, there were funds shifted between programmes within the vote and funds shifted within programmes. Shifting of funds between programmes within the vote constituted R2.699 million i.e. 2 per cent of the budget while R488 000 were shifted within programmes i.e. 0.36 per cent of the budget. With the latter not exceeding the 2 per cent norm; the Department's budget seems to be credible.
- The virements effected within 2006/07 amounted to R2.846 million (2.1 per cent of the budget); from Programme 3: Asset and Liabilities Management to Programme 1: Administration for an amount of R310 000, Programme 2: Sustainable Resource Management for an amount of R1.084 million and Programme 4: Financial Governance for an amount of R1.452 million. The Department also obtained the necessary virement approval.
- The Department ensured the timely submission of the Adjustments Budget and it was comprehensive in terms of Section 31 of the PFMA.
- The total expenditure incurred in 2006/07 for the Department amounted to R133.936 million constituting 99.8 per cent of the budget. Effectively this means the Department under spent by 0.2 per cent, which is well below the 2 per cent under spending norm.

- There was also no fiscal dumping and no reported irregular or unauthorised expenditure in 2006/07.
- The Provincial Treasury collected R341.33 million in provincial own receipts compared to the R292.30 million adjusted budget for the 2006/07 financial year. This recovery was R49.03 million or 16.8 per cent more than the adjusted budget, which was mainly due to increased collection on casino and horseracing taxes due to higher than anticipated gambling activities in the Western Cape Province and financial transactions in assets and liabilities, which was not budgeted for.
- The main appropriation for provincial own receipts for the 2007/08 financial year is R336.62 million, which is R4.72 million or 1.4 per cent less than the actual collection of R341.33 million in the 2006/07 financial year.

The Department's expenditure trends show a March spike. The March 2007 expenditure (R20.188 million) makes up for 15.07 per cent of the total expenditure (R133.936 million). This is mostly reflected within the Goods and Services classification and is largely due the payments for consultants, auditor fees and State Information Technology Agency (SITA). It is important to note that the SITA costs have now been decentralised.

The Provincial Treasury generally operates on level 3 and is moving towards a level 4 financial management capability rating.

### **3.3.2 Compliance with Accounting Policies and Standards**

An assessment of the financial management capability of the department based on audit findings and monthly IYM reports revealed the following:

#### **Management of and reporting on suspense accounts**

Suspense, control and disallowance accounts were regularly followed-up and cleared within a reasonable period of time. Monthly reconciliations of control and suspense accounts were performed timeously which made it possible for the department to close their books successfully on a monthly basis. BAS reports of the Department were reviewed on a monthly basis in order to monitor the progress in the clearance of the suspense and control accounts. The Department currently operates at a level 3 financial management capability.

#### **Accounting of assets (Asset Management)**

The Department reported that they complied with the minimum requirements of an Asset Register in terms of the acquisition (assets register updated), identification, accountability and accounting of assets.

During the audit performed by the Auditor-General it was established that assets recorded on the asset register could not be verified. The existence of the assets could not be determined, which may lead to assets being misappropriated and undetected losses being incurred by the department. Adequate controls should be exercised over assets to ensure that all movement is recorded in the asset register. Regular spot checks on assets should also be performed to identify missing assets in order to move

to level 3 financial management capability. The Department currently operates at a level 2 financial management capability.

### **Financial reconciliations**

Reconciliations are performed as prescribed i.e., PMG/BAS interface, PERSAL/BAS interface, BAS/LOGIS reconciliation which enabled the Department to close its books on BAS successfully on a monthly basis. The Department currently operates at a level 3 financial management capability.

### **Supporting documentation**

The sources of the transactions are readily identifiable and supported by authentic and verifiable source documentation, enabling the department to follow-up and clear balances within a reasonable period of time. However, issues such as the availability of authentic and verifiable source documentation for Department 70 need to be resolved in order to clear all the accounts and to close the department successfully. The Department currently operates at a level 3 financial management capability.

### **Expenditure – Payments and journals**

Payments to the value of R156 245.15 were made to suppliers after year-end on BAS for which the invoices and related goods/services were received in March 2007 were not disclosed as accruals at the end of the financial year. Consequently accruals were understated. On the other hand goods and services were not received prior to year-end but were included in accruals and the same amounts were also reflected as commitments to the financial statements. Accruals were therefore also overstated by R135 409.40. The Department should ensure that all goods/services received prior to year-end for which the invoice had not yet being received are disclosed as accruals in the financial statements in order to move to level 3 in terms of the financial management capability model. The Department currently operates at a level 2 financial management capability.

### **Procedures for the identification and reporting of unauthorised, fruitless and wasteful and irregular expenditure**

It was observed by the Auditor-General that certain payments are not authorised i.t.o the delegated authority. If amounts are not authorised within the approved delegation framework it could result in irregular expenditure being incurred by the Department. All expenditure should be approved according to the Delegations of Powers in terms of the Accounting Officer's financial delegations. The Department currently operates at a level 2 financial management capability.

### **Recording and maintenance of state guarantees**

The Department indicated that all state guarantee information has been obtained from the respective banking institutions and updated on PERSAL as well as reconciled to the information on the personal files of officials. The Department currently operates at a level 3 financial management capability.

### **Management of lease liabilities**

The Department indicated that that an operating lease register has not been implemented and updated yet, but is in the process of doing so. The Department currently operates at a level 2 financial management capability.

### **Management of thefts and losses**

The Department reported that it has effective control measures in place regarding the management of thefts and losses and thus there were no audit findings for financial period under review. The Department currently operates at a level 3 financial management capability.

### **Management of contingent liabilities**

The Department reported that it has effective control measures in place regarding the management of contingent liabilities and only reflected an amount of R21 000 in the financial statements for the year ended 31 March 2007. The Department currently operates at a level 3 financial management capability.

### **Monthly reporting of financial information to the CFO/AO/EA/Department**

It was noted that monthly compliance reporting to Provincial Treasury took place according to legislative requirements. Financial reports were provided to the Accounting Officer on uncleared transactions and followed up on a monthly basis by the Chief Financial Officer. The Department currently operates at a level 3 financial management capability.

### **Western Cape Gambling and Racing Board**

The Western Cape Gambling and Racing Board (WCGRB), established in 1977 in terms of the Western Cape Gambling and Racing Law, resorts under the Provincial Treasury. .

### **Management of and reporting on suspense accounts**

The entity has adequate controls in place to monitor its suspense accounts. The debtor's collection period for the WCGRB is 17 days for 2006/07, which is well within the norm of 50 days. This is indicative of a financial management capability level 3 rating.

## **Accounting of assets**

The Auditor-General reported that no evidence could be obtained that the useful lives and residual values of each asset of the WCGRB is reviewed at least annually and that the assets are subsequently depreciated over the estimated useful lives. This is indicative of a level 2 financial management capability, and it is recommended that the residual values and useful lives of each significant asset should be reviewed annually and subsequent changes of estimates should be accounted for as a change in estimate.

## **Authorisations**

The Auditor-General reported that the WCGRB “request to invoice” (RTI’s) for income is prepared, captured and authorised by the same individual. This is indicative of a Level 2 financial management capability, and it is recommended that the entity implement adequate controls and take the necessary steps to ensure that the segregation of duties are in place and that supporting documentation is reviewed by the duly authorised senior staff member and signed off as evidence of authorisation and review.

## **Expenditure – Payments and Journals**

In terms of the thresholds issued by the National Treasury (Supply Chain Management Office- Practice note number SCM 2 of 2005), accounting officials/authorities should apply the approved thresholds when procuring for goods and services, hiring and letting anything, acquiring or granting of any right or disposing of movable state property: Accounting officers/authorities should invite competitive bids for all procurement above the approved threshold. This is indicative of a Level 2 financial management capability.

It is recommended that the entity implement adequate controls to ensure that all contracts awarded, when determining transactions values, the requirement of goods, works and services, the awarding of bids/contracts are fair and as far as possible, treated and dealt with as a single transaction, to comply with National Treasury Regulations.

### **3.3.3 Normative Financial Management**

#### **Introduction**

The findings discussed in this section provide a review of the PFMA implementation and financial management improvement of the department in line with the provincial strategy of reaching a level 4 Auditable Organisation (Financial Management Capability Model).

The source documents used were the Normative Measures For Financial Management for departments and the PFMA Compliance Checklist for Public Entities for the quarter ending 30 June 2007 as well as the 2006/07 Auditor-General reports for the department and the public entity.

## **Analysis of normative measures quarterly report**

### **The CFO structure**

The main concern in the department is the current vacancy rate indicated at 17 per cent, which is well above the national norm of 5 per cent. The average length to fill posts is six months compared to the national norm of three months. Staff turnover seems to be a problem and no plan is in place to ensure that the length of vacancies is brought more in line with the National norm.

### **Asset Management**

The Department indicated that no policy and procedure manual for the effective management of asset has been developed.

### **Tabling of Annual Report**

The public service strike during the first part of the year had an effect on the annual reporting process. As a result, the Auditor-General was granted extension till 31 August 2007 to submit their Audit Report. Consequently, the department did not comply with section 40(1)(d) of the PFMA by submitting their annual report to the Provincial Treasury (31 August 2007). However, the department submitted the required amount of their final annual report to the Provincial Treasury on the same date as the tabling date, 28 September and complied with the section 65 (1) of the PFMA.

### **Auditor-General's report on the 2006/07 financial year**

The Provincial Treasury received an Unqualified audit opinion with no emphasis of matter for the 2006/07 financial year. In addition there were no other matters or other reporting responsibility matters in the audit report, which is considered a clean report. This is the second year in succession that the Provincial Treasury received a clean audit report.

### **Financial Management Capability Model-assessment**

Based on the Auditor-General's reports for the 2005/06 and 2006/07 financial years together with the management reports, the financial management in the department improved. The Provincial Treasury maintained its standard of a level 3 auditable organisation.

## **Western Cape Racing and Gambling Board**

### **Auditor-General's report on the 2006/07 financial year**

The Western Cape Gambling and Racing Board received an unqualified audit opinion with no Emphasis of Matter for the 2005/06 financial year.

For the 2006/07 the entity received under the new audit-reporting format an unqualified audit opinion with no Emphasis of Matter or other matters.



## **Financial Management Capability Model-assessment**

Based on the Auditor-General's reports for the 2005/06 and 2006/07 financial years, the Western Cape Gambling and Racing Board maintained its high standards and remains a level 3 auditable organisation.

### **3.3.4 Enterprise Risk Management**

The section provides guidance, criteria, and norms and standards for the attainment of levels of enterprise risk management in terms of the financial management capability model. It is anticipated that this will assist management in being able to identify underlying problems and focus on areas to improve the enterprise risk management processes.

Departments will not be assessed on Level 3 and 4 because of the immaturity of enterprise risk management within the provincial government.

#### **Proper control framework (Level 1)**

Includes all scenarios where the Department has not implemented all the criteria required to obtain a level 2 assessment.

A proper internal control framework and financial accounting processes have been developed (Level 2)

#### **Strategic Risk Assessment**

A Strategic risk assessment was conducted for the Department, risk response strategies were developed and it was found that the organisational structure supports processes developed.

#### **Way forward**

The Chief Risk Officer needs to assign strategic risks identified to senior management (risk owners) for the required management attention and treatment. Once risks are allocated to SMS members, their performance agreements should be amended to include their responsibility for the management of risk.

The Department obtained a level 2 (partial compliance) financial management capability rating on the above.

#### **Internal Environment**

A risk management philosophy and a management's philosophy were not developed for the Department. The risk appetite of the Department is also not defined.

#### **Way forward**

A risk management and management philosophy needs to be developed for the Department, to emphasise the importance of risk management and to hold management accountable to the management of risk. The Department must define

their risk appetite, i.e. the amount of risk the Department is willing to accept in the pursuit of their objectives. All vacancies in the ERMGS unit need to be filled to ensure the success of risk management in the Department.

The Department obtained a level 1 rating on the above.

### **Operational Risk Assessment**

The risk event identified during the operational risk assessment in 2004 was assessed on an inherent level. Existing controls, gaps, control gaps are identified on a continuous basis by means of process and control mapping initiatives.

### **Way forward**

The Department should conduct annual risk assessment and the risk events identified, should be allocated to the relevant risk owners for the required management attention and treatment.

The Department obtained a level 2 (partial compliance) financial management capability rating on the above.

### **How will the department move to level 3?**

The Department needs to address the shortcomings/way forward discussed above as well as the following:

#### **Internal Environment**

Compliance to commitment to competence displayed in appointment and development practices

Compliance to assignment of authority and responsibility

Compliance to writing and communicating Risk Management Philosophy to staff

Compliance to Management's philosophy and operating style reflecting acceptance of risk management principles

Compliance to define the Departments risk appetite

#### **Event Identification**

Risk events are identified at least annually and are incorporated into daily activities

Risk events are grouped in terms of event categories

#### **Risk Assessment**

Risks are assessed on a residual risk basis

## Control Activities

Control activities are designed to address risk events

Control activities are designed using a recognised control framework

## Information and Communication

Pertinent information is collected

Integrated systems to analyse information is available

Information is communicated in the right quantity to the right person at the right time

## Monitoring:

The risk management process is subject to ongoing internal evaluation and to regular internal audit evaluation

### 3.3.5 Cash Management

This section deals with the implementation and management of sound cash flow practices as well as the provision of assistance and training in respect of the official banking system within the Provincial Government of the Western Cape.

The financial management capability assessment was based on the activities of the Provincial Treasury during the 2006/07 financial year and the findings were as follows:

**Table 23: Assessment of cash flow management**

Requirements	Standard Level 3	Standard Level 4	Rating
Staff skilled & Capacitated in Cash Management	In accordance with profile	All functions on the Cash Management System	3
Submission of Annual Provincial Cashflow Projections	By 28 February	By 15 February	3
Deviation between monthly projections & actual expenses	5%	3%	2
Monthly Own Revenue Payover	2 working days prior to month end	3 working days prior to month end	3
Repayment of Surplus Funds	31 May	15 May	3
Submission of monthly Bank Reconciliation	Within 30 days after month end	Within 15 days after month end	3
Beneficiary Payments (Direct Transfers)	1% of Total Payments	0.50% of Total Payments	4
<b>Average rating</b>			<b>3</b>

The Department achieved an overall rating of level 3 (nominal compliance) financial management capability.

### Skilled and capacitated system users

The Department obtained a rating of level 3 (nominal compliance) financial management capability. All system users were trained in accordance with their profiles, during the implementation of the new official banker's system.

### Submission of Annual Provincial Cash-flow Projections

The Department obtained a rating of level 3 (nominal compliance) financial management capability.

**Table 24: Deviation between monthly projections and actual expenses**

	Project	Actual	%	Rating
APRIL'06	10,212	7,172	30	2
MAY'06	11,178	7,827	30	2
JUNE'06	11,295	10,031	11	2
JULY'06	12,326	9,507	23	2
AUG'06	11,629	10,563	9	2
SEP'06	10,840	9,459	13	2
OCr06	10,413	11,263	(8)	2
NOV'06	10,536	10,897	(3)	2
DEC'06	10,448	9,041	13	2
JAN'07	11,081	10,766	3	2
FEB'07	10,587	9,825	7	2
MRC'07	13,701 2	27,895	(104)	2
<b>Sub-Total</b>	<b>134,246</b>	<b>134,246 2</b>		<b>2</b>

**Table 25: Assessment of the revised forecast (after Adjustment budget)**

MRC '07			
Adjustment	13,701	13,701	
<b>Total</b>	<b>147,947</b>	<b>147,947</b>	<b>100</b>

The Department achieved a rating of level 2 (partial compliance) financial management capability. PT will support and assist the department to determine reasons for the variances and to compile more credible projections in future.

### Monthly Own Revenue Pay-over

The Department obtained an average rating of level 3 (nominal compliance) financial management capability. Revenue is being paid over monthly 2 working days prior to month end.

### Repayment of Surplus funds

The Department obtained a rating of level 3 (nominal compliance) financial management capability. Surplus funds were paid to the PRF on 29 May 2007.

### Submission of monthly Bank Reconciliations

The Department was rated at level 3 (nominal compliance) financial management capability. The monthly bank reconciliation is submitted within 30 days after month end.

### Beneficiary Payments (Direct Transfers)

The Department achieved a rating of level 4 (full compliance) financial management capability.

**Table 26: Beneficiary payments**

Payments	Beneficiary Payments	%
1153	5	0.43

### 3.3.6 Supply Chain Management

The strategic goal for the Provincial Treasury in respect of SCM for the 2007/08 financial year is to ensure that departments embrace supply chain management as a strategic directive that delivers continual cost and value improvements resulting in cost effective future planning, mitigation of risk in supply chain management, leveraged buying power and a smoother acquisition process. This implies that departments move from a level 3 auditable rating to a level 4.

When addressing whether or not the department meets the current financial capability model in terms the SCM requirements, it must be noted that the department has been measured from two perspectives; firstly as a department/vote on its own and secondly in terms of its mandate in terms of Section 18 of the PFMA.

The Department meets the level 3 financial management capability criteria for SCM in respect of the following:

- The Department meets the legislative and policy framework requirement, in that it has an Accounting officers system in terms of Section 38 (1) (iii) (c) of the PFMA as well as its SCM Delegations;
- The Department has the necessary bid committee system in place to enable it to give effect to the competitive bidding process;
- The necessary mechanisms and controls are in place to monitor SCM;
- A Transversal Contract Policy (issued as Provincial Treasury Instructions) and Procedural Manual has been implemented;
- Delegations in respect of the Provincial Treasury Instructions have been issued thereby empowering the unit dealing with transversal contracts to give effect to the process;
- The Directorate has met National Treasury's requirements for reporting on procurement related matters;

- SCM training courses have been facilitated and arranged for provincial departments;
- SCM and VFM compliance assessments have been performed; to assess the state of SCM within provincial departments;
- Project dashboards assessments completed for all departments and risks logged to establish a sense of where provincial departments are in respect of the National Treasury Implementation plan for moveable asset management, and
- Contract repository has been implemented and maintained to allow for a monitoring mechanism to be housed so that the PT has an overall picture on the manner, target market, suppliers, HDI requirements as well as period of contract of provincial departments

The A-G's report highlighted no emphasis of matter on SCM issues thus giving Provincial Treasury a clean audit report.

#### **Steps to be taken to transform the Department to the next financial management capability level (level 4)**

Although, the Department has a framework in place that meets the level 3 financial management capability requirements, it must be noted that this policy framework needs to be aligned to current regulatory frameworks thereby allowing the Department at the current level to move to level 4 financial management capability.

### **3.3.7 Supporting and Interlinked Financial Systems**

This section deals with the implementation and maintenance of Financial Systems as well as the provision of functional assistance and training, to all system users.

#### **Review**

The evaluation was based on the activities of the 2006/07 financial year and the findings were as follows:

**Table 27: Assessment of the Basic Accounting System (BAS)**

<b>Requirements</b>	<b>Standard level 3</b>	<b>Standard level 4</b>	<b>Rating</b>
Skilled and capacitated system users	In accordance with profile	Various Modules	2
Month-end closure	Own accord - due date	Own accord - prior date	3
Year-end closure	Own accord - due date	Own accord - prior date	4
System Controller Functions	80 - 90%	91 -100%	3
Monitor Applicable Interfaces	Weekly	Daily	4
<b>Average rating</b>			<b>3</b>

**Table 28: Assessment of skilled and capacitated system users:**

Number of officials nominated	Number of officials attended	Number of officials cancelled	Number of officials qualified for a certificate (70% pass rate)	Number of officials qualified for a certificate
24	17	7	14	3

The Department obtained a rating of level 2 (partial compliance) financial management capability, mainly due to the high percentage of officials being nominated and not attending courses as well as not all officials trained in accordance with their profiles.

The Directorate Supporting and Interlinked Financial Systems are in the process of identifying the training gap of all users and will in co-operation with the Chief Financial Officer nominate their users for training in accordance with their profiles as a matter of urgency. In addition the poor attendance of officials will in co-operation with the Chief Financial Officer be addressed.

#### **Month end closure**

The Department achieved a rating of level 3 (nominal compliance) financial management capability as their books were closed on a monthly basis in accordance with the predetermined dates set by National Treasury.

#### **Year closure**

The Department achieved a rating of level 4 (full compliance) financial management capability as their year-end closure was done prior to the predetermined date set by National Treasury.

#### **System Controller Functions**

Based on the following criteria the System Controller function was rated as level 3 (nominal compliance) financial management capability:

- Logging of calls to the Provincial Helpdesk
- Maintenance of Security Profiles
- The reinstate of Transaction Processing Rules
- Requesting/monitoring and distributing of automated Basic Accounting System reports
- Maintenance of segment details
- Maintenance/update of departmental parameters
- Provide practical individual training to users
- Monitor Technical stability of work station including Local area network
- Assisting non-financial users of Basic Accounting System.

## Monitoring applicable interfaces

The Department achieved a rating of level 4 (full compliance) financial management capability as their interfaces were monitored and reported on a daily basis.

**Table 29: Assessment of the Personnel and Salary Administration System (PERSAL)**

Requirements	Standard level 3	Standard level 4	Rating
Skilled and capacitated system users	In accordance with profile	Various Modules	2
System Controller Functions	80 - 90%	91 -100%	3
Establishment Management	Quarterly	Monthly	3
PERSAL/BAS Reconciliation	Monthly by the 20th	Prior to the 20th	3
Adhere to Minimum Information Requirements	Annually	Continuous process	2
Leave Audit	Annually	Continuous process	3
<b>Average rating</b>			<b>3</b>

The Department achieved an overall rating of level 3 (nominal compliance) financial management capability.

**Table 30: Assessment of skilled and capacitated system users**

Number of officials nominated	Number of officials attended	Number of officials cancelled	Number of officials qualified for a certificate (70% pass rate)	Number of officials qualified for a certificate
21	12	9	11	1

The Department obtained a rating of level 2 (partial compliance) financial management capability due to the high percentage of officials being nominated and not attending courses as well as not all officials being trained in accordance with their profiles.

The Directorate Supporting and Interlinked Financial Systems is currently in the process of identifying the training gap of all system users and will in co-operation with the department nominate system users for training in accordance with their profiles. In addition issues of poor attendance will be addressed with the department.

## System Controller Functions

The Department achieved a rating of level 3 (nominal compliance) financial management capability for the execution of its system control functions.



## Establishment Management

The Department achieved a rating of level 3 (nominal compliance) financial management capability as the establishment is maintained on at least a quarterly basis.

## Adhere to Minimum Information Requirements

As not all information is captured on the system, the Department achieved a rating of a level 2 (partial compliance) financial management capability.

Reports indicating the outstanding information are available and are provided by the Directorate Supporting and Interlinked Financial Systems to departments on request. The situation will be monitored by the Directorate Supporting and Interlinked Financial Systems to ensure compliance.

## Leave Audit

The Department achieved a rating of level 3 (nominal compliance) financial management capability as the leave audit is updated on at least an annual basis.

**Table 31: Assessment of the Logistical Information System (LOGIS)**

Requirements	Standard level 3	Standard level 4	Rating
Skilled and capacitated system users	In accordance with profile	All Modules	2
Days per issue (Service 5 standard)	Days 3	Days 2	2
Stock Management	15.61%	6.19%	3
Financial Controls	Monthly	Continuous process	2
System Control Functions	80 - 90%	91 -100%	2
<b>Average rating</b>			<b>2</b>

The Department achieved an overall rating of level 2 (partial compliance) financial management capability.

**Table 32: Assessment of skilled and capacitated system users: training**

Number of officials nominated	Number of officials attended	Number of officials cancelled	Number of officials qualified for a certificate (70% pass rate)	Number of officials qualified for a certificate
37	34	3	31	3

The Department obtained a rating of level 2 (partial compliance) financial management capability, mainly due to the current users not all having received training in accordance with their profiles.

The Directorate Supporting and Interlinked Financial Systems is currently in the process of identifying the training gap of all system users and will in co-operation with the Chief Financial Officer nominate these users for training in accordance with their profile.

#### **Days per issue (service standard)**

In accordance with national norms and standards, the days per issue should be less than 3 days to achieve full compliance (level 4), less than 5 days for nominal compliance (level 3) and less than 20 days for partial compliance (level 2).

The average days per issue during the 2006/2007 financial year was 12 days, the performance of the Department is therefore below standard.

The Directorate Supporting and Interlinked Financial Systems will assist the Chief Financial Officer in revisiting the current procedures and processes regarding the issuing of goods, to ensure compliance.

#### **Stock Management**

The Department achieved a rating of level 3 (nominal compliance) financial management capability for its control over inventories and assets.

#### **Financial Controls**

The Department achieved a rating of level 2 (partial compliance) financial management capability.

It is essential that the BAS/LOGIS reconciliation is done on a monthly basis. These reconciliations were not done on a monthly basis and was only brought up to date in the latter part of the 2006/07 financial year with the assistance of the Directorate Supporting and Interlinked Financial Systems.

The Office of the Chief Financial Officer is however now in a position to complete the BAS/LOGIS reconciliations, on a monthly basis.

#### **System Control functions**

The Department achieved a rating of level 2 (partial compliance) financial management capability. The main reasons being that the procurement advices are not approved on a regular basis, password confidentiality is not maintained and not all payments for goods and services are processed through LOGIS.

These issues will be addressed by the Directorate Supporting and Interlinked Financial Systems as part of the training of users in accordance with their profiles.

**Table 33: Assessment of the Management Information System (Vulindlela)**

Requirements	Standard Level 3	Standard Level 4	Rating
Percentage of registered users using the system on a regular basis	80 - 90%	100%	2

**Table 34: Assessment of usage of the Management Information System (Vulindlela)**

Number of regular users	Number of registered users using the system on a regular basis	Number of registered users not using the system on a regular basis	Percentage active users
60	42	18	70

The Department obtained a rating of level 2 (partial compliance) due to the fact that only 70 per cent of registered users utilise the system on a regular basis.

The Directorate Supporting and Interlinked Financial Systems will, in cooperation with the Chief Financial Officer, re-evaluate the need of the 18 registered users who do not use the system on a regular basis. In addition, discuss the further role out of Vulindlela within the department and address any further user requirements they might have.

## 3.4 Department of Community Safety

### 3.4.1 Performance Management

#### 3.4.1.1 Non-financial information

The purpose of this section is to assess the key aspects of the Department of Community Safety's performance management system. The assessment is being based on the 2006/07 Annual Report, the 2006/07 Annual Performance Plan (APP) and the 2007/08 APP as discussed in the section on methodology. The aim of the assessment is to examine whether the Department of Community Safety has reached a level 3-competency level, and the extent to which the Department is moving towards a level 4. A department can only be considered for a level 4-competency evaluation, if all aspects of its performance management system operate at a level 3. There may, however, be some areas of a department's performance framework that displays a level 4-competency, while others have not yet reached a level 3-competency level.

#### **Compliance with reporting format for the non-sectoral departments**

The Department of Community Safety has reported on almost all the measurable objectives, performance measures and targets that are defined in the 2006/07 APP. The Annual Report contains a column for output that is not in the APP. In programmes 2, 3 and 4 the first column for strategic objective has been replaced with the column for the sub-programme and the name of the sub-programme. There are also areas where the actual targets achieved are not in line with the planned targets reflected in the Annual Report. This is especially the case in sub-programmes 3.2 and 3.3. For example, in sub-programme 3.2, 'Provincial Security Operations' the 2006/07 the target is aimed at reducing theft at buildings by 80 per cent. The actual target is 121. The link between the actual target and the planned target is not clear in this case.

#### **Comparing the 2006/07 Annual Report with the 2006/07 Annual Performance Plan**

The Annual Report compares fairly well with the APP for the corresponding period. A number of gaps or inconsistencies between the 2006/07 APP and the Annual Report were identified particularly in sub-programmes 2.3, 3.2, 3.3, 4.2, and 4.3. For example, sub-programme 2.3, 'Community Liaison' includes four output performance measures that are not in the 2006/07 APP. There are also cases where the wording of the performance measure or output has been adjusted. In sub-programme 3.2: Provincial Security Operations, for example the performance measure has been changed from "Measure against service level agreement requirements; the number of complaints and number of incidents occurred, e.g. theft". The performance measure in the Annual Report reads "Measure against actual monitoring, the number of onsite visitors". There is no link between the two performance measures.

Most units of performance measurement between the APP and the Annual Report are the same. There are however cases where the units of measurements between the APP and the Annual Report are different. For example in sub-programme 4.2, 'Traffic Law Enforcement' the number of kilometers to be patrolled is 50 000 km in the APP but the Annual Report has 65 000 km.

In most cases the Department has achieved its planned targets. There are however, areas where targets have been underachieved or overachieved. Reasons or challenges for underperformance are not always provided. In cases where reasons for underperformance have been provided, the responses to these challenges are not always clear or related to the achievement of the stated objectives. For example, sub-programme 2.2, 'Crime Prevention Centre includes a performance measured to present alcohol abuse programmes to 100 high schools. The actual number of high schools at which the alcohol abuse programmes were presented is 28. The reason provided for underperformance is that, the presentation to 100 schools was never included in the Business Plan for 2006/07.

### **2007/08 Annual Performance Plan**

The 2007/08 Annual Performance Plan for the Department complies with the programme structure prescribed by National Treasury. The formulation of performance measurement has improved in the 2007/08 APP. Most measurable objectives do not comply with the SMART principle, in that they are not specific, measurable, achievable/attainable, realistic and time bound.

### **Conclusion**

The examination of the 2006/07 APP, the 2006/07 Annual Report and the 2007/08 APP shows that the Department is, according to the performance management framework outlined above, operating at a level 3 financial management capability.

The process of formulating measurable objectives, performance measures, outputs and their alignment thereof sometimes pose major challenges to department. Other factors beyond the Department's control might necessitate the changing of performance measures during the course of the financial year, e.g. budget adjustments and changing work environments, etc. but Treasury Regulations however do not allow departments to make any changes to these when reporting against set targets in the APP.

#### **3.4.1.2 Financial information**

From a public finance perspective, the following has been noted on the performance of the Department of Community Safety:

- The Department submits its IYM report on revenue and expenditure to Treasury on or before the 15<sup>th</sup> day after the end of a reporting month as per section 40(4)(c) of the PFMA, 1999 (Act 1 of 1999).
- The Department ensured that reported actuals on expenditure and revenue reconciled to the BAS/Vulindlela financial system consistently on a monthly basis.

The following table represents the expenditure trend as well as projections based on the 2006/07 expenditure on a quarterly basis.

**Table 35: Quarterly analysis on projections: 2006/07**

R'000	April	May	June	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Total
First Quarter	18 208	16 111	9 870	13 888	15 177	13 992	18 958	17 009	14 966	15 410	13 963	13 705	181 257
percentage	10.05%	8.89%	5.45%	7.66%	8.37%	7.72%	10.46%	9.38%	8.26%	8.50%	7.70%	7.56%	100.00%
Second Quarter	18 208	16 111	9 870	16 959	9 120	12 497	19 616	18 338	17 874	15 811	13 851	12 993	181 248
percentage	10.05%	8.89%	5.45%	9.36%	5.03%	6.89%	10.82%	10.12%	9.86%	8.72%	7.64%	7.17%	100.00%
Third Quarter	18 208	16 111	9 870	16 959	9 129	12 497	14 543	16 117	15 954	18 182	18 060	18 494	184 124
percentage	9.89%	8.75%	5.36%	9.21%	4.96%	6.79%	7.90%	8.75%	8.66%	9.87%	9.81%	10.04%	100.00%
Fourth Quarter	18 208	16 111	9 870	16 959	9 129	12 497	14 543	16 117	17 953	17 505	16 101	18 140	183 133
percentage	9.94%	8.80%	5.39%	9.26%	4.98%	6.82%	7.94%	8.80%	9.80%	9.56%	8.79%	9.91%	100.00%

Note: Shaded: Actual

Unshaded: Projections

When actual expenditure is compared to projections on a quarterly basis substantial differences are noted. Projections (unshaded) when compared to the actual expenditure (shaded) fluctuate upwards and downwards on a monthly basis. From this analysis it is clear that projections were revised according to actual expenditure on a monthly basis to ensure breakeven projected expenditure at the end of the financial year.

The original budget allocated for the Department in 2006/07 was R181.257 million, however in the Adjustment Estimate, the budget was increased by 1.6 per cent or R2.867 million to R184.124 million of which R2.673 million or 1.5 per cent of the was shifts within programmes of the Department. At below 2 per cent of the adjusted budget it is clear that the original budget of the Department was realistic.

In terms of virements affected, the Department adhered to the prescribed limit of not exceeding 8 per cent of the amount appropriated under a main division as required in terms of section 43(2) of the Public Finance Management Act.

Table 36 below indicates the amounts of virements affected at the end of the 2006/07 financial year as well as the programmes affected by these virements.

**Table 36: 2006/07 Virements**

From Programme	To Programme	Amount R'000	Item
Safety risk management	Administration	123	Capital assets
Safety & Security	Administration	714	Currents payments
Safety & Security	Traffic Safety Promotion	367	Currents payments
Safety & Security	Safety risk management	29	Payment for capital assets
<b>Total</b>		<b>1,233</b>	

According to the 2006/07 activities, there were minimal virements that have been affected within the Department as depicted in the table above. The funds were used to defray over expenditure within the programmes.

The Department submitted its Adjustments Budget timeously and it was comprehensive in terms of Section 31 of the PFMA.

In aggregate, the Departmental spending for 2006/07 was within the 2 per cent norm for over/under-spending by the Department.

In terms of the outcomes for 2006/07 pertaining to the collection of revenue, the Department of Community Safety collected R1.67 million in provincial own receipts compared to the R1.01 million adjusted budget for the 2006/07 financial year. This collection rate is R653 000 or 64.5 per cent more than the adjusted budget, which was mainly due to increased collection on sales of goods and services (tuition fees and boarding services) and financial transactions in assets and liabilities, which was not budgeted for.

The main appropriation for provincial own receipts for the 2007/08 financial year was R867 000, which is R799 000 or 92.2 per cent less than the actual collection of R1.67 million in the 2006/07 financial year. The Department revised the tariffs for the replacement of access cards in the 2006/07 financial year.

The Department did not have any March spike during the 2006/07 financial year as the actual expenditure in March compared well to the average monthly expenditure of the Department.

The Department of Community Safety generally operates at a level 3 financial management capability rating.

### **3.4.2 Compliance with accounting policies and standards**

An assessment of the financial management capability of the department was undertaken based on the audit findings and IYM reporting revealed the following:

#### **Management of and reporting on suspense accounts**

The Department reported that suspense, control and disallowance accounts are followed-up regularly and cleared within a reasonable period of time. BAS reports of the Department were reviewed on a monthly basis in order to monitor the progress in the clearance of the suspense and control accounts. In this regard the Department is operating at a level 3 financial management capability rating.

#### **Accounting of assets (Asset Management)**

The Department indicated that their asset register complied with the minimum requirements in terms of acquisition (assets register updated), identification, accountability and accounting of assets. However, the Auditor-General reported that the closing balance of assets amounting to R7.193 million disclosed in the financial statements could not be verified for existence and validity as an unreconciled difference of R1.330 million exists between the asset register and the accounting records. In this regard the department is operating at a level 2 financial management capability.

### **Financial reconciliations**

The Department reported that PMG/BAS, PERSAL/BAS, BAS/LOGIS reconciliations have been performed. Although the department indicated that the bank reconciliations have been performed, the BAS statements to be certified by the CFO have not been included in the monthly IYM report. The Department appears to be operating at a level 3 financial management capability.

### **Supporting documentation**

The Department reported in the monthly IYM report that sources of the transactions are readily identifiable and supported by authentic and verifiable source documentation. However, according to the Auditor-General's finding, they were unable to audit supporting documentation in respect of travel and subsistence expenditure amounting to R671 266. In this regard it appears that the department is operating at a level 2 financial management capability.

### **Expenditure – Payments and journals**

In the monthly IYM report the department reported that inter-departmental balances and claims have been recorded and reconciled on monthly basis as well as receivables and payables confirmed within reasonable time and paid within the prescribed agreed period. However, according to the 2006/07 Auditor-General's report, claims against the department were not followed up with the state attorney, resulting in an adjustment to the financial statements of R300 000. In this regard it appears that the department is operating at a level 2 financial management capability.

### **Procedures for the identification and reporting of unauthorised, fruitless and wasteful and irregular expenditure**

A lack of control measures and procedures has resulted in the identification and reporting of unauthorised, fruitless and wasteful and irregular expenditure in terms of the PFMA not taking place. The 2006/07 Auditor-General's report revealed that on the request of management an investigation was conducted by the Forensic Investigative Unit (FIU) of the Department of the Premier. This investigation was initiated based on the allegation of irregularities pertaining to payments to service providers whereby bank account details of service providers were irregularly changed on the LOGIS system. The FIU report concluded that:

- payments were diverted to the bank account/s of an employee of the department and an associate, and
- the financial loss suffered by the department, amounting to R937 000, must be recovered.

An amount of R919 849 has subsequently been disallowed in the accounting records as well as the financial statements of the 2006/07 financial year.



In addition to the first investigation, the FIU conducted a second forensic investigation based on alleged irregular transactions relating to accommodation, car rental and air tickets. The FIU report recommended that:

- eight employees be charged with misconduct, and
- the financial loss suffered by the department amounting to R536 910, must be recovered.

The Auditor-General's report indicates that the alleged irregular transactions had not been reconciled to the accounting records of the department and were still being investigated by management. A lack of control measures in this regard, is indicative of a level 1 financial management capability.

### **Recording and maintenance of State Guarantees**

The Department must ensure that reconciliations are performed between the state guarantee report and the actual information on PERSAL. If this is not done it could result in an overstatement of contingent liabilities in the financial statements.

### **Management of lease liabilities**

According to the Auditor-General's report, the department's lease register was incomplete, consequently the closing balance of the lease commitments had to be adjusted by R1,386 million. Furthermore the opening balance of lease commitments was not adjusted for prior year misstatements of the lease register, resulting in an adjustment to the financial statements of R599 000. The Department achieved a level 2 financial management capability.

### **Management of thefts and losses**

The Department was informed of the fraudulent siphoning of state funds by an official that lead to losses in excess of R1 million. Therefore effectiveness of control activities over business and accountancy processes are not adequate, and in this regard the Department is operating at a rating of level 2 financial management capability.

### **Management of contingent liabilities**

The A-G, as part of the audit process required that the commitment balance be adjusted by R13 million for orders which were cancelled during the financial year. Furthermore, the list of accruals submitted for audit purposes was not substantiated, resulting in an adjustment to the financial statements of R252 780. In this regard the department is operating at a level 2 financial management capability.

### **Monthly reporting of financial information to the CFO/AO/EA/Department**

It was noted that monthly compliance reporting to Provincial Treasury via the Accounting Officer took place according to legislative requirements, and in this regard the department achieved a level 3 financial management capability.

### **3.4.3 Normative Financial Management**

#### **Introduction**

The findings discussed in this section provide a review of the PFMA implementation and financial management improvement of the department in line with the provincial strategy of reaching a level 4 financial management capability rating.

The source documents used were the Normative Measures for Financial Management for departments for the quarter ending 30 June 2007, the Auditor-General's reports for the 2005/06 financial year and the 2006/07 financial year.

#### **Analysis of Normative Measures Quarterly Report**

At the end of December 2006 the vacancy rate in the finance component was at 8 per cent and it increased to 16 per cent in June 2007, which is way above the 5 per cent national norm. This issue has been addressed with the Department, and Provincial Treasury is monitoring progress on a quarterly basis.

The Department has indicated that it has, among others, put in place processes to collect outstanding debt in terms of Treasury Regulation 11.2.1 and a strategic plan has been prepared for the finance component.

Except for the issues currently being addressed through the Financial Management Improvement Plan (FMIP) and the quarterly assessment by Provincial Treasury, the department complies with the majority of the nominal compliance requirements in terms of the Normative Measures for Financial Management Quarterly Questionnaire used by Provincial Treasury.

#### **Analysis of the 2005/06 Audit Report**

For the 2005/06 financial year the Department received a qualified audit opinion. The qualification was on two issues, namely, lease commitments and leave entitlement. This represented a deterioration compared to 2004/05 when the Department had received an unqualified audit opinion.

Below is a summary of the matters contained in the 2005/06 report:

#### **Emphasis of matter**

- Asset Management
- Improvements to MEC's residence
- Supply Chain Management
- Payment on photocopied log sheets
- Performance information

To address these issues the department drew up a plan of action as part of the FMIP driven by Provincial Treasury. This is a continuous process and progress has been made on a number of issues, of which a quarterly update is given as part of the FMIP.

## **Analysis of the 2006/07 Audit Report**

For 2006/07 financial year, the Department received a qualified audit opinion. The qualification was on assets and limitation of scope. Though no cause for celebration, it is worth noting that the Department has managed to avoid a repeat of most of the issues, which were the subject of the 2005/06 audit report. Below is a summary of the matters contained in the 2006/07 audit report.

### **Emphasis of matter**

- Matters affecting financial statements

### **Other matters**

- Non-compliance with applicable legislation
- Material corrections made to the financial statements submitted for audit.

### **Value for money matters**

- Human Resources Management
- Supply Chain Management

### **Internal Control**

- Control environment
- Control activities

### **Financial Management Capability**

Having received a qualified audit opinion once again, albeit on different issues, the Department has not made enough progress to move to another level of financial management capability.

### **Conclusion**

It is quite evident that the challenges facing the Department are immense. All the stakeholders have been made aware of the task that lies ahead, and plans have been put in place. Through various engagements, the Department has demonstrated the willingness and the resolve to tackle most of the problems confronting it. The 2007/08 financial year should represent the culmination of a lot of effort and thinking that went into the processes which were implemented in 2006/07 financial year.

## **3.4.4 Cash Management**

This section deals with the implementation and management of sound cash flow practices as well as the provision of assistance and training in respect of the official banking system within the Provincial Government of the Western Cape.

## Review

The financial management capability assessment was based on the activities of the Department of Community Safety during the 2006/07 financial year and the findings were as follows:

**Table 37: Assessment of cash management capability**

Requirements	Standard Level 3	Standard Level 4	Rating
Staff skilled & Capacitated in Cash Management	In accordance with profile	All functions on the Cash Management System	3
Submission of Annual Provincial Cash flow Projections	By 28 February	By 15 February	3
Deviation between monthly projections & actual expenses	5%	3%	2
Monthly Own Revenue Pay over	2 working days prior to month end	3 working days prior to month end	3
Repayment of Surplus Funds	31 May	15 May	3
Submission of monthly Bank Reconciliation	Within 30 days after month end	Within 15 days after month end	4
Beneficiary Payments (Direct Transfers)	1% of Total Payments	0.50% of Total Payments	4
<b>Average rating</b>			<b>3</b>

The Department achieved an overall rating of level 3 (nominal compliance) financial management capability.

### Skilled and capacitated system users

The Department obtained a rating of level 3 (nominal compliance) financial management capability. All system users were trained in accordance with their profiles, during the implementation of the new official banker's system.

### Submission of Annual Provincial Cash flow Projections

The Department obtained a rating of level 3 (nominal compliance) financial management capability.

**Table 38: Assessment of the deviation between monthly projections and actual expenses**

	Project	Actual	%	Rating
APRIL'06	20,575	19,862	3	2
MAY'06	13,891	14,619	(5)	2
JUNE'06	13,011	9,961	23	2
JULY'06	14,375	15,362	(7)	2
AUG'06	13,616	11,049	19	2
SEP'06	14,248	12,729	11	2

	<b>Project</b>	<b>Actual</b>	<b>%</b>	<b>Rating</b>
OCT'06	18,191	14,128	22	2
NOV'06	16,395	14,753	10	2
DEC'06	15,043	19,453	(29)	2
JAN'07	15,423	16,952	(10)	2
FEB'07	12,555	13,725	(9)	2
MRC'07	13,934	18,664	(34)	2
<b>Sub-Total</b>	<b>181,257</b>	<b>181,257</b>		<b>2</b>
<i>Revised Forecast (after adjustment budget)</i>				
MRC'07				
Adjustment	2,867	2,867		
Total	184,124	184,124	100	

The Department achieved a rating of level 2 (partial compliance) financial management capability. PT will support and assist the department to determine the reasons for the variances and to compile more credible projections in future.

#### **Monthly Own Revenue Payover**

The Department obtained an average rating of level 3 (nominal compliance) financial management capability. Revenue is being paid over monthly 2 working days prior to month end.

#### **Repayment of Surplus funds**

The Department obtained a rating of level 3 (nominal compliance) financial management capability. Surplus funds were paid to the PRF on 30 May 2007.

#### **Submission of monthly Bank Reconciliation**

The Department was assessed at level 4 (full compliance) financial management capability. The monthly bank reconciliation is submitted within 15 days after month end.

#### **Beneficiary Payments (Direct Transfers)**

The Department achieved a rating of level 4 (full compliance) financial management capability.

**Table 39: Beneficiary Payments**

<b>Payments</b>	<b>Beneficiary Payments</b>	<b>%</b>
6367	1	0.3

### 3.4.5 Supporting and Interlinked Financial Systems

This section deals with the implementation and maintenance of Financial Systems as well as the provision of functional assistance and training, to all system users.

#### Review

The financial management capability assessment was based on the activities of the Department of Community Safety during the 2006/07 financial year and the findings were as follows:

**Table 40: Assessment of the Basic Accounting System (BAS):**

Requirements	Standard Level 3	Standard Level 4	Rating
Skilled and capacitated system users	In accordance with profile	Various Modules	2
Month-end closure	Own accord – due date	Own accord – prior date	4
Year-end closure	Own accord – due date	Own accord – prior date	4
System Controller Functions	80 – 90%	91 – 100%	3
Monitor Applicable Interfaces	Weekly	Daily	4
<b>Overall rating</b>			<b>3</b>

The Department obtained an overall rating of level 3 (nominal compliance) financial management capability.

**Table 41: Assessment of skilled and capacitated system users: training**

Number of officials nominated	Number of officials attended	Number of officials cancelled	Number of officials qualified for a certificate (70% pass rate)	Number of officials not qualifying for a certificate
19	6	13	5	1

The Department obtained a rating of level 2 (partial compliance) financial management capability, mainly due to the high percentage of officials being nominated and not attending courses as well as not all officials trained in accordance with their profiles.

The Directorate Supporting and Interlinked Financial Systems are in the process of identifying the training gap of all users and will in co-operation with Chief Financial Officer nominate their users for training in accordance with their profiles as a matter of urgency. In addition the poor attendance of officials will in co-operation with the Chief Financial Officer be addressed.

#### Month end closure

The Department achieved a rating of level 4 (full compliance) financial management capability as their books were closed on a monthly basis prior to the predetermined dates by National Treasury.

## Year closure

The Department achieved a rating of level 4 (full compliance) financial management capability as their year-end closure was done prior to the predetermined date by National Treasury.

## System Controller Functions

Based on the following criteria the System Controller function was rated as level 3 (nominal compliance) financial management capability.

- Logging of calls to the Provincial Helpdesk
- Maintenance of Security Profiles
- The reinstate of Transaction Processing Rules
- Requesting/monitoring and distributing of automated basic accounting system reports
- Maintenance of segment details
- Maintenance/update of departmental parameters
- Provide practical individual training to users
- Monitor Technical stability of work station including Local area network
- Assisting non-financial users of basic accounting system.

## Monitor applicable interfaces

The Department achieved a rating of level 4 (full compliance) financial management capability as their interfaces are monitored and reported on a daily basis.

**Table 42: Assessment of Personnel and Salary Administration System (PERSAL)**

Requirements	Standard Level 3	Standard Level 4	Rating
Skilled and capacitated system users	In accordance with profile	Various Modules	2
System Controller Functions	80 – 90%	91 – 100%	3
Establishment Management	Quarterly	Monthly	2
PERSAL/BAS Reconciliation	Monthly by the 20 <sup>th</sup>	Prior to the 20 <sup>th</sup>	3
Adhere to Minimum Information Requirements	Annually	Continuous process	2
Leave Audit	Annually	Continuous process	3
<b>Average rating</b>			<b>2</b>

The Department achieved an overall rating of level 2 (partial compliance) financial management capability which is below standard.

**Table 43: Skilled and capacitated system users: training**

Number of officials nominated	Number of officials attended	Number of officials cancelled	Number of officials qualified for a certificate (70% pass rate)	Number of officials not qualifying for a certificate
5	3	2	3	0

The Department obtained a rating of level 2 (partial compliance) financial management capability due to the low number of officials being nominated and high percentage officials not attending courses as well as not all officials being trained in accordance with their profiles.

The Directorate Supporting and Interlinked Financial Systems is currently in the process of identifying the training gap of all system users and will in co-operation with the department nominate system users for training in accordance with their profiles. In addition issues of poor attendance will be addressed with the department.

#### **System Controller Functions**

The Department achieved a rating of level 3 (nominal compliance) financial management capability for the execution of its system control functions.

#### **Establishment Management**

The Department achieved a rating of level 2 (partial compliance) financial management capability due to the fact that many duplicate structures still exist on the Persal system.

The Directorate Supporting and Interlinked Financial Systems will in co-operation with the department provide reports of structures and will assist departments in correcting their establishment.

#### **Adhere to Minimum Information Requirements**

As not all information is captured on the system, the Department achieved a rating of level 2 (partial compliance) financial management capability.

Reports indicating the outstanding information are available and are provided by Provincial Treasury to departments on request. The situation will be monitored by the Provincial Treasury to ensure compliance.

#### **Leave Audit**

The Department achieved a rating of level 3 (nominal compliance) financial management capability as the leave audit is updated on at least an annual basis.



**Table 44: Assessment of the Logistical Information System (LOGIS)**

Requirements	Standard Level 3	Standard Level 4	Rating
Skilled and capacitated system users	In accordance with profile	All Modules	3
Days per issue (Service standard)	5 Days	3 Days	1
Stock Management	15.61%	6.19%	2
Financial Controls	Monthly	Continuous process	2
System Control Functions	80 – 90%	91 – 100%	2
<b>Average rating</b>			<b>2</b>

The Department achieved an overall rating of level 2 (partial compliance) financial management capability, which is below the standard.

**Table 45: Assessment of the skilled and capacitated system users: training**

Number of officials nominated	Number of officials attended	Number of officials cancelled	Number of officials qualified for a certificate (70% pass rate)	Number of officials not qualifying for a certificate
6	6	0	6	0

The Department achieved a rating of level 3 (nominal compliance) financial management capability as users are trained in accordance with their current profiles.

#### **Days per issue (service standard)**

According to national norms and standards, the days per issue should be less than 3 days to achieve full compliance (level 4), less than 5 days for nominal compliance (level 3) and less than 20 days for partial compliance (level 2).

The average days per issue during 2006/07 was 61 days, the performance of the department is therefore far below standard.

The Directorate Supporting and Interlinked Financial Systems will assist the Chief Financial Officer in re-visiting the current procedures and processes regarding the issue of goods, to ensure compliance.

To further assist the department, an official of the Directorate Supporting and Interlinked Financial Systems has been seconded to the department for a period of 3 months.

#### **Stock Management**

The Department achieved a rating of level 2 (partial compliance) financial management capability for the management of inventories and assets, which is below standard.

The Directorate Supporting and Interlinked Financial Systems will assist the Chief Financial Officer in re-visiting the procedures, processes and timeframes within which obsolete, damaged, surpluses and shortages of stock are handled.

As mentioned above, an official from the Provincial Treasury has been seconded to the department to assist in all SCM and LOGIS matters.

### Financial Controls

The Department achieved a rating of level 2 (partial compliance) financial management capability, the performance of the department is therefore far below standard.

The main reasons being that the BAS/LOGIS reconciliation are not done monthly, the filing of documentation is not done correctly and the outstanding commitments on LOGIS amount to R7,509 million, which is unacceptably high.

The Directorate will address these issues: Supporting and Interlinked Financial Systems as part of the training of users in accordance with their profiles, and in co-operation with the Chief Financial Officer.

The official from the Provincial Treasury seconded to the department were already informed about these matters and will assist the Department rectifying/addressing these matters.

### System Control functions

The Department achieved a rating of level 2 (partial compliance) financial management capability.

The main reason being password confidentiality not being maintained and user profiles not kept up to date.

The Directorate will also address these issues during the training of the users.

To assist departments in the security aspects of systems, the Directorate Supporting and Interlinked Financial Systems is in the process of compiling a policy which will be issued in the near future.

