

**Provincial Government Western Cape  
Provincial Treasury**

**Financial Governance Review  
& Outlook  
2008**

**Provincial Departments,  
Public and Trading Entities**



PR: 280/2008  
ISBN: 978-0-621-38300-3

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Printed in the Republic of South Africa  
for the Government Printers Cape  
by Formeset Printers Cape

# Foreword

The Financial Governance Review and Outlook (FGR&O) 2008 is a Provincial Treasury initiative that assesses the financial management capability levels of departments and their entities. It builds on the work done in the previous FGR&O and begins to focus on comparative assessments in order to gauge progress made by departments and their entities and to highlight areas where further interventions are required. The FGR&O is structured around the various disciplines in Provincial Treasury, namely budget, revenue, expenditure, accounting and corporate governance inclusive of risk management and normative financial management.

Cabinet Resolution 271/2006 dated 1 November 2006 approved the Provincial Treasury's plan to improve good corporate governance in departments and entities. This entailed the assessment of the financial management capability of departments and their entities to highlight and improve corporate governance of the Provincial Government.

The reduction in the number of audit qualifications of departments for 2007/08 is an indication of an improvement in the financial management capability of departments. It is clear that departments view the financial management capability assessments in a serious light and are taking the necessary steps to improve their governance environment. While it is acknowledged that audit outcomes of departments have improved, certain public entities have regressed in terms of their audit outcomes and will require urgent interventions from both the Provincial Treasury and the parent departments to improve their financial management capability.

The Financial Governance Review and Outlook 2008 is a team effort that drew on the knowledge and expertise of those in the various disciplines within the Provincial Treasury.

As part of improving the effectiveness of this document, a survey questionnaire is attached at the end of the Review for your attention.



**DR JC STEGMANN**  
**HEAD OF DEPARTMENT**

**DATE: 5 DECEMBER 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
CEO	Chief Executive Officer
COO	Chief Operating Officer
DBC	Departmental Bid Committee
DORA	Division of Revenue Act
DMO	Destination Marketing Organisation
EFT	Electronic Fund Transfer
EMS	Emergency Medical Services
FAS	Foetal Alcohol Syndrome
FGR&O	Financial Governance Review and Outlook
FMIP	Financial Management Improvement Programme
GAAP	Generally Accepted Accounting Practice
GMT	Government Motor Transport
GRAP	Generally Recognised Accounting Practice
HDIs	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
SMART	Specific, Measureable, Achievable, Realistic, Time Bound
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 2008 is a second annual assessment of its kind and begins to provide a comparative assessment of the financial management capability of departments and their entities against the published FGR&O 2007 to gauge progress made towards a level 4 auditable organisation.

The assessment tool remains the same as used in the previous year's assessment and is based on the Auditor-General's financial management capability model. The tool was adapted by the following disciplines within Provincial Treasury to assess departments and entities:

- Budgets
- Public Finance
- Accounting
- Normative Financial Management
- Enterprise Risk Management
- Cash Management
- Supply Chain Management and Movable Asset Management
- Supporting and Interlinked Financial Systems

All the assessment tools utilised for the assessment of departments and their entities 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 acknowledgement must be given to the departments for the improved financial management as revealed by the improved audit outcomes for 2007/08, more attention needs to be paid to public entities that have achieved poor audit outcomes for the 2007/08 financial year. The following assessment areas are highlighted per department and their entities that require remedial steps to improve the financial management capability.

## Department of the Premier

It is acknowledged that the Department of the Premier plays a policy co-ordination and oversight role and based on this mandate, it may sometimes be difficult to quantify measurable targets. However, the examination of the 2007/08 APP, the 2007/08 Annual Report and the 2008/09 APP shows that the Department is operating close to a level 3 organisation.

To reach a level 4 competency, the Department needs to explain all deviations from annual targets and provide remedial steps for non-performance in the Annual Report. The inclusion of deviations from the annual targets set for a specific financial year as well as reasons for the deviations from the target in the Annual Report is of great importance to start moving towards the next level of capability.

The strides made by the Department in complying with accounting policies and standards are significant enough to move the Department to a level 3 financial management capability. The 2007/08 financial year presented an opportunity for the Department to embed most of the plans that have been implemented in the 2006/07 financial year, and deepened the ethos of good financial governance.

While the normative financial management remains at a level 3 financial management capability when compared to the previous assessment, no improvement was made on enterprise risk management compared to the 2006/07 assessment and remains at level 1.

The assessment of the Department in the areas of cash management and the efficient use of financial system (BAS, PERSAL, LOGIS and Vulindlela) achieved an average overall financial management capability rating of level 3.

On compliance with SCM requirements, the Department barely meets a financial management capability level 3 in terms of the assessment tool. However, cognisance must be taken that this rating may change after the Compliance and Value for Money assessment, which will be performed during the 2008/09 financial year.

## Western Cape Youth Commission

The Auditor-General has remarked that the WCYC organisational structure does not provide for planning, directing and controlling operations to achieve government objectives. The Commission may therefore not be a viable going concern in the foreseeable future. Until such time, it is imperative that management controls are efficient and effective to ensure that the entity attains a level 3 financial management capability. The entity should report its concerns via the IYM process, which is designed to inform its parent department, as well as the Provincial Treasury, of concerns and problems encountered.

## Provincial Development Council

During the year under review, the PDC performed at a financial management capability rating of level 3. However, since this assessment the capacity within the PDC has deteriorated to such an extent that it could impact negatively on the financial management capability of the entity.

## Provincial Parliament

On the management of its Budget, the Provincial Parliament currently operates on level 3 and is moving towards a level 4 financial management capability.

Compliance with accounting policies and standards however needs to be improved by implementing management controls over assets in order to maintain its financial management capability at level 3 as compared to the previous year's assessment.

The assessment of Provincial Parliament in the areas of the efficient use of financial system (BAS, PERSAL, LOGIS and Vulindlela) achieved an average overall financial management capability rating of level 3.

Performance Management: non-financial information, Corporate Governance, Cash Management and Supply Chain and Moveable Asset Management assessments were not undertaken in the Provincial Parliament due to its position in terms of the Constitution.

## Provincial Treasury

The assessment of the 2007/08 APP and Annual Report; and 2008/09 APP show that the Department is operating towards a level 3 in relation to the key aspects of the financial management capability assessment.

Although substantial progress has been made to the 2008/09 APP, the process of formulating performance measurement indicators and targets is crucial to the Department and it has to adhere to the SMART principle i.e. specific, measurable, achievable, realistic and time bound. The Annual Report has to include deviations from actual targets and no generic argument is evident in the 2007/08 Annual Report. 'Remedial Steps' for deviating from targets also need to be included in the Annual Report.

On the management of its Budget, the Provincial Treasury currently operates on level 3 and is moving towards a level 4 financial management capability.

To fully comply with accounting standards and procedures and achieve a level 3 financial management capability, the Department needs to ensure that the BAS/LOGIS reconciliations are compiled and reviewed on a monthly basis, asset registers are updated and completed as well as the implementation of a policy for the authorisation of journal transactions.

While the normative financial management remains at a level 3 financial management capability when compared to the previous assessment, no improvement was made on enterprise risk management compared to the 2006/07 assessment and remains at level 1.

The assessment of the Department in the areas of cash management and the efficient use of financial system (BAS, PERSAL, LOGIS and Vulindlela) achieved an average overall financial management capability rating of level 3.

On the assessment of SCM the Department barely meets the requirements for a level 3 financial management capability. However, cognisance must be taken that this rating may change after the Compliance and Value for Money assessment that will be conducted in the 2008/09 financial year.

The following areas should be attended to in the interim:

- Accounting Officer's system and SCM delegations;
- Awards made via the limited bidding process as well as awards made to HDIs;
- EPSi system; and
- Project Dashboard and Risk Log Report.

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

The WCGRB management should address the controls pertaining to the accounting frameworks in order to maintain its high standards of financial management capability at level 3. Addressing this successfully should facilitate the transition towards attaining a level 4 financial management capacity. The entity should report its concerns via the IYM process, which is designed to keep its parent department informed (Provincial Treasury).

## **Department of Community Safety**

The Department has regressed somewhat on measuring performance against targets over the last financial. To reach a level 3, the Department must improve the measurability of a number of measurable objectives and reconsider the suitability of several performance targets. The consistency in the logical link between the defined strategic objectives and performance measures must also be re-assessed.

To reach a level 4 competency, the Department needs to provide more comprehensive explanation for deviations from target and provide remedies to these challenges in the Annual Report and QPRs. It should be noted that the Department has been working with Provincial Treasury in incorporating the above suggestions and streamlining its forthcoming APP and hence QPRs.

On the management of its Budget, the Department currently operates on a level 3 financial management capability.

The Department's compliance with accounting policies and standards is assessed at a level 2 financial management capability. The Department needs to implement effective internal control measures to address audit findings and a fully implement a fraud prevention plan to improve controls to manage risks in order to improve its financial management capability to a level 3.

On the assessment of the Department's compliance with norms and standards compared to the previous financial year, it is evident that the Department has made some progress on issues that were raised in the 2006/07 financial year. The Department achieved a rating of 2, as the Department has not met all the set Criteria and Norms and Standards for level 3.

For the 2007/08 review, it is evident that the Department has made limited improvement on risk management as compared to the 2006/07 review and remains at level 2. The Department has a risk management philosophy and the risk appetite has been defined.

The assessment of the Department in the areas of cash management and the efficient use of financial systems (BAS, PERSAL, LOGIS and Vulindlela) achieved an average overall financial management capability rating of level 3.

The Department may be rated as barely meeting the requirements of a level 2 in terms of the financial management capability model for SCM.

## Department of Education

The assessment of performance information revealed that the Department is operating in the region of a financial management capability level 3. In order to achieve level 3, the Department needs to ensure that the correct targets are reflected in both the APP and Annual Report. In terms of the level of detail of the information provided it would appear that the Department is already operating at a level 4.

On the management of the Budget, the Department of Education generally operates on level 3 and is moving towards a level 4 financial management capability rating.

Assessment of compliance with accounting policies and standards revealed that the Department currently operates close to a level 3 financial management capability. In order to move to level 3, the information contained in the IYM and Auditor-General reports should be continuously reviewed and it is suggested that management strengthen the controls to monitor the completeness of source documents attached to payments and ensure that payments are made within 30 days of receipt of invoices.

While the normative financial management remains at a level 3 financial management capability when compared to the previous assessment, no improvement was made on enterprise risk management compared to the 2006/07 assessment remains at level 1.

The assessment of the Department in the areas of cash management and the efficient use of financial systems (BAS, PERSAL, LOGIS and Vulindlela) achieved an average overall financial management capability rating of level 3.

The Head Office of the Department may be rated at a level 3 as the Department meets the SCM criteria specified for a level 3 financial management capability.

The Department will, however, be assessed in the 2008/09 financial year in terms of a full SCM compliance and value for money assessment which will enable the Provincial Treasury to prompt SCM interventions through training, workshops, one-on-ones and guidance.

## Department of Health

A performance management assessment revealed that the Department has made significant improvements since 2007 and satisfies nearly all level 3 aspects of the performance management system as considered. The 2008/09 APP has been adapted to better align with the quarterly performance reports, to reflect measurable objectives and related indicators for all programmes and to reflect quarterly targets. The 2007/08 AR and APP show consistency in terms of performance indicators and targets.

On the management of its Budget, the Department currently operates on level 3 and is moving towards a level 4 financial management capability.

In an assessment of compliance with accounting policies and standards, the Department achieved a financial management capability rating marginally above a level 2. In order to move to a level 3 financial management capability the Department has to reinforce the internal financial instructions rolled out during the current year under review and continuously reflect on the findings of the Auditor-General's management report on the accounting of assets, management of suspense accounts and expenditure, financial reconciliations, contingent liabilities and related party transactions.

While the normative financial management remains at a level 3 financial management capability when compared to the previous assessment, no improvement was made on enterprise risk management compared to the 2006/07 assessment remains at level 1.

Based on normative compliance indicators, there is a clear indication that this department has made some progress on certain issues that were highlighted by the Auditor-General for the 2006/2007 financial year and of greater concern is the status of the issues that reflects deterioration in the 2007/08 financial year. The Department of Health is rated a level 2 financial management capability moving to a level 3 auditable organisation.

The assessment of the Department in the areas of cash management and the efficient use of financial system (BAS, PERSAL, LOGIS and Vulindlela) achieved an average overall financial management capability rating of level 3.

An assessment SCM practices of the Department indicates that a level 3 financial management capability level is maintained and the institutions maintain a level 2 capability level in terms of the financial management capability model for SCM.



## Cape Medical Depot

CMD's management controls should be stepped up in certain areas to ensure that they are efficient and effective and that the entity attains a level 3 financial management capability. The entity should report its concerns via the IYM process, which is designed to inform its parent department as well as the Provincial Treasury as oversight role players to bring about improved financial management capability ratings.

## Department of Social Development

The assessment of the 2007/08 APP, the 2007/08 Annual Report and the 2008/09 APP revealed that the Department, according to the performance management framework, operates almost at a financial management capability of level 3. Although all sector specific performance measures are included in the APP, in order to reach a competency level 3, which focus on compliance and control, the Department also needs to report on the sector specific performance measures in the Annual Report and identify all deviations from the annual target.

To achieve a level 4 competency, which measures how resources are used, the Department needs to explain all deviations from annual targets and provide remedial steps for non-performance in the Annual Report.

On the management of its Budget, the Department currently operates on level 3 and is moving towards a level 4 financial management capability rating.

An assessment of compliance with accounting policies and standards revealed that the Department is operating at a financial management capability rating of level 3.

An assessment revealed that normative compliance that the Department has not made significant improvements to move towards a level 3 financial management capability rating. On the implementation of risk Management, it is evident that the Department has made no progress as compared to the 2006/07 review and remains at level 1.

The assessment of the Department in the areas of cash management and the efficient use of financial system (BAS, PERSAL, LOGIS and Vulindlela) achieved an average overall financial management capability rating of level 3.

The Department is rated at a level 2 in terms of the financial management capability model for SCM. However cognisance must be taken that this rating may change after the Compliance and Value for Money assessment has been completed in this financial year. The department will be assessed in the 2008/09 financial year in terms of a full SCM compliance and value for money assessment, which will enable the Provincial Treasury to prompt SCM interventions through training, workshops, one-on-ones and guidance.

## Department of Local Government and Housing

The assessment of the 2007/08 APP and Annual Report; and 2008/09 APP show that the Department is operating towards a level 3 in relation to the key aspects of the financial management capability assessment for its Housing component.

In order to achieve a level 3 rating, the Department needs to reflect quarterly targets under its housing sub-programme “Key Intervention Categories and National Housing Programmes”. The Department should also attempt to include quality yardsticks for “Housing Needs Research and Planning” as these may be too broadly defined. Further, the Department should include remedies for below target performance. In relation to Local Government, the Department is operating close to a level 3 rating as well. In order to fully achieve a level 3 rating, the Department needs to break down measurable objectives so that they become more measurable.

On the management of its Budget, the Department currently operates on level 3 and is moving towards a level 4 financial management capability.

An assessment of compliance with accounting policies and standards revealed that the Department is operating at a financial management capability of level 3.

Based on an assessment of normative compliance from information supplied to Provincial Treasury, the Department has not made significant improvements to move to a level 3 financial management capability rating and on the overall assessment of risk the Department made significant improvements to achieve a level 2 rating.

The assessment of the Department in the areas of cash management and the efficient use of financial system (BAS, PERSAL, LOGIS and Vulindlela) achieved an average overall financial management capability rating of level 3.

The Department maintains a level 2 capability in terms financial management capability model for SCM. However, cognisance must be taken that this rating may change after the Compliance and Value for Money assessment that will be conducted in the 2008/09 financial year.

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

Poor accounting of assets and the lack of supporting documents are areas that need to be addressed more vigorously in order to avert further qualifications by the Auditor-General. It is also recommended that the entity adhere to the revised action plan to close down the Fund by 2011.

## Department of Environmental Affairs and Development Planning

The Department is approaching a competency level 3 in relation to the key aspects of the financial management capability examined.

The further refinement and inclusion of deviations from the annual targets set for a specific financial year as well as reasons for the deviations from the target in the Annual Report remains pivotal in order to move towards the next level of capability.

On the management of its Budget, the Department currently operates on level 3 and is moving towards a level 4 financial management capability.

In order to comply with accounting policies and standards to achieve a level 3 financial management capability rating, the Department needs to improve controls over the sanitising of the asset register and the investigation of untraced assets.

While the normative financial management remains at a level 3 financial management capability when compared to the previous assessment, no improvement was made on enterprise risk management compared to the 2006/07 assessment and remains at level 2.

The assessment of the Department in the areas of cash management and the efficient use of financial system (BAS, PERSAL, LOGIS and Vulindlela) achieved an average overall financial management capability rating of level 3.

On the assessment of SCM, the Department has not shown any significant improvement when compared to the previous year's assessment, and therefore remains at level 2 in terms of Financial Management Capability for SCM.

## Western Cape Nature Conservation Board

CapeNature has made some new appointments and the entity is confident that this will address the financial management capacity issues of the entity. The entity should report its concerns via the IYM process, which is designed to inform its parent department as well as the Provincial Treasury of concerns and problem areas. This will enable the parent department and the Provincial Treasury as oversight bodies to support the entity in improving its financial management capability rating from a level 2 to a level 3.

Based on an assessment of Corporate Governance, Cape Nature has not moved from its current financial management capability rating of level 3.

## Department of Transport and Public Works

The Department has made progress over the last financial year towards achieving a level 3 competency in terms of its performance management system assessed. To reach a level 3, the Department must improve the measurability of a number of measurable objectives and reconsider the suitability of several performance targets. The Department is also encouraged to set quarterly targets for the nationally defined sector specific performance measures, where applicable.

To reach a level 4 competency, the Department needs to provide more comprehensive explanation for deviations from target and remedies thereto in the Annual Report and QPRs.

On the management of its Budget, the Department currently operates on level 3 and is making strides towards becoming a level 4 financial management capability organisation.

In order to improve compliance with accounting policies and standards towards a level 3 financial management capability rating, the Department needs to improve controls over financial reconciliations, supporting documentations and the classification of expenditure items. The Department needs to comply with the reporting requirements to Provincial Treasury on a monthly basis.

While the normative financial management remains at a level 3 financial management capability when compared to the previous assessment, no improvement was made on enterprise risk management compared to the 2006/07 assessment and remains at level 1.

The assessment of the Department in the areas of cash management and the efficient use of financial system (BAS, PERSAL, LOGIS and Vulindlela) achieved an average overall financial management capability rating of level 3.

In comparison with the 2006/07 financial year the Department appears to have made progressive strides in terms of implementing an effective and efficient Supply Chain Management (SCM) system especially to bids relating to the CIDB. At the time of the assessment, certain SCM officials (Works Branch) were found to be lacking in both the procurement and provisioning aspects of SCM. However, this should have improved as a number of officials had attended SCM related courses, both through UNISA and SAMDI.

On consideration of all of the above, the Head Office of the Department may be rated at a level that sufficiently meets the SCM criteria at a level 2 financial management capability.

It is recommended that in order for the department to move to the next level of SCM capability the following recommendations are made:

- The Department must align its AO system with that of its AO delegations as this may cause control weaknesses between the application of the delegations versus the processes and procedure that the Accounting Officer's system intended to encapsulate;
- Control measures need to be put in place for the safeguarding and control of assets;
- Transactions and SCM procedure needs to be processed in accordance with the applicable legislative framework; and
- The Department needs to ensure that measures are put in place to ensure credible data integrity of SCM data that supports SCM operational planning decisions and monitoring activities.

## Government Motor Transport

The Auditor-General commented that controls over assets are inadequate and effective management is not ensured. These deficiencies are mainly due to the fact that GMT has not yet introduced a GAAP based accounting system. The result is that the entity remains at a level 2 financial management capability rating.

## Department of Agriculture

The Department does satisfy most of the aspects of the performance management system focusing on the annual report and annual performance plan considered in this assessment. With a few exceptions, the Department complies with guidelines for the APP and quarterly performance reports. To fully operate at a level 3 competency the information provided in the APP and AR should be consistent in terms of targets and indicators. Overall from a compliance perspective, there has been improvement in aligning the APP to include the sector specific performance measures although practically not all measures are applicable to the Department.

On the management of its Budget, the Department currently operates on level 3 and is moving towards a level 4 financial management capability.

To fully comply with a level 3 financial management capability on accounting policies and standards, the Department needs to improve controls over the management of suspense accounts, filing of supporting documentation and ensure that suppliers are paid within 30 days after receipt of invoice.

While the normative financial management remains at a level 3 financial management capability when compared to the previous assessment, no improvement was made on enterprise risk management compared to the 2006/07 assessment remains at level 1.

The assessment of the Department in the areas of cash management and the efficient use of financial system (BAS, PERSAL, LOGIS and Vulindlela) achieved an average overall financial management capability rating of level 3.

The Department of Agriculture appears to have made progressive strides in terms of implementing an effective and efficient Supply Chain Management (SCM) system. However, it has been noted that the department has not improved in respect of Asset Management as the same findings that were raised in the last review are again being raised this year. The AG also raised findings in their Management Report regarding Asset Management and although these were not taken up in the final Report, it is important that they are noted. At the time of the assessment, the SCM officials were found to be lacking in both the procurement and provisioning aspects of SCM, this however should have improved as a number of officials had attended SCM related courses.

On consideration of all of the above, the Department may be rated at a level 2 in terms financial management capability model for SCM. However, cognisance must be taken that this rating may change after the Compliance and Value for Money assessment that will be conducted in this financial year.

The Department will be assessed in the 2008/09 financial year in terms of a full SCM compliance and value for money assessment, which will enable the Provincial Treasury to prompt SCM interventions through training, workshops, one-on-ones and guidance.

## **CASIDRA**

Casidra's management controls are generally efficient and effective, which contributed to the entity's unqualified audit report for 2007/08. The entity is close to achieving a level 3 financial management capability for all aspects of financial management. The entity should report its concerns via the IYM process, which is designed to inform its parent department as well as the Provincial Treasury as oversight role players to bring about improved financial management capability ratings.

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

Although the Department has made progress in trying to improve the measurability of its performance measures, more progress is required in order to fulfil the SMART principle. Emphasis should be placed in aligning performance measures to performance targets.

The Department makes use of an excessive number of measurable objectives and their associated performance measures. It is not always clear what value each performance measure contributes and whether it would not be possible to achieve greater levels of transparency and accountability with fewer well conceived performance measures. The Department has indicated a willingness to work more closely with Provincial Treasury in order to improve on its non-financial reporting. This assessment concludes that the Department still needs to make progress in order to operate at a level-3 in relation to the key aspects of the performance management system examined.

On the management of its Budget, the Department currently operates on level 3 and is moving towards a level 4 financial management capability.

While the normative financial management remains at a level 3 financial management capability when compared to the previous assessment, no improvement was made on enterprise risk management compared to the 2006/07 assessment and remains at level 2.

The Department's performance in complying with accounting policies and standards was assessed at a level 3 financial management capability.

The assessment of the Department in the areas of cash management and the efficient use of financial system (BAS, PERSAL, LOGIS and Vulindlela) achieved an average overall financial management capability rating of level 3.

On the management of SCM, the Department has shown improvement when comparing the 2006/07 and 2007/08 financial years however a full blown compliance assessment is taking place in the 2008/09 financial year. A concerning factor however is the level of non-compliance in terms of the Adjudication of all quotations on Sourcelink.

On consideration of all of the above the Department is rated at level 3 in terms of Financial Management Capability for SCM.

The Department will be assessed in the 2008/09 financial year in terms of a full SCM compliance and value for money assessment which will enable the Provincial Treasury to prompt SCM interventions through training workshops one-on-ones and guidance.

In the interim the Department needs to:

- Adjudicate all quotations on Sourcelink.
- Comply to the requirements of Adjudicate all quotations on Sourcelink.

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

Wesgro should ensure that there are adequate review and control mechanisms in place to ensure compliance with the relevant reporting and regulatory frameworks. Wesgro should effectively use the IYM process to proactively identify and address concerns and problems of the entity in order to improve its financial management capacity rating from a level 2 to a level 3.

### **Destination Marketing Organisation**

DMO experienced vacancies with regard to the CEO, COO and the CFO posts and as a result the acting CEO had to manage these posts.

The entity also operated without a financial manager for the most part of the 2007/08 financial year.

Management acknowledged that policies and control procedures were not strictly adhered to, but intends to address the financial management capacity of the entity, by filling the vacancies. This should enable the entity to progress from a level 2 to a level 3 financial management capability rating for all aspects.

### **Western Cape Liquor Board**

The entity is convinced that the financial management capability will improve once the Western Cape Liquor Bill is promulgated, enabling the WC Liquor Board to collect its own revenue, which should free the entity from the qualifications and enable the entity to function fully at a level 3 financial management capability.

## Department of Cultural Affairs and Sport

The Department is approaching a competency level 3 in relation to the key aspects of the financial management performance capability. The inclusion of deviations from the annual targets set for a specific financial year as well as reasons for the deviations from the target in the Annual Report is of great importance to start moving towards the next level of capability.

On the management of its Budget, the Department currently operates on level 3 and is moving towards a level 4 financial management capability.

The Department's performance in complying with accounting policies and standards is marginally above a level 2 financial management capability. The Department needs to implement effective internal control measures to address audit findings and improve its financial management capability to a level 3.

While the normative financial management remains between levels 2 and 3 financial management capability when compared to the previous assessment, no improvement was made on enterprise risk management compared to the 2006/07 assessment and remains at level 1.

The Provincial Treasury has assisted the department by seconding an official to the Department to assist and guide on provisioning and procurement processes. The Provincial Treasury has further conducted an SCM compliance assessment for 2008/09 financial year to prompt further SCM interventions through training, workshops, one-on-ones and guidance. The Department has been rated at level 1 in terms of SCM.

The assessment of the Department in the areas of cash management and the efficient use of financial system (BAS, PERSAL, LOGIS and Vulindlela) achieved an average overall financial management capability rating of level 3.

### **Western Cape Cultural Commission**

Control weaknesses and a lack of monitoring were the main reasons for the poor assessment ratings of 2007/08. The entity indicated that due to vacancies, control procedures and policies were not adhered to. The vacant posts have been advertised and are in process of being filled. It is envisaged that this would improve the financial management capability to a level 3 in all areas of assessment.

### **Western Cape Language Committee**

Control weaknesses and a lack of monitoring were the main reasons for the poor assessment ratings for 2007/08. The entity indicated that due to key post being vacant, control procedures and policies were not adhered to. The vacant posts have been advertised and are in process of being filled. It is envisaged that this would improve the financial management capability to a level 3 in all areas of assessment.



## Heritage Western Cape

The entity indicated that, due to vacancies, control procedures and policies were not adhered to. The vacant posts have been advertised and are in process of being filled. It is envisaged that this would improve the financial management capability to a level 3 in all areas of assessment.

## 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 2007/08 financial year and that departments and their entities in the meanwhile have implemented remedial steps to address some of the shortcomings that were identified. PT acknowledges the seriousness in which departments and the entities are taking these assessments and the pro-active steps being taken to progressively improve the financial management capability.

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, as developed by the Canadian Government and adapted by the South African national Auditor-General has been used as a basis for the assessment of the financial capability of departments and entities in terms of progression from levels 1 to 6:

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

Capability level	Definition	Detailed characteristics	Criteria
Level 1 – <i>Start-up level</i>	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.
Level 2 – <i>Development level</i>	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><li>• Provision for maintenance and updating.</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><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></ul>

Capability level	Definition	Detailed characteristics	Criteria
			<ul style="list-style-type: none"> <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 AC (no properly functioning AC)</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: <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>	<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> <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 3X 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.	<ul style="list-style-type: none"> <li>Risk management: cost-effective utilisation of resources.</li> <li>Risk management: project costing and financing.</li> <li>Continual updating of strategic plans.</li> </ul>	

Capability level	Definition	Detailed characteristics	Criteria
Level 6 – <i>Optimising level</i>	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

Assessments are made across the compliance level (level 3) and focuses, as the name suggests, on the performance of departments (level 4). For this assessment public and trading entities are excluded. 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.

The table below provides a summary of the assessment framework. It uses the 2007/08 Annual Report and 2007/08 and 2008/09 Annual Performance Plans as a basis for the assessment.

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

	Compliance (level 3)	Responsive performance management (level 4)
<b>Annual Report 2007/08</b>		
<ul style="list-style-type: none"> <li>Are all performance measures defined in the 07/08 APP reported on in the 07/08 Annual Report?</li> <li>Are the units of performance measurement (targets and actual) in the APP and AR the same?</li> </ul>	If yes, then level 3	
<ul style="list-style-type: none"> <li>Are all deviations from annual targets adequately identified and quantified in the Annual Report?</li> </ul>	If yes, then level 3	
<ul style="list-style-type: none"> <li>Are all the above conditions met, does the annual report <b>adequately</b> explain all deviations from target?</li> <li>Does the department mention remedies for below target performance that the Department will take forward in the future?</li> </ul>		If yes level to all 3, and yes, then level 4
<p><i>For Internal BO: (alignment with QPR challenges and responses)</i>  <i>Economic, efficient, effective utilisation of resources is managed, measured and reflected in reliable non-financial information</i></p>		
<b>Annual Performance Plan 2008/09</b>		
<ul style="list-style-type: none"> <li>Does the APP comply the uniform budget and programme structure as defined nationally?</li> </ul>	If yes, then level 3	
<ul style="list-style-type: none"> <li>Does the APP reflect annual targets and quarterly targets where applicable?</li> </ul>	If yes, then level 3	
<ul style="list-style-type: none"> <li>Are all sector-specific performance measures defined at national level included in the APP (where applicable)?</li> </ul>	If yes, then level 3	
<ul style="list-style-type: none"> <li>Are all targets measurable (and where percentages are used as targets, have baseline numbers been provided)?</li> </ul>	If yes, then level 3	
<ul style="list-style-type: none"> <li>Where quarterly targets are required for sector-specific performance measures, have they been reflected in the APP?</li> </ul>	If yes, then level 3	
<ul style="list-style-type: none"> <li>Are the performance measures defined logically consistent with defined strategic objectives?</li> </ul>	If yes, then level 3	
<ul style="list-style-type: none"> <li>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?</li> </ul>	If yes, then level 3	
<ul style="list-style-type: none"> <li>Defined measurable objectives cover all key areas of performance and meet characteristics given above?</li> </ul>		If yes, then moving towards level 4
<ul style="list-style-type: none"> <li>Only key measurable objectives are defined, allowing the number of measurable objectives to be kept to level which the Department can manage?</li> </ul>		If yes, then moving towards level 4
<ul style="list-style-type: none"> <li>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.</li> </ul>		If yes, then moving towards level 4

## 2.2.2 Financial Information

### Assessment methodology for financial performance information

#### *Level 3 – Compliance level*

From a public finance perspective, a provincial department (excluding public and trading entities) can only be considered a level 3 auditable organisation if it adheres to the following:

- It has an approved expenditure and revenue budget for the financial year and submits regular progress reports to its stakeholders.
- It submits the 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 as per PFMA requirements.
- It ensures that reported actual expenditure and revenue reconciles to BAS/VULINDLELA and that forecasts are realistic and based on sound planning.
- It affects 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.
- It ensures that all transfer payments are backed by Section 38 agreements, and institutes the necessary monitoring mechanisms.
- It complies with DORA and spending of national earmarked and conditional funds are as per approved business plans and payment schedules.
- It ensures that its Adjusted Estimates 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.
- 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 (excluding public and trading entities) 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 ratios, eg. 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 Adjusted Estimates 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 applied to assess the financial management capability of departments and entities at levels 2, 3 or 4 where level 2 requires all systems, policies and procedures to be in place, level 3 requires full compliance with the systems, policies and procedural requirements and level 4 is attained when accurate accounting information for management decision making.

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

Requirements	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 and controls are in place in order to manage and assess the use of assets.



Requirements	Level 2	Level 3	Level 4
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 (ie IYM) on expenditure transactions.
5.1 Allocations ito Standard Chart of Accounts (SCoA).	Necessary guidelines, procedures and training in place in order to address accounting requirements.	Staff capacitated to correctly allocate transactions ito 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 ito delegations.	Authorisations are executed by duly assigned officials ito 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 ito TRs and additional best practices issued.	AFS – integrity of data reliable and readily available.

Requirements	Level 2	Level 3	Level 4
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.	
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.
12. Related party transactions	Control measures and procedures in place to identify and manage related party transactions.	Related party transactions identified and reported on in the AFS.	Significant influence and/or control over financial and/or operating policies by related parties are identified and reported on.
13. Management controls	Management controls and procedures to identify non-compliance wrt the above developed and implemented.	Management controls and procedures to identify non-compliance wrt the above implemented and complied to.	Management controls and procedures on accounting practises in place to ensure the effective and efficient use of resources.

## 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 A-G's 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**

Capability level	Outline	Criteria
<b>Level 2</b> <i>Development Level</i>	A proper internal control framework and financial accounting processes have been developed.	<ul style="list-style-type: none"> <li>• CFO tables 12 management reports on financial issues.</li> <li>• 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?</li> <li>• Are regular information sessions held with the rest of the management team to explain the principles of financial management and to emphasize their responsibility for financial management? [sec 44 &amp; 45 of PFMA]</li> <li>• Travel and Subsistence Policy?</li> <li>• Is there an approved policy on Subsistence and Travel?</li> <li>• Complete set of Delegations compiled and approved in terms of current NTRs.</li> <li>• Has the AO established procedures to facilitate effective performance measurement? [TR 5.3.1]</li> <li>• Is the Strategic plan consistent with the medium term expenditure estimates? [TR5.2.2 (a)]</li> <li>• Is there a formal documented procedure providing for management to monitor stock losses?</li> <li>• 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]</li> <li>• Is there an effective Recruitment and Selection Plan in place?</li> </ul>
<b>Level 3</b> <i>Control Level</i>	Focus is on compliance and control.	<b>Debt Management</b> <ul style="list-style-type: none"> <li>• Does the department comply with the policy and procedures to ensure effective collection of outstanding debt? [TR.11.2.1]</li> <li>• Does the department produce a debtor's age analysis on a regular basis?</li> <li>• The number of days before payment is received not exceeding 30 days.</li> <li>• % of debt in terms of own revenue.</li> <li>• Amount in arrears exceeding 6 months. [R 0]</li> <li>• Does the department comply with the policy and procedures on debt write-off?</li> <li>• % of bad debt not exceeding 0.5%.</li> </ul>

Capability level	Outline	Criteria
		<p><b>Asset Management</b></p> <ul style="list-style-type: none"> <li>Does the department comply with the policy and procedure manual to ensure effective management of assets? [sec 38(1)(d) of the PFMA &amp; TR10.1.2]</li> </ul> <p><b>Credit Management</b></p> <ul style="list-style-type: none"> <li>Are all payments due to creditors settled within the prescribed period? [TR8.2.3]</li> <li>Effective utilisation of the creditors' age analysis?</li> <li>Are interest free facilities and possible discount utilised to the fullest extent? [TR.15.10.1.2]</li> </ul> <p><b>Cash Management</b></p> <ul style="list-style-type: none"> <li>Is the collection of revenue monitored on a regular basis and reported to the executive authority? [sec 39 (2)(b) of the PFMA]</li> <li>Is cash received deposited on a regular basis, where possible? [TR 15.10]</li> <li>Are bank reconciliation's done on a daily basis by the department? [TR15.10.1.2(j)]</li> </ul> <p><b>Travel and Subsistence Policy</b></p> <ul style="list-style-type: none"> <li>Is S&amp;T payments done in terms of the policy?</li> <li>Authorisations (delegations of authority followed by the employees)</li> <li>Segregation of duties followed during everyday operations</li> <li>Is the AO monitoring and evaluating performance and ensuring that corrective actions are taken? [TR 5.3.1]</li> <li>Are all transactions supported by authentic and verifiable source documents which clearly indicate the approved accounting allocation?</li> <li><b>Signed agreement within 3 months from date of appointment on or before 30 April and aligned with objectives in the strategic plan</b></li> <li>The vacancy rate does not exceed 5%. [PSR, Chapter 1, Part III]</li> <li>The average period of vacancy not exceeding 3 months.</li> <li>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]</li> <li>Strategic plans approved and tabled in legislator in the Legislature? [TR 5.2.1]</li> <li>Is the strategic plan performance based? [TR 5.2.2 (d)]</li> <li>Is reporting on performance against the strategic plan done on a regular basis? [TR.5.3.1]</li> <li>Is over/underspending 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]</li> <li>Are the certified payroll reports returned to the CFO as required? [TR 8.3.5]</li> </ul>

Capability level	Outline	Criteria
		<ul style="list-style-type: none"> <li>Do Schedule 3A &amp; 3C Public entities under the control of the department report on a regular basis regarding actual revenue and expenditure? [TR.26.1.1]</li> <li>Do Schedule 3A &amp; 3C Public entities report on a regular basis on the extent of compliance with the PFMA and Treasury Regulations? [TR26.1.2]</li> <li>Has the department submitted the annual report, including, the audited financial statements and the audit report, timeously to the executive authority?</li> <li>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]</li> <li>Has the executive authority tabled the annual reports of public entities under his/her control in the legislature? [sec 65(1) of PFMA]?</li> <li>Is a schedule regarding disciplinary procedures and criminal charges submitted to the relevant treasury and the Auditor-General.? [TR 4.3.3]</li> </ul>

## 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 A-G'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><u>ENTERPRISE RISK MANAGEMENT SYSTEMS</u></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>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>

Capability level	Outline	Governance Criteria & Norms and Standards
		<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><u>ENTERPRISE RISK MANAGEMENT SYSTEMS</u></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> <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 analyze 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> <li>• The risk management process is subject to regular internal audit evaluation.</li> </ul>
Level 4: <i>Information level</i>	Focus on measuring how resources are used.	<p><b><u>ENTERPRISE RISK MANAGEMENT SYSTEMS</u></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>

Capability level	Outline	Governance Criteria & Norms and Standards
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 A-G'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 A-G'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/MAM Criteria
Level 1 – <i>Start-up level</i>	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	<ul style="list-style-type: none"> <li>➤ Isolated attempts and accomplishments in place at developing business practices.</li> <li>➤ Process of implementing new programme or policy perhaps due to new legislation being implemented. (PFMA; NTR's etc).</li> <li>➤ Data or records kept may not be accurate (quotations and bid information).</li> <li>➤ Environment is not stable (no mitigation of risk or identifiable control measures).</li> </ul>
Level 2 – <i>Development level</i>	A proper internal control framework and financial accounting processes have been developed.	<ul style="list-style-type: none"> <li>➤ All elements of an internal control framework required by management are developed and documented. This includes the following: <ul style="list-style-type: none"> <li>➤ The adequate communication of management framework</li> <li>➤ Systems to integrate the management framework</li> <li>➤ Provision for maintenance and updating</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>➤ Lack of implemented controls are looked at in terms of the following categories: <ul style="list-style-type: none"> <li>➤ Authorisations (for example no proper delegations of responsibilities)</li> <li>➤ Policy framework (for example not documented or approved)</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>➤ SCM Unit in Place</li> <li>➤ Ensuring that structures like bid committees are in place.</li> <li>➤ Policy implementation and development (AO system; Delegations)</li> <li>➤ Standardisation of procedures</li> <li>➤ Asset and resource policy development</li> <li>➤ Develop a realistic business plan/SCM/ Asset Management Policy</li> <li>➤ Establish a basic SCM control framework to safeguard and protect assets</li> </ul>



Capability level	Definition	Detailed characteristics	Criteria	SCM/MAM Criteria
			<ul style="list-style-type: none"> <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 AC (no properly functioning AC)</li> </ul>	
Level 3 – Control level	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> </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> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>➤ Adequate resources available</li> <li>➤ Delegations in place</li> <li>➤ AO System in terms of section 38(1)(iii)(a) of the PFMA</li> <li>➤ Asset Register in place</li> <li>➤ Assets are safeguarded</li> <li>➤ Transactions processed and controlled in accordance with applicable legislative and regulatory framework</li> </ul>

Capability level	Definition	Detailed characteristics	Criteria	SCM/MAM Criteria
		<ul style="list-style-type: none"> <li>➤ Information reported can be relied upon</li> </ul>	<ul style="list-style-type: none"> <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> <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>➤ SCM operations are monitored and controlled</li> <li>➤ Satisfactory SCM reporting requirements</li> <li>➤ Reliable data (Integrity of SCM data supports SCM operational planning decisions and monitoring activities)</li> <li>➤ Organisation meets statutory and regulatory obligations</li> <li>➤ Move towards developing Standard operating Procedural Manuals</li> </ul>
Level 4 – Information level	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>		<ul style="list-style-type: none"> <li>➤ Integration of financial and non-financial systems</li> <li>➤ SCM Officials received training in SCM</li> <li>➤ Cost effective management of risk</li> <li>➤ Effective usage of resources</li> <li>➤ SCM practice and procedure managed with prudence in an efficient and effective manner</li> <li>➤ Achievement of operational functionality in SCM</li> <li>➤ Formalised and implemented SCM practices and policies in place (standard operating procedural manuals in place)</li> <li>➤ Consistent and comparable SCM reporting</li> </ul>

Capability level	Definition	Detailed characteristics	Criteria	SCM/MAM Criteria
				<ul style="list-style-type: none"> <li>➤ Generating of information provides a basis developing 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>
Level 5 – <i>Managed level</i>	Focus on balancing efficient and economical use of resources with quality/ effectiveness of results achieved.	<ul style="list-style-type: none"> <li>➤ Risk management: cost-effective utilisation of resources</li> <li>➤ Risk management: project costing and financing</li> <li>➤ Continual updating of strategic plans</li> </ul>		<ul style="list-style-type: none"> <li>➤ The procurement of goods and services at an acceptable quality</li> <li>➤ Cost versus quality versus risk versus opportunity Procurement of goods and services at the right price, at the right price and at the right time</li> <li>➤ The utilization of simulation , historical trends and manipulating variables to see how they affect the outcome</li> <li>➤ Defining the relationship among variables that effect cost, quality and level of service and understanding and how they impact on the department’s results</li> <li>➤ Utilisation of information to make informed decisions among competing objectives like cost , quality and schedule</li> <li>➤ Monitoring of SCM and its outcomes</li> <li>➤ Using quantitative information to balance among competing business line objectives (e.g. to reduce cost, improve productivity, improve quality, reduce risk and increase opportunities.)</li> </ul>

Capability level	Definition	Detailed characteristics	Criteria	SCM/MAM Criteria
Level 6 – <i>Optimising level</i>	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>		<ul style="list-style-type: none"> <li>➤ Strategic SCM objectives in place</li> <li>➤ Service delivery improvements in place</li> <li>➤ Future improvement areas concentrated on: <ul style="list-style-type: none"> <li>- Developing prospective information to anticipate both internal and external changes that may affect the department's performance</li> <li>- Measuring a comparative study of provincial departmental performance against each other and setting strategic targets for improvement</li> <li>- Benchmarking and utilizing best practice</li> <li>- Finding ways to minimize costs and maximize revenue, and to improve quantity and quality of outputs, by introducing new technology or improving existing processes</li> </ul> </li> </ul>

## 2.8 Supporting and Interlinked Financial Systems

From a supporting and interlinked financial systems (financial systems) perspective, the assessment tool below is based on levels 3 and 4 of the A-G'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 7: Management of Supporting and Interlinked Financial 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 Department 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 performance, in line with the financial management capability assessment tool for non-financial information. The assessment includes the comparison of the performance measures contained in the Annual Performance Plan (APP) and the Annual Report as well as the actual performance of the Department as reported on in the Quarterly Performance Report (QPR). The assessment gauges key aspects of the Department's performance management information, and considers whether the Department has reached a level 3 competency capability, and expresses a view on the extent to which the Department is moving towards a level 4 capability organisation.

## Annual Report 2007/08

The Annual Report Guideline for General and Performance information require that departments must provide a summary of the significant achievements of each sub-programme within the Programme for the 2007/08 financial year, focusing on the achievement of targets. In the event of targets not being achieved, a brief narrative providing reasons should be provided. Similarly, a narrative should be provided for targets that were exceeded detailing the factors that enabled the above performance. This section must also briefly provide a synopsis on how the achievement of targets has contributed towards achieving the Department's outcomes, and which will invariably impact on the strategic priorities of government.

All the performance measures defined in the 2007/08 Annual Performance Plan (APP) are reported on in the 2007/08 Annual Report (AR). However some of the actual performance targets as indicated in the AR do not relate to the target that was set. In general the Department identified deviations from annual targets and quantified it appropriately. (An example is the deviation in the development of the ICT Procurement Strategy/Policy which highlights that progress is dependent on national directives before it can be finalised; as well as the need to address delays that occurred in the consultation processes. In addition, the delay in the implementation of the data communications for business critical applications due to delays in implementing the Network Access Layer tendered by SITA). The challenge is for the Department to address the 'shelving' of the strategic monitoring and evaluation of the Human Resource function and efficiency of policy initiatives. In some cases more detail is required with regard to explaining deviation, for example – the target set for the conducting of Premier Seminars was 12 but only 1 seminar was held. Further examples include the non-performance in the transformation of relationships with NGOs (this activity not activated to date) as well as the lack of implementation of the Provincial Government Communications Forum (Communications Forum not yet operational). A further challenge include addressing the ICT training programme for public servants which had been targeted at 2000, whereas only 696 public servants were trained.

On the positive side, in specific instances the actual performance targets exceed the targets set. For example, target ICT literacy training for teachers exceeded performance by 90 per cent.

A specific inconsistency has been identified in relation to the transformation of the Provincial Government's relationships with NGOs in the sense that the report from Communication relates that this activity had not been engaged with; whereas in relation to the same issue Special Programmes relates that a Draft Framework had been developed.



## **APP 2008/09**

Most of the performance targets identified by the Department comply with the SMART principle, in that they are specific, measurable, achievable/attainable, realistic and time bound.

It is acknowledged that the Department has defined measurable objectives logically and consistent with the strategic objectives of the Department, however it is recommended that the Department provide a baseline number where the target may have been provided as a percentage.

### **Conclusion/recommendation**

It is acknowledged that the Department of the Premier plays a policy co-ordination and oversight role and based on this mandate, it may sometimes be difficult to quantify measurable targets. However, the examination of the 2007/08 APP, the 2007/08 Annual Report and the 2008/09 APP shows that the Department is according to the performance management framework outlined above – operating close to a level 3 organisation.

To reach a level 4 competency, which measure how resources are used, the Department needs to explain all deviations from annual targets and provide remedial steps for non-performance in the Annual Report. The inclusion of deviations from the annual targets set for a specific financial year as well as reasons for the deviations from the target in the Annual Report is of great importance to start moving towards the next level of capability.

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

From a public finance perspective, the following is noted on financial performance of the Department:

- 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 2007/08.

**Table 1: Quarterly Analysis on projections: 2007/08**

R'000	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total
First Quarter	29 562	21 480	25 521	30 369	26 687	26 687	32 855	36 122	27 826	28 859	25 230	25 878	337 076
%	8.77%	6.37%	7.57%	9.01%	7.92%	7.92%	9.75%	10.72%	8.26%	8.56%	7.48%	7.68%	100.00%
Second Quarter	29 562	21 480	25 521	24 535	27 196	31 718	32 789	36 116	27 929	28 987	25 333	25 910	337 076
%	8.77%	6.37%	7.57%	7.28%	8.07%	9.41%	9.73%	10.71%	8.29%	8.60%	7.52%	7.69%	100.00%
Third Quarter	29 562	21 480	25 521	24 535	27 196	31 718	29 587	27 561	46 122	38 733	36 800	34 459	373 274
%	7.92%	5.75%	6.84%	6.57%	7.29%	8.50%	7.93%	7.38%	12.36%	10.38%	9.86%	9.23%	100.00%
Fourth Quarter	29 562	21 480	25 521	24 535	27 196	31 718	29 587	27 561	46 122	31 123	33 286	42 847	370 538
%	7.98%	5.80%	6.89%	6.62%	7.34%	8.56%	7.98%	7.44%	12.45%	8.40%	8.98%	11.56%	100.00%

*Shaded: Actuals*

*Unshaded: Projections*

As illustrated in the table above, it appears that there is room for improvement with regard to expenditure forecasting, as forecasts in prior quarters differ from the actual expenditure throughout the year. This can be observed where actuals and projections are compared on a monthly basis. Actual expenditure (shaded) is not steady when compared to the projected expenditure (unshaded) consistently on a monthly basis.

The Department's original budget allocation for the 2007/08 financial year was R337,076 million. However, in the Adjusted Estimates it was augmented with R36,198 million to R373,274 million. R6,557 million, i.e. 1.8 per cent of the adjusted budget was shifted between programmes within the Vote, while R5,834 million was shifted within programmes i.e. 1.6 per cent of the adjusted budget. At below 2 per cent of the adjusted budget it is clear that the original budget of the Department was credible.