**Table 46: Assessment of Management Information System (Vulindlela)**

Requirements	Standard Level 3	Standard Level 4	Rating
Percentage of registered users using the system on a regular basis	80 – 90%	100%	2

**Table 47: Assessment of usage of the Management Information System (Vulindlela)**

Number of registered users	Number of registered users using the system on a regular basis	Number of registered users not using the system on a regular basis	Percentage active users
16	12	4	75%

The Department obtained a rating of level 2 (partial compliance) financial management capability due to the fact that only 75 per cent of registered users utilise the system on a regular basis.

The Directorate Supporting and Interlinked Financial Systems will, in cooperation with the Chief Financial Officer, re-evaluate the need of the 4 registered users who do not use the system on a regular basis. In addition, discuss the further role-out of Vulindlela within the Department and address any further user requirements they might have.

### **3.4.6 Supply Chain Management**

When addressing whether or not the department meets the current financial capability model in terms the SCM requirements, the review is based on the SCM compliance and value for money assessments that were undertaken at the department, as well as a follow-up swat analysis of the state of SCM within the department to ascertain what would be required in terms of an organisational structure, resource capacity and in terms of policy frameworks and possible interventions that would place the department in a better state of preparedness to embrace SCM as a strategic objective as well as achieve a level of compliance in terms of the provincial plan for SCM.

A further moveable asset management assessment was completed through the Project Dashboard Reporting framework and Risk Log as issued by the National Treasury implementation plan.

The findings in respect of the SCM compliance and the value for money assessments indicated that the department did not meet the SCM criteria in terms of the capability criteria in respect of a level 3 institution for SCM in the following respects:

#### **Compliance to Legislative and Policy Frameworks:**

- The latest version of the AO system in terms of Section 38(1)(iii)(c) of the PFMA was not sent to the Provincial Treasury for scrutiny;
- Although the policy was signed by the Accounting Officer on the 29 June 2006, the policy was not communicated to SCM officials;
- Members of Bid committees were neither appointed by the Accounting Officer/the Acting Accounting Officer, but by an official who was not delegated to make such appointment;

- It was not evident who the chairperson of the bid adjudication committee was. The Acting Head of Department (HoD) signed documentation as chairperson of the bid adjudication committee whilst holding the office of acting accounting officer;
- Letters of appointment to bid committee members only referred to the AO system and did not enclose or refer to the PPPFA Act and its Regulations, the NTRs; the PTIs or any other policy or practice note;
- Specification and Evaluation Committees were not appointed as required in terms of Regulation 16A6.2 of the NTRs;
- Bid committee attendance registers were not in place;
- Not all officials who are responsible for bid documents sign the declaration of interest;
- Lack of compliance with SCM Regulations and policies in that bids did not correctly apply the preference point system; evaluation criteria and points were not disclosed in the bid documents; extension of validity periods and value for money considerations like securing a return on investments were not adequately applied, and
- Lack of adherence to procurement threshold values.

#### **Organisational Structure and Capacity**

- Out of 15 officials in the SCM unit only one official has sufficient knowledge of the bidding system;
- SCM functions are not appropriately applied in that officials are performing provisioning and procurement related functions in isolation of each other;
- No skills audit plan exists for SCM officials;
- SCM officials lack the adequate knowledge and experience in both the procurement and provisioning side of SCM, and
- No SCM official is acquainted with or has received/signed for a copy of the Code of Conduct for SCM officials.

#### **Monitoring and Reporting and Good Governance**

- Members of bid committee were not cleared at a level of “confidential”;
- No recordings of meeting minutes are kept so that the secretary can keep verbatim records in the event if litigation/complaint/grievances ensues;
- Minutes are further not kept properly in time/date sequence the files lack the order and particularity required;
- No bid register is in place;
- Poor planning for the re-invitation of bids exist as a result that contracts have to be extended to allow for new bids to be finalised and awarded;
- As a result of poor planning and budgeting, the use of limited bidding is being abused;

- No evidence exists of the utilisation of strategic sourcing methodology;
- Transactions are not processed through the Logis system as a result orders are not appropriately generated or created. Payments are processed directly via BAS;
- Limited bidding cases have been ratified by the bid adjudication committee after the services have been provided resulting in unauthorised expenditure;
- Service Level Agreements are not sent to legal services for scrutiny before signature, and
- Contract administration and management duties are performed by end-users, in that they deal with price adjustments and penalties. These are functions that should reside with the SCM unit and must be heard by the Bid adjudication committee for approval.

### **Credible Knowledge and Information Management System**

- As a result of not utilising the Legacy systems (Logis and BAS) in the manner that they are intended; impacts on the credibility on the information system that they provide in respect of procurement and provisioning, and
- Filing of documentation is deficient and officials performing the assessments had difficulty locating information.

In terms of the project dashboard assessment of the head office on 26 February 2007, the following were identified as problem areas:

- Planning: Definition of assets, Asset life-cycle, Life-cycle costing and accountability and responsibility;
- Developing of an asset acquisition plan;
- Operation and Maintenance Plan: Establishment of performance indicators, operation and maintenance plans, monitoring of condition and use, conducting of stock take;
- Location of assets;
- Asset Performance: Condition and useful life, and
- Accounting: Historic Costs.

It must be noted that the department barely meets the requirements of a level 1 institution in terms SCM financial management capability model. As a result of the deficiencies addressed above, a further SWOT analysis was conducted by the Provincial Treasury to ascertain and identify short term measures that will better place the department to elevate itself from the risky and precarious position that it was placed in.

**The analysis revealed the following areas that require immediate attention:**

- Policy alignment to current regulatory frameworks, inclusive of the AO System, SCM Delegations, Moveable asset management (recording on asset register, handing over, stock-takes and verification of physical asset count to the asset register, recording of disposals). This must be coupled to a skills development plan that must empower SCM official in respect of the current legislative and regulatory frameworks.
- The Committee System needs to be effectively put in place to give effect to the competitive bidding process. Appointments must be made in terms of the NTRs and National Treasury Practice Notes.
- The SCM Unit: the current structure consists of nine officials (2 x assistant directors; 4 x administration officer; 3 x senior provisioning clerks and 4 x contract employees). The level of skill is extremely low and officials are extremely demoralised. There are 5 vacant posts in the unit that needs to be filled urgently. Job descriptions need to be aligned to the duties required of the posts. The Provincial Treasury has proposed the following Structure, that is in line with the National Treasury Policy: “Normative Measures: Perfecting the Basics: Phase 1” that positions the SCM unit under the CFO.

**Table 48: Proposed SCM Structure**

CFO		
1 x DEPUTY DIRECTOR (Level 11)		
1 x Assistant Director: Procurement and Provisioning (Level 9)	1 x Assistant Director: Compliance and Monitoring (Level 10)	1 x Assistant Director: Asset Management Auxiliary Services (Level 9)
1 x Admin Officer (level 8): Procurement		1 x Admin Officer (level 8): Maintenance
1 x Admin Officer: Provisioning (level 8)		1 x Admin Officer: Registry (level 8)
1 x Admin Officer: Procurement (level 7)		1 x Admin Officer: Maintenance (level 7)
1 x Admin Officer: Provisioning (level 7)		1 x Admin Officer: Registry (level 7)
2 x Senior Clerk: Procurement (level 5)		1 x Senior Clerk: Maintenance (level 5)
3 x Senior Clerk: Provisioning (level 5)		

- All SCM officials attend SCM training provided by the National Treasury and Provincial Treasury. Immediate areas include Demand and Acquisition Management, Bid Committees; Contract Management, BAS, Logis and Sourcelink Training are to be incorporated into a skills development plan.
- Proper Record Keeping Measures need to be urgently implemented especially in respect of Bids and Contract management.
- Update of Assets on the Asset Register and reconciliation with physical count. A mechanism to keep the asset register maintained must be implemented hence the incorporation of an asset management strategy in terms of National Treasury’s Implementation Plan for Asset Management.

In order for the Department to establish itself at a level 3 financial management capability, the following interventions are planned by the Provincial Treasury in the next financial year:

- Training on bid committees and contract management as provided and funded by the National Treasury;
- An integration of the financial and non-financial systems with the implementation of the IFMS in the 2007/08 financial year;
- Linkages with other disciplines within the department to enable an integrated approach to enable a supporting environment that maintains the credibility of the level;
- Addressing and implementing a supplier development initiative with other role-players to impact on the socio-economic aspects of procurement by achieving the desired outputs in respect of procurement to HDIs, SMMEs or BEE companies;
- Planned interventions to assist the department to implement SCM at the required level as well as to close the current gaps addressed, and
- Immediate update and implementation of policies addressed through the assessments as deficient.

### **3.4.7 Enterprise Risk Management**

The section provides guidance, criteria, and norms and standards for the attainment of levels of enterprise risk management in terms of the financial management capability model. It is anticipated that this will assist management in being able to identify underlying problems and focus on areas to improve the enterprise risk management processes.

Departments will not be assessed on Level 3 and 4 because of the immaturity of enterprise risk management within the provincial government.

#### **Control Framework (Level 1)**

Includes all scenarios where the department has not implemented all the criteria required to obtain a level 2 assessment.

#### **Proper Internal Control Framework and Financial Accounting processes have been developed (Level 2)**

#### **Strategic Risk Assessment**

The Department, risk response strategies, has identified strategic Risks and relevant processes have been developed. An organisational structure that supports the developed processes is in place.

### **Internal Environment**

A risk management philosophy and management's philosophy has not been developed for the Department and a risk appetite for the Department has not been defined.

### **Operational Risk Assessment**

The risk event have been identified and assessed on an inherent level. Existing controls have been identified and documented by means of process and control mapping initiatives.

### **Overall Assessment**

Based on the above information, the Department achieved a rating of 1, as the Department has not met all the set Criteria & Norms and Standards for Level 2. In order to achieve a rating at the next level (Level 2), the department needs to have achieved all of the following set Criteria & Norms and Standards for Level 2:

#### **Internal Environment:**

- Risk Management Philosophy is articulated in writing and communicated to staff.
- Management's philosophy and operating style reflects acceptance of risk management principles.
- Risk appetite defined.



## 3.5 Department of Education

### 3.5.1 Performance Information

#### 3.5.1.1 Non-financial information

This section provides a high level assessment of the Department's non-financial performance and makes a judgment on the level of that performance, in line with the financial management framework. The financial capability model, is used as basis for rating the Department, either as a level one, two, three, or four organisation. The assessment gauges key aspects of the Department's performance management system, and considers whether the Department has reached a level 3 competency level, and expresses a view on the extent to which the Department is moving towards a level 4 organisation. This evaluation assesses the 2006/07 Annual Report and the 2006/07 and 2007/08 Annual Performance Plans. There may, however, be some areas of a Department's performance framework that display a level 4-competency, while others have yet to reach a level 3-competency level.

#### Reporting on Performance Measures

The Department has, where possible, reported on all the measurable objectives and performance measures as specified for the Education sector in the National Treasury Guidelines. The Department has provided detailed explanations as to the reasons why it has not been able to provide information on all performance measures. Reasons provided by the Department include:

- Unavailability of accurate data sources, and
- Inadequate operational systems in place to collect certain information.

The Department is working on putting operational systems in place to be better able to collect certain sources of information. The introduction of learner tracking is improving the quality of information being collected. The use of the CEMIS (learner tracking system) is considered to provide more reliable information than that provided from the Annual or Snap surveys. According to the Department the improvement in the quality of information being collected through the learner tracking system is one of the contributing factors for the "actual learner numbers being less than the target, or even previous years' learner numbers".

#### Comparing the Annual Report 2006/07 with Annual Performance Plan 2006/07

All the performance measures defined in the 2006/07 APP are reported on in the Annual Report for 2006/07. There is consistency between the unit of measurement used in the APP and the Annual Report. As a result the annual report can be used to assess the actual performance of the Department in terms of the performance targets defined in the APP.

Most of the targets specified in the Annual Performance Plans are reported against in the Annual Report. The Department had at a national level agreed to report against 45 performance measures. However when the Annual Report is assessed the observation is made that the department is only reporting against 40 of the measures

in 2006/07 Annual Report due to the constraints mentioned-above. Furthermore inconsistencies between the two documents (APP and AR) exist. Some of these inconsistencies include for example: percentage of schools that can be contacted electronically by the department with a target of 98 per cent indicated in the APP and a target of 95.1 per cent indicated in the Annual Report. Another example is the targeted percentage of schools with Section 21 functions reflected at 60.4 per cent in the APP versus 59.1 per cent in the Annual Report. While these deviations are not large, it is expected that the targets in the two documents should be identical.

The value reflected in the 2006/07 target column of the Annual Report, appears to reflect the actual achievement as apposed to the original target as stated in the 2006/07 APP. This makes it impossible to glean all deviations from the annual target without referring to the original targets as indicated in the 2006/07 APP. As a consequence, the Department has not provided explanations and remedies for all deviations from target.

Excluding those instances where the Department has incorrectly recorded the original 2006/07 APP target, under the section “Specific challenges and responses and issues requiring ongoing attention”, the Department does provide explanations and remedies for areas of under-performance. The interventions identified by the Department appear in general to be realistic and effective for the constraints cited in the explanations for below target performance. However, determining whether a response to an area of underperformance is indeed appropriate (and hence defined as a level 4 responsive performance management) can only be measured after the fact. In the case of education, remedial actions may take a number of years to show benefits in performance.

Comparing the 2006/07 APP with the 2006/07 Annual Report shows an error in reflecting the number of classrooms in primary and secondary schools. In the case of public primary schools, the 2006/07 APP reflects a target of 14 987 class rooms while the 2006/07 Annual Report indicates a target of 20 433 classrooms. In the case of public secondary schools, the 2006/07 APP reflects a target of 19 012 classrooms while the 2006/07 Annual Report shows a target of 11 056 classrooms. These targets are significantly different making it impossible to determine what the true target should be and hence how to judge the Department’s performance against this target.

## **APP 2007/08**

### **Changes in Measurable Objectives and Performance measures**

There have been some amendments to the measurable objectives and performance measures, for programme 8: Auxiliary and Associated Services between the 2006/07 and 2007/08 APP’s. These changes mean that it will be difficult to make comparisons in terms of performance between the two years.

**Table 49: Comparative Measurable objectives and performance measures**

2006/07		2007/08	
Measurable Objective	Performance Measures	Measurable Objective	Performance Measures
To deliver HIV/AIDS-Life Skills education in primary schools	<ul style="list-style-type: none"> <li>➤ No. of primary and secondary school educators trained in the HIV and AIDS Life Skills Programme</li> <li>➤ No. of HIV and AIDS Life Skills peer educators trained</li> <li>➤ No. of schools (SMT and SGBs) trained in the management of HIV and AIDS in their school community</li> </ul>	To deliver HIV/AIDS life skills education in schools, and to ensure access to an appropriate and effective integrated system of prevention, care and support	<ul style="list-style-type: none"> <li>➤ No. of educators trained to deliver HIV/AIDS and sexuality life skills education</li> <li>➤ Percentage annual delivery to schools of requested LTSM</li> <li>➤ No. of school-communities 'trained' and supported in the implementation of Care and Support strategies for vulnerable children</li> <li>➤ No. of SMTs and SGBs 'trained' and supported in the development of HIV/AIDS policy and management plans, within the context of WSE and SIPs</li> </ul>

The performance measures used by the Department do in general comply with the SMART principals. These are thus specific, measurable, achievable, realistic and time bound. Although clear definitions are provided as to what the performance measures mean, there are a few instances where the performance measure could be improved upon. For example, the performance measure “number of schools with adequate number of functional toilets” measures the number of schools with at least two functional toilets for each classroom. It may be better to link performance on this target to the number of learners in a school as apposed to classrooms.

Another example, where the performance measure may be inappropriate relates to the “Percentage of non-Section 21 schools with all LTSMs and other required materials delivered by day one of the school year. This performance measure is reflected as a percentage and not the number of schools who receive all their textbooks and other LTSMs they expect by the first day of the school year, at the latest. This performance measure does not indicate the number of learners in non-Section 21 schools that have all their textbooks and LTSMs on the first day of school. Importantly, we are unable to tell from this performance measure whether all learners in non-Section 21 schools have all their required learning materials including schools text books.

The Department does not include a breakdown of its quarterly targets in the APP. Although the Department does include quarterly targets in the sector specific quarterly reporting template, there is nothing to compare these targets against. The reasons provided by the Department are sound. Reasons for not including quarterly targets include the following:

- Not all the information can be reported on a quarterly basis, as some of it only becomes available in specific quarters or is measured annually. (e.g. number of

learners attaining acceptable outcomes in grade 3 and 6 standardised tests and the number of learners writing Senior Certificate examinations). and

- Some information cannot be averaged over the 4 quarters. (e.g. number of classrooms built in a financial year)

The quarterly reporting template for the 2007/08 financial year has been amended in order to address these concerns raised by the Department.

Explanations are provided in instances where performance is below target performance and from the assessment thereof prove to be sufficient and realistic explanations.

## **Conclusion**

In conclusion, the Department is operating close to a competency level 3 in relation to the performance management framework explained in the section dealing with methodology. To reach a level 3, the Department needs ensure that the correct targets are reflected in both the APP and Annual Report, ensure that no incorrect numbers are used, quantify a number of its targets in absolute terms, and set quarterly targets for a number of nationally defined sector specific performance measures.

### **3.5.1.2 Financial information**

From public finance perspective, the following has been noted regarding the performance of the Department of Education:

- The Department submits its In-year Monitoring (IYM) report on revenue and expenditure to Treasury on or before the 15th day after the end of a reporting month in terms of the requirements in section 40(4)(c) of the Public Finance Management Act, 1999 (Act 1 of 1999).
- The Department ensured that the reported actuals on expenditure and revenue reconciled to the BAS/Vulindlela financial system consistently on a monthly basis.

It appears as if the Department needs to improve on making its forecasts more realistic, as forecasts in a prior quarter differ from actual expenditure. This can be viewed in the table below, where the actuals and projections are compared on a quarterly basis. Projections (unshaded) seem to increase on a monthly basis, as actual expenditure (shaded) is mostly lower than projected expenditure. However, cognisance should also be taken with respect to the additional budget allocation not being utilised within Compensation of Employees for expenditure owing to career-pathing and incentives for educators, which are dependant on ongoing negotiations between the employer and the unions.

**Table 50: Quarterly Analysis on projections: 2006/07**

R'000	April	May	June	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Total
First Quarter	487 068	534 125	545 142	589 549	578 662	586 086	628 703	651 264	626 237	556 531	608 516	596 247	6 988 131
%	6.97%	7.64%	7.80%	8.44%	8.28%	8.39%	9.00%	9.32%	8.96%	7.96%	8.71%	8.53%	100.00%
Second Quarter	487 068	534 126	544 629	532 023	564 102	553 069	646 644	658 574	658 526	589 832	635 322	643 278	7 047 193
%	6.91%	7.58%	7.73%	7.55%	8.00%	7.85%	9.18%	9.35%	9.34%	8.37%	9.02%	9.13%	100.00%
Third Quarter	478 068	534 126	544 629	532 023	564 102	552 379	562 650	734 478	623 574	636 261	650 966	693 605	7 115 861
%	6.84%	7.51%	7.65%	7.48%	7.93%	7.76%	7.91%	10.32%	8.76%	8.94%	9.15%	9.75%	100.00%
Fourth Quarter	487 068	534 126	544 629	532 023	564 102	552 379	562 650	734 478	623 717	487 128	562 488	733 005	6 917 793
%	7.04%	7.72%	7.87%	7.69%	8.15%	7.98%	8.13%	10.62%	9.02%	7.04%	8.13%	10.60%	100.00%

*Shaded: Actuals*

*Unshaded: Projections*

The Department's original budget allocation for 2006/07 was R6 988.131 billion. In the Adjustments Estimate it was increased with R127.730 million to R7 115.861 billion. R39.536 million, that is 0.6 per cent of the adjusted budget, was shifted between programmes within the vote, while R25.705 million was shifted within programmes, i.e. 0.36 per cent of the adjusted budget. At below 2 per cent of the adjusted budget it is clear that the Department's budget appears credible. The Department also effected few virements in the 2006/07 financial year amounting to R9.726 million or 0.14 per cent of the adjusted budget of which R6.654 million was shifted from Programme 7: Early Childhood Development to Programme 5: Further Education and Training (R6.522 million) and R132 000 to Programme 3: Independent School Subsidies. The remaining R3.072 million was shifted from Programme 2: Public Ordinary School Education to Programme 4: Public Special School Education. The Department also obtained the necessary virement approval.

The Department ensured the timely submission of the Adjustments Budget and it was comprehensive in terms of Section 31 of the PFMA.

The total expenditure incurred in 2006/07 for the Department amounted to R6 920.394 billion constituting 97.3 per cent of the Adjusted Budget. This effectively indicates that the Department under spent by 2.7 per cent which marginally exceeds the 2 per cent under spending norm. The Department, however, indicated that the biggest portion of the under spending is in respect of the compensation of employees classification owing to expenditure on the career-pathing and incentives for educators not having been incurred as negotiations between the employer and the unions have not yet been finalised. Given the latter and together with the under spending prevalent the Department has also requested various rollovers for utilisation in 2007/08.

There was no fiscal dumping and no reported irregular or unauthorised expenditure in 2006/07.

The Department of Education collected R23.66 million in provincial own receipts compared to the R21.64 million adjusted budget for the 2006/07 financial year. This recovery was R2.01 million or 9.3 per cent more than the adjusted budget, which was mainly due to increased collection on financial transactions in assets and liabilities, which was not budgeted for.

The main appropriation for provincial own receipts for the 2007/08 financial year is R18.68 million which is R4.98 million or 26.67 per cent less than the actual collection of R23.66 million in the 2006/07 financial year.

The Department did not revise any tariffs in the 2006/07 financial year.

The Department experienced a slight March spike in 2006/07. This is indicated by the fact that the spending for March 2006/07 (R733.005 million) in relation to the total expenditure in 2006/07 (R6 917.793 billion) makes up 10.6 per cent of the total. This is largely due to the final payments of consultants and learner teacher support materials procured in November.

The Department of Education generally operates on level 3 and is moving towards a level 4 financial management capability rating.

### **3.5.2 Compliance with accounting policies and standards**

An assessment of the financial management capability of the department was based on audit findings and monthly IYM reporting, that revealed the following:

#### **Management and reporting of suspense accounts**

The Auditor-General reported that in accordance with National Treasury Regulation 17.1.2 reconciliations of suspense accounts should be performed on a monthly basis and monthly reports must be submitted to the accounting officer. However, proof of reconciliations done during the year on a sample of accounts could not be submitted to the auditors. This is indicative of a financial management capability level 2. It is recommended that the Department perform monthly reconciliations on all suspense accounts and that these reconciliations be reviewed by the chief financial officer and accounting officer. Supporting documentation should be available on the reconciliation file.

The Auditor-General reported that the Department is not exercising sufficient review and control over the management of accounts receivable. It is evident that management has not implemented effective internal controls over interdepartmental claims. The Department must implement controls measures to ensure that interdepartmental receivables are adequately followed up. Unconfirmed balances should also be investigated and evidence to verify the balances obtained. This will move the Department towards a financial management capability level 3.

The Department reported that some suspense accounts contain balances that were converted from the FMS account and which still requires some investigation before being cleared. It is recommended that the Department investigate and clear these accounts in order to achieve a financial management capability rating of level 3.

The Auditor-General reported that the Department is not exercising sufficient review and control over the management of debtors. It is evident that the Department has not implemented effective internal controls over debtors. As a result, credit balances are not cleared timeously and the debtor's balance is understated in the annual financial statements and payables are understated for disclosure purposes. This is indicative of a financial management capability Level 2. It is recommended the Department perform monthly monitoring and supervisory reviews procedures of

debtors ageing reports to ensure the accuracy, validity and completeness of debtors. It is also recommended that the Department should transfer the credit balances in debtors to accounts payable for disclosure purposes, as in effect they represent monies owing by the Department.

### **Accounting of assets**

A sample of assets selected by the Auditor-General from the listing of the opening balances of the asset register of the Department could not be located and consequently the existence of these assets could not be verified. This could result in the assets balance in the annual financial statements being overstated by the Rand value of the errors identified during the audit. Furthermore, assets may be missing, resulting from theft or losses in the Department. It is recommended that the Department monitors the compliance with prescribed procedures regarding the internal movement of assets, in order to move towards a financial management capability level 3.

During the audit of fixed assets, a sample of projects was selected from the list of projects completed and transferred to Department of Transport and Public Works (DTPW). However it was found that the amount transferred to DTPW, does not agree to the total amount paid on these projects per the BAS reports. This is indicative of a financial management capability level 2. Management should implement procedures to ensure a review of all schedules supporting the financial statements for accuracy before it is used for the compiling of the financial statements. It is also recommended that the Department investigate all other projects to ensure that the amounts recorded for work in progress as part of additions and transfers to DTPW, are accurate in terms of PT guidance issued.

### **Financial reconciliations**

The Auditor-General's report revealed discrepancies relating to the Bank Reconciliation on 31 March 2007 in that differences between the Bank statements and Bank account on BAS were identified. It is recommended that the Department implement and enforce follow up procedures on the Bank Reconciliation to clear any discrepancies, in order to achieve a financial management capability level 3.

### **Supporting documents**

According to paragraph 2.1 of the Departments own Finance Instruction 1/2005, the authoriser should ensure that the necessary supporting documentation is attached to the BAS payment form. The Auditor-General reported that supporting information for a sample of payment forms could not be submitted for auditing purposes and therefore the validity of the payments could not be determined. This is indicative of a financial management capability Level 2. It is recommended that the Finance Instruction be reinforced by the CFO of the department and that the Department should implement further monitoring mechanisms to ensure the completeness of documents attached to payment forms.

## **Expenditure – Payments and Journals**

The Department did not have the necessary assurance that an entity, to which transfer payments were made, implemented effective, efficient and transparent financial management and internal control systems as prescribed in section 38(1)(j) of the PFMA. It is recommended that the Department take the necessary steps to ensure that policies and procedures are adequately implemented and effectively controlled in order to comply with the PFMA. Furthermore, policies/procedures should be developed to ensure that transfer payments made to recipients have been used for their intended purposes. This will assist the Department to move towards a financial management capability level 3.

In accordance with National Treasury Regulation 8.2.3, all payment due to creditors must be paid within 30 days of receipt of invoice unless determined otherwise in a contract or other agreement. The Auditor-General reported that payments were made long after 30 days of the receipt of the invoice and no details could be submitted of any other arrangements as prescribed. This implies non-compliance with NTR 8.2.3. This is indicative of a financial management capability level 2. It is recommended that the department implement controls to ensure that payments are made within 30 days of the receipt of invoice.

## **Recording and maintenance of State Guarantees**

The Auditor-General reported that the Department did not have adequate procedures and controls in place throughout the year to verify the existence and validity of housing loan guarantees. This resulted in the misstatement of the amount disclosed for outstanding housing guarantees in the annual financial statements. This is indicative of a financial management capability of level 2. It is recommended that Bank confirmations should be done timeously and any feedback received should be used for updating the Persal system to ensure a relevant and reliable Persal report is used for disclosure purposes.

## **Accounting treatment of related party transactions**

The Auditor-General reported that the Department was not fully aware of the scope of accounting standards on related party transactions and therefore adequate processes are not in place to report on these transactions. This is indicative of a financial management capability level 2.

## **Procedures for the identification and reporting of fruitless and wasteful expenditure; irregular expenditure**

In accordance with section 38(1)(g) and 40(3)(b) of the Public Finance Management Act, 1999 (PFMA) as amended, any unauthorised, fruitless and irregular expenditure should be reported, in writing, to the relevant treasury and should be disclosed in the annual report and audited financial statements. It is recommended that upon discovery of fruitless and wasteful irregular and unauthorised expenditure, it should be reported to the relevant treasury and disclosed in the annual report and financial statements of the Department in order to achieve a financial management capability level 3.



## **Monthly reporting of financial information to the CFO/AO/EA/Department**

The Department submitted their monthly compliance reporting to Provincial Treasury timeously in terms of legislative requirements. This is indicative of a level 3 financial management capability.

### **3.5.3 Normative Financial Management**

#### **Introduction**

The findings discussed in this section provide a review of the PFMA implementation and financial management improvement of the department in line with the provincial strategy of reaching a level 4 Auditable Organisation (Financial Management Capability Model).

The source documents used were the Normative Measures for Financial Management for departments for the quarter ending 30 June 2007 and the Auditor-General's report for the 2006/07 financial year.

#### **Analysis of Normative Measures Quarterly Report**

The vacancy rate in the finance component was 25 per cent at the end of June 2007. However, this matter has recently received considerable attention and the department has communicated to Provincial Treasury its intentions with attached timelines to reduce this rate even further. During a follow up in October 2007 it was confirmed that the vacancy rate now stands at 17 per cent.

The Department has indicated that it has put in place processes to collect outstanding debt in terms of Treasury Regulation 11.2.1.

#### **Analysis of the 2005/06 Audit Report**

The Department of Education received a disclaimer from the Auditor-General for the 2005/06 financial year. This, in a way, was a culmination of what had been a downward spiral from 2004/05 when the department had been qualified on two issues, namely, operating lease and capped leave. In 2005/06 the following issues led to a disclaimer: Compensation of employees, State-housing guarantees, Limitation of scope, Provisions and Fixed assets. These issues, together with those, which were classified as emphasis of matter, were addressed through the Financial Management Improvement Plan, which is being driven by the Provincial Treasury.

Progress has been made on a number of these issues and some are in progress.

#### **Analysis of the 2006/07 Audit Report**

In the 2006/07 the department received a qualified audit opinion. This represents an improvement on the Disclaimer received the previous financial year. There was one qualification issue, one that was classified as emphasis of matter, twelve as other matters and four as other reporting responsibilities.

The summary below reflects matters contained in the 2006/07 audit report:

**Qualification issue**

Existing and validity of housing loan guarantees.

**Emphasis of Matter**

- The comparatives were not adjusted in preparation of the current year financial statements

**Other matters:**

- Non-compliance with applicable legislation when making transfer payments
- Material corrections made to the financial statements submitted for audit
- Human Resource (HR) plan
- Vacancies
- Qualifications and experience of educators
- Excess HIV/Aids Learner and teacher support material (LTSM) procured during 2005-06 financial year
- HIV/Aids secondary school educator training
- Care and support training
- Monitoring and evaluation of the HIV/Aids programme
- Investment in infrastructure
- Control environment
- Control activities

**Other reporting responsibilities:**

- Lack of systems generating performance information
- Evidence materially inconsistent with reported information or lack of adequate evidence
- Lack of targets and outputs for performance measures reported in the annual report
- Inconsistent reporting format between target and output

The following issues raised in 2005/06 financial year, were once again raised in the 2006/07 audit report:

- Vacant posts
- HIV related issues

The 2006/07 audit report highlighted the amount of work that still has to be done to improve financial management in the department. However, it is encouraging to note that the department has managed to rectify all the issues, which had led to a disclaimer in the previous financial year, excluding housing guarantees,

### **Financial Management Capability**

The strides made by the Department are not significant enough to move it to a level 3 financial management capability. 2007/08 presents an opportunity for the Department to embed most of these plans that have been implemented in the 2006/07 financial year, and deepen the ethos of good financial governance.

### **3.5.4 Enterprise Risk Management**

The section provides guidance, criteria, and norms and standards for the attainment of levels of enterprise risk management in terms of the financial management capability model. It is anticipated that this will assist management in being able to identify underlying problems and focus on areas to improve the enterprise risk management processes.

Departments will not be assessed on Levels 3 and 4 because of the immaturity of enterprise risk management within the provincial government.

#### **PROPER CONTROL FRAMEWORK (LEVEL 1)**

Includes all scenarios where the Department has not implemented all the criteria required to obtain a level 2 assessment.

#### **PROPER INTERNAL CONTROL FRAMEWORK AND FINANCIAL ACCOUNTING PROCESSES HAVE BEEN DEVELOPED (LEVEL 2)**

##### **Strategic Risk Assessment**

A Strategic risk assessment was conducted for the Department, risk response strategies were developed and it was found that the organisational structure supports processes developed.

##### **Way forward**

The Chief Risk Officer needs to assign strategic risks identified to senior management (risk owners) for the required management attention and treatment. Once risks are allocated to SMS members, their performance agreements should be amended to include their responsibility for the management of risk.

The Department obtained a level 2 (partial compliance) rating on the above.

##### **Internal Environment**

A risk management philosophy and a management's philosophy were not developed for the Department. The risk appetite of the Department is also not defined.

## **Way forward**

A risk management and management philosophy needs to be developed for the Department, to emphasise the importance of risk management and to hold management accountable to the management of risk. The Department must define their risk appetite, i.e. the amount of risk the Department is willing to accept in the pursuit of their objectives. All vacancies in the ERMGS unit need to be filled to ensure the success of risk management in the Department.

The Department obtained a level 1 financial management capability rating on the above.

## **Operational Risk Assessment**

The risk event identified during the operational risk assessment in 2004 was assessed on an inherent level. Existing controls, gaps, control gaps are identified on a continuous basis by means of process and control mapping initiatives.

## **Way forward**

The Department should conduct annual risk assessments and the risk events identified, should be allocated to the relevant risk owners for the required management attention and treatment.

The Department obtained a level 2 financial management capability rating on the above.

## **How will the department move to level 3?**

The Department needs to address the shortcomings/way forward discussed above as well as the following:

### **Internal Environment:**

- Compliance to commitment to competence displayed in appointment and development practices;
- Compliance to assignment of authority and responsibility;
- Compliance to writing and communicating Risk Management Philosophy to staff;
- Compliance to Management's philosophy and operating style reflecting acceptance of risk management principles, and
- Compliance to define the Department's risk appetite.

### **Event Identification:**

- Risk events are identified at least annually and are incorporated into daily activities
- Risk events are grouped in terms of event categories

### **Risk Assessment:**

- Risks are assessed on a residual risk basis

### **Control Activities:**

- Control activities are designed to address risk events
- Control activities are designed using a recognised control framework

### **Information and Communication:**

- Pertinent information is collected
- Integrated systems to analyse information is available
- Information is communicated in the right quantity to the right person at the right time

### **Monitoring:**

- The risk management process is subject to ongoing internal evaluation
- The risk management process is subject to regular internal audit evaluation

## **3.5.5 Cash Management**

The assessment was based on the activities of the 2006/07 financial year and the findings were as follows:

**Table 51: Assessment of cash management**

<b>Requirements</b>	<b>Standard Level 3</b>	<b>Standard Level 4</b>	<b>Rating</b>
Staff skilled & Capacitated in Cash Management	In accordance with profile	All functions on the Cash Management System	3
Submission of Annual Provincial Cashflow Projections	By 28 February	By 15 February	3
Deviation between monthly projections & actual expenses	5 per cent	3 per cent	2
Monthly Own Revenue Payover	2 working days prior to month end	3 working days prior to month end	3
Repayment of Surplus Funds	31 May	15 May	3
Submission of monthly Bank Reconciliation	Within 30 days after month end	Within 15 days after month end	4
Beneficiary Payments (Direct Transfers)	1 per cent of Total Payments	0,50 per cent of Total Payments	4
<b>Average rating</b>			<b>3</b>

The Department achieved an overall rating of level 3 (nominal compliance) financial management capability.

### Skilled and capacitated system users

The Department obtained a rating of level 3 (nominal compliance) financial management capability. All system users were trained in accordance with their profiles, during the implementation of the new official banker's system.

### Submission of Annual Provincial Cashflow Projections

The Department obtained a rating of level 3 (nominal compliance) financial management capability.

**Table 52: Deviation between monthly projections and actual expenses**

	Original Forecast			
	Project	Actual	Percentage	Rating
APRIL 2006	536,935	527,712	2	3
MAY 2006	557,293	453,721	19	2
JUNE 2006	516,347	556,792	(8)	2
JULY 2006	589,456	527,207	11	2
AUG 2006	551,050	576,591	(5)	2
SEP 2006	578,469	541,430	6	2
OCT 2006	625,181	572,316	8	2
NOV 2006	624,782	733,468	(17)	2
DEC 2006	615,010	631,661	(3)	2
JAN 2007	529,210	465,097	12	2
FEB2007	622,230	570,291	8	2
MAR2007	642,168	831,845	(30)	2
<b>Sub-Total</b>	<b>6,988,131</b>	<b>6,988,131</b>	<b>0</b>	<b>2</b>
<i>Revised Forecast (after adjustment budget)</i>				
MRC 2007				
Adjustment	127,730	127,730		
<b>Total</b>	<b>7,115,861</b>	<b>7,115,861</b>	<b>100</b>	

The Department achieved a rating of level 2 (partial compliance) financial management capability. PT will support and assist the department to determine the reasons for the variances and to compile more credible projections in future.

### Monthly own revenue payover

The Department obtained a rating of level 3 financial management capability. Revenue is being paid over monthly 2 working days prior to month-end.

### Repayment of Surplus funds

The Department obtained a rating of level 3 (nominal compliance) financial management capability. Surplus funds were paid to the PRF on 30 May 2007.

### Submission of monthly Bank Reconciliations

The Department was rated level 4 (full compliance) financial management capability. The monthly bank reconciliation is submitted within 15 days after month end.

### Beneficiary Payments (Direct Transfers)

The Department achieved a rating of level 4 (full compliance) financial management capability.

**Table 53: Beneficiary Payments**

Payments	Beneficiary Payments	Percentage
38400	90	0.23

### 3.5.6 Supply Chain Management

When addressing whether or not the department meets the current financial capability model in terms the SCM requirements, cognisance must be taken of the fact that the Department of Education, apart from its head office, is responsible for seven Education Management Development Centers.

The Department of Education displayed the following stated levels of compliance in terms of Supply Chain Management for the period ending 31 March 2007. The Department met the requirement of the financial capability model, in the following respects:

- The Department (head office) meets the legislative and policy framework requirement, in that it has updated its current Accounting Officers system in terms of Section 38(1)(iii)(c) of the PFMA as well as its SCM Delegations;
- The Department (head office) has the necessary legislatively stipulated Bid Committee system in place;
- 153 formal bids have been awarded to HDIs to the value of R31.2 million representing 28 per cent of the value of bids awarded in the period under review, and
- In the period under review, 21 officials were trained on Supply Chain Management divided thus: 17 officials attended the training offered by South African Management Development Institute (SAMDI), while the remaining 4 officials attended that of Institute of Public Finance and Auditing (IPFA).

During the audit of Supply Chain Management of the Department of Education Head Office, the A-G's report determined the following:

#### Compliance to Legislative and Policy Frameworks

- Particulars of successful bidders were not in all instances published in the Government Tender Bulletin as prescribed in section 8.3.20.2 of the Accounting Officer System for Supply Chain Management;

- There was no evidence of declarations of interest by the Bid Committee members as required by paragraph 1.6.1.3 of the Guide to Accounting Officers. There also was no evidence of an update of specifications to be brought in line with the latest industry standards;
- The Department of Education also had distinct problems when it came to the marking of assets with some assets that did not have the requisite marking to identify these as belonging to the Department of Education. This also meant that there was no way of tracing these assets back to the departmental asset register;
- There were instances of assets not being taken off the assets register when it comes to disposals and not adequately or correctly updated when it comes to acquisitions performed by the department;
- There also were occasions where bids were identified as being an emergency whereas the timeframes that expired between the declaration of the emergency case and the award of the contract exceed the stipulated time set aside for dealing with such emergency cases, and
- Tax clearance certificates were not in all instances obtained to ensure compliance with Treasury Regulation 16A9.1(d).

#### **Credible Knowledge and Information Management System**

- The Department did not maintain a centralised tender register encompassing the entire department's tender activities, as prescribed in section 8.7.1 of the Accounting Officer System for Supply Chain Management.

**In terms of the SCM compliance and Value for Money assessments completed at the Department of Education's Head Office, the unit made the following findings:**

#### **Compliance to Legislative and Policy Framework**

- Specifications need to be updated in terms of the latest industry standards
- No declarations of interests are signed by officials dealing with bids
- Lack of compliance with SCM Regulations

#### **Organisational Structure and Capacity**

- SCM officials lack experience in both the procurement and provisioning side of SCM
- No clear segregation of duties exist

#### **Monitoring and Reporting and Good Governance**

- No written appointment of evaluation committee members
- Contract Management and Administration is lacking
- Bid committee registers are not completed
- Opportunities to obtain best value in the procurement process are not encouraged



## **Credible Knowledge and Information Management System**

- Gifts register not instituted and maintained

## **Moveable Asset Management**

Following an assessment done at the Department of Education in line with the project dashboard tool throughout the period under review, the following was discovered:

- The Department did not have an acquisition plan governing how the department was to structure its acquisition of assets and how these were to feed the greater department's Annual Performance Plan in assisting the attainment of the overall delivery of services;
- Receipt and acceptance of assets at decentralised offices are problematic in that there are assets that could not be accounted for in terms of the official to whom these are assigned and the exact area where these are supposed to be housed. This results in assets placed all over an institution and not where it is meant to reside in terms of marking/barcoding attached to the actual asset control;
- Establishing performance indicators is still a problem in that there is no clear planning of how to look after an asset and what to expect from category of assets as there are no standards clearly stating the level of performance to be expected from the asset, and
- Asset Management plans were not produced for this audit period which meant that the department does not have a hold on the performance of its assets and cannot make any long term plans in this regard and determine the contribution that can be made by the Department's assets in meeting its delivery obligations. This also results in the reflection of assets that are supposedly disposed of in the department's asset register. Possibly, there are assets that were prematurely disposed of or were inadequately maintained resulting in the underperformance of some assets in the department's care.

The Head Office of the Department is at a level that sufficiently meets the SCM criteria to be rated at a level 3 financial management capability.

## **Provincial Treasury intervention**

From a Provincial Treasury perspective, the envisaged intervention to improve the financial management capability rating of the department includes the following:

- Training of departmental officials on the functioning of bid committees as well as on contract management; (PT role is facilitation whilst the actual training is undertaken by National Treasury). The Provincial Treasury will also be involved in departmental specific interventions;
- An integration of the financial and non-financial systems with the implementation of the IFMS;
- Stronger linkages with other disciplines within the Provincial Treasury to enable an integrated approach fostering an environment that is supporting on all sectors/disciplines of the Provincial Treasury;

- Addressing and implementing a supplier development initiative with other role-players to impact on the socio-economic aspects of procurement by achieving the desired outputs in respect of procurement to HDIs, SMMEs or BEE companies, and
- Engaging and compiling business cases and feasibility research to enable departments to leverage their buying power in participating in transversal contracts thereby impacting on economies of scale and value for money considerations.

From a departmental perspective the following interventions need to be instituted so that the department sustains itself at the achieved level and also enables the department to elevate itself to the next level:

- Ensure that internal control measures are in place for the cost efficient and effective management of SCM not only at the head office level but also at the institutional level;
- Staff structure and job description of SCM officials need to be revised to align itself with the current requirement of the posts as well the prescribed regulatory framework and competencies for SCM, and
- A concerted effort must be placed on training and a skills development plan to build the internal capacity and resources of the SCM unit.

### 3.5.7 Supporting and Interlinked Financial Systems

The evaluation was based on the activities of the 2006/07 financial year and the financial management capability findings were as follows:

**Table 54: Assessment of the Basic Accounting System (BAS)**

Requirements	Standard Level 3	Standard Level 4	Rating
Skilled and capacitated system users	In accordance with profile	Various Modules	2
Month-end closure	Own accord – due date	Own accord – prior date	4
Year-end closure	Own accord – due date	Own accord – prior date	4
System Controller Functions	80 – 90 per cent	91 – 100 per cent	3
Monitor Applicable Interfaces	Weekly	Daily	4
<b>Overall rating</b>			<b>3</b>

The Department obtained an overall rating of level 3 (nominal compliance) financial management capability.

**Table 55: Assessment of skilled and capacitated system users: training**

Number of officials nominated	Number of officials attended	Number of officials cancelled	Number of officials qualified for a certificate (70% pass rate)	Number of officials not qualifying for a certificate
77	38	39	25	13

The Department obtained a rating of level 2 (partial compliance) financial management capability, mainly due to the high percentage of officials being nominated and not attending courses as well as not all officials trained in accordance with their profiles.

The Directorate Supporting and Interlinked Financial Systems is in the process of identifying the training gap of all users and will in co-operation with the Chief Financial Officer nominate their users for training in accordance with their profiles as a matter of urgency. In addition, the poor attendance of officials will, in co-operation with the Chief Financial Officer, be addressed.

#### **Month end closure**

The Department achieved a rating of level 4 (full compliance) financial management capability as their books were closed on a monthly basis prior to the predetermined dates by National Treasury.

#### **Year closure**

The Department achieved a rating of level 4 (full compliance) financial management capability as their year-end closure was done prior to the predetermined date by National Treasury.

#### **System Controller Functions**

Based on the following criteria the System Controller function was rated as level 3 (nominal compliance) financial management capability:

- Logging of calls to the Provincial Helpdesk
- Maintenance of Security Profiles
- The reinstate of Transaction Processing Rules
- Requesting/monitoring and distributing of automated Basic Accounting System reports
- Maintenance of segment details
- Maintenance/update of departmental parameters
- Provide practical individual training to users
- Monitor Technical stability of work station including Local area network
- Assisting non-financial users of Basic Accounting System.

#### **Monitor applicable interfaces**

The Department achieved a rating of level 4 (full compliance) financial management capability as their interfaces were monitored and reported on a daily basis.

**Table 56: Assessment of the Personnel and Salary Administration System (PERSAL)**

Requirements	Standard Level 3	Standard Level 4	Rating
Skilled and capacitated system users	In accordance with profile	Various Modules	2
System Controller Functions	80 – 90 per cent	91 – 100 per cent	3
Establishment Management	Quarterly	Monthly	3
PERSAL/BAS Reconciliation	Monthly by the 20 <sup>th</sup>	Prior to the 20 <sup>th</sup>	3
Adhere to Minimum Information Requirements	Annually	Continuous process	2
Leave Audit	Annually	Continuous process	3
<b>Average rating</b>			<b>3</b>

The Department achieved an overall rating of level 3 (nominal compliance) financial management capability.

**Table 57: Assessment of skilled and capacitated system users: training**

Number of officials nominated	Number of officials attended	Number of officials cancelled	Number of officials qualified for a certificate (70% pass rate)	Number of officials not qualifying for a certificate
150	119	31	93	26

The Department obtained a rating of level 2 (partial compliance) financial management capability due to the high percentage of officials being nominated and not attending courses and officials not qualifying for certificates as well as not all officials being trained in accordance with their profiles.

The Directorate Supporting and Interlinked Financial Systems is currently in the process of identifying the training gap of all system users and will in co-operation with the Department nominate system users for training in accordance with their profiles. In addition issues of poor attendance will be addressed with the Department.

### **System Controller Functions**

The Department achieved a rating of level 3 (nominal compliance) financial management capability for the execution of its system control functions.

### **Establishment Management**

The Department achieved a rating of level 3 (nominal compliance) financial management capability as the establishment is maintained on at least a quarterly basis.

## Adhere to minimum information requirements

As not all information is captured on the system, the Department achieved a rating of a level 2 (partial compliance) financial management capability.

Reports indicating the outstanding information are available and are provided by Provincial Treasury to departments on request. The situation will be monitored by the Provincial Treasury to ensure compliance.

## Leave Audit

The Department achieved a rating of level 3 (nominal compliance) financial management capability as the leave audit is updated on at least an annual basis.

**Table 58: Assessment of the Logistical Information System (LOGIS)**

Requirements	Standard Level 3	Standard Level 4	Rating
Skilled and capacitated system users	In accordance with profile	All Modules	2
Days per issue (Service standard)	5 Days	3 Days	3
Stock Management	15,61 per cent	6,19 per cent	2
Financial Controls	Monthly	Continuous process	3
System Control Functions	80 – 90 per cent	91 – 100 per cent	3
<b>Average rating</b>			<b>3</b>

The Department achieved an overall rating of level 3 (nominal compliance) financial management capability which although it is acceptable, is a weak level 3.

**Table 59: Assessment of skilled and capacitated system users: training**

Number of officials nominated	Number of officials attended	Number of officials cancelled	Number of officials qualified for a certificate (70% pass rate)	Number of officials not qualifying for a certificate
35	18	17	17	1

The Department achieved a rating of level 2 (partial compliance) financial management capability, mainly due to the high percentage of officials being nominated and not attending courses.

## Days per issue (service standard)

The Department achieved a rating of level 3 (nominal compliance) financial management capability as stock is issued within five (5) days.

## Stock Management

The Department achieved a rating of level 2 (partial compliance) financial management capability due to the asset register on LOGIS not being kept up to date. The Department is in the process of updating the asset register with the assistance of the Directorate Supporting and Interlinked Financial Systems.

## Financial Controls

The Department achieved a rating of level 3 (nominal compliance) financial management capability on financial controls.

## System Control functions

The Department achieved a rating of level 3 (nominal compliance) for its system control functions.

**Table 60: Assessment of the Management Information System (Vulindlela)**

Requirements	Standard Level 3	Standard Level 4	Rating
Percentage of registered users using the system on a regular basis	80 – 90 per cent	100 per cent	2

**Table 61: Assessment of the usage of the Management Information System (Vulindlela)**

Number of registered users	Number of registered users using the system on a regular basis	Number of registered users not using the system on a regular basis	Percentage active users
27	21	6	78 per cent

The Department obtained a rating of level 2 (partial compliance) financial management capability due to the fact that only 78 per cent of registered users utilise the system on a regular basis.

The Directorate Supporting and Interlinked Financial Systems will, in cooperation with the Chief Financial Officer, re-evaluate the need of the 6 registered users who do not use the system on a regular basis. In addition, discuss the further role out of Vulindlela within the department and address any further user requirements they might have.

## 3.6 Department of Health

### 3.6.1 Performance Management

#### 3.6.1.1 Non-financial information

This section provides a high level assessment of the Department's non-financial performance and makes a judgment on the level of that performance, in line with the financial management framework. As mentioned in the methodology section, this framework is evolutionary and its refinement iterative. The assessment includes the Strategic and Performance Plan; and Annual and Quarterly Performance Reports. The former two documents are tabled in the Legislature, while Quarterly Performance Reports, as of 2007, are tabled in Cabinet. This review also assesses the 2006/07 Annual Report and the 2006/07 and 2007/08 Annual Performance Plans. There may, however, be some areas of a Department's performance framework that display a level 4 competency, while others have yet to reach a level 3-competency level.

#### **Annual Report 2006/07 and Annual Performance Plan 2006/07**

The performance measures defined in the 2006/07 Annual Performance Plan (APP) are included and reported against in the 2006/07 Annual Report. The units of measurement in terms of actual figures in the Annual Report and the targets set in the APP are consistent. The performance targets cited in both documents are consistent. There are however instances where the Department has not reported against APP defined targets (e.g. performance measures for EPWP). Reasons for such deviations were provided and the Department has indicated that it had replaced APP indicators with new ones due to the focus areas of performance changing subsequent to the final APP.

In some cases, the Annual Report includes and reports against performance measures and outputs that are not included in the APP but are included in the Budget Statement e.g. performance against certain targets in Programme 2: District Health Services, Programme 3: Emergency Medical Services and Programme 8: Health Facilities Management. In most cases these are performance indicators prescribed by the Health quarterly reporting indicator set that are not directly comparable to indicators contained within the APP.

The overall consistency between the Annual Report 2006/07 and the 2006/07 Annual Performance Plan enables an assessment of the actual performance of the Department against the targets set in the APP.

Although the reasons for deviations from annual targets are not explicitly indicated in the Annual Report, the Department refers to some of these deviations in the section entitled 'Analytical Review of Programme Performance'. For certain programmes, the discussion around performance and remedial measures to address under-performance and challenges are done per sub-programme e.g. Programme 3: District Health Services and Programme 4: Provincial Hospital Services. In the case of central hospitals the performance was assessed according to a list of parameters and specific challenges and responses to those challenges were listed in tabular form. Other

programmes focussed on key achievements and challenges facing the entire programme. Therefore the Annual Report does provide explanations and responses to areas of below target performance, although in most cases the explanations are broad and not indicator-specific and refer to the overall service delivery environment.

### **APP 2007/08**

The APP conforms to the uniform programme and budget structure prescribed by the national government for provincial Health Departments with measurable objectives and performance measures assigned to all but one budget programme and corresponding sub-programmes.

The Department's APP complies with the nationally defined guidelines for provincial APPs and therefore the applicable indicators are included in the APP. The format for the provincial APPs is currently being revised and all indicators of the quarterly performance reporting indicator set not currently included will be included in the APP format. This development improves the alignment between the annual reporting, quarterly reporting system and the strategic plans as detailed in the APP. The APP currently does not include quarterly targets, as it is not required by the national health guidelines, however, the Department is working towards including quarterly targets for the performance indicators required by the national department as part of the quarterly report system.

Policies, priorities and broad strategic objectives or goals are included for each sub-programme in the APP. Measurable objectives and performance indicators are specified for each sub-programme in a tabular form (except for Programme 3) and can be clearly and logically linked to the broad strategic objectives and goals. A number of these performance indicator targets are expressed as percentages and according to National Treasury these targets should comprise of baseline numbers. The Department is working on addressing the issue of including baseline numbers when using percentages in setting its performance targets.

In reviewing its quarterly performance, the Department submits a narrative report outlining the challenges facing its programmes in achieving its outputs. The narrative report should also detail the responses that are or will be taken by the Department to mitigate or prevent the challenge from impacting on departmental performance. These challenges can be mapped to the broad measurable objectives and goals contained in the APP but often do not speak directly to the performance indicators contained in the quarterly report.

### **Conclusion**

In relation to the aspects of the performance management system examined in this assessment, the Department is operating close to a level 3 competency level. To fully and effectively reach the compliance level the Department should make use of baseline numbers when using percentages to set performance targets, set quarterly targets for performance indicators included in the APP and continue to engage with the sector to ensure greater compatibility between the APP, AR and QPR. To move beyond the compliance level, the information contained in the quarterly reports specifically in the 'challenges and responses' narrative should be continuously reviewed and reflected upon in future quarters and reports.



### 3.6.1.2 Financial Information

The Department submitted IYM reports on revenue and expenditure on a monthly basis to the Provincial Treasury on or before the 15th day after the end of a reporting month in terms of section 40(4)(c) of the PFMA.

The Department ensured that the IYM reports reflected the actual expenditure and revenue, which could be reconciled with the BAS/VULINDLELA reports. However, the forecasting was not realistic because on a month-to-month basis the projections changed and therefore the Department will have to improve on its planning. This was exacerbated with the Department projecting an over expenditure in the August 2007 IYM until additional funds was provided in the Adjustments Estimate. At year-end the Department eventually underspent.

There were many shifts in the Adjustments Budget, both within a programme as well as between programmes. These shifts were mainly for correcting classifications according to SCoA and to cater for the overspending by shifting savings on items. The virements affected by the Department at the end of the financial year were all within the 8 per cent norm according to section 43(1) of the PFMA. These were mainly used to cover the overspending on Programme 4: Provincial Hospital Services and Programme 5: Central Hospital Services because of the increase in patient load. The Department did obtain the necessary virement approvals for it to be effected.

The Department submitted its Adjustments Budget on time and it was comprehensive in terms of section 31 of the PFMA. The Department received R152.855 million in the Adjustments Budget, mostly pertaining to national conditional grants (rollovers and additional allocations) and increased own revenue in the current and previous financial years.

At the end of the financial year 0.88 per cent or R56.833 million of the Department's budget was not spent, due to the following reasons:

- The underspending of R41.281 million on the Forensic Pathology national conditional grant because of the upgrading/building of forensic pathology mortuaries that commenced in the 2007/08 financial year and the slow filling of posts due to the shortage of specialised candidates.
- The R16.394 million underspending on the earmarked allocation: Global Fund Grant is due to the Global Fund transfer not received in the financial year. The budgetary principle was applied where spending is dependent on the flow of revenue. The problem arises that more was spent than what was actually supposed to have been underspent by the department. Therefore the department had to use the underspending on the expenditure side to make good the under-collection of revenue. In the overall picture of the department, the underspending on the Forensic Pathology Services Grant had to cover this difference.

The Department did not have a 'March spike' since the spending was 9.49 per cent of total expenditure. The Department shifted an amount of R55.322 million from compensation of employees in the 2006/07 Adjustment Estimate and a further R95.936 million in final virements at the end of the financial year. These shifts were mainly used to cater for the overspending on agency staff. The Department has a history of underspending on compensation of employees on an annual basis due to a

shortage of qualified and skilled medical staff. The Department has invested in training by providing bursaries to potential and current employees to become qualified and skilled to fill this void. However, this solution will only bear fruits over the medium term. In the meantime the Department makes use of agency staff to fill the gap when not finding suitable candidates to fill vacant posts.

The Department collected R304.06 million in provincial own receipts of the R325.05 million adjusted budget for the 2006/07 financial year. This recovery was R20.99 million or 6.5 per cent less than the adjusted budget. This under recovery was mainly due to the delay in the transfer of R21.60 million from the Global Fund.

The main appropriation for provincial own receipts for the 2007/08 financial year is R363.07 million which is R59.01 million or 16.3 per cent more than the actual collection of R304.06 million in the 2006/07 financial year.

Enhancement initiatives such as a new billing system and the uniform patient fee schedules (UPFS) to improve the efficiency of billing and the identification of new and old debt were introduced by the Department. The electronic transfer of data to debt collectors also improved the debt collection rates. These systems were also introduced to additional hospitals in the 2006/07 financial year.

The Department of Health also introduced a process of setting revenue targets for institutions, which will improve the collection of health service fees at the respective institutions.

Revised tariffs are recorded in a tariff register.

The Department of Health generally operates on level 3 and is moving towards a level 4 financial management capability rating.

### **3.6.2 Compliance with accounting assessment policies and standards**

An assessment of the financial management capability of the department was based on audit findings and IYM monthly reporting, that revealed the following:

#### **Management of and reporting on suspense accounts**

Suspense, control and disallowance accounts were regularly followed-up and cleared within a reasonable period of time. Monthly reconciliations of control and suspense accounts were performed timeously as part of managing these accounts. BAS reports of the Department were reviewed on a monthly basis in order to monitor the progress in the clearance of the suspense and control accounts. The Department is currently operating at a level 3 financial management capability.

#### **Accounting of assets (Asset Management)**

The Department indicated that they complied with the minimum requirements of an Asset Register in terms of the acquisition (assets register updated), identification, accountability and accounting of assets. However the closing balance of assets was adjusted by R272,422 million in the annual financial statements for 2006/07 as a result of adjustments arising from inputs submitted by the institutions not agreeing with

the supporting documentation and not being reconciled. Furthermore, the inventory closing balance disclosed in the Accounting Officer's Report had to be adjusted by R2.994 million. In this regard the Department is operating at a level 2 financial management capability, and to achieve level 3 in terms of the financial management capability model, the Department must ensure that all asset management transactions are accounted for in terms of the accounting policy requirements.

### **Financial reconciliations**

The Department reported monthly in the IYM report that PERSAL/BAS, LOGIS/BAS and the Bank reconciliations are performed and signed of by the CFO. The Department continues to experience problems with the timely clearing of exceptions on the monthly Bank reconciliations. Due to interface problems the Department is unable to close their books on BAS successfully on a monthly basis and are therefore operating at a level 2 financial management capability.

### **Supporting documentation**

The sources of the transactions are readily identifiable and supported by authentic and verifiable source documentation, enabling the department to follow-up and clear balances within a reasonable period of time. In this regard the Department is currently operating at a level 3 financial management capability.

### **Expenditure – Payments and journals**

In the monthly IYM report the Department reported that all transactions have been captured and authorised on a monthly basis, which is indicative of a level 3 financial management capability.

### **Procedures for the identification and reporting of unauthorised, fruitless and wasteful and irregular expenditure**

The Department reported in the IYM that they have procedures in place for the identification and reporting of unauthorised, fruitless and wasteful and irregular expenditure in terms of the PFMA, and therefore operating at a level 3 financial management capability.

### **Recording and maintenance of State Guarantees**

The Department reported that on a regular basis reconciliations are done between the PERSAL report on state guarantee and the actual information on personal files of officials. In this regard the department is currently operating at a level 3 financial management capability.

### **Management of lease liabilities**

The full liability for lease commitments was not correctly disclosed in the financial statements which required an adjustment of R32.830 million. This is indicative of a level 2 financial management capability, and in order to move to a level 3 financial management capability the Department must ensure that all lease commitments are accurately recorded in a updated lease register and disclosed in the AFS.

### **Management of thefts and losses**

The Department reported that there are control measures in place for the management of thefts and losses and consequently there were no audit findings. In this regard the department currently operates at a level 3 financial management capability.

### **Management of contingent liabilities**

The contingent liabilities as reported in the AFS had to be adjusted by R15.596 million due to the non-disclosure of civil and legal claims instituted against the department.

In this regard the Department is currently operating at a level 2 financial management capability, and in order to achieve a level 3 in terms of the financial management capability model, the Department must ensure that contingent liabilities are properly managed and disclosed in the AFS.

### **Monthly reporting of financial information to the CFO/AO/EA/Department**

The Department reported monthly to Provincial Treasury that financial information is reported according to legislative requirements to all role players. This includes inter alia financial reports being provided to the Accounting Officer on uncleared items that are followed up on a monthly basis. The Department therefore operates at a level 3 financial management capability.

### **CAPE MEDICAL DEPOT**

The Cape Medical Depot (CMD), operating as a trading entity, caters for the provisioning of pharmaceutical and non-pharmaceutical supplies in bulk from suppliers, thereby enabling users to keep lower stock levels and rely on shorter delivery lead-times. CMD is responsible for the storage and management of stock to supply Provincial Hospitals, Provincial-aided Hospitals, Old Age Homes, Day Hospitals, Local Authorities and Clinics with stock.

### **Accounting of Assets**

The Auditor-General reported that CMD does not write off its assets in terms of SA GAAP. The non-compliance with SA GAAP could result in property, plant and equipment being understated in the financial statements. This is indicative of a financial management capability Level 2. It is recommended that all items that constitute property, plant and equipment, regardless of the value thereof, be capitalised and depreciated over its estimated useful life in accordance with IAS16 (AC123).

Due to a lack of monitoring by CMD with regard to year-end requirements and procedures, the MEDSAS report of the stock balances at year-end was not produced to the auditors, as required. Reconciling a stock report drawn after year-end back to 31 March could result in errors and an incorrect stock figure being reflected in the annual financial statements. It is recommended that CMD implement proper monitoring procedures to ensure that year-end procedures are adhered to, in order to move towards a financial management capability Level 3.

The asset register maintained by CMD is in the form of an Excel spreadsheet. Due to the lack of an audit trail to track changes made to the spreadsheet, an Excel spreadsheet is not acceptable as a proper accounting record. This is indicative of a financial management Level 2. It is recommended that CMD maintain their asset register on a proper asset management system.

### **Financial reconciliations**

The Auditor-General reported that CMD performed inadequate reconciliations between the invoices and waybills of the courier service provider. This resulted in the private use of the courier services going undetected. This increases the risk of fraud and results in the Depot paying for private goods that have been couriered. This is indicative of a financial management capability Level 2. It is recommended that CMD immediately stop the use of the courier service for private goods and institute reconciliation procedures to detect such cases in future.

### **Supporting Documentation**

The Auditor-General reported that due to improper filing systems implemented at CMD and non-compliance with Treasury Regulation 17.2 supporting documentation was not readily available for auditing purposes. This is indicative of a financial management capability Level 2. It is recommended that the Depot implement a proper filing system to ensure that supporting documentation is easily accessible and compliance with Treasury Regulation 17.2.

### **Accounting treatment of transactions**

CMD does not have an accounting system in place to identify and record transactions according to the accrual basis of accounting. This could lead to transactions being accounted for in the incorrect financial year, resulting in the overstatement of the present year's expenditure. An accrual accounting system should enable CMD to achieve fmc level 3. CMD is in the process of obtaining an accrual-based system.

### **Expenditure – Payments and journals**

The Auditor-General reported that invoices to the value of R63 218 421 were, contrary to Treasury Regulation 8.2.3, not settled by CMD within 30 days of receipt of the invoice. It is recommended that the Depot institute measures to ensure that all creditor payments is made within 30 days to ensure strict adherence to the Treasury Regulation 8.2.3, to move towards a financial management capability Level 3. It also recommended that CMD implement a process to ensure that the payment section receives proof of delivery documentation within a reasonable time to enable them to make payments to suppliers within the prescribed time frame.

The Depot passes manual journals at year-end to convert transactions recorded on the cash basis of accounting to an accrual basis of accounting. Upon auditing of the journals, no proof of authorisation by management could be provided. It is recommended the management of CMD ensure that all journals passed are authorised in terms of the delegation framework. This should include the year-end GAAP adjustment journals, to achieve a financial management capability Level 3.

## **Delegations of Authority**

CMD's internal controls were not adequately implemented and/or complied with to ensure that transactions and significant events are authorised by a person acting within the scope of their authority. Amounts, which are not authorised within the approved delegation framework, could result in irregular expenditure being incurred. It is recommended that CMD ensure that all expenditure be approved according to the Delegations of Powers, in order to achieve a financial management capability Level 3. The importance and control objectives of the delegations should be emphasised and enforced with all staff. Furthermore, the irregular expenditure incurred in this regard should be dealt with in terms of the Public Finance Management Act, 1999.

The Depot has insufficient controls to ensure that all provisioning advices are signed and authorised. If re-order levels are not authorised it could lead to the accumulation of obsolete stock if too much stock is ordered. This is indicative of a financial management capability Level 2. It is recommended that CMD ensure that all orders is authorised by the delegated official before the order is processed and paid for.

## **Non-compliance with legislation**

CMD is presently operating in contravention of the provisions of the Medicines and Related Substances Act, 1965 (Act No. 101 of 1965). Due to non-compliance with Good Wholesaling Practice requirements relating to the warehousing of medicines, the Medical Control Council (MCC) did issue the required licence for the wholesaling of medicines to CMD. This is indicative of a financial management capability Level 2. It is recommended that CMD, together with the Western Cape Department of Health, continue with the present processes to ensure that the CMD's warehousing facilities comply with the MCC's Good Wholesaling Practice requirements as soon as possible, so that CMD can obtain a licence to operate its warehousing facilities in terms of the Medicines and Related Substances Act, 1965.

### **3.6.3 Normative Financial Management**

The findings discussed in this section provide a review of the PFMA implementation and financial management improvement of the CMD in line with the provincial strategy for attaining a level 4 financial management capability.

The source documents used were the Normative Measures for Financial Management for departments for the quarter ending 30 September 2007, the Management Report and the Auditor-General's report for the 2006/07 financial year.

#### **Analysis of Normative Measures Quarterly Report**

##### **Performance agreements**

The Accounting Officer signed a performance agreement that is aligned to the objectives and the strategic plan of the department as required by the PFMA and PSR. The process of monitoring and updating this document continues to take place on a quarterly basis.

## Vacancy rate and HR related issues in the CFO component

The vacancy rate stands at 35 per cent as at the end of June 2007. The Department indicated that they are in the process of advertising vacant posts in order to reduce this percentage to acceptable levels. Furthermore, the Department is currently reviewing all qualifications for finance staff. As at the end of June 2007 prior to the Review, the staff with adequate finance qualifications was at 76 per cent compared to the national norm of 90 per cent.

### Reporting

The following table represents what the Department has reported and tabled before the executive authority and the legislature respectively for the 2005/06 and 2006/07

**Table 62: Annual reporting**

Related Document	Completed	Reported	Tabled to the legislature	Reporting time
Strategic Plan	X	X	X	<i>As prescribed</i>
Annual Report 2006/07	X	X	X	<i>As prescribed</i>

### Analysis of the 2006/07 Auditor-General's report

The Auditor-General changed the reporting format in the 2006/07 financial year. In the 2005/06 audit findings, the Department had 12 Issues under emphasis of matter and the majority of these issues affected the Department's financial management. These are the findings as reported under Emphasis of Matter in the 2005/06 Auditor-General's report:

- Asset management
- Compensation of employees
- Transfer and subsidies
- Supply chain management
- Provincial infrastructure grant
- Hospital revitalisation programme grant
- Performance information
- Risk management policy and fraud prevention plan
- Inventory management
- Non-compliance with laws and regulations
- General control environment weaknesses
- Unauthorised expenditure

An action plan was compiled by the Provincial Treasury in collateration with the department to address shortcomings as identified.

In the 2006/07 Auditor-General report, it was observed that certain matters reported as emphasis of matter in 2005/06 audit report are appearing under a new category as 'Other matters'.

The following are issues reported in the 2006/07 Auditor-General reports:

#### Other matters

- Matters of governance: Non-disclosure of related party information.
- Material corrections made to the financial statements submitted for audit.
- Value for money matters: Supply chain management, Human Resources Management and Emergency Medical Services (EMS).
- Internal control: Control environment and Control activities.

#### Other reporting responsibilities

- Lack of systems generating performance information.
- Evidence materially inconsistent with reported information.
- Lack of targets and outputs for performance measures reported in the annual report.
- Inconsistent reporting format between target and output.

**Table 63: Summary of Comparison between the 2005/06 and 2006/07 Audit Reports:**

KEY FINDING	2005/06	2006/07	STATUS
Asset management	X	-	Improved
Compensation of employees	X	-	Improved
Transfer and subsidies	X	-	Improved
Supply chain management	X	X	Not improved
Provincial infrastructure grant	X	-	Improved
Hospital revitalisation programme grant	X	-	Improved
Performance information	X	X	Not Improved
Risk management policy and fraud prevention plan	X	-	Improved
Inventory management	X	-	Improved
Non-compliance with laws and regulations	X	-	Improved
General control environment weaknesses	X	X	Not Improved
Unauthorised expenditure	X	-	Improved
Non-disclosure of related party information	-	X	Deterioration
Material corrections made to the financial statements submitted for audit	-	X	Deterioration
Supply chain management	-	X	Deterioration
Human Resources Management	-	X	Deterioration
Emergency Medical Services (EMS)	-	X	Deterioration



KEY FINDING	2005/06	2006/07	STATUS
Control environment	-	X	Deterioration
Control activities	-	X	Deterioration
Lack of systems generating performance information	-	X	Deterioration
Evidence materially inconsistent with reported information	-	X	Deterioration
Lack of targets and outputs for performance measures reported in the annual report	-	X	Deterioration
Inconsistent reporting format between target and output	-	X	Deterioration

### **Financial Management Capability Level**

Based on the table above it is clear that the Department of Health has made progress on certain issues. However there were new shortcomings identified which reflects a deterioration when compared to the previous year. In terms of the Financial Management Capability criteria, the Department of Health had a slight improvement in the 2006/07 financial year compared to 2005/06 financial year.

### **3.6.4 Enterprise Risk Management**

The section provides guidance, criteria, and norms and standards for the attainment of levels of enterprise risk management in terms of the financial management capability model. It is anticipated that this will assist management in being able to identify underlying problems and focus on areas to improve the enterprise risk management processes.

Departments will not be assessed on Level 3 and 4 because of the immaturity of enterprise risk management within the provincial government.

#### **PROPER CONTROL FRAMEWORK (LEVEL 1)**

Includes all scenarios where the Department has not implemented all the criteria required to obtain a level 2 assessment.

#### **A PROPER INTERNAL CONTROL FRAMEWORK AND FINANCIAL ACCOUNTING PROCESSES HAVE BEEN DEVELOPED (LEVEL 2)**

#### **Strategic Risk Assessment**

A Strategic risk assessment was conducted for the Department, risk response strategies were developed and it was found that the organisational structure supports processes developed.

### **Way forward**

The Chief Risk Officer need to assign strategic risks identified to senior management (risk owners) for the required management attention and treatment. Once risks are allocated to SMS members, their performance agreements should be amended to include their responsibility for the management of risk.

The Department obtained a level 2 (partial compliance) financial management capability rating on the above.

### **Internal Environment**

A risk management philosophy and a management's philosophy were not developed for the Department. The risk appetite of the Department is also not defined.

### **Way forward**

A risk management and management philosophy needs to be developed for the Department, to emphasise the importance of risk management and to hold management accountable to the management of risk. The Department must define their risk appetite, i.e. the amount of risk the Department is willing to accept in the pursuit of their objectives. All vacancies in the ERMGS unit need to be filled to ensure the success of risk management in the Department.

The Department obtained a level 1 financial management capability rating on the above.

### **Operational Risk Assessment**

The risk event identified during the operational risk assessment in 2004 was assessed on an inherent level. Existing controls, gaps, control gaps are identified on a continuous basis by means of process and control mapping initiatives.

### **Way forward**

The Department should conduct annual risk assessment and the risk events identified, should be allocated to the relevant risk owners for the required management attention and treatment.

The Department obtained a level 2 (partial compliance) financial management capability rating on the above.

### **How will the department move to level 3?**

The Department needs to address the shortcomings/way forward discussed above as well as the following:

### **Internal Environment**

- Compliance to commitment to competence displayed in appointment and development practices.
- Compliance to assignment of authority and responsibility.
- Compliance to writing and communicating Risk Management Philosophy to staff.
- Compliance to Management's philosophy and operating style reflecting acceptance of risk management principles.
- Compliance to define the Departments risk appetite.

### **Event Identification:**

- Risk events are identified at least annually and are incorporated into daily activities.
- Risk events are grouped in terms of event categories.

### **Risk Assessment:**

- Risks are assessed on a residual risk basis.

### **Control Activities:**

- Control activities are designed to address risk events.
- Control activities are designed using a recognised control framework.

### **Information and Communication:**

- Pertinent information is collected.
- Integrated systems to analyse information is available.
- Information is communicated in the right quantity to the right person at the right time.

### **Monitoring:**

- The risk management process is subject to ongoing internal evaluation.
- The risk management process is subject to regular internal audit evaluation.

## **3.6.5 Cash Management**

This section deals with the implementation and management of sound cash flow practices as well as the provision of assistance and training in respect of the official banking system within the Provincial Government of the Western Cape.

## Review

The evaluation was based on the activities of the 2006/2007 financial year and the financial management capability findings were as follows:

**Table 64: Assessment of cash management**

Requirements	Standard Level 3	Standard Level 4	Rating
Staff skilled & Capacitated in Cash Management	In accordance with profile	All functions on the Cash Management System	3
Submission of Annual Provincial Cashflow Projections	By 28 February	By 15 February	3
Deviation between monthly projections & actual expenses	5%	3%	2
Monthly Own Revenue Payover	2 working days prior to month end	3 working days prior to month end	3
Repayment of Surplus Funds	31 May	15 May	3
Submission of monthly Bank Reconciliation	Within 30 days after month end	Within 15 days after month end	4
Beneficiary Payments (Direct Transfers)	1% of Total Payments	0.50% of Total Payments	4
<b>Average rating</b>			<b>3</b>

The Department achieved an overall rating of level 3 (nominal compliance) financial management capability.

### Skilled and capacitated system users

The Department obtained a rating of level 3 (nominal compliance) financial management capability. All system users were trained in accordance with their profiles, during the implementation of the new official banker's system.

### Submission of Annual Provincial Cashflow Projections

The Department obtained a rating of level 3 (nominal compliance) financial management capability.

**Table 65: Deviation between monthly projections and actual expenses**

	Original Forecast			rating
	Project	Actual	%	
APRIL'06	430,710	464,436	(8)	2
MAY'06	482,316	420,395	13	2
JUNE'06	485,131	547,310	(13)	2
JULY'06	520,338	500,020	4	2
AUG'06	496,509	571,514	(15)	2
SEP'06	498,871	514,936	(3)	2
OCT'06	554,646	513,804	7	2
NOV'06	563,755	608,185	(8)	2
DEC'06	534,538	580,792	(9)	2

<b>Original Forecast</b>				
	<b>Project</b>	<b>Actual</b>	<b>%</b>	<b>rating</b>
JAN'07	525,030	441,878	16	2
FEB'07	622,661	568,125	9	2
MRC'07	608,988	592,098	3	2
<b>Sub-Total</b>	<b>6,323,493</b>	<b>6,323,493</b>		<b>2</b>
<i>Revised Forecast (after adjustment budget)</i>				
MRC'07				
Adjustment	152,855	152,855		
<b>Total</b>	<b>6,476,348</b>	<b>6,476,348</b>	<b>100</b>	

The Department achieved a rating of level 2 (partial compliance) financial management capability. PT will support and assist the department to determine the reasons for the variances and to compile more credible projections in future.

#### **Monthly own revenue payover**

The Department obtained an average rating of level 3 (nominal compliance) financial management capability. Revenue is being paid over monthly 2 working days prior to month end.

#### **Repayment of Surplus funds**

The Department obtained a rating of level 3 (nominal compliance) financial management capability. Surplus funds were paid to the PRF on 30 May 2007.

#### **Submission of monthly Bank Reconciliations**

The Department was rated level 4 (full compliance) financial management capability. The monthly bank reconciliation is submitted within 15 days after month end.

#### **Beneficiary Payments (Direct Transfers)**

The Department achieved a rating of 4 (full compliance) financial management capability.

**Table 66: Beneficiary Payments**

<b>Payments</b>	<b>Beneficiary Payments</b>	<b>%</b>
66141	43	0.07

### 3.6.6 Supply Chain Management

When assessing the department to determine its current financial capability in terms of the SCM requirements, it must be noted that the Department of Health, manages 63 health institutions. This assessment against the financial capability model is based on the SCM compliance and value for money assessments that were undertaken at the following Department of Health institutions, namely: Stikland, Alexandra, Eben Dönges, Valkenburg, Somerset, Karl Bremer, Mowbray Maternity Hospital's, Clinical Engineering and Metropole Regional Office; as well as the A-Gs audit report and management letters for the 2006/07 financial year and the Project Dashboard Reporting framework and Risk Log for moveable asset management as issued by the National Treasury implementation plan.

The findings in respect of the above indicated that the department meets the capability criteria in the following respects, especially at the head office level:

- The Department, at head office level meets the legislative and policy framework requirements, in that it has updated its current accounting officer's system in terms of Section 38(1)(iii)(c) of the PFMA as well as its SCM Delegations;
- The Department (head office) has the necessary Bid committee system in place;
- The Department (head office) is in the process of finalising a standard operating procedural manual on contract management;
- 107 Formal Bids have been awarded to HDIs ensuring that 55 per cent of the value of the bids were awarded to HDIs;
- In the 2006/07 financial year 80 officials were trained on SCM (75 at basic SCM training by SAMDI and 5 at management level by IPFA).

During the audit of supply chain management at various institutions of the Department of Health, the A-G's report determined the following:

#### **Compliance to Legislative and Policy Frameworks:**

- Tender validity periods exceeded the 60-day period prescribed in section 8.3.4.3 of the Accounting Officer System for Supply Chain Management and that tenders were awarded after the tender validity period expired.
- Tax clearance certificates were not in all instances obtained to ensure compliance with Treasury Regulation 16A9.1(d).
- Suppliers were awarded contracts based on the 90/10 system, as prescribed by the Preferential Procurement Regulations, 2001. However, substantiating evidence was not obtained by the department to ensure that the suppliers qualified for the points claimed.
- Particulars of successful bidders were not in all instances published in the Government Tender Bulletin as prescribed in section 8.3.20.2 of the Accounting Officer System for Supply Chain Management.

- During the review of 39 contracts awarded under the urgent and emergency requirements in section 9.1.4.1 of the Accounting Officer System for Supply Chain Management, it was determined that 14 contracts, representing 36 per cent of the contracts reviewed, were awarded without complying with all the requirements of the urgent and emergency delegation.
- Successful bidders did not in all instances sign the contract form, which is part of the standardised bidding documents issued by the National Treasury, whereby they enter into a contract under the conditions specified in the bidding documentation.

### **Credible Knowledge and Information Management System**

The Department did not maintain a centralised tender register encompassing the entire department's tender activities, as prescribed in section 8.7.1 of the Accounting Officer System for Supply Chain Management

### **Compliance and Value for money assessments**

In terms of the SCM compliance and Value for money assessments completed at the selected Health institutions as referred to above the findings are consolidated and cited hereunder generally as follows:

#### **Compliance to Legislative and Policy Frameworks:**

- Specifications need to be updated in terms of the latest industry standards
- No declarations of interests are signed by officials dealing with bids
- Lack of compliance with SCM Regulations

#### **Organisational Structure and Capacity**

- SCM officials lack experience in both the procurement and provisioning side of
- No clear segregation of duties exist

#### **Monitoring and Reporting and Good Governance**

- Officials who draw up specifications and who evaluate bids and who form part of the bid adjudication committee are the same officials
- No written appointment of evaluation committee members
- Contract management and administration is lacking
- Bid committee registers are not completed
- Opportunities to obtain best value in the procurement process are not encouraged
- Offers are passed over without substantiation;
- Evaluation of bids are not conducted prior to bid adjudication meetings;
- Bid boxes are not accessible to the public 24hrs, 7 days a week;

- Contract price adjustments substantiated in bids are not taken into consideration in the evaluation and adjudication process that results in the incorrect award of bids;
- Bid documents invites should be populated with the correct information;
- Invoices are not always scrutinised before payments are effected;
- Points claimed for disability are not verified and awarded on this basis;
- Bids are awarded without valid Tax clearance certificates are submitted by service providers.

### **Credible Knowledge and Information Management System**

- Gifts register not instituted and maintained

### **Moveable Asset Management**

In terms of the project dashboard assessment of the Head Office, as at the 28 February 2007, the following:

The Department has completed the following:

- Asset management plans in respect of the definition of assets, role of assets in the program delivery, non-assets solutions, asset life cycle, accountability and responsibility;
- Acquisition: in respect of analysis of alternatives, receipt of acceptance of assets and establishing ownership control;
- Operation and Management plans: monitoring and condition use and, tracking of assets, safeguarding and protecting of assets;
- Disposal plans: identification of surplus, obsolete and under- performing assets, evaluation of disposal alternatives, write – off of damaged or missing assets;
- Accounting: Definition of assets, valuation of assets, depreciation of assets, treatment of repairs and maintenance, recording on acquisition, transfer and disposal;
- Asset Register requirements: acquisition, identification, accountability, performance, disposal and accounting.

The following were areas that were postponed/outstanding:

- Maintenance scheduling
- Asset replacement strategy
- Reconciliation of assets on the asset register with BAS
- LOGIS Reports: RR032, RR073, RR001 and RQ013

The following were raised as problem areas:

- Life-cycle costing
- Developing of an acquisition plan



- Operation and Maintenance: plans
- Enhancement and upgrades

### **Rating**

It must be noted that whilst at the Head Office level the department sufficiently meets the SCM criteria rated at a level 3 financial management capability, the level of the institutions assessed (Stikland, Alexandra, Eben Dönges, Valkenburg, Somerset, Karl Bremer, Mowbray Maternity Hospital's, Clinical Engineering and Metropole Regional Office) are insufficient in most of the areas that are critical to establish it at a level 3 financial management capability rating. Hence it is safe to say that these Departmental institutions may be rated at a level 2 in terms of the capability model for SCM.

The department has however indicated that various measures has been put in place to lift institutions to a level 3 in terms of the capability model for SCM. These measures will however only be assessed in the 2007/2008 Review.

### **Steps to be taken to ensure that the departmental institutions establishes themselves at the next auditable level (3)**

From a Provincial Treasury perspective the following interventions steps are planned in the next financial year:

- Training on bid committees and contract management as provided and funded by the National Treasury;
- An integration of the financial and non-financial systems with the implementation of the IFMS;
- Linkages with other disciplines within the Provincial Treasury to enable an integrated approach to enable a supporting environment that maintains the credibility of the level;
- Addressing and implementing a supplier development initiative with other role-players to impact on the socio-economic aspects of procurement by achieving the desired outputs in respect of procurement to HDIs, SMMEs or BEE companies;
- Engaging and compiling business cases and feasibility research to enable departments to leverage their buying power in participating in transversal contracts thereby impacting on economies of scale and value for money considerations, and
- Initiating a performance review of the Department and selected institutions to secure a view of the Department independent of the internal PT compliance and value for money assessments and the A-G's findings that will better assist the Provincial Treasury to give credibility to having an overall state of SCM at the department.

From a Departmental perspective the following interventions need to be instituted to sustain the current levels as achieved, and to enable the department to elevate itself to the next level:

- Ensure that internal control measures are in place for the cost efficient and effective management of SCM not only at the head office level but also at the institutional level.
- Staff structure and job description of SCM officials need to be revised to align itself with the current requirement of the posts as well the prescribed regulatory framework and competencies for SCM.
- A concerted effort must be placed on training and a skills development plan to build the internal capacity and resources of the SCM unit.

### 3.6.7 Supporting and Interlinked Financial Systems

This section deals with the implementation and maintenance of Financial Systems as well as the provision of functional assistance and training, to all system users.

#### Review

The evaluation was based on the activities of the 2006/2007 financial year and the findings were as follows:

**Table 67: Assessment of the Basic Accounting System (BAS)**

Requirements	Standard Level 3	Standard Level 4	Rating
Skilled and capacitated system users	In accordance with profile	Various Modules	2
Month-end closure	Own accord – due date	Own accord – prior date	2
Year-end closure	Own accord – due date	Own accord – prior date	2
System Controller Functions	80 – 90%	91 – 100%	3
Monitor Applicable Interfaces	Weekly	Daily	3
<b>Average rating</b>			<b>2</b>

The Department obtained an overall rating of level 2 (partial compliance) financial management capability.

**Table 68: Assessment of skilled and capacitated system users: training**

Number of officials nominated	Number of officials attended	Number of officials cancelled	Number of officials qualifying for a certificate (70% pass rate)	Number of officials not qualifying for a certificate
276	155	121	118	37

The Department obtained a rating of level 2 (partial compliance) financial management capability, mainly due to the high percentage of officials being nominated and not attending courses, as well as not all officials trained in accordance with their profiles.

The Directorate Supporting and Interlinked Financial Systems are in the process of identifying the training gap of all users and will in co-operation with the Chief Financial Officer nominate their users for training in accordance with their profiles as a matter of urgency. In addition the poor attendance of officials will in co-operation with the Chief Financial Officer be addressed.

#### **Month-end closure**

The month end closure rating of level 2 (partial compliance) financial management capability is based on the fact that the Department has not managed to close its books on its own accord consistently on a monthly basis in terms of the predetermined dates prescribed by National Treasury. The Directorate Supporting and Interlinked Financial Systems will support and assist the Department in taking note of system messages and to monitor the suspense accounts by requesting relevant reports at random to determine performance standard.

#### **Year-end closure**

The year-end closure rating of level 2 (partial compliance) financial management capability is based on the fact that although the Department has succeeded in closing its books on its own accord for the 2006/07 financial year, this was done due to an extension of the prescribed due date being granted by National Treasury. The Directorate Supporting and Interlinked Financial Systems will support and assist the Department by requesting reports well in advance to year-end closure, to monitor and finalise such transactions which will ensure financial year-end closure by the prescribed due date.

#### **System Controller Functions:**

The Department achieved a rating of level 3 (nominal compliance) financial management capability based on the following criteria:

- Logging of calls to the Provincial Helpdesk
- Maintenance of Security Profiles
- The reinstatement of Transaction Processing Rules
- Requesting/monitoring and distributing of automated Basic Accounting System reports
- Maintenance of segment details
- Maintenance/update of departmental parameters
- Provide practical individual training to users
- Monitor technical stability of work stations including Local Area Network
- Assisting non-financial users of Basic Accounting System

#### **Monitor applicable interfaces:**

The Department achieved a rating of level 3 (nominal compliance) financial management capability as interfaces are monitored and reported on at least a weekly basis.

**Table 69: Assessment of the Personnel and Salary Administration System (PERSAL)**

Requirements	Standard Level 3	Standard Level 4	Rating
Skilled and capacitated system users	In accordance with profile	Various Modules	2
System Controller Functions	80 – 90%	91 – 100%	3
Establishment Management	Quarterly	Monthly	3
PERSAL/BAS Reconciliation	Monthly by the 20 <sup>th</sup>	Prior to the 20 <sup>th</sup>	3
Adhere to Minimum Information Requirements	Annually	Continuous process	2
Leave Audit	Annually	Continuous process	3
<b>Average rating</b>			<b>3</b>

The Department achieved an overall rating of 3 (nominal compliance) financial management capability.

**Table 70: Assessment of skilled and capacitated system users: training**

Number of officials nominated	Number of officials attended	Number of officials cancelled	Number of officials qualified for a certificate (70% pass rate)	Number of officials not qualifying for a certificate
238	159	79	101	58

The Department obtained a rating of level 2 (partial compliance) financial management capability due to the high percentage of officials not qualifying for certificates and not attending courses as well as not all officials being trained in accordance with their profiles.

The Directorate Supporting and Interlinked Financial Systems is currently in the process of identifying the training gap of all system users and will in co-operation with the department nominate system users for training in accordance with their profiles. In addition issues of poor attendance will be addressed with the department.

### **System Controller Functions**

The Department achieved a rating of level 3 (nominal compliance) financial management capability for the execution of its system control functions.

### **Establishment Management**

The Department achieved a rating of level 3 (nominal compliance) financial management capability as the establishment is maintained on at least a quarterly basis.

## Adhere to Minimum Information Requirements

As not all information is captured on the system, the department achieved a rating of a level 2 (partial compliance) financial management capability.

Reports indicating the outstanding information are available and are provided by Provincial Treasury to departments on request. The situation will be monitored by the Provincial Treasury to ensure compliance.

## Leave Audit

The Department achieved a rating of level 3 (nominal compliance) financial management capability as the leave audit is updated on at least an annual basis.

**Table 71: Assessment of the Logistical Information System (LOGIS)**

Requirements	Standard Level 3	Standard Level 4	Rating
Skilled and capacitated system users	In accordance with profile	All Modules	2
Days per issue (Service standard)	5 Days	3 Days	3
Stock Management	15.61%	6.19%	3
Financial Controls	Monthly	Continuous process	3
System Control Functions	80 – 90%	91 – 100%	3
<b>Average rating</b>			<b>3</b>

The Department achieved an overall rating of level 3 (nominal compliance) financial management capability.

**Table 72: Assessment of skilled and capacitated system users: training**

Number of officials nominated	Number of officials attended	Number of officials cancelled	Number of officials qualified for a certificate (70% pass rate)	Number of officials not qualifying for a certificate
380	276	104	227	49

The Department obtained a rating of level 2 (partial compliance) financial management capability mainly due to the high percentage of officials being nominated and not attending courses as well as not all officials trained in accordance with their profiles.

## Days per issue (service standard)

The Department achieved a rating of level 3 (nominal compliance) financial management capability as the department on average issue stock within five (5) days.

## Stock Management

The Department achieved a rating of level 3 (nominal compliance) financial management capability for its control over inventories and assets.

## Financial Controls

The Department achieved a rating of level 3 (nominal compliance) financial management capability as financial controls are executed on at least a monthly basis.

## System Control functions

The Department achieved a rating of level 3 (nominal compliance) financial management capability for its system control functions

**Table 73: Assessment of the Management Information System (Vulindlela)**

Requirements	Standard Level 3	Standard Level 4	Rating
Percentage of registered users using the system on a regular basis	80 – 90%	100%	2

**Table 74: Assessment of the usage the Management Information System (Vulindlela)**

Number of registered users	Number of registered users using the system on a regular basis	Number of registered users not using the system on a regular basis	Percentage active users
253	155	98	61%

The Department obtained a rating of level 2 (partial compliance) financial management capability due to the fact that only 61 per cent of registered users utilise the system on a regular basis.

The Directorate Supporting and Interlinked Financial Systems will, in cooperation with the Chief Financial Officer, re-evaluate the need of the 98 registered users who do not use the system on a regular basis. In addition, discuss the further role out of Vulindlela within the department and address any further user requirements they might have.

## 3.7 Department of Social Development

### 3.7.1 Performance Management

#### 3.7.1.1 Non-financial information

This section provides a high level assessment of the Department's non-financial performance and makes a judgment on the level of that performance, in line with the financial management framework. As mentioned in the methodology section, this framework is evolutionary and its refinement iterative. The assessment includes the Strategic and Performance Plan; and Annual and Quarterly Performance Reports. The former two documents are tabled in the Legislature, while Quarterly Performance Reports, as of 2007, are tabled in Cabinet. This evaluation assesses the 2006/07 Annual Report and the 2006/07 and 2007/08 Annual Performance Plans. There may, however, be some areas of a Department's performance framework that display a level 4 competency, while others have yet to reach a level 3-competency level.

#### **Compliance with reporting format for the Social Development Sector**

The Department of Social Development has complied with the prescribed reporting format for the social development sector. The Department has reported on almost all the measurable objectives, performance measures and targets defined in the 2006/07 APP. In a few cases the Annual Report includes targets and performance measures that were not identified in the APP.

During the 2006/07 financial year the Department has put in place systems that will help improve the collection of data and ensure that the quality of information is accurate and reliable. A new directorate for Knowledge Management was established and the process of developing the Departmental Management Information System (MIS) was also started. These initiatives improve: the Department's reporting and accounting systems; the collection of data and the designing of integrated knowledge; information; and information technology tools that support the strategic objectives of the Department.

#### **Comparing the 2006/07 Annual Report with the 2006/07 Annual Performance Plan**

The Annual Report compares fairly well with the APP for the corresponding period. There are however a few gaps which were identified in the Annual Report. The Annual Report contains cases where the Department has adjusted, revised or removed the measurable objectives, and performance measures. This was often the case in sub-programme 2.8, "HIV/Aids", sub-programme 3.2, "Youth Development", sub-programme 3.3, "Sustainable Livelihood", and sub-programme 3.6, "Population Capacity Development and Advocacy". The process of formulating measurable objectives, performance measures, and output and their alignment thereof sometimes pose major challenges for the department.

Other factors beyond the Department's control might necessitate the changing of performance measures during the course of the financial year, e.g. budget adjustments and changing work environments, etc. but Treasury Regulations however do not allow departments to make any changes to these when reporting against set targets in the APP.

There are also instances where the Annual Report includes a performance measure and target, which does not appear in the APP. For example, Sub-programme 2.2, "Substance Abuse, Prevention and Rehabilitation" includes a target to train 750 unemployed volunteers as community mentors but this target does not appear in the APP. A major concern in the Annual Report though is that the Department did not always report on monitoring and evaluation, which often fell in the last quarter of the year on the APP.

The majority of units of performance measurement between the APP and the Annual Report are the same. There are however a few cases where the units of measurements between the APP and the Annual Report have changed. Examples include sub-programme 2.6, "Child Care and Protection Services" the APP shows a performance measure of 75 000 children in ECD programmes but the Annual Report shows a performance measure of 65 000.

In most cases the Department has been able to achieve its planned targets. However, the Annual Report does not provide columns for deviations, the challenges or reasons for those deviations and the responses to those challenges. In cases where there is deviations or underperformance the Department has sometimes provided no reasons. In situations where it has provided reasons for deviations, responses to those challenges are sometimes not stated. Where responses have been stated, the stated responses are realistic and relate to the achievement of the stated objective.

### **2007/08 Annual Performance Plan (APP)**

The 2007/08 Annual Performance Plan for the Department of Social Development complies with the programme structure prescribed for the Social Development sector. The 2007/08 APP shows the programmatic response that the Department of Social Development has adopted post the exit of social security function to the South African Social Security Agency. The programmatic response to service delivery is based on the NISDM that was launched in 2005. All Departmental programmes are now focusing on four levels of intervention, namely, awareness, early intervention, statutory intervention and reintegration.

Most of the measurable objectives and performance measures identified by the Department comply with the SMART principle, in that they are specific, measurable, achievable/attainable, realistic and time bound.

The following are areas of concern identified in the APP:

- The majority of planned targets is expressed in annual terms and had not been broken down into quarterly targets.
- The alignment between the performance measures and targets prescribed in the sector specific excel template and the APP is still lacking.



## Conclusion

The examination of the 2006/07 APP, the 2006/07 Annual Report and the 2007/08 APP shows that the Department is according to the performance management framework outlined above operating close to a level 3 organisation. In order to reach a competency 3 level the Department needs to ensure the alignment between the APP and the sector specific excel template and ensure that annual targets are broken down into quarterly targets where possible.

To reach a level 4 competency, the Department needs to improve the quality of its explanations of and responses to below target performance in both the annual Report and its QPRs.

### 3.7.1.2 Financial Information

From a Public Finance perspective, the following has been noted regarding the performance of the Department of Social Development:

The Department tries to submit its IYM report by the 15th day after the end of a reporting month as stipulated in section 40(4)(c) of the Public Finance Management Act, 1999 (Act 1 of 1999), but have recently been experiencing problems to meet the submission date.

It seems as if the Department needs to improve on making its forecasts more realistic, as forecasts in a prior quarter differ from actual expenditure. The table below detailing spending information for 2006/07 further alludes to this.

**Table 75: Quarterly analysis on projections: 2006/07**

R'000	April	May	June	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Total
First Quarter	41 236	49 462	53 696	76 413	79 824	84 503	75 203	74 071	87 116	68 327	76 284	70 024	836 159
%	4.93%	5.92%	6.42%	9.14%	9.55%	10.11%	8.99%	8.86%	10.42%	8.17%	9.12%	8.37%	100.00%
Second Quarter	41 236	49 462	53 696	57 128	60 848	67 703	86 550	74 439	67 386	61 858	74 684	58 526	753 516
%	5.47%	6.56%	7.13%	7.58%	8.08%	8.98%	11.49%	9.88%	8.94%	8.21%	9.91%	7.77%	100.00%
Third Quarter	41 236	49 462	53 696	57 128	60 848	67 703	68 472	68 937	72 218	80 205	78 378	65 958	764 241
%	5.40%	6.47%	7.03%	7.48%	7.96%	8.86%	8.96%	9.02%	9.45%	10.49%	10.26%	8.63%	100.00%
Fourth Quarter	41 236	49 462	53 696	52 433	50 204	56 669	67 978	68 365	63 379	80 663	69 945	65 540	719 570
%	5.73%	6.87%	7.46%	7.29%	6.98%	7.88%	9.45%	9.50%	8.81%	11.21%	9.72%	9.11%	100.00%

*Coloured Red: Actual*

*Non-Coloured: Projections*

The original budget allocation for the financial year in question was R727.143 million. During the Adjustment Estimate budget, it was increased to R727.971 million. The original budget for compensation of employees was R207.504 million and R535 000 was shifted away in the Adjustment Budget. The shift was a result of savings accumulated due to non-filling of vacancies. Total transfers and subsidies also had its main appropriation adjusted from R416.582 million to R414.129 million.

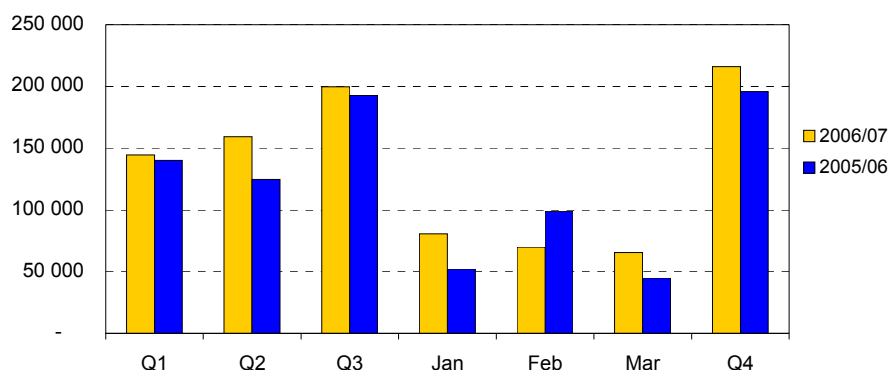
The Department's budget characterised that of a credible one as its actual expenditure was R719.570 million or 98.85 per cent of the adjusted appropriation of R727.971 million.

The Department effected no virements during 2006/07.

The Department submitted its Adjustment Budget on time and it was comprehensive as outlined in terms of Section 31 of the PFMA.

The figure below gives a quarterly comparison of the actual expenditure of 2006/07 with 2005/06 (excluding grants).

**Figure 2: Actual expenditure: 2006/07 vs 2005/06**



The illustration below will speak to the total transfers and subsidies where the bulk of the Department's budget is tied up.

**Table 76: Total transfers and subsidies**

Q1 R'000	Total Transfers and Subsidies		
	Q2 R'000	Q3 R'000	Q4 R'000
79,442	87,144	120,892	124,794
1,047,633	1,045,932	1,097,356	1,146,754

The main appropriation for total transfers and subsidies in the 2006/07 financial year is R416.582 million which was adjusted to R414.129 million during the adjustment estimate budget. In 2005/06 however, a different picture was portrayed as the main appropriation was R4.375 billion and was further adjusted to R4.402 billion. This is echoed by the shift of the social assistance grant to SASSA.

The Department had a January "spike" in 2006/07 where actual expenditure increased from R63.379 million or 8.70 per cent to 11.0 per cent or R80.663 million of its adjusted budget of R727.971 million. The over expenditure in goods and services was R8.433 million due to an increase in Government Garage vehicles which further translated in a January "spike".

The Department of Social Development collected R9.79 million in provincial own receipts of the R272 000 adjusted budget for the 2006/07 financial year. This recovery was R9.51 million more than the adjusted budget, which was mainly due to increased collection on financial transactions in assets and liabilities, which was not budgeted for.

The main appropriation for provincial own receipts for the 2007/08 financial year is R275 000, which is R9.51 million more than the actual collection of R9.79 million in the 2006/07 financial year.

The Department of Social Development generally operates on level 3 and is moving towards a level 4 financial management capability rating.

### **3.7.2 Compliance with Accounting policies and standards**

An assessment of the financial management capability of the Department was undertaken based on audit findings for the 2006/07 financial year and the monthly IYM reports which revealed the following:

#### **Management of and reporting on suspense accounts**

The Department reported that suspense, control and disallowance accounts were regularly followed up and cleared within a reasonable period of time. Monthly reconciliations of control and suspense accounts were performed, which made it possible for the Department to close their books successfully on a monthly basis. BAS reports on suspense and control accounts were reviewed on a monthly basis in order to monitor the progress in clearing these accounts.

The long outstanding receivable balances on the books of the Department are a major concern with 85 per cent of these balances being older than three years at year-end. They mainly consist of the old Social Grant debts and the Walvis Bay claim. The Provincial Treasury indicated that funds for the Walvis Bay claim would be appropriated to the Department's Adjustment Budget for 2007/08.

It is recommended that the Department submit monthly age analyses of balances on suspense accounts, as part of their monthly IYM reporting, to Provincial Treasury, which will enhance the level of reporting. Debtors must be raised for long outstanding and unresolved debit balances in suspense accounts as required in Treasury Circular 8 of 2006.

Without considering the old balances in accounts the department is currently performing at a level 3 financial management capability.

#### **Accounting of assets (Asset Management)**

The Department indicated that they complied with the minimum requirements of an Asset Register in terms of the acquisition (assets register updated), identification, accountability and accounting of assets.

Minor issues such as the managing of the performance of assets and the disposal of assets are still in progress in order to comply fully with the minimum requirements of an asset register.

Major milestones during the period under review were the bar-coding of assets in order to identify and track asset movement, the implementation of LOGIS at district offices and institutions and the establishing and launching of LOGIS Support Help desk.

Due to shortage of staff the asset management unit has not been fully established within the Directorate Supply Chain Management. However, the consultants who were responsible for the implementation of LOGIS at this Department were being tasked with the management of assets and formed part of the Asset Management Team.

More LOGIS training in terms of payments and the downloading of reports for reconciliations should be provided to district offices.

The above indicates that the Department is operating at a level 3 financial management capability.

### **Financial reconciliations**

Items in the PERSAL and Bank exception accounts were identified, corrected and cleared within the reporting months which enabled the Department to close their books on BAS successfully on a monthly basis. More attention should be given on the monthly BAS/LOGIS reconciliation and the reporting thereof to Provincial Treasury. The Department is operating at a level 3 financial management capability.

### **Expenditure – Payments and journals**

The Auditor-General reported that no written assurance could be obtained that entities to which transfer payments were made had implemented efficient, effective and transparent financial management and internal controls. Since the same issue was reported during the previous (2005/06) financial year and in the light of the 2006 SCOPA resolution and the response thereto, this matter was reported under “other matters” in the audit report due to non-compliance with section 38(1)(k) of the PFMA.

Information verification on a number of payments made during the year revealed that economic classification appeared not to be in line with the relevant item classification, which revealed a lack of SCoA training in the Department.