In terms of virements affected, the Department adhered to the prescribed limit of not exceeding the 8 per cent of the amount appropriated under the main division for 2007/08 as stipulated and required in terms of section 43(2) of the PFMA. The total amount of virements effected was R4,865 million as indicated in Table 2 below. These virements have been applied in order to offset overspending in programme 1: Administration and programme 3: Policy and Governance.

The table below reflects the virements effected between programmes in 2007/08 as per the Annual Financial Statement for 2007/08.

**Table 2: Virements 2007/08**

From Programme	To Programme	Amount R'000
Coporate Support	Administration	1002
Coporate Support	Policy and Governance	3110
Coporate Support	Policy and Governance	345
Coporate Support	Policy and Governance	408
<b>TOTAL</b>		<b>4865</b>

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

The total expenditure incurred in 2007/08 for the Department amounted to R370,538 million constituting 99.3 per cent of the adjusted budget. This indicates that the Department under spent by 0.7 per cent, which is well below the 2 per cent under spending norm.

As per the Audit Report, irregular expenditure has been incurred in the current financial year mostly in relation to the procurement of goods and services. This irregular expenditure of R1,6 million occurred as a result of transfer payments being incorrectly classified as expenditure for goods and services. Furthermore, the A-G reported that payments of R800 000 and R200 000 were made to the Western Cape Youth Commission as contributions to the Youth Status Report and transport respectively, and R613 000 was paid to a consultant for transport and administration costs for a cultural event. The Department incorrectly classified these payments as 'goods and services'. The irregular expenditure amounting to R1,6 million is disclosed in note 22 of the financial statements.

According to the Management Report of the A-G, the Department did not ensure that transfer payments were supported by Section 38 agreements. Treasury approval could not be provided for the contribution of R600 000 made to the Premier's Relief Fund during the year.

The Department of the Premier collected R780 000 in provincial own receipts compared to the adjusted budget of R642 000 for the 2006/07 financial year. This recovery was R138 000 or 21.5 per cent more than the adjusted budget, which was mainly due to donations received from First National Bank for promotion of the Tik-off campaign. Given the above donation, the Department has requested rollover retention for the utilisation of promotion, organisation and management of Social Transformation Jamborees in 2008/09.

The Department revised the tariffs for the use of training facilities and resources at Kromme Rhee and George Academy training centre for Human Resource Development and tariffs for the utilisation of transport by employees between residence and work in the 2007/08 financial year.

The Main Budget estimation for provincial own receipts for the 2008/09 financial year amounted to R503 000, which is R277 000 less than the actual collection of R780 000 in the 2007/08 financial year.

The Department experienced slightly higher spending for the month of March but cannot necessarily be deemed to be a March spike in the 2007/08 financial year. The spending for March 2007/08 (R42,847 million) in relation to the total expenditure in 2007/08 (R370,538 million) makes up 11.6 per cent of the total expenditure, which is more than the 10 per cent monthly average. However, as indicated by the Department, this spending was mostly due to payment made towards the end of the year in respect of big capital equipment such as servers, (computer hardware), switches, hubs, upgrade of SITA data lines, mainframes and other IT equipment.

## **Conclusion**

The Department of the Premier is operating on a level 3 but requires improvement in its financial management capabilities.

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

This assessment of the financial management capability of the Department was undertaken based on audit findings and IYM reporting, that revealed the following:

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

The Department's monthly IYM report reflects that suspense; control and disallowance accounts are 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 were reviewed on a monthly basis in order to monitor the progress in the clearance of the suspense and control accounts. An age analysis on suspense accounts is performed on a monthly basis. The Department has improved its performance rating from a level 2 to a level 3 financial management capability when compared to the previous year's assessment.

#### **Accounting of assets**

The Department indicated that they complied with the minimum requirements of an Asset Register (Moveable Assets). The control over computer assets have improved with the Department not being qualified on the disclosure of assets as was the case in 2006/07. The Department currently operates at a level 3 financial management capability as compared to last year's review of a level 2 rating.

#### **Financial reconciliations**

The Department reported that financial reconciliations are performed as prescribed i.e., PMG/BAS interface, BAS/PERSAL interface, BAS/LOGIS reconciliation. The Department currently operates at a level 3 financial management capability.

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

In accordance with National Treasury Regulation 8.2.3, all payments due to creditors must be paid within 30 days of receipt of invoice unless determined otherwise in a contract or other agreement. The A-G reported that payments were made after 30 days of the receipt of the invoice. This could be viewed as a deliberate attempt by the Department to defer payments to the following year to avoid exceeding the Vote in the current year which, in terms of the PFMA, would constitute unauthorised expenditure. Sufficient control over payments should be implemented to ensure that timeous payments occur and unauthorised expenditure is avoided. In this regard, the Department is operating at a level 2 financial management capability.

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

According to an A-G finding, it appears that the payments to the Western Cape Youth Commission were incorrectly classified and should have been recorded as transfer payments after the approval in terms of TR 21.1.1 had been obtained. Treasury Regulation 21.1.1 reads, "The accounting officer may approve gifts, donations and sponsorships of State money and other moveable property in the interest of the State. When such cash amounts exceed R100 000 per case, the approval of the relevant legislature must be sought by including the item separately in the appropriation bill". Furthermore, the payments have been made in contravention to TR21.1.1 as the approval from the Legislature was not obtained.

Transactions and events are not appropriately classified and promptly recorded so that they maintain their relevance, value, and usefulness to management in controlling operations and making decisions. Management should ensure that reconciliations are performed in order to identify any discrepancies in the classification of transactions. This is indicative of financial management capability level 2.

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

Steps are in place to ensure that unauthorised, irregular or fruitless and wasteful expenditure are identified and prevented. The Department is currently operating at a level 3 financial management capability.

## **Management of contingent liabilities**

There was no audit findings relating to contingent liabilities for the year under review, indicating an improvement compared to previous year's assessment. The Department has improved its performance rating from a level 2 to a level 3 financial management capability.

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

Monthly reporting in terms of the IYM to Provincial Treasury took place according to legislative requirements. This is indicative of a level 3 financial management capability. The Department is maintaining its performance at a level 3 financial management capability when compared to the previous year's assessment.

## **Conclusion/recommendation**

The strides made by the department are significant enough to move the department to a level 3 financial management capability. The 2007/08 financial year presented an opportunity for the Department to embed most of the plans that have been implemented in the 2006/07 financial year, and deepened the ethos of good financial governance.

## **PUBLIC ENTITY: Western Cape Youth Commission**

The WCYC is a public entity that resorts under the control of the Office of the Premier and is responsible for advocating youth unity and national loyalty, as well as being a link to other youth organisations in the country.

### **Accounting treatment of transactions**

The previous year's assessment of the entity's fixed asset register revealed that adequate details of assets were not provided resulting in a financial management capability level 2 being achieved. This issue has now been resolved.

For 2007/08 the Auditor-General reported that the WCYC did not have a SARS tax exemption certificate. It is recommended that the entity registers with SARS for tax purposes and apply for exemption in order to move towards a financial management capability level 3.

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

The A-G reported that a sample of journals of the WCYC were found to be valid, accurate and complete, but without evidence to suggest that these journals were subjected to supervisory and review checks. It is recommended that the entity institute measures to ensure that supervisory staff reviews and ensure authorization of journals take place before being processed in order to move towards a financial management capability level 3.

It was also reported that a sample of payments were outstanding for a period of longer than 30 days and that the entity does not date stamp invoices received on the actual date the invoice was received. This issue was also reported on in the 2006/07 financial year and is indicative of a financial management capability level 2.

It is recommended that the entity implement adequate internal controls to ensure that creditors are settled within 30 days to avoid interest and penalty charges in order to achieve a financial management capability level 3.

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

The Commission had irregular expenditure as a result of not following proper tender prescripts. It is recommended that the entity review its internal processes to ensure compliance with prescripts and thus move towards a financial management capability level 3.

### **Conclusion/recommendation**

The A-G reported that the WCYC's organisational structure does not provide for planning, directing and controlling of operations to achieve government objectives. The Commission may therefore not be a viable going concern in the foreseeable future. Until such time it is imperative that management controls are efficient and effective to ensure that the entity attains a level 3 financial management capability during the reporting period. The entity should report its concerns via the IYM process, which is designed to inform its parent department as well as the Provincial Treasury of concerns and problems encountered.

### **PUBLIC ENTITY: Provincial Development Council**

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

The entity received unqualified audit reports for 2006/07 and 2007/08 financial years. The entity is performing its basic accounting functions according to prescripts, and in general is maintaining a level 3 financial management capability. There are, however, some issues that require further attention.

### **Accounting of Assets**

The entity performed at a level 3 financial management capability as reported in the 2006/07 assessment. During the 2007/08 financial year the A-G's finding was that supply chain management policies and procedures, in particular Treasury Regulations 16A, were not complied with.

Management should ensure that the PDC complies with accounting policy and prescripts in order to maintain a level 3 financial management capability rating.

### **Financial reconciliations**

Financial reconciliations are performed as prescribed and the entity maintained a level 3 financial management capability.

### **Supporting documentation**

The entity's transactions are supported by authentic and verifiable source documents. The entity maintained its level 3 financial management capability.

### **Accounting treatment of transactions**

The financial statements, approved by the accounting authority and submitted for audit on 31 May 2008, contained misstatements pertaining to revenue, expenditure and Property, Plant and Equipment.

The entity's policies should ensure that the correct accounting criteria are applied during the treatment of transactions, in order to maintain the level 3 financial management capability as achieved during the previous reporting period.

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

The prescribed reports are submitted, and the entity continues to perform at a level 3 financial management capability in this regard.

### **Management controls**

An internal audit function was not in operation for the year under review. The purpose of the function is inter alia to enable management to determine whether the internal control environment is operating as intended. The internal audit function has now been outsourced.

Instances of no-compliance with the Treasury Regulations, in particular with regard to supply chain management are included under Accounting of Assets above.

The Auditor-General reported that a functioning performance management system is not in place. The entity should have documented and approved internal policies, procedures to address planning, monitoring and reporting processes and events pertaining to performance information.

Due to the above management control issues, the entity is operating at a financial management capability rating of level 2.

### **Conclusion/recommendation**

PDC indicated that, as part of restructuring, separate appointments will be made to deal with finances and human resources, namely a Chief Finance and an Administrative Officer.

## **3.1.3 Corporate Governance**

### **3.1.3.1 Compliance**

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 in terms of the Financial Management Capability Model.

The source documents used were the Normative Measures for Financial Management for departments for the quarter ending March 2008 and the A-G's report for the 2007/08 financial year.

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

The Department has made some strides in the effort to capacitate the financial management unit and has managed to reduce the vacancy rate to within the required national norm of 5 per cent.

### **Analysis of the 2007/08 Audit Report**

The Department received an unqualified audit opinion for the 2007/08 financial year. This represents an improvement on the 2006/07 financial year when it received a qualified audit opinion. It is important that this trend is sustained to help consolidate the gains that the Department has made. The A-G highlighted some issues which should be addressed urgently if the Department is to make further improvements.

### **Overall Assessment**

Based on the above analysis and the information supplied to Provincial Treasury, the Department is rated as a level 3 auditable organisation.

### **3.1.3.2 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. Levels 1 and 2 are as follows:

### **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 organisation structure supports the processes developed.

#### **Internal Environment**

A risk management philosophy has not been developed for the Department and a risk appetite of the Department has also not 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 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 met all the set Criteria and 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 and 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.

#### **Operational Risk Assessment:**

- Risk events identified and assessed on an inherent level.
- Existing controls identified and documented (process and control maps).
- Control gaps identified and action plans developed.

## 2006/07 and 2007/08 Comparison

For the 2007/08 review, it is evident that the Department has made no improvement compared to the 2006/07 review.

### 3.1.4 Cash Management

This section deals with the implementation and management of sound cashflow practices as well as the provision of assistance and training in respect of the banking system within the Province.

#### Background

Section 21(1) of the PFMA stipulates that the PT is in charge of the Province's PRF. The creation and practice of sound cashflow management by the PT is therefore imperative for maintaining and improving the delivery of services to the various communities within the WC.

#### Review

To determine at which level (level 1 – 4) of effectiveness the Department is operating in respect of cash management. The following areas and standards of performance and under-performance were assessed:

**Table 3: Assessment Tool**

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

The evaluation was based on the activities of the 2007/08 financial year and the findings were as follows:

**Table 4: 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	4
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	2
<b>Average rating</b>			<b>3</b>

The Department achieved an overall financial management capability rating level 3.

#### **Skilled and capacitated system users**

The Department obtained a financial management capability rating level 3. All system users are trained in accordance with their profiles on Nedbank Business.

#### **Submission of Annual Provincial Cashflow Projections**

The Department obtained a financial management capability rating level 3. The Annual projections in respect of income and expenditure were received timeously in accordance with Treasury Circular 5 of 2008.

**Table 5: Deviation between monthly projections and actual expenses**

	Project	Actual	%	Rating
<b>Original Forecast</b>				
APRIL'07	29 111	29 692	(2)	4
MAY'07	27 140	23 601	13	2
JUNE'07	26 527	25 695	3	4
JULY'07	29 467	25 016	15	2
AUG'07	26 194	28 214	(8)	2
SEP'07	26 188	30 725	(17)	2
OCT'07	31 953	29 460	8	2
NOV'07	35 480	29 659	16	2
DEC'07	27 189	43 829	(61)	2

	<b>Project</b>	<b>Actual</b>	<b>%</b>	<b>Rating</b>
JAN'08	27 970	32 758	(17)	2
FEB'08	24 601	34 693	(41)	2
MRC'08	25 256	3 734	85	2
<b>Sub-Total</b>	<b>337 076</b>	<b>337 076</b>		<b>2</b>
<i>Revised Forecast (after adjusted budget)</i>				
MRC'08				
Adjustment	36 198	36 198		
Total	<b>373 274</b>	<b>373 274</b>	<b>100</b>	

The Department achieved a financial management capability rating level 2. PT will support and assist the Department on a monthly basis to establish reasons for the variances. The Department should utilise previous monthly drawing trends to establish more credible projections.

#### **Monthly Own Revenue payover**

The Department obtained a financial management capability rating level 3 (nominal compliance). Revenue is being paid over monthly 2 working days prior to month end. PT will request the Department to submit detail before 3<sup>rd</sup> last working day of each month to enable the Department to achieve the level of full compliance.

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

The Department obtained a financial management capability rating level 4 (full compliance). Surplus funds were paid to the PRF on 14 May 2008.

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

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

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

The Department achieved a financial management capability rating level 2 (partial compliance). PT will encourage the Department to make optimal use of the Province's financial systems to minimize the usage of Beneficiary Payments (Direct Bank Transfer).

**Table 6: Beneficiary Payments**

<b>Payments</b>	<b>Beneficiary Payments</b>	<b>%</b>
19 620	916	4.67

### 3.1.5 Supply Chain Management

#### Supply Chain Management

When measured against the current financial capability model for Supply Chain Management (SCM), the following must be noted in respect of the Department:

- The SCM structure consists of three sections namely; Procurement, Provisioning and Asset Management. This structure provides for a demand, acquisition process as well as logistics and disposal management which is in line with National Treasury: Normative Measures for Financial Management (Phase 1: Perfecting the Basics) policy documents as well as to Regulation 16 A3.2 (d) of the National Treasury Regulations for Supply Chain Management.
- The Department has an Accounting Officer's (AO) System in place in terms of section 38(1)(iii)(c) of the PFMA. The department has indicated that the AO systems as well as the accompanying delegations were reviewed in July 2007.
- Paragraph 16A6.2 of the National Treasury Regulations, as well as Chapter 16A2.3.2 of the PTIs requires the departments to provide for three bid committees namely; bid specification, bid evaluation and bid adjudication. However the Department has only given effect to the appointment of the bid adjudication committee. The other two committees (bid specification and evaluation committees) are appointed on an ad hoc basis as and when required.
- In 2007/08 financial year, 5 officials were trained; 2 on contract management and 3 on bid committees. The Department has indicated a training need for 1 official in contract management in the 2008/09 financial year.
- During the 2007/08 financial year the Department awarded 10 bids, with the value of R10 983 287.27. The value of bids awarded to companies with HDI equity was R699 857.40, which constitutes 6 per cent of the bids awarded. It should be noted that 6 (60 per cent) of the 10 bids awarded were invited in terms of limited bidding and the HDI status of the companies were not reported. The 6 per cent of bids awarded to HDIs mentioned above, exclude the HDI% of the bids awarded via limited bidding, as it was not reported.
- The Department advertised 316 quotations via Sourcelink and only 8 quotes were adjudicated on the system. This means that 308 quotations (73 per cent) are not reflected in the statistics. The 95 per cent of the adjudicated bids was awarded to companies with HDI representation. The non-compliance with the adjudication of quotations on the system impacts on the credibility of the statistics.

#### Moveable Asset Management

The National Treasury Project Dashboard and Risk Log assessment reflected the following postponed/outstanding issues as at 19 September 2008:

- Life-cycle costing
- Elements of best asset strategy
- Establishment of performance indicators
- Replacement strategy
- Operation & maintenance plan
- Disposal Plan

The Auditor-General's Management Report for 2007/08 financial year, dated 27 August 2008, alluded to the following findings:

- Tax Clearance Certificates were not in all instances attached to tender documents.
- Written procedures, authorisation, record keeping, management reviews and asset safeguards are not segregated to prevent inaccurate financial data recording and asset misappropriation.

### **Comparison to the 2007 Review**

The Department has made progress in meeting the SCM requirements. However the non-compliance with Asset Management requirements remains the same as of 2007 review. The inadequate reporting of procurement information is a concern as it has a negative impact on credibility of the procurement statistics.

### **Rating**

On consideration of all of the above, the Department barely meets the requirement for a level 3 capability in terms financial management capability model for SCM. However, cognisance must be taken that this rating may change after the Compliance and Value for Money assessment, which will be performed during the 2007/08 financial year.

### **Conclusion/recommendation**

The Department will be assessed in the 2008/09 financial year in terms of a full SCM compliance and value for money assessment, which will enable the Provincial Treasury to prompt SCM interventions through training, workshops, one-on-ones and guidance.

In the interim the Department needs to:

- Report all bids awarded using the prescribed reporting format.
- Adjudicate all quotations on Sourcelink.
- Complete the Asset Management Project Dashboard and Risk Log Report.
- Make a concerted effort to adhere to SCM prescripts and policy frameworks.
- Introduce internal control measures to safeguard assets.

## **3.1.6 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.

### **Background**

Currently there are three major systems, the Basic Accounting System (BAS), Personnel and Salary Administration System (PERSAL) and Logistical Information System (LOGIS) that are maintained by the National Treasury for National and Provincial departments. In addition a web-based Management Information System

(Vulindlela) is maintained of financial, HR and logistical data, for high level, management information.

## Review

All three major systems as well as Vulindlela are being utilised by the Department in the execution of their daily functions. To determine at which level (level 1 – 4) of effectiveness the Department is in utilising the systems, the following areas and standards per systems, were identified to evaluate the effective utilisation of the systems and functional assistance and training, as well as to identify areas of under-performance, to be addressed.

**Table 7: Basic Accounting System (BAS)**

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

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

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

**Table 9: Logistical Information System (LOGIS)**

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

**Table 10: Management Information System (Vulindlela)**

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

The evaluation was based on the activities of the 2007/08 financial year and the findings were as follows:

**Table 11: 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	4
<b>Average rating</b>			<b>3</b>

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

**Table 12: 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
29	14	15	11	3

The Department obtained a financial management capability rating level 2 (partial compliance), 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 has identified the training gap of all system users and are providing training to users in accordance with their profiles.

The Department however needs to commit themselves in getting all users trained.

#### **Month end closure**

The Department achieved a financial management capability rating level 3 (nominal compliance) 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 3 (nominal compliance) 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 at a financial management capability level 3 (nominal compliance):

- 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 4 (full compliance) as their interfaces were monitored and reported on a daily basis.

**Table 13: 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 financial management capability rating level 3 (nominal compliance).

**Table 14: 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
24	16	8	13	3

The Department obtained a financial management capability rating level 2 (partial compliance) due to the 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 has identified the training gap of all system users and are providing training to users in accordance with their profiles.

The Department however needs to commit themselves in getting users trained.

### **System Controller Functions**

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

### **Establishment Management**

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

### **PERSAL/BAS reconciliation**

The Department compiled a monthly PERSAL/BAS reconciliation by the 20<sup>th</sup> of each month and therefore achieved a financial management capability rating level 3 (nominal compliance).

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

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

Reports indicating the outstanding information are available and are provided by Provincial Treasury to departments on request. The Department must ensure that all the information of new appointments are captured on the system.

### **Leave Audit**

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

**Table 15: 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	2
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 financial management capability rating level 3 (nominal compliance).

**Table 16: 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
13	12	1	11	1

The Department showed an improvement, compared to the previous year.

The Department obtained a financial management capability rating level 3 (nominal compliance), mainly due to the higher percentage of officials being nominated and 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 issue during the 2007/2008 financial year was 12 days. The performance of the Department is therefore below standard and a financial management capability rating of 2 (partial compliance) was achieved.

The Department needs to put procedures and processes in place to manage the issuing of goods, in order to ensure compliance.

#### **Stock Management**

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

#### **Financial Controls**

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

#### **System Control functions**

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

**Table 17: 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 18: Usage of the Management Information System (Vulindlela)**

<b>Number of registered users</b>	<b>Number of registered users using the system on a regular basis</b>	<b>Number of registered users not using the system on a regular basis</b>	<b>Percentage active users</b>
39	13	26	33%

The Department obtained a financial management capability rating level 2 (partial compliance) due to the fact that only 33 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 26 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

### 3.2.1 Performance Management

#### 3.2.1.1 Performance management based on financial information

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).

The Provincial Parliament also ensured that the reported actuals on expenditure and revenue reconciled to the BAS/Vulindlela financial system consistently on a monthly basis.

It appears that the Provincial Parliament 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.

**Table 19: Quarterly Analysis on projections: 2007/08**

R'000	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total
First Quarter	4 379	3 804	4 074	10 583	6 208	9 140	5 252	5 586	7 973	4 579	4 977	5 384	71 939
%	6.09%	5.29%	5.66%	14.71%	8.63%	12.71%	7.30%	7.76%	11.08%	6.37%	6.92%	7.48%	100.00%
Second Quarter	4 379	3 804	4 054	5 387	6 619	5 025	9 988	7 209	7 457	4 558	5 860	5 099	69 439
%	6.31%	5.48%	5.84%	7.76%	9.53%	7.24%	14.38%	10.38%	10.74%	6.56%	8.44%	7.34%	100.00%
Third Quarter	4 379	3 804	4 054	5 387	6 619	5 025	8 582	4 190	8 492	5 912	7 165	6 061	69 670
%	6.29%	5.46%	5.82%	7.73%	9.50%	7.21%	12.32%	6.01%	12.19%	8.49%	10.28%	8.70%	100.00%
Fourth Quarter	4 379	3 804	4 054	5 387	6 619	5 025	8 582	4 190	8 492	3 524	4 208	6 532	64 796
%	6.76%	5.87%	6.26%	8.31%	10.22%	7.76%	13.24%	6.47%	13.11%	5.44%	6.49%	10.08%	100.00%

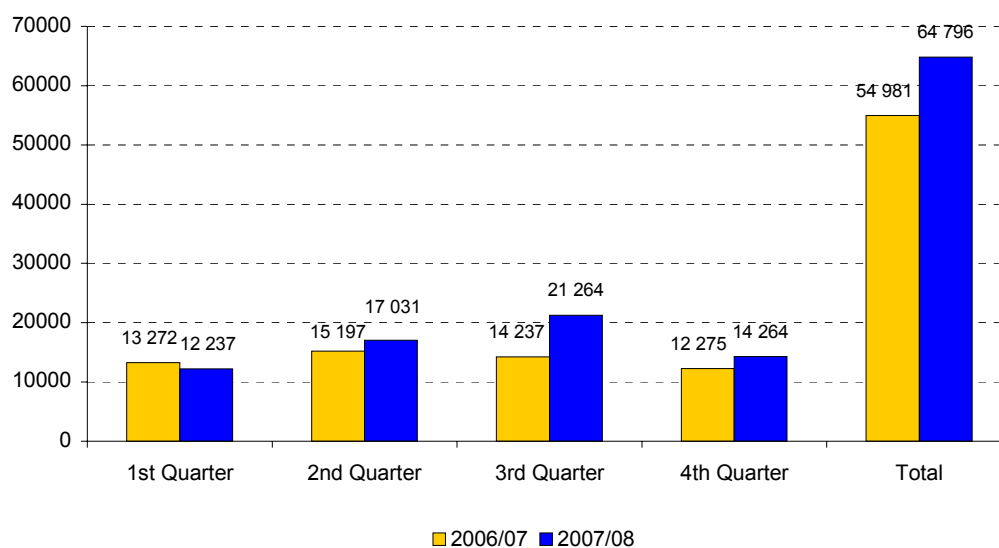
*Shaded: Actuals*

*Unshaded: Projections*

The Provincial Parliament effected few shifts in the 2007/08 Adjusted Estimates amounting to R331 000 or 0.5 per cent of its adjusted budget. The shifts were largely to defray over expenditure within Programme 1: Administration and Programme 3: Parliamentary Services. The Provincial Parliament also obtained the necessary virement approvals.

The figure below compares the quarterly actual expenditure for 2006/07 with those of 2007/08.

**Figure 1: Quarterly Actual Expenditure – 2006/07 and 2007/08 (R'000)**



As at 31 March 2008 the Provincial Parliament spent R64,796 million or 93.8 per cent of its R69,276 million adjusted budget. With an underspending of R4,48 million or 6.5 per cent of the adjusted budget in 2007/08, the Provincial Parliament's spending outcome for the financial year is above the 2 per cent underspending norm. The underspending increased in 2007/08 when compared to 2006/07, with underspending recorded in 2006/07 at R3,053 million or 5.26 per cent of its R58,034 million adjusted budget.

There was no fiscal dumping, and the Auditor-General reported no unauthorised or irregular expenditure.

The Provincial Parliament collected R387 000 in provincial own receipts with a R52 000 adjusted budget estimation for the 2007/08 financial year. This translates into an over collection of R335 000 or 644.23 per cent on the adjusted budget, which was largely attributed to increased interest generated on the bank account and financial transactions in assets and liabilities, which was not budgeted for. The bulk of financial transactions are generally not considered a revenue item, but still needs to be provided for. 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. Due to 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 2007/08 financial year.

The Provincial Parliament did not experience a substantial 'March spike'. Expenditure for the month of March 2008 (R6,532 million) in relation to the total expenditure (R64,796 million) constitutes 10.08 per cent. This is slightly higher than the monthly average spending of 8.33 per cent. This was largely due to spending within the goods and services item relating to final payments made for catering and audit fees.

## **Conclusion**

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

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

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

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

The Provincial Parliament reported on a monthly basis that suspense, control and disallowance accounts are followed up regularly and cleared within reasonable period of time. The Provincial Parliament is maintaining a level 3 financial management capability rating when compared to the previous year's assessment.

#### **Accounting of assets**

In an audit finding by the Auditor-General it was indicated that the asset register was incomplete to the extent that certain assets were moved without details being updated on the asset register.

It is recommended that the Provincial Parliament implement and maintain monitoring mechanisms to ensure the completeness of the asset register in order to move to a level 3 financial management capability.

#### **Financial reconciliations**

All financial reconciliations are performed as prescribed i.e., PMG/BAS interface, BAS/PERSAL interface, BAS/LOGIS reconciliation which enabled the Provincial Parliament to close its books on BAS successfully on a monthly basis. The Provincial Parliament is maintaining its previous performance rating of level 3 financial management capability.

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

The Provincial Parliament reported on a monthly basis that steps are in place to ensure that unauthorised, irregular or fruitless and wasteful expenditure are identified and reported on.

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

An audit finding indicated that five laptop computers were reported missing or stolen during the latter part of the year. This is indicative of a lack of effective control measures over the management of thefts and losses. Furthermore, this reflects a deterioration from a level 3 to a level 2 financial management capability.

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

The Provincial Parliament submitted their monthly compliance reporting, as signed off by the CFO and AO, to Provincial Treasury in terms of the prescribed timelines and continues to maintain a level 3 financial management capability when compared to the previous year's assessment.

## **Conclusion/recommendation**

In conclusion, the Provincial Parliament needs to improve management controls over assets in order to maintain its financial management capability at level 3.

### **3.2.3 Corporate Governance**

#### **3.2.3.1 Enterprise Risk Management Systems**

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

#### **3.2.3.2 Normative Financial Management**

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

### **3.2.4 Cash Management**

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

### **3.2.5 Supply Chain Management**

#### **Supply Chain Management**

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

#### **Moveable Asset 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**

#### **Analysis and assessment of the department**

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.

#### **Background**

Currently there are three major systems, the Basic Accounting System (BAS), Personnel and Salary Administration System (PERSAL) and Logistical Information System (LOGIS) that are maintained by the National Treasury for National and Provincial departments. In addition a web-based Management Information System (Vulindlela) is maintained of financial, HR and logistical data, for high level, management information.



## Review

All three major systems as well as Vulindlela are being utilised by the Provincial Parliament in the execution of their daily functions. To determine at which level (level 1 – 4) of effectiveness the Provincial Parliament is in utilising the systems, the following areas and standards per systems, were identified to evaluate the effective utilisation of the systems and functional assistance and training, as well as to identify areas of under-performance, to be addressed.

**Table 20: Basic Accounting System (BAS)**

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

**Table 21: Personnel and Salary Administration System (PERSAL)**

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

**Table 22: Logistical Information System (LOGIS)**

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

**Table 23: Management Information System (Vulindlela)**

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

The evaluation was based on the activities of the 2007/08 financial year and the findings were as follows:

**Table 24: 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	4
<b>Average rating</b>			<b>3</b>

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

**Table 25: 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
4	2	2	2	0

The Provincial Parliament obtained a financial management capability rating level 2 (partial compliance), 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 has identified the training gap of all system users and are providing training to users in accordance with their profiles.

The Provincial Parliament however needs to commit themselves in getting users trained.

### **Month end closure**

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

### **Year closure**

The Provincial Parliament achieved a financial management capability rating level 3 (nominal compliance) 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 financial management capability (nominal compliance):

- 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 financial management capability rating level 3 (full compliance) as their interfaces were monitored and reported on a daily basis.

**Table 26: 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	3
Leave Audit	Annually	Continuous process	3
<b>Average rating</b>			<b>3</b>

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

**Table 27: 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
2	1	1	1	0

The Provincial Parliament obtained a financial management capability rating level 2 (partial compliance) due to the 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 has identified the training gap of all system users and are providing training to users in accordance with their profiles.

The Provincial Parliament however needs to commit themselves in getting users trained.

### **System Controller Functions**

The Provincial Parliament achieved a financial management capability rating level 2 (partial compliance) for the execution of its system control functions. The Provincial Parliament needs to put processes in place for take over where critical posts become vacant.

### **Establishment Management**

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

### **PERSAL/BAS reconciliation**

The Provincial Parliament compiled a monthly PERSAL/BAS reconciliation by the 20th of each month and therefore achieved a financial management capability rating level 3 (nominal compliance).

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

The Provincial Parliament achieved a financial management capability rating level 3 (nominal compliance).

**Table 28: 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	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 Provincial Parliament achieved an overall financial management capability rating level 3 (nominal compliance).

**Table 29: 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
0	0	0	0	0

Although no officials were nominated and trained in this financial year, the Provincial Parliament is rated at a level 2 financial management capability (partial compliant) as there are skilled and trained officials within the department.

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

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

#### **Stock Management**

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

#### **Financial Controls**

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

**Table 30: 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 31: Usage of 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
6	4	2	67%

The Provincial Parliament obtained a financial management capability rating level 2 (partial compliance) due to the fact that only 67 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 Provincial Parliament and address any further user requirements they might have.

**Conclusion/recommendation**

The Provincial Parliament achieved an overall financial management capability rating of level 3.

## 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. The assessment includes the Annual Performance Plan (APP), Annual and Quarterly Reports. 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 express a view on the extent to which the Department is moving towards a level 4 capability organisation.

The Department's APP 2007/08 and Annual Report 2007/08 have been used as the base documents for this assessment.

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

Performance measures defined in the 2007/08 APP are generally consistent and reported on in the 2007/08 Annual Report. In the Annual Report, deviations from annual targets are not adequately acknowledged as a generic argument is given and not specifically for relevant targets. This makes it difficult to understand the specific challenges faced for deviating from planned targets. Furthermore, remedial steps for deviating from targets are not mentioned in the Annual Report.

#### **APP 2008/09**

The APP for the Department complies with the programme structure as prescribed by National Treasury. The preparation phase of the 2008/09 APP consisted of refinements to the 2007/08 APP, to align it with the Provincial Treasury's Estimates of Provincial Expenditure 2008 and to ensure that only key deliverables of each component are reflected and aligned between all the programmes of Provincial Treasury. Although substantial improvement has been made to the formulation of the APP, it requires further refinement to adequately address the compliance issues raised in this assessment.

The APP does reflect annual targets, which are made up of quarterly targets, however, the performance measure indicators are not clearly defined and/or measurable. The use of percentages without baselines is evident in the Quarterly Performance Reports, which makes it difficult to measure the performance of the Department. It is recommended that in instances where the Department had used percentages that these are informed by established baselines.

#### **Conclusion/recommendation**

The assessment of the 2007/08 APP, Annual Report; and 2008/09 APP show that the Department is operating towards a level 3 in relation to the key aspects of the financial management capability assesment.

Although substantial progress has been made to the 2008/09 APP, the process of formulating performance measurement indicators and targets is crucial to the Department and it has to adhere to the SMART principle i.e. specific, measurable, achievable, realistic and time bound.

The Annual Report has to include deviations from actual targets and no generic argument is evident in the 2007/08 Annual Report. 'Remedial Steps' for deviating from targets also need to be included in the Annual Report.

### 3.3.1.2 Performance management assessed based on financial information

From a Public Finance perspective, the following has been noted regarding the financial performance of the Provincial Treasury:

- The Provincial Treasury submits its In-Year Monitoring (IYM) report on revenue and expenditure 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 Provincial Treasury ensured on a monthly basis that the expenditure is reconciled to the BAS/Vulindlela financial system consistently.

**Table 32: Actual expenditure versus projections on a quarterly basis for 2007/08**

R'000	April	May	June	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	March	Total
1st Quarter	6 460	9 083	9 016	9 917	9 428	9 817	10 043	10 895	10 739	10 985	11 075	11 272	118 730
%	5.44%	7.65%	7.60%	8.35%	7.94%	8.27%	8.46%	9.18%	9.04%	9.25%	9.32%	9.50%	100%
2nd Quarter	6 460	9 083	9 016	9 283	10 142	8 901	10 312	9 676	10 930	10 540	11 610	12 093	118 046
%	5.47%	7.70%	7.64%	7.86%	8.60%	7.54%	8.73%	8.20%	9.26%	8.92%	9.84%	10.24%	100%
3rd Quarter	6 460	9 083	9 016	9 283	10 142	8 901	10 719	9 263	10 896	8 771	10 612	11 605	114 751
%	5.63%	7.91%	7.86%	8.09%	8.84%	7.76%	9.34%	8.07%	9.50%	7.64%	9.25%	10.11%	100%
4th Quarter	6 460	9 083	9 016	9 283	10 142	8 901	10 719	9 263	10 896	8 438	10 226	12 468	114 895
%	5.62%	9.70%	7.85%	8.08%	8.83%	7.75%	9.33%	8.06%	9.48%	7.34%	8.90%	10.90%	100%

*Shaded: Actuals*

*Unshaded: Projections*

- There appears to be room for improvement with regard to the Provincial Treasury's predictions on expenditure, as the predictions in a prior quarter differ from the actual expenditure. Projections (highlighted) seem to increase and decrease on a monthly basis, while actual expenditure (shaded) is mostly lower than projected expenditure.
- The Provincial Treasury's original budget for the 2007/08 financial year was R119,001 million. No additional funds were requested during the Adjusted Estimates process.
- Shifting of funds between votes constituted R2,515 million i.e. 2.1 per cent of the budget, where R1 million was shifted to Vote 1: Department of the Premier for the funding of the Organisation for Economic Co-operation and Development (OECD) territorial review project, R1,360 million was shifted to Vote 10: Transport and Public Works for accommodation needs of internal audit at the Southern Life Building, and R155 000 was also shifted to Vote 1: Department of



the Premier to fund the project office for the implementation of the Social Transformation Programme.

- There were also funds shifted between programmes within the Vote amounting to R5,197 million, i.e. 4.4 per cent of the budget. Smaller amounts were shifted within programmes.
- The Provincial Treasury ensured the timeous submission of the Adjusted Estimates and it was comprehensive in terms of Section 31 of the PFMA.
- The total expenditure incurred in 2007/08 by the Provincial Treasury amounted to R115,124 million constituting 98.77 per cent of the budget. Effectively this means that the Department under spent by 1.2 per cent, which is the 2 per cent under spending norm.
- There was no fiscal dumping and no reported irregular or unauthorised expenditure in 2006/07.
- The Provincial Treasury collected R382,292 million in provincial own receipts in the 2007/08 financial year compared to the R344,682 million adjusted budget. This was R37,610 million or 10.9 per cent more than the adjusted budget, which was mainly due to increased collection on casino and horseracing taxes due to higher than estimated 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 2008/09 financial year is R368,819 million, which is R13,473 million or 3.7 per cent less than the actual collection of R382,292 million in the 2007/08 financial year.
- The Provincial Treasury's expenditure trends show a March spike. The March 2008 expenditure (R12,689 million) makes up 11.02 per cent of the total expenditure (R115,124 million). This is mostly reflected within the compensation of employees and goods and services classification and is largely due to payments for auditor fees, the recruitment of Interns and State Information Technology Agency (SITA). It is important to note that the SITA costs have now been decentralised.

## **Conclusion**

The Provincial Treasury generally operates at a financial management capability of 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 IYM reporting revealed the following:

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

The Department reported that transactions in the suspense accounts are cleared consistently with new entries occurring on a monthly basis.

The Department is maintaining its performance at a level 3 financial management capability when compared to the previous year's assessment.

### **Accounting of assets**

The Department reported that they complied with the minimum requirements of an Asset Register (Moveable Assets). In an audit finding by the Auditor-General (A-G) it was indicated that the asset register was incomplete to the extent that certain assets were moved without details being updated on the asset register.

It is recommended that the Provincial Treasury implement and maintain monitoring mechanisms to ensure the completeness of the asset register in order to move to a level 3 financial management capability rating.

### **Financial reconciliations**

The Department reported in their IYM reporting that all bank reconciliations and PERSAL/BAS reconciliations have been compiled. BAS/LOGIS reconciliations for the period under review have not been compiled. This is indicative of a level 2 financial management capability rating.

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

An audit finding of the A-G revealed that the Department does not have an approved policy for the authorisation of journals in place. It is recommended that management should issue a policy for the approval based on the relevant rank of the official and appropriate amount. This is indicative of a level 2 financial management capability rating.

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

The Provincial Treasury reported on a monthly basis that steps are in place to ensure that unauthorised, irregular or fruitless and wasteful expenditure are identified and reported on. The Department continues to operate at a level 3 financial management capability.

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

The Department reported monthly that information on state guarantees are updated on PERSAL and personnel files on a regular basis. The Department is maintaining its performance rating of level 3 financial management capability as compared to last year's assessment.

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

The Department submitted their monthly compliance reporting timeously in terms of the legislative requirements. This is indicative of a level 3 financial management capability rating.

## **Related party transactions**

According to an audit finding, Provincial Treasury as a department has no official declaration of interest document whereby senior managers are required to declare their interest in suppliers or other companies which might be used by the Department as a service provider. It is recommended that a policy be implemented to ensure that management interest is disclosed. A register of disclosures of interest should also be implemented and maintained in order to achieve a level 3 financial management capability rating.

## **Conclusion/recommendation**

To fully comply with level 3 financial management capability requirements, the Department needs to ensure that the BAS/LOGIS reconciliations are compiled and reviewed on a monthly basis, updating and completeness of asset registers are undertaken and issue a policy for the authorisation of journal transactions.

## **PUBLIC ENTITY: Western Cape Racing and Gambling Board**

The Western Cape Gambling and Racing Board (WCGRB) was established in 1977 in terms of the Western Cape Gambling and Racing Law and is currently regulated by Law 4 of 1996, as amended and 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 10 days for 2007/08, compared to 17 days for 2006/07, which is well within the norm of 50 days. This is indicative of a financial management capability rating of level 4.

## **Management Controls**

A lack of adequate controls by management to ensure compliance with prescribed accounting frameworks resulted in the financial statements submitted for audit purposes on 31 May 2008, containing material misstatements. The misstatements were corrected during the course of the audit. This is indicative of a financial management capability level 2 rating.

## **Conclusion/recommendation**

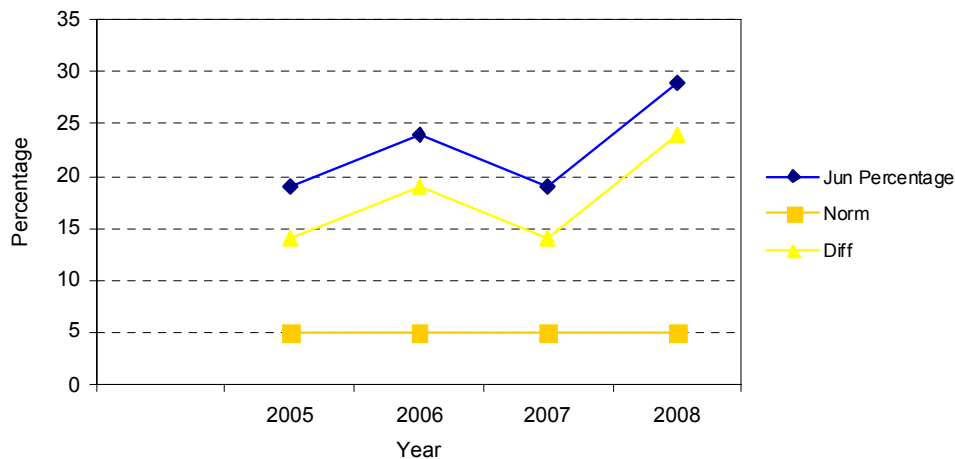
The WCGRB management should address the controls pertaining to the accounting frameworks. Addressing this successfully should facilitate the transition towards attaining a level 4 financial management capacity. The entity should report its concerns via the IYM process, which is designed to inform its parent department (Provincial Treasury).

### 3.3.3 Corporate Governance

#### Analysis of Normative Measures Quarterly report

#### The CFO structure: Human Resources Capacity

Figure 2: Department of Provincial Treasury Vacancy Rate – 4 year Trend Line



#### Analysis:

In the Finance component of the Department the vacancy rate is currently at 29 per cent (June 2008). This represents a substantial variance from the national norm of 5 per cent. The graph depicts an upward trend from 2007 to 2008, that is due to a high staff turnover in this component.

The Department has indicated that only 32 per cent of the staff is attending structured training programmes that are offered within the province. The Department has implemented performance agreements at all levels, career development plans have been developed for 100 per cent of the staff establishment. The staff that has finance related qualification is 90 per cent.

#### Asset Management

Cognisance is taken of the fact that the Department has established a comprehensive asset register for assets in terms of section 38(1) of the PFMA & TR.10.1.2. However the Department has indicated that the asset register must still be reconciled. The Department indicated that no policy and procedure manual for the effective management of asset has been developed.

#### Tabling of Annual Report

The Department as well as that of the Western Cape Gambling and Racing Board, the public entity under its ownership control, has successfully tabled their 2007/08 Annual Report within the prescribed timeframe.

### **Auditor-General's report on the 2007/08 financial year**

The Provincial Treasury received an unqualified audit opinion with no emphasis of matter but with other matters under matters of governance, for the 2007/08 financial year.

### **Western Cape Racing and Gambling Board: Auditor-General's report on the 2007/08 financial year**

The Western Cape Gambling and Racing Board received an unqualified audit opinion with no emphasis of matter but with other matters under matters of governance for the 2007/08 financial year.

### **Overall Assessment**

The Provincial Treasury maintained its standard of a level 3 auditable organisation.

### **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.

### **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 organisation structure supports the processes developed.

### **Internal Environment**

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

## **Operational Risk Assessment**

The risk events have been identified but not assessed on an inherent level. It is not clear as to whether the 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 met all the set Criteria and 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 and 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.

### **Operational Risk Assessment:**

- Risk events identified and assessed on an inherent level.
- Existing controls identified and documented (process and control maps).
- Control gaps identified and action plans developed.

## **2006/07 and 2007/08 Comparison**

For the 2007/08 review, it is evident that the Department has made no improvement compared to the 2006/07 review.

## **3.3.4 Cash Management**

### **Financial Asset Management**

This section deals with the implementation and management of sound cashflow practices as well as the provision of assistance and training in respect of the banking system within the Province.

### **Background**

Section 21(1) of the PFMA stipulates that the Provincial Treasury is in charge of the Province's PRF. The creation and practice of sound cashflow management by the Provincial Treasury is therefore imperative for maintaining and improving the delivery of services to the various communities within the WC.

## Review

To determine at which level (levels 1 – 4) of effectiveness the Department is operating in respect of cash management. The following areas and standards of performance and under-performance were identified.

**Table 33: Assessment Tool**

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

The evaluation was based on the activities of the 2007/08 financial year and the findings were as follows:

**Table 34: 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	4
Repayment of Surplus Funds	31 May	15 May	4
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	3
<b>Average rating</b>			<b>3</b>

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

### Skilled and capacitated system users

The Department obtained a financial management capability rating level 3 (nominal compliance). All system users are trained in accordance with their profiles on Nedbank Business.

## Submission of Annual Provincial Cashflow Projections

The Department obtained a financial management capability rating level 3 (nominal compliance). The Annual projections in respect of income and expenditure were received timeously in accordance with Treasury Circular 5 of 2008.

**Table 35: Deviation between monthly projections and actual expenses**

	Project	Actual	%	Rating
<b>Original Forecast</b>				
APRIL'07	7 877	8 368	(6)	2
MAY'07	8 040	5 224	35	2
JUNE'07	10 289	9 202	11	2
JULY'07	11 278	8 032	29	2
AUG'07	9 344	10 856	(16)	2
SEP'07	10 011	8 307	17	2
OCT'07	10 516	6 467	39	2
NOV'07	9 693	14 094	(45)	2
DEC'07	9 712	9 263	5	3
JAN'08	10 382	11 111	(7)	2
FEB'08	9 979	10 319	(3)	4
MRC'08	11 880	17 758	(49)	2
<b>Sub-Total</b>	<b>119 001</b>	<b>119 001</b>		<b>2</b>
<b>Revised Forecast (after adjusted budget)</b>				
MRC'08				
Adjustment	(2 450)	(2 450)		
<b>Total</b>	<b>116 551</b>	<b>116 551</b>	<b>100</b>	

The Department achieved a financial management capability rating level 2 (partial compliance). Provincial Treasury will support and assist the Department monthly to establish reasons for the variances. The Department should utilise previous monthly drawing trends to establish more credible projections.

## Monthly Own Revenue Payover

The Department obtained a financial management capability rating of 4 (full compliance). Provincial Treasury reminded the Department to submit detail before the 3rd last working day of each month to enable the Department to achieve the level of full compliance.

## Repayment of Surplus Funds

The Department obtained a financial management capability rating level 4 (full compliance). Surplus funds were paid to the PRF on 14 May 2008.



### Submission of monthly Bank Reconciliation

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

### Beneficiary Payments (Direct Transfers)

The Department achieved a financial management capability rating level 3 (nominal compliance). Provincial Treasury to encourage the Department to make optimal use of the Province's financial systems to minimise the usage of Beneficiary Payments (Direct Bank Transfer).

**Table 36: Beneficiary Payments**

Payments	Beneficiary Payments	%
9672	72	0.74

### 3.3.5 Supply Chain Management

#### Supply Chain Management

When measured against the current financial capability model for Supply Chain Management (SCM), the following must be noted in respect of the Provincial Treasury:

- The Provincial Treasury has implemented a SCM system. The Department's SCM structure gives effect to two sub-directorates; namely: Procurement and Provisioning. The unit is fully capacitated and there are no vacant posts. There appears to be adequate segregation of duties that aligns itself to the requirements of the policy and regulatory frameworks. The Department's SCM unit is vested under its CFO via reporting line from a Supply Chain Manager.
- The Department has an Accounting Officer's (AO) System in terms of section 38(i)(iii)(a) of the PFMA in place. The Department's AO System and accompanying delegations have not been reviewed/amended since it was issued in 2004. As changes and amendments to the regulatory framework and various SCM policies have occurred since the initial SCM implementation documents were issued, it is important that the Provincial Treasury aligns its AO system and delegations with the current regulatory and policy frameworks.
- Paragraph 16A6.2 of the National Treasury Regulations; as well as Chapter 16A2.3.1 of the Provincial Treasury Instructions dictates that a department's SCM unit must provide for three bid committees namely the bid specification, evaluation and adjudication committees. The Provincial Treasury however has one committee, namely the bid adjudication committee. The other two committees, the specification and evaluation committees are constituted as and when required as the Provincial Treasury does frequently procure at a level that requires an establishment of the specifications and evaluation committees.
- In the 2007/08 financial year, a total number of 4 officials were trained for the financial year under review: 2 for bid committees and 2 for contract management.