In this regard, based on the analysis, the Department is operating at a level 2 financial management capability, and remedial control measures must be implemented.

### **Procedures for the identification and reporting of unauthorised, fruitless and wasteful and irregular expenditure**

It was reported by the Auditor-General that the Department did not disclose their cellular contracts as finance leases, and this implies that the expenditure incurred in this regard should have been regarded and reported as irregular expenditure in terms of the PFMA. It is recommended that cellular contracts be entered into by employees and not by the employer. In this regard the Department is operating at a level 2 financial management capability.

### **Recording and maintenance of State Guarantees**

The Auditor-General reported during the 2006/07 audit that released state guarantees were not removed from the PERSAL state guarantee report #7.11.15(01) and that no verification was performed between the specific PERSAL report and the actual information on personal files. This resulted in a overstatement of contingent liabilities in the financial statements. In this regard the Department is operating at a level 2 financial management capability.

### **Management of lease liabilities**

Cellular phone contracts were not disclosed as finance leases in the financial statements of the Department. Finance lease commitments were thus understated by an undetermined amount. Cellular phone contracts are regarded as finance leases and must be disclosed as such in terms of NT's Practice Note and Guidelines in order to move to a level 3 financial management capability rating.

### **Management of thefts and losses**

The Department reported that there are good control measures in place on the management of thefts and losses and there were no audit findings for the financial period under review. The Department is operating at a level 3 financial management capability rating.

### **Management of contingent liabilities**

A service provider instituted a claim for damages of R102 million against government during 1999, claiming that a tender for the payment of social grants should have been awarded to them during 1994. In 2005 the Supreme Court delivered judgment in the plaintiff's favour and that the National Government will be liable to pay such damages as the plaintiff proves. After an appeal was lodged by Government in the Supreme Court of Appeal during August 2006, the order of the court was rectified whereby the National and Western Province Governments are held jointly and severally liable to pay such damages as the plaintiff may prove. During the 2006/07 financial year the Department paid legal fees of R5,412 million relating to the case. At the date of reporting it was uncertain what the Department's equal share of the further legal fees will amount to. Once the quantum hearing is finalised in November 2007, the Department should disclose the financial implication thereof as a contingent liability. In this regard a level 2 financial management capability rating is attained.

### **Monthly reporting of financial information to the CFO/AO/EA/Department**

It was noted that monthly compliance reporting to Provincial Treasury took place according to legislative requirements. Financial reports were provided to the Accounting Officer on unresolved items and the Chief Financial Officer followed up these items on a monthly basis. A level 3 financial management capability rating is thus attained.

### **3.7.3 Normative Financial Management**

#### **Introduction**

The findings discussed in this section provide a review of the PFMA implementation and financial management improvement of the Department in line with the provincial strategy of reaching a level 4 Auditable Organisation (Financial Management Capability Model).

The source documents used were the Normative Measures For Financial Management for departments for the quarter ending 30 June 2007 as well as the Auditor-General's report for the 2006/07 financial year.

#### **Analysis of Normative Measures Quarterly Report**

##### **The CFO structure**

The current vacancy rate is indicated at 22 per cent, which is way above the national norm of 5 per cent. Cognisance is taken of the fact that the Department made progress with the filling of the posts, but the staff turnover seems to remain a concern. A factor that co-exists with the vacancy rate is the Department's ability to fill these posts as quickly as possible. The average in the past was 6 months but due to the implementation of a recruiting plan, progress in reducing the time period to fill vacant posts was made. The average length to fill posts is currently five months compared to the national norm of three months.

##### **Policies and procedures**

The Department reported that 98 per cent of all financial departmental policies and procedures are documented and approved. This is well in above the norm of 90 per cent set by National. The S & T-policy have been issued in draft format.

##### **Asset and Liability Management**

There are specific deviations from the assets management policies in the sense that the Department's assets within the asset register are not allocated in the different classifications.

The asset register has not been updated regularly as prescribed. Asset reconciliations needs to be done at least monthly

The outstanding debt is also a concern. The Walvis Bay amount of R19 million paid for pensioners living in Walvis Bay have been resolved by the end of the financial year. An amount of R50 million allocated to the Social services grant need to be addressed. The Walvis Bay debt also contributed to the high percentage of 90 per cent for bad debts.

## **Tabling of Annual Report**

The public service strike during the first part of the year had an effect on the annual reporting process. As a result, the Auditor-General was granted extension till 31 August 2007 to submit their Audit Report. Consequently, the Department did not comply with section 40(1)(d) of the PFMA by submitting their annual report to the Provincial Treasury (31 August 2007). However, the Department submitted the required number of final annual report to the Provincial Treasury on the 28 September but failed to comply with the section 65(1) of the PFMA by tabling on 3 October 2007. The reason for late tabling was tabled in Parliament.

## **Auditor-General's report on the 2006/07 financial year**

The comparison of the last two financial years namely 2005/06 to 2006/07 to report on the possible progress made in the Department.

The Department received an unqualified audit opinion with Emphasis of Matter for the 2005/06 financial year.

The emphasis of matter raised in terms of asset management was:

- asset registers not up to date on LOGIS;
- updates on register incorrect, and
- not all assets were physically identifiable and tagged.

The other matters raised were

- the issue of supporting documents not always available, and
- lack of controls over leave forms where registers was not updated and leave forms were missing.

Other matters not material

- the outstanding debt of R19 million not yet resolved, and
- over-payments on grants.

For the 2006/07 the Department received under the new audit reporting format an unqualified audit opinion with emphasis of matter and other matters.

In the 2006/07 financial year a marked improvement was made compared to the issues raised by the Auditor-General in the 2005/06 financial year. The Department received only one emphasis of matter relating to a court case where the Department lost the case against them and needed to carry the costs and a contingent liability of R102 million was realised in the Annual Financial Statements as settlement.

## **Other matters included:**

- the transfer of payments to municipalities which did not comply with Section 38(1)(k) of the PFMA;
- significant changes made to the signed financial statements, and
- finance lease relating to cellphones not disclosed.

### **Value for money audit**

- The vacancy rate of 35 per cent in the Department, which is well above the norm set as 5 per cent, could have an impact on the Department's operations, and
- The monitoring controls such as review of confirmations from external parties as well as post-balance sheet events were not effective, resulting in adjustments to the financial statements.

### **Financial management capability model assessment**

Based on the Auditor-General's reports for the 2005/06 and 2006/07 financial years the departments showed an improvement in financial management.

The Department of Social Development is rated a level 3 auditable organisation.

### **3.7.4 Enterprise Risk Management**

The section provides guidance, criteria, and norms and standards for the attainment of levels of enterprise risk management in terms of the financial management capability model. It is anticipated that this will assist management in being able to identify underlying problems and focus on areas to improve the enterprise risk management processes.

Departments will not be assessed on Level 3 and 4 because of the immaturity of enterprise risk management within the provincial government.

#### **CONTROL FRAMEWORK (LEVEL 1)**

Includes all scenarios where the department has not implemented all the criteria required to obtain a level 2 assessment.

#### **PROPER INTERNAL CONTROL FRAMEWORK AND FINANCIAL ACCOUNTING PROCESSES HAVE BEEN DEVELOPED (LEVEL 2)**

#### **Strategic Risk Assessment**

Strategic Risks have been identified annually by means of risk assessment workshops as per strategic plan. Risk response strategies and relevant processes have been developed. An organisational structure that supports the developed processes still needs to be developed also.

#### **Internal Environment**

A risk management philosophy has not yet been articulated and communicated to all staff. The management's philosophy, operating style and risk appetite have not yet been defined.



## Operational Risk Assessment

An operational risk assessment has been conducted through risk identification workshops. The risk event have been identified and assessed on an inherent level. Existing controls have been identified and documented by means of process and control mapping initiatives. Control gaps have also been identified.

### OVERALL ASSESSMENT

Based on the above information, the Department achieved a rating of 1, as the Department has not met all the set Criteria & Norms and Standards for Level 2. In order to achieve a rating at the next level (Level 2), the Department needs to have achieved all of the following set Criteria & Norms and Standards for Level 2:

#### Internal Environment:

- Risk Management Philosophy is articulated in writing and communicated to staff
- Risk appetite defined.

### 3.7.5 Cash Management

This section deals with the implementation and management of sound cash flow practices as well as the provision of assistance and training in respect of the official banking system within the Provincial Government of the Western Cape.

#### Review

The financial management capability assessment was based on the activities of the Department of Social Development during the 2006/07 financial year and the findings were as follows:

**Table 77: Assessment of cash management**

Requirements	Standard Level 3	Standard Level 4	Rating
Staff skilled & Capacitated in Cash Management	In accordance with profile	All functions on the Cash Management System	3
Submission of Annual Provincial Cashflow Projections	By 28 February	By 15 February	3
Deviation between monthly projections & actual expenses	5 per cent	3 per cent	2
Monthly Own Revenue Payover	2 working days prior to month end	3 working days prior to month end	3
Repayment of Surplus Funds	31 May	15 May	3
Submission of monthly Bank Reconciliation	Within 30 days after month end	Within 15 days after month end	4
Beneficiary Payments (Direct Transfers)	1 per cent of Total Payments	0.50 per cent of Total Payments	2
<b>Average rating</b>			<b>3</b>

The Department achieved an overall rating of level 3 (nominal compliance) financial management capability.

### Skilled and capacitated system users

The Department obtained a rating of level 3 (nominal compliance) financial management capability. All system users were trained in accordance with their profiles, during the implementation of the new official banker's system.

### Submission of Annual Provincial Cashflow Projections

The Department obtained a rating of level 3 (nominal compliance) financial management capability.

**Table 78: Assessment of the deviation between monthly projections and actual expenses**

	<i>Original Forecast</i>			rating
	Project R'000	Actual R'000	%	
APRIL'06	44 804	47 674	(6)	2
MAY'06	53 984	43 241	20	2
JUNE'06	58 146	51 976	11	2
JULY'06	68 622	53 441	22	2
AUG'06	58 417	50 426	14	2
SEP'06	71 997	56 341	22	2
OCT'06	62 513	62 934	(1)	4
NOV'06	62 843	73 427	(17)	2
DEC'06	75 027	68 593	9	2
JAN'07	53 761	53 614	0	4
FEB'07	59 406	75 683	(27)	2
MAR'07	58 451	90 621	(55)	2
<b>Sub-Total</b>	<b>727,971</b>	<b>727,971</b>		<b>2</b>
<i>Revised Forecast (after adjustment budget)</i>				
MRC'07				
Adjustment	58 451	58 451		
<b>Total</b>	<b>786 422</b>	<b>786 422</b>	<b>100</b>	

The Department achieved a rating of level 2 (partial compliance) financial management capability. PT will support and assist the department to determine reasons for the variances and to compile more credible projections in future.

### Monthly own revenue payover

The Department obtained an average rating of level 3 (nominal compliance) financial management capability. Revenue is being paid over monthly 2 working days prior to month end.

### Repayment of Surplus funds

The Department obtained a rating of level 3 (nominal compliance) financial management capability. Surplus funds were paid to the PRF on 30 May 2007.

### Submission of monthly Bank Reconciliations

The Department was rated level 4 (full compliance) financial management capability. The monthly bank reconciliation is submitted within 15 days after month end.

### Beneficiary Payments (Direct Transfers)

The Department achieved a rating of level 2 (partial compliance) financial management capability. PT will assist department to make use of Electronic Fund Transfers (EFT) timeously to prevent the use of Beneficiary Payments.

**Table 79: Beneficiary Payments**

Payments	Beneficiary Payments	Per cent
3931	50	1.27

## 3.7.6 Supply Chain Management (SCM)

The assessment in terms of the financial management capability assessment tool reveals that the Department did not meet the following SCM criteria:

### Organisational Structure

- AO system and its accompanying delegations have not been updated annually as per paragraph 6.3 of the AO system;
- No signed statement of declaration of interest and confidentiality by SCM Officials as per paragraph 6.6 of the AO system;
- SCM code of conduct not given to SCM officials and such conduct has not been discussed or work shopped to the staff;
- No Skills Audit performed to address gaps in SCM as per AO System;
- Deviation by bid committee from normal bidding process;
- Bid committee members do not declare their financial interest on an annual basis, and
- A member of the evaluation committee is also a member of the departmental bid committee.

### **Policy and Procedure**

- No Asset Management Plans
- Strategic Sourcing has to date not been applied as per paragraph 7.2.3 of the AO system
- Specifications need to be updated and reviewed on a regular basis
- Source Link system is not utilised correctly
- Limited bidding enforced without prior approval
- Bid invitation documents were backdated

### **Resource Capacity**

- No Stock-take scheduling
- Lack of Physical security
- Assets are written off without authorisation
- The value of the assets on the asset register is understated
- No filing system as a result no source documents kept
- No receipt and or issue vouchers are completed
- Goods are not marked with the state property mark
- Asset controllers are not appointed in writing

The average rating for the Department is at level 2 in terms of the capability model for SCM as a whole but notwithstanding the fact certain SCM criteria could be rated as sufficiently meeting a level 3.

### **Steps to be taken to ensure that the department establishes itself at the next auditable level (3)**

From a Provincial Treasury perspective the following interventions steps are planned in the next financial year:

- Training on bid committees and contract management as provided and funded by the National Treasury
- An integration of the financial and non-financial systems with the implementation of the IFMS
- Linkages with other disciplines within the Provincial Treasury to enable an integrated approach to enable a supporting environment that maintains the credibility of the level
- Addressing and implementing a supplier development initiative with other role-players to impact on the socio-economic aspects of procurement by achieving the desired outputs in respect of procurement to HDIs, SMMEs or BEE companies
- Engaging and compiling business cases and feasibility research to enable departments to leverage their buying power in participating in transversal contracts thereby impacting on economies of scale and value for money considerations

From a Departmental perspective the following interventions need to be instituted so that the Department sustains itself at the achieved level and also enables the department to elevate itself to the next level:

- Ensure that internal control measures are in place for the cost efficient and effective management of SCM not only at the head office level but also at the institutional level
- Staff structure and job description of SCM officials need to be revised to align itself with the current requirement of the posts as well the prescribed regulatory framework and competencies for SCM
- A concerted effort must be placed on training and a skills development plan to build the internal capacity and resources of the SCM unit.

### 3.7.7 Supporting and Interlinked Systems

This section deals with the implementation and maintenance of Financial Systems as well as the provision of functional assistance and training, to all system users.

The financial management capability assessment was based on the activities of the Department during the 2006/07 financial year and the outcomes are as follows:

**Table 80: Assessment of the Basic Accounting System (BAS)**

Requirements	Standard Level 3	Standard Level 4	Rating
Skilled and capacitated system users	In accordance with profile	Various Modules	2
Month-end closure	Own accord – due date	Own accord – prior date	3
Year-end closure	Own accord – due date	Own accord – prior date	3
System Controller Functions	80 – 90 per cent	91 – 100 per cent	3
Monitor Applicable Interfaces	Weekly	Daily	3
<b>Overall rating</b>			<b>3</b>

The Department obtained an overall rating of level 3 (nominal compliance).

**Table 81: Assessment of skilled and capacitated system users: training**

Number of officials nominated	Number of officials attended	Number of officials cancelled	Number of officials qualified for a certificate (70 per cent pass rate)	Number of officials not qualifying for a certificate
144	91	53	70	21

The Department obtained a rating of level 2 (partial compliance) financial management capability, mainly due to the high percentage of officials being nominated and not attending courses as well as not all officials trained in accordance with their profiles.

The Directorate Supporting and Interlinked Financial Systems are in the process of identifying the training gap of all users and will in co-operation with Chief Financial Officer nominate their users for training in accordance with their profiles as a matter of urgency. In addition the poor attendance of officials will in co-operation with the Chief Financial Officer be addressed.

**Month end closure:**

The Department achieved a rating of level 3 (nominal compliance) financial management capability as their books were closed on a monthly basis in accordance with the predetermined dates by National Treasury.

**Year closure:**

The Department achieved a rating of level 3 (nominal compliance) financial management capability as their year-end closure was done in accordance with the predetermined dates by National Treasury.

**System Controller Functions:**

The Department achieved a rating of level 3 (nominal compliance) financial management capability, based on the following criteria:

- Logging of calls to the Provincial Helpdesk
- Maintenance of Security Profiles
- The reinstate of Transaction Processing Rules
- Requesting/monitoring and distributing of automated Basic Accounting System reports
- Maintenance of segment details
- Maintenance/update of departmental parameters
- Provide practical individual training to users
- Monitor Technical stability of work station including Local area network
- Assisting non-financial users of Basic Accounting System

**Monitor applicable interfaces**

The Department achieved a rating of level 3 (nominal compliance) financial management capability as their interfaces were monitored and reported on, at least on a weekly basis.

**Table 82: Assessment of the Personnel and Salary Administration System (PERSAL)**

Requirements	Standard Level 3	Standard Level 4	Rating
Skilled and capacitated system users	In accordance with profile	Various Modules	2
System Controller Functions	80 – 90 per cent	91 – 100 per cent	3
Establishment Management	Quarterly	Monthly	3
PERSAL/BAS Reconciliation	Monthly by the 20 <sup>th</sup>	Prior to the 20 <sup>th</sup>	3
Adhere to Minimum Information Requirements	Annually	Continuous process	2
Leave Audit	Annually	Continuous process	3
<b>Average rating</b>			<b>3</b>

The Department achieved an overall rating of 3 (nominal compliance) financial management capability.

**Table 83: Assessment of skilled and capacitated system users: training**

Number of officials nominated	Number of officials attended	Number of officials cancelled	Number of officials qualified for a certificate (70 per cent pass rate)	Number of officials not qualifying for a certificate
106	56	50	41	15

The Department obtained a rating of level 2 (partial compliance) financial management capability due to the high percentage of officials being nominated and not attending courses as well as not all officials being trained in accordance with their profiles.

The Directorate Supporting and Interlinked Financial Systems is currently in the process of identifying the training gap of all system users and will in co-operation with the Department nominate system users for training in accordance with their profiles. In addition issues of poor attendance will be addressed with the Department.

### **System Controller Functions**

The Department achieved a rating of level 3 (nominal compliance) financial management capability for the execution of its system control functions.

### **Establishment Management**

The Department achieved a rating of level 3 (nominal compliance) financial management capability as the establishment is maintained on at least a quarterly basis.

## Adhere to Minimum Information Requirements

As not all information is captured on the system, the Department achieved a rating of a level 2 (partial compliance) financial management capability.

Reports indicating the outstanding information are available and are provided by Provincial Treasury to departments on request. The situation will be monitored by the Provincial Treasury to ensure compliance.

## Leave Audit

The Department achieved a rating of level 3 (nominal compliance) financial management capability as the leave audit is updated on at least an annual basis.

**Table 84: Assessment of the Logistical Information System (LOGIS)**

Requirements	Standard Level 3	Standard Level 4	Rating
Skilled and capacitated system users	In accordance with profile	All Modules	3
Days per issue (Service standard)	5 Days	3 Days	3
Stock Management	15,61 per cent	6,19 per cent	3
Financial Controls	Monthly	Continuous process	2
System Control Functions	80 – 90 per cent	91 – 100 per cent	2
<b>Average rating</b>			<b>2</b>

The Department achieved an overall rating of level 2 (partial compliance) financial management capability, which is below standard.

**Table 85: Assessment of skilled and capacitated system users: training**

Number of officials nominated	Number of officials attended	Number of officials cancelled	Number of officials qualified for a certificate (70 per cent pass rate)	Number of officials not qualifying for a certificate
105	83	22	66	17

The Department achieved a rating of level 3 (nominal compliance) financial management capability, as users are trained in accordance with their current profiles.

## Days per issue (service standard)

The Department achieved a rating of level 3 (nominal compliance) financial management capability, as stock is issued within five (5) days.



## Stock Management

The Department achieved a rating of level 3 (nominal compliance) financial management capability for its control over inventories and assets.

## Financial Controls

The Department achieved a rating of level 2 (partial compliance) financial management capability.

It is essential that the BAS/LOGIS reconciliation is done on a monthly basis. These reconciliations were not done on a monthly basis and was only brought up to date in the latter part of the 2006/07 financial year with the assistance of the Directorate Supporting and Interlinked Financial Systems.

The Office of the Chief Financial Officer is however now in a position to complete the BAS/LOGIS reconciliation, on a monthly basis.

## System Control functions

The Department achieved a rating of level 2 (partial compliance) financial management capability..

The main reasons for this rating are that password confidentiality is not maintained and profiles of users in the Department are not kept up to date.

These issues will be addressed by the Directorate Supporting and Interlinked Financial Systems as part of the training of users in accordance with their profiles, which will take place in co-operation with the Chief Financial Officer.


To further assist Departments in the security aspects of systems, the Directorate Supporting and Interlinked Financial Systems is in the process of compiling a policy, which will be issued in the near future.

**Table 86: Assessment of the Management Information System (Vulindlela)**

Requirements	Standard Level 3	Standard Level 4	Rating
Percentage of registered users using the system on a regular basis	80 – 90 per cent	100 per cent	3

**Table 87: Assessment of the usage of the Management Information System (Vulindlela)**

Number of registered users	Number of registered users using the system on a regular basis	Number of registered users not using the system on a regular basis	Percentage active users
67	57	10	85 per cent



The Department obtained a rating of 3 (nominal compliance) due to the fact that 85 per cent of registered users utilise the system on a regular basis.

The Directorate Supporting and Interlinked Financial Systems will discuss the further role out of Vulindlela with the Department and address any further user requirements they might have.

## 3.8 Department of Local Government and Housing

### 3.8.1 Performance Management

#### 3.8.1.1 Non-financial Information

This section provides a high level assessment of the Department's performance of non-financial management activities and makes a judgment on the level of that performance. The assessment gauges key aspects of the Department's performance management system. This assessment considers whether the Department has reached a level 3-competency level, and expresses a view on the extent to which the Department is moving towards a level 4 organisation.

This evaluation assesses the 2006/07 Annual Report and the 2006/07 and 2007/08 Annual Performance Plans. There may, however, be some areas of a Department's performance framework that displays a level 4 competency, while others have yet to reach a level 3-competency level.

#### Annual Report 2006/07

The performance measures defined in the 2006/07 APP are all included in the Annual Report for 2006/07 and are reported against in the Annual Report. The units in which performance is measured in the Annual Report are consistent with those defined in the APP. These areas of consistency means that the annual report can be used to assess the actual performance of the Department in terms of the performance targets defined in the APP.

The Annual Report does not clearly show where actual performance measured by performance measure deviates from annual targets, or clearly quantify the extent of the deviation, or whether deviation is above or below target. In fact, in only a very few cases, is performance below target. The Department offers brief explanations about why a particular target was not met for each performance measures whether this is the case. In most cases, constraints outside the control of the Department were mentioned as explanations for below target performance e.g. national policy or pending legislation.

The Annual Report provides further explanations and, indeed, remedies for deviations from target in the sections entitled "Specific challenges and responses" and "Issues requiring ongoing attention". These explanations and remedies are often difficult to relate to actual instances of below performance. The challenges tend to relate to the general environment in which service delivery occurs, and it is not clear how they are drawn into the actual service delivery experience for the Department. For instance, the Department has identified "financial irregularities within PHP (people's housing projects)" as a challenge, whereas the Department reports an above target performance on PHP projects. In contrast, the Department has reported below target performance on its rural housing provision, but fails to identify challenges that relate to delivery in rural housing arena.

Furthermore, the challenges are given as brief statements, almost headings and not elaborated on. The schematic manner in which challenges are described is carried through to responses and means the responses in fact provide very little indication to the Department and its stakeholders on how it is going to respond. Much more detail is required if the Department is to formulate responses that are effective

### **APP 2007/08**

Certain aspects of the APP conform to the programme structure prescribed by national government for combined Local Government and Housing Departments at a provincial level, while others do not. For the Housing Programme, measurable objectives and performance measures defined for each prescribed sub-programme have been included in the APP, except for the Housing Asset Management Sub-programme. Some measurable objectives defined under the Housing Development Implementation Sub-programme, however, pertain to Housing Asset Management i.e. the “Enhanced Extended Benefit Scheme” and the “State Asset Maintenance Programme”. Furthermore, the sub-sub programmes prescribed in the standard programme structure have not been included in the APP i.e. measurable objectives and performance measures have not been clustered into the prescribed sub-sub programme structure<sup>1</sup>.

For the Local Government programme, the measurable objectives and performance measures formulated by the Department are indeed categorised under the prescribed sub-programme and sub-sub programme headings.

In regard to the Housing Programme, the Department has included a large number of performance measures prescribed nationally in the sector specific QPR format for housing. The reasons for omitting many of the nationally prescribed performance measures from the APP are sound. Firstly, some of the performance measures not reported on relate to housing subsidy instruments that are still under development and that will not be implemented in 2007/08. Secondly, the Department indicated that some of the measures on which it is not reporting, overlap with the performance measures that are established and already reported on.

In this regard, it is explained that reporting on “National Policy Priorities” already include performance measures that sought to measure progress on job creation, BEE etc, and while the “Housing Asset Management” section already, which covers performance measures for the transfer and sale of rental stock and the operation of the rental tribunal<sup>2</sup>are, however, not elaborated by the Department.

The absence of reporting on measures within the Housing Asset Management, especially the State Asset Maintenance Programme and the Rental Tribunal seems to be an omission. The performance of Rental Tribunal is important for the Department given that it aims to use the Rental Tribunal to ensure that backyard renters, one of

<sup>1</sup> Both the housing and local government programme budgets provided in the APP do not conform to the standard budget structure, which requires that sub-programme allocations are further broken down into sub-sub programme allocations.

<sup>2</sup> The performance measures covering maintenance of state-owned housing assets and the transferal of houses under the discount benefit scheme, which are also defined in the “Housing Asset Management” section are also contained in the Housing Performance/Subsidy Programmes

the beneficiary groups of the Department's future "Backyard Rental" programme, are fairly treated by landlords.

No quarterly targets were set for any of the nationally prescribed quarterly performance measures in the APP. In addition, no annual or quarterly targets for were set for any of the "Housing Planning and Research" nationally prescribed performance measures in the APP.

In relation to the Local Government Programme, because the nationally defined sector specific QPR format for local government is poorly designed, the Provincial Treasury, after consulting the National Treasury, has asked the Department to report according to a generic format until the sector specific format is improved. Reporting in this format on a quarterly basis is made difficult because the Department did not set quarterly targets in its APP for its performance measures. The latter means that the Department has had to set quarterly targets in its QPR report without the oversight of the Legislature.

In the APP, the Department has defined a set of strategic objectives, measurable objectives and performance measures that are logically consistent with each. The relationship between strategic objectives and performance measure can, however, be made clearer by explicitly showing how defined strategic objectives map to the defined measurable objectives and measurable objectives to performance measures. Some of the strategic objectives could be more clearly stated. For example, in the Local Government Programme, the objective "to establish an anti-corruption unit for the Department" lends itself to misinterpretation. As it stands the objective seems to suggest the Department should establish a unit to deal with corruption in the Department, while on the other hand, the Department is aiming to set up an anti-corruption unit to aid municipalities in the detection of corruption and assist them in dealing with it.

The Housing Programme, follows national prescripts for the QPR and the business plan for the housing conditional grant. The performance measures defined by the Department for the housing programme covers each housing subsidy instrument and the number of the sites serviced or housing units built using the subsidy instrument. Where the instrument is used to purchase a housing unit delivered outside of subsidised housing building programmes, the number of subsidies approved is usually given as the performance measure. These performance measures are readily measurable as they result in tangible outputs of particular quality. The quality of outputs is subject to norms and standards clearly formulated in national policy and easily available.

The performance measure defined for Housing Planning and Research is less measurable. A number of the research and policy development outputs have defined as measurable objectives and performance measures (e.g. Human Settlement Strategy, the setting up of a Planning Forum, housing research reports, housing policies aligned with the national housing policy, Breaking New Ground) are often not clearly defined in the APP. In each of these examples, the quality of output can be highly variable and would greatly affect the degree to which the associated strategic objective is achieved. Quality yardsticks for these measures are, however, not available in national norms and standards and not provided in the APP.

In relation to local government, the defined performance measures are often not measurable. In some cases, this is because the APP uses very broad terms to define measurable objectives. For instance, a number of the measurable objectives are formulated as giving “support” to municipalities for a particular area of municipal activity, while the performance measure is the number of the municipalities given that “support”.

The term “support” is very imprecise and encompasses a range of possible activities from the circulation of a short briefing document to intensive, face-to-face mentoring and training. In the case where such terminology is used, the measurable objective is not clear. Furthermore, the Department has formulated performance measures using in-house terminology not in wide use outside of the Department e.g. “accessible pool of internal and external expertise”. Where the terminology is explained in legislation or freely accessible policy frameworks e.g. vulnerability assessment, which is defined in disaster management legislation and policy, the use of technical terminology is more acceptable. In some cases, acronyms used in definitions of the performance message have not been explained e.g. “quarterly PMT meetings for the measurable objective”.

Across all programmes, but especially for the Local Government Programme, the Department has defined performance targets in terms of percentages. In most cases, these targets cannot readily be translated into quantities, which would render them easily detectable. An illustrative example is in the Housing Programme. The Department gives a “functional resource centre” as a performance measure and gives the annual targets for the measure as percentages. Presumably, what the target refers to is the degree of functionality of the centre. For the degree of the functionality to be measurable, the Department would have to define, firstly, what it means by a fully resourced centre. This is not done in the APP. Secondly, a schema through characteristics of functionality are translated into percentage score would have to be provided, for without such a schema two observers may judge the significance of a particular characteristic’s absence differently and score the same performance differently.

As mentioned above, in the section dealing with the alignment of the APP to the nationally prescribed QPR reporting framework, certain key measurable objectives of the housing activity are omitted from the APP. The omitted measurable objectives include the EPWP outputs associated with the provision of subsidised housing, and the management of the land and property assets of the Department. The latter is significant, as many assets can be used in the direct provision of the subsidised rental housing by the Department, to promote national “Breaking New Ground” policies.

Measurable objectives and performance measures within the Local Government Programme cover all aspects of the Department’s activity. However, measurable objectives are often difficult to distinguish one from another. For instance, the Department has given a) the rationalisation of the redundant provincial legislation and b) the production of a single provincial act on local government as two separate measurable objectives, where in fact they would be aspects of a single objective.

Where challenges and responses are identified in the QPR report to explain and respond to below target performance, they are sometimes worded cryptically and are difficult to understand and thus evaluate. For example, in the QPR report on the performance in Quarter 1 of 2007 of the Housing Programme, the explanation for the

below target performance in servicing of Project Linked Sites was given as “most sites being delivered under Upgrade of Informal Settlement Programme (UISP). Exactly the same explanation was given for the above target performance on the UISP performance measure. It is difficult to interpret these explanations. One reading is that in Q1 the Department used significantly more UISP subsidies than projected for serviced sites and somewhat fewer Project Linked Subsidies than projected. The above target delivery of sites using the UISP thus more than compensates for the below target delivery on the Project Linked Subsidies for sites. The reason for this “swapping” of Project Linked Subsidies for UISP subsidies is not explained.

## **Conclusion**

In conclusion, the Department is operating the aspects of the performance management system examined in this assessment for its housing component close to a competency level 3. It is, however, operating the aspects of the performance management system examined in this report for local government somewhat below a level 3. Across all its sub-programmes, the Department needs to set quarterly targets for performance measures designated as quarterly in the national QPR reporting format and for performance measures that can be measured quarterly.

To reach a level 3 competency for Housing, the Department needs to include performance measures for the Housing Asset Management Sub-programme and cluster its defined strategic objectives, measurable objectives and performance measures into the nationally prescribed sub sub programmes defined in the standard programme structure for the Department. Furthermore, it needs to improve the measurability of the performance measures used to gauge performance in the Policy and Research Sub-programme.

To reach a level 3 competency for the Local Government Programme, the Department needs mainly to improve the measurability of a number of its local government performance measures and quantify a number of its local government targets in absolute terms.

To reach a level 4 competency, the Department needs to improve the quality of its explanations of and responses to below target performance in both the Annual Report and its QPRs.

### **3.8.1.1 Public Finance**

The Department submitted the In-year Monitoring (IYM) reports on revenue and expenditure on a monthly basis to the Provincial Treasury on or before the 15th day after the end of a reporting month in terms of section 40(4)(c) of the PFMA.

The Department ensured that the IYM reports reflected the actual expenditure and revenue, which could be reconciled with the BAS/VULINDLELA reports. The Department’s forecasting changed in comparison with the cash flow projections that was submitted in February. The reason for this was that the Department decided to accelerate its housing delivery and spend the housing grant by December, which was achieved. However, the forecasting versus the expenditure of the rest of the expenditure items was not realistic and therefore the Department will have to improve on it’s planning because on a month-to-month basis there were variances.

The shifts in the Adjustments Budget amounted to 3 between the programmes and 7 within the programmes. The majority of the shifts were once-off focusing on training of employees, an anti-corruption summit and the purchasing of equipment. Also the Department shifted funds between the various subsidy instruments to bring it in line with what can be achieved considering the focus was to accelerate housing delivery. Not all the virements affected by the Department at the end of the financial year was within the 8 per cent norm. R4.118 million shifted to Programme 1: Administration, which amounts to 8.48 per cent of the Department's adjusted budget, was outside the norm. The Department did obtain the necessary virement approvals for it to be effected.

The Department submitted its Adjustments Budget on time and it was comprehensive in terms of Section 31 of the PFMA. An additional R370 million was received via the housing grant and earmarked for the N2 Gateway Project, which was included in the Adjustments Budget.

The underspending of 18.20 per cent or R230.398 million is way above the 2 per cent underspending norm, which was mainly due to the inability of the Department to spend the entire R372 million earmarked for the N2 Gateway Project because of the following reasons:

- A decision was made by the Department to release funds only for actual delivery on site, even if this meant rolling over dedicated N2 Gateway funds to the next financial year.
- There were problems with the finalisation of the land availability agreement on the Delft 7-9 land with the City of Cape Town, which led to delays in the installation of bulk services.
- Amendments to policy to address the pilot nature of the project were not finalised timeously by the National Department of Housing. In effect the project and contracts governing the project had to be in line with current housing policy.

An amount of R229.222 million was requested by the Department for roll-over to 2007/08 for the N2 Gateway Project.

The Department had its usual 'March Spike' measuring 18.28 per cent of total expenditure. This is mainly attributable to claims being processed for housing that can take up to 6 weeks to process. The Department shifted an amount of R1.800 million from Compensation of employees in the 2006/07 Adjustment Estimate and a further R3.691 million in final virements at the end of the financial year. The shift at the end of the financial year was for the payment of severance packages for personnel leaving the Department, which amounted to R3.087 million as it is classified as a Transfer to households according to SCoA. Taking these factors into account it can be deduced that the Department had a credible budget.

The Department collected R79.80 million in provincial own receipts coupled to the R60.09 million adjusted budget for the 2006/07 financial year. This recovery was R19.71 million or 32.8 per cent more than the adjusted budget. This over collection was mainly due to increased collection on transfers received from the Department of Water Affairs and Forestry and on Financial transactions in assets and liabilities for the repayment of planning fees in respect of the N2 Gateway project, which was not budgeted for.



The main appropriation for provincial own receipts for the 2007/08 financial year is R50 million which is R29.80 million less than the actual collection of R79.80 million in the 2006/07 financial year.

The Department of Local Government and Housing generally operates on level 3 and is moving towards a level 4 financial management capability rating.

### **3.8.2 Compliance with Accounting Policies and Standards**

An assessment of the financial management capability of the Department was undertaken based on audit findings for the 2006/07 financial year and the monthly TYM reports which revealed the following:

#### **Management of and reporting on suspense accounts**

The Department's Disallowance Account includes amounts relating to housing and relocating projects, which are followed up on monthly basis. These monthly reconciliations allowed the Department to close its books on a monthly basis. This is indicative of a financial management capability rating of level 3.

#### **Accounting for Assets**

The Department indicated that they are "in progress" with regard to complying with the minimum requirements of asset management. The Auditor-General reported that entries relating to office furniture were incorrectly recorded on the fixed asset register, thus indicating insufficient controls. The Department should take appropriate steps to ensure that the fixed asset register is up to date and accurately maintained to achieve a financial management capability rating of level 3.

#### **Supporting documentation**

The Auditor-General reported that the Department did not certify that goods and services were received prior to payment being made. It is recommended that invoices be verified against supporting documentation and that the Department institutes measures to ensure that invoices are certified in this regard before it is submitted for payment in order to achieve a level 3 financial management capability rating.

#### **Expenditure - Payments and journals**

The Auditor-General reported that the Departmental Policy on the payment of employee's cellphone call charges by the Department is outdated or being deviated from without clearly defined reasons for the deviations. It is recommended this departmental policy, inclusive of the application forms be revised, clearly stating the maximum amount payable for business calls in order to achieve a financial management capability rating of level 3.

During the audit of the Department, selected invoices were recomputed by the auditors to determine accuracy. In several cases it was noted that the amounts on the invoice had been incorrectly calculated or that VAT was charged incorrectly. The

Department should implement a procedure to check all invoices for accuracy and correctness before payment and if they are found to be incorrect they should be returned to the supplier for correction. This should move the Department towards a financial management capability rating of level 3.

### **WESTERN CAPE HOUSING DEVELOPMENT FUND**

The Western Cape Housing Development Fund (WCHDF) was established in terms of Section 13 of the Western Cape Housing Development Act, Act 6 of 1999, and currently consists of the assets that previously belonged to the Housing Development Board. Employees of the Directorates Asset and Financial Management within the parent Department of Local Government and Housing administer the WCHDF.

Housing delivery in the Western Cape was governed by three separate but interrelated entities since 1994, namely, the Western Cape Housing Development Board, the Department of Housing (Department) and the Western Cape Housing Development Fund. The Board was established in terms of section 5 of the Western Cape Housing Development Act 1999 (Act 6 of 1999) and was a provincial public entity in terms of the PFMA. The Board was abolished with effect from 1 November 2005. The Board had no infrastructure, no separate budget and had no financial statements. Financial statements were, however, produced for the Fund, in terms of GAAP.

The Fund is legally still in existence and the Provincial Housing Act has been promulgated to disestablish the Board. However, the National Housing Act must first be amended in order for the Provincial Housing Act to be changed, to accommodate the closing of the Fund.

#### **Accounting of Assets**

The WCHDF Non Current Assets (Property) in the 2006/07 annual financial statements (AFS) is understated by R1 million, when compared to the amount reflected on the National Debtors System (NDS). The WCHDF Current Assets (Trade and Other Receivables) is also understated by R12.5 million in the AFS, when compared to the amount reflected on the NDS. These issues are indicative of a Level 2 financial management capability. It is recommended that the entity reviews and resolve the reconciling differences in order to move towards a level 3 financial management capability rating.

A title deed search performed by the Auditor-General on a sample of properties included in the property listing of the WCHDF revealed that seven properties with a total value of R7.5 million were not registered in the name of the Department of Local Government and Housing, resulting in the entity's Property balance being overstated by approximately R7.5 million in AFS. This is indicative of a level 2 financial management capability. It is recommended that, in order to achieve a level 3 financial management capability, the WCHDF ensures that all property legally owned by the entity be reflected in the Property balance in the AFS.

A sample tested identified properties removed from the NDS at a cost not equal to the basic cost as per the prior year's property register. This resulted in the understatement of properties to the value of R4.2 million in the AFS. This is indicative of a level 2 financial management capability. It is recommended that the WCHDF perform an analysis of the adjustment per property number and that any errors be rectified on the NDS system, in order to achieve a Level 3 financial management capability.

### **Supporting documents**

The WCHDF was unable to provide sufficient and appropriate audit evidence to establish the validity and accuracy of properties to a net value of R26.5 million included in the property listing. It is recommended that the entity take the necessary action to ensure that each property file contains documentation of the original acquired cost, any additional improvements to the property, supporting documents as well as the municipal value of the property, in order to achieve Level 3 status.

A search performed during the 2006/07 audit by identity number within the debtors listing revealed 427 duplications of debtors amounting to R6.1 million. Furthermore, 3115 debtors amounting to R48 million had been identified that had no identity numbers. It is recommended that the WCHDF should only grant loans to individuals who meet all the qualifying requirements, and for those who has valid ID documents, in order to achieve a level 3 financial management capability rating.

The Auditor-General could not perform a sample test of devolutions amounting to R7.3 million due to a lack of sufficient and appropriate audit evidence (property files). It is recommended that the Department institute adequate controls over supporting documentation for all property transactions, in order to move towards a financial management capability rating of level 3.

### **Accounting treatment of transactions**

Included in accounts receivable, in the AFS of the WCHDF, are credit balances in respect of payments received amounting to R10 million. The contra debit entries were not raised in the financial records to offset the equivalent amount before year-end. It is recommended that the entity put in place a system to allocate amounts due to negative debtors timeously to move towards a financial management capability rating of level 3.

### 3.8.3 Normative Financial Management

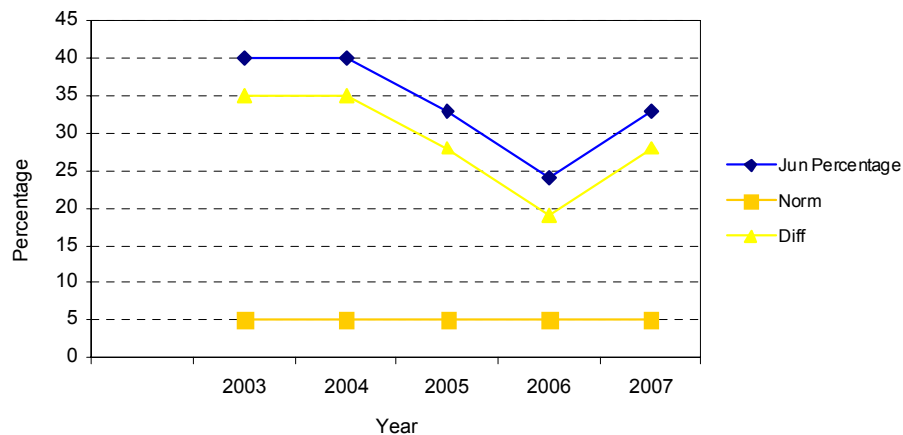
#### Introduction

This section provides a review of the PFMA implementation and financial management improvement for sustainability service delivery by the department. The source documents used in this process are the Normative Measures Quarterly report and A-G Report for the year ended 31 March 2007.

#### Analysis of Normative Measures Quarterly Report

##### CFO Structure Human Resources Capacity

Figure 3: Department of Local Government and Housing Vacancy Rate – 5 year Trend Line



#### Analysis:

- The Department currently records a very high vacancy rate at 33 per cent (June 2007) in the CFO structure. As the graph indicates this represents a substantial variance from the norm, and the downward trend observed previously is being reversed in June 2007.
- The Department has implemented performance agreements at all levels, career plans have been developed for 100 per cent of the staff establishment, 90 per cent of the staff has finance related qualifications, and 100 per cent of staff is attending structured training programmes offered within the Province.

#### Annual, Quarterly and Monthly Reports

The Department and its public entity must report monthly on expenditure and revenue; quarterly on performance; and annually they have to table Annual Reports, as prescribed, by the Legislature.

**Table 88: Compliance with annual, quarterly and monthly reporting requirements**

Institution	Date annual report received by Provincial Treasury	Annual report submitted to National Treasury	Annual report submitted to the Provincial Legislature	Quarterly performance against strategic plan	Monthly reporting (IYM)
<b>Departments</b>					
Local Government and Housing	31-August-2006	√	28-September-2006	√	√
<b>Non-Listed Public Entity</b>					
WC Housing Development Fund	31-August-2006	√	28-September-2007	√	

**Analysis:**

The Department successfully tabled their 2005/06 Annual Reports as well as that of the public entity under its ownership control, within the prescribed timeframes.

**Analysis of the A-G Report dated 31 August 2007**

The Auditor-General expressed an unqualified opinion, with emphasis of matter and other matters in terms of the Auditor-General’s report on the audit of financial statements and performance information of the department.

**Emphasis of Matter**

**Irregular expenditure**

- Irregular expenditure arose due to the contravention of the relevant supply chain management directives
- The accounting officer in terms of Treasury Regulation 9.1 and section 38(1) of the PFMA considered this matter and disciplinary steps were taken against a number of officials.

**Other Matters**

- Non-compliance with applicable legislation
- Material corrections made to the financial statements submitted for audit
- Internal control - Inadequate monitoring of controls to monitor that payments are made within 30 days of receipt of invoices
- Delay in finalisation of audit
- Performance audit reports issued during the year - a performance audit on the management of housing projects was conducted during the year under review. At the time of finalising this report, the report has not yet been issued.

### **Audit finding relating to Performance Information**

The Auditor-General obtained sufficient and appropriate performance information to report that there have been no significant findings identified as a result of the audit.

### **Financial Management Capability Model Assessment**

The financial management level of this entity shows no improvement taking into consideration the 2007 external audit report by the Auditor general.

### **Analysis of A-G Report of the WC Housing Development Fund dated 31 July 2007**

The auditor-general expressed a disclaimer of opinion in terms of the Auditor-General's report on the audit of financial and performance information of the WC Housing Development Fund.

The basis of the disclaimer of opinion for this entity is expressed due to the following matters:

- Non-current assets: Property [R230,888 million]
- Current Assets: Trade and other receivables [Gross: R463,946 million; NET: R189,186 million]
- Revaluation reserve [R12,046 million]

### **Other Matters**

Other matters include the following:

- Control activities
- Monitoring
- Control Environment

### **Audit finding relating to Performance Information**

The matter raised relate to performance against predetermined objectives as required in terms of legislation and an Auditor-General circular 1 of 2005.

### **Financial Management Capability Model Assessment**

The financial management capability level of this entity shows an improvement taking into consideration the 2007 external audit report by the Auditor-General.

### **3.8.4 Enterprise Risk Management**

The section provides guidance, criteria, and norms and standards for the attainment of levels of enterprise risk management in terms of the financial management capability model. It is anticipated that this will assist management in being able to identify underlying problems and focus on areas to improve the enterprise risk management processes.

Departments will not be assessed on Level 3 and 4 because of the immaturity of enterprise risk management within the provincial government.

#### **Proper Control Framework (Level 1)**

Includes all scenarios where the Department has not implemented all the criteria required to obtain a level 2 assessment.

#### **A Proper Internal Control Framework And Financial Accounting Processes Have Been Developed (Level 2)**

#### **Strategic Risk Assessment**

A Strategic risk assessment was conducted for the Department, risk response strategies were developed and it was found that the organisational structure supports processes developed.

#### **Way forward**

The Chief Risk Officer need to assign strategic risks identified to senior management (risk owners) for the required management attention and treatment. Once risks are allocated to SMS members, their performance agreements should be amended to include their responsibility for the management of risk.

The Department obtained a level 2 (partial compliance) financial management capability rating on the above.

#### **Internal Environment**

A risk management philosophy and a management's philosophy were not developed for the Department. The risk appetite of the Department is also not defined.

#### **Way forward**

A risk management and management philosophy needs to be developed for the Department, to emphasise the importance of risk management and to hold management accountable to the management of risk. The Department must define their risk appetite, i.e. the amount of risk the Department is willing to accept in the pursuit of their objectives. All vacancies in the ERMGS unit need to be filled to ensure the success of risk management in the Department.

The Department obtained a level 1 financial management capability rating in this regard.

## **Operational Risk Assessment**

The risk event identified during the operational risk assessment in 2004 was assessed on an inherent level. Existing controls, gaps, control gaps are identified on a continuous basis by means of process and control mapping initiatives.

### **Way forward**

The Department should conduct annual risk assessment and the risk events identified, should be allocated to the relevant risk owners for the required management attention and treatment.

The Department obtained a level 2 (partial compliance) financial management capability rating in this regard.

### **How will the department move to level 3?**

The Department needs to address the shortcomings/way forward discussed above as well as the following:

#### **Internal Environment:**

- Compliance to commitment to competence displayed in appointment and development practices
- Compliance to assignment of authority and responsibility
- Compliance to writing and communicating Risk Management Philosophy to staff
- Compliance to Management's philosophy and operating style reflecting acceptance of risk management principles
- Compliance to define the Departments risk appetite

#### **Event Identification:**

- Risk events are identified at least annually and are incorporated into daily activities
- Risk events are grouped in terms of event categories

#### **Risk Assessment:**

- Risks are assessed on a residual risk basis

#### **Control Activities:**

- Control activities are designed to address risk events
- Control activities are designed using a recognised control framework

#### **Information and Communication:**

- Pertinent information is collected
- Integrated systems to analyse information is available



- Information is communicated in the right quantity to the right person at the right time

**Monitoring:**

- The risk management process is subject to ongoing internal evaluation
- The risk management process is subject to regular internal audit evaluation

### 3.8.5 Cash Management

This section deals with the implementation and management of sound cash flow practices as well as the provision of assistance and training in respect of the official banking system within the Provincial Government of the Western Cape.

**Review**

The evaluation was based on the activities of the 2006/2007 financial year and the findings were as follows:

**Table 89: Assessment of cash management**

Requirements	Standard Level 3	Standard Level 4	Rating
Staff skilled & Capacitated in Cash Management	In accordance with profile	All functions on the Cash Management System	3
Submission of Annual Provincial Cashflow Projections	By 28 February	By 15 February	3
Deviation between monthly projections & actual expenses	5%	3%	2
Monthly Own Revenue Payover	2 working days prior to month end	3 working days prior to month end	3
Repayment of Surplus Funds	31 May	15 May	3
Submission of monthly Bank Reconciliation	Within 30 days after month end	Within 15 days after month end	4
Beneficiary Payments (Direct Transfers)	1% of Total Payments	0.50% of Total Payments	3
<b>Average rating</b>			<b>3</b>

The Department achieved an overall rating of level 3 (nominal compliance) financial management capability.

**Skilled and capacitated system users**

The Department obtained a rating of level 3 (nominal compliance) financial management capability. All system users were trained in accordance with their profiles, during the implementation of the new official banker’s system.

### Submission of Annual Provincial Cashflow Projections

The Department obtained a rating of level 3 (nominal compliance) financial management capability.

**Table 90: Assessment of the deviation between monthly projections and actual expenses**

	Original Forecast		%	Rating
	Projected	Actual		
APRIL'06	60,410	70,100	(16)	2
MAY'06	65,733	58,522	11	2
JUNE'06	90,366	70,225	22	2
JULY'06	109,238	120,293	(10)	2
AUG'06	86,272	91,054	(6)	2
SEP'06	90,795	87,991	3	2
OCT'06	90,643	84,743	7	2
NOV'06	96,941	64,858	33	2
DEC'06	74,419	135,786	(82)	2
JAN'07	3,844	44,494	(1,057)	2
FEB'07	5,544	23,515	(324)	2
MRC'07	2,757	(74,619)	2,807	2
<b>Sub-Total</b>	<b>776,962</b>	<b>776,962</b>		<b>2</b>
<i>Revised Forecast (after adjustment budget)</i>				
MRC'07				
Adjustment	489,147	489,147		
<b>Total</b>	<b>1,266,109</b>	<b>1,266,109</b>	<b>100</b>	

The Department achieved a rating of level 2 (partial compliance) financial management capability. PT will support and assist the department to determine the variances and to compile more credible projections in future.

### Monthly Own Revenue Payover

The Department obtained an average rating of level 3 (nominal compliance) financial management capability. Revenue is being paid over monthly 2 working days prior to month end.

### Repayment of Surplus funds

The Department obtained a rating of 3 (nominal compliance) financial management capability. Surplus funds were paid to the PRF on 29 May 2007.

### Submission of monthly Bank Reconciliations

The Department was rated level 4 (full compliance) financial management capability. The monthly bank reconciliation is submitted within 15 days after month end.

## Beneficiary Payments (Direct Transfers)

The Department achieved a rating of level 3 (nominal compliance) financial management capability.

**Table 91: Beneficiary Payments**

Payments	Beneficiary Payments	%
6657	38	0.57

### 3.8.6 Supply Chain Management

The assessment of supply chain management of the Department indicated compliance with the capability criteria in the following respects especially at the head office level:

- The Department meets the legislative and policy framework requirement, in that it has updated its current Accounting officers system in terms of Section 38 (1)(iii)(c) of the PFMA as well as its SCM Delegations, however it must be noted that they need to update and review these policy documents annually to ensure that they are aligned to the most current regulatory framework;
- The Department have the necessary Bid committee system in place, however a more concerted effort must be placed on meeting the regulatory requirements and that of the current policy framework in respect of the committee system;

In terms of the A-G's report for the 2006/07 financial year, the department received a clear audit report in respect of moveable asset management and supply chain management.