The Department has indicated a training need for SCM for 2 officials in the 2008/09 financial year for bid committees. The Department has also indicated that one of its officials is doing a one year SCM course through UNISA. This is an indication of a commitment towards skills development in respect of SCM.

- During the 2007/08 financial year the Department awarded 6 bids, amounting to R1,185 million. Of these bids, none were awarded to HDIs. Two of the bids awarded were awarded to 100 per cent women owned companies. It must also be noted that of the 6 bids awarded none of them followed the competitive bid process and it is a concern that there appears to be no HDI representation in the awards made. This will be investigated further in the 2008/09 SCM compliance and value for money assessments.
- The Department advertised 151 quotations via Sourcelink, and only 40 of them were adjudicated on the system. This means that 111 quotations (74 per cent) are not reflected in the statistics. Of the adjudicated quotations, 32 per cent of them were awarded to companies having HDI equity representation. The Department not adjudicating quotations on the system impacts on the credibility of the statistics.

The A-G's Management Report for the 2007/08 financial year alluded to the following findings:

- Asset management: Assets not available for physical verification.
- Moveable Assets written off are not captured in the asset register.
- Theft and losses: The reporting on theft and losses is done at market value and not at cost.

### **Moveable Asset Management**

The National Treasury Project Dashboard and Risk Log Report was due on 7 August 2008 with the deadline extended to 13 August 2008 for the submission of this report. To date the Department has not submitted this report. Therefore, an assessment of asset management in terms of the National Treasury's Broad Implementation Plan cannot be undertaken to review the state of asset management within the Department.

### **Comparison to the 2007 Review**

During the last financial year, there were no matters of emphasis highlighted by the A-G in their audit report. It has however been observed that the Department does not adjudicate its quotations on the system, that all the bids that were concluded in the last financial year were limited bids, that the asset management dashboard has not yet been submitted. It has also been observed that the unit had failed to submit its procurement statistics in a timely manner for a number of months in the last financial year. The Department was rated on level 3 in the 2007 Review. Based on the above the Department can be rated on the same level of financial management capability.

## Rating

On consideration of all of the above, the Department barely meets the requirements for a level 3 financial management capability in terms SCM requirements. However, cognisance must be taken that this rating may change after the Compliance and Value for Money assessment that will be conducted in the 2007/08 financial year.

## Conclusion/recommendation

The Department will be assessed in the 2008/09 financial year in terms of a full SCM compliance and value for money assessment which will enable the Provincial Treasury to prompt SCM interventions through training, workshops, one-on-ones and guidance.

In the interim however the Provincial Treasury needs to:

- Review its Accounting Officer's system and SCM delegations;
- Review the awards made via the limited bidding process as well as awards made to HDIs;
- Adjudicate quotations on the EPSi system; and
- Complete its Project Dashboard and Risk Log Report.

### 3.3.6 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.

#### Background

Currently there are three major systems, the Basic Accounting System (BAS), Personnel and Salary Administration System (PERSAL) and Logistical Information System (LOGIS) that are maintained by the National Treasury for National and Provincial departments. In addition, a web-based Management Information System (Vulindlela) is maintained of financial, HR and logistical data, for high level, management information.

#### Review

All three major systems as well as Vulindlela are being utilised by the Department in the execution of their daily functions. To determine at which level (level 1 – 4) of effectiveness the Department is utilising the systems, the following areas and standards per systems, were identified to evaluate the effective utilisation of the systems and functional assistance and training, as well as to identify areas of under-performance, to be addressed.

**Table 37: Basic Accounting System (BAS)**

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

**Table 38: Personnel and Salary Administration System (PERSAL)**

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

**Table 39: Logistical Information System (LOGIS)**

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

**Table 40: Management Information System (Vulindlela)**

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

The evaluation was based on the activities of the 2007/08 financial year and the findings were as follows:

**Table 41: 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	4
<b>Average rating</b>			<b>3</b>

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

**Table 42: 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
24	13	11	13	0

The Department obtained a financial management capability rating level 2 (partial compliance), 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 have identified the training gap of all system users and are providing training to users in accordance with their profiles.

The Department however needs to commit themselves in getting users trained.

### **Month end closure**

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

### **Year closure**

The Department achieved a financial management capability rating level 3 (nominal compliance) 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 financial management capability (nominal compliance):

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

**Table 43: 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 20th	Prior to the 20th	3
Adhere to Minimum Information Requirements	Annually	Continuous process	3
Leave Audit	Annually	Continuous process	2
<b>Average rating</b>			<b>2</b>

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

**Table 44: 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
9	6	3	4	2

The Department obtained a financial management capability rating level 2 (partial compliance) although their was an increase in attendance, officials are 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 has identified the training gap of all system users and are providing training to users in accordance with their profiles.

The Department however needs to commit themselves in getting users trained.

### **System Controller Functions**

The Department achieved a financial management capability rating level 2 (partial compliance) for the execution of its system control functions. The Department needs to put processes in place for substitution where critical posts becomes vacant.

### **Establishment Management**

The Department achieved a financial management capability rating level 2 (partial compliance) with the establishment being maintained but duplicate establishment codes exist. The Department should ensure that the creation of a new establishment and abolishment of the existing establishment must be done simultaneously.

### **PERSAL/BAS reconciliation**

The Department compiled a monthly PERSAL/BAS reconciliation by the 20th of each month and therefore achieved a financial management capability rating level 3 (nominal compliance).

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

Not all information is captured on the system, but the Department achieved a financial management capability rating level 3 (nominal compliance) as a conservative effort is being done on new appointments.

### **Leave Audit**

The Department achieved a financial management capability rating level 2 (partial compliance) as leave is not being captured on a regular basis thus making the auditing of leave impossible. Time frames with regards to capturing of leave forms should be identified and adhered to.

**Table 45: 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	2
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%	3
<b>Average rating</b>			<b>3</b>

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

**Table 46: 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
14	6	8	5	1

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

The Directorate Supporting and Interlinked Financial Systems has identified the training gap of all system users and are providing training to users in accordance with their profiles.

The Department however needs to commit themselves in getting users trained.

#### **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 2007/08 financial year was 13 days, the performance of the Department is therefore below standard at a financial management capability rating level 2 (partial compliance).

The Department needs to put procedures and processes in place regarding the issuing of goods, to ensure compliance.

#### **Stock Management**

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

#### **Financial Controls**

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

#### **System Control functions**

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



**Table 47: 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 48: 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
81	34	47	42%

The Department obtained a financial management capability rating level 2 (partial compliance) due to the fact that only 42 per cent of registered users utilise the system on a regular basis.

The Directorate Supporting and Interlinked Financial Systems will, in cooperation with the CFO, re-evaluate the need of the 47 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

##### 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, based on the financial management capability framework. The assessment includes the Strategic and Performance Plan; and Annual and Quarterly Performance Reports.

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 2007/08 Annual Report and the 2007/08 and 2008/09 Annual Performance Plans.

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 2007/08

Almost all the measurable objectives and performance measures defined in the 2007/08 APP are present in the 2007/08 Annual Report. The same unit of measurement for performance targets was used in both the Annual Report and the APP. Notably, reporting on sub-programmes 1.3, 1.4 and 1.5 (i.e. Corporate Services, Human Resource Management and Financial Management respectively) were not included in the Annual Report and therefore could not be assessed. The Annual Report can however be used in conjunction with the APP to assess the Departments performance over the indicated financial year for the sub-programmes included in the Annual Report.

The Annual Report contains a column which indicates all deviations from the targets, being positive or negative, and remedial action taken to address the deviations. These deviations are however only reported as either an absolute number or a percentage, depending on the unit of measure. In addition to this, the Department does not provide a description of the reasons for the deviations from target for all cases of under-performances, particularly in sub-programme 2. Where remedies are provided, in some cases not enough information is provided into the root causes for the deviations from target. There is also very little information provided on interventions the Department has implemented or intends implementing to remedy

the under-performance. This makes it difficult to assess whether the Department has identified the challenges correctly and is implementing the appropriate remedies. It should be mentioned that the Department does however provide more succinct information on challenges and responses in the QPRs.

There are some targets present in the Annual Report but were not provided in the APP. In sub-programme 2.3: Community Liaison, measurable objectives and targets are present in the Annual report but not in the APP. Further inconsistencies exist in sub-programme 4.2: Traffic Law Enforcement. There are instances where only absolute numbers are provided for the actual performance whereas the performance measure is a percentage. Also, some targets set for provision of roads safety education programmes to public transport operators were not reported on in Annual Report. Targets on “facilitation in respect of road traffic management throughout province” and “creating awareness through strategic and developmental communications” were also not reported on in the AR.

In general, the Department has performed well in achieving most of its targets and a number of over-performances against targets have been reported.

### **APP 2008/09**

The Department’s 2008/09 Annual Performance plan complies with programme structure prescribed by the National Treasury. The revised structure of the APP follows a logical and coherent representation of programmes, sub-programmes and their associated strategic and measurable objectives. There are however still instances where the performance indicators do not comply with the SMART principle, i.e. the appropriateness and the measurability of indicators are problematic. An example of this is the performance indicator used to measure whether the planning has resulted in management functions being conducted in a manner which ensures delivery upon its responsibilities (sub-programme 1.2: Management and Support Services). The performance indicator is stated as “percentage of planning mechanisms resulting in the correct deliverable”.

The Department has also moved away from providing targets on, for example, the deployment of Bambanani volunteers in a number of programmes and projects, and instead measures the percentage achievement of project objectives. This makes it almost impossible to assess the project, and hence Departments’ performance in this regard. The Department has also not complied with the National Treasury instruction to provide absolute numbers with percentages where applicable.

While the Department has a number of programmes and activities it undertakes as part of its mandate, it’s not clear that the number of indicators is necessary to evaluate performance. It would be possible to reduce the number if measurable objectives and performance indicators whilst maintaining a concise and adequate framework within which to evaluate departmental performance.

Given the above, assessment of the Department's quarterly performance is tricky. The Department also comments on any deviation from the quarterly targets in the QPRs by identifying challenges and responses to the deviations. The majority of comments provided are adequate, while some will require more detail or relevant detail in explaining the observed deviations. An example is presented in the sub-programme 1.2.1.3: Strategic Services and Communication. According to the APP, and "External Communication Plan" is one of the instruments used to measure the development of the Departments' internal and external communications output. The performance measure is stated as "1 Aligned to Provincial plans and Department projects" with the first quarter output reported as "2". No comments are provided to clarify the output or the deviation from target.

## **Conclusion**

In conclusion, the Department has regressed somewhat over the last financial year in terms of competency level on the performance management system assessed. To reach a level 3, the Department must improve the measurability of a number of measurable objectives and reconsider at the suitability of several performance targets. The consistency in the logical link between the defined strategic objectives and performance measures must also be re-assessed.

To reach a level 4 competency, the Department needs to provide more comprehensive explanation for deviations from target and provide remedies to these challenges in the Annual Report and QPRs.

It should be noted that the Department has been working with Provincial Treasury in incorporating the above suggestions and streamlining its forthcoming APP and hence QPRs.

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

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

- 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 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 2007/08 expenditure on a quarterly basis.

**Table 49: Quarterly analysis on projections: 2007/08**

R'000	April	May	June	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Total
First Quarter	22 384	13 864	10 522	17 065	16 577	18 584	18 633	19 505	18 034	16 707	15 127	15 110	202 112
%	11.08%	6.86%	5.21%	8.44%	8.20%	9.19%	9.22%	9.65%	8.92%	8.27%	7.48%	7.48%	100.00%
Second Quarter	22 384	13 864	10 522	17 049	13 886	13 546	19 072	21 667	23 311	18 676	15 903	15 242	205 112
%	10.91%	6.76%	5.13%	8.31%	6.77%	6.60%	9.30%	10.56%	11.37%	9.11%	7.75%	7.43%	100.00%
Third Quarter	22 384	13 864	10 522	17 049	13 886	13 546	17 437	16 527	17 101	27 012	19 665	16 349	205 342
%	10.90%	6.75%	5.12%	8.30%	6.76%	6.60%	8.49%	8.05%	8.33%	13.15%	9.58%	7.96%	100.00%
Fourth Quarter	22 384	13 864	10 522	17 049	13 886	13 546	17 437	16 527	17 101	17 210	22 576	21 099	203 201
%	11.02%	6.82%	5.18%	8.39%	6.83%	6.67%	8.58%	8.13%	8.42%	8.47%	11.11%	10.38%	100.00%

\* Shaded: Actuals

\* Unshaded: Projections

It appears from the table above that the Department needs to improve on making its forecasts more realistic, as forecasts in prior quarters differ from actual expenditure. Actual expenditure (shaded) tends to be consistently lower than the projected expenditure (unshaded) on a monthly basis. However, the expenditure subsequently picked up towards the end of the last quarter.

The original budget allocated for the Department in 2007/08 was R202,112 million, however in the Adjusted Estimates, the budget was increased by 1.6 per cent or R3,230 million to R205,342 million. R2,249 million or 1.1 per cent of the adjusted budget was shifted between programmes of the Department. Below 2 per cent of the adjusted budget it is clear that the original budget of the Department was realistic.

In terms of virements effected, 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.

The table below indicates the amount of virements effected at the end of 2007/08 as well as the programmes affected by these virements.

**Table 50: Virements 2007/08**

From Programme	To Programme	Amount R'000
Traffic Management	Administration	66
Traffic Management	Secretariat for Safety and Security	2 071
Traffic Management	Safety risk management	475
<b>TOTAL</b>		<b>2 612</b>

According to the 2007/08 activities, there were minimal virements that have been effected within the Department as depicted in the table above. These virements were used to defray over expenditure within the programmes by utilising under expenditure in other programmes.

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

The aggregate expenditure incurred in 2007/08 for the Department amounted to R203,201 million or 99 per cent of the adjusted budget. This indicates that the Department under-spent by 1 per cent, which is within the 2 per cent underspending norm. However, in light of the above underspending, the Department requested a rollover for the utilisation of Government Motor Transport account in 2008/09 financial year.

According to the A-G's report for the financial year 2007/08, the Department of Community Safety incurred irregular expenditure amounting to R2,188 million as disclosed in note 23.1 to the financial Statements. These are costs relating to the procurement of goods and services.

With regard to the outcomes for 2007/08 pertaining to the collection of revenue, the Department of Community Safety collected R2,304 million in provincial own receipts compared to the R1,816 million adjusted budget estimation for the 2007/08 financial year. This recovery was R488 000 or 27 per cent more than the adjusted budget, mainly due to increased collection on sales of goods and services (course fees at the Gene Louw Traffic College) and financial transactions in assets and liabilities, which was not budgeted for.

The Department revised the tariffs for the review of course fees at the Gene Louw Traffic College and tariffs for services rendered on Escort Fees in the 2007/08 financial year.

The Department experienced a slight March spike during the 2007/08 financial year. This can be noticed by the fact that expenditure for March 2007/08 was R21,099 million or 10.4 per cent of the total expenditure. This was mainly due to backlog payments that came through at the end of the year and transfers to the Western Cape Provincial Police Board for safer schools project in March 2008.

## **Conclusion**

The Department of Community Safety is currently operating 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 based on 2007/08 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. 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 maintaining its performance at a level 3 financial management capability level when compared to the previous year's assessment.

### **Accounting of assets**

The Department indicated their monthly IYM reporting that asset management controls, accounting requirements and delegations are in place. However, during the 2007/08 audit process the lack of safeguarding and control over assets was identified and the information required to update the asset register was not identified, captured and distributed in time as reported by the A-G. The audit was delayed by the late resolution of audit findings identified relating to the completeness, valuation and existence of the closing balance of tangible capital assets.

The Department is maintaining its performance at a level 2 financial management capability rating when compared to the previous year's assessment and would require implementing effective asset management controls and requirements to achieve a rating of level 3.

### **Financial reconciliations**

Monthly reconciliations of control and suspense accounts were performed timely which made it possible for the Department to close their books successfully on a monthly basis. However, no BAS/LOGIS reconciliations were performed therefore no BAS/LOGIS reconciliations certificates were attached to the monthly IYM reporting.

In this regard it appears that the Department is deteriorating from operating at a level 3 financial management capability to a level 2 financial management capability when compared to the previous year's assessment.

### **Supporting documentation**

The Department indicated 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 A-G's finding, supporting documentation in respect of travel and subsistence expenditure relating to 2007/08 audit findings were not submitted to audit. The Department indicated that documentation went missing as a result of the fraudulent transactions that took place in 2006/07.

The Department is maintaining its performance at a level 2 financial management capability rating when compared to the previous year's assessment and would require ensuring that internal control procedures are effective and that all supporting documentation is available to comply with prescribed requirements in order to move to a level 3 financial management capability.

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

According to the A-G's finding, travel and subsistence expenditure may be overstated by possibly including expenses that were paid for private travel costs and that amounts being paid may be more than the actual amount on the invoice. The A-G reported a lack of effective monitoring and supervision over internal controls and recommended that claims being processed for payment must be verified by a separate person other than the capturer.

The A-G also reported that certain payments were not settled within 30 days that could result in interest charges being levied by suppliers and consequently lead to fruitless and wasteful expenditure. Furthermore, accruals which exceed the payment terms of 30 days i.t.o Treasury Regulation 8.2.3 amounted to R3,001 million. This amount would have exceeded the voted funds to be surrendered of R2,141 million as per the statement of financial performance by R860 000. The amount of R860 000 would in effect have constituted unauthorised expenditure had the invoices been paid on time.

The Department is currently maintaining its performance at a level 2 financial management capability rating when compared to the previous year's assessment and would require implementing effective internal controls to ensure that all payments are settled within 30 days in order to achieve a level 3 financial management capability rating.

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

It was reported in the previous Review that a lack of control measures and procedures had resulted in unauthorised, fruitless and wasteful and irregular expenditure not being identified and reported on in terms of the PFMA. According to the A-G, the reconciliation of irregular expenditure in respect of the prior year alleged irregular transactions which related to disallowances and financial losses had not been reconciled to the accounting records of the Department and were still being investigated by management. Consequently, the accounting records and the financial statements in respect of the 2006/07 financial year were not adjusted for the financial loss recommended by the Fraud Investigation Unit.

The Department is performing at a level 2 financial management capability level and would require implementing effective controls to manage unauthorised, fruitless and wasteful and irregular expenditure in order to move to a level 3 financial management capability rating.

### **Management of contingent liabilities**

According to the A-G, the Department's commitments as disclosed in the financial statements were overstated due to supporting documentation not being provided.

The Department is maintaining its performance at a level 2 financial management capability rating when compared to the previous year's assessment and would require adhering to the prescribed accounting framework and appropriately present and disclose the financial information pertaining to commitments in order to move to a level 3 financial management capability.

### **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 the legislative requirements.

The Department is maintaining its performance at a level 3 financial management capability level when compared to the previous year's assessment.



## **Management controls**

According to the A-G's finding, the Department did not implement a fraud prevention plan to improve controls and to manage risks for the period under review.

This is a first assessment on this matter and the Department is currently operating at a level 2 financial management capability rating.

## **Conclusion/recommendation**

In conclusion, the Department's performance is rated at a level 2 financial management capability level. The Department needs to implement effective internal control measures to address audit findings and a fraud prevention plan to improve controls to manage risks in order to improve its financial management capability to a level 3.

### **3.4.3 Corporate Governance**

#### **3.4.3.1 Compliance**

This section provides a review of the PFMA implementation and financial management improvement for sustainability and service delivery by the department.

The source documents used in compiling this section is the Normative Measures Quarterly report for the quarter ending September 2007 and March 2008 as well as the Auditor-General's report for the year 2007/08 for the Department.

#### **Analysis of the Normative Quarterly Questionnaire**

##### **CFO structure**

According to the Normative quarterly Questionnaire for March 2008 the vacancy rate in the Departments CFO structure was at 19 per cent which is way above the national norm of 5 per cent.

As at March 2008 the percentage of staff within the Department with adequate finance qualifications was at 38 per cent which is way below the national norm of 90 per cent and this issue has been noted with great concern.

##### **Tabling of Annual reports**

The Department must report monthly on expenditure and revenue, quarterly on performance and annually the Department must table Annual reports as prescribed by the PFMA.

The Department submitted the Annual report to Provincial Treasury on 29 August 2008 and the annual report were successfully tabled.

## **Auditor-General's report on the 2006/07 and 2007/08 financial year**

For the 2006/07 financial year, the Department received a qualified audit opinion. The base for the qualification was on assets and limitation of scope. Below is a summary of the matters contained in the 2006/07 audit reports:

### **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: Supply chain management and Human Resource Management
- Internal control: Control environment and Control activities

For the 2007/08 financial year the Department received an unqualified audit opinion with:

### **Emphasis of matters**

- Irregular expenditure

### **Other matters**

- Non-compliance with applicable legislation
- Delay in finalisation of audit

### **Other reporting responsibilities**

- Reporting on performance information
- Responsibilities of accounting officer for the performance information

### **Overall Assessment**

If we compare the two financial years, it is evident that the Department has made some progress on issues that was raised in the 2006/07 financial year. The Department however needs to start doing their business within a legal framework because 'non-compliance with applicable legislation' has cropped up in both the 2006/07 and 2007/08 financial years.

Based on the above information, the Department achieved a financial management capability rating level 2, as the Department has not met all the set Criteria and Norms and Standards for level 3.

### **3.4.3.2 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.

#### **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 organisation structure supports the processes developed.

##### **Internal Environment**

A risk management philosophy has been developed for the Department and a risk appetite of the Department has also 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 by means of process and control mapping initiatives.

##### **Overall Assessment**

Based on the above information, the Department achieved a financial management capability rating level 2, as the Department met all the set criteria and 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 and Norms and Standards for level 3:

##### **Internal Environment:**

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

- Compliance to writing and communication 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.

**2006/07 and 2007/08 Comparison**

For the 2007/08 review, it is evident that the Department has made limited improvement as compared to the 2006/07 review. The Department has a Risk Management Philosophy and the risk appetite has been defined.

**3.4.4 Cash Management**

This section deals with the implementation and management of sound cashflow practices as well as the provision of assistance and training in respect of the banking system within the Province.

**Background**

Section 21(1) of the PFMA stipulates that the PT is in charge of the Province's PRF. The creation and practice of sound cashflow management by the PT is therefore

imperative for maintaining and improving the delivery of services to the various communities within the WC.

## Review

To determine at which level (level 1 – 4) of effectiveness the Department is operating in respect of cash management. The following areas and standards of performance and under-performance were identified.

**Table 51: Assessment Tool**

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

The evaluation was based on the activities of the 2007/08 financial year and the findings were as follows:

**Table 52: 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	4
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	2
<b>Average rating</b>			<b>3</b>

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

### Skilled and capacitated system users

The department obtained a financial management capability rating level 3 (nominal compliance). All system users are trained in accordance with their profiles on Nedbank Business.

### Submission of Annual Provincial Cashflow Projections

The Department obtained a financial management capability rating level 3 (nominal compliance). The Annual projections in respect of income and expenditure were received timeously in accordance with Treasury Circular 5 of 2008.

**Table 53: Deviation between monthly projections and actual expenses**

Month	Project	Actual	%	Rating
<b>1. Original Forecast</b>				
APRIL'07	24 565	21 354	13	2
MAY'07	15 947	15 475	3	4
JUNE'07	14 015	10 585	24	2
JULY'07	15 311	14 691	4	3
AUG'07	14 292	16 554	(16)	2
SEP'07	17 588	16 686	5	3
OCT'07	17 847	13 504	24	2
NOV'07	19 838	17 961	9	2
DEC'07	17 393	20 736	(19)	2
JAN'08	15 712	14 937	5	3
FEB'08	14 404	21 327	(48)	2
MRC'08	15 200	18 302	(20)	2
<b>Sub-Total</b>	<b>202 112</b>	<b>202 112</b>		<b>2</b>
<i>Revised Forecast (after adjusted budget)</i>				
MRC'08				
Adjustment	3 230	3 230		
<b>Total</b>	<b>205 342</b>	<b>205 342</b>	<b>100</b>	

The Department achieved a financial management capability rating level 2 (partial compliance). PT will support and assist the Department monthly to establish reasons for the variances. The Department should utilise previous monthly drawing trends to establish more credible projections.

### Monthly Own Revenue Payover

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

month end. PT will request the Department to submit detail before 3rd last working day of each month to enable the department to achieve the level of full compliance.

### **Repayment of Surplus funds**

The Department obtained a financial management capability rating level 4 (full compliance). Surplus funds were paid to the PRF on 14 May 2008.

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

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

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

The Department achieved a financial management capability rating level 3 (nominal compliance). PT is to encourage the Department to make optimal use of the Province's financial systems to minimise the usage of Beneficiary Payments (Direct Bank Transfer).

**Table 54: Beneficiary Payments**

Payments	Beneficiary Payments	%
24 204	160	0.66

## **3.4.5 Supply Chain Management**

### **Supply Chain Management**

When measured against the current financial capability model for Supply Chain Management (SCM), the following must be noted in respect of the Department of Community Safety:

- The Department's SCM structure gives effect to sub-directorates that caters for: Procurement and Provisioning; and Asset Management. This provides for an acquisition, logistics and disposal management system, which in essence is in line with SCM policy and prescripts, except for the fact that the structure does not provide for the demand management process. This is of concern in that demand management essentially provides for an assessment of the needs of departmental procurement, planning, allocation of budget and resources, enables strategic sourcing practices and safeguards against abuse of SCM practices. This was further highlighted in an Organisational Development (OD) report completed in May 2008. The OD Report further highlighted as a matter of urgency the following organisational/structural issues for delivering an effective and efficient service at the department were:
  - Personnel Capacity;
  - Personnel Development; and
  - Operational processes.

- The Department has alluded that the current SCM structure (OD report) is under review and that capacity and development is considered a high priority at this time.
- However seeing as the proposed SCM structure as cited in the OD report has not as yet been implemented it must be noted that the level of separation of duties and control mechanisms that ought to be in place is still largely absent within the department's current structure. It must be noted further, that unless an adequate structure is implemented that the risk of non-compliance, collusion and fraud will be at a dangerously high level in the absence of providing the requisite control environment.
- The Department has in place the three committees as required in terms of SCM regulation 16A6.2.
- The AO system and delegations were last amended in 2006. The June 2007 SCM compliance assessment at the Department, highlighted that the Department's current accounting officer's system and its delegations needed to be reviewed.
- For the year under review the Department invited 227 quotations and awarded 4 (1.76 per cent of awarded information placed on EPSi system) quotations. The value of these quotations was in the sum of R14 040 of which R14 040 went to HDI equity/representation. The level of completion/adjudication of quotations on the EPSi system is a concerning fact as it impacts on the credibility of the data and the assessment of departmental spend in respect of quotations. It also poses difficulty in assessing whether or not the Department is meeting the requirements of the Preferential Procurement Policy Frameworks Act.
- The Department awarded 8 contracts of which 5 had HDI equity representation. The value of the contracts awarded was R5,837 million. The value of bids awarded to companies with HDI equity/representation was R3,805 million (65 per cent).
- No departmental officials were trained in respect of SAMDI training in respect of Bid Committees and Contract Management. The Department has further not indicated any training needs in respect of Bid Committees and Contract Management in respect of the current financial year. This is indicative of a lack of skills development planning for SCM officials.

The A-G's management letter highlighted the following issues for Supply Chain Management at the department's head office:

### **Moveable Asset Management**

The Department was assessed in respect of moveable asset management through the National Treasury Project Dashboard and Risk log assessment which evaluates compliance to the National Treasury's Broad Implementation plan. The project dashboard risk log last received from the Department dated 30 March 2007, indicates the following outstanding critical areas:

- Planning: Definition of Assets, Asset life-cycle, Life-cycle costing, Accountability and responsibility.
- Acquisition: Developing of an Acquisition plan.



- Operations & Management plans: Establishing of performance indicators, Operation and maintenance plans, Monitoring conditions and use.
- Disposal Plans
- Accountability: Location
- Asset Performance: Conditions, Useful life
- Accounting: Historic cost

In terms of the National Treasury Broad Implementation Plan for Asset Management the due date in respect of the above plans was the 30 March 2007.

The A-G's Management Report for the 2007/08 financial year indicated the following findings/recommendations for SCM and Moveable Asset Management:

- The Department may not be following the required procurement requirements as set out in the supply chain management prescripts, leading to material irregular expenditure and possible qualification;
- Quotes or tender approvals not attached to the respective payments;
- Internal controls should be monitored by management to ensure that all goods and services are checked and evaluated when received, and the applicable supporting documents should be signed as proof thereof; and
- Accountability for the safeguarding and control over assets.

### **Comparison to the 2007 review**

The Department's amendment of its AO system and delegations still remain outstanding as well as the same queries that were logged in terms of the Asset Management Risk Log in the 2006/07 financial remain relevant for the current year under review. Although there has been some recruitment in respect of capacitating the unit, the Department has not taken cognisance of the Provincial Treasury's recommendations in terms of the SCM compliance assessment report 2007/08. These recommendations in terms of the unit structure were reiterated in the OD report. There also still appears to be a lack of adherence to SCM policy, procedure and the required internal control for SCM as highlighted in the A-G's Management Report. The only notable improvement is the fact that the Department has complied with the requirements for the appointment of the bid committee system as envisaged by the regulatory framework.

### **Rating**

On consideration of all of the above, the Department may be rated as barely meeting the requirements of a level 2 in terms of the financial management capability model for SCM.

### **Conclusion/recommendation**

It is recommended that the Department give effect to the following:

- Implement an adequate structure for SCM

- The filling of currently vacant SCM posts be expedited as a matter of urgency.
- Address the issues identified and raised in the Provincial Treasury 2007 SCM compliance assessment report.
- Review and update its AO system and Delegations.
- Implement the outstanding requirements of the Asset Management Broad Implementation Plan.

The Provincial Treasury has undertaken through its intervention and assistance programme to develop in conjunction with the department as a Phase 1 Project to develop an SCM Standard Operating Procedural Manual that will contribute to the development of capacity of departmental officials as well as provide the level of institutional memory required given the fact that the Department has a high staff turnover for SCM as well as the envisaged number of new appointments within the unit.

The Department has further indicated that they have put in place a skills development programme which will be linked to the Individual Performance Development Plans.

The Department will be assessed further in the 2008/09 financial year in terms of a full SCM compliance and value for money assessment which will enable the Provincial Treasury to prompt further SCM interventions through training, workshops, one-on-ones and guidance.

### **3.4.6 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.

#### **Background**

Currently there are three major systems, the Basic Accounting System (BAS), Personnel and Salary Administration System (PERSAL) and Logistical Information System (LOGIS) that are maintained by the National Treasury for National and Provincial departments. In addition a web-based Management Information System (Vulindlela) is maintained of financial, HR and logistical data, for high level, management information.

#### **Review**

All three major systems as well as Vulindlela are being utilised by the department in the execution of their daily functions. To determine at which level (levels 1 – 4) of effectiveness the department is in utilising the systems, the following areas and standards per systems, were identified to evaluate the effective utilisation of the systems and functional assistance and training, as well as to identify areas of under-performance, to be addressed.

**Table 55: Basic Accounting System (BAS)**

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

**Table 56: Personnel and Salary Administration System (PERSAL)**

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

**Table 57: Logistical Information System (LOGIS)**

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

**Table 58: Management Information System (Vulindlela)**

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

The evaluation was based on the activities of the 2007/08 financial year and the findings were as follows:

**Table 59: 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	4
<b>Average rating</b>			<b>3</b>

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

**Table 60: 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
7	0	7	0	0

The Department obtained a financial management capability rating level 2 (partial compliance), 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 has identified the training gap of all system users and are providing training to users in accordance with their profiles.

The Department however needs to commit themselves in getting users trained.

#### **Month end closure**

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

#### **Year closure**

The Department achieved a financial management capability rating level 3 (nominal compliance) 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):

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

**Table 61: 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>3</b>

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

**Table 62: 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
9	6	3	5	1

The Department obtained a financial management capability rating level 2 (partial compliance) due to the 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 has identified the training gap of all system users and are providing training to users in accordance with their profiles.

The Department however needs to commit themselves in getting users trained.

### System Controller Functions

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

### Establishment Management

The Department achieved a financial management capability rating level 2 (partial compliance). The establishment is maintained but duplicate establishment codes

exist. The Department should ensure that the creation of a new establishment and abolishment of the existing establishment must be done simultaneously.

### **PERSAL/BAS reconciliation**

The Department compiled a monthly PERSAL/BAS reconciliation by the 20th of each month and therefore achieved a financial management capability rating level 3 (nominal compliance).

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

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

Reports indicating the outstanding information are available and are provided by Provincial Treasury to departments on request. Department too ensure that with the new appointments all information requested on the system be captured.

### **Leave Audit**

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

**Table 63: 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	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 financial management capability rating level 2 (partial compliance), which is below the standard.

**Table 64: 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
27	14	13	11	3

There was a decline in performance, compared to the previous financial year. The Department obtained a financial management capability rating level 2 (partial compliance), mainly due to high percentage of officials being nominated and not attending courses.

The Directorate Supporting and Interlinked Financial Systems has identified the training gap of all system users and are providing training to users in accordance with their profiles.

The Department however needs to commit themselves in getting users trained.

### **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 2007/08 financial year was 118 days, the performance of the Department is therefore below standard.

The Department needs to follow procedures and processes put in place by Provincial Treasury regarding the issuing of goods, to ensure compliance.

### **Stock Management**

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

Provincial Treasury assisted the Department during the period of the review.

### **Financial Controls**

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

The main reason being that the BAS/LOGIS reconciliation was not done on a monthly basis.

The Department should perform monthly reconciliations and timeous payments.

### **System Control functions**

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

Controller's functions needs to be reviewed within the Department.

**Table 65: Management Information System (Vulindlela)**

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

**Table 66: 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
25	14	11	56%

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

**Conclusion/recommendation**

The Directorate Supporting and Interlinked Financial Systems will, in cooperation with the Chief Financial Officer, re-evaluate the need of the 11 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.



## 3.5 Department of Education

### 3.5.1 Performance Management

#### 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 assessment gauges key aspects of the Department's performance management system, and considers whether the Department has reached a level 3 financial management capability level, and expresses a view on the extent to which the Department is moving towards a level 4 auditable organisation. This evaluation assesses the 2007/08 Annual Report and the 2007/08 and 2008/09 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 an explanation of the reasons why it has not been able to provide information on all performance measures. The reason cited relates to the unavailability of accurate data sources.

The Department is working on putting operational systems in place to improve the collection of information from certain sources. 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.

There are a few instances where the Department has indicated in the APP that it is not able to provide a target, however, the Department was able to report actual performance on these Performance Measures in the Annual Report for 2007/08 as well as the previous year (2006/07) actual performance. Examples where the Department did not specify targets for the sector specific Performance Measures in the APP, but reported actual performance for 2006/07 and 2007/08 in the 2007/08 Annual Report include:

- "Repetition rate in Grades 1 to 7"
- "Percentage of girl learners who take mathematics and science in Grades 10 to 12"
- "Repetition rate in Grades 8 to 12"

The Department has established targets for these performance measures in its 2008/09 APP.

## Comparing the Annual Report 2007/08 with Annual Performance Plan 2007/08

All the national sector performance measures defined in the 2007/08 Annual Performance Plan (APP) are reported on in the Annual Report for 2007/08. There is consistency between the unit of measurement used in the APP and the Annual Report.

There has been a change in the wording of one performance measure from “Years input per NSC graduate” reported in the 2007/08 APP to “Years input per FETC graduate” reported in the 2007/08 Annual Report. This is due to the change in the name of the qualification changing from the National Senior Certificate to the Further Education and Training Certificate.

There are however a few provincial performance measures for which targets have been set in the APP (2007/08) that are not reported on in the Annual Report. Provincial Performance Measures not reported in the APP include:

- “Endorsement rate in Grade 12 examinations”
- “Pass rate in Grade 12 for mathematics and science”
- “Number of schools achieving less than 60 per cent in the Grade 12”

There are however a few inconsistencies between set targets in the APP and the Annual Report.

In all cases except one, targets specified in the Annual Performance Plans are reported against in the Annual Report. For the Performance Measure “Percentage of learners in public ordinary schools with special needs” a target of 4.2 per cent was set in the APP. However, in reporting on this Performance Measure in the Annual Report the Department indicates that no target was set for this Performance Measure. According to the Department “at the time of finalising the APP, the determination of certain targets for this specific Performance Measure could *not* be determined. However, the definitions and formulas have since been finalized, and therefore the actual performance can now be determined and calculated”. It is envisaged that this information will be obtained by EMIS through the Annual School Survey in future. Therefore, no target could be accurately computed for the performance measure and the target figure of 4.2 per cent is incorrect. It is therefore likely that the Department has made a typographical error. The Department does report on actual performance for this performance measure indicating that the percentage of learners in public ordinary schools with special needs is 1.5 per cent.

There are also instances where a target reported in the Annual Report differs from the target specified in the APP. An example is explained in the table hereunder. The APP provides a single target for the “Number of Grade 6 learners attaining acceptable outcomes”, while the Annual Report provides more detail by identifying separate targets for literacy and numeracy. Similarly the Annual Report separates a literacy and numeracy target for the performance measure “percentage of learners in Grade 6 attaining acceptable outcomes in mathematics, literacy and natural sciences” while the APP contains a combined target. This makes it difficult to compare the targets between the APP and Annual Report.

**Table 67: Differences between reported target in APP and Annual Report**

APP		Annual Report	
Performance Measure	Target	Performance Measure	Target
Number of Grade 6 learners attaining acceptable outcomes	37 843	Number of Grade 6 learners attaining acceptable outcomes	Literacy: 39 533 Numeracy: 25 692
PM215: Percentage of learners in Grade 6 attaining acceptable outcomes in mathematics, literacy and natural sciences	50%	PM215: Percentage of learners in Grade 6 attaining acceptable outcomes in mathematics, literacy and natural sciences	Literacy: 50% Numeracy: 25%

The Department's Annual Report does not provide a separate column for deviations, however the Department does provide a narrative regarding performance against all the performance measures. An explanation for underperformance is provided for each performance measure. Under the section "Specific challenges and responses and issues requiring ongoing attention", the Department does provide explanations and remedies for areas of under-performance. However, these cannot always be directly linked to a specific performance measures. 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. In addition the Department did identify responses and challenges for underperformance in the 2007/08 Quarterly Performance Review. 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.

### APP 2008/09

#### Changes in Measurable Objectives and Performance measures

Provincial departments of education are required to report on 39 nationally agreed sector wide Performance Measures. In addition provincial departments may choose to report on additional provincially identified performance measures. The Western Cape Provincial Department of Education adheres to the nationally defined uniform budget, and programme structure inclusive of the nationally identified and defined measurable objectives and performance measures. The Department has provided a detailed definition of each performance measure, how they should be interpreted and the source of the information used in calculating the performance measure.

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, where the performance measure may be inappropriate relates to the "Percentage of non-Section 21 schools with all LTSMs (learner teacher support materials) 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 could be more appropriate if it

indicated 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 school text books.

The performance measures used by the Department comply with the SMART principals and are therefore specific, measurable, achievable, realistic and time bound. Where percentages are referred to in a particular performance measure it is possible to reference these to baseline numbers.

For the first time the 2008/09 APP includes quarterly targets for a limited number of performance measures. The Department is required to report on some of the performance measures on a quarterly basis in the nationally required Non-financial Quarterly Performance Reports.

There have been no changes to the nationally prescribed performance measures between the 2007/08 and 2008/09 Annual Performance Plans. There have been some amendments to the provincial measurable objectives and performance measures, for programme 8: Auxiliary and Associated Services between the 2007/08 and 2008/09 APPs as indicated in Table 68. These changes mean that it will be difficult to make comparisons in terms of performance between the two years.

The Department has indicated that the new provincial performance measures are a sign of progress as the HIV prevalence amongst youth is a “deep” statistic and more indicative of impact than a recording of a numerical or turnstile nature. Furthermore, the Department wanted to reduce the number of provincial performance measures and feel that the reduced number of performance measures still ensures a quality indicator of performance.

**Table 68: Comparative Measurable objectives and performance measures**

2007/08		2008/09	
Measurable Objective	Performance Measures	Measurable Objective	Performance Measures
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>	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>➤ Life Skills and HIV/AIDS Programmes: Annual percentage HIV prevalence levels amongst youths 15 – 19 years.</li> <li>➤ Percentage of public schools with at least one computer facility for teaching and learning.</li> </ul>

## Conclusion

In conclusion, the Department is operating in the region of 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 to ensure that the correct targets are reflected in both the APP and Annual Report. The Department has made progress in reducing the number of inconsistencies picked-up between the 2006/07 APP and 2006/07 Annual Report. In terms of the level of detail of the information provided it would appear that the Department is already operating at a level 4. Overall the Department has only included key measurable objectives allowing the number of measurable objectives to be kept to a level which the Department can manage. Lastly, the Department has provided explanations for deviations from targets and responses in general seem appropriate.

### 3.5.1.2 Performance management assessed based on financial information

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

- 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 has ensured that the reported actuals on expenditure and revenue are reconciled to the BAS/Vulindlela financial system consistently on a monthly basis.
- It appears as if there is room for improvement with regard to the Department's expenditure forecasting, as forecasts 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, while actual expenditure (shaded) is mostly lower than projected expenditure. However, cognisance should also be taken with respect to the additional budget allocation for compensation of employees not being utilised. This is as a result of ongoing negotiations between the employer and the unions regarding career-pathing and incentives for educators. Exacerbating expenditure projections was the unforeseen roll-out of the 37 per cent in lieu of service benefits owed to temporary teachers in terms of the 2007 wage agreement. Funding for these service benefits was not funded in 2007/08 but disbursed from December 2007 onwards, and for which payment was backdated to July 2007.

**Table 69: Quarterly Analysis on projections: 2007/08**

R'000	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total
First Quarter	546 669	661 765	542 919	619 684	631 742	627 156	630 953	757 445	667 823	594 790	718 709	761 274	7 760 929
%	7.04%	8.53%	7.00%	7.98%	8.14%	8.08%	8.13%	9.76%	8.60%	7.66%	9.26%	9.81%	100.00%
Second Quarter	546 669	661 765	542 919	576 726	611 255	606 703	662 934	756 042	682 525	607 245	735 295	755 845	7 745 923
%	7.06%	8.54%	7.01%	7.45%	7.89%	7.83%	8.56%	9.76%	8.81%	7.84%	9.49%	9.76%	100.00%
Third Quarter	546 669	661 765	542 919	576 726	611 255	606 703	674 988	784 855	687 003	642 038	748 159	739 652	7 822 732
%	6.99%	8.46%	6.94%	7.37%	7.81%	7.76%	8.63%	10.03%	8.78%	8.21%	9.56%	9.46%	100.00%
Fourth Quarter	546 669	661 765	542 919	576 726	611 255	606 703	674 988	784 855	687 003	571 522	639 862	833 530	7 737 797
%	7.06%	8.55%	7.02%	7.45%	7.90%	7.84%	8.72%	10.14%	8.88%	7.39%	8.27%	10.77%	100.00%

*Shaded: Actuals*

*Unshaded: Projections*

The Department's original budget allocation for 2007/08 was R7,685 billion. In the Adjusted Estimates it was increased with R138,074 million or 1.8 per cent to R7,823 billion. R39,559 million, or 0.5 per cent of the adjusted budget, was shifted between programmes within the vote, while R151,606 million was shifted within programmes, or 1.93 per cent of the adjusted budget. This is below the national norm of 2 per cent of the adjusted budget and therefore the Department's budget appears credible.

The Department also effected virements in the 2007/08 financial year amounting to R62,516 million or 0.8 per cent of the adjusted budget. Of this amount R24,577 million was shifted between programmes within the vote. The remaining R36,690 million was for shifts within the programmes. The R24,577 million shifts across programmes were largely due to the defraying of over expenditure caused by the unforeseen implementation of the 37 per cent in lieu of service benefits for temporary teacher appointments. The Department obtained the necessary virement approval.

For the 2007/08 financial year the Department managed three conditional grants namely the National School Nutrition Programme Grant, HIV/AIDS (Life Skills) Grant and the Further Education and Training (FET) Recapitalisation Grant.

The National School Nutrition Programme Grant received a budget of R53,075 million of which the budget was fully spent in the 2007/08 financial year.

The HIV/AIDS (Life Skills) Grant received a budget of R13,011 million of which spending amounted to R13,001 million for the 2007/08 financial year, reflecting a minimal savings of R10 000 or 0.08 per cent.

The FET Recapitalisation Grant received a budget of R80 million of which the full allotment was transferred to the colleges for the 2007/08 financial year.

In light of the above, it appears as if the financial management of the conditional grants complied with the 2007 Division of Revenue Act (2007 DORA) conditions in terms of spending and adherence to payment schedules as per the approved business plans.

The Department ensured the timeous submission of the Adjusted Estimates and it was comprehensive in terms of Section 31 of the PFMA.

The total expenditure incurred in 2007/08 for the Department amounted to R7,738 billion constituting 98.9 per cent of the adjusted budget. This effectively indicates that the Department under spent by R84,935 million or 1.1 per cent, which is within the 2 per cent under spending norm. The Department indicated that the under spending was largely related to school and Early Childhood Development infrastructure expenditure. The Department has requested the roll over of these funds for utilisation in 2008/09. The Department has also submitted an application for revenue retention related to the over collection of R4,637 million in 2007/08.

No evidence of fiscal dumping has come to the Provincial Treasury's attention and neither was irregular or unauthorised expenditure reported in 2007/08.

The Department of Education collected R31,392 million in provincial own receipts compared to the R26,755 million adjusted budget for the 2007/08 financial year. This recovery was R4,637 million or 17.33 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 2008/09 financial year is R24,466 million which is R6,926 million or 28.3 per cent less than the actual collection of R31,392 million in the 2007/08 financial year.

The application for approval from the Department for the revision on tariffs for repographical services in the 2007/08 financial year was unsuccessful due to approval being requested retrospectively. The Department does, however, have a tariff register.

The Department experienced a slight March spike in 2007/08. This is indicated by spending for March 2007/08 (R833,530 million) representing 10.8 per cent of the total expenditure for the year of (7,738 billion). This was largely due to the final payments made under the goods and services spending item related to maintenance, consultants and learner transport.

### **Conclusion/recommendation**

The Department of Education currently 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 undertaken based on 2007/08 audit findings and the monthly IYM reporting, that revealed the following:

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

The A-G reported that the Department is not exercising sufficient review and control over the management of debtors.

The Department indicated that regular follow-ups are taking place of debtors that are long outstanding. Most of these balances relate to the FMS period and will be written-off if found uneconomical to recover.

As reported previously, management control over the outstanding debtors is lacking and it is recommended that the Department investigate and clear these balances in order to achieve a financial management capability rating of level 3.

### **Accounting of assets**

The Management Report of the A-G reflects that from a sample of assets tested it appears that the prescribed procedures are not adhered to when assets are moved from one location to another.

The Department has not improved its performance in this regard and continues to maintain a level 2 financial management capability when compared to the previous year's assessment.

It is recommended that the Department monitors the compliance with the prescribed procedures regarding the movement of assets, in order to move towards a financial management capability level 3.

### **Financial reconciliations**

The Department reported monthly in the IYM report that PERSAL/BAS, LOGIS/BAS and the Bank reconciliations are performed and signed off by the CFO.

The Department has improved its performance in this regard and moves from a level 2 financial management capability to a level 3 when compared to the previous year's assessment.

### **Supporting documentation**

The A-G reported that supporting documentation for various payments and journals could not be submitted for audit purposes, and therefore the validity of the transaction could not be determined. This matter has previously been raised by the A-G. This is indicative of a financial management capability level 2 with no improvement from the previous year's assessment.

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

In accordance with National Treasury regulation 8.2.3, all payments due to creditors must be paid within 30 days of receipt of invoice unless determined otherwise. In a sample of payments tested by the Auditor-General, they reported that payments are still made after 30 days. This implies non-compliance with NTR 8.2.3. This relates to a financial management capability level 2 with no improvement from the previous year's assessment.

### **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, an improvement from the previous assessment which rated the Department at a level 2.



### **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.

### **Related party transactions**

The A-G reported that adequate processes are not in place to identify, address and disclose related party transactions. The Department should implement a process to assist with the identification, investigation, recording and disclosure of all related party transactions. This is indicative of a level 2 financial management capability.

### **Conclusion**

In relation to the aspects examined in this assessment, the Department currently operates at a level 2 financial management capability. To move beyond this level, the information contained in the IYM and A-G reports should be reviewed continuously, and it is suggested that management strengthen the controls to monitor the completeness of source documents attached to payments to ensure that payments are made within 30 days of receipt of payments.

## **3.5.3 Corporate Governance**

### **3.5.3.1 Compliance**

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 August 2008 and the Auditor-General's report for the 2007/08 financial year.

#### **Analysis of Normative Measures Quarterly report**

According to the Quarterly Normative Questionnaire submitted to Provincial Treasury in August 2008, the vacancy rate in the Department's CFO structure is currently standing at 13 per cent. A gradual decrease has been noted and in the questionnaire that was recently submitted to Provincial Treasury, it is indicated that more posts are expected to be filled between December 2008 and January 2009.

#### **Analysis of the 2007/08 Audit Report**

According to the final 2007/08 A-G report, the Department received an unqualified audit opinion with other matters. This represents an improvement on the 2006/07 results when the Department received a qualified audit opinion. There were other matters which the Auditor-General highlighted which if not attended to timeously could lead to the Department digressing on the gains it has made in the current financial year.

## **Conclusion**

While it is acknowledged that the Department has made some improvements as evidenced by the unqualified audit opinion that it received, there are still some areas around financial management which are of concern. Based on our assessment above, the Department is a level 3 auditable organisation.

### **3.5.3.2 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**

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

#### **Internal Environment**

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

#### **Operational Risk Assessment**

The risk events have been identified but not assessed on an inherent level. Existing controls have been identified and documented by means of process and control mapping initiatives.

## **Conclusion**

Based on the above information, the Department achieved a rating of 1, as the Department did not meet all the set Criteria and Norms and Standards for level 2. In order to achieve a rating at level 2, the Department needs to have achieved all of the following set Criteria and Norms and Standards for level 2:

- Internal Environment:
  - Risk Management philosophy is articulated and communicated to staff;
  - Management's philosophy and operating style reflects acceptance of risk management principles; and
  - Risk appetite defined.

- Operational risk Assessment:
  - The risk events identified and assessed on an inherent level.

### 2006/07 and 2007/08 Comparison

For the 2007/08 review, it is evident that the Department has not made improvement as compared to the 2006/07 review.

## 3.5.4 Cash Management

### Financial Asset Management

This section deals with the implementation and management of sound cashflow practices as well as the provision of assistance and training in respect of the banking system within the Province.

Section 21(1) of the PFMA stipulates that the Provincial Treasury is in charge of the Province's Provincial Revenue Fund. The creation and practice of sound cashflow management by the Provincial Treasury is therefore imperative for maintaining and improving the delivery of services to the various communities within the Western Cape.

### Review

This section of the review will assess the level (level 1 – 4) of effectiveness that the Department is operating at in respect of cash management. The following areas for assessment were identified.

**Table 70: Assessment Tool**

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

The evaluation was based on the activities of the 2007/08 financial year and the findings were as follows:

**Table 71: 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%	3
Monthly Own Revenue Payover	2 working days prior to month end	3 working days prior to month end	4
Repayment of Surplus Funds	31 May	15 May	4
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>4</b>

The Department achieved an overall financial management capability rating level 4 (full compliance).

### Skilled and capacitated system users

The Department obtained a financial management capability rating level 3 (nominal compliance). All system users are trained in accordance with their profiles on Nedbank Business.

### Submission of Annual Provincial Cashflow Projections

The Department obtained a financial management capability rating level 3. The Annual projections in respect of income and expenditure were received timeously in accordance with Treasury Circular 5 of 2008.

**Table 72: Deviation between monthly projections and actual expenses**

	Project	Actual	%	rating
<b>Original Forecast</b>				
APRIL'07	702 247	570 656	19	2
MAY'07	550 710	621 226	(13)	2
JUNE'07	575 128	557 536	3	4
JULY'07	620 342	562 625	9	2
AUG'07	609 386	620 475	(2)	4
SEP'07	599 981	605 139	(1)	4
OCT'07	650 652	671 168	(3)	4
NOV'07	780 348	809 429	(4)	3
DEC'07	685 962	685 584	0	4
JAN'08	561 821	567 836	(1)	4
FEB'08	663 412	647 933	2	4
MRC'08	684 669	765 051	(12)	2
<b>Sub-Total</b>	<b>7 684 658</b>	<b>7 684 658</b>		<b>3</b>
<b>Revised Forecast (after adjusted budget)</b>				
MRC'08 Adjustment	138 074	138 074		
<b>Total</b>	<b>7 822 732</b>	<b>7 822 732</b>	<b>100</b>	

The Department achieved a financial management capability rating level 3 (nominal compliance). Provincial Treasury will support and assist the Department on a monthly basis in order to achieve the level of full compliance (level 4). The Department should utilise previous monthly drawing trends to establish more credible projections.

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

The Department obtained an average financial management capability rating level 4 (full compliance). Provincial Treasury reminded the Department to submit detail of own revenue before the 3<sup>rd</sup> last working day of each month to enable the Department to achieve the level of full compliance.

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

The Department obtained a financial management capability rating level 4 (full compliance). Surplus funds were paid to the PRF on 14 May 2008.

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

The Department achieved a financial management capability rating level 4 (full compliance). The monthly bank reconciliation is submitted within 15 days after month end.

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

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

**Table 73: Beneficiary Payments**

Payments	Beneficiary Payments	%
709 716	596	0.08

### **3.5.5 Supply Chain Management**

#### **Supply Chain Management**

The Department was assessed to determine whether or not it meets the current financial capability model for Supply Chain Management (SCM). This assessment however only addresses the Head Office and not regional offices or development centres.

The Department has met the requirements of the capability model in terms of Supply Chain Management for the period ending 31 March 2008 in the following respects:

- The Department's SCM structure theoretically alludes to a unit that gives effect to the minimum requirements for an efficient and effective SCM structure.

- The Head Office of the Department meets the legislative and policy framework requirements, in that it has updated its current Accounting Officer's system in terms of section 38(1)(a)(iii) of the Public Finance Management Act, 1 of 1999.
- The Head Office has an asset register in place and has thus met that requirement of the National Treasury Broad Implementation Plan for moveable asset management.
- The Department awarded 64 contracts of which 35 had historically disadvantaged individuals (HDI) equity representation. The value of the contracts awarded was R223,366 million. The value of bids awarded to companies with HDI equity/representation was R39,972 million (18 per cent).
- In total 10 departmental officials were trained: 6 in respect of Bid Committees and 4 in respect of Contract management. The Department has indicated a further training need for 24 officials: 5 in respect of Bid Committees and 19 in respect of Contract Management. The Department has indicated further that they have put in place a skills development programme that has been given effect through staff Individual Performance Development Plans.

The A-G's management letter highlighted the following issues for Supply Chain Management at the Department's head office:

- The SCM system documentation, as contained in the Accounting Officer's System, does not address the regular assessment of the supply chain performance as required by National Treasury Regulation 3.2(c) dated March 2005, issued in terms of the Finance Management Act, 1999. During the current audit it was found that an assessment document was compiled and approved, however regular assessments of the supply chain performance were not performed for the period under review.
- Bids should be advertised for a minimum of 28 days in the Government Tender Bulletin in accordance with Chapter 8 point 3.3.2 of the Accounting Officer's System. During the inspection of the advertisement in respect of bid 965 (1 out of a sample of 10 - error rate 10 per cent) it was identified that the advertisement period was from 9 November 2007 till 26 November 2007 and therefore being only 18 days.

The Provincial Treasury has not performed an SCM compliance and Value for Money assessments at the Department's Head Office or any of its institutions for the period under review.

### **Moveable Asset Management**

The Department was assessed in respect of moveable asset management through the National Treasury Project Dashboard and Risk Log Assessment which evaluates compliance to the National Treasury's Broad Implementation plan. The project Dashboard Risk Log indicated the following:

- The Department did not have an acquisition plan in place that would enable it to structure and determine its acquisition of assets and how these would assist the department in achieving its service delivery obligations.

- Operation, Maintenance and Disposal plans have not been developed which infers that the Department does not have a control on the performance of their assets and can thus not accurately determine the contribution these assets can make to service delivery obligations.

### **Comparison to the 2007 Review**

In comparison with the 2006/07 financial year the Department has displayed improvements in respect of the fact that there has been an increase in the awards made to HDIs for both contracts over R100 000 as well as in respect of quotations. The Department has also minimised queries raised in respect of SCM in the A-G's management letters. Issues raised in respect of the marking and bar-coding of assets have been resolved, although there still exists the issues raised above in respect of the Department's asset plans.

### **Rating**

On consideration of all of the above, the Head Office of the Department may be rated at a level 3 as the Department meets the SCM criteria specified for a level 3 financial management capability.

### **Conclusion/recommendation**

The Department will be assessed in the 2008/09 financial year in terms of a full SCM compliance and value for money assessment which will enable the Provincial Treasury to prompt SCM interventions through training, workshops, one-on-ones and guidance.

## **3.5.6 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.

Currently there are three major systems, the Basic Accounting System (BAS), Personnel and Salary Administration System (PERSAL) and Logistical Information System (LOGIS) that are maintained by the National Treasury for National and Provincial departments. In addition a web-based Management Information System (Vulindlela) is maintained for financial, human resource (HR) and logistical data, for high level management information.

All three major systems as well as Vulindlela are being utilised by the Department in the execution of their daily functions. To determine at which level (level 1 – 4) of effectiveness the Department is utilising these systems, the following areas and standards per systems, were identified to evaluate the effective utilisation of the systems and functional assistance and training, as well as to identify areas of under-performance, to be addressed.

**Table 74: Basic Accounting System (BAS)**

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

**Table 75: Personnel and Salary Administration System (PERSAL)**

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

**Table 76: Logistical Information System (LOGIS)**

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

**Table 77: Management Information System (Vulindlela)**

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

The evaluation was based on the activities of the 2007/08 financial year and the findings were as follows:

**Table 78: 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	4
<b>Average rating</b>			<b>3</b>



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

**Table 79: 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
102	52	50	43	9

The Department obtained a financial management capability rating level 2 (partial compliance), 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 have identified the training gap of all system users and is providing training to users in accordance with their profiles.

The Department however needs to commit themselves in getting users trained.

#### **Month end closure**

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

#### **Year closure**

The Department achieved a financial management capability rating level 3 (nominal compliance) 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):

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

**Table 80: 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>	2
Adhere to Minimum Information Requirements	Annually	Continuous process	3
Leave Audit	Annually	Continuous process	3
<b>Average rating</b>			<b>3</b>

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

**Table 81: 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
87	64	23	45	19

The Department obtained a financial management capability rating level 2 (partial compliance) due to the 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 has identified the training gap of all system users and are providing training to users in accordance with their profiles.

The Department however needs to commit themselves in getting users trained.

### System Controller Functions

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

### Establishment Management

The Department achieved a financial management capability rating level 2 (partial compliance) the establishment is maintained but duplicate establishment codes exist. The Department should ensure that the creation of a new establishment and abolishment of the existing establishment must be done simultaneously.

## PERSAL/BAS reconciliation

The Department compiled a monthly PERSAL/BAS reconciliation but not by the 20<sup>th</sup> of each month and therefore achieved a financial management capability rating level 2 (partial compliance). The Department needs to put control measures in place.

## Adhere to Minimum Information Requirements

Although not all information is captured on the system, the Department achieved a financial management capability rating of a level 3 (nominal compliance), all new appointment including contract workers information is being checked.

## Leave Audit

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

**Table 82: 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%	2
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 financial management capability rating level 3 (nominal compliance) financial management capability which although it is acceptable, is a weak level 3.

**Table 83: 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
28	15	13	13	2

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

The Directorate Supporting and Interlinked Financial Systems has identified the training gap of all system users and are providing training to users in accordance with their profiles.

The Department however needs to commit themselves in getting users trained.

### 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 financial management capability rating level 3 (nominal compliance) for its system control functions.

**Table 84: 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 85: 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
32	19	13	59%

The Department obtained a financial management capability rating level 2 (partial compliance) due to the fact that only 59 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 13 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. The assessment includes the Strategic and Performance Plan; and Annual and Quarterly Performance Reports.

The assessment gauges key aspects of the Department's performance management system, and considers whether the Department has reached a level 3 financial management capability level, and expresses a view on the extent to which the Department is moving towards a level 4 organisation. This evaluation assesses the 2007/08 Annual Report, the 2008/09 first quarter and 2007/08 Quarterly Performance Reports and the 2007/08 and 2008/09 Annual Performance Plans. There may, however, be some areas of a Department's performance framework that display a level 4 financial management capability, while others have yet to reach a level 3 financial management capability level.

#### Annual Report 2007/08

The performance indicators defined in the 2007/08 Annual Performance Plan (APP) for provincial performance indicators and standard national indicators are included and reported against in tabular form in the 2007/08 Annual Report. The performance indicators, targets, as well as units of measurement for the indicators cited in both documents are consistent. In the tabular reporting a column is included to indicate what type of performance measure is used to measure the programme objectives i.e. percentage, number, monetary unit, or time – days, weeks or months.

In relatively few instances the Department reports on performance indicators in the AR that do not have corresponding indicators and targets in the APP. In these cases, the Department has clearly indicated that these indicators are not contained in the APP. The only other inconsistency is for the Emergency Medical Services (EMS) programme where provincial measurable objectives and indicators reported in the AR are not contained in the 2007/08 APP. The Department has subsequently developed and incorporated provincial indicators in the 2008/09 APP for EMS.

The Department has included a specific column in the AR in which it indicates the 2007/08 APP target for the performance indicators. Deviations from annual targets are not clearly identified or quantified in the AR, however, one can clearly distinguish areas of deviation between the annual targets and actual performance for 2007/08 financial year.

Although the reasons for deviations from annual targets are not explicitly indicated in the tabular reporting on performance against targets in the AR, the Department refers to some of these deviations in the narrative under "Analytical Review of Programme Performance" and in a very few cases reasons for deviations are explained in footnotes. Programme 5: Central Hospital Services has a specific section dedicated to highlighting challenges facing service delivery in that particular

programme. Therefore the AR does provide explanations and responses to some 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.

The high level of consistency between the Annual Report 2007/08 and the 2007/08 Annual Performance Plan in terms of performance indicators and targets enables an assessment of the actual performance of the Department against the targets set in the APP.

### APP 2007/08

The APP format complies with the generic format and the uniform programme and budget structure prescribed by the National Government for provincial Health departments. The APP includes measurable objectives and performance measures assigned to all budget programmes and corresponding sub-programmes. The APP has been adapted to make provision for provincial objectives and performance indicators.

The national Department of Health revised the health sector specific format for APPs in 2007. Key changes include reducing the number of nationally prescribed indicators and improving the alignment between the annual reporting, quarterly reporting system and the strategic plans as detailed in the APP. The Department has also adapted the APP to include quarterly targets for applicable performance indicators as indicated in the table below. The APP shows that 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.

### Illustration of the required format for quarterly performance targets for year one of the APP

Sub-programme		Strategic Goal							
Strategic Objective	Measurable Objective	Performance Measure Indicator	Actual 2006/07	Estimate 2007/08	Target 2008/09	Quarter 1	Quarter 2	Quarter 3	Quarter 4

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 has taken the guideline into consideration when formulating its APP and has included baseline numbers for certain performance indicators 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 but to specific challenges facing service delivery for the programmes. It should however be noted that the performance indicators reported on by the Department consist a number of different types of indicators e.g. input, process, output, quality and outcome indicators.

## **Conclusion**

In relation to the aspects of the performance management system examined in this assessment, the Department has made significant improvements since 2007 and satisfies nearly all level 3 aspects of the performance management system considered. The 2008/09 APP has been adapted to better align with the quarterly performance reports, to reflect measurable objectives and related indicators for all programmes and to reflect quarterly targets. The 2007/08 AR and APP show consistency in terms of performance indicators and targets.

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

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

- 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, reconciled with the BAS/Vulindlela reports. However, there is room for improvement with regard to expenditure forecasting, as on a month-to-month basis the projections changed and therefore the Department will have to improve on its planning.
- There were many shifts in the Adjusted Estimates, 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 2: District Health Services, Programme 4: Provincial Hospital Services and Programme 5: Central Hospital Services mainly because of implementation of the Occupational Specific Dispensation (OSD) for nurses and the higher than expected inflation rate on goods and services. The Department did obtain the necessary virement approvals for it to be effected.

The Department submitted its Adjusted Estimates on time and it was comprehensive in terms of section 31 of the PFMA. The Department received R332,132 million in the adjusted budget, mostly pertaining to rollover on the National Conditional Grant: Forensic Pathology Services and other additional allocations from both national and provincial government.

At the end of the 2007/08 financial year the Department had exceeded its adjusted budget by 0.94 per cent or R70,563 million, due to the following reasons:

- The underspending of R2,386 million in **Programme 1: Administration** is attributed to Medico Legal claims being less than the budgeted amount and a saving on capital equipment.
- The over-expenditure of R28,953 million in **Programme 2: District Health Services** is as a result of the implementation of the occupational specific dispensation for nurses and higher than expected inflation on goods and services. Savings on the Forensic Pathology Conditional Grant and on the Global Fund offsets the extent of the over-expenditure.
- The under spending of R2,919 million in **Programme 3: Emergency Medical Services** can be attributed to compensation of employees. The recruitment process of EMS students took longer than anticipated as over a thousand interviews had to be conducted to appoint 165 students. Staff lost to the private sector leads to a constant attrition rate and concomitant saving in this regard.
- **Programme 4: Provincial Hospital Services** and **Programme 5: Central Hospital Services** have recorded an overspending of R28,470 million and R25,551 million due to the implementation of the occupational specific dispensation for nurses and higher than expected inflation rate on goods and services, respectively.
- In **Programme 6: Health Sciences** there was an under spending of R1,320 million due to the fact that the planned number of new bursaries and the maintenance of existing bursaries could not be achieved due to the failure rate of students. A saving on goods and services resulted from the attrition of learners not satisfied with the stipend paid.
- **Programme 7: Health Care Support Services** and **Programme 8: Health Facilities Management** have recorded an underspending of R856 000 and R4,930 million due to prolonged tender processes with the procurement of machinery and equipment, as well as the procurement of construction contracts, respectively.

The Department did, marginally, contribute to the 'March spike' since the spending was 10.32 per cent of total expenditure. The main contributors to the March spike were mainly the transfers and subsidies, as well as payments for capital assets, which spiked by 16.19 per cent and 23.22 per cent of their respective total expenditure.

The Department collected R497,846 million in provincial own receipts of the R384,700 million adjusted budget for the 2007/08 financial year, resulting in a R113,146 million or 22.73 per cent over collection. This surplus was mainly due to the R105,537 million road accident fund (RAF) payments received, R2,026 million in respect of Global Fund (payment received in USA dollar and resulted in a surplus when converted to South African rand), as well as R5,153 million over-recovery due to improved staff debt collections.

The main appropriation for provincial own receipts for the 2007/08 financial year was R363,069 million which is R58,167 million or 16.02 per cent more than the actual collection of R304,902 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.

The Department of Health also introduced a process of setting revenue targets for institutions, which will aim to improve the collection of health service fees at the respective institutions.

Revised tariffs are recorded in a tariff register.

However, the following tariff approvals were done in 2007/08 in terms of section 76(2)(f) of the Public Finance Management Act, 1999, Act 1 of 1999, read in conjunction with National Treasury Regulations 7.3.1 to:

- Amend the Orthotic Aid tariffs for full paying patients;
- Amend Radiation Oncology tariffs for full paying patients;
- Amend Nuclear Medicine tariffs for full paying patients; and
- Introduce new tariffs for Orthotic Aids with effect from 1 April 2007.

### **Conclusion**

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 policies and standards**

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

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

The Department is maintaining its performance at a level 3 financial management capability when compared to the previous year's assessment.

#### **Accounting of assets**

The Department indicated in their monthly IYM report that they complied with the minimum requirements of an asset register. The Auditor-General reported that there was a net overstatement of R43,939 million on tangible assets in the AFS submitted for audit on 31 May 2008 owing to an error in the compilation of the AFS.

In this regard the Department is operating close to a level 3 financial management capability.

#### **Financial reconciliations**

The Department reported in the monthly IYM that the MEDSAS/BAS, PERSAL/BAS, LOGIS/BAS and the bank reconciliations are performed and signed by the CFO.

Circumstances beyond the control of the Department prevented monthly closure of the books.

Given the above comments the Department improved to a level 3 financial management capability when compared to the previous year's assessment.

### **Supporting documentation**

The Department reported in the monthly IYM that 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 remains at a level 3 financial management capability when compared to the previous year's assessment.

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

The Department indicated in the monthly IYM that all transactions have been captured and authorised on a monthly basis.

The Auditor-General reported in its management report of instances where inappropriate delegations were used to authorise transactions and as such this is indicative of a level 2 financial management capability which represents a regression from a level 3 when compared to the previous year's assessment. To remedy this the Department has issued a finance instruction dealing with the delegation of journals.

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

As reported in the Auditor-General's audit report for 2007/08, irregular expenditure totaling R40,693 million was incurred as a result of non-compliance with the supply chain management and financial delegations issued by the accounting officer in terms of section 44 of the PFMA, as well as not following proper procurement processes.

This reflects deterioration in the performance from a level 3 to a level 2 financial management capability rating when compared to the previous year's assessment.

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

The Department reported that on a regular basis reconciliations are done between the PERSAL report on state guarantees and the actual information on personal files of the officials. In this regard the Department is currently operating at a level 3 financial management capability.

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

The Department reported in their IYM report that there are control measures in place for the management of thefts and losses. In this regard the Department is currently operating at a level 3 financial management capability which represents no improvement from the previous year's assessment.

### **Management of contingent liabilities**

The housing guarantees as reported in the AFS could not be agreed to the applicable PERSAL report, as indicated by the Auditor-General's management report.

In this regard the Department is currently operating at a level 2 financial management capability which is no improvement in terms of the levels from the previous year's assessment. The Department has made considerable progress since the previous year's assessment.

### **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 the legislative requirements.

In this regard the Department is currently operating at a level 3 financial management capability which is the same level at which it was assessed in the previous assessment.

### **Related party transactions**

The Auditor-General reported in its management report that although management is aware of the possibility of a related party transaction that may exist at any given time, processes to identify related party transactions between the Department and key management personnel on a continuous basis are inadequate.

This is the first assessment on this matter and the Department is currently operating at a level 2 financial management capability.

### **Conclusion/recommendation**

In conclusion, the Department is performing marginally above a level 2 financial management capability rating. In order to move to a level 3 financial management capability the Department has to reinforce the internal financial instructions rolled out during the current year under review and continuously reflect on the findings of the Auditor-General's management report on the accounting of assets, management of suspense accounts and expenditure, financial reconciliations, contingent liabilities and related parties.

### **TRADING ENTITY: 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**

A test count by the auditors revealed differences in the quantities recorded on the inventory count sheets of CMD. This has also been the case for the 2006/07 financial year. It is recommended that the entity institute measures to ensure the accuracy of the figures included in count sheets and make the necessary adjustments, where required in order to achieve a financial management capability level 3.

## **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. CMD could not provide appropriate audit evidence for transactions relating to inventory. Similar queries were raised by the Auditor-General for the 2005/06 and 2006/07 financial years.

This is indicative of a financial management capability level 2. It is recommended that the CMD implements a proper filing system to ensure that supporting documentation is easily accessible and comply with Treasury Regulation 17.2.

## **Accounting treatment of transactions**

CMD does not have a proper 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 financial management capability level 3.

## **Expenditure – Payments and journals**

A sample of invoices was, contrary to Treasury Regulation 8.2.3, not paid within 30 days of receipt of the invoice. This was also raised by the Auditor-General in his Management Reports for 2005/06 and 2006/07, which is indicative of a financial management capability level 2.

It is recommended that the CMD institute measures to ensure that all creditor payments are made within 30 days to ensure compliance to Treasury Regulation 8.2.3, to move towards a financial management capability level 3. It is also recommended that CMD implements 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.

## **Delegations of Authority**

A payment was inappropriately authorised by an employee which exceeded the delegated authority of the official, resulting in irregular expenditure for CMD as reported by the Auditor-General for the 2007/08 audit.

The issue of delegated authority not being complied to was also raised in the 2006/07 and 2005/06 A-G Management Reports of the entity, which is regarded as a financial management capability level 2.

It is recommended that payments be approved in terms of the approved delegations of authority. Control measures should also be implemented to ensure compliance with the approved delegations of authority and by so doing move the CMD towards a financial management capability level 3.

### **Conclusion/recommendation**

CMD's management controls should be stepped up in certain areas to ensure that they are efficient and effective to ensure that the entity attains a level 3 financial management capacity. The entity should report its concerns via the IYM process, which is designed to inform its parent department as well as the Provincial Treasury as oversight role players to bring about improved financial management capability ratings.

## **3.6.3 Corporate Governance**

### **3.6.3.1 Compliance**

This section provides a review of the PFMA implementation and financial management improvement for sustainability and service delivery by the Department.

The source documents used in compiling this section is the Normative Measures Quarterly report for the quarters ending June and September 2007 and March 2008 as well as the Auditor-General's report for the year 2007/08 for the Department.

### **Analysis of the Normative Measures Quarterly Questionnaire**

#### **CFO structure**

According to the Normative Measures Quarterly Report for September 2007 the vacancy rate in the Departments CFO structure at Head Office was at 35 per cent which is way above the national norm of 5 per cent, but one of the major concerns for this Department is that for the quarters ending at December 2007 and March 2008 the vacancy rate in the CFO structure of the Department were not measured.

As at June 2007 the percentage of staff within the Department with adequate finance qualifications was at 76 per cent, but as per the March 2008 questionnaire 100 per cent of the finance staff have adequate qualifications and or experience to perform their duties.

#### **Tabling of Annual reports**

The Department must report monthly on expenditure and revenue, quarterly on performance and annually the Department must table Annual reports as prescribed by the PFMA.

The Department submitted the Annual Report to Provincial Treasury on 29 August 2008 and the annual report was successfully tabled.

## Auditor-General's report on the 2006/07 and 2007/08 financial year

For the 2006/07 financial year the following issues were reported in the Auditor-General's report under:

### 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 Resource 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.

For the 2007/08 financial year there were two issues reported under Emphasis of matters for the Department.

### Emphasis of matters

- Irregular expenditure; and
- Unauthorised expenditure.

**Table 86: Summary of Comparison between the 2006/07 and 2007/08 Audit Reports**

Key findings	2006/07	2007/08	Status
Matters of Governance: Related party disclosures	X	-	Improved
Material corrections made to the financial statements submitted for audit	X	-	Improved
Supply Chain Management	X	-	Improved
Human Resource Management	X	-	Improved
Emergency Medical Services	X	-	Improved
Internal control	X	-	Improved
Control activities	X	-	Improved
Non Compliance with regulatory requirements			
• Incomplete reporting on actual achievements in the annual report	-	X	Deterioration
• Lack of appropriate audit evidence	-	X	Deterioration

Key findings	2006/07	2007/08	Status
• Evidence materially inconsistent with reported information	X	X	Not improved
Measurable objectives reported in the Annual Report , but not pre determined in the performance plan	-	X	Deterioration
Irregular Expenditure	-	X	Deterioration
Unauthorised expenditure	-	X	Deterioration
Non-compliance with applicable legislation	-	X	Deterioration

### Overall Assessment

Based on the information given in the table above, there is a clear indication that this Department has made some progress on certain issues that were highlighted by the Auditor-General for the 2006/07 financial year and of greater concern is the status of the issues that reflects deterioration in the 2007/08 financial year.

The Department of Health is rated a level 2 financial management capability rating moving towards level 3 audible.

#### 3.6.3.2 Enterprise Risk Management 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.

#### 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 organisation structure supports the processes developed.

## **Internal Environment**

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

## **Operational Risk Assessment**

The risk events have been identified and assessed on an inherent level and existing controls have not 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 met all the set Criteria and 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 and 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.

## **2006/07 and 2007/08 Comparison**

For the 2007/08 review, it is evident that the Department has made no improvement as compared to the 2006/07 review.

## **3.6.4 Cash Management**

This section deals with the implementation and management of sound cashflow practices as well as the provision of assistance and training in respect of the banking system within the Province.

### **Background**

Section 21(1) of the PFMA stipulates that the PT is in charge of the Province's PRF. The creation and practice of sound cashflow management by the PT is therefore imperative for maintaining and improving the delivery of services to the various communities within the WC.

### **Review**

To determine at which level (level 1 – 4) of effectiveness the Department is operating in respect of cash management. The following areas and standards of performance and under-performance were identified.



**Table 87: Assessment Tool**

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

The evaluation was based on the activities of the 2007/08 financial year and the findings were as follows:

**Table 88: 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	4
Repayment of Surplus Funds	31 May	15 May	2
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 financial management capability rating level 3 (nominal compliance).

### Skilled and capacitated system users

The Department obtained a financial management capability rating level 3 (nominal compliance). All system users are trained in accordance with their profiles on Nedbank Business.

## Submission of Annual Provincial Cashflow Projections

The Department obtained a financial management capability rating level 3 (nominal compliance). The Annual projections in respect of income and expenditure were received timeously in accordance with Treasury Circular 5 of 2008.

**Table 89: Deviation between monthly projections and actual expenses**

	Project	Actual	%	rating
<b>Original Forecast</b>				
APRIL'07	544 173	367 088	33	2
MAY'07	571 441	622 316	(9)	2
JUNE'07	554 240	588 889	(6)	2
JULY'07	594 709	581 768	2	4
AUG'07	590 948	694 094	(17)	2
SEP'07	602 362	560 307	7	2
OCT'07	603 994	388 650	36	2
NOV'07	612 736	614 533	(0)	4
DEC'07	599 985	703 498	(17)	2
JAN'08	598 956	637 938	(7)	2
FEB'08	602 830	835 382	(39)	2
MRC'08	618 799	500 710	19	2
<b>Sub-Total</b>	<b>7 095 173</b>	<b>7 095 173</b>		<b>2</b>
<i>Revised Forecast (after adjusted budget)</i>				
MRC'08				
Adjustment	332 132	332 132		
<b>Total</b>	<b>7 427 305</b>	<b>7 427 305</b>	<b>100</b>	

The Department achieved a financial management capability rating level 2 (partial compliance). PT will support and assist the Department monthly to establish reasons for the variances. The Department should utilise previous monthly drawing trends to establish more credible projections.

### Monthly Own Revenue Payover

The Department obtained an average financial management capability rating of 4 (full compliance). PT reminded the Department to submit detail before 3<sup>rd</sup> last working day of each month to enable the Department to achieve the level of full compliance.

### Repayment of Surplus funds

The Department obtained a financial management capability rating level 2 (partial compliance). Surplus funds were paid to the PRF on 01 July 2008.

### Submission of monthly Bank Reconciliations

The Department was rated at 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 4 (full compliance).

Table 90: Beneficiary Payments

Payments	Beneficiary Payments	%
66 141	43	0.07

## 3.6.5 Supply Chain Management

### Supply Chain Management

The Department of Health consists of 63 Health institutions within the Western Cape. During the 2007/08 financial year compliance and value for money assessments were undertaken at various institutions namely Red Cross Hospital, Brooklyn Chest Hospital, Stellenbosch Hospital, George Hospital, Victoria Hospital, False Bay Hospital, Lentegeur Hospital, Hottentots Holland Hospital, Brewelskloof Hospital. The Auditor-General also undertook audits at Head Office as well as various institutions. The Department will be rated against the current financial capability model for supply chain management based on the information produced from the assessments and audits.

At Head Office level the following were observed:

- The Department meets the legislative and policy framework requirements in that it has an Accounting Officers system in terms of section 38(1)(a)(iii) of the PFMA as well as its accompanying delegations.
- The institutionalisation of an SCM structure for the Department of Health gives effect to Demand Management, Acquisition Management, Contract Management, Logistics Management Asset, Operation Safeguarding, Maintenance and Disposal Management. This structure aligns itself with the National Treasury: Normative Measures for Financial Management (Phase 1: Perfecting the Basics) policy

documents well as to Regulation Chapter 16 A3.2 of the National Treasury Regulations for Supply Chain Management.

- A Departmental Bid Committee has been constituted at Head Office level and Sub-Bid committees have been instituted in the various regions at institutional level. The Head Office relies on commodity groups constituted when the need arises to deal with the specification and evaluation of tenders. Institutions may not always be in the position to institute commodity groups or specification and evaluation committees therefore relies on the Head Office for guidance or on another institution to assist them.
- The statistics revealed that for the financial year ending March 2008 11 599 quotations were awarded however the total spend on HDI equity representation was R33,242 million which is 53.5 per cent of the total spend for quotations awarded.
- The statistics in respect of bids revealed that of the 113 bids awarded 82 were in respect of HDI equity representation. This represents a 71.68 per cent of the total bids awarded. The total spend on HDI representation was R176,345 million which is 71 per cent of the total spend on bids awarded.
- Although the Department, facilitated by Provincial Treasury, has trained 39 officials in bid committees and contract management, the Department has also involved itself in other skills development initiatives to capacitate officials in respect of SCM and asset management.

The Auditor-General's Management Report for the 2007/08 financial year reflected that in general there were various instances of non-compliance to legislation policies and prescripts by the Department and institutions under review. The following is a summary of non compliant instances:

- Declarations of conflict of interest were not undertaken by SCM officials involved in bids.
- Successful bidder- details were not advertised in the Government Tender Bulletin.
- Service level agreements are not always in place.
- Although bids are date stamped on the day of closing time is not indicated for verification and validity.
- HDI statuses of potential bidders are not verified.
- Motivations for limited bidding have not always been recorded.
- Incomplete record keeping of urgent and emergent procurement.
- Notification of successful bidders.

The assessments performed at the institutional level for the 2007/08 financial year reflected the following:

- Officials are not familiar with the Code of Conduct for Supply Chain Management officials.
- Officials are not fully trained on the procurement processes which include demand management acquisition, management contract, management logistics, management asset management and disposal management.

- Brand names are being used in specifications.
- No written appointments of evaluation committee members are evident.
- Officials involved in specifications and evaluation of bids also serve on the sub-bid committees.
- Offers are passed over without substantiation.
- Validity of Tax clearance certificates are not verified by evaluation team.
- Bid documents are not always populated with the correct information prior to the advertising of bids.
- Verification of HDI status is not undertaken in respect of points claimed for those goals.
- Contracts are not managed in terms of expiration of the services leading to the procurement of said service as urgent.

### **Moveable Asset Management**

The Department of Health has received an extension with regards to the Broad Implementation Plan. The project dashboard risk log indicates the following outstanding areas:

- Address of the Asset life-cycle
- Address of Life-cycle costing
- Development of an acquisition plan
- Operation and maintenance plans
- Address of the monitoring of the condition and use of an asset
- Address of the maintenance schedule

### **Rating**

On consideration of all of the above, the Department maintains a financial management capability rating level 3 and the institutions maintains a level 2 capability in terms of the financial management capability model for SCM.

### **Recommendations**

- The Department has to implement stricter controls to the adherence of legislation policies and procedures.
- Monitoring of compliance to legislation policies and procedures in respect of SCM.
- SCM structures at institutional levels needs to be addressed to sufficiently provide for all aspects of SCM to ensure its effectiveness and efficiency.
- Training for all aspects on SCM especially at institutional level needs to be undertaken.

- The Department needs to maintain stricter application and enforcement of the PPPFA and its regulations.

### 3.6.6 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.

#### Background

Currently there are three major systems the Basic Accounting System (BAS) Personnel and Salary Administration System (PERSAL) and Logistical Information System (LOGIS) that are maintained by the National Treasury for National and Provincial departments. In addition a web-based Management Information System (Vulindlela) is maintained of financial HR and logistical data for high level management information.

#### Review

All three major systems as well as Vulindlela are being utilised by the Department in the execution of their daily functions. To determine at which level (level 1 – 4) of effectiveness the Department is in utilising the systems the following areas and standards per systems were identified to evaluate the effective utilisation of the systems and functional assistance and training as well as to identify areas of under-performance to be addressed.

**Table 91: Basic Accounting System (BAS)**

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

**Table 92: Personnel and Salary Administration System (PERSAL)**

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

**Table 93: Logistical Information System (LOGIS)**

Requirements	Standard Level 3	Standard Level 4
Skilled and capacitated system users	In accordance with profile	All Modules
Days per issue (Service standard)	5 Days	3 Days
Stock Management	15 61%	6 19%
Financial Controls	Monthly	Continuous process
System Control Functions	80 – 90%	91 – 100%

**Table 94: Management Information System (Vulindlela)**

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

The evaluation was based on the activities of the 2007/08 financial year and the findings were as follows:

**Table 95: 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	3
System Controller Functions	80 – 90%	91 – 100%	3
Monitor Applicable Interfaces	Weekly	Daily	3
<b>Average rating</b>			<b>3</b>

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

**Table 96: 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
337	164	173	114	50

The Department obtained a financial management capability rating level 2 (partial compliance) 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 has identified the training gap of all system users and are providing training to users in accordance with their profiles.

The Department however needs to commit themselves in getting users trained.

### Month end closure

The Department achieved a financial management capability rating level 2 (partial compliance). The Department needs to review their processes and procedures regarding month end closure

### Year closure

The Department achieved a financial management capability rating level 3 (nominal compliance) 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):

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

**Table 97: 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 Department achieved an overall financial management capability rating level 3 (nominal compliance).

**Table 98: 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
265	158	107	137	21

The Department obtained a financial management capability rating level 2 (partial compliance) due to the 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 has identified the training gap of all system users and are providing training to users in accordance with their profiles.

The Department however needs to commit themselves in getting users trained.

### **System Controller Functions**

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

### **Establishment Management**

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

### **PERSAL/BAS reconciliation**

The Department compiled a monthly PERSAL/BAS reconciliation by the 20<sup>th</sup> of each month and therefore achieved a financial management capability rating level 3 (nominal compliance)

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

Although not all information is captured on the system the Department achieved a financial management capability rating level 3 (nominal compliance), all new appointment including contract workers information is being checked.

### **Leave Audit**

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

**Table 99: 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 level 3 financial management capability (nominal compliance).

**Table 100: 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
461	295	170	256	39

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

The Directorate Supporting and Interlinked Financial Systems has identified the training gap of all system users and are providing training to users in accordance with their profiles.

The Department however needs to commit themselves in getting users trained.

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

The Department achieved a rating 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 3 (nominal compliance) for its control over inventories and assets.

#### **Financial Controls**

The Department achieved a rating 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.

The Department has a strong Helpdesk function as well.

**Table 101: 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 102: 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
346	164	182	47%

The Department obtained a financial management capability rating level 2 (partial compliance) due to the fact that only 47 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 182 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.

## Conclusion/recommendation

Information or recommended remedial steps and if applicable the assistance or guidance that will be provided by PT towards assisting the Department/entity towards achieving the next or higher level of financial management capability.

## 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 performance, in line with the financial management capability assessment tool for non-financial information. The assessment includes the comparison of the performance measures contained in the Annual Performance Plan (APP) and the Annual Report (AR) as well as the actual performance of the Department as reported on in the Quarterly Performance Report (QPR) and the Annual Report. The assessment gauges key aspects of the Department's performance management information, and considers whether the Department has reached a level 3 competency capability, and expresses a view on the extent to which the Department is moving towards a level 4 capability organisation.

The 2007/08 Annual Report, the 2007/08 and 2008/09 Annual Performance Plans as well as the final 2007/08 Quarterly Performance Report have been used in the assessment.

The assessment will also express a view on the progress of the Department since the 2006/07 assessment.

#### Annual Report 2007/08

All the performance measures defined in the 2007/08 APP are reported on in the 2007/08 Annual Report. However, some interchanges of targets against performance measures have been identified and can be due to a technical blunder. For Example the number of diversion programmes for crime prevention and support in the Annual Report differ from the APP.

The process of formulating performance measures and targets and their alignment to actual outputs still pose major challenges to the department, for example sub-programme 3.3: Sustainable Livelihoods indicated that they wanted to establish a number of networks, while the target is to establish a network in 16 districts and to monitor. The actual output is a description of some activities done by the Department without any numbers of networks established.

The unit of measurement cannot always be identified in the target and actual output, for example in sub-programme 2.5: Services to Persons with Disabilities the target for the performance measure of the number of pilot workshops per annum to transform protective workshops is the implementation of the cooperative model, which does not address the number of workshops at all.

The Department has been able to achieve most of its planned targets or partially met the targets set for the year. The challenge remains to also achieve the approximate 25 per cent of their outputs that have not been met.

The Annual Report Guideline for General and Performance information require that departments must provide a summary of the significant achievements of each sub-programme within the Programme for the 2007/08 financial year, focusing on the achievement of targets. In the event of targets not being achieved, a brief narrative providing reasons should be provided. Similarly, a narrative should be provided for targets that were exceeded detailing the factors that enabled the above performance. This section must also briefly provide a synopsis on how the achievement of targets has contributed towards achieving the department's outcomes, and which will invariably impact on the strategic priorities of government.

However, although the Department identified the targets that have not been met or only partially met, the Department did not explain the deviations or gave any reasons for the deviations from the target. The challenges and responses reported on in the QPR should be included in the Annual Report to adhere to the requirements of the guideline for performance information.

### **APP 2008/09**

The 2008/09 Annual Performance Plan for the Department of Social Development complies with the programme structure prescribed for the Social Development sector. The Department bases its performance on the national Integrated Service Delivery Model (ISDM), which identifies four levels of intervention that are internationally recognised namely: awareness and prevention, early intervention, statutory/crisis intervention and reintegration into society.

Most of the performance targets identified by the Department comply with the SMART principle, in that they are specific, measurable, achievable/attainable, realistic and time bound. The Department set quarterly targets to be met throughout the financial year on the provincial as well as the sector specific performance measures. Although the Department defined measurable objectives logically and consistent with the strategic objectives of the Department, it is recommended that the Department identify and focus on only key measurable objectives and performance measures to ensure effectiveness. The Department defined up to eight performance measures per measurable objective, which is also an indication of the number of targets that should be met. These high number of targets complicates the performance reporting process of the Department.

### **Conclusion/recommendation**

An examination of the 2007/08 APP, the 2007/08 Annual Report and the 2008/09 APP revealed that the Department is, according to the performance management framework, operating almost at a level 3 auditable organisation. Although all sector specific performance measures are included in the APP, in order to reach a financial management capability of level 3, which focus on compliance and control, the Department also needs to report on the sector specific performance measures in the Annual Report and identify all deviations from the annual target.

The sector specific performance measures are reflected in the 2008/09 APP, which is a positive step in the improvement of the Department's financial management capacity.

To reach a financial management capability of level 4, which measure how resources are used, the Department needs to explain all deviations from annual targets and provide remedial steps for non-performance in the Annual Report.

### 3.7.1.2 Performance management assessed based on financial information

From a Public Finance perspective, the following has been noted regarding the financial performance of the Department:

The Department's budget for the 2007/08 financial year of R891,503 million was tabled in the Provincial Parliament on the 6 March 2007.

Although the Department submits electronic versions of its IYM report by the 15<sup>th</sup> 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), the submission date is not always met with regard to the copy signed by the accounting officer.

The Department needs to improve on making its forecasts more realistic, as forecasts in prior quarters differ from actual expenditure. The table below detailing spending information for 2007/08 further alludes to the above.

**Table 103: Quarterly Analysis on projections**

R'000	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total
<b>Quarter 1</b>	47 892	63 600	72 246	78 341	77 772	84 683	75 202	74 072	87 058	68 327	76 284	70 026	<b>875 503</b>
%	5.47%	7.26%	8.25%	8.95%	8.88%	9.67%	8.59%	8.46%	9.94%	7.80%	8.71%	8.00%	<b>100.00%</b>
<b>Quarter 2</b>	47 908	63 600	72 246	77 465	73 649	74 099	80 076	92 752	101 508	72 260	72 144	67 487	<b>895 194</b>
%	5.35%	7.10%	8.07%	8.65%	8.23%	8.28%	8.95%	10.36%	11.34%	8.07%	8.06%	7.54%	<b>100.00%</b>
<b>Quarter 3</b>	47 908	63 600	72 246	77 465	73 649	74 099	72 856	73 448	102 641	89 225	92 663	61 764	<b>901 564</b>
%	5.31%	7.05%	8.01%	8.59%	8.17%	8.22%	8.08%	8.15%	11.38%	9.90%	10.28%	6.85%	<b>100.00%</b>
<b>Quarter 4</b>	47 908	63 600	72 246	77 465	73 649	74 099	72 856	73 448	102 641	82 091	78 656	82 704	<b>901 363</b>
%	5.32%	7.06%	8.02%	8.59%	8.17%	8.22%	8.08%	8.15%	11.39%	9.11%	8.73%	9.18%	<b>100.00%</b>

The Department affected no virements by the end of the 2007/08 financial year, however, the Department did affect shifts within programmes amounting to R5,117 million or 0.57 per cent of the Adjusted Estimates of R901,564 million. Of these shifts, R4,717 million were taken up in the adjusted budget. The shifts effected were from savings on compensation of employees and payments for capital assets to offset over spending on goods and services and current transfers.

The Department did effect a virement by the end of the 2006/07 financial year amounting to R1,959 million from Programme 2: Social Welfare Services, sub programme: Social Relief to Programme 3: Development and Research, sub programme: Sustainable Livelihood. The funds were utilised to offset the overspending within Programme 3 that was originally under funded with regard to Social Relief. Shifts were also effected during the 2006/07 financial year amounting to R19,475 million or 2.7 per cent of the R727,971 million adjusted budget.

The A-G's report and management letter are silent on whether all transfer payments are backed by Section 38 agreements, therefore it is assumed that the Department complied and instituted the necessary monitoring mechanisms. However, it was noted that a transfer to a municipality took place without the municipality submitting

quarterly progress and financial reports as stipulated in Clause 7.2 of the agreement between the Department and Local Authorities. Even though no progress report was received, the transfer was done as the Mitchell's Plain Multi-Purpose Centre project was close to completion and a transfer at that stage was critical in order to ensure proper completion of the project.

The original budget allocation for the 2007/08 financial year was R891,503 million. During the 2007/08 Adjusted Estimates the Department's budget was augmented by R10,061 million or 1.13 per cent to R901,564 million. The Department received R27,216 million to enhance their receipts in respect of debt write-off's, while R17,155 million was shifted to other votes. Vote 1: Department of the Premier received R155 000 as contribution towards the Social Transformation Project and R17 million was shifted to Vote 10: Transport and Public Works for capital works.

The Department submitted its Adjusted Estimates on time and it was comprehensive in terms of Section 31 of the PFMA.

The Department's budget is deemed to be credible, as its actual expenditure was R901,363 million or 99.98 per cent of the adjusted appropriation of R901,564 million. No request was made for the rollover of unspent funds from the 2007/08 financial year.

The table below gives the quarterly actual expenditure of 2007/08.

**Table 104: Social Development Expenditure per programme for 2007/008**

Programme	Q1	Q2	Q3	Jan	Feb	Mar	Q4	Total	Main Approp- riation	Adjusted Budget	Total (over)/ under Adjusted Budget
Administration	27 003	37 179	57 092	9 815	13 174	21 687	44 676	165 950	141 222	166 019	69
Social welfare	147 465	170 325	169 187	64 288	58 776	55 027	178 091	665 068	677 442	665 159	91
Development and research	9 286	17 709	22 666	7 988	6 706	5 990	20 684	70 345	72 839	70 386	41
<b>Total</b>	<b>183 754</b>	<b>225 213</b>	<b>248 945</b>	<b>82 091</b>	<b>78 656</b>	<b>82 704</b>	<b>243 451</b>	<b>901 363</b>	<b>891 503</b>	<b>901 564</b>	<b>201</b>
% spent of adjusted budget	20.61%	25.26%	27.92%	9.21%	8.82%	9.28%	27.31%	101.11%	100.00%	101.13%	0.02%

From the table above it is clear that under spending by individual programmes was minimal. No fiscal dumping occurred during the latter months of the fiscal year as the percentage spent in January, February and March 2008 remains consistent.

The Department collected R28,541 million or 103.82 per cent of the R27,491 million own receipts Adjusted Estimates for 2007/08. This over collection of R1,050 million is mainly due to financial transactions in assets and liabilities of R824 000 and pertains to recovery of debt that was written-off.

The Department over-collected on its 2006/07 own revenue Adjusted Estimates of R272 000 by R454 000 or 166.91 per cent. Similarly, this was due to financial transactions in assets and liabilities amounting to R413 000. However, due to the nature of financial transactions in assets and liabilities, it is difficult for the Departments to accurately budget for this type of revenue.