However, in order to secure a clearer picture of the state of supply chain management within the Department, perusal of the audit management letters was undertaken and the following findings noted:

#### Compliance to Legislative and Policy Frameworks:

- When testing for compliance with Practice Note SCM 3 of 2003, it was noted that the majority of the appointment of consultants contravened the policy. In terms of the policy, transactions exceeding R100 000 must have: Bid Documentation (unless approval exists for deviation from Normal Bidding); Tender process and evaluation of proposals and Contract / Service Level Agreement, and
- Contracts not being part of the supporting documentation and on requesting the contracts non of the contracts could be provided to the auditors.

#### Monitoring and Reporting and Good Governance

- No proof of competitive bid process or evaluation of proposals
- Many appointments did not have reference numbers or had invalid reference numbers and as a result no bid documentation could be obtained;

- There is a lack of control over the preparation of supporting documentation;
- Lack of regular management oversight to ensure compliance and completeness of supporting documentation;
- Five entries relating to office furniture were recorded at a cost of R1 096 368 which was considered significant for the number of items. On further investigation it was noted that the cost had been incorrectly recorded on the fixed asset register, it was meant to have been recorded at R1 097 but was actually recorded as R1 096 368. The general ledger account was inspected and it was confirmed that the asset's value was in fact R1 097. Per discussion with staff members at Supply Chain Management, it was noted that the fixed asset register had been drawn up by the National Office in Pretoria and the matter had been brought to their attention.

### **Moveable Asset Management**

In terms of the project dashboard assessment held in February 2007, the Department has completed the following:

- Asset management plans in respect of the definition of assets, role of assets in the program delivery, non-assets solutions, asset life cycle and its costing, and the elements of the best asset strategy;
- Acquisition: in respect of analysis of alternatives, receipt of acceptance of assets and establishing ownership control;
- Operation and Maintenance plans: monitoring and condition use and, tracking of assets, safeguarding and protecting of assets and stock take;
- Disposal plans: identification of surplus , obsolete and under- performing assets, evaluation of disposal alternatives, write – off of damaged or missing assets, replacement strategy;
- Accounting: Definition of assets, depreciation of assets, treatment of repairs and maintenance, recording on acquisition, transfer and disposal;
- Treatment of repairs and maintenance;
- Recording of assets on acquisition, transfer and disposal, and
- Recording of assets on the asset register with BAS

The following where areas that was postponed/outstanding:

- Development of an acquisition plan
- Establishing performance indicators in respect of an operations and maintenance plans that are credible;
- Physical security in respect of safeguarding and protecting assets, and
- Disposal plan.

The following were raised as problem areas:

- Valuation of assets in respect of recognition criteria and valuation methodology.

It must be noted that the Department sufficiently meets the SCM criteria to be rated as exceeding a level 2 financial management capability, but that the Department is taking the necessary steps to elevate itself to the next level of compliance establishing itself at a rating of level 3 financial management capability.

**Steps to be taken to ensure that the Department establishes itself at the next auditable level (3)**

From a Provincial Treasury perspective the following interventions/steps are planned in the next financial year:

- Training on bid committees and contract management as provided and funded by the National Treasury;
- An integration of the financial and non-financial systems with the implementation of the IFMS;
- Linkages with other disciplines within the Provincial Treasury to enable an integrated approach to enable a supporting environment that maintains the credibility of the level of SCM;
- Addressing and implementing a supplier development initiative with other role-players to impact on the socio-economic aspects of procurement by achieving the desired outputs in respect of procurement to HDIs, SMMEs or BEE companies;
- Engaging and compiling business cases and feasibility research to enable departments to leverage their buying power in participating in transversal contracts thereby impacting on economies of scale and value for money considerations, and
- Engaging in separate interventions with the department on deficient and areas of concern that needs to be addressed individually with the department.

From a Departmental perspective the following interventions need to be instituted so that the Department sustains itself at the achieved level and also elevates itself to the next level:

- A concerted effort must be placed on training in terms of a skills development plan to build the internal capacity and resources of the SCM unit;
- Stricter controls should be implemented regarding the documentation of the tender process and preparation of consultant file/payments;
- The missing information should be submitted or reasons provided why the relevant transactions should not be regarded as irregular.
- Quotation and bid documentation should be attached to the invoices for payment and filed together;
- Necessary controls should be put in place to ensure that the supporting documentation is either attached or referenced to and can easily be located;
- Treasury compliance procedures should be strictly adhered to at all times, and
- The entries in the fixed asset register need to be corrected and the necessary changes would also need to be made to the notes of the financial statements in order to accurately reflect the correct amounts for the assets. Reconciliations

should be performed between the documentation for the capturing of the assets and the information that has been captured in the fixed assets register.

### 3.8.7 Supporting and Interlinked Financial Systems

This section deals with the implementation and maintenance of Financial Systems as well as the provision of functional assistance and training, to all system users.

#### Review

The evaluation was based on the activities of the 2006/2007 financial year and the financial management capability findings were as follows:

**Table 92: Assessment of the Basic Accounting System**

Requirements	Standard Level 3	Standard Level 4	Rating
Skilled and capacitated system users	In accordance with profile	Various Modules	2
Month-end closure	Own accord – due date	Own accord – prior date	3
Year-end closure	Own accord – due date	Own accord – prior date	4
System Controller Functions	80 – 90%	91 – 100%	3
Monitor Applicable Interfaces	Weekly	Daily	4
<b>Overall rating</b>			<b>3</b>

The Department obtained an overall rating of level 3 (nominal compliance) financial management capability.

**Table 93: Assessment of skilled and capacitated system users: training**

Number of officials nominated	Number of officials attended	Number of officials cancelled	Number of officials qualified for a certificate (70% pass rate)	Number of officials not qualifying for a certificate
56	34	24	26	8

The Department obtained a rating of level 2 (partial compliance) financial management capability, mainly due to the high percentage of officials being nominated and not attending courses, as well as not all officials being trained in accordance with their profiles.

The Directorate Supporting and Interlinked Financial Systems is in the process of identifying the training gap of all users and will in co-operation with Chief Financial Officer, nominate their users for training in accordance with their profiles as a matter of urgency. In addition, the poor attendance of officials will be addressed in collaboration with the Chief Financial Officer.

### Month end closure

The Department achieved a rating of level 3 (nominal compliance) financial management capability as their books were closed on a monthly basis in accordance with the predetermined dates by National Treasury.

### Year closure

The Department achieved a rating of level 4 (full compliance) financial management capability as their year-end closure was done prior to the predetermined date of the National Treasury.

### System Controller Functions

Based on the following criteria the System Controller function was rated at a level 3 (nominal compliance) financial management capability:

- Logging of calls to the Provincial Helpdesk
- Maintenance of Security Profiles
- The re-instating of Transaction Processing Rules
- Requesting/monitoring and distributing of automated Basic Accounting System reports
- Maintenance of segment details
- Maintenance/update of departmental parameters
- Provide practical individual training to users
- Monitor technical stability of work station including Local area network
- Assisting non-financial users of Basic Accounting System

### Monitor applicable interfaces

The Department achieved a rating of level 4 (full compliance) financial management capability as their interfaces were monitored and reported on a daily basis.

**Table 94: Assessment of the Personnel and Salary Administration System (PERSAL)**

Requirements	Standard Level 3	Standard Level 4	Rating
Skilled and capacitated system users	In accordance with profile	Various Modules	2
System Controller Functions	80 – 90%	91 – 100%	2
Establishment Management	Quarterly	Monthly	3
PERSAL/BAS Reconciliation	Monthly by the 20 <sup>th</sup>	Prior to the 20 <sup>th</sup>	3
Adhere to Minimum Information Requirements	Annually	Continuous process	2
Leave Audit	Annually	Continuous process	3
<b>Average rating</b>			<b>2</b>

The Department achieved an overall rating of level 2 (partial compliance) financial management capability which is a performance of below standard.

**Table 95: Assessment of skilled and capacitated system users: training**

Number of officials nominated	Number of officials attended	Number of officials cancelled	Number of officials qualified for a certificate (70% pass rate)	Number of officials not qualifying for a certificate
39	15	24	10	5

The Department obtained a rating of level 2 (partial compliance) financial management capability due to the high percentage of officials being nominated and not attending courses as well as not all officials being trained in accordance with their profiles.

The Directorate Supporting and Interlinked Financial Systems is currently in the process of identifying the training gap of all system users and will in co-operation with the Department nominate system users for training in accordance with their profiles. In addition issues of poor attendance will be addressed with the Department.

#### **System Controller Functions**

The Department obtained a rating of level 2 (partial compliance) financial management capability due to the system users not optimally utilising the system.

The Directorate Supporting and Interlinked Financial Systems will in co-operation with the Department provide individual training to the systems controller.

#### **Establishment Management**

The Department achieved a rating of level 3 (nominal compliance) financial management capability as the establishment is maintained on at least a quarterly basis.

#### **Adhere to Minimum Information Requirements**

As not all information is captured on the system, the Department achieved a rating of level 2 (partial compliance) financial management capability.

Reports indicating the outstanding information are available and will be provided by Provincial Treasury to departments on request. The situation will be monitored by the Provincial Treasury to ensure compliance.

#### **Leave Audit**

The Department achieved a rating of level 3 (nominal compliance) financial management capability as the leave audit is updated on at least an annual basis.



**Table 96: Assessment of the Logistical Information System (LOGIS)**

Requirements	Standard Level 3	Standard Level 4	Rating
Skilled and capacitated system users	In accordance with profile	All Modules	3
Days per issue (Service standard)	5 Days	3 Days	1
Stock Management	15.61%	6.19%	3
Financial Controls	Monthly	Continuous process	2
System Control Functions	80 – 90%	91 – 100%	2
<b>Average rating</b>			<b>2</b>

The Department achieved an overall rating of level 2 (partial compliance) financial management capability, which is below standard.

**Table 97: Assessment of skilled and capacitated system users: training**

Number of officials nominated	Number of officials attended	Number of officials cancelled	Number of officials qualified for a certificate (70% pass rate)	Number of officials not qualifying for a certificate
39	34	5	28	6

The Department achieved a rating of level 3 (nominal compliance) financial management capability as users are trained in accordance with their current profiles.

#### **Days per issue (service standard)**

In accordance with national norms and standards, the days per issue should be less than 3 days to achieve full compliance (level 4), less than 5 days for nominal compliance (level 3) and less than 20 days for partial compliance (level 2).

The average days per issue during 2006/07 was 23 days and the performance is therefore far below standard.

The Directorate Supporting and Interlinked Financial Systems will assist the Chief Financial Officer in re-visiting the current procedures and processes regarding the issue of goods, to ensure compliance.

#### **Stock Management**

The Department achieved a rating of level 3 (nominal compliance) financial management capability for its control over inventories and assets.

#### **Financial Controls**

The Department achieved a rating of level 2 (partial compliance) financial management capability.

### System Control functions

This issue will be addressed by the Directorate Supporting and Interlinked Financial The Department achieved a rating of level 2 (partial compliance) financial management capability.

The main reasons being, that the profiles of users on the system are not kept up to date.

Systems as part of the training of users in accordance with their profiles will take place in co-operation with the Chief Financial Officer.

**Table 98: Assessment of the Management Information System (Vulindlela)**

Requirements	Standard Level 3	Standard Level 4	Rating
Percentage of registered users using the system on a regular basis	80 – 90%	100%	2

**Table 99: Assessment of the usage of the Management Information System (Vulindlela)**

Number of registered users	Number of registered users using the system on a regular basis	Number of registered users not using the system on a regular basis	Percentage active users
20	11	9	55%

The Department obtained a rating of level 2 (partial compliance) financial management capability due to the fact that only 55 per cent of registered users utilise the system on a regular basis.

The Directorate Supporting and Interlinked Financial Systems will, in cooperation with the Chief Financial Officer, re-evaluate the need of the 9 registered users who do not use the system on a regular basis. In addition, the Directorate will discuss the further role out of Vulindlela within the department and address any further user requirements they might have.

## 3.9 Department of Environmental Affairs and Development Planning

### 3.9.1 Performance Management

#### 3.9.1.1 Non-financial information

This assessment is based on departmental Annual Performance Plan (APP) for 2006/07 and Annual Report for 2006/07. The introduction of the requirement for government departments to submit progress report on the non-financial performance offered an opportunity to indicate how well an organisation is performing against its aims and objectives. Good performance information helps identify what policies and processes work and why they work. Performance information plays a vital role in indicating progress against objectives. It further promotes transparency, accountability, and progress on service delivery. Citizens are able to monitor government progress in terms of implementing policies and programmes.

For the period under review, emphasis has been on the compliance side. The aim is to ensure that the Departmental APP when read together with the Annual Report reflects clearly and concretely, demonstrated capacity to learn and adapt, and that the information obtained and communicated is fair and reliable.

The Department needs to develop suitable performance measures and performance targets. The APP needs to reflect clear or appropriate performance measures and targets. It is difficult to assess the progress against APP targets and to identify areas of severe underachievement due to some of the performance indicators not being measurable and verifiable. Some of these problems with the performance indicators are: Lack of well-defined performance measure indicators for measuring objectives, inconsistencies between indicators, planned and actual outputs. Some objectives have too many corresponding indicators; and not all indicators are reported against.

For the 2007/08 APP, the Department would focus on improving the definition of its objectives and performance indicators.

There are challenges in terms of appropriately defining performance measures for measureable objectives. There are also inconsistencies between indicators, planned and actual outputs. The Department shows signs that it is able to meet the targets as stipulated in the APP. When the APP is assessed against the 2006/07 Annual Report indications are that sufficient evidence exist that the APP targets are met.

#### Conclusion

As in the case for most departments it is recommended that the Department establish credible collection and collation system for non-financial information. Lack of credible collection and verification systems, poses a challenge to express an opinion on whether the Department is able to realise its desired objectives and performance deliverables as outlined in the Strategic Plan and the APP.

Performance information further plays a critical role in reflecting the level of institutional capacity to actually deliver services to citizens. The Department is faced with the challenge to recruit and retain professional staff, and very little progress has

been made with regard to staff recruitment and retention. Furthermore, the Department needs to improve coordination and relations with public entities to enable it to exercise its oversight role.

### 3.9.1.2 Performance Management: Financial Information

From a public finance perspective, the following has been noted regarding the performance of the Department of Environmental Affairs & Development Planning:

The Department submits its In-year Monitoring (IYM) report on revenue and expenditure to Treasury on or before the 15th day after the end of a reporting month in terms of the requirements in section 40(4)(c) of the Public Finance Management Act, 1999 (Act 1 of 1999).

It appears that the Department needs to make its forecasts more realistic, as forecasts in a prior quarter differ from actual expenditure. This can be viewed in the table below, where the actual expenditure and projections are compared on a quarterly basis. Projections (unshaded) seem to increase on a monthly basis, as actual expenditure (shaded) is mostly lower than projected expenditure.

**Table 100: Quarterly analysis on projections: 2006/07**

R000	April	May	June	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Total
First Quarter	17 500	20 614	10 884	14 530	15 141	16 200	17 849	10 947	13 648	13 315	13 773	11 125	175 526
%	9.97%	11.74%	6.20%	8.28%	8.63%	9.23%	10.17%	6.24%	7.78%	7.59%	7.85%	6.34%	100.00%
Second Quarter	17 500	20 614	10 884	11 105	11 678	11 283	15 628	18 203	18 593	19 449	18 268	10 575	183 780
%	9.52%	11.22%	5.92%	6.04%	6.35%	6.14%	8.50%	9.90%	10.12%	10.58%	9.94%	5.75%	100.00%
Third Quarter	17 500	20 614	10 884	11 105	11 678	11 283	14 346	8 096	31 250	21 508	11 819	14 316	184 399
%	9.49%	11.18%	5.90%	6.02%	6.33%	6.12%	7.78%	4.39%	16.95%	11.66%	6.41%	7.76%	100.00%
Fourth Quarter	17 500	20 613	10 885	11 105	11 677	11 283	14 346	8 096	31 250	16 428	11 015	18 859	183 057
%	9.56%	11.26%	5.95%	6.07%	6.38%	6.16%	7.84%	4.42%	17.07%	8.97%	6.02%	10.30%	100.00%

*Shaded: Actual*

*Unshaded: Projections*

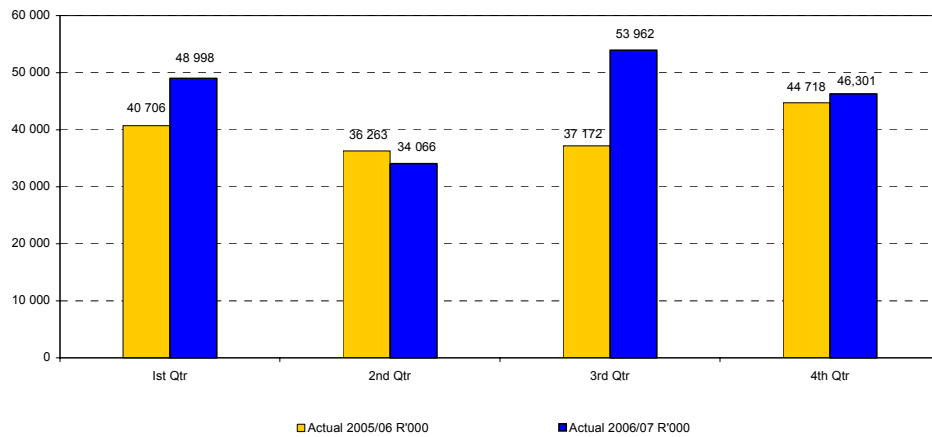
The 2006/07 financial year's original budget allocation for the Department was R175.525 million. In the Adjustments Estimate it was increased by R9.144 million to R184.669 million. R2 million, i.e. 1.08 per cent, of the adjusted budget was shifted between programmes of the Vote, while R900 000 was shifted within programmes, i.e. 0.49 per cent of the adjusted budget. At below 2 per cent of the adjusted budget it is thus clear that the Department's original budget was credible.

The Department effected very few virements (R170 000 (0.04 per cent) from Environmental and Land Management to Administration at the end of the financial year) and the necessary virement approvals were obtained.

The Department submitted its Adjustments Budget on time and it was comprehensive in terms of Section 31 of the PFMA.

Figure 4 below compares the quarterly actual expenditure for 2006/07 compared 2005/06:

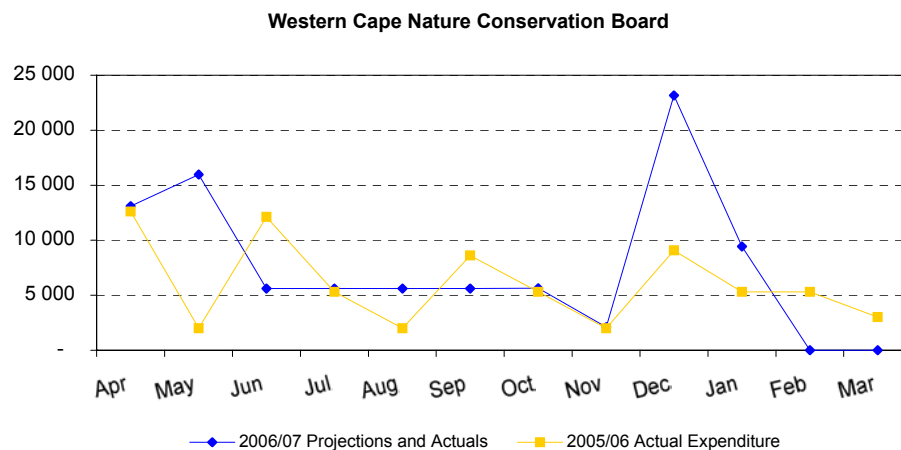
**Figure 4: Quarterly actual expenditure – 2005/06 and 2006/07**



The Department spent R183.327 million or 99.3 per cent of its adjusted budget as at 31 March 2007. With an underspending of R1.342 million or 0.73 per cent of the adjusted budget in 2006/07, the Department's spending outcome for the financial year is within the 2 per cent underspending norm. In the 2005/06 financial year the underspending was only R161 000 of R159.020 million or 0.10 per cent. The bulk of the R1.342 million under spending in 2006/07 was in respect of earmarked allocations and the following funds were requested for rollover to the 2007/08 financial year: Provincial Spatial Development Framework (R0.178 million), recycling economy (R0.106 million) and renewable energy (R0.867 million).

The figure below provides the actual expenditure for the period ended 31 March 2007 on transfer and subsidies.

**Figure 5: Comparison of Transfers to CapeNature - 2005/06 and 2006/07**



This graph indicates how actual transfers vary from month to month, mainly due to the payments to CapeNature made in terms of an agreed payment schedule. Transfer payments to the amount of R81.535 million were made to CapeNature during 2006/07. This was augmented by R10.255 million in the 2006 Adjustment Estimate, bringing the total to R91.790 million.

There was no fiscal dumping, and no reported unauthorised or irregular expenditure.

Revenue is mainly in respect of fines, boat-launching site fees, commission on insurance, fees in terms of the Access to Information Act and charges for maps and posters. The revenue budget of R58 000 was exceeded by R128 000. The over collected amount of R128 000 was requested for retention in the 2007/08 financial year to be used for research and implementation on renewable energy.

All tariffs are reflected in a tariff register, which is revised annually.

The Department did not have an actual 'March Spike'. On average the Department's spending remained relatively constant throughout the year, fluctuating mostly due to scheduled transfer payments to Cape Nature.

The Department of Environmental Affairs and Development Planning generally operates on level 3 and is moving towards a level 4 financial management capability rating.

### **3.9.2 Compliance with accounting policies and standards**

An assessment of the financial management capability of the Department was undertaken based on audit findings for the 2006/07 financial year and monthly IYM reporting, that revealed the following:

#### **Management of and reporting on suspense accounts**

In the monthly IYM reporting, the Department reported a consistent 100 per cent compliance with the financial management indicators throughout the 2006/07 financial year. Control and suspense accounts are reconciled on monthly basis, and in this regard the Department is operating at a level 3 financial management capability rating.

#### **Accounting of assets (Asset Management)**

This Department has indicated that it complies with the minimum requirements of keeping the updated asset register and therefore operates at a level 3 financial management capability rating.

#### **Financial reconciliations**

PERSAL and Bank exception transactions were identified, corrected and cleared within the reporting months which enabled the Department to close their books on BAS successfully on a monthly basis. The Department is operating at a level 3 financial management capability rating.

### **Supporting documentation**

The Department reported that it has an effective system of maintaining source documents for audit and reference purposes and consequently there has been no query from the Auditors on the availability of the supporting documents for the year under review. The Department is therefore operating at a level 3 financial management capability rating.

### **Expenditure – Payments and journals**

According to the Audit Management letter certain expense transactions were not allocated in terms of the SCoA requirements, thus operating at a level 2 financial management capability rating. The Department will have to provide training to officials on the correct allocation of expenditure transactions and institute measures to ensure that allocations are checked before a transaction is processed.

### **Procedures for the identification and reporting of unauthorised expenditure, fruitless and wasteful expenditure and irregular expenditure**

The Department reported that they have procedures in place to identify and report unauthorised, irregular and fruitless expenditure and consequently there no audit findings for the 2006/07 financial year, resembling a rating of level 3 financial management capability rating.

### **Recording and maintenance of State Guarantees**

The statement of the departmental State Guarantees reflects effective maintenance as there were no matters arising from the Audit report, resulting in level 3 financial management capability.

### **Management of lease liabilities**

The Department has implemented and maintains an operating lease register and this information is disclosed on the audited annual financial statements, with no audit findings in this regard. The Department is therefore operating at a level 3 financial management capability rating.

### **Management of thefts and losses**

The Department reported that there are control measures in place for the reporting and management of thefts and losses with no audit findings for financial period under review. The Department is therefore operating at a level 3 financial management capability rating.

### **Management of contingent liabilities**

The Department has reported effective control over its contingent liabilities that mainly consist of housing loan guarantees, claims against the department and Interdepartmental unconfirmed balances. The Department is therefore operating at a level 3 financial management capability rating.

## **Monthly reporting of financial information to the CFO/AO/EA/Department**

The Department consistently submits its monthly financial reports to the Provincial Treasury via the AO, thus operating at a level 3 financial management capability rating.

## **WESTERN CAPE NATURE CONSERVATION BOARD**

To determine at which level (level 1 – 4) of effectiveness the public entity is in respect of financial performance, the following areas and standards of performance were identified referring to the accounting assessment tool 3.3 in Chapter 3.

### **Management and reporting on suspense accounts**

Western Cape Nature Conservation Board (WCNCB) indicated a total outstanding debt of R4.7 million as at 31 March 2007. It should be noted that the entity should follow up outstanding debt in accordance with their debtor's policy. Debt of 90 days and older is a concern and should be addressed by the CFO. The entity performed at a level 3 financial management capability. It is therefore recommended the entity follow up long outstanding debts more rigorously to progress to a level 4.

### **Accounting of assets**

PPE increased by R1.3 million due to finance lease assets not originally capitalised, donated assets received not accounted for at fair value, and corrections made to the accounting for revaluations of assets. This implies that proper asset management controls and accounting requirements are not in place. It is recommended that the entity step up management controls steps to ensure effective cost management, and assess the use of assets to achieve a level 3 financial management capability assessment.

### **Financial reconciliations**

The entity is performing at a level 3 financial management capability rating for submission of monthly financial reconciliations.

### **Supporting documentation**

The entity is performing at a level 3 financial management capability rating.

### **Expenditure – Payments and journals**

Chemical stock received as a donation, to the value of R1.3 million, was initially incorrectly allocated to grants, donation and project funds received. Originally it was incorrectly allocated to consumables and chemical expenses, thus initially resulting in an understatement of both revenue and expenditure.

Debtors and Deferred Revenue was initially overstated by R1 million due to an allocation error.



The entity is performing at a level 2 financial management capability rating and should ensure that their accounting policy is in compliance with SA GAAP, and that all the expense and income items have been correctly classified, to move to a level 4.

#### **Authorisations**

WCNCB is operating at a level 3 financial management capability rating and should ensure that an effective system of procedure for approval and authorisation is in place, to address authorisation against service delivery standards, to achieve a level 4.

#### **Accounting treatment of transactions**

The entity is at a level 3 and should ensure that transactions are accounted for correctly and the integrity of data is reliable and readily available in compliance with SA GAAP, to move to a level 4.

#### **Monthly reporting of financial information to the CFO/AO/EA/Department**

The entities performing at a level 3 financial management capability rating.

### **3.9.3 Normative Financial Management**

The findings discussed in this section provide a review of the PFMA implementation and financial management improvement of the Department in line with the provincial strategy of reaching a level 4 Auditable Organisation (Financial Management Capability Model).

The source documents used were the Normative Measures For Financial Management for departments and the PFMA Compliance Checklist for Public Entities for the quarter ending 30 June 2007 as well as the 2006/07 Auditor-General reports for the Department and the WCNCB.

#### **Analysis of Normative Measures Quarterly Report**

##### **The CFO structure**

The vacancy rate as at the end of June 2007 is indicated at 4 per cent, which is below the national norm of 5 per cent. The average time to fill posts is five months compared to the national norm of three months.

The Department has implemented performance agreements at all levels and career plans have been developed for the total staff compliment. All the staff has finance related qualifications and is attending structured training programmes.

##### **Policies and procedures**

The Department reported that all financial departmental policies and procedures are documented and approved.

## **Tabling of annual report**

The public service strike during the first part of the year had an effect on the annual reporting process. As a result, the Auditor-General was granted extension till 31 August 2007 to submit their Audit Report. Consequently, the Department did not comply with section 40 (1)(d) of the PFMA by submitting their annual report to the Provincial Treasury (31 August 2007). However, the Department submitted the required amount of copies of their final annual report to the Provincial Treasury on the same date as the tabling date, namely 28 September and complied with the PFMA.

## **Auditor-General's report on the 2006/07 financial year**

The Department received an unqualified audit opinion with no emphasis of matter for the 2005/06 financial year. For the 2006/07 financial year, the Department received under the new audit-reporting format, an unqualified audit opinion with no emphasis of matter, except for one issue under other matters. This was as a result of material corrections made to the annual financial statements, submitted for audit after approval by the Acting Accounting Officer.

## **Financial management capability model assessment**

Based on the Auditor-General's reports for the 2005/06 and 2006/07 financial years the Department maintained its already high standards and remains a level 3 auditable organisation.

## **WESTERN CAPE NATURE CONSERVATION BOARD**

Cape Nature Conservation received an unqualified audit opinion with no emphasis of matter for the 2005/06 financial year. For the 2006/07 financial year the entity received, under the new reporting audit format, an unqualified audit opinion with no emphasis of matter except for one issue under other matters. This was as a result of material corrections made to the annual financial statements relating to property plant and equipment, increased due to finance leases, debtors and deferred revenue overstatement, wrong allocation of chemical as donations received resulting in a decrease in the net assets of the entity.

## **Financial management capability model assessment**

Based on the Auditor-General's reports for the 2005/06 and 2006/07 financial years the entity maintained its already high standards and remains a Level 3 auditable organisation.

### **3.9.4 Enterprise Risk Management**

The section provides guidance, criteria, and norms and standards for the attainment of levels of enterprise risk management in terms of the financial management capability model. It is anticipated that this will assist management in being able to identify underlying problems and focus on areas to improve the enterprise risk management processes.

Departments will not be assessed on Level 3 and 4 because of the immaturity of enterprise risk management within the provincial government.

#### **CONTROL FRAMEWORK (LEVEL 1)**

Includes all scenarios where the department has not implemented all the criteria required to obtain a level 2 assessment.

#### **PROPER INTERNAL CONTROL FRAMEWORK AND FINANCIAL ACCOUNTING PROCESSES HAVE BEEN DEVELOPED (LEVEL-2)**

##### **Strategic Risk Assessment**

Strategic Risks have been identified by the Department, risk response strategies and relevant processes have been developed. An organisational structure that supports the developed processes is in place.

##### **Internal Environment**

A risk management philosophy and management's philosophy have been developed for the Department and a risk appetite for the Department has been defined.

##### **Operational Risk Assessment**

The risk events have been identified and assessed on an inherent level and existing controls have been identified and documented.

#### **OVERALL ASSESSMENT**

Based on the above information, the Department achieved a rating of 2, as the Department met all the set Criteria & Norms and Standards for Level 2. In order to achieve a rating at the next level (Level 3), the department needs to have achieved all of the following set Criteria & Norms and Standards for Level 3:

##### **Focus on compliance and control**

##### **Internal Environment**

- Compliance to commitment to competence displayed in appointment and development practices
- Compliance to assignment of authority and responsibility
- Compliance to writing and communicating Risk Management Philosophy to staff
- Compliance to Management's philosophy and operating style reflecting acceptance of risk management principles
- Compliance to define the Departments risk appetite

### Event Identification

- Risk events are identified at least annually and are incorporated into daily activities
- Risk events are grouped in terms of event categories

### Risk Assessment

- Risks are assessed on a residual risk basis

### Control Activities

- Control activities are designed to address risk events
- Control activities are designed using a recognised control framework

### Information and Communication

- Pertinent information is collected
- Integrated systems to analyse information is available
- Information is communicated in the right quantity to the right person at the right time

## 3.9.5 Cash Management

This section deals with the implementation and management of sound cash flow practices as well as the provision of assistance and training in respect of the official banking system within the Provincial Government of the Western Cape.

### Review

The financial management capability assessment was based on the activities of the Department during the 2006/07 financial year and the outcomes are as follows:

**Table 101: Assessment of cash management**

Requirements	Standard Level 3	Standard Level 4	Rating
Staff skilled & Capacitated in Cash Management	In accordance with profile	All functions on the Cash Management System	3
Submission of Annual Provincial Cashflow Projections	By 28 February	By 15 February	3
Deviation between monthly projections & actual expenses	5%	3%	2
Monthly Own Revenue Payover	2 working days prior to month end	3 working days prior to month end	3
Repayment of Surplus Funds	31 May	15 May	3
Submission of monthly Bank Reconciliation	Within 30 days after month end	Within 15 days after month end	4
Beneficiary Payments (Direct Transfers)	1% of Total Payments	0.50% of Total Payments	4
<b>Average rating</b>			<b>3</b>

The Department achieved an overall rating of level 3 (nominal compliance) financial management capability rating.

### **Skilled and capacitated system users**

The Department obtained a rating of level 3 (nominal compliance) financial management capability. All system users were trained in accordance with their profiles, during the implementation of the new official banker's system.

### **Submission of Annual Provincial Cash flow Projections**

The Department obtained a rating of level 3 (nominal compliance) financial management capability.

**Table 102: Assessment of the deviation between monthly projections and actual expenses**

	Original Forecast			Rating
	Project	Actual	%	
APRIL'06	19,694	19,243	2	4
MAY'06	19,708	16,006	19	2
JUNE'06	13,550	10,228	25	2
JULY'06	13,982	10,953	22	2
AUG'06	13,777	11,648	15	2
SEP'06	14,057	11,433	19	2
OCT'06	13,377	13,429	(0)	4
NOV'06	13,316	12,723	4	3
DEC'06	12,880	31,292	(143)	2
JAN'07	12,932	16,164	(25)	2
FEB'07	13,034	8,882	32	2
MRC'07	15,218	13,524	11	2
<b>Sub-Total</b>	<b>175,525</b>	<b>175,525</b>		<b>2</b>
<b>Revised Forecast (after adjustment budget)</b>				
MRC'07				
Adjustment	9,144	9,144		
<b>Total</b>	<b>184,669</b>	<b>184,669</b>	<b>100</b>	

The Department achieved a rating of level 2 (partial compliance) financial management capability. PT will support and assist the Department to determine the reasons for the variances and to compile more credible projections in future.

### **Monthly own revenue pay-over**

The Department obtained an average rating of 3 (nominal compliance) financial management capability. Revenue is being paid over monthly 2 working days prior to month end.

### Repayment of Surplus funds

The Department obtained a rating of 3 (nominal compliance) financial management capability. Surplus funds were paid to the PRF on 30 May 2007.

### Submission of monthly Bank Reconciliations

The Department was rated 4 (full compliance) financial management capability. The monthly bank reconciliation is submitted within 15 days after month end.

### Beneficiary Payments (Direct Transfers)

The Department achieved a rating of level 4 (full compliance) financial management capability.

**Table 103: Beneficiary Payments**

Payments	Beneficiary Payments	%
2841	14	0.49

## 3.9.6 Supply Chain Management

The financial management capability assessment was based on the activities of the Department during the 2006/07 financial year and the outcomes are as follows:

### Legislative and Policy Frameworks

- The Department has in place an Accounting Systems in terms of Section 38(I)(iii)(a) of the PFMA. (It need to be noted that the AO system need to be reviewed and updated to align itself with the current regulatory framework);
- SCM Delegations are in place;(Needs to be updated as cited above);
- The Department has the necessary bid committee system in place, twenty-eight (28) formal bids have been awarded to HDIs ensuring that 60 per cent of the value of the bids were awarded to HDIs, and
- In the 2006/07 financial year six (6) officials were trained on SCM.

During the period of assessments of supply chain management issues, findings revealed the following:

### Compliance to Legislative and Policy Frameworks

- In instances the AO System for Supply Chain Management is not in line with the PFMA, NTR's and/or PTI's;
- Tax clearance certificates were not in all instances obtained to ensure compliance with Treasury Regulation 16A9.1(d);
- The concept of strategic sourcing has not been applied although being stipulated in paragraph 7.2.3 of the AO System;

- Particulars of successful bidders were not in all instances published in the Government Tender Bulletin as prescribed in section 8.3.20.2 of the Accounting Officer System for Supply Chain Management;
- Bid Registers does not capture all relevant information as stipulated in paragraph of 8.3.3 of the AO system;
- Successful bidders did not in all instances sign the contract form, which is part of the standardised bidding documents issued by the National Treasury, whereby they enter into a contract under the conditions specified in the bidding documentation;
- The criteria for awarding bids on the basis of functionality are not clearly spelled out;
- In many instances unauthorised purchases were made and the department would be invoiced prior to approval for obtaining goods and/or services;
- No declarations of interests are signed by officials dealing with bids;
- Lack of compliance with SCM Regulations, and
- Incomplete transactional information and supporting documentation in respect of orders, goods/services received, payments etc.

#### **Organisational Structure and Capacity**

- SCM officials lack experience in both the procurement and provisioning side of SCM.

#### **Monitoring and Reporting and Good Governance**

- Officials who evaluate bids and who form part of the bid adjudication committee are the same officials;
- No written appointment of committee members;
- Contract Management and Administration is lacking, and
- Opportunities to obtain best value in the procurement process are not encouraged.

#### **Credible Knowledge and Information Management System**

- Gifts register not instituted and maintained, and
- The Department did not maintain a centralised tender register encompassing the entire Department's tender activities, as prescribed in section 8.7.1 of the Accounting Officer System for Supply Chain Management

#### **Moveable Asset Management**

In terms of the project dashboard assessment completed at the head office on 28 February 2007 the Department has completed the following:

- Asset management plans in respect of the definition of assets, role of assets in the program delivery, non-assets solutions, asset life cycle, accountability and responsibility;

- Acquisition: in respect of analysis of alternatives, receipt of acceptance of assets and establishing ownership control;
- Operation and Management plans: monitoring and condition use and, tracking of assets, safeguarding and protecting of assets;
- Disposal plans: identification of surplus, obsolete and under- performing assets, evaluation of disposal alternatives, write – off of damaged or missing assets;
- Accounting: Definition of assets, valuation of assets, depreciation of assets, treatment of repairs and maintenance, recording on acquisition, transfer and disposal, and
- Asset Register requirements: acquisition, identification, accountability, performance, disposal and accounting.

The following were areas that were postponed/outstanding:

- Maintenance scheduling
- Asset replacement strategy
- Reconciliation of assets on the asset register with BAS

The following were raised as problem areas:

- Life-cycle costing
- Developing of an acquisition plan
- Operation and Maintenance: plans
- Enhancement and upgrades

From the above the department may be rated at a level 2 in terms of the financial management capability model for SCM.

### **Steps to be taken to ensure that the department establishes itself at the next auditable level (3)**

From a Provincial Treasury perspective the following interventions steps are planned in the next financial year:

- Training on bid committees and contract management as provided and funded by the National Treasury as well as individual departmental interventions;
- An integration of the financial and non-financial systems with the implementation of the IFMS;
- Linkages with other disciplines within the Provincial Treasury to enable an integrated approach to enable a supporting environment that maintains the credibility of the level;
- Addressing and implementing a supplier development initiative with other role-players to impact on the socio-economic aspects of procurement by achieving the desired outputs in respect of procurement to HDIs, SMMEs or BEE companies;
- Engaging and compiling business cases and feasibility research to enable departments to leverage their buying power in participating in transversal



contracts thereby impacting on economies of scale and value for money considerations, and

- Initiating a performance review of the Department to secure a view of the department independent of the internal PT compliance and value for money assessments and the A-G's findings that will better assist the Provincial Treasury to give credibility to having an overall state of SCM at the department.

From a departmental perspective the following interventions need to be instituted so that the department sustains itself at the achieved level and also enables the department to elevate itself to the next level:

- The AO System and accompanying delegations should be reviewed and updated to ensure compliance with current SCM legislation;
- Ensure that internal control measures are in place for the cost efficient and effective management of SCM;
- Ensure consistent compliance with SCM legislation during the bidding process;
- The Department should either consider the utilisation of one of Treasury's approved provisioning and procurement systems or their current system (BAUD) should be enhanced to provide for auditable audit trails, proper consumption history in specifically with regard to inventory, proper security access, proper classification of goods and services;
- Staff structure and job description of SCM officials need to be revised to align itself with the current requirement of the posts as well the prescribed regulatory framework and competencies for SCM, and
- A concerted effort must be placed on training and a skills development plan to build the internal capacity and resources of the SCM unit.

### 3.9.7 Supporting and Interlinked Systems

This section deals with the implementation and maintenance of Financial Systems as well as the provision of functional assistance and training, to all system users.

#### Review

The financial management capability assessment was based on the activities of the Department during the 2006/07 financial year and the outcomes are as follows:

**Table 104: Assessment of the Basic Accounting System (BAS)**

Requirements	Standard Level 3	Standard Level 4	Rating
Skilled and capacitated system users	In accordance with profile	Various Modules	3
Month-end closure	Own accord – due date	Own accord – prior date	4
Year-end closure	Own accord – due date	Own accord – prior date	4
System Controller Functions	80 – 90%	91 – 100%	3
Monitor Applicable Interfaces	Weekly	Daily	4
<b>Overall rating</b>			<b>4</b>

The Department obtained an overall rating of level 4 (full compliance) financial management capability.

**Table 105: Assessment of skilled and capacitated system users: training**

Number of officials nominated	Number of officials attended	Number of officials cancelled	Number of officials qualified for a certificate (70% pass rate)	Number of officials not qualifying for a certificate
7	6	1	6	0

The Department obtained a rating of level 3 (nominal compliance) financial management capability, based on statistics of 7 delegates that were nominated, 6 attended, 1 cancelled and 6 passed successfully.

The Directorate Supporting and Interlinked Financial Systems is in the process of identifying the training gap of all users and will in co-operation with the Chief Financial Officer nominate their users for training in accordance with their profiles, as a matter of urgency.

#### **Month end closure**

The Department achieved a rating of level 4 (full compliance) financial management capability as their books were closed on a monthly basis prior to the predetermined dates by National Treasury.

#### **Year closure**

The Department achieved a rating of level 4 (full compliance) financial management capability as their year-end closure was done prior to the predetermined date by National Treasury.

#### **System Controller Functions**

The Department achieved a rating of level 3 (nominal compliance) financial management capability, based on the following criteria:

- Logging of calls to the Provincial Helpdesk
- Maintenance of Security Profiles
- The reinstatement of Transaction Processing Rules
- Requesting/monitoring and distributing of automated Basic Accounting System reports
- Maintenance of segment details
- Maintenance/update of departmental parameters
- Provide practical individual training to users
- Monitor Technical stability of work station including Local area network

- Assisting non-financial users of Basic Accounting System.

### Monitor applicable interfaces

The Department achieved a rating of level 4 (full compliance) financial management capability as their interfaces were monitored and reported on a daily basis.

**Table 106: Assessment of the Personnel and Salary Administration System (PERSAL)**

Requirements	Standard Level 3	Standard Level 4	Rating
Skilled and capacitated system users	In accordance with profile	Various Modules	2
System Controller Functions	80 – 90%	91 – 100%	3
Establishment Management	Quarterly	Monthly	2
PERSAL/BAS Reconciliation	Monthly by the 20 <sup>th</sup>	Prior to the 20 <sup>th</sup>	3
Adhere to Minimum Information Requirements	Annually	Continuous process	2
Leave Audit	Annually	Continuous process	3
<b>Average rating</b>			<b>2</b>

The Department achieved an overall rating of level 2 (partial compliance) financial management capability which is a performance of below standard.

**Table 107: Assessment of skilled and capacitated system users: training**

Number of officials nominated	Number of officials attended	Number of officials cancelled	Number of officials qualified for a certificate (70% pass rate)	Number of officials not qualifying for a certificate
7	4	3	4	0

The Department obtained a rating of level 2 (partial compliance) financial management capability due to the high percentage of officials being nominated and not attending courses as well as not all officials being trained in accordance with their profiles.

The Directorate Supporting and Interlinked Financial Systems is currently in the process of identifying the training gap of all system users and will in co-operation with the Department nominate system users for training in accordance with their profiles. In addition issues of poor attendance will be addressed with the Department.

### System Controller Functions

The Department achieved a rating of level 3 (nominal compliance) financial management capability for the execution of its system control functions.

## Establishment Management

The Department achieved a rating of level 2 (partial compliance) financial management capability due to the fact that many duplicate structures still exist on the PERSAL system.

The Directorate Supporting and Interlinked Financial Systems will be providing reports to the Department of these duplicate structures and will assist the Department in correcting their establishment.

## Adhere to Minimum Information Requirements

As not all information is captured on the system, the Department achieved a rating of a level 2 (partial compliance) financial management capability rating.

Reports indicating the outstanding information is available and are provided by Provincial Treasury to departments on request. The situation will be monitored by the Provincial Treasury to ensure compliance.

## Leave Audit

The Department achieved a rating of level 3 (nominal compliance) financial management capability as the leave audit is updated on at least an annual basis.

**Table 108: Assessment of the Management Information System (Vulindlela)**

Requirements	Standard Level 3	Standard Level 4	Rating
Percentage of registered users using the system on a regular basis	80 – 90%	100%	2

**Table 109: Assessment of the usage of the Management Information System (Vulindlela)**

Number of registered users	Number of registered users using the system on a regular basis	Number of registered users not using the system on a regular basis	Percentage active users
20	14	6	70%

The Department obtained a rating of level 2 (partial compliance) financial management capability due to the fact that only 70 per cent of registered users utilise the system on a regular basis.

The Directorate Supporting and Interlinked Financial Systems will, in cooperation with the Chief Financial Officer, re-evaluate the need of the 6 registered users who do not use the system on a regular basis. In addition, discuss the further role out of Vulindlela within the Department and address any further user requirements they might have.

## 3.10 Department of Transport and Public Works

### 3.10.1 Performance Management

#### 3.10.1.1 Non-financial information

This section provides a high level assessment of the Department's performance of financial management activities and makes a judgment on the level of that performance. The assessment gauges key aspects of the Department's performance management system. As mentioned in the methodology section, the performance management framework is evolutionary and its refinement will be an iterative process. The assessment includes the Strategic and Performance Plan; and Annual and Quarterly Performance Reports.

This evaluation assesses the 2006/07 Annual Report and the 2006/07 and 2007/08 Annual Performance Plans. There may, however, be some areas of a Department's performance framework that display a level 4 competency, while others have yet to reach a level 3-competency level.

#### Annual Report 2006/07

The performance measures defined in the Department's 2006/07 APP are all included in the Annual Report for 2006/07. The unit in which performance is measured in the Annual Report is consistent with those defined in the APP. These areas of consistency means that the annual report can be used to assess the actual performance of the Department in terms of the performance targets defined in the APP.

All deviations from annual targets are clearly shown in the Annual Report in a clearly marked column, which, for each performance measure, gives the deviation from target in absolute terms in the unit of measurement of the performance measure and in proportional terms (as a percentage difference from the target). The column also indicates whether the deviation is above or below target.

While the Annual Report does provide explanations and remedies for deviations from target in the sections entitled "Specific challenges and responses" and "Issues requiring ongoing attention", the explanations and remedies are often difficult to relate to actual instances of below target performance. Explanations tend to be very broad and relate to the overall environment in which service delivery occurs. Such broad explanations may be adequate if the Annual Report considered trends in the overall performance of certain programmes and showed how the explanations pertain to the actual performance of the Department. This analysis does not occur in the Department's Annual Report.

What the above means is that explanations and remedies for below target performance tend not to be of direct relevance to the recorded performance of the Department. For instance, in the Annual Report the Roads Infrastructure Programme records below target performance in measures involving lengths of road periodically maintained or constructed. Some areas of periodic maintenance are *substantially* below target i.e. gravelling and upgrading gravel roads to surfaced roads. The "challenges" provided in the Annual Report do not seem to explain this trend. Two

of the “challenges” given could possibly account for the performance: the “shortage of engineering staff” and impact of “flood/storm/disaster damage”. If the first challenge were useful as an explanation, however, we would expect the Programme’s spending capacity to have reduced i.e. the lack of technical capacity to carry out projects would be reflected in inability of the Programme to spend its funds and thus to reach its road delivery targets. The Annual Report actually shows that the Programme spent 97 per cent of its budget<sup>3</sup>, which is generally considered a good performance. If the second explanation were valid, we would expect road delivery activities related to recovering from flooding and storms to register performance above the given annual targets, indicating that these activities had displaced periodic maintenance activity. The latter would indicate below target performance. Such above target performance is not recorded in the annual report. These trends suggest that the below target performance reported in the Annual Report are due to reasons other than those provided in the annual report.

### APP 2007/08

The APP conforms to the programme structure prescribed by national government for provincial Transport and Public Works Departments, with strategic objectives, measurable objectives and performance measures defined for each prescribed sub-programme.

Although nearly all performance measures defined by national government in the sector-specific quarterly performance report format for Transport and Public Works are included in the APP, in a number of cases (listed in Table 110 below) annual targets for these measures have not been set.

Table 110: Nationally prescribed performance measures (provided for in the QPR format) for which annual targets have not been set in the 2007/08 APP.

**Table 110: Programme performance measures**

Programme	Sub-programme	Performance Measure
<b>Quarterly targets</b>		
Road infrastructure	Construction	No. of kms surfaced roads upgraded
	Road maintenance	EPWP employment – no. of jobs created
Public transport	Empowerment & Institutional Management	EPWP employment – no. of jobs created
	Traffic Management	No. of training courses offered
Traffic Management	Overload control	No. of vehicles which are overweight
<b>Annual targets</b>		
Traffic management	Overload control	No. of weighbridges
		No. of hours weighbridges to be operated

Furthermore, the Department has not set quarterly targets for the majority of performance measures defined as “quarterly measures” in national QPR reporting

<sup>3</sup> P117 of the 2007/08 Annual Report

format. Quarterly targets have only been set for some of the Public Transport, some of the Overload Control and for the Community-Based Programme performance measures. The absence of the targets makes the quarterly assessment of performance difficult. The Department's argument for not setting targets for these measures are that the measures are tricky and costly to measure on a quarterly basis. The National Treasury has responded to this by allowing reported performance results to be preliminary. The allowance means that the Department can supply good estimates of its performance, which may not be totally accurate. The Department does not make use of the latter facility.

In the APP, the Department has clearly mapped its defined strategic objectives to measurable objectives and it measurable objectives to performance measures. The mapping is clearly shown in the tables given for each sub-programme in which the performance measure and the performance target are laid out. Furthermore, the strategic objectives, measurable objectives and measure performance that are mapped to each, tend to be logically consistent with each other. There are some exceptions in the Public Transport Programme. For instance, a number of the performance measures the Department has defined to measure the development and implementation of land based public transport contracts in the Province have been linked to the measurable objective related to the incorporation of public transport planning into local and provincial development plans. The performance measures covering the putting in place of modal contracts relate more to the strategic objective of implementing an "integrated public transport system in the City of Cape Town" than that to achieving integrated local transport planning.

Generally, the performance measures defined by the Department tend to be measurable. However, there are a number of performance measures that are not clearly defined. The Department often gives the formulation of various policy documents or interventions/projects as performance measures. A number of examples exist in the Public Transport Programme e.g. the development of an empowerment concept for the MBT industry; the development of a public transport safety and compliance strategy; the development of safety guidelines for public transport infrastructure; the execution of public transport marketing and communication campaigns. These outputs are not explained in the APP and it is thus difficult for observers to verify the reporting performance of the Department against these performance measures. Furthermore, the quality of outputs can be highly variable and would effect the degree to which the associated strategic objective is achieved and it is thus important that quality aspects be defined. For some measures, the quality yardsticks are provided in national legislation or policy e.g. the Provincial Land Transport Plan Framework. Where quality aspects impact on strategic objectives and are not defined in the legislation or official policy, they would have to be covered in performance measures. In many cases, the latter does not occur.

For many of its measurable objectives and across all its programmes, the Department has defined performance targets in terms of percentage of some underlying measure. In most case, these targets can be translated into a quantity, which would render it easily measurable by all observers. For instance, the target for the performance measure "percentage value of contracts to black owned contractors" can be readily translated to an absolute figure by adjusting the absolute value of the figure for the measure achieved in the previously year. Such an absolute value should be available,

because it is required to determine the performance percentage reported on for the previous year in the first place (which is given in the APP). In a number of cases, however, targets set in percentage terms relate to the “performance measures” that are difficult to measure in the first place e.g. “the development of a branding and livery strategy for public transport”.

Although the key areas of the Department’s activity all tend to be covered in the APP, barring the areas of activity covered by indicators that are difficult to measure, the number of indicators used to do so is very large. It is, however, difficult to see performance messages can be rationalised without loss of coverage.

Where challenges and responses are identified in QPR reports to explain and respond to below target performance, they are sometimes worded cryptically and are difficult to understand and thus evaluate. For instance, the Department states in explanation for below target regravelling performance in its QPR report for quarter 1, that “the winter weather has created further flooding in June 2007” and that in response the Department is “utilising the district municipalities to repair flood damage”. The Department also states that the “the flood damage contracts are being advertised and awarded (September 2006)”. The reasons for the poor re-gravelling performance could be much more clearly articulated in the explanation. It would appear that regravelling resources have been diverted to the repairing of flood damage caused in 2006 and more recently in 2007. The Department mentions that District Municipalities are involved in repairing flood damage, but it is unclear whether District Municipalities are involved in re-gravelling. The response offered by the Department i.e. “utilising the district municipalities to repair flood damage” is not actually relevant to addressing the below target performance in its response section.

### **Conclusion**

In conclusion, the Department is operating close to a competency level 3 in relation to its the aspect of the performance management system examined in this assessment. To reach a level 3, the Department needs mainly to improve the measurability of a number of its performance measures, quantify a number of its targets in absolute terms, and set annual and quarterly targets for a number of the nationally defined sector specific performance measures.

To reach a level 4-competency, the Department needs to improve the quality of its explanation of and responses to below target performance in both the Annual Report and its QPRs.

#### **3.10.1.2 Financial Information**

##### **2006/07 Monthly Reporting on Revenue and Expenditure (IYM process)**

During 2006/07 the Department adhered to sections 40(4) and 32 of the Public Finance Management Act (Act no. 1 of 1999) by submitting their IYM expenditure and projected expenditures as per legislative prescripts.

This allowed for credible expenditure reporting and forecasting and informed quarterly publications for public consumption in terms of Section 32 of the Public Finance Management Act, 1999 (PFMA).



## Validation of reported expenditure against BAS/Vulindlela systems

Minuscule variances showed up from time to time between financials reported in the monthly IYM reports and expenditure data extracted from the Vulindlela system.

Variances were communicated to the vote during regular interfaces and cleared in the following months' IYM reports.

## 2006/07 expenditure outcome and cumulative budget shifts<sup>4</sup>

The Department had till end of 2006/07 to report the total expenditure of R2.254 billion or 97.1 per cent against the adjusted budget amounting to R2.321 billion following a total net increase of R257.111 million (12.46%) on the main budget of R2.064 billion.

Total under expenditure fell outside the national allowed under spending norm of 2 per cent.

This was after it had incurred expenditure of R1.058 billion against the current payments adjusted budget amounting to R1.070 billion following a total net increase of R79.779 million (8.05%) on the main budget of R991.103 million.

With respect to Transfers, it reflected aggregate expenditure of R178.847 million against the total Transfers and Subsidies adjusted budget amounting to R188.194 million following a total net increase of R69.71 million (58.84%) on the main budget of R118.484 million.

Regarding capital payments, it expended R1.016 billion against the payments for capital assets adjusted budget amounting to R1.062 billion after a net increase of R107.622 million (11.28%) on the main budget of R954.739 million.

## Compensation of employees accumulative budget reprioritisation

The Department had until March 2007, recorded aggregate expenditure of R181.113 million or 99.18 per cent against the Compensation of employees adjusted budget amounting to R182.611 million following a total net decrease (shift) of R43.302 million (19.17%) on the main budget of R225.913 million.

**Table 111: Quality of expenditure and forecasting: Average expenditure rate for Transport and Public Works during 2006/07**

Rthousand	2006/07		Deviation %
	Average rate of spending		
	Cash Flow Projections	Actual expenditure	
Total expenditure	172.027	187.836	9.19 %

<sup>4</sup> Comprising shifts effected during the adjustments budget process and following book closure viz application of 8% virements to make good overspent budget items.

The Department had up to March 2007 recorded expenditure of R2.254 billion or 97.1 per cent of the Total payments main budget amounting to R2.321 billion, which translates into average expenditure of R187.836 million per month. It realised total under spending of R67.406 million by the end of 2006/07.

Expenditure peaked at R412.301 million during March 2007. (Refer to March spike section.)

When comparing actual expenditure to original cash flows<sup>5</sup>, Transport and Public Works originally indicated to will have spent R2.064 billion on total expenditure by March 2007 at an average rate of R172.028 million per month.

It has, however, spent R2.254 billion up to the end of the 2006/07 financial year, at an average rate of R187.836 million per month.

This equates to an original projection vs. actual spending variance of 9.19 per cent, which can mainly be ascribed to augmentations, made to the main budget during the adjustments estimates, which lead to increased expenditure towards the end of the financial year.

#### **Adjustments Budget 2006/07**

The Department submitted its adjustments estimates on time and it was comprehensive in terms of Section 31 of the PFMA.

It was submitted in line with the standardised adjustments estimates format based on National Treasury's Guideline and electronic copies are vested at the Provincial Treasury's data collators.

<sup>5</sup> Submitted in terms of Section 40(4)(a) of the PFMA

**Table 112: Summary of actual expenditure per financial quarter “March spike” anomaly**

<b>Transport And Public Works</b>	<b>1st Quarter</b>	<b>2nd Quarter</b>	<b>3rd Quarter</b>	<b>March</b>	<b>4th Quarter</b>	<b>Total</b>
Administration	19,139	15,337	15,421	<b>11,955</b>	19,844	69,741
Public works	101,781	81,892	120,669	<b>68,179</b>	129,295	433,637
Roads infrastructure	150,380	298,734	388,420	<b>230,681</b>	428,998	1,266,532
Public transport	8,435	28,192	37,778	<b>48,058</b>	85,178	159,583
Traffic management	38,729	62,139	90,786	<b>45,168</b>	71,498	263,152
Community based programme	11,701	10,025	18,264	<b>8,178</b>	20,481	60,471
Theft and Losses	75	593	94	<b>82</b>	153	915
<b>Total expenditure</b>	<b>330,240</b>	<b>496,912</b>	<b>671,432</b>	<b>412,301</b>	<b>755,447</b>	<b>2,254,031</b>
<b>Economic classification</b>						
Current payments	179,519	296,485	298,000	<b>142,166</b>	284,758	1,058,762
Total transfers and subsidies	10,777	20,340	99,469	<b>15,918</b>	48,261	178,847
Payments for capital assets	139,944	180,087	273,963	<b>254,217</b>	422,428	1,016,422
<b>Total expenditure</b>	<b>330,240</b>	<b>496,912</b>	<b>671,432</b>	<b>412,301</b>	<b>755,447</b>	<b>2,254,031</b>
<b>% of total spent</b>						
Administration	27%	22%	22%	<b>17%</b>	28%	100%
Public works	23%	19%	28%	<b>16%</b>	30%	100%
Roads infrastructure	12%	24%	31%	<b>18%</b>	34%	100%
Public transport	5%	18%	24%	<b>30%</b>	53%	100%
Traffic management	15%	24%	34%	<b>17%</b>	27%	100%
Community based programme	19%	17%	30%	<b>14%</b>	34%	100%
Theft and Losses	8%	65%	10%	<b>9%</b>	17%	100%
<b>Total expenditure</b>	<b>15%</b>	<b>22%</b>	<b>30%</b>	<b>18%</b>	<b>34%</b>	<b>100%</b>
<b>Economic classification</b>						
Current payments	17%	28%	28%	<b>13%</b>	27%	100%
Total transfers and subsidies	6%	11%	56%	<b>9%</b>	27%	100%
Payments for capital assets	14%	18%	27%	<b>25%</b>	42%	100%
<b>Total expenditure</b>	<b>15%</b>	<b>22%</b>	<b>30%</b>	<b>18%</b>	<b>34%</b>	<b>100%</b>

The “March Spike” commonly refers to an anomaly, where departmental expenditure during the month of March rises considerably when compared to prior months of the financial year.

When considering per quarter spending, the Department had for the fourth quarter ending March 2007 spent R755.447 million (33.52%) versus R330.24 million (14.66%) during the first quarter, R496.912 million (22.05%) during the second quarter and R671.432 million (29.79%) during the third quarter.

Transport and Public Work’s expenditure is synonymous with increases in expenditure in the last financial quarter of each financial year.

This can mainly be attributed to the builders' holidays in December delaying projects, the time lag in inspecting contractor constructions subject to final payments and March summer months allowing for road resealing.

Notwithstanding the above, the Department is making a concerted effort to plan upcoming projects, well in advance to have construction commence within a month or two of the start of the new financial year in an effort to prevent the “hockey stick phenomenon” from repeating itself year after year.

### **Own Revenue**

The Department of Transport and Public Works collected R897.36 million in provincial own receipts compared to the R817.05 million adjusted budget for the 2006/07 financial year. This recovery was R80.31 million or 9.8 per cent more than the adjusted budget. This over collection was mainly due to an over collection on tax receipts, specifically motor vehicle licence fees, and financial transactions in assets and liabilities, which was not budgeted for.

The main appropriation for provincial own receipts for the 2007/08 financial year is R809.76 million which is R87.60 million or 9.8 per cent less than the actual collection of R897.36 million in the 2006/07 financial year.

As a result of a policy decision, motor vehicle licence fees were not revised during the 2006/07 financial year. Specific tariffs such as the Government Motor Transport tariffs and abnormal vehicle and abnormal loads permit tariffs were revised during the 2006/07 financial year.

The Department of Transport and Public Works generally operates on level 3 and is moving towards a level 4 financial management capability rating.

### **3.10.2 Compliance with accounting policies and standards**

An assessment of the financial management capability of the Department was undertaken based on audit findings for the 2006/07 financial and the monthly IYM reports year which revealed the following:

#### **Management of and reporting on suspense accounts**

Suspense, control and disallowance accounts were regularly followed-up and cleared within a reasonable period of time. Monthly reconciliations of control and suspense accounts were performed timeously which made it possible for the Department to close their books successfully on a monthly basis. BAS reports of the Department were reviewed on a monthly basis in order to monitor the progress in the clearance of the suspense and control accounts. In this regard the Department is rated at a level 3 financial management capability.

#### **Accounting of assets (Asset Management)**

During the 2006/07 audit performed by the Auditor-General, it was established that the Department could not provide an adequate audit trail in the form of an asset register for intangible assets. As a result it was not possible to verify the completeness and accuracy of the opening and the closing balance for intangible assets in the financial statements.

Furthermore, an adequate asset register in agreement with disclosure note - Non-residential buildings could not be provided by the Department. The asset register provided contained missing information including properties with no erf numbers and properties with no values. Consequently the auditor was unable to verify the completeness of assets which resulted in a limitation of the audit scope.

In this regard the Department is operating at a level 2 financial management capability. In order to move to a level 3 rating in terms of the financial management capability model the Department must ensure that all asset management transactions are accounted for in terms of the accounting policy requirements.

### **Financial reconciliations**

Reconciliations are performed regularly ie, PMG/BAS interface, PERSAL/BAS interface, BAS/LOGIS reconciliation which enabled the Department to closed their books on BAS successfully on a monthly basis. In this regard the Department is operating at a level 3 financial management capability.

### **Supporting documentation**

The Department reported that sources of the transactions are readily identifiable and supported by authentic and verifiable source documentation, enabling the Department to follow-up and clear balances within a reasonable period of time. The Department is therefore operating at a level 3 financial management capability.

### **Expenditure – Payments and journals**

The Auditor-General reported in its management report that the accounting officer's systems documentation does not clearly define what should be regarded as an urgent expense. This resulted from a R3.3 million limited bidding process that was regarded as urgent.

In performing an audit of subsistence and travel (S&T) expenditure incurred by the Department, the Auditor-General reported three service providers used by the Department to whom 25 per cent (R4.2 million) of total S&T payments were made. These service providers were utilised on a monthly basis; however, the Department did not have a contract or service level agreement with any of the suppliers.

The Auditor-General also identified payments totalling R8.7 million in respect of the public private partnership that were classified as capital expenditure and included in the disclosure note 26.1: Additions to Tangible Capital Assets. These payments were in respect of the compensation for lost revenue for the period that the road was closed, and not enhancements to assets. Therefore assets and capital expenditure are overstated by R8.7 million and operating expenditure is understated by the same amount.

The Roads Capital Account was created in accordance with Provincial Capital Fund Ordinance No. 3 of 1962 and is managed by the department. The Department identified transactions pertaining to the Roads Capital Account in its trial balance, but they were excluded from the financial statements and thus not reported on.

There are serious shortcomings in some of the systems and processes followed by the Department and therefore it operates at a rating of level 2 financial management capability.

#### **Procedures for the identification and reporting of unauthorised, fruitless and wasteful and irregular expenditure**

The Department indicated that there are good control measures in place regarding the identification and reporting of thefts and losses and therefore no audit findings for financial period under review.

However, as reported in the 2005/06 audit report of the Auditor-General, a forensic report indicating the possible misappropriation of revenue, related fruitless and wasteful expenditure or irregular payments in the property management division of the Department was brought to the Auditor-General's attention. The Department referred the matter to legal services for further guidance. The investigation was still ongoing at the reporting date. To move to a level 3 in terms of the financial management capability model the department must ensure that this issue be resolved as a matter of urgency.

#### **Recording and maintenance of State Guarantees**

The Department reported that it records and maintains updated information on PERSAL and personal file of officials involved, and thus operates at a level 3 financial management capability rating.

#### **Management of lease liabilities**

The Department reported that a lease operating register as well as a lease agreement register has been implemented that is updated on a monthly basis. However, the lease commitments for buildings and other fixed structures disclosed in the AFS: Lease Commitments were misstated by an undeterminable amount as reported by the Auditor-General. The extent of the misstatement could not be calculated as the nature of the error pertains to the inaccuracy of the source documents used to prepare the financial statements. This is indicative of a level 2 financial management capability rating and in order to move to a rating of level 3 the department must ensure that all lease agreements are properly managed and disclosed in the AFS.

#### **Management of thefts and losses**

The Department reported that there are good control measures in place for the management of thefts and losses and consequently there were no audit findings for financial period under review. The Department is therefore operating at a level 3 financial management capability.

#### **Management of contingent liabilities**

The amounts disclosed in the annual financial statements of the Department is a realistic reflection of the contingent liabilities of the Department, and is indicative of full compliance at a level 3 financial management capability rating.

## **Monthly reporting of financial information to the CFO/AO/EA/Department**

It was noted that monthly compliance reporting to Provincial Treasury took place according to legislative requirements. Financial reports are provided to the above role players on a monthly basis. The Department is operating at a level 3 financial management capability.

## **GOVERNMENT MOTOR TRANSPORT**

### **Management and reporting on suspense accounts**

GMT indicated an outstanding debt of R111.9 million as at 31 March 2007, less provision for doubtful debts of R25.2 million which amounted to a total outstanding debt of R86.7 million. A debtor's age analysis indicates that debt older than 90 days equals R39.9 million and debt 120 days and older which amounted to R30.4 million, thus becoming a concern that should be addressed by the CFO. It should however be noted that debt of R18.8 million included in the provision for doubtful debts of R25.2 million, which cannot be followed up will only be written off in 2007/08 financial year, as the entity have to budget for it according to SA GAAP. The entity performed at level 3 of financial management capability.

### **Accounting of assets**

- PPE has been restated by R49.6 million as a result of aligning the accounting policy to the reporting framework
- Non current assets held for sale has been restated by R0.9 million
- Loans and receivables has been restated by R7.3 million
- Deferred income was increased by R118 million as a result of aligning the accounting policy to the reporting framework
- Current liabilities has been adjusted by R6.3 million to accounted for income received in advance but not accounted for

The above implies that sufficient asset management controls and accounting requirements are not in place, implying that the entity is at level 2 of financial management capability rating. The entity should put asset management controls in place to ensure effective cost management and assess the use of assets to achieve a level 3 rating.

### **Financial reconciliations**

GMT has failed to implement adequate account management processes, e.g. not performing creditor reconciliations, which resulted in all accruals not being appropriately raised as at 31 March 2007. This implies that not all monthly reconciliation of control accounts is performed and supporting documentation is not available. In this regard the GMT is operating at a level 2 financial management capability.

### **Supporting documentation**

- A lack of supporting documentation and authorisation for taxi and GG claims were identified which indicate that all transactions are not supported by authentic and verifiable source documents.
- Outstanding accounts receivable – no proper records are kept by GMT.
- GMT is performing on financial management capability level 2 rating.

### **Expenditure – Payments and journals**

- Other income has been adjusted by R12.9 million as a result of incorrect accounting treatment of sale of motor vehicles and deferred income
- Other operating expenses have been adjusted by R21.4 million as a result of correcting journal entries
- Depreciation has been adjusted by R10.9 million as a result of aligning the accounting policy to the reporting framework
- An impairment loss of R4.4 million has been raised as a result of aligning the accounting policy to the reporting framework

GMT is performing on financial management capability level 2, and should ensure accurate and timeous reporting on their expenditure transactions and ensure that their accounting policy is in compliance with SA GAAP, and that all the expense and income items have been correctly classified, to move to a level 3.

### **Allocations to Standards Chart of Accounts**

Assist the entity in addressing accounting requirements and to provide the necessary guidelines, procedures and training. The entity is performing at a level 3 financial management capability and needs training to optimally understand and apply SCoA to achieve a level 4 financial management capability assessment.

### **Delegations**

The entity is performing at a level 3 financial management capability.

### **Authorisations**

A lack of supporting documentation and authorisation of First Auto invoices was identified which indicate that all transactions are not supported by authentic and verifiable source documents. GMT is operating on a level 2 financial management capability rating. Supporting documentation should be checked and verified and only claims that are verified should be captured and processed. The entity should ensure that all supporting documentation complies with prescribe requirements to move to a level 3.



### **Accounting treatment of transactions**

- GMT has not adequately consulted the necessary reporting framework to ensure compliance in all respects to the regulated reporting guidelines, thus resulting in GMT not accurately accounting for elements in the financial statements.
- Inappropriate treatment of PPE has resulted in GMT redrafting its financial statements to ensure full compliance with the reporting framework.

The entity is at a level 2 and should ensure that their reporting framework and accounting policies is in compliance with SA GAAP, and that all the accounting transactions have been correctly classified, to move to a level 3 financial management capability.

### **Procedures for the identification and reporting of:**

- unauthorised expenditure
- fruitless and wasteful expenditure
- irregular expenditure

A staff member was paid acting allowance of R3 400 for the same position he was employed for, thus a possibility of an un-authorised expenditure occurred. The lack of proper procedures to ensure that only valid submissions for payments occur, may lead to wasteful and fraudulent expenditure. The entity currently at a level 2 and should ensure that only valid submissions for payments be processed, that all relevant cases be timeously identified, reported and resolved within the next financial year to achieve a level 3 financial management capability rating.

### **Monthly reporting of financial information to the CFO/AO/EA/Department**

GMT is operating at a level 4 financial management capability rating for monthly reporting of financial information, since all levels of reporting are fully informed.

### **3.10.3 Normative Financial Management**

The findings discussed in this section provide a review of the PFMA implementation and financial management improvement of the Department in line with the provincial strategy of reaching a level 4 Auditable Organisation (Financial Management Capability Model).

The source documents used were the Normative Measures For Financial Management for departments for the quarter ending 30 June 2007 as well as the 2006/07 Auditor-General reports for the Department and GMT.

## **Analysis of Normative Measures Quarterly Report**

### **The CFO structure**

The performance agreement, which was supposed to be signed on or before 30 April each year or within three months from date of appointment, was signed late.

The main concern in the Department is the current vacancy rate indicated at 46 per cent, which is well above the national norm of 5 per cent. The average length to fill posts is 12 months. The norm set by National Treasury is 3 months.

Another concern is that, according to the Department only 42 per cent of the staff in the CFO's office have finance related qualifications or who are studying towards obtaining related qualifications. The national norm is set to be 90 per cent.

### **Policies and procedures**

The Department reported that 90 per cent of all financial departmental policies and procedures are documented and approved.

### **Asset and Liability Management**

The amount of debt in arrears is stated at R45,381 million. R44 million was in respect of MDA system. The newly implemented national motor vehicle license system, NATIS also contributed to the high amount.

It was further reported in the 2005/06 financial year that the Auditor-General identified significant weakness in the overall administration of the MDA system. You will note that in terms of the 2006/07 Auditor-General's report indicated below, this matter was not resolved.

### **Tabling of annual report**

The public service strike during the first part of the year had an effect on the annual reporting process. As a result, the Auditor-General was granted extension till 31 August 2007 to submit their Audit Report. Consequently, the Department did not comply with section 40(1)(d) of the PFMA by submitting their annual report to the Provincial Treasury (31 August 2007). However, the Department submitted the required amount of their final annual report to the Provincial Treasury on the same date as the tabling date, 28 September and complied with the section 65(1) of the PFMA.

### **Auditor-General's report on the 2006/07 financial year**

The Department received an unqualified audit opinion with Emphasis of Matter for the 2005/06 financial year.

The emphasis of matter in the 2005/06 financial year related to:

- property debtors and the MDA system and the weaknesses of the system;
- lease agreement contracts not revised after expiration;
- amounts on the MDA system not followed up timeously;
- detail changes of tenants and rental amounts on the MDA system not performed;
- reconciliations on tenant debtors listed on the MDA system not performed;
- lease agreements not signed or misfiled; and
- parking rental amounts on the MDA system charged at different rates than listed on the agreements.

For the 2006/07 the Department received under the new audit reporting format a qualified audit opinion with emphasis of matter and other matters.

The bases for the qualified opinion were:

- the inadequate asset register for intangible and tangible assets;
- payments in respect of public private partnership were classified as capital expenditure;
- Tax revenue debtors: A detailed debtor report from NATIS for debtors recorded as at 31 March 2007 could not be provided;
- Property debtors: Significant weaknesses identified with the management of debtor files and the information on the MDA system could not be relied on; and
- Lease commitments: The lease commitments for buildings and other fixed are misstated by an undeterminable amount.

The issue regarding the property debtors and the lease commitments was an emphasis of matter in the 2005/06 financial year compared to a qualification in the 2006/07 financial year, which reflects a deterioration.

The other matters re-occurring from the 2005/06 financial year are:

- Non-compliance with the SMS Handbook;
- the Western Cape Nursing College and the Valkenburg Hospital now under forensic investigation; and
- proper control over the debt management.

### **Financial management capability model assessment**

Based on the Auditor-General's reports for the 2005/06 and 2006/07 financial years the financial management in the Department deteriorated.

The Department of Transport and Public Works is rated a Level 2 financial management capability moving to a Level 3 auditable organisation.

## **GOVERNMENT MOTOR TRANSPORT**

### **Auditor-general's report on the 2006/07 financial year**

Government Motor Transport received an adverse audit opinion for the 2005/06 financial year. Reasons for the adverse opinion were as follows:

- GMT did not comply with the South African Statements of Generally Accepted Accounting Practice as an accounting framework to present financial statements;
- Property, Plant and Equipment;
- GMT has incorrectly accounted for depreciation resulting in expenditure being overstated, and
- GMT's business process does not factor in the residual value of a vehicle, as GMT considers the residual value to be zero. They expect to utilise the vehicle to its full economic potential, which is greater than the estimated useful life, and as a result, a significant number of vehicles that have already been fully depreciated are still in use.

For the 2006/07 the entity received under the new audit reporting format an unqualified audit opinion with no emphasis of matter or other matters. This is an improvement from the adverse opinion of the previous year. All outstanding issues addressed in the audit report have been resolved satisfactory.

### **Financial management capability model assessment**

Based on the auditor general's reports for the 2005/06 and 2006/07 financial years the entity shows an improvement.

Government Motor Transport is rated as a Level 3 auditable organisation.

### **3.10.4 Enterprise Risk Management**

The section provides guidance, criteria, and norms and standards for the attainment of levels of enterprise risk management in terms of the financial management capability model. It is anticipated that this will assist management in being able to identify underlying problems and focus on areas to improve the enterprise risk management processes.

Departments will not be assessed on Level 3 and 4 because of the immaturity of enterprise risk management within the provincial government.

#### **Proper control framework (level 1)**

Includes all scenarios where the Department has not implemented all the criteria required to obtain a level 2 assessment.

## **A proper internal control framework and financial accounting processes have been developed (level 2)**

### **Strategic Risk Assessment**

A Strategic risk assessment was conducted for the Department, risk response strategies were developed and it was found that the organisational structure supports processes developed.

#### **Way forward**

The Chief Risk Officer need to assign strategic risks identified to senior management (risk owners) for the required management attention and treatment. Once risks are allocated to SMS members, their performance agreements should be amended to include their responsibility for the management of risk.

The Department obtained a level 2 (partial compliance) financial management capability rating on the above.

### **Internal Environment**

A risk management philosophy and a management's philosophy were not developed for the Department. The risk appetite of the Department is also not defined.

#### **Way forward**

A risk management and management philosophy needs to be developed for the Department, to emphasise the importance of risk management and to hold management accountable to the management of risk. The Department must define their risk appetite, i.e. the amount of risk the Department is willing to accept in the pursuit of their objectives. All vacancies in the ERMGS unit need to be filled to ensure the success of risk management in the Department.

The Department obtained a level 1 financial management capability rating on the above.

### **Operational Risk Assessment**

The risk event identified during the operational risk assessment in 2004 was assessed on an inherent level. Existing controls, gaps, control gaps are identified on a continuous basis by means of process and control mapping initiatives.

#### **Way forward**

The Department should conduct annual risk assessment and the risk events identified, should be allocated to the relevant risk owners for the required management attention and treatment.

The Department obtained a level 2 (partial compliance) financial management capability rating on the above.

### **How will the Department move to level 3?**

The Department needs to address the shortcomings/way forward discussed above as well as the following:

#### **Internal Environment**

- Compliance to commitment to competence displayed in appointment and development practices
- Compliance to assignment of authority and responsibility
- Compliance to writing and communicating Risk Management Philosophy to staff
- Compliance to Management's philosophy and operating style reflecting acceptance of risk management principles
- Compliance to define the Department's risk appetite

#### **Event Identification**

- Risk events are identified at least annually and are incorporated into daily activities
- Risk events are grouped in terms of event categories

#### **Risk Assessment**

- Risks are assessed on a residual risk basis

#### **Control Activities**

- Control activities are designed to address risk events
- Control activities are designed using a recognised control framework

#### **Information and Communication**

- Pertinent information is collected
- Integrated systems to analyse information is available
- Information is communicated in the right quantity to the right person at the right time

#### **Monitoring**

- The risk management process is subject to ongoing internal evaluation
- The risk management process is subject to regular internal audit evaluation

### **3.10.5 Cash Management**

This section deals with the implementation and management of sound cash flow practices as well as the provision of assistance and training in respect of the official banking system within the Provincial Government of the Western Cape.

## Review

The financial management capability assessment was based on the activities of the Department during the 2006/07 financial year and the outcomes are as follows:

**Table 113: Assessment of cash management**

Requirements	Standard Level 3	Standard Level 4	Rating
Staff skilled & Capacitated in Cash Management	In accordance with profile	All functions on the Cash Management System	3
Submission of Annual Provincial Cashflow Projections	By 28 February	By 15 February	3
Deviation between monthly projections & actual expenses	5%	3%	2
Monthly Own Revenue Payover	2 working days prior to month end	3 working days prior to month end	3
Repayment of Surplus Funds	31 May	15 May	3
Submission of monthly Bank Reconciliation	Within 30 days after month end	Within 15 days after month end	4
Beneficiary Payments (Direct Transfers)	1% of Total Payments	0.50% of Total Payments	4
<b>Average rating</b>			<b>3</b>

The Department achieved an overall rating of level 3 (nominal compliance) financial management capability.

### Skilled and capacitated system users

The Department obtained a rating of level 3 (nominal compliance) financial management capability. All system users were trained in accordance with their profiles during the implementation of the new official banker's system.

### Submission of Annual Provincial Cashflow Projections

The Department obtained a rating of level 3 (nominal compliance) financial management capability.

**Table 114: Assessment of deviation between monthly projections and actual expenses**

	Project	Actual	%	Rating
APRIL'06	111,962	76,072	32	2
MAY'06	131,528	80,612	39	2
JUNE'06	162,956	160,777	1	4
JULY'06	201,936	226,415	(12)	2
AUG'06	153,615	170,958	(11)	2
SEP'06	152,473	119,815	21	2
OCT'06	201,866	248,775	(23)	2
NOV'06	171,962	186,702	(9)	2

	Project	Actual	%	Rating
DEC'06	173,625	242,107	(39)	2
JAN'07	160,759	43,386	73	2
FEB'07	251,612	150,459	40	2
MRC'07	190,032	358,248	(89)	2
<b>Sub-Total</b>	<b>2,064,326</b>	<b>2,064,326</b>		<b>2</b>
<i>Revised Forecast (after adjustment budget)</i>				
MRC'07				
Adjustment	257,111	257,111		
<b>Total</b>	<b>2,321,437</b>	<b>2,321,437</b>	<b>100</b>	

The Department achieved a rating of level 2 (partial compliance) financial management capability. PT will support and assist the Department to determine reasons for the variances and to compile more credible projections in future.

#### **Monthly own revenue payover**

The Department obtained an average rating of level 3 (nominal compliance) financial management capability. Revenue is being paid over monthly 2 working days prior to month end.

#### **Repayment of Surplus funds**

The Department obtained a rating of level 3 (nominal compliance) financial management capability. Surplus funds were paid to the PRF on 29 May 2007.

#### **Submission of monthly Bank Reconciliations**

The Department was rated at level 4 (full compliance) financial management capability. The monthly bank reconciliation is submitted within 15 days after month end.

#### **Beneficiary Payments (Direct Transfers)**

The Department achieved a rating of 4 (full compliance).

**Table 115: Beneficiary Payments**

Payments	Beneficiary Payments	%
8777	22	0.25



### 3.10.6 Supply Chain Management

The financial management capability assessment was based on the SCM activities of the Department during the 2005/06 financial year and the outcomes are as follows:

- The Department does not meet the legislative and policy framework requirements, in that it has not updated its Accounting Officers system in terms of Section 38(1)(iii)(c) of the PFMA as well as its SCM Delegations;
- The Department does not have the necessary Bid committee system in place in that the current members were appointed without the necessary delegation;
- The Department is in the process of finalising a standard operating procedural manual on contract management;
- There was no evidence to show that the Departmental bid committee declared their interest before the sitting of every bid committee meeting;
- There is no central Bid register in place for all bids awarded by the Department;
- 447 Formal Bids have been awarded to HDIs to the value of R945 million representing 62 per cent of the value of the bids were awarded in the period under review, and
- In the 2006/07 financial year 6 officials were trained on SCM (1 at basic SCM training by SAMDI and 5 at management level by IPFA)
- A further 12 officials underwent UNISA training SCM

During the audit of supply chain management, the A-G's report determined the following:

#### **Compliance to Legislative and Policy Frameworks:**

- Tax clearance certificates were not in all instances obtained to ensure compliance with Treasury Regulation 16A9.1(d);
- Particulars of successful bidders were not in all instances published in the Government Tender Bulletin;
- Successful bidders did not in all instances sign the contract form, which is part of the standardised bidding documents issued by the National Treasury, whereby they enter into a contract under the conditions specified in the bidding documentation;
- There was an instance where a contract was approved by an official who does not have the necessary authorisation/delegated authority;
- There is no evidence of an annual stock-take of all moveable assets conducted before the end of the financial year as per requirement of Practice Note 3 of 2001;
- There is no evidence of active vendor management;
- The barcoding of assets is a problem as there are groups of assets that were identified bearing the same ICN number;
- The Department also does not have a cellphone policy;

- Reconciliation between BAS/LOGIS and the asset register continues to prove to be a problem, and
- The Department does not have a credible gifts register.

Based on the fact that the Department has not undergone a complete SCM compliance assessment in the current financial year (2006/07), it is difficult to arrive at a credible rating. In terms of the Auditor General's report and the fact that the Department has failed to complete a single dashboard assessment report, the Department appears to be rated at a **level 2** in terms of the financial management capability model for SCM.

**Steps to be taken to ensure that the department establishes itself at the next auditable level (3)**

From a Provincial Treasury perspective the following interventions steps are planned in the next financial year:

- Training on bid committees and contract management as provided and funded by the National Treasury;
- An integration of the financial and non-financial systems with the implementation of the IFMS;
- Linkages with other disciplines within the Provincial Treasury to enable an integrated approach to enable a supporting environment that maintains the credibility of the level;
- Addressing and implementing a supplier development initiative with other role-players to impact on the socio-economic aspects of procurement by achieving the desired outputs in respect of procurement to HDIs, SMMEs or BEE companies;
- Engaging and compiling business cases and feasibility research to enable departments to leverage their buying power in participating in transversal contracts thereby impacting on economies of scale and value for money considerations;
- Initiating a performance review of the department and selected institutions to secure a view of the department independent of the internal PT compliance and value for money assessments and the A-C's findings that will better assist the Provincial Treasury to give credibility to having an overall state of SCM at the department, and
- A specific full-blown audit covering both SCM compliance and a dashboard assessment that will determine the status of the department as far as Asset Management is concerned.

From a departmental perspective the following interventions need to be instituted so that the department sustains itself at the achieved level and also enables the department to elevate itself to the next level:

- Ensure that internal control measures are in place for the cost efficient and effective management of SCM not only at the head office level but also at the institutional level, and
- A concerted effort must be placed on training and a skills development plan to build the internal capacity and resources of the SCM unit.

### 3.10.7 Supporting and interlinked systems

This section deals with the implementation and maintenance of Financial Systems as well as the provision of functional assistance and training, to all system users.

The financial management capability assessment was based on the activities of the Department during the 2006/07 financial year and the outcomes are as follows:

**Table 116: Assessment of the Basic Accounting System (BAS)**

Requirements	Standard Level 3	Standard Level 4	Rating
Skilled and capacitated system users	In accordance with profile	Various Modules	2
Month-end closure	Own accord – due date	Own accord – prior date	3
Year-end closure	Own accord – due date	Own accord – prior date	4
System Controller Functions	80 – 90%	91 – 100%	3
Monitor Applicable Interfaces	Weekly	Daily	4
<b>Overall rating</b>			<b>3</b>

The Department obtained an overall rating of level 3 (nominal compliance) financial management capability.

**Table 117: Assessment of skilled and capacitated system users: training**

Number of officials nominated	Number of officials attended	Number of officials cancelled	Number of officials qualified for a certificate (70% pass rate)	Number of officials not qualifying for a certificate
75	49	26	44	5

The Department obtained a rating of level 2 (partial compliance) financial management capability, mainly due to the high percentage of officials being nominated and not attending courses as well as not all officials trained in accordance with their profiles.

The Directorate Supporting and Interlinked Financial Systems is in the process of identifying the training gap of all users and will in co-operation with Chief Financial Officer nominate their users for training in accordance with their profiles as a matter of urgency. In addition the poor attendance of officials will in co-operation with the Chief Financial Officer be addressed.

#### **Month end closure**

The Department achieved a rating of level 3 (nominal compliance) financial management capability as their books were closed on a monthly basis in accordance with the predetermined dates by National Treasury.

#### **Year closure**

The Department achieved a rating of level 4 (full compliance) financial management capability as their year-end closure was done prior to the predetermined date set by National Treasury.

#### **System Controller Functions**

The Department achieved a rating of level 3 (nominal compliance) financial management capability, based on the following criteria:

- Logging of calls to the Provincial Helpdesk
- Maintenance of Security Profiles
- The reinstate of Transaction Processing Rules
- Requesting/monitoring and distributing of automated Basic Accounting System reports
- Maintenance of segment details
- Maintenance/update of departmental parameters
- Provide practical individual training to users
- Monitor Technical stability of work station including Local area network
- Assisting non-financial users of Basic Accounting System.

#### **Monitor applicable interfaces**

The Department achieved a rating of level 4 (full compliance) financial management capability as their interfaces were monitored and reported on a daily basis.

**Table 118: Assessment of the Personnel and Salary Administration System (PERSAL)**

Requirements	Standard Level 3	Standard Level 4	Rating
Skilled and capacitated system users	In accordance with profile	Various Modules	2
System Controller Functions	80 – 90%	91 – 100%	3
Establishment Management	Quarterly	Monthly	3
PERSAL/BAS Reconciliation	Monthly by the 20 <sup>th</sup>	Prior to the 20 <sup>th</sup>	3
Adhere to Minimum Information Requirements	Annually	Continuous process	2
Leave Audit	Annually	Continuous process	3
<b>Average rating</b>			<b>3</b>

The Department achieved an overall rating of level 3 (nominal compliance) financial management capability.

**Table 119: Assessment of skilled and capacitated system users: training**

Number of officials nominated	Number of officials attended	Number of officials cancelled	Number of officials qualified for a certificate (70% pass rate)	Number of officials not qualifying for a certificate
39	20	19	19	1

The Department obtained a rating of level 2 (partial compliance) financial management capability due to the high percentage of officials being nominated and not attending courses as well as not all officials being trained in accordance with their profiles.

The Directorate Supporting and Interlinked Financial Systems is currently in the process of identifying the training gap of all system users and will in co-operation with the Department nominate system users for training in accordance with their profiles. In addition issues of poor attendance will be addressed with the Department.

### **System Controller Functions**

The Department achieved a rating of level 3 (nominal compliance) financial management capability for the execution of its system control functions.

### **Establishment Management**

The Department achieve a rating of level 3 (nominal compliance) financial management capability as the establishment is maintained on at least a quarterly basis.

## Adhere to Minimum Information Requirements

As not all information is captured on the system, the Department achieved a rating of a 2 (partial compliance).

Reports' indicating the outstanding information is available and are provided by Provincial Treasury to departments on request. The situation will be monitored by the Provincial Treasury to ensure compliance.

## Leave Audit

The Department achieved a rating of 3 (nominal compliance) financial management capability as the leave audit is updated on at least an annual basis.

**Table 120: Assessment of the Logistical Information System (LOGIS)**

Requirements	Standard Level 3	Standard Level 4	Rating
Skilled and capacitated system users	In accordance with profile	All Modules	3
Days per issue (Service standard)	5 Days	3 Days	3
Stock Management	15.61%	6.19%	3
Financial Controls	Monthly	Continuous process	3
System Control Functions	80 – 90%	91 – 100%	3
<b>Average rating</b>			<b>3</b>

The Department achieved an overall rating of level 3 (nominal compliance) financial management capability.

**Table 121: Assessment of skilled and capacitated system users of the Logistical Information System (LOGIS)**

Number of officials nominated	Number of officials attended	Number of officials cancelled	Number of officials qualified for a certificate (70% pass rate)	Number of officials not qualifying for a certificate
16	14	2	11	3

The Department achieved a rating of level 3 (nominal compliance) financial management capability as users are trained in accordance with their current profiles.

## Days per issue (service standard)

The Department achieved a rating of level 3 (nominal compliance) financial management capability as stock is issued within five (5) days.

## Stock Management

The Department achieved a rating of level 3 (nominal compliance) financial management capability for its control over inventories and assets.

## Financial Controls

The Department achieved a rating of level 3 (nominal compliance) financial management capability as financial controls are executed on at least a monthly basis.

## System Control functions

The Department achieved a rating of level 3 (nominal compliance) financial management capability for its system control functions.

**Table 122: Assessment of the Management Information System (Vulindlela)**

Requirements	Standard Level 3	Standard Level 4	Rating
Percentage of registered users using the system on a regular basis	80 – 90%	100%	2

**Table 123: Assessment of the usage of the Management Information System (Vulindlela)**

Number of registered users	Number of registered users using the system on a regular basis	Number of registered users not using the system on a regular basis	Percentage active users
39	25	14	64%

The Department obtained a rating of level 2 (partial compliance) financial management capability due to the fact that only 64 per cent of registered users utilise the system on a regular basis.

The Directorate Supporting and Interlinked Financial Systems will, in cooperation with the Chief Financial Officer, re-evaluate the need of the 14 registered users who do not use the system on a regular basis. In addition, discuss the further role out of Vulindlela within the department and address any further user requirements they might have.

## Focus per department

- At what level of financial management capability is the department?
- What steps need to be taken to move this department to level 3 or 4?

## 3.11 Department of Agriculture

### 3.11.1 Performance Management

#### 3.11.1.1 Non-financial information (Budget Office)

This section provides a high level assessment of the Department's non-financial performance and makes a judgment on the level of that performance, in line with the financial management framework. As mentioned in the methodology section, this framework is evolutionary and its refinement iterative. The assessment includes the Strategic and Performance Plan; and Annual and Quarterly Performance Reports. The former two documents are tabled in the Legislature, whilst Quarterly Performance Reports, as from 2007, are tabled in Cabinet. This evaluation assesses the 2006/07 Annual Report and the 2006/07 and 2007/08 Annual Performance Plans. There may, however, be some areas of a Department's performance framework that display a level 4 competency, while others have yet to reach a level 3-competency level.

#### Annual Report 2006/07 and Annual Performance Plan 2006/07

The performance measures defined in the 2006/07 Annual Performance Plan (APP) are included and reported against in the 2006/07 Annual Report except for Programme 1: Administration. The units of measurement in terms of actual figures in the Annual Report (AR) and the targets set in the APP are consistent.

There are some inconsistencies between performance targets cited in the APP and targets in the AR. In a few of the cases it seems that the APP targets of 2005/06 were used in the Annual Report. Examples of these inconsistencies are listed below:

**Table 124: Comparison of targets**

Performance measures	APP target	AR target
Number of mentors involved (for LRAD projects)	48	12
Number of gardens or projects established successfully	35	30
Land claims beneficiaries settled successfully	2000	1000

All deviations from annual targets are detailed in the Annual Report in a clearly marked column. These deviations are given as the absolute amounts in the applicable units of measurement by which the targets and actual outputs differ and are also expressed as the percentage deviation from targets. It is clearly reported whether the deviations are above or below the targets.

The overall consistency between the Annual Report 2006/07 and the 2006/07 Annual Performance Plan enables an assessment of the actual performance of the Department against the targets set in the APP.



The specific challenges and responses to these challenges relevant to each programme's performance are included in the Annual Report. The challenges listed do provide explanations for some of the areas of below target performance and also highlight actions that the Department is or will be taking to mitigate the effect of the specific challenge on performance. In most cases the explanations tend to be broad and without referring to specific indicators, it tends to refer to the overall service delivery environment within each programme.

### Annual Performance Plan 2007/08

The APP conforms to the uniform programme structure prescribed by the national government for provincial agriculture departments with measurable objectives and performance measures assigned to all budget programme and corresponding sub-programmes.

The Department reports according to the agriculture sector-specific customised format and reports on all relevant performance indicators. The National Treasury acknowledges that some of the performance indicators as defined and included in the reporting template might not be clearly defined or appropriate to the sector and would require further attention. The Department is therefore engaging at a national level to revise the generic indicators and proposed a revised set of performance indicators to the National Treasury. This development will improve the alignment between quarterly reporting system and the strategic plans as detailed in the APP.

The Department has clearly mapped its strategic objectives to the measurable objectives in the APP in a logically consistent manner. The measurable objectives in turn have been clearly mapped to the performance measure indicators and targets in the APP. The mapping is illustrated in the APP by means of tables for each sub-programme, which define strategic objectives for each strategic goal. The table below illustrates the above by means of an example from the APP.

**Table 125: Strategic goal supported by strategic objectives and measurable objectives**

Sub programme 3.2		Strategic Goal: Support and strengthen all farmers to produce optimally						
Strategic Objective	Measurable Objective	Performance Measure Indicator	Actual 2004/05	Actual 2005/06	2006/07 Estimate	2007/08 Budget	2008/09 Target	2009/10 Target
Transfer appropriate agricultural technology to farmers and other users of natural resources in the Western Cape Province	Identify and prioritise agricultural development opportunities	Number of enterprises submissions analysed.				20 Commercial 25 Emerging farmers	20 Commercial 30 Emerging farmers	20 Commercial 35 Emerging farmers
		Number of farm enterprises successfully assisted.				61 Enterprises	73 Enterprises	88 Enterprises

Source: Department of Agriculture Annual Performance Plan 2007 – 2008.

With the exception of Programme 1: Administration, in most cases quantity indicators (which measure the number of inputs, activities or outputs) are used to measure the measurable objectives. In some instances within Programme 1 targets are expressed as percentages and according to National Treasury these targets should comprise of baseline numbers. The Department also provides quarterly targets for all performance measure indicators in its APP.

In reviewing its quarterly performance, the Department reports on performance against the quarterly targets and submits a narrative outlining the challenges facing its programmes in achieving its outputs. The narrative should also detail the responses that are or will be taken by the Department to mitigate or prevent the challenge from impacting on departmental performance. The challenges generally do correspond with the measurable objectives contained in the APP, but are not often indicator specific. For reasons stated earlier a few of the nationally defined performance measures are not in the APP and therefore the challenges and responses often do not relate to these measures.

### **Conclusion**

The Department complies with the guidelines set by the national government in terms of its APP and QPR. The Department satisfies most aspects of the performance management system examined in this assessment that focuses on compliance and therefore is operating a level 3 competency. It is however imperative that the nationally defined sector-specific indicators are revised to ensure greater compatibility with the strategic planning document, the APP. The Department is currently engaging with National Treasury on this issue. To move beyond the compliance level, the information contained in the annual and quarterly reports on challenges to performance and responses could be improved and continuously reviewed and reflected upon in future quarters and reports.

#### **3.11.1.2 Financial Information**

##### **2006/07 Monthly Reporting on Revenue and Expenditure (IYM process)**

During 2006/07 the Department complied with sections 40(4) and 32 of the PFMA by submitting their IYM expenditure and projected expenditures as per legislative prescripts.

This allowed for credible expenditure reporting and forecasting and informed quarterly publications for public consumption in terms of Section 32 of the PFMA.

##### **Validation of reported expenditure against BAS/Vulindlela systems**

Minor variances turned up from time to time between financials reported in the monthly IYM reports and expenditure data extracted from the Vulindlela system. These were mainly related to time lags in expenditure reporting.

Variances were brought to the attention of the Vote during regular interfaces and cleared in the following months' IYM reports.

## 2006/07 expenditure outcome and cumulative budget shifts<sup>6</sup>

Agriculture, for the period ending March 2007, indicated aggregate expenditure of R266.366 million or 88.12 per cent against the adjusted budget amounting to R302.29 million, following a total net increase of R48.256 million (19 per cent) on the main budget of R254.034 million.

The additional allocation mainly related to the introduction of a new Disaster Management grant to address the devastation left after the 2006/07 floods.

The Department, over the same period incurred aggregate expenditure of R212.402 million or 99.97 per cent against the current payments adjusted budget amounting to R212.486 million following a total net increase of R24.096 million (12.8 per cent) on the main budget of R188.39 million.

Expenditure on transfers payments were incurred amounting to R40.186 million or 52.86 per cent of the adjusted budget amounting to R76.026 million following a total net increase of R55.571 million (271.68 per cent) on the main budget of R20.455 million.

With relation to payments for capital assets, the department had for the review period, realised aggregate expenditure of R13.778 million against the adjusted budget of R13.778 million following a total net decrease of R31.411 million (69.52 per cent) on the main budget of R45.189 million.

Total under expenditure spending fell outside of the national under spending norm of 2 per cent.

### Compensation of employees accumulative budget reprioritisation

Agriculture incurred 100 per cent expenditure against the compensation of employees adjusted budget amounting to R117.168 million following a total net decrease of R22.064 million (15.85 per cent) on the main budget of R139.232 million.

The head count of Agriculture as at March 2007 stood at 835, which reflected a shortfall of 8.02 per cent or 67 personnel, when compared to the head count target of 902 in Budget 2007.

The Department find it increasingly challenging to recruit scarce skill professionals.

**Table 126: Average expenditure rate for Agriculture during 2006/07: Quality of expenditure and forecasting**

Rthousand	2006/07		Deviation %
	Average rate of spending		
	Cash Flow Projections	Actual expenditure	
Total expenditure	21.170	22.197	4.85 %

<sup>6</sup> Comprising shifts effected during the adjustments budget process and following book closure viz application of 8 per cent virements to make good overspent budget items.

Agriculture recorded expenditure of R266.366 million or 88.12 per cent of the total expenditure main budget amounting to R302.29 million and realised total under spending of R35.924 million by the end of 2006/07. This translates into average expenditure of R22.197 million per month.

The under spending mainly related to under spending on the Disaster Management grant due to the late publication of the national grant framework.

Expenditure peaked at R40.202 million during March 2007.

When comparing actual expenditure to original cash flow<sup>7</sup> Agriculture originally indicated to have spent R254.034 million on total expenditure by March 2006 at an average rate of R21.17 million per month.

Agriculture, however, spent R266.366 million during 2006/07 at an average rate of R22.197 million per month, which equates to 4.85 per cent deviation when comparing original estimate vs. actual expenditure.

The variation can mainly be ascribed to the gearing of spending following the shifting of funds during the 2006/07 adjustments estimates.

#### **Adjustments Budget 2006/07**

The Department submitted its adjustments estimates on time and it was comprehensive in terms of Section 31 of the PFMA.

It was submitted in line with the standardised adjustments estimates format based on National Treasury's Guideline and electronic copies as vested at the Provincial Treasury's data collators.

<sup>7</sup> In terms of PFMA SECTION 40(4)(a):-

The accounting officer of a department must each year before the beginning of a financial year provide the relevant treasury in the prescribed format with a breakdown per month of the anticipated revenue and expenditure of that department for that financial year."

**Table 127: Summary of actual expenditure per financial quarter “March spike” anomaly**

<b>Agriculture</b>	<b>1st Quarter R'000</b>	<b>2nd Quarter R'000</b>	<b>3rd Quarter R'000</b>	<b>March R'000</b>	<b>4th Quarter R'000</b>	<b>Total R'000</b>
Administration	8,736	9,482	9,460	<b>5,130</b>	11,426	39,104
Sustainable resource management	11,374	7,685	10,435	<b>8,348</b>	14,625	44,119
Farmer support and development	12,998	15,078	21,460	<b>12,409</b>	22,270	71,806
Veterinary services	6,331	6,963	7,195	<b>2,970</b>	7,392	27,881
Technology research and development	9,713	11,324	12,822	<b>5,897</b>	15,334	49,193
Agricultural economics	1,576	2,336	2,099	<b>948</b>	2,364	8,375
Structured agricultural training	4,761	5,230	6,586	<b>4,336</b>	9,128	25,705
Theft and Losses	1	1	3	<b>164</b>	178	183
<b>Total expenditure</b>	<b>55,490</b>	<b>58,099</b>	<b>70,060</b>	<b>40,202</b>	<b>82,717</b>	<b>266,366</b>
<b>Economic classification</b>						
Current payments	41,562	46,049	55,978	<b>31,805</b>	68,813	212,402
Total transfers and subsidies	12,205	9,267	12,106	<b>4,617</b>	6,608	40,186
Payments for capital assets	1,723	2,783	1,976	<b>3,780</b>	7,296	13,778
<b>Total expenditure</b>	<b>55,490</b>	<b>58,099</b>	<b>70,060</b>	<b>40,202</b>	<b>82,717</b>	<b>266,366</b>
<b>% of total spent</b>						
Administration	22%	24%	24%	<b>13%</b>	29%	100%
Sustainable resource management	26%	17%	24%	<b>19%</b>	33%	100%
Farmer support and development	18%	21%	30%	<b>17%</b>	31%	100%
Veterinary services	23%	25%	26%	<b>11%</b>	27%	100%
Technology research and development	20%	23%	26%	<b>12%</b>	31%	100%
Agricultural economics	19%	28%	25%	<b>11%</b>	28%	100%
Structured agricultural training	19%	20%	26%	<b>17%</b>	36%	100%
Theft and Losses	1%	1%	2%	<b>90%</b>	97%	100%
<b>Total expenditure</b>	<b>21%</b>	<b>22%</b>	<b>26%</b>	<b>15%</b>	<b>31%</b>	<b>100%</b>
<b>Economic classification</b>						
Current payments	20%	22%	26%	<b>15%</b>	32%	100%
Total transfers and subsidies	30%	23%	30%	<b>11%</b>	16%	100%
Payments for capital assets	13%	20%	14%	<b>27%</b>	53%	100%
<b>Total expenditure</b>	<b>21%</b>	<b>22%</b>	<b>26%</b>	<b>15%</b>	<b>31%</b>	<b>100%</b>

The “March Spike” refers to an anomaly, where departmental expenditure during the month of March rises considerably when compared to prior months of the financial year.