## **Conclusion/recommendation**

The Department of Social Development currently 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 2007/08 audit findings and monthly IYM reporting, that 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. Basic Accounting System (BAS) reports on suspense accounts are reviewed on a monthly basis in order to monitor the progress in clearing these accounts.

The Department continues to perform at a level 3 financial management capability rating when compared to the previous Review's assessment.

#### **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, performance, disposal and accounting of assets.

The Department reported the following:

- Bar coding of assets in the department was implemented in order to verify and track assets.
- Logis was implemented at 16 District offices and 8 Facilities
- A proper asset counting process was followed and implemented and discrepancies from the asset counting exercise were resolved.

The Department continues to perform at a level 3 financial management capability rating when compared to the previous Review's assessment.

#### **Financial reconciliations**

The Department managed to submit the BAS/PERSAL and BAS/LOGIS reconciliations on a monthly basis, which is an improvement on the previous financial. Monthly reconciliations did not form part of the 2006/07 In-Year Monitoring (IYM) process.

The Department improved from the previous financial year to a level 3 financial management capability rating.



## **Expenditure – Payments and journals**

The A-G reported that the Department continued to make transfer payments to the City of Cape Town despite the fact that the recipient did not submit quarterly reports on a regular basis on the construction of the Mitchells Plain Multi Purpose Centre.

Payments made more than 30 days after receipt of invoice, although not reported previously, remain a cause of concern.

The Department continues to perform at a level 2 financial management capability when compared to the previous assessment.

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

The Auditor-General reported a lack of control over the termination and updating of guarantees on the housing guarantee register. Compared to the previous assessment, the Department has not improved and remains at a level 2 financial management capability rating.

## **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. Compared to the previous assessment, the Department has improved its control over and disclosure of lease liabilities 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. For the period under review no audit findings were raised in this regard. The Department is therefore maintaining a level 3 financial management capability rating.

## **Management of contingent liabilities**

The Department continues to perform at a level 3 financial management capability when compared to the previous assessment.

## **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 continued to be provided to the Accounting Officer on unresolved items and the Chief Financial Officer continue to follow up these transactions on a monthly basis. A level 3 financial management capability rating is thus maintained.

## **Conclusion/recommendation**

To move towards a level 3 financial management capability, the Department needs to improve controls over transfer payments and the recoding of state guarantees.

### **3.7.3 Corporate Governance**

#### **3.7.3.1 Compliance**

This section provides a review of the PFMA implementation and financial management improvement for sustainability and service delivery by the department.

The source documents used in compiling this section is the Normative Measures Quarterly report for the quarter ending December 2007 as well as the Auditor-General's report for the year 2007/08 for the Department.

#### **Analysis of the Normative Quarterly Questionnaire**

##### **CFO structure**

According to the Normative quarterly Questionnaire for December 2007 the vacancy rate in the Department's CFO structure was at 30 per cent, which is way above the national norm of 5 per cent.

As at December 2007 the percentage of staff within the Department with adequate finance qualifications was at 90 per cent which is in line with the national norm of 90 per cent.

##### **Tabling of Annual Reports**

The Department must report monthly on expenditure and revenue, quarterly on performance and annually the Department must table an Annual Report as prescribed by the PFMA.

The Department submitted the Annual Report to Provincial Treasury on 29 August 2008 and it was successfully tabled.

##### **Auditor-General's report on the 2006/07 and 2007/08 financial year**

For the 2006/07 financial year, the Department received, under the new audit reporting format, an unqualified audit opinion with emphasis of matter and other matters. 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**

- 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.
- Finance lease relating to cell phones not disclosed.

- Value for money matters: vacancy rate of 35 per cent in the department could have an impact on the department's operation. 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.

For the 2007/08 financial year the Department received an unqualified audit opinion with emphasis of the matter.

#### **Emphasis of the matter**

- Contingent liability

#### **Overall Assessment**

The Department has improved considerably in the 2007/08 financial year. However, it is noted with great concern that the issue of contingent liabilities has appeared in both the 2006/07 and 2007/08 financial years.

Based on the above information, the department has made great strides to moving towards a level 3 rating.

#### **3.7.3.2 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**

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

#### **Internal Environment**

A risk management philosophy has been developed for the Department but a risk appetite of the Department has not been defined.

## **Operational Risk Assessment**

The risk events have been identified and assessed on an inherent level and it was not clearly indicated as to whether 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 and 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 and Norms and Standards for level 2:

### **Internal Environment:**

- Management's philosophy and operating style reflects acceptance of risk management principles.
- Risk appetite defined.

### **Operational Risk Assessment:**

- Risk events identified and assessed on an inherent level.
- Existing controls identified and documented (process and control maps).
- Control gaps identified and action plans developed.

## **2006/07 and 2007/08 Comparison**

For the 2007/08 review, it is evident that the Department has not made progress when compared to the 2006/07 review.

## **3.7.4 Cash Management**

This section deals with the implementation and management of sound cashflow practices as well as the provision of assistance and training in respect of the banking system within the Province.

### **Background**

Section 21(1) of the PFMA stipulates that the PT is in charge of the Province's PRF. The creation and practice of sound cashflow management by the PT is therefore imperative for maintaining and improving the delivery of services to the various communities within the WC.

### **Review**

To determine at which level (level 1 – 4) of effectiveness the department is operating in respect of cash management. The following areas and standards of performance and under-performance were identified.

**Table 105: Assessment Tool**

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

The evaluation was based on the activities of the 2007/08 financial year and the findings were as follows:

**Table 106: 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%	3
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	4
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 financial management capability rating level 3 (nominal compliance).

### **Staff skilled and capacitated in Cash Management**

The Department obtained a financial management capability rating level 3 (nominal compliance). All system users are trained in accordance with their profiles on Nedbank Business.

### Submission of Annual Provincial Cashflow Projections

The Department obtained a financial management capability rating level 3 (nominal compliance). The Annual projections in respect of income and expenditure were received timeously in accordance with Treasury Circular 5 of 2008.

**Table 107: Deviation between monthly projections and actual expenses**

	Original Projections	Actual	% Variance	Rating
April'07	67 959	52 789	22	2
May'07	71 777	50 509	30	2
June'07	79 404	80 045	(1)	4
July'07	74 329	69 838	6	2
Aug'07	75 019	82 285	(10)	2
Sep'07	75 407	72 358	4	3
Oct'07	78 911	79 051	(0)	4
Nov'07	70 353	69 293	2	4
Dec'07	87 138	84 900	3	4
Jan'08	69 220	52 978	23	2
Feb'08	72 200	126 205	(75)	2
Mrch'08	69 786	71 252	(2)	4
<b>Sub-Total</b>	<b>891 503</b>	<b>891 503</b>		<b>3</b>
	<b>Revised Projections (after adjusted budget)</b>	<b>Actual</b>	<b>% Variance</b>	
Mrch'08				
Adjustment	10 061	10 061		
<b>Total</b>	<b>901 564</b>	<b>901 564</b>	<b>100</b>	

The Department achieved a financial management capability rating level 3 (nominal compliance). PT will support and assist the Department monthly to achieve the level of full compliance. The Department should utilise previous monthly drawing trends to establish more credible projections.

### Monthly Own Receipts Pay over

The Department obtained an average financial management capability rating level 3 (nominal compliance). Revenue is being paid over monthly 2 working days prior to month end. PT will request the Department to submit detail before 3rd last working day of each month to enable the department to achieve the level of full compliance.

### Repayment of Surplus Funds

The Department obtained a financial management capability rating level 4 (full compliance). Surplus funds were paid to the PRF on 14 May 2008.

## Submission of Monthly Bank Reconciliation

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

## Beneficiary Payments (Direct Transfers)

The Department achieved a financial management capability rating level 3 (nominal compliance). PT will encourage the Department to make optimal use of the Province's financial systems to minimise the usage of Beneficiary Payments (Direct Bank Transfer).

**Table 108: Beneficiary Payments**

Payments	Beneficiary Payments	%
53 292	480	0.90

## 3.7.5 Supply Chain Management

### Supply Chain Management

When measured against the current financial capability model for Supply Chain Management (SCM), the following must be noted in respect of the Department of Social Development:

The SCM structure consists of two sections: SCM Policy and Planning and SCM Operations. This structure does not align itself with the National Treasury: Normative Measures for Financial Management (Phase 1: Perfecting the Basics) policy documents well as to Regulation 16 A3.2 of the National Treasury Regulations for Supply Chain Management which requires an SCM structure to provide at least for a demand, acquisition as well as a logistics and disposal management system. Furthermore the SCM unit is not fully capacitated; there are currently 5 vacant posts (2 in Policy and Planning, 1 in SCM Operations and the Asset Management section comprise of 2 contract workers). The segregation of duties is not clearly defined.

The Department has an Accounting Officer's (AO) System in terms of section 38(1)(iii)(c) of the PFMA in place. The department has indicated that the AO system was reviewed in 2007 and the accompanying delegation were last reviewed and updated in 2006.

Paragraph 16A6.2 of the National Treasury Regulations, as well as Chapter 16A2.3.2 of the PTI's requires the departments to provide for three bid committees namely; bid specification, bid evaluation and bid adjudication. However Social Development has only the bid adjudication committee. The other two committees; the bid specification and evaluation committees are appointed on an ad hoc basis as and when required. The department has however indicated that they are in a process of establishing a bid specification committee.

In 2007/08 financial year, 10 officials were trained: 3 on contract management and 7 on bid committees. The Department has indicated a training need for SCM for

54 officials in the 2008/09 financial year, 14 for bid committees and 40 for contract management.

During the 2007/08 financial year the Department awarded 3 bids, with the value of R7,749 million and extended three bids with a value of R3,043 million. The total value of these six bids was R10,792 million. Of these bids, 4 were awarded to companies with HDI equity. The value of bids awarded to companies with HDI equity was R3,323 million, which constitutes 31 per cent of the bids awarded. It should be noted that the Department did not report bids awarded in terms of limited bidding therefore the value and the HDI value of bids awarded via limited bidding was not included in the reported statistics.

The Department advertised 63 quotations via Sourcelink and only one quote was adjudicated on the system. This means that 62 quotations (99 per cent) are not reflected in the statistics. The one quote that was adjudicated had 100 per cent HDI representation. The non-compliance with the adjudication of quotations on the system impacts on the credibility of the statistics

### **Moveable Asset Management**

The National Treasury Project Dashboard and Risk Log assessment reflected the following as at 19 September 2008:

The department has the following postponed/outstanding issues:

- Life-cycle costing
- Elements of best asset strategy
- Analysis of alternatives
- Development of an acquisition plan
- Operation & maintenance plan
- Tracking of assets: transfers, loans and offsite repairs

### **Comparison between 2007 and 2008 FGR&O assessments**

The Department of Social Development appears to have made progress in meeting the SCM requirements; however the failure to update its delegations annually, as well as the asset management issues remains the same as identified for the 2006/07 financial year. There were no matters of emphasis relating to SCM highlighted by the A-G in the 2007/08 audit report. However, the inadequate SCM structure and improper reporting of procurement information is a concern as it has a negative impact on efficiency and effectiveness of supply chain management as well as the credibility of the statistics.

### **Rating**

On consideration of all of the above, the Department may be rated at a level 2 in terms financial management capability model for SCM. However cognisance must be taken that this rating may change after the Compliance and Value for Money assessment has been completed in this financial year.



## Conclusion/recommendation

The Department will be assessed in the 2008/09 financial year in terms of a full SCM compliance and value for money assessment, which will enable the Provincial Treasury to prompt SCM interventions through training, workshops, one-on-ones and guidance.

In the interim the department needs to:

- Implement an adequate SCM structure
- Improve their reporting on procurement information
- Adjudicate all quotations on Sourcelink
- Complete the Dashboard and Risk Log Report

### 3.7.6 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.

#### Background

Currently there are three major systems, the Basic Accounting System (BAS), Personnel and Salary Administration System (PERSAL) and Logistical Information System (LOGIS) that are maintained by the National Treasury for National and Provincial departments. In addition a web-based Management Information System (Vulindlela) is maintained of financial, HR and logistical data, for high level, management information.

#### Review

All three major systems as well as Vulindlela are being utilised by the department in the execution of their daily functions. To determine at which level (level 1 – 4) of effectiveness the department is in utilising the systems, the following areas and standards per systems, were identified to evaluate the effective utilisation of the systems and functional assistance and training, as well as to identify areas of under-performance, to be addressed.

**Table 109: Basic Accounting System (BAS)**

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

**Table 110: Personnel and Salary Administration System (PERSAL)**

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

**Table 111: Logistical Information System (LOGIS)**

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

**Table 112: Management Information System (Vulindlela)**

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

The evaluation was based on the activities of the 2007/2008 financial year and the findings were as follows:

**Table 113: 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	4
<b>Average rating</b>			<b>3</b>

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

**Table 114: 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
103	50	53	42	8

The Department obtained a financial management capability rating level 2 (partial compliance), 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.

Provincial Treasury has identified the training gap of all system users and is providing training to users in accordance with their profiles.

The Department however needs to commit themselves in getting users trained.

### **Month end closure**

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

### **Year closure**

The Department achieved a financial management capability rating level 3 (nominal compliance) 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):

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

**Table 115: 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 financial management capability rating level 3 (nominal compliance).

**Table 116: 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
106	63	43	41	22

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

Provincial Treasury has identified the training gap of all system users and are providing training to users in accordance with their profiles.

The Department however needs to commit themselves in getting users trained.

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

## Establishment Management

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

## PERSAL/BAS reconciliation

The Department compiled a monthly PERSAL/BAS reconciliation by the 20th of each month and therefore achieved a rating of 3 (nominal compliance).

## Adhere to Minimum Information Requirements

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

Reports indicating the outstanding information are available and are provided by Provincial Treasury to departments on request. Department should start making verification of data compulsory starting with new appointments.

## Leave Audit

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

**Table 117: 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 financial management capability rating level 3 (nominal compliance).

**Table 118: 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
56	30	26	27	3

There was a decline in performance, compared to the previous financial year. The Department obtained a financial management capability rating level 2 (partial compliance) mainly due to the high percentage of officials being nominated and not attending courses.

Provincial Treasury has identified the training gap of all system users and are providing training to users in accordance with their profiles.

The Department, however, needs to commit themselves in getting users trained.

## Days per issue (service standard)

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

## Stock Management

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

## Financial Controls

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

**Table 119: 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 120: 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
81	64	17	79%

The Department obtained a financial management capability rating level 2 (partial compliance) due to the fact that only 79 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 Management

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. 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 2007/08

The performance measures defined in the 2007/08 APP are all included and reported against in the Annual Report for 2007/08. 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 (suggestion: largely, partially) be used to assess the actual performance of the Department in terms of the performance targets defined in the APP. If the measurable objectives are not measurable in the APP as cited in the following section for last year as well as this year which makes it difficult to measure performance, then this sentence would have to be re-formulated.

Although the Annual Report does record where deviations from annual targets in the APP have occurred, it does not however specifically highlight those deviations. The majority of deviations of applicable performance measures have been quantified. Where deviations have occurred the Department attempts to provide brief comments to explain over or under performance on targets. In certain cases these comments are not sufficient to interpret the full extent of explain the reason for the deviation. Furthermore, the Annual Report does not provide remedies for deviations in terms of low target performance.

A copy of the A-G's Report is included in the Annual Report but it also difficult to see how findings in the A-G Report's relate to performance as reported in the Annual Report. A specific section dedicated to challenges faced in areas of underperformance as highlighted in the Annual Report and A-G's Report is necessary in order to elaborate on underperformance and provides specific remedies to those challenges.

#### APP 2008/09

Most aspects of the APP conform to the programme structure prescribed by national Government for the Local Government and Housing Department at a provincial level. Measurable objectives and performance measures defined for each prescribed sub-programme have been included in the APP, except for Traditional Institutional Development, which does not form part of the Western Cape programme structure

for the Department of Local Government and Housing. Furthermore, the sub-sub programmes prescribed in the standard programme structure have been included in the APP i.e. measurable objectives and performance measures have been defined into the prescribed sub-sub programme structure<sup>1</sup>.

In the APP, the Department has defined a set of strategic objectives, measurable objectives and performance measures that seems to be logically consistent with each programme. All sector-specific performance measures defined at a national level are included in the APP. However, no quarterly targets were set for any of the sub sub-programmes under sub-programmes 2.2: "Housing Development, Implementation, Planning and Targets". Where applicable, all targets are defined as numbers except in cases where dates are required for instance as in sub-programme 2.1 "Housing Needs, Research and Planning".

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.

Across all programmes, the Department does attempt to define all key measurable objectives but certain key measurable objectives are defined too broadly making it difficult to measure performance of those measurable objectives. For instance, in sub-programme 2.1: Housing Needs Research and Planning, the key measurable objective is research relating to building alternatives for example energy usage, building materials and funding bulk infrastructure, and the Performance measure is listed is housing implementation best practices.

The performance measures defined for Housing Needs Research and Planning are less measurable. A number of the research and policy development outputs have been defined as measurable objectives and performance measures (for example Housing occupancy study, research into land & property markets in the Western Cape, research on demand for housing etc.) 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 terms of Local Government, the measurable objectives are not very measurable because the terms used to define them are often too broad. In terms of Housing, sub-programme 2.1: NAME sub-programme, a number of measurable objectives are formulated as conducting studies and research, while performance measures are

<sup>1</sup> In the previous year both the housing and local government programme budgets provided in the APP did not conform to the standard budget structure, which required that sub-programme allocations are further broken down into sub-sub programme allocations as illustrated in the 2008/09 APP.



listed as target dates. In these cases, performance output in terms of the research undertaken becomes difficult to measure. In Relation to Housing, sub-programme 2.2 seem to have units that than can be measured but only annual targets are set for these performance measures. Key measurable objectives and Performance measures are quantified and in terms of sub-programme 2.3 Housing Asset Management.

## **Conclusion**

In relation to the aspects of the performance management system examined in this assessment, the Department is operating close to a financial management capability level 3 for its Housing component. To achieve level 3, the Department needs to reflect quarterly targets under its Housing sub-programme “Key Intervention Categories and National Housing Programmes”. The Department should also attempt to include quality yardsticks for “Housing Needs Research and Planning” as these may be too broadly defined. Furthermore, the Department should include remedies for below target performance. Across the rest of its Housing sub-programmes, the Department has set quarterly targets for performance measures designated as quarterly in the national QPR reporting format and for performance measures that can be measured quarterly.

In relation to Local Government, the Department is also operating close to a financial management capability of level 3. To achieve a financial management capability of level 3, the Department needs to break down measurable objectives so that they become more measurable. Assistance, monitoring and support are terms that are often broadly used to define Local Government measurable objectives. Furthermore remedies for below target performance and corrective measures should also be included.

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

The Department submitted the 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 to the BAS/Vulindlela reports. The Department’s forecasting changed in comparison with the cashflow projections that was submitted in February. The reason for this was a decision to accelerate housing delivery and spend the housing grant by March 2008, which was achieved. However, the forecasting versus the expenditure on the rest of the expenditure items varied on a month-to-month basis and therefore the Department will have to improve on its forecasting.

The shifts in the Adjusted Estimates amounted to R4,319 million between programmes. There were, however, more shifts within the programmes amounting to R44,879 million. The majority of the shifts were as a result of funds shifted between the various subsidy instruments to bring it in line with what can be achieved considering the focus of accelerated housing delivery.

The Department shifted an amount of R1,800 million in the 2007 Adjusted Estimates, R1 million to Vote 1: Department of the Premier for the funding of the Organisation

for Economic Co-operation and Development (OECD) Territorial Review Project and R800 000 to Vote: 10 Transport and Public Works for alterations and renovations to 27 Wale Street to cater for accommodation needs.

All the virements affected by the Department at the end of the financial year was within the norm of 8 per cent of the adjusted budget. The Department did obtain the necessary virement approvals for it to be effected.

The Department submitted its Adjusted Estimates on time and it was comprehensive in terms of Section 31 of the PFMA. An additional R233,767 million, received via the National Conditional Grant: Integrated Housing and Human Settlement Development and earmarked for the N2 Gateway Project, was included in the Adjusted Estimates.

The under spending of 5 per cent or R56,063 million is way above the 2 per cent under spending norm, which was mainly due to the inability of the Department to spend the entire R200 million earmarked in the 2007 Main Budget and R229 million rolled over in the Adjusted Estimates for the N2 Gateway Project because of the following reasons:

- Court case relating to the illegal invasion of some of the houses in Delft, and Community involvement at Joe Slovo.

An amount of R56,063 million on the National Conditional Grant: Integrated Housing and Human Settlement Development was requested by the Department for roll-over to 2008/09 for the N2 Gateway Project and has been approved by National Treasury.

The Department had its usual 'March Spike' measuring 28.54 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 collected R86,562 million in provincial own receipts. This recovery was R36,562 million or 73.12 per cent more than the adjusted budget. This over collection was mainly due to donations received and higher than expected income from commission on PERSAL deductions and on financial transactions in assets and liabilities for the returned subsidies paid over in previous financial years. The Main Budget estimation for provincial own receipts for the 2008/09 financial year is R50 million, which is R36,562 million less than the actual collection of R86,562 million in the 2007/08 financial year.

Taking the above factors into account it can be deduced that the Department had a credible budget.

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 2007/08 audit findings and the monthly IYM reporting, that revealed the following:

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

The Department is maintaining its performance at a level 3 financial management capability with no audit findings. In order to improve this level, the Department should ensure that the internal controls implemented are enhanced to ensure the monthly reconciliation of suspense accounts, the timely clearance of amounts and the review by the Accounting Officer of uncleared items.

#### **Accounting of assets**

The Auditor-General reported no audit findings in the audit report and management report for the current assessment period. In this regard the Department has improved from a level 2 to level 3 financial management capability when compared to the previous assessment.

#### **Financial reconciliations**

The Department reported in the monthly IYM that the Housing Debtors/BAS, PERSAL/BAS, LOGIS/BAS and the bank reconciliations are performed and signed by the CFO. This is the first assessment on this matter and the Department is currently operating at a level 3 financial management capability.

#### **Supporting documentation**

The Department reported in the monthly IYM that the sources of the transactions are readily identifiable and that all transactions are 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 maintains a level 3 financial management capability rating.

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

The Auditor-General's management report reflected that payments are being made after the 30 days of receipt of the invoice in contravention of Treasury Regulation 8.2.3. This finding has also been reported in previous year's audit reports.

This is indicative of a level 2 financial management capability rating, not assessed previously.

### **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 the legislative requirements. This is indicative of a level 3 financial management capability rating.

This is the first year of assessment and the Department is currently operating at a level 3 financial management capability.

### **Conclusion/recommendation**

In conclusion, the Department is operating at a level 3 financial management capability rating.

### **PUBLIC ENTITY: 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. For 2007/08, the WCHDF has improved from a disclaimer to a qualification by the Auditor-General.

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 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 Auditor-General reported that sufficient appropriate audit evidence could not be obtained to confirm the rights and ownership of a sample of properties. It is noted that this issue of properties not owned by the Fund were also raised in the 2006/07, 2005/06 and 2004/05 Management Reports, which is indicative of a financial management capability level 2. It is recommended that the property register be sanitized to only include properties owned by the WCHDF in order for the entity to move towards a financial management capability level 3.

The audit of properties identified revealed a misalignment between the National Debtor System (NDS) and Basic Accounting System (BAS). Furthermore there is a misalignment of debtor's balances between NDS and BAS. These issues were also raised in the preceding three financial years Management Reports and are considered

to be 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.

### **Supporting documents**

An inspection of the listing of debtors obtained from the NDS system, the auditors found that several individual debtors had no ID numbers on the system. It is noted that this issue of no records of ID numbers for debtors were also raised in the 2006/07, 2005/06 and 2004/05 Management Reports which is indicative of a financial management capability level 2.

It is recommended that the WCHDF take appropriate steps to ensure that all debtors have a valid ID number and the recoverability of each of these debtors should be assessed, in order to move towards a financial management capability level 3. Furthermore, debtors should not be granted debt without proof of identity.

### **Conclusion/recommendation**

It is also recommended that the entity adhere to the revised action plan to close down the Fund by 2011.

### **3.8.3 Corporate Governance**

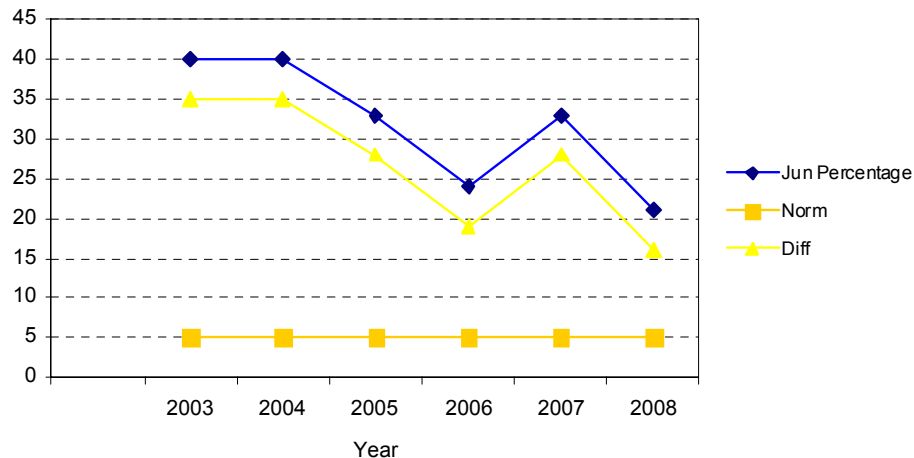
The findings discussed in this section provide a review of the PFMA implementation and financial management improvement of the department in line with the provincial strategy of reaching a level 4 auditable organisation (Financial Management Capability Model).

The source documents used were the Normative Measures for Financial Management for departments for the quarter ending August 2008 and the Auditor-General's report for the 2007/08 financial year.

## Analysis of Normative Measures Quarterly Report

### The CFO structure Human Resources Capacity

Figure 3: Department of Local Government and Housing Vacancy Rate – 6 year Trend Line



#### Analysis:

- In the Finance component of the Department the vacancy rate is currently at 21 per cent June 2008. This represents a substantial variance from the national norm of 5 per cent. Their graph depicts a downward trend from year 2007 to 2008.
- An issue of concern is the average length the Department takes to fill a post which is 6 months instead of the prescribed national norm of 3 months. This issue has been addressed with the department and has promised to take corrective steps that will ensure that the process of filling posts is speeded up. The Provincial Treasury is monitoring the progress of this matter on a quarterly basis.
- The Department has implemented performance agreements at all levels, career development plans have been developed for 100 per cent of the staff establishment. The staff that has finance related qualification is 90 per cent and 100 per cent of the staff is attending structured training programmes that are offered within the province.

#### Tabling of Annual Report

The Department has successfully tabled their 2007/08 Annual Report as well as that of the public entity under its ownership control, within the prescribed timeframe.

## Auditor-General's report on the 2007/08 financial year

### Analysis of the Auditor-General's Report

The Department received an unqualified audit opinion with other matters for the year 2007/08. This is the same as the one the Department got in 2006/07 financial year, which shows that it has not made any improvement in the current year.

The Auditor-General highlighted the following as 'Other matter':

### Non Compliance with applicable Legislation

Invoices not paid within 30 days of receipt

**Table 121: Summary of Comparison between the 2006/07 and 2007/08 Audit Reports**

Key finding	2006/07	2007/08	Status
Irregular expenditure	X	-	Improved
Invoices not paid within 30 days from receipt	X	X	Not improved
Material corrections made to the financial statements submitted for audit	X	-	Improved
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	X	-	Improved
Internal control - Inadequate monitoring of controls to monitor that payments are made within 30 days of receipt of invoices	X	-	Improved

The Housing Development Fund under the ownership and control of the Department moved from a disclaimer audit opinion to a qualified audit opinion for 2007/08 financial year.

### Overall Assessment

Based on the above analysis and the information supplied to Provincial Treasury, the Department has not made significant improvements to move to a level 3 financial management capability rating.

### 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 financial management capability rating.

### **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 organisation structure supports the processes developed.

#### **Internal Environment**

A risk management philosophy has been developed for the Department and a risk appetite of the Department has also 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 by means of process and control mapping initiatives.

#### **Overall Assessment**

Based on the above information, the Department achieved a rating of 2, as the Department met all the set Criteria and 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 and Norms and Standards for level 3:

#### **Internal Environment:**

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

**2006/07 and 2007/08 Comparison**

For the 2007/08 review, it is evident that the Department has made significant improvement as compared to the 2006/07 review.

**3.8.4 Cash Management**

This section deals with the implementation and management of sound cashflow practices as well as the provision of assistance and training in respect of the banking system within the Province.

**Background**

Section 21(1) of the PFMA stipulates that the PT is in charge of the Province's PRF. The creation and practice of sound cashflow management by the PT is therefore imperative for maintaining and improving the delivery of services to the various communities within the WC.

**Review**

To determine at which level (level 1 – 4) of effectiveness the department is operating in respect of cash management. The following areas and standards of performance and under-performance were identified.

**Table 122: Assessment Tool**

Requirements	Standard Level 3	Standard Level 4
Staff skilled & Capacitated in Cash Management	In accordance with profile	All functions on the Cash Management System
Submission of Annual Provincial Cashflow Projections	By 28 February	By 15 February

Requirements	Standard Level 3	Standard Level 4
Deviation between monthly projections & actual expenses	5%	3%
Monthly Own Revenue Payover	2 working days prior to month end	3 working days prior to month end
Repayment of Surplus Funds	31 May	15 May
Submission of monthly Bank Reconciliation	Within 30 days after month end	Within 15 days after month end
Beneficiary Payments (Direct Transfers)	1% of Total Payments	0.50% of Total Payments

The evaluation was based on the activities of the 2007/08 financial year and the findings were as follows:

**Table 123: 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	4
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	2
<b>Average rating</b>			<b>3</b>

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

### **Skilled and capacitated system users**

The department obtained a rating of 3 (nominal compliance). All system users are trained in accordance with their profiles on Nedbank Business.

### **Submission of Annual Provincial Cashflow Projections**

The Department obtained a financial management capability rating level 3 (nominal compliance). The Annual projections in respect of income and expenditure were received timeously in accordance with Treasury Circular 5 of 2008.

### 3.8.5 Supply Chain Management

#### Supply Chain Management

The assessment at Head Office level as measured against the current financial capability model for Supply Chain Management indicated the following:

- The Department meets the legislative and policy framework requirements in that it has an Accounting Officers system in terms of section 38(1)(iii)(c) of the PFMA as well as its accompanying delegations. However, it must be noted that the Department needs to update and review these policy documents annually to ensure that they are aligned to the current regulatory framework. Updating of the supply chain management policy was under review during 2007/08 financial year.
- The Department has the necessary SCM unit in place which resides under the Chief Financial Officer. It must be noted that the structure of the unit does not align itself with the National Treasury: Normative Measures for Financial Management (Phase 1: Perfecting the Basics) policy documents as well as to Regulation 16 A3.2 of the National Treasury Regulations for Supply Chain Management. This will impact on the efficiency and effectiveness of supply chain management of the department.
- The Department has the necessary bid committees instituted.
- Statistics revealed that of the 788 quotations requested on the Electronic purchasing system (EPSi) only 138 were awarded. The reason for this significant difference relates to not all quotations awarded is adjudicated on the system resulting in inaccurate statistics in the form of the department's total spend as well as total spend on Historically disadvantaged individuals (HDI).
- Statistics revealed that of the 63 bids awarded only 17 were in respect of HDI. This represented a 32 per cent of the total spend.
- Although the Department, facilitated by Provincial Treasury, has trained 7 officials in bid committees and 1 official in contract management, it has not involved itself in any other skills development initiatives to capacitate its officials in respect of SCM and asset management.

The Auditor-General's Management Report for the 2007/08 financial year reflected the following:

- That the Department's supply chain management policies and procedures were appropriately applied.
- That invoices were paid after 30 days of receipt.
- That service level agreements for awarded contracts could not be produced.

#### Moveable Asset Management

In terms of the National Treasury Asset Management Project Dashboard and Risk Log Assessment of the Head Office, the Department with reference to the Asset Management Plans has completed the following:

- Planning in respect of the definition of assets, role of the asset in program delivery, non-asset solutions, asset life-cycle, life-cycle costing accountability and responsibility;
- Acquisition: in respect of analysis of alternatives, receipt and acceptance of assets, establishing ownership and control;
- Operation and Maintenance: establishing performance indicators, monitoring condition and use, maintenance scheduling, tracking of assets, safeguarding and protecting of assets;
- Disposal: identification of surplus, obsolete and under-performing assets, replacement strategy, evaluation of disposal alternatives, write-off of damaged or missing assets;
- Asset Register requirements: acquisition, identification, accountability, performance, disposal and accounting.

The following are outstanding/postponed:

- Acquisition Plan
- Operation and Maintenance Plan
- Disposal Plan

The following has been indicated as problematic areas:

- Maintenance Strategy
- Forecasting for necessary maintenance, major repairs and preventative maintenance expenditure.

### **Rating**

On consideration of all of the above, the Department maintains a level 2 rating in terms financial management capability model for SCM. However, cognisance must be taken that this rating may change after the Compliance and Value for Money assessment that will be conducted in the 2008/09 financial year.

### **Recommendations**

- The department has to encourage other skills development initiatives to capacitate its officials in terms of SCM.
- The current structure needs to be addressed to sufficiently provide for all aspects of supply chain management to ensure its effectiveness and efficiency.
- The department needs to maintain stricter application and enforcement of the PPPFA and its regulations.

Give effect to the National Treasury's Broad Implementation plan for asset management.

### 3.8.6 Supporting and Interlinked Financial Systems

This section deals with the implementation and management of sound cashflow practices as well as the provision of assistance and training in respect of the banking system within the Province.

#### Background

Section 21(1) of the PFMA stipulates that the PT is in charge of the Province's PRF. The creation and practice of sound cashflow management by the PT is therefore imperative for maintaining and improving the delivery of services to the various communities within the WC.

#### Review

To determine at which level (level 1 – 4) of effectiveness the Department is operating in respect of cash management. The following areas and standards of performance and under-performance were identified.

**Table 124: Assessment Tool**

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

The evaluation was based on the activities of the 2007/08 financial year and the findings were as follows:

**Table 125: 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	4

Requirements	Standard Level 3	Standard Level 4	Rating
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	2
<b>Average rating</b>			<b>3</b>

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

#### **Skilled and capacitated system users**

The Department obtained a financial management capability rating level 3 (nominal compliance). All system users are trained in accordance with their profiles on Nedbank Business.

#### **Submission of Annual Provincial Cashflow Projections**

The Department obtained a rating of 3 (nominal compliance). The Annual projections in respect of income and expenditure were received timeously in accordance with Treasury Circular 5 of 2008.

## 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 the departmental Annual Performance Plan (APP) 2008/09 and the Annual Report 2007/08 in line with the financial management capability assessment tool for non-financial information. Key aspects are gauged regarding the Department's performance management information as well as the related competency capability.

#### Annual Report 2007/08

All the performance measures defined in the 2007/08 Annual Performance Plan (APP) are reported on in the 2007/08 Annual Report (AR). In some cases the targets reported on in the Annual Report indicates an exceeding of targets set in the Annual Performance Plan. An example of a performance measure which exceeds the set target, is the compliance monitoring of authorisations. As a general point, there is consistency between the unit of measurement used in the targets and the actual outcomes; therefore the annual report can be used to assess the actual performance of the Department in terms of the performance target defined in the APP.

The Annual Report Guideline for General and Performance information require that departments must provide a summary of the significant achievements of each Sub-programme within the Programme for the 2007/08 financial year, focusing on the achievement of targets. In the event of targets not being achieved, a brief narrative providing reasons should be provided. Furthermore, a narrative should be provided for targets that were exceeded detailing the factors that enabled the above performance. This section must also briefly provide a synopsis on how the achievement of targets has contributed towards achieving the department's outcomes, and which will invariably impact on the strategic priorities of government

The AR does provide adequate explanations for certain deviations from annual targets. Key aspects include deviations with regard to the proclamation and publishing of the Provincial Biosphere and Reserve Act (BRA) as well as the Western Cape Provincial Spatial Development Framework (WCPSDF). A further example is the clarification regarding the waste disposal permitting function that had to date not been devolved from National Department of Environmental Affairs and Tourism to provinces.

The AR also indicates additional information as a result of requests received; an example is information provided around the initiation of the Built Environment Support Programme/BESP within Programme 3.

## **APP 2008/09**

Most of the performance targets identified by the Department comply with the SMART principle, in that they are specific, measurable, achievable/attainable, realistic and time bound. It is acknowledged that the Department has defined measurable objectives logically and consistent with the strategic objectives of the Department, however, it is recommended that the Department provide a baseline number where the target has been provided as a percentage.

In general, the Department defined two to four measurable objectives per strategic objective, which basically allows for a focused approach with regard to performance measurement.

### **Conclusion/recommendation**

The Department is approaching a competency level 3 in relation to the key aspects of the financial management capability examined.

The further refinement and inclusion of deviations from the annual targets set for a specific financial year as well as reasons for the deviations from the target in the Annual Report remains pivotal in order to move towards the next level of capability.

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

From a public finance perspective, the following has been noted regarding the financial performance of the Department of Environmental Affairs and 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).
- The Department ensured that the IYM reports reflected the actual expenditure and revenue, which could be reconciled with the BAS/Vulindlela reports. However, forecast was not realistic because on a month-to-month basis forecasts in a prior quarter differ substantially from actual expenditure and therefore the Department will have to improve on its projections and planning. 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 126: Quarterly analysis on projections: 2007/08**

R'000	April	May	June	July	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total
First Quarter	17 346	18 399	14 770	17 995	16 878	18 072	17 666	18 051	16 407	8 426	8 707	8 757	181 414
%	9.56%	10.41%	8.14%	9.92%	9.30%	9.96%	9.74%	9.95%	9.04%	4.64%	4.80%	4.83%	100.00%
Second Quarter	17 346	18 399	14 770	14 956	16 158	15 653	19 917	19 293	17 002	9 052	8 957	9 688	181 131
%	9.58%	10.16%	8.15%	8.26%	8.95%	8.64%	11.00%	10.65%	9.39%	5.00%	4.95%	5.35%	100%
Third Quarter	17 346	18 339	14 770	14 956	16 158	15 653	17 046	14 595	18 128	12 968	13 397	10 118	183 474
%	9.45%	10.00%	8.05%	8.15%	8.81%	8.53%	9.29%	7.95%	9.88%	7.07%	7.30%	5.51%	100.00%
Fourth Quarter	17 346	18 339	14 770	14 956	16 158	15 653	17 046	14 595	18 128	6 919	7 510	21 054	182 474
%	9.51%	10.05%	8.09%	8.20%	8.85%	8.58%	9.34%	8.00%	10.00%	3.79%	4.12%	11.54%	100.00%

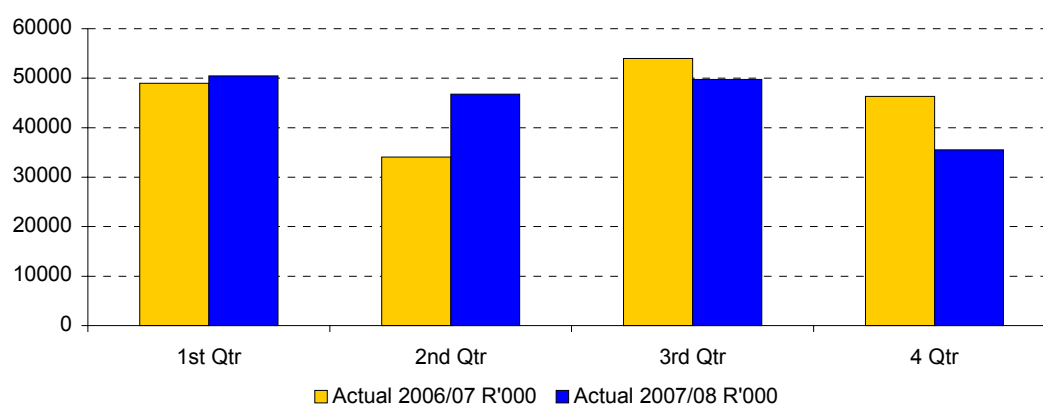
Shaded: Actuals

Unshaded: Projections

- The Department's original budget allocation for the 2007/08 financial year amounted to R181,414 million. In the Adjusted Estimates it increased by 1.5 per cent or R2,780 million to R184,194 million. R3,873 million, i.e. 2.1 per cent, of the adjusted budget was to accommodate shifts between programmes of the Vote, while R368 000 was as a result of shifts within programmes, i.e. 0.2 per cent of the adjusted budget. As the shifts amounted to below 2 per cent of the main budget, it is thus clear that the Department's original budget was credible.
- The Department effected very few virements in the 2007/08 financial year, amounting to R600 000 or 0.33 per cent of the adjusted budget. R450 000 was shifted from Programme 3: Environmental and Land Planning (Current payments) to Programme 1: Administration (Current payment) and R150 000 from Programme 3: Environmental and Land Planning (Current payment) to Programme 1: Administration (Payment for capital assets). The Department obtained the necessary virement approvals for it to be effected.
- The Department submitted its Adjusted Estimates on time and it was comprehensive in terms of Section 31 of the PFMA.

The figure below compares the quarterly actual expenditure for 2007/08 with 2006/07:

**Figure 4: Quarterly actual expenditure – 2006/07 and 2007/08**

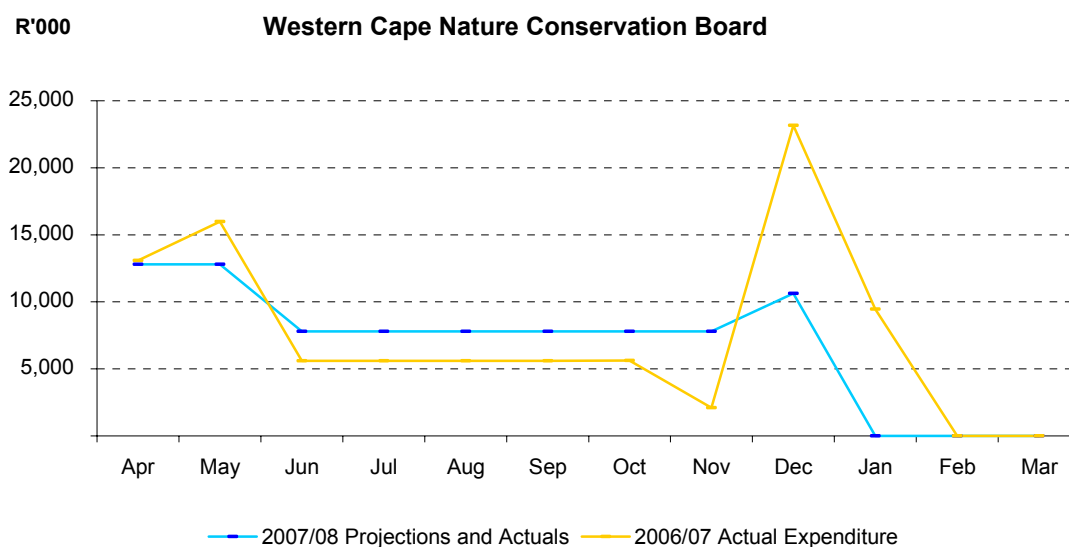


- The Department depleted R182,477 million or 99.07 per cent of its adjusted budget at 31 March 2008. With an underspending of R1,717 million or 0.93 per cent of the adjusted budget in 2007/08, the Department's spending outcome for the financial year was within the 2 per cent under spending norm. During the 2006/07

financial year under spending amounted to R1,342 million or 0.73 per cent of the adjusted budget of R184,610 million. The bulk of the R1,717 million under spending in 2007/08 was in respect of the delays in the promulgation of the amendments to the National Environmental Management Act (NEMA). This impacted on projects that were dependent on legislation. No funds were requested for rollover to the 2008/09 financial year.

The figure below provides the actual expenditure for the period ended 31 March 2008 on transfer and subsidies to the Western Cape Nature Conservation Board (CapeNature).

**Figure 5: Comparison of Transfers to CapeNature – 2006/07 and 2007/08**



- The graph indicates how actual transfers vary from month to month, mainly due to the fact that payments to CapeNature are made in terms of an agreed payment schedule. Transfer payments to the amount of R80,156 million were budgeted for and made to CapeNature during 2007/08. This was augmented by R2,819 million in the 2007 Adjusted Estimates, bringing the total to R82,975 million.
- No fiscal dumping was brought to the attention of the Provincial Treasury, and no unauthorised or irregular expenditure was reported.
- 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 R151 000 was exceeded by R103 000. This was mainly due to increased collection on financial transactions in assets and liabilities, which was not budgeted for.
- The Department did not revise any tariffs in the 2007/08 financial year.
- The Department had a slight March ‘spike’ in 2007/08, where actual expenditure increased from a low R7,511 million or 4.08 per cent in February 2008 to R21,056 million or 11.43 per cent of its adjusted budget of R184,194 million in

March 2008. This can largely be attributed to expenditure on goods and services (R12,431 million or 59.04 per cent of total expenditure for the month of March), with the bulk spent on consultants and contractors for video conferencing, organisational refinement, the annual performance plan, recycling economy and solar heated geysers amounting to R7,894 million, and subsistence and travelling allowance amounting to R932 000.

## **Conclusion**

The Department of Environmental Affairs and Development Planning generally operated 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 2007/08 audit findings 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 2007/08 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**

The Auditor-General reported that management failed to implement adequate controls over the sanitising of the asset register and the investigation of untraced assets.

It is recommended that Departmental investigations are initiated to determine the reasons for untraced assets not being reported by the responsible officials and the actual disappearances of the assets.

The Department is therefore maintaining a level 2 financial management capability rating since its last assessment.

#### **Financial reconciliations**

The Department reported that reconciliations of BAS/PMG and PERSAL/BAS are performed on a monthly basis.

The Department continues to perform at a level 3 financial management capability when compared to the previous assessment.

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

The Department performed at a level 3 financial management capability when compared to the previous assessment.

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

The disclosure of Departmental State Guarantees reflects effective maintenance as there were no matters arising from the Audit report, resulting in level 3 financial management capability rating.

### **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. Compared to the previous assessment, the Department has improved its control over and disclosure of lease liabilities and 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. For the period under review no audit findings were raised in this regard.

The Department is therefore maintaining a level 3 financial management capability rating since its last assessment.

### **Management of contingent liabilities**

The Department continues to perform at a level 3 financial management capability when compared to the previous assessment.

### **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.

### **Conclusion/recommendation**

To fully comply with a level 3 financial management capability, the Department needs to improve controls over the sanitising of the asset register and the investigation of untraced assets.

### **PUBLIC ENTITY: Western Cape Nature Conservation Board**

To determine at which level (level 1 – 4) of financial management capability the public entity is operating at, the following areas and standards of performance were assessed, referring to the accounting assessment tool 2.3 in Chapter 2.

### **Accounting of assets**

The Auditor-General reported that it was not informed of the dates of inventory counts for auditing. As a result it was not possible to verify the completeness and accuracy of the inventory recorded in the financial statements as at 31 March 2008.

Appropriate policies, procedures and mechanisms with respect to inventory counts performed by CapeNature at year end were inadequate to ensure that all the relevant parties were informed. In this regard the entity has deteriorated from operating at a level 3 financial management capability to a level 2 financial management capability when compared to the previous year's assessment.

### **Financial reconciliations**

The entity confirmed that monthly financial reconciliations have been performed on time. The entity is maintaining its performance at a level 3 financial management capability rating achieved during the prior year's assessment.

### **Supporting documentation**

The entity reported that it has an effective system of maintaining source documents for audit and reference purposes and this was substantiated during the audit.

The entity is maintaining its performance at a level 3 financial management capability rating achieved during the prior year's assessment.

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

The entity reported that all expenditure payments and journals have been correctly classified. Compared to the assessment of the previous year, the entity has improved its performance from a level 2 financial management capability rating to a level 3 financial management capability.

### **Accounting treatment of transactions**

The Auditor-General reported that CapeNature has control weaknesses within the accounting process, which resulted in material misstatements of the Annual Financial Statements submitted for audit at 31 May 2008. In this regard the entity has worsened from operating at a level 3 financial management capability to a level 2 financial management capability when compared to the previous year's assessment.

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

During the audit of Performance Information it was noted that the accounting authority of CapeNature did not submit any quarterly reports to its executive authority in order to facilitate the effective performance monitoring, evaluation and corrective actions as required in terms of par. 30.2.1 of the Treasury Regulations.

Given the above the entity has deteriorated from operating at a level 3 financial management capability to a level 2 financial management capability, when compared to the previous year's assessment.

## **Management controls**

Inefficiencies in the system of internal control led to several material misstatements in the financial statements submitted for audit. Furthermore, supply chain management policies and procedures were appropriately applied.

Due to the above management control issues, the entity was operating at a level 2 financial management capacity during the reporting period.