Agriculture has, for the period ending March 2007, reported aggregate expenditure of R266.366 million or 88.12 per cent (in absolute terms) against the adjusted budget amounting to R302.29 million following a total net increase of R48.256 million (19%) on the main budget of R254.034 million.

When considering spending per quarter, Agriculture has for the fourth quarter ending March 2007 expended R82.717 million (31.06%) of its total expenditure amounting to R266.366 million.

Agriculture spent R55.49 million (20.84%) of total actual expenditure during the first quarter, R58.099 million (21.82%) during the second quarter and R70.06 million (26.31%) during the third quarter.

From the above a March spike is clearly noticeable. Agriculture's expenditure is qualified by increases in expenditure during the last quarter of the financial year.

This can mainly be attributed to the upscaling of activities on farms during summer crop harvesting and final payments on infrastructure projects as well as payouts to bursary holders.

### **Own Revenue**

The Department of Agriculture collected R19.31 million in provincial own receipts of the R13 million adjusted budget for the 2006/07 financial year.

Over collection amounted to R6.31 million or 48.5 per cent more than the adjusted budget.

This over collection was mainly due to the sale of goods and services other than capital assets in terms of student registration fees.

The main appropriation for provincial own receipts for the 2007/08 financial year is R13.19 million which is R6.12 million or 31.7 per cent less than the actual collection of R19.31 million in the 2006/07 financial year.

The Department revised their tariffs during the 2006/07 financial year by at least the consumer price index and submitted an updated tariff register to Treasury.

The Department of Agriculture generally operates on level 3 and is moving towards a level 4 financial management capability rating.

### **3.11.2 Compliance with accounting policies and standards**

An assessment of the financial management capability of the Department was undertaken based on audit findings for the 2006/07 financial year and the monthly IYM reports which revealed the following:

#### **Management of and Reporting on Suspense Accounts**

The Department reported monthly that disallowance, control and suspense accounts are followed-up and cleared on a regular basis.

The Auditor-General reported that the recoverability of a sample of six debtors could not be determined, as no payments were received during the financial year under review. Furthermore, these debtors were not included in the provision for irrecoverable debtors. The Auditor-General also noted that the Department did not follow up other long outstanding debtors where the recoverability is doubtful. This performance is indicative of a level 2 financial management capability rating. The Department should perform management and supervisory reviews to ensure that long outstanding debts are followed up to move towards a level 3 financial management capability.

## **Accounting of Assets**

The Department reported that although certain aspects of the Asset Register have already been completed, issues such as identification, performance and disposal of assets are still “in progress”, in order to comply fully with the minimum requirements of an Asset Register. The Auditor-General reported that the Department did not develop policies and procedures to ensure that assets are appropriately marked with unique asset numbers whereby proper control could be exercised.

It is recommended that the Department develop policies and procedures to ensure that the asset register is updated to include all the relevant information necessary to agree to the notes to the financial statements as prescribed in the Asset Management Framework.

The Department needs to address these issues, towards achieving a financial management capability level 3 rating.

## **Financial Reconciliations**

The Department reported that reconciliations of BAS/PMG, BAS and LOGIS, as well PERSAL and BAS are performed on a monthly basis. This is indicative of a rating of level 3 financial management capability.

## **Supporting Documentation**

The Auditor-General reported that the Department’s Project files have not been maintained properly, including projects completed for the year under review. The documents on the files were either faxed or photocopies that were not certified against the originals. Supporting documentation was not filed in the project files, making it difficult for the Auditor-General to determine if the grants paid were valid. This is indicative of a financial management capability level 2. It is recommended that the Department compile policies and procedures to ensure that the files of projects inclusive of supporting documentation are complete and filed for audit purposes.

## **Expenditure – Payments and Journals**

The Auditor-General reported that of three out of fifteen samples tested, payments were made to suppliers more than 30 days after receipt of the invoice, which is in contravention of paragraph 8.2.3 of the National Treasury Regulations. This is indicative of a financial management capability level 2. It is recommended that the Department perform management and supervisory reviews to ensure that all invoices are paid within 30 days of receipt of the invoices to ensure compliance.

### **Accounting treatment of transactions**

A Revenue management policy as required by Treasury Regulation 7.2 was not compiled and approved by the Department. The Department did not issue a policy to address the recovery, disallowance and adjustments of payments as required by Treasury Regulations 8.8.1 and 8.8.2. It is recommended that the Department draft, approve and implement the necessary policies in order to comply with the applicable legislation.

The Department, at year-end, had no written policies or procedures relating to banking and cash management as required in terms of Treasury Regulation 15.10.1.1. There were also insufficient control over transfer payments as required by Treasury Regulation 8.4.1. These cases of non-compliance with the applicable legislation are indicative of a financial management capability level 2. It is recommended that the Department institute appropriate measures to ensure compliance with the required legislation.

### **Monthly reporting of financial information to the CFO/AO/EA/Departments**

The Department submitted their monthly compliance reporting to Provincial Treasury timeously in terms of legislative requirements. This is indicative of a level 3 rating of financial management capability.

### **CASIDRA**

Casidra provides services to enhance the quality of life of rural communities and is registered as a private company in terms of the Companies Act, 1973 (Act 61 of 1973) and listed as a Schedule 3D Provincial Government Business Enterprise in terms of the Public Finance Management Act, 1999 (Act 1 of 1999). It is by definition also a public entity.

The entity reported that it complied with the minimum financial performance indicators in terms of the In Year Monitoring reporting.

### **Management of and reporting on Suspense accounts**

Casidra's debtor's collection period was 29 days for 2006/07, which is within the norm of 50 days. This indicates that the entity has sufficient controls in place to ensure compliance with management and reporting requirements, which is indicative of a financial management capability rating of level 3.

### **Accounting treatment of transactions**

Casidra's output VAT on funding is not treated consistently for all projects. SARS might investigate erroneously completed VAT returns, which might lead to possible penalties. It is recommended that the entity investigate these issues and that a technical opinion is obtained on correct treatment of Output VAT on the specific funding. The correct finding must then consistently be applied on all funding received in order to achieve a financial capability Level 3.



Casidra’s loans are accounted for on Pastel. The entity utilises an Excel–spreadsheet to calculate and reconcile loan balances to Pastel. The supporting system, AZ Finance, used to forward statements to debtors is providing incorrect information. It is recommended that the entity rectify or update the loan supporting system as soon as possible to achieve a Level 3 financial management capability.

**Expenditure – Payments and journals**

The Auditor reported that certain journals at one of Casidra’s projects, namely Anhalt, were not approved. It is recommended that the entity ensure that the project manager or an accountant approve the journals of projects, in order to achieve a Level 3 financial management capability.

**3.11.3 Normative Financial Management**

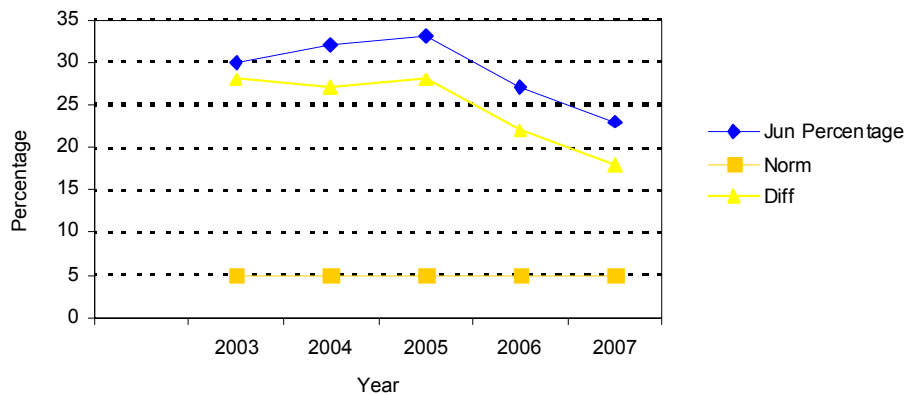
**Introduction**

This section provides a review of the PFMA implementation and financial management improvement for sustainable service delivery by the department. The source documents used in this process are the Normative Measures Quarterly report, management Report and A-G Report for the year ended 31 March 2007, dated 31 August 2007.

**Analysis of Normative Measures Quarterly Report**

**CFO Structure Human Resources Capacity**

**Figure 6: Department of Agriculture Vacancy Rate - 5 year Trend Line**



**Analysis:**

- The Department currently records a very high vacancy rate at 23 per cent (June 2007) in the CFO structure. As the graph indicates this represents a substantial variance from the norm, notwithstanding the downward trend since June 2005.

- The Department has implemented performance agreements at all levels, career plans have been developed for 100 per cent of the staff establishment, 71 per cent of the staff has finance related qualifications, and 90 per cent of staff is attending structured training programmes offered within the province.

### Annual, Quarterly and Monthly Reports

The Department and CASIDRA must report monthly on expenditure and revenue; quarterly on performance; and annually they have to table Annual Reports, as prescribed, by the Legislature. Compliance with these requirements is reflected in Table 128 below:

**Table 128: Compliance with annual, quarterly and monthly reporting requirements**

Institution	Date annual report received by Provincial Treasury	Annual report submitted to National Treasury	Annual report submitted to the Provincial Legislature	Quarterly performance against strategic plan	Monthly reporting (IYM)
<b>Departments</b>					
Agriculture	31-August-2006	√	31-August-2006	√	√
<b>Public Entity</b>					
Casidra (Pty) Ltd	31-August-2006	√	29-September-2007	√	

### Analysis:

- The Department has successfully tabled their 2005/06 Annual Reports as well as those of the public entity under their ownership control, within the prescribed timeframes.
- In terms of TR 5.3.1 the AO must establish procedures to facilitate effective performance monitoring, evaluation and corrective action of strategic plan. However, no written procedures exist as documented prove of the aforementioned.

### Analysis of the A-G Report dated 31 August 2007

The Auditor-General expressed an unqualified opinion, with other matters, in terms of the Auditor-General's report on the audit of financial statements and performance information of the Department:

### Other Matters

- Non-compliance with applicable legislation: PFMA and Treasury regulations;
- Material corrections made to the financial statements submitted for audit;
- Value for money matters;
- Internal control: matter relating to the control environment and control activities, and
- Delay in the finalisation of the audit due to the national public strike action during June.

### **Audit finding relating to Performance Information**

- Lack of access to records – the Auditor-General was unable to obtain sufficient and appropriate audit evidence in relation to the performance information of the sub-programme LandCare.

### **Financial Management Capability Model Assessment**

The financial management level of this Department shows no improvement taking into consideration the 2007 external audit report of the Auditor-General.

### **Public Entity: CASIDRA**

#### **Analysis of the External Audit Report dated 28 August 2007**

The external auditor, PricewaterhouseCoopers Inc. expressed an unqualified opinion on the financial statements from which the abridged financial statements as published in the annual report are derived.

### **Financial Management Capability Model Assessment**

The financial management level of this entity remains unchanged taking into consideration the 2007 external audit report by the PricewaterhouseCoopers Inc.

## **3.11.4 Enterprise Risk Management**

The section provides guidance, criteria, and norms and standards for the attainment of levels of enterprise risk management in terms of the financial management capability model. It is anticipated that this will assist management in being able to identify underlying problems and focus on areas to improve the enterprise risk management processes.

Departments will not be assessed on Level 3 and 4 because of the immaturity of enterprise risk management within the provincial government.

### **CONTROL FRAMEWORK (LEVEL 1)**

Includes all scenarios where the department has not implemented all the criteria required to obtain a level 2 assessment.

### **PROPER INTERNAL CONTROL FRAMEWORK AND FINANCIAL ACCOUNTING PROCESSES HAVE BEEN DEVELOPED (LEVEL 2)**

#### **Strategic Risk Assessment**

Strategic Risks have been identified by the Department, risk response strategies and relevant processes have been developed. An organisational structure that supports the developed processes is in place.

## **Internal Environment**

A risk management philosophy and management's philosophy have been developed for the Department and a risk appetite for the Department has been defined.

## **Operational Risk Assessment**

The risk event have been identified and assessed on an inherent level. Existing controls have been identified and documented.

## **OVERALL ASSESSMENT**

Based on the above information, the Department achieved a rating of 2, as the Department met all the set Criteria & Norms and Standards for Level 2. In order to achieve a rating at the next level (Level 3), the Department needs to have achieved all the set Criteria & Norms and Standards for Level 3.

## **Focus on compliance and control**

### **Internal Environment:**

- Compliance to commitment to competence displayed in appointment and development practices;
- Compliance to assignment of authority and responsibility;
- Compliance to writing and communicating Risk Management Philosophy to staff;
- Compliance to Management's philosophy and operating style reflecting acceptance of risk management principles, and
- Compliance to define the Departments risk appetite.

### **Event Identification:**

- Risk events are identified at least annually and are incorporated into daily activities, and
- Risk events are grouped in terms of event categories.

### **Risk Assessment:**

- Risks are assessed on a residual risk basis

### **Control Activities:**

- Control activities are designed to address risk events
- Control activities are designed using a recognised control framework

### **Information and Communication:**

- Pertinent information is collected
- Integrated systems to analyse information is available

- Information is communicated in the right quantity to the right person at the right time

### 3.11.5 Cash Management

This section deals with the implementation and management of sound cash flow practices as well as the provision of assistance and training in respect of the official banking system within the Provincial Government of the Western Cape.

#### Review

The assessment was based on the activities of the 2006/07 financial year and the findings were as follows:

**Table 129: Assessment of cash management**

Requirements	Standard Level 3	Standard Level 4	Rating
Staff skilled & Capacitated in Cash Management	In accordance with profile	All functions on the Cash Management System	3
Submission of Annual Provincial Cashflow Projections	By 28 February	By 15 February	3
Deviation between monthly projections & actual expenses	5%	3%	2
Monthly Own Revenue Payover	2 working days prior to month end	3 working days prior to month end	3
Repayment of Surplus Funds	31 May	15 May	3
Submission of monthly Bank Reconciliation	Within 30 days after month end	Within 15 days after month end	4
Beneficiary Payments (Direct Transfers)	1% of Total Payments	0.50% of Total Payments	3
<b>Average rating</b>			<b>3</b>

The Department achieved an overall rating of level 3 (nominal compliance) financial management capability.

#### Skilled and capacitated system users

The Department obtained a rating of level 3 (nominal compliance) financial management capability. All system users were trained in accordance with their profiles, during the implementation of the new official banker's system.

#### Submission of Annual Provincial Cashflow Projections

The Department obtained a rating of level 3 (nominal compliance) financial management capability.

**Table 130: Deviation between monthly projections and actual expenses**

	Projected R'000	Actual R'000	% deviation	rating
APRIL'06	20,874	17,282	17	2
MAY'06	17,676	13,597	23	2
JUNE'06	19,535	18,491	5	2
JULY'06	22,081	21,518	3	2
AUG'06	22,244	34,097	(53)	2
SEP'06	23,238	16,426	29	2
OCT'06	23,591	22,099	6	2
NOV'06	21,865	21,708	1	4
DEC'06	23,081	14,279	38	2
JAN'07	20,299	15,497	24	2
FEB'07	19,700	25,460	(29)	2
MARCH'07	19,850	33,580	(69)	2
<b>Sub-Total</b>	<b>254,034</b>	<b>254,034</b>		<b>2</b>
<i>Revised Forecast (after adjustment budget)</i>				
MARCH'07				
Adjustment	48,256	48,256		
<b>Total</b>	<b>302,290</b>	<b>302,290</b>	<b>100</b>	

The Department achieved a rating of level 2 (partial compliance). PT will support and assist the Department to determine the reasons for the variances and to compile more credible projections in future.

#### **Monthly Own Revenue Pay over**

The Department obtained an average rating of level 3 (nominal compliance) financial management capability. Revenue is being paid over monthly 2 working days prior to month end.

#### **Repayment of Surplus funds**

The Department obtained a rating of level 3 (nominal compliance). Surplus funds were paid to the PRF on 29 May 2007.

#### **Submission of monthly Bank Reconciliations**

The Department was rated level 4 (full compliance). The monthly bank reconciliation is submitted within 15 days after month end.

#### **Beneficiary Payments (Direct Transfers)**

The Department achieved a rating of level 3 (nominal compliance) financial management capability.

**Table 131: Beneficiary Payments**

Payments	Beneficiary Payments	%
8636	70	0.81

### 3.11.6 Supply Chain Management

The financial management capability assessment was based on the activities of the Department during the 2006/07 financial year and the outcomes are as follows:

#### Legislative and Policy Frameworks

- The Department has the Accounting Officer's System in terms of section 38(i)(iii)(a) of the PFMA in place (It needs to be noted that the Accounting Officer's System need to be reviewed and updated);
- SCM Delegations need to be reviewed and updated;
- The Department has the necessary Bid committee system in place. Twenty-eight (28) formal bids have been awarded to historically disadvantaged individuals (HDIs) ensuring that 60 per cent of the value of the bids were awarded to HDIs, and
- In the 2006/07 financial year six (6) officials were trained on SCM.

#### Compliance to Legislative and Policy Frameworks:

- The Accounting Officer's System (AOS) revealed that the AOS dated September 2006 is incomplete as it does not provide for chapters on risk management, regular assessment of supply chain performance and asset management as required by Treasury Regulation 16A3.2 (d) of 2005;
- National Treasury's website was not accessed prior to the awarding of contracts to ensure that a recommended bidder or any of its directors are not listed as companies or persons prohibited from doing business with the public sector;
- No policies and procedures have been developed to ensure that assets are appropriately marked with unique asset numbers whereby proper control could be exercised (non-compliance with Treasury Regulation 10.1.2);
- The completeness and correctness of the asset register is doubtful and may result in misappropriation of assets;
- Non-compliance with the requirements of paragraph 2.1 of the Finance Instruction 10/2005 which stipulates that assets can only be removed from the asset register if they have actually been disposed of and not on identification for disposal. The Department used capturing codes to remove assets from the asset register without disposing of them and therefore the asset register and disclosure notes are understated;
- Lack of management and supervisory review to ensure that figures on stock sheets and in the accounting officer's report are accurate;
- Inventory records are not correct;

- Lack of compliance with SCM Regulations;
- Lack of Operations and maintenance plan, and
- No policies and procedures are developed by the department to ensure that the asset register is regularly revisited to include all the information as required by paragraph 6.1.14.

### **Organisational Structure and Capacity**

SCM officials lack experience in both the procurement and provisioning side of SCM

### **Monitoring and Reporting and Good Governance**

Contract Management and Administration is lacking

Bid committee registers are not completed

Opportunities to obtain best value in the procurement process are not encouraged

### **Credible Knowledge and Information Management System**

The Department did not maintain a centralised tender register encompassing the entire Department's tender activities, as prescribed in section 8.7.1 of the Accounting Officer System for Supply Chain Management.

The Gifts register was not instituted and maintained.

### **Moveable Asset Management**

The project dashboard assessment reflected the following as at the 28 February 2007:

The Department has completed the following:

- Asset management plans in respect of the definition of assets, role of assets in the program delivery, non-assets solutions, asset life cycle, accountability and responsibility;
- Acquisition: in respect of analysis of alternatives, receipt of acceptance of assets and establishing ownership control;
- Operation and Management plans: monitoring and condition use and, tracking of assets, safeguarding and protecting of assets;
- Disposal plans: identification of surplus , obsolete and under- performing assets, evaluation of disposal alternatives, write – off of damaged or missing assets;
- Accounting: Definition of assets, valuation of assets, depreciation of assets, treatment of repairs and maintenance, recording on acquisition, transfer and disposal, and
- Asset Register requirements: acquisition, identification, accountability, performance, disposal and accounting.



The following were areas that was postponed/outstanding:

- Maintenance scheduling
- Asset replacement strategy
- Reconciliation of assets on the asset register with BAS

The following were raised as problem areas:

- Life-cycle costing
- Developing of an acquisition plan
- Operation and Maintenance: plans
- Enhancement and upgrades

From the above, the Department may be rated at a level 2 in terms of the capability model for SCM.

**Steps to be taken to ensure that the department establishes itself at the next auditable level (3)**

From a Provincial Treasury perspective the following interventions steps are planned in the next financial year:

- Training on bid committees and contract management as provided and funded by the National Treasury;
- An integration of the financial and non-financial systems with the implementation of the IFMS;
- Linkages with other disciplines within the Provincial Treasury to enable an integrated approach to enable a supporting environment that maintains the credibility of the level;
- Addressing and implementing a supplier development initiative with other role-players to impact on the socio-economic aspects of procurement by achieving the desired outputs in respect of procurement to HDIs, SMMEs or BEE companies, and
- Engaging and compiling business cases and feasibility research to enable departments to leverage their buying power in participating in transversal contracts thereby impacting on economies of scale and value for money considerations.

From a departmental perspective the following interventions need to be instituted so that the department sustains itself at the achieved level and also enables the department to elevate itself to the next level:

- Ensure that internal control measures are in place for the cost efficient and effective management of SCM not only at the head office level but also at the institutional level;
- Staff structure and job description of SCM officials need to be revised to align itself with the current requirement of the posts as well the prescribed regulatory framework and competencies for SCM, and

- A concerted effort must be placed on training and a skills development plan to build the internal capacity and resources of the SCM unit.

### 3.11.7 Supporting and Interlinked Financial Systems

The financial management capability assessment was based on the activities of the Department during the 2006/07 financial year and the outcomes are as follows:

**Table 132: Assessment of the Basic Accounting System (BAS)**

Requirements	Standard Level 3	Standard Level 4	Rating
Skilled and capacitated system users	In accordance with profile	Various Modules	2
Month-end closure	Own accord – due date	Own accord – prior date	3
Year-end closure	Own accord – due date	Own accord – prior date	4
System Controller Functions	80 – 90%	91 – 100%	3
Monitor Applicable Interfaces	Weekly	Daily	4
<b>Overall rating</b>			<b>3</b>

The Department obtained an overall rating of level 3 (nominal compliance) financial management capability.

**Table 133: Assessment of skilled and capacitated system users: training**

Number of officials nominated	Number of officials attended	Number of officials cancelled	Number of officials qualified for a certificate (70% pass rate)	Number of officials not qualifying for a certificate
24	17	7	14	3

The Department obtained a rating of level 2 (partial compliance) financial management capability, mainly due to the high percentage of officials being nominated and not attending courses as well as not all officials trained in accordance with their profiles.

The Directorate Supporting and Interlinked Financial Systems is in the process of identifying the training gap of all users and will in co-operation with Chief Financial Officer nominate their users for training in accordance with their profiles as a matter of urgency. In addition the poor attendance of officials will in co-operation with the Chief Financial Officer be addressed.

#### Month end closure

The Department achieved a rating of level 3 (nominal compliance) financial management capability as their books were closed on a monthly basis in accordance with the dates predetermined by National Treasury.

## Year closure

The Department achieved a rating of level 4 (full compliance) financial management capability as their year-end closure was done prior to the date predetermined by National Treasury.

## System Controller Functions

Based on the following criteria the System Controller function was rated as level 3 (nominal compliance) financial management capability:

- Logging of calls to the Provincial Helpdesk
- Maintenance of Security Profiles
- The reinstate of Transaction Processing Rules
- Requesting/monitoring and distributing of automated Basic Accounting System reports
- Maintenance of segment details
- Maintenance/update of departmental parameters
- Provide practical individual training to users
- Monitor Technical stability of work station including Local area network
- Assisting non-financial users of Basic Accounting System.

## Monitor applicable interfaces

The Department achieved a rating of level 4 (full compliance) financial management capability as their interfaces are monitored and reported on a daily basis.

**Table 134: Assessment of the Personnel and Salary Administration System (PERSAL)**

Requirements	Standard Level 3	Standard Level 4	Rating
Skilled and capacitated system users	In accordance with profile	Various Modules	2
System Controller Functions	80 – 90%	91 – 100%	3
Establishment Management	Quarterly	Monthly	3
PERSAL/BAS Reconciliation	Monthly by the 20 <sup>th</sup>	Prior to the 20 <sup>th</sup>	3
Adhere to Minimum Information Requirements	Annually	Continuous process	2
Leave Audit	Annually	Continuous process	3
<b>Average rating</b>			<b>3</b>

The Department achieved an overall rating of level 3 (nominal compliance) financial management capability which is a performance of below standard.

**Table 135: Assessment of skilled and capacitated system users: training**

Number of officials nominated	Number of officials attended	Number of officials cancelled	Number of officials qualified for a certificate (70% pass rate)	Number of officials not qualifying for a certificate
4	1	3	1	0

The Department obtained a rating of level 2 (partial compliance) financial management capability due to the low number of officials being nominated and high percentage officials not attending courses as well as not all officials being trained in accordance with their profiles.

The Directorate Supporting and Interlinked Financial Systems is currently in the process of identifying the training gap of all system users and will in co-operation with the Department nominate system users for training in accordance with their profiles. In addition issues of poor attendance will be addressed with the Department.

#### **System Controller Functions**

The Department achieved a rating of level 3 (nominal compliance) financial management capability for the execution of its system control functions.

#### **Establishment Management**

The Department achieved an overall rating of level 3 (nominal compliance) financial management capability which is a performance of below standard.

#### **Adhere to Minimum Information Requirements**

As not all information is captured on the system, the department achieved a rating of a level 2 (partial compliance) financial management capability.

Reports indicating the outstanding information are available and will be provided by Provincial Treasury on request. The situation will be monitored by the Provincial Treasury to ensure compliance.

#### **Leave Audit**

The Department achieved a rating of level 3 (nominal compliance) financial management capability as the leave audit is updated on at least an annual basis.

**Table 136: Assessment of the Logistical Information System (LOGIS)**

Requirements	Standard Level 3	Standard Level 4	Rating
Skilled and capacitated system users	In accordance with profile	All Modules	3
Days per issue (Service standard)	5 Days	3 Days	2
Stock Management	15.61%	6.19%	3
Financial Controls	Monthly	Continuous process	3
System Control Functions	80 – 90%	91 – 100%	4
<b>Average rating</b>			<b>3</b>

The Department achieved an overall rating of level 3 (nominal compliance) financial management capability.

**Table 137: Assessment of skilled and capacitated system users: training**

Number of officials nominated	Number of officials attended	Number of officials cancelled	Number of officials qualified for a certificate (70% pass rate)	Number of officials not qualifying for a certificate
13	9	4	7	2

The Department achieved a rating of level 3 (nominal compliance) financial management capability as users are trained in accordance with their current profiles.

#### **Days per issue (service standard)**

In accordance with national norms and standards, the days per issue should be less than 3 days to achieve full compliance (level 4), less than 5 days for nominal compliance (level 3) and less than 20 days for partial compliance (level 2).

The average days per issue during 2006/2007 was 28 days. Although 28 days would mean non-compliance (level 1), the Provincial Treasury did take into account that Agricultural institutions to where goods and services must be delivered/railed, etc, are, spread over the Province.

Given the above, the rating for days per issue was changed from non-compliance to partial compliance.

The Directorate Supporting and Interlinked Financial Systems will assist the Chief Financial Officer in re-visiting the current procedures and processes regarding the issue of goods, to ensure compliance.

Another positive step to reduce the days per issues, is the department decision to roll out LOGIS to the regional offices. This will definitely reduce the days per issue.

## Stock Management

The Department achieved a rating of level 3 (nominal compliance) financial management capability for its control over inventories and assets.

## Financial Controls

The Department achieved a rating of level 3 (nominal compliance) financial management capability as financial controls are executed on at least a monthly basis.

## System Control functions

The Department achieved a rating of level 4 (full compliance) financial management capability.

**Table 138: Assessment of the Management Information System (Vulindlela)**

Requirements	Standard Level 3	Standard Level 4	Rating
Percentage of registered users using the system on a regular basis	80 – 90%	100%	3

**Table 139: Assessment of the usage of the Management Information System (Vulindlela)**

Number of registered users	Number of registered users using the system on a regular basis	Number of registered users not using the system on a regular basis	Percentage active users
10	8	2	80%

The Department obtained a rating of level 3 (nominal compliance) financial management capability due to the fact that only 80 per cent of registered users utilise the system on a regular basis.

The Directorate Supporting and Interlinked Financial Systems will discuss the further role out of Vulindlela with the Department and address any further user requirements they might have.

## 3.12 Department of Economic Development and Tourism

### 3.12.1 Performance management

#### 3.12.1.1 Non-financial information

This section provides a high level assessment of the Department's non-financial performance and makes a judgment on the level of performance, in line with the financial management framework. As mentioned in the methodology section, this framework is evolutionary and its refinement iterative. The assessment includes the Strategic and Performance Plan; and Annual and Quarterly Performance Reports. The former two documents are tabled in the Legislature, while Quarterly Performance Reports, as of 2007, are tabled in Cabinet. The assessment gauges key aspects of the Department's performance management system, and considers whether the Department has reached a level 3 competency level, and expresses a view on the extent to which the Department is moving towards a level 4 organisation. This evaluation assesses the 2006/07 Annual Report and the 2006/07 and 2007/08 Annual Performance Plans. There may, however, be some areas of a Department's performance framework that display a level 4 competency, while others have yet to reach a level 3-competency level.

#### **Comparing the Annual Report 2006/07 with Annual Performance Plan 2006/07**

All the performance measures defined in the 2006/07 APP are reported on in the Annual Report for 2006/07. There is generally consistency between the unit of measurement used in the APP and the Annual Report. As a result the annual report can be used to assess the actual performance of the Department in terms of the performance targets defined in the APP.

The Annual Report contains a column for "Remedial action against deviation from actual targets. Explanations tend to be very broad and in a number of instances relate to the overall environment in which service delivery occurs. For example, the remedial action for the deviation from the achievement on the performance measure, "a successfully governed SPV" for the oil and gas industry refers to the "process underway to potentially bring together two bodies under one organisation". It is difficult to assess whether the "process" referred to above will be an effective and appropriate response to ensuring delivery on the performance measure.

Not all the performance measures used by the Department are measurable and are not always clearly defined. For example a target of "increasing awareness of the Office of the Consumer Protector as a brand by 50 per cent amongst the population of the province" is set. This target is linked to the output performance measure that "at least three major brand awareness campaigns are undertaken and a research study completed on their effect and impact on the Office of the Consumer Protector brand". The actual performance is reported as a "large number of routine radio and workshop engagements" and "preparations completed for large-scale targeted and print media campaign". There are a number of difficulties in measuring performance against this performance measure. First, it is not clear how the Department would be able to determine whether it has achieved its objective of increasing awareness by

50 per cent. Second, the unit of measurement indicated in the target and that reported on as actual performance are not the same unit of measurement. Third, the use of a percentage value needs to be readily translated into an absolute amount by linking it to a baseline number. These difficulties make it impossible to assess whether the performance measure and attached target is achievable and realistic.

### **APP 2007/08**

This Department has yet to agree upon country wide non-financial key performance indicators. The Department therefore reports according to the National Treasury's Proposed Structure and Contents of Quarterly Performance Reports of 2003.

The Department of Economic Development and Tourism together with their counterparts in other provinces and National Treasury are currently working on a standardised set of performance measures to accompany the new 2007/2008 standardised budget programme structure. It is not clear when the Department will be required to report according to nationally agreed performance measures.

The majority of the performance measures used by the Department relate to processes, planning formulation of policy documents and/or interventions/projects. These performance measures are particularly difficult to monitor and measure. The challenge in measuring these types of performance indicators lie in that they are less tangible and performance lends itself to variable interpretation.

As stated above there are instances where the performance measure and the target set do not reflect the same unit of measurement. There are also numerous places in the QPR where the output performance measure refers to the "number of" However the Department does not quantify this number in its quarterly targets, nor in its 1st quarter reported performance. For example, with regards to the development and growth of the BPO sector through SME and transformation enhancement the Department has defined its output performance measures in terms of "number of initiatives, which contribute to SME development and transformation of sector" and "number of SME's assisted". The target refers to the "development of detailed SME and BEE Business Development plan" while actual first quarter performance for 2007/08 states that "business and programme plans developed, reviewed and submitted" and "first quarter funding for this programme successfully effected". This makes it impossible to link the actual performance with a relevant target for the output performance measure.

### **Conclusion**

In conclusion, the Department is approaching a competency level 3 in relation to the key aspects of the performance management system examined in this assessment. To reach a level 3, the Department needs to improve the measurability of its performance measures, quantify a number of its targets in absolute terms and ensure that the same unit of measurement is used for the performance measure, target and actual performance.

The introduction of sector specific performance measures that is currently being developed should help address the gaps identified above.



### 3.12.1.2 Financial Information

#### Monthly reporting on revenue and expenditure (IYM)

During 2006/07, the accounting officer submitted the IYM to the Provincial Treasury within 15 days of the end of each month, as per section 40(4)(c) of the PFMA.

#### Monthly validation of reported expenditure

- The reported actual expenditure mostly agreed to BAS/VULINDLELA.
- It seems as if the Department needs to improve on making its forecasts more realistic, as forecasts in a prior quarter differ from actual expenditure. This can be viewed in the table below, where the actual and projections are compared on a quarterly basis. Projections seem to increase on a monthly basis, as actual expenditure is mostly lower than projected expenditure. In some cases the projections had been less than the actual.

**Table 140: Quarterly analysis on projections: 2006/07**

R'000	April	May	June	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Total
First Quarter	3633	5000	14621	19546	17396	23964	14197	21974	32997	8618	14757	11716	<b>188 419</b>
%	1.93%	2.65%	7.76%	10.37%	9.23%	12.72%	7.53%	11.66%	17.51%	4.57%	7.83%	6.22%	<b>100.00%</b>
Second Quarter	3 633	5 000	14 622	15 698	15 011	20 800	33 742	20 595	23 265	9 626	14 178	6 641	<b>182 811</b>
%	1.99%	2.74%	8.00%	8.59%	8.21%	11.38%	18.46%	11.27%	12.73%	5.27%	7.76%	3.63%	<b>100.00%</b>
Third Quarter	3 633	5 000	14 621	15 698	15 011	20 800	4 833	16 419	14 693	15 804	41 592	10 556	<b>178 660</b>
%	2.03%	2.80%	8.18%	8.79%	8.40%	11.64%	2.71%	9.19%	8.22%	8.85%	23.28%	5.91%	<b>100.00%</b>
Fourth Quarter	3 633	5 000	14 622	15 698	15 011	20 800	4 833	16 417	14 693	15 804	16 127	32 860	<b>175 498</b>
%	2.07%	2.85%	8.33%	8.94%	8.55%	11.85%	2.75%	9.35%	8.37%	9.01%	9.19%	18.72%	<b>100.00%</b>

*\*Projections unshaded and Actual Shaded*

#### Shifting of funds/virements

- No virements were affected during 2006/07. However, funds were re-prioritised (shifted) during the adjustments estimates process of 2006/07.
- A total of R25.931 million was shifted of which an amount of R9.722 million was shifted externally to Vote 8: Local Government and Housing to accelerate housing delivery.

#### Adjustments estimate of 2006/07

The adjustments budget was submitted on time and in line with section 31 of the PFMA, as well as in the prescribed format.

#### Spending outcomes of 2006/07

- The Department had spent 98.2 per cent of its budget during the 2006/07 financial almost all programme had increased their spending by the end of the financial year.
- There was no overspending or misuse of the fund during the accounting period or gross fiscal dumping by the end of the financial year.

**Table 141: Summary of actual spending per financial quarter**

Programmes	Quarter 1 April- June	Quarter 2 July- Sept	Quarter 3 -Oct- Dec	March	Quarter 4 Jan- Mar	Totals
Administration	5 091	5 181	3 702	5 608	8 823	22 797
Economic Participation	7 694	9 796	15 324	9 428	13 105	45 919
Fair Business Environment	1 875	1 641	2 554	2 827	4 202	10 272
Economic Sector Development	6 851	19 037	9 517	10 849	17 972	53 377
Tourism	1 744	15 854	4 846	4 146	20 687	43 131
Theft and Loss				2	2	2
<b>Total</b>	<b>23 255</b>	<b>51 509</b>	<b>35 943</b>	<b>32 860</b>	<b>64 791</b>	<b>175 498</b>

- Total Vote spending for the 12 month period from April 2006 until March 2007, is R175.498 million or 98.23 per cent of the revised Total Vote spending budget of R178.661 million following an decrease of R9.772 million (5.19 per cent) on the main budget of R188.433 million.
- Regarding spending consistency, total Vote spending peaked at R32.86 million during March 2007.
- On aggregate, Economic participation expenditure for the period to the end of March 2007, is R45.919 million or 96.7 per cent of the revised Economic participation budget of R47.472 million following an decrease of R2.122 million (4.28 per cent) on the main budget of R49.594 million.
- On spending consistency, Economic participation expenditure has peaked at R10.782 million during November 2006.
- All in all, Economic Sector Development expenditure for the review period, is R53.377 million or 98.78 per cent of the revised Economic Sector Development budget of R54.037 million following an increase of R3.017 million (5.92 per cent) on the main budget of R51.02 million. All in all, the programme expenditure represents 30.42 per cent of total expenditure disclosed.
- Regarding spending consistency, the programme expenditure peaked at R10.849 million during March 2007.
- On aggregate, Tourism expenditure for the 12 month review period, is R43.131 million or 99.06 per cent of the revised Tourism budget of R43.542 million following an decrease of R0.595 million (1.35 per cent) on the main budget of R44.137 million.

**Table 142: Summary of actual expenditure of the compensation of employee and Transfers**

Rmillion	2004/05	2005/06	2006/07
	R'000	R'000	R'000
	<b>Actual outcome</b>		
Compensation of Employees	22 182	27 147	30 372
Transfers and Subsidies	79 496	89 558	105 087
<b>Total payments</b>	<b>101 678</b>	<b>116 705</b>	<b>135 459</b>
<b>Percentage share of total</b>			
Compensation of Employees	21.82%	23.26%	22.42%
Transfers and Subsidies	78.18%	76.74%	77.58%
<b>Total payments</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>
<b>Percentage increase / decrease</b>			
Compensation of Employees		22.38%	11.88%
Transfers and Subsidies		12.66%	17.34%
<b>Total payments</b>		<b>14.78%</b>	<b>16.07%</b>

### Compensation of Employees

- Total Vote spending on compensation of employees for the 12 month period, amounted to R30.372 million or 99.63 per cent of the revised compensation of employees budget of R30.487 million following an decrease of R14.606 million (32.4 per cent) on the main budget of R45.093 million.
- Compensation of employees expenditure peaked at R3.463 million during March 2007.

### Transfer payments

- On aggregate, transfers and subsidies expenditure for the 12 month period from 1 April 2006 to 31 March 2007, amounted to R105.087 million or 97.4 per cent of the revised budget of R107.9 million following an increase of R22.615 million (26.52 per cent) on the main budget of R85.285 million.
- Transfers and Subsidies expenditure peaked at R16.043 million during September 2006.

### Payments for Capital Assets

Regarding Capital payments, the Department expended R2.547 million or (49.46 per cent) of the revised total payments for capital assets budget of R5.15 million following an increase of R4.15 million (415 per cent) on the main budget of R1 million.

### March spike spending

- The "March Spike" commonly refers to an anomaly, where the departmental expenditure during the month of March rises considerably when compared to prior months of the financial year.

- When considering per quarter spending, the Department had for the fourth quarter ending March 2007 spent R64.791 million versus R23.255 million during the first quarter, R51.509 million during the second quarter and R35.943 million during the third quarter.
- The increase in the last two quarters in the financial year can be attributed to spending in sub-programme 3.2: Office of the Consumer Protector, transfers and subsidies to non-profit institutions for finalisation of phase 2 of the Foetal Alcohol Syndrome (FAS) project, which supports projects that raises awareness of FAS in targeted areas.

## **Revenue**

The Department collected R11.17 million in provincial own receipts of the R4.60 million adjusted budget for the 2006/07 financial year. This overcollection was R6.57 million or 143 per cent more than the adjusted budget, and was mainly due to an over collection on financial transactions in assets and liabilities, which was not budgeted for.

The main appropriation for provincial own receipts for the 2007/08 financial year is R20.77 million which is R9.61 million or 86 per cent more than the actual collection of R11.17 million in the 2006/07 financial year. This appropriation will be adjusted in the Adjustments Estimate 2007 to R4.77 million as a result of a delay in the promulgation of the Western Cape Liquor Bill.

The Department of Economic Development and Tourism generally operates on level 3 and is moving towards a level 4 financial management capability rating.

### **3.12.2 Compliance with accounting policies and standards**

An assessment of the financial management capability of the Department was based on audit findings and IYM monthly reporting, that revealed the following:

#### **Management of and reporting on suspense accounts**

The Department reported that suspense, control and disallowance accounts are followed-up and cleared on a monthly basis within a reasonable period of time. Monthly reconciliations of control and suspense accounts were performed timely which made it possible for the Department to close its books successfully on a monthly basis. BAS reports of the Department were reviewed on a monthly basis in order to monitor the balances of suspense and control accounts. This is an indication that the Department achieved a level 3 of financial management capability rating.

#### **Accounting of assets**

The Department indicated that they complied with the minimum requirements of an asset register in terms of the acquisition (assets register updated), identification, accountability and accounting of assets. The Department achieved a rating of level 3 financial management capability.

### **Financial reconciliations**

The Department reported that all financial reconciliations and interfaces i.e., Bank reconciliations, PERSAL/BAS reconciliations, PMG/BAS reconciliations and all Logis integration transactions in relation to BAS have taken place for every reporting month. However various differences/variances were identified in the monthly BAS/PERSAL interface reconciliations submitted during the 2006/07 audit performed by the Auditor-General. It was established that the controls or access to the accounting systems have not been adhered to at all time as there is more than one employee with access to the reconciliations. The Department achieved a level 2 financial management capability rating and needs to ensure that the monthly BAS/PERSAL reconciliations are reviewed by a senior official and signed off as an indication that the relevant reconciliation has been reviewed and that proper controls are implemented in order to move to level 3 financial management capability rating.

### **Supporting documentation**

The sources of the transactions are readily identifiable and supported by authentic and verifiable source documentation, enabling the department to follow-up and clear balances within a reasonable period of time. The Department achieved a level 3 financial management capability rating.

### **Expenditure – Payments and journals**

In the monthly IYM report the Department reported that all inter-departmental balances and debts have been recorded and reconciled, as well as receivables and payables confirmed within reasonable time and paid within the prescribed agreed period. The Department achieved a level 3 financial management capability rating.

### **Procedures for the identification and reporting of unauthorised, fruitless and wasteful and irregular expenditure**

The Department reported that it has proper procedures in place for the identification and reporting of unauthorised, fruitless and wasteful and irregular expenditure in terms of the PFMA. The Department achieved a level 3 financial management capability rating.

### **Recording and maintenance of State Guarantees**

During the 2006/07 audit performed by the Auditor-General it was found that PERSAL information on PERSAL regarding home-owners allowances could not be found on the relevant employee's file. This could result that home-owners allowance paid may not be in compliance with the PSCBC Resolution of 1999 and hence open to manipulation and abuse by employees. It is recommended that in order for the Department to move from its current level 2 financial management capability it should ensure that employee files are updated with employee details timeously for employees who receive home-owners allowances, thus complying with PSCBC Resolution of 1999 and hence achieve a level 3 rating in terms of the financial management capability model.

### **Management of lease liabilities**

The Department reported that a operating lease register has been implemented and that it is maintained on a monthly basis. The Department achieved a level 3 financial management capability rating.

### **Management of thefts and losses**

The Department reported that there are effective control measures in place on the management of thefts and losses. The Department achieved a level 3 of financial management capability rating.

### **Management of contingent liabilities**

In the 2006/07 Auditor-General's management report to the Department, it was reported that both capped leave and leave entitlement was calculated using 100 per cent of the senior employee's remuneration packages. A recalculation of the amounts for leave entitlement and capped leave for senior management was done, based on the actual annual salary, which is 60 per cent of the remuneration package. Employee benefits, as disclosed in the AFS, was overstated by R221 980. To move from a level 2 to a level 3 in terms of the financial management capability model the Department must ensure that all calculations in respect of employee benefits are correctly disclosed in the AFS and that Human Resource management controls in respect of capped leave and remuneration packages needs to be improved.

### **Monthly reporting of financial information to the CFO/AO/EA/Department**

It was noted that monthly compliance reporting to Provincial Treasury took place according to legislative requirements. Financial reports were provided to the Accounting Officer about unclear items and followed up on a monthly basis by the Chief Financial Officer. The Department achieved a level 3 of financial management capability rating.

## **WESTERN CAPE INVESTMENT AND TRADE PROMOTION AGENCY**

### **Management and reporting on suspense accounts**

During discussions WESGRO confirmed that suspense accounts are cleared and reconciled monthly. The entity is performing at level 3 financial management capability.

### **Accounting of assets**

The Auditor-General identified PPE where the useful life and residual value-assessments were not properly considered, depreciation was not calculated from the date that the assets were brought into use, and the depreciation was incorrectly calculated. The above implies that proper asset management controls and accounting requirements are not in place. The entity is performing at level 2 financial management capability. The entity should adopt asset management controls that will

ensure effective asset management to achieve a level 3 financial management capability.

### **Financial reconciliations**

During the audit, the Auditor-General identified unreconciled differences in the cashflow statement. This implies that reconciliations of control accounts are not performed monthly. WESGRO should clear all exceptions and reconcile the control accounts on a monthly basis to achieve a level 3 financial management capability.

### **Supporting documentation**

The Auditor-General identified a lack of supporting documentation, and authorisation, for travel expenses. WESGRO needs to implement the necessary controls to achieve a level 3 financial management capability.

### **Expenditure – Payments and journals**

The following was identified by the Auditor-General:

- The Accounting policy applied for project expenses was inconsistent with IFRS.
- The Maintenance expense account includes capital items and other misallocated expenses.
- Event management fees were incorrectly classified as legal fees.

The entity is performing at a level 2 financial management capability and should ensure that their accounting policy is in compliance with SA GAAP, and that all the expense items have been correctly classified, to move to a level 3 financial management capability.

### **Accounting treatment of transactions**

The Auditor-General reported that WESGRO has control weaknesses within the accounting process, which have resulted in the non-compliance with the PFMA and IFRS. The Auditor-General reported on the non-compliance to IFRS 5 as part of Other Matters. The entity is performing at a level 2 financial management capability and should ensure that their accounting policy is in compliance with SA GAAP to move to a level 3 financial management capability.

### **Monthly reporting of financial information to the CFO/AO/EA/Department**

Wesgro is operating at level 3 financial management capability since all levels of reporting is fully informed.

## **DESTINATION MARKETING ORGANISATION**

### **Management of and reporting on suspense accounts**

The entity reported that amounts are not cleared and correctly allocated to the relevant expenditure and revenue accounts on a monthly basis. The entity should implement procedures to properly control suspense accounts in order that financial information is timely and accurate, which will enable the entity to achieve a level 3 financial management capability.

### **Accounting of assets**

The entity complied with the minimum requirements of an Asset Register (Movable Assets). The entity is currently performing at a rating of level 3 financial management capability. The entity should implement cost management controls to ensure effective and efficient use of assets to achieve a level 4 financial management capability.

### **Financial reconciliations**

The following was identified by the Auditor-General:

- (a) Journals were not recorded and authorised properly on the financial system.
- (b) Due to shortage of staff, the creditors were not reconciled and debts were not paid within the agreed period.

The entity is currently performing at level 2 financial management capability. The acting CFO has indicated that the entity has developed a strategy, to perform the bank reconciliation on a weekly basis and creditors & debtors on monthly basis, which will ensure a rating of level 3 financial management capability.

### **Supporting documentation**

The entity reported that all transactions are supported by authentic and verifiable source documents. The entity is currently performing at level 3 financial management capability.

### **Expenditure – Payments and journals**

The Auditor-General established that certain transactions were allocated incorrectly. This indicates a lack of proper controls and procedures. The entity is performing at a level 2 financial management capability. The entity should ensure that their accounting policy is in compliance with SA GAAP, and that all the expense and income items have been correctly classified, to move to a level 3 financial management capability.

### **Management of lease liabilities**

Leases are treated as prescribed. The entity is currently performing at level 3 financial management capability.



### **Management of thefts and losses**

Operational procedures are in place to ensure that officials notify and record thefts and losses. The entity is currently performing at level 3 financial management capability.

### **Monthly reporting of financial information to the CFO/AO/EA/Department**

The entity reported that the appointment of the acting CFO enabled the financial information to be reported monthly to the Board of Directors, AO and the Head of Department quarterly. The entity is performing at level 3 financial management capability.

## **WESTERN CAPE LIQUOR BOARD**

### **Management and reporting on suspense accounts**

WC Liquor Board indicated a total outstanding debt of R573 000 as at 31 March 2007. The entity should follow up outstanding debt according to their debtor's policy. Debt of 90 days and older is a concern and should be addressed by the CFO. The entity achieved a level 2 of financial management capability rating and it is therefore recommended that the entity follow up long outstanding debts more rigorously and produces financial information that enables the entity to achieve a level 3 assessment.

### **Accounting of assets**

Asset management controls and accounting requirements are in place. The entity performed at a level 3 of financial management capability rating. It is recommended that the entity step up management controls to ensure effective cost management, and assess the use of assets to achieve a level 4 financial management capability assessment.

### **Financial reconciliations**

WC Liquor Board was unable to reconcile the income pertaining to registered liquor license holders with income collected by SARS. The entity is therefore uncertain as to who settled their debt in respect of liquor licenses at financial year end. The entity achieved a level 2 financial management capability assessment. The financial management capability will improve once the Western Cape Liquor Bill is promulgated, enabling the WC Liquor Board to collect its own revenue.

### **Supporting documentation**

The entity performed at a level 3 financial management capability rating.

## **Expenditure – Payments and journals**

### **Authorisations**

WC Liquor Board is at a level 3 and should ensure that the entity address the execution of authorisation against service delivery standards to achieve a level 4 financial management capability.

### **Accounting treatment of transactions**

The entity is at a level 3 and should ensure that their AFS is in compliance with SA GAAP, that the integrity of data is reliable and readily available to move to a level 4 financial management capability.

### **Procedures for the identification and reporting of unauthorised, fruitless and wasteful and irregular expenditure**

The entity is currently performing at a level 3 as it ensures that unauthorised, irregular, fruitless and wasteful expenditure are prevented and identified prior to ordering goods or do payments.

### **Monthly reporting of financial information to the CFO/AO/EA/Department**

WC Liquor Board is at level 3 financial management capability for monthly reporting of financial information, all levels of reporting are fully informed.

## **3.12.3 Normative Financial Management**

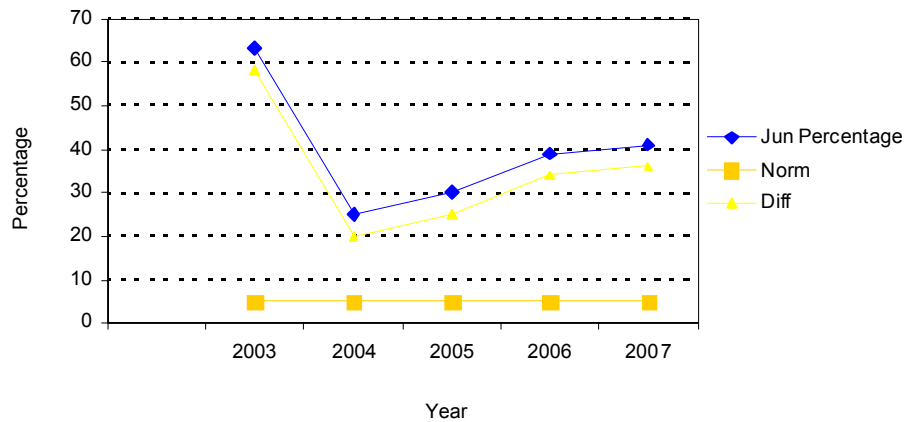
This section provides a review of the PFMA implementation and financial management improvement for sustainability service delivery by the Department. The source documents used in this process are the Normative Measures Quarterly report and A-G Report for the year ended 31 March 2007.

### **Performance Agreements**

The performance agreement between the Accounting Officer and the MEC has not been signed. The HoD has been appointed in an acting capacity during this reporting period.

## CFO Structure Human Resources Capacity

Figure 7: DEDAT Vacancy Rate - 5 year Trend Line



### Analysis:

- The Department currently records a very high vacancy rate at 41 per cent (June 2007) in the CFO structure. As the graph indicates, this represents a substantial variance from the norm and continues the upward trend started in June 2004.
- The Department has implemented performance agreements at all levels, career plans have been developed for 83 per cent of the staff establishment, and staff is attending structured training programmes offered by the Department.