## **Conclusion/recommendation**

CapeNature has made some new appointments and the entity is confident that this will address the financial management capacity issues of the entity. The entity should report its concerns via the IYM process, which is designed to inform its parent department as well as the Provincial Treasury of concerns and problem areas. This will enable the parent department and the Provincial Treasury as oversight bodies to support the entity in improving its financial management capacity rating from a level 2 to a level 3.

## **3.9.3 Corporate Governance**

### **3.9.3.1 Compliance**

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 June 2008 as well as the 2007/08 Auditor-General's report for the department and the public entity.

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

#### **The CFO structure**

The vacancy rate as at the end of March 2008 is indicated at 4 per cent, which is below the national norm of 5 per cent. The average length 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 Department complied with section 40(1)(d) of the PFMA by submitting their Annual Report to the Provincial Treasury (29 August 2008). It also complied with section 65(1) of the PFMA and tabled its annual report in the Legislature on 30 September 2008.

## **Auditor-General's report on the 2007/08 financial year**

The Department received an unqualified audit opinion with other matters. This is a slight deterioration in that there was also Emphasis of matter as compared to last year, when the Department received an unqualified audit opinion without emphasis of matter, but other matters.

## **Financial management capability model assessment**

Based on the above analysis, the Department maintains its financial management capability rating of a level 3 auditable organisation. However, it is important to note that the Department has not built on the 2006/07 progress, and that drastic measures will have to be implemented in order to avoid a qualified audit opinion in the 2008/09 financial year.

## **Western Cape Nature Conservation Board**

Western Cape Nature Conservation received a qualified audit opinion, compared to 2006/07 financial year when it received an unqualified audit opinion. This represents deterioration in the level of financial management in the entity. Provincial Treasury will be working with the mother department to assist the new management of CapeNature to improve the situation in the 2008/09 financial year.

## **Overall assessment**

Based on the above assessment the Department has not moved from its current rating of level 3 auditable organisation.

### **3.9.3.2 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**

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

### **Internal Environment**

A risk management philosophy has been developed for the Department and a risk appetite of the Department has also 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 by means of process and control mapping initiatives.

### **Overall Assessment**

Based on the above information, the department achieved a rating of 2, as the Department met all the set Criteria and 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 and Norms and Standards for level 3:

#### **Internal Environment:**

- Compliance to commitment to competence displayed in appointment and Development practices.
- Compliance to assignment of authority and responsibility.
- Compliance to writing and communication of 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 regular internal audit evaluation

**2006/07 and 2007/08 Comparison**

For the 2007/08 review, it is evident that the department has not made significant improvement as compared to the 2006/07 review.

**3.9.4 Cash Management**

This section deals with the implementation and management of sound cashflow practices as well as the provision of assistance and training in respect of the banking system within the Province.

**Background**

Section 21(1) of the PFMA stipulates that the PT is in charge of the Province's PRF. The creation and practice of sound cashflow management by the PT is therefore imperative for maintaining and improving the delivery of services to the various communities within the WC.

**Review**

To determine at which level (level 1 – 4) of effectiveness the department is operating in respect of cash management. The following areas and standards of performance and under-performance were identified.

**Table 127: Assessment Tool**

Requirements	Standard Level 3	Standard Level 4
Staff skilled & Capacitated in Cash Management	In accordance with profile	All functions on the Cash Management System
Submission of Annual Provincial Cashflow Projections	By 28 February	By 15 February
Deviation between monthly projections & actual expenses	5%	3%
Monthly Own Revenue Payover	2 working days prior to month end	3 working days prior to month end
Repayment of Surplus Funds	31 May	15 May
Submission of monthly Bank Reconciliation	Within 30 days after month end	Within 15 days after month end
Beneficiary Payments (Direct Transfers)	1% of Total Payments	0..50% of Total Payments

The evaluation was based on the activities of the 2007/2008 financial year and the findings were as follows:

**Table 128: 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	4
Repayment of Surplus Funds	31 May	15 May	4
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	2
<b>Average rating</b>			<b>3</b>

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

### **Skilled and capacitated system users**

The Department obtained a financial management capability rating level 3 (nominal compliance). All system users are trained in accordance with their profiles on Nedbank Business.

## Submission of Annual Provincial Cashflow Projections

The Department obtained a financial management capability rating level 3 (nominal compliance). The Annual projections in respect of income and expenditure were received timeously in accordance with Treasury Circular 5 of 2008.

**Table 129: Deviation between monthly projections and actual expenses**

	Project	Original Forecast		rating
		Actual	%	
APRIL'07	19 174	21 559	(12)	2
MAY'07	19 315	14 708	24	2
JUNE'07	16 454	14 101	14	2
JULY'07	16 930	14 563	14	2
AUG'07	16 727	16 210	3	4
SEP'07	17 202	15 593	9	2
OCT'07	17 667	16 888	4	3
NOV'07	18 036	15 279	15	2
DEC'07	15 376	18 294	(19)	2
JAN'08	7 395	6 700	9	2
FEB'08	7 389	7 580	(3)	4
MRC'08	9 749	19 939	(105)	2
<b>Sub-Total</b>	<b>181 414</b>	<b>181 414</b>		<b>2</b>
<i>Revised Forecast (after adjusted budget)</i>				
MRC'08				
Adjustment	2 780	2 780		
<b>Total</b>	<b>184 194</b>	<b>184 194</b>	<b>100</b>	

The Department achieved a financial management capability rating level 2 (partial compliance). PT will support and assist the Department monthly to establish reasons for the variances. The department should utilise previous monthly drawing trends to establish more credible projections.

## Monthly own revenue payover

The Department obtained an average financial management capability rating level 4 (full compliance). PT reminded the Department to submit detail before 3rd last working day of each month which enable the department to achieve the level of full compliance.

### Repayment of Surplus funds

The Department obtained a financial management capability rating level 4 (full compliance). Surplus funds were paid to the Provincial Revenue Fund on 14 May 2008.

### Submission of monthly Bank Reconciliations

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

### Beneficiary Payments (Direct Transfers)

The Department achieved a financial management capability rating level 2 (partial compliance). PT to encourage Department to make optimal use of the Province's financial systems to minimise the usage of Beneficiary Payments (Direct Bank Transfer).

**Table 130: Beneficiary Payments**

Payments	Beneficiary Payments	%
8568	108	1.26

## 3.9.5 Supply Chain Management

### Supply Chain Management

This financial management assessment is based on the 2007/08 financial year information that was brought to the attention of Provincial Treasury in terms of procurement statistic reports, project dashboard reports SAMDI training statistics and the Auditor-General's Report and Management letter.

When measured against the current financial capability model for Supply Chain Management (SCM), the following must be noted in respect of the Department:

- The Department has an Accounting Officer's System and its Delegations in terms of Section 38(I)(iii)(c) of the PFMA in place. It must however be noted that since the implementation of SCM in January 2004, the Accounting officer's system of the Department was never reviewed; hence the AO system needs to be reviewed and updated to align itself with the current policy and regulatory frameworks.
- The Department has constituted a bid specification and an adjudication committee. The evaluation committee is only appointed as and when the need arises.
- The SCM unit is composed of 8 officials of which the asset manager post is vacant. It can be concluded that the Department has an adequate structure to give effect to the Department's goals and objectives for SCM. The SCM structure provides for a demand, acquisition, as well as a logistics and disposal management system.

- In respect of the SAMDI training courses facilitated and arranged by the Provincial Treasury, only five officials from the department has attended such training in the 2007/08 financial year. However, the Department has nominated 25 officials for training in 2008/09 financial year in respect of forthcoming courses for Bid Committee and Contract Management training. This is indicative of a commitment by the Department to capacitate in terms of skills development.
- The Department has awarded twenty-one bids for the 2007/08 financial year to the total value of R9,974 million. Fifteen bids to the total value of only R2,783 million (28 per cent) have been awarded to companies' with HDI equity representation. Seven companies have women equity share-holdings to and three companies completely women – owned. This verifies that the Department plays a minimal role in promoting the Preferential Procurement Policy Framework Act goals and objectives.
- According to available records 473 quotation enquiries have been put through to the EPSi system of which the department has only awarded 52 quotations to the total amount of R1 327 734.00, and the total amount of R412 460.00 has been awarded to companies with HDI equity representation.

### **Moveable Asset Management**

The assets of the Department are assessed in terms of National Treasury Project Dashboard and Risk Log Reports that are submitted to Provincial Treasury on a quarterly basis. These reports verify if the Departments comply with the National Treasury Broad Implementation Plan.

The dashboard reports for the 2007/08 financial year revealed that the Department is compliant in some aspects of the asset management plans, but it has not yet completed the operation and management plans, hence those issues are reflected in the Department's risk logs.

### **Comparison and rating**

The Department has not shown any vast improvements when comparing the 2006/07 and 2007/08 financial years therefore the Department is once more rated at level 2 in terms of Financial Management Capability for SCM.

### **Conclusion/Recommendations**

The Department will be assessed in the 2008/09 financial year in terms of a full SCM compliance and value for money assessment which will enable the Provincial Treasury to prompt SCM interventions through training, workshops, one-on-ones and guidance.

The following are the recommendations and corrective measures that the department should consider implementing:

- Ensure that a control framework in place to safeguard assets
- Utilise the SAMDI training courses that is funded by National Treasury and arranged by provincial treasury for provincial departments to capacitate its officials with latest guidelines, prescripts and regulatory framework on SCM.

- Adhere to the PPPFA when procuring goods and services.

### 3.9.6 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.

#### Background

Currently there are three major systems, the Basic Accounting System (BAS), Personnel and Salary Administration System (PERSAL) and Logistical Information System (LOGIS) that are maintained by the National Treasury for National and Provincial departments. In addition a web-based Management Information System (Vulindlela) is maintained of financial, HR and logistical data, for high level, management information.

#### Review

Two major systems namely BAS and PERSAL as well as Vulindlela are being utilised by the department in the execution of their daily functions. To determine at which level (level 1 – 4) of effectiveness the department is in utilising the systems, the following areas and standards per systems, were identified to evaluate the effective utilisation of the systems and functional assistance and training, as well as to identify areas of under-performance, to be addressed.

**Table 131: Basic Accounting System (BAS)**

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

**Table 132: Personnel and Salary Administration System (PERSAL)**

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

**Table 133: Management Information System (Vulindlela)**

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

The evaluation was based on the activities of the 2007/08 financial year and the findings were as follows:

**Table 134: 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	3
Year-end closure	Own accord – due date	Own accord – prior date	3
System Controller Functions	80 – 90%	91 – 100%	4
Monitor Applicable Interfaces	Weekly	Daily	4
<b>Average rating</b>			<b>3</b>

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

**Table 135: 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
4	3	1	3	0

The Department obtained a financial management capability rating level 3 (nominal compliance), 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 has identified the training gap of all system users and are providing training to users in accordance with their profiles.

The Department however needs to commit themselves in getting users trained.

### Month end closure

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

### Year closure

The Department achieved a financial management capability rating level 3 (nominal compliance) 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 4 (full compliance):

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

**Table 136: 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>3</b>

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

**Table 137: 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
10	7	3	7	0



The Department obtained a financial management capability rating level 2 (partial compliance) due to the 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 has identified the training gap of all system users and are providing training to users in accordance with their profiles.

The Department however needs to commit themselves in getting users trained.

### **System Controller Functions**

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

### **Establishment Management**

The Department achieved a financial management capability rating level 2 (partial compliance). The establishment is maintained but duplicate establishment codes exist. The department should ensure that the creation of a new establishment and abolishment of the existing establishment must be done simultaneously.

### **PERSAL/BAS reconciliation**

The Department compiled a monthly PERSAL/BAS reconciliation by the 20th of each month and therefore achieved a rating of 3 (nominal compliance)

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

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

Reports indicating the outstanding information are available and are provided by Provincial Treasury to departments on request. Department should start making verification of data compulsory starting with new appointments

### **Leave Audit**

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

**Table 138: 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 139: 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
26	16	10	62%

The Department obtained a financial management capability rating level 2 (partial compliance) due to the fact that only 62 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 10 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 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 assessment gauges key aspects of the Department's performance management system, and considers whether the Department has reached a level 3 financial management capability level, and expresses a view on the extent to which the Department is moving towards a level 4 organisation. This evaluation assesses the 2007/08 Annual Report, the 2008/09 first quarter and 2007/08 Quarterly Performance Reports and the 2007/08 and 2008/09 Annual Performance Plans. There may, however, be some areas of a Department's performance framework that display a level 4 financial management capability, while others have yet to reach a level 3 financial management capability level.

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. 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 2007/08

All the performance measures defined in the 2007/08 APP are present in the 2007/08 Annual Report. The unit in which performance is reported in the Annual Report is also consistent with that reported in the APP. As a result, the Annual report can be used in conjunction with the APP to assess the Departments performance over the indicated financial year.

The Annual Report clearly indicates all deviations from the targets, be they positive or negative, in a separate column. These deviations are reported as absolute numbers and as a percentage. In addition to this, a brief description of the reasons for the deviations from target is given. These descriptions do not however provide enough information nor insight into the root causes for the deviations from target. There is also insufficient information provided on interventions the Department has implemented or plans to implement to remedy under-performance.

The Annual Report also identifies "specific challenges and responses" per sub-programme. The challenges identified and information on responses provided is high level and tend to be vague or inadequate. A section on issues requiring ongoing attention has also been included in the 2007/08 Annual Report. This section

highlights issues extend into the following financial year but does not provide current interventions, remedies or progress made on addressing the issues. This lack of information makes it difficult to assess whether the Department is taking appropriate steps in addressing issues affecting its performance.

There are some instances where targets are present in the Annual Report but were not provided in the APP. These include targets set for the number of overweight vehicles weighed, the number of hours weighbridges are operated, approved methodologies for monitoring Safety Engineering operations and the number of EPWP jobs created. The Department has however rectified this situation by providing performance targets for performance measures in the 2008/09 APP.

### **APP 2008/09**

The Annual Performance Plan conforms to the structure prescribed by the national government for provincial Transport and Public Works departments. Both strategic and measurable objectives, as well as performance measures are presented for each sub-programme. National government also prescribes a sector-specific quarterly performance format. The Department submits this concise document in addition to a full quarterly performance report for assessment each quarter.

The Department has been consistent in clearly linking its strategic objectives to its measurable objectives and its measurable objectives to its defined performance measures. The tabular format used to represent this allows for ease of use in assessing the alignment of the strategic objectives to the relevant measurable objectives and performance measures. Some exceptions have however been noted. The two categories of exception identified are: appropriateness or clarity of the performance measure and the measurability of the performance measure.

An example of an exception noted on the appropriateness or clarity of the performance measure can be found in the Traffic Management sub-programme. The provision of accident report forms on request and the capture of accident report forms is listed as a measurable objective but the associated performance measure is only the "number of requests". It is uncertain whether the target or reported performance relates to the number of requests received or the number of requests honoured. Some performance measures are not clearly defined and are not measurable. The formulation of various policies and strategy documents as performance measures without clear explanations on the content of these policies and strategy documents in the APP makes for problematic verification of performance against targets set. Similar points were raised on the 2007/08 APP. Another matter raised on the previous APP is the use of percentages as performance targets. The current APP avoids this, with the only exception being that of the number of vacant posts in the Public Transport Regulation and Control sub-programme.

In the previous year's APP, several annual performance targets were omitted. The APP has since improved with the inclusion of annual targets for all performance measures in the 2008/09 APP. The Department has not however set quarterly targets for a large number of performance measures listed in the national QPR reporting format, with only 4 out of 45 performance measures recording quarterly performance targets for the first three quarters of 2008/09. The annual target is then listed as the fourth quarter target for the outstanding performance targets. While a number of

performance measures, such as road construction, by their nature can only be measured annually, it nonetheless makes quarterly assessment of Departmental performance difficult. Performance targets that do lend themselves to quarterly targets but do not have quarterly targets include the Community-Based Programme performance targets and some Traffic Management performance targets. The Department was able to provide first quarter preliminary outputs on a number of performance measures that do not have quarterly targets.

Challenges are identified and responses are submitted by the Department with the QPRs where deviations from quarterly targets are found. The Department has made good progress in providing clear and concise information on these. Exceptions do however still exist where information provided is vague or non-descript.

The Department uses a large number of performance measures to monitor its progress and delivery towards achieving its strategic objectives. Given the number of activities the Department is engaged and the degree of complexity thereof, the number of performance measures seems appropriate.

### **Conclusion/recommendation**

In conclusion, the Department has made progress over the last financial year towards achieving a level 3 financial management capability in terms of its performance management system assessed. To reach a financial management capability of level 3, the Department must improve the measurability of a number of measurable objectives and reconsider at the suitability of several performance targets. The Department is also encouraged to set quarterly targets for the nationally defined sector specific performance measures, where applicable.

To reach a level 4 financial management capability, the Department needs to provide more comprehensive explanation for deviations from target and remedies thereto in the Annual Report and QPRs.

### **3.10.1.2 Performance management assessed based on financial information<sup>2, 3</sup>**

#### **Compliance with PFMA Section 40(4) reporting requirement**

The Department consistently submitted by the 15<sup>th</sup> of each month information on actual expenditure and revenue for that particular month, projections of anticipated expenditure and revenue collection for the rest of the financial year and, when necessary, indicated remedial steps to be taken to ensure projected expenditure and revenue remain within budget.

Electronic verification of reported expenditure and revenue against Vulindlela downloads were conducted monthly, with variances indicated to the CFO office and cleared in the succeeding month.

<sup>2</sup> Adjusted Estimates figures include final shifts.

<sup>3</sup> Minor inaccuracies may be the result of rounding of numbers.

## **Quarterly quantitative performance**

When reviewing 2007/08 quarterly spending, Transport and Public Works had for the fourth quarter ending March 2008 expended R637,7 million (27.2 per cent) of total expenditure which amounted to R2,344 billion.

Comparatively, Transport and Public Works spent R475,7 million (20.3 per cent) of total expenditure during the first quarter, R613,6 million (26.1 per cent) during the second quarter and R617,3 million (26.3 per cent) during the third quarter.

During 2006/07 the Department incurred last quarter expenditure of R755,4 million or 33.5 per cent of the total expenditure for 2006/07 totaling R2,254 billion. All in all, this is R117,7 million or 15.5 per cent less than spending over the same period during the previous financial year.

The Department has ameliorated its disbursement of payments across the respective 2007 quarters relative to 2006/07.

## **Conditional Grant expenditure**

Briefly, conditional grants are allocations to a Department from the National Department to advance a national objective in the Province.

### **National Infrastructure Grant to Provinces (IGP)**

To this end, the Infrastructure Grant to Provinces supplements the funding of infrastructure programmes funded from provincial budgets to enable provinces to address backlogs in provincial infrastructure.

During 2007/08, the Department recorded expenditure relating to this grant amounting to R296,6 million or 100 per cent of the Division of Revenue Act 2007 allocation. This is R107,1 million or 56.5 per cent more than spending over the same period during the previous financial year.

During 2006/07, the Department incurred expenditure on the Infrastructure Grant to Provinces (IGP) amounting to R188,9 million or 80.7 per cent of the Division of Revenue Act, 2006 allocation for 2006/07 which came to R234,2 million.

The Department displayed sound capacity to expend its 2007/08 IGP allocation and obviated a roll-over of unspent funds.

### **Adjusted Estimates 2006/07**

The Department timeously submitted its Adjusted Estimates within Treasury timelines and it was found to be comprehensive in terms of Section 31 of the Public Finance Management Amendment Act, (as amended), 1999 (PFMA). It was in line with the standardised Adjusted Estimates format based on National Treasury's guidelines.

### **2007/08 Budget shifts**

In 2007/08, the Department incurred expenditure of R2,344 billion or 98.2 per cent (under spending of 1.8 per cent) against the adjusted budget of R2,388 billion following a total net increase of R181,4 million (8.2 per cent) on the main budget of R2,206 billion. This resulted in under spending of R43,7 million.

During 2006/07, the Department had over the same period ending March 2007, incurred aggregate expenditure of R2,254 billion or 97.1 per cent (under spending of 2.9 per cent) against the total adjusted budget amounting to R2,321 billion following a total increase of R257,1 million (12.4 per cent) on the main budget of R2,064 billion. Transport and Public Works had spent R2,254 billion by the end of the financial year, resulting in under spending of R67,4 million.

During 2007/08 the Department shifted less funds during the Adjusted Estimates 2007/08 and managed to expend more of its augmented budget relative to 2006/07.

### **Post adjusted estimates shifts**

From the Department's audited appropriation statements for 2007/08, it appears that the Department introduced more post adjusted estimates shifts during 2007/08 than the year before.

This questions the credibility of the 2007/08 Adjusted Estimates.

## “March spike” anomaly

**Table 140: Summary of actual expenditure per financial quarter for 2007/08**

Transport And Public Works R'000	1st Quarter	2nd Quarter	3rd Quarter	March	4th Quarter	Total
<b>Programmes</b>						
Administration	20 549	23 152	36 821	22 210	41 231	121 753
Public works	104 038	95 012	129 022	66 612	134 510	462 582
Roads infrastructure	296 734	374 981	342 150	126 289	332 008	1 345 873
Public transport	15 570	34 262	62 739	33 427	61 729	174 300
Traffic management	33 303	79 324	40 219	31 725	57 253	210 099
Community based programme	5 311	6 769	6 272	6 495	10 896	29 248
Theft and Losses	271	163	79	45	109	622
<b>Total expenditure</b>	<b>475 776</b>	<b>613 663</b>	<b>617 302</b>	<b>286 803</b>	<b>637 736</b>	<b>2 344 477</b>
<b>Economic classification</b>						
Current payments	201 585	348 846	309 906	163 551	356 883	1 217 220
Total transfers and subsidies	14 080	2 402	49 036	35 995	72 332	137 850
Payments for capital assets	260 111	262 415	258 360	87 257	208 521	989 407
<b>Total expenditure</b>	<b>475 776</b>	<b>613 663</b>	<b>617 302</b>	<b>286 803</b>	<b>637 736</b>	<b>2 344 477</b>
<b>% of total spent</b>						
<b>Programmes</b>						
Administration	16.9%	19.0%	30.2%	18.2%	33.9%	100.0%
Public works	22.5%	20.5%	27.9%	14.4%	29.1%	100.0%
Roads infrastructure	22.0%	27.9%	25.4%	9.4%	24.7%	100.0%
Public transport	8.9%	19.7%	36.0%	19.2%	35.4%	100.0%
Traffic management	15.9%	37.8%	19.1%	15.1%	27.3%	100.0%
Community based programme	18.2%	23.1%	21.4%	22.2%	37.3%	100.0%
Theft and Losses	43.6%	26.2%	12.7%	7.2%	17.5%	100.0%
<b>Total expenditure</b>	<b>20.3%</b>	<b>26.2%</b>	<b>26.3%</b>	<b>12.2%</b>	<b>27.2%</b>	<b>100.0%</b>
<b>Economic classification</b>						
Current payments	16.6%	28.7%	25.5%	13.4%	29.3%	100.0%
Total transfers and subsidies	10.2%	1.7%	35.6%	26.1%	52.5%	100.0%
Payments for capital assets	26.3%	26.5%	26.1%	8.8%	21.1%	100.0%
<b>Total expenditure</b>	<b>20.3%</b>	<b>26.2%</b>	<b>26.3%</b>	<b>12.2%</b>	<b>27.2%</b>	<b>100.0%</b>

The table above indicates Departmental spending patterns in the final month of the 2007/08 financial year. The trend referred to as the "March Spike" occurs when expenditure for the month of March is drastically above the average monthly expenditure for the year.

Due to the nature of its activities, the Department is synonymous with increases in expenditure in the last financial quarter of each year. Contributing factors include the builders' holidays in December where little happens in the building industry until February. Also, when the Department receives invoices from contractors, there is a time lag of approximately 30 days wherein the Department's technical staff must inspect the quality of work by the contractors before approving payment.



Under normal conditions, the first part of a financial year is used to get contracts in place through the tendering process. Contracts are signed by the 2<sup>nd</sup> or 3<sup>rd</sup> quarter of the financial year.

It is also only in the summer months of the financial year when the weather permits road resealing and other earth works in the province.

From the table, the Department realised March actual expenditure amounting to R286,8 million or 12.2 per cent of the total expenditure totalling R2,344 billion.

This is R125,4 million or 30.4 per cent less than spending over the same period during the previous financial year. In 2006/07 the Department incurred March 2007 actual expenditure amounting to R412,3 million or 18.2 per cent of total expenditure of R2,254 billion.

The Department made good strides in curbing its “March spike” expenditure for 2007/08. It appears that the Department has streamlined the sign-off process of completed earth works in order to process more payments before the month of March 2008.

### Revenue collection

Transport and Public Works realised total own receipts amounting to R955 million or 112.4 per cent of the adjusted receipts budget totalling R849 million. This is R57,6 million or 6.4 per cent more than revenue collection over the same period during 2006/07.

When reviewing 2006/07, the Department collected own receipts amounting to R897,3 million or 109.8 per cent of the adjusted receipts budget totalling R817 million.

The Department’s revenue collection forecasts often appear less than the final outcome, yet is aligned to the average annual vehicle population growth for the Province of roughly 3 per cent.

### Cashflow vs Actual payments variation

Table 141: Projected vs actual personnel cost for 2007/08

R'000	Average rate of monthly spending			
	2006/07	2007/08		
	Actual	Actual	Cash flow projection	Variance
Compensation of employees	15 093	17 570	21 641	18.81%

### Personnel budget

The degree of variance between original compensation of employee cashflow in terms of section 40(4)(a) of the PFMA, and actual monthly payments signal the quality of the compensation budget.

Widening variance between planned expenditure and actual expenditure indicates potential unrealistic estimates, which calls for funds to eventually be shifted elsewhere in the Department to be applied meaningfully. This normally occurs during the Adjusted Estimates process.

During the review period, the Department cited expenditure of R210,8 million or 98.6 per cent of the compensation of employees adjusted budget amounting to R213,6 million. This translated into average expenditure of R17,5 million per month across the whole establishment, which totalled 1 504 officials in March 2008 compared to 1 427 during March 2007. When comparing actual expenditure to original cashflow, the Department originally anticipated to spend R259,6 million on compensation of employees by March 2008 at an average rate of R21,6 million per month.

During 2006/07 the vote spent a total of R181,1 million or 99.1 per cent of the compensation of employees adjusted budget of R182,6 million at an average rate of R15 million per month. This resulted in total under spending of R1,4 million by March 2007.

From the table above, it appears that the Department overstated its original cashflow monthly projection by an average of 18.8 per cent during 2007/08. This deviation may also be a result of challenges faced by the Department in recruiting engineering skills into the public construction sector.

#### **Conclusion/recommendation**

Taken as a whole, and with all budget management findings considered, the Department is making strides towards obtaining a financial management capability level 4.

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

An assessment of the financial management capability of the Department was undertaken based on the 2007/08 audit findings and monthly IYM reporting, that revealed the following:

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

An assessment of suspense accounts revealed that transaction items in the Bank adjustment account were not cleared on a monthly basis.

The Department is slipping from a level 3 to a level 2 financial management capability rating when compared to the previous assessment.

#### **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, performance, disposal and accounting of assets.

The Auditor-General indicated that there is a lack of proper control regarding the management of minor assets and also reported that intangible assets (software) were incorrectly classified as computer services.

The Department continues to perform at a level 2 financial management capability rating when compared to the previous assessment.

### **Financial reconciliations**

The Department failed to submit their monthly BAS/LOGIS, PERSAL/BAS and Bank reconciliations as part of their IYM reports on or before the 15<sup>th</sup> of each month.

The above indicates that the Department is operating at a level 2 financial management capability rating when compared to the previous assessment.

### **Supporting documentation**

The Auditor-General reported that advance payments were made without the necessary documentation (trip authorities and calculation of advance amounts) attached to the payment vouchers, resulting in a level 2 financial management capability rating and is consistent with the previous assessment.

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

The Auditor-General reported that intangible assets (software) were incorrectly classified as computer services.

Payments in respect of the Learnership 1000 project were also incorrectly classified as Consultants, contractors and special services.

Payments made more than 30 days after receipt of invoices still remain a concern.

The Department continues to perform at a level 2 financial management capability rating when compared to the previous assessment.

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

The Department continues to perform at a level 3 financial management capability rating when compared to the previous assessment.

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

The disclosure of departmental State Guarantees reflects effective maintenance as there were no matters arising from the Audit report.

The Department continues to perform at a level 3 financial management capability rating when compared to the previous assessment.

### **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 continues to perform at a level 3 financial management capability rating when compared to the previous assessment.

### **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 continues to perform at a level 3 financial management capability rating when compared to the previous assessment.

### **Management of contingent liabilities**

The Department continues to perform at a level 3 financial management capability rating when compared to the previous assessment.

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

The Department failed to submit signed IYM reports on time. In this regard a level 2 financial management capability rating is attained.

### **Conclusion/recommendation**

In order to improve compliance with accounting policies and standards towards a level 3 financial management capability rating, the Department needs to improve controls over financial reconciliations, supporting documentations and the classification of expenditure items. The Department needs to comply with the reporting requirements to Provincial Treasury on a monthly basis.

### **TRADING ENTITY: Government Motor Transport**

To determine at which level (level 1 – 4) of financial management capability the public entity is operating at the following areas, standards of performance were assessed based on audit findings and monthly IYM reporting.

#### **Accounting of assets**

The audit of GMT revealed inadequate controls over assets and the Asset Management Frameworks were not properly implemented to ensure effective cost management.

- An updated asset register could not be provided and the financial statements did not agree to the asset register.

- The doubtful debt allowance was incorrectly credited to an expense account as opposed to income due to a change in the accounting estimate.
- An amount owed by GMT was not accounted for in the accounts payable account.
- An amount with respect to conversion of vehicles to ambulances was not capitalised.
- PPE was understated as a result of prior period error that was not accurately calculated.
- Invoices were not included in accounts receivable balance at year end.
- The Accounts receivable balance was overstated due to the duplication of a claim.

The entity is maintaining its performance at a level 2 financial management capability rating, as achieved during the prior year's assessment.

### **Financial reconciliations**

- During the execution of Auditor-General audit procedures on the accuracy and completeness of revenue, it was established that the amount of revenue as disclosed on AFS does not agree with what was actually billed during the current financial year according to the Fleetman system.
- Evaluating the completeness of accounts receivable, it was established that some of the debtors as per the prior year listing were not included in the current year listing. In performing further procedures, it was established that partly/no payment was received from these debtors during the year and none of these accounts were written off, or impaired during the current year.

Compared to the assessment of the previous year, the entity has maintained its performance of a level 2 financial management capability rating.

### **Supporting documentation**

The Auditor-General established that the journals are void of sufficient supporting documentation to substantiate its validity.

GMT is remaining on a level 2 financial management capability, as achieved in the previous year.

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

- During the execution of the audit procedures on accounts payable, it was established that creditors were not always paid within 30 days.
- Operating lease expenses were understated due to the escalation clause in the lease contract not being taken into account in calculating lease payments to be expensed.
- Re-imbursive income was set off against bank charges.
- Interest earned from bank deposits was set off against bank charges.

- An adjustment was made to amortisation expenses due to incorrect calculation of the amortisation expenses with respect to intangible assets.

Given the above in this regard the entity is maintaining its performance at a level 2 financial management capability, as achieved in the previous year's assessment.

### **Accounting treatment of transactions**

- A change in accounting estimate in respect of the doubtful debt allowance was incorrectly credited to an expense account as opposed to income.
- Re-imbursive income was incorrectly classified as revenue.
- Deposit in the fleet account was classified as accounts receivable.
- Operating lease expense was understated due to the escalation clause in the lease contract not being taken into account in calculating lease payments to be expensed.
- Funds owed by the Department of Transport to GMT were incorrectly classified as cash and cash equivalents.

The above shortcomings are indicative of a level 2 financial management capability and remains constant from the previous year's assessment.

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

GMT is maintaining its performance at a level 3 financial management capability rating achieved during the prior year's assessment, since all levels of reporting are fully informed.

### **Management controls**

Inefficiencies in the system of internal control of GMT led to several material misstatements in the financial statements submitted for audit. GMT should implement adequate controls and systems to achieve effective cost management.

The audit revealed that there is no supporting documentation to verify the validity and accuracy of the performance information as disclosed in the entity's Annual Performance Plan and Part III of its Annual Report for the 2007/08 financial year.

The current performance rating of the entity in this regard is a level 2 financial management capability.

### **Conclusion/recommendation**

Authority has already been obtained to procure an accrual based accounting system that is GAAP compliant. This should enable the entity to monitor the treatment of transactions and ensure compliance with the accrual basis of accounting in order to achieve a level 3 financial management capability. The entity should report its concerns via the IYM process, which is designed to inform its parent department as well as the Provincial Treasury as oversight role players of any issues in order to

proactively achieve the desired financial management capability ratings. The entity is currently performing at a level 2 financial management capability.

### **3.10.3 Corporate Governance**

#### **3.10.3.1 Compliance**

This section provides a review of the PFMA implementation and financial management improvement for sustainability and service delivery by the Department.

The source documents used in compiling this section is the Normative Measures Quarterly report for the quarter ending March 2008 as well as the Auditor-General's report for the year 2007/08 for the Department.

#### **Analysis of the Normative Measures Quarterly Report: CFO structure**

According to the Normative Measures Quarterly Report for March 2008 the vacancy rate in the Departments CFO structure is at 28 per cent which is significantly above the national norm of 5 per cent. One of the reasons given by the Department for the high turnover rate is the disparity of post levels across the province for the same job.

One of the major concerns however relates to the adequacy of qualifications and or experience to perform their duties. The Department has indicated that only 31 per cent of the staff have finance related qualifications or are studying towards obtaining related qualifications. The figure of 31 per cent is significantly below the national norm of 90 per cent.

#### **Tabling of Annual reports**

The Department and its public entity must report monthly on expenditure and revenue, quarterly on performance and the Department must annually table Annual reports as prescribed by the PFMA.

The Department did submit the Annual report to Provincial Treasury on 29 August 2008. The Annual Report of the Department and public entity were successfully tabled.

#### **Auditor-General's report on the 2007/08 financial year**

For the 2006/07 financial year the Department received a qualified opinion with emphasis of the matter and other matters under the new audit reporting format.

The basis for the qualified opinion was:

- The inadequate asset register for intangible and tangible assets;
- Payments in respect of Public Private Partnerships were classified as capital expenditure;
- Tax revenue debtors: A detailed debtor report from NATIS for debtors recorded 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 property are misstated by an undeterminable amount.

For the 2007/08 financial year the Department received again a qualified opinion with emphasis of the matter and other matters.

**The basis for the qualified opinion was:**

- Receivables for departmental revenue: outstanding property rentals

**Emphasis of matter**

- Amendments to the applicable basis of accounting

**Significant uncertainties**

- Accounting Framework

**Other matters**

- Internal controls
- Matters of governance
- Unaudited supplementary schedules

**Other reporting responsibilities**

- Measurable objectives not consistent
- Lack of sufficient appropriate audit evidence
- Evidence materially inconsistent with reported performance information

**Table 142: Summary of Comparison between the 2006/07 and 2007/08 Audit Reports**

Key Findings	2006/07	2007/08	Status
Fixed Assets	X	-	Improved
Tax Revenue assets	X	-	Improved
Property Debtors	X	X	Not improved
Lease commitments	X	-	Improved
Non Compliance with applicable Legislation	X	-	Improved
Human Resource management	X	-	Improved
Supply Chain Management	X	-	Improved
Matters of Governance	X	X	Not improved



Key Findings	2006/07	2007/08	Status
Internal control:			
Control environment	X	X	Not improved
Control activities	X	X	Not improved
Information and communication	-	X	Deterioration
Monitoring	-	X	Deterioration
Measurable objectives not consistent	-	X	Deterioration
Lack of sufficient appropriate audit evidence	X	X	Not improved
Amendments to the applicable basis of Accounting	-	X	Deteriorated
Accounting Framework	X	-	Improved

Based on the Auditor-General's report for the years 2006/07 and 2007/08 the financial management of the Department has deteriorated and it is noted with great concern that there are areas where no improvement was made by the Department.

The Department of Transport and Public Works is rated at a level 2 financial management capability moving to a level 3 audible organisation.

### 3.10.3.2 Enterprise Risk Management 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 a financial management capability 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 financial management capability 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 the processes developed.

## **Internal Environment**

A risk management philosophy has not been developed and communicated to all staff. The Department's risk appetite has also not been defined.

## **Operational Risk Assessment**

The risk events have been identified and assessed on an inherent level and existing controls have been identified, but not clear if the controls were documented by means of process and control mapping initiatives.

## **Conclusion and recommendations**

Based on the above information, the Department achieved a rating financial management capability of level 1, as the Department did not meet all the set Criteria and Norms and Standards for level 2. In order to achieve a financial management capability rating at the next level (level 2), the Department needs to have achieved all of the following set Criteria and Norms and Standards:

### **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.

### **Operational Risk Assessment:**

- Existing controls identified and documented (process and control maps).
- Control gaps identified and action plans developed.

## **2006/07 and 2007/08 Comparison**

For the 2007/08 review, it is evident that the Department has not made significant improvement as compared to the 2006/07 review.

## **3.10.4 Cash Management**

This section deals with the implementation and management of sound cashflow practices as well as the provision of assistance and training in respect of the banking system within the Province.

### **Background**

Section 21(1) of the PFMA stipulates that the PT is in charge of the Province's PRF. The creation and practice of sound cashflow management by the PT is therefore imperative for maintaining and improving the delivery of services to the various communities within the WC.

## Review

The evaluation was based on the activities of the Department for the 2007/08 financial year. The findings were as follows:

**Table 143: 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	4
Repayment of Surplus Funds	31 May	15 May	4
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	3
<b>Average rating</b>			<b>3</b>

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

### Staff skilled and capacitated in Cash Management

The Department obtained a financial management capability rating level 3 (nominal compliance). All system users are trained in accordance with their profiles on Nedbank Business.

### Submission of Annual Provincial Cashflow Projections

The Department obtained a financial management capability rating level 3 (nominal compliance). The annual projections in respect of income and expenditure were received timeously in accordance with Treasury Circular 5 of 2008.

**Table 144: Deviation between monthly projections and actual expenses**

	Project	Actual	%	Rating
<b>Original Forecast</b>				
APRIL'07	185 809	110 244	41	2
MAY'07	183 297	90 533	51	2
JUNE'07	161 806	185 724	(15)	4
JULY'07	260 887	196 151	25	2
AUG'07	205 158	145 703	29	2

	<b>Project</b>	<b>Actual</b>	<b>%</b>	<b>Rating</b>
SEP'07	173 029	191 684	(11)	2
OCT'07	177 417	244 602	(38)	2
NOV'07	203 584	175 405	14	2
DEC'07	155 466	205 561	(32)	2
JAN'08	160 062	91 475	43	2
FEB'08	182 933	240 443	(31)	2
MRC'08	157 250	329 173	(109)	2
<b>Sub-Total</b>	<b>2 206 698</b>	<b>2 206 698</b>		<b>2</b>
<b>Revised Forecast (after adjusted budget)</b>				
MRC'08 Adjustment	181 485	181 485		
<b>Total</b>	<b>2 388 183</b>	<b>2 388 183</b>	<b>100</b>	

The Department achieved a financial management capability rating level 2 (partial compliance). Provincial Treasury will support and assist the Department monthly to establish reasons for the variances. The Department is encouraged to utilise previous monthly drawing trends to establish more credible projections.

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

The Department obtained an average financial management capability rating level 4 (full compliance). Provincial Treasury has reminded the Department to submit detail before 3<sup>rd</sup> last working day of each month to enable the Department to achieve the level of full compliance.

#### **Repayment of Surplus Funds**

The Department obtained a financial management capability rating level 4 (full compliance). Surplus funds were paid to the PRF on 25 April 2008.

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

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

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

The Department achieved a financial management capability rating level 3 (nominal compliance). The Department is encouraged to make optimal use of the Province's financial systems to minimise the usage of Beneficiary Payments (Direct Bank Transfer).

**Table 145: Beneficiary Payments**

Payments	Beneficiary Payments	%
71 256	500	0.70

### 3.10.5 Supply Chain Management

#### Supply Chain Management

This financial management assessment is based on the 2007/08 financial year information that was brought to the attention of Provincial Treasury in terms of a compliance assessment that was performed, procurement statistic reports, project dashboard reports, SAMDI training statistics and the Auditor-General's Report and Management letter. This report addresses the Head Office only.

The Department has met the requirements of the capability model in terms of Supply Chain Management (SCM) for the period ending 31 March 2008 in the following respects:

- The Department's SCM structure theoretically alludes to a unit that gives effect to the minimum requirements for an efficient and effective SCM structure.
- An asset register is in place and has thus met that requirement of the National Treasury Broad Implementation Plan for moveable asset management.
- The Department awarded 215 contracts to the value of R1,251 billion. Of the 215 contracts awarded, 188 had HDI equity representation to the value of R421,965 million representing 34 per cent of the total spent.
- For the year under review the department invited 3198 quotations and only 1 764 quotations were awarded on the system (55 per cent). The value of these quotations awarded on-line was in the sum of R39,035 million of which R33,086 million was awarded to HDI equity/representation (85 per cent). The statistics above are not a true reflection of quotations awarded and HDI status involvement as the Department has not utilised the (EPSI) system correctly.
- A competency analysis was conducted to assess skills development needs. During the financial year ending March 2008, 22 officials attended bid committee training courses that were arranged and facilitated by the Provincial Treasury exclusively for the Department to build capacity. The Department encourages formal education specifically the courses offered by Unisa namely:
  - The Programme in Public Procurement and Supply Chain of which 50 SCM officials are attending; and
  - The Advanced Programme in Sourcing and Supply Chain Management of which seven SCM officials are attending.
- The Head Office of the Department does not meet the legislative and policy framework requirements, in that it has not updated its current Accounting Officer's system in terms of section 38(1)(a)(iii) of the Public Finance Management Act, 1 of 1999. The AO System as required by National Treasury Regulations and the accompanying Accounting Officer's Delegations (updated 3 April 2006) is not adequately aligned. This may cause control weaknesses

between the application of the delegations versus the policies and procedure that the Accounting Officer's system intended to encapsulate.

- Not all SCM officials and officials outside the SCM unit who handle bid documents sign declarations of interest.
- The Department does not have a credible gifts register.
- The compilation of bid documents and the development thereof (non-Construction Industry Development Board) is not being controlled by the relevant managers. There is also confusion as to where the responsibility lies as to the compilation of bid documentation. This has led to bids being incorrectly invited and subsequently cancelled.
- It could not be ascertained what the deciding factor was in deciding what amount should be charged for bid documents. In the case of bid PM 002/07, (Somerset Hospital Precinct), an amount charged to service providers for a bid document amounted to R74 000 per document which was non-refundable. No justification or explanation could be provided for this amount.
- No evidence that National Treasury's database for restricted suppliers is utilised before an award of a contract is made (non-CIDB).
- No evidence exists that preferences are being verified on the successful service providers before an award is made (non-CIDB).
- No official in the Demand and Acquisition Management Unit of the Public Works Branch has taken cognisance of or has at their disposal the code of conduct for supply chain management officials.
- The new delegations issued on 1 August 2006 have led to much confusion as Delegation 156 stipulates that bids where there are no pass-overs, and that has been invited by means of an open bidding process, do not indicate an avenue where it must be presented to the relevant bid committee. However, Delegation 157 stipulates that where there are pass-overs, such cases must be presented to the relevant bid committee. For example, bids to the value of R14 million where no offers are passed over can be awarded by a level 14 official without the matter being presented to a bid committee.
- This practice ensures that no checks and balances are in place before the awarding of contracts. Delegation 156 must be amended with immediate effect indicating the relevant bid committee's function and role in the process. Bids not presented to the Bid Adjudication Committee will be in contravention of National Treasury Regulation 16A6.2.
- Offers are passed over as a result of service providers not being within the minimum or maximum prescribed 12 per cent of the cost estimate. It is not clear as to why a cost estimate is required for non-construction related services. Deviation by more than a predetermined percentage from the cost estimates cannot be regarded as a justifiable reason for the rejection of a bid. This is clearly stipulated in National Treasury Practice Note SCM 2 of 2006, issued on 23 January 2006. In the letter of acceptance to the service provider it was a requirement that the service provider is registered with the BIBC. This is not a pre-determined condition and it is also questioned as to why such registration is required.

## **Moveable Asset Management**

The Department was assessed in respect of moveable asset management through the National Treasury Project Dashboard and Risk Log assessment which evaluates compliance to the National Treasury's Broad Implementation plan. The project dashboard risk log indicates the following:

- **Definition of assets:** Leading to incorrect classifications, incorrect reporting, incorrect monetary value, contributes to bad planning and inconsistencies throughout the Department;
- **Valuation methodology;**
- **Criterion of control;** and
- **All elements of Planning/Acquisition/Operational and Management Plans/ Disposal Plans including identifications of Postponed/outstanding.**

## **Comparison to the 2007 Review**

In comparison with the 2006/07 financial year the Department appears to have made progressive strides in terms of implementing an effective and efficient Supply Chain Management (SCM) system especially to bids relating to the CIDB. At the time of the assessment, certain SCM officials (Works Branch) were found to be lacking in both the procurement and provisioning aspects of SCM. However, this should have improved as a number of officials had attended SCM related courses, both through UNISA and SAMDI.

## **Rating**

On consideration of all of the above, the Head Office of the Department may be rated at a level that sufficiently meets the SCM criteria at a level 2 financial management capability.

## **Conclusion/recommendation**

It is recommended that in order for the Department to move to the next level of SCM financial management capability, the following recommendations are made:

- The Department must align its AO system with that of its AO delegations as this may cause control weaknesses between the application of the delegations versus the processes and procedure that the Accounting Officer's system intended to encapsulate;
- Control measures need to be put in place for the safeguarding and control of assets;
- Transactions and SCM procedure needs to be processed in accordance with the applicable legislative framework; and
- The Department needs to ensure that measures are put in place to ensure credible data integrity of SCM data that supports SCM operational planning decisions and monitoring activities).

### 3.10.6 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.

#### Background

Currently there are three major systems, the Basic Accounting System (BAS), Personnel and Salary Administration System (PERSAL) and Logistical Information System (LOGIS) that are maintained by the National Treasury for National and Provincial departments. In addition, a web-based Management Information System, (Vulindlela) is maintained of financial, HR and logistical data, for high level, management information.

#### Review

The evaluation was based on the activities of the Department for the 2007/08 financial year. The findings were as follows:

**Table 146: 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	4
<b>Average rating</b>			<b>3</b>

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

**Table 147: 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
100	59	41	48	11

The Department obtained a financial management capability rating level 2 (partial compliance), 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 has identified the training gap of all system users and is providing training to users in accordance with their profiles.



The Department however needs to commit themselves to getting users trained.

### Month end closure

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

### Year closure

The Department achieved a financial management capability rating level 3 (nominal compliance) 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 at a financial management capability level 3 (nominal compliance):

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

**Table 148: 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	3
Leave Audit	Annually	Continuous process	3
<b>Average rating</b>			<b>3</b>

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

**Table 149: 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	8	1

The Department obtained a financial management capability rating level 2 (partial compliance) due to the 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 has identified the training gap of all system users and are providing training to users in accordance with their profiles.

The Department however needs to commit themselves in getting users trained.

### **System Controller Functions**

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

### **Establishment Management**

The Department achieved a financial management capability rating level 2 (partial compliance). The establishment is maintained but duplicate establishment codes exist. The Department should ensure that the creation of a new establishment and abolition of the existing establishment is done simultaneously.

### **PERSAL/BAS reconciliation**

The Department compiled a monthly PERSAL/BAS reconciliation by the 20<sup>th</sup> of each month and therefore achieved a financial management capability rating level 3 (nominal compliance).

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

Not all information is captured on the system. The Department has however achieved a financial management capability rating level 3 (nominal compliance). A conservative effort was made with letters sent to Departmental officials.

### **Leave Audit**

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

**Table 150: 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	4
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 level 3 (nominal compliance) financial management capability.

**Table 151: 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
78	44	32	37	7

There was a decline in performance, compared to the previous financial year. 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.

The Directorate Supporting and Interlinked Financial Systems has identified the training gap of all system users and are providing training to users in accordance with their profiles. The Department however needs to commit themselves to getting users trained.

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

The Department achieved a rating of level 4 (full compliance) financial management capability as stock is issued within three (3) days.

#### **Stock Management**

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

**Table 152: 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 153: 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
47	27	20	57%

The Department obtained a financial management capability rating level 2 (partial compliance) due to the fact that only 57 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 20 registered users who do not use the system on a regular basis. In addition, the Directorate and Chief Financial Officer will discuss the further role out of Vulindlela within the Department and address any further user requirements they might have.

## 3.11 Department of Agriculture

### 3.11.1 Performance Management

#### 3.11.1.1 Non-financial information (Budget Management)

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 assessment gauges key aspects of the Department's performance management system, and considers whether the Department has reached a level 3 financial management capability, and expresses a view on the extent to which the Department is moving towards a level 4 financial management capability. This evaluation assesses the 2007/08 Annual Report, the 2008/09 first quarter and 2007/08 Quarterly Performance Reports and the 2007/08 and 2008/09 Annual Performance Plans. There may, however, be some areas of a Department's performance framework that display a level 4 financial management capability, while others have yet to reach a level 3

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. 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 2007/08

The Department has reported on most of the performance measures defined in the 2007/08 Annual Performance Plan (APP) in the 2007/08 Annual Report (AR) for all programmes except Programme 1: Administration. Within the other programmes, certain APP performance measures has not been reported on in the AR, specifically in cases where the target cited for 2007/08 in the APP was zero or not applicable. In these cases the performance measure indicators were relevant only to the financial years prior to 2007/08. For example within sub-programme 5.1 a few performance indicators were project related with no targeted outputs beyond 2006/07, therefore although these indicators are included in the APP for historical reporting purposes, they were not included in the 2007/08 AR.

There were a few inconsistencies between performance measure indicators and targets cited in the APP and targets in the AR. An example of this is for the measurable objective in sub-programme 3.5 of 'Farm workers and farmers are using the referral system'. Although the targets are consistent in the APP and AR, the indicators differ – APP indicator: number of farm workers and AR indicator: Number of queries successfully referred. Further examples of such deviations include instances where a performance measure indicator and target is included in the AR

but does not correspond with an indicator and target in the APP or when actual outputs in the AR are reported against 2006/07 targets instead of 2007/08 targets.

All deviations from annual targets are clearly marked in the AR in a separate column titled 'Deviation from target (per cent)'. These deviations are indicated as the percentage deviation between the actual output achieved in 2007/08 and the planned target for 2007/08 as per the APP. It is also clearly indicated through the use of parentheses whether the deviation is positive or negative to illustrate where actual performance exceeded the targets or did not meet the targets set.

The AR includes a section on the specific challenges relevant to each programme's performance and also the Department's response to mitigate the effect of these specific challenges on performance. Without referring to specific indicators, the challenges cited provide a general overview of the service delivery challenges that impact on non financial performance as measured by the performance indicators and in most cases the responses are quite specific.

The overall consistency between the Departments' Annual Report 2007/08 and the 2007/08 Annual Performance Plan enables an assessment of the actual performance of the Department against the targets set in the APP. Although it is not too common, there are a few discrepancies between the performance measure indicators and targets in the APP and AR which require attention in future.

### **Annual Performance Plan 2008/09**

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 programmes and corresponding sub-programmes. The APP reflects annual targets for all applicable performance measure indicators and these are broken down into quarterly targets also where applicable.

Previous experience in the provincial agriculture departments was that certain indicators were poorly defined or inappropriate and therefore resulted in difficulty in reporting on these. Based on a decision at national level, a revised set of sector specific performance indicators for quarterly reporting have been introduced in 2008/09. The revision has resulted in the Department not being able to report on a number of the revised indicators despite its inclusion in the APP. The Department has, however, made a concerted effort to include the sector specific indicators in its APP and has distinguished the national transversal indicators and the Western Cape specific indicators in its APP (as shown in the tables below). With the exception of Programme 1 Administration, the majority of the targets in the APP are measurable and expressed as numerical targets.

The APP shows that 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. This mapping of strategic and measurable objectives is indicated for both the national transversal as well as the Western Cape specific indicators. The mapping is illustrated in the APP by means of tables for each sub-programme, which define strategic objectives for each strategic goal. The tables below illustrate the above by means of an example from the APP.

**Table 154: Strategic goal supported by strategic objectives and measurable objectives: National Transversal Indicators**

Sub programme 3.3		Strategic Goal: Strengthen food security						
Strategic Objective	Measurable Objective	Performance Measure Indicator	Actual 2005/06	Actual 2006/07	Estimate 2007/08	Budget 2008/09	Target 2009/10	Target 2010/11
Support the LRAD for historically disadvantaged communities as a stepping-stone to improved opportunities	Food security projects in poor communities in the Western Cape (excluding Presidential node projects)	Number of community garden projects established	99	30	50	44	60	74
		Number of participants in community garden projects	915	300	350	352	480	592

Source: Annual Performance Plan of the Western Cape Department of Agriculture 2008–09.

**Table 155: Strategic goal supported by strategic objectives and measurable objectives: Western Cape Specific Indicators**

Sub-programme 3.3		Strategic Goal: Strengthen food security						
Strategic Objective	Measurable Objective	Performance Measure Indicator	Actual 2005/06	Actual 2006/07	Estimate 2007/08	Budget 2008/09	Target 2009/10	Target 2010/11
Facilitate and support appropriate agricultural development projects within the food security context	Food security projects in the Presidential nodes	Number of community garden projects established	4	3	9	1	5	7

Source: Annual Performance Plan of the Western Cape Department of Agriculture 2008–09.

The Department reports on performance against the quarterly targets and submits a narrative outlining the challenges facing its programmes in achieving its outputs in its quarterly performance reports. 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.

### Conclusion/recommendation

In terms of compliance, the Department does satisfy most of the aspects of the performance management system focusing on the annual report and annual performance plan considered in this assessment. With a few exceptions, the Department complies with guidelines for the APP and quarterly performance reports.

To fully operate at a financial management capability level 3, information provided in the APP and AR should be consistent in terms of targets and indicators. Overall from a compliance perspective, there has been improvement in aligning the APP to include the sector specific performance measures although practically not all measures are applicable to the Department.

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

#### **Compliance with PFMA reporting requirement**

The Agriculture Department timely submitted by the 15th of each month, information on actual expenditure and revenue for that month, projections of anticipated expenditure and revenue collection for the rest of the financial year and, when necessary, indicated remedial steps to be taken to ensure projected expenditure and revenue remain within budget.

Reported expenditure and revenue were verified monthly against Vulindlela downloads, with discrepancies indicated to the CFO office to be cleared the following month.

#### **Annual spending outcome**

Agriculture had for the period ending March 2008, incurred aggregate expenditure of R325,6 million or 98.2 per cent against the adjusted budget amounting to R331,5 million following an increase of R41,3 million (14.2 per cent) on the main budget of R290,2 million.

The Department spent 98.2 per cent of their adjusted budget by the end of the financial year, resulting in under spending of R5,9 million, eligible for roll-over.

During 2006/07, the Department had over the same period, indicated aggregate expenditure of R266,3 million or 88.1 per cent against the total adjusted budget amounting to R302,2 million following an augment of R48,2 million (19 per cent) on the main budget of R254 million.

Agriculture expended R266,3 million or 88.1 per cent of their total adjusted budget by the end of the 2006/07 financial year, resulting in under spending of R35,9 million.

The Department improved its spending capacity relative to 2006/07 and under spent within the 2 per cent national norm in 2007/08.

#### **Quarterly spending performance**

When considering quarterly spending, Agriculture had for the last quarter of 2007/08 expended R117,5 million (36.1 per cent) of total expenditure amounting to R325,6 million.

Comparatively, the Department had incurred R56,1 million (17.2 per cent) of total payments during the first quarter, R62,9 million (19.3 per cent) during the second quarter and R88,9 million (27.3 per cent) during the third quarter.



During the previous financial term, the Department had for the last quarter ending March 2007 expended R82,7 million (31 per cent) of total expenditure amounting to R266,3 million.

Agriculture spent R55,4 million (20.8 per cent) of total expenditure during the first quarter, R58 million (21.8 per cent) during the second quarter and R70 million (26.3 per cent) during the third quarter.

The Department has not managed to reduce its fourth quarter spending relative to 2006/07. In fact, it spent more during the last quarter of 2007/08 than the year before, exacerbating the supposed "March spike" phenomenon.

### **Adjusted Estimates**

The Department submitted its Adjusted Estimates within the Treasury timeframes and it was found to be comprehensive in terms of Section 31 of the Public Finance Management Amendment Act, (as amended), 1999 (PFMA). It was aligned to the standardised Adjusted Estimates format based on National Treasury's guidelines.

Agriculture passed total adjustments of R41,3 million, a 14.2 per cent increase on the main budget of R290,2 million, which primarily comprised roll-overs: R12,6 million (30.6 per cent of total) and other shifts: R28,6 million (69.3 per cent).

A total of R6,9 million or 14.3 per cent less adjustments were passed in 2007/08 compared to the previous financial year. This is mostly due to the Agricultural disaster management grant (R33 million) passed in the Adjusted Estimates 2007/08.

The item other adjustments have increased relative to 2006/07, suggesting more internal shifts amongst programmes during 2007/08 than the year before.

## "March Spike" anomaly

**Table 156: Summary of actual expenditure per financial quarter of 2007/08**

Agriculture R'000	1st Quarter	2nd Quarter	3rd Quarter	March	4th Quarter	Total
<b>Programmes</b>						
Administration	9 119	11 798	12 854	8 521	16 440	50 211
Sustainable resource management	5 774	8 128	17 474	15 734	37 870	69 246
Farmer support and development	16 231	13 657	27 236	14 856	30 492	87 616
Veterinary services	7 139	7 803	7 715	2 646	8 098	30 755
Technology research and development	10 854	13 067	12 810	5 254	16 601	53 332
Agricultural economics	1 368	1 826	2 094	137	1 675	6 963
Structured agricultural training	5 663	6 675	8 761	1 560	6 248	27 347
Theft and Losses		6	41	101	106	153
<b>Total expenditure</b>	<b>56 148</b>	<b>62 960</b>	<b>88 985</b>	<b>48 809</b>	<b>117 530</b>	<b>325 623</b>
<b>Economic classification</b>						
Current payments	45 876	58 366	61 158	28 333	69 701	235 101
Total transfers and subsidies	9 396	3 057	25 290	14 243	37 585	75 328
Payments for capital assets	876	1 537	2 537	6 233	10 244	15 194
<b>Total expenditure</b>	<b>56 148</b>	<b>62 960</b>	<b>88 985</b>	<b>48 809</b>	<b>117 530</b>	<b>325 623</b>
<b>% of total spent</b>						
<b>Programmes</b>						
Administration	18.2%	23.5%	25.6%	17.0%	32.7%	100.0%
Sustainable resource management	8.3%	11.7%	25.2%	22.7%	54.7%	100.0%
Farmer support and development	18.5%	15.6%	31.1%	17.0%	34.8%	100.0%
Veterinary services	23.2%	25.4%	25.1%	8.6%	26.3%	100.0%
Technology research and development	20.4%	24.5%	24.0%	9.9%	31.1%	100.0%
Agricultural economics	19.6%	26.2%	30.1%	2.0%	24.1%	100.0%
Structured agricultural training	20.7%	24.4%	32.0%	5.7%	22.8%	100.0%
Theft and Losses		3.9%	26.8%	66.0%	69.3%	100.0%
<b>Total expenditure</b>	<b>17.2%</b>	<b>19.3%</b>	<b>27.3%</b>	<b>15.0%</b>	<b>36.1%</b>	<b>100.0%</b>
<b>Economic classification</b>						
Current payments	19.5%	24.8%	26.0%	12.1%	29.6%	100.0%
Total transfers and subsidies	12.5%	4.1%	33.6%	18.9%	49.9%	100.0%
Payments for capital assets	5.8%	10.1%	16.7%	41.0%	67.4%	100.0%
<b>Total expenditure</b>	<b>17.2%</b>	<b>19.3%</b>	<b>27.3%</b>	<b>15.0%</b>	<b>36.1%</b>	<b>100.0%</b>

The "March Spike" phenomenon commonly refers to expenditure during the month of March, which rises noticeably when compared to prior months of that financial year.

The cause of the "March spike" mainly relate to the disbursement of the Agriculture Disaster Management Grant of which an allocation of R39,2 million was received during the Adjusted Estimates process.

Agriculture realised March 2008 spending of R48,8 million or 14.7 per cent of the adjusted budget totalling R331,5 million. This is R8,5 million or 21.3 per cent more than spending over the same period during the previous financial year.

In 2006/07, the Department incurred March spending amounting to R40,2 million or 13.3 per cent of the adjusted budget totalling R302,2 million.

The Department has not managed to reduce its March expenditure relative to 2006/07.

### Transfer and subsidy payments

Agriculture had for the fourth quarter of 2007/08 financial year expended R37,5 million (49.9 per cent) of total transfers and subsidies expenditure amounting to R75,3 million.

By comparison, the Department spent R9,3 million (12.4 per cent) of total transfers and subsidies expenditure during the first quarter, R3 million (4 per cent) during the second quarter and R25,2 million (33.5 per cent) during the third quarter.

*The 49.9 per cent spiked payouts during the last quarter may be attributed to the swift disbursement of the Disaster Management Grant to drought and flood stricken farmers of this Province.*

### Personnel budget

**Table 157: Projected vs actual personnel cost for 2007/08**

R'000	Average rate of spending			
	2006/07	2007/08		
	Actual	Actual	Cash flow projection	Variance
<b>Compensation of employees</b>	<b>9 766</b>	<b>10 844</b>	<b>12 964</b>	<b>16.36%</b>

The variance between original compensation of employee cashflow in terms of section 40(4)(a) of the PFMA, and actual monthly payments suggest the quality of the compensation budget.

Widening variances between planned expenditure and actual expenditure indicate potential unrealistic estimates, which calls for eventual shifting elsewhere in the vote to be applied meaningfully, normally during the Adjusted Estimates process.

Agriculture had for the twelve month period ending March 2008 recorded compensation of employees expenditure of R130 million or 99.6 per cent of the adjusted budget amounting to R130,5 million. This translated into average expenditure of approximately R10,8 million per month.

When comparing 2007/08 actual expenditure to original cashflow, the Department originally projected to spend R155,5 million on compensation of employees by March 2008 at an average rate of R12,9 million per month.

Comparatively, during 2006/07, the vote spent R117,1 million or 100 per cent of the compensation of employees adjusted budget of R117,1 million at an average rate of R9,7 million per month.

From the table, it appears that the Department initially overstated its original monthly cashflow projection for compensation of employees by an average of

16.4 per cent. The deviation may also be a result of challenges faced by the Department in recruiting scarce skills.

## **National Conditional Grant expenditure**

### **Land Care Programme Grant: Poverty Relief and Infrastructure Development**

The grant is paid to Provinces to optimise productivity and sustainable use of natural resources to ensure greater productivity, food security and job creation.

During the 2007/08 financial year Agriculture reflected spending relating to this grant of R3,2 million or 98.5 per cent of the Division of Revenue Act allocation of R3,3 million. This is R212 000 or 6 per cent less than spending over the same period during the previous financial year.

### **Comprehensive Agricultural Support Programme Grant (CASP)**

This grant is apportioned to Provinces to expand the provision of agricultural support services, and promote agricultural development among emerging farmers.

Agriculture realised aggregate spending respecting the Comprehensive Agriculture Support Programme (CASP) of R33,3 million or 99.8 per cent of the Division of Revenue Act allocation totalling R33,4 million.

This is R12,7 million or 61.6 per cent, more than spending over the same period during the previous financial year (2006/07).

### **Agriculture disaster management grant**

In 2007/08, Agriculture realised spending against this national allocation amounting to R34,6 million or 88.3 per cent of the Gazetted Division of Revenue Act allocation totalling R39,2 million.

This is R27 million or a staggering 357 per cent more than spending over the same period during the previous financial year.

The Department strengthened its capacity to disburse larger national grant allocations relative to the previous financial period.

## **Revenue collection**

During 2007/08 Agriculture collected own receipts amounting to R21,9 million or 146.8 per cent of the revised own receipts budget totalling R14,9 million.

This is R2,6 million or 13.7 per cent more than over the same period during 2006/07. During the previous financial year (2006/07), the Department accrued total own receipts amounting to R19,3 million or 148.5 per cent of the revised own receipts budget totalling R13 million.

While the Department outperformed its 2006/07 revenue level, the budget remains comparatively moderate and conservative to actual past revenue collections.

## **Conclusion/recommendation**

All budget management findings considered, the Department is making good progress towards achieving a financial management capability level 4.

### **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 and monthly In-Year Monitoring (IYM) reporting, that 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 Auditor-General recommended that management should implement measures to ensure that debtors handed over to the State Attorney are followed up regularly to determine the recoverability of the debt.

The Department continues to perform at a level 2 financial management capability rating when compared to the previous assessment.

#### **Accounting of assets**

The Department reported that although certain aspects of the Asset Register have already been completed and issues such as 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 has various asset registers in the form of Excel spreadsheets for software, non-residential buildings, machinery and equipment and cultivated assets (orchards and vineyards, as well as livestock). None of these Excel spreadsheet registers is adequately protected to prevent unauthorised access and changes.

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 and PMG, BAS and LOGIS, as well as PERSAL and BAS are performed on a monthly basis.

The Department continues to perform at a level 3 financial management capability rating when compared to the previous assessment.

### **Supporting Documentation**

The Department could not furnish supporting documentation to confirm the locations to which seven out of 13 assets tested (error rate of 55 per cent), were transferred. Furthermore, the Auditor-General could not determine if the ownership of the assets had actually been transferred as the acknowledgement of receipt of the assets by the beneficiaries could not be presented.

The Department continues to perform at a level 2 financial management capability rating when compared to the previous assessment.

### **Expenditure - Payments and journals**

Payments to suppliers made more than 30 days after receipt of invoice still remains a concern.

The Department is therefore operating at a level 2 financial management capability rating when compared to the previous assessment.

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

The disclosure of departmental State Guarantees reflects effective maintenance, as there were no matters arising from the Audit report, resulting in level 3 financial management capability rating as achieved in the previous assessment.

### **Management of lease liabilities**

The Department continues to perform at a level 3 financial management capability rating when compared to the previous assessment.

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

No audit findings were raised.

The Department continues to perform at a level 3 financial management capability rating when compared to the previous assessment.

### **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 continued to follow up these transactions on a monthly basis.

A level 3 financial management capability rating is thus maintained when compared to the previous year.

## **Conclusion/recommendation**

To fully comply with a level 3 financial management capability, the Department needs to improve controls over the management of suspense accounts, filing of supporting documentation and ensure that suppliers are paid within 30 days after receipt of invoice.

## **PUBLIC ENTITY: Casidra (Pty) Ltd**

Casidra (Pty) Ltd 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.

## **Accounting treatment of transactions**

The external auditor reported that Casidra may be incorrectly treating VAT and recommended that the audit committee set out a documented VAT policy. The VAT policy will assist the entity to achieve a level 3 financial management capability. VAT issues also led to a level 2 financial management capability rating for the prior period.

## **Expenditure - Payments and journals**

Several audit findings for the year under review were issued by the Auditor due to inefficiencies in the system of internal control of Casidra. The audit findings related to invoices not being signed as proof of goods received, workers not personally collecting their wages, payments not complying with company policy, journals being reviewed after it has been posted and some journals not being authorised for posting. Similar instances were also reported on for the 2006/07 financial year and are indicative of a financial management capability level 2.

It is recommended that the entity ensure that managers at project farms and Head Office improve its system of internal control to address these inefficiencies, in order to achieve a level 3 financial management capability.

## **Conclusion/recommendation**

Casidra's management controls are generally efficient and effective, which contributed to the entity's unqualified audit report for 2007/08. The entity is close to achieving a level 3 financial management capability for all aspects of financial management. The entity should report its concerns via the IYM process, which is designed to inform its parent department as well as the Provincial Treasury as oversight role players to bring about improved financial management capability ratings.

### 3.11.3 Corporate Governance

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 and Auditor-General (A-G) Report for the year ended 31 March 2008.

#### Analysis of Normative Measures Quarterly Report

##### Analysis

- The Department, in comparison with the national norm of 5 per cent, is currently experiencing a very high vacancy rate at 21 per cent within the CFO structure. This percentage however is lower than that recorded in June of 2007.
- The Department has implemented performance agreements at all levels, career plans have been drawn up for 85% of the staff members, with 75 per cent of the staff members having finance related qualifications. From this staff compliment, 80 per cent staff members are 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 below:

**Table 158: Compliance with annual, quarterly and monthly reporting requirement**

Institution	Date annual report received by Provincial Treasury	Annual report tabled at the Provincial Legislature	Quarterly performance against strategic plan	Monthly reporting
<b>Departments:</b>				
Agriculture	29 August 2008	29 September 2008	x	x
<b>Public Entity:</b>				
CASIDRA (Pty) Ltd	29 August 2008	29 September 2008	x	x

##### Analysis

- The Department has successfully tabled their 2007/08 Annual Reports as well as of that of its public entity, within the prescribed timeframes.
- The Department has established procedures to facilitate effective performance monitoring, evaluation and corrective action of the strategic plan; however, no written procedures exist as proof of aforementioned.



## **Analysis of the A-G Report dated 31 March 2008**

- 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:

### **Overall assessment**

In comparing the 2006/07 Auditor-General's report with the 2007/08 Auditor-General's report the Department has shown no improvement in the financial management capability and is rated between a level 2 and 3.

### **Enterprise Risk Management 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 a financial management capability 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 financial management capability 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 organisation structure supports the processes developed.

### **Internal Environment**

A risk management philosophy has not been developed for the Department and a risk appetite of the Department has also not 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 by means of process and control mapping initiatives.

## **Overall Assessment**

Based on the above information, the Department achieved a financial management capability rating level 1, as the Department met all the set Criteria and Norms and Standards. In order to achieve a financial management capability rating at the next level (level 2), the Department needs to have achieved all of the following set Criteria and Norms and Standards:

### **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.

## **2006/07 and 2007/08 Comparison**

For the 2007/08 review, it is evident that the Department has made no improvement compared to the 2006/07 review.

### **3.11.4 Cash Management**

This section deals with the implementation and management of sound cashflow practices as well as the provision of assistance and training in respect of the banking system within the Province.

#### **Background**

Section 21(1) of the PFMA stipulates that the PT is in charge of the Province's PRF. The creation and practice of sound cashflow management by the PT is therefore imperative for maintaining and improving the delivery of services to the various communities within the WC.

#### **Review**

To determine at which financial management capability level (level 1 - 4) of effectiveness the Department is operating in respect of cash management. The following areas and standards of performance and under-performance were identified:

**Table 159: Assessment Tool**

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

The evaluation was based on the activities of the 2007/08 financial year and the findings were as follows:

**Table 160: 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	4
Repayment of Surplus Funds	31 May	15 May	4
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	2
<b>Average rating</b>			<b>3</b>

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

### **Skilled and capacitated system users**

The Department obtained a financial management capability rating level 3 (nominal compliance). All system users are trained in accordance with their profiles on Nedbank Business.

## Submission of Annual Provincial Cashflow Projections

The Department obtained a financial management capability rating level 3 (nominal compliance). The Annual projections in respect of income and expenditure were received timeously in accordance with Treasury Circular 5 of 2008.

**Table 161: Deviation between monthly projections and actual expenses**

Original Forecast				
Month	Project	Actual	%	Rating
April'07	18 043	14 461	20	2
May'07	27 024	17 586	35	2
June'07	25 674	20 114	22	2
July'07	26 308	18 642	29	2
Aug'07	26 346	23 969	9	2
Sep'07	25 196	19 116	24	2
Oct'07	26 072	25 748	1	4
Nov'07	27 936	29 152	(4)	3
Dec'07	23 385	30 800	(32)	2
Jan'08	21 348	26 965	(26)	2
Feb'08	23 241	39 239	(69)	2
Mrc'08	19 639	24 420	(24)	2
<b>Sub-Total</b>	<b>290 212</b>	<b>290 212</b>		<b>2</b>

**Table 162: Revised Forecast (after adjusted budget)**

	Project	Actual	%	Rating
MRC'08 Adjustment	41,348	41,348		
<b>Total</b>	<b>331,560</b>	<b>331,560</b>	<b>100</b>	

The Department achieved a financial management capability rating level 2 (partial compliance). PT will support and assist the Department monthly to establish reasons for the variances. The department should utilise previous monthly drawing trends to establish more credible projections.

## Monthly Own Revenue Payover

The Department obtained an average rating of 4 (full compliance). PT reminded the department to submit detail before 3rd last working day of each month to enable the department to achieve the level of full compliance.

### Repayment of Surplus Funds

The Department obtained a financial management capability rating level 4 (full compliance). Surplus funds were paid to the PRF on 14 May 2008.

### Submission of Monthly Bank Reconciliations

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

### Beneficiary Payments (Direct Transfers)

The Department achieved a financial management capability rating level 2 (partial compliance). PT to encourage the Department to make optimal use of the Province's financial systems to minimize the usage of Beneficiary Payments (Direct Bank Transfer).

**Table 163: Beneficiary Payments**

Payments	Beneficiary Payments	%
37 176	1 652	4.44

## 3.11.5 Supply Chain Management

### Supply Chain Management

When measured against the current financial capability model for Supply Chain Management (SCM), the following must be noted in respect of the Department of Agriculture:

The Department has an Accounting Officer's (AO) System in terms of section 38(1)(a)(iii) of the PFMA in place. It has been indicated by the Department that this AO system and its accompanying delegation were reviewed and updated in March 2008.

The Department has the necessary bid committees in place. However, it was noted that the Chairman of the bid adjudication committee as well as another member of the bid adjudication committee was also a member of the bid specification committee. This was in contravention of chapter 16A2.3.4 of the Provincial Treasury Instructions. The Department has however indicated that this situation has been rectified.

In the 2007/08 financial year, a total number of 6 officials were trained for the financial year under review: 5 for bid committees and 1 for contract management. The Department has indicated a training need for SCM for 3 officials in the 2008/09 financial year, 2 for bid committees and one for contract management, which is indicative of a commitment to skills development in respect of SCM.

During the 2007/08 financial year the Department awarded 55 bids, amounting to R23,485 million. Of these bids, 33 of them were awarded to Historically Disadvantaged Individuals (HDIs). Of the 33 bidders having HDI equity representation, 31 had a women component although ownership was not always 100 per cent women owned. This constitutes 60 per cent of the bids being awarded to

HDIIs thereby indicating that the requirement of the Preferential Procurement Act is being heeded to empower HDIs.

The Department advertised 2 499 quotations via Sourcelink and only 1 336 of them were adjudicated on the system. This means that 1 163 quotations (50 per cent) are not reflected in the statistics. Of the recorded quotations, 1 336 (82 per cent) of them were awarded to companies having HDI equity representation. It has been noted that the Department has an ongoing query with the service provider regarding the accuracy of these statistics and that the service provider has undertaken to address this matter and investigate where the problem lies.

The SCM unit is not fully capacitated and there are two vacant posts, one in the Bid Administration section and the other in the Systems Control and Payments section. However, regardless of these vacant posts, there is adequate segregation of duties. The Department's SCM unit is vested under its Chief Financial Officer (CFO), which in turn has a reporting line to a Supply Chain manager.

The Auditor-General's (A-G) Management Report for the 2007/08 financial year, dated 31 July 2008, alluded to the following findings:

- The Department did not maintain an asset register that enables assets to be physically identified;
- The Department has not maintained an asset register in an acceptable format per minimum requirements published by the National Treasury;
- The Department does not have an adequate maintenance programme for assets as necessary;
- There is no supporting documentation for assets transferred to external beneficiaries, i.e. the external benefactors did not sign any form of acknowledgement of receipt for these assets;
- Control activities are not implemented to ensure that assets are appropriately and consistently classified, as either minor or major assets;
- There is no proof that the Department does check that bidders are not prohibited from doing business with the public sector against the National Treasury's list of restricted suppliers; and
- Lack of control activities to verify accuracy of stock counts.

### **Moveable Asset Management**

The National Treasury Project Dashboard and Risk Log assessment reflected the following as at 19 September 2008:

The Department has the following postponed/outstanding issues:

- Identification of assets with a serial number and unique number.
- Performance/disposal is not captured, i.e. the condition and useful life is not captured.

It must be noted that the Provincial Treasury has not performed an SCM compliance and Value for Money assessments at the Department for the period under review.

The Department has indicated that it has reviewed and updated its Accounting officer's system and delegations which was not done in the previous financial year.

### **Comparison between last FGR&O**

The Department of Agriculture appears to have made progressive strides in terms of implementing an effective and efficient Supply Chain Management (SCM) system. However, it has been noted that the Department has not improved in respect of Asset Management as the same findings that were raised in the last review are again being raised this year. The A-G also raised findings in their Management Report regarding Asset Management and although these were not taken up in the final Report, it is important that they are noted. At the time of the assessment, the SCM officials were found to be lacking in both the procurement and provisioning aspects of SCM, this however should have improved as a number of officials had attended SCM related courses.

### **Rating**

On consideration of all of the above, the Department may be rated at a level 2 in terms financial management capability model for SCM. However, cognisance must be taken that the financial management capability rating may change after the Compliance and Value for Money assessment that will be conducted in this financial year.

### **Conclusion/recommendation**

The Department will be assessed in the 2008/09 financial year in terms of a full SCM compliance and value for money assessment, which will enable the Provincial Treasury to prompt SCM interventions through training, workshops, one-on-ones and guidance.

## **3.11.6 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.

### **Background**

Currently there are three major systems, the Basic Accounting System (BAS), Personnel and Salary Administration System (PERSAL) and Logistical Information System (LOGIS) that are maintained by the National Treasury for national and provincial departments. In addition a web-based Management Information System (Vulindlela) is maintained of financial, HR and logistical data for high level, management information.

### **Review**

All three major systems as well as Vulindlela are being utilised by the Department in the execution of their daily functions. To determine at which financial management capability level (level 1 – 4) the Department is in utilising the systems, the following

areas and standards per systems, were identified to evaluate the effective utilisation of the systems and functional assistance and training, as well as to identify areas of under-performance, to be addressed.

**Table 164: Basic Accounting System (BAS)**

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

**Table 165: Personnel and Salary Administration System (PERSAL)**

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

**Table 166: Logistical Information System (LOGIS)**

Requirements	Standard Level 3	Standard Level 4
Skilled and capacitated system users	In accordance with profile	All Modules
Days per issue (Service standard)	5 Days	3 Days
Stock Management	15,61%	6,19%
Financial Controls	Monthly	Continuous process
System Control Functions	80 – 90%	91 – 100%

**Table 167: Management Information System (Vulindlela)**

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

The evaluation was based on the activities of the 2007/08 financial year and the findings were as follows:



**Table 168: 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	4
<b>Average rating</b>			<b>3</b>

The department obtained an overall rating of level 3, (nominal compliance).

**Table 169: 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
47	27	20	24	3

The Department obtained a financial management capability rating level 2 (partial compliance), 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 has identified the training gap of all system users and are providing training to users in accordance with their profiles.

The Department however needs to commit themselves in getting users trained.

### **Month end closure**

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

### **Year closure**

The Department achieved a financial management capability rating level 3 (nominal compliance) 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 received a financial management capability rating level 3 (nominal compliance):

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

**Table 170: 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 financial management capability rating of 3 level (nominal compliance).

**Table 171: 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
14	10	4	8	2

The Department obtained a financial management capability rating level 2 (partial compliance) due to the 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 has identified the training gap of all system users and are providing training to users in accordance with their profiles.

The Department however needs to commit themselves in getting users trained.

## System Controller Functions

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

## Establishment Management

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

## PERSAL/BAS reconciliation

The Department compiled a monthly PERSAL/BAS reconciliation by the 20th of each month and therefore achieved a rating of 3 (nominal compliance).

## Adhere to Minimum Information Requirements

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

Reports indicating the outstanding information are available and are provided by Provincial Treasury to departments on request. Department too ensure that with the new appointments all information requested on the system be captured.

## Leave Audit

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

**Table 172: 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%	3
<b>Average rating</b>			<b>3</b>

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

**Table 173: 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
14	11	3	10	1

The Department maintained their rating of level 3 (nominal compliance) financial management capability as users are being 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 the 2007/08 financial year was 28 days, the performance of the Department is therefore below standard.

The Department needs to put procedures and processes in place regarding the issuing of goods, to ensure compliance.

#### **Stock Management**

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

#### **Financial Controls**

The Department achieved a rating 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) for its system control functions.

**Table 174: 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 175: 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
14	10	4	71%

The Department obtained a financial management capability rating level 2 (partial compliance) due to the fact that only 71 per cent of registered users utilise the system on a regular basis.

#### **Conclusion/recommendation**

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. 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 financial management capability level, and expresses a view on the extent to which the Department is moving towards a financial management capability level 4. There may, however, be some areas of a Department's performance framework that display a financial management capability level 4 rating, while others have yet to reach a level 3 financial management capability. The Department's APP 2007/08, APP 2008/09 and Annual Report 2007/08 have been used as base documents for this assessment.

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

There is not always consistency between the unit of measurement used to indicate a target and actual performance reported on in the Annual Report. For example, the performance indicator "number of entrepreneurs assisting through co-operatives Mentorship Programme" for the measurable objective "Programmes and projects that address the needs of small business, business associations, and entrepreneurs in local areas and communities", targets 120 entrepreneurs. Actual reported on performance in the Annual Report indicates that 7 co-operatives were mentored. From the wording of the target in the performance measure, the unit of measurement is entrepreneurs and not number of co-operatives.

Units of performance measurement in the APP and Annual Report are not always the same. There are variations in targets set in 2007/08 APP that are included and reported against in the 2007/08 Annual Report. The table below provides two examples of these variations where there are no targets cited in the APP but the Annual Report has reported actual performance. Consequently it is impossible to assess the Department's performance against this performance indicator.

**Table 176: Inconsistency between target indicated in APP and Annual Report**

Measurement Objective	Performance Measure Indicator	APP Target	AR Target
To assess the various implementation agents and Special Purpose Vehicles used by the Department so as to ensure that we have the appropriate institutional framework and vehicles for achieving our objectives.	Findings presented to cabinet for further consideration.	-	Conduct institutional review and submit recommendations to cabinet.
Develop and grow the oil and gas sector through marketing, promotion and facilitating investment recruitment and strengthening of clusters.	Growth in membership.	-	Paid members up to 156 – generating R314 755 in fees.

Where the Department has not achieved against set targets, reasons for deviations are explained and remedial actions are indicated. Remedial steps speak directly to the challenge identified by the Department.

The performance measures used by the Department do not always comply with the SMART principals. The SMART principles require that performance measures and their associated targets be specific, measurable, achievable, realistic and time bound. For example, “increase in membership of the Cape Clothing and Textile Cluster (CCTC) from 25 to 35 firms, employing 50% of industry”. The associated target is “expand support for the CCTC as the primary agent for the marketing, promotion and growth of the formal industry, Clotex for the Cut Make and Trim (CMT) sector”. Actual reported performance in the 2007/08 Annual Report is “target met this is confirmed by the increased membership of the cluster members of Clotex and CTICC”. Although the performance measure is formulated according to the SMART principle, the annual target set is not measurable, nor is it possible to say whether the target was met as no indication is provided of the increased number of members or the size of the industry they represent.

### **APP 2008/09 and Quarterly Performance Reports**

The Department does not use sector wide non-financial key performance indicators, as a result the Department reports against performance measures that are identified at provincial level.

Progress has been made by the Department in improving the measurability of its performance indicators for the 2008/09 financial year compared to the 2007/08 financial year where a large number performance measures referred to processes and planning formulation of policy documents. However, there are still instances where the performance measures used by the Department are not aligned to the performance targets. For example, the performance measure refers to the “number of women-owned businesses registered on a provincial-wide BBBEE database” and the target refers to “Establishment of BBBEE database.” It is evident that the target is not linked to the number of women-owned business but rather to the establishment of the database.

## Conclusion/recommendation

In conclusion, although the Department has made progress in trying to improve the measurability of its performance measures, more progress is required in order to fulfil the SMART principle. Emphasis should be placed in aligning performance measures to performance targets.

The Department makes use of an excessive number of measurable objectives and their associated performance measures. It is not always clear what value each performance measure contributes and whether it would not be possible to achieve greater levels of transparency and accountability with fewer well conceived performance measures. The Department has indicated a willingness to work more closely with Provincial Treasury in order to improve on its non-financial reporting. This assessment concludes that the Department still needs to make progress in order to operate at a financial management capability level 3 in relation to the key aspects of the performance management system examined.

### 3.12.1.2 Performance management assessed based on financial information

From a Public Finance perspective, the following has been noted regarding the financial performance of the Department of Economic Development and Tourism:

- The Department's budget for the 2007/08 financial year of R214,152 million was tabled in the Provincial Parliament on 6 March 2007.
- During 2007/08, the accounting officer submitted the IYM to the Provincial Treasury within fifteen days of the end of each month, as per section 40(4)(c) of the PFMA.
- It seems as if the Department needs to improve on expenditure its forecasting, as the forecasting in a prior quarter differ from actual expenditure. The table below detailing spending information for 2007/08 further alludes to this.

**Table 177: Quarterly Analysis on projections: 2007/08**

R'000	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total
<b>Quarter 1</b>	3 852	4 432	21 361	14 148	14 283	47 161	6 304	20 703	44 340	7 005	23 954	6 609	<b>214 152</b>
%	1.80%	2.07%	9.97%	6.61%	6.67%	22.02%	2.94%	9.67%	20.70%	3.27%	11.19%	3.09%	<b>100.00%</b>
<b>Quarter 2</b>	3 852	4 432	21 361	9 275	19 563	22 529	13 724	19 280	47 508	15 846	19 441	7 877	<b>204 688</b>
%	1.88%	2.17%	10.44%	4.53%	9.56%	11.01%	6.70%	9.42%	23.21%	7.74%	9.50%	3.85%	<b>100.00%</b>
<b>Quarter 3</b>	3 852	4 432	21 361	9 275	19 563	22 529	9 073	21 034	41 893	24 424	18 367	9 583	<b>205 386</b>
%	1.88%	2.16%	10.40%	4.52%	9.52%	10.97%	4.42%	10.24%	20.40%	11.89%	8.94%	4.67%	<b>100.00%</b>
<b>Quarter 4</b>	3 852	4 432	21 361	9 274	19 562	22 529	9 074	21 034	41 893	7 858	9 415	32 913	<b>203 197</b>
%	1.90%	2.18%	10.51%	4.56%	9.63%	11.09%	4.47%	10.35%	20.62%	3.87%	4.63%	16.20%	<b>100.00%</b>

\*Actual shaded & Projections not shaded

The Department approved virements during the 2007/08 financial year amounting to R2,629 million or 1.3 per cent of the R205,386 million Adjusted Estimates. Most of the virements were as a result of savings in programme 2: Integrated Economic Development Services, sub-programme, Enterprise Development utilised to compensate for overspending in programme 1: Administration.

The Department made virements in the 2006/07 financial year amounting to R1,722 million or 0.9 per cent of the R178,661 million budget away from Programme 1: Administration and Programme 3: Fair Business Environment to be split between the other programmes.

The Department also shifted funds within programmes amounting to R13,470 million or 6.5 per cent of the adjusted budget for 2007/08, of this R6,550 million was shifted in the Adjusted Estimates. The shifts were as a result of savings in goods and services being used to offset over expenditure in transfers to public corporations and private enterprises. Most of the shifts occurred in Programme 2: Integrated Economic Development Services that has the mandate to improve the economy and to entrench the participation of historically disadvantaged individuals (HDIs) through enterprise development, local economic development and economic empowerment.

The original budget allocation for the 2007/08 financial year was R214,152 million. During the 2007/08 Adjusted Estimates the Department's budget was reduced by R8,766 million or 4.1 per cent to R205,386 million. The reduction was mainly to compensate for a decrease in revenue as a result of the R16 million projected under collection of revenue since the Western Cape Liquor Bill was not enacted in that financial year as anticipated.

The Department's budget characterised that of a credible budget, as its actual expenditure was R203,197 million or 98.9 per cent of the adjusted appropriation of R205,386 million. The Department requested to roll R1,5 million of unspent funds over from 2007/08 to 2008/09. These funds were not spent, as the transfer of funds to non-profit institutions did not take place, due to restructuring and a lack of capacity within these institutions. These concerns have been addressed and the Department would like to roll the money over for allocation as originally intended.

The Department submitted its Adjusted Estimates on time and it was comprehensive in terms of Section 31 of the PFMA.

The table below gives the quarterly actual expenditure of 2007/08.

**Table 178: Economic Development and Tourism Expenditure per programme for 2007/08**

Programme	Q1	Q2	Q3	Jan	Feb	Mar	Q4	Total	Main Approp- riation	Adjusted Budget	Total (over/ under Adjusted Budget
Administration	4 594	6 507	6 413	1 717	2 688	2 415	6 820	24 334	23 264	22 764	(1,570)
Integrated Economic Development	12 733	3 855	31 872	886	1 670	10 004	12 560	61 020	63 535	62 680	1 660
Trade and Industry Development	8 340	22 309	15 150	3 462	2 493	8 096	14 051	59 850	64 885	60 935	1 085
Business Regulation and Governance	2 044	2 152	3 363	806	974	2 088	3 868	11 427	13 970	12 120	693
Tourism	1 934	16 542	15 203	987	1 590	10 310	12 887	46 566	48 498	46 887	321
<b>Total</b>	<b>29 645</b>	<b>51 365</b>	<b>72 001</b>	<b>7 858</b>	<b>9 415</b>	<b>32 913</b>	<b>50 186</b>	<b>203 197</b>	<b>214 152</b>	<b>205 386</b>	<b>2 189</b>
% spent of adjusted budget	14.4%	25.0%	35.1%	3.8%	4.6%	16.0%	24.4%	98.9%	104.3%	100.0%	1.1%

As seen in the above table, under spending occurred in most of the programmes, specifically Programmes 2: Integrated Economic Development Services and Programme 3: Trade and Industry Development at 2.6 per cent and 1.8 per cent of the



respective budgets. However, overall under spending was kept to a minimum (1.1 per cent).

The “March Spike” refers to the 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 2008 spent R50,186 million compared to R29,645 million in the first quarter, R51,365 million in the second quarter and R72,001 million in the third quarter. On a quarterly basis the Department thus spiked in the third quarter due to the payment of scheduled transfer tranches.

Spending in March 2008 increased to 16 per cent of adjusted budget from 4.6 per cent in February 2008, this is due to transfers taking place in tranches. There appears to be a March spike in expenditure especially since the projected expenditure for the month March at the beginning of the year was 3.1 per cent of budget (refer to Table 171 above).

The Department collected R10,548 million or 160.8 per cent of the R6,559 million own revenue adjusted budget for 2007/08. This over collection of R3,989 million was mainly due to the recovery of debt that was written-off.

The Department over-collected on its 2006/07 own revenue budget of R4,6 million by R6,565 million or 142.7 per cent, due to financial transactions in assets and liabilities. However, due to the nature of these transactions it is difficult for Departments to accurately budget for this revenue type.

### **Conclusion/recommendation**

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 monthly that suspense, control and disallowance accounts are regularly followed-up and cleared within a reasonable period of time.

The Department is maintaining its performance at a level 3 financial management capability level when compared to the previous year’s assessment.

#### **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 is maintaining its performance at a level 3 financial management capability level when compared to the previous year’s assessment.

### **Financial reconciliations**

Monthly reconciliations of control and suspense accounts were performed timely which made it possible for the Department to close their books successfully on a monthly basis. Exceptions are corrected and reconciled/accounted within the following month.

The Department improved in this regard and is currently operating at a performance level 3 financial management capability when compared to the previous year's assessment level 2 financial management capability.

### **Supporting documentation**

The Department reported that 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 maintaining its performance at a level 3 financial management capability level when compared to the previous year's assessment.

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

In the monthly IYM report the Department indicated that all inter-departmental balances and debts are recorded and reconciled on a monthly as well as receivables and payables confirmed within reasonable time and paid within the prescribed agreed period.

The Department is maintaining its performance at a level 3 financial management capability level when compared to the previous year's assessment.

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

The Department reported that proper procedures and controls are in place for the identification and reporting of unauthorised, fruitless and wasteful and irregular expenditure in terms of the PFMA.

The Department is maintaining its performance at a level 3 financial management capability level when compared to the previous year's assessment.

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

The Department has reported that employee files were updated with employee details and administered procedures and guidelines to ensure accurate reporting on guarantees.

The Department improved in this regard and is currently operating at a performance level 3 financial management capability when compared to the previous year's assessment level 2 financial management capability.

### **Management of lease liabilities**

The Department reported that a lease operating register as well as a lease agreement register has been implemented and updated on a monthly basis and those procedures and guidelines are in place to ensure accurate reporting on lease liabilities. However, during the 2007/08 audit performed by the A-G it was reported that the Department has 3G mobile card contracts of which none were disclosed as finance leases. Therefore finance lease commitments were understated in the financial statements.

The management of lease liabilities by the Department deteriorated slightly and is currently operating at a performance level 2 financial management capability when compared to the previous year's assessment level 3 financial management capability.

### **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 is maintaining its performance at a level 3 financial management capability level when compared to the previous year's assessment.

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

Monthly compliance reporting to Provincial Treasury took place in accordance with legislative requirements. The Department indicated that financial reports were provided to the Accounting Officer about uncleared items and followed up on a monthly basis by the Chief Financial Officer.

The Department is maintaining its performance at a level 3 financial management capability level when compared to the previous year's assessment.

### **Conclusion/recommendation**

In conclusion, the Department's performance is at a level 3 financial management capability. Provincial Treasury will provide assistance and guidance towards the Department in achieving the next or higher level of financial management capability.

### **PUBLIC ENTITY: Destination Marketing Organisation**

The Destination Marketing Organisation is a public entity that resorts under the control of the Department of Economic Development and Tourism.

The entity had an unqualified report with other matters previously and had the same audit outcome for 2007/08. The entity should address the following issues to achieve a clean audit report and an overall level 3 financial management capability.

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

The entity previously performed at a financial management capability level 3. During the 2007/08 audit, it was found that procurement policies and procedures were not complied with, which could result in irregular expenditure as per section 1 of the PFMA.

DMO should ensure that procurement policies and procedures are implemented and monitored by management more frequently, if the entity wishes to maintain the level 3 financial management capability assessment as previously reported.

### **Accounting treatment of transactions**

The accounts receivable as per the debtors listing submitted for the 2007/08 audit, incorrectly reflected credit balances relating to advance payments received from debtors.

The incorrect accounting treatment of advance payments indicates that the entity is operating at a level 2 financial management capability.

DMO's management should ensure that the correct accounting criteria are applied during the treatment of transactions in order to achieve a level 3 financial management capability assessment.

### **Supporting documentation**

While performing an audit test from a sample taken on expenses, it was revealed that no invoice or a goods received note could be retrieved for a general ledger entry. The expense could possibly lead to an irregular expenditure due to management not following supply chain management procedures.

Management should implement controls to ensure that such expenses are correctly classified. The entity is operating at a financial management capability level 2.

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

An arbitration award paid out in the 2007/08 financial year in respect of former COO, was found to be fruitless and wasteful by the auditors, since due care was not exercised on the dismissal of the COO.

Management also had a responsibility to disclose the matter in the 2007/08 financial statements, since the arbitration case was raised by the Chair of the audit committee in the 2006/07 financial year.

Interest and penalties incurred due to late payment of PAYE and the provident fund was also noted to be fruitless and wasteful.

Management should implement procedures for identification and reporting on possible fruitless expenditure in accordance with section 1 of the PFMA, in order to achieve a level 3 financial management capability.

### **Management of lease liabilities**

Revenue on sub-leases is not recovered timeously as per the contractual agreements with the lessee and bank accounts are not being swept to effectively utilise surplus cash.

The entity's cashflows are not soundly managed as prescribed by Treasury Regulation 31.1.2.

Policies and procedures should be in line with Treasury Regulation 31.1.2 and should strictly be adhered to in order for the entity to operate at a financial management capability level 3.

### **Management controls**

During the audit it was found that a performance bonus award was paid to an employee whom already had resigned in 2006/07. No provision for bonuses was raised in the previous year even though policies and procedures were in place.

No risk management policy was approved and implemented by the entity, and as a result irregular practices could occur and go undetected.

In order for the entity to move to a level 3 financial management capability, management should ensure that control procedures be implemented as per prescripts and monitored on a regular basis.

### **Conclusion/recommendation**

DMO experienced vacancies with regard to the CEO, COO and the CFO posts and that the acting CEO had to manage these posts.

The entity also operated without a financial manager for the most part of the 2007/08 financial year.

Management acknowledged that policies and control procedures were not strictly adhered to, but intends to address the financial management capacity of the entity, by filling the vacancies. This should enable the entity to progress from a level 2 to a level 3 financial management capability rating for all aspects.

### **PUBLIC ENTITY: Western Cape Investment and Trade Promotion Agency (WESGRO)**

To determine at which level (level 1 – 4) of financial management capability the public entity is operating at, the following areas and standards of performance were assessed, referring to the accounting assessment tool 2.3 in Chapter 2.

### **Accounting of assets**

During the audit of PPE balances it was found that the PPE disclosure note did not include the amounts for disposals and impairments identified. There is a risk that PPE will be misstated in both the general ledger and the AFS. Furthermore, the disclosure in the AFS will not be compliant with the requirements of International Financial Reporting Standards.