### Annual, Quarterly and Monthly Reports

The Department and public entities must report monthly on expenditure and revenue; quarterly on performance; and annually they have to table Annual Reports, as prescribed, by the Legislature.

Table 143: Compliance with annual, quarterly and monthly reporting requirements

Institution	Date annual report received by Provincial Treasury	Annual report submitted to National Treasury	Annual report submitted to the Provincial Legislature	Quarterly performance against strategic plan	Monthly reporting (IYM)
<b>Departments</b>					
Economic Development and Tourism	31-August-2006	√	15-Sep-2006	√	√
<b>Public Entity</b>					
DMO, t/a CTRU	31-August-2006	√	29-Sep-2006	√	
WESGRO	31-August-2006	√	29-Sep-2006	√	
WC Liquor Board	N/A	N/A			

### **Analysis:**

- The Department successfully tabled their 2005/06 Annual Reports as well as those of the public entities under their ownership control, within the prescribed timeframes.
- During this period the WC Liquor Board reported as an institution within the Department.
- The Provincial Treasury initiated an In-Year-Monitoring process for public entities, and this will trigger quarterly submissions by the respective entities reporting via this the DEDAT with effect from the first quarter in the 2007/08 reporting period.

### **Analysis of the A-G Report for the DEDAT dated 31 August 2007**

The Auditor-General expressed an unqualified opinion, with other matters on the audit of financial statements and performance information of the Department.

### **Other Matters**

The following issues were raised under 'other matters' in the A-G Report:

- Inadequacy of the applicable legislation (not affecting the financial statements), due to the fact that the Department was unable to account for the completeness of the debt raised in respect of liquor licenses due to the non-finalisation of the Western Cape Liquor Bill by the local legislature.
- The annual financial statements, approved by the accounting officer as submitted for audit, have been significantly revised in respect of closing balance of transport assets and the total employee benefits disclosure.
- Delay in finalisation of audit due to the national public sector strike action during June 2007.

### **Performance Information**

The Auditor-General has not identified any significant findings relating to performance information for this Department.

### **Financial Management Capability Model Assessment**

The financial management level of this entity shows no improvement taking into consideration the outcomes of 2007 audit report by the Auditor-General.

### **Analysis of A-G Report of WESGRO dated 31 July 2007**

The Auditor-General expressed an unqualified opinion, with other matters on the audit of financial and performance information of WESGRO.

## Other Matters

The following issues were raised under other matters in the A-G Report:

- Material non-compliance with applicable legislation and policies
- PFMA and IFRS including the following matters:
  - Non-compliance with the SCM regulations 16A;
  - Non-compliance with IFRS 5 – non-current assets held for sale and discontinued operations;
  - Non-compliance with section 54(2)(c) of the PFMA;
  - Non-compliance with the PFMA treasury regulations and the entity's investment policy;
  - Non-compliance with SA GAAP in terms of the accounting treatment of specific projects including PlekPlan, Ikapa and Dreamworld. The accounting policy should have been modified to comply with SA GAAP, and
  - Material corrections made to the financial statements submitted for audit – a debtor raised in the accounting records that never materialised.

## Audit finding relating to Performance Information

- Inconsistencies at times between the monthly and quarterly reports with that reported in the annual report.
- Certain objectives as established by management were not in line with recent PFMA requirements (15 March 2005) as they are not specific and/ or measurable and/ or time-bound.

## Financial Management Capability Model Assessment

The financial management level of this entity shows deterioration in financial management taking into consideration the 2006/07 external audit report by the Auditor-General.

## Analysis of A-G Report of Destination Marketing Organisation, trading as CTRU

The Auditor-General expressed an unqualified opinion, with other matters on the audit of financial and performance information of the Destination Marketing Organisation, t/a Cape Town Routes Unlimited.

## Other Matters

- Material non-compliance with applicable legislation
- Paid sick leave contrary to provisions of the BCOE Act.
- Lack effective SCM policies or practices as required by the SCM regulations leading to inadequate contract management, incurrence of additional expenditure and a SCM unit were not established.

- Matters of governance include internal audit operating in the absence of an internal audit charter and the audit committee did not meet as stated in the audit committee charter. Further, the Board minutes were not properly recorded and decisions taken by the board were not carried out.
- A special investigation is in progress and consequently the A-G was unable to evaluate the impact of the findings on the financial statements.

#### **Audit finding relating to Performance Information**

- Non-alignment with strategic goals – this issue was resolved as strategic documentation were aligned
- The objectives are not measurable – goals did not state the baseline against which attainment or non-attainment of goals could be measured, and
- Lack of an adequate system for collating and collecting performance information – the entity needs to implement this in terms of section 55(2) (a) of the PFMA.

#### **Financial Management Capability Model Assessment**

The financial management capability level of this entity shows deterioration of financial management, taking into consideration the 2007 external audit report presented by the Auditor-General.

#### **Analysis of A-G Report of WC Liquor Board dated 31 July 2007**

The Auditor-General expressed a qualified opinion on the financial and performance information of the WC Liquor Board.

#### **Basis of A-G Opinion**

The basis of the qualification for this entity is expressed due to liquor license income and receivables. This is the 4th consecutive year that the A-G is unable to verify the completeness of accounts receivable in respect of liquor licenses.

#### **Audit finding relating to Performance Information**

The Auditor-General has audited the performance information for the entity as set out under programme 3 in the annual report of the DEDAT.

#### **Financial Management Capability Model Assessment**

The first time assessment of the financial management level of between Level 2 and Level 3, taking into consideration the 2007 external audit report by the Auditor-General.

### **3.12.4 Enterprise Risk Management**

The section provides guidance, criteria, and norms and standards for the attainment of levels of enterprise risk management in terms of the financial management capability model. It is anticipated that this will assist management in being able to identify underlying problems and focus on areas to improve the enterprise risk management processes.

Departments will not be assessed on Level 3 and 4 because of the immaturity of enterprise risk management within the provincial government.

#### **PROPER CONTROL FRAMEWORK (LEVEL 1)**

Includes all scenarios where the Department has not implemented all the criteria required to obtain a level 2 assessment.

A proper internal control framework and financial accounting processes have been developed (level 2).

#### **Strategic Risk Assessment**

A Strategic risk assessment was conducted for the Department, risk response strategies were developed and it was found that the organisational structure supports processes developed.

#### **Way forward**

The Chief Risk Officer need to assign strategic risks identified to senior management (risk owners) for the required management attention and treatment. Once risks are allocated to SMS members, their performance agreements should be amended to include their responsibility for the management of risk.

The Department obtained a level 2 (partial compliance) financial management capability rating on the above.

#### **Internal Environment**

A risk management philosophy was included in the Departmental Risk Management Policy; however a management's philosophy was not developed for the Department. The risk appetite of the Department is also not defined.

#### **Way forward**

A management philosophy needs to be developed to emphasise the importance of risk management and to hold management accountable to the management of risk. The Department must define their risk appetite, i.e. the amount of risk the Department is willing to accept in the pursuit of their objectives.

The Department achieved a level 1 financial management capability rating on the above.

## **Operational Risk Assessment**

The risk event identified during the operational risk assessment in 2004 was assessed on an inherent level. Existing controls, gaps, control gaps are identified on a continuous basis by means of process and control mapping initiatives.

### **Way forward**

The Department should conduct annual risk assessment and the risk events identified, should be allocated to the relevant risk owners for the required management attention and treatment.

The Department obtained a level 2 (partial compliance) financial management capability rating on the above.

### **HOW WILL THE DEPARTMENT MOVE TO LEVEL 3?**

The Department needs to address the shortcomings/way forward discussed above as well as the following:

#### **Internal Environment:**

- Compliance to commitment to competence displayed in appointment and development practices;
- Compliance to assignment of authority and responsibility;
- Compliance to writing and communicating Risk Management Philosophy to staff;
- Compliance to Management's philosophy and operating style reflecting acceptance of risk management principles, and
- Compliance to define the Departments risk appetite.

#### **Event Identification**

- Risk events are identified at least annually and are incorporated into daily activities
- Risk events are grouped in terms of event categories

#### **Risk Assessment**

- Risks are assessed on a residual risk basis

#### **Control Activities**

- Control activities are designed to address risk events
- Control activities are designed using a recognised control framework



## Information and Communication

- Pertinent information is collected
- Integrated systems to analyse information is available
- Information is communicated in the right quantity to the right person at the right time

## Monitoring

- The risk management process is subject to ongoing internal evaluation
- The risk management process is subject to regular internal audit evaluation

### 3.12.5 Cash Management

The evaluation was based on the activities of the 2006/2007 financial year and the findings were as follows:

**Table 144: Assessment of cash management**

Requirements	Standard Level 3	Standard Level 4	Rating
Staff skilled & Capacitated in Cash Management	In accordance with profile	All functions on the Cash Management System	3
Submission of Annual Provincial Cashflow Projections	By 28 February	By 15 February	2
Deviation between monthly projections & actual expenses	5%	3%	2
Monthly Own Revenue Payover	2 working days prior to month end	3 working days prior to month end	3
Repayment of Surplus Funds	31 May	15 May	3
Submission of monthly Bank Reconciliation	Within 30 days after month end	Within 15 days after month end	4
Beneficiary Payments (Direct Transfers)	1% of Total Payments	0.50% of Total Payments	4
<b>Average rating</b>			<b>3</b>

The Department achieved an overall rating of level 3 (nominal compliance) financial management capability.

#### Skilled and capacitated system users

The Department obtained a rating of 3 (nominal compliance) financial management capability. All system users were trained in accordance with their profiles, during the implementation of the new official banker's system.

## Submission of Annual Provincial Cashflow Projections

The Department obtained a rating of 2 (partial compliance) financial management capability. The Annual projections of expenditure were received on 5 March 2007. PT will support and assist the Department to ensure that Annual Provincial Cashflow Projections are submitted timeously.

**Table 145: Assessment of the deviation between monthly projections and actual expenses**

	Original Forecast			Rating
	Project	Actual	%	
APRIL'06	5,453	4,557	16	2
MAY'06	11,382	3,668	68	2
JUNE'06	26,438	15,057	43	2
JULY'06	24,210	15,455	36	2
AUG'06	17,636	9,574	46	2
SEP'06	20,793	19,276	7	2
OCT'06	18,187	20,593	(13)	2
NOV'06	21,674	7,757	64	2
DEC'06	9,145	10,695	(17)	2
JAN'07	7,267	12,852	(77)	2
FEB'07	14,361	22,467	(56)	2
MAR'07	11,887	46,482	(291)	2
<b>Sub-Total</b>	<b>188,433</b>	<b>188,433</b>		<b>2</b>
<i>Revised Forecast</i>				
<i>(after adjustment budget)</i>				
MAR'07				
Adjustment	(9,772)	(9,772)		
<b>Total</b>	<b>178,661</b>	<b>178,661</b>	<b>100</b>	

The Department achieved a rating of level 2 (partial compliance) financial management capability. PT will support and assist the department to determine the reasons for the variances and to compile more credible projections in future.

## Monthly own revenue payover

The Department obtained an average rating of level 3 (nominal compliance) financial management capability. Revenue is being paid over monthly 2 working days prior to month end.

## Repayment of Surplus funds

The Department obtained a rating of level 3 (nominal compliance) financial management capability. Surplus funds were paid to the PRF on 30 May 2007.

### Submission of monthly Bank Reconciliations

The Department was rated at level 4 (full compliance) financial management capability. The monthly bank reconciliation is submitted within 15 days after month end.

### Beneficiary Payments (Direct Transfers)

The Department achieved a rating of level 4 (full compliance) financial management capability.

**Table 146: Beneficiary Payments**

Payments	Beneficiary Payments	%
3599	2	0.06

### 3.12.6 Supply Chain management

The financial management capability assessment was based on the activities of the Department during the 2006/07 financial year and the outcomes are as follows:

#### Organisational Structure

- No documentation could be found whereby Departmental Bid Committee (DBC) members declare their financial interest on a yearly basis;
- No document could be traced whereby DBC members are cleared for confidentiality purposes;
- No appointment letter issued when a member is appointed or removed from the DBC, and
- No quarterly checks performed on the bids received register as per paragraph 8.4.3, (page 28 of the) of the AO system.

#### Policy and Procedure

- Accounting Officers System: Both an AO system i.t.o Section 38 (i)(ii)(a) and a Standard Operating procedural manual are in place.
- No fraud and theft prevention plan exists;
- No risk plan exists for the department with regard to SCM and Asset Management;
- AO system and delegations not signed off by Accounting Officer;
- It is unclear if the AO system and the accompanying delegations have been updated annually;
- No motivation provided for accepting and awarding a late bid from a bidder, and
- Bid awarded without pertinent documentation being presented.

### **Resource Capacity**

- No infrastructure to support SCM reporting requirements such as individual item records, transaction history, consumption history, item classification, stocking instructions, average and or unit prices, unit of issue, asset categories, receipt and or issue vouchers and filing system for receipts and issues;
- No source documents exist with regard to purchases;
- Orders are split to stay within delegated powers;
- No face-value register exists with regard to Order books and they are not safely locked away;
- Asset controllers are not being appointed properly;
- Asset records and the asset register are not updated immediately on receipt of new assets, and
- Asset records are not completed and signed immediately during receipt, transfer and disposal of assets.

### **Steps to be taken to ensure that the department establishes itself at the next auditable level**

From a Provincial Treasury perspective the following interventions steps are planned in the next financial year:

- Training on bid committees and contract management as provided and funded by the National Treasury;
- An integration of the financial and non-financial systems with the implementation of the IFMS;
- Linkages with other disciplines within the Provincial Treasury to enable an integrated approach to enable a supporting environment that maintains the credibility of the level;
- Addressing and implementing a supplier development initiative with other role-players to impact on the socio-economic aspects of procurement by achieving the desired outputs in respect of procurement to HDIs, SMMEs or BEE companies, and
- Engaging and compiling business cases and feasibility research to enable departments to leverage their buying power in participating in transversal contracts thereby impacting on economies of scale and value for money considerations.

From a departmental perspective the following interventions need to be instituted so that the department sustains itself at the achieved level and also enables the department to elevate itself to the next level:

- Ensure that internal control measures are in place for the cost efficient and effective management of SCM not only at the head office level but also at the institutional level;
- Staff structure and job description of SCM officials need to be revised to align itself with the current requirement of the posts as well the prescribed regulatory framework and competencies for SCM, and

- A concerted effort must be placed on training and a skills development plan to build the internal capacity and resources of the SCM unit.

### 3.12.7 Supporting and Interlinked Financial Systems

This section deals with the implementation and maintenance of Financial Systems as well as the provision of functional assistance and training, to all system users.

#### Review

Two of the three major systems (BAS and PERSAL) as well as Vulindlela are being utilised by the Department in the execution of their daily functions.

The evaluation was based on the activities of the 2006/07 financial year and the findings were as follows:

**Table 147: Assessment of the Basic Accounting System (BAS)**

Requirements	Standard Level 3	Standard Level 4	Rating
Skilled and capacitated system users	In accordance with profile	Various Modules	4
Month-end closure	Own accord – due date	Own accord – prior date	4
Year-end closure	Own accord – due date	Own accord – prior date	4
System Controller Functions	80 – 90%	91 – 100%	3
Monitor Applicable Interfaces	Weekly	Daily	4
<b>Overall rating</b>			<b>4</b>

The Department achieved an overall rating of level 4, (full compliance) financial management capability.

**Table 148: Assessment of skilled and capacitated system users: training**

Number of officials nominated	Number of officials attended	Number of officials cancelled	Number of officials qualified for a certificate (70% pass rate)	Number of officials not qualifying for a certificate
5	5	0	5	0

Based on statistics provided, 5 delegates were nominated, attended and passed successfully, and in addition users are trained in various modules and therefore the Department achieved a rating of level 4 (full compliance) financial management capability.

### Month end closure

The Department achieved a rating of level 4 (full compliance) financial management capability as their books were closed on a monthly basis prior to the predetermined dates of the National Treasury.

### Year closure

The Department achieved a rating of level 4 (full compliance) financial management capability as their year-end closure was done prior to the predetermined date of the National Treasury.

### System Controller Functions

Based on the following criteria, the System Controller function was rated at level 3 financial management capability.

- Logging of calls to the Provincial Helpdesk
- Maintenance of Security Profiles
- The reinstate of Transaction Processing Rules
- Requesting/monitoring and distributing of automated Basic Accounting System reports
- Maintenance of segment details
- Maintenance/update of departmental parameters
- Provide practical individual training to users
- Monitor Technical stability of work station including Local area network
- Assisting non-financial users of Basic Accounting System.

### Monitor applicable interfaces:

The Department achieved a rating of level 4 (full compliance) financial management capability as their interfaces were monitored and reported on, at least on a daily basis.

**Table 149: Assessment of the Personnel and Salary Administration System (PERSAL)**

Requirements	Standard Level 3	Standard Level 4	Rating
Skilled and capacitated system users	In accordance with profile	Various Modules	2
System Controller Functions	80 – 90%	91 – 100%	2
Establishment Management	Quarterly	Monthly	3
PERSAL/BAS Reconciliation	Monthly by the 20 <sup>th</sup>	Prior to the 20 <sup>th</sup>	3
Adhere to Minimum Information Requirements	Annually	Continuous process	2
Leave Audit	Annually	Continuous process	3
<b>Average rating</b>			<b>2</b>

The Department achieved an overall rating of level 2 (partial compliance) financial management capability, which is a performance of below standard.

**Table 150: Assessment of skilled and capacitated system users: training**

Number of officials nominated	Number of officials attended	Number of officials cancelled	Number of officials qualified for a certificate (70% pass rate)	Number of officials not qualifying for a certificate
25	17	8	14	3

The Department obtained a rating of level 2 (partial compliance) financial management capability due to the high percentage of officials being nominated and not attending courses as well as not all officials being trained in accordance with their profiles.

The Directorate Supporting and Interlinked Financial Systems is currently in the process of identifying the training gap of all system users and will in co-operation with the Department nominate system users for training in accordance with their profiles. In addition issues of poor attendance will be addressed with the Department.

#### **System Controller Functions**

The Department obtained a rating level 2 (partial compliance) due to the system users not optimally utilising the system.

The Directorate Supporting and Interlinked Financial Systems will in co-operation with the Department provide individual training to the system controller.

#### **Establishment Management**

The Department achieved a rating of level 3 (nominal compliance) financial management capability as the establishment is maintained on at least a quarterly basis.

#### **Adhere to Minimum Information Requirements**

As not all information is captured on the system, the Department achieved a rating of level 2 (partial compliance) financial management capability.

Reports indicating the outstanding information are available and are provided by Provincial Treasury to departments on request. The situation will be monitored by the Provincial Treasury to ensure compliance.

#### **Leave Audit**

The Department achieved a rating of level 3 (nominal compliance) financial management capability as the leave audit is updated on at least an annual basis.

**Table 151: Assessment of the Management Information System (Vulindlela)**

Requirements	Standard Level 3	Standard Level 4	Rating
Percentage of registered users using the system on a regular basis	80 – 90%	100%	2

**Table 152: Assessment of the usage of the Management Information System (Vulindlela)**

Number of registered users	Number of registered users using the system on a regular basis	Number of registered users not using the system on a regular basis	Percentage active users
9	4	5	44%

The Department obtained a rating of level 2 (partial compliance) financial management capability due to the fact that only 44 per cent of registered users utilise the system on a regular basis.

The Directorate Supporting and Interlinked Financial Systems will, in cooperation with the Chief Financial Officer, re-evaluate the need of the 5 registered users who do not use the system on a regular basis. In addition, discuss the further role out of Vulindlela within the Department and address any further user requirements they might have.



## 3.13 Department of Cultural Affairs and Sport

### 3.13.1 Performance Management

#### 3.13.1.1 Non-financial information

##### Introduction

This section provides a high level assessment of the Department's non-financial performance and makes a judgment on the level of that performance, in line with the financial management framework. As mentioned in the methodology section, this framework is evolutionary and its refinement iterative. The assessment includes the Strategic and Performance Plan; and Annual and Quarterly Performance Reports. The former two documents are tabled in the Legislature, while Quarterly Performance Reports, as of 2007, are tabled in Cabinet.

The assessment gauges key aspects of the Department's performance management system, and considers whether the Department has reached a level 3 competency level, and expresses a view on the extent to which the Department is moving towards a level 4 organisation. This evaluation assesses the 2006/07 Annual Report and the 2006/07 and 2007/08 Annual Performance Plans. There may, however, be some areas of a Department's performance framework that display a level 4 competency, while others have yet to reach a level 3-competency level.

The departmental APP 2006/07 and Annual Report 2006/07 have been used as the base documents for this assessment. The introduction of the requirement for government departments to submit progress report on the non-financial performance offered an opportunity to assess how far government departments in implementing government programmes and policies to improve service delivery.

For the period under review emphasis has been ensuring that the Department formulates clear measurable objectives and set realistic and measurable targets. The aim is to ensure that the departmental APP when read together with the Annual Report reflects clearly and concretely stated performance expectations; performance accomplishments reported against expectations; demonstrated capacity to learn and adapt; and the information obtained and communicated is fair and reliable. The emphasis was more on compliance side than determining whether the Department performance is responsive to the needs of the broader society.

The Department needs to develop suitable performance measures and performance targets. The APP needs to reflect clear or appropriate performance measures and targets. For example, in some instances attendance of meetings and workshops are cited as outputs. In some instances the Department's APP performance measures and targets are vague. The Department needs to address its institutional set-up. The policy or programme implementation efforts would likely be compromised if institutional capacity issues are not addressed. Furthermore, the Department needs to improve coordination and planning in order to avoid duplication. In some instances the APP targets and the actual targets achieved differs substantially. The difference could indicate a short-fall in planning.

The Department lacks credible data collection and collation system for non-financial information. As reflected elsewhere in this report, lack of credible collection and collation system for non-financial information make it difficult for the period under review to make a realistic and holistic picture on the performance of the Department to determine whether it is able to realise its desired objectives and performance deliverables as outlined in the Strategic Plan and the APP.

## Conclusion

The Department needs to improve coordination and relations with public entities to enable it to exercise its oversight role. Staff orientation should focus on improving service delivery and effecting positive change. A strong and effective institutional capacity would enable the Department to plan more strategic in an effort to improve service delivery.

Although the Department needs to establish credible performance management systems, it shows a potential to adapt and demonstrates capacity to learn.

### 3.13.1.2 Financial Information

From a Public Finance perspective the following has been noted regarding the performance of the Department.

- The Department submits its IYM report by the 15th day after the end of a reporting month as stipulated in section 40(4)(c) of the PFMA.
- The Department needs to improve on making their projections more realistic, as forecasts in a prior quarter differs from actual expenditure. The table below further alludes to this and gives a quarterly comparison of 2006/07 actual expenditure that indicates how the projected spending differs from the actual expenditure. The projections increase on a monthly basis, as actual expenditure appears to be extremely less in some instances than the projections.

**Table 153: Projected vs Actual Expenditure**

R'000	April	May	June	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Total
First Quarter	8 153	10 894	11 516	26 973	18 779	18 075	15 388	14 532	17 437	13 192	14 786	17 966	<b>187 691</b>
%	4.34%	5.80%	6.14%	14.37%	10.01%	9.63%	8.20%	7.74%	9.29%	7.03%	7.88%	9.57%	<b>100.00%</b>
Second Quarter	8 153	10 894	11 516	13 050	13 917	12 949	32 242	15 626	17 344	16 021	16 901	17 808	<b>186 421</b>
%	4.37%	5.84%	6.18%	7.00%	7.47%	6.95%	17.30%	8.38%	9.30%	8.59%	9.07%	9.55%	<b>100.00%</b>
Third Quarter	8 153	10 894	11 516	13 050	13 917	12 949	22 516	13 073	14 629	25 273	24 168	17 523	<b>187 661</b>
%	4.34%	5.81%	6.14%	6.95%	7.42%	6.90%	12.00%	6.97%	7.80%	13.47%	12.88%	9.34%	<b>100.00%</b>
Fourth Quarter	8 153	10 894	11 516	13 050	13 917	12 949	22 516	13 073	14 599	15 558	23 175	25 766	<b>185 166</b>
%	4.40%	5.88%	6.22%	7.05%	7.52%	6.99%	12.16%	7.06%	7.88%	8.40%	12.52%	13.92%	<b>100.00%</b>

*Coloured Pink: Actual*

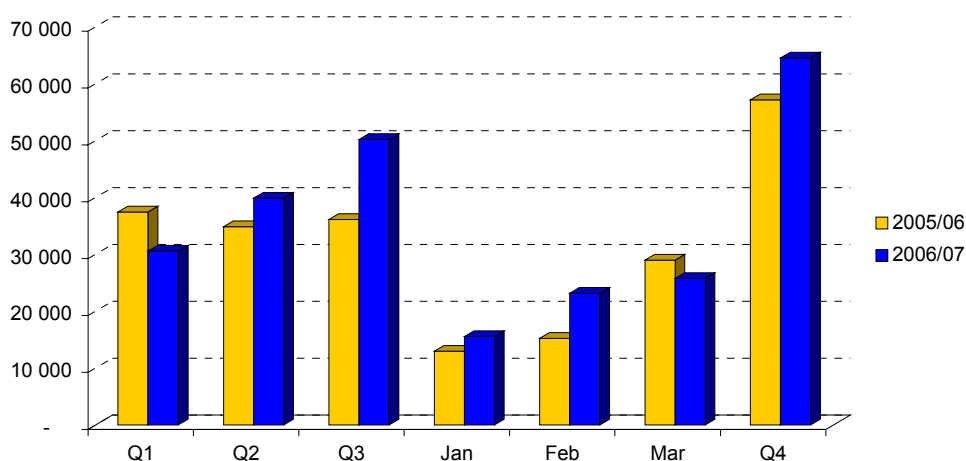
*Non-Coloured: Projections*

- The pre-adjusted budget in 2006/07 for the Department was R187.691 million. During the Adjustment Estimate the allocation was decreased to R187.661 million. The Department has spent R185.197 million or 98.68 per cent of

its post-adjusted allocation. This translates to a credible budget for the Department.

- R731 000 was rolled over from the 2005/06 financial year to 2006/07. An amount of R730 000 in Programme 3: Library and information services was rolled over for the establishment of a rationalised library facility for the Louwville Vredenburg community, which was delayed due to the finalisation of agreements between the Saldanha Bay municipality and the Department. A further R1000 was rolled over in Programme 4: Sport and Recreation for the Mass Sport and Recreation Participation Programme, a National conditional grant.
- The Department submitted its Adjustments Budget on time and it was comprehensive in terms of Section 31 of the PFMA.
- The illustration below gives a quarterly comparison of the actual expenditure for 2005/06 and 2006/07.

**Figure 8: Actual expenditure: 2006/07 vs 2005/06**



- The actual spending at the end of the fourth quarter is R185.197 million or 98.68 per cent of the adjusted budget of R187.661 million in 2006/07. Expenditure in 2006/07 is more, when compared to 98.45 per cent in 2005/06 financial year. With an adjusted appropriation of R168.312 million in 2005/06 the Department had an underspending of R2.607 million. This was however more when compared to the underspending of R2.464 million in 2006/07.
- The bulk of the underspending in 2006/07 was tied up in Programme 2: Cultural Affairs and Programme 3: Library and information services which further offset an over expenditure of R2.548 million in Programme 4: Sport and Recreation. The cause of the under expenditure within this programme was due to serious backlogs where transfer payments were concerned and further due to non-compliance of Municipalities where Memorandums of Agreement needed to be signed by the duly authorised official/s of the municipality.
- Table 154 illustrates a quarterly comparison of the actual expenditure for compensation of employees given its main appropriation and adjusted budget in 2006/07 and 2005/06.

**Table 154: Quarterly comparison: Compensation of employees**

	Budget	Adjusted Budget	Q1	Q2	Q3	Q4
	R'000	R'000	R'000	R'000	R'000	R'000
2005/06	73 505	63 897	14 399	15 173	16 813	17 439
2006/07	91 318	83 317	17 416	25 794	23 350	19 391

- Depicted in the table 154 above, the budget for compensation of employees is increased considerably from year to year. The Department however accumulates savings, as the actual expenditure is always less when compared to the projections on a monthly basis. The under spending on compensation of employees amounted to R6.878 million in 2006/07 which was much higher than the R135 000 in 2005/06.
- These savings were accumulated due to the non-filling of vacancies, which further translates to funds being shifted during the Adjustment Budget. Over the past two financial years the Department has been experiencing problems in the filling of vacancies.
- The Department had a March “spike” in 2006/07 as a result of an over spending in Programme 4 caused by to transfer payments that could not be paid earlier on and sporting events that can only take place in the last quarter of the financial year.
- The Department of Cultural Affairs and Sport collected R2.48 million in provincial own receipts compared to the R1.66 million adjusted budget for the 2006/07 financial year. This collection was R821 000 or 49.5 per cent more than the adjusted budget. This over collection was mainly due to an over collection on transfers received and fines, penalties and forfeits, which was not budgeted for. A transfer was received from the Tourism Hospitality Education Training Authority (THETA) for a specific project and the Department issued more penalties on late and lost library books than what was estimated.
- The main appropriation for provincial own receipts for the 2007/08 financial year is R425 000 which is R2.06 million less than the actual collection of R2.48 million in the 2006/07 financial year.

The Department of Cultural Affairs and Sport generally operates on level 3 and is moving towards a level 4 financial management capability rating.

### **3.13.2 Compliance with accounting Policies and Standards**

An assessment of the financial management capability of the Department was undertaken based on audit findings and IYM monthly reporting, that revealed the following:

#### **Management of and reporting on suspense accounts**

The Department reported that amounts in suspense accounts are cleared and correctly allocated to the relevant cost centres on a monthly basis. The entity performed at a level 3 financial management capability rating.

### **Accounting of assets (Asset Management)**

The Department complied with certain minimum requirements of an Asset Register (Movable Assets), however, the following issues, as reported by the Department, needs to be addressed in order to move to a level 3 financial management capability rating:

- The acquisition of assets (asset register updated) is still in progress and identification, accountability and accounting of assets were completed.
- The asset register and annual financial statements did not agree, indicating that controls over assets are inadequate.
- Final updates after stock take have to be taken into account and LOGIS information must be updated.

### **Financial reconciliations**

All bank reconciliations have been performed and reconciling items were cleared. BAS vs PERSAL, BAS vs LOGIS Assets Register and BAS vs PMG reconciliations were prepared, but some of these reconciliation's were not signed off by the CFO.

The Department is performing at a financial management capability rating of level 3.

### **Supporting documentation**

The Management letter of the Auditor-General indicated that not all departmental transactions are supported by authentic and verifiable source documents. The Department has now implemented controls to ensure that proper procurement processes are followed, which will address this problem and ensure that the Department performs at a financial management capability rating of level 3.

### **Expenditure – Payments and journals**

Allocations of transactions are generally made in terms of Standard Chart of Accounts (SCoA), however, certain expense items were misallocated in contravention of the applicable policy. The Department indicated that a delegated official will provide training to officials on the allocations of expenditure, in order to move towards a financial management capability rating of level 3.

### **Procedures for the identification and reporting of: (unauthorised expenditure, fruitless and wasteful expenditure, irregular expenditure)**

The Department managed to identify the current year's irregular expenditure and the movement is noted in the Financial Statements.

Steps are in place to ensure that unauthorised, irregular or fruitless and wasteful expenditure are identified and prevented.

The Department is performing at a financial management capability rating of level 3.

Recording and maintenance of State Guarantees, management of lease liabilities, management of thefts and losses, management of contingent liabilities as well as monthly reporting of financial information to the CFO/AO/EA/Department are dealt with in terms of the relevant prescripts. The Department is performing at a financial management capability rating of level 3.

#### **Western Cape Language Commission**

The entity is performing all the basic accounting functions according to prescripts, has already achieved a level 3 financial management capability and is moving towards level 4.

The entity should concentrate on expenditure levels, since it had small deficits for the past two financial years and its creditors payment period has deteriorated slightly from 12 days for 2005/06, to 20 days for 2006/07.

#### **Western Cape Cultural Commission**

The entity is performing all the basic accounting functions according to prescripts, has already achieved a level 3 financial management capability and is moving towards level 4.

The entity should concentrate on expenditure levels, since it had small deficits for the past two financial years and its creditors payment period has deteriorated slightly from 12 days for 2005/06, to 20 days for 2006/07.

#### **Western Cape Heritage Commission**

The entity is performing all the basic accounting functions according to prescripts, has already achieved a level 3 financial management capability and is moving towards level 4.

The entity should concentrate on expenditure levels, since it had small deficits for the past two financial years and its creditors payment period has deteriorated slightly from 12 days for 2005/06, to 20 days for 2006/07.

### **3.13.3 Normative Financial Management**

#### **Introduction**

The findings discussed in this section provide a review of the PFMA implementation and financial management improvement of the Department in line with the provincial strategy of reaching a level 4 Auditable Organisation (Financial Management Capability Model).

The source documents used were the Normative Measures For Financial Management for departments for the quarter ending 30 September 2007, the Public Entities Checklist, the Management report and the Auditor-General's report for the 2006/07 financial year.

## Analysis of Normative Measures Quarterly Report

### Performance agreement/s

The Accounting Officer signed a performance agreement that is aligned to the objectives and the strategic plan of the Department as required by the PFMA and PSR. The process of monitoring and updating this document continues to take place on a quarterly basis.

### Vacancy rate and HR related issues in the CFO component

The current vacancy rate for the Department stands at 10 per cent against the 5 per cent national norm. The Department has advertised all vacant posts, which should bring the Department within the national norm. This process would take the Department an average period of 6 months to complete.

### Reporting

The following table represents what the Department has reported and tabled before the executive authority and the legislature respectively for the 2005/06 and 2006/07

**Table 155: Departmental Reporting**

Related Document	Completed	Reported	Tabled to the legislature	Reporting time
Strategic Plan	X	X	X	<i>On time</i>
Annual Report 2006/07	X	X	X	<i>On time</i>

### Analysis of the public entities PFMA checklist

There are three public entities, which resorts under the Department namely: Western Cape Language Committee, Western Cape Cultural Commission, Heritage Western Cape. In terms of the PFMA checklist developed by the Provincial Treasury to ensure compliance with the PFMA, there are no significant findings in all three public entities.

While the areas of reporting and financial management are adequately addressed by the three public entities, there is however one area of concern across the three entities, namely, risk management. Risk assessments and fraud prevention plans need to be finalised in order to put the three entities at acceptable levels with national and international standards.

### Comparative analysis of 2005/06 and 2006/07 audit findings

The Department of Cultural Affairs and Sport has maintained a constant improvement if one compares the 2005/06 and 2006/07 financial years. In the 2005/06 financial year, the Department received an unqualified opinion with two emphasis of matter namely: outstanding library income due from MUNICIPALITIES and an incomplete fixed asset register. However, in the 2006/07 audit report these issues were adequately addressed. The challenge for the Department is to maintain this

status and strive towards a completely clean audit report at the end of the 2007/08 financial year.

### **3.13.4 Enterprise Risk Management**

The section provides guidance, criteria, and norms and standards for the attainment of levels of enterprise risk management in terms of the financial management capability model. It is anticipated that this will assist management in being able to identify underlying problems and focus on areas to improve the enterprise risk management processes.

Departments will not be assessed on Level 3 and 4 because of the immaturity of enterprise risk management within the provincial government.

#### **CONTROL FRAMEWORK (LEVEL 1)**

Includes all scenarios where the Department has not implemented all the criteria required to obtain a level 2 assessment.

#### **A PROPER INTERNAL CONTROL FRAMEWORK AND FINANCIAL ACCOUNTING PROCESSES HAVE BEEN DEVELOPED (LEVEL 2)**

##### **Strategic Risk Assessment**

Strategic Risks have been identified by the Sihluma Sonke Consortium and Internal Audit in January 2007. The next scheduled one will be taking place in April 2008. Risk response strategies and relevant processes still need to be developed. An organisational structure that supports the developed processes still needs to be developed also.

##### **Internal Environment**

A risk management philosophy and management's philosophy is still in developmental phase.

##### **Operational Risk Assessment**

An operational risk assessment was conducted in 2004 and the next one will take place in April 2008. The risk event have been identified and assessed on an inherent level. Existing controls have been identified and documented by means of process and control mapping initiatives. Control gaps have not yet been identified.

#### **OVERALL ASSESSMENT**

Based on the above information, the Department achieved a rating of 1, as the Department has not met all the set Criteria & Norms and Standards for Level 2. In order to achieve a rating at the next level (Level 2), the Department needs to have achieved all of the following set Criteria & Norms and Standards for Level 2:



### Strategic Risk Assessment:

- Risk response strategies developed and relevant processes developed
- Organisational structure supports developed processes

### Internal Environment:

- Risk Management Philosophy is articulated in writing and communicated to staff
- Management's philosophy and operating style reflects acceptance of risk management principles
- Risk appetite defined.

### 3.13.5 Cash Management

This section deals with the implementation and management of sound cash flow practices as well as the provision of assistance and training in respect of the official banking system within the Provincial Government of the Western Cape.

### Review

The evaluation was based on the activities of the 2006/07 financial year and the findings were as follows:

**Table 156: Assessment of cash flow management**

Requirements	Standard Level 3	Standard Level 4	Rating
Staff skilled & Capacitated in Cash Management	In accordance with profile	All functions on the Cash Management System	3
Submission of Annual Provincial Cashflow Projections	By 28 February	By 15 February	3
Deviation between monthly projections & actual expenses	5%	3%	2
Monthly Own Revenue Payover	2 working days prior to month end	3 working days prior to month end	3
Repayment of Surplus Funds	31 May	15 May	3
Submission of monthly Bank Reconciliation	Within 30 days after month end	Within 15 days after month end	4
Beneficiary Payments (Direct Transfers)	1% of Total Payments	0.50% of Total Payments	3
<b>Average rating</b>			<b>3</b>

The Department achieved an overall rating of level 3 (nominal compliance) financial management capability.

### Skilled and capacitated system users

The Department obtained a rating of level 3 (nominal compliance) financial management capability. All system users were trained in accordance with their profiles, during the implementation of the new official banker's system.

### Submission of Annual Provincial Cash flow Projections

The Department obtained a rating of level 3 (nominal compliance) financial management capability.

**Table 157: Assessment of the deviation between monthly projections and actual expenses**

	Original Forecast			Rating
	Project	Actual	%	
APRIL'06	11,652	11,236	4	2
MAY'06	12,437	7,253	42	2
JUNE'06	23,862	12,210	49	2
JULY'06	15,202	12,749	16	2
AUG'06	17,890	14,504	19	2
SEP'06	16,218	12,643	22	2
OCT'06	15,193	21,290	(40)	2
NOV'06	14,261	14,476	(2)	3
DEC'06	16,517	14,916	10	2
JAN'07	12,701	10,470	18	2
FEB'07	14,281	24,593	(72)	2
MRC'07	17,477	31,351	(79)	2
<b>Sub-Total</b>	<b>187,691</b>	<b>187,691</b>		<b>2</b>
<b>Revised Forecast (after adjustment budget)</b>				
MRC'07	(30)	(30)		
Adjustment				
<b>Total</b>	<b>187,661</b>	<b>187,661</b>	<b>100</b>	

The Department achieved a rating of level 2 (partial compliance) financial management capability. PT will support and assist the Department to determine the reasons for the variances and to compile more credible projections in future.

### Monthly own revenue payover

The Department obtained an average rating of level 3 (nominal compliance) financial management capability. Revenue is being paid over monthly 2 working days prior to month end.

### Repayment of surplus funds

The Department obtained a rating of 3 (nominal compliance) financial management capability. Surplus funds were paid to the PRF on 30 May 2007.

### Submission of monthly Bank Reconciliations

The Department was rated at level 4 (full compliance) financial management capability. The monthly bank reconciliation is submitted within 15 days after month end.

### Beneficiary Payments (Direct Transfers)

The Department achieved a rating of level 3 (nominal compliance) financial management capability.

**Table 158: Beneficiary Payments**

Payments	Beneficiary Payments	%
5100	26	0,51

### 3.13.6 Supply Chain Management

It must be noted that as no SCM compliance and value for money assessment was completed in the 2006/07 financial year, the assessment was based on the 2005/06 financial year. The review further took cognisance of the Asset Management Project Dashboard risk log assessments as well as the A-G's report of the current financial year (2006/07).

During the 2006/07 audit of supply chain management at various institutions, the AG's report determined the following:

#### Compliance to legislative and policy frameworks

- During the audit of conditional grants (Community Mass Participation and SSMPP) two cases were found where no quotations, requisitions and orders were submitted. The root cause was that there was non-adherence to procurement policies as goods are received from the supplier without obtaining a requisition, quotation and order.
- In terms of the Accounting Officer's Delegation, three quotations should be obtained for payments exceeding R5 000. However, two payments were made to a supplier without the proper procurement process being followed. In these cases, nine quotations were received in respect of each payment made, with the result that each quote amounted to less than R5 000 and so circumventing the need for obtaining other quotations. These nine quotes were obtained on the same day for different types of repairs, but pertaining to only one project.
- During the audit it was noted that the asset register, printouts from LOGIS, and the financial statements did not agree. Initially the register and financial statements differed by R753 106. (Asset Register R7 224 894 and financial statements R7 978 000). Adjustments were made to the asset register and the amount reflected in the annual financial statement was adjusted by R105 334.
- Assets are being transferred to different centres without the relevant transfer documentation being completed.

- The Department did not comply with the following legislation: Section 38(1)(g) of the PFMA "on discovery of any unauthorised, irregular or fruitless and wasteful expenditure, a department must immediately report, in writing, particulars of the expenditure to the relevant treasury," and in Treasury Regulation paragraph 9.1.2 it states "when an official of a department discovers unauthorised, irregular or fruitless and wasteful expenditure, that official must immediately report such expenditure to the accounting officer. Such expenditure must also be reported in the monthly report, as required by section 40(4)(b) of the Act."
- During the audit of payments it was noted that two payments out of a sample of 88 (2 per cent) were not made within the prescribed 30-day period.

In terms of the SCM compliance and value for money assessments completed at selected offices of the Department by Provincial Treasury, the Compliance Unit made the following findings:

#### **Compliance to legislative and policy frameworks**

- Tender specifications for goods and services required were not accurately defined to ensure that the correct goods and services were procured;
- Bid documents were not completed according the prescribed policy frameworks, and
- The application of preference points as per the Preferential Procurement Policy Framework Act, were not complied with.

#### **Organisational structure and capacity**

- The appointment of Bid Committees was not complied with as per the Accounting Officers System, and
- Personnel required training in all areas of Supply Chain Management e.g. negotiation skills, strategic sourcing, etc

#### **Monitoring, reporting and good governance**

- No official appointment letters were forwarded to members of Bid Committees;
- There is a lack of Contract Management and Administration, and
- Bid committee registers were not updated.

#### **Credible knowledge and information management system**

- The Department did not have a credible Information Management System and is in the process of implementing LOGIS. Microsoft Excel is currently being utilised as a database to manage the assets of the Department, for recording payments and receipts and is also used for the updating of bids received and issued.

A project Dashboard assessment was conducted at the Department as at the 7th March 2007. In terms of this project it was found that the following had been completed:

- Asset management plans in respect of the definition of assets, role of assets in the program delivery, non-assets solutions, accountability and responsibility;

- Acquisition: in respect of analysis of alternatives, receipt of acceptance of assets and establishing ownership control;
- Operation and Management plans: tracking of assets, safeguarding and protecting of assets;
- Disposal plans: identification of surplus, obsolete and under-performing assets, replacement strategy, evaluation of disposal alternatives, write – off of damaged or missing assets
- Accounting: Definition of assets, depreciation of assets, recording on acquisition, transfer and disposal, and
- Asset Register requirements: acquisition, identification, accountability, performance, disposal and accounting

The following were areas that were postponed/outstanding:

- Asset Life cycle
- Development of an acquisition plan
- Operation and maintenance plans
- Maintenance scheduling
- The Disposal Plan
- Recognition criteria in terms of valuating assets
- Valuation methodology
- Historical cost found in accounting
- LOGIS Reports: RR032, RR073, and RQ013

Based upon the standards of performance and also the findings contained in the above reports, it is evident that the Department remains deficient in most of the areas that are critical to establish it at a level 3. Hence, it is safe to say that the Department may be rated at a level 2 in terms of the financial capability model for SCM.

### **Steps to be taken to ensure that the Department establishes itself at the next auditable level (3)**

From a Provincial Treasury perspective the following interventions and steps are planned in the next financial year:

- Training on bid committees and contract management as provided and funded by the National Treasury;
- An integration of the financial and non-financial systems with the implementation of the IFMS;
- Linkages with other disciplines within the Provincial Treasury to enable an integrated approach to enable a supporting environment that maintains the credibility of the level;
- Addressing and implementing a supplier development initiative with other role-players to impact on the socio-economic aspects of procurement by achieving the

desired outputs in respect of procurement to HDIs, SMMEs or BEE companies, and

- Engaging and compiling business cases and feasibility research to enable departments to leverage their buying power in participating in transversal contracts thereby impacting on economies of scale and value for money considerations.

From a Departmental perspective certain interventions need to be instituted so that the Department sustains itself at the achieved level and also enables the Department to elevate itself to the next level. A concerted effort by the Department needs to be made in the following areas:

- A training and a skills development plan to build the internal capacity and resources of the SCM unit;
- The finalisation of the implementation of LOGIS to ensure that the Department will be able to manage the assets of the Department and record payments and receipts more efficiently, and
- Ensure that the SCM Regulations and legislation is followed e.g. the prescribed SCM Reports contained in the legislation, evaluation of Bids, etc.

### 3.13.7 Supporting and Interlinked Systems

This section deals with the implementation and maintenance of Financial Systems as well as the provision of functional assistance and training, to all system users.

#### Review

The assessment was based on the activities of the 2006/07 financial year and the findings were as follows:

**Table 159: Assessment of the Basic Accounting System (BAS)**

Requirements	Standard Level 3	Standard Level 4	Rating
Skilled and capacitated system users	In accordance with profile	Various Modules	2
Month-end closure	Own accord – due date	Own accord – prior date	4
Year-end closure	Own accord – due date	Own accord – prior date	3
System Controller Functions	80 – 90%	91 – 100%	3
Monitor Applicable Interfaces	Weekly	Daily	4
<b>Overall rating</b>			<b>3</b>

The Department obtained an overall rating of level 3 (nominal compliance) financial management capability.

**Table 160: Assessment of skilled and capacitated system users: training**

Number of officials nominated	Number of officials attended	Number of officials cancelled	Number of officials qualified for a certificate (70% pass rate)	Number of officials not qualifying for a certificate
14	8	6	6	2

The Department obtained a rating of level 2 (partial compliance) financial management capability, mainly due to the high percentage of officials being nominated and not attending courses as well as not all officials trained in accordance with their profiles.

The Directorate Supporting and Interlinked Financial Systems is in the process of identifying the training gap of all users and will in co-operation with Chief Financial Officer nominate their users for training in accordance with their profiles as a matter of urgency. In addition the poor attendance of officials will in co-operation with the Chief Financial Officer be addressed.

#### **Month end closure**

The Department achieved a rating of 4 (full compliance) financial management capability as their books were closed on a monthly basis prior to the predetermined dates by National Treasury.

#### **Year –end- closure**

The Department achieved a rating of level 3 (nominal compliance) financial management capability as their year end closure was done in accordance with the predetermined date by National Treasury.

#### **System Controller Functions**

Based on the following criteria the System Controller function was rated as level 3 (nominal compliance) financial management capabilities:

- Logging of calls to the Provincial Helpdesk
- Maintenance of Security Profiles
- The reinstate of Transaction Processing Rules
- Requesting/monitoring and distributing of automated Basic Accounting System reports
- Maintenance of segment details
- Maintenance/update of departmental parameters
- Provide practical individual training to users
- Monitor Technical stability of work station including Local area network
- Assisting non-financial users of Basic Accounting System.

### Monitor applicable interfaces

The Department achieved a rating of level 4 (full compliance) financial management capability as their interfaces are monitored and reported on a daily basis.

**Table 161: Assessment of the Personnel and Salary Administration System (PERSAL)**

Requirements	Standard Level 3	Standard Level 4	Rating
Skilled and capacitated system users	In accordance with profile	Various Modules	2
System Controller Functions	80 – 90%	91 – 100%	3
Establishment Management	Quarterly	Monthly	3
PERSAL/BAS Reconciliation	Monthly by the 20 <sup>th</sup>	Prior to the 20 <sup>th</sup>	3
Adhere to Minimum Information Requirements	Annually	Continuous process	2
Leave Audit	Annually	Continuous process	3
<b>Average rating</b>			<b>3</b>

The Department achieved an overall rating of level 3 (nominal compliance) financial management capability which is a performance of below standard

**Table 162: Assessment of skilled and capacitated system users: training**

Number of officials nominated	Number of officials attended	Number of officials cancelled	Number of officials qualified for a certificate (70% pass rate)	Number of officials not qualifying for a certificate
31	18	13	16	2

The Department obtained a rating of level 2 (partial compliance) financial management capability due to the high percentage of officials being nominated and not attending courses as well as not all officials being trained in accordance with their profiles.

The Directorate Supporting and Interlinked Financial Systems is currently in the process of identifying the training gap of all system users and will in co-operation with the Department nominate system users for training in accordance with their profiles. In addition issues of poor attendance will be addressed with the Department.

### System Controller Functions

The Department achieved a rating of level 3 (nominal compliance) financial management capability for the execution of its system control functions.



## Establishment Management

The Department achieved a rating of level 3 (nominal compliance) financial management capability as the establishment is maintained on at least a quarterly basis.

## PERSAL/BAS reconciliation

The Department compiles monthly PERSAL/BAS reconciliation by the 20th of each month and therefore achieved a rating of 3 (nominal compliance) financial management capability.

## Adhere to Minimum Information Requirements

As not all information is captured on the system, the Department achieved a rating of a level 2 (partial compliance) financial management capability.

Reports indicating the outstanding information are available and are provided by Provincial Treasury to departments on request. The situation will be monitored by the Provincial Treasury to ensure compliance.

## Leave Audit

The Department achieved a rating of level 3 (nominal compliance) financial management capability for the system control functions.

**Table 163: Assessment of the Logistical Information System (LOGIS)**

Requirements	Standard Level 3	Standard Level 4	Rating
Skilled and capacitated system users	In accordance with profile	All Modules	3
Days per issue (Service standard)	5 Days	3 Days	3
Stock Management	15.61%	6.19%	3
Financial Controls	Monthly	Continuous process	3
System Control Functions	80 – 90%	91 – 100%	3
<b>Average rating</b>			<b>3</b>

The Department achieved an overall rating of level 3 (nominal compliance).

**Table 164: Assessment of skilled and capacitated system users**

Number of officials nominated	Number of officials attended	Number of officials cancelled	Number of officials qualified for a certificate (70% pass rate)	Number of officials not qualifying for a certificate
115	93	22	85	8

The Department achieved a rating of level 3 (nominal compliance) financial management capability as users are trained in accordance with their current profiles.

### Days per issue (service standard)

The Department achieved a rating of level 3 (nominal compliance) financial management capability as stock is issued within a period of five (5) days.

### Stock Management

The Department achieved a rating of level 3 (nominal compliance) financial management capability for its control over inventories and assets.

### Financial Controls

The Department achieved a rating of level 3 (nominal compliance) financial management capability as financial controls are executed on at least a monthly basis.

### System Control functions

The Department achieved a rating of level 3 (nominal compliance) financial management capability for the system control functions.

**Table 165: Assessment of the Management Information System (Vulindlela)**

Requirements	Standard Level 3	Standard Level 4	Rating
Percentage of registered users using the system on a regular basis	80 – 90%	100%	2

**Table 166: Assessment of the usage of the Management Information System (Vulindlela)**

Number of registered users	Number of registered users using the system on a regular basis	Number of registered users not using the system on a regular basis	Percentage active users
24	15	9	63%

The Department obtained a rating of level 2 (partial compliance) financial management capability due to the fact that only 63 per cent of registered users utilise the system on a regular basis.

The Directorate Supporting and Interlinked Financial Systems will, in cooperation with the Chief Financial Officer, re-evaluate the need of the 9 registered users who do not use the system on a regular basis. In addition, discuss the further role out of Vulindlela within the Department and address any further user requirements they might have.



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