As in the prior year, the entity's performance remained at level 2 financial management capability.

### **Financial reconciliations**

The Auditor-General reported that the reconciliation of control accounts is not performed monthly. The depreciation for Plant and Equipment per the general ledger and as disclosed in the Annual Financial Statements could not be reconciled to the fixed asset register.

The entity is maintaining its performance at a level 2 financial management capability rating since the previous assessment.

### **Supporting documentation**

During the audit supporting documentation was not available on file for foreign and local travel expenses, three written quotes were not obtained for expenditure and there was no prior approval for expenses paid on the agency's credit card.

Wesgro continued its performance at a level 2 financial management capability rating, as achieved in the prior year's assessment.

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

The Auditor-General reported that not all expenditure payments and journals have been correctly classified.

- The creditors control account reflected some creditors as being paid, when in actual fact they were not.
- Rental expenses were incorrectly accounted for during the 2007/08 financial year.
- Project expenses were recorded in the incorrect period, resulting in both accruals and project expenses being understated in the prior year.
- Administration expenses were recorded in the incorrect period, resulting in both accruals and administration expenses being overstated.

As in the previous year, the entity is performing at a level 2 financial management capability rating.

### **Accounting treatment of transactions**

During the audit of the Annual Financial Statements, a number of adjustments were necessary in order to ensure compliance with South African Statements of Generally Accepted Accounting Practice (SA GAAP) and International Financial Reporting Standards (IFRS).

The entity is maintaining its performance at a level 2 financial management capability rating, since the previous assessment.

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

Wesgro is maintaining its performance of a level 3 financial management capability for monthly reporting of financial information. All levels of reporting are fully informed.

## **Management controls**

The Annual Financial Statements of Wesgro yielded several inefficiencies in the system of internal control which led to a number of adjustments necessary in order to ensure compliance with South African Statements of Generally Accepted Accounting Practice (SA GAAP) and International Financial Reporting Standards (IFRS).

The Auditor-General reported that certain individual performance information measures were not measurable, consistent, accurate, verifiable and time bound.

Given the above management control issues, the entity currently performing at a level 2 financial management capacity.

## **Conclusion/recommendation**

Wesgro should ensure that there are adequate review and control mechanisms in place to ensure compliance with the relevant reporting and regulatory frameworks. Wesgro should effectively use the IYM process to proactively identify and address concerns and problems of the entity in order to improve its financial management capacity rating from a level 2 to a level 3.

## **PUBLIC ENTITY: Western Cape Liquor Board**

To determine at which level (level 1 – 4) of financial management capability the public entity is operating at, the following areas and standards of performance were assessed, referring to the accounting assessment tool 2.3 in Chapter 2.

### **Accounting of assets**

Asset management controls and accounting requirements are in place. The entity is maintaining its performance at a level 3 financial management capability rating achieved during the prior year's assessment.

### **Financial reconciliations**

WC Liquor Board is unable to accurately and completely account for the revenue and receivables raised in respect of the liquor licenses 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 is maintaining its performance at a level 2 financial management capability assessment when compared to the previous assessment. The financial management capability should improve once the Western Cape Liquor Bill is promulgated, enabling the WC Liquor Board to collect its own revenue.

The initial consultation process that had to be followed in terms of item 2(2) of Schedule 1 to the Liquor Act, 2003, took longer than anticipated and therefore was impossible to conclude.

### **Supporting documentation**

The Liquor Board reported that it has an effective system of maintaining source documents for audit and reference purposes and this was validated during the audit.

The entity is maintaining its performance at a level 3 financial management capability rating achieved during the prior year's assessment.

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

The entity reported that all expenditure payments and journals have been correctly classified and this was verified during the audit. Compared to the assessment of the previous year, the entity has maintained its performance of a level 3 financial management capability rating.

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

The Auditor-General reported material misstatements of the Annual Financial Statements submitted for audit at 31 May 2008. This implies that the Liquor Board has control weaknesses within their accounting processes. In this regard the entity has deteriorate from operating at a level 3 financial management capability to a level 2 financial management capability when compared to the previous year's assessment.

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

WC Liquor Board is retaining its performance of a level 3 financial management capability for monthly reporting of financial information. All levels of reporting are fully informed.

#### **Management controls**

The Auditor-General reported several inefficiencies in the system of internal controls that led to material misstatements in the financial statements submitted for audit. Due to these management control issues, the entity was operating at a level 2 financial management capability during the reporting period.

#### **Conclusion/recommendation**

The entity is convinced that the financial management capability will improve once the Western Cape Liquor Bill is promulgated, enabling the WC Liquor Board to collect its own revenue, which should free the entity from the qualifications and enable the entity to function fully at a level 3 financial management capability.

### **3.12.3 Corporate Governance**

#### **3.12.3.1 Enterprise Risk Management 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 financial management capability, due to 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 financial management capability 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 organisation structure supports the processes developed.

#### **Internal Environment**

A risk management philosophy has been developed for the Department and a risk appetite of the Department has also 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 by means of process and control mapping initiatives.

#### **Overall Assessment**

Based on the above information, the Department achieved a financial management capability rating level 2, as the Department did meet all the set Criteria and Norms and Standards for level 3. In order to achieve a financial management capability rating at the next level (level 3), the Department needs to have achieved all of the following set Criteria and Norms and Standards for level 3 financial management capability:

#### **Internal Environment:**

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

#### **2006/07 and 2007/08 Comparison**

For the 2007/08 review, it is evident that the Department has made limited improvement as compared to the 2006/07 review.

#### **3.12.3.2 Corporate Governance: Compliance**

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 and the Auditor-General's Report for the year ended 31 March 2008.

## Analysis of Normative Measures Quarterly Report

### CFO Structure

- The Department in comparison with the national norm of 5 per cent is currently experiencing a vacancy rate of 13 per cent within the CFO structure. This is percentage however is lower than that recorded in June of 2007.
- The Department has implemented performance agreements at all levels, career plans have been drawn up for 100 per cent of the staff members, with 79 per cent of the staff members having finance related qualifications. From this staff compliment, 100 per cent staff members are attending structured training programmes offered within the province.

### 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. Compliance with these requirements is reflected in table below:

**Table 179: Compliance with annual, quarterly and monthly reporting requirement**

Institution	Date annual report received by Provincial Treasury	Annual report tabled at the Provincial Legislature	Quarterly performance against strategic plan
<b>Departments:</b>			
Economic Development and Tourism Planning	29/08/08	29/09/08	x
<b>Public Entity:</b>			
DMO, t/a CTRU	29/08/08	29/09/08	x
WESGRO	29/08/08	29/09/08	x
WC Liquor Board	N/A		

### Analysis:

- The Department has successfully tabled their 2007/08 Annual Reports as well as that of its public entity, within the prescribed timeframes.

### Auditor-General report 2007/08

The Auditor-General expressed an unqualified opinion, without Other Matters for the 2007/08 financial year (clean report).

In comparing the 2006/07 Auditor-General's report with the 2007/08 Auditor-General's report, the report is a slight improvement in the financial management of the Department.

## Overall Assessment

Taking the above into account the Department has made some important strides in order to achieve a level 3 financial management capability.

### 3.12.4 Cash Management

This section deals with the implementation and management of sound cashflow practices as well as the provision of assistance and training in respect of the banking system within the Province.

#### Background

Section 21(1) of the PFMA stipulates that the PT is in charge of the Province's PRF. The creation and practice of sound cashflow management by the PT is therefore imperative for maintaining and improving the delivery of services to the various communities within the WC.

#### Review

To determine at which financial management capability level (level 1 – 4) of effectiveness the Department is operating in respect of cash management. The following areas and standards of performance and under-performance were identified.

**Table 180: Assessment Tool**

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

The evaluation was based on the activities of the 2007/2008 financial year and the findings were as follows:

**Table 181: 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	4
Repayment of Surplus Funds	31 May	15 May	2
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 financial management capability rating level 3 (nominal compliance).

#### **Skilled and capacitated system users**

The Department obtained a financial management capability rating level 3 (nominal compliance). All system users are trained in accordance with their profiles on Nedbank Business.

#### **Submission of Annual Provincial Cashflow Projections**

The Department obtained a financial management capability rating level 3 (nominal compliance). The Annual projections in respect of income and expenditure were received timeously in accordance with Treasury Circular 5 of 2008.

Deviation between monthly projections and actual expenses

**Table 182: Deviation between monthly projections and actual expenses**

	Project	Actual	%	rating
<b>Original Forecast</b>				
APRIL'07	4 294	5 137	(20)	2
MAY'07	4 374	3 462	21	2
JUNE'07	44 054	20 594	53	2
JULY'07	5 773	9 599	(66)	2
AUG'07	12 733	15 035	(18)	2
SEP'07	49 685	22 473	55	2
OCT'07	6 163	18 820	(205)	2
NOV'07	6 903	15 734	(128)	2

	Project	Actual	%	rating
DEC'07	44 852	35 476	21	2
JAN'08	5 852	12 203	(109)	2
FEB'08	23 482	11 301	52	2
MRC'08	5 987	44 318	(640)	2
<b>Sub-Total</b>	<b>214 152</b>	<b>214 152</b>		<b>2</b>
<i>Revised Forecast (after adjusted budget)</i>				
MRC'08				
Adjustment	(8 766)	(8 766)		
<b>Total</b>	<b>205 386</b>	<b>205 386</b>	<b>100</b>	

The Department achieved a financial management capability rating level 2 (partial compliance). PT will support and assist the Department monthly to establish reasons for the variances. The Department should utilise previous monthly drawing trends to establish more credible projections.

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

The Department obtained an average financial management capability rating level 4 (full compliance). PT reminded the Department to submit detail before 3rd last working day of each month to enable the Department to achieve the level of full compliance.

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

The Department obtained a financial management capability rating level 2 (partial compliance). Surplus funds were paid to the PRF on 25 June 2008.

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

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

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

The Department achieved a financial management capability rating level 3 (nominal compliance). PT to encourage the Department to make optimal use of the Province's financial systems to minimize the usage of Beneficiary Payments (Direct Bank Transfer).

**Table 183: Beneficiary Payments**

Payments	Beneficiary Payments	%
8 148	52	0.64

### 3.12.5 Supply Chain Management

#### Supply Chain Management

When measured against the current financial capability model for Supply Chain Management (SCM) the following must be noted:

- The Department has made progressive strides in terms of implementing an effective and efficient Supply Chain Management (SCM) system that resides under the auspices of the CFO.
- The Department's SCM structure theoretically alludes to a unit that gives effect to the minimum requirements for an efficient and effective SCM structure.
- The Department meets the legislative and policy framework requirements in that it has updated its current Accounting Officer's system in terms of section 38(1)(A).(iii) of the Public Finance Management Act 1 of 1999 and will be issued shortly.
- The Department awarded 26 contracts of which 13 had HDI equity representation. The value of the contracts awarded was R10,758 million. The value of bids awarded to companies with HDI equity/representation was R6,460 million (60 per cent).
- For the year under review the Department invited 499 quotations and only 112 quotations were awarded on the system (22.44 per cent) quotations. The value of these quotations awarded on-line was in the sum of R4,234 million of which R1,979 million was awarded to HDI equity/representation (47 per cent).
- The Provincial Treasury facilitated and arranged SAMDI training in respect of Bid Committees and Contract Management. In total 6 departmental officials were trained: 5 Officials were trained in respect of Bid Committees and 1 in respect of Contract management. The Department has indicated a further training need for 18 officials: 12 in respect of Bid Committees and 6 in respect of Contract Management. The Department indicated that training and development is included within their performance agreements and training sessions are conducted regularly (formal and informal).

Departmental compliance to the National Treasury's Broad Implementation plan is monitored by the Provincial Treasury through the Project Dashboard and Risk Log reports. The project dashboard risk log indicates the following outstanding areas:

- Role of Assets in Programme delivery
- Life cycle costing
- Elements of best asset strategy
- Developing of acquisition plan
- Establishing of performance indicators
- Accumulated depreciation
- Evaluation of disposal alternatives
- Write-off damaged or missing assets
- Disposal plan
- Capitalisation threshold

- Enhancements and upgrades
- Valuation methodology

In terms of the National Treasury Broad Implementation Plan for asset Management the due date in respect of the above plans was the 30 March 2007. The department has further not tabled any alternative plan in the event of it not meeting the National Broad Implementation Plan with the Provincial Treasury.

### **Comparison and rating**

The Department has shown improvement when comparing the 2006/07 and 2007/08 financial years however a full blown compliance assessment is taking place in the 2008/09 financial year. A concerning factor however is the level of non-compliance in terms of the Adjudicate all quotations on Sourcelink.

### **Rating**

On consideration of all of the above the Department is rated at level 3 in terms of Financial Management Capability for SCM.

### **Conclusion/Recommendations**

The Department will be assessed in the 2008/09 financial year in terms of a full SCM compliance and value for money assessment which will enable the Provincial Treasury to prompt SCM interventions through training workshops one-on-ones and guidance.

In the interim the Department needs to:

- Adjudicate all quotations on Sourcelink
- Comply to the requirements of Adjudicate all quotations on Sourcelink

## **3.12.6 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.

### **Background**

Currently there are three major systems the Basic Accounting System (BAS) Personnel and Salary Administration System (PERSAL) and Logistical Information System (LOGIS) that are maintained by the National Treasury for National and Provincial departments. In addition a web-based Management Information System (Vulindlela) is maintained of financial HR and logistical data for high level management information.

### **Review**

Two of the major systems namely BAS and PERSAL as well as Vulindlela are being utilised by the Department in the execution of their daily functions. To determine at



which financial management capability level (level 1 – 4) the Department is in utilising the systems, the following areas and standards per systems were identified to evaluate the effective utilisation of the systems and functional assistance and training as well as to identify areas of under-performance to be addressed.

**Table 184: Basic Accounting System (BAS)**

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

**Table 185: Personnel and Salary Administration System (PERSAL)**

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

**Table 186: Management Information System (Vulindlela)**

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

The evaluation was based on the activities of the 2007/08 financial year and the findings were as follows:

**Table 187: 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	4
<b>Average rating</b>			<b>3</b>

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

**Table 188: 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
12	5	7	4	1

The Department obtained a financial management capability rating level 2 (partial compliance) 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 has identified the training gap of all system users and are providing training to users in accordance with their profiles.

The Department however needs to commit themselves in getting users trained.

#### **Month end closure**

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

#### **Year closure**

The Department achieved a financial management capability rating level 3 (nominal compliance) 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 at a financial management capability level 3 (nominal compliance):

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

**Table 189: 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 financial management capability rating level 2 (partial compliance).

**Table 190: 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
9	4	5	3	1

The Department obtained a financial management capability rating level 2 (partial compliance) due to the 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 has identified the training gap of all system users and are providing training to users in accordance with their profiles.

The Department however needs to commit themselves in getting users trained.

### System Controller Functions

The Department achieved a financial management capability rating level 2 (partial compliance) for the execution of its system control functions. The Department needs to assess the responsibility of a controllers functions and assign that functions to particular official.

### Establishment Management

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

## PERSAL/BAS reconciliation

The Department compiled a monthly PERSAL/BAS reconciliation by the 20<sup>th</sup> of each month and therefore achieved a financial management capability rating level 3 (nominal compliance).

## Adhere to Minimum Information Requirements

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

Reports indicating the outstanding information are available and are provided by Provincial Treasury to departments on request. Department too ensure that with the new appointments all information requested on the system be captured.

## Leave Audit

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

**Table 191: 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 192: 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
11	4	7	36%

The Department obtained a financial management capability rating level 2 (partial compliance) due to the fact that only 36 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 7 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

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 capability assessment tool for non-financial information. The assessment includes the comparison of the performance measures contained in the Annual Performance Plan (APP) and the Annual Report as well as the actual performance of the Department as reported in the Quarterly Performance Report (QPR) and the Annual Report. The assessment gauges key aspects of the Department's performance management information, and considers whether the Department has reached a level 3 financial management capability, and expresses a view on the extent to which the Department is moving towards a level 4 financial management capability.

The 2007/08 Annual Report, the 2007/08 and 2008/09 Annual Performance Plans as well as the final 2007/08 Quarterly Performance Report have been used in the assessment.

The assessment will also express a view on the progress of the Department since the 2006/07 assessment.

#### Annual Report 2007/08

All the performance measures defined in the 2007/08 APP are reported on in the 2007/08 Annual Report except for the number of literacy exhibitions conducted. The Department also reported on the number of technical officials trained to deliver and support participation in inter-provincial sport competitions in the Annual Report which was not included in the APP. In general there is consistency between the unit of measurement used in the targets and the actual outcomes; therefore 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 Guideline for General and Performance information require that departments must provide a summary of the significant achievements of each sub-programme within the Programme for the 2007/08 financial year, focusing on the achievement of targets. In the event of targets not being achieved, a brief narrative providing reasons should be provided. Similarly, a narrative should be provided for targets that were exceeded detailing the factors that enabled the above performance. This section must also briefly provide a synopsis on how the achievement of targets has contributed towards achieving the department's outcomes, and which will invariably impact on the strategic priorities of government.

The programme performance of the sub-programmes in the Annual Report tend to be very broad and in a number of instances relate to the overall environment in which service delivery occurs and not to the targets set for the financial year. The

Department did not indicate any specific deviations from the targets and also did not provide specific reasons for not meeting the targets. For example nothing was mentioned about the formulation of policies for the establishment of new museums or the restructuring of museum services.

The actual outputs of the Departments does not always relate to the target set for the performance measure. For example, the Department undertake to produce an annual marketing programme strategy for museums to attract 975 000 visitors to affiliated museums, but the Department only reported on the numbers that were not met and not the strategy in the Annual Report.

When comparing the Quarterly Performance Report (QPR) with the Annual Report not all actual outputs were reflected in the Annual Report as per the QPR.

### **APP 2008/09**

The APP does not fully comply with the uniform budget and programme structure as defined nationally. For example, programme 3 should be Library and Information Services and not Library and Archive Services.

The APP indicated annual targets as well as quarterly targets for the monitoring of quarterly performance. The Department also indicated 2007/08 estimates that should in fact be actual/preliminary outputs for 2007/08, which should also be verifiable with the Annual Report. To prevent duplication, it is also recommended that the Department omit the output column in future. Although the Department report on some of the sector specific performance measures, developed nationally, on a quarterly basis the Department did not include the sector specific performance measures in the APP.

Most of the targets set for the performance measures are measurable and related to the strategic objectives of the Department. However, it is recommended that the Department provide a baseline number where the target is given as a percentage.

On average the Department defined three measurable objectives per strategic objective, with up to nine performance measures per measurable objective. It is therefore recommended that the Department reduce the number of measurable objectives and performance measure and focus on the key areas of performance. This will ensure effective and efficient performance management.

### **Conclusion/recommendation**

In conclusion, the Department is approaching a competency level 3 in relation to the key aspects of the financial management capability examined.

The inclusion of deviations from the annual targets set for a specific financial year as well as reasons for the deviations from the target in the Annual Report is of great importance to start moving towards the next level of capability.

The introduction of sector specific performance measures have been negotiated nationally and prescribed by National Treasury. It is therefore recommended that the Department does not deviate from these prescripts.

### 3.13.1.2 Performance management assessed based on financial information

Public Finance notes the following regarding the financial performance of the Department:

- The Department had an approved expenditure and revenue budget for the 2007/08 financial year.
- While the Department submits an electronic copy of its IYM report by the 15<sup>th</sup> day after the end of a reporting month as stipulated in section 40(4)(c) of the PFMA, the copy signed by the Accounting Officer is seldom submitted on time.
- Actual expenditure and revenue corresponds to the BAS report drawn and submitted by the Department. In cases where differences have occurred the Department could provide satisfactory answers. It is the opinion that the Department can eliminate these differences by drawing reports after the closure of BAS each month.
- The Department can improve on their projections, as actual expenditure differs from forecasts in a prior quarter. Projections increases on a monthly basis, as actual expenditure in some cases appear to be extremely lower than the projected expenditure. The table below further alludes to this and provides a quarterly comparison of 2007/08 actual expenditure.

**Table 193: Projected vs Actual Expenditure**

R'000	April	May	June	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Total
First quarter	10 029	14 085	13 560	27 763	24 213	23 279	17 007	16 483	20 031	16 332	20 803	20 937	224 522
%	4.47%	6.27%	6.04%	12.37%	10.78%	10.37%	7.57%	7.34%	8.92%	7.27%	9.27%	9.33%	100.00%
Second Quarter	10 029	14 085	13 560	17 954	15 530	20 202	24 940	18 004	27 410	20 484	21 235	21 089	224 522
%	4.47%	6.27%	6.04%	8.00%	6.92%	9.00%	11.11%	8.02%	12.21%	9.12%	9.46%	9.39%	100.00%
Third Quarter	10 029	14 085	13 560	17 954	15 530	20 202	24 579	19 595	17 748	25 746	24 928	21 253	225 209
%	4.45%	6.25%	6.02%	7.97%	6.90%	8.97%	10.91%	8.70%	7.88%	11.43%	11.07%	9.44%	100.00%
Fourth Quarter	10 029	14 085	13 560	17 954	15 530	20 202	24 579	19 595	17 748	18 434	22 230	29 199	223 145
%	4.49%	6.31%	6.08%	8.05%	6.96%	9.05%	11.01%	8.78%	7.95%	8.26%	9.96%	13.09%	100.00%

*Coloured Blue: Actual*

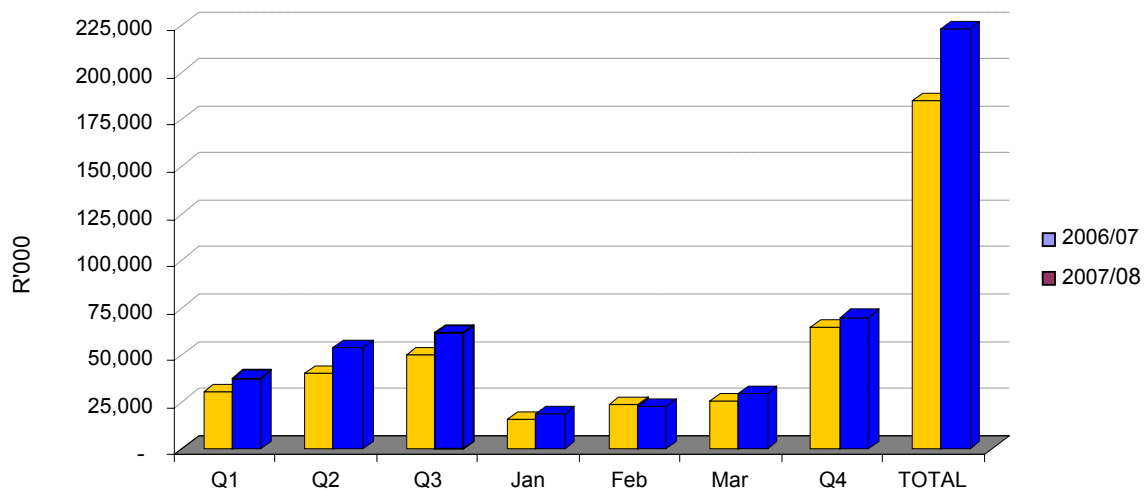
*Non-coloured: Projections*

The pre-adjusted budget in 2007/08 for the Department was R224,522 million. During the Adjusted Estimates the allocation was increased by R687 000 to R225,209 million. The Department has spent R223,145 million or 99.08 per cent of its post-adjusted allocation. This outcome seems to translate a credible budget for the Department.

- The Department effected virements to the amount of R2,614 million. This represents 1.16 per cent of the adjusted appropriation for the 2007/08 financial year.
- The Department complies with DORA prescripts and spending of national earmarked and conditional funds are as per business plans and payment schedules.

- The Department submitted its Adjusted Estimates 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 the 2006/07 and 2007/08 financial years.

**Figure 6: Actual expenditure: 2007/08 vs 2006/07**



- Actual expenditure at the end of the fourth quarter amounts to R223,138 million or 99.08 per cent of the adjusted budget of R225,209 million in the 2007/08 financial year.
- The Department reflects an under spending of R2,071 million or 0.92 per cent in 2007/08. This outcome is within the 2 per cent under spending norm for Departments.
- The bulk of the under spending in 2007/08 relates to slow spending in Programme 4: Sport and Recreation. The cause of the under expenditure within this programme was due to the late delivery of a vehicle for the School Sport Mass Participation programme as well as delayed transfers to schools for the upgrading of sport facilities. A request has been submitted to Provincial Treasury for the rollover of these funds to 2008/09.
- The budget for compensation of employees increased considerably year-on-year. The Department however accumulates savings, as the actual expenditure in most instances are less when compared to the projections on a monthly basis. The under spending on compensation of employees amounted to R5,829 million or 6.26 per cent of the adjusted budget in the 2007/08 financial year.
- These savings were accumulated due to the non-filling of vacancies, which further translates to funds being shifted during the Adjusted Estimates. Over the past three financial years the Department has been experiencing problems in the filling of vacancies.



- The Department had a March 'spike' in 2007/08. Expenditure for the first 11 months averaged R17,631 million, while expenditure during the month of March 2008 amounts to R29,688 million or 13.1 per cent of its adjusted budget. This increased expenditure is mostly due to late transfers to Non-profit institutions in Programme 1: Administration and late transfers to Non-profit institutions and Municipalities in Programme 4: Sport and Recreation.
- The Department of Cultural Affairs and Sport collected R1,316 million in provincial own receipts compared to the R465 000 adjusted budget for the 2007/08 financial year. This represents an over-collection of R851 000 or 283 per cent on the adjusted budget. This over collection was mainly due to over-collections on fines, penalties and forfeits as well as an over-collection on financial transactions in assets and liabilities not budget for.

The Department of Cultural Affairs and Sport generally operates on a level 3 financial management capability rating.

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

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

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

The Department reported that transactions in the suspense accounts are cleared consistently with new entries occurring on a monthly basis.

The Department is maintaining its performance at a level 3 financial management capability when compared to the previous year's assessment.

#### **Accounting of assets**

The Department reported compliance with the minimum requirements of an Asset Register (Moveable Assets), although as reported in their IYM report and the FGR&O 2007, certain aspects of the asset register, such as performance and disposal of assets is still "in progress".

The Department did not meet the compliance requirements in order to achieve a level 3 financial management capability rating which is an indication of poor control measures on asset management. The Department therefore remains at a level 2 financial management capability when compared to the previous year's assessment.

#### **Financial reconciliations**

The Department reported in their IYM reporting that all bank reconciliations and PERSAL/BAS reconciliation have been compiled. BAS/LOGIS reconciliations for the period under review have not been compiled.

The Department's non-compliance with submitting monthly BAS/LOGIS reconciliations reflects deterioration in the performance from a level 3 to a level 2 financial management capability when compared to the previous year's assessment.

## **Expenditure – Payments and journals**

The Management Report of the Auditor-General reflects a significant portion of invoices received before year-end which were settled more than 30 days after the receipt of invoice which is in contravention of Treasury Regulation 8.2.3.

The Auditor-General, in its management report also reported that overtime for certain employees as per the PERSAL overtime record was not in agreement with the report received from the PERSAL Controller. The difference was due to the fact that the hours for overtime were captured incorrectly.

The Department has not improved its performance in this regard and continues to maintain a level 2 financial management capability when compared to the previous year's assessment.

## **Management of lease liabilities**

During 2007/08 audit it was found that 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 order to move to a level 3 financial management capability rating. This is a first assessment on this matter.

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

During 2007/08 audit on contingent liabilities it was found that 4 cases were not confirmed with the financial institutions involved. This could result in the Department reporting on contingent liabilities for which they may no longer be obliged to settle and thus misstating the contingent liability. This is a first assessment on this matter and the Department is currently operating at a level 2 financial management capability rating.

## **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 the legislative requirements. This is indicative of a level 3 financial management capability rating.

## **Conclusion/recommendation**

In conclusion, the Department's performance is marginally above a level 2 financial management capability. The Department needs to implement effective internal control measures to address audit findings and improve its financial management capability to a level 3.

## **PUBLIC ENTITY: Western Cape Cultural Commission**

The Western Cape Cultural Commission is a public entity that resorts under the control of the Department of Cultural Affairs and Sport.

The entity was previously unqualified with no other matters and had deteriorated to an adverse opinion for 2007/08. The entity is no longer performing all the basic accounting functions according to prescripts, and is currently operating at a financial management capability level 2, as outlined below:

### **Accounting of Assets**

Property, Plant and Equipment was incorrectly valued, because no depreciable amount was calculated when determining the carrying value of an asset.

Due to the above the entity is performing at a financial management capability level 2.

### **Supporting Documentation**

In the previous financial year it was reported that the entity's source documents was authentic and verifiable, and operating at a financial management capability level 3. During the 2007/08 audit, supporting documentation for certain revenue and expenditure transactions could not be traced to verify certain transactions.

The Entity's lack of control procedures to safeguard source documents from being misplaced indicates the financial management capability has worsened to a financial management capability level 2.

The Entity should ensure that control policies and procedures are adhered to in order to ensure the safeguarding of source documents to achieve a level 3 financial management capability rating.

### **Expenditure-Payments and journals**

Based on the review of payments made after year end it was noted that a significant portion of invoices received before year end were paid 30 days after they had been received. The current turn around period of payments of debt has deteriorated to 81 days. The Entity is performing at a financial management capability level 2, whereas previously it was reported that they were performing at a level 3.

As this is a compliance issue in terms of Treasury Regulations 8.2.3, section 38(1)(f) and 76(4)(b) of the PFMA, management should put measures in place to ensure invoices are paid within the presented timeframe.

### **Accounting of transactions**

It was previously reported that the entity performed at a level 3 financial management capability. For 2007/08, the accounts payable account incorrectly reflected a debit balance. This incorrect accounting of transactions indicates that the Entity is operating at a financial management capability level 2.

The Entity should ensure that the books of accounts are updated and corrected in order to achieve a financial management capability rating of level 3.

### **Management Controls**

The Auditor-General reported that the Entity has control weaknesses within the accounting process, which have resulted in material misstatements of the Annual Financial Statements submitted for audit at 31 May 2008.

The Entity is a guarantor for housing loans for a few of its employees, however the entity do not have confirmations from the financial institutions involved pertaining to such guarantees. Management should implement the necessary controls housing guarantees.

During the audit process the following management control issues were identified:

- Supporting documentation for revenue could not be provided.
- Supporting documentation could not be provided for revenue transactions.
- Trade and other receivables could be misstated.
- Supporting documentation could not be provided for expenditure.
- There is insufficient monitoring of performance information by the management.

Due to the above management control issues, the entity was operating at a level 2 financial management capacity during the reporting period.

### **Conclusion/recommendation**

Control weaknesses and a lack of monitoring were the main reasons for the poor assessment ratings of 2007/08. The entity indicated that due to vacancies, control procedures and policies were not adhered to. The vacant posts have been advertised and are in process of being filled. It is envisaged that this would improve the financial management capability to a level 3 in all areas of assessment.

### **PUBLIC ENTITY: Western Cape Language Committee**

The Western Cape Language Commission is a public entity that resorts under the control of the Department of Cultural Affairs and Sport.

The Entity was previously unqualified with no other matters and has deteriorated to a qualified report for 2007/08. The entity is no longer performing all the basic accounting functions according to prescripts and is operating at a level 2 financial management capability as outlined below:

### **Financial reconciliations**

The Entity are performing all financial reconciliations as prescribed and maintained its level 3 financial management capability.

### **Accounting treatment of transactions**

The Auditor-General reported that some creditors had debit balances, which was further investigated and it was found that certain invoices were not captured on the creditor's accounts. Furthermore transactions from 2006/07 were also included in the 2007/08 figures.

This incorrect accounting of transactions indicates that the Entity is operating at a financial management capability level 2.

The Entity should ensure that the books of accounts are updated and corrected in order to achieve a financial management capability rating of level 3.

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

The Auditor-General found that the Entity did not settle debts as per prescripts, within 30 days of receipt of invoices. Journals were also lacking formal documented explanations and proper approval controls to prevent unauthorised journals being processed.

The entity must ensure compliance with all relevant prescripts and implement proper control procedures, to maintain a level 3 financial management capability as was previously reported.

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

The prescribed reports are submitted, and the entity continues to perform at a level 3 financial management capability in this regard.

### **Management controls**

The Auditor-General reported that the Language Commission has control weaknesses within the accounting process, which have resulted in material misstatements of the Annual Financial Statements submitted for audit at 31 May 2008.

During the audit process the Auditor-General found that there is insufficient monitoring of performance information, inadequate indicators and targets for performance information. The monitoring and managing of performance is integral to improving service delivery, due to internal policies and procedures not being adhered to, the entity is operating at a financial management capability rating of level 2.

### **Conclusion/recommendation**

Control weaknesses and a lack of monitoring were the main reasons for the poor assessment ratings for 2007/08. The Entity indicated that due to key post being vacant, control procedures and policies were not adhered to. The vacant posts have been advertised and are in process of being filled. It is envisaged that this would improve the financial management capability to a level 3 in all areas of assessment.

## **Heritage Western Cape**

The Western Cape Heritage Commission is a public entity that resorts under the control of the Department of Cultural Affairs and Sport. The Entity had an unqualified report with no other matters previously and the audit outcome remains the same for 2007/08.

### **Accounting of assets**

The Entity is performing all the basic accounting functions according to prescripts and, as for the prior year, achieved a financial management capability rating of level 3.

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

The Auditor-General found that the Entity did not settle debts as per prescripts, within 30 days of receipt of invoices. Journals were also lacking formal documented explanations and proper approval controls to prevent unauthorised journals being processed.

The Entity must ensure compliance with all relevant prescripts and implement proper control procedures, to maintain a level 3 financial management capability as was previously reported.

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

The prescribed reports are submitted, and the Entity continues to perform at a financial management capability rating of level 3.

### **Management controls**

The Auditor-General reported that the Entity's performance information management system and indicators and targets were inadequate.

The monitoring and managing of performance is integral to improving service delivery as is indicators to establish deadlines for delivery. Due to internal policies and procedures not being adhered to, the entity is operating at a financial management capability rating of level 2.

### **Conclusion/recommendation**

The Entity indicated that, due to vacancies, control procedures and policies were not adhered to. The vacant posts have been advertised and are in process of being filled. It is envisaged that this would improve the financial management capability to a level 3 in all areas of assessment.

### **3.13.3 Corporate Governance**

#### **3.13.3.1 Compliance**

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 and the Auditor-General's Report for the year ended 31 March 2008.

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

##### **The CFO structure Human Resources Capacity**

In the Finance component of the Department the vacancy rate is currently at 18 per cent. This is way above the national norm of 5 per cent. The Department is in the process of filling the vacant posts as it has indicated that all of the vacant posts have currently been advertised.

An issue of concern is the average length the Department takes to fill a post which is 6 months instead of the prescribed national norm of 3 months. This issue has been addressed with the Department and remedial steps should be undertaken to expedite the process. Provincial Treasury will continue to monitor the progress on a quarterly basis.

The Department has implemented performance agreements at all levels and career development plans have been developed for 100 per cent of the staff establishment. The staff that has finance related qualification is 100 per cent and 100 per cent of the staff is attending structured training programmes that are offered within the province.

##### **Tabling of Annual Report**

The Department has not tabled their 2007/08 Annual Report on time, as required by legislation. The Department tabled the 2007/08 Annual Report on the 6<sup>th</sup> of October 2008 and its public entities on the 7<sup>th</sup> of October 2008.

##### **Auditor-General's report on the 2007/08 financial year**

The Department has received an unqualified audit opinion with no emphasis of matter but with other matters under matters of governance, for the 2007/08 financial year.

##### **Public Entities**

There are three public entities, which are under the control of the Department i.e. Western Cape Language Committee, Western Cape Cultural Commission, and Heritage Western Cape.

## **Overall Assessment**

Taking the above into account the Department has made some important strides in order to move towards achieving a financial management capability level 3.

### **3.13.3.2 Enterprise Risk Management 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 financial management capability 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 financial management capability 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 organisation structure supports the processes developed.

#### **Internal Environment**

A risk management philosophy has not been developed for the Department and a risk appetite of the Department has also not 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 by means of process and control mapping initiatives

## **Overall Assessment**

Based on the above information, the Department achieved a financial management capability rating level 1, as the Department did not meet all the set Criteria and Norms and Standards for level 2. In order to achieve a financial management capability rating level 2, the Department needs to have achieved all of the following set Criteria and Norms and Standards:



### 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.

### 2006/07 and 2007/08 Comparison

For the 2007/08 review, it is evident that the Department has made no improvement as compared to the 2006/07 review.

### 3.13.4 Cash Management

This section deals with the implementation and management of sound cashflow practices as well as the provision of assistance and training in respect of the banking system within the Province.

#### Background

Section 21(1) of the PFMA stipulates that the PT is in charge of the Province's PRF. The creation and practice of sound cashflow management by the PT is therefore imperative for maintaining and improving the delivery of services to the various communities within the WC.

#### Review

To determine at which financial management capability level the Department is operating in respect of cash management, the following areas and standards of performance and under-performance were identified.

**Table 194: Assessment Tool**

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

The evaluation was based on the activities of the 2007/08 financial year and the findings were as follows:

**Table 195: 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	4
Repayment of Surplus Funds	31 May	15 May	4
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 financial management capability rating level 3 (nominal compliance).

#### **Skilled and capacitated system users**

The Department obtained a financial management capability rating level 3 (nominal compliance). All system users are trained in accordance with their profiles on Nedbank Business.

#### **Submission of Annual Provincial Cashflow Projections**

The Department obtained a financial management capability rating level 3 (nominal compliance). The Annual projections in respect of income and expenditure were received timeously in accordance with Treasury Circular 5 of 2008.

**Table 196: Deviation between monthly projections and actual expenses**

	Project	Actual	%	Rating
<b>Original Forecast</b>				
APRIL'07	13 835	12 736	8	2
MAY'07	17 685	11 737	34	2
JUNE'07	18 320	12 871	30	2
JULY'07	20 437	16 793	18	2
AUG'07	21 532	17 095	21	2
SEP'07	23 528	20 123	14	2
OCT'07	15 007	22 393	(49)	2

	Project	Actual	%	Rating
NOV'07	14 483	22 316	(54)	3
DEC'07	20 220	17 887	12	2
JAN'08	15 835	18 345	(16)	2
FEB'08	22 203	21 198	5	3
MRC'08	21 437	31 028	(45)	2
<b>Sub-Total</b>	<b>224 522</b>	<b>224 522</b>		<b>2</b>
<i>Revised Forecast (after adjusted budget)</i>				
MRC'08 Adjustment	687	687		
<b>Total</b>	<b>225 209</b>	<b>225 209</b>	<b>100</b>	

The Department achieved a financial management capability rating level 2 (partial compliance). PT will support and assist the Department monthly to establish reasons for the variances. The Department should utilise previous monthly drawing trends to establish more credible projections.

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

The Department obtained an average financial management capability rating level 4 (full compliance). PT reminded the Department to submit detail before 3<sup>rd</sup> last working day of each month to enable the Department to achieve the level of full compliance.

#### **Repayment of Surplus Funds**

The Department obtained a financial management capability rating level 4 (full compliance). Surplus funds were paid to the PRF on 14 May 2008.

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

The Department obtained a financial management capability rating level 4 (full compliance). The monthly bank reconciliation is submitted within 15 days after month end.

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

The Department achieved a financial management capability rating level 3 (nominal compliance). PT must encourage the Department to make optimal use of the Province's financial systems to minimise the usage of Beneficiary Payments (Direct Bank Transfer).

**Table 197: Beneficiary Payments**

Payments	Beneficiary Payments	%
27 612	252	0.91

### 3.13.5 Supply Chain Management

#### Supply Chain Management

This financial management assessment is based on the 2007/08 financial year information that was brought to the attention of Provincial Treasury in terms of procurement statistic reports, project dashboard reports SAMDI training statistics and the Auditor-General's Report and Management letter.

When measured against the current financial capability model for Supply Chain Management (SCM), the following must be noted in respect of the Provincial Treasury:

- There is a lack of capacity in the SCM unit as there is only an Acting SCM manager, 2 permanent staff and 3 contract workers. A serious concern is the lack of permanent staff within the unit. This also impacts on the fact that the necessary control mechanisms that need to be in place within the supply chain environment is absent which predisposes the SCM activities to very high levels of risk in respect of non-compliance fraud and corruption as well as imprudent financial management.
- The current structure of the Department is inadequate to give effect to the Department's goals and objectives for SCM. and is also not compliant with the National Treasury: Normative Measures for Financial Management (Phase 1: Perfecting the Basics) policy document which requires an SCM structure to provide at least for a demand acquisition as well as a logistics and disposal management system.
- The Department has in place an Accounting Officer (AO) System in terms of Section 38(I)(iii)(a) of the PFMA. However since the implementation of SCM in January 2004, the Accounting officer's system of the Department was never reviewed.
- The bid committee system is not constituted as per chapter 16A of the National Treasury Regulations for SCM due to lack of capacity.
- The Department has awarded thirteen bids for the last financial year to the total value of R4,937 million. Only six bids to the total value of R48 239 have been awarded to companies' with HDI equity representation. Three companies have women equity share-holdings and one company completely women-owned. This is indicative that the Department neither adheres to the requirements of Preferential Procurement Policy Frameworks Act and its regulations, nor does it promote the primary goals and objectives of PPPFA.
- Statistics on quotations awarded by the Department has not been reflected or depicted in the Tradeworld report due to the fact that the Department does not adjudicate the quotations on the EPSi system. According to our records 1 011 quotation enquiries have been put through the system without being adjudicated on. This impact on the credibility of the statistical data for the province.

- In respect of the SAMDI training courses facilitated and arranged by the Provincial Treasury, only one official from this Department has attended such training and that official is no longer with the Department. However the Department has nominated 24 officials to be trained in 2008/09 financial year in respect of forthcoming courses for Bid Committee and Contract Management training.
- The Department has a skills development plan in place; however the document is very broad, it does not specifically encapsulate the SCM needs for training nor does it depict how the unit is planning to develop and capacitate its SCM officials.

### **Moveable Asset Management**

The assets of the Department are assessed in terms of National Treasury Project Dashboard and risk Log Reports that are submitted to Provincial Treasury on a quarterly basis. This verifies if departments comply with the National Treasury Broad Implementation Plan.

- The Department's dashboard reports for the 2007/08 financial year reveals that the Department is only compliant in some aspects of the asset management plans. Acquisition and Disposal of assets plans are still outstanding.

### **Comparison between last FGR&O**

When comparing the 2006/07 to 2007/08 financial year, the Department's has deteriorated for the fact that it does not have an adequate structure in place to give effect to the efficient and effective management of SCM. The high level of quotations put through the EPSi system without being adjudicated on is also an indication of the lack of capacity and necessary control measures being in place for SCM. Awarding of bids to HDI's and meeting the requirements of the PPPFA is also a concern as was evident as well in the 2006/07 financial year.

### **Rating**

After taking cognisance of the above, the Department only meets the requirements of a level 1 in terms of financial management capability model for SCM.

### **Conclusion/Recommendation**

The Provincial Treasury has assisted the Department by seconding an official to the Department to assist and guide on provisioning and procurement processes. It must be noted further that Provincial Treasury has further conducted an SCM compliance assessment for 2008/09 financial year; which will enable the Provincial Treasury to prompt further SCM interventions through training, workshops, one-on-ones and guidance.

From a departmental perspective certain interventions need to be instituted so that the Department sustains itself at the achieved financial management capability level and facilitates its progress to the next level. The following are the recommendations and corrective measures that the Department should consider implementing:

- Implementing the National Treasury Directive on Phase 1: Implementing the Basics as well as the structure as encapsulated by the National Treasury Regulations for SCM in order to be able to carry out procurement processes in an efficient and effective manner as stated in the NTRs and other relevant SCM legislation and regulatory framework.
- Fast-tracking filling vacant posts to ensure that there is adequate resource capacity to enable the Department to meet its service delivery obligations.
- Ensure that a control framework is in place to safeguard assets.
- Utilise the SAMDI training courses that is funded by National Treasury to capacitate its officials on SCM.
- Adhere to the PPPFA when procuring goods and services.
- Arrange EPSI training for its officials to capacitate its officials on the utilisation of the system.

Review and update the AO system and SCM delegations to align itself with the current regulatory framework.

### 3.13.6 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.

#### Background

Currently there are three major systems, the Basic Accounting System (BAS), Personnel and Salary Administration System (PERSAL) and Logistical Information System (LOGIS) that are maintained by the National Treasury for national and provincial departments. In addition, a web-based Management Information System (Vulindlela) is maintained of financial, HR and logistical data for high level management information.

#### Review

All three major systems as well as Vulindlela are being utilised by the Department in the execution of their daily functions. To determine at which financial management capability level the Department is in utilising the systems, the following areas and standards per systems, were identified to evaluate the effective utilisation of the systems and functional assistance and training, as well as to identify areas of under-performance, to be addressed.

**Table 198: Basic Accounting System (BAS)**

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

**Table 199: Personnel and Salary Administration System (PERSAL)**

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

**Table 200: Logistical Information System (LOGIS)**

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

**Table 201: Management Information System (Vulindlela)**

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

The evaluation was based on the activities of the 2007/08 financial year and the findings were as follows:

**Table 202: 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	4
<b>Average rating</b>			<b>3</b>

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

**Table 203: 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
18	8	10	8	0

The Department obtained a financial management capability rating level 2 (partial compliance), 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 has identified the training gap of all system users and are providing training to users in accordance with their profiles.

The Department however needs to commit themselves in getting users trained.

### **Month end closure**

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

### **Year closure**

The Department achieved a financial management capability rating level 3 (nominal compliance) 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 obtained a financial management capability rating level 3 (nominal compliance):

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

**Table 204: 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 financial management capability rating level 3 (nominal compliance).

**Table 205: 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
10	6	4	5	1

The Department obtained a financial management capability rating level 2 (partial compliance) due to the 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 has identified the training gap of all system users and are providing training to users in accordance with their profiles.

The Department however needs to commit themselves in getting users trained.

### System Controller Functions

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

### Establishment Management

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

## PERSAL/BAS reconciliation

The Department compiled a monthly PERSAL/BAS reconciliation by the 20th of each month and therefore achieved a rating of 3 (nominal compliance)

## Adhere to Minimum Information Requirements

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

Reports indicating the outstanding information are available and are provided by Provincial Treasury to departments on request. The Department needs to ensure that all information requested on the system is captured with the new appointments.

## Leave Audit

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

**Table 206: 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	2
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 207: 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
15	7	8	7	0

There was a decline in performance, compared to the previous financial year. 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.

The Directorate Supporting and Interlinked Financial Systems have identified the training gap of all system users and are providing training to users in accordance with their profiles.

The Department however needs to commit themselves in getting users trained.

### Days per issue (service standard)

The Department achieved a rating of level 3 (nominal compliance) financial management capability as stock is issued within four (4) 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, the performance of the Department is therefore far below standard.

The main reason being that the BAS/LOGIS reconciliation was not done on a monthly basis.

The Department should perform monthly reconciliations and timeous payments.

### System Control functions

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

**Table 208: 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 209: 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
30	11	19	37

The Department obtained a financial management capability rating level 2 (partial compliance) due to the fact that only 37 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 19 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.



**PROVINCIAL TREASURY**  
**HEAD: FINANCIAL GOVERNANCE**  
**DIRECTORATE: PROVINCIAL GOVERNMENT ACCOUNTING SERVICES**

Dear Reader

**FINANCIAL GOVERNANCE REVIEW AND OUTLOOK (FGR&O) 2008**

Thank you for taking time to read the FGR&O 2008. In order to assist the Provincial Treasury in improving the outcomes of this Review which should contribute to improved service delivery of departments and entities, please complete the assessment below, detach and forward to: Private Bag X9156, Cape Town 8000.

Western Cape Provincial Treasury  
 Directorate: Provincial Government Accounting Services  
 Private Bag X9156  
 CAPE TOWN  
 8000  
 For Attention: Mr H du Toit, Room 2-04, Tower Block, 4 Dorp Street, Cape Town

**QUESTIONNAIRE: FINANCIAL GOVERNANCE REVIEW AND OUTLOOK 2008**

	<b>Strongly Disagree</b>	<b>Disagree</b>	<b>Neutral</b>	<b>Agree</b>	<b>Strongly Agree</b>
1. The FGR&O 2008 is achieving its goal/objective, i.e. improving financial governance?					
2. The FGR&O 2008 motivates the Departments and Entities to improve their financial management capability.					
3. The Departments and Entities are fairly assessed and rated accordingly on their financial management capability.					
4. The content of the Financial Governance Review and Outlook 2008 is relevant and covers all the important financial governance issues.					

**General comments:**

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**Optional**

Title: ..... Name: .....

Department/Institution: ..... Telephone: .....

Designation: ..... E-mail: .